United States International Development Cooperation Agency

Congressional Presentation Fiscal Year 1987

United States International Development Cooperation Agency

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INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

CONGRESSIONAL PRESENTATION

FISCAL YEAR 1987

This report contains information required under Section 634 of the Foreign Assistance Act.

April 1986

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

INTRODUCTION

The International Development Cooperation Agency (IDCA), components of which are the Agency for International Development (A.I.D.), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Program (TDP), is responsible for bringing development considerations to bear on the process of executive decision-making on international finance, investment, trade, technology, and other policy areas affecting developing countries. This document provides a broad overview of U.S. interests in developing countries, their development problems and current economic conditions, and the various programs and policies employed by this Administration to further U.S. objectives.

This overview summarizes development issues, policies and programs and contains information required under section 634 of the Foreign Assistance Act. The Executive Summary of this volume describes the content of this presentation. Detailed descriptions and justifications are provided in the separate Congressional Presentation Documents of the individual agencies and programs. The full Fiscal Year 1987 IDCA budget presentation to the Congress includes the following documents:

1. IDCA Congressional Presentation (this document).

2. Agency for International Development (A.I.D.).

   Main Volume and Appendix
   Africa
   Asia and Near East
   Latin America
   Centrally-Funded Programs

3. International Organizations and Programs (IO&P).

4. Trade and Development Program (TDP).

   In a separate submission, the 1987 Development Issues Report, the annual report to Congress of the Interagency Development Coordination Committee which is chaired by the Director of IDCA, provides a full analysis of U.S. development policies, programs, and activities for the year 1986.

United States International Development Cooperation Agency (IDCA)
Congressional Presentation

CHAPTER I
Executive Summary

This document presents data illustrating the importance of stability and growth of the less developed countries (LDCs) for the U.S. economy, describes the major current and long-term problems the LDCs face, their near-term growth and balance-of-payments outlook, and the major objectives and priorities of U.S. economic assistance programs. Major stress is placed on the need for effective self-help measures by the LDCs, including the removal of factors that discourage private sector investment and productive activity. The presentation also describes the various channels, bilateral and multilateral, through which U.S. official assistance flows to the LDCs. Various U.S. policies affecting relations with the developing countries are discussed, including the Caribbean Basin Initiative, expanded aid to Central America, the proposal by Treasury Secretary Baker to ease the credit crisis of debtor nations, and U.S. policy on international trade. A full chapter is devoted to the role of, and U.S. support for, the major multilateral development banks, the International Monetary Fund (IMF) and the United Nations organizations and programs.

Chapter II documents the importance of the developing countries to the United States. Data for 1983-84 indicate that U.S. exports to non-oil developing countries constitute about one-third of total U.S. exports (Table I). In 1984, U.S. imports from all LDCs (including imports from the major oil exporting countries) accounted for 40% of our total imports (Table II). The proportion of U.S. imports from the non-oil exporting LDCs alone was 32%. Moreover, the United States is heavily dependent on the LDCs for its critical requirements of strategic metals and minerals such as bauxite, chromium, cobalt, manganese, tin, zinc and tungsten as well as for a number of tropical products that cannot be produced in the United States.

U.S. direct investment in developing countries in 1984 exceeded $233 billion. Total claims by U.S. commercial banks on the LDCs (mostly from loans) of $161 billion constitute about 40% of aggregate U.S. bank claims on foreign residents and institutions.

Chapter III deals with the major problems and near-term outlook of the LDCs. Some of the problems or constraints they face are chronic and long-term in nature; others, more recent, have triggered the "economic crisis" that began in most LDCs in 1979 and reached its peak in 1982, though a significant recovery occurred during 1983-84. The crisis has been characterized by serious deterioration in the balance of payments of most LDCs as a combined result of the 1979 increase in oil prices, a sharp upsurge in debt service charges, recession in the industrialized countries, deteriorating terms of trade (for many LDCs) and, in the case of sub-Saharan Africa, a series of severe droughts. The deficit on current account in the balance of payments of the non-oil exporting LDCs rose from $42 billion in 1978 to $108 billion in 1981. The short-term emergency that began in 1979 has forced the U.S. Government to enter the area of balance-of-payments assistance on a substantial scale to supplement IMF and other resources which were not adequate to meet the unprecedented requirements.

Following the gradual recovery of the industrialized countries, the stabilization of oil prices, and adjustment measures undertaken by individual LDCs, a significant improvement in the position of the LDCs has occurred over 1983-84, though there has been some deterioration in 1985. Nevertheless, the balance-of-payments crisis is now much less severe than during 1980-82. The aggregate current account deficit of the non-oil LDCs declined from its peak of $108 billion in 1980 to $54 billion in 1983 and $39 billion in 1984; the debt service ratio 1/ also declined, but only very slightly--from a peak of 24.1% in 1982 to 23.4% in 1984. In absolute terms, however, the value of debt service payments required to be made increased slightly--from $122 to $129 billion. The debt situation of a large number of LDCs is still cause for major concern: in 1984-85, the overall debt service ratio for all capital importing LDCs was still within the range of 23-26%. In the Western Hemisphere, it was in the range of 42% to 44%. In several major debtor countries (e.g., Brazil, Mexico, Argentina, Chile and the Philippines), as well as for about half of all LDCs, the ratio was above 25%.2/ Moreover, many debtor countries were not able to fully service their debt, particulary non-concessionary debt to the private sector, but also, in some cases, payments due to the IMF and the IBRD. A number of countries accumulated substantial arrears in spite of debt reschedulings.

1/ Amortization and interest payments as a proportion of exports of goods and services.

2/ Examples of countries whose debt service ratio significantly exceeds 25% include, but are not limited to, Argentina, Brazil, Chile, Mexico, Bolivia, Colombia, Costa Rica, Honduras, Peru, Uruguay, Venezuela, Jamaica, Sudan, Liberia, Niger, Senegal, Somalia, Zambia, Egypt, Jordan, Tunisia, Philippines and Pakistan.

The global data conceal important regional differences: thus, while the real Gross Domestic Product of all developing countries grew by 4.4% in 1984, the increase for Africa was only 2.6%; and while the debt service ratio for all capital importing LDCs changed little over 1982-85, the ratio for Africa increased substantially (from 19.4% to 32.4%, though the latter refers to debt service due, rather than to the proportion actually paid). There are also substantial differences among countries within each region. For example, in Africa, the debt problem is particularly serious in Sudan, Liberia and Somalia, where 1984 debt service ratios range between 31% and 72%. It is much less acute in Rwanda, Mauritius and Botswana.

In spite of these differences, LDCs in all regions (outside the Middle East), substantially reduced their current account deficit positions over 1982-84, mostly by curbing imports, thus sacrificing growth to the need to reduce the deficit in their external accounts.

In sum: while there has been a significant improvement in the economic situation of many LDCs over 1982-85, the short-term difficulties persist and will continue to require, for particular countries, substantial amounts of fast-disbursing balance-of-payments transfers and/or the rescheduling of debt service payments. A slight decline in the overall GDP growth rate of the LDCs is expected in 1985. The debt servicing problem continues to be serious and a source of major concern for a large number of LDCs. For several African countries, food aid will continue to be needed for some time to meet continuing shortages and to rebuild depleted stocks.

The outlook for 1986 is for a continued but moderate recovery of LDC exports and economic outlook. Both will depend, in large part, on the continuing recovery of the industrialized countries, as well as on the economic policies adopted by the LDCs. The U.S. economy, which recovered so strongly during the first half of 1984, experienced a substantial slowdown during the second half of the year. On the whole, however, 1984 was a good year in the United States, with real GDP growing by 6.8%. However, much lower growth rates -- only 2.6% in 1985 and 3.3% in 1986 -- are projected by the IMF. Low growth rates are also projected for the major European countries: 2.3% in 1985 and 2.5% in 1986. The IMF projects the real GDP of the non-oil LDCs to increase by 4.5% annually in both 1985 and 1986 (compared with 5.3% in 1984). Thus, the Fund projects a moderately good LDC growth performance in the short term. That assessment may be overly optimistic in view of the much lower growth rates projected for the industrialized market economies. Moreover, that global assessment does not reflect the continuing distress of many low income LDCs, particularly those of sub-Saharan Africa, for which the growth, balance-of-payments and debt servicing outlook is glum.

Other factors affecting the near-term outlook of the LDCs include the trend in oil prices and interest rates, as well as the economic policy measures the LDCs decide to adopt. Both oil prices and interest rates declined substantially in late 1985 and early 1986. The decline in interest rates benefits all LDCs, while the drop in oil prices has a very uneven impact on the developing countries. On an overall net basis, however, the effect is expected to be positive, though a number of LDCs will be worse off (e.g., Mexico, Venezuela, Egypt, Nigeria, Ecuador and Peru).

With regard to the long-term growth outlook (1985-95) for the LDCs, the World Bank projects two alternative scenarios - without suggesting which is the more probable: a "high growth" scenario -- with real GDP of the LDCs as a group increasing at 5.5% a year over 1985-95 (3.2% for Africa) -- assumes that the industrial countries will be able to solve their major current problems (e.g., inflationary budget deficits and high interest rates) and that the LDCs will adopt appropriate economic policies; the "low growth" scenario, resulting in an annual real GDP growth rate of 4.7% (only 2.8% for Africa), assumes the opposite. The contrast between the two scenarios is particularly significant when viewed in per capita terms for the low-income countries of Africa, whose per capita income would decline by 0.5% annually in real terms under the low growth scenario.

With regard to the long-term problems and constraints facing the LDCs, it should be noted, first, that significant economic growth in the middle-income LDCs, as well as substantial improvements in the areas of health and education for all LDC income groups, has occurred over the last two decades. The real GDP of the low income LDCs (other than China and India) increased at an average annual rate of 3.3% over 1973-83 (or slightly ahead of population growth), while the GDP of the middle-income oil-importing LDCs increased at an average annual rate of 4.5%. Over 1960-83, the infant mortality rate of the low-income countries (other than China and India) declined from 163 to 115 per thousand. Still, that rate is 11 times as high as the infant mortality rate in the industrial countries (10 per thousand). Life expectancy at birth rose from 42 to 50 years, compared with 71 in the industrialized market economies, while school enrollment in the primary grades increased from 38% to 70% (of the age group), compared with approximately 100% in the industrialized countries.

In spite of these improvements, the LDCs still face a number of chronic long-term problems that A.I.D., the multilateral development banks and other donors can help address. These generally include lagging food production,[3] substantial population pressure on scarce natural resources, a continuing deterioration in the environment, shortage of capital and deficient technical know-how, still high functional illiteracy and mortality rates in the low-income LDCs and, in many developing countries, a set of policies and institutions that often impede rather than promote economic development.

A.I.D.'s objectives, strategy and programs are presented in Chapter IV. A major economic objective of the United States in the LDCs is to promote broadly based, self-sustaining economic growth. The United States will assist the LDCs in creating the necessary conditions to ensure that growth is both self-sustainable and aimed at ensuring the participation of a broad segment of society. A.I.D.'s development assistance gives special attention to the agricultural sector, especially research and food production; the improvement of health (particularly child survival), nutrition and, in some countries, education; family planning programs where population pressure is severe and such assistance is requested; and technical assistance accompanied by transfer of technology. Another major objective, the promotion of political and economic stability, will require the continued provision of substantial balance-of-payments assistance to selected countries. The major recipients of this assistance will be countries of political and strategic importance to the United States. The third major objective is the provision of humanitarian assistance to countries suffering from severe famine or other natural disasters (e.g., droughts in sub-Saharan Africa). Finally, through its Trade and Development Program, the United States will promote the continuing expansion of its trade with the LDCs. For many LDCs, the continuing growth of exports (with emphasis on non-traditional products)[4] will be essential if they are to meet their debt service obligations.

While A.I.D. will continue to provide resource transfers and technical assistance, the LDCs themselves are expected to contribute significantly to their own development by altering their economic policies and institutions to remove obstacles or disincentives to

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3/ Lagging behind the "potential" and "desirable" rate consistent with the elimination of hunger and malnutrition.

4/ Products other than coffee, cotton, sugar, bananas, and some agricultural and mineral products on which heavy reliance for export earnings has been placed over an extended period.

growth and promote the mobilization and more effective utilization of their resources. Inappropriate subsidies and controls on prices, foreign exchange and wages, overvalued exchange rates, trade restrictions, and similar forms of interference with market forces prevalent in many LDCs are examples of the type of policies that curtail economic performance and require reform. The United States is encouraging countries to rely to a much greater extent on the market mechanism and to promote the development of policies designed to encourage private initiative and investment. A growing number of LDCs recognize the need for extensive restructuring and reform, and have planned -- or even started implementing -- major programs. The United States will continue to play a major role in institution building, including providing training and other resources that may be required to upgrade technical and managerial skills, improve the ability of the host government to plan and implement projects, conduct agricultural research and improve its extension, health and family planning services.

Chapter V describes U.S. support for, and participation in, the most important multilateral organizations, including the World Bank (IBRD), the regional development banks, the IMF, the United Nations and its major specialized agencies, the Organization of American States and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Since the United States is now providing substantial amounts of fast disbursing balance of payments assistance, coordination with other major donor agencies, particularly the IMF and the IBRD, is even more essential than it was in the past. The United States is placing major emphasis on donor coordination to enhance the effectiveness and impact of development assistance, and has taken the lead among donor countries to increase awareness of the need for improved coordination and for strengthening coordinating mechanisms.

CHAPTER II
The American People and the Developing Countries

Events daily sharpen the American public's awareness of developing countries. The famine in Africa, earthquakes in Mexico, and a volcanic eruption in Colombia stir the American heart. Hijackings, bombings and kidnappings spotlight the U.S. global presence. Regional disputes, internal revolts and violence threaten to undermine U.S. peace efforts. Increases in exports, imports and foreign assets deepen U.S. economic involvement with the developing world.

Today's global interdependence is reflected by events in developing countries which affect U.S. interests. The United States has ever increasing political, security and economic interests in developing countries. U.S. promotion of LDC development serves U.S. objectives as well as being an expression of American concern for sufferers of misfortune and poverty. The American humanitarian impulse and national self-interest coincide.

1. International Peace and Stability

U.S. promotion of development supports U.S. efforts to achieve international peace and stability. It helps to strengthen political relationships that further U.S. national interests. It assists the political evolution of free and open societies. U.S. foreign assistance programs make an essential contribution to achieving U.S. foreign policy objectives. Assistance can help resolve or dampen conflicts, problems, and instability in developing countries. The United States has particular interest in countries which are close to our borders (Central America); which might draw us into a broader conflict (Middle East); or which involve strategic areas or resources (Horn of Africa, Middle East, Philippines and Pakistan).

Widespread poverty, economic crisis and severe economic dislocation can create an explosive environment. They contribute to making societies susceptible to violence, political instability, and the possible intrusion of those who try to exploit the situation to their own advantage. People who have reasonable hope that living conditions will improve over time have a stake in the achievement of stability and peace. Assistance that addresses pressing economic problems helps to create hope for the future.

2. Economic and Commercial Interests

The United States is deeply involved in the world economy. We reap substantial benefits from exporting and importing goods and services to and from developing countries (including many critical raw materials and products otherwise unavailable). In addition, lending to and directly investing in these countries generate substantial income for the United States.

a. U.S. Exports to Developing Countries

Exports are of major importance to the U.S. economy. In 1984, U.S. merchandise and service exports accounted for 9.9% of U.S. Gross National Product (GNP). This contrasts with only 5.0% in 1950, 5.7% in 1960 and 6.6% in 1970.1/ Exporting affects all sectors of our economy. Over five million U.S. workers (one out of eight in manufacturing) depend on exports for their jobs. In agriculture, an estimated one of every three acres planted by American farmers is for export sales.

U.S. exports have resumed their historical growth. Since 1960 U.S. exports, allowing for inflation, have increased in total value by over threefold (Table I and Chart I). The year 1984 marked the reversal of a cyclical decline in total exports experienced in 1982 and 1983. World recession, the high value of the dollar, adverse terms of trade and the debt problems of the developing countries, which had reduced their ability to import, had caused the decline.

Developing countries buy a substantial part of U.S. exports. In 1984, U.S. exports to the developing world (both oil-exporting and oil-importing) totaled almost $83 billion, or 38% of total U.S. exports. This included substantial amounts in every commodity category. U.S. exports to the non-oil LDCs amounted to $69 billion, constituting about 32% of total U.S. exports. According to a U.S. Department of Commerce estimate, every $1 billion worth of U.S. exports generates about 25,200 jobs. Thus, total U.S. exports to the LDCs would be responsible for an estimated two million jobs in the United States; and the decline in U.S. exports to the LDCs between 1981 and 1983 ($19.2 billion) would represent a loss of nearly half a million jobs to the U.S. economy.

Developing countries are also growing markets. During the decade of the seventies, the developing countries were the fastest growing U.S. export market. Between 1970 and 1981, the average growth rate of U.S. exports to the industrial countries was 15.5% (in current dollars). U.S. exports to developing

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1/ Calculated from Table B-1 of the Economic Report of the President, 1985.

TABLE I

TRENDS IN U.S. MERCHANDISE EXPORTS

	1960	1965	1970	1975	1978	1979	1980	1981	1982	1983	1984
EXPORTS (IN BILLION $)											
EXPORTS (CONSTANT 1972 $)	27.4	34.6	46.4	71.9	83.3	94.5	103.6	101.3	90.0	83.0	87.5
EXPORTS (CURRENT $)	20.6	27.5	43.2	107.6	143.8	182.0	220.8	233.7	212.3	200.5	217.9
Industrial Countries	10.8	15.7	26.4	61.7	82.6	106.7	125.4	129.4	117.2	117.6	130.4
Developing Countries	6.3	9.0	12.9	42.9	57.2	69.4	91.2	99.2	91.2	80.0	82.9
Oil Exporting 1/	0.9	1.3	1.8	10.4	16.0	14.5	16.9	20.7	22.1	16.4	13.9
Non-Oil Exporting 2/	5.4	7.7	11.1	32.5	41.2	54.9	74.3	78.5	69.1	63.6	69.0
Top 7 NIC 3/	1.9	2.6	5.1	15.7	20.2	27.8	37.6	40.2	34.4	31.5	34.6
Other 4/	3.5	2.8	3.9	3.0	4.0	5.9	4.2	5.1	3.9	2.9	4.6
ANNUAL PERCENT CHANGE											
Industrial Countries		7.8	11.0	18.5	10.2	29.3	17.5	3.2	-9.4	0.3	10.9
Developing Countries		7.4	7.5	27.2	10.1	21.3	31.5	8.7	-8.1	-12.3	3.6
Oil Exporting		7.6	6.7	42.0	15.5	-9.5	16.9	22.2	6.8	-25.8	-15.5
Non-Oil Exporting		7.4	7.6	24.0	8.2	33.3	35.3	5.7	-12.0	-8.0	8.5
Top 7 NIC		6.5	14.4	25.2	8.8	37.6	35.3	6.9	-14.4	-8.4	9.8
Other		-4.4	6.9	-5.1	10.0	47.7	-29.2	22.9	-24.6	-25.1	59.4
PERCENT DISTRIBUTION											
Industrial Countries	52.4	57.1	61.1	57.3	57.4	58.6	56.8	55.4	55.2	58.7	59.8
Developing Countries	30.6	32.7	29.9	39.9	39.8	38.1	41.3	42.4	43.0	39.9	38.0
Oil Exporting	4.4	4.7	4.2	9.7	11.1	8.0	7.7	8.9	10.4	8.2	6.4
Non-Oil Exporting	26.2	28.0	25.7	30.2	28.7	30.2	33.7	33.6	32.6	31.7	31.7
Top 7 NIC	9.2	9.5	11.8	14.6	14.1	15.3	17.0	17.2	16.2	15.7	15.9
Other	17.0	10.2	9.0	2.8	2.8	3.2	1.9	2.2	1.8	1.4	2.1

1/ Oil Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela

2/ IMF definition plus Taiwan

3/ Top 7 Newly Industrialized Countries (NICs): Mexico, Taiwan, South Korea, Brazil, Spain, Singapore, and Hong Kong

4/ Other = Non-Industrial Developed Countries, Communist, and unclassified

* Average Annual Growth in percent for the five year period

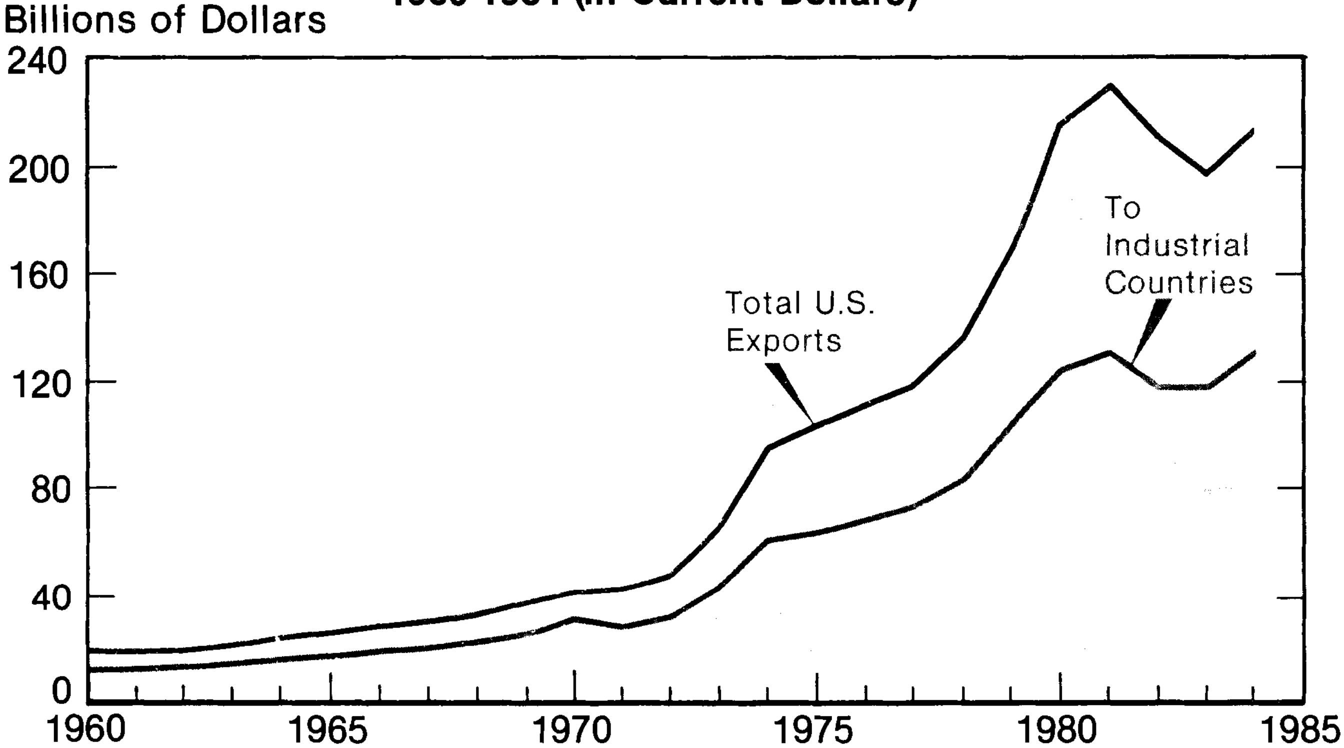
** Average Annual Growth in percent for the three year period

Source: International Monetary Fund, Direction of Trade Yearbook, 1985, as adjusted for Taiwan from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade.
Price deflator from The Economic Report of the President, 1985

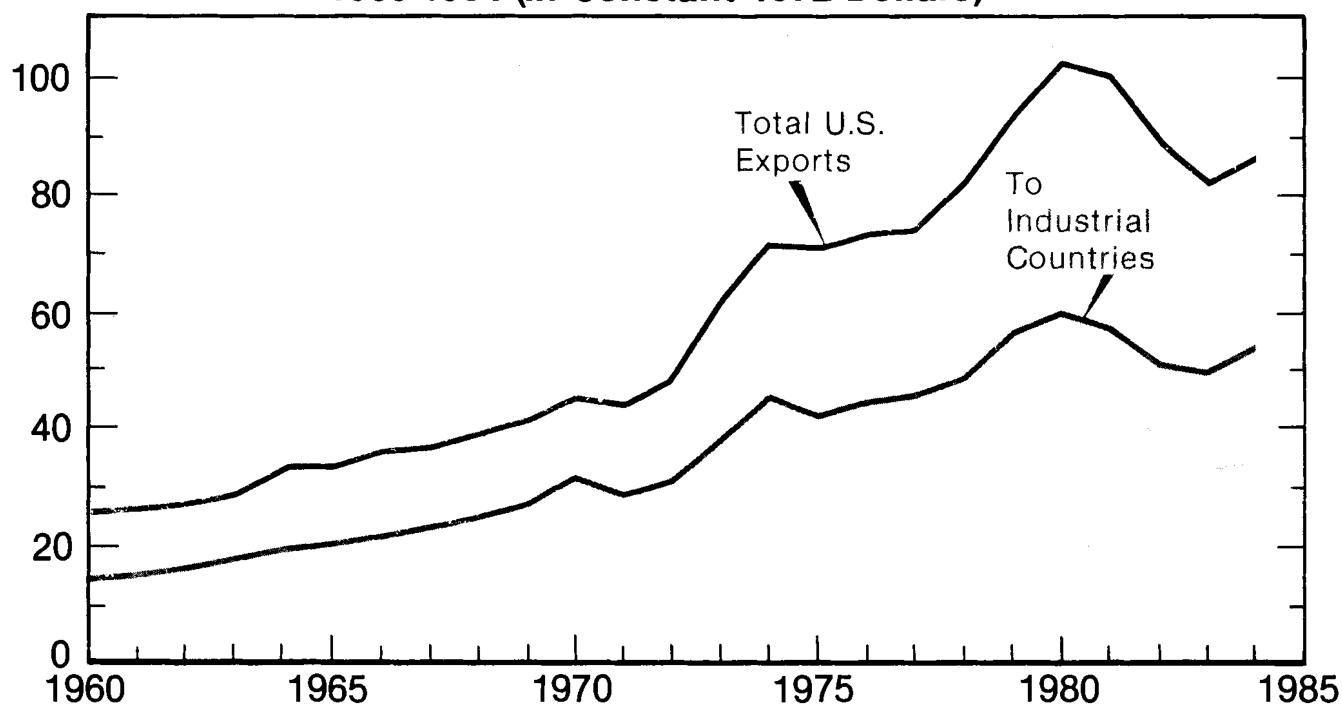
Chart I

Trends in U.S. Merchandis Exports

1960-1984 (in Current Dollars)



1960-1984 (in Constant 1972 Dollars)



SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1985 as adjusted by adding Taiwan data taken from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade. Price deflator from The Economic Report of the President, 1985.

countries in the same period grew at a rate of 20.4% (19.5% to non-oil exporting LDCs). After declines in 1982 and 1983, U.S. exports to LDCs are increasing again.

b. U.S. Imports from Developing Countries

The developing world is a major source of U.S. imports, including many crucial materials and products otherwise unavailable. Between 1960 and 1984, U.S. imports from non-oil exporting LDCs increased over seven and a half-fold in real terms.2/ In 1984, developing countries provided $136 billion in imports, almost 40% of the total. The proportion originating in non-oil LDCs was 32% (Table II and Chart II).

Imports benefit consumers and producers through lower costs and wider choices. They provide a stimulus for technological change and competitive pricing, thereby increasing the overall efficiency of the economy. They allow exports which promote greater economies of scale, more intensive use of abundant factors, more investment and increased economic growth rates. In addition, through imports the United States gains access to many critical metals and minerals, such as bauxite, chromium, cobalt, manganese, tin, nickel, tungsten and zinc (Table III). For example, in recent years, nearly 60% of total U.S. imports of cobalt have come from Zaire and Zambia, about 90% of bauxite imports are from Jamaica and Guinea and nearly 100% of tin for U.S. industry comes from Mayaysia, Thailand, Indonesia and Bolivia. Most U.S. imports of petroleum also come from developing countries as do all natural rubber and such everyday products as coffee, bananas, tea and cocoa.

c. U.S. Direct Investment Overseas

Developing countries are important not only as trading partners but also as major recipients of U.S. capital. U.S. private direct investment in developing countries totals almost $54 billion. This is over two times what it was in 1975 (Table IV).3/

2/ Calculated from Table II which is based on 1972 prices.

3/ However, total investment in the LDCs has not increased much since 1980 and, in real terms, is less now than it was in 1980.

TABLE II

TRENDS IN U.S. MERCHANDISE IMPORTS

	1960	1965	1970	1975	1978	1979	1980	1981	1982	1983	1984
IMPORTS (IN BILLION $)											
IMPORTS (CONSTANT 1972 $)	19.8	27.5	47.9	57.6	86.9	90.3	88.8	93.1	91.4	99.0	128.0
IMPORTS (CURRENT $)	15.1	21.4	42.5	103.4	186.0	222.3	257.0	273.4	254.9	269.8	341.2
Industrial Countries	8.2	12.9	28.9	58.2	101.5	113.7	126.3	143.2	143.7	154.4	204.0
Developing Countries	5.6	7.2	11.1	44.7	83.3	107.1	129.5	129.2	110.5	114.6	136.0
Oil Exporting 1/	1.5	1.8	1.7	18.0	34.9	47.3	57.1	50.6	31.2	24.6	25.7
Non-Oil Exporting 2/	4.1	5.4	9.4	26.7	48.4	59.8	72.4	78.6	79.3	90.0	110.3
Top 7 NIC 3/	1.5	1.8	4.3	11.7	25.3	30.4	37.0	42.6	45.8	53.6	68.3
Other 4/	1.3	1.3	2.5	0.5	1.2	1.5	1.2	1.0	0.7	0.8	1.1
ANNUAL PERCENT CHANGE											
Industrial Countries		9.5	17.5	15.0	20.4	12.0	11.1	13.4	0.3	7.4	32.1
Developing Countries		5.2	9.0	32.1	23.1	28.6	20.9	-0.2	-14.5	3.7	18.7
Oil Exporting		3.7	-1.1	60.3	24.7	35.5	20.7	-11.4	-38.3	-21.2	4.6
Non-Oil Exporting		5.7	11.7	23.2	21.9	23.6	21.1	8.6	0.9	13.5	22.5
Top 7 NIC		3.7	19.0	22.2	29.3	20.2	21.7	15.1	7.5	17.0	27.4
Other		.0	13.5	-27.2	33.9	25.0	-22.7	-17.9	-26.4	14.3	43.0
PERCENT DISTRIBUTION											
Industrial Countries	54.3	60.3	68.1	56.3	54.6	51.1	49.2	52.4	56.4	57.2	59.8
Developing Countries	37.1	33.6	26.1	43.2	44.8	48.2	50.4	47.3	43.4	42.5	39.9
Oil Exporting	9.9	8.4	4.0	17.4	18.8	21.3	22.2	18.5	12.2	9.1	7.5
Non-Oil Exporting	27.2	25.2	22.1	25.8	26.0	26.9	28.2	28.8	31.1	33.4	32.3
Top 7 NIC	9.9	8.4	10.1	11.3	13.6	13.7	14.4	15.6	18.0	19.9	20.0
Other	8.6	6.1	5.8	0.5	0.6	0.7	0.5	0.3	0.3	0.3	0.3

1/ Oil Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela

2/ IMF definition plus Taiwan

3/ Top 7 Newly Industrialized Countries (NICs): Mexico, Taiwan, South Korea, Brazil, Spain, Singapore, and Hong Kong

4/ Other = Non-Industrial Developed Countries, Communist, and unclassified

* Average Annual Growth in percent for the five year period

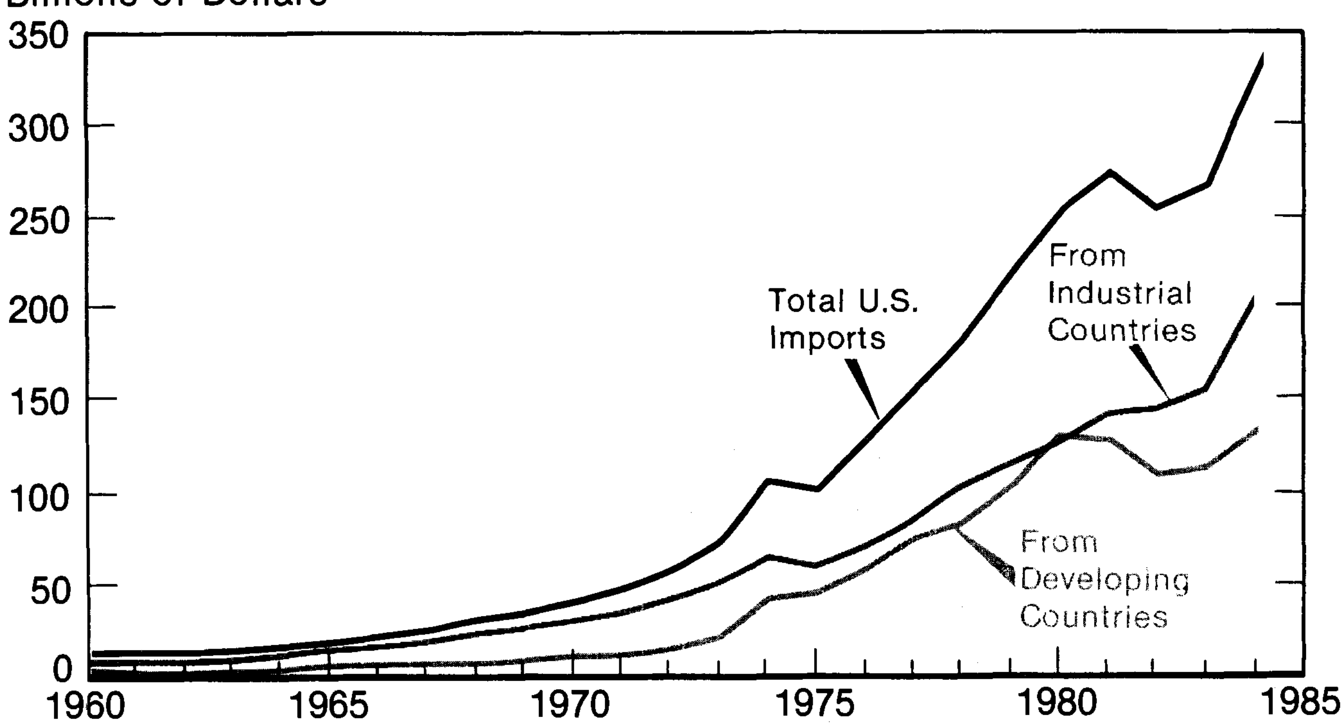
** Average Annual Growth in percent for the three year period

Source: International Monetary Fund, Direction of Trade Yearbook, 1985, as adjusted for Taiwan from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade.
Price deflator from The Economic Report of the President, 1985

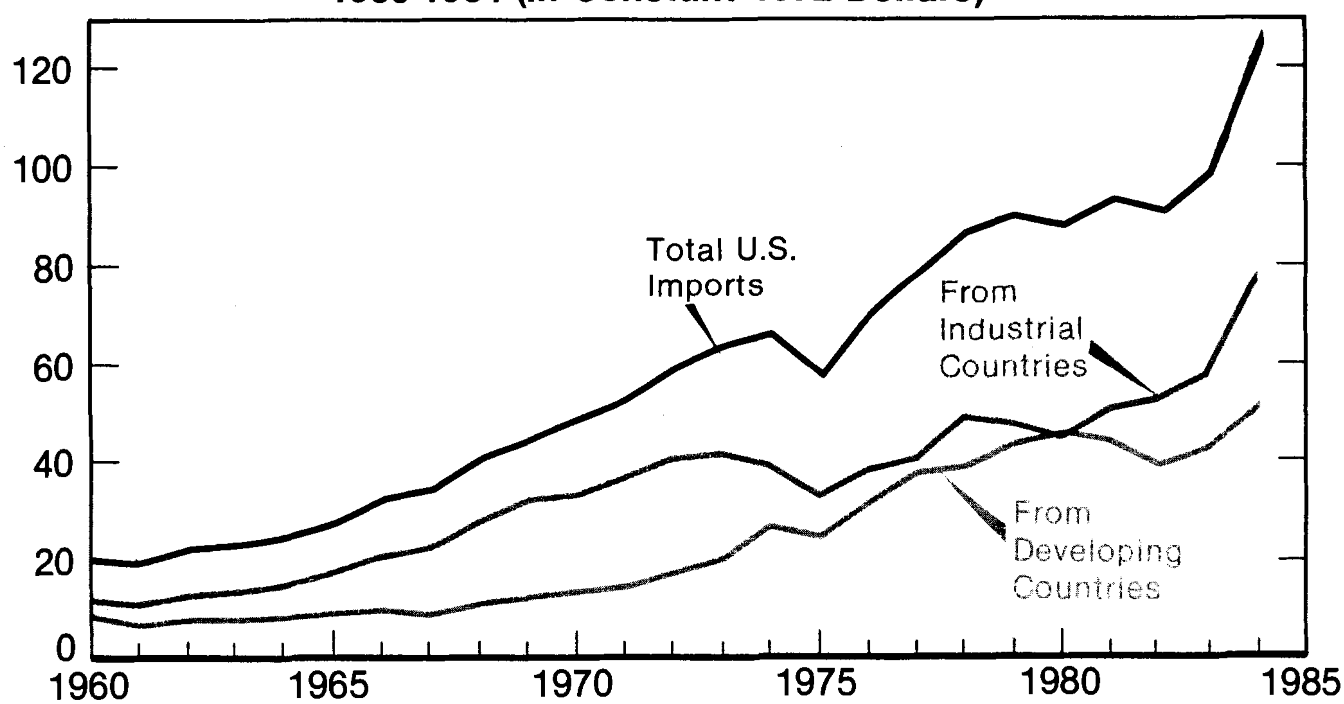
Chart II

Trends in U.S. Merchandise Imports

1960-1984 (In Current Dollars)



1960-1984 (In Constant 1972 Dollars)



SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1985 as adjusted by adding Taiwan data taken from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade. Price deflator from The Economic Report of the President, 1985.

TABLE III

U.S. Net Import Reliance[1] on Critical Metals and Minerals as a Percent of Apparent Consumption[2]

	1970	1981	1982	1983	1984
Bauxite/Alumina	88	94	96	96	96
Chromium	89	90	85	76	82
Cobalt	98	92	92	95	95
Copper	--	--	1	19	21
Iron Ore	30	22	34	37	19
Manganese	95	98	99	99	99
Nickel	71	68	76	75	74
Tin	81	77	68	73	79
Tungsten	50	50	42	52	71
Zinc	54	64	58	65	67

Major foreign sources 1977-1980 for these ten critical metals and minerals included the following LDCs:

Bolivia	Guinea	Peru	Yugoslavia
Botswana	Indonesia	Philippines	Zaire
Brazil	Jamaica	Spain	Zambia
Chile	Liberia	Surinam	Zimbabwe
China	Malaysia	Thailand	
Gabon	Mexico	Venezuela	

From other imported metals and minerals not specified above, the following LDCs were identified as major foreign sources:

Ghana	Korea	Rwanda
Greece	Madagascar	Trinidad and Tobago
Hong Kong	Morocco	Turkey
India	Netherlands Antilles	

1/ Net import reliance = imports - exports + adjustments for government and industry stock charges.

2/ Apparent consumption = U.S. primary + secondary production + net import reliance.

Source: Bureau of Mines, Mineral Commodity Summaries

TABLE IV

U.S. Direct Investment Position Abroad and U.S. Banks' Claims on Foreigners
(Millions of Dollars, End of Period)

	1960	1970	1975	1980	1981	1982	1983	1984
Total U.S. Direct Investment 1/ 2/ 3/	31,856	75,480	124,050	215,375	228,348	221,843	226,962	233,412
Developed Countries	19,310	51,819	90,695	158,214	167,439	164,312	169,975	174,057
Developing Countries	11,128	19,192	26,288	53,206	56,163	52,618	51,430	53,932
(as % of total)	34.5%)	(25.4%)	(21.2%)	(24.7%)	(24.8%)	(23.6%)	(22.5%)	(23.1%)
Unclassified	1,418	4,469	7,067	3,955	4,780	4,913	5,557	5,423
U.S. Direct Investment in Selected Countries								
Argentina					2,756	2,979	3,080	3,157
Brazil					8,247	9,013	9,026	9,551
Hong Kong					2,729	2,984	3,310	3,799
Mexico					6,977	5,584	5,006	5,380
Panama					3,784	4,404	4,519	4,061
U.S. Banks' Total Claims on Foreigners 4/	4,122	10,799	50,240	172,592	251,539	355,705	391,312	398,558
Developed	2,415	6,372	22,737	55,939	81,964	124,021	134,901	139,432
Developing	1,699	4,229	19,877	70,532	102,630	144,492	158,668	161,203
Offshore Banking Center 5/	8	198	7,626	46,121	66,945	87,192	95,760	97,923
U.S. Banks Claims in Selected Countries								
Argentina					7,522	10,974	11,740	11,043
Brazil					16,914	23,260	24,667	26,315
Hong Kong					4,126	6,668	8,429	7,283
Korea					7,324	9,407	9,889	9,285
Mexico					22,409	29,488	34,802	34,824
Panama					6,787	10,197	7,848	7,707
Venezuela					7,069	10,739	11,287	11,017

Sources:
1/ Department of Commerce, International Direct Investment, 1984
2/ Department of Commerce, Selected Data on U.S. Direct Investment Abroad, 1950-76
3/ Department of Commerce, Survey of Current Business, 1985
4/ Federal Reserve Bulletin
5/ Offshore banking centers = Bermuda, Bahamas, British West Indies, and Netherlands Antilles

These U.S. investments benefit both the investors and host countries. Not only do net earnings from such investments flow back to the United States over time, the investments themselves stimulate the export of U.S. goods and services. Private investment raises labor productivity in the host countries by providing critically needed fixed and working capital, technology, management know-how and marketing connections.

d. <u>U.S. Private Overseas Financial Flows</u>

In addition to direct investment, the U.S. private sector lends substantial amounts to developing countries. In 1984, total claims of U.S. banks on developing countries (not including the offshore banking centers) exceeded $161 billion, or 40% of total claims on foreigners. These claims experienced an eightfold increase over 1975 - 1984 (Table IV).

U.S. bank lending to developing countries is heavily concentrated in seven countries. Five in Latin America--Mexico, Brazil, Argentina, Venezuela, and Panama--account for 56% of the total for developing countries. Korea and Hong Kong in Asia together add another 10%.

Recent debt service problems of some borrowing countries have caused genuine concern among U.S. banks. Fortunately, many of the countries' own adjustment policies, timely agreements on the rescheduling of debts, and the provision of additional resources have greatly lessened the danger of a general default. Nonetheless, the short-term imbalances of a substantial number of LDCs are so severe that additional debt payment rescheduling, further international official and private loans, and possibly other debt relief measures as well may be necessary for several LDCs in the years to come.

3. Humanitarian Concerns

The plight of the world's poor triggers generous responses from the American people. The outpourings of donations for victims of drought and famine in Africa is just one outstanding example in a long tradition of humanitarianism. Ending the scourge of world poverty is viewed as an important aspect in the search for world peace.

Improving the well-being and earning capacity of people in the developing countries are important objectives of U.S. development programs. A cornerstone of U.S. assistance efforts is a focus on basic human needs. Many projects specifically help the poor to help themselves in order to meet their needs for food, shelter, health care and education. Satisfaction of these needs rests fundamentally on increasing overall employment and income.

4. Success of Past Efforts

The contributions of aid to development were carefully examined by the recent combined IBRD/IMF Task Force on Concessional Flows. On the basis of available evidence, the Task Force "was convinced that aid clearly has contributed importantly to growth and development. Although it had mixed success in alleviating poverty, when properly used aid has led toward self-reliance and rising levels of welfare....Aid can claim successes in many areas; for example, in agricultural research and development, in the provision of essential physical infrastructure, and in institution building and human resources development through health, population, and education and training programs. Vast numbers of poor people have benefited from programs designed to alleviate poverty in rural and urban areas."4/ Then too, owing in large part to their own efforts, the developing countries, particularly the middle income countries, have achieved remarkable immprovements over the past three decades. Their overall growth rate has been much higher than that achieved by today's industrial countries at a comparable stage of their development. Many of these countries have advanced to the point where, while still classified as developing, they no longer require ODA. Their growth record and achievements in the areas of infant mortality rates, life expectancy, school enrollment and so forth, are summarized in Chapter III, section 2. The Task Force also concluded, however, that there continues to be considerable room for improving the effectiveness of assistance in areas such donor policies and procedures, host country actions, policy dialogue and coordination of aid by donors and recipients alike. The United States is active in all of these areas.

4/ Development Committee. Report of the Task Force on Concessional Flows. 1985. pp. 2-3.

CHAPTER III
Problems and Prospects of Developing Countries

1. Classification of Developing Countries

The countries designated as "developing" or less developed (LDCs) vary substantially in per capita GNP, living standards and basic social conditions. It is useful to classify them into four general groups (in accordance with their per capita GNP) using the limits suggested by the World Bank in its classification of September 24, 1985.1/ The boundary lines between the different categories are inevitably arbitrary. Still, some classification is necessary for the purpose of favoring the neediest LDCs in the allocation of economic assistance on the most concessionary terms.

The classification of the LDCs in Table V is based on the GNP per capita in 1984. Countries are grouped into the following four categories:2/

a. The Low-Income Countries: The poorest of the LDCs are the low-income countries, defined in terms of a per capita GNP of $400 or less. This group is characterized by the worst malnutrition and the highest rates of illiteracy, disease and mortality. Typically, life expectancy is less than 50 years; children between the ages of one and four die at 20 times the rate of those in industrial countries; only 40% of persons aged 15 and older can read and write; and impaired physical and mental capacity is widespread. In addition, the infrastructure is deficient, housing is dilapidated and primitive, and for a substantial proportion of the population, there is no adequate sewage or access to clean water. While these conditions characterize the living conditions of the lower-income groups in the LDCs generally, they are at their worst in these "low-income" countries.

1/ International Bank for Reconstruction and Development and International Development Association, Per Capita Income Guidelines for Operational Purposes, September 24, 1985.

2/ The IBRD actually groups them into 5 classes. We have combined the upper two ($1,606 to $2,850 and over $2,850) in our classification. The IBRD sets its "graduation level" at $2,850, i.e., countries above that per capita GNP level may be excluded from eligibility for IBRD loans.

TABLE V

Per Capita GNP of Less Developed Countries
(in 1984 dollars)

I. Low-Income Countries (Less than $400)

Guinea	380	Tanzania	210
Pakistan	380	Malawi	210
Sri Lanka	360	Niger	190
Ghana	350	Burma	180
Sudan	340	Guinea-Bissau	180
Cape Verde	320	Burkina Faso (Upper Volta)	160
Haiti	320	Nepal	160
Sao Tome and Principe	320	Zaire	140
China	310	Mali	140
Sierra Leone	300	Bangladesh	130
Kenya	300	Ethiopia	110
Benin	270	Afghanistan	n.a.
Madagascar	270	Laos	n.a.
Central African Republic	270	Bhutan	n.a.
Rwanda	270	Vietnam	n.a.
India	260	Vanuatu	n.a.
Gambia	260	Kampuchea	n.a.
Somalia	260	Chad	n.a.
Togo	250	Equatorial Guinea	n.a.
Uganda	230	Comoros	n.a.
Burundi	220		

II. Lower-Middle Income Countries ($401 - $790)

Nigeria	770	Lesotho	530
Papua New Guinea	760	Yemen, AR	510
Zimbabwe	740	Liberia	470
Egypt	720	Zambia	470
El Salvador	710	Mauritania	450
Honduras	700	Bolivia	410
Morocco	670	Senegal	380
Philippines	660	Solomon Islands	n.a.
Ivory Coast	610	Djibouti	n.a.
Guyana	580	Maldives	n.a.
Yemen, PDR	560	Western Samoa	n.a.
Indonesia	540		

Table V (continued)

III. Middle-Income Countries ($791 - $1635)

St. Kitts-Nevis	1,390	Jamaica	1,080
Colombia	1,370	Dominica	1,080
Paraguay	1,250	Dominican Republic	990
Tunisia	1,250	Peru	980
Ecuador	1,220	Botswana	910
Costa Rica	1,210	St. Vincent & Grenadines	900
Turkey	1,200	Grenada	880
Belize	1,150	Nicaragua	870
St. Lucia	1,130	Thailand	850
Congo	1,120	Cameroon	810
Guatemala	1,120	Swaziland	800
Mauritius	1,100	Lebanon	n.a.

IV. Upper-Middle Income Countries (Above $1635)

Oman	6,230	Malaysia	1,990
Barbados	4,430	Uruguay	1,970
Bahamas	4,260	Syria	1.870
Surinam	3,520	Fiji	1,840
Algeria	2,380	Antigua & Barbados	1,840
Argentina	2,230	Brazil	1,710
Panama	2,100	Chile	1,710
Korea	2,090	Jordan	1,710
Mexico	2,060	Seychelles	n.a.

Source: International Bank for Reconstruction and Development and International Development Association, "Per Capita Income Guidelines for Operational Purposes, September 24, 1985, Sec. M85-1085.

b. Lower-Middle-Income Countries: This group can be defined as countries having a per capita GNP in the range of $400 to $790 in 1984 dollars. Their living standards are only slightly above those of the low-income economies. This group includes countries such as Nigeria, Egypt, Morocco, El Salvador, Honduras, Bolivia and the Philippines. Along with the "low-income" countries described above, countries in this category are eligible to receive concessionary credits (50 year term loans) from the International Development Association (IDA), the World Bank's soft-loan window, and 20 year term loans from the IBRD. They are also eligible to receive concessionary loans (40 year term) under A.I.D.'s Development Assistance program. With some exceptions, these countries benefit less from foreign investment or commercial loans from abroad than groups III and IV. Their economic growth in recent years has been comparatively slow.

The population in these two categories together (i.e., all countries with a per capita GNP of less than $790) accounts for about half of the world population.3/ These countries, along with a selected few others with whom the United States shares particular security and political interests, receive the bulk of U.S. concessionary assistance.4/

c. Middle-Income Countries: A third group of LDCs has a per capita GNP ranging from $791 to $1,635, and can be characterized as "middle income".5/ This group includes countries such as Colombia, Jamaica, the Dominican Republic,

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3/ Owing to the inclusion of India and China in the low-income category. Without China, they would account for about 1.6 billion people, or 31% of the world population.

4/ Countries with per capita GNP above $790 receiving substantial U.S. economic assistance include Israel, Turkey, Jamaica, and Costa Rica. A number of other countries that are large A.I.D. recipients and in which the United States has a strong security/political interest, such as Egypt, Pakistan, Sudan, the Philippines, Honduras and El Salvador, have a 1984 per capita GNP of less than $790.

5/ The categories used here to characterize countries falling within certain ranges of per capita income differ slightly from those used in the World Bank's World Development Report. As indicated, they are similar to those used in the Bank's "Per Capita Income Guidelines for Operational Purposes," except that the Guidelines do not use the terms "lower-middle," "middle" and "upper middle".

Guatemala, Costa Rica, Peru and Turkey. While people in these countries are generally better off than those in the "low-income" and "lower-middle-income" categories, the overall per capita average of this group conceals the substantial inequality in the distribution of incomes which prevails in most LDCs. Thus, a significant proportion of the population in this category is no better off than the majority of the population in the first two groups.

d. Upper-Middle-Income Countries: This group comprises countries with per capita GNP above $1,635, and includes countries such as Mexico, Chile, Argentina, Panama, Brazil and South Korea. The category includes most of the newly industrializing countries (NICs), as well as some relatively high-income countries (Israel, Barbados, Oman). Countries in this group have grown very rapidly -- in fact, faster on the average than the industrialized countries during the past two decades (Table VI). There are encouraging signs that, along with this growth, the incidence of poverty has fallen sharply.

There is a much lesser need for concessionary financing for this group of upper-middle-income countries than for the other three categories. Still, some of them face substantial debt service obligations (e.g., Brazil, Argentina, Chile, Mexico, Venezuela and Algeria) and have required debt rescheduling and balance-of-payments assistance; all must face up to the challenge of achieving a rising product per capita. To this end, they must concentrate their efforts on expanding and diversifying their export earnings and, in many cases, on adopting measures designed to improve the allocation of resources by abolishing controls and freeing the exchange rate, stimulating private sector investment, and promoting the shift of resources into the export sector. The United States provides assistance to countries with a per capita GNP in the upper reaches of this group of developing countries only in exceptional cases (Israel).

2. Long-Term Constraints to Development

Low-income and, to a lesser extent, lower-middle-income countries face a number of chronic or long-term constraints that cannot be easily remedied and which adversely affect their capacity for economic growth. The main ones are:

a. Substantial population pressure on a limited and underdeveloped resource base.13/ Such pressure takes two

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13/ This is common to most, though not all low-income LDCs.

TABLE VI

Basic Indicators of GNP Growth and Improvement in Health and Education Over 1960-83

	GNP Per Capita 1983	Avg Annual Growth Rate 1960-82 Per Capita GNP	Avg Annual Growth Rate 1970-82 Aggregate GDP	Infant Mortality Rate (per 1,000 live births) 1960	Infant Mortality Rate 1983	Child Mortality Rate (ages 1-4, per 1,000 children) 1960	Child Mortality Rate 1983	Crude Death Rate (per 1,000 pop.) 1960	Crude Death Rate 1983	Life Expectancy at Brith (male) 1960	Life Expectancy 1983	Number Enrolled in Primary School as % of Age Group 1960	Number Enrolled 1983
Low-Income Countries 1/ excluding China & India	200	1.1	3.4	163	115	31	18	24	16	42	50	38	70
Lower-Middle Income 2/	750	3.2	5.3	144	87	29	11	20	12	44	55	66	103
Upper-Middle Income 3/	2050	4.1	5.4	101	59	15	5	13	8	55	63	88	102
Industrial Market Economies	11060	3.3	2.8	29	10	2	(.)	10	9	68	72	114	102

1/ IBRD definition (World Development Report, 1984): Per Capita GNP of less than $410 (in 1982 dollars)
2/ IBRD definition: Per Capita GNP of $410 to $1650 in 1982 dollars.
3/ IBRD definition: Per Capita GNP of $1651 to $6840 in 1982 dollars. AID does not regard countries with a per capita GNP above $2500 as LDCs. The Upper-Middle Income countries include some developed countries such as Israel and Greece.

Source: IBRD, World Development Report, 1984, 1985 Tables 1, 2, 20, 23 and 25.

distinct forms: a high population density in relation to agricultural land and industrial development; and a high rate of population growth. While some LDCs do not as yet suffer from a serious population density problem, a high rate of population growth boosts consumption and thus diverts resources from capital formation.6/ In rural societies in particular, family planning services are generally inadequate while the economic and social incentive structure may actually encourage people to bear many children.

b. An underdeveloped human resource base, i.e., a high level of illiteracy, lack of skills, poor nutrition and low health standards, resulting in low productivity.

c. A typically inadequate physical infrastructure: the transportation, communication and distribution system, as well as the supply of basic utility services, are often deficient.

d. A chronic scarcity of capital, both physical and financial, associated with low savings and investment rates.

e. Serious institutional deficiencies: institutions are needed to deal with the problems of formulating and implementing policies, mobilizing and allocating resources, and adjusting to difficult and uncertain economic circumstances. In low-income countries, particularly, institutions are generally underdeveloped or ineffective in absorbing and utilizing resource transfers.

f. Severe distortions in the allocation of resources generated by inappropriate economic policies that further hinder the efficient use of available resources.

The cumulative effect of all of these factors is a high rate of unemployment and under-employment and low output per capita.

6/ A notable exception to this general rule is when labor is scarce in relation to land and natural resources, so that an increase in the labor force may induce an increase in per capita GNP. This was the case for the United States during its period of rapid growth in the late 18th and 19th centuries, but is clearly not representative of the general situation of the LDCs today.

IDCA's strategy will continue to rest on four major pillars--the strengthening of LDC institutions, the policy dialogue with LDC governments to create a favorable environment for growth, increased participation and involvement of the private sector, and the transfer of U.S. technology to the LDCs. These four elements of our strategy will be discussed in detail in Chapter IV. The following section will describe the problems of concern to IDCA. Not all of these are priority areas calling for substantial outlays of A.I.D. funds. The problem areas of concern to IDCA include the following: human resource development with emphasis on basic education, preventive health and family planning services; food and agriculture; unemployment and underemployment; and the policies of the LDCs. The latter will be given particular emphasis as they constitute the major focus of the policy dialogue and of IDCA's efforts to create a favorable environment for greater private sector participation and for stepping up the rate of capital formation and growth.

a. Human Resource Development

The problem of development is to a large extent one of developing human resources, i.e., ensuring that people are educated, trained in particular skills, healthy and productive. A major objective of economic assistance in this area is to help the LDCs to increase the supply and improve the quality of services related to education, health and family planning. Numerous studies have shown that investment in human capital pays significant economic returns in addition to contributing to personal well-being. However, in most developing countries, the supply and quality of both education and health services, particularly primary education, primary health care and preventive health measures (e.g., immunizations and diarrheal disease control) are very low. This is particularly true for the rural population, but also holds for the slum area population of major urban centers. While IDCA is concerned with the overall problem of human resource improvement, resource limitations currently compel the Agency to concentrate on the health and population areas.

Infant and child mortality constitute the most tragic aspect of poverty. Even in countries not currently ravaged by famine, the infant mortality rate of 115 per thousand and the child (age 1-4) death rate of 18 per thousand (Table VI) are completely unacceptable. The number of infants, whose faculties are permanently impaired as a result of starvation and deficient nutrition, is a multiple of this number. IDCA, through A.I.D. programs, gives special attention to infants and children under five years of age. Key components of A.I.D.'s programs to reduce infant and child mortality (the child survival program) include oral rehydration therapy, immunizations against infectious childhood diseases, malaria control and development of a malaria vaccine.

b. Population Growth

High rates of population growth are of great concern in much of the developing world today. Rates in many poor countries are as high as three or four percent a year. These contrast with much lower growth rates in developing countries only a few decades ago. These recent unprecedented growth rates are a consequence of lower mortality without corresponding reductions in fertility. However, the crisis perception of population growth has been tempered somewhat in recent years owing to declining birth rates in some countries and the recognition that education and technological innovation might be able to meet the needs of a growing population.

U.S. Population Policy has moved away from a concern with population growth rates per se toward a concern for the rights and freedoms of individuals and families to choose. The U.S. strongly believes that governments should not dictate the number of children couples can have. The United States opposes programs involving abortion or any form of coercion. However, couples should have the right, if they so desire, to choose the number and spacing of their children. This right was affirmed by a consensus of nations at the International Population Conference in Mexico City in 1984.

As development takes place, the demand for family planning services increases. Surveys in almost all countries show a large number of couples that wish to have no more children but which are not currently using contraception. For many of these couples, there is little choice. Based on AID's program experience, whenever low cost services are provided, contraceptive use increases rapidly, even in countries where little socio-economic development has taken place. For much of the developing world, socio-economic change now occurring is dramatic. More couples live in cities, more of their children are surviving to adulthood. Without the need for children to work on the farm, and with the knowledge that their children will live to assist them in old age, couples around the world are choosing to have fewer children and spend more on each child's education.

Because family planning services are not available in much of the developing world, many mothers and children face high mortality risks. The highest maternal and infant mortality rates are found in pregnancies which occur before the age of 18; after the age of 35; after four or more children; and spaced less than two years apart. In other words, high risks for mother and child are associated with births which are too early, too late, too many, or too close.

In conclusion: There is a need to provide safe and affordable methods of family planning to couples that desire them in the developing world. A.I.D. is responding to requests for assistance from LDC governments that either have or desire programs in this area.

c. Food and Agriculture

The agricultural sector is of critical importance to low-income countries. About two-thirds of the labor force in low-income LDCs is engaged in agricultural activity; the proportion of poor people depending on agriculture for their livelihood is even greater. Agriculture accounts for almost 40% of the gross domestic product (GDP) in low-income countries and for an even larger proportion of total export earnings. In Central America, primary agricultural products account for between 60% and 65% of total commodity exports, a ratio that is much higher still in many low-income African countries. Agricultural production, particularly of foodstuffs, has lagged substantially behind potential in most LDCs. Yet, growth performance in the agricultural sector is a critical determinant of the growth rate of aggregate GDP.

A substantial proportion of the LDC population does not have access to enough food to meet nutritional needs. Still more are at the margin of adequacy. Agricultural production is closely related to food consumption and nutrition. Increased food production is not only essential to meet the nutritional needs of the population, but also raises the income of farm families.

The achievement of increased agricultural production will require the continued encouragement of the role of the private sector in agriculture, the development of human resource and institutional capabilities, and the adoption of economic policies designed to provide appropriate incentives to producers. Unless policy changes are made quickly, however, food production in many countries, especially in sub-Saharan Africa, is likely to continue to grow more slowly than population. The United States supports efforts by the LDCs to become as self-reliant in foodstuff production as considerations of economic efficiency will permit, and to provide special assistance to small producers to increase their incomes and productivity and provide them with access to markets. In many cases where low-income countries are confronted with a serious shortage of foodstuffs that cannot be met with local resources, the Food for Peace program can be drawn upon to help fill the gap. However, care must be taken to ensure that the program will not depress long-term prices of basic foodstuffs in the recipient countries below the world market level, especially in the case of products that could be grown efficiently[8/] by local farmers.

d. Unemployment and Underemployment

Unemployment and underemployment rates are very high in densely populated LDCs and have risen significantly in recent years. These high rates result from a number of factors, of which the most important are rapid population growth, slow development of the agricultural and manufacturing sectors, an undeveloped infrastructure, chronic shortage of capital and, in many LDCs, a set of policies that creates disincentives for the private sector and encourages the substitution of capital for labor. While IDCA does not have major programs aimed at reducing unemployment in a direct manner (IDCA, through A.I.D., discourages expanding public sector expenditures to generate jobs), the Agency strongly encourages the LDCs to adopt policies designed to reduce unemployment by encouraging private investment and stimulating growth through a more efficient allocation of resources. Our balance of payments assistance and Commodity Import Programs are generally part of a set of measures designed to create an environment conducive to increase private sector activity (particularly in the areas of investment and export development), and thus promote employment opportunities. These measures are discussed further in section f. below.

e. Environmental Concerns

The continuing deterioration of the environment and natural resources is another area of concern. Deforestation

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8/ At the world market price translated into local currency at the free market exchange rate.

is one of the most serious environmental problems facing developing countries, with an estimated 11 million hectares of tropical forests disappearing each year. The removal of this forest cover increases desertification, soil erosion, flooding, and siltation. Inappropriate soil and water management of existing agricultural land has resulted in the loss of topsoil, salinization, and waterlogging. These present an especially serious problem for poor farmers living on marginal lands. Most LDCs do not have the human and financial resources to manage effectively their watersheds, or to undertake reforestation and flood control projects.

Other environmental problems include the adverse consequences of indiscriminate use of pesticides, the depletion of fisheries and wildlife, and the lack of effective industrial and urban pollution control.

AID provides assistance to help developing countries identify and alleviate their environmental and natural resource problems by strengthening their institutional and scientific capability. AID has issued detailed guidance to assist its missions in the development of natural resource management programs, particularly in the area of tropical forests and the conservation of biological diversity. AID and the Overseas Private Investment Corporation also conduct environmental assessments of their major development projects.

f. Policies of Developing Countries

IDCA places major emphasis on the adoption by LDC governments of policies designed to stimulate growth. IDCA seeks to remove obstacles to the efficient allocation of resources and policies that discourage private sector incentives to invest, produce, and assume risk. Other IDCA objectives include the adoption of policies designed to ensure that the majority of the population shares in the benefits from economic development.

Many LDCs have adopted policies that are inimical to growth and the efficient utilization of scarce resources. Inappropriate policies are frequently found in the following areas:

(1) Public Expenditures and Budget Deficits: A number of factors may contribute to excessive government expenditures and budget deficits. Those most frequently responsible include a bloated public payroll, use of the public sector to reward political supporters and/or to generate

employment, an overly ambitious public investment program, providing subsidies to particular commodities and services (e.g., basic grains, milk, oil, public transport), and allowing government-owned utilities or parastatals (e.g., electric power companies) to incur substantial losses in their current operations by failing to adjust the prices of their services to cost increases.

It must be recognized that LDC governments are generally operating under severe constraints. Provision must be made for essential infrastructure and social services that must be provided in large measure by the public sector. Examples are schools, health clinics, roads and flood control dams, and staff to operate these programs and facilities. On the other hand, LDC governments are often providing services that the private sector could provide more efficiently (such as operation of hotels, public transport, and storage and marketing of agricultural products).

Tax reform may be necessary in LDCs where current tax laws tend to distort resource allocation and depress incentives to produce, invest and risk. Many LDCs have adopted very high marginal income tax rates which tend to have a negative impact on economic incentives. Tax reform generally should be coupled with improvements in tax administration to ensure greater equity and prevent declines in revenue collections.

(2) Controls Over International Trade: Many LDCs have adopted a number of measures designed to restrict imports to curb the balance-of-payments deficit or to protect domestic industry. The devices used range from high tariffs to quota restrictions and exchange controls. The result of this protection is development of an inefficient domestic industrial structure, the diversion of resources from potential export industries to production for a protected domestic market and higher prices for consumers.

(3) Overvalued Exchange Rates: Exchange rates are often overvalued in countries pursuing inflationary policies. The effect of overvaluation is to provide an artificial stimulus to imports, discourage exports, and thus aggravate the shortage of foreign exchange. This, in turn, promotes increased reliance on exchange controls.

Overvaluation is politically very difficult to correct, first, because an exchange rate adjustment is generally regarded as an admission that the government's economic policies have failed; and second, because devaluation increases the cost of some basic goods and services consumed by the low income groups, and provides, in the short term, a further stimulus to the increase in the general price level.

(4) Reliance on Price Controls: LDC governments often attempt to control inflation through direct price controls rather than by dealing with the basic causes--generally large budget deficits, and much less frequently, through excessive credit expansion to the private sector. Price controls, to the extent that serious attempts are made to enforce them, discourage production and lead to black markets and corruption of government officials. A frequent and particularly pernicious practice is the setting of prices paid to farmers at an artificially low level. Such policies penalize small farmers and farm workers, and generally result in depressed production and increased dependence on the importation of foodstuffs, with further adverse impacts on production incentives.

(5) Ceilings on Interest Rates: Public authorities are often reluctant to allow interest rates to reflect fully the expected rate of inflation and real scarcity of capital. The consequence of this policy is reduced incentives to save along with credit rationing, which often favors public enterprises and influential patrons. Even when the general interest rate is permitted to approach the market level, many LDCs set interest rate ceilings for particular sectors, such as agricultural credit and low-cost housing. The result is to discourage the flow of private funds into these sectors and to make institutions responsible for funding these sectors heavily dependent on government appropriations or subsidies. Where developing countries have instituted appropriate interest rate policies, the results have often been dramatic, particularly in increasing the savings rate.

(6) Taxes: While LDCs generally collect most of their tax revenues from indirect taxes (export taxes, import duties, and general sales and excise taxes), marginal tax rates on personal and corporate income are generally high. This is particularly true of the highest rate on the personal income tax, which often exceeds 60%. These high rates may discourage initiative and the assumption of risk and, hence, investment and private sector activity generally. A strong case can be made for the downward revision of the top marginal income tax rates. However, tax reform should not be limited to the income tax. The review should include export taxes (which generally depress exports and foreign exchange earnings), import duties (to reduce the level of effective protection) and indirect taxes generally. Particular attention also must be given to the improvement of tax administration which is very deficient in most LDCs.

(7) Improved Debt Management: Many LDCs have borrowed excessive amounts from foreign commercial banks and find it difficult to meet their debt service charges. Many have been forced to resort to debt rescheduling, and further reschedulings will almost certainly be unavoidable. Unilateral debt repudiation would greatly harm LDC prospects for new bank credits. There is evidence that debt servicing requirements are seriously interfering with economic growth in a number of LDCs as they are absorbing a large proportion of foreign exchange earnings. A study recently undertaken by A.I.D. suggests that about half of all LDCs have debt service to export (of goods and services) ratios in excess of 25%. There is need for a careful analysis of the debt servicing capacity of LDCs that are facing the prospect of depressed growth as a result of a debt servicing problem. Adjustments should be made in the context of a stabilization program, preferably under the aegis of the IMF. Basic changes in policies and institutions affecting growth may also be required. (Closer coordination between the IMF and World Bank and among the donors is needed to support appropriate policy reforms. A proposal to address this problem was advanced in October, 1985, by US Treasury Secretary Baker (and is discussed in Chapter IV, section 7-c),

(8) An Expanded Role for the Private Sector: All of the factors described above, as well as the general economic philosophy of the government and the way it is carried out, impinge directly or indirectly on the profitability and outlook of the private sector. For example, the government may generate considerable uncertainty in the private sector if it expresses skepticism with regard to the social benefits resulting from private sector activity, engages in or threatens expropriation, or operates enterprises in competition with private businesses. Most disruptive is uncertainty surrounding the possibility of further government nationalization, substantial increases in taxes or levies, and, for foreign investors, restrictions on the free convertibility of earnings.

In summary, policies in the developing countries should remove the distortions and disincentives to private sector activity, promote efficiency and economic growth by minimizing government intervention, reduce budget deficits by curtailing unproductive government spending, revise tax and tariff structures to reduce distortions and elements discouraging private sector activity, and remove the uncertainties that so often characterize government policy toward the private sector. IDCA strongly encourages an expanded role for the private sector, and getting the government out of sectors where private enterprises can operate more efficiently.

IDCA's policy dioloque with the LDCs is not restricted to areas in which AID has major programs. The policy is to promote all structural changes that are necessary or desirable to promote economic growth and private sector activity, effect a more efficient allocation of resources and generate new employment opportunities.

3. Trends Over 1960—82

The period 1960-82 was a period of rapid growth for the lower-middle and upper-middle income LDCs. Real output increased at an average annual rate of about 5.3% for both of these groups. Their real per capita GNP increased at an average annual rate of 3.2% and 4.1% ,9/ respectively, which compares with 3.3% for the developed industrial countries. On the other hand, real per capita GNP of the low-income LDCs (those with a per capita GNP of less than $400) increased at an average annual rate of only 1.1% over this period. Thus, while the difference in per capita GNP between the upper-middle-income LDCs and the developed countries has narrowed (in relative terms), the discrepancy between the developed countries and the low-income LDCs actually increased.

Health and education indicators show a substantial improvement for LDCs at all income levels. For example, for the low-income LDCs (other than China and India), the infant mortality rate declined from 163 per thousand in 1960 to 115 in 1983; the child death rate for this group declined from 31 per thousand to 18; the crude death rate (age 1-4) fell from 21 per thousand to 16 (see Table VI, Chart III); the average life expectancy for this group increased from 42 to 50 years; while enrollment in primary schools increased from 38% to 72%. The middle and upper-middle-income LDCs also shared in this improvement (see Table VI, Chart III).

On the other hand, the data also demonstrate the magnitude of the problem that remains. Thus, the infant mortality rate of the low-income LDCs is eleven times that of the developed countries (114 per thousand versus 10); their child death rate of 18 per thousand compares with less than 0.5 per thousand for the developed countries; and a life expectancy at birth (for

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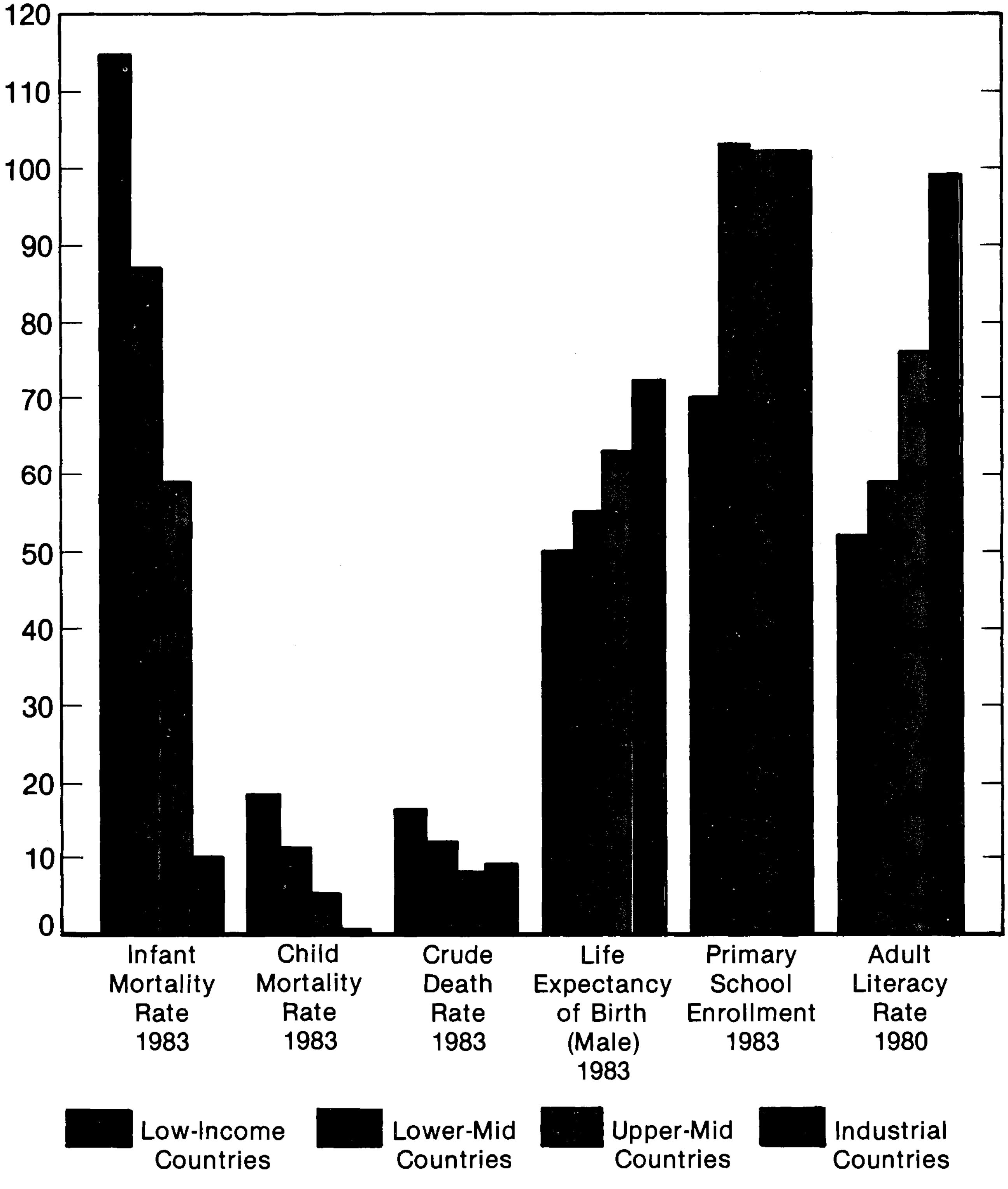
9/ These rates of growth for the two groups refer to the IBRD definition of "lower-middle" and "upper-middle" income LDCs, as presented in the World Development Report for 1984.

Chart III
Basic Indicators



SOURCE: World Development Report, 1985

*Less than half of a percent for industrial countries.

males) of 50 years compares with 72 for the DCs. The contrast in terms of per capita GNP is equally striking: an average of $200 for the low-income LDCs versus $11,060 for the industrialized countries (in 1983 dollars).

4. Current or Short-Term Constraints

a. Fall in Real GDP

The world experienced a severe and prolonged recession beginning in 1979-80. The downturn started earlier in the United States (in 1979, when the increase in real output dropped from 5.0% to 2.8% - see Table VII). The recession hit Europe in 1980 and Japan in 1981-82. It affected the LDCs with particular force: the real GDP growth rate of the net oil importing LDCs dropped to 2.8% in 1981 and to 2.4% in 1982 (compared with 6.2% in 1978 - see Table VII).[10/] Particularly hard hit were Africa, the Middle East and the Western Hemisphere. The growth rate of real GDP in the Western Hemisphere declined from 6.1% in 1979 to a negative 0.9% in 1982 and to a negative 3.2% in 1983 (Table VII). Other manifestations of the short-term crisis include the deterioration of the terms of trade of the low-income countries which declined substantially and continuously between 1978 and 1982 (Table VIII and Chart IV).

b. Deficit in Current Account and Debt Service Ratio

The most dramatic manifestation of the crisis in the LDCs is the upsurge in the current account deficit of the balance of payments and the increase in the debt service ratio. The deficit on current account of the non-oil developing countries increased from $42 billion in 1978 to $87 billion in 1980 and to a peak of $108 billion in 1981, an increase of 157% over 1979-81 (Table VIII, Chart VI). For the Western Hemisphere, the current account deficit rose from $19 billion to $43 billion, or by 125% over 1978-81 (Table VIII). Debt service payments of the capital-importing LDCs also increased dramatically--from $56 billion in 1978 to $122 billion in 1982--while the debt service ratio increased from 18.5% to 24% (Table VIII, Chart V, Chart VII).

10/ IMF, World Economic Outlook, October 1985, Table 2.

TABLE VII

Industrial and Developing Countries: Changes in Output, 1967-86

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
		Changes in Percent from Preceding Year									
World	4.4	4.5	4.4	3.5	2	1.6	0.4	2.5	4.5	3.1	3.4
Industrial countries	3.7	4	4.1	3.5	1.3	1.6	-0.2	2.6	4.9	2.8	3.1
United States	2.8	5.5	5	2.8	-0.3	2.5	-2.1	3.7	6.8	2.6	3.3
Other industrial countries	4.5	3	3.5	3.9	2.2	1.1	0.9	2	3.5	3	2.9
of which,											
Japan	7.4	5.3	5.1	5.2	4.8	4	3.3	3.4	5.8	4.4	4
Germany Fed. Rep. of	3.5	2.8	3.5	4	1.9	-0.2	-1	1.3	2.6	2.1	3.1
Developing countries	6	6.1	5.1	4.2	3.6	2.3	1.5	1.4	4.4	3.5	4.1
By Region											
Africa	4.8	4.4	1.2	2.8	4.5	1.7	0.2	-1.2	2.6	2.2	3.1
Asia	5.2	8	9.1	4.3	5.3	5.6	5	7.6	8.1	6.8	6
Europe	6	5.4	5.4	3.8	1.6	2.5	2.2	1.3	3.5	2.9	3.3
Middle East	9.3	7	1.7	2.3	-2.1	-1.8	-0.2	-	1.7		2.6
Western Hemisphere	5.9	5.3	4.1	6.1	5.3	1	-0.9	-3.2	3.1	2.5	3.3
Change in GDP											
By Analytical Criteria											
Fuel exporters	7.9	5.9	2.7	3.3	1.1	0.9	-0.4	-1.5	2.2	1	3
Non-fuel exporters	5.3	5.9	6.1	4.6	4.6	2.9	2.5	2.9	5.6	4.7	4.6
Market borrowers	6.2	5.7	4.6	5.9	4.7	2.3	0.3	-0.9	3.6	2.7	3.7
Official borrowers	3.5	5.8	3.8	2.1	2.9	3.3	1.9	2.3	3.2	3.5	4
Oil exporting countries	8.3	6.9	1.3	1.9	-0.9	-1.2	-0.6	-0.6	1.8	0.3	2.7
Non-oil developing countries	5.4	5.8	6.2	4.9	4.9	3.3	2.2	2.1	5.3	4.5	4.5
Net oil exporters	6.2	3.7	6.1	7.6	7.3	6.7	1.1	-2.9	3.9	3.7	4.2
Net oil importers	5.3	6.2	6.2	4.5	4.5	2.8	2.4	3	5.6	4.7	4.6
Major exporters of Manufactures	6.6	5.7	4.6	6.4	4.4	0.9	0.8	0.3	4.6	2.8	3.8
Low-income countries	3.6	6.7	8.5	2.6	5.6	4.6	5.3	7.5	8.4	7.8	6.1
Other net oil importers	5.1	6.8	5.6	4	3.2	3.4	1	1.5	3	3.3	3.6
Other countries	5.5	4.5	4.7	2.3	2.9	0.8	1.7	3.5	3.1	3.6	3.5

1/ For the U.S. through 1985, source is Department of Commerce, Survey of Current Business, and the Economic Report of the President. Projections for the U.S. in 1986 and data for all other countries is from the International Monetary Fund, World Economic Outlook October 1985 Table 1 & 5

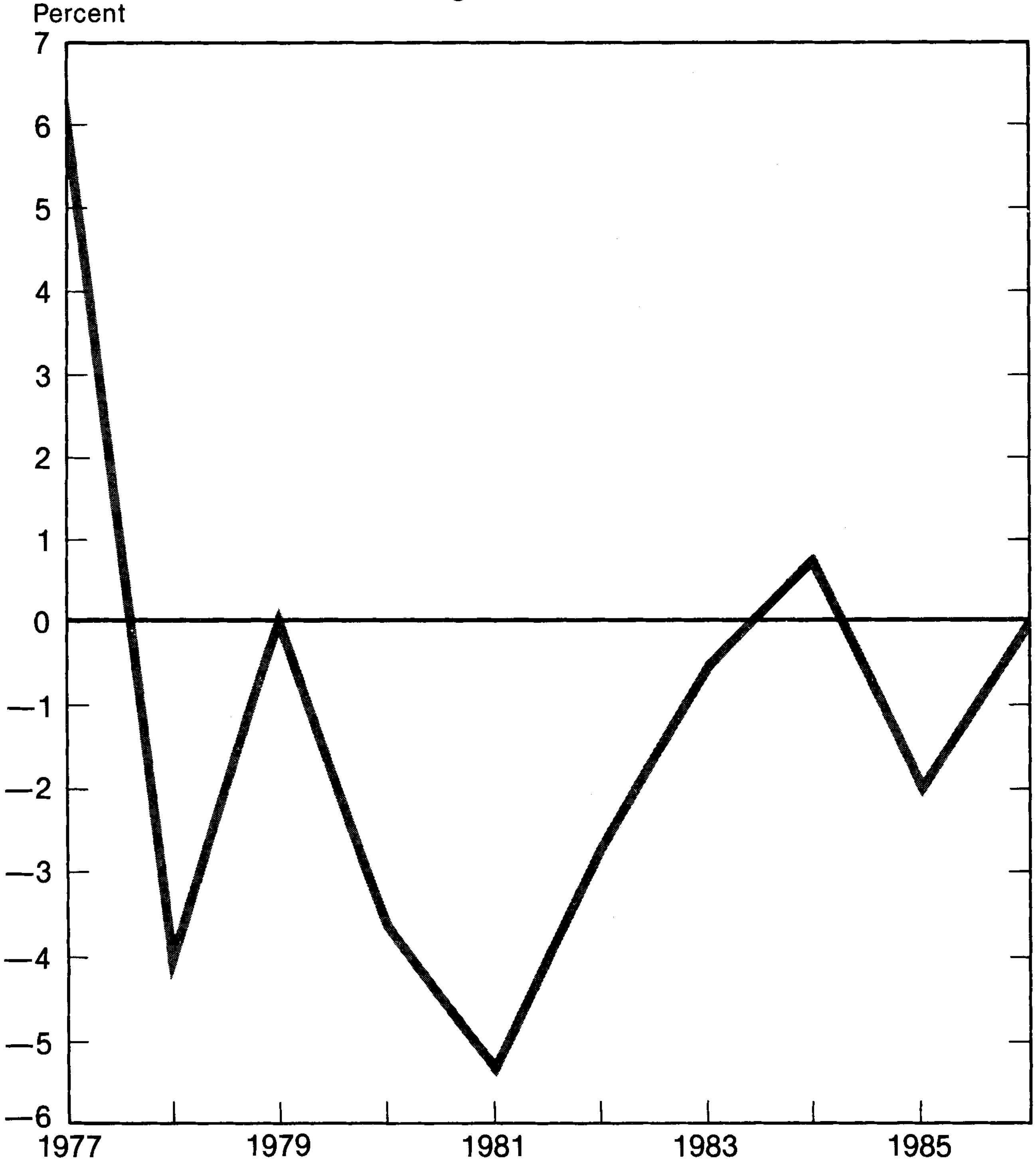
TABLE VIII

KEY MACROECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
TERMS OF TRADE FOR NON-OIL DEVELOPING COUNTRIES										
Percent Change from Previous Year	6.3	-4.0	0.1	-3.6	-5.3	-2.9	-0.6	0.8	-1.9	-1.1
WORLD TRADE PRICES										
Percent Change from Previous Year										
Manufactures	8.0	14.5	13.9	11.1	-6.0	-2.1	-4.3	-3.4	-2.0	6.00
Oil	9.6	0.4	45.9	63.5	9.9	-4.0	-12.2	-2.0	-4.0	-1
Non-Oil Primary Commodities (market prices)	21.2	-4.1	16.2	8.3	-15.2	-12.4	7.9	2.5	-11.2	1.50
EXTERNAL DEBT OUTSTANDING										
OF NON-OIL DEVELOPING COUNTRIES (billions $)	292.5	343.8	408.3	489.6	579.1	657.8	700.1	733.0	768.2	799.70
PAYMENTS BALANCE ON CURRENT ACCOUNT										
(In billions of dollars)										
Non-oil Developing Countries	-29.6	-41.5	-61.1	-86.6	-107.8	-86.3	-53.9	-38.7	-43.8	-42.1
Non-fuel Exporters	-25.1	-35.6	-53.6	-77.3	-90.8	-76.7	-54.7	-38.9	-41.6	-39.2
Low income countries	-2.9	-9.2	-12.9	-18.0	-14.7	-9.9	-8.7	-11.1	-21.6	-22
Africa	-10.4	-15.4	-6.6	-5.3	-25.3	-25.1	-15.7	-11.6	-7.8	-7.7
Asia	-9.0	-8.9	-15.2	-21.9	-23.5	-20.2	-16.4	-7.9	-15.0	-14.6
Europe	-9.0	-7.1	-9.9	-12.3	-10.1	-6.7	-5.1	-2.7	-2.1	-2.1
Middle East	31.7	14.9	54.5	92.5	46.4	-5.7	-19.6	-14.9	-16.5	-16
Western Hemisphere	-11.6	-19.4	-21.7	-30.3	-43.5	-42.2	-11.6	-5.0	-8.1	-8

SOURCE: International Monetary Fund, World Economic Outlook, April 1985 tables 19, 27, 44, 47, 49, 32

Chart IV
Terms of Trade Non-Oil Developing Countries
Percent Change from Previous Year

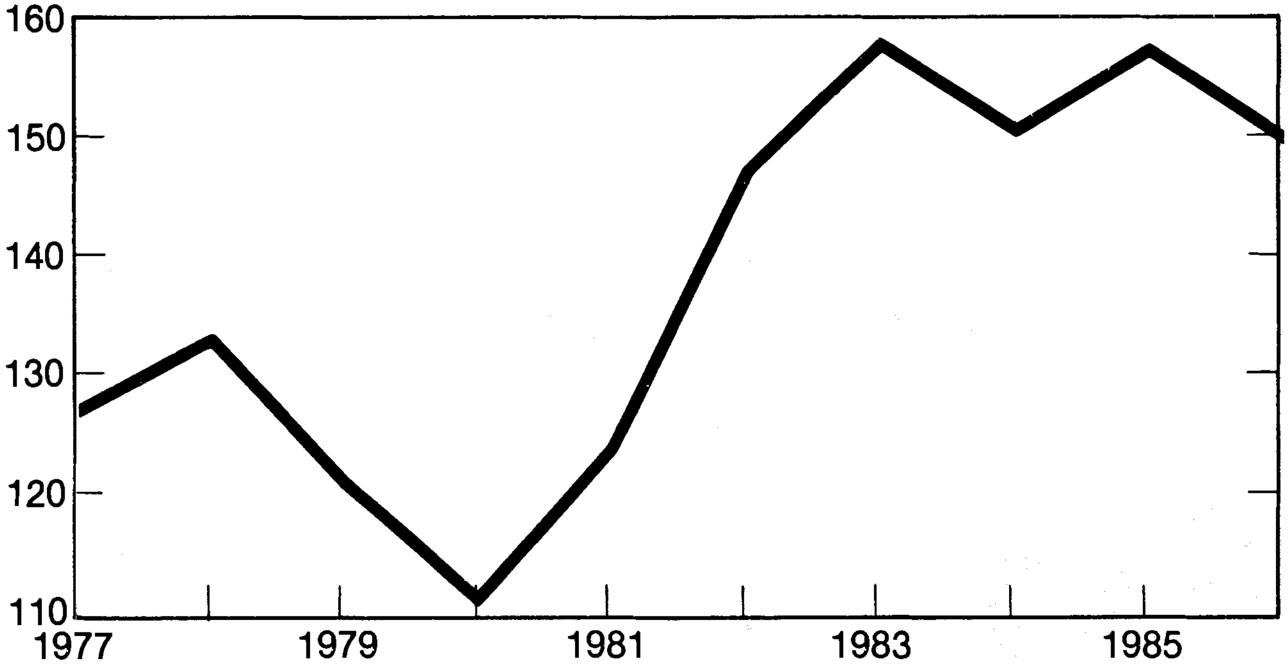


Terms of Trade: The ratio of the weighted average unit value of exports over the weighted average unit value of imports.

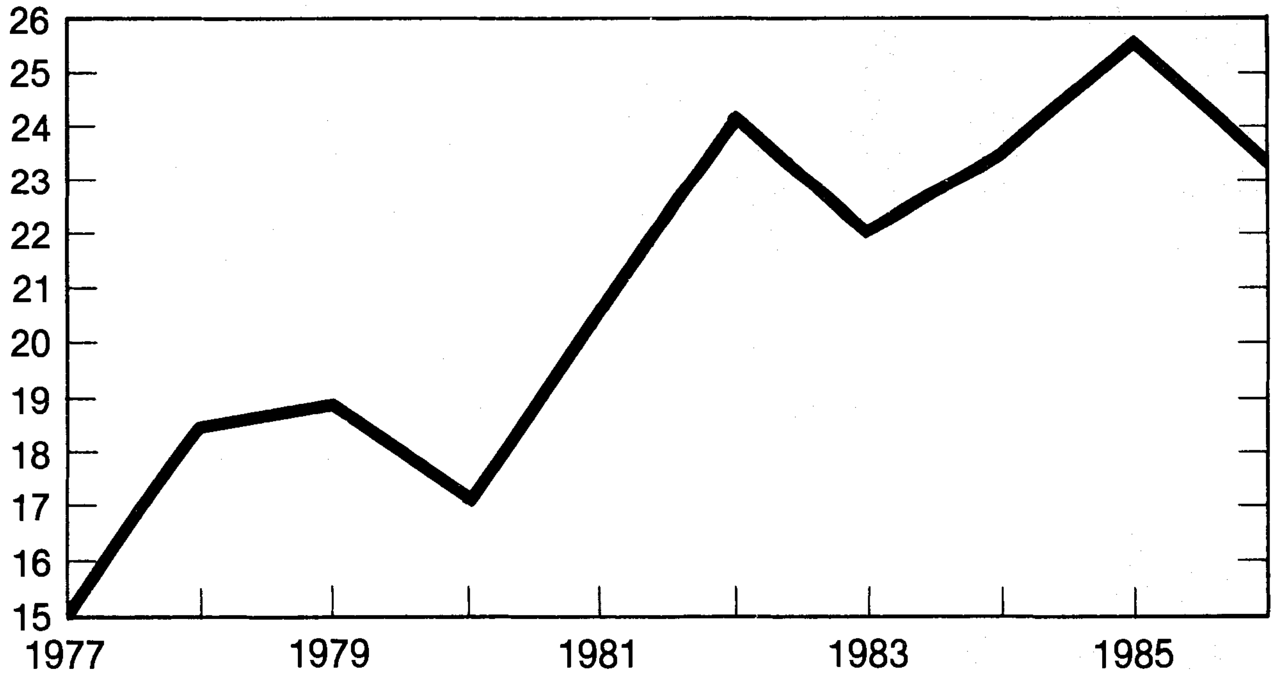
Note the sharp drop in the terms of trade over 1977-82, followed by a partial recovery over 1983-84.

SOURCE: International Monetary Fund, World Economic Outlook, 1985.
1986 is a projected figure.

Chart V
Capital Importing Countries
Ratio of External Debt to Exports



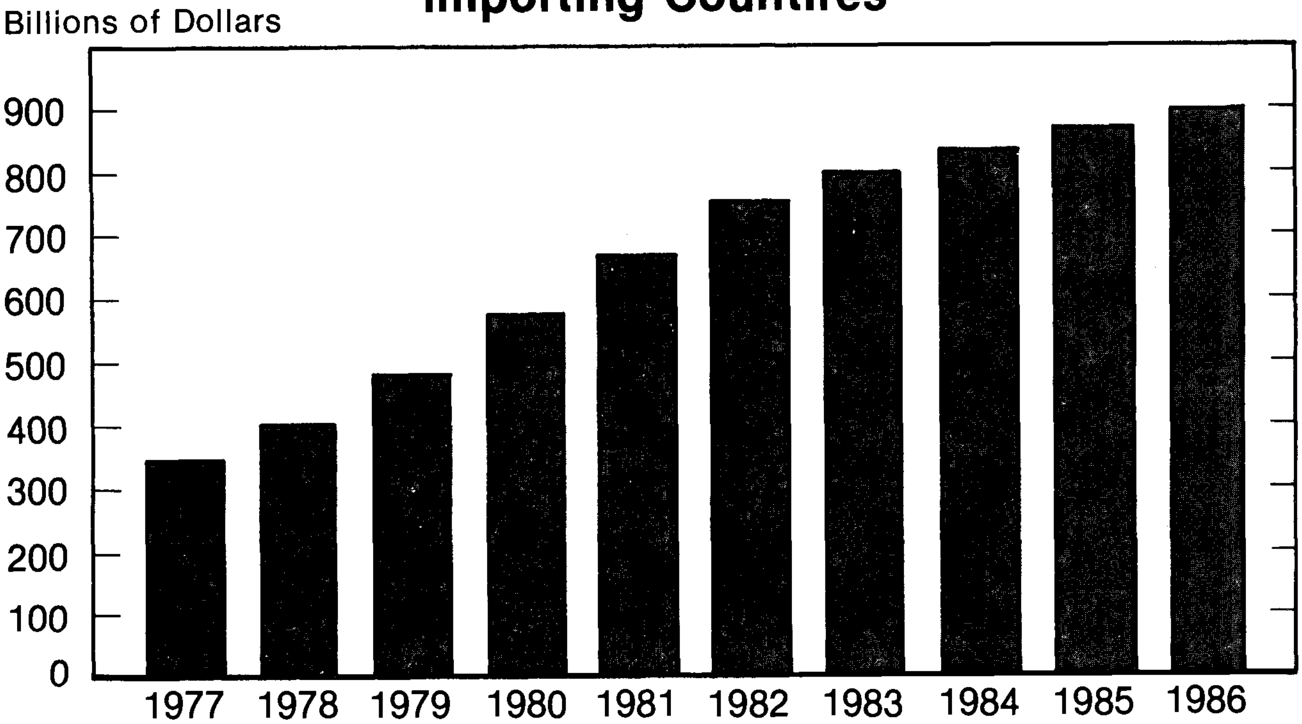
Ratio of Debt Service Payments to Exports



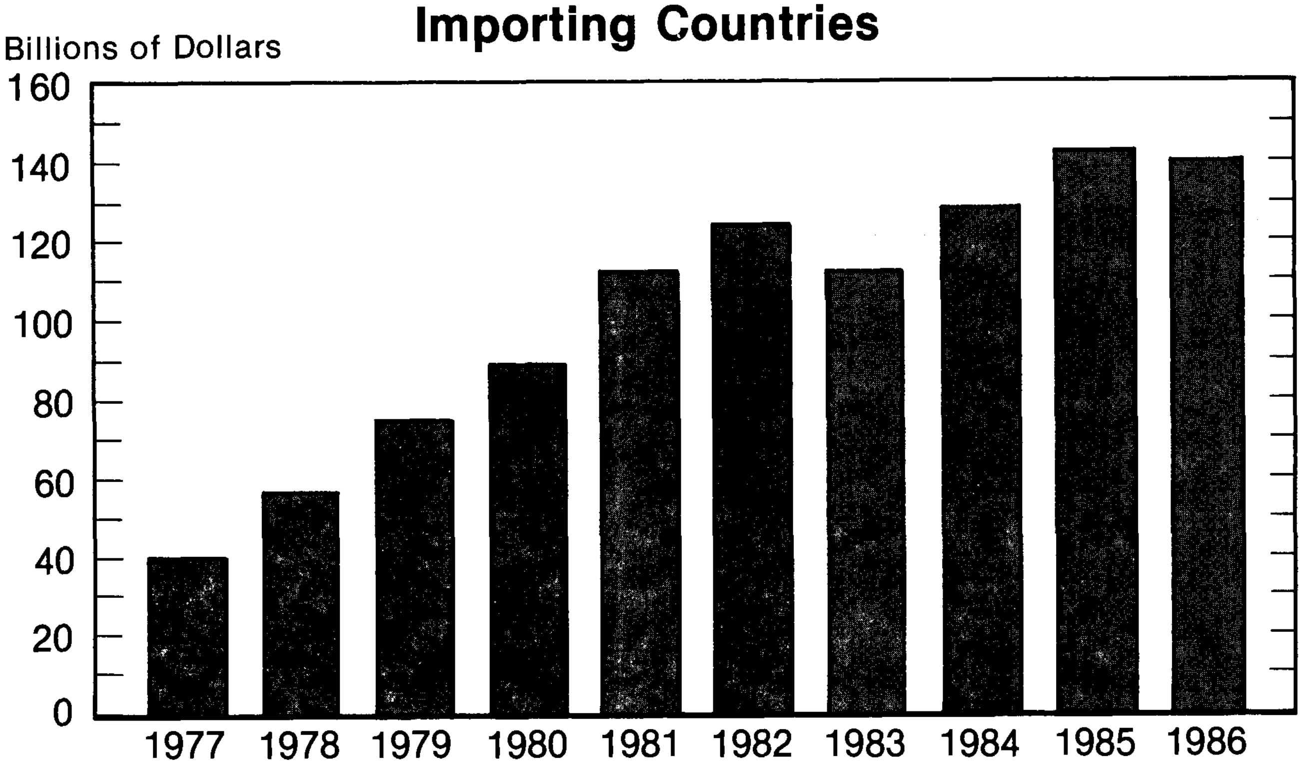
SOURCE: International Monetary Fund, World Economic Outlook, 1985.
1986 is a projected figure.

Chart VII

External Debt Outstanding of Capital Importing Countires



Debt Service Payments of Capital Importing Countries



Debt Service = Interest and amortization payments on the external debt.

SOURCE: International Monetary Fund, World Economic Outlook, 1985.
1986 is a projected figure.

c. Major Causes of the Crisis

Although the causes of the recent crisis are complex, the sharp increase in oil prices understandably played a major role. Between 1978 and 1980, the price of Arabian crude increased from $12.70 to $28.67 per barrel, an increase of 125%. This increase not only affected directly the balance of payments of the oil-importing LDCs, but affected them indirectly as well through its impact on the level of aggregate demand in the developed countries. Depressed economic activity in the latter and, partly as a result, deteriorating terms of trade for LDCs exporting primary products were significant contributing factors. The substantial increase in LDC debt service charges, while also related to the oil price increases experienced since 1973, cannot be attributed entirely to this factor. Many LDCs borrowed heavily from foreign commercial banks throughout the 1970s to finance unsound investment projects and to cover their balance-of-payments deficits, purposes that failed to raise their debt-carrying capacity and confronted the banks with the alternative of accepting large-scale rescheduling or defaults.

Two other factors that contributed to the recent crisis include the conflict in Central America and a continuing string of droughts in sub-Saharan Africa. The conflict in Central America contributed to the balance-of-payments gap of El Salvador and, to a somewhat lesser extent, to that of Honduras as well.[11/] Both countries required substantial balance-of-payments assistance from the United States to enable their economies to continue to function and help contain the decline in living standards within bearable limits.

Sub-Saharan Africa has been ravaged by a series of droughts since 1973. Real per capita output in sub-Saharan Africa, among the lowest in the world, has declined continuously since 1973. The problem can no longer be considered a short-term one. The requirement for food relief has increased substantially in recent years and is likely to persist. A long-term program to deal with the problem of

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11/ Owing to the expansion of security expenditures. The balance-of-payments gaps of El Salvador and Honduras are obviously the result of other factors as well, including deterioration in the terms of trade and recession in the Central America Common Market and in the industrialized countries and inappropriate exchange rates.

recurrent famine in the region must be developed.12/

5. Developments Over 1983—85

a. Recovery in the Industrial Countries

Recovery from the recent recession began in the United States in 1983. The United States' real GNP, which declined by 2.1% in 1982, increased by 3.7% in 1983 (Table VII). In 1984, it increased by 6.8%. However, a marked slowdown occurred during the third and fourth quarters, which continued through the first two quarters of 1985. The IMF projects the United States' real GNP to increase by only 2.6% in 1985.13/ In the European countries, economic activity experienced a weak recovery in 1983 which picked up slightly in 1984 (with GNP rising by 2.3%). The industrial countries as a group expanded production by 4.9% in 1984, with the lowest level of price inflation in 15 years (Table VII). However, their recovery appears to be running out of steam; the IMF projects the growth rate of real output of all industrial countries to slow to 2.8% in 1985.

b. Recovery in the LDCs

The recovery of economic activity in the industrial countries had a significant impact on the LDCs, particularly on the non-oil developing countries. The latter's combined real GDP, which increased by only 2.2% in 1982 and 2.1% in 1983 rose to 5.3% in 1984 (Table VII). A slowdown to 4.5% is projected for 1985. The combined current account deficit of the non-oil developing countries declined from a peak of $108 billion in 1981 to $54 billion in 1983 and $39 billion in 1984, but is projected to rise back slightly--to $44 billion--in 1985 (Table VIII, Chart VI). The debt servicing situation also improved as a combined result of debt rescheduling and the recovery of exports. Thus, the debt service ratio (interest and amortization payments as a percent

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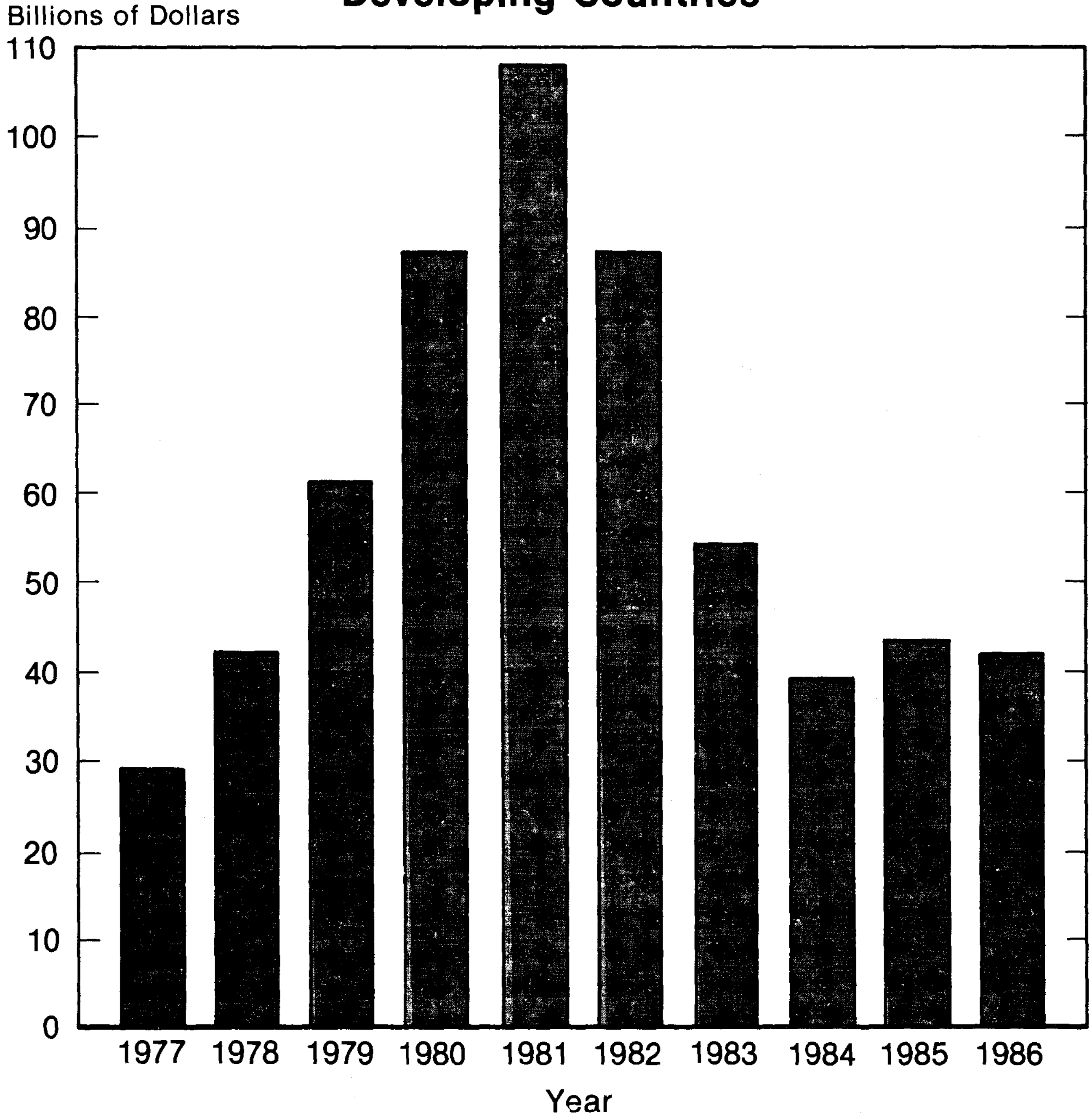
12/ That program most likely will involve several major elements, including erosion control, experimentation with and introduction of new varieties requiring less water, irrigation, family planning, and promoting the redistribution of the population through voluntary relocation programs.

13/ This projection may be on the low side owing to a good third quarter recovery to an annual rate of 4.3%.

Chart VI
Current Account Deficit of Non-Oil Developing Countries



SOURCE: International Monetary Fund, World Economic Outlook, 1985.
1986 is a projected figure.

of exports of goods and services) of all capital importing countries declined from 24.1% in 1982 to 22.0 percent in 1983, but rose again to 23.4% (Table IX, Chart V) in 1984, and is projected to increase to 25.6% in 1985. The ratio is much higher for "countries with recent debt servicing problems."14/ It was 40.8% in 1982 and is projected at 41.3% for 1985.

These overall data conceal some variations in the extent of the economic recovery in different countries and regions. The current account deficit declined significantly in all regions over 1981-84 except in the Middle East where the current account balance deteriorated seriously. The improvement was most dramatic in Asia (down from $23.5 billion in 1981 to $7.9 billion in 1984), and in the Western Hemisphere(down from $44 billion to $5 billion), followed by Africa (from $25 billion to $12 billion). In the Middle East, however, the current account balance moved from a $46 billion surplus in 1981 to a $15 billion deficit in 1984 owing to declining oil prices (Table VIII). With regard to the debt service ratio, note that the ratio for the Western Hemisphere is the highest by far--44% in 1985, versus 32% for Africa, 13% for Asia and 28% for the non-oil Middle East (Table IX).

6. The Near-Term Outlook

Given the heavy dependence of most LDCs on exports of primary products to the industrial countries, the economic outlook for developing countries will depend heavily on the pace of economic recovery and growth in the industrial countries. We have noted that, on the basis of preliminary data, the IMF has projected the growth rate of real GDP of industrial countries to decline from 4.9% in 1984 to 2.8% in 1985. It is projected to increase only very moderately--to 3.1%--in 1986.

The Fund emphasizes that a number of uncertainties affect the present outlook. A major imponderable is the U.S. fiscal deficit which is currently running at some $200 billion a year. The Fund notes that "the Congressional budget resolution would reduce the deficit by $56 billion in the 1986 fiscal

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14/ Defined by the IMF as countries that have incurred debt servicing arrears during 1981-83 or that have rescheduled their debt between 1981 and mid - 1984.

TABLE IX

Table 44. Capital Importing Developing Countries: External Debt and Debt Service, 1977–86[1]
(In percent of exports of goods and services, except where otherwise noted)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
External debt										
Capital importing countries (Ratio)	127.1	132.8	120.4	110.4	123.1	147.7	158.2	150.7	157.1	150.4
(in billions of U.S. dollars)	333.5	399.5	475.0	566.8	662.4	749.1	796.9	829.5	865.1	895.7
Africa	112.2	123.7	106.0	87.4	112.2	147.1	165.0	169.5	176.5	169.2
Asia	87.7	81.6	74.4	71.2	74.3	87.0	92.4	86.0	91.4	89.7
Europe	120.0	128.1	119.9	119.5	115.9	123.2	130.0	126.5	130.3	122.1
Non-oil Middle East	163.7	167.1	154.4	122.8	128.2	143.2	164.2	162.8	180.5	176.1
Western Hemisphere	192.6	215.7	196.8	181.8	207.7	264.7	288.0	271.5	283.0	272.0
Market borrowers	119.8	126.1	112.4	103.1	118.6	147.0	156.4	146.9	150.5	141.8
Official borrowers	148.1	162.1	151.9	155.6	179.6	216.4	241.3	258.6	286.2	289.3
Countries with recent debt-servicing problems	172.2	196.2	179.4	166.5	192.9	242.7	265.4	252.4	258.6	246.0
Countries without debt-servicing problems	95.7	92.2	82.4	73.6	78.3	91.4	97.9	94.0	100.6	98.2
Debt service payments										
Capital importing countries (Ratio)	15.0	18.5	18.8	17.1	20.6	24.1	22.0	23.4	25.6	23.4
(in billions of U.S. dollars)	39.4	55.7	74.1	87.8	110.7	122.4	111.0	128.6	140.8	139.5
Africa	11.0	14.0	14.0	13.3	15.1	19.4	22.9	26.3	32.4	29.8
Asia	8.1	10.1	8.8	8.2	9.7	11.4	10.7	11.7	13.0	12.3
Europe	14.6	16.3	18.2	18.3	20.9	22.2	24.5	26.9	28.9	24.9
Non-oil Middle East	17.5	17.4	18.8	17.9	21.5	22.4	23.6	25.4	27.9	26.3
Western Hemisphere	28.2	37.1	38.8	33.0	40.6	50.4	40.7	41.6	44.1	40.9
Market borrowers	15.9	20.5	20.8	18.2	22.1	26.7	23.7	24.9	26.8	24.0
Official borrowers	12.5	13.0	12.2	13.5	14.8	15.6	17.7	21.7	26.0	27.3
Countries with recent debt-servicing problems	22.0	28.8	30.0	26.5	33.2	40.8	36.1	37.6	41.3	38.1
Countries without debt-servicing problems	10.2	11.9	11.5	10.9	12.4	14.3	14.1	15.4	16.8	15.4

[1] Debt export ratios show the ratio of total debt at the end of a year to exports of goods and services in that year. Debt service payments and ratios refer to all interest payments plus amortization payments on long-term debt.

SOURCE: International Monetary Fund, World Economic Outlook, April 1985 year, $90 billion in fiscal year 1987, and $132 billion in FY 1988." Since then, the Gramm-Rudman-Hollings proposal has become law. The IMF notes that "if (economic) growth is lower than anticipated by the Administration, as the staff is projecting, the fiscal deficit would be substantially larger."15/ A second imponderable is whether the United States will be able to resist pressure for the adoption of protectionist measures designed to reduce unemployment in particular U.S. industries and curb the growing U.S. balance-of-trade deficit. A third factor involves the implications of the decline in oil prices currently underway, which has positive consequences for the real income of oil-importing countries, but which will weaken the financial position of some energy-exporting countries "to such an extent as to call in question the manageability of their external positions." 16/

On the positive side, there has been a marked reduction in inflation in the industrial countries, investment has revived (particularly in the United States and in the United Kingdom), economic activity in the United States picked up in the third quarter of 1985, and productivity has grown more strongly than during most of the 1970s and early 1980s.

The developing countries have succeeded in reducing their combined current account deficit substantially--from $100 billion to a projected $49 billion over 1982-85. However, they have suffered from a deterioration of primary product prices and continuing high debt service ratios in about half of all LDCs. Moreover, it should be noted that for many LDCs, the improvement in their current account position has been purchased at the cost of belt tightening in the form of contracting, or at least holding down, the level of their real imputs, with adverse consequences for economic growth and for capita income.

Taking into account these various factors, the IMF is moderately optimistic with regard to the growth and balance-of-payments outlook of the LDCs in 1986. The real GDP growth rate for all developing countries is expected to rise from 3.5% in 1985 to 4.1% in 1986. For the non-fuel exporting LDCs, the

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15/ IMF, World Economic Outlook, October 1985, page 27.

16/ IMF, Ibid, page 28.

average growth rate is expected to remain constant at about 4.6% to 4.7% in both 1985 and 1986. The current account deficit of the non-oil developing countries is expected to rise slightly in 1985--from $39 billion in 1984 to $44 billion--then to decline very moderately in 1986 (to $42 billion). The debt service ratio for all capital importing countries is expected to rise slightly in 1985--from 23.4% to 25.6%, then to fall back to 23.4% in 1986. The debt service ratio for Western Hemisphere countries is significantly bleaker: it is estimated at 44% in 1985 and 41% in 1986.

7. Implications for U.S. Policy

Both the IMF and the World Bank lay major stress on the impact of economic developments and policies in the industrial countries on the growth prospects of the LDCs. Major determinants include the way in which the industrial countries, particularly the United States, handle their budget deficits, inflation, interest rates, level of unemployment, and whether they resort to protectionist measures. In the World Bank's analysis, the success of the industrial countries' efforts in resolving their major current problems will determine, to a large extent, whether the developing countries will be able to follow the high growth scenario (real GDP growing at 5.5% a year over 1985-95) or the low growth scenario (average growth rate of 4.7%).

Debt servicing will continue to be a major problem facing the LDCs for some time to come, although it is not equally serious in all countries. Countries in which A.I.D. has major programs and which have debt service ratios in excess of 25% include Bolivia, Costa Rica, Dominican Republic, Ecuador, Honduras, Jamaica, Peru, Kenya, Liberia, Malawi, Mali, Niger, Nigeria, Senegal, Somalia, Sudan, Egypt, Jordan, Morocco, Tunisia, Pakistan, Philippines, and Thailand. For at least some of these countries, the United State may have to consider new ways of approaching their debt management problems.

Balance-of-payments assistance for selected LDCs will have to continue on a substantial scale, at least over the near term. This assistance concentrates on countries that have a large deficit and are of political and strategic importance to the United States. Examples17/ include El Salvador,

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17/ This list is not intended to be comprehensive.

Honduras, Costa Rica, Jamaica, the Dominican Republic, Israel, Egypt, Sudan, and the Philippines. Whenever feasible, balance-of-payments assistance will encourage and support appropriate host government actions to stabilize the economy and promote growth by liberalizing the economy and strengthening the incentives of the private sector. Food aid must continue to flow to the drought-stricken areas of Africa, and measures must be taken to help them cope with their long-term food problem.

At the same time, the long-term resource constraints in the developing countries must be addressed, particularly in the low-income LDCs, with emphasis on health and education, family planning, agricultural production, unemployment, energy and exports, and on the removal of policy and institutional obstacles to the efficient utilization of resources. Not all of these areas are priority areas in the U.S. assistance program. The United States will concentrate on health (and family planning), agricultural production, export development of non-traditional products and the development of an appropriate policy and institutional framework for private sector activity.

CHAPTER IV
U.S. Assistance Programs and Policies to Promote Economic Development and Stability

1. Background

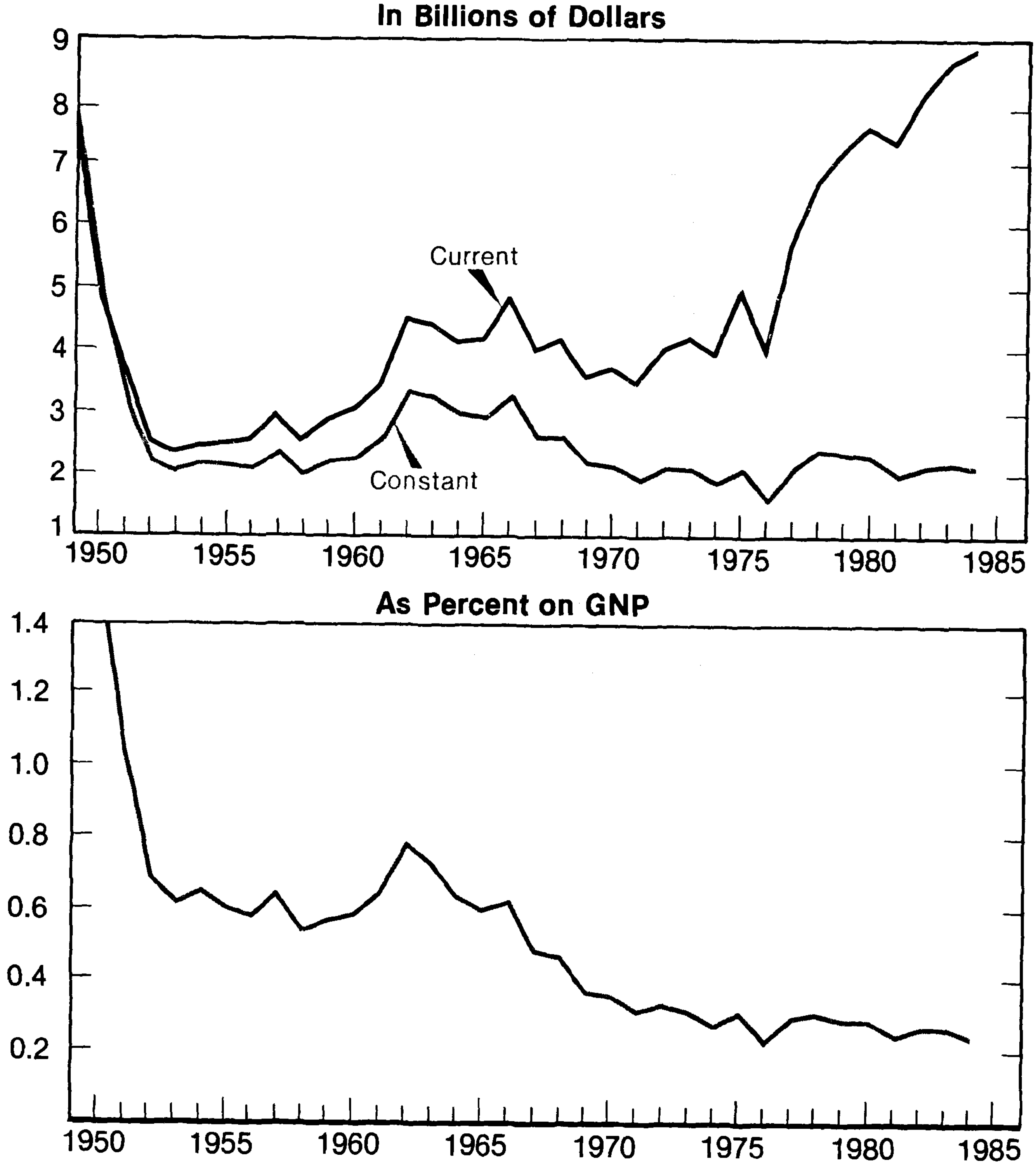
Large scale official U.S. assistance to the developing countries began in the aftermath of World War II. The initial emphasis was on reconstruction in Europe and the Far East. It soon became clear, however, that the United States, as the wealthiest country and leader of the free world, could not remain indifferent to the plight of the developing countries. Although many other countries have subsequently joined the ranks of aid donors, the United States remains by far the largest contributor of economic assistance to the developing countries. Cumulatively, between 1946 and 1984, the U.S. economic assistance program has totalled $174.1 billion. Net of repayments and interest, the figure amounts to $145.3 billion.

Over time, the annual appropriations for economic assistance have increased substantially in current dollars, although not in constant dollar terms1/. In 1984, the total net flow of U.S. Official Development Assistance (ODA) to developing countries and multilateral agencies totalled $8.7 billion in current dollars, while the contribution of the second largest DAC2/ donor, Japan, was $4.3 billion. Net contributions (in 1984) of the third and fourth largest contributors, France and Germany, were $3.8 billion and $2.8 billion, respectively (Table X).

1/ In constant dollars, total U.S. economic assistance fluctuated around the $2.0 billion per year figure between 1954 and 1984 There was, however, a prolonged upswing between 1958 and 1962 that raised ODA flows to about the $3.0 billion level. Then, between 1966 and 1976 there was a gradual decline that lowered annual flows to approximately $1.5 billion in the latter year. The $2.0 billion figure was reached again in 1978 and has remained at about that level since that time (see Chart VIII).

2/ The Development Assistance Committee, or DAC, consists of 18 developed Western countries and the Commission of the European Economic Communities.

Chart VIII
U.S. Economic Assistance 1949-84



SOURCE: A.I.D., U.S. Overseas Loans and Grants and Assistance from International Organizations. Price deflator and GNP figures from The Economic Report of the President, 1985.

TABLE X

Net Disbursements of Official Development Assistance by Individual DAC Countries, 1978-1984

$ million

DAC Countries	1978	1979	1980	1981	1982	1983	1984
Australia	587.52	628.68	667.37	649.53	882.44	753.38	776.81
Austria	154.14	131.38	177.86	219.82	235.53	157.62	181.30
Belgium	536.09	642.75	594.85	574.59	499.21	480.22	432.70
Canada	1,059.91	1,055.73	1,075.11	1,188.62	1,196.67	1,429.43	1,624.89
Denmark	387.62	460.68	480.60	403.30	414.95	394.98	448.77
Finland	54.76	89.85	110.54	134.71	144.48	153.29	177.77
France	2,705.33	3,448.97	4,161.65	4,177.04	4,033.82	3,814.86	3,788.31
Germany	2,347.43	3,392.94	3,566.54	3,181.21	3,151.63	3,176.40	2,782.01
Italy	376.47	272.99	68.328	665.54	810.75	833.68	1,132.83
Japan	2,215.36	2,685.02	3,353.04	3,170.90	3,023.33	3,760.99	4,318.74
Netherlands	1,073.54	1,472.49	1,630.42	1,509.97	1,471.84	1,195.30	1,267.84
New Zealand	54.91	68.18	72.28	67.71	65.18	61.23	54.70
Norway	354.67	429.38	485.88	467.44	559.35	583.57	542.83
Sweden	782.62	987.58	962.34	919.45	986.95	753.75	741.20
Switzerland	173.37	212.63	252.62	236.95	252.16	319.92	285.51
United Kingdom	1,465.29	2,156.67	1,854.15	2,191.58	1,800.23	1,610.15	1,418.34
United States	5,663.50	4,684.00	7,138.00	5,782.00	8,202.00	8,081.00	8,711.00
Total	19,992.53	22,819.92	27,266.53	25,540.36	27,730.52	27,559.77	28,685.55

Percentage of GNP

DAC Countries	1978	1979	1980	1981	1982	1983	1984
Australia	0.55	0.53	0.48	0.41	0.56	0.49	0.46
Austria	0.27	0.19	0.23	0.33	0.36	0.24	0.28
Belgium	0.55	0.58	0.50	0.59	0.58	0.59	0.56
Canada	0.52	0.48	0.43	0.43	0.41	0.45	0.50
Denmark	0.70	0.71	0.74	0.73	0.77	0.73	0.85
Finland	0.16	0.21	0.22	0.27	0.29	0.32	0.36
France	0.57	0.60	0.63	0.73	0.74	0.74	0.77
Germany	0.37	0.45	0.44	0.47	0.48	0.48	0.45
Italy	0.14	0.08	0.17	0.19	0.23	0.24	0.33
Japan	0.23	0.27	0.32	0.28	0.28	0.32	0.35
Netherlands	0.78	0.94	.97	1.07	1.07	.91	1.02
New Zealand	0.34	0.34	0.33	0.29	0.28	0.28	0.25
Norway	0.90	0.95	0.87	0.85	1.03	1.10	1.02
Sweden	0.86	0.92	0.78	0.83	1.02	0.84	0.80
Switzerland	0.20	0.21	0.24	0.24	0.25	0.31	0.30
United Kingdom	0.46	0.51	0.35	0.43	0.37	0.35	0.33
United States	0.26	0.19	0.27	0.19	0.27	0.24	0.24
Total	0.35	0.35	0.37	0.35	0.38	0.36	0.36

Source: OECD, DAC Chairman's Report, Statistical Annex 1985, Table 26

The ranking is different if one calculates Official Development Assistance as a percentage of GNP, which provides a very rough approximation of ability to contribute. For the United States, the ratio is 0.24% in 1984, which compares with 0.35% for Japan, 0.45% for Germany and 1.02% for Norway and the Netherlands (see Table X).

The bulk of U.S. economic assistance moves through bilateral channels. In CY 1984, gross disbursements of bilateral assistance (ODA) amounted to $7.2 billion (Table XI), or 76% of total U.S. gross official development assistance. In current dollars, U.S. bilateral assistance has increased significantly in recent years, from $4.7 billion in 1979 to $7.1 billion in 1984 (Table XI). The component that increased most significantly during this period is the Economic Support Fund. Over fiscal years 1979-85, ESF obligations grew from $1.9 billion to $4.2 billion (Table XII).

The United States is also the major contributor to the resources of the multilateral agencies (International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), United Nations (UN) agencies and regional development banks), although the aggregate annual U.S. contribution to these agencies has not increased in recent years. In 1984, the U.S. contribution to the multilateral agencies totaled $2.3 billion in net disbursements, which compares with $1.9 billion from the second largest donor, Japan, and $914 million from the third, Germany (Table XIII). The United States provided 25% of the total from all DAC donor countries.

There have been pronounced shifts in the geographic distribution of U.S. ODA through time. In the period 1946-1950, ODA was heavily concentrated upon the Western European countries. Between 1951 and 1975, the emphasis shifted to the Far East and Latin America. During the second half of the 1970's a further shift toward the Near East occurred. The main features since 1979 appear in Table XII.

Note that:

-- ODA is now heavily concentrated on the Middle East. Israel and Egypt alone usually account for between 35 and 40% of total net bilateral ODA from the United States. They each have on average received about five times as much U.S. ODA as the third largest recipient. Altogether, an average of 41.4% of total U.S. bilateral ODA was disbursed to this region in 1983 and 1984.

TABLE XI

U.S. Official Disbursements 1978-84,
With Breakdown into Bilateral and Multilateral Assistance
(millions of dollars)

Program	Calendar Year Disbursements 1979	1980	1981	1982	1983	1984
Official Development Assistance: Gross	5,343	7,793	6,487	8,891	*8,705	9,408
Bilateral	4,733	5,019	5,019	5,546	*6,183	7,149
Foreign Assistance Act, including Social Progress Trust Fund	3,156	3,403	3,389	4,109	4,571	5,295
Agricultural Trade Development and Assistance Act.	1,287	1,292	1,273	1,124	1,261	1,443
Long-term credit sales	710	665	656	603	660	729
Grants (including grant-like transactions)	577	627	617	520	601	714
Peace Corps	95	98	102	101	116	110
Other, including multiple rescheduling+	195	226	255	212	*235	302
Multilateral	610	2,774	1,468	3,345	2,522	2,259
Capital subscription payments	60	1,844	634	2,473	1,650	1,304
African Development Bank	—	—	—	—	18	18
African Development Fund	25	25	42	58	100	50
Asian Development Bank:						
Ordinary capital	8	15	25	5	13	13
Asian Development Fund	—	222	3	238	110	100
Inter-American Development Bank:						
Interregional capital	—	96	—	109	40	38
Fund for special operations	—	375	—	376	99	75
International Bank for Reconstruction and Development	2	16	33	273	80	110
International Development Association	—	1,072	520	1,400	1,190	900
International Finance Corporation	26	22	11	14	—	—
Foreign Assistance Act	238	381	388	343	364	396
Agricultural Trade Development and Assistance Act.	97	180	190	157	*158	177
Other	215	368	256	371	351	382
Other Official Flows: Gross	2,680	3,160	3,043	3,619	2,714	3,194
Export-Import Bank	1,769	2,302	2,400	1,892	1,858	1,464
Commodity Credit Corporation	552	150	18	—	221	159
Other, including multiple rescheduling	359	708	626	1,726	635	1,571
Total Official Assistance: Gross	8,022	10,953	9,530	12,510	*11,419	12,602

** Revised from presentation in 1984 submission.
+ Includes donations under section 416 of Agricultural Act of 1949, as amended in 1982, and grant-like transactions under the Commodity Credit Corporation Charter Act.

Source: AID, U.S. Annual Review, Memorandum to the Development Assistance Committee, 1984 (Table A)

TABLE XII

U.S. Economic Assistance
Obligations by Major Program
Fiscal Years 1979 - 1986
(million $US)

Development Assistance (Functional Accounts Plus Sahel)

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	248.3	397.8	246.5	42.6	257.1	1,192.3
1980	268.0	392.3	257.0	34.3	256.3	1,207.9
1981	300.3	397.2	233.3	61.2	282.0	1,274.0
1982	328.8	400.3	280.8	39.4	346.7	1,396.0
1983	315.3	392.2	328.9	43.7	361.2	1,441.3
1984	340.0	392.0	295.3	51.8	400.8	1,480.3
1985	353.2	442.1	507.4	58.6	485.0	1,846.3
1986	357.8	391.0	460.9	52.2	414.1	1,675.9
	Africa	Asia/NE	LAC		CFP	TOTAL
1987	394.5	454.9	542.0		440.7	1,832.2

PL 480 Title I

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	82.7	273.4	72.5	312.8	43.6	785.0
1980	140.0	280.7	93.6	352.8	0.0	867.1
1981	147.4	195.2	82.2	368.6	0.0	793.4
1982	124.0	149.0	126.6	320.0	73.0	792.6
1983	144.1	167.5	193.4	290.5	54.0	849.5
1984	127.0	183.0	180.5	313.0	47.0	850.5
1985	184.5	209.5	228.5	285.0	198.5	1,106.0
1986	162.5	211.0	216.0	260.5	180.0	1,030.0
	Africa	Asia/NE	LAC		CFP	TOTAL
1987	177.0	500.0	242.3		237.7	1,157.0

Economic Support Fund

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	53.0	0.0	8.0	1,881.3	0.2	1,942.5
1980	132.7	22.0	15.2	1,988.2	0.1	2,158.2
1981	163.0	32.0	143.4	1,860.0	0.9	2,199.3
1982	294.8	155.0	328.9	1,991.1	0.5	2,770.3
1983	286.1	255.8	500.4	1,929.1	0.1	2,971.5
1984	333.1	280.0	464.1	2,063.7	5.2	3,146.2
1985	424.5	345.0	967.0	2,469.2	7.0	4,212.8
1986	461.5	351.0	833.0	1,177.0	1.5	2,824.0
	Africa	Asia/NE	LAC		CFP	Total
1987	463.0	2,751.5	977.3		3.0	4,194.8

PL 480 Title II

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	87.1	192.8	63.3	56.2	149.8	549.2
1980	153.3	256.3	58.9	40.3	209.3	718.1
1981	174.7	289.0	90.7	56.2	0.0	610.6
1982	84.6	239.4	59.8	84.4	155.8	624.0
1983	95.2	215.2	76.2	57.9	155.0	599.5
1984	144.3	158.8	59.9	47.1	329.9	740.0
1985	203.9	127.8	38.3	37.1	392.8	800.0
1986	62.4	129.3	41.3	16.0	401.0	650.0
	Africa	Asia/NE	LAC		CFP	Total
1987	69.8	135.8	47.6		431.9	685.0

Note: Figures through FY 1984 are actual obligations, while those for FY 1985 are AID's estimate as of February 7, 1985 and those for FY 1986 and 1987 are budget requests.

TABLE XIII

ODA FROM DAC COUNTRIES TO MULTILATERAL AGENCIES, 1984

Nets Disbursements

$ million

DAC countries	IBRD & affiliated institutions			IDB			Asian development bank			African develop-ment Fund[b]	EEC			UN agencies	Other	Total
	IBRD[a]	IDA	Total	Ordinary capital	Special fund	Total	Ordinary capital	Special fund	Total		EDF	Other	Total			
Australia	–	0.1	0.1	–	–	–	5.2	46.7	51.9	–	–	–	–	100.2	16.6	168.8
Austria	–	17.2	17.2	0.7	–	0.7	6.6	–	6.6	8.8	–	–	–	16.0	–5.2	44.1
Belgium	17.0	33.1	50.1	3.2	–	3.2	–	10.4	10.4	13.3	33.6	36.2	69.8	20.8	5.9	173.5
Canada	39.6	149.8	189.4	7.5	9.2	16.7	5.0	66.1	71.1	35.1	–	–	–	231.0	42.9	586.2
Denmark	–	56.9	56.9	–	–	–	0.2	5.5	5.7	10.3	14.2	18.7	32.9	111.3	9.0	226.1
Finland	3.1	14.9	18.0	0.8	–	0.8	0.1	4.4	4.5	4.7	–	–	–	40.0	1.8	69.8
France	50.1	101.9	152.0	2.2	6.4	8.6	1.7	29.6	31.3	16.6	145.3	181.8	327.1	71.3	11.4	618.3
Germany	–	231.9	231.9	1.1	7.0	8.1	3.0	47.1	50.1	42.6	160.7	259.4	420.1	134.1	27.1	914.0
Italy	–	73.0	73.0	12.9	–	12.9	2.0	48.6	50.6	78.1	65.0	130.1	195.1	87.2	11.1	508.0
Japan	72.7	1 117.6	1 190.3	4.3	–	4.3	317.3	–	317.3	104.2	–	–	–	238.6	36.6	1 891.3
Netherlands	40.5	73.2	113.7	–	–	–	–	31.3	31.3	20.0	42.0	62.7	104.7	107.3	12.2	389.2
New Zealand	2.8	–	2.8	–	–	–	1.2	1.8	3.0	–	–	–	–	3.5	1.6	10.9
Norway	3.9	45.0	48.9	–	–	–	0.4	4.6	5.0	11.2	–	–	–	133.7	37.2	236.0
Sweden	–	53.1	53.1	–	–	–	0.1	7.6	7.7	14.9	–	–	–	135.8	3.8	215.3
Switzerland	–	–	–	0.3	1.4	1.7	–	8.5	8.5	16.3	–	–	–	40.2	0.4	67.1
United Kingdom	52.4	140.5	192.9	0.1	5.3	5.4	1.6	24.0	25.6	13.7	101.4	200.1	301.5	81.7	25.3	646.1
United States	110.0	900.0	1 010.0	38.0	75.0	113.0	13.0	100.0	113.0	68.0	–	–	–	744.0	206.0	2 254.0
Total DAC countries	392.1	3 008.2	3 400.3	71.1	104.3	175.4	357.4	436.2	793.6	457.8	562.2	889.0	1 451.2	2 296.7	443.7	9 018.7

a/ Including IFC.
b/ Including contributions to the African Development Bank.

Source: OECD, DAC Chairman's Report, Statistical Annex, 1985, Table 2

-- Aid to Latin America, and more particularly to the Central American and Caribbean regions, has increased rapidly. This region ranks second, with 17.7% of total bilateral ODA.

-- ODA to Sub-Saharan Africa now averages about 13.5% of the U.S. total.

-- Aid to the Indian subcontinent and to the rest of Asia is more modest in scope, accounting for 10.5% of the total.

In sum: While the United States is the largest donor by far to the LDCs and the multilateral agencies in terms of absolute dollar levels, the ratio of our economic assistance to our GNP is relatively low. We have increased sharply our ESF economic assistance since 1979, mostly for balance of payments support. Nearly one half of U.S. ODA is now disbursed in the Middle East. Latin America is the second largest recipient, with about 18%, followed by Africa and Asia, respectively.

2. Objectives of U.S. Policy

A basic U.S. objective is to preserve the independence and promote the political evolution of free and open societies, and to support arrangements that facilitate the peaceful resolution of conflicts. Peace and security are also major U.S. policy objectives and economic assistance is one of the USG's most important instruments for achieving them. To this end, the U.S. has provided a growing amount of assistance in recent years to countries of political and strategic importance to the United States.3/ A second major objective, closely related to the first, is the promotion of broadly based, self-sustaining economic growth in the developing world. United States ODA will also assist the LDCs in creating the necessary conditions to ensure that growth is both self-sustaining and aimed at ensuring the participation of a broad segment of society, particularly the poor. For this reason, A.I.D.'s development assistance has given, and will continue to give, special attention to the agricultural sector, particularly food production, and to the improvement of health and nutrition.

3/ E.g., Israel, Egypt, Jordan, Pakistan, Sudan, Somalia, the Philippines, Honduras, El Salvador, Costa Rica, and Jamaica.

A third major objective is to help alleviate the suffering of victims of famine and other natural disasters through the provision of humanitarian assistance. A case in point is the large-scale U.S. assistance to the countries of the Sahel, including Ethiopia, since the outbreak of the recent drought and famine there. Humanitarian concerns have significantly affected the distribution of aid allocations: more than half of total U.S. economic assistance goes to countries with an annual per capita GNP of less than $800.

Finally, in this world of increasing economic interdependence, the United States has important economic interests at stake in its relations with many of the LDCs, including imports of vital minerals, oil, and various agricultural products (rubber, coffee, bananas). The magnitude and rapid growth of the LDC market for U.S. exports, as well as the importance of the LDCs as recipients of U.S. direct investment and commercial bank loans has already been noted in Chapter II.

3. Strategy of the Assistance Program

Five basic elements are emphasized in the U.S. economic assistance strategy: economic policy reform; institutional development; reliance on the private sector and market forces; technology research, development and transfer; and donor coordination. Needless to say, some elements do not apply in every LDC situation. The priorities assigned to the various components of these strategies will differ, depending upon the problems and characteristics of each country.

a. <u>Economic Policy Reform</u>

The ability of economic assistance programs to achieve their goals depends in large measure on the soundness of economic policies in recipient countries. U.S. programs are designed to support the economic policies of LDC governments when they develop a favorable environment for private sector activity and allow market forces to determine the allocation and utilization of economic resources, including decisions regarding savings and investment. In addition, the strategy of U.S. assistance also seeks to maximize LDC self help efforts. Domestic savings and investment rates should be raised. The efficiency and productivity of investment must be increased. Inefficient state and parastatal enterprises should either be closed or made to operate in such a manner that competitive rates of return are forthcoming. Consistent with the preceding, and in the absence of overwhelming foreign policy or security considerations to the contrary, the process of relating U.S. economic assistance directly to LDC performance in accomplishing the above objectives is increasingly becoming a cornerstone of U.S. development assistance strategy. Finally,the unusual severity of the recent international economic downturn has left the great majority of LDC's in such a debilitated state that any sound development strategy also requires that U.S. assistance address economic and financial stabilization problems as well. Without at least a modicum of financial and fiscal stability and proximate balance of payments equilibrium, sustained economic development will not occur.

b. Institutional Development

The growth of viable institutions, both private and public, is essential to the success of any development effort. Managerial problems, lack of adequate budget support and a distorted price/cost structure often impede their progress. Experience in many countries has shown that where significant institutional development has not occurred, the necessary services could not be provided in a sustained way and productivity has remained low. For example, raising agricultural production hinges on the establishment of a series of institutions ranging from those involved in technological development of new seed varieties or more effective fertilizer, to those providing training, extension, credit, and crop insurance. Currently, insufficient development of such institutions represents a serious bottleneck to increasing production, especially with respect to African agriculture. A.I.D. has an important tradition of helping to create and strengthen institutional capacity.

Institution building activities include training to upgrade technical and managerial skills, and technical assistance to establish or refine organizational objectives and structures, to streamline staffing procedures and to build appropriate incentives. Provision must be made to assure continuing funding of recurrent costs.

It is important to note that this emphasis places significant demands on both donor and recipient countries. Recipients must ensure that the institutions, once established with outside assistance, eventually become self-sustaining, and that the institutions themselves reach the broadest possible number of individuals and groups. On the donor side, emphasis on institution building entails a long-term commitment of support.

c. Increased Reliance on the Private Sector and Market Forces

Development experience over the last two decades shows that the developing countries which have made the greatest strides toward self-sustaining growth have been the ones that have relied on a free market structure and export-oriented growth. Examples include Taiwan, the Republic of Korea, Singapore, Hong Kong, Malaysia, and Thailand. Growth in all of these countries has been closely associated with a reduction in the level of absolute poverty.

We emphasize the unique contribution that the private sector can make to development and urge minimal government interference with the free competitive economy. In a well functioning market economy, resources are allocated among alternative goods and services in accordance with consumer demand; prices yielding abnormally high profit margins will not persist for long if new firms are able to enter the industry. The chronic shortages and persistent losses generally found in countries where price ceilings and exchange controls prevail will be avoided in an open, competitive economy. Accordingly, the United States will continue to encourage policy reforms that foster a free and open climate for trade and private financial flows, and that expand the LDC's internal markets.

d. Technology Research, Development and Transfer

Developed countries, and particularly the United States, possess the institutional and human resources to generate major technological breakthroughs that are critical to increasing productivity and output. Developing countries should build an indigenous capacity designed to adapt modern technology to their specific requirements, since few technological breakthroughs in the developed world can be readily adopted and applied unchanged to vastly different LDC needs and conditions. The technologies of the developed world are frequently too large-scale, too capital intensive, and too costly to apply to developing countries without modification. In agriculture, in particular, variations in soils, rainfall and temperature, as well as differences in the availability of the factors of production, generally require substantial additional experimentation and adaptation. Thus, there is a need for the development of technologies appropriate to developing countries, with emphasis on techniques involving a more intensive use of labor while economizing on the use of capital and, in many cases, of land as well.

The U.S. development assistance effort has aimed at strengthening the technological capabilities of developing countries and at encouraging the transfer and diffusion of technology. Transferring, adapting and disseminating technologies in the agricultural and agribusiness fields will continue to account for a substantial share of development assistance resources. The farm system approach to agricultural assistance emphasizes the links between laboratory research, farm level research, agricultural education, and the public extension system linking the farmer to the experiment station.

e. Donor Coordination

Duplication, overlap and competition among donors simply must be avoided. The United States places major emphasis on donor coordination to enhance the efficiency, effectiveness and impact of development assistance. The United States has taken the lead among donor countries to increase awareness of the need for improved coordination, to work with donors to achieve consensus on improvements, and to strengthen existing coordinating mechanisms or devise and implement new ones to bring this about. Recent achievements include:

-- Developing a consensus among Development Assistance Commitee (DAC) members on coordination guidelines, which were issued by the DAC in November 1983;

-- Increasing contacts among major donors at the headquarters level and in the field to share information and coordinate their respective assistance programs;

-- Obtaining agreement from the IBRD to make improvements in the World Bank-led Consultative Group (CG) mechanism, i.e. expanding the number of CGs, increasing coordination of policy advice, strengthening program monitoring, and improving the use of the CG mechanism as a vehicle for strengthening the process of coordination of assistance programs;

-- The development of a plan by the UNDP, at the urging of the United States and other donors, to strengthen the UNDP-led roundtable coordinating mechanism, which is used in a growing number of countries that do not have an IBRD-led Consultative Group; and

-- Improving local, in-country coordination through greater participation by donors' field staffs and host country governments.

4. Priority Sectors for Development

The U.S. economic assistance program places major emphasis on five sectors: agriculture and nutrition improvement, human resource development, family planning, reduction of unemployment and promotion of changes in the policy and institutional framework.

a. Agriculture and Nutrition

A country which is severely constrained in its food availability cannot expect to mobilize its most important development resource -- its human population. A clear indication of the economic debility that can result from inadequate food and nutrition is the effect of the 1984-85 famine in Ethiopia. The famined caused the death of perhaps a half a million Ethiopian people and physical and mental impairment to millions of Ethiopian children for the rest of their lives. Unfortunately, the Ethiopian example dramatizes the vulnerability of many African countries, particularly in the Sahel, as well as that in several densely populated countries in Southeast Asia. The need for increased efforts in agricultural development, particularly food production, cannot be overstated.

The experience of the last thirty years has shown that carefully planned and administered economic assistance can, when combined with major self-help efforts, establish a dynamic, self-sustaining food and agricultural system. U.S. assistance in the form of scientific and management expertise, food and financial aid, has made critical contributions to the creation of such systems in South Korea and Taiwan.

The United States will continue to make good use of its technical competence in identifying and solving problems in food and agriculture. A.I.D. and other elements of the U.S. Government, including the Department of Agriculture, as well as university and private sector organizations are prepared to make a long-term commitment to help LDCs determined to alleviate their food producing problems to undertake the required policy reforms and resource investments. In recognition of the crucial importance of food production, A.I.D. resources provided for this sector comprise a major portion of development assistance. In FY 1986, $792.4 million out of a total "Functional Development Assistance" program of $1.678 million (or 47% of the total) was programmed to be obligated for "agriculture, rural development and nutrition." For FY 1987 $710 million has been requested for this category.

b. Human Resource Development

The area of human resource development, defined as health and education combined, constitutes the second largest category of A.I.D. bilateral expenditures under the Development Assistance Program. The amount for these two categories was $431 million in FY 1985 and $330 million in FY 1986. The amount projected for FY 1987 also is $330 million, equal to 20.3% of the Functional Development Assistance Program. The high mortality and illiteracy rates prevailing in many LDCs, particularly in Africa and the Middle East, and their deleterious effects on both the quality of life and productivity, were emphasized in Chapter III. U.S. assistance emphasizes activities that benefit the largest possible cross section of the population, rather than sophisticated and costly services provided to a small urban minority. In education, the emphasis is on improving the efficiency and institutional effectiveness of the basic (primary) school systems. In health, the emphasis is on preventive health and sanitation measures (clean drinking water, malaria control, etc.), and primary health care outreach programs (e.g., oral rehydration and rural clinics staffed by paramedics) that have a massive impact and raise social development levels within a much larger proportion of the population owing to their relatively low per capita cost. Major emphasis is on programs designed to reduce infant and child mortality (the "child survival" program) through oral rehydration, immunizations against infectious diseases, and malaria control. For FY 1986, $146 million was requested for health and $184 million for education. For FY 1987 the amounts requested for these two categories are $151 million and $180 million, respectively.

c. Family Planning

The United States provides family assistance to governments that request it. The U.S.G. insists that all programs funded be voluntary, and will not support abortion as a method of family planning. The rationale for the program was presented in Chapter III, Section 2. The amount requested for population planning under the Reagan Administration has increased by about 30% in current prices since 1980. The amount programmed for FY 1986 was $250 million; the same figure has been proposed for FY 1987.

d. Reduction of Unemployment

In the LDCs, the problems of unemployment, underemployment and low productivity are closely interrelated and must be attacked together. Open unemployment in the manufacturing sector, as manifested in the urban areas of developed countries, is not nearly as prevalent as underemployment combined with low labor productivity. A massive direct attack on the employment problem financed by public expenditures -- say through a major public works or low-income housing program -- would make little sense. A.I.D. is active in several areas that have a favorable impact on both employment generation and labor productivity. Such programs include rural credit, assistance to agricultural research and extension services, programs in reforestation, irrigation (development and maintenance), development of cottage industries and of agricultural processing facilities, loans to promote the development or expansion of small manufacturing enterprises (especially those with export potential) and training in both basic literacy and job related skills. An area of particular importance is the removal of fundamental obstacles to job creation and investment activity in the private sector, and the development of policies and institutions that are viewed as encouraging by the private sector. The United States is also active in providing high-level technical expertise to assist LDC governments in this crucial area.

e. Economic Stabilization

The provision of fast-disbursing balance of payments assistance under our Economic Support Fund (ESF) program has assumed significant proportions in recent years (Cf. Section 5 of this chapter). While not all ESF funding is devoted to non project assistance in the form of balance of payments support or Commodity Import Programs (CIP), about 70% is. The lion's share of U.S. supplied balance of payments and CIP assistance has gone to countries of strategic or political interest to the United States, including Israel, Egypt, Turkey, Sudan, Pakistan, the Philippines, El Salvador, Honduras, and Costa Rica. The economic crisis that the LDCs have gone through in recent years has greatly aggravated their chronic unemployment problem, causing a major threat to their political stability. The balance of payments and CIP assistance provided by the United States has increased the ability of these countries to import raw materials and capital goods essential to the conduct of normal economic activity by the agricultural and industrial sectors. Given the extreme shortage of foreign exchange in these countries, there can be no doubt that the decline in real GNP and the increase in unemployment that they have experienced would have been much more severe without substantial U.S. balance of payments and CIP assistance.

5. Major Instrumentalities of the Bilateral Assistance Program

U.S. bilateral development efforts encompass the following distinct programs:

a. Development Assistance Fund (DA)

Development Assistance is administered by the Agency for International Development. This fund represents the basic mode of assistance of the A.I.D. program as governed by the development framework contained in the Foreign Assistance Act. Most DA funding is directed at specific developmental projects. The Development Assistance Program reflects the Congressional Mandate to seek the broadening of economic opportunities by focusing on sectors that most directly promote broad-based economic growth, i.e., provide benefits for and ensure the participation of the poor majority of the population. The programs are concentrated in countries where U.S. assistance is most needed, where there is a clear commitment to broadly-based growth and where the United States has a strong long-term interest in development. Data on trends in development assistance, broken down by major regions, show that total functional development assistance (including the Sahel program) increased little over 1979-85 -- from $1,192 million to $1,846 million (in current dollars), which translates into an increase of only 8%, or 1.3% annually in real terms. The increase occurred mostly in the African and Latin American regions and in the Agency's centrally funded programs. A total of $1676 million has been programmed for Development Assistance in FY 1986 (Functional Accounts plus the Sahel program), while $1627 million is requested for FY 1987.

b. Economic Support Fund (ESF)

The ESF is an integral part of the United States' security assistance program. Its main purpose is to promote economic and political stability in areas where the United States has special security interests and has determined that economic assistance is essential to assist the host government to secure peace or avert major economic or political upheavals.

As in the case of Development Assistance, the Administration attempts to direct ESF funds to the neediest people, in accordance with the Congressional Mandate, to the extent consistent with the other objectives of the program. However, since ESF funds are closely tied to the political and security interests of the United States, their allocation is determined primarily by the Department of State. There is considerably more flexibility in allocating ESF funds among countries than in the case of DA financing. On a worldwide basis (there is substantial variation from country to country), about 70% of ESF funding has been used to provide fast-disbursing economic assistance for balance of payments, budget support, and Commodity Import Programs (CIPs). The balance of about 30% has been project-type assistance.

The trend in ESF assistance since 1979 is also shown in Table XII. Note that total obligations for ESF assistance increased from $1,942 million in FY 1979 to $5,427 million (in current dollars) in FY 1985, or at an average annual rate of 18.7% over this six year period. Total estimated ESF obligations for FY 1986 are $4,829 million, while $4,094 million has been requested for FY 1987 (Table XII).

Over the period 1979-84, substantial increases in ESF assistance were directed to all geographic regions (Table XII). Major causes for the rapid expansion in the ESF program include, first, acute balance of payments and debt servicing problems that have affected almost all LDCs; second, the heightened security problems confronting the Central American countries and Pakistan; and third, compensation for access rights for the Rapid Deployment Force in the event of a military emergency (e.g., facilities in the countries on the Horn of Africa) and for base rights (e.g., the Philippines). Between FY 1979 and FY 1986, ESF financing has increased substantially - from $53 million to $461.5 million for Africa, from zero to $351 million for Asia, and from $8 million to $833 million for the Latin American/Caribbean region (Table XII).

c. Food for Peace (PL 480)

Under Public Law 480 (PL 480), the United States provides food aid to many countries to combat hunger and malnutrition. In FY 1985 the U.S. provided approximately 2.7 million metric tons of food aid commodities worth approximately $563.9 million under the program to help alleviate human suffering in Africa caused by the severe drought. The program is also designed to encourage self-help, economic development, support of U.S. foreign policy goals, and expansion of U.S. agricultural exports. The Department of Agriculture and A.I.D. share primary responsibility for administering the program which is divided into three parts, as follows:

- Title I provides long-term, low interest loans to friendly developing countries to help them meet chronic or unexpected food shortages, on condition that the countries themselves undertake self-help measures to improve the efficiency of production, marketing and distribution of foodstuffs. Title I food is generally sold for local currencies to end-users by the recipient governments, and loans must be repaid in dollars over a period of 20 to 40 years, depending on the country's repayment capacity.

- Title II provides donations of food to U.S. voluntary agencies, or directly to host governments, to sponsor feeding programs targeted at the needy, particularly malnourished children, and small-scale "food-for-work" development programs. The program also covers food aid mergencies and refugee feeding programs. The food normally is not sold by the recipient; no repayment to the United States is required.

- Title III, the Food for Development Program, provides multi-year commitments of food aid under Title I appropriations. The program allows the host governments to sell the foodstuffs for local currencies; a repayment of dollar funds to the United States can be waived if the recipient country and the U.S. Government agree that the local currencies generated by the sale of Title I PL 480 commodities are to be used for mutually agreed rural development activities. The waiver is almost always conditioned on modification of host government agricultural policies, when such changes are believed necessary. After agreement has been reached, the local currencies generated by the sale of the commodities can be credited as repayments of the U.S. loan.

Amounts allocated to the various titles of PL 480 programs are shown in Table XII. Note that annual funding allocations have ranged from $785 million to $1,120 million for Title I and $549 to $1,001 million for Title II. For FY 1987 $1,157 million is being requested for Title I (and III) and $685 million for Title II.

d. <u>Housing Investment Guarantee Program (HIG)</u>

This program is A.I.D.'s principal mechanism for assisting developing countries address their enormous shortages of adequate shelter for lower income people. Shelter programs make an important contribution to the improvement in the quality of life of poor families and support a nation's economic growth and employment objectives. Housing Guaranty (HG) loans can also play a crucial role in helping LDC's to establish a sound policy, legal and regulatory framework for their shelter programs. HG loans demonstrate to local entrepreneurs and institutions that low-cost housing can be financially viable, with the appropriate financial and institutional arrangements, i.e., housing which poor families can afford and the private sector can provide. The HG program finances the range of infrastructure and services which usually cannot be provided by the families themselves or by the private sector, including slum and squatter settlement upgrading, site preparation, provision of services, core housing, and community facilities.

Project technical assistance and training funds in 1987 are being used for strengthening urban analysis capabilities which will ultimately provide the framework for more effective urban programs.

e. International Disaster Assistance

Since 1964, A.I.D. has administered the foreign disaster assistance program and has provided relief to the victims of over 800 disasters which have affected 800 million people. Thirty-eight new disasters were declared in FY 1985. Due to the Africa drought emergency, $137.5 million were appropriated in supplemental funds in addition to the $25 million annual appropriation to meet disaster needs. The famine in Africa, cyclones in Bangladesh, the Philippines and Fiji, volcanic activity in Papua New Guinea, the Philippines and Colombia and the devastating earthquakes in Chile and Mexico, brought new attention to the need for preparedness, early warning and mitigation assistance.

f. American Schools and Hospitals Abroad (ASHA)

The ASHA program, also administered by A.I.D., assists private, non-profit, American-sponsored schools and hospitals overseas which serve citizens of other countries and demonstrate American ideas and practices in education and medicine. ASHA assistance increases the capacity of these institutions to transfer American technical ability and educate a cadre of citizens who can communicate, share values and work with Americans in business, government, the sciences and other mutually beneficial endeavors. ASHA grants help selected institutions to build and renovate facilities, to purchase equipment and, in a few cases, to meet operating costs of educational and medical programs. In FY 1985, 40 institutions received grants totaling $30 million. Since FY 1981, 69 institutions have been assisted. These institutions annually train more than 135,000 persons from 104 countries and provide medical services to more than 3.5 million persons.

6. Associated Financing Policies and Practices

Aid has two Associated Financing (AF) programs: a program designed to match financial offers made by foreign competitors of U.S. exporters, and a program that provides concessional and non-concessional finance to LDC intermediate credit institutions. Both of these programs are consistent with the DAC Associated Financing Guidelines.

A. AID Tied-Aid Credit Programs

1. The Trade Financing Facility For Egypt (TFF) was created in 1981 and under special circumstances draws from the U.S. Commodity Import Program for Egypt. Its purpose is to match mixed credits offered by foreign competitors of U.S. exporters. Under the TFF, AID grants can be combined with export credits provided by the U.S. Export Import Bank and/or with private funds.

2. The AID Tied-Aid Credit Program was established under the provisions of the Trade and Development Enhancement Act of 1983. The program is used for defensive purposes, when a U.S. firm is the low responsive bidder and stands to lose a contract because of predatory financing offered in support of a foreign competitor.

B. Program for Venture Capital

Since late 1981, when AID's Bureau of Private Enterprise was established, AID has been running a program to fund venture capital or intermediate credit facilities in developing countries. For this purpose, AID extends loans at or near market terms out of which debt and equity capital can be provided to small and medium-sized LDC enterprises.

C. Cofinancing Arrangements with Private Sector Institutions

Cofinancing development projects together with other bilateral or multilateral official institutions has been a long-standing AID practice. A major aspect of AID's interest in cofinancing has been the potential it offers to encourage the participation of the private sector, both indigenous and foreign, in the development process of developing countries' economies. All countries receiving aid are now eligible for cofinancing arrangements under appropriate circumstances.

7. Special U.S. Programs

a. Peace Corps

The Peace Corps continues to play an important role in U.S. development efforts. Over 1,000 Peace Corps volunteers -- about 17% of the total -- are serving in AID-funded development projects and this number will increase in FY 1987. Peace Corps Volunteers are collaborating with over 250 institutions, most of which are Private Voluntary Organizations, in 60 countries throughout the world. The volunteers work side by side with these organizations in such fields as food production, education, health, and natural resources conservation and management. When volunteers return, they have a better understanding of the problems of developing countries and how closely all Americans are affected by the problems of the developing world. Many returning volunteers remain in the development field (over 500 former volunteers are currently employed in A.I.D.). As a result, the returned Peace Corps Volunteer's experience adds immeasurably to the quality and effectiveness of development programs in A.I.D. and other organizations. The Administration continues in its efforts to identify areas where cooperation between Peace Corps and AID will enhance our foreign assistance program. In 1987 the Peace Corps will continue to implement the recommendations of the National Bipartisan Commission on Central America in the education field. It will also accelerate efforts to assist in increasing the food availability in Africa, which deteriorated significantly as a result of the 1984-1985 famines.

b. Inter-American Foundation (IAF) and African Development Foundation (ADF)

The Inter-American Foundation (IAF) is an autonomous corporation of the United States Government created by Congress in 1969. It provides grants to non-governmental organizations and grassroots groups in Latin America and the Caribbean.

During the 15 years of its operations, the IAF has made grants totaling $215 million for more than 2,000 projects in 27 countries. Its funds come from Congressional appropriations and from the Social Progress Trust Fund, which is administered by the Inter-American Development Bank.

The IAF supports programs formulated and operated by Latin American and Caribbean organizations in which the poor not only benefit but also actively participate. It is giving special attention to the role of private development endeavors that foster democratic processes and to the ways micro efforts can affect larger scale development programs.

Established by the U.S. Congress to provide direct assistance to Africa's poor, the African Development Foundation (ADF) became operational in February 1984. Grassroots indigenous African organizations, which either represent or control the interests of the rural and urban disadvantaged, are eligible for ADF's assistance. ADF also works cooperatively with African scholars and researchers interested in analyzing issues and problems affecting grassroots development. A major goal of the Foundation is to encourage the expansion of economic and social development activities at the local level--the center of life for most Africans. In its attempt to achieve this goal, the Foundation is authorized to provide grants, loans and loan guarantees directly to self-help development initiatives with evident potential for expanding development opportunities and generating positive impacts on the living standards and conditions of the people. Organizations receiving support from the Foundation must demonstrate their commitments to this approach by encouraging the substantive participation of the poor in <u>all</u> phases of the development process, especially design, implementation and management.

In FY 1985, the Foundation promulgated a five year strategy for implementing its assistance program. During FY 1984 and FY 1985, ADF provided approximately $3.5 million to 53 projects in 13 African countries, including Mali, Niger, Liberia, Lesotho, Zambia, Botswana, Zimbabwe, Sierra Leone, Kenya, Togo, Ghana, Egypt and Rwanda. The supported projects range from economic/private sector development to agricultural/food production, to community development, to education and training.

During FY 1986, ADF will provide approximately $3.0 million in assistance to projects in 15 African countries. In FY 1987, ADF plans to target approximately $8.0 million to projects in 20 African countries. Special attention will also be paid to launching the Foundation's loan and loan guarantee initiative.

c. <u>Private Voluntary Organizations (PVOs)</u>

A.I.D.'s support to PVOs has strengthened their capacity to undertake overseas development programs. During the past 12 years, A.I.D. assistance to PVOs has increased from $39 million in FY 1973 to $328 million in FY 1985 which is over an 800% increase. At a time when A.I.D.'s own resources are severely limited, this becomes particularly significant and highlights the Agency's position that PVOs are an important extension of A.I.D.'s efforts to foster self-help development in the third world.

Recent efforts of the Agency are providing valuable insights into the areas of PVO comparative advantages, as well as areas where A.I.D.'s technical resources might improve PVO effectiveness. For example, evaluations of PVO programs in the field of small enterprise development and primary health care highlight the role of PVOs in credit delivery to men and women unreached by the formal sector; the role of PVOs in extending the availability of basic health care (oral rehydration therapy, immunizations and simple first aid) to remote locations; and the role of PVOs in assisting communities to preserve the natural resources available, whether through reforestation, land terracing or more energy-efficient practices.

In FY 1986, A.I.D. requested $318 million to support PVO programs. The request includes continued support to such special groups as the International Executive Service Corps, or IESC, and the Asia Foundation 4/. The Agency also supported numerous field activities of some 70 groups whose programs coincide with A.I.D.'s overall priorities.

d. Refugee Assistance

Armed conflict, civil disturbances, famine, and human rights violations all contributed to the growth of the world refugee population last year. The State Department has the prime responsibility through the Refugee Assistance Program for the immediate needs of refugees, particularly food, shelter, and medical supplies. A.I.D. also assists some refugees and displaced persons to resettle and become self-supporting. A.I.D. assistance to address immediate needs includes P.L. 480 Title II and International Foreign Disaster Assistance. In recent years, Title II programs assisted refugees in Somalia, Pakistan, Kampuchea, Cameroon, Rwanda, and Ghana. Other A.I.D. activities that involve refugees include programs in Somalia and Sudan. In addition, a sizeable proportion of U.S. foodstuffs funded under P.L. 480 assists refugees through international agencies such as the U.N.'s World Food Program (WFP).

4/ IESC is an organization consisting of retired U.S. business executives that provide technical and managerial assistance to developing country businesses and other organizations on a cost recovery basis wherever possible. The Asia Foundation, on the other hand, works with Asian organizations, institutions and individuals dedicated to furthering social and economic progress in over 20 Asian countries.

e. Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation (OPIC) provides political risk insurance, finance and loan guarantees to U.S. investors in new or expanding businesses in developing countries. These investments in manufacturing, resource development, finance, food systems, and other productive enterprises are important to the countries' development. For instance, the investments provide local employment, increase a country's GNP and tax revenue, earn foreign exchange and stimulate growth in international trade. At the same time, OPIC-backed investments make positive contributions to the U.S. economy through increased exports, improvements in the balance of payments, and expanded employment.

OPIC's insurance covers a portion of the loss a U.S. investor would incur in the event of currency convertibility problems, expropriation, war, revolution, insurrection or civil strife. Coverage is available for loans, technology transfers, contractors and exporters, and cross-boarder leasing arrangements as well as for equity investments. The coverage is purchased by smaller American companies, contractors and banks as well as by the larger corporations that are experienced in international business.

Complementing this insurance program is OPIC's project financing service. Direct loans and loan guarantees on commercial terms are provided to new, as well as existing, privately-owned and operated businesses in developing countries. OPIC's policy is that the business be partially owned by a successful American company or that a U.S. company be substantially at risk in the project to be assisted. As a result of this policy, businesses in developing countries are provided with access to experienced management and technology as well as to U.S. capital.

In addition, OPIC offers a wide range of special services to facilitate investment overseas by American businesses. Services which encourage wider participation in overseas investment by small American businesses include investment missions, which bring U.S. investors in touch with local government officials and potential private venture partners; a computerized data bank that can match an investor's interests with possible joint venture partners and specific overseas opportunities; assistance for feasibility studies and pilot projects; investor information services; conferences, seminars and other educational programs; and training grants. OPIC also has programs for medium-term debt financing for the establishment or expansion of distributorships overseas; and special assistance to private voluntary organizations and cooperatives which facilitate the transfer of U.S. technology and managerial skills, and promote joint venture development between small U.S. investors and host country partners.

OPIC is a financially self-sufficient, government-owned corporation and the Director of IDCA serves as Chairman of the Board. The institution meets its operating expenses and obligations from the revenues earned from the insurance and financing services that it offers to American companies. An important result is that this program requires no Congressionally appropriated funds.

OPIC's excellent record of growth in recent years continued in FY 1985. OPIC provided insurance and financial support to 157 projects, 74 of which were in the poorest group of developing countries. These projects involved a total investment of $5.2 billion. Once in operation, these projects are expected to generate annually an estimated $2.4 billion net foreign exchange earnings and $1.3 billion in tax revenues for the host countries. These developmental benefits are not accomplished at the expense of U.S. economic interests, however. On the contrary, the ventures assisted in FY 1985 are expected to generate 27,252 man-years of U.S. employment and approximately $2.8 billion in U.S. exports during their first five years of operation.

The capital, skills, and business expertise that the U.S. private sector possesses can play a pivotal role in the economic growth of the developing world. OPIC plays a unique role in uniting U.S. investors, especially small investors, with business opportunities in developing countries. OPIC looks forward to continuing to provide a broad array of services to selected U.S. investors to encourage U.S. investment abroad, thereby furthering the development process.

f. Trade and Development Program (TDP)

TDP performs a unique function in the United States Government as an agency that links U.S. objectives in both the trade and development areas. As a consequence, both the United States and the developing countries benefit from TDP's expenditures of public funds.

TDP is an autonomous agency under IDCA that simultaneously promotes economic growth in the Third World and enhances sustained U.S. economic growth. TDP has done much to open overseas markets for U.S. firms and has become a significant instrument of the Administration's efforts to involve the U.S. private sector in U.S. foreign assistance efforts.

TDP finances the planning in developing countries of projects, such as dams and power facilities, which provide export opportunities for goods and services from the U.S. TDP awards grants to U.S. firms to conduct project planning. In so doing, TDP helps U.S. firms to become involved at an early stage in the development of major projects.

TDP support also enables U.S. firms to compete more effectively against foreign competitors who often receive subsidized financing from their governments.

Other industrialized countries, principally Japan and France, use concessional aid and export credits to secure major implementation contracts for their export industries and in some cases their feasibility study programs are substantially larger than TDP's.

TDP has done much to help U.S. firms counter this subsidized competition. In this regard, TDP estimates that over the last five years an expenditure of approximately $20 million in TDP funds has resulted in approximately $1 billion in U.S. exports.

8. Special U.S. Initiatives Affecting Development

This section will describe some recent U.S. policy initiatives that affect the LDCs. The topics covered include progress made in implementing the Caribbean Basin Initiative and the recommendations of the National Bipartisan (Kissinger) Commission on Central America; emergency assistance to Africa; the recent proposals by Treasury Secretary Baker to assist major debtor nations and low-income countries; and U.S. policy in the area of international trade.

a. Action on the National Bipartisan Commission Report on Central America

On January 10, 1984, the National Bipartisan Commission on Central America, headed by Henry Kissinger, submitted a report recommending a substantial increase in economic and military assistance to the Central American region. The Commission recommended an immediate supplemental appropriation of $400 million and an additional $8 billion in economic aid for the succeeding five years. It also recommended increased military assistance. Bipartisan congressional majorities approved increases in both economic and military assistance close to what the Commission recommended and the President proposed for FY 1984-85. The main purposes of increased economic assistance to Central America are as follows:

- Arrest declines in incomes, employment and economic activity through major balance of payments assistance;

- establish the basis for long-term economic growth through improvements in economic policy and infrastructure needed for exports;

- assure the widest possible distribution of the benefits of growth through assistance aimed at improving health, education and housing for the poorest groups; and

- support democratic processes and institutions through assistance for the administration of justice, technical training, and the development of leadership skills.

Summary Table XIV shows the total amounts provided for the Central American countries from FY 1984 through 1986, with a breakdown by country and program. Note that the initial 1984 pre-supplemental total was only $457 million, an amount that was raised by $358 million or by 78%, as a result of the FY 1984 supplemental appropriation. The total in the FY 1985 operating year budget and the proposed allocation for FY 1986 are also some $400 to $500 million above the initial 1984 program level, raising them to some $900 million to $1.0 billion annually. The largest increases went to El Salvador, Costa Rica, Honduras and the Regional Office for Central America and Panama (ROCAP).

Table XIV also provides a breakdown of the major goals for which the funds programmed for Central America are allocated. The largest portion -- $636 million proposed for FY 1986 -- of the resources is programmed for financial stabilization, mostly for the importation of essential raw materials, spare parts and capital goods needed by the private sector which the latter would not be able to procure otherwise owing to the shortage of foreign exchange. The second goal, economic transformation, refers for the most part to project assistance for private sector development, infrastructure development, industrial development and rehabilitation, and other projects designed to expand productive capacity. The amount proposed for this purpose in FY 1986 was $217 million.

TABLE XIV

U.S. Economic Assistance to Central America
FY 1984-1986

Overall Country Totals
($000)

	FY 84 Pre-Supplemental	FY 84 Supplemental	FY 85 OYB	FY 86 Proposed
Belize	3,900	11,450	10,200	11,300
Costa Rica	107,500	67,146	195,130	189,000
El Salvador	212,400	111,108	317,723	374,383
Guatemala	16,000	15,567	80,789	77,983
Honduras	90,300	79,400	130,791	141,504
Panama	11,700	34,000	34,822	63,807
ROCAP	15,500	39,829	120,648	179,925
GRAND TOTALS	457,300	358,500	890,103	1,037,902

REGIONAL GOALS SUMMARY
($000)

	FY 84 Supplemental	FY 85 OYB	FY 86 Proposed
GOAL 1: FINANCIAL STABILIZATION	274,210	558,473	636,058
GOAL 2: ECONOMIC TRANSFORMATION	32,515	157,768	216,624
GOAL 3: SPREADING THE RESULTS OF ECONOMIC GROWTH BROADLY	42,775	156,519	165,020
GOAL 4: PROMOTE DEMOCRATIC INSTITUTIONS AND PROCESSES	9,000	17,343	20,200
GRAND TOTALS	358,500	890,103	1,037,902

The third goal consists of programs primarily designed to improve the lot of the poor majority of the population -- $165 million in FY 1986. This category includes such projects as development and improvements in health services and facilities, financing of agrarian reform programs, training and adult literacy programs, and family planning activities. The fourth category - strengthening democratic institutions and processes - refers to helping governments to establish or improve electoral processes, undertake judicial reform programs and help enforce human rights. In FY 1986 $20 million was allocated for this purpose.

b. Progress Under the Caribbean Basin Initiative (CBI)

The Caribbean Basin Recovery Act was passed by Congress in July 1983. It comprises three elements: free trade, investment incentives, and increased economic assistance. The heart of the initiative is the provision of one-way free trade for all imports from designated Caribbean Basin countries for a 12 year period, with the exception of textiles and apparel, petroleum, footwear, certain leather goods and canned tuna. Although some of these exclusions are significant, the coverage of duty-free treatment under the CBI is very broad. The program went into effect on January 1, 1984, and to date 21 countries in the region have become beneficiaries.

U.S. imports from Caribbean Basin beneficiaries grew significantly in 1984--by 18% if petroleum is excluded. However, preliminary data for the first six months of 1985 indicate some falling off from the promising first year's results, with imports from CBI beneficiary countries declining by 18% between the first halves of 1985 and 1984. This was caused in large part by the slowdown of our economy and by low prices for LDC traditional export products. Growth in non-traditional exports - the category that the CBI is attempting to promote - was 8% between the first half of 1984 and 1985. Since non-traditional exports account for only about 30% of exports from the region, the promotion of export diversification through expansion of non-traditional exports is a prime objective of the CBI. A promising start has been made toward this goal.

c. The Baker Proposals

On October 8, 1985, at the Joint Annual Meeting of the IMF and the World Bank in Seoul, Korea, U.S. Secretary of the Treasury James Baker proposed a "Program for Sustained Growth" for major debtor countries, most of which are located in Latin America. The Program proposes that:

(1) The debtor countries should adopt comprehensive macroeconomic and structural reform policies, supported by the international financial institutions, to promote growth and balance of payments adjustment and to reduce inflation.

(2) There should be a continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the multilateral development banks (MDBs). The MDBs should increase annual lending by $9 billion during 1986-88, for $20 billion in net new lending over the period.

(3) Commercial banks should increase their net international lending by $20 billion over a three year period.

To help the poorest LDCs, the United States also proposed that the IMF's Trust Fund reflows be directed toward the poorest countries with protracted balance of payments problems which are undertaking comprehensive structural adjustment programs. The U.S. has further indicated its readiness for World Bank and bilateral lending to be used to support the adoption of comprehensive, growth-oriented economic reform programs in these countries. IMF reflows available for this purpose are estimated to total $2.7 billion over the next few years. Most of the World Bank's funds would come from IDA. They would be augmented by funds from the Bank's net income and its loan resources as well as bilateral contributions.

d. <u>Economic Assistance to Africa</u>

Sub-Saharan Africa's share of A.I.D.'s total budgetary commitments increased from 5% in 1974 to 15% in 1984. The United States now provides some 12% of total official development assistance to the region, three times the United States share in 1974.

Sub-Saharan Africa is receiving increased attention in the allocation of A.I.D. economic assistance for distinct but interrelated reasons: (1) the severity of the drought in a number of African countries during 1984 and 1985, (2) the continuing decline in real output per capita since 1973 as a result of a combination of domestic economic policy errors, a series of external trading shocks, and the droughts and famines that have repeatedly afflicted the sub-Saharan countries; (3) a number of sub-Saharan nations have begun to correct some of the counterproductive public policies that have contributed to the decline in their incomes and are in need of assistance to support their reform efforts; and (4) a sizeable, rapidly growing number of countries in the region are encountering severe short term adjustment problems, including the inability to service their external debts. African countries with severe debt service problems include Sudan, Somalia, Liberia, Mali, Madagascar and Zambia. African countries in a highly vulnerable situation include the Ivory Coast, Senegal, Niger and Zaire.

Drought hit Ethiopia with particular violence in 1984. Of 42 million people in Ethiopia, six million were considered to be at risk from famine. At least 22 countries and 20 million people were adversely affected by the drought, however. In response, U.S. emergency assistance for all of Africa during FY 1984 rose to $173 million, twice the amount of 1983 assistance, and three times the amount of 1982 assistance.

During FY 1985, food aid, both emergency and regular, totalled $1.1 billion to 46 sub-Saharan countries. The FY 1985 food aid commitment included 88 thousand tons of dairy products and just over 3 million tons of grain. During 1985, U.S. commitments to provide food to sub-Saharan Africa made up almost half of the total committed by all donors. Regular assistance to the region now derives in nearly equal parts from the three sources: development assistance, the Economic Support Fund, and PL 480 programs.

The 1984-85 drought was not an isolated occurrence. A series of droughts has struck Africa since 1968. They were fully relieved only during 1974-75. Rainfall deficits have been in the range of 20-60%. For this and for other reasons, real output per capita has declined almost continuously since 1973 in some one-half of all the sub-Saharan nations. Further, the purchasing power of the exports of the 23 least developed sub-Saharan countries (LLDCs) fell by some 22% between 1973 and 1982. While climatic changes can be partly blamed for the adverse trends, a number of man-made factors also contributed. These include substantial pressure from the rapidly growing population on limited natural resources, erosion, deforestation, and overgrazing. In addition, a set of inappropriate agricultural policies also discouraged agricultural production, including farmgate prices set at artificially low levels, parastatal inefficiencies, uneconomic public investments, and policies that discriminated against exports and the private sector.

The major objective of U.S. assistance is to help African countries restore or accelerate their economic growth. U.S.

assistance strategy emphasizes agricultural-led growth but recognizes that in the long-run, sustained growth will require economic diversification and export development. To achieve those ends, we are providing some $325 million a year in assistance to agricultural production, nearly $200 million a year to human resource development, and above $550 million a year to support economic stabilization and reform. Because Africa's rainfed agriculture has not yet benefitted from any breakthrough comparable to those achieved for irrigated grains in Asia and Latin America, A.I.D. agricultural assistance is providing increasing emphasis upon agricultural research. U.S. assistance to education and health programs is, like agricultural research, helping to overcome the obstacles to long term growth.

Because sustained equitable growth in many countries is dependent upon major policy reforms, A.I.D. is increasingly involved in assistance to country efforts to design and to implement policy reforms. During FY 1985, A.I.D. and the State Department introduced an African Economic Policy Reform Program (AEPRP) that was funded with $75 million from the Economic Support Fund. Because of their agreement to implement major new policy reforms, Malawi, Mali, Mauritius, Rwanda, and Zambia were chosen to share the $75 million, whose actual disbursement is conditioned upon the implementation of specified reforms. The selection process is now underway for selecting the beneficiaries of the FY 1986 AEPRP. Due to budgetary constraints, the amount available for the program has been reduced to $48 million.

e. International Trade Policy

The United States works to formulate international economic and trade policies that contribute to the development efforts of developing countries and their integration into the international trading system. These policies, which are consistent with U.S. obligations under the General Agreement on Tariffs and Trade (GATT), are designed to encourage developing countries to pursue sound economic and trade policies based on the principles of market forces and liberalized trade.

In the Administration's trade program announced on September 23, 1985, special emphasis was placed on the linkage between liberalized trade and the economic development of both developed and developing countries. The Administration's trade plan is a three-pronged approach designed to alleviate the macroeconomic causes of the U.S. trade deficit, strengthen the international trading system, and ensure fair trade for all countries. Measures to sustain noninflationary growth in the

U.S. economy as well as stronger growth in the economies of our major trading partners will contribute to the growth of world trade and will strengthen non-dollar currencies. Reduction of trade and investment barriers represents part of a comprehensive effort to help establish the fundamental conditions for sustained growth in developing countries. A new round of multilateral trade negotiations will serve to strengthen the rules governing international trade.

In the past few years, significant progress has been made in the GATT for expanding the role of developing countries in world trade. Included in the Ministerial Work Program of November 1982 was an examination of the prospects within GATT to facilitate and expand trade among developed and developing countries. At its November 1984 session, contracting parties agreed to continue efforts to promote the expansion of trade opportunities and to continue work on the various aspects of the GATT Ministerial Work Program. It is hoped that the new round of GATT negotiations that should commence later this year or early in 1987 will provide the basis for additional trade liberalization by developed and developing countries.

A key U.S. objective for strengthening the international trading system is the maintenance of open access to the U.S. market for fairly traded goods, particularly those from developing countries. To this end, the United States has resisted increased pressures in 1984 and 1985 for protection of domestic markets. In addition, the Administration is utilizing available trade laws to press major trading partners for the elimination of unfair trade barriers.

Temporary preferential access to U.S. markets is granted, in certain circumstances, to exports from developing countries to enable them to compete with the products of traditional, developed country suppliers to the U.S. market. The granting of these temporary preferences is based on the expectation that as their individual levels of economic development increase, developing countries will reduce their trade-distorting practices. This includes addressing export subsidies and barriers to market access. The GSP along with the Caribbean Basin Economic Recovery Act are conerstones in the Administration's efforts to promote development through the expansion of trade opportunities.

On October 30, 1984 President Reagan signed the Trade and Tariff Act of 1984, which included statutory authority to extend the U.S. GSP through mid-1993. The program of temporary, duty-free tariff preferences for over 3,000 tariff classifications of goods imported from 140 beneficiary countries and territories covers a broad range of manufactured and semi-manufactured products as well as agricultural items. Textiles, apparel, footwear, and leather-related products as well as import-sensitive steel, glass, and electronic articles are excluded by statute from GSP eligibility. The program accounted for almost $13 billion worth of imports from developing countries in 1984.

The Administration obtained some important changes in the 1984 renewal of GSP. The revised program provides the potential for further liberalization and graduation from duty-free preferences under the President's discretionary authority. The new authority draws additional attention to U.S. efforts to ensure that the benefits of the GSP are accruing to those countries most in need of preferential treatment in order to compete in the U.S. market. In making GSP eligibility determinations, the President is directed to take into account certain practices of developing countries. These factors include a consideration of the extent to which the beneficiary, at a level commensurate with its individual level of development, is (1) providing access to its markets for U.S. goods and services, (2) reducing or eliminating trade-distorting investment practices, and (3) providing adequate protection for intellectual property rights and internationally recognized worker rights. Finally, the new authority provides unlimited access for GSP-eligible articles from countries designated by the President as least developed.

Similar to programs established by Canada, Mexico, Venezuela, and Colombia, the United States has undertaken efforts to promote stability and prosperity in the Caribbean Basin. The small and fragile economies of this region have been seriously affected by escalating costs of imported oil and declining prices for their major commodity exports.

In an effort to respond to the situation faced by these countries, the Administration proposed the Caribbean Basin Economic Recovery Act (CBERA), which was approved by Congress in July and signed into law by the President on August 5, 1983. CBERA, otherwise known as the Caribbean Basin Initiative (CBI), is, as noted previously on page 28, a multifaceted development program combining trade and tax liberalization with tailored financial assistance programs.

CHAPTER V
Multilateral Programs

U.S. support of and participation in multilateral development organizations and programs is long-standing. Many of these programs are outgrowths of U.S. initiatives to marshall international support and resources to increase assistance available to developing countries in their pursuit of broad, sustained economic growth.

United Nations (UN) organizations are important in the multilateral context. A number of UN organizations and special programs have mandates exclusively directed towards the problems and process of development such as the United Nations Development Program, the World Food Program, the UN Fund for Population Activities, the World Food Council, and the UN Capital Development Fund.

The specialized agencies of the United Nations such as the International Fund for Agricultural Development (IFAD) and the United Nations Industrial Development Organization (UNIDO) have specific development responsibilities. The World Health Organization (WHO), the Food and Agriculture Organization (FAO), and the World Meteorological Organization (WMO) also pursue development activities within the context of broader responsibilities.

A number of other UN organizations have mandates broader than development, but devote a considerable amount of their resources to development-related activities. These include organizations such as the UN Children's Fund and the UN Environment Program.

Other inter-governmental organizations are the multilateral development banks (MDBs) which respond to the need for capital to finance development. The World Bank Group, technically a UN specialized agency, includes the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the International Development Association (IDA). The regional banks include the African, Asian and Inter-American Development Banks and their associated concessional lending funds.

The United States also is actively involved in international organizations other than the UN system and the multilateral development banks. The Organization of American States (OAS) plays an important role in providing development assistance for Latin America. In addition, the United States works directly with other donor countries in the areas of cooperation, coordination and exchange of information on assistance programs and development issues. These efforts take place, for example, through the Organization for Economic Cooperation and Development and the Development Assistance Committee, through the World Bank's Consultative Groups and the UN Roundtables, as well as in formal and informal discussions among representatives of bilateral and multilateral aid agencies posted in the developing countries themselves.

The sections below describe in some detail the major development related international institutions and programs supported by the United States.

1. Multilateral Development Banks (MDB's)

a. Trends in MDB Assistance

Since taking office in 1981, this Administration has negotiated new multi-year replenishments for all the multilateral development banks except the World Bank and African Development Bank capital windows. These negotiations have enabled the United States to implement the Administration's priorities for the MDBs, as reflected in the February 1982 report, U.S. Participation in the Multilateral Development Banks in the 1980s. These priorities include:

-- efficient and effective use of resources, requiring selectivity in determining priorities for projects and countries to receive MDB funds;

-- provision of sound economic policy advice and technical assistance;

-- emphasis on local private initiative and investment as vehicles for growth, and on catalyzing, not displacing, external flows of private sector resources;

-- phasing out borrowers' reliance on MDB financing as their creditworthiness and access to alternative financing permit.

The United States, through its participation in recent replenishments, has encouraged MDBs to give precedence to loan quality over lending targets, to strengthen organization and procedures in support of this goal, to promote a favorable policy environment for development, and to move borrowers toward less concessional terms progressively as their credit worthiness and access to alternative financing permit.

The MDBs, the majority of which the United States was instrumental in founding, typically have capital and concessional lending windows. Lending from the capital windows is financed largely from borrowings on world capital markets against member pledges of callable capital. Loans from capital windows have lending rates slightly lower than could be obtained by the most creditworthy developing countries in international capital markets, and have considerably longer maturities. Concessional windows, which lend to low-income countries at highly concessional rates and extremely long maturities, derive their resources almost entirely from direct donor contributions. In addition, some of the MDBs have or are helping to establish specialized institutions to promote private sector development. One such institution, discussed in greater detail below, is the Multilateral Investment Guarantee Agency (MIGA), set up under World Bank auspices and established by a vote of the Bank membership at the 1985 annual meeting in Seoul.

The principal means of U.S. oversight of the MDBs is the regular review of proposed MDB projects within the U.S. government. Interagency review of MDB loans about to come to Boards of Directors for a vote focuses on the technical, economic and financial merits of the projects. In FY 1985, the United States opposed (by a no vote or an abstention) 16 projects containing technical, economic or financial deficiencies (excluding projects opposed due to unresolved country expropriation problems or human rights concerns). Since the Banks know that the United States carefully monitors their operations and that poor project quality can affect the future level of United States contributions, concerns expressed by the U.S. sometimes lead to project design improvement before proposals come forward for Board consideration. The United States can be most effective at influencing project design if it identifies potential problems while a project is still in an MDB's pipeline and therefore more susceptible to change. A.I.D.'s Early Project Notification (EPN) System, as well as Treasury's early warning system, are two of the methods the United States uses to identify needed modifications in MDB projects at this early stage. (U.S. officials are discussing these systems with other major bilateral donors who have expressed an interest in upgrading their project review systems.)

The policy environment in developing countries is critically important for project success and sustainable development progress. The United States encourages the MDBs to direct their resources toward countries with sound macroeconomic and sector policies, and to use the leverage their considerable lending programs provide to gain policy modifications.

A broad characteristic of MDB operations in the course of 1985 has been continued progress toward greater reliance on the private sector in the development process. Most striking was the creation of the Multilateral Investment Guarantee Agency (MIGA) in October 1985. An affiliate of the World Bank, The MIGA will guarantee certain types of foreign direct investment in developing countries, much as the U.S. Overseas Private Investment Corporation (OPIC) does. The MIGA, whose creation the United States has strongly endorsed, will promote greater developing country reliance on non-debt creating private investment flows through its direct insurance and by fostering improvement in the investment climate in LDCs. The initial U.S. subscription to the MIGA would consist of paid-in resources of $22.2 million, $22.2 million in promissory notes, and callable capital of $177.6 million, which are being requested in FY 1987.

In addition, progress has been made in 1985 toward the creation of the IDB-affiliated Inter-American Investment Corporation (IIC), to provide equity and loan financing to small and medium private enterprises in Latin America. The United States strongly supported the formation of this institution, whose effectiveness importantly depends upon full and early U.S. funding.

In its 1985 fiscal year (July 1, 1984-June 30, 1985) the International Finance Corporation initiated investment operations under its new capital increase. The $650 million capital increase is supporting a 1985-89 investment program including a number of innovative aspects such as capital market development, concerted efforts to promote the African private sector, corporate restructuring assistance, and energy exploration and development. After several years of sluggish growth, the IFC in 1985 achieved a dramatic 56% increase in the volume of net investments, amounting to $609.3 million.

Another key event of 1985 was the presentation by the United States in Seoul of two proposals aimed at the debt problems of developing countries. A three-pronged approach directed toward middle-income, mostly Latin American debtors, proposed by Treasury Secretary Baker, was summarized in Chapter IV (Section 7-C).

The Interim Committee also supported Secretary Baker's proposal to channel reflows from the IMF's Trust Fund toward very low-income countries willing to undertake meaningful reforms. Secretary Baker further indicated U.S. readiness to consider a bolder approach involving close IMF/IBRD cooperation on integrated growth-oriented programs of macroeconomic and structural reform. The United States is actively working with the Bank, the Fund, and other countries to develop the details of such an initiative.

The only replenishment negotiations under way in the MDBs in 1985 were for the 1987-90 replenishment of the Asian Development Fund (ADF). Negotiating sessions in Rome and Tokyo did not begin to address replenishment size or shares, but rather were focused on questions of policy and operations. Negotiations were scheduled to begin in 1986 in the IDB, AFDB, and in the World Bank (for IDA VIII).

b. FY 1987 Budget Request for the MDBs

The Administration has negotiated or otherwise explicitly agreed to all the contributions or subscriptions being requested in FY 1987. Most have already received Congressional authorization. However, three of the items in the FY 1987 request reflect expected U.S. participation in international funding arrangements for which Congressional authorization has been sought since early 1985: a Selective Capital Increase for the World Bank; a five-year capital increase in the International Finance Corporation; and the fourth replenishment of the African Development Fund (AFDF). In addition, authorization for U.S. participation in the MIGA, discussed above, is being forwarded to the Congress.

(1) The World Bank

The World Bank is the largest of the MDBs and consists of three component institutions:

(a) The International Bank for Reconstruction and Development (IBRD)

The IBRD, whose capital is subscribed by member countries, finances lending operations primarily from borrowings in world capital markets and from retained earnings and loan repayments. Loans are repayable over 20 years or less, including a five-year grace period. The IBRD charges an interest rate on a cost-plus basis, based on its own cost of borrowing. The IBRD's loans - $11.4 billion in FY 1985 - are directed toward countries at the relatively more advanced stages of economic development that can better afford to pay the market-related rate the IBRD offers. The largest borrowers from the Bank in 1984 were India, Brazil, Indonesia, and Turkey.

The IBRD's subscribed capital was doubled in 1980 with adoption by the Board of Governors of a General Capital Increase (GCI). This increase was designed to support lending through the mid-1980s. For FY 1987 the Administration is requesting $182.8 million in budget authority for paid-in capital and $1,353.0 million in program limitations for callable capital as the sixth and final installment of the U.S. subscription to the GCI.

In 1984 the United States agreed, subject to Congressional approval, to participate in an $8.4 billion Selective Capital Increase (SCI) for the IBRD. In early 1985 the Administration sought authorization for a two-year U.S. subscription of $1.5 billion to the SCI - $65.7 million paid-in and $685.4 million callable annually. The second installment of the U.S. subscription, as well as $7.4 million of paid-in capital and $66.7 million of callable subscriptions under the 1970 SCI, are contained in the FY 1987 request.

(b) <u>The International Development Association (IDA)</u>

IDA is the World Bank Group's concessional lending window. It is supported by contributions from donor countries and reflows from previous credits. It is the single largest source of concessional development assistance for the world's poorest countries, having lent $3.0 billion in 1985. IDA lends to countries that have an annual per capita income of $790 (1984 dollars) or less. IDA loans must meet all the criteria for economic, financial and technical soundness that apply to other World Bank projects. IDA loans currently have 50-year maturities, including a 10-year grace period, and carry a 0.75% annual service charge.

The FY 1987 budget includes $750 million for IDA, the final installment of the U.S. contribution to the seventh IDA replenishment.

(c) <u>The International Finance Corporation (IFC)</u>

The IFC supports the private sector in developing countries by arranging and participating in equity financing and commercial loan packages for private enterprises. In FY 1985 the IFC Board approved loans of $875.9 million and equity investments of $61.3 million. The FY 1987 request includes $35.0 million for the second installment of the U.S. subscription to the five-year, $650 million capital increase of the IFC.

(2) Regional Development Banks

These banks provide financing to developing countries within their geographical regions. As in the World Bank, they have both capital and concessional lending windows.

(a) The Asian Development Bank (ADB) and Fund (ADF)

The ADB, established in 1966, has a membership of 31 regional and 14 non-regional countries. The United States is both a member of the ADB and a contributor to the Asian Development Fund (ADF), its concessional lending window. In 1984, the ADB and ADF approved loans worth $1.6 billion and $683.6 million respectively. Principal borrowers were: from the Bank, Indonesia, the Philippines, Thailand and Korea; and from the Fund, Bangladesh, Pakistan, Nepal and Sri Lanka.

The FY 1987 funding request includes the fourth U.S. installment of the 1983-87 ADB General Capital Increase and of the 1983-86 ADF replenishment, $13.2 million paid-in and $251.4 million callable for the ADB and $130.0 million for the ADF.

(b) The African Development Bank (AFDB) and Fund (AFDF)

The AFDB, created in 1963, agreed in 1979 to amend its charter to admit non-African members. In May 1982 the charter amendments were ratified by the African membership, and 26 non-regional countries have since joined the Bank. The United States became a member in February 1983. In 1984, the AFDB made loans totalling $494.5 million in the African region. AFDB loans are repayable over 15-20 years, with 3-5 years grace, at 9.5% interest plus a 1.0% statutory commission and a small commitment fee.

The AFDF, the concessional lending window of the African Development Bank Group, came into existence in 1973. The U.S. has been a member since 1976. Major donors are the United States, Japan, Canada, and Germany. The AFDF makes 50-year loans at a 0.75% annual service charge for projects in the poorest African countries. In 1984 AFDF loans totaled $369.2 million.

The FY 1987 request includes the fifth installment of the U.S. subscription to the AFDB's capital increase which accompanied non-regional membership - $18.0 million paid-in and $54.0 million callable. It also includes the second $75.0 million installment of the negotiated U.S. contribution to the 1985-87 AFDF replenishment.

(c) Inter-American Development Bank/Fund for Special Operations (IDB/FSO) and the Inter-American Investment Corporation (IIC)

The largest and oldest of the regional banks, the IDB provides development assistance to Latin American and Caribbean countries. Like other MDBs, the IDB provides resources on both market-related and concessional terms. The Bank's hard loan window utilizes capital market borrowings to fund the majority of its lending programs. In 1984 it lent $3.2 billion. The IDB's Fund for Special Operations (FSO) provides development loans on concessional terms to the poorest countries in the region. In 1984, lending from the FSO was $306.7 million.

The FY 1987 request contains the fourth and final installment of the U.S. subscription to the 1983-86 IDB/FSO replenishment - $58.0 million paid-in and $1.2 billion callable for the IDB, and $72.5 million for the FSO. It also includes the $13.0 million third installment of the U.S. subscription to the Inter-American Investment Corporation (IIC), an IFC-like entity that the IDB is helping establish for the Latin American countries.

2. The International Monetary Fund (IMF)

As the central monetary institution for the world economy, the IMF serves two key functions: (1) general guidance of the monetary system, including surveillance over exchange arrangements, the balance-of-payments adjustment process, and the evolution of the international reserve system; and (2) provision of temporary financing in support of members' efforts to deal with their balance-of-payments difficulties.

The IMF is essentially a revolving fund of currencies, provided by every member in the form of a quota subscription and available to every member for temporary balance-of-payments assistance at any given time. It also makes use of borrowed resources. Nevertheless, the IMF was not designed as an aid institution (though it has on occasion been pressured to act like one); there is no fixed class of lenders or of borrowers, no concept of "donor" or of "recipient".

Acting as a trustee, the IMF does serve as an aid institution as it administers its Trust Fund. This Trust Fund originated in a sale of IMF gold when, in 1975, Fund members decided to demote gold and to elevate the Special Drawing Right (SDR) to the formal status of principal international reserve asset. Special Drawing Rights were first created in 1969 to serve as a supplemental international reserve asset of IMF members. The value of an SDR has fluctuated over time. During 1985, it ranged in value from .99 to 1.10 U.S. dollars. To increase the importance of SDRs relative to gold, the IMF auctioned a portion of its gold, during 1976-79, and placed the $4.64 billion in profits in a Trust Fund, sequestered from all other IMF assets, to be used to benefit developing nations. Some of the Trust Fund has been used to subsidize the interest rates the IMF charges its lower income members. Most of the Trust Fund was loaned, during 1976-81, to the IMF's lower income members. During 1985-91, repayments will provide approximately 2.7 billion SDRs to be used for developmental purposes.

The one common requirement for a member seeking the use of IMF resources is that it has balance-of-payments difficulties and is willing to undertake a program in conjunction with the IMF to remove the problems underlying those difficulties. In the programs, as well as on other occasions, the IMF provides its members with economic policy advice. The IMF emphasizes the implementation of demand management policies, but not to the exclusion of measures to promote savings, investment, and efficient resource use, and thereby to improve productivity and competitiveness as a means of attaining sustainable balance-of-payments positions.

Most IMF assistance is provided under stand-by arrangements. An IMF member, anticipating a balance-of-payments problem, negotiates a stand-by arrangement specifying the amount of assistance to be made available to it and the conditions of economic policy and practice the member must fulfill to be permitted to draw the assistance. In effect, a stand-by arrangement provides a nation with an overdraft privilege against which it may draw, as needed, provided it has met the performance conditions specified in the agreement. Since 1982, the number of active stand-by arrangements has fluctuated between 25 and 35. At the end of January 1986, stand-bys were in effect in 30 countries, while Chile, Brazil, Malawi, and Mexico were engaged in extended financing arrangements with the Fund. The latter are longer versions of stand-bys, longer both in time of assistance available under the agreement and in time allowed for repayments.

All stand-by and extended arrangements include country commitments to specified policies and to some specific quantified outcomes. In addition, ongoing Fund consultations with each of its members helps them to avoid, or to correct, inappropriate or inconsistent economic policies.

The IMF also plays a key role in arrangements for restructuring the foreign debt of developing countries. Since the emergence of widespread balance-of-payments problems in 1982, developing nations have frequently negotiated the restructuring of their official and officially guaranteed debt to foreign banks and to foreign governments. These restructurings provide relief to the debtors by postponing interest and amortization payments. With few exceptions, creditors have made all restructurings conditional on the introduction of IMF-supported adjustment programs. Within their restructuring arrangements, commercial banks generally link subsequent disbursements of concerted bank lending to country purchases from IMF resources. The IMF role is therefore to assist the debtor government to construct an appropriate adjustment program, to provide foreign exchange to support implementation of that program, and to provide its imprimatur indicating conviction that the debtor appears likely to be able to overcome its balance-of-payments problems.

Net disbursements from the Fund peaked at 11.5 billion Special Drawing Rights (SDRs) during the 12 month period ending September 30, 1983. They declined to SDR 8.4 billion during the 12 months ending September 30, 1984 and to SDR 1.5 billion during the 12 months ending September 30, 1985. This decline in net disbursements resulted from both a decline in "purchases" from the IMF (in effect, loans from the IMF) and an increase in "repurchases" from the IMF (in effect, repayments of IMF loans). Referring always to periods ending on 30 September, purchases fell from SDR 13.5 billion in 1983 to SDR 10.4 billion in 1984, to SDR 4.8 billion in 1985. Repurchases rose from SDR 2.0 billion in both 1983 and 1984 to SDR 3.3 billion in 1985.

Between 1983 and 1985, the Fund has moved away from a role financing the temporary balance-of-payments deficits of member countries and has approached the role of being a net claimant on members' foreign exchange earnings. This approach has been occurring because an increasing number of borrowers are repaying their previous loans (or "purchases") from the Fund. The Fund may already be in the position of net claimant if new members' purchases are compared with their repurchases and service charges combined.

During the past three years, members' dependence upon the resources of the Fund has held at a very high level. The use of Fund credit as a percent of members' total quotas (a member's quota measures its subscription to the IMF) never exceeded 19% before 1975 but rose to 25% in 1975 and to 45% in

1977 before a SDR 21 billion increase in quotas (to SDR 60 billion) helped to reduce the ratio to 26%. In November 1983, use of Fund credit as a percent of quotas reached a peak of 48.6 percent before a quota increase to SDR 89.2 billion briefly reduced the rate to 34%. Net disbursements carried the ratio back above 39% in late 1984, and it remained there through November 1985.

3. UN Organizations and Programs

a. United Nations Development Program (UNDP)

UNDP, headed by former U.S. Congressman Bradford Morse, is the major multilateral instrument for the delivery of grant technical assistance to the developing world. In 1984, UNDP funded 1,074 projects costing $345 million in some 150 countries and territories.

UNDP provides a coordinating focus for the technical assistance efforts of the UN through its programming and funding activities. Operating through the Specialized Agencies and other UN bodies, UNDP provides technical assistance to be used in accordance with developing countries' national development priorities. The UNDP country programming process is designed to encourage recipient countries to examine their development needs and to assign priorities to development efforts.

Goals for UNDP programming for the third programming cycle 1982-1986 include increased program focus on the poorest segments of the population, increased efforts to stimulate investment, allocating to developing countries a larger share of the responsibility for executing their own projects, with advice from UN agencies and other appropriate sources as necessary, and increased support for Technical Cooperation Among Developing Countries (TCDC). As the UNDP moves into its fourth programming cycle, major donors, including the United States, will take strong interest in UNDP's efforts to improve its programming and strengthen its coordination activities.

UNDP activities directly and indirectly serve U.S. interests in a number of ways. UNDP assistance, for example, fosters self-help and greater mobilization of domestic resources in recipient countries. In the long run, this progress leads to greater economic stability, reduced reliance on concessional assistance and improved trade prospects for the United States.

Since the establishment of the UNDP, the United States consistently has been its largest contributor. The United States pledge of $165 million for FY 1985 amounted to 24.6% of total contributions pledged. Other major pledges to UNDP included $41.5 million from the Netherlands (6.2% of the total), $44.9 million from Norway (6.7%), $42.9 million from Sweden (6.5%), $38.4 million from Denmark (5.2%), $24.2 million from the United Kingdom (3.6%), $26.3 million from France (3.9%), and $31.6 million from Italy (4.7%). Canada is expected to pledge $47.5 million and Japan $63.1 million. The United States contributed $142.1 million in FY 1986. A total of $102.5 million is requested for the U.S. voluntary contribution to UNDP in FY 1987.

b. <u>UN Fund for Population Activities (UNFPA)</u>

The UNFPA was created in 1967 to assist developing countries to solve their population problems, and it has become the focal point of population activities in the UN system. The UNFPA funds a large variety of projects. Activities included family planning, maternal and child health, improved program management, demographic data collection and analysis, population planning, and population policy analysis. The Fund responds to requests from governments to assist with population activities.

Through 1985, the Fund provided about $1.3 billion in population assistance to developing countries. As of July 31, 1985, the Fund had completed more than 2,000 projects and was assisting over 2,000 projects in process. UNFPA allocations for population assistance totalled $132 million in 1984.

Through 1985, the U.S. was a major contributor to the UNFPA. Total pledges from governments since the inception of UNFPA in 1967 amount to $1,366 million, of which the United States pledged $410 million, or 30 percent.

In 1985, the U.S. withheld $10 million of the $46 million which it had pledged to UNFPA. The money was withheld in accordance with Congressional legislation prohibiting U.S. funds to an organization which "supports or participates in the management of a program of coercive abortion or sterilization." The legislation reflects the concerns of the U.S. Administration and Congress over UNFPA support for the population program in China. The program is based on a one-child-per-family policy and has led to incidents of coercion. The applicability of the legislation for FY86 funding will depend upon changes in the UNFPA or the Chinese program. For FY 1986, a U.S. contribution to UNFPA of $30 million has been proposed.

c. <u>United Nations Children's Fund (UNICEF)</u>

Begun as an emergency program for European children in the wake of World War II, UNICEF evolved in the early 1950s into a long term voluntarily funded, humanitarian development program. Its main objective is to improve the health and living conditions of children in developing countries and assist children in becoming productive members of their societies. UNICEF works closely with governments and local communities in 113 countries, often in collaboration with UNDP, WHO, and other UN and multilateral organizations as well as bilateral aid agencies.

Three broad categories of activities characterize UNICEF's work:

-- assistance in the planning and design of primary health care and basic services for children;

-- delivery of supplies and equipment for these services; and

-- provision of funds for the training of local personnel needed to work on behalf of children (teachers, nutritionists, health and sanitation workers, etc.).

In 1984-85 UNICEF continued to focus international attention on opportunities for achieving a "child survival revolution," which, within 10 to 15 years could save the lives of half of the 40,000 children who currently die each day in developing countries. This UNICEF-led effort stresses the "GOBI" strategy, a package of low-cost, high-impact measures of proven effectiveness: growth charts (hence the "G") to enable mothers to detect infant malnutrition; oral rehydration therapy ("O") to provide an inexpensive home treatment to reduce the high death toll among children with diarrhea; the promotion of breast feeding ("B"); and immunization campaigns ("I") for young children. Additional aspects of UNICEF's program include the "three F's" of family spacing, food supplements and female education.

The U.S. Government has always been a prime supporter of UNICEF and a member of UNICEF's Executive Board. The UNICEF Executive Director is and always has been a U.S. national. UNICEF's program directions generally coincide with U.S. development initiatives and policies. For example, UNICEF's efforts in promoting oral rehydration therapy, the use of infant growth charts to detect early signs of malnutrition, and other elements in UNICEF's effort to bring about a "child survival revolution" in developing countries, reinforce related

U.S. assistance programs. In 1983, USAID sponsored the International Conference on Oral Rehydration Therapy in cooperation with UNICEF, WHO and ICDDR/B (International Centre for Diarrheal Disease Research/Bangladesh). This conference has increased the use and effectiveness of this therapy in saving children's lives in developing countries. USAID sponsored ICORT II in December 1985 with the World Bank and UNDP added to the previous cooperating organizations.

Oral Rehydration Therapy (ORT) already has begun to achieve dramatic results - its use is up 90% during the past year and small-scale campaigns in Egypt, Bangladesh, India, Guatemala and Honduras have greatly reduced the rate of child deaths. ORT could become available to half the world's families within the next five years and save the lives of two million children a year. At the moment, less than 10% of the world's parents are using ORT and probably a majority of doctors and health workers have still not heard of - or not accepted - the ORT breakthrough. In support of such programs, the United States provided a special contribution in FY 1985 of $7.5 million to UNICEF to finance a three year program of child survival activities of indigenous private voluntary organizations.

All of UNICEF's income comes from voluntary contributions. In 1985, 122 governments, The Holy See, and the Arab Gulf Fund (AGFUND) contributed to UNICEF's general resources. The United States contributed $52.5 million to UNICEF general resources, accounting for about 27.2% of such contributions and making the USG the largest contributor. Other major contributors included the governments of Sweden (10.9% of 1984 contributions), Norway (8.4%), Italy (7.5%), Canada (6.7%), Japan (6.7%), the United Kingdom (4.3%), and the Netherlands (3.3%). An FY 1987 United States voluntary contribution of $34.2 million is proposed. UNICEF is unique in the UN system in that private contributions and the sales of greeting cards raise about 15% of UNICEF funds.

d. <u>World Health Organization (WHO)</u>

The World Health Organization functions as the chief coordinating authority on international public health. It works to build strong national health services to enable individual countries to become self-reliant in meeting essential health needs of their own people. Since its formation in 1948, WHO has worked to help member countries control diseases. It is mainly responsible for the eradication of smallpox and is now working with A.I.D. to support development of a vaccine against malaria.

WHO has stimulated the worldwide planning of health services, particularly in the areas of nutrition, immunization, malaria control, environmental sanitation, maternal and child health, and mental health. Its experts have developed advanced programs to train community health workers, medical and paramedical personnel to use low cost health delivery technologies. These programs have produced remarkable gains for the traditionally underserved rural and tropical areas that are particularly prone to outbreaks of communicable diseases. WHO also has coordinated the development of international standards for medical diagnostic procedures, and promoted national public health policies relating to food, biological, and pharmaceutical products.

A major shift of emphasis in WHO strategy occurred in 1977 when the World Health Assembly adopted an ambitious new goal for the Organization -- "Health for all by the year 2000," -- meaning a level of health for the world's population that will permit them to lead socially and economically productive lives. This goal has struck a responsive chord in industrialized as well as developing countries. The World Health Assembly in 1981 adopted a "global strategy" for achievement of "health for all," and is elaborating useful intermediate goals and indicators for progress, with "primary health care" serving as the key ingredient of this strategy.

In 1983, the World Health Assembly adopted a budget of $520.1 million for 1984-85; this is the largest regular budget of any UN specialized agency. WHO expects to receive almost an equal amount in voluntary contributions and contracts from member governments, private agencies and other international bodies, such as UNDP and UNFPA. The United States' assessed contribution is $61 million in FY 1986.

e. <u>Food and Agricultural Organization (FAO)</u>

The Food and Agriculture Organization (FAO) is the UN specialized agency with primary responsibility in the areas of agriculture, fisheries, forestry and nutrition.

FAO income is derived from assessed contributions from member countries and voluntary extra-budgetary contributions by governments, international organizations, and non-governmental donors. The 1986-1987 FAO asssessed budget is $499.2 million. The U.S. share of the assessed budget is 25% which, with adjustments, amounts to $100.2 million. The United States FY 1987 contribution to FAO is $50.1 million. FAO estimates that it will receive $648.5 million in extra-budgetary resources during the biennium 1986-1987.

FAO activities focus on plant production and protection; animal production and health; fertilizers; land and water resources; fisheries; food policy and nutrition; forestry; agrarian reform and rural developmemt; and training of developing country nationals in all areas of agriculture.

Originally conceived as an agency for information gathering and analysis and as a forum for inter-governmental discussion, FAO has also become a major channel for development assistance to the developing countries through its field programs which are funded chiefly through extra-budgetary resources. FAO estimates that in 1986 resources for its field programs will reach $300 million. It expects the UN Development Program to provide close to one-third of those funds.

f. World Food Program (WFP)

The UN and the Food and Agriculture Organization (FAO) established the World Food Program (WFP) in 1962 to provide food aid to governments for development projects and as emergency assistance.

Over 100 participating countries make voluntary pledges in the form of commodities and cash (for services such as shipping) to the WFP. The United States has been a major supporter of WFP providing, over the years, about a quarter of WFP resources.

WFP development commitments include:

-- human resources development, such as child feeding and school lunch programs;

-- agricultural and rural development, such as irrigation and road projects, (in which part of the worker's income is paid in food) and production development projects, such as the supply of feed grains to support livestock and poultry industries.

WFP also channels emergency food aid for refugees and victims of civil strife as well as natural disasters. WFP emergency operations in 1985 accounted for about 30% of WFP resources (in total tonnage).

WFP continued to place major emphasis in 1985 on responding to the food emergency in Sub-Saharan Africa and has cooperated closely with the UN Office for Emergency Operations in Africa (OEOA) and bilateral donors in coordinating food aid to affected African countries, totalling 336,000 metric tons.

The pledging target for food aid in 1987-88 is $1.4 billion. The U.S. pledged $250 million to the $1.35 billion 1985-1986 pledging target.

g. United Nations Environment Program (UNEP)

The United Nations Environment Program (UNEP) was established by the UN General Assembly in 1972 to catalyze and coordinate environmental activities throughout the UN system. The United States has been UNEP's principal supporter since the organization's inception, contributing a total of $95 million to UNEP's Environment Fund through 1984, or 30% of all contributions. The U.S. contribution of $10 million for FY 1985 represented 35% of approximately $28.5 million pledged in 1985. Other major contributors were Japan - $4 million or 14%; USSR - $3.0 million or 11% (however, this contribution is in non-convertible currency); Sweden - $1.8 million or 6.3%; FRG - $1.4 million or 4.9%; U.K. - $0.9 million or 3.2%. Of 89 total donors, UNEP's top seven contributors provide over 75% of the Environment Fund, with most LDC's making only token payments. For FY 1987 a U.S. contribution of $6.8 million is proposed - 24% of an anticipated $28 million total contribution from all donors.

UNEP's program elements, Earthwatch - which includes the Global Environmental Monitoring System (GEMS) - is the largest in terms of annual funding devoted to it; Terrestrial Ecosystems (including the tropical forests program) is second in size; and Human Health and Settlements is third. Smaller amounts are devoted to the Environment and Development program, Arid Lands, Environmental Management, Energy and Environmental Data. The distribution of resources generally reflects U.S. program priorities.

UNEP's multilateral approach is uniquely suited to dealing with environmental problems which typically transcend national boundaries. UNEP's ability especially to involve developing countries in resolving such problems is essential to the fundamental goal of preserving the global resource base and promoting sustainable development. The Administration has placed particular importance on this goal. The 1984 Cartagena Convention on protecting the marine environment in the Wider Caribbean region, negotiated under UNEP's Regional Seas Program, is a beneficial product of UNEP's multilateral approach.

h. United Nations Industrial Development Organization (UNIDO)

On January 1, 1986, UNIDO will become the 16th specialized agency of the UN system, twenty years after its establishment in 1966 as an autonomous organization within the United Nations. UNIDO is responsible for encouraging industrial development in the developing countries as well as for the promotion of cooperation among developing countries and between developed and developing countries in this area. The new Director General has indicated his interest in exploring the ways in which the private sector can further UNIDO's goals. UNIDO's Investment Promotion Service (IPS), with seven offices worldwide (Austria, Federal Republic of Germany, France, Japan, Poland, Switzerland, and the United States), identifies projects in developing countries and matches them with sources of private investment capital in the developed countries. The New York IPS's office budget was less than $1 million in FY 1985 (of which $100,000 was contributed by the United States through the IO & P account), yet this office reports that it has been responsible for more than $160 million in direct investment in sixteen countries since 1981. A United States voluntary contribution of $300,000 is proposed for FY 1987 for the New York IPS office.

As a specialized agency, and under new leadership, the opportunities for private sector involvement in development through UNIDO are expected to be greatly augmented.

i. United Nations Capital Development Fund (UNCDF)

UNCDF was created in 1966 for the purpose of providing, on a grant basis, seed money for small catalytic development projects for the poorest people in the least developed countries. Operating under the administration of the UNDP, the Fund supports self-help projects too small for the multilateral development banks to finance and promotes the application of appropriate technology concepts. By the close of 1984, UNCDF was assisting projects totaling $144 million.

The United States became a contributor in 1978 with a pledge of $2 million, which has been renewed for the same amount in succeeding years. In 1984 the U.S. contribution was 9.5% of total contributions. Continued U.S. support of UNCDF is consistent with U.S. interests in bringing grassroots level assistance to the poorest people with emphasis on appropriate light capital technologies. The United States contributed $.861 million in FY 1986. $.9 million is proposed for FY 1987.

j. <u>International Fund for Agriculture Development (IFAD)</u>

IFAD, a product of the 1974 World Food Conference, was created in 1977 with strong leadership by the United States. Its twin purposes are to engage the OPEC countries with western donors in a significant development effort and to focus international development assistance on increasing food production in the poorer developing countries. The Fund's activities are directed specifically at small farmers and the landless poor.

As of September, 1985, the Fund has provided 171 project loans in 86 developing countries with a total investment of over $2 billion. While it is difficult to gauge the eventual impact of these projects, IFAD estimates that its projects will increase incremental annual food production by more than 20 million tons of wheat equivalent. This additional food production will reduce the food import requirements of developing countries by 20%. Finally, IFAD estimates that most of its projects will increase beneficiaries' incomes by 50% or more.

The Fund cofinances over two-thirds of its portfolio, permitting it to operate with a much smaller bureaucratic structure than most United Nations organizations. More than half of IFAD's loans are for projects designed by other international lending institutions, chiefly the World Bank and the regional development banks.

The United States has pledged a total of $380 million to the initial capitalization and first replenishment of the Fund. The other OECD donors have pledged $810 million and OPEC $885 million, resulting in proportionate shares of 58% and 42% respectively for OECD and OPEC member countries.

A second replenishment for IFAD, which will probably provide $460 million[1/] over three years was recently concluded. OECD nations will provide $276 million or 60% and OPEC nations $184 million or 40%. The U.S. share is 17% or approximately $80 million.

1/ Provision was made in the agreement for this amount to increase up to $500 million if the OPEC donors agree by February 19, 1986, to make available additional funds, which would be matched by OECD donors in a 40-60 (OPEC-OECD) ratio.

The United States Government supports IFAD and its contribution to the food production needs of the small farmer. An A.I.D. evaluation of IFAD, completed in 1984, concluded that IFAD's projects are well managed, highly targeted to the small farmer beneficiary group and show a strong food production potential.

k. World Food Council

The World Food Council (WFC) was created by the General Assembly pursuant to a resolution of the 1974 World Food Conference. The Council is tasked with (a) reviewing periodically, at the Ministerial level, major problems and policy issues affecting the world food situation, and (b) making recommendations to the UN system, regional organizations, and governments on appropriate steps by which to take an integrated approach toward the solution of world food problems.

The small professional staff of WFC is directed by its Executive Director and this position has been held by U.S. nationals since its beginning. The WFC President, on the other hand, has been from the developing countries. Having neither operational nor financial functions, the WFC has a small budget, primarily for salaries of the staff, and it is funded directly from the UN's operating budget.

4. Non-United Nations Programs

a. Organization of American States (OAS)

The Organization of American States conducts programs that support technical cooperation contributing to the economic and social development of Latin America and the Caribbean. Major program activities include rural development, technical and vocational training, research into new energy sources, food production and distribution, livestock improvement, and adult literacy. The poorest and most disadvantaged people within member nations receive special attention. During past years several Latin American countries have become new contributors to the OAS program and the U.S. share of contributions has declined to just under 50% of its budget from previous levels of 66% in the 1960s.

b. Development Assistance Committee (DAC)

While not an aid-giving agency with development funds of its own, the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) brings together countries that provide about 75% of all official development assistance, bilateral and multilateral. The DAC's main purpose is to encourage a common and coordinated development assistance effort and to assess member governments' policies with particular respect to the volume, terms, conditions, geographic, and sectoral distribution of their assistance to developing countries. It regularly reviews each member government's assistance policies and seeks to set standards in order to improve the quality and effectiveness of development assistance. The statistical system built up by the DAC is the primary source of information on financial flows to developing countries. The U.S. has been actively involved in DAC efforts to increase aid effectiveness through improved aid coordination including implementation of the Statement on Coordination endorsed by members at the 1983 DAC High Level Meeting.

Important issues addressed by the DAC in 1985 included strengthening the private enterprise sector and market processes and continuing efforts to restrain the growing tendency among some of its members to mix official development assistance with export credits as a means of offering subsidized credit aimed at securing commercially attractive sales to developing countries. A review of African development needs was also held in 1985. As follow-up, members undertook further discussion on approaches to strengthening support for increased agriculture and food production.

CHAPTER VI
Comprehensive Development Budget

This chapter outlines and summarizes the Administration's request for development assistance and development-related programs for Fiscal Year 1987. It is designed to provide Congress and the public with a comprehensive picture of the resources devoted to bilateral and multilateral development assistance programs supported by the United States government. While some of the programs for which statistical data is provided are not exclusively developmental in character, they are important to development and are included for the sake of completion. Detailed submissions and justifications, including funding for multilateral agencies, are presented separately for each program.

The Administration's total budget authority request for development programs in FY 1987 is $8,621.5 billion, as shown in Table XV. This table also compares the amount requested in FY 1987 with the estimated budget authority for FY 1986 and the actual FY 1985 budget authority.

The FY 1987 budget request focuses on both long-term development and economic needs. Stabilization of food production and nutrition, family planning, health, with special emphasis on child survival activities, human resource development, energy, human rights, and research and technical assistance. Economic stabilization assistance includes balance of payments support, commodity import programs, infrastructure and other capital projects.

1. Agency for International Development

For FY 1987, A.I.D. is requesting an appropriation of $6.21 billion for support of its economic assistance program; this amount includes both Development Assistance and the Economic Support Fund. The requested level of assistance reflects the Administration's concern with need to reduce the Federal budget deficit while maintaining a level of bilateral assistance which meets two of the most critical foreign policy objectives: (1) alleviating the suffering of the world's poor and hungry and (2) fostering economic stabilization in countries of particular security and political importance to the United States.

a. Development Assistance

For FY 1987, A.I.D. is requesting $2.12 billion for Development Assistance, including $1.63 billion for the functional accounts, allocated as follows:

(1) Agriculture

For FY 1987, A.I.D. is requesting $709.9 million for this account to increase agricultural productivity, create rural employment and improve nutrition.

The World Bank estimates that the number of malnourished people in all developing countries could double, or even triple, by the year 2,000. To help reverse the trend of declining per capita food production in food-deficit countries, A.I.D. will continue in FY 1987 to concentrate its agricultural assistance program to increase food availability and improve food consumption.

(2) Population

For FY 1987, A.I.D. is requesting an appropriation of $250.0 million for this account.

Effective family planning programs are a vital part of overall development strategies since very high rates of population growth force nations to spend an increasing proportion of their resources on education and health services for a young and growing population.

High population growth rates can be reduced by effective family planning programs, and evidence exists that high rates of population growth are beginning to level off in a number of developing countries. The most important reductions have taken place in countries which have instituted strong family planning programs. In the Strategic Plan for 1985, A.I.D. adopted the goal that 80% of couples should have access to family planning services. A.I.D.'s FY 1987 population program is consistent with this goal.

(3) Health

For FY 1987, A.I.D. is requesting an appropriation of $150.8 million.

Since 1985, A.I.D. has concentrated a substantial portion of its Health account resources for child survival activities to counter the problems of child and infant mortality. Much of the FY 1985 and FY 1986 funding has been directed toward oral rehydration therapy (ORT) and immunization services. A three to five year child survival implementation plan is being developed by the Agency to direct use of A.I.D. funds to achieve child survival objectives.

The objectives of the overall FY 1987 Health program are to: reduce infant and child mortality; increase life expectancy for the population as a whole; increase coverage and demand for child survival interventions; improve cost-effectiveness and sustainability of services through improved health care financing mechanisms; improve health management personnel; and support biomedical research and field testing of important new technologies.

(4) Child Survival

For FY 1987, A.I.D. is requesting a separate appropriation of $25.0 million for the Child Survival Fund (CSF).

Half of all deaths in developing countries occur among children under five. Half of these tragic deaths can be reduced by successful application of ORT and immunization. Approximately 75% of the CSF funds are devoted to these activities. Two other interventions, child spacing and nutrition activities, are also an integral part of the Agency's child survival strategy.

(5) Education

For FY 1987, A.I.D. Is requesting $179.8 million for the Education and Human Resources Development (EHR) account.

Many developing countries are faced with almost insurmountable basic education problems. In the third world as a whole, about 600 million adults are illiterate. In addition, all countries need additional trained technical and professional personnel. A.I.D.'s EHR assistance objectives center around these developing countries' needs.

Almost 95% of the FY 1987 proposed EHR budget would be allocated directly to country programs to support: participant training and basic schooling systems in Africa; education, participant training, labor and PVO activities in Asia and the Near East; and skills training, basic education and expanded participant training programs in Latin America and the Caribbean.

(6) Energy & Private Voluntary Organizations and Selected Development Activities

For FY 1987, A.I.D. is requesting $217.2 million for the Energy, Private Voluntary Organizations and Selected Development Activities (106) account. In addition, $14.3 million is requested for the Science and Technology program.

Activities funded within this account include programs which: 1) encourage the growth of free markets and private entrepreneurship; 2) support private voluntary organizations in addressing energy, environment, capital saving technology, small enterprise development and urban problems; 3) support human rights activities; 4) provide support for energy research programs; and 5) develop local institutions and train personnel in effective natural resource management.

A.I.D.'s Science and Technology Program supports research in biotechnology/immunology, plant biotechnology, chemistry for world food needs, biomass resources and conversion technology, biological control and diversity of biological resources. Also included in this program is the U.S./Israeli Program for Cooperative Development Research which finances research proposals involving Israeli institutions in collaboration with LDCs.

(7) Sahel Development

For FY 1987, A.I.D. is requesting $80.0 million for the Sahel Development Program.

The Sahel Development program is A.I.D.'s regional response to overcoming the serious economic constraints plaguing many African countries which share similar problems and development objectives. The principal goal of A.I.D. development strategy in the Sahel is to achieve regional food self-reliance.

b. Economic Support Fund

For FY 1987, A.I.D. is requesting $4.09 billion for the Economic Support Fund.

ESF provides flexible economic assistance to countries of particular security and political importance to the United States. To the maximum extent feasible, such assistance conforms to the basic policy directions underlying Development Assistance. ESF finances balance of payments support; commodity import programs, infrastructure and other capital projects, and development projects of direct benefit to the poor.

2. P.L. 480 Program

The Food for Peace (PL 480) program was established to combat hunger and encourage development abroad, as well as to aid American farmers by expanding markets for United States agricultural commodities. PL 480 Title I provides for the sale of American agricultural commodities for dollars on credit terms. Title II provides for the grant of such agricultural commodities to governments and to private and international organizations for humanitarian relief. And, Title III, the Food for Development Program, provides multi-year commitments and permits the expenditure of local currencies generated by the sale of PL 480 commodities to be credited as repayments on the PL 480 loans.

In FY 1987, a PL 480 Title I/III program of $944 million is proposed, including $117 million required for ocean freight differential. The need for this differential is brought about by the legislative requirement that 50% of the cargo shipped under the PL 480 program be on U.S. flag vessels. On the basis of the seasonal average prices projected by the Department of Agriculture and the mix of commodities tentatively programmed, the requested program level will finance shipments of 5.3 million metric tons of food aid. In FY 1986, 5.2 million metric tons have been projected for shipment.

For the PL 480 Title II program, $600 million is requested for FY 1987. On the basis of projected prices, this should be adequate to finance delivery of the legislatively mandated 1.9 million metric tons of food.

Aiding victims of the African drought was a major concern of Title II programs in FY 1985 and continues to play a significant role in FY 1986. Almost 1.5 million metric tons of Title II food aid were programmed for African famine victims in FY 1985 at a cost of nearly $590 million (commodity and transport costs). The drought relief effort made use of $400 million, of which $384 million came from new budget authority, provided by Congress in 1985 in a supplemental appropriation and $16 million from prior year carry-in. These supplemental funds provided over 840,000 additional metric tons of food aid to combat drought and famine in Africa.

The Food Security Act of 1985 established a new food aid program, Food for Progress. This program will emphasize the use of America's agricultural abundance to support countries committed to agricultural policy reform during periods of economic hardship, including: 1) adequate price levels for agricultural production, based on market principles, and 2) improved rural infrastructure and private sector involvement. This new approach will expand free enterprise elements of the economies of developing countries through changes in commodity pricing, marketing, import availability, distribution and private sector involvement. Food will be made available through loans and grants, using resources made available under Title I and Section 416 of the Agriculture Act of 1949.

In FY 1987, 378,000 metric tons of food, at a cost of $75 million, will be allocated to regular feeding programs of the World Food Program. The United States, as well as several other major donors, pledge food, services and cash to the World Food Program for projects similar to those sponsored by U.S. voluntary agencies.

3. International Fund for Agricultural Development

The International Fund for Agricultural Development (IFAD) is a specialized agency of the United Nations that began operations at the end of 1977. This unique institution is designed to assist small and landless farmers in developing countries. It is funded jointly by OPEC countries, developed countries and developing countries.

Negotiations on a second replenishment (IFAD II: 1985-1987) reached a conclusion in 1986 after two and one half years of deliberations. The agreement calls for a $460 million level of replenishment of which the OECD donors will contribute $276 million (60 percent) and the OPEC donors will contribute $184 million (40 percent). The United States contribution would be $79.8 million or 17 percent of the total.

4. Multilateral Development Banks

The Multilateral Development Banks are critical development institutions because of their ability to mobilize substantial capital for development projects in all sectors. A broad characteristic of MDB operations in the course of 1985 has been continued progress toward greater reliance on the private sector in the development process. The most striking example of this trend was the creation of the Multilateral Investment Guaranty Agency (MIGA) In October 1985. The MIGA will promote greater developing country reliance on non-debt creating private investment loans through its direct insurance and by fostering improvement in the investment climate in LDCs.

The policy environment in developing countries is critically important for project success and sustainable development progress. The United States encourages the MDBs to direct their resources toward countries with sound macroeconomic and sector policies and to use the leverage their considerable funding programs provide to gain policy modification.

The Administration's FY 1987 request of $1.392 billion for the MDBs represents U.S. negotiated or otherwise explicitly agreed on contributions. Most have already received Congressional authorization. However, three of the items in the FY 1987 request reflect expected U.S. participation in international funding arrangements for which Congressional authorization has been sought since July 1985: a Selective Capital Increase for the World Bank; a five-year capital increase in the International Finance Corporation; and the fourth replenishment of the African Development Fund (AFDF). In addition, authorization for U.S. participation in the MIGA, discussed above, is being forwarded to Congress.

5. International Organizations and Programs

The Administration's FY 1987 request in support of voluntary contributions to the programs conducted by international organizations is $186 million.

United Nations (UN) organizations are important in the multilateral context. A number of UN organizations and special programs have mandates exclusively directed towards the problems and process of development such as the United Nations Development Program (UNDP) while others, such as the UN Children's Fund (UNICEF) pursue development activities within the context of broader responsibilities.

The UNDP is the major multilateral instrument for the delivery of grant technical assistance to the developing world. Not only is UNDP the largest single channel for UN technical assistance, but its mandate is to coordinate all such assistance provided by the UN. The UNDP country programming process is designed to encourage recipient countries to examine their development needs and to assign priorities to development efforts. The FY 1987 request for UNDP is $102.5 million.

UNICEF encourages and assists the long-term humanitarian development and welfare of children in developing countries by providing goods and services which meet basic needs in maternal and child health, education, sanitation, clean water, nutrition and social services. UNICEF works closely with governments and local communities in 113 countries.

In 1984-85 UNICEF continued to focus international attention on opportunities for achieving a "child survival revolution," which within 10 to 15 years could save the lives of half of the 40,000 children who currently die each day in developing countries. The FY 1987 request for UNICEF is $34.2 million.

The balance of the request for international organizations and programs will be used to partially support the programs conducted by the International Atomic Energy Agency, the UN Environment Program, the World Meteroligcal Organization Voluntary Cooperation Program, the UN Capital Development Fund, the UN Voluntary Fund for the Decade for Women, the UN Education and Training Program for Southern Africa, the Convention on International Trade in Endangered Species, UNIDO's Investment Promotion Service, the UN Fund for Victims of Torture and the UNDP Trust Fund for Assistance to Refugees in Africa (ICARA II)

6. Peace Corps

The Peace Corps continues to play an important role in U.S. development efforts. Over 1,000 Peace Corps Volunteers are serving in A.I.D.-funded development projects and this number will increase in FY 1987. The volunteers work side by side with these organizations in such fields as food production, education, health, and natural resources conservation and management. When volunteers return, they have a better understanding of the problems of developing countries and how closely all Americans are affected by problems of the developing world. Many returning volunteers remain in the development field (over 500 former volunteers are currently employed in A.I.D.). As a result, the returned Peace Corps Volunteer's experience adds immeasurably to the quality and effectiveness of development programs in A.I.D. and other organizations. The Administration is requesting $126.8 million for the Peace Corps for FY 1987.

7. Trade and Development Program

The Trade and Development Program (TDP) finances planning activities for capital projects which will enhance the productive capacities of developing countries and encourage the use of U.S. technology, goods and services in the implementation of these projects. TDP plays a critical role in the Administration's efforts to encourage greater private sector activity in development efforts. It has also been effective in meeting foreign competition for development-related export opportunities. The Administration is requesting $18 million for this program in FY 1987.

8. Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) encourages the participation of United Stated private capital and skills in the economic and social development of friendly Third-World countries. Its primary programs are (a) political risk insurance against losses due to expropriation, inconvertibility and war damage; and (b) investment financing through direct loans and guaranteed loans. OPIC's excellent record of growth in recent years continued in FY 1985. OPIC provided insurance and financial support to 157 projects, 74 of which were in the poorest group of developing countries. These projects involved a total investment of $5.2 billion. The ventures assisted in FY 1985 are expected to generate 27,252 man-years of U.S. employment and approximately $2.8 billion in U.S. exports during their first five years of operation. OPIC operates on a self-sustaining basis.

TABLE XV

IDCA COMPREHENSIVE DEVELOPMENT BUDGET
(Budget Authority in Millions of dollars)

	FY 1985 ACTUAL	FY 1986 APPROP /1	FY 1987 REQUEST	
BILATERAL ASSISTANCE				
AID Development Assistance......./2	2,445.9	2,020.6	2,116.6	
Trade & Development Program........	21.0	18.1	18.0	
Overseas Private Investment Corporation (OPIC)............./3	--	--	--	
Food for Peace (PL 480)........../4	1,964.0	1,243.3	1,164.4	
Economic Support Fund and Peacekeeping Operations..........	6,203.8	3,579.1	4,132.8	
Peace Corps........................	128.8	124.9	126.8	
Narcotics......................./5	50.2	55.1	65.4	
Inter-American Foundation..........	12.0	11.5	10.8	
African Development Foundation.....	2.8	3.7	6.5	
Migration & Refugee Assist......./5	363.0	324.4	372.5	
Subtotal, BILATERAL...........	11,191.5	7,380.7	8,013.8	
MULTILATERAL ASSISTANCE /6				
International Bank for Reconstruction & Development.....	139.7	105.0	109.7	
Selected Capital Increase........	--	--	73.1	
International Development Association......................	900.0	669.9	750.0	
Contribution to the Special Facility for Sub-Saharan Africa	--	71.8	--	
International Finance Corp.........	--	27.8	35.0	
African Development Bank...........	18.0	15.5	18.0	
African Development Fund...........	50.0	59.6	75.0	
Asian Development Bank.............	13.2	11.4	13.2	
Asian Development Fund.............	191.2	95.7	130.0	
Inter-American Development Bank....	78.0	36.4	59.5	
Fund for Special Operation.......	145.0	38.3	71.0	
IADB Investment Corporation......	13.0	11.2	13.0	
MIGA...............................	--	--	44.4	
International Organizations & Programs.....................	268.7	237.3 /8	186.0	
UN Development Program...........	(165.0)	(142.1)	(102.5)	
UN Children's Fund (UNICEF)......	(53.5)	(46.1)	(34.2)	
Organization of American States	(10.0)	(14.1)	(14.0)	
Other IO Programs............../7	(133.7)	(35.0)	(35.3)	
International Fund for Agricultural Development.........	90.0	28.7 /9	--	/10
Subtotal, MULTILATERAL............	1,906.8	1,408.5	1,578.0	
Gross Total.......................	13,098.3	8,789.2	9,591.8	
Offsetting Receipts (A.I.D.).......	(764.6)	(927.1)	(970.3)	
GRAND TOTAL.................... ...	12,333.7	7,862.1	8,621.5	

/1 FY 1986 appropriation reflects post-sequestration levels.
/2 A.I.D. DA excludes Miscellaneous Trust Funds; includes IDCA/AID Operating Expenses and the Foreign Service Retirement Fund.
/3 OPIC does not request Budget Authority. Authority for loan guarantees is: FY 1985 - $150 million; FY 1986 - $136.4 million; FY 1987 - $150 million.
/4 PL 480 program levels are: FY 1985 - $2,167.8 million; FY 1986 - $1,739.7 million; FY 1987 - $1,544.4 million.
/5 Migration & Refugee Assistance and Narcotics included for information purposes only, as are not development activities.
/6 Does not include callable capital for the Multilateral Development Banks.
/7 Includes: International Atomic Energy Agency, World Meteorological Organiztion Organization Voluntary Cooperation Program, UN Capital Development Program, UN Voluntary Fund for the Decade for Women, UN Education and Training Program for Southern Africa, Convention in International Trade in Endangered Species, UNIDO, UNDP Trust Fund, UN Environmental Program, UN Fund for Victims of Torture, World Food Program, UN Trust Fund for South Africa, UN Institute for Namibia, UN Fellowhip Program, UN Institute for Training and Research, Pan American Health Organization, World Heritage Trust Fund, ICSOC, UN Center on Human Settlements, and UN Trust Fund for Combating Hunger and Poverty in Africa.
/8 Does not include proposed rescission of $39.8 million.
/9 For IFAD II replenishment; funded from IO & P account.
/10 For FY 1987, IFAD II Replenishment funds will be derived from A.I.D.'s Agriculture account -- a budget amendment will be submitted at a later date.