

**OBJECTIVES OF U.S. FOREIGN ASSISTANCE: DOES
DEVELOPMENT ASSISTANCE BENEFIT THE POOR?**

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Mr. Wheeler's most recent assignment was as AID Deputy Administrator. In addition, he has served as head of the Near East Bureau, and as mission director in Jordan and Pakistan.

Our third witness is Mr. Ernest Loevinsohn, is an issue analyst for Bread for the World, an organization which offers some challenging criticisms of our foreign assistance programs.

It is my understanding that each witness will present a summary of his statement, and that we will then question the witnesses as a panel.

Mr. Schieck, if you will begin, please?

STATEMENT OF FREDERICK W. SCHIECK, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR PROGRAM AND POLICY COORDINATION, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. SCHIECK. Thank you, Mr. Chairman.

It is a pleasure to appear before the committee this morning to discuss how the foreign assistance program is benefiting the poor majority in developing countries. I have a written statement which I would like to submit for the record, with your concurrence.

Chairman ZABLOCKI. Without objection, so ordered.

Mr. SCHIECK. First, we are fully committed to the policy directions established by the Congress in the Foreign Assistance Act. Our overall objective for the program is to assist developing countries to meet the basic human needs of their poor majorities. We believe the evidence shows that we have been, and are, helping the poor.

The question before us deals essentially with means, not ends, because we all agree that assistance should benefit the poor. In pursuing this goal, we have adopted a strategy which emphasizes improvement in productive capacity and institutions to give countries the capacity to grow and improve the lives of their poor on a sustainable basis.

Overall economic growth is critical to this process. Extensive analyses of the low-income or poorest developing countries, where the bulk of the world's poor live, show that without economic growth, the poor do not improve their condition.

Recent evidence suggests that rapid economic growth in LDC's has had very positive effects on reducing the incidence of poverty. At the same time, we must be concerned about the pattern of growth. For this reason, we continue to give relative emphasis to agriculture and rural areas where most of the poor live.

We emphasize an employment-oriented strategy in our policy dialog with countries, as well as in the design of our assistance programs.

We invest in human resources through support for training and cost-effective health, nutrition, education, and family-planning programs.

And we target assistance programs in low-income regions within countries. To maximize the prospects for developing self-sustaining growth capacities, this administration has adopted four crosscutting policy themes, which we apply to our program development.

First, the need for appropriate policies. We are pursuing a dialog with countries on their development policies. Policies are crucial,

because the bulk of resources for development have to come from the countries themselves. Without sound policies, external aid is ineffective, and the poor themselves suffer.

Second, private sector involvement. We are rapidly expanding our assistance to strengthen the free market environment for private enterprise in recipient countries. This initiative is intended to help create an efficient capacity that continues to generate production, employment, and incomes.

Third, institutional development. We are reinforcing our commitment to create and strengthen public and private development institutions that give a country its own self-sustaining capacity to benefit the poor.

Fourth, transfer of technology. We are emphasizing assistance for the transfer, development, adaptation, and distribution of efficient and appropriate technologies that increase the productivity, employment, and income for the poor.

By applying these factors in our programs, we create the necessary conditions for self-sustaining growth in such a way that the poor participate in and benefit from the growth process.

Finally, in designing our programs, we are attempting to focus all of our assistance tools, Public Law 480, economic support funds, and housing investment guarantees, as well as development assistance funds, on meeting the needs of the poor majorities.

I believe this administration has taken the issue of effective integration of programs far more seriously than in the past.

Mr. Chairman, we are committed to utilizing the resources provided us by the Congress to improve the lives of the poor majority. We believe that the strategy I have described most effectively addresses the development needs of the countries we are seeking to assist.

I would be pleased to answer any questions after the other testimonies.

Chairman ZABLOCKI. I wish to thank you, Mr. Schieck.

[Mr. Schieck's prepared statement follows:]

PREPARED STATEMENT OF FREDERICK W. SCHECK, DEPUTY ASSISTANT ADMINISTRATOR
FOR PROGRAM AND POLICY COORDINATION, AGENCY FOR INTERNATIONAL DEVELOPMENT

OBJECTIVES OF U.S. FOREIGN ASSISTANCE:

DOES DEVELOPMENT ASSISTANCE BENEFIT THE POOR?

I. INTRODUCTION

It is a pleasure for me to appear before this Committee to discuss the approach of this Administration to ensuring that development assistance benefits the poor majority in recipient countries. I would like to cover the following aspects of this important topic: past development progress, approaches to development and development assistance, the beneficiaries of development assistance, the poorest of the poor, and future prospects.

Before moving to these specifics, let me make some introductory observations that I think are important to keep in mind throughout. The overall objective of AID's program, pursuant to the Foreign Assistance Act, is to assist recipient countries meet the basic human needs of their poor majorities through sustained, broadly based economic growth. We are fully committed to that objective. The question before us is one of means, not ends.

We believe deeply that we are utilizing the resources given to us to the maximum extent possible to benefit the poor. We believe our approach constitutes the best strategy for benefiting the poor with external assistance because it emphasizes investment in productive capacity and institutions that give a country the capability to grow and improve the lives of its poor on a sustainable basis. We do this through:

-- targeting the bulk of our assistance not on individuals but on programs that benefit the poor through increasing the productivity of the crops they grow and the technologies and skills they employ, and on countries and regions within countries where the poor live; and

-- promoting economic growth which is critical if the poor are to benefit on a sustained basis.

We continue to give relative priority to agriculture and rural development since the majority of the poor in many developing countries, and especially in the low-income countries, still live in rural areas and are heavily dependent on agriculture for income and employment. Most important, agriculture must provide a dependable supply of food for domestic consumption. AID's programs also continue to emphasize investment in human resources through assistance for cost-effective programs in health, nutrition, family planning, education and training. Assistance for the expansion and

conservation of energy, vital for sustained development, is also a continuing emphasis.

A major new emphasis is on strengthening the role of private enterprise as an efficient means to promote broadly based growth. Any strategy to benefit the poor, especially in low-income countries, must generate rapid growth in productive employment opportunities in sectors that are typically dominated by private enterprise, especially agriculture and rural off-farm production activities.

Two additional, but related, new emphases are institutional development and technology development and transfer. Public and private development institutions provide a country its own self-sustaining capacity to help the poor increase their productivity and incomes. The transfer, development, adaptation and dissemination of efficient and appropriate technologies are a major source of growth in productive employment opportunities that are critical to meeting and going beyond basic needs.

External assistance, while helpful, is far from sufficient to achieve sustained growth and lasting benefit to the poor. Sound country policies are fundamental to economic growth and the implementation of broadly based strategies. A policy framework that relies largely on free market operations, provides adequate production incentives and equitable access to resources and education, and that accords appropriate priority to public investments in infrastructure and essential institutions, is likely

to be most effective. This Administration is giving major attention to our dialogue with recipient countries on improving their development policies.

II. PAST DEVELOPMENT PROGRESS

A variety of indicators of poverty alleviation and increased satisfaction of basic needs point to steady, significant and widespread progress in improving living standards and the well-being of the poor in developing countries. The worst manifestations of poverty have to do with malnutrition, disease, ignorance and low incomes. Regarding the first three of these, there have been substantial increases in life expectancy and literacy, and major declines in child mortality, in both low-income and middle-income developing countries.

Available data suggest that there have been significant declines in the incidence of poverty (low incomes) in one major group of countries, the middle-income countries, but considerably less progress in the low-income countries. A variety of estimates of the current distribution of global poverty among country groups indicate that poverty in developing countries is overwhelmingly concentrated in the low-income group of countries, those with per capita incomes below \$400.

Historically, it was widely believed that income distribution tended to worsen as economic growth proceeded, so that the salutary effects of higher incomes on the incidence of poverty were largely

nullified by adverse trends in income distribution. Recently available data, however, indicate a significant tendency does not exist for income distribution to worsen with growth. Among seventeen developing countries for which such data are available, only four provide an indication of positive growth and worsening income distribution. For seven other countries income distribution improved with growth, and for three others income distribution remained unchanged. Other studies indicate that even if income distribution tends to worsen somewhat with growth, the net effect in terms of poverty alleviation is positive.

To summarize, some indicators of poverty alleviation and increased satisfaction of basic needs point to steady, significant, and widespread progress in improving living standards and well-being of the poor. These include data on life expectancy, child mortality, and literacy. Available data suggest that the incidence of poverty has probably fallen significantly in many countries currently classified as middle-income countries. The same is probably not true for most low-income countries, because growth has been very slow, and average income levels are very low, so that increases in average incomes have been very small in absolute terms.

III APPROACHES TO DEVELOPMENT AND DEVELOPMENT ASSISTANCE

As perceptions of development progress have changed over the past several decades, so too have perceptions of the development problem, and the best approach to development. Early approaches to

development and foreign assistance focused mainly on achieving growth in per capita income, because this was perceived as both a necessary and sufficient condition for raising living standards of those in poverty.

During the early 1970's questions were raised about the nature of the relationship between economic growth and poverty. This gave rise to the "New Directions" as a statement not only of concern with poverty but also of ways to alleviate poverty more effectively. Economic growth was seen as an important condition for reducing poverty -- but it was also concluded that the fact that a country was growing did not guarantee that the worst manifestations of poverty were being eliminated. It was hypothesized that even if economic growth would eventually solve the poverty problem, more direct approaches would get the job done sooner.

From appraisals of development progress and problems, two views of the New Directions emerged. One view emphasized equitable patterns of growth (through increased and more productive employment; growth in agricultural output and other rural production; a better balance between large-scale and smaller-scale industry; and other measures leading to more widespread increases in earned income) and also on enhanced development of human resources (through more effective direct intervention in health, education, and nutritional needs, and other programs with a direct and immediate impact on the poor).

A second, more restricted, view identified the New Directions

approach exclusively with direct impact/human resource development programs, and took pains to distinguish this approach from "equitable growth" strategies, as a complementary but separate endeavor. Proponents argued that strategies for alleviating poverty that relied on earned income and employment growth (e.g. Korea and Taiwan) would take too long. If alleviating poverty was the goal, then it should be addressed directly, through direct transfer and services programs. In this view, concern by donors with long-term economic growth should be a secondary priority at best.

In the alternative, broader view of the New Directions, the balance between "equitable growth" and "human resource development" was and is an important operational issue. The key point is that both approaches are acknowledged as vital (and interrelated) components of the New Directions, so that an increased concern with growth does not imply a diminished concern with poverty. This is the balance AID is attempting to achieve. The evidence makes it clear that growth is essential; without growth, the poor will not benefit on a sustained basis.

IV. THE BENEFICIARIES OF DEVELOPMENT ASSISTANCE

In most developing countries, implementation of a broadly based, employment oriented pattern of development is the most effective way of achieving a sustained rate of economic growth as well as ensuring that the poor share in the benefits of that growth. Most analyses of past experience tend to support this conclusion.

Implementation of such a growth pattern usually requires substantial investment in the agriculture and rural sector where most of the poor live and work and where much of the economy's goods and services are produced. This emphasis on the agriculture sector is even more crucial in countries where the proportion of the existing labor force in agriculture is already large and where the rate of increase of the labor force is still high. Although the task of generating employment opportunities in rural areas is extremely difficult, there is virtually no viable alternative.

Within the agriculture sector, implementation of a broadly based pattern of growth implies a stepped up emphasis on small farmers who constitute the vast majority of agricultural producers as well as of the rural poor; in Africa, many of these small producers are women. When government policies are conducive to broadly based growth and encourage a small farmer emphasis, then it is more likely that the poor will be able to share in both the benefits of growth and the external assistance designed to accelerate that growth. Conversely, when host country policies fail to encourage equitable growth, but rather favor a small, elite, modern sector, the chances of external development assistance having a major impact on the poor are severely reduced. The importance, then, of host country policies cannot be underestimated in examining the extent to which the poor benefit from external development assistance. Consequently, this constitutes a major consideration in determining the magnitude and allocation of AID's development assistance. The kinds of policies

that are particularly important include those that insure free market production incentives; broad access to resources, skills, and employment; healthy private sector growth; and complementary public sector investment.

When we evaluate the extent to which the poor benefit from external development assistance, we are concerned with both the direct and the indirect benefits; and with both the long-term and the short-term benefits. In many cases, projects with indirect benefits accruing over the long-term are as important to self-sustaining growth and sustainable benefits for the poor as are projects with more direct, short-term benefits. For example, investment in agricultural farming systems designed to increase yields of cereals consumed largely by the poor necessarily has a rather indirect benefit for the poor, and this indirect benefit may be realized only in the relatively long-term. Nevertheless, the return on the investment -- to the poor -- can be high. In fact, such technology-improving investment may be one of the few ways through which sustainable benefits for the rural and urban poor of developing countries can be achieved. Similarly, investment in education and training -- improving human capital and skilled manpower -- is not likely to show a return until the beneficiaries of the education become productively employed, and this, too, may have a relatively long gestation period. Such human resource investments can also yield high economic rates of return and make an important contribution to sustained growth.

Accordingly, AID is emphasizing the development of new, more productive technologies (and the application of available technologies that can be diffused rapidly), improvement of human resources, and creation of institutional capacity. While some of these investments tend to have an impact in the longer-term, it is our judgement (supported by experience) that this impact is direct, powerful and sustainable. We deliberately seek to direct these kinds of investments to problems that directly affect the poor, (for example, crop varieties, skill mix, institutional orientation).

V. THE POOREST OF THE POOR

We recognize the importance of alleviating the worst manifestations of poverty -- hunger and malnutrition -- especially for the very poor. Yet, the "poorest of the poor", the lowest 10 percent or 20 percent of the income distribution of any population, is very difficult to reach with viable programs that can be sustained over time. The main approach for benefiting the poorest as well as other elements of the population must be through the promotion of employment and broadly based growth. In the short-term, carefully targeted food, nutrition, health and related programs can alleviate the absolute poverty of the most destitute. Our PL 480 food aid program is an example of assistance which has this kind of short run, direct impact on the very poor. Well-designed and targeted food and related human resource and education programs also constitute a longer term investment in human

productivity that can increase the "employability" of the poor majority, including the poorest of the poor. Nevertheless, in the absence of broadly based growth, it will become increasingly difficult to meet the needs of the poorest of the poor over the long-term.

In general, we believe that our scarce development assistance resources are most effectively employed when they contribute to the capacity of countries to generate self-sustaining growth that involves and benefits their poor majorities. This means the creation and strengthening of institutional structures, particularly those that transfer, develop and adapt more productive technologies and develop human resources. We believe these institutions form a basis for the long-term development of recipient countries.

At the same time, while we do not target our assistance exclusively to certain groups except through food aid and related programs intended to alleviate the poverty of the destitute, we do seek to target our assistance through:

- programs that benefit the poor, including the most destitute, even though the non-poor are not excluded; and
- assistance in countries, namely, low-income countries, and and low-income regions within countries, where the majority of the poor live.

Let me give you some examples. A rural road constructed with our help benefits everyone living in the vicinity of the road. However, we have learned from experience that the type and location

of the road must be designed to facilitate access by the poor (for example, farm-to-market roads). Other factors, such as the security of land tenure in the vicinity of the road, must also be taken into account. Investment in agricultural research is another example. We emphasize those crops that the poor are most likely to produce or consume. Our support for collaborative research by U.S. and developing country institutions on small ruminants and on sorghum and millet are good examples. These animals and crops tend to be raised primarily by low-income rural families, often on marginal lands, in developing countries around the world. They often comprise the main source of livelihood for such families and yet they have received little attention from research institutions until recently. Our concern in these and similar programs is not that the non-poor may benefit from the investment, but rather that the poor majority does benefit.

In addition to targeting our assistance, we also support specific types of activities that put the poor in a better position to benefit from external assistance. For example, the poor in many of the developing countries have no assets except their labor. Under these circumstances, AID supports programs designed to provide broader and more secure access to productive resources and assets, such as credit, fertilizer, seeds and land. Second, we support programs designed to create new assets, such as irrigation facilities and farm-to-market roads, and improve "human assets",

through investments in health, family planning, education and training.

Our emphasis on expanding the role of private enterprise in recipient countries is also intended to create capacity that continues to generate production, employment and incomes. The private enterprise initiative gives priority to sectors with a high employment potential: small and medium enterprise, agriculture and agribusiness and services. It seeks to strengthen free and competitive markets through policy dialogue with governments and technical assistance and the selective provision of financial capital to such enterprise as intermediate credit institutions. We are marshalling the skills and resources of U.S. private enterprise in this endeavor.

VI FUTURE PROSPECTS

We are undertaking continued refinement and strengthening of the approach I have outlined. For example, over the course of the coming year we will pursue promising opportunities for increased support of research intended to tackle such major obstacles to improving the lives of the poor majority as:

- increasing the yields of crops that the poor majority grow and consume;
- controlling diseases that sap the health and productivity of the poor;

- developing new approaches to meeting the energy needs of the poor; and
- developing improved voluntary family planning methods that are both effective and acceptable to the poor.

We are also refining our approach to institutional development and plan to encourage innovative projects intended to both strengthen institutions and make them more responsive to their clientele -- the poor. And we are giving more emphasis to, and seeking more cost-effective, private sector-oriented approaches for, vocational and technical training that benefits the poor majority. Similarly, we are seeking more cost-effective approaches to primary health care and basic education programs.

We are rapidly expanding our assistance to strengthen the free market environment for private enterprise in recipient countries. Our efforts will be refined by our experience with recently initiated projects in selected countries in each region, as well as by the results of a major evaluation currently being conducted on the role of private enterprise in the development of several countries.

We will also seek to improve the intensity and quality of our "policy dialogue" with recipient countries. As previously emphasized, the success or failure of development assistance depends heavily on the policy framework of the country. External assistance, while helpful at the margin and particularly critical in low income countries, is not sufficient to achieve national

development objectives. Distorted economic policies have hampered agricultural growth and have hurt the poor by excluding them from access to productive resources and employment opportunities. Therefore, effective development assistance efforts depend crucially upon the nature of domestic economic policies, upon the institutional and administrative framework through which these policies are applied, and whether or not implementation mechanisms are sufficiently decentralized to reach the poor.

As part of our policy dialogue, as well as our program and project design efforts, we will continue to seek better integration of, and greater developmental impact on the poor majority from, all our external assistance resources, including Development Assistance, PL 480 Food Aid, Economic Support Funds, (ESF) and Housing Investment Guarantees. I believe this Administration has taken this issue far more seriously and has made more progress in increasing the developmental impact of PL 480 and ESF than in the past. In response to guidance from Washington, our field missions are making greater efforts to use these resources, along with Development Assistance, for developmental purposes and as a basis for persuading countries to undertake policy reforms. Pakistan is perhaps the best example of improved programming of ESF for developmental impact.

These are some of the areas where we are seeking to improve our strategy. Our objective remains that of improving the lives of the poor majority in recipient countries. We believe existing legislation gives us the necessary tools to attack the problem. We believe the strategy developed by this Administration is the most effective one for achieving over the course of the next generation meaningful and sustained alleviation of poverty among a substantial share of the poor majority in recipient countries.

Chairman ZABLOCKI. Mr. Wheeler.

STATEMENT OF JOSEPH C. WHEELER, FORMER DEPUTY ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. WHEELER. Mr. Chairman, as you said, I speak today as a private individual, having recently retired from AID after 31 years.

Chairman ZABLOCKI. We welcome you here, and we are looking forward to your wisdom, and to your sharing your experience with us. We are, of course, used to welcoming you in your official capacity in the past, and understand that you are now testifying as a private citizen.

Mr. WHEELER. Thank you very much, Mr. Chairman. I would appreciate it if my full written testimony could be included in the record.

Chairman ZABLOCKI. Without objection, so ordered.

Mr. WHEELER. I think that in looking at this question, it is worth keeping a broader perspective. Over the last 30 years we have seen a change in the life expectancy in the less developed countries of the world that is in a way remarkable. Every child born into the less developed world today can expect to live at least 15 years longer than a child born in that area 30 years ago, in spite of the fact that this less developed world today contains more than twice the population than it did 30 years ago.

Today, in the less developed world, there are five to six times as many children in school as there were 30 years ago.

In this period, we have seen, in spite of a very rapid population growth, most of the world more than keeping up in terms of agricultural production. I think it is also very important that we underline that a major exception to this is the continent of Africa, which I feel is going to be the part of the world which will demand of us the most concerted attention in the decades ahead.

Mr. Chairman, I would like to go to the fifth question which you raised in your letter to the witnesses, which really looks to the future. That question is: "What can U.S. aid programs do more effectively to achieve their objective of alleviating the worst manifestations of poverty among the world's poor majority?"

First, we need to operate an ever more effective policy dialog with the countries we are trying to help. I think that the basic human needs or New Directions strategy is absolutely right in seeking the universality of benefits—the universality of participation in the benefits of the development process.

Now, many issues come up in the business of economic development where this becomes a very important matter. Let's take the question of education. In some countries, it costs 100 times as much per year to maintain a child in the university as it does in primary school. I think there are real tradeoffs. It seems to me that in seeking to help the poor we should be seeking universal primary education, a universal basic education, and we should be on the side of devoting resources to that side of the budget.

In the field of health, there is a similar kind of an issue. Historically, many less developed countries have devoted very large amounts of money to building modern facilities in capital cities and other major cities which will serve in a fairly good way the elite of

the country, to the neglect of public health approaches in the rural areas. I think AID should always be on the side of universalization of health benefits in a low-cost way, which is affordable by the less developed countries themselves.

Similarly, in agriculture, it seems to me we need to watch a tendency in less developed countries to prejudice the policy framework against the agricultural areas. Often we see situations where the price of wheat to the farmer is kept way below world market prices resulting in production levels nowhere near their potential, as countries favor a group of people, oftentimes the bureaucrats in the central city, who get subsidized wheat from the Government exchequer, a process which bankrupts the budget and, at the same time, severely hurts the balance of payments as imports of a commodity which might have been produced internally are increased in order to subsidize a special group.

Second, looking at AID policy in perspective, I have become concerned that in the past 5 years or so there has been a deemphasis on the whole field of primary education. We have done some really extraordinary things, or we have seen them done with our help, in this field.

For example, in Nepal in 1955, less than 1 percent of the children even entered school. And today, more than 70 percent at least start school. In Jordan, where I served in the midsixties, the percentage of girls in school today is—measured recently—at 94.7 percent. And boys at 98.7 percent. This is children between the ages of 6 and 14. Now, that is an extraordinary achievement for a less developed country. Jordan has to take the lion's share of the credit for that achievement. But I do think that AID has an important role to play in helping in these primary education programs, and it would be a mistake if we were to lose our capacity to do that.

Third, I think it is important that we stay the course in our support of population activities. With high rates of population growth, it is going to be a very hard thing for less developed countries to achieve universal benefits which will reach the poor. We see the extraordinary situation in Kenya today where the population growth rate is nearly 4 percent a year, a doubling in something like 17 years, making it extremely difficult to meet the demands of the poor population.

But we also have seen that we have had very important successes in this area, including the fifth largest country in the world, Indonesia, where the population growth rates have come down very substantially over the past decade.

Fourth, I think we need to ask ourselves whether we are able to devote enough resources to research related to areas significant to reaching the poor. I think we can be proud of our participation in the Consultative Group for International Agricultural Research. We have the CRSP program, the collaborative research support program, helping American universities work with indigenous institutions in less developed countries in various areas.

Frankly, we are having a hard time maintaining our contributions to these kinds of research activities. Our real contribution to the Fertilizer Research Institute in Alabama, for example, is going down.

We are having a hard time maintaining adequate research in the field of health, where there are some possibilities of real breakthroughs, for example, in the area of malaria vaccine. In the years ahead we need to consider whether we are contributing enough money to sustain these kinds of research activities.

Fifth, I have stressed the importance of the policy dialog—of facing up to macro- and sector-level policy issues. I find it disconcerting that American universities' economics departments are showing precious little interest to this policy dialog—to the questions related to economic development in the less developed world. Boston University is a very good exception to that. But, by and large, the university economics departments that cared about economic development in the fifties and sixties have turned their focus away from this area. I think it would be worthwhile asking ourselves whether there isn't a way of encouraging them to pay more attention in their research priorities and teaching priorities to this area.

Sixth, I am concerned that our interest in multilateral organizations may not be sufficiently represented by our funding levels. I see a connection between our funding levels and our interest in focusing their policies and projects on helping the poor?

I think there is a real question whether the distinguished former Congressman Bradford Morse, who heads UNDP, can be expected to be succeeded by an American in a situation where three Scandinavian countries together are contributing 50 percent more to that organization than we are.

I was startled the other day to learn that Italy is contributing as much to UNICEF as the United States. Our contribution to the International Fund for Agricultural Development, IFAD, under the replenishment authorization—and there haven't been any appropriations for that replenishment—is down to 16 percent of the total. That happens, incidentally, to be an organization which was created at the initiative of the United States 6 years ago, and has as its primary focus helping the small farmer and landless laborer. Congress could make a contribution to helping the poor by responding to the administration's request for appropriations for that organization.

Finally, I am worried about overall funding levels for economic assistance and within that, the adequacy of our contribution to development assistance.

Today, the OECD countries are providing an average of about four-tenths of 1 percent of their gross national product to concessional assistance; the United States, about two-tenths of 1 percent, about half of the OECD average. I scratch my head sometimes and wonder what they see in this that we don't. I suppose that it has something to do with exports, with trade. It is a fact, of course, that 30 percent of our exports today are going to the less developed countries. The development of the less developed world has been of great benefit to us in this respect, and we could ask ourselves whether the Europeans see their technical assistance contacts and their business connections developing as a result of the program to be so worthwhile that perhaps they have a greater motivation for providing this kind of assistance than we. We need to ask ourselves the reason for our relatively easy success in getting others to con-

tribute—to the point where our own contributions are so much less proportionately.

I think we all recognize we are in the middle of a particularly difficult budgetary crunch today, but as the years go by, one hopes that opportunities for more flexibility in the budget situation will come. At that point, I would hope that it would be possible to emphasize contributions to development assistance, supporting as they do agriculture, population, health, education, rural energy and institution building—where the United States, has a comparative advantage, and which, I think, would be particularly in our interest in terms of the overall relationships with the less developed countries.

Administratively, Mr. Chairman, I worry that we may be shaving a little bit too close on personnel levels. As you know, AID personnel levels have come down in the last 10 years from something like 17,000 to less than 5,000 today.

And overseas, in terms of Americans overseas, we have about 1,450 spread around in all the various countries. Now the question, of course, is what is necessary? I think we are absolutely right in utilizing the voluntary agencies, the universities, and the American private sector, in a partnership in the development business. But there is a need for a group of AID people in the less developed countries who are capable of carrying the policy dialog, and who are capable of giving adequate supervision to the program once projects have been approved.

I think that qualitatively, AID needs to give more attention to its economic analytical capacity. It is trying to do that today, under the leadership of Peter McPherson. I hope that this committee will support his efforts along those lines.

And I think that we need to continue to improve the communications within AID between executive staff and technical staff. The idea of establishing, across organizational lines, professional organizations within AID, is a good one. For it to take hold it will take patience and sustaining support from you in the years ahead. I think this is a good initiative.

I also think we need to improve our dialogue with our own private sector and with the private voluntary agencies. They need to get a better understanding of our concern for the policy dialog—of the need to get the policy framework straight, and to look for universality of benefits. We need to learn from them, what they have been able to achieve in the experimental efforts that very often lead to new policy approaches after they have been properly tested out.

Overall, I think that AID remains on the frontier; we are working in the right areas; we have played a very important and constructive role; I think progress has been made; a lot remains to be done; and we need to stay the course.

Thank you, Mr. Chairman, for hearing my views today.

Chairman ZABLOCKI. Thank you, Mr. Wheeler.

[Mr. Wheeler's prepared statement follows:]

STATEMENT OF JOSEPH C. WHEELER, FORMER DEPUTY ADMINISTRATOR, AGENCY FOR
INTERNATIONAL DEVELOPMENT

Mr. Chairman, I very much appreciate this opportunity to testify before this committee. As you know I retired from my position as Deputy Administrator of the Agency for International Development on June 30, 1982. Therefore, today I speak as a private citizen although, of course, I speak in light of 31 years working with the AID program.

Before addressing the the specific questions you have suggested for primary focus in this hearing, I would like to say a few general words about the development process.

Actually, it has only been a few decades that we have been emboldened to talk about the possibility of the whole human community achieving a reasonable standard of living. Our great-grand-parents, who had a life expectancy of 30 to 40 years and who experienced great loses of both children and adults to the ravages of disease, could hardly have predicted the kind of opportunities which have emerged from the combination of the world civilizing process and the scientific, industrial and information revolutions. Thus the concept of the good life, previously reserved to only a small portion of society, being extended to the whole population is a relatively recent one. While we in the United States have by no means achieved the elimination of poverty in our own society, we have seen dramatic increases in life expectancy and literacy rates, in nutrition and in many of the other attributes of a good life. Furthermore, we have achieved a consensus that poverty ought to be eliminated from the United States and we have

a determination to achieve this in the years ahead. This shift in our own thinking about ourselves permits us to begin to think of working with others to extend the concept to the world as a whole.

Yet while we hope for a decent life for everybody on this globe at some future time we have been very imprecise as to what the attributes of that good life would be. We know that we seek something different from the Malthusian equilibrium where the number of deaths is offset by the number of births and where both the death rate and the birth rate remain very high. We want something other than an equilibrium of misery.

My own articulation of what we seek involves what I call the "Full-Life Equilibrium". By this I mean a balance in society where the birth rate and the death rate are both very low, where people live their three score and ten years in good health, with adequate food and shelter and with the advantages of literacy and where we find an appropriate balance between human consumption and our environment which assures that our use of resources can be somehow sustainable.

I emphasize the word balance. The concept of a balance is crucial to our understanding of the development process. In the business of economic development absolutes are almost never appropriate and we find ourselves constantly looking for the right mix of objectives in order to find the best route to follow.

In seeking the "Full-Life Equilibrium" for all peoples on this earth there are some aspects of a reasonably defined development goal which it should be possible to achieve without too much worry about the over use of resources. For example, I would consider universal primary education or its equivalent in various forms of basic education as one appropriate, affordable and sustainable goal. A second appropriate goal would be the application of minimal public health for the whole population. A third reasonable goal would be food production of the correct nutritional balance to provide enough food of the right composition to enable people to live a healthful life.

However, in achieving a full life equilibrium on a universal basis there are definite limitations. It would be foolhardy to attempt to replicate the current style of the American or European standard of living for the whole world. As a dramatic example take Bangladesh which is a country about the size of Wisconsin which now contains more than 90 million people. Because of the youth of that population and the fact that there are so many people already born who will move through the reproductive ages over the next half century, it is already "programmed" that Bangladesh's population will double to 180-200 million before it levels off even if Bangladesh is successful in its development efforts including its efforts to reduce the number of births per family. With a population of 200 million people it is clear that we are not talking about a "full life equilibrium" with two cars in every garage. We are talking about a model which has never been defined but which common sense tells us must be very different from that of present day America.

In a way the basic human needs strategy, which was so well articulated by this Committee in the 1970's, represented a groping toward a definition of the practical objectives which might be achieved. That strategy was a rejection of the notion that the appropriate subject of development could be a small elite living in a style which could never be extended to most of the population. Rather it emphasized that development should be something applicable to the total population of each country.

The basic human needs concept was put forward as an antidote for what seemed to many to be a failure of a production-oriented strategy in which, as critics put it, the benefits were for the few but with the expectation that over time they would trickle down. The failure of "trickle down" was the malady that basic human needs was meant to cure. Overall, I suspect the malady never was as bad as the critics asserted. However, it is certainly true that there have been in many less developed countries dual economies in which a modern sector developed while a traditional sector remained in a Malthusian vice. The modern sector sometimes milked the traditional sector without benefits adequately flowing back. It is also true that every society has been plagued by problems of class or race or religion tending to separate populations into groups with some more advantaged than others.

The point is that the basic human needs strategy was a useful and important articulation of what is basically a moral concept that the proper goal of every society should be a better life for all of the

people rather than for a small group. Just as our own thinking on this subject as it applies to our own country has evolved through the centuries reflecting changes in our own sociology and our own perception of what is possible, so are these concepts gradually taking hold in many of the less developed countries. It is right that we encourage this process.

Having said this, I feel that some of the thinking in the basic human needs area has gone in the wrong direction. Many people interpreted basic human needs as involving the direct application of funds to projects involving the poor majority. Others have extended this to projects involving something called "the poorest of the poor". The mistake here is not in trying to bring development to the hitherto neglected, but rather in trying to accomplish this by direct projects without assuring that a policy environment existed which would make it possible for such projects to operate effectively.

Let me give an example. Let us assume that a project is developed to work with farmers in a very poor section of a country to help them increase wheat production. The project is designed to teach farmers new methods of cultivation and the use of new seeds and modern inputs such as fertilizer and pesticides. The politics of the country tends to give the urban groups more clout than the traditional rural sectors. Therefore, the government determines to provide wheat to the urban population at a subsidized rate. Thereafter wheat consumption goes up remarkably fast and the subsidized rate begins to be applied to larger and larger numbers of people. Finally, the government's

budget is under such strain because of the subsidy that the program cannot be continued on the same scale. At this point the government goes to other countries to seek concessional help arguing that the wheat will be used for the country's poor people and that it is necessary in order to maintain political stability. Meanwhile the hypothetical aid project becomes a failure. With wheat prices kept low, farmers cannot afford to buy fertilizer to produce it.

In fact, this is happening today in many parts of Africa. The African continent over the past decade has experienced a reduction in per capita agricultural production of about 1% a year or 10% over the decade. This is a trend which cannot be sustained and all the help in the world with agricultural research and extension or in rural infrastructure projects cannot reverse that process. Only by addressing the crucial policy issues will we get agricultural production up to an adequate level. Only with the right policy framework will agricultural research and extension become effective.

It is this disconnection between project and policy which represents the problem with the basic human needs strategy as it has been articulated and administered by many developing countries.

Perverse policies show up in many different ways. For example, in the field of education countries often neglect universal primary education except as a political slogan and instead allocate scarce government revenues for national universities which generally produce professionals not needed by the society with an over emphasis on

liberal arts and an insufficient emphasis on vocational requirements. In the field of health the problem is an over emphasis on high technology city-located hospitals capable of providing high quality service to the country's elite to the neglect of basic public health measures in the country as a whole. Here I might say that it is my impression that this is a problem not by any means limited to less developed countries. It is a problem in the United States today where huge amounts are being spent on health care but where marginal amounts spent in the right way for additional public health measures could make an important contribution to bringing down our infant mortality rate which is higher than that of several other countries.

In agriculture there is a tendency to consider that large new farms are the way to increase agricultural production rather than the application of high technology to the small farms. Only recently have many leaders around the world come to realize that small farmers are producing more per acre than large farmers. Another mistake made in the field of agriculture has to do with subsidies for inputs such as fertilizer and subsidies on credit. The problem here is that success in providing fertilizer or credit at lower rates for the farmers puts a heavy burden on the government budget. Success leads to an unbalanced budget and inflation. Typically governments then limit the amount of subsidized fertilizer or subsidized interest. This leads to a rationing process with access to the scarce subsidized fertilizer or credit going to the privileged groups nearest the main roads or capable of paying the necessary bribe to a government official. Such subsidies end up helping the already better off rather than the poor.

In summary, I feel that it is extremely important to define the basic human needs strategy in a way which is most likely to achieve its purposes. While I agree with the basic thrust of the basic human needs approach I feel there has been a tendency by some to think of it not as a strategy but rather to think of it in terms of relating specific individual projects to the problems of the poor to the neglect of the policy framework essential to their success.

Now I will turn to the specific questions which you asked that we focus on in today's hearing.

First, "What do indicators tell us of AID's success or failure in meeting its objective of alleviating the worst physical manifestations of poverty among the world's poor majority?"

I think it is important that we maintain some perspective about the role that AID plays. Today the total concessional resources going to the less developed world come to something on the order of \$40 billion a year. AID's Development Assistance, running at \$1.8-1.9 billion, is only a small portion of this. Even with our Economic Support Funds, PL 480 and multilateral contributions added in our contribution is on the order of \$7-8 billion or less than 20%. Furthermore, I think we must keep in mind that the driver of the development process is the leadership of the less developed country itself. In this perspective we are only a helpful participant in the development process. Having said this I think we can look at performance over the past several

decades with a combination of satisfaction and impatience. We should certainly be pleased that in a world characterized by more than 100 new nations since World War II so much has already been achieved. For example, during the past three decades we have seen the life expectancy in the less developed countries increase by at least fifteen years. That is no small achievement. That means that an area of the world which now encompasses about double the population it did thirty years ago has been able not only to absorb this new population but to achieve an average standard of living permitting every child born to expect to live fifteen years longer than did the children of the previous generation. Beyond this we have seen the number of primary school children increase about 5 to 6 times. In some cases the change has been even more dramatic. For example, in Nepal, where AID had a heavy participation in the educational process for many years, the portion of children starting school has increased from less than 1% in 1955 to over 70% today. Although, I have mentioned Africa as an area which has fallen behind in per capita production of food, we must not forget the enormous successes in Latin America and Asia. India alone, which with its 700 million people contains as many people as Africa and Latin America combined, has increased grain production from about 50 million tons back in 1950 to a normal level today of over 130 million tons.

I cannot say that AID accomplished these successes. However, I can say that AID has been an important part of those successes and that we can be pleased to have made a significant contribution.

Just as examples of our participation, I would mention the work we have done in the field of education in many countries. I have already mentioned Nepal. Having served as AID's Mission Director in Jordan in the mid-sixties, I myself have been pleased to be in a small way associated with a comparable success in Jordan where more than 95% of the children of school age are in school - both girls and boys. In Jordan AID managed some thirty different projects in the field of education over the years and while Jordan itself must get the credit for the good use made of our assistance we can be very pleased to have been a part of such a dramatic process.

In the field of health, AID was a full partner with the World Health Organization in the elimination completely over the globe of smallpox. AID has been a principal funder of malaria efforts. AID officials will be the first to warn of the dangers in the malaria programs of growing amounts of immunity of the anopheles mosquito to DDT, malathion and other drugs. But the fact is that the number of malaria cases has been dramatically reduced and has made a big difference to infant mortality rates and to the ability to produce agricultural commodities in many previously almost uninhabitable areas. AID was an early supporter of the Cholera Research Laboratory in Bangladesh which is now supported as an institute for the control of diarrheal diseases. This laboratory developed the low cost oral rehydration techniques now being spread around the world through AID supported projects as well as through projects supported by others, particularly UNICEF. Finally, AID has been at the cutting edge in the development of health outreach programs. While we still have a lot to

learn about how outreach programs can be most effective and can be sustained financially, I have no doubt that this is the general route to go in achieving the ubiquitous availability of basic health services to all the populations in less developed countries.

Having discussed our progress I do not mean to belittle the job remaining. Life expectancy at 50-55 years is too low, literacy is inadequate, and hundreds of millions of people still live in what some define as absolute poverty. Past progress simply gives us hope that much more can be accomplished in the decades ahead.

In summary on this first question I believe that enormous progress has been made in the less developed world in the past three decades, that AID has been a part of this effort, although, by no means primarily responsible, and that AID's projects and programs and policies are supportive of continuing progress in the areas where success has already been dramatic. Yet the job is only partly done.

Your second question is "Has the "New Directions" approach to foreign assistance been more effective in improving the well-being of the world's poor majority than have growth-oriented trickle-down strategies of development?"

Here I go back to what I said in my introductory comments. Basically it would be a mistake to characterize in an overly negative way the progress made in the fifties and sixties. Yet I think that the New Directions approach clearly represents a positive development in our overall development theory.

One impact of the New Directions mandate has been to cause AID to adopt a more sophisticated analytical process in its programing. We no longer take for granted that a project will make an adequate contribution to the development of the poor majority. Now we insist on beneficiary analysis to assure that there is a clear link between the immediate objectives of the project and the goal of improving the life of the poor majority.

At the same time we adopted New Directions, we became aware of other related concerns. For example, as our own society insisted upon the full participation of women in our economic process so did we focus on this issue in AID in an increasing useful way as a result of legislative mandate. Further we in AID became increasingly interested in the ecological consequences of our projects and with your encouragement upgraded our ecological analysis. Indeed among donor agencies AID is known to have done the best job of analysis in this area and our techniques are being picked up by others as a model.

Having said these positive things let me come back to another thing I said earlier which is a concern of mine that in some cases we have tended to associate projects with the poorest segments of the community without adequate attention to the needed changes in the policy framework to make projects fully effective. It is the righting of this imbalance which I believe the present Administrator of AID, Peter McPherson, and his colleagues are trying to address now by putting a new emphasis on the importance of the policy dialogue. I would define this as a real dialogue with development professionals in

the least developed countries - a dialogue in which we jointly seek the right policies in order to use limited resources to achieve basic human needs in the most efficient way. To carry on this dialogue AID is establishing more positions for development economists and others capable of dealing with macro economic and sector-wide policy issues.

Accompanying the New Directions emphasis has been a heavy emphasis on agriculture. This is a correct emphasis because the less developed countries in most cases have agricultural assets in the form of land, sun, water, farmers etc. which are generally under-utilized. Basing the early efforts of economic development on utilizing this under-utilized capacity makes sense. As the United States knows, agriculture is in no way an inferior source of wealth. Our own farm community, when you include the people employed in providing the inputs to the American farm and in processing the outputs, is an enormously valuable asset to the United States and we have a comparative advantage in helping others to achieve their full potentials in this area.

Another policy thrust which has accompanied the basic human needs approach or New Directions approach has been our continuing contribution in the field of population. Indeed, the United States still provides half the aid which is provided to the less developed world in this area and remains the leader in the continuing development of the best methodologies. Voluntary family planning is a crucial element in a successful New Directions approach. A growing number of countries have achieved important success in lowering birth

rates. This includes the fifth largest country in the world, Indonesia, which has seen a significant drop in its birth rate over the last decade.

The third question you raised was "What ways are there to insure that the poor share in the benefits of aid and development?"

My own feeling is that we must constantly reiterate our interest in development for the total populations of less developed countries. In my introductory comment I talked about achieving a "full life equilibrium" - a balance in which a low death rate is matched by a low birth rate and in which people can expect to live their three score and ten years and can expect to become literate, reasonably healthy and to have enough to eat. This is the implied goal of New Directions and we should not miss any opportunities to emphasize that from our point of view this is the only appropriate first goal of the development process.

Next, I think in our policy dialogue we should support low cost approaches to universalizing education, health, and nutrition. AID is trying to do this now but, of course, we must always look for improvements in our techniques and our prescriptions. In analyzing projects we need to constantly keep in mind that the purpose is to help people and not simply to achieve a very specific economic objective. A good example would be in the field of rural electrification where some governments have thought of this primarily as a way of getting electricity to market towns or to the owners of

tubewells. As important as those objectives are, I feel it is right to seek a process of extending rural electrification to as many households as is economically feasible.

We would make a critical mistake if we put in juxtaposition as somehow working against each other the concept of universality of benefits and the concept of growth. It is clear to me that to achieve the "full life equilibrium" - the provision of universal education, health, and nutrition - the economies of the less developed countries must grow. Part and parcel of a basic human needs strategy must be an appropriate growth strategy.

I have emphasized my own conviction that agriculture will be a part of a basic needs through growth strategy. Just as an example, as AID's Mission Director in Pakistan, I worked with the government in development of a wheat program in which we agreed as an interim measure, during a time when Pakistan's own fertilizer production capacity was being built, to help finance the imported fertilizer needed to provide fully adequate supplies to the farmers. This was accompanied by a change in the price structure which brought the price of wheat paid to the farmer up to something closer to world market values. It was also accompanied by an opening up of fertilizer marketing to the private sector so that fertilizer suppliers would be acting as salesmen and as extension agents rather than sitting in their factories selling fertilizer to the few who could get the subsidies. This new strategy followed by the Pakistanis since 1977 has increased the wheat crop from a previous record of 7.5 million

tons to something approaching 12 million tons today. I don't think there is any doubt that the relative prosperity brought by the larger wheat harvest in the small farmer areas of the Punjab has had an enormously positive impact on the lives of the poor majority - not only on the farmers themselves but on the people who are employed in the selling and storing fertilizer, in planting, harvesting and threshing the wheat, in the handling of the wheat in the marketing process, and in manufacturing and repairing of farm machinery. I think we need to be prepared to sponsor more bold policy reform programs in less developed countries to replicate this kind of success.

I feel that the less developed countries have people as one of their most important assets in the early stages of development. These people are available to industry at relatively low cost. Their productivity can be increased with an appropriate emphasis on education including vocational education. But often countries run their economies with a prejudice against this comparative advantage. The prejudice comes in the form of overvalued exchange rates, subsidized machinery, and similar policies which make it unattractive to utilize labor at the optimum level. One example is the Egyptian situation today in which petroleum is highly subsidized into the economy and particularly highly subsidized to the aluminum industry. Thus, large amounts of capital have been invested in producing aluminum in Egypt which could be bought cheaper from other countries. Egypt gave up the use of that capital for investment in labor intensive industries where Egypt's comparative advantage in educated low income labor could be put to work. Countries which have followed

a different policy like Taiwan and Korea have found that the initial low income comparative advantage gradually shifts because the success of the labor intensive industries gradually raises standards of living and wages so that step by step those economies are moving to higher technologies. But in the early stage in the development process it is important that countries arrange their policies so that they will not prejudice against their comparative advantage. This is an area where I feel that we have perhaps not put enough emphasis in the past.

The next question you raised is "Can we program aid to reach the poorest of the poor - rural landless, squatters, sharecroppers, etc - with sustainable beneficial projects?"

I find myself frankly skeptical about the ability of aid agencies to develop successful projects which are limited in their goal to helping the landless, squatters, sharecroppers, etc. However, I believe we can do a great deal to help such specifically delineated disadvantaged groups if we have these groups very much in mind as we support general policies and broader programs for economic development. For example, if we can help countries design truly universal primary education systems which can be afforded by their economies then we will have helped these groups. If we help less developed countries design health outreach programs which are affordable by those societies and which in fact reach the total population then we will have helped those groups. We, of course, have already helped them since they are no longer subject to smallpox. We have already helped them since malaria has been reduced to a small fraction of earlier levels. If we

are able to get the economies of the areas where the landless, squatters and sharecroppers live operating truly effectively then we will be helping those groups. As I suggested in the Pakistan example I think that many people in rural areas beyond the farm owners themselves are helped when we get dramatic increases in agricultural production.

My area of skepticism is limited to the kind of project which singles out the landless as the sole beneficiary of the project. I feel we need to pay more attention to the relationships between these disadvantaged groups and the total economic strategy.

Having said this, however, let me say that there are important exceptions. For example, if we are planning a project in agricultural credit, our beneficiary analysis should tell us the conditions being required by the country for the provision of that credit. Often we can tip the balance in the scales by urging the less developed country to open up for eligibility for credit new groups of hitherto excluded individuals, such as tenants lacking collateral but still worthy borrowers based on their ability to produce income.

Another example would be in the way in which we go about constructing infrastructure. We have the experiments in Kenya in which we have purposely designed road projects to be carried out in a labor intensive way. This has opened employment opportunities for individuals in the very densely populated western parts of Kenya. I think we have often been too tempted in the past to go along with less developed country

desires for bulldozers and other expensive road building equipment. We need to design more of our projects with the landless laborers in mind. At least for certain classes of roads this approach is likely to be more economical and have a better chance of being maintained by local communities.

In some countries there are important problems of land tenure. Sometimes the need is for more formal titling. In other cases the need is to break up large assets or large holdings. This is an area which often is too sensitive for outsiders to be involved in. But when the political process in a country permits progress in this area help should not be held back.

One area where AID has been able to help squatters has been in the new style Housing Investment Guarantee program in which we have gone into areas almost completely lacking in public services and upgraded them with water, sewerage, electricity, gas, paved roads, etc. Similar programs are supported with Economic Support Funds in Egypt.

In summary while I have skepticism as to how much help we can be in projects specifically designed to help the rural landless, squatters, and sharecroppers as the only beneficiary, I think their needs should be kept in mind in the designing of all of our projects and in the formulation of policies. At the same time we should not stop the effort to find projects which will be particularly useful to these groups. We should definitely be open to experimental efforts working with these groups sponsored by private voluntary agencies. Their successes may lead to models for wider application.

I would like to say parenthetically at this point that this Congress in response to the recommendations of the Ford Administration supported an American initiative to establish the International Fund for Agricultural Development (IFAD) which has as its primary purpose the funding of projects which will be helpful to the small farmer and landless groups. This organization is still in its early years but it has a number of individual successes in associating funds with the projects of other agencies where IFAD's association caused projects to be designed to help the small farmers and landless laborers. As one example, in a Yemen project they negotiated to make tenants eligible for seed and fertilizer loans. In another project in Egypt they are financing the restructuring of a state farm into small holdings. In Bangladesh they are making a portion of an agricultural credit loan available to off-farm small businesses such as farm implement repair shops. The Administration in its 1983 budget is seeking funding for a portion of the already authorized contribution of the United States to the replenishment of this fund. One contribution that this Congress could make to helping the rural poor would be to provide this funding when it deals with AID's 1983 budget.

Finally, you ask "What can U.S. aid programs do more effectively to achieve their objective of alleviating the worst manifestations of poverty among the world's poor majority?"

I have already mentioned many of the areas I feel need more attention but let me here summarize areas where I think we need to put more emphasis in the period ahead. First, I think we must be more effective in our policy dialogue with less developed countries. We

need to sponsor a policy framework which will encourage development benefiting the total populations of the countries we help. This means universal primary education, health outreach programs reaching the whole population and policies which encourage agricultural production. In this connection I believe we have tended to leave too much to the IMF and the World Bank and have not given them the support they need in order to persuade countries to adopt sensible exchange rate policies, agricultural price policies, and other policies which will encourage the full use of agricultural production assets. Similarly, I think we need to encourage governments to get out of wasteful government industries which are uneconomic and to leave more of the production process to a competitive private sector. We need to be more willing to help governments establish the rules and regulations needed in order to assure a competitive process. There is no chance of turning agriculture around in Africa without a shift in policies by African governments to favor their agricultural sector. This is critical to helping the poor majority in Africa.

Second, I am concerned that we may not be sustaining a sufficient level of activity in the field of primary education. Opinions have been divided over the past five or six years about the contribution which the United States can make in this area. This puzzles me because I think our contribution has so often been very positive. The United States has been historically the leader in searching for community based, affordable, universal primary education. Through most of the less developed world the American model is preferred to

alternative European models. Yet many Americans are reluctant to share this American long suit with other countries. I recognize that to some extent this seeming neglect of primary education is a simple result of competition for limited funding where we quite rightly continue a high emphasis on agriculture, population and health and where we find ourselves wishing to show more interest in areas such as low cost energy. Anyway, I see this as an area of concern.

Third, our success in the field of population, more than anything else, has been a success in convincing LDC leadership as to the importance of this area and convincing them that it is politically possible to work in this area. With this success the demand for assistance in the field of family planning has greatly increased while our resources in real terms have not increased. Either through our own funding or through persuading others to give this area a higher priority it is important that the donor community provide the assistance which is now requested by the less developed countries in this critical area which in the long run will have a lot to do with the effectiveness of strategies for helping the poor majority.

Fourth, we need to sustain the research we sponsor in areas important to helping the poor majority. We can be proud of the financing we have contributed to the Consultative Group for International Agricultural Research which sponsors centers such as the International Rice Research Institute in the Philippines and the Wheat and Maize Center in Mexico. But AID is having a hard time maintaining its contributions at a sufficiently high level to bring along the

contributions of others needed to maintain an adequate effort. Furthermore, AID is having a hard time finding sufficient funding for its Collaborative Research Support Programs operated in close coordination with the Board for International Food and Agricultural Development (BIFAD). Our support to the fertilizer center in Alabama is going down in real terms. We need to provide a continuing stream of funding to such efforts as the search for a malaria vaccine and for improved methods in family planning. In each of these areas the funding level is under pressure and we will need to continue to watch to be sure that crucial research is not dropped for lack of sufficient funding.

Fifth, I think we should be concerned that our universities have been playing a reduced role in the development business. Although there is an encouraging process taking place in connection with the Land Grant institutions in collaboration with BIFAD, I note that in the social science area economics departments, for example, have shown insufficient interest in the development process. While there are some exceptions such as Boston University, by and large economics faculties have been concentrating on other questions. We need to ask ourselves whether there is a way of encouraging more economics faculties to devote research and teaching time to LDC development.

Sixth, because our interest in a broad based development strategy emphasizing a better life for the whole population of less developed countries is of special interest to the United States, I think it is important that we continue to play a leadership role in the multilateral organizations which are very much influenced by our views

as long as we play that leadership role. In this connection I have been somewhat startled to realize that the three Scandinavian countries today are providing fifty per cent more than we do to UNDP and that Italy is providing the same amount to UNICEF as we provide. Our contribution to IFAD, the International Fund for Agricultural Development, is now only 16% of the total. I think we need to relate our funding to these organizations to our view of the kind of leadership role we would like to sustain.

Finally, as a development man, I can't help but suggest a need to consider whether or not our funding levels are appropriate to the task. The benefits of economic development in the less developed countries bear very directly on our own prosperity. This is seen in the fact that 30% of our exports now go to the non-OPEC less developed countries. I think the case can be made that it would be in the interests of the United States to play a larger role in supporting economic development. I mentioned earlier that total aid by all donors to less developed countries comes to something close to \$40 billion. Our Development Assistance runs about \$1.8 billion but our total aid both bilateral and multilateral comes to between \$7 and 8 billion. Yet one asks why the Europeans, the Canadians, and the Japanese are contributing a larger proportion of their gross national product to this process. The OECD average is about .4% of GNP while we are running about .2%. I suspect it is not a greater altruism among the others but rather because they see it as very much in their interest to establish constructive relationships with these countries. The

relationships growing out of training opportunities and out of involvement of their firms and institutions in technical assistance and capital assistance together lead to more sales and more business involvement - thus providing a motivation for their larger contributions. We have been so successful in getting others to share in the aid effort we should be asking ourselves what benefits they see that perhaps we are missing! Perhaps when our economy improves and can sustain further increases in budget levels we will be able to provide something closer to the OECD average in contributions of assistance. To do this in 1983 we would have to double our present levels. When such increases are possible I would hope the development assistance account would be a special beneficiary, thus permitting adequate attention to those areas where there is an American comparative advantage - specifically the areas of agriculture, population, health, education, technical training, and institution building. I would also hope we could then afford more financing of our unique asset comprising the activities overseas of American private voluntary agencies and American universities. Our partnership with these groups needs more funding.

On the Administrative side in the interest of carrying an effective dialogue and providing adequate management for our programs including the kind of sophisticated analysis required to pursue a basic human needs strategy, I think we need to be worried about whether or not our strategy for reducing direct hire staff in AID is right. The American private sector including the contractors, universities, and the private voluntary agencies can play an increasingly important role in

implementing programs and even in the programming process itself. However, there is a need in each country where we operate to have direct hire staff capable of carrying on a policy dialogue and capable of supervising the activities financed by AID but being implemented by the less developed countries and by the American private organizations. I think we are shaving ourselves a little too close on staff levels under the staffing strategies sponsored by a succession of administrations during the past decade. It is a question of finding the right balance.

From a qualitative point of view, I think we need to move quickly to restore the economic analytical capacity of AID. This is something which is of great concern to Peter McPherson, the current Administrator, and I hope that this committee will support his efforts to increase the proportion of staff capable of dealing with policy issues at both the macro and sector levels.

Again on staffing, I think we need habits of communication between our technical staff and our executive staff which will make better use of the technical knowledge which the United States brings to bear. In this connection I think we have done the right thing in recent months in developing professional associations which cut across organizational lines. But it will take a continuing effort through the years ahead to put this new concept firmly in place.

We have really only begun the dialogue with the private voluntary agencies, the universities, and the private contractors to gain a

consensus on the importance of the policy dialogue to our overall objectives. We need to deepen the substantive content of our discussion with them. For example, I feel that only with the full understanding by the voluntary agencies of the importance of low cost health programs with a public health emphasis will we get full benefits of our cooperation in working together toward universal health systems which make a significant difference in the infant mortality rates.

Overall I think AID remains on the frontier. We are working in the right areas. We are having a very important and constructive impact directly through the projects and policies which we support and also indirectly in giving leadership to other donor organizations. But I think our leadership will be threatened by the fact that our contributions are consistantly becoming smaller as a proportion of the whole, perhaps to the point where our interests are no longer adequately represented.

Mr. Chairman I want to thank the committee for giving me the opportunity to appear today and to share with you my views on the role of the United States in the development process, especially as it impacts on the poorer segments of the less developed countries' populations. Thank you very much.

Chairman ZABLOCKI. Mr. Loevinsohn?

**STATEMENT OF DR. ERNEST LOEVINSOHN, ISSUE ANALYST,
BREAD FOR THE WORLD**

Dr. LOEVINSOHN. I am glad to appear before this distinguished committee today to discuss the impact of United States development aid on the poorest people.

I will be presenting Bread for the World's views on this topic, with particular reference to legislation now before the Congress.

Mr. Chairman, our research indicates that in the great majority of cases, the people who receive goods and services financed by U.S. bilateral development aid are not the poor. We studied the project budgets, for example, of 40 randomly selected projects from among the 422 development aid projects which were begun in fiscal 1980 and fiscal 1981.

In this sample, less than one-quarter of AID expenditures went to finance goods and services used primarily by the poor, using a World Bank definition of poverty. AID thus relies heavily on a top-down strategy. Their claim is that by supplying goods and services to the nonpoor, benefits will result for the poor.

This strategy has two main variants, which one can call the orthodox trickle-down approach and the bureaucratic trickle-down approach.

I would like to very briefly examine each of these, and then contrast them with a third approach, namely, the direct approach to benefiting the poor.

Under the orthodox trickle-down approach, development aid is used to promote overall economic growth. The orthodox approach was heavily discredited in the early seventies; in 1973, as you mentioned, Mr. Chairman, Congress passed the new directions aid reforms, which turned U.S. development aid away from this approach.

However, the current AID leadership is reviving the orthodox trickle-down approach. For example, in the fiscal 1983 policy and budget guidance cable to the AID missions, AID Administrator McPherson sets out his top 10 priorities. Aid to the poor is not mentioned. Instead, he stresses the importance of overall economic growth.

This isn't just a question of abstract policy, it is being translated into project funding decisions. Many new projects are being approved which seek to produce general economic growth without attempting to channel benefits to the poor.

Some examples include the \$8 million program to assist private businesses in Africa; and the \$5 million program to promote hydroelectric projects in Central America.

A few years ago, attacking the orthodox trickle-down strategy would have been flogging a dead horse. However, in view of current AID policies, it is worthwhile to review the evidence and ask, how effective was the orthodox trickle-down approach, in benefiting the poor?

The answer is that it wasn't very effective. Some trickling down of benefits did occur. But often, the poor benefited so little that the

extent of deprivation was not reduced. There are many well-known examples, of which I will cite just a couple.

In Latin America, the number of people receiving less than 80 percent of the required calories increased by 25 percent between the midsixties and the early seventies, despite high rates of economic growth.

As one looks at economic growth success stories, one sees many other instances in which the poor were left out. The Ivory Coast is a classic case. Its economic growth averaged about 8 percent per year all through the fifties and sixties; but despite this spectacular record, and despite some trickling down of benefits, deprivation remained widespread. Even today life expectancy in that country is several years less than in much poorer countries like Tanzania, which have paid more attention to the basic needs of their citizens.

The conclusion then, is that economic growth is not sufficient. Unless there are specific initiatives to target that growth to the people most in need, they will often be bypassed. And AID is reverting back to a strategy, in many cases, under which no attempt is made to channel the benefits to the poor.

Although the orthodox trickle-down approach has been gaining ground, it is not predominant in AID's project portfolio. It is still the bureaucratic trickle-down approach that is predominant.

Under this approach, aid is provided to government agencies in the hope that the ultimate beneficiaries will be the poor. Training for government officials and consulting services for government bodies, usually at a cost to AID of \$500 or more per consultant per day, are common forms of assistance to bureaucracies, \$500 per working day is based on the standard budgeted figure of \$10,000 a month to keep one consultant, or "technical advisor" as they are often called, in a typical Third World posting.

In some cases, of course, the bureaucratic trickle-down approach is an appropriate way to benefit the poor. But in general, it faces serious problems. Let me give some examples.

AID is planning to spend \$5 million to provide studies, training, and analyses for government officials in Haiti. But the Government of Haiti is notorious for its neglect of the welfare of its poor citizens, and it is improbable, therefore, that the U.S. assistance will end up providing substantial benefits for impoverished people in that country.

Another problem with the bureaucratic trickle-down approach is that the aid provided is often very remotely related to the goal of benefiting the poor. A new AID project is planning to spend \$9.3 million in Indonesia to improve English language instruction in government teacher training institutions.

It is very difficult to see how spending this much money to improve English language instruction is the most effective way of reducing poverty in Indonesia.

These top-down strategies can be contrasted with a direct approach to benefiting the poor. Under the direct approach, aid funds are used to finance goods and services to be primarily used by the poor themselves. These might include health and family planning services, irrigation facilities, appropriate technology, a wide range of possibilities.

AID does sometimes employ the direct approach, about one dollar in four is used this way. I cite some examples in my prepared statement.

Let me focus briefly on the question which I think concerns many of us, the question of building a political constituency for development aid. As Bread for the World campaigns for foreign economic aid appropriations, we are forcibly made aware of how reluctant many Members of Congress are to vote for foreign aid.

They have sound political reasons for their reluctance. An overwhelming, or at least a substantial, majority of the American public opposes foreign aid spending and wants to see it cut.

We can ask, why is this? At a time when hundreds of millions of people abroad are malnourished, why is there so little support for foreign economic aid? The answer is not that Americans don't care about hunger and starvation. On the contrary, Americans enthusiastically support private voluntary organizations which fight hunger in the developing countries.

Although the United States is near the bottom of the list of aid donors in terms of proportion of GNP devoted to official development assistance, we are tied for second in terms of the proportion of GNP devoted to private voluntary assistance.

In a revealing 1980 study, the Market Opinion Research Organization found that less than 2 Americans in 10 want to see the amount of tax money spent to alleviate world hunger decreased; 8 out of 10 want it either increased or kept constant.

However, the same study found that 6 out of 10 want the U.S. foreign economic aid budget to be decreased. As the study commented, spending on economic aid is not tied in the public's mind with solving the world hunger problem. In sum, there is a reservoir of public support for programs which reduce deprivation, but the public does not believe that the current foreign economic aid program is effectively doing so.

We have before us then an opportunity. If development aid can be reformed so that it is more effective, and is seen to be more effective in reducing the extent of deprivation, public support for the program would be significantly increased.

There is a bill now before Congress which would require that more U.S. development aid directly benefit the poorest people. Bread for the World believes this reform would make development aid more effective in reducing the extent of human misery and improving the economic prospects and the economic productivity of the poor.

The bill, H.R. 4588, would require that half of U.S. bilateral development aid go to finance productive facilities and other goods and services to be primarily used by those falling below the World Bank's absolute poverty line, in other words, the bottom 40 percent of the population of the developing countries.

The approach is not a welfare approach. The idea is to improve the ability of poor people to produce, especially in the agricultural sector. The bill was introduced by Representative Gilman, and it has attracted widespread support. Currently, it has well over 100 cosponsors ranging all across the ideological spectrum, and including 17 members of this committee.

H.R. 4588 would shift some aid to impoverished people, but it leaves the administration plenty of flexibility. It leaves 50 percent of AID's development accounts, and all of the huge Economic Support Fund for aid which need not directly benefit the poor.

Directing 50 percent of bilateral development aid to the poor would place restrictions on approximately \$700 million out of a total of over \$6 billion in nonmilitary U.S. foreign aid.

So, in some ways, this is a very modest measure. But because this measure would sharply increase the amount of U.S. development aid getting through to the people who need it most, we urge you to support it.

Without calling for any additional U.S. Government spending, this measure nevertheless holds out the promise for substantially decreasing the extent of poverty and hunger.

Thank you, Mr. Chairman.

[Dr. Loevinsohn's prepared statement follows:]

PREPARED STATEMENT OF DR. ERNEST LOEVINSOHN, ISSUE ANALYST, BREAD FOR THE
WORLD

Mr. Chairman, I am glad to appear before this distinguished committee today to discuss the impact of United States development aid on the poorest people. I will be presenting Bread for the World's views on this topic, with particular reference to legislation now before Congress.

As you may know, Bread for the World is a Christian citizens' movement which seeks to alleviate hunger by influencing public policy. We have members in every Congressional District, with a total of about 41,000 members nation-wide.

Mr. Chairman our research indicates that in the great majority of cases the people who receive goods and services financed by U.S. bilateral development aid are not the poor. Bread for the World studied the project budgets of 40 randomly selected* projects from among the 422 A.I.D. development aid projects

* Projects were selected randomly within each fiscal year, except that projects for which project papers were not on file were excluded from the sample.

begun in fiscal 1980 and fiscal 1981. In this sample under 25% of A.I.D. expenditures went to finance goods and services used primarily by the poor. Poor persons were defined as those who would be classified as absolutely or relatively poor by World Bank standards. AID relies heavily on a top-down strategy, claiming that goods and services supplied to the non-poor will result in benefits for the poor.

The top-down approach has two main variants which could be called the orthodox trickle-down approach and the bureaucratic trickle-down approach. I would like to briefly examine each of these and contrast them with a third approach, namely the direct approach to benefiting the poor.

THE ORTHODOX TRICKLE-DOWN APPROACH

Under the orthodox trickle-down approach development aid is used to promote overall economic growth. It is often acknowledged that the factories and highways built with development aid funds will not benefit the poor directly, but it is claimed that the benefits of the economic growth produced by these projects will trickle down to the poor, thus reducing the extent of deprivation.

The orthodox trickle-down approach was heavily discredited by the early 1970's. In 1973 as you know Congress passed the New Directions aid reforms which turned U.S. development aid away from the orthodox trickle-down approach. However the current A.I.D. leadership is reviving this approach.

For example in the fiscal 1983 program and budget guidance cable to A.I.D. missions A.I.D. Administrator McPherson set out his ten main priorities. Delivering aid

to the poor was not mentioned; instead McPherson stressed the importance of overall economic growth.

The priorities set out by McPherson are being translated into project funding decision. Many new projects are being approved which seek to produce general economic growth, rather than attempting to channel benefits to the poor. Examples include the \$8 million program to assist private businesses in Africa (A.I.D. project 698-0438) and the \$5 million program to promote hydroelectric projects in Central America (project number 596-0106).

A few years ago attacking the orthodox trickle-down strategy would have been flogging a dead horse. However in view of current A.I.D. policies it is worthwhile to ask "How effective was the orthodox trickle-down approach in benefiting the poor?"

The track record of this approach in providing benefits to the poor is not a good one. Some trickling down of the benefits of economic growth did occur, but often the poor benefited so little that the extent of deprivation was not reduced. For example in Latin America the number of people receiving less than 80% of the required calories increased by 25% between the mid 1960's and the early 1970's despite high rates of economic growth. As one looks at economic growth success stories one sees that in many cases the poor were left out. In the Ivory Coast for example economic growth averaged about 8% per annum through the 1950's and 1960's. Despite this spectacular record and despite some trickling down of benefits extreme deprivation remained widespread. Even today average life expectancy in the Ivory Coast is several years less

than in much poorer countries such as Tanzania which have paid more attention to the basic needs of their citizens.

It is not just that the orthodox trickle-down strategy happens to have a bad record. Even when it succeeds in producing across-the-board growth it is an inherantly inefficient method of benefiting the poor. The reason is that in across-the-board economic growth, that is, growth where each household's income rises by the same percentage, the great majority of the benefits will go to the relatively prosperous. This is because the poorest 60% of households in developing countries generally have less than one-third of total household income. Therefore if every household's income rises by the same proportion less than one-third of the extra income will go to the bottom 60% of households. More than half of the extra income would typically go to the top 20% of households. Thus across-the-board economic growth tends to benefit the elite much more than the poor majority.

The only way to benefit the poor majority more than the elite is to achieve targeted economic growth, growth such that the income of poor households rises by a substantially higher percentage than the income of more affluent households. But the orthodox trickle-down strategy has no mechanism for achieving this targeted growth. On the contrary, it tends to increase the income of the better-off households (the direct beneficiaries of trickle-down aid) at a higher rate than the income of poorer households.

In sum, the pay-off from aid investments directed by the orthodox trickle-down strategy

will mainly be in the form of benefits to the relatively prosperous. At best, the poor majority will get a fraction of the benefits.

In view of the demonstrated ineffectiveness of the orthodox trickle-down approach in producing benefits for the poor it is distressing to see A.I.D. giving new emphasis to this approach.

THE BUREAUCRATIC TRICKLE-DOWN APPROACH

Although the orthodox trickle-down approach has been gaining ground, it is not as prevalent in A.I.D.'s project portfolio as the bureaucratic trickle-down approach. Under this approach aid is provided to government agencies, with the claim that the ultimate beneficiaries will be the poor. Training for government officials and consulting services for government bodies, usually at a cost to A.I.D. of \$500 or more per consultant per day, are common forms of assistance to bureaucracies.

In some cases the bureaucratic trickle-down approach is an appropriate way to benefit the poor. In general however this approach faces serious problems. A major difficulty is that the government bodies to which A.I.D. is providing assistance are not generally oriented toward benefiting the poor. It is therefore unlikely that strengthening these government bodies will yield substantial benefits for impoverished people.

For example A.I.D. is planning to spend \$5 million to provide studies, training and analyses for government officials in Haiti. But since the government of Haiti has long

demonstrated neglect for the welfare of its poor citizens it is improbable that the U.S. assistance will end up providing substantial benefits for impoverished people in Haiti.

This problem is not confined to governments such as that of Haiti. Even governments such as that of Tanzania, noted for its commitment to equity in economic development, have developed bureaucratic elites whose interest in providing benefits to the poor is limited. For example A.I.D. has been assisting the authorities in Mbulu district in the Arusha region of Tanzania in drawing up a 'twenty year plan'. Now it might be thought that in bureaucracy-bound Tanzania there is no pressing need for another long-range plan. But even aside from that, the priorities chosen by the Mbulu district government in drawing up the plan (e.g. electrification of Mbulu town and of the government buildings) are not oriented to the alleviation of poverty. It is therefore unlikely that A.I.D.'s assistance in helping to draw up the plan will yield any significant benefits for poor people in the district.

Another problem with the bureaucratic trickle-down approach is that the aid provided is often very remotely related to the goal of benefiting the poor. For example A.I.D. is planning to spend \$9.3 million in Indonesia to improve English language instruction, mainly in government teacher-training institutions. It is very difficult to imagine that this is the most effective way to reduce poverty in Indonesia.

THE DIRECT APPROACH TO AIDING THE POOR

The top-down strategies which have been discussed can be contrasted with a direct approach

to benefiting the poor. Under the direct approach aid funds are used to finance goods and services to be primarily used by the poor themselves. These might include health and family planning services, irrigation facilities, appropriate technology, safe drinking water supplies, and credit for small farmers.

The direct approach should include aid to the very poorest groups, such as landless laborers and squatters. It is true that it may be difficult to reach these groups with some sorts of projects. Electrification projects for instance will obviously tend to bypass those who cannot afford electrical appliances. But human development activities such as health and literacy projects can focus on the poorest of the poor.

A.I.D. does sometimes employ the direct approach to benefiting the poor. One interesting example involved the rural water supply program in Kenya.

The Kenyan government's policy in most parts of the country has been to promote individual connections between water supply pipes and the user's home. The user must pay for this individual connection. Community water taps would be a less expensive alternative. However the government has strictly limited the number of community water taps and often curtailed their hours of operation to encourage people to pay for individual connections.

Because the poor cannot afford the individual connections and because there are not many community taps, poor people have received only limited benefits from the program.

Confronted with this situation A.I.D. did not employ a top-down approach. Instead the agency provided funds through CARE to support self-help water projects. In these projects communities organized themselves and contributed labor and some money to build a water system for themselves. A.I.D. via CARE contributed materials and equipment. Although the self-help water systems suffer from the same maintenance problems as the government systems, they generally serve the entire community, rather than primarily benefiting the more affluent.

Private voluntary organizations such as CARE are one channel for implementing the direct approach but they are not the only channel. Financing government facilities such as schools and clinics in impoverished areas would also exemplify the direct approach.

Bread for the World does not assert that the direct approach to aiding the poor is always appropriate. We recognize that in some cases top-down aid makes sense. But because the direct approach to aiding the poor is often the surest and most efficient way to alleviate extreme poverty we believe that this approach deserves higher priority than it is now accorded. Given that aiding the poor is declared in the Foreign Assistance Act to be the principal purpose of U.S. bilateral development aid, it seems inappropriate that roughly three-quarters of such aid should finance goods and services primarily used by those who are not poor.

BUILDING A POLITICAL CONSTITUENCY FOR DEVELOPMENT AID

A.I.D.'s reliance on the top-down approach is not conducive to building support for

development aid among the American public. When Bread for the World campaigns for foreign economic aid we are made aware of how reluctant many Members of Congress are to vote for foreign aid. They have sound political reasons for their reluctance; we all know that there is widespread public opposition to foreign aid spending, including foreign economic aid spending.

Why is this? At a time when hundreds of millions of people abroad are malnourished, why is there so little support for foreign economic aid?

The answer is not that Americans don't care about hunger and starvation overseas. On the contrary, Americans enthusiastically support private voluntary organizations which fight hunger in the developing countries. Although the U.S. is near the bottom of the list of aid donors in proportion of G.N.P. devoted to official development assistance we are tied for second in terms of proportion of G.N.P. devoted to private voluntary assistance.

In a revealing 1980 study the Market Opinion Research organization found that less than 2 Americans in 10 want to see the amount of tax money spent to alleviate world hunger decreased. 8 out of 10 want it either increased or kept the same. However the same study found that 6 out of 10 want the amount of U.S. foreign economic aid decreased. As the study commented, spending on economic aid "is not tied in the public's mind with solving the world hunger problem."

In sum, there is a reservoir of public support for programs which reduce deprivation abroad, but the public does not believe that the foreign economic aid program is effective in reducing such deprivation.

We have before us then an opportunity. If development aid can be reformed so that it is more effective, and is seen to be more effective, in reducing the extent of deprivation public support for the program would be significantly increased.

PROPOSED LEGISLATION

There is a bill now before Congress which would require that more U.S. development aid directly benefit the poorest people. Bread for the World believes this reform would make development aid more effective in reducing human misery and in improving the economic prospects of the poor.

The bill, HR 4588, would require that half of U.S. bilateral development aid (excluding operating expenses) go to finance productive facilities and other goods and services to be primarily used by those falling below the World Bank's absolute poverty line. This group constitutes about 40% of the developing world's population. The bill thus emphasizes the direct approach to aiding the poor.

HR 4588 was introduced by Rep. Gilman and has attracted widespread support. It currently has well over one hundred co-sponsors in the House, ranging all across the ideological spectrum. Its cosponsors include 17 members of this committee.

A weakened version of the provision targeting 50% of development aid to the poor has gone through the Senate Foreign Relations Committee with Administration approval.

HR 4588 would shift some aid to impoverished people but it leaves the Administration plenty of flexibility. It leaves 50% of A.I.D.'s development accounts and all of the huge Economic Support Fund for aid which need not directly benefit the poor. Directing 50% of bilateral development aid to the poor would place restrictions on approximately \$700 million out of a total of over \$6 billion in non-military U.S. foreign aid.

In some ways therefore HR 4588's proposed targeting of aid to the poor is a very modest measure. But because this measure would sharply increase the amount of U.S. development aid getting through to the people who need it most desperately we urge you to support the proposal. Without calling for any additional U.S. government spending it nevertheless holds out promise of substantially decreasing the extent of poverty and hunger.

Chairman ZABLOCKI. Thank you, Mr. Loevinsohn.

The bells for the purpose of two votes, suspension of calendar votes. The first vote will require 15 minutes; and the second will be a 5-minute vote, so it appears that the membership would be back by quarter of 12. I hope you gentlemen will bear with us.

The committee will stand in recess until quarter of 12. Thank you.

[Recess.]

Chairman ZABLOCKI. The committee will please come to order. We will resume our hearing and questioning.

I am sure that the small attendance is not reflective of the lack of interest. As our witnesses know well, what is on the minds of the members today is the tax bill and other legislation, but nevertheless, I am sure they will read the testimony and are deeply interested in the subject matter before the committee today.

The Chair will recognize himself for 5 minutes for questions. I would like to restate that when this committee wrote the new directions legislation in the early 1970's, it looked like very little economic growth in poorer countries the 1950's and 1960's had trickled down to the poorest parts of their populations.

Yet, just yesterday, a summary of the World Bank's latest world development report stated that absolute poverty has all but disappeared in middle-income countries, and the question therefore is, did trickle-down just take longer than we had thought? Or is poverty alleviation in the middle-income countries a product of the last 10 years?

And has the total number of absolute poor in the world declined in the last decade, or is the decline now concentrated in fewer countries? I would like to have the opinion of all three of you gentlemen.

Mr. SCHIECK. Thank you, Mr. Chairman, I will begin.

Chairman ZABLOCKI. Mr. Schieck.

Mr. SCHIECK. There has been some interesting research done by economists over the last few years, looking specifically at the question of the validity of the concerns that were expressed in the early 1970's about the trickle-down theory.

Some interesting conclusions have come from this. They are not saying that the concern about trickle-down was wrong. What they are saying is that, in looking at all countries as a group and reaching the conclusions that trickle-down was not working was erroneous.

What you really have to do is look at individual countries and see what happens in these countries over time. Recent research has shown that economic growth has benefited the poor in countries which have shown relatively rapid rates of growth.

The poor have not benefited in countries which have shown slow rates of economic growth. So what we see today are really, in terms of the developing world, two sets of countries: The middle-income countries and the low-income countries. The number of absolute poor and the levels of poverty in general in the middle-income countries are significantly lower than the numbers of poor people who are in slow-developing countries.

If I remember correctly, in taking a group of low-income countries, 52 percent of the population were considered poor; whereas, in the middle-income countries, roughly 18 percent were considered poor.

So, economic development benefits poor people, and the objective is to try to get development, relatively rapid development, along with Government policies which seek to facilitate access to the benefits of development by the poor.

And what we found was—for instance, of 17 developing countries which experienced rapid growth, most showed positive trends in income distribution and the poor did increase their incomes. Four countries showed a worsening of this trend. These were Brazil, Argentina, El Salvador, and Mexico.

But almost all the other 17 countries showed increases in incomes for the poor.

Chairman ZABLOCKI. Mr. Wheeler.

Mr. WHEELER. I find it a hard question to address, because it seems to me it is very hard to find a pure model of trickle-down on the one hand, and some other model on the other. I agree with Mr. Schieck that it is important to look at each country's situation.

It seems to me that one of the things that is shown by the success of many countries has been that they have had a combination of a growth-oriented strategy and one which sought a universalization of services.

Taiwan and Korea, for example, for many years, put a very high priority on universal primary education. This is one of the contributing factors in their rapid economic growth and in the dispersion of wealth throughout the population. Also they were not shy about investing in agriculture. It is important for developing countries to invest in what is, in effect, a God-given and underutilized capital investment as one of the engines of growth in the early stages of the economic development process.

Chairman ZABLOCKI. Mr. Loevinsohn, you are particularly critical of bureaucratic trickle-down, so I am looking forward to your view.

Dr. LOEVINSOHN. I think that there is no question that in a sense, trickle-down is almost always going to work. That is, you have to be a genius to have economic growth or strengthening of the bureaucracy (if you take the bureaucratic trickle-down model) and have absolutely no benefits reach the poor.

It is true that there are countries where they have managed to do something like that, but in general, if you have economic growth, some benefits are going to trickle down to the poor.

The real question before us is one of efficiency. Is promoting economic growth the most efficient way to benefit the poor? As you pointed out rightly in your opening statement, what we are mainly interested in in development aid is eliminating the worst physical manifestations of extreme poverty.

So, the question is, is the trickle-down strategy an efficient way of going about it? Now, here is the problem: In most developing countries, the wealthiest 20 percent of households have about half the total household income. And the bottom 60 percent usually have less than a third of total household income.

So, if everybody's income grows by the same percentage, the great majority of the benefits of economic growth will accrue to the relatively prosperous households, and the poor majority is going to get a small fraction.

It is true that they do get something. But after all, the effort to achieve economic growth, the payoff in terms of poverty alleviation is only a very small part of the total.

Wouldn't it be more efficient to aim at targeted economic growth, say, economic growth primarily in the small farm sector? Of course, there would be some spillover into the rest of the economy, but we would be focusing our efforts on the people who are most in need of improving their incomes, rather than primarily benefiting the wealthier households.

Chairman ZABLOCKI. Mr. Pritchard.

Mr. PRITCHARD. Thank you, Mr. Chairman.

You know, I get disturbed by this talk, because it just seems to me that it is almost impossible to measure this way. You have to look at a country, decide how you can help that country in capacity building, whether it can sell its goods overseas, whether what you do helps their inflation; whether it helps the general economy; and I think it is very difficult to sort of make sweeping statements one process against another.

One of you gentlemen was talking about the number of dollars it takes to put people through the primary school, and what it takes to put people through a university. But obviously, there are great benefits in both. You are not going to build a strong country without a percentage of people going to university.

At the same time, you have got to build that primary school. I think that when you talk about capacity building, strengthening the infrastructure in a country, maybe that is a trickle-down theory, but if you don't have that, why, it is hard for me to see how this country is going to have a viable economy.

If you just dump money in there, the population increase runs them right out of the ball game, you know, and everything you say is really nothing if they have a population growth of 3.5 or 4 percent.

Let me ask the last speaker, which countries do you think—what programs have we had in which countries where we have used the trickle-down theory—let's get some specifics? Would you care to comment?

Dr. LOEVINSOHN. Sure. I wish I could just confine my remarks to history, but, in fact, we are continuing, as I was pointing out earlier, we are continuing to use the trickle-down theory—for instance, we have got a project where we are going to provide capital infusions to Jamaican businesses, medium-sized Jamaican businesses, for machinery and equipment.

In other words, we will be helping commercially prosperous people in Jamaica, hoping that benefits will trickle down——

Mr. PRITCHARD. You mean produce jobs?

Dr. LOEVINSOHN. If you want to put it that way.

Mr. PRITCHARD. You call that trickle down?

Dr. LOEVINSOHN. Well, they may not produce jobs, Congressman. We don't know what the mix will be or for how much they will take for their own personal consumption or automation, and how much will end up producing economic opportunity for the low-income groups.

If we think that they are going to be socially responsible, if we have faith in that, that is one thing——

Mr. PRITCHARD. Wait a minute. If we are going into where—obviously, in that country, there are too many people to live off the land. So you are going to have to build some kind of an infrastructure of companies that hire people.

Now, it doesn't matter whatever their social attitude is, if they can produce jobs. It seems to me in that country the greatest need is for employment. They are either going to have to move off that island, or we are going to have to produce jobs there.

Now, does that have anything to do with trickle-down?

Dr. LOEVINSOHN. Well, the basic idea of trickle-down is that you are helping people at the top of the income distribution, in the hope that benefits will somehow trickle down to people at the bottom of the income distribution. That is the theme of trickle-down. The idea is that we are going to promote overall economic growth through—as the name implies—going from the top down.

Mr. PRITCHARD. In other words, if I go in and bring some risk capital into an area, and they build some plants or something, that is a trickle-down theory?

Dr. LOEVINSOHN. I think you have to distinguish between development aid and commercial investments. I was going to make the point, that maybe the thing to do, in terms of investment in Jamaican businesses, equipment and machinery, is to let the market take care of it, that the market is really an appropriate mechanism to handle that.

What our concessional aid should do, it seems to me, what the American people want it to do, is to alleviate malnutrition in Jamaica. I don't think that most Americans would be very interested

in helping out entrepreneurs, businessmen in Jamaica who are already perhaps richer than they are.

Mr. PRITCHARD. Do you want to get into this?

Mrs. FENWICK. I really would. I have been talking to a Jamaican who goes every year to see his father. They produced a whole lot of fruit, and wanted to sell it for export. But unfortunately, they had no machinery, that had been ruined, and they didn't make the necessary boxes.

Yes, I know what you are talking about. I went to the United Nations and sat with some of my colleagues, one of whom had been traveling around the world. In one place he saw a new palace with an eight-lane road leading to the new stadium not far away.

When my colleague gently said, "Don't you think perhaps with the World Bank and AID helping you, perhaps you should have built roads into the interior, so that the farmers could get their produce to the cities? Otherwise the country has to import food and increase the damage to the country's economy."

The answer was, "How dare you. Do you think because you have money, you are going to tell us how we are going to spend it?" I think it is intolerable that there should be hunger in the world when there are surpluses, and to that extent, I most heartily agree with you. But this is not true aid.

And I think, also, that the PVO's, the private voluntary agencies are part of the answer. They deliver direct services, going out and living in the country, and discovering the need for a few cinder blocks for schools. The PVO's are the ones we ought to be holding up as a great example. And the fact that it costs \$10,000 a month to keep an AID official abroad is a disappointment to all Americans, I believe.

But, if our colleges and universities have not developed the kind of person who can plan this kind of thing, we should use, as far as possible, the PVO's who live in the villages with the people.

But is it not also a true benefit to the country to build a road that will enable people to come to the school, a road going back into the country, not leading only from the stadium to the palace?

In other words, there has to be, as my colleague has said, a mix. You have got to have some infrastructure to make it possible for those who are struggling to contribute. You must have some direct, humble, not-arrogant aid. We should not be rushing in with our own ideas about how things ought to be done, but learning what they believe in, learning what the people we are trying to help really want.

But I am sure you would find that in Jamaica what they want is a new box factory, and the importation of new machinery so that people are going to get jobs. That doesn't strike me as any favor to the rich. I don't see what you mean by that. The palace and the stadium do, but if you are going to really, honestly try to increase the well-being of your people, what they most need are jobs.

I have ridden all over the island of Jamaica. I am sure you have too. And you can see how people are living, and whether the people in the countryside look famished and their children have swollen bellies and tiny legs. No. That is not so. The real poverty and the terrible difficulty of Jamaica is in the cities, isn't it?

Yes.

Dr. LOEVINSOHN. I tend to agree with you, especially the point about an appropriate mix. I think we are all talking about a mix, and the issue is what gets emphasized in the mix, and what gets deemphasized in the mix.

I think there is a perception that the current mix involves both a lot of direct aid to the poor, and a lot of indirect aid. Whereas, in fact, it is almost all top-down, that is indirect aid.

The question is: Should it be that heavily oriented toward a top-down approach? I don't think anyone can deny the need for strengthening Government agencies, providing university education, even spending large amounts of money to train people in the United States may be necessary.

But what is the appropriate mix? I think that one can't just sit here and pick a number out of a hat, but as you look at the whole AID project portfolio as it is laid out in the congressional presentation, there do seem to be an awful lot of things like improving English language instruction in Indonesia at a cost of nearly \$10 million, and if you have to ask—

Mrs. FENWICK. Maybe that is what they want. We have got to be a little less arrogant. I really mean it. I think that we ought to approach people with less certainty that daddy knows best. We must care enough to listen to what they really want.

Maybe they want their children to learn English and be able to function all over the world. See. Listen, is my theory. I think I have taken everybody's time.

Chairman ZABLOCKI. The time of the gentleman from Washington has expired—

Mr. SCHIECK. Mr. Chairman, I would like to make a short comment, first of all, on the Indonesia project. Right now, the top leadership in Indonesia, especially at the planning level, are graduates of U.S. universities. Most of them have gotten their Ph. D's here in the United States.

I think the types of policies that Indonesia is following which are benefiting the wide spectrum of the populace of that country is due, in no small measure, to the educational attainment of these people in the United States.

The project in Indonesia is designed to increase English-language capability among people who potentially could come here to the United States and attend the U.S. university system.

We have had problems of finding people to come to the United States because of language difficulties. And this is, in essence, the objective of that project.

I think it is important, also, to note another thing here: We are talking about top-down, but I wonder if that is really the correct term we ought to be using. Our problem in providing assistance to countries is to do it in such a way that we can sustain development in those countries.

We can give people things. We can give somebody food. We can give somebody a bag of fertilizer, but if we walk away from it at that point, and there is no process or ability in the country to make fertilizer available next year, then the United States is forever constrained to be involved in providing assistance which becomes little more than a handout.

What we are trying to do is to improve the institutional capacity in the countries that we are dealing with, to, one, make institutions more responsive to the people and the needs of the people; two, to help train the people in institutions to do a better job; and three, to provide them with the wherewithal to take over the job.

Now, that could be called top-down, but it seems to me that, in the absence of some kind of institutional capacity in the developing countries, we are always going to be in a situation of handing out resources.

Chairman ZABLOCKI. Mr. Bingham.

Mr. BINGHAM. Thank you, Mr. Chairman.

Mr. Loevinsohn, I was glad to hear you say that you do favor a mix, and the question is, what kind of a mix? I would like you to develop a little more your thoughts about what are the kinds of projects that you believe should be emphasized as direct assistance to the poor.

You skated over that very quickly. And this is a very difficult area, as you know. I would like to hear you talk about that a little more.

Dr. LOEVINSOHN. It is a difficult area, and I think quoting examples of what AID has done is probably the best way to go at it. In Kenya, the Government had a rural water supply program, based on the idea of individual connections between the main water pipe and the user's home.

Each user has to pay for that individual connection. To encourage people to do that, the Government has sharply cut down on the number of community water taps, and has curtailed their hours of operation.

Now, AID was confronted with a situation where the poor were being, to some degree, shut out of the program because they couldn't afford these individual connections, and so they weren't getting the safe drinking water which they needed, or only getting it by waiting for many hours for the community tap to be operating.

The top-down approach would have been something like this: AID provides the 12th consultant to the ministry, with the hope that more technical expertise will overcome the problem.

AID did not do that in the case of Kenya. They used CARE as a channel for delivering equipment and materials to enable what they call Harambee Water Projects, which are self-help village-level programs, where people—it is a sort of tradition in Kenya—people organize together, and contribute some labor and build a school, or in this case, a water system.

These water systems were built with AID help, with AID materials channeled through CARE. Now, the systems are not perfect. They have maintenance problems. They have some of the same problems that the Government systems have, but they aren't based on individual connections. Mostly, they serve the entire community.

And that is just one example of, it seems to me, what AID has done right.

Mr. BINGHAM. Let's take that example.

Dr. LOEVINSOHN. Right.

Mr. BINGHAM. Certainly that is a worthy thing to do. But it strikes me that that is a retail operation. You are not getting any of the benefit of the multiplication factor, which I think has to be basic to lasting development activity.

We don't have the resources. We don't have the personnel. We can't begin to provide direct services to people, to assist them in a direct way in solving their own problems. We have to do it, as I see, through some kind of process which is going to have a multiplying effect.

Dr. LOEVINSOHN. I think there is a multiplying effect.

Mr. BINGHAM. Your example, I think, is a perfect one, because I don't see any multiplication factor at work there.

Dr. LOEVINSOHN. Let me try and say where we could look for multiplier effects there. Once you have got a community organized to do one thing, the experience is that they go on and do something else.

This happened, for instance, with AID roads in Colombia. Once the communities got organized to demand a road, and to work on getting the road to their village, then the next thing, they went on to work on electrification.

In other words, one gets people working on their own behalf. I think this is particularly crucial in regard to the question that Congresswoman Fenwick raised about U.S. advisers telling other countries what to do. I don't think that is fundamentally a fruitful approach, although it may work here and there.

But fundamentally, what is going to determine whether a government is responsive to its rural poor people is how much power the rural poor have. These kinds of projects empower the rural poor, empower them to demand their fair share within the political process.

Mr. BINGHAM. Well, I think there are projects that do inspire further activities, there is no question. That isn't quite the multiplication that I had in mind, but it is a form of multiplication.

Let me ask you this question: How do you respond to the statement Mr. Wheeler made that there is no chance of turning around agriculture in Africa without a shift in policies by African governments to favor their agricultural sector?

Dr. LOEVINSOHN. I think it is something of a generalization, since it covers so many countries. However, it is fundamentally one that we would agree with.

We are certainly not saying that there is only one route, and we want to allow for a very large degree of working with Government agencies.

Mr. BINGHAM. I was really startled at Mr. Loevinsohn's statement, that in spite of great prosperity, life expectancy in the Ivory Coast is lower than it is in Tanzania. That surprises me.

Mr. SCHIECK. I am sorry, sir, I can't answer that question. I can provide it for the record.

[The information referred to follows:]

LIFE EXPECTANCY IN THE IVORY COAST

According to the 1982 World Bank Development Report, life expectancy in 1980 was 52 years in Tanzania and 47 years in the Ivory Coast. Both of these levels represent an improvement of 10 years in life expectancy between 1960 and 1980. A

review of the demographic data for these countries would indicate that the major cause of the difference in life expectancy between these two countries appears to be the greater rate of infant (0-1 years) and child (1-4 years) mortality in the Ivory Coast.

This data, however, should be viewed with caution. Specifically, it should be noted that the gathering of demographic data in Tanzania is very incomplete, since the registering of vital statistics such as births and deaths is not required. Therefore, data such as that shown above for this country is largely arrived at by extrapolation from those sources which are available. On the other hand, the gathering of such data is required in the Ivory Coast, leading to a more complete and accurate picture, although still not without shortcomings.

In sum, while the statistics would seem to indicate a greater life expectancy in Tanzania than in the Ivory Coast the comparatively greater incompleteness of the data in the former should be taken into account. When this is taken into account, the actual differences in life expectancy may not be as significant as the currently available data would indicate.

Mr. BINGHAM. Do you know it, Joe?

Mr. WHEELER. No, I don't. But I do think that we have examples. One is Sri Lanka which has a relatively low per capita income. Sri Lanka has so ordered its priorities in favor of rural health outreach and nutrition programs that it has brought its infant mortality rate way down.

I think that there is an opportunity to utilize limited resources wisely in order to achieve basic human needs' objectives more effectively than alternative policies. And I would like to just emphasize, I see a wide area of agreement here today, first on purpose, and second, I am glad to find that all of us agree that we are talking about the balance in programs, and not absolute concepts.

It is very encouraging to find that there is such a wide area of agreement emerging from the discussion.

Mr. BINGHAM. Thank you.

Let me just say that I have been supplied with the World Development Report 1982, from the World Bank, and it does support your statement, which is very interesting.

I would like to know more about it. Thank you.

Chairman ZABLOCKI. Mrs. Fenwick, on her own time.

Mrs. FENWICK. I would like to correct an impression that I made speaking too hastily. I think we must—and I tried to make that point—try to help people do what they would like to do or to have done.

In other words, if they say, "We absolutely must get some roads," and we don't seem to be able to organize it here, a person who knows how to organize roads ought to go.

And I would hope that we would provide aid for that. If it costs \$10,000 a month, that is an awful lot, but still it is true aid. On the other hand, I don't think if they want the palace and the stadium and the eight-lane road between, that we necessarily have to accede to those demands.

In other words, if I left you with the impression, Dr. Loevinsohn, which I see I did, when you responded to my colleague, Mr. Bingham, that I was advocated people going in and ordering people around. Far from it.

In fact, I have tried to make it clear that we must be more humble in our approach, and not insist on our tables of organization and ways of doing things that we have found useful here, but

which may run counter to their religion, their mores, their ways of thinking, their desires.

We have had some fine testimony before this committee. There was a group—and I wonder if any of the three of you knew about them—they are called the International Executive Service Corps, and apparently they go out in India and live in small villages, and help people, and get to know the workers. There was a lovely story about the workers having gotten together to make a present for the wife of the representative.

That kind of volunteer giving of service and caring, I think, is what is going to bring the world together. Unfortunately—the communications systems so quickly spreads violence and hatred and illwill.

I don't know how we are going to encourage good will. And I don't know if AID could do more, and less professionally, if you will forgive me, Mr. Wheeler. You know what I mean? If you could involve these PVO's with their local, loving service-oriented direction, I think it would be more productive.

We have, I believe, 100 people in Egypt, and the only one who lives outside Cairo lives in Alexandria. Now, that does not suggest the kind of heart-to-heart talks in the village in the evening, that I would like to hear about. People saying, "You know, we really can't decide between a school and . . ." That is what the International Executives talked about, how they go to the village in India and ask, "What would you like?"

"Well, we have been worrying. We don't know whether to have a school or a clinic." Well, they talk and listen, and the natural leaders seem to come forward, and they make a consortium of a number of villages. But to do that one must live there and listen.

In my village, they started some irrigation works and discovered in almost a miraculous way that where the old gentleman who seemed to be the most respected in the village, said they ought to dig, they found ancient irrigation channels that nobody even knew had been there. He just pointed out the field he thought would be the best in which to start plowing.

There is the kind of thing that warms the heart and spirit. And this is what I wish more American aid would encourage and inspire.

Mr. WHEELER. Mrs. Fenwick, I think that what we need is a partnership—

Mrs. FENWICK. Yes.

Mr. WHEELER [continuing]. Between the American private organizations—

Mrs. FENWICK. Very much so.

Mr. WHEELER. And that partnership certainly exists, and it exists specifically in connection with the International Executive Service Corps, which has been receiving support from AID for many years, and which we have found to play a very important role.

That spirit of volunteerism—but adequately funded by a grant process, it seems to me can be very helpful.

Mrs. FENWICK. And do you know Sir Robert Lindsay, and that ecumenical group which goes and lives in the villages? Do you know the group I am talking about?

Mr. WHEELER. No.

Mrs. FENWICK. Do you know, Dr. Loevinsohn?

Dr. LOEVINSOHN. No.

Mrs. FENWICK. Very interesting. Berkley Bedell had a meeting in his house with this remarkable Englishman, who described how members of the group lived in India. It was very much a grass-roots, heart-to-heart type of service, and most successful. They organized 15 villages around Bombay.

I am going to get in touch with you. I will get that address and name and everything, because they have written me, and see if we couldn't organize something with Mr. McPherson.

Mr. WHEELER. Mrs. Fenwick, I think it is very important that we manage our policy dialog in a very sensitive way.

Mrs. FENWICK. Yes.

Mr. WHEELER. A real sharing of views. At the same time, I don't think we should be embarrassed about pressing ideas on government for their consideration. One example of this is the roads project in Kenya, where we persuaded the Kenyans to try an experiment, in which they would utilize to the maximum extent possible a labor-intensive method, rather than a machine-intensive method of road construction.

And we found that that worked, and that the Kenyan Government, as a result of that experiment, has adopted a policy that certain classes of roads will be built in that way, putting people to work so they share in the benefits of development, in a situation where jobs are very scarce.

Mrs. FENWICK. It sounds good. Thank you.

Thank you, Mr. Chairman.

Chairman ZABLOCKI. Mr. Shamansky.

Mr. SHAMANSKY. Thank you, Mr. Chairman.

Dr. Loevinsohn, I think I recently sent my renewal dues in to Bread for the World, so I don't come prejudiced against the cause. But I am thinking back to visiting in India many years ago, and the beggars come up. They want something, and your first impulse is to help somebody. Then there just seems to be an endless number, and you have to think better of it.

So, I see your testimony says the direct approach should include aid to the very poorest groups, such as landless labor and squatters.

That assumes that a society as such, including the government, that they are organized, themselves, somehow rather to be receptive and that you could make progress in that regard.

I worry about those countries in which the government is going to thwart that, if not necessarily by intention. Even culturally, there are problems. What happens if you just don't do things that way, and they have their own customs from time immemorial?

So, I find myself looking on the one hand, yes, of course, you are right, and on the other hand, I read about the English language projects in Indonesia for \$9.3 million. And I am not sure that the Indonesians couldn't have funded that themselves, with their own funds. I can't believe there is not enough to do that.

Mr. Wheeler, would you like to comment on what your opinion is of a \$9.3 million—I mean, the concept, why we would need American money for that? Couldn't there have been Indonesian money for that?

Mr. WHEELER. Mr. Shamansky, I think that for any individual project, a recipient country can pay for it. And in a way, what we are talking about is how we will associate our money in order to provide a total level of resources.

I think a project of that sort has to be looked at as a facilitative project, you can call it top-down, but I think of it as facilitative.

Mr. SHAMANSKY. Facilitating what?

Mr. WHEELER. Well, AID has, over the years, financed something like 200,000 training opportunities for people from less-developed countries. The training has been mostly in the United States.

I think as we go around the world, and talk to government officials, and people who are important in moving societies, the modern men of societies, we are struck by what an important investment and a vital investment that training has been.

In many cases, I think that the problem, as I understand it from Mr. Schieck, the problem has been that there aren't people who can study in the United States because they lack the English language.

Mr. SHAMANSKY. Am I to infer from this that the \$9.3 million is to bring people to this country?

Mr. WHEELER. No; I am sure it would be training them in Indonesia itself.

Mr. SHAMANSKY. OK, but I guess the thing that strikes me about that, Mr. Schieck, concerns the nature of teaching English, to improve English language instruction is what it says. The value judgment was that but for our facilitating money, the Indonesians couldn't do it themselves, knowing the importance of English, apparently, to getting an education around the world, not just in the United States.

It is tough to judge individual actions, but it is an illustration which concerns me a great deal. Getting back to Congresswoman Fenwick's remark, and I am sympathetic to the idea that the recipients ought to have some say. I am also not sure that, of course, children necessarily know best, also. I am sure we would agree on that point, and the fact, was there really no effective alternative?

It is not a very original idea providing \$9.3 million and saying, "You go out and teach English." What did you buy with the \$9.3 million?

Mr. SCHIECK. What we are doing is training teachers of English to teach English.

Mr. SHAMANSKY. And the Indonesians couldn't do that.

Mr. SCHIECK. Well—

Mr. SHAMANSKY. Given the will.

Mr. SCHIECK. Well, as Mr. Wheeler pointed out, on just about any project that you want to select that we—

Mr. SHAMANSKY. But that is—I won't accept that as an answer, with all due respect. To me, that is an argument stopper. I can't buy that. Some things, they really could do on their own. \$9.3 million to buy unique things from here, or some other place, the Indonesians couldn't duplicate.

Mr. SCHIECK. Well, basically, what we are trying to do is help them come up with a nationwide system for training English. It is not one institute. One of the problems of Indonesia, it is a nation of at least 1,000 islands, if not more. The population is dispersed.

One of our objectives is to try to increase the pool of people who might qualify to come to the United States for training. One of the problems is, if you live in Djakarta, you can learn English in Djakarta, but if you live out in Sumatra, you may not be able to—

Mr. SHAMANSKY. Mr. Schieck, I have no trouble comprehending that. What I have trouble comprehending is why we believed that but for us, the Indonesians, with their revenues, from whatever sources, couldn't have allocated \$9.3 million. You know, give up a tank someplace, or a little plane, or something like that.

And I am not being flip. To me, this is a very serious matter. It is the uniqueness and I am not going to dwell on it, I am going to get off of it right now—but it disappoints me that they couldn't—assuming they wanted the program at all, have shown us where they managed to finance \$9.3 million, and then came to us, and said, "Would you help us subsidize some students here?"

Mr. SCHIECK. You know, not everything we do as a foreign aid agency is necessarily something which is at the very top of the priority list of the host governments. We hope it is. But sometimes, we want to encourage them to do things even though the head of the Bureau of the Budget of that country might say, "Well, this is not necessarily the highest thing on our list." Maybe a tank is.

And so, sometimes we try to move governments, encourage them to go in directions which we believe is important ultimately to that country. So we use our resources to try to get them to do things which, if left to their own devices, they might not do.

Mr. SHAMANSKY. I would just like to ask one last question, although the timer isn't on, I am sure my time is about up.

What process does AID have for reexamining in the most objective fashion previous projects as examples for the future of what not to do, or of what to do?

Mr. SCHIECK. First of all, we have always agreed that evaluation is a good idea. But, translating a good idea to reality, to where we can learn from these lessons, is not an easy thing sometimes.

In 1979, we began a process. We created a special office in AID which is designed to carry out independent evaluations of aid programs around the world.

Up to now, about 52 evaluations have been conducted. The attempt has been to select similar projects in different countries to see if there is a common theme or lesson that we can learn—

Mr. SHAMANSKY. How long has AID been operating?

Mr. SCHIECK. AID as AID since 1961; its predecessor agencies began in 1947.

Mr. SHAMANSKY. OK, and they got around to doing this in 1979? That is progress. I don't want to imply that I am not grateful for that, but—

Mr. SCHIECK. As I have tried to mention, we have always done evaluations. What began in 1979 was to do crosscutting evaluations in the sense of saying, "All right, we are interested in rural electrification. Let us evaluate six different rural electrification programs in six different countries, and see what lessons have been learned from this."

A number of extremely good studies have come out of this. We have held conferences of AID people, along with host government

nationals, in which the lessons learned in these kinds of programs are discussed and conclusions reached on them.

Mr. SHAMANSKY. Have you ever decided that some things weren't any good?

Mr. SCHIECK. Oh, yes.

Mr. SHAMANSKY. Good.

Thank you, Mr. Chairman.

Chairman ZABLOCKI. Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. Chairman, first, let me commend you for holding this important hearing today. I think you and the committee have both demonstrated on many occasions our concern that development assistance programs be fashioned in a cost-effective way that benefits those most in need. I believe that this hearing will contribute to our oversight of these programs.

The new directions mandate that was prescribed by the Congress in 1973, as we know, was assigned a high priority within our development assistance program to help the poor majority within developing nations.

And the Foreign Assistance Act of 1961 consistently underscored the importance of assisting these individuals, and of developing a policy that aims to insure wide participation of the poor in the benefits of development on a sustained basis.

Our committee did support an amendment which incorporated into the report accompanying this year's foreign assistance bill a reaffirmation of the new directions mandate. That amendment outlined our concern that our Nation continue and strengthen its efforts to assure that a substantial amount of the assistance directly improves the lives of the poor majority, with special emphasis on those individuals living in absolute poverty.

And prior to our committee's actions, I had introduced H.R. 4588, legislation which now has over 100 cosponsors, and that measure contains a central provision urging that at least 50 percent of the U.S. development assistance be targeted to those in absolute poverty.

Accordingly, Mr. Chairman, I certainly welcome this opportunity of assessing the question of how well development assistance has been, and how it is designed to benefit the poor in light of the new directions mandate. While I regret that I was delayed in arriving at the hearing, I welcome the opportunity of looking over the testimony by our distinguished panel, and I would like to just address a couple of brief questions.

Mr. Wheeler, you state that the AID's program has contributed to development assistance success in a number of areas. Are there any AID programs which you consider to be particularly unsuccessful and unproductive, and that should be discarded?

Mr. WHEELER. Mr. Gilman, I think that in the early years of the program, we succumbed to the temptation to put money into sophisticated hospital facilities, which would deal with the esoteric aspects of medicine.

That would be an example of a kind of a program which I think we should be discouraging today as we seek for a universalization of health benefits.

Mr. GILMAN. And, Mr. Schieck, in a May 1982 article in the National Journal, there was a statement that AID is developing new policies which represent a significant shift from the new directions aid policy incorporated by Congress in the 1973 foreign aid bill, and widely embraced in the development community.

Do you have any comments on that article's observations?

Mr. SCHIECK. Yes, sir, I don't think it is true. In my opening statement, I reaffirmed the position of the administration and of Mr. McPherson, the Administrator of our Agency, that the basic human needs orientation objectives that are set forth in legislation are still those of AID.

We are talking more today than we did last year or the year before about the need for economic growth. We believe economic growth is important, but we believe that you can achieve economic growth and basic human needs, and, in fact, that economic growth is necessary to achieving basic human needs.

Our orientation, when we look at projects, when we try to design our programs, the question that we constantly ask ourselves is, Who will benefit from this? That is our concern.

Mr. GILMAN. I am pleased to hear that comment.

Mr. Schieck, in its fiscal year 1983 congressional presentation, the International Development Cooperation Agency stated that about 800 million people in developing countries live in absolute poverty.

Can you provide us with any estimate as to how many of these people are directly benefiting from our assistance programs?

Mr. SCHIECK. Mr. Gilman, I am afraid I cannot. I can see if I can provide that for the record.

Mr. GILMAN. And if you could, Mr. Chairman, I would like to incorporate it at this point in the record.

Chairman ZABLOCKI. Without objection, so ordered.

[The information referred to follows:]

BENEFICIARIES OF U.S. ASSISTANCE

It is impossible to adequately quantify what percentage of the 800 million people in developing countries who live in absolute poverty are benefited by AID programs. This is because estimates of direct beneficiaries provide only a small measure of the real effects of AID programs. Not only must the "spread" effects of any project and program also be taken into account, which is difficult enough to quantify, but it is almost impossible to determine what proportion of the poor benefit from such things as the fact that AID has encouraged a host-country government to undertake policy reforms leading to more equitable economic development, or from the fact that AID has undertaken a small, innovative intervention which is then replicated on a much larger scale by multilateral donor organizations.

I can, however, provide you with a general indication of what percentage of our program goes to those countries.

In fiscal year 1981, the following percentages of AID's budget went to programs in countries with an annual per capita income of \$730 or less: 73 percent of Development Assistance; 50 percent of Economic Support Fund; and 82 percent of Public Law 480 food aid.

In terms of actual levels, these percentages represented: \$1.25 billion in DA (out of \$1.713 billion); \$1.099 billion in ESF (out of \$2.199 billion); and, \$1.28 billion in Public Law 480 (out of \$1.56 billion). In the aggregate, total assistance going to these countries was \$3.629 billion, out of a total budget for the above three categories of \$5.472 billion. This represents over 66 percent of the resources available to or through, in the case of ESF, AID.

Mr. GILMAN. Mr. Loevinsohn, the new development mandate underlines the need for direct assistance to the poor majority. Would you outline for us what you believe that direct assistance should be?

Does it imply any timeframe within which assistance should benefit the poor?

Dr. LOEVINSOHN. Well, we would like to avoid the situation where the claim is made that a project may not benefit the poor now, but 20 or 30 years from now there will be a benefit. We just don't know enough about the development process to be able to make those kinds of predictions with accuracy.

So, while we needn't concentrate on a very short timeframe, talk about what will happen a generation from now, it seems to me, is probably not a valid framework for conducting our development assistance programs.

Mr. GILMAN. In your view of the AID projects, have you found the implementation strategies designed so that the poor will actually be the beneficiary?

Dr. LOEVINSOHN. Congressman, let me go back to Chairman Zablocki's citation, in his opening statement, of the Congressional Research Service report, citing the large proportion of AID projects that are primarily benefiting the poor.

The people who compiled this report said that they were relying on what AID's expressed intention was. And indeed if you look at the project descriptions in many cases, it does say that the poor will benefit.

That is, after a description of the actual project the claim is made that the poor will benefit. But in many cases, it is very hard to see the causal chain, to see how the poor will actually benefit in any substantial way.

One example is AID's interisland shipping project in the Caribbean, where they are trying to improve cargo service between Caribbean islands. AID makes the claim that the beneficiaries will be small producers.

Well, maybe they will, and maybe they won't, but it is very hard to see what AID is doing to insure that the improved cargo service will benefit the poor at all.

Mr. GILMAN. Thank you for your comments. I see my time is expired.

Thank you, Mr. Chairman.

Chairman ZABLOCKI. Now, it appears that we have heard again about several problems, such as the bureaucratic problems, and getting the assistance to the poorest of poor.

The question of inappropriate national policies is another matter that was touched upon, but not really developed. It appears to be a catch 22. We have learned from some of our colleagues that AID and our Government should not be dictating as to what is best for the recipient countries.

On the other hand, you have stated that you believe we have tended to leave too much to the IMF and the World Bank, and have not given them the support they need in order to persuade countries to adopt sensible exchange rate policies, agricultural price policies, and other policies which will encourage the full use of agricultural production assets.

There was a perception in Congress, I believe, by some, that bilateral programs are not as effective as multilateral programs. Particularly IMF and the World Bank can serve a better—in a better way, so to speak, to persuade recipient countries.

Now, we seem to have two points of view. Some say that the recipient countries should make the final decision. Of course, they should. But to what extent can the national policies be reversed in order to benefit the poorest of poor? And is the IMF-World Bank route the road to go? Or should there, again, be a mix?

Since you have made the statement, Mr. Wheeler, I wonder if you and then the rest of the panel would give your view as to how national policies can be channeled—if I may use the word—to a course that will benefit the poor?

Mr. WHEELER. Mr. Chairman, I think we have, in a number of countries, a situation where farmers are being paid about half of the international value of wheat or corn. As a result, they can't afford to use modern inputs, fertilizer, et cetera. The country loses the chance to bring income to those rural areas. And with production down, the country is forced to import those commodities in order to satisfy the needs of their citizens. Now, I think we need to watch a situation where, on the one hand, the IMF or the World Bank is urging the country to reform its policies, while the bilateral donors are taking steps which, in effect, make the reforms unnecessary.

I think it is very important that we be in ever closer touch with the World Bank and the IMF on these policy issues, and provide them the political support, which major donors can provide in order to work with the government to turn their policy mix around.

One example of a good reform is the one which took place in Pakistan when I was there in 1976 where the price policy and the fertilizer distribution policy was changed, resulting, over a period of several years, in an increase in production from 7.5 million tons to close to 12 million tons.

I think it is manifest that with production increases like this you are helping an enormous portion of the society, including the small farmers and also the landless laborers who are employed by small farmers, either directly or in the handling of inputs such as fertilizer, or the outputs, such as the marketing of wheat and rice and so forth.

What I see is a need for a strategy of development which favors the poor, which gets a proper integration between the policy framework and the technical aspects, and the human development aspects which are equally important.

Chairman ZABLOCKI. Could we get some examples how, in the sub-Sahara, problems are dealt with within the national policies of those countries?

Mr. WHEELER. One example was Kenya, where the Government maintained the purchase price of corn at a very low level. Farmers stopped producing, and there was a real shortage of corn, a very serious shortage of corn in that country. And in a subsequent year, they turned their price policy around, and the farmers responded.

I think that that is just a dramatic example of what can happen if we get the right policy mix, together with the right technology,

and it would seem to me that this Kenyan example needs to be spread around Africa if we are going to see a continental improvement in agricultural production.

Mr. GILMAN. Will the chairman yield?

Chairman ZABLOCKI. Yes.

Mr. GILMAN. Mr. Chairman, I have some additional questions that I would like to submit for the record, to the panel, and ask that their responses be made a part of the record.

Chairman ZABLOCKI. Without objection.

[The information referred to follows:]

RESPONSES OF FREDERICK W. SCHIECK TO QUESTIONS SUBMITTED BY REPRESENTATIVE
GILMANPROJECT IMPACT EVALUATIONS

QUESTION: Would you describe for us the status of A.I.D.'s project impact evaluation studies launched in 1979, what types of projects they are applied to, and what these studies have shown concerning the degree to which the New Directions Mandate is being met?

ANSWER: Since the beginning of the Impact Evaluation Program in 1979, 56 ex-post project and four country evaluations have been conducted in 11 sectoral areas. The project evaluations have covered 33 country and three regional projects. Sectoral areas studied include: rural roads, community water, rural electrification, education, agricultural research, rural health, area development, irrigation, Housing Investment Guaranty, PL 480 Title I and private sector and development. Work has been completed in the first five sectors and workshops have been held to discuss the lessons learned and recommend changes for future programming.

Many of the projects evaluated to date are not necessarily New Directions projects in that they were designed prior to 1973. Impact evaluations focus on completed projects and, given the lead time between policy change and dissemination, project design and approval, and project implementation, many New Directions projects are still on-going and therefore not suitable for an impact evaluation.

Approximately half of the projects evaluated, however, were completed after 1978 and A.I.D.'s Office of Evaluation is in the process of reviewing the results of the 36 evaluations now published. While this is a small number and the analysis of results is preliminary, some findings can be derived. Of the first 36 projects reviewed:

1. 27 projects produced substantial benefit for the poor.
2. 27 projects produced positive effects on women.
3. 35 projects were judged to be compatible with local values.
4. 26 projects involved local participation.

Given the fact that many of the projects were designed prior to the implementation of the New Directions mandate and selected for evaluation without regard for showing its impact, these early results indicate that the Agency is doing well at meeting mandated objectives.

MIX OF ASSISTANCE APPROACHES

QUESTION: In a February, 1982 New York Times article, Brandeis researchers Ruth S. Morganthau and Robert Hecht argue for a "Bottom Up" approach to development. This approach calls for "building upon local initiative, greater use of village resources, and technology adapted to the actual conditions of peasant farming...which can make better use of dwindling foreign aid," than can the "Top-Down" infrastructure-type approach which often does not directly reach those most in need. What mix of these approaches is A.I.D. pursuing?

ANSWER: A.I.D. is pursuing both approaches to development, depending on the objectives of the particular project and the circumstances under which it is being implemented. Some necessary development objectives can best be achieved when the poor benefit directly, while others can be achieved only when they benefit indirectly. A review of the 36 impact evaluations currently published shows that the poor benefited greatly (and directly) from about half of the projects; modestly from another quarter; and, indirectly from another quarter. This provides a very general indication of the mix of approaches A.I.D. is pursuing.

Concerning the "bottom-up" approach, A.I.D. has learned that certain factors are critical to ensuring that benefits reach the intended beneficiaries directly. For example, individual projects should be designed and implemented in such a way that the poor have some influence over the identification, design and implementation of projects. In addition to participatory mechanisms, the poor generally benefit more directly when the project is located in a region where they make up the predominant income class and where social or policy barriers do not limit their ability to take advantage of the project's benefits.

Since the distribution of development benefits often parallels the distribution of productive assets, A.I.D. is also emphasizing the development and application of new, more productive technologies, improvement of human resources and creation of institutional capacity. While some of these investments tend to have an impact in the long term, and while their benefit for the poor is often indirect, they are a powerful tool in creating the conditions necessary for the poor majorities in LDCs to more productively participate in economic growth and development.

TARGETING OF A.I.D. ASSISTANCE

QUESTION: On page 2 of your statement, you indicate that A.I.D. targets the bulk of its assistance not on individuals but on programs that benefit the poor. What is the difference?

ANSWER: A.I.D. assistance is designed to alleviate poverty. Direct assistance to the poor is one means of doing so. However, A.I.D. also relies heavily on other means not focused directly on individual beneficiaries. For example, A.I.D. assists financial institutions that, in turn, help businesses expand through the provision of credit, thereby creating jobs for the unemployed. Or, A.I.D. helps establish agricultural research and extension systems aimed at increasing food production by small landholders.

These programs, while not targeted on individuals, are often very effective in reaching and providing benefits to the poor majorities in developing countries.

STRENGTHENING THE ROLE OF PRIVATE ENTERPRISE

QUESTION: On page 3 of your testimony, you state that "a major new emphasis is on strengthening the role of private enterprise as a means to promote broadly-based growth." What forms has this emphasis taken, and what is the lead time in such assistance directly benefitting the poor?

ANSWER: Many developing countries face already-severe unemployment problems that are rapidly growing worse. A meaningful strategy to benefit the poor must emphasize rapid growth in productive employment opportunities. Private enterprises typically are the dominant sources of productive employment opportunities; from the perspective of generating jobs, the most important in LDCs are found in agriculture, agribusiness (with strong linkages to agriculture), small- and medium-scale industries (including "microenterprises") and certain service industries. A.I.D.'s private enterprise initiative has identified these typically labor-intensive "sectors" as most suitable for support.

It is difficult to say, at this early stage, how long the lead time will be for directly benefitting the poor. In order to achieve such benefits, the establishment and the expansion of firms must first result in net increases in productive employment. Also, the indirect labor effects, especially for agribusiness firms linked to very labor-intensive activities in agriculture, may be very substantial. Furthermore, increases in employment, caused by increased consumer expenditures, typically are small, but are not always insignificant.

These various effects of programs emphasizing private enterprise normally take some time, are difficult to predict with a great deal of precision, and are affected by a wide array of unforeseeable political and economic events.

POVERTY IN LOW INCOME COUNTRIES

QUESTION: You indicate on page 4 of your statement that estimates show poverty is overwhelmingly concentrated in the low income group of countries. How is A.I.D. policy fashioned to respond to these estimates?

ANSWER: It is A.I.D. policy that concessional flows should be concentrated on low income countries. Excluding the People's Republic of China, countries with a current per-capita income below \$400 account for roughly 80 percent of the world's poor. In FY 1981, A.I.D. allocated about 47 percent of its DA resources, and 3 percent of its ESF resources, to these countries. These countries also received about 41 percent of PL 480 resources.

Developing countries with a per-capita income of \$730 or less (in 1980 dollars) are eligible for credits from the International Development Association. In FY 1981, A.I.D. allocated 73 percent of its DA resources, and 50 percent of its ESF resources, to IDA-eligible countries. These countries also received 82 percent of PL 480 resources.

A.I.D.'s policies and development strategies specifically address many of the constraints to development that are especially prevalent in low income countries. These constraints encompass weak institutional infrastructures, inappropriate technologies or unsuitable policies.

To address the problems most characteristic of low income countries, A.I.D. uses a number of direct and indirect approaches. For example, poor nutrition is a common problem in low income countries. As a result, A.I.D. recently issued a Nutrition Policy Paper specifying a policy which states as an objective, "to improve nutrition and food consumption through sectoral programs in agriculture and health, and through direct nutrition programs." In response to this guidance, in sub-Saharan Africa, where average per-capita food supplies have been falling, A.I.D.'s agriculture and population programs are being designed with a clear view to helping solve long-run nutrition problems.

EMPLOYMENT-ORIENTED DEVELOPMENT

QUESTION: You state on page 7 that, "In most developing countries implementation of a broadly-based, employment-oriented pattern of development is the most effective way of achieving a sustained rate of economic growth, as well as ensuring that the poor share in the benefits of that growth." What percentage of countries do not fall within that category and what strategies are used there?

ANSWER: In general terms, a broadly-based, employment-oriented development strategy makes sense in most LDCs, given the relative abundance of labor and shortage of capital in these countries. Exceptions to this, however, would include a few relatively labor-scarce and capital-abundant developing countries.

For example, some LDCs in sparsely-populated regions experience significant out-migration of labor to the oil-rich Arab countries. As a result, there is usually an inflow of remittances to the families remaining behind. In such cases, selective mechanization and substantial investment in education and human resource skills formation (and, in supporting institutions and infrastructure) would provide a firm foundation for an appropriate development strategy.

In any event, it should be noted that each developing country pursues a particular development strategy uniquely its own. These particular strategies are conditioned by cultural, social, environmental and, especially, political factors.

DEVELOPMENT OF INSTITUTIONAL STRUCTURES

QUESTION: Can you give us examples of the kinds of institutional structures to which you refer on page 11 of your statement?

ANSWER: A.I.D. intends to assist in the creation and strengthening of institutional structures wherever this will further our overall goal of encouraging attainable, broadly-based development in the countries which we assist.

Appropriate institutions, thus, include both public and private organizations which deliver essential services to needy populations, which train individuals in both technical and managerial capacities, or which work in other ways to stimulate development. Specific examples of such institutions would include: ministries of agriculture or health; local financial institutions and agriculture-based industries; private and voluntary organizations; regional institutes of training and other educational institutions; and, national and international agricultural research organizations.

SUPPORT FOR RESEARCH

QUESTION: You point out on page 13 of your testimony that AID "will pursue promising opportunities for increased support of research intended to tackle...major obstacles to improving the lives of the poor majority." What proportion of funding will be directed to research, and how does that level compare with current levels?

ANSWER: A.I.D.'s involvement in research is not limited to the narrow definition of that term, but includes the Agency's entire approach to science and technology initiatives. Thus, much of our work in this area represents an effort to put into practice the results of research and technology advances attained both in the U.S. and elsewhere. Emphasis is being placed on science and technology at our highest levels of cooperation with developing countries.

A.I.D. has also taken steps to emphasize and improve its capabilities in this area. Among these is the creation of Sector Councils comprised of A.I.D. scientists to advise the Agency on all science and technology matters. A.I.D. also has a Science Advisor, whose office encourages the participation of U.S. and LDC scientists in A.I.D.'s work, as well as encouraging the Agency to take a more innovative and collaborative approach to the problems of development research and technology transfer. Finally, A.I.D. is also exploring a number of approaches to working with U.S. universities to apply their scientific expertise in overseas programs.

The following are the comparative levels of funding for science and technology, including research:

	<u>FY 1982 (Est.)</u>	<u>FY 1983 (Proposed)</u>
Ag. & Nut.	\$280,265,000	\$270,947,000
Population	28,845,000	28,275,000
Health	21,300,000	21,207,000
Education	16,326,000	19,607,000
Energy	72,532,000	73,476,000
Other	13,400,000	11,950,000
TOTAL	\$432,668,000	\$425,462,000

These totals represent 33.4 percent and 32.7 percent, respectively, of the total functional development account funds in FY 1982 and FY 1983. By comparison, the total funding level for science and technology in FY 1981 was \$390.9 million, while in FY 1980 it was \$287 million.

FOREIGN AID AND U.S. SECURITY INTERESTS

QUESTION: The May 8, 1982, International Herald Tribune referred to an Administration document outlining a policy whereby, and I quote: "U.S. foreign aid will be chanelled primarily to countries that directly benefit U.S. security interests." Would you explain for us the nature of that document, and whether it is indeed a new U.S. policy?

ANSWER: The document you refer to is, apparently, the cable sent to all posts, providing guidance on the preparation of the FY 1984 budget. This cable closely reflects the contents of the International Security and Economic Cooperation Program, FY 1983, transmitted to the Congress on March 2, 1982 by the Secretary of State. This program, a result of a Presidentially-directed review, reflects the conclusion that, properly used, international security and development cooperation programs are a major instrument in U.S. foreign policy, and are the principal way in which the U.S. seeks to insure security, political and economic stability, and growth sufficient to allow our friends and allies to pursue their own peaceful development.

This Administration believes that security and political factors are important considerations in U.S. foreign policy. It also maintains, however, a strong commitment to development and humanitarian concerns. The traditional broad U.S. commitment to supporting economic growth in the LDCs was reaffirmed by the President both prior to and during the Cancun Conference. As a result, this Administration interprets "U.S. security interests" in the broadest sense of the term, to include economic growth with equity in the LDCs and the resultant political and social stability it engenders.

This policy reflects the broad U.S. economic, political and humanitarian interest in seeing an acceptable rate of growth in the LDCs and the recognition that the economic crisis which currently faces the low income countries has significant adverse implications for U.S. interests.

Thus, decisions on the allocation and levels of foreign assistance made by this Administration take into account a wide range of concerns and interests which impact on U.S. security interests. These are the same concerns as those expressed in the foreign assistance legislation under which the Agency operates.

RESPONSES OF JOSEPH C. WHEELER TO QUESTIONS
SUBMITTED BY REPRESENTATIVE GILMAN

1. On page 6 of your statement, you indicate that "only by addressing the crucial policy issues will we get agricultural production up to an adequate level". Could you elaborate on what you believe these "crucial policy issues" to be?

Probably the most important policy issue relates to the prices paid to farmers. In the classic situation a government establishes subsidized price levels for wheat aimed at a politically important urban consumer group. The government makes wheat available without discrimination as to need and to an ever broader group. Then, to avoid an overly large budgetary cash outlay, the government tries to monopolize the farm market, paying domestic producers prices substantially lower than world market values. At these low farm prices domestic production stagnates. This leads governments to seek wheat from donors at concessional prices. When concessional imports become insufficient, scarce foreign exchange is used for cash or hard credit imports. In effect the LDC government is paying American or other farmers more to grow wheat than they are willing to pay their own farmers. This becomes an untenable situation. The solution to the inevitable crisis is to reduce or eliminate the subsidies to the consumer groups and then to pay farmers the real value of wheat.

The subsidy bill can be reduced by limiting beneficiaries of the subsidy to those in real need by a system of rationing. Another approach would be differentiation of product in which the subsidy is only applied to a product not demanded by higher income groups. This could be provision of a coarse grain such as millet or sorghum rather than wheat or provision of a lower quality type of bread. Often the preferred alternative is to simply eliminate or reduce the subsidy. Where subsidies are continued, some system must be devised to keep the subsidized product from getting back into market channels--not an easy thing to do. Subsidized bread is fed to chickens in Egypt because it is cheaper to the farmer (on the black market) than regular chicken feed.

Specific examples of price impact on production include Kenya and Zambia which kept corn prices down leading to severe shortages. When price policies were changed, production went up dramatically. Recently price and marketing policy changes in Somalia have led to major production increases. In Pakistan in 1977, the government

determined to raise wheat prices to farmers and to gradually eliminate fertilizer subsidies. At the same time they decided to gradually reduce wheat subsidy levels for consumers. With help from AID, Pakistan filled the fertilizer supply channels to assure fully adequate amounts. Then Pakistan opened up fertilizer distribution to the private sector. Results were an increase in wheat production from 7.5 million tons to nearly 12 million tons a five year period. This is a dramatic example of how AID can support policy reform. In Pakistan wheat is grown by hundreds of thousands of small farmers and therefore the benefits of this reform were extended to the poor majority.

The same type of price distortion exists with export products such as cotton. Sudan cotton production was cut in half over a ten year period but a change in price policy a year ago has brought a partial restoration of earlier production levels. Egypt pays its farmers substantially less than world market values for a number of crops. This represents a substantial "tax" on the agricultural sector. Egypt is now considering major agricultural price changes in view of new information that production capacity within present technology is at least 50 percent more than current levels. Prices to the farmer must increase to achieve these higher production levels.

There are other types of issues. For example, governments must decide the priority to be given to agricultural research. In our experience agricultural research, especially for adaptive research, is one of the most productive investments since even a small improvement in the quality of seed when applied over hundreds of thousands of acres can make a very important difference in the total production of a given crop. Then there are price policy issues on government supplied services such as water and electricity where a lack of revenues owing to provision of these services free or below cost, inhibits needed expansion and maintenance of infrastructure and services. There is also a problem of subsidized credit where the subsidy tends to restrict the amounts available (because low interest rates discourage savings or overburden national budgets) and lead to "rationing" to those with greater access to the credit banks, leaving poorer and more remote farmers borrowing from the village money lenders at very high rates. AID favors a different balance where interest rates will attract savings, avoiding the drain on national budgets. Adequate savings will then permit the banks to make available fully adequate amounts of credit to all comers. We also favor modern criteria for loans which make lending possible on

the basis of potential income rather than simply ownership of land. This is very important to tenants and to very small farmers renting land from others.

Finally, and often very important, exchange rates which are unrealistic often overprice exports and underprice imports. Among other things this distortion encourages use of imported machinery and discourages use of domestic labor. Resulting unemployment has a direct adverse impact on the poor.

2. On page 7 of your testimony, you state that "only recently have many leaders around the world come to realize that small farmers are producing more per acre than larger farmers." What factors contributed to this new realization, and what emphasis does AID place on supporting small farmers? Large farmers?

The realization that small farmers produce more per acre than large farmers has grown out of research done in many countries around the world over the past 30 years. This finding is particularly clear-cut where labor is relatively abundant and capital is relatively scarce, a condition that applies in most developing countries. While many observers find this conclusion difficult to understand, people who have studied the research are fully convinced of its validity and, step by step, policy makers around the world are coming to realize that in LDCs the development of very large capital intensive farming does not usually make as economic use of limited capital resources and abundant labor resources as investing in more productive technology suitable for already existing smaller farms such as improved seeds, fertilizers, irrigation and relatively small implements. Paradoxically, the centrally managed economies who purport to or wish to help the less advantaged people in societies have been among the primary proponents of a large farm approach. They of course do this in the form of collective farms or state farms. These have an added problem because they are often operated in a non-competitive environment where prices are administratively determined. While AID has in the course of the past 30 years experimented in some large farm approaches, in recent years we have put almost all of our attention on help to the small farmer, skewing our programs in such a way as to be sure that we are being most helpful to the hitherto disadvantaged group. In addition, the United States supports a small farmer approach by its support of the International Fund for Agricultural Development (IFAD) which concentrates on small farmers and landless laborers.

One country where we have been debating this issue has been Egypt where the previous government pressed for very large investment in so called "new lands" which would be farmed on an extensive rather than intensive basis. While we have been considering help to develop "new lands" where the canals and roads are already in place but which have not been producing very well, we have not agreed to go into entirely new areas. Rather, the whole thrust of our Egypt agricultural effort has been to build on the five million acres called "old lands" occupied by small farmers. We have been seeking better technology, better farm management practices and a better policy frame which together should bring substantial increases in production in those areas.

3. What are the key aspects of the "beneficiary analysis", to which you refer on page 12, "to assure that there is a clear link between the immediate objectives of the project and the goal of improving the life the poor majority?" How effective is AID's "beneficiary analysis"?

While there is discussion of a country's social makeup in the long range planning document (called the Country Development Strategy Statement) real beneficiary analysis comes first at the project identification stage. Basically the analysis considers the attitudes and conditions of the people in the project area, how benefits will impact and how they will be spread. For example, we would discourage a project which only helped a few landlords in favor of an effort which helped all or most of the population. Directives for this analysis are contained in AID's Handbook 3 which calls for a very sophisticated social soundness analysis to complement the economic analysis which is also required.

My experience as Mission Director in Pakistan and then as Assistant Administrator for the Near East where I both developed and reviewed projects was that the programming process took the question of who benefits very seriously. In this respect the programming process was substantially improved over the earlier period when this aspect of analysis was either less intensively considered or not considered at all. I think 30 years ago we generally assumed that any electricity or any road or any education would be a good thing and therefore we tended to support whatever project made sense in each of these areas. Today, we recognize that there are more efficient and less efficient ways of achieving our larger goals of bringing the fruits of economic development to the whole population and our analysis for achieving maximum efficiency is much more sophisticated. Indeed, AID is appreciated by other

donor agencies for its analysis in this area and we find our methods are studied with interest by them. I believe we are the leaders in this area.

4. Can you explain how the "policy dialogue", which you say AID is currently involved in (page 12), compares to earlier efforts to implement the New Directions Mandate?

The difference between AID's efforts to implement the New Directions mandate today as compared with earlier is one of emphasis and degree. A number of managers in the earlier period interpreted the mandate to require that projects be specifically designed to apply directly to poor people and often developed these projects without reference to the policy context. For example, AID has managed a number of projects in agriculture research, agricultural extension and agricultural credit. In some cases the hoped for increases in production have been delayed because overly optimistic assumptions were made regarding changes in policy framework. While high yielding seeds provide the technical basis for increased production, actual increases depend upon the availability of fertilizer and price levels which make it economic for the farmer to buy the fertilizer. Increasingly, AID is looking at the price and fertilizer policy to assure success of the overall project. In providing agricultural credit loans we seek changes in policy to make eligible for credit tenant farmers who can demonstrate that the credit will give rise to additional income. In the past, many countries have limited credit to land owners.

5. Has there been enough emphasis in our development assistance programs on helping "people" and not simply achieving "a very specific economic objective", as you discuss on page 14?

I believe that in response to the New Directions mandate AID has done a good job of orienting its programs to be sure that the end result is to help people. In earlier periods I believe we sometimes financed major infrastructure without paying sufficient attention to how the infrastructure would be used. A good example would be a power facility built to add to the overall generation capacity of the country but without looking at how the power would be distributed among various users. As explained in my answer to question 3, our beneficiary analysis would lead us to a careful consideration of the "people" related issues under today's procedures.

6. Would you be able to estimate what percentage of our development assistance is targeted to reach the world's absolutely poor? Are current programs to reach them adequate?

I do not believe a meaningful estimate can be made of the percentage of development assistance which is targeted to reach the world's absolutely poor. There are problems of definition but there are even more difficult problems of separating out the "absolutely poor" from other groups. On the question of the adequacy of current programs in reaching the world's absolutely poor I feel we must never be satisfied with the quality of job we are doing. The business of economic development is a constant search for more efficient ways of achieving goals. Thus, there is a lively debate within AID and among development professionals on the best methods of reaching our intended beneficiaries. As I argued in my original statement, I feel that there has recently been a deemphasis on the importance of primary education. This is an area where I feel our current programs are inadequate in our attempt to reach the world's absolutely poor.

I feel we could do more in a number of countries by sharply targeting the policy reforms which need to be supported. For example, if our goal is increased agricultural production among small farmers we must be sure price policy changes are accompanied by dismantling of marketing controls, appropriate actions on fertilizer and seeds, and provision of credit on a non-discriminatory basis. In some cases we need to provide more funds for the basic infrastructure that in the end will be necessary in order to increase productive capacity and to reach parts of countries currently isolated from the national economies. An obvious example is western Sudan which has very large areas with substantial rainfall but which are inaccessible.

7. You refer on page 18 of your statement to labor intensive road building projects in Kenya. What criterion is utilized in determining whether a labor intensive emphasis is applied to a project?

In the case of Kenya, the primary basis for deciding whether to use a labor intensive emphasis is the traffic density. Labor intensive systems are used on roads with low design standards which will not carry, at least in the beginning, large numbers of vehicles. My own feeling is that we should be going beyond this to consider utilizing labor intensive methods on highly utilized roads which must be built to higher design standards. What we have found is that almost any road construction needs heavy

equipment for purposes of compaction. Labor is usable especially for cuts and fills--for the moving of dirt. The question of whether labor should be used as opposed to an expensive piece of earth moving equipment ought to be looked at from an economic view, with the outcome very much dependent on the cost of labor. I have seen roads constructed by labor intensive methods to high design standards by the Chinese in Pakistan. This suggests it is technically possible.

What often happens is that road departments receive aid financed equipment free of budgetary cost and therefore in considering the most cost effective way of building the road they go for the machine. What is needed is a system of charging the road departments of LDCs the real cost of the machinery so that in doing their financial analysis they will carefully weigh the alternatives between a labor intensive and capital intensive system. I believe this is an area which needs further consideration by AID managers.

8. On page 26 you refer to AID's direct hire staff levels. Do you have any general observations on the role of contract consultants in AID's programs?

I believe it is essential that AID make maximum use of contract consultants in both the development of projects and their implementation. Consultants vary in quality, in part depending upon how much direct experience they have working with AID's project development process. Therefore, in order to increase the usefulness of contractors to the Agency, it is important that we work together with them to build up their understanding of development issues and of our particular analytical and implementation approaches. As with direct hire personnel, new contract personnel must gain direct experience in the development business to achieve maximum effectiveness. We have found that direct hire AID staff spend considerable time training contractor personnel and guiding contract personnel to the right people and the right documents. We should search for contracting methods which minimize the need for training by giving more weight in contractor selection to direct knowledge of the work.

There are some things that contractors cannot do effectively. In the end, they will always be perceived as representing only a portion of our interests. Therefore, it is important that we have in countries where we operate direct hire personnel with long experience in AID business who are capable of dealing with the policy dialogue, who are in a position to develop personal relationships among

government officials of the LDC, and who can represent the United States in assuring that contractors are carrying out effectively their agreed tasks.

9. You point out on page 24, that the increase in the official development assistance levels of other developed nations is probably due not from "a greater altruism among the others but rather because they see it as very much in their interest to establish constructive relationships with these countries." Why do you believe they have seen the possibility for such relationships, and in comparison, because our ODA level is lower, the U.S. might not?

For members of the European Economic Community trade represents over 58% of GNP. For this reason, among others, European governments are quick to look for ways of increasing this crucial element in their economies. The United States, with its large, continental sized economy historically has been less involved in trade. Trade as a percentage of GNP was only about 8% as recently as 1970. But this has more than doubled in the past decade to 17%. In nominal dollar terms our trade with non-oil producing LDCs went from about \$19 billion in 1970 to \$134 billion in 1980.

With international trade becoming an increasingly important factor in our prosperity, I predict we will more and more recognize that market development for American goods includes helping less developed countries accelerate growth. While LDC growth itself will increase our markets, to maximize benefits to the U.S. we need to help more American individuals and contractors gain experience in LDC markets and we need to expose LDC governments and importers to U.S. products and standards. This is a point well understood by the Europeans and Japanese.

RESPONSES OF ERNEST LOEVINSOHN TO QUESTION SUBMITTED BY REPRESENTATIVE
GILMAN

- (1) In Bread for the World's "Study of the Extent to which U.S. AID Projects Supply Benefits to the Absolutely Poor," you indicate that of 40 projects selected, approximately 24% of expenditures went to finance goods and services primarily used by the absolutely poor. Given the New Directions Mandate, what should a reasonable percentage of expenditures be?

The study covered only AID development aid projects. AID projects financed under the Economic Support Fund were not included.

Within AID's development aid accounts Bread for the World believes that at least half of expenditures should finance goods and services to be primarily used by the absolutely poor. Even within the development aid accounts however we acknowledge the need for significant expenditures which do not directly affect poor people.

Bill HR 4588 directs that 50% of AID's development aid expenditures go to finance goods and services to be primarily used by the absolutely poor. We believe this to be a realistic and attainable target.

- (2) In your review of AID projects, have you found the implementation strategies designed so that the poor will actually be the beneficiaries?

Getting the benefits of aid through to impoverished people requires an effort. As AID's 1978 Agricultural Development Policy Paper noted even when assistance is not directly focussed on wealthier farmers the aid has tended to flow to them. The more prosperous elements in LDCs are well-placed to take advantage of aid (e.g. a new irrigation system) because they have the land, cash, connections and education which the absolutely poor lack.

While Bread for the World has not collected quantitative data on the extent to which the failure to reach the poor should be blamed on implementation strategies versus project selection and design, nevertheless it is clear that in a great many cases project implementation does not include the special effort necessary to reach the poor.

The reasons for this are complex, but two factors are especially prevalent:

(a) AID mission officials in LDCs often know little of the living conditions of the rural poor. The officials generally live in the capital and when they travel in the countryside they are usually on or near roads. The poorer people tend to live in remote areas away from roads. Because of physical separation and other factors including linguistic and cultural differences, contact between U.S. aid officials and rural poor people is extremely limited. This problem, which is not specific to AID, is well described in World Bank Staff Working Paper 400, "Rural Poverty Unperceived."

(b) Both in the design and implementation phases the question of whether the poor have the financial resources to benefit from the aid is often ignored. For example the AID-supported rural electrification program in the Philippines was found to have provided "virtually no benefits" for the very poor because they could not afford to have their homes wired and could not afford to buy appliances which would generate extra income. (AID Project Impact Evaluation Report No.15)

- (3) What do you see as the legitimate role of the contract consultant in the development assistance process?

"Consultant" is notoriously a term that is difficult to define. For purposes of the question the term is taken to refer to those persons providing data and advice to government or parastatal agencies in LDCs.

Such advisers can play a useful role, especially when two conditions are met. First the consultant should generally have very detailed knowledge of the culture of the area in which his or her recommendations would be implemented, as well as of the political and economic constraints. Second, the LDC agency receiving the recommendations must see the need for, and be receptive to, the advice provided.

These two conditions often do not obtain at present.

- (4) Are there any Nations, of which you are aware, where the so-called trickle-down strategy has proved to be an effective method of benefitting the poor?

The poor have benefited from economic growth in a number of countries. Taiwan and South Korea are often cited as examples. Even in the case of these successes however it is not clear that a poverty-oriented aid strategy would not have been more effective in alleviating poverty and producing the basis for democratic government.

Chairman ZABLOCKI. Mr. Schieck.

Mr. SCHIECK. Mr. Chairman, the policy dialog can take place at a variety of levels in the countries in which we are dealing.

Typically, we sometimes feel that if our program in a given country is, say, a \$5 million program, that is hard for AID to convince the government to change its entire exchange rate policy or to change its entire interest rate policy.

And we may be right in that.

At the same time, the IMF is in a dialog with many countries, and has negotiated agreements with countries which bear on various macroeconomic policies which these countries are pursuing. We try to, in terms of designing our programs, and in our dialog with the governments, support these policies. We want to add the weight of AID, if you will, to the pressure, or whatever you want to call it, on the countries to change their policies.

At this same time, we recognize that there are very difficult political ramifications associated with many of these policies. You raise the price of food when you increase the price paid to farmers.

Thus, we have to be sensitive to these kinds of issues as we pursue a policy dialog.

More frequently, we engage in policy dialog at a project level. For instance, if we are trying to promote cooperatives, we want to make sure that the cooperative interest rate is realistic so that the cooperative can attract savings from its membership.

If the lending rate is too low, then they can't pay interest, and they will never attract savings in order to make themselves self-sustaining. So we will always try to negotiate appropriate conditions to our projects.

In another area we are increasingly using ESF programs, economic support funds, to support macroeconomic change in countries. We have tied ESF programs in some countries in Africa, for instance, to maintenance of compliance with IMF conditions.

With ESF funds, we feel we can reinforce the dialog.

Chairman ZABLOCKI. Thank you.

Dr. Loevinsohn, since you have been critical of the bureaucracy, what is your solution to the problem that we are discussing?

Dr. LOEVINSOHN. Regrettably, I don't have a solution, Mr. Chairman. If I get one, I will certainly let you know early on. I think the question you asked, though, about the policy dialog is really, in some ways, the crucial question, and it is just the right thing to focus on.

I was reminded—Bread for the World was somewhat concerned with the dairy bill over in the Agriculture Committee. And I wondered at the time, what would happen—talking about policy dialog—if the Japanese or the British came and told the United States that actually the best way to run our dairy price program was thus and so.

I think that most members of—

Chairman ZABLOCKI. At times, they do tell us.

Dr. LOEVINSOHN. I think if developing countries pay as much attention to our advice as we have paid to Japanese advice, the policy dialog may be somewhat overrated. And that is what I worry about, that we have unrealistic expectations as to just how much you can move a sovereign government.

One can see how touchy we would be in such a case. A government would be all the more touchy if it was a question of a large superpower impinging on the sovereign prerogatives of a government of a much smaller country.

So, while I don't want to say that policy advice just can't work or anything like that, I think we have to be careful about being over-optimistic about this policy dialog, and I wonder if our aid approach doesn't, in fact, go counter to what we are really trying to achieve. Let me just make that clear, very quickly.

We want to strengthen the rural sector, and we want government policies that favor the rural sector more, but our aid is overwhelmingly oriented so as to strengthen the economic and political position of the urban elite.

And so here we are, strengthening one segment of the society, and hoping that they will produce policies which benefit the other segment of the society. It seems it would make more sense to focus not on trickling-down aid through the urban elite, but trying to build up, instead, the power of the rural poor.

It would be a more appropriate way to modify the nature of policy within these countries.

Chairman ZABLOCKI. You certainly wouldn't advocate, however, that in order to urge them on and to cause an incentive for them to go into their own agricultural production, we should cut back on the Food for Peace and other of our aid assistance programs to help the starving people throughout the world——

Dr. LOEVINSOHN. No, sir, I would never suggest that we should cut that kind of relief aid to them, no.

Chairman ZABLOCKI. Well, I hope we never go to such a drastic extreme, myself. We are really discussing a program that has some real problems, and you were very helpful in your views, Mr. Schieck, Mr. Wheeler, and Dr. Loevinsohn. We thank you for coming, and giving so much of your time, and being patient with the interruptions.

Thank you very much. The committee stands adjourned subject to the call of the Chair.

[Whereupon, at 12:45 p.m. the committee adjourned, subject to the call of the Chair.]



