Development Issues

U.S. Actions Affecting Developing Countries

The 1986 Annual Report of the Chairman of the Development Coordination Committee

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TO THE CONGRESS OF THE UNITED STATES:

The Annual Report on development coordination discusses the events of the 1986 fiscal year in accordance with the requirements of the Foreign Assistance Act, as amended. It represents the cooperative efforts of the member agencies of the Development Coordination Committee (DCC), under the coordination and overall responsibility of my staff.

The DCC, which I chair, was established by Congress to ensure coordination of development policies and programs within the U.S. Government decision-making process. Such coordination has both formal and informal aspects. On the more formal side, coordination occurs through the DCC and its subsidiary bodies, including the Working Group on Multilateral Assistance, the Subcommittee on Food Assistance, and of course the working group which collaborated in the production of this report. The other major mechanism of formal coordination entails participation by myself or members of my staff in the work of such interagency groups as the National Advisory Council on International and Financial Policies, the Trade Policy Review Group, the Economic Policy Council, and others. On the informal side of coordination, 1985 saw a continuation of the daily working relations between members of my staff and other agencies of the U.S. Government, with my own personal involvement as needed. We have thus continued to fulfill the mandate of ensuring that development goals and issues are taken into account in Executive Branch decision-making processes on international debt, finance, investment, trade, technology, private sector growth, and other policy areas affecting developing countries.

U.S. policy in 1985 continued to reinforce our long-standing goal of providing assistance resources to address basic constraints to development. We assisted in creating and strengthening developing country institutional capacity and in developing and adapting appropriate technologies to developing country circumstances. As in previous years, we continued to emphasize that developing countries establish sound economic policies in an environment conducive to encouraging the expansion of competitive markets and of private sector activities. In providing this assistance, we have attempted to create a climate of mutual cooperation and respect to encourage the design of effective programs.

The theme of this issue is markets and the private sector. We believe that increased emphasis on market and private sector development is vital to achieving greater progress in economic development. It is through the private sector approach that developing countries will be able to use more fully their most valuable and productive resource--their people. With the private sector in developing countries as a major driving force in the development process, growth is more likely to be sustained even as international economic conditions vary over time. Moreover, supporting the development of competitive markets and private enterprise is an effective and practical way to generate a broad distribution of gains from growth and to address the alleviation of poverty.

M. Peter McPherson

TABLE OF CONTENTS

TABLE OF CONTENTS (cont.)

PART 1

ECONOMIC DEVELOPMENT, THE PRIVATE SECTOR, AND COMPETITIVE MARKETS

CHAPTER 1

MARKETS, THE PRIVATE SECTOR, AND EQUITABLE ECONOMIC DEVELOPMENT

1.1 INTRODUCTION

The US economic assistance program, in concert with the programs of other donors, has made a substantial contribution to accelerating international economic development. Although the emphasis has varied, there has been a tendency to concentrate on project assistance, usually in the form of adding to the host country's physical or social infrastructure. It was well understood that this was "foundation building," with the idea that the assistance activities would encourage complementary investment by the private sector in each host country, culminating in economic growth and development. In the 1960s, when Agency for International Development (AID) assistance was frequently geared to sector and balance of payments assistance (sometimes in the larger context of a gap-closing exercise), it was still generally assumed that markets and the private sector in the host countries would provide the main engine of development without the assistance of explicit donor attention. By the early 1970s, AID and other donors were emphasizing project assistance again, with the idea that the host country economic policy framework was adequate to ensure downstream (private sector) development.

Over the last several years, however, there has been growing recognition by the United States, other donors, and multilateral development institutions that there has been an accumulation of government intervention in economic activities and of economic policies biased against the development of competitive markets and the private sector. Often, the degree of government involvement has been one of the causes of poor economic performance. Simultaneously there has been increasing appreciation of the strengths of competitive markets and the private sector as instruments that can yield faster growth in output, more rapid structural change, more efficient use of resources, reasonably equitable income distribution, and progress in poverty alleviation.

The thesis of this chapter is that a sustainable approach to improving income distribution and alleviating poverty depends on a sound economic growth strategy; competitive markets and an unfettered private sector are principal elements in such a strategy. It has been widely believed, however, that a trade-off exists between acceleration of economic growth and achievement of greater equity in the distribution of income. Liberal economic policies have been associated with a growth orientation, and interventionist policies have been associated with addressing equity considerations, especially with "attacking poverty." This chapter presents arguments and evidence that suggest that all income levels tend to gain from economic growth associated with market-oriented economic policies.

Before exploring this thesis, two critical points are noted. First, markets and the private sector are not the panacea for all development and growth problems in developing countries. There are many important policy elements. It remains critical that investment in social overhead capital be continued. Although the analysis that follows is necessarily quite general, it does not imply a single path for all countries. The form of markets and the degree of reliance on the private sector will vary in practice, in accord with the history and economic structures of particular countries. Second, even in a strongly market-oriented strategy, the public sector has a vital and constructive role to play. In addition to the widely recognized role of government in establishing the policy environment and providing rules, standards, and certain public services (e.g., defense, national policy), government has to construct and maintain roads, dams, and public buildings; attend to public health and education needs; stimulate the generation and circulation of information; and facilitate the smooth operation of goods and factor markets. This is a large, highly demanding agenda.

1.1.1 The Turnaround

Recent years have seen a clear retreat from interventionist economic policies in developing countries and a new turn among policymakers toward the private sector and competitive markets as engines of economic growth. This is part of a newly intense and general preoccupation with the effectiveness and efficiency of resource use. Developing country governments everywhere are searching for new ways to mobilize resources and to use better those they now command. The sources of this surge of interest are diverse and include the following:

-- On the intellectual side, two decades of an expanded state economic presence have made everyone aware of the need to consider public sector failures as well as market failures when framing policy. For a long time, most analysts simply assumed that governments should step in to correct market failures. There was not much concern about whether the administrative capacity to do so existed, about the difficulties of devising appropriate interventions, about side effects. Now we know that effective government actions may not be feasible and that even apparently effective action may have adverse economic or institutional consequences.

-- The general slowdown in world economic growth since 1980, depressed commodity prices, reduced real-resource transfers, and heavy debt burdens have led to slower growth among developing countries, as manifested in stagnant or falling real government revenues and lower volumes of resources available for development spending. The changed economic environment has reduced the scope for increased taxation without negative incentive effects.

-- In many countries, new graduates had been routinely given employment in the public sector. However, rising numbers of graduates and shrinking budgets have forced many governments to consider other employment possibilities for these graduates, notably in the private sector.

-- The expansion of state-owned enterprises has been accompanied by much legitimate doubt about their value. The experience with state-owned enterprises has not been universally bad--Singapore Airlines and the Korean Steel Corporation, for example, are state-owned. But the prevailing view in most developing countries now is that state-owned enterprises have rarely lived up to their promise and, in fact, have performed poorly. They have frequently become inefficient absorbers of management and budget resources. They rarely play a leading role in the development process or generate entrepreneurial dynamism.

1.1.2 Reassessment of Market-Oriented Development

It is not the awareness of public sector inadequacies alone that has stimulated the turn toward greater use of markets and the private sector. It is also the growing recognition that private money, skills, and energies represent a potentially powerful source of new growth and dynamism, one that has been widely neglected in the past.

A market-oriented strategy can raise growth rates and spur development in a number of ways, several of which are considered below. First, however, it is necessary to specify more concretely the kinds of policies that are implied in the phrase, "market-oriented strategy." The following components seem most critical:

-- The use of private sector agents--individuals and groups engaged in production of goods and services mainly for profit, and nongovernmental organizations with nonprofit objectives

-- Encouragement of competitive markets by adoption of a liberal, outward-looking trading regime, by removing regulatory and other obstacles to entry, and by striving for fair competition between public and private actors and among private actors

-- Systematic preference for indirect instruments of economic policy over direct instruments, that is, tariffs, not quotas; open market purchases and sales, not price controls; auction of foreign exchange, not administrative allocations

-- Sparing use of subsidies, which should be resorted to only in case of demonstrable market failure or to serve high-priority national objectives, and then only when technical feasibility and desirability are clearly established and high targetability is achievable in order to restrain costs

-- Sensitivity to the need for an appropriate structure of incentives, in particular to trade-offs among taxes, investments, effort outlays, and growth

How can such an orientation foster more rapid growth? First, it can increase the volume of resources available for investment and service provision. For example, when private investors are allowed to participate in sectors previously closed to them, or when shares of state-owned enterprises are sold to private parties, public sector resources, including bank credit, are released for use elsewhere, and future budget and credit demands are diminished. Where state-owned enterprisess are divested or activities previously in the public sector are privatized, new managerial resources become available.

Perhaps less obvious, although in many economies more significant, is the generation of new resources in the form of increased numbers of individuals engaged in productive activity, greater intensity of effort, and the commitment of skills useful in the marketplace. A market-oriented approach in developing countries, especially in the poorer developing countries, typically means drawing on small-scale technologies that use little capital and fewer formally educated people and provide more employment.

State trading monopolies, in contrast, waste the skills, experience, and human energy available in the community of private traders. Such state monopolies substitute costly, formally acquired skills for the raw capacity and energy generated by the search for profit. Public sector trading monopolies involve wasteful use of capital resources. They are by nature capital intensive, requiring bigger inventories, more and improved warehousing facilities, and more elaborate accounting procedures than private trade.

Budget constraints, unmet needs for basic services, and the negative incentive effects of higher taxes are another aspect of the resource-raising potential of market-oriented approaches. In many developing countries, a substantial share of government expenditure is now devoted to education, health, and other activities related to basic needs; it is not uncommon to find education claiming one-quarter or more of recurrent expenditures in low-income countries. Yet access to education remains limited. In Sub-Saharan Africa, for example, one-third of all primary school age children are not in school, few have access to modern health facilities, and only 25 percent of the people now have access to clean water. Yet population growth, urbanization, and rising aspirations are creating substantial new demand. At the same time, there are severe constraints on raising more revenue by taxation. In African countries, as in low-income countries generally, farms and mines are the major sources of income and exports, and hence of tax revenues. But farmers are already heavily taxed via price policies and export taxes, and international price projections for most primary goods are not particularly optimistic, at least for the next few years. This leaves little hope for revenue buoyancy in the near future, and therefore closer attention must be paid to the incentive effects of price and tax policies. Private financing and delivery of services is especially relevant in this context.

In addition to increasing the volume of resources available, a market-oriented strategy can make the public sector more efficient by allowing greater concentration of focus. Proliferation of programs and activities disperses existing manpower (especially management) and other resources while increasing the need for coordination. The public sector can perform its central tasks more effectively if it is not burdened by more peripheral tasks. For example, less involvement in foodgrain marketing, distribution of fertilizer, running tomato canneries, or selling shirts can allow governments to direct more attention to building and maintaining roads, improving health care and education systems, and administering their national territories. The private sector can also improve the efficiency of public entities by providing competition and can relieve demand pressures by making alternative sources of supply available to consumers.

Areas of activity in which private agents are allowed to compete--with or without a public sector presence--are likely to be characterized by better services. This is especially true of activities such as retail trade and other personal services, sale of inputs to farmers, trucking and urban transport, and export marketing. These activities are, by their nature, ill suited to the typically complex procedures of large-scale organizations, especially government bureaucracies. They are also areas in which personal dedication, decentralized decision-making, and incentives are especially critical. Competitive provision of services also leads to better services because it presents alternatives to consumers and producers, because it can make monopolistic inefficiencies or abuses more transparent, and because it dilutes the market power of sellers over buyers.

A more active private sector also allows the broader development of entrepreneurial abilities. Lack of indigenous entrepreneurs is frequently identified as a basic constraint to the economic growth of many developing countries. Leaving to the private sphere some of the activities now carried out by government would enlarge the training ground for entrepreneurship.

These kinds of considerations have led governments representing all bands of the ideological spectrum to look more closely at market-oriented policies and the mobilization of private economic forces. Although ideological elements have been strongly present in some cases--Chile, Jamaica, Guinea for example--for the most part, the turnabout arises from highly pragmatic concerns: how to modify institutions and approaches that have proven to be inadequate; how to mobilize individual energies now unused or misused to bolster sagging economic growth rates; how to provide more and better public services in the face of tight resource constraints. Market-oriented policies thus have relevance in all kinds of political systems and can be vital components in any development strategy, whatever its ideological foundations.

1.2 MARKET-ORIENTED POLICIES AND THE POOR

Despite these attractions, advocacy of more private sector, market-oriented development strategies has elicited deep concern from many development professionals and developing country policymakers. Critics argue that market-driven growth will not or cannot yield a distribution of benefits that is equitable, whether in the absolute sense of reducing the percentage of families below a poverty line, or in the relative sense of evening out income distribution. Indeed, the turn toward market-oriented strategies is widely viewed as implying abandonment of the world's poor, a casting aside of the goal of meeting basic human needs that has inspired past thinking in development economics. Some see it as a thinly disguised revival of discredited "trickle-down" theories common in the 1950s and 1960s.

1.2.1 Market-Oriented Policies and Absolute Poverty

In the early 1970s, several influential writers argued that the poor were not benefiting from economic growth, even in rapidly developing economies. H. Chenery and associates' influential volume, Redistribution With Growth, begins with the following statement: "It is now clear that more than a decade of rapid growth in underdeveloped countries has been of little or no benefit to perhaps a third of their population" (Chenery et al. 1974).[1] Irma Adelman and Cynthia Morris went so far as to argue that "development is accompanied by an absolute as well as relative decline in the average income of the very poor" (Adelman and Morris 1973).

But these positions have not been supported by empirical studies. In fact, the claims about absolute poverty and growth made by Chenery and associates and by Adelman and Morris were not even supported by their own data (Lal 1976). Where rapid growth occurred, absolute poverty was reduced. The extent of poverty reduction associated with a given growth rate varies according to the initial distribution of assets, economic and political structures, health and education policies, and other factors. Whereas in Korea, Taiwan, and Singapore the annual per capita income growth of the poorest 40 percent has outpaced that of the wealthier groups, the reverse may be true in some Latin American countries.

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[1]Complete citations for references in this chapter are provided in the Reference section at the end of this report.

But even for the Latin American countries, there are no documented cases of sustained rapid growth that has not been accompanied by a reduction in the number of families living in absolute poverty.

If rapid growth is an effective means of reducing absolute poverty, and if a private sector, market-oriented development strategy can restore lost growth potential to many developing countries in their present circumstances, then such a strategy may be counted as a major instrument in the attack on poverty. It might still be objected, however, that a development strategy that gives first priority to redistribution and that involves direct intervention on behalf of the poor would reduce absolute poverty faster than a strategy that gives high priority to growth. This may be true in the short run and conceivably in the longer run as well. But unless poverty-oriented programs result in increased output or are part of an overall investment program that yields significant growth, they will not be sustainable. Across the developing world, hundreds of well-intentioned, poverty-oriented projects in agriculture, health, and water supply have been crippled for lack of operations and maintenance funding.

Sri Lanka provides an example of the failure of interventionst government policy. Until 1977, the Sri Lankan Government maintained costly social welfare programs by heavily taxing natural resource export earnings. Many observers have argued that this policy seriously slowed economic growth and had become unsustainable by 1977. At the same time, it is not clear that the subsidy policy was yielding significant social benefits. The number of Sri Lankans living in poverty actually increased between 1960 and 1975, and over this period Sri Lanka was surpassed by, or lost ground to, Malaysia, the Philippines, Thailand, and Korea in school enrollment and infant mortality (Bhalla 1986). In 1977 the "equity-oriented" government was overwhelmingly rejected by the electorate in favor of a new government that opened up the economy and restored high growth rates.

1.2.2 Market-Oriented Policies and Income Distribution

We have examined how market-oriented policies affect absolute poverty. But what about their impact on income distribution, that is, on relative poverty? It is often argued that greater reliance on liberal economic policies and the private sector to produce growth will worsen income distribution, both domestically and between rich and poor nations.

Domestically, market-oriented policies might conceivably strengthen wealthy or other groups disproportionately. There are some analytic or a priori reasons why this might happen. People are likely to capitalize faster and more fully on the unfolding opportunities presented by market-oriented policies if they are well placed in terms of asset holdings or physical location, and if they have ability, education, energy, good health, contacts, and, of course, luck.

There are also, according to some observers, empirical reasons for concern. Economic growth appears to have worsened income distribution in some instances. This is most often said to be the case in Latin America, where income and asset ownership are more highly concentrated than elsewhere in the world. A number of writers have suggested that economic, institutional, or cultural conditions in Latin America are such that economic growth of any kind, but particularly that associated with the free operation of market forces, tends to yield greater income concentration and negligible improvement in the conditions of the region's poor. Some empirical studies of Latin American countries have indicated growing inequality in income distribution as measured by increasing Gini coefficients--a standard measure of distributional equity--during various periods in the last few decades (see Fields 1980).

These data on income distribution are weak, hard to interpret meaningfully, and even harder to generalize from (Pfefferman 1982). But even if they are accepted, the relevant question is whether market-oriented policies are in some way implicated in this putative negative relationship between growth and the evenness of income distribution. The answer is very probably, no. Critics tend to lump growth stemming from market-oriented policies under a larger heading, such as "capitalistic growth," although, in reality, it is doubtful whether the policies of most Latin American countries are appropriately described as market-oriented. One recent inquiry concerned with the causes of inequitable growth concluded that "initial conditions" (mainly distribution of asset ownership and natural resources) and inappropriate policies (mainly import-substituting industrialization) are the principal factors accounting for internal patterns of income distribution and their worsening over time (Myint 1985).

It is true that poorly designed or executed liberalization policies can have negative impacts on the distribution of income (and asset ownership). In many African countries, deregulation of agricultural marketing often begins by allowing only licensed traders to compete with state trading organizations; however, such restrictions on entry limit competition and sometimes lead to conspiracy to control prices. In such cases, benefits to small-scale private traders and producers are reduced. Divestitures of state-owned enterprises can be hastily or carelessly done, resulting in concentration of ownership among a few firms. For example, the post-Allende divestiture program in Chile, carried out speedily and during a recession, resulted in 1978 in the control by five conglomerates of 53 percent of the total assets of Chile's largest enterprises (Foxley 1982).

Nevertheless, even if it could be demonstrated that well-designed, market-oriented policies sometimes lead to worsened income distribution, most observers would probably agree that reduction of absolute poverty should be the prime concern. Even in Latin America there is little doubt that growth reduces poverty in this more critical sense (Pfefferman 1982).

Developing country trade strategies influence the distribution of income among countries and income distribution patterns within national economies. Concerning the international aspect of the relation between trade strategies and income distribution, the question is whether generalized developing country adoption of more market-oriented trade policies--an outward-looking or export-led strategy--would increase the gap between rich and poor nations. The argument that this will happen has many strands, including theories of unequal exchange, unequal sharing of benefits of export-oriented investment in developing countries, and secular declines in commodity terms of trade. Probably the most pervasive element in the attack on outward-looking policies is that which points to low income and (especially) price elasticities of demand for primary commodity exports. The existence of protectionist policies in developed countries (which limit market penetration of the manufactured and processed exports of developing countries) is used to further support this argument. Some writers also have emphasized the widespread existence of imperfections in international markets, which result in systematic biases against developing countries; these run from restrictions on migration and information flows to oligopolistic multinational corporations and centralized commodity markets.

The real importance of many of these factors is open to question. To the extent that they are valid, they indicate circumstances that lessen the benefits accruing to developing countries from international trade and hence warrant the attention of policymakers interested in creating a more equitable world trading system.

However, for those who see a growing income gap between rich and poor countries as morally unacceptable and politically destabilizing, a much more relevant issue is this: are inward-looking policies likely to narrow the "gap" between developed countries and developing countries more quickly, or at all? Our expectation, based on recent developing country experience, must be that such policies would in fact widen the gap. Inward-looking trade strategies, emphasizing heavily protected import-substituting industrialization and consequent policy biases against primary and secondary export activity, have not proved capable of sustaining high growth rates. Development in numerous countries in Latin America, Africa, and Asia has been seriously hampered by the illiberal trade policies accompanying excessive, entrenched import substitution. Mainly because of greater dependence on imported intermediate inputs, relatively closed economies tend to be more seriously affected by external shocks, their average incomes tend to fall faster than in more open economies, and their internal income distribution worsens (de Melo and Robinson 1981).

Finally, it should be noted that by itself, concern over the gap between rich and poor countries may be misplaced. On the international scale, most people are more interested in improvements in their own welfare than in how they compare to people in rich countries far away. And in any event, the empirical foundations for a widening gap are hardly firm. Gross national product (GNP) growth in developing countries exceeded GNP growth in developed countries between 1960 and 1978; per capita rates were about the same, and statistical analyses show little or no tendency toward income polarization between low-, middle-, and high-income countries (Singer and Mahmood 1982). The faster growth resulting from open trade policies will do more to close the absolute disparity of income between rich and poor countries than will policies that discourage or reject trade.

Outward-looking trade strategies tend to yield favorable domestic economic results because more liberal trade policies encourage competition and development of markets and private enterprise. Because a liberal trade approach means that overall economic activities are influenced strongly by the principles of comparative advantage, there will be a tendency to stress use of the more abundant factors of production, which are the factors earning lower incomes. For typical developing country economies, the most abundant factor is labor, and for many developing countries this is poor, agricultural labor.

1.2.3 Controlled Economies, Liberalization, and the Poor

In the previous sections, the equity implications of market-oriented policies were considered in general terms and in the context of broad relations between economic growth and changes in income levels or shares. But this is only part of the equity story, and not the most important part. The equity issue should not be looked at in the context of an economy that is operating at some acceptable level of efficiency; rather, it should be included in the context of a control-ridden economy that is liberalized, that is, into which more market-oriented policies are introduced. In this context the key question is: how are the poor affected by liberalization? (Note that the equity impact of liberalization should also be considered from another angle--that of viable alternatives. The alternative to liberalization is continued reliance on failed policies and institutions, stagnant growth, and delayed structural adjustment.)

The answer is naturally quite complicated. It depends on the nature of the controls or interventions in place, how they are working, and the structure of the economy in question. A good answer also requires that direct and indirect effects be traced, and short- and long-term implications examined. Much simplification is therefore unavoidable in a short analysis.

Nonetheless, one central and important generalization seems defensible. In developing countries the poor and disinherited are not the main beneficiaries of state controls and interventions. Rather, it is the higher income groups who benefit most. A shift to a more open economy, more competitive markets, and prices that are more closely determined by costs is, therefore, usually equity enhancing.

Three main factors explain why the poor benefit less from state controls than those who are better off. (1) In the general bargaining process that occurs in all political allocations, it is the visible, vocal, easily mobilized groups (who are advantaged to begin with) that defend their interests most effectively--for example, urban wage earners, large commercial and industrial interests, and government employees. (2) Equal access to subsidized goods and services is extremely difficult to ensure. Geography (closeness to roads, schools, dispensaries, fair price shops, among others), class and ethnic differentials in academic performance, limits on fine tuning or targeting of programs because of administrative weaknesses--all lead to unequal benefit-sharing from subsidies, with richer, better located people benefiting more. (3) Controls generate excess profits (economists sometimes call them rents), which are almost invariably garnered by the rich and powerful.

This last factor has received the most attention. In the typical regulated economy, administrative rationing, rather than prices, is employed to allocate scarce goods and services and to regulate the movement of goods and factors of production between markets and sectors.

Briefly defined, excess profit is that portion of a price that is greater than that necessary to bring the given quantity of the good or service to the market (given that other sellers could and would be willing to supply the good or service at a lower price if they were permitted). The economic costs of widespread excess profit generation are (1) the slowing of growth as investment is directed into unproductive but lucrative excess profit-generating activities at the cost of foregone productive investment and (2) generally adverse effects on the structure of competition and the distribution of income as excess profit generation and acquisition are concentrated in the hands of the few.

Quantitative restrictions on imports are especially prevalent and especially detrimental in low-income countries. They restrict import volume more severely than tariffs because they do not allow domestic purchasers to satisfy additional import demand by paying the world market prices plus the tariffs. However, they also create opportunities for corruption, as politicians, officials, and importers struggle to share the large rents that they generate.

Procurement and resale of import licenses have been a common means of realizing rents from license rationing. In one Mideastern country, there have been many instances of entrepreneurs "going into business" for the express purpose of procuring imports and then reselling them to larger firms. Some small-scale firms actually slowed or stopped their own production, because it was more profitable to sell imports to larger firms.

Protected firms, administrators, politicians, high-level "contact men," and middlemen gain from the excess profits associated with import controls. Poorer groups--the mass of consumers, small farmers, unskilled laborers, and smaller unprotected firms--lose out not only in the process of rent allocation, but also from the effects of import controls on domestic prices, resource allocation, and growth.

Other excess profits arise from regulations that control movements of goods between administrative jurisdictions or that impose demanding entry requirements in some lines of economic activity. Every roadblock, every requirement for approval to buy, sell, or transport, generates the opportunity for excess profits and corruption--the payment of bribes for the right to pass, buy, or sell. The origins of roadblocks and movement controls usually lie elsewhere in the regulatory system. They can arise, for example, when official procurement prices for rice in a zone of surplus production are set below levels that market conditions call for, while at the same time the official distribution system cannot deliver enough grain to deficit areas to meet demand at the official prices. The results are higher prices in deficit areas (often where the relatively poorest live) and the siphoning off of income from farmer-producers, traders, and transporters to policemen and other officials. Consumers as a whole suffer because the real cost of delivering food is higher and because of the negative output effects of lower producer prices in the longer run.

Although excess profits, as discussed above, clearly do not benefit those most in need, subsidies are generally imposed for laudable economic and/or social purposes--for example, to encourage farmers to use more modern technology, to allow children from poor families access to education and medical services, or to prevent hunger. However, with only a few exceptions, subsides also tend to be unequally distributed and have the unintended effect of increasing inequalities.

- Subsidized credit policies and programs tend to benefit bigger farmers. Forced to lend at below-market-level interest rates, banks lend less money to a more limited clientele, almost invariably big farmers whose default risks are lower and whose connections and ability to meet transaction costs are greater. In lending for industry, most subsidized loans go to large, well-connected enterprises at the expense of small-scale firms. Subsidized credit also makes the costs of unsubsidized credit higher. Moreover, cheap credit policies discourage private savings and thwart the development of private or truly cooperative institutions that could--and do, in some places--mobilize rural savings.

- Subsidies to agricultural inputs, notably fertilizer, are usually associated with single-channel, public-sector input supply systems. These in turn are almost always characterized by excess demand--more inputs are demanded at the subsidized price than the budget allocation and stipulated rate of subsidy will allow. Rationing is therefore required, and the common outcome is that fertilizers go disproportionately to selected groups--people who live near official depots and good roads, and people in better watered areas, especially those with access to irrigation. These are usually the bigger and better off farmers.

-- Subsidies on basic foods are sometimes direct (below-cost sales through fair price shops or using food coupons) and sometimes indirect (imports priced cheaply because of overvalued exchange rates or below-market procurement prices paid to farmers). In either case, poorer groups benefit less than the relatively well off. In one country cited in a recent International Monetary Fund (IMF) study, 10 percent of the benefits of food subsidies accrued to the poorest 20 percent of the population, while the richest 27 percent of urban people received 46 percent. Only 15 percent of the total budget cost of the subsidy was transferred to the seriously undernourished in rural areas and 25 percent in urban areas. In another country, food is sold in ration shops at below market prices. Rural people--90 percent of the population--receive only 20 percent of the rationed food, and less during shortages (Sisson 1986).

-- Subsidies to health and education services often have similarly inequitable effects. Despite the fact that developing country governments rarely charge their citizens for these services, provision and access have not been particularly equitable. A recent study concluded that the distribution of developing country government subsidies for health and education is strongly biased in favor of richer groups; although much less regressive, a similar bias was observed for health subsidies. The subsidies were found to flow disproportionately to urban white collar and manual workers at the expense of people in rural areas. In addition, the public services most likely to be used by richer groups--such as higher education and private rooms in hospitals--are the most heavily subsidized (Jimenez 1986).

The lower income groups benefit rarely or benefit little from the controls characteristic of the interventionist state. They tend to benefit less than the higher income groups from subsidies and other interventions that distort market prices. Conversely, most liberalization measures are demonstrably equity enhancing.

-- Liberalization of trade regimes, through devaluation (and other measures that have similar effects on relative prices) and through reductions in the administrative allocation of licenses and foreign exchange, diminishes the excess profits generated by quantitative restrictions. Devaluation allows higher incomes for farmers who produce exports--a very large, poor, and heavily taxed group in most developing countries. In that minority of countries where agricultural exports are produced mainly by larger farmers, the impact on income distribution will be less positive and will operate mainly through higher wages paid to laborers.

-- Liberalization of internal agricultural markets will also benefit farmers. Parastatals are often the sole legal buyers of export crops and also strictly regulate competition by private traders in foodgrains. Deregulation and more competitive marketing increase marketing efficiency by stimulating parastatals to search for better performance and by shifting market shares to more competitive private traders. Such liberalization permits payment of higher producer prices because marketing costs decline as a share of export proceeds.

-- Removal or reduction of movement controls for staple foods raises food prices in surplus zones and reduces them in deficit zones. Because the latter are often the poorer areas, with relatively poorer populations, the result is often equity increasing--all the more so if the surplus-producing farmers are smallholders.

-- Reduction in subsidized credits will rarely hurt the poorest segments of rural society. More credit is likely to be dispensed and wider access provided to previously marginal small borrowers. Alternative uses of the sometimes substantial resources allocated to these programs can have not only positive output effects but can also be much more effective in reducing poverty. The higher real interest rates that usually accompany freer credit markets also can have positive long-run effects in developing rural institutions.

-- Reductions in food subsidies will often be equity enhancing. Of course, not all food subsidy schemes have regressive distributional impacts; the net effect of reducing food subsidies will depend on how the liberated resources are used.

-- Restrictions on private provision of education are common throughout the developing world. In many countries, deregulation would benefit the poor. Legalizing private schools would ease the demand for public resources, effectively increasing the access of poorer students to public channels. In countries where bribery has become an accepted means of gaining admission and, sometimes, good grades, allowing private schools could boost the integrity of the whole system.

These examples serve to illustrate the central point about market-oriented policies and income distribution. Many of the standard developing country market interventions --exchange controls; agricultural marketing regulations; subsidies for food, education, health, and public services; and restrictions on private provision of education or health services--tend to benefit the rich more than the poor. By allowing markets to determine prices autonomously for exchange, credit, farm products and inputs, and consumer goods, developing country governments will in most cases be helping the majority of the poor. Similarly, the reduction of subsidies on food, education, health, and other public services will often be equity enhancing (provided that there is a reasonably well-directed reallocation of the freed resources).

Other considerations reinforce this conclusion. Freer markets, more open trading regimes, and prices nearer costs will increase the efficiency of resource use and increase growth, thereby serving to lessen absolute poverty. Also, from the point of view of consumers and producers, market-oriented policies imply freer societies: the range of choices open to individuals and groups is expanded. A market orientation can also dilute concentrations of state power, making everyone, rich and poor, less subject to arbitrary or unfair actions. To this extent, it gives democratic government a better chance of emerging and surviving.

1.3 THE MOBILIZATION OF PRIVATE ENERGIES AND RESOURCES

The program for encouraging market-oriented growth will naturally vary according to the particularities of the country in which it is pursued. Still, some generic elements of a market-oriented strategy may be outlined.

- -- An institutional climate hospitable to the private sector and competitive markets needs to be established. In many developing countries, mobilizing private energies will require a political commitment and effort to reduce administrative arbitrariness, uncertainty, slowness, and corruption. These features--sometimes aggravated by overt political hostility to the private sector and/or cumbersome, unfair legal and administrative systems--reduce the willingness of the private sector to invest and expand.

- -- The macroeconomic policy environment needs to be rendered more congenial. This means fewer and more carefully targeted interventions in trade policy, domestic pricing, and fiscal policies.

A standard set of prescriptions exists for trade regime reform in developing countries where antiexport, import-substituting policies have led to industrial stagnation. These include introducing and maintaining a realistic exchange rate, removing existing obstacles to exports (e.g., taxes, restrictive licensing), eliminating quantitative restrictions on imports, rationalizing and lowering tariffs, and so on.

The reform of price policy has several dimensions. Suitable agricultural price policies usually require moving producer prices closer to border parity (i.e., world market prices). Interest rates should be allowed to move closer to market rates. Subsidies on agricultural inputs should be replaced by product price increases or by other agriculture-focused expenditures. Such subsidies can normally be justified only in the short term and only at modest levels. Although there may be some theoretical justification for longer term subsidization, the negative institutional effects of input subsidies in practice (notably, discouragement of private input distribution networks) make input subsidy reduction a key part of a market-oriented policy posture.

Regarding fiscal and monetary policy, the usual advice applies: check expansion of bank credit to the public sector and rein in government spending, especially on nonproductive operations. Tax levels and structures should be assessed to minimize negative incentive effects. In general, taxes on tradeable goods should be lightened in favor of taxes on nontradeables, mostly services.

In many countries, government involvement in productive activity and service provision needs to be reduced. The public-private mix should be changed, with government concentrating resources on the strategic activities it can handle, and private agents allowed to compete with or replace state monopolies in production, distribution, and service provision. Divestiture is one possibility; this can be done by selling shares of state-owned enterprises or by selling whole enterprises to private buyers. But there are other ways to privatize. Management can be contracted to private firms; state-owned enterprises can be leased; services can be financed more by user charges than by taxes; private contractors can replace, complement, or compete with government service provision (e.g., marketing of agricultural inputs and outputs, insurance, postal services, transport, road maintenance, and so on).

1.4 WHAT DEVELOPING COUNTRIES ARE DOING

Numerous developing country governments have adopted, or are preparing to adopt, elements of the package of market-oriented policies. Import administration is being improved to reduce licensing requirements in a number of countries--Kenya and the Sudan for example. Export incentive schemes are blossoming everywhere. Since 1980, dramatic exchange rate adjustments have taken place in Uganda, Zaire, Somalia, Ghana, Sri Lanka, Jamaica, and many others. Effective protection studies have been undertaken in many places as a prelude to the reform of tariff structures.

In a number of African countries, real producer prices in agriculture have been increased since 1980 to levels more in line with international prices. In Sri Lanka, Indonesia, and Thailand, aggressive rice pricing policies have led to enormous increases in output. In the Sahel countries of West Africa and in Madagascar, liberalization programs have opened up single channel state marketing systems to legal competition from private traders.

Forward movement is observable also in the divestiture sphere. Numerous state-owned enterprises are being closed down quietly, as budget and credit squeezes force governments to reorder their priorities. In Turkey, credit restrictions led to the sharp contraction of the major parastatal in the country, the Meat and Fish Corporation, whose staff fell from around 250,000 to 100,000 in the space of a few years and whose export monopoly in processed meats has ended. In Togo, a failed $40 million steel mill has been leased to a private entrepreneur, and in Costa Rica a state holding company has begun to divest some of its 18 state-owned operating companies.

These and many other signs of progress notwithstanding, the pace of liberalization must be regarded as slow. Implementing liberalization and privatization programs is proving difficult. Stabilization programs have succeeded only partially; rates of inflation in developing countries have remained high in the 1980s, in contrast to industrial countries. In Africa, effective exchange rates continue on average to appreciate and, since 1980, real prices paid for export crops have fallen in more cases than they have risen.

Divestitures have been relatively infrequent outside of a few countries: there have been only about 85 sales of state-owned enterprises in recent years in the 30-odd countries where interest in privatization was publicly expressed (outside of Chile and Bangladesh). Liquidations of state-owned enterprises numbered only 30, although data collection problems may make this estimate low.

1.4.1 Why Liberalization Is Sometimes a Slow Process

That liberalization is a slow process should not be surprising, nor especially discouraging. The intellectual shift is recent and hesitant, and experience to draw on is limited. Administrative inertia and the resistance of powerful groups that profit from the existing pattern of interventions present formidable obstacles. And there are other important, though less discussed factors. Governments pursue many objectives other than efficiency in resource allocation and use. Food self-sufficiency, for example, may be a high priority even though its pursuit entails reduced incomes and slower growth. Officials and political authorities may forestall reform efforts because of concern that skilled or well-off ethnic minorities will capture the benefits of market liberalization. Further, many liberalizing reforms are uncongenial to economic world views common in the third world (and, in fact, everywhere). Many intellectuals and officials do not accept the view that competitive markets are more efficient and more beneficent as allocation devices than the alternative of monopoly buying and selling by the public sector. It is believed that there is a "just price" for many goods, which government must ensure regardless of market conditions; the ubiquitous policy of uniform, countrywide pricing--which leads to costly subsidization of production and consumption in remote or disfavored regions and other problems--also arises from this sentiment.

Additional difficulties make redimensioning state sectors by divesting state-owned enterprises a slow process in most developing countries. Governments that are inclined to divest are mainly interested in selling unprofitable state-owned enterprises, which are usually unattractive to buyers. Powerful political forces--the military, organized labor, much of the civil service, and the intellectual community--are often hostile to real divestiture. Acceptable potential buyers are few; capital markets are commonly narrow and weak and the general policy environment is often uncongenial for private investors who might otherwise be willing to buy out government operations.

1.4.2 Three Examples of Liberalization

Despite these undeniably serious obstacles to implementing and maintaining market-oriented policies, several developing countries have made remarkable progress. We will consider, as examples, Somalia, Bangladesh, and China.

Somalia. In 1975, the Somali Government organized its fishing industry along cooperative lines. Almost 700 motorized boats were bought and made the property of 25-odd cooperatives. By 1980, lack of incentives for proper maintenance, low official prices, and other unsuitable policies brought the industry to a near halt; 400 of the 685 boats were inoperable. The Government decided to privatize. By 1982, 110 boats had been sold to fishing crews, with remarkable results. Officials reported in mid-1982 that 85 percent were operating; under previous arrangements a similar percentage were inoperable most of the time.

In agricultural policy, the Somali Government has also undertaken a significant liberalization program. First, in the mid-1970s a gradual relaxation of state controls in rural areas began. The Government passed an Agrarian Land Reform law in 1975 allowing private purchase and registration of land. Between 1975 and 1983 some 140,000 hectares were leased, 100,000 of them irrigable. Much of the land leased is in the lower Shebelli River valley (59,000 hectares).

Second, the Ministry of Agriculture became more permissive regarding private farmers, particularly those in the lower Shebelli River valley. In 1980, the Ministry distributed 38 small pumps that had been lying idle to willing farmers and helped them clear major irrigation canals. Also in 1980, the Government of Iraq donated 660 wheeled tractors, one-half of which were sold to private farmers, including farmers in the lower Shebelli. In addition, the Ministry distributed grapefruit seedlings and newer maize varieties to farmers who wanted them. (It is worth noting, however, that by 1982 there was a private market in seeds and seedlings, which seemed to be more active than the Ministry.)

The third element in the new agricultural orientation was a reduction in the role of the state grain marketing organization, the Agricultural Development Corporation. Until the late 1970s farmers were not allowed to sell grain to private traders. Indeed, the Agricultural Development Corporation prohibited storage of more than one sack of grain (100 kilograms) per person, to force sales to the Corporation. At the same time, official producer prices were kept low, especially after the mid-1970s. While the law remained ambiguous, the practice changed in the late 1970s, especially in the lower Shebelli, where irrigated maize potential was high. There the Agricultural Development Corporation virtually withdrew from the market. Farmers were allowed to sell to private traders, and at open market prices, which were two to four times higher than the official or Agricultural Development Corporation prices in the 1980s.

This new policy has resulted in an agricultural boom. A land rush has developed; during the first 9 months of 1983, 41,000 hectares were leased, most of them in the lower Shebelli. According to official Ministry of Agriculture data, maize production rose from its normal level of the 1970s (100,000-120,000 tons) to 150,000 tons in 1981 and 1982 and to 235,000 tons in 1983. Some observers think that these increases are overstated and that successive years of good rainfall are more responsible for the increase than the new plantings induced by the changed policy environment. However, casual observation during visits to the lower Shebelli indicates a real change. New plantings in maize, sesame, grapefruit, papaya, and vegetables are abundant. Wages have risen sharply in the region, and agricultural laborers in 1982 and 1983 could earn more than unskilled laborers in Mogadishu.

All of this is happening, it should be noted, in an area without much infrastructure. Government roads are only now beginning to penetrate much of the area. In at least one case, farmers themselves joined together to finance road construction and maintenance. Also, private markets for inputs seem to be emerging--for seedlings and seeds, for tractor services, for pump maintenance. Although it is too early to be sure, and there is much that is unknown about what is happening, the lower Shebelli experience seems to show agricultural transformation being generated by policy changes favoring individual enterprise (Berg 1985).

Bangladesh. In the 1970s, Bangladesh was often referred to as a "basket case." It is a country with relatively little land, most of which is in fragmented holdings, subject to flooding and cyclones, without irrigation, and specialized on two crops, jute and rice. Agricultural incomes declined between 1971 and 1975 as export earnings from jute fell because of declining prices and shrinking world demand. Famine hit in 1975.

A number of obstacles prevented faster agricultural change in Bangladesh: lagging growth of small irrigation and flood control facilities and an inappropriate incentive structure, low investment in agriculture because of resource scarcities, inefficient public sector input delivery systems, and overvalued exchange rates that discouraged agricultural exports.

In the late 1970s, the Government began to address these problems with a series of liberalization and investment measures. Subsidies were reduced to free resources for investment. The resources freed by dramatic cuts of fertilizer subsidies were used to expand irrigation. Food subsidy arrangements were also changed. Previously, much of the subsidy went to better-off urban consumers. More closely targeted programs were substituted for the subsidies--notably feeding programs for vulnerable groups and food-for-work projects.

Input supply was opened to private sector competition. The result has been better timed deliveries of fertilizer, irrigation equipment, seeds, and pesticides. Fertilizer sales have increased steadily despite the sharp cut in subsidy rates. Also, the private sector role in the supply of minor irrigation equipment is a significant factor in the explanation for the rapid development of farm mechanization in the last few years.

The private sector was also given a bigger role in grain marketing. It now handles over 80 percent of the domestic trade in grains. The institutional environment has become more accommodating to private activity. Antihoarding laws have been dropped, and licensing requirements for traders have been cut. Restrictions on private sector imports of grains have been removed. Finally, the trade regime was liberalized--exchange rates were adjusted, export incentives introduced, and export taxes cut or eliminated.

The changed policy and institutional environment has already had positive impacts. Since 1980, agricultural production has grown by 3.5 percent a year, and market prices of foodgrains have fallen below border parities. The growth has come via intensification--that is, higher yields from the same land base. Use of fertilizer and high-yielding seed has grown markedly, as have irrigation and flood control facilities. These now cover a quarter of the cultivated land area, compared with only 10 percent a little more than a decade ago. Production seems to have diversified and become more independent of rainfall variations. And new exports (e.g., shrimp, leather, and tea) have grown by 10 percent a year; they now constitute 30 percent of total exports, compared to 15 percent a decade ago.

Less dramatic perhaps than the China case described below, the Bangladesh experience is nonetheless a real success story and indicative of the potential of reforms that put greater stock in market-oriented policies and private sector resources.

China. The astounding performance of Chinese agriculture since the 1979 reforms is presently the world's most prominent and unusual demonstration of what market-oriented policies can do. Perhaps nowhere in the world was private economic activity as suppressed as it was in rural China before 1979. Probably nowhere in the world are the gains from freeing up rural agricultural markets so dramatic.

Gross per capita agricultural output increased at about 1 percent a year in the 1960s and 1970s; official peasant income grew by 0.05 percent a year from 1965 to 1977. At the same time, legal constraints appear to have severely limited the amount of income peasants could earn on their own (outside the collective). Although a central goal of the controlled agricultural economy was to develop local self-sufficiency in staple food crops, the effects of the policy were often the opposite. Dependence on imported grains increased markedly; by 1978 China had become the world's largest importer of edible vegetable oils and cotton, despite traditionally large domestic production capacity in each.

The reforms of the late 1970s gave the price mechanism a new prominence and greatly expanded the freedom of the peasant to dispose of his household's produce. The average level of farmgate prices for agricultural goods was allowed to rise--grain prices appreciated by 50 percent between 197' and 1983--and relative crop prices were changed to stimulat production of crops that had experienced declines under th previous system (e.g., cotton and vegetable oils). Margin prices paid for over-quota production for the state were greatly increased. With respect to institutional changes peasants were allowed to sell grain in rural and urban markets and, in 1983, to arrange for interregional trans by private means. In 1980, the household was made the p mary economic unit and allowed to contract with the coll tive; its payment was linked to output. In effect, priva management replaced collective management.

Amazing increases in agricultural production have followed the reforms. Grain output has increased at close to 5 percent a year, more than twice the pre-1979 rate of 2.1 percent. Output growth in other crops has been even greater --cotton output increased at 19 percent a year between 1978 and 1984 (up from 2 percent in 1957-1978); sugar beets jumped from 3 percent to 21 percent for the same periods; vegetable oils increased from 1 percent to 15 percent; sugarcane, meat, and soybeans also increased markedly. Rural income gains during these 5 years probably exceeded those of the previous 30 years (Lardy 1985). One observer's data indicate that average per capita rural income doubled between 1978 and 1983 (Trescott 1985). Rural consumption of consumer durables (e.g., bicycles, sewing machines, radios) has shot up by 100 percent or more. Rural savings deposits have increased six times above the 1978 level. Rural housing space grew by 45 percent.

What is particularly remarkable about this episode of extraordinary growth is that it did not require large increases in agricultural inputs. The amount of irrigated land and the use of pesticides declined, as did the use of mechanized implements like tractors. Employment in agriculture actually fell as more rural small-scale enterprises sprang up. Fertilizer consumption did increase, but not greatly. No breakthroughs in farm technology occurred. Rather, the growth stemmed from rapidly increasing total factor productivity.

One other feature of the Chinese liberalization experience deserves comment: liberalization has had strongly positive effects on lessening inequality. A recent assessment noted the following changes: a substantial narrowing of the previously wide gap between rural and urban incomes; a continual narrowing of inequality between men and women; a decrease in inequality of personal power and autonomy. The author suggests that there has been a slight widening of rural income inequality, but the data presented are ambiguous (Trescott 1985).

1.5 CONCLUSION

These examples illustrate the general analysis presented in earlier sections. Many other experiences are underway that will illuminate other aspects of the growth potential that market-oriented strategies offer. The scope for private sector expansion may be less wide in some countries and regions than in others. But everywhere there are many more possibilities than are being tapped, and results can be striking at all levels of economic development. The profound nature of the changes involved should not be ignored. What is at issue is the idea--an idea that took 400 years to win acceptance in Western societies--that economic and political power can be divorced without shaking the foundations of the state.

CHAPTER 2

USING FOREIGN ASSISTANCE TO ACCELERATE PRIVATE SECTOR DEVELOPMENT

2.1 THE AGENCY FOR INTERNATIONAL DEVELOPMENT

2.1.1 Policy Dialogue and Conditionality

Policy dialogue is a fundamental aspect of the Agency for International Development's (AID) effort to help accelerate international economic development. "Policy dialogue" refers to the routine conduct of discussions between AID and host governments on a broad range of economic topics affecting growth and development in the host countries. The content of policy dialogue depends on the specific circumstances prevailing in each host country and on the nature of the AID program and strategy in that country. The common theme, however, is to encourage host governments to liberalize their economies: to reduce the level of government involvement in economic activities and to allow competitive markets and the private sector to function with as little impediment as possible.

Although concerned with all factors affecting long-term development, AID emphasizes specific policy objectives in each country at any given time. The policy dialogue is also constrained by political factors, which always play a role in determining what is practical.[2] There is, nevertheless, an extremely large scope for substantive discussion, extending across and even beyond the particular development projects and activities receiving financial assistance from AID. Policy dialogue related directly to projects and activities receiving AID financial support typically includes relatively detailed discussion of the host country's policies in covering health, agriculture, and education, areas that receive a large share of AID assistance. In agriculture, for example, AID attempts to convince the host government to reduce or remove pricing regulations and to permit private businesses greater freedom to engage in agricultural marketing.

Increasingly, AID is initiating substantive discussions of macroeconomic policy issues outside of AID's traditional purview. Thus, policy dialogue now encompasses topics concerning fundamental economic policies such as divestiture of state-owned enterprises, and macroeconomic issues such as monetary, fiscal, trade, or exchange rate policies.

The guiding theme is to change host country economic policies in ways that encourage private sector growth and expansion. The effort is frequently difficult because most

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[2]For a more detailed discussion see the AID Policy Paper titled Approaches to the Policy Dialogue, December 1982.

policy reforms, although economically sound, impose costs on particular groups. For example, importers lose their price advantage when an overvalued currency is devalued. The devaluation is good for exporters, who tend to be private entities, and in the agrarian economies that AID assists, the large proportion of beneficiaries will be farmers. The devaluation is usually beneficial to growth, income distribution, and the economy at large. However, the losers in the short term are not likely to see the longer term advantages. The host government must have the will to overcome opposition to change if reforms are to go forward.

Policy dialogue involves a process in which several phases must be completed before reforms become effective and enduring. For example, AID sometimes attempts to convince host governments to reduce or remove subsidies. The effort may begin with the provision of technical assistance to measure the cost of the subsidy to the budget and to analyze the net effects of the subsidy (who benefits, who loses, and in each case, how much?). The study results can then serve as a substantive basis for discussion within the host government and between AID and the host government. Ideally, the host government would then decide the issue on its merits without further AID involvement. Indeed, many economic policy issues are so sensitive that the host government, not AID or any outside entity, should be the dominant actor in the change process.

The conduct and success of policy dialogue are critically influenced by how well the actions and policies of other donors, bilateral and multilateral, interact with AID efforts. This interaction can help or can hinder the policy dialogue process. The objectives of AID and multilateral institutions such as the World Bank or the International Monetary Fund tend to be congruent in cases where host country policies have led to chronic economic instability and foreign payments crises. In these circumstances the host country is likely to hear nearly the same arguments from all three entities.

When the objectives and policies of other donors do not support AID objectives, AID may try to change donor as well as host government policies. Some donors provide development assistance simply by selecting items from the host government's project list. This requires less resident staff and enables the donor to provide assistance on a neat timetable. It is simpler to provide grain storage facilities, for example, to the state grain marketing agency, than to try to convince the host government to relax marketing restrictions in return for the donor providing credit to private grain traders. When donor policies serve to perpetuate inefficient practices, AID tries to change both donor and host government policies.

Donor coordination is an absolute necessity if policy dialogue aimed at economic liberalization is to work. This is a long-term process in which donors have to be convinced that merely giving aid is not sufficient and can sometimes even slow the economic development process. Over the last several years, AID has been very active in explaining the larger policy picture to other donors. Other donors have also become more attuned to the policy implications of their actions as they have witnessed repeated failures of their "sound" project assistance in unsound macroeconomic policy settings.

Conditionality is a vital concept in AID's effort to promote economic liberalization. "Conditionality," in the context of AID operations, refers to the inclusion in an AID program or project agreement of conditions that are to be met by the host government. (Policy dialogue issues, on the other hand, may range far beyond actual AID programs and do not entail a formal agreement with the host government.)

Formal conditions take two forms: conditions precedent and covenants. Formal conditions may be supplemented by a set of informal side statements indicating concerns or intentions. These statements can be significant in the overall conditionality process. Conditions precedent specify that certain measures or changes are to take place prior to signature of an assistance agreement. Covenants specify measures to be enacted by the host government during the life of the assistance program. Not all conditions precedent and covenants are linked to policy issues; some pertain to the mechanics of implementing the assistance.

The use and importance of conditionality has increased as AID has attempted to harness as many instruments as possible to help accelerate private sector growth in developing countries. Opportunities for the use of effective conditionality have also been increased by recent growth in the amount of nonproject assistance AID is providing. Nonproject assistance has been increased in order to provide more immediate help to countries with balance of payments crises and in need of stabilization and adjustment programs. A nation faces a balance of payments crisis when its foreign exchange obligations suddenly become much greater than its foreign exchange receipts. Over the past six years, many developing countries have experienced balance of payments crises, and some countries have suffered several. These balance of payments crises have highlighted the need for stabilization and structural adjustment reform. AID frequently employs conditioned nonproject assistance in response to economies with balance of payments problems.

Several factors are critical when applying conditionality to nonproject assistance. First, AID recognizes that it is both unrealistic and counterproductive to press for changes governments cannot or will not attempt. The provisions included in conditioned agreements must be well designed and limited by reasonable expectations, because overly stringent conditionality will be unsustainable and can lead to a deterioration in the bilateral relationship between the United States and the recipient country. The real challenge is to obtain policy changes that are significant yet can be implemented. A host country in desperate economic circumstances may agree to conditions it would not accept in less stressful times. Conditions accepted with an evident lack of resolve, or in circumstances that preclude the ability to follow through, are unlikely to be sustained.

When comparing a country's performance with its commitments, AID evaluators must be aware of the whole range of the country's economic circumstances. In particular, evaluations of compliance with conditions in the macroeconomic area can be complex because performance is often sensitive to external variables beyond the control of the host government. Reasonable evaluation must consider the country's efforts to implement policy changes as well as the results. For example, a balance of payments gap may be filled not because improvements in export policies were implemented as called for by the conditions, but because strategic international commodity prices rose. The reverse may also occur. A country may implement an agreed-on reform but, because of outside developments beyond the country's control, it may fail to reach what had seemed to be reasonable goals. Nevertheless, despite the limits and complexities of conditionality, it is an extremely useful instrument because it establishes explicit policy performance objectives.

The list of reforms influenced by AID policy dialogue, assisted by AID resources, and pushed along by AID conditionality is growing. Many are too new to be fully assessed, but the trend is clear.

In one south Asian nation, policy dialogue led to reforms allowing private entrepreneurs to engage in fertilizer wholesaling and retailing operations. In addition, the country divested at least 110 major public sector units, principally in jute, textiles, and sugar, and is in the process of divesting four commercial banks. In another south Asian nation, AID's policy dialogue led to elimination of the barriers to private entrepreneurs in fertilizer distribution and in the operation of tubewells.

A Caribbean government has undertaken divestiture of some two dozen public entities. Eleven entities involved in tourism and agricultural production have already been sold or leased to private operators. Another Caribbean nation has begun divestiture of several major parastatals and is opening its financial sector to private banking. One African government has agreed to allow private firms to purchase and distribute donor-financed fertilizer. Another African government has granted private traders access to grain markets and has greatly expanded their freedom in import and export marketing. Because of AID efforts, a south Asian government now allows private competition with the state's former bus and insurance monopolies and has turned its textile mills over to private management.

In 1985, AID and the State Department introduced the African Economic Policy Reform Program, using $75 million from the Economic Support Fund. The whole amount has been allocated through cash grants or commodity import programs to

Malawi, Mali, Mauritius, Rwanda, and Zambia to support extensive new economic policy reforms. In each country, release of the assistance is conditioned on specific actions, many of which are designed to support privatization and the growth of the private sector generally. For example, Mali is cutting tax rates. Rwanda is easing price controls, facilitating access to credit for small and medium private producers, and broadening the coverage of investment code benefits to small businesses. Mauritius is cutting marginal tax rates. Zambia is ending subsidies to parastatals and is admitting private traders to maize marketing.

The African Economic Policy Reform Program has been extended into fiscal 1986. AID is midway through the process of selecting the countries to be included this year and the reforms on which disbursements will be conditioned.

2.1.2 Program and Project Selection and Design

The preceding section described how AID works at a relatively high level using policy dialogue and conditioned economic assistance to improve the general economic climate for private sector activity and to address specific impediments to private sector growth and development. This section describes how AID is changing the composition of its country programs and project designs to stress private sector and market development.

AID Mission program portfolios now contain a larger share of projects involving the private sector, and this proportion will continue to grow over time. As AID has moved to expand support for development of the private sector in developing countries, the Agency has also moved away from selecting projects which involve increases in the size of host government administration. AID continues to assist some research and other productive government or quasi-government activities which have substantial positive externalities, such as some health projects or agricultural research. AID also continues to support investment in selected small-scale infrastructure for public use such as rural roads maintenance or similar public works which directly benefit individuals and stimulate private production and investment.

Examples of activities supporting the private sector in developing countries include assistance to intermediate credit institutions which provide capital to private firms and individuals, technical assistance to private borrowers, and assistance which benefits exporters. Also included in the array of options for programs directly supporting the private sector are investment promotion, export promotion, joint venture development, small and medium enterprise development, management training, technology development and transfer, cooperative development, and expansion of private voluntary organizations. An increasing proportion of AID counterpart funds is being directed toward private entities through financial institutions.

AID has substantially increased its level of support for programs and projects which reduce constraints on developing country exporters who are, with few exceptions, from the private sector. AID support for private sector exporters applies particularly to Latin America where, spurred by the Caribbean Basin Initiatitve, AID has increased the number of its export-oriented activities from a handful prior to 1982 to approximately 40 in 1985. The AID-assisted export programs stress increasing export competitiveness and diversification of exports in agriculture, industry, and handicrafts. AID export-oriented programs span a large variety of areas including directly productive projects; training, technical assistance, and studies; financial facilities for export; expansion of private sector involvement; and encouragement of private foreign investment in the export sectors of developing countries.

In their sectoral programs (agricultural development, health, family planning, shelter, human resources development, and energy/renewable resources), AID Missions are actively seeking new opportunities for private enterprise to influence and participate in program and project design and implementation. Missions are designing agricultural projects, for example, that will use private firms in agricultural research, production support, extension, and marketing activities. Health and family planning programs frequently incorporate components that depend on private sector channels for the distribution and social marketing of supplies, such as contraceptives or oral rehydration salts. In their education and training programs, AID Missions enlist the collaboration of private organizations and firms. AID facilitates the involvement of the private sector in financing and constructing basic shelter. Together, these activities have substantially increased the use of the private sector in both the design and implementation of AID programs. Some examples follow.

A project in Thailand has created opportunities for private sector enterprises to increase their participation in the production and delivery of agricultural inputs. Agriculture in Thailand has long been constrained by the lack of a source of high-quality seed necessary for increased yields. AID resources are helping to institutionalize a seed program within the Royal Thai Government that increases farmer use of high-quality seed while greatly increasing private sector involvement in supplying the seed. AID funds financed technical assistance from a US land grant university and capital assistance for six seed production centers, which also demonstrated the new technology and provided training to private sector seed producers. There were three private seed producers before the project began; there are now more than 25 private seed production firms in Thailand. The availability of improved seed is expected to increase crop yields by 15 to 20 percent.

A multiyear PL 480 Title I Program policy dialogue with the Government of Tunisia encouraged the distribution of fertilizer by private agricultural input dealers. Traditionally, fertilizer was sold by (usually inefficient) parastatals; the narrow margins allowed by the Government on fertilizer sales by private businesses discouraged private involvement. As a result of Mission policy dialogue with the Government, margins allowed to private fertilizer dealers were increased fourfold. Thirty-eight private dealers began selling fertilizer, and, at last count, there were approximately 168 private dealers in business. Some recent increases in agricultural production, including recent record cereal harvests, can be traced directly to the private dealers' timely delivery of fertilizer to farmers.

Similarly, in Kenya, AID used a commodity import program (CIP) to effect a major liberalization of the Kenyan fertilizer distribution industry. Prior to this program, all donor-supplied fertilizer was distributed by three firms, the dominant firm being a Government-controlled organization. In response to AID policy dialogue efforts and under the aegis of the CIP, the Government of Kenya agreed to allow private firms to distribute the concessionally financed fertilizer. As a result, 15 private firms were distributing fertilizer by 1985. The system has been further liberalized for 1986, and the Kenyan Government now allows all donors to distribute fertilizer through private firms.

A small grant to the National Development Foundation in Peru led to over $1.5 million of agricultural exports over a one-year period. The grant enabled the Foundation, a private development foundation which promotes nontraditional agricultural exports, to provide technical assistance and information to producer associations, processors of agricultural products, and exporters. This experience will be drawn on in the design of larger programs.

The transfer of agricultural technology can directly involve US private sector firms. An example is a project in Belize which successfully joined efforts of the Government of Belize, two private voluntary organizations, and a multinational firm (Hershey Foods) in a pilot program to transfer technology from a large commercial cocoa operation to small farmers.

In Mauritius, AID used CIP counterpart funds to stimulate private enterprise development and expand employment. The CIP funds financed commodity imports for a private sector firm which then deposited the local currency equivalent of the dollar purchase price into a special interest-bearing account in the Mauritius office of a US bank. The local currency was used to construct seven industrial buildings in high unemployment areas in the country. The additional industrial space allowed creation of about 5,000 new jobs and contributed to private sector growth. Plans are progressing to build additional buildings, possibly funded by a bond issue.

The Dominican Republic offers an interesting example of how AID has worked with the private sector in the area of human resources development. Most vocational and secondary schools in the Dominican Republic are private and expensive. To open educational opportunities to the poor, the nonprofit Educational Credit Foundation was established by the private sector to make student loans. The Foundation became a sound program but was focused on general education, giving little attention to vocational instruction. AID assistance is helping the Foundation to increase lending for vocational and technical training, to provide loans to schools for much needed equipment and materials, and to upgrade the skills of vocational and technical instructors. The project is providing technicians with the skills needed for private sector growth and is now helping train small entrepreneurs.

Programs for nonformal skills training to improve the employability and increase the income of underemployed and unemployed youth and workers can benefit firms as well as individuals. After a training program in the Eastern Caribbean, the average monthly income among the two-thirds of the program participants who had found jobs was $138, even though more than 90 percent of the trainees had virtually no regular income prior to training. In addition to benefiting these individuals, the program created a cadre of qualified entry-level employees for new and expanding business needs.

For expansion and development, the private sector requires access to credit. AID programs can identify opportunities for expanding the amount of savings mobilized for lending and can facilitate the channeling of such funds to priority sectors. For example, in the Dominican Republic an AID project provided technical assistance and analytical studies to adjust and improve administration of the Agricultural Bank and to open branch offices. The purpose was to encourage savings from rural areas to be used for agricultural development lending. A series of policy and administrative changes were made, including raising interest rates paid to savers to 12-18 percent, well above historic inflation rates. Steps were taken to improve loan recovery and to increase the formal banking system's ability to compete with informal short-term rural lending. Within 12 months, 34 additional branch offices of the Agricultural Bank and selected credit unions were opened, more than 16,000 new accounts were opened, and the equivalent of $2 million was deposited by rural savers.

In Haiti, entrepreneurs operate in a difficult financial environment characterized by a shortage of foreign exchange and inadequate development financing. AID supported the establishment of the Development Finance Corporation to provide medium- and long-term credit for small and medium enterprises. The project is stimulating new industrial and agro-industrial investment that creates employment, generates foreign exchange through exports, and increases the Government's tax base. Disbursement of the AID loan to 27 subprojects generated 2,178 jobs and an annual average of $4.5 million in foreign exchange. The project also mobilized $1.0 million in private equity capital from 142 shareholders, thereby contributing to the development of the Haitian capital market.

AID has developed ways to use the private sector in health and family planning programs and at the same time to improve the effectiveness and efficiency of these programs. In Egypt, which has a long history of pervasive Government involvement in the economy, an AID-private sector partnership was instrumental in reducing infant mortality by 25 percent during the diarrhea season. An AID-supported project established 30 oral rehydration therapy (ORT) training centers and 2,741 ORT service units in existing health facilities and initiated a national television promotion campaign. The Ministry of Health increased production of oral rehydration salts from 16.5 million liters to 90 million. A private distribution firm replaced the Government entity in moving these supplies to retail outlets. Sixty percent of the oral rehydration salts were sold through private pharmacies at affordable prices, yet with a high enough profit margin for pharmacists to encourage their sale.

The critical population situation in Bangladesh was addressed by an AID-supported project which recognized that the rate of population growth cannot be reduced by the efforts of the public sector alone. In order to expand and improve the contraceptive delivery system and provide the private sector with the opportunity to participate in the effort, AID and the Government of Bangladesh sponsored the Social Marketing Program. This program made private retailers an important component in the family planning supply system. The program has proven to be a cost-effective way to use private entrepreneurs and the market system to address a serious social problem.

Research and technology development in fuelwood and alternative energy can benefit individuals and businesses. With assistance from AID, the Central American Institute of Industrial Technology carried out research on low-cost solar wood dryers to improve the combustion efficiency of fuelwood. A low-cost "tent" dryer was designed, suitable for small-scale drying of grains, fish, fruits, spices, and other food products, as was a solar dryer for the industrial drying of sawmill lumber. These technological products have enabled individuals, cooperatives, and private business to expand existing and develop new economic activities generating income, employment, and foreign exchange.

2.1.3 The Private Enterprise Bureau

AID's Private Enterprise Bureau (PRE), established in July 1981, is a small central bureau with an annual budget of about $40 million. The Bureau is the focus of AID's effort to extend its private enterprise thrust across the entire range of assistance programs planned and implemented on a decentralized basis by AID's overseas field Missions.

Bureau Objectives

The main objective of the Bureau is to encourage and support AID overseas Missions in building programs that use market- and private enterprise-based approaches in meeting basic human needs. The Bureau has provided consulting support to AID Missions in the fields of enterprise development, capital markets development, investment promotion, commercialization of technology, and policy dialogue aimed at removing constraints on the private sector. The Bureau manages the AID Private Sector Revolving Fund, with the objective of testing new financial methods in support of private sector banks and enterprises in developing countries. A guiding principle of the Bureau has been to develop successful, replicable models that can be adapted and expanded by Missions through their regular bilateral programs.

The Private Enterprise Bureau contains the Agency's Office of Housing and Urban Programs, which manages the Housing Guaranty (HG) program and Development Assistance grant-funded projects targeted on urban development in association with HG projects. The basic objective of the HG program is to help provide low-cost, affordable shelter for the poor of the third world. There are important relationships between these shelter and urban development objectives and PRE's broader concern for market- and private enterprise-based approaches to general development programs.

Activities

The Private Enterprise Bureau's programs can be grouped into four main categories: Mission support, investment program, core support for US business development organizations, and the Housing and Urban Development Program. In addition, during 1986 and future years the Bureau will continue its support for the commercialization of technology.

Mission Support. Drawing on the experience of its first three years in supporting the private sector development efforts of AID Missions, the Bureau decided in mid-1985 to devote a substantial proportion of its total resources to a large-scale, contractor-based Mission support capability in three related areas: private sector strategy development, financial markets, and divestiture and privatization. In each of these areas, Missions will be able to obtain sustained, high-quality consulting support. The goal is to permit each Mission to tailor its private sector program development to local needs and conditions, and to build policy dialogue with host governments on the basis of expert analyses drawn from the US financial and investment banking communities. In many cases, private enterprise development will depend on changes in policies and regulations that constrain the operation of financial markets and the flow of foreign investment.

The PRE privatization support contract will enable AID Missions to respond to host government requests for help in privatizing and divesting public sector entities. The Bureau believes this is a significant opportunity for engaging private enterprises in the development process, and intends to take full advantage of it. To further assist the Missions in the field of finance and capital markets, PRE will expand training in these subjects for its own and AID Mission staff beginning in 1986.

Investment Program. In November 1983, AID obtained approval from Congress to establish an innovative new program, the AID Private Sector Revolving Fund. This program, managed by the Private Enterprise Bureau, enables AID to earn reflows from selected projects that lend funds at market rates of interest to private enterprises and financial institutions in developing countries. The Revolving Fund has been capitalized at an average annual level of $15.25 million, enabling 17 loans to be made in the past two years. Per project loan amounts are low, typically $1-3 million, in order to encourage innovative, highly leveraged activities with the potential for replication on a larger scale. Most important, Revolving Fund loans are intended to provide examples for both AID Missions and host countries of procedures, methods, and approaches that can expand the flow of resources to and through private sector entities.

Core Support for US Business Development Organizations. A substantial proportion of the PRE budget is committed as core grant support for US nonprofit organizations working toward cooperative and business development in the third world. PRE currently funds six cooperative development organizations, as well as the International Executive Service Corps (IESC) and one organization whose purpose is to promote agribusiness joint ventures. PRE core support permits these organizations to extend technical expertise to a much larger number of recipients than would be possible otherwise. Currently, some 700 third world businesses are receiving assistance from IESC volunteers. Tens of thousands of developing country cooperatives have received assistance through PRE-supported cooperative development organizations. The Private Enterprise Bureau has begun a cycle of evaluation studies that will eventually cover all organizations receiving core support. The lessons learned from these evaluations will guide future programming in this area.

Shelter Finance and Urban Development. PRE's Office of Housing and Urban Programs provides headquarters administrative and program management for seven overseas regional offices. These Regional Housing and Urban Development Offices in turn manage a portfolio of housing guarantee projects totaling approximately $1.9 billion. In recent years, housing finance through investment guarantees has been supplemented by grant assistance aimed at securing complementary project design, program management, and policy advisory services.

Shelter is a basic human need. There is growing recognition that housing finance and the broader capital markets within a country cannot be separated. Further, it is becoming increasingly clear that as the proportion of city-dwellers continues to increase in the third world, urban development critically affects the ways in which the productive economic activities of both the formal and informal sectors expand employment opportunities. Accordingly, policy dialogue with host governments is likely to be expanded to issues related to the links between the private sector and urban development. The private sector can play an important role in urban development through the substitution of private for public service delivery and the creation of improved economic environments for private sector development and expansion.

Achievements

Although a relatively new component of AID, the Private Enterprise Bureau can claim a number of successes in fostering a new private sector-oriented approach to development within AID. The Bureau has been at the forefront of the President's private sector initiative. During the last four years, it has fostered growing attention among AID professional staff to the challenge of channeling resources through the private rather than the public sector. In addition, AID Missions are finding ways to use private enterprise as the mechanism for addressing human needs in AID's priority sectors--agriculture, education, health and population, and shelter. In most cooperating countries, moreover, policy dialogue concerning removal of constraints on the private sector is well under way. Examples of PRE achievements follow.

The Revolving Fund (and predecessor lending) have pioneered new approaches to the provision of credit for small- and medium-size enterprises. In Kenya, a successful PRE loan to the Kenya Commercial Bank demonstrated the validity of commercial bank term lending to such enterprises. The concept was recently replicated in a $20 million USAID/Kenya project with the Government of Kenya aimed at rural small enterprises nationwide. In FY 1985, the Revolving Fund made six investments in an innovative offshore collateral account mechanism that mobilizes local resources for small enterprise. This mechanism holds great promise for wide replication for private sector lending where the borrower does not or cannot assume foreign exchange risks or in countries to which AID considers direct dollar loans to be too risky. The FY 1985 Revolving Fund portfolio also included the first Revolving Fund loan directed at the business credit needs of micro-borrowers (street vendors, small shop owners) in Latin America.

In the area of core support to business development organizations, PRE made a grant to Land O'Lakes, Inc. for the provision of technical assistance, training, and project feasibility analyses. Using funds from this grant, Land O'Lakes developed an innovative program in Jamaica involving the creation of the Jamaica Agricultural Development Foundation, a nonprofit, private sector venture capital foundation to support and promote sustainable agricultural and agribusiness projects in Jamaica. The Foundation is being initially capitalized by sales of PL 480 Title II butter and cheese. The profits generated constitute the majority of investment funds that the Foundation uses for venture capital, loans, guarantees, equity participation, and grants to small farmers and agribusinesses. To date over 8.5 million Jamaican dollars ($J) have been approved for loans and equity participations and over $J0.5 million in grants for local private businesses and entrepreneurs. The program should be self-sustaining at the end of six years.

PRE's Office of Housing and Urban Programs has developed unique expertise within the US Government concerning shelter finance and urban development in the third world. Since the early 1970s, the Housing Guaranty programs have been used successfully in policy dialogue to move developing country governments away from costly housing construction affordable only to the relatively well-to-do and toward sites-and-services projects, neighborhood upgrading, and home improvement programs designed to assist the poor to upgrade their housing. The sites-and-services approach, pioneered by AID, is now the standard for shelter financing used by other major donors such as the World Bank.

More recently, the Office of Housing and Urban Programs has developed a new diagnostic tool, the urban development assessment, which seeks systematically to correlate financial, economic, employment, and demographic issues arising from explosive urban growth in third world countries. The assessments provide a framework for policy dialogue with host governments concerning resource allocation, removal of constraints on private sector economic activity, shelter finance, and other issues related to meeting basic human needs in an urban setting.

2.2 THE OVERSEAS PRIVATE INVESTMENT CORPORATION

The Overseas Private Investment Corporation (OPIC) is a self-sustaining US Government development agency created to mobilize and facilitate the participation of US private enterprise in the development process. OPIC programs complement this country's foreign assistance efforts and result in the transfer of much-needed capital, technology, and managerial skills while contributing to economic growth, employment, and private sector development in developing countries. These developmental benefits are not accomplished at the expense of US economic interests, however. The Corporation ensures that the returns from OPIC-assisted foreign investment and related US exports have a positive net effect on US employment and the long-term US balance of payments.

In recent years a consensus has emerged in the international development community that foreign direct investment has taken on an increasingly important role in the development process, given diminishing levels of concessional assistance and commercial bank lending to developing countries. The Reagan Administration has helped to encourage a more conducive climate for foreign investment worldwide through its vigorous support for private enterprise development as an integral part of its foreign assistance program, and its active pursuit of policy objectives--fewer restrictions on foreign investment flows worldwide, facilitation and protection of US investment abroad--as reflected in its 1983 statement on US policy toward foreign direct investment. Further, some developing countries have adopted policy reforms that have increased the role of the private sector in general, while liberalizing investment policies to establish an environment more receptive to both local and foreign direct investment. Such policies should facilitate the natural synergism between foreign and domestic investment, enabling each to enhance the developmental effects of the other. (See Section 3.4 for further discussion of foreign direct investment.)

2.2.1 The OPIC Program

To fulfill its mandate of facilitating US investment overseas, OPIC operates several major programs: political risk insurance, financial services, and special investment encouragement activities.

Insurance

An investor considering a project overseas must evaluate the risks posed by future political, economic, and social conditions in the country. In light of the perceived levels of political and economic instability in developing nations, many American businesses have become reluctant to take advantage of promising opportunities in these countries. However, by providing insurance against inconvertibility of currencies, loss due to expropriation, and damage caused by war, revolution or insurrection, and civil strife, OPIC reduces the probability of catastrophic loss. The availability of such insurance can be a prerequisite to overseas investments by US firms.

For a number of years, OPIC has insured several forms of investment in addition to direct equity investments. OPIC's program for letter-of-credit guarantee insurance protects US contractors and exporters against the risk of arbitrary drawdowns of the letters of credit they may be required to post as bid, performance, or advance payment bonds. OPIC also offers specialized insurance and financial services for the exploration, development, and production stages of energy and mining projects as part of an effort to help meet world demand for natural resources while generating income for developing countries. Most recently, to encourage developmentally beneficial transfers of US technology and capital equipment, OPIC has begun to insure and finance long-term cross-border operating and capital leases.

Financial Services

OPIC also provides direct loans and loan guarantees that complement commercial sources of long-term financing, thereby removing one of the major constraints to US investment in the developing world. For example, American banks may be hesitant to provide loans for projects in developing countries because of unfamiliarity with lending for overseas investments, the prohibitive costs of negotiating loans abroad in the absense of branch offices in the host country, or limits on the total amount that can be loaned in one country. Also, US banks are often unwilling or unable to accept certain political risks. Thus, US firms, particularly those with little previous foreign investment experience, may find it difficult to obtain commercial financing for investments overseas.

In such situations, OPIC makes financing available to US investors who otherwise would be unable to invest in developing countries. Furthermore, because these loans generally provide medium- to long-term financing, they often encourage investors to structure their projects to be more developmentally beneficial for the host country. In FY 1985, OPIC's direct loan and loan guarantee authorities were increased by 50 percent to $15 million and $150 million, respectively.

2.2.2 Highlights of FY 1985

OPIC's excellent record of growth over the previous four years continued in FY 1985. OPIC provided insurance and financial support to a total of 157 projects, of which seven utilized both services. These projects involved a total US investment of $2.0 billion and a total project investment of $5.2 billion. OPIC programs emphasize investments in the poorest developing countries and those involving US small businesses. During the past four years, 258 projects (including 74 in FY 1985), or 47 percent of all insurance and finance projects supported by OPIC, were located in countries with a per capita gross national product (GNP) of $680 or less in 1979 dollars.

OPIC has been especially eager to help US small businesses venture abroad because they tend to make labor-intensive investments and are more likely to use local goods and services. However, smaller firms are often hesitant to invest overseas because of difficulties identifying and evaluating overseas opportunities, obtaining long-term financing, and overcoming logistical and operating problems. To address these problems, OPIC operated a feasibility study assistance program. In FY 1985, OPIC approved financing for 53 studies, 51 of which involved small businesses. OPIC also conducted investment missions to Granada, China, Portugal, Malta, and Ecuador, in which 62 percent of the 65 participants were small businesses. In addition, OPIC's direct loan program is available exclusively to small businesses.

OPIC continued its support of the Caribbean Basin Initiative in FY 1985. Of all OPIC-assisted projects, 37 (or

24 percent) were located in the Caribbean Basin, and 32 of these (86 percent) were sponsored by small US businesses. Total investment in all Caribbean projects was $371 million, of which American investors supplied $186 million.

Two special projects were launched in FY 1985 to address the difficulties of encouraging investment in the least developed countries. OPIC initiated, in conjunction with AID, a three-year, $1.5 million project identification and technical assistance program in Sub-Saharan Africa to foster US/African joint ventures involving US small and minority firms. A second, similar program was established to develop detailed project profiles of investment opportunities in China and actively match them to US small businesses.

Effects on Developing Countries

When determining whether to assist an investment, OPIC is required to consider the economic and social development impact and benefits of the project. Therefore, OPIC selectively supports only investments that are beneficial to host countries. Applying this criterion, by the fifth year of operation the FY 1985 projects insured or financed by OPIC are expected to employ a total of 27,587 people, 5,957 of whom will be in managerial or professional positions. About $1.2 billion of the original investment will be spent locally for goods and services, and an additional $71 million will be spent in other developing countries. Once in operation, these projects are expected to generate annually an estimated $2.4 billion in net foreign exchange earnings and $1.3 billion in taxes and duties.

Effects on the US Economy

OPIC-supported projects also provide significant US employment and balance of payments benefits. During their first five years of operation, projects supported in FY 1985 are expected to generate 27,252 person-years of employment for US workers and approximately $2.8 billion in US exports for initial and ongoing procurement of materials and equipment.

2.2.3 Prospects for the Near Term

Foreign investment clearly plays an important role in private sector development. The contribution that foreign direct investment can make to development, however, depends significantly on the overall policy framework in which it takes place. Although some host countries have established financial and other incentives as well as regulations supportive of foreign investment, recent World Bank analysis suggests that these have had less of an effect on the amount of investment a country receives than a stable economic and political climate and the financial and exchange rate policies established by the country.

In general, sound macroeconomic policies and structural measures that give greater scope to private initiative while reducing the role of government will be conducive to both foreign and domestic investment. As developing countries continue to adopt policies along the lines suggested in Chapter 1, foreign investment should become an increasingly valuable component of each country's development strategy.

OPIC is dedicated to continuing its role of selectively encouraging greater involvement by US investors in the process of private sector development in developing countries. In 1986, OPIC will try to increase the awareness of the US business community about investment opportunities in the third world by conducting five investment missions to countries in West Africa, Central America, and the Far East. Also during 1986, OPIC will work to increase the number of countries in which its programs can operate. To do so requires a bilateral agreement between OPIC and each host country. Five such new agreements were signed during 1985 (Colombia, Ecuador, Cape Verde, Guinea-Bissau, and Tonga), and OPIC is hopeful that additional agreements will be signed in FY 1986. OPIC currently operates in 104 developing countries and areas.

The capital, skills, and business expertise of the US private sector can contribute significantly to the economic growth and development of the third world. OPIC plays a unique role in uniting investors, especially small investors, with their counterparts in developing countries to take advantage of local business opportunities. The Corporation looks forward to continuing to provide a broad array of services to selected US investors to encourage US private direct investment abroad, thereby furthering the development process.

2.3 THE TRADE AND DEVELOPMENT PROGRAM

Since its creation in 1980, the Trade and Development Program (TDP) has actively pursued its mandate to provide development assistance through promotion of international trade. As an autonomous agency under the International Development Cooperation Agency (IDCA), TDP provides funds for project feasibility studies on the basis of the project's export potential for US goods and services and the development impact it will have in the host country. The underlying principle validating TDP's double mandate is that if US engineers and other consulting groups are involved at the planning stage, the project's promoters are likely to seek US technology and equipment during implementation. Thus, developing countries are given access to advanced planning techniques and US firms obtain an edge in the stiff competition to assist developing countries in furthering their infrastructure, industrialization, and agricultural development plans. The TDP Public Sector Planning grant is the standard mechanism for providing this assistance.

The Trade and Development Program is directed principally at middle-income developing countries that can finance their own development with either domestic resources or international financing. It therefore complements the efforts of US bilateral development assistance programs which, primarily through AID, focus on the poorer developing countries. The program is especially useful in opening new business channels between the United States and middle-income countries that no longer receive AID assistance.

A second TDP-sponsored program provides US investors with grant funds to conduct comprehensive feasibility studies to direct decision-making and design elements for their potential investments in third world countries. These grants constitute risk capital to encourage private investment in developing countries. The investor project feasibility studies are funded on a reimbursable basis whereby TDP's 50-percent contribution is repaid upon investment. Again, the development impact of the project and the potential for a substantial level of US exports are the principal criteria for evaluating proposals. In FY 1985 these reimbursable grants represented 10 percent of the TDP program budget covering 21 projects. Examples of these projects include an export container assembly plant in Costa Rica, an irrigation and food processing agribusiness joint venture in Kenya, and a housing investment project in Malaysia.

During FY 1985, TDP funded several studies to investigate projects that promote privatization efforts. These grants assist firms in their efforts to develop privately projects that normally fall in the public domain. In this vein, Bechtel is currently pursuing investment opportunities in Turkey's coal-fired power subsector, and in Jamaica for a bagasse-to-energy renewable agri-fuel project. TDP is also funding a study to examine Chile's prospects for attracting US private investment to its telecommunications sector. Several environmentally related projects in Asia are also being considered for private development with TDP-funded feasibility studies. Particularly highlighted are waste-to-energy and toxic waste treatment facilities. Finally, TDP is managing a $500,000 fund established to attract US investors to the Dominican Republic's agriculture sector by providing resources for feasibility studies.

2.4 EFFORTS BY US AGENCIES TO ENCOURAGE PRIVATE SECTOR GROWTH IN DEVELOPING COUNTRIES

2.4.1 Department of Commerce

The International Trade Administration (ITA) of the Department of Commerce carries out the US Government's non-agricultural foreign trade activities. It encourages and promotes US exports of manufactured goods, administers US statutes and agreements dealing with foreign trade, and advises on US international trade and commercial policy. Even though ITA's primary mission is to strengthen US trade and increase exports, it does provide services that facilitate investment and thus contribute to private sector growth in developing countries. ITA's major units involved in servicing US businesses interested in investing in developing countries are described below.

The US and Foreign Commercial Service (US&FCS) offers US businesses coordinated investment assistance both in the United States and abroad. Overseas, the US&FCS maintains offices in 120 major foreign cities in 63 countries and provides a full range of business, investment, and financial services. These include political and credit risk analysis, advice on market entry strategy, and major project identification, tracking, and assistance. FCS officers identify investment opportunities, including joint venture partners for US firms, and supply data on country trends affecting investment and business conditions and on investment prospects for specific industries. Domestically, the US&FCS operates 47 district offices in industrial and commercial centers throughout the United States. The district offices provide US companies with information on investment opportunities abroad and on economic conditions in particular countries.

The Caribbean Basin Business Information Center (CBIC) is a specialized unit in US&FCS charged with facilitating investment and trade between entrepreneurs in the United States and Caribbean countries.

International Economic Policy (IEP) provides commercial and economic information on a country-specific or multilateral basis. IEP country specialists can provide information on specific overseas investment opportunities, foreign market conditions, commercial and investment policies, business practices, and economic and political developments. IEP country specialists also assist in resolving problems that US firms encounter overseas. IEP has sponsored a series of seminars on "Doing Business in..." and will continue to sponsor country- or region-specific seminars on trade and investment practices and policies in selected developing countries. In the multilateral organizations involved in investment matters, IEP is working to promote greater understanding of the economic benefits of foreign direct investment and to liberalize the investment climates in developing countries.

2.4.2 Department of Labor

The US Department of Labor (DOL) has been working to identify and reduce labor-related investment constraints in developing countries through two approaches. First, DOL is exploring the application of new technology for manpower training so that foreign countries can benefit from the major changes in instructional technology that have occurred over the past few years. To demonstrate innovative training techniques to manpower technicians from other countries, DOL has established the Center for Advanced Learning Systems. The

Center is fully equipped with computer and video equipment and numerous examples of training software. The Center draws on DOL's experience in operating vocational training projects in other countries. DOL also offers a full package of employment-related programs. Although some programs are available only from the Bureau of Labor Statistics, DOL obtains most services through agreements with US companies. These programs make foreign governments aware of US equipment and technology.

Second, recognizing that labor unions in many countries are an integral part of the private sector, DOL provides information on ways developing countries can improve their labor codes or labor ministry programs to enhance overall productivity. DOL tries to improve investment opportunities by showing developing countries how to provide the right kind of government infrastructure for labor. For example, outdated labor codes in some countries hinder employers without providing offsetting advantages for labor. Countries without adequate labor-management relations programs can experience wildcat strikes that cut output and harm both employers and employees.

PART 2

ECONOMIC DEVELOPMENT AND THE WORLD ECONOMY

CHAPTER THREE

ECONOMIC PERFORMANCE AND ADJUSTMENT OF DEVELOPING COUNTRIES

3.1 ECONOMIC ENVIRONMENT FOR DEVELOPING COUNTRIES IN 1985

In 1985 developing countries as a group continued their recovery from global recession. This growth occurred despite only a minor increase in the volume of their exports, a decrease in commodity prices, and a decline in their terms of trade. Aggregate real growth for the year is estimated by International Monetary Fund (IMF) staff to have been 3.5 percent. The rate is down from the 4.4 percent achieved in 1984, but substantially better than the rates of the recessionary years of 1981 through 1983. The (overlapping) subcategories of exporters of manufactures and Asian economies continued their records of better growth. Many individual countries lagged behind the general recovery and experienced serious economic difficulties.

Prospects for 1986 are for average growth in developing countries to exceed 4 percent. However, this growth is predicated on continued growth in the industrial countries, resistance to protectionist measures in both sets of countries, and pursuit of growth-oriented policies by the developing countries. The possibility of further decreases in the value of the dollar and the price of oil adds uncertainty to the forecast, especially as it applies to individual countries.

3.1.1 Recession and Recovery

Developing Countries Overall

In recent years developing countries as a group, but with vast differences among individual countries, have experienced recession and recovery. As Figure 3-1 clearly indicates, this cycle was closely synchronized with that of the industrial countries. From the late 1970s through 1983, the aggregate real growth rate of developing countries declined. The years 1982 and 1983 marked the trough of the recession. Only in 1984 did developing countries experience a sharp recovery. Resumed growth of the industrial countries, led by the United States, assisted this recovery. (See Table 3-1 for details.)

By Region

The pattern of real growth of developing countries during this period varied widely by region. The Western Hemisphere group experienced the greatest decline in total output. In this region foreign debt-servicing problems and domestic adjustments compounded the downward recessionary

Figure 3-1. Real Growth of World Output, 1977-1986

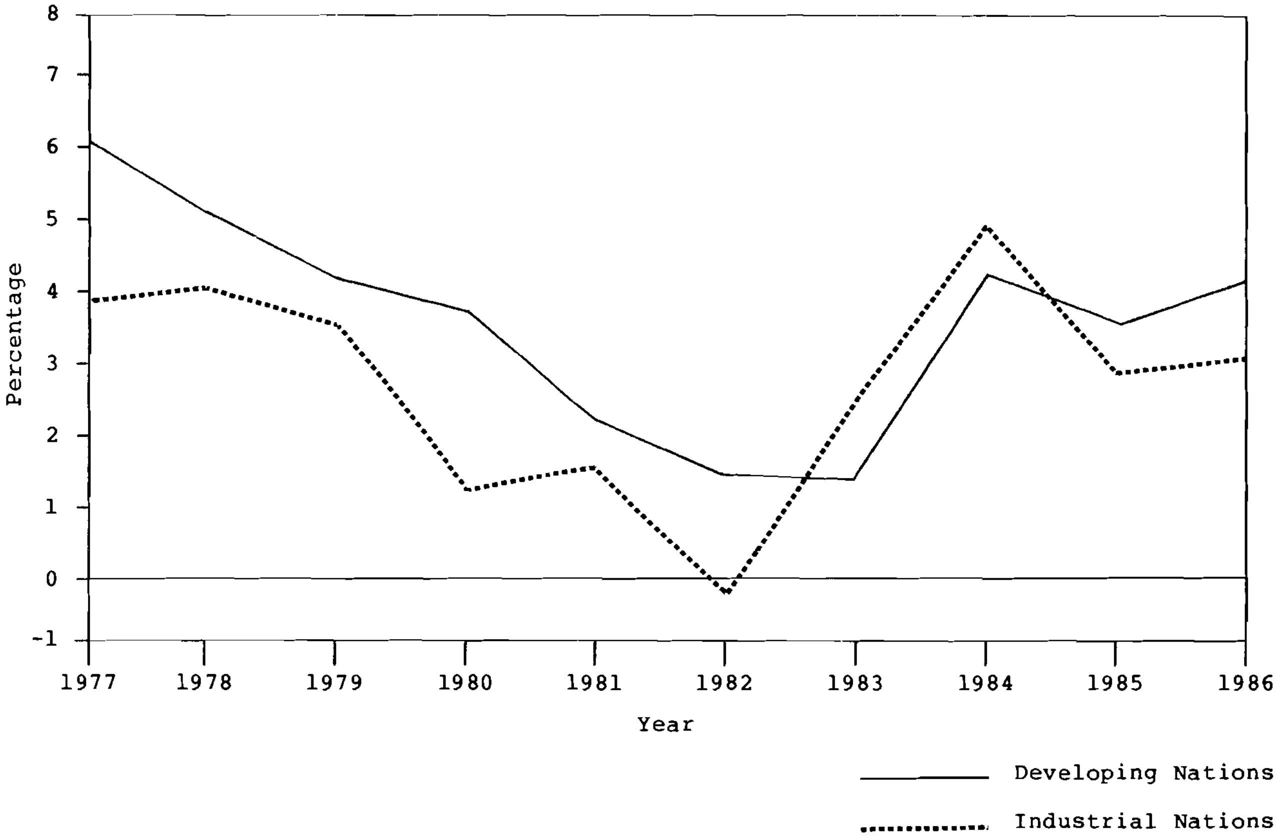


Table 3-1. Real Growth of World Output, 1967-1986
(percentages)

Category	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985[a]	1986[a]
World	4.4	4.5	4.4	3.5	2.0	1.6	0.4	2.5	4.5	3.1	3.4
Industrial Countries	3.7	3.9	4.1	3.5	1.3	1.6	-0.2	2.6	4.9	2.8	3.1
Developing Countries	6.0	6.1	5.1	4.2	3.6	2.3	1.5	1.4	4.4	3.5	4.1
By Region											
Asia	5.2	8.0	9.1	4.3	5.3	5.6	5.0	7.6	8.1	6.8	6.0
Europe	6.0	5.4	5.4	3.8	1.6	2.5	2.2	1.3	3.5	2.9	3.3
Middle East	9.0	7.0	1.7	2.3	-2.1	-1.8	-0.2	0.0	1.7	0.0	2.6
Western Hemisphere	5.9	5.3	4.1	6.1	5.3	1.0	-0.9	-3.2	3.1	2.5	3.3
Africa	4.8	4.4	1.2	2.8	4.5	1.7	0.2	-1.2	2.6	2.2	3.1
(Sub-Saharan[b])	(3.9)	(4.0)	(2.2)	(2.2)	(3.2)	(1.7)	(0.5)	(0.7)	(1.6)	(3.1)	(4.0)
By Predominant Export											
Oil Exporters	7.9	5.9	2.7	3.3	1.1	0.9	-0.4	-1.5	2.2	1.0	3.0
Non-Oil Exporters	5.3	5.9	6.1	4.6	4.6	2.9	2.5	2.9	5.6	4.7	4.6
Primary Product Exporters	5.5	5.0	3.6	4.8	4.6	1.1	0.2	-0.6	3.5	2.7	3.4
Exporters of Manufactures	5.3	8.0	9.2	4.2	4.5	4.8	5.0	7.2	8.5	7.0	6.1
Service and Remittance Countries	4.1	7.9	5.9	5.7	5.3	3.0	3.1	2.0	3.1	3.9	4.0

[a]Projected.

[b]Excluding Nigeria and South Africa.

Source: International Monetary Fund, World Economic Outlook, October 1985.

pressures. Africa and the Middle East also experienced negative growth. However, the Asian developing countries managed to maintain a reasonable growth rate even in the face of global recession. In general, they had allowed their economies to adjust to changing oil prices without excessive foreign borrowing. They maintained flexible, market-oriented policies and economies. Figure 3-2 depicts the growth paths of the groups of developing countries in Africa, Asia, and the Western Hemisphere.

The area of the world with the most serious development problems is Sub-Saharan Africa. This region has consistently lagged behind other geographical areas in growth. In an area where per capita income levels are already among the lowest in the world, most of the countries continued to experience declining per capita income in 1985. Many countries in the area have suffered for years from poor internal policies and major disruptions such as drought, collapse of export commodity prices, increased oil prices, civil wars and armed incursions, influxes of refugees, and import barriers imposed by both industrial and other developing countries. Sub-Saharan Africa has severely limited resources to apply toward needed economic adjustments.

By Export Composition

Figure 3-3 highlights the differences in experiences of subgroups of developing countries classified by composition of exports. The oil exporters had the worst growth rate in real GDP, as petroleum exports declined in both volume and price. Non-oil primary product exporters had the next lowest rate. Exporters of manufactures, with more flexible, market-oriented economies, did the best.

3.1.2 Trade

Volume

The growth in the volume of world trade sharply increased in 1984 to 8.5 percent. This followed four years of abnormally low growth (even negative in 1982) caused by global recession. For 1985, the growth in volume is expected to have been only 3.5 percent, according to IMF staff estimates. This is still better than the recessionary years, but significantly below the average of 7.7 percent annual growth for 1967 through 1976.

For developing countries, the volume of total exports in 1985 is expected to have grown by only 0.3 percent. This is down from 3.4 percent in 1984 and 2.7 in 1983, although still better than the negative rates in 1980 through 1982. This decline is largely due to the sharp fall in oil exports by Organization of Petroleum Exporting Countries (OPEC). Non-oil-exporting developing countries fared better throughout this period. The volume of their exports is expected to have

Figure 3-2. Real GDP Growth of Developing Countries, by Selected Regions

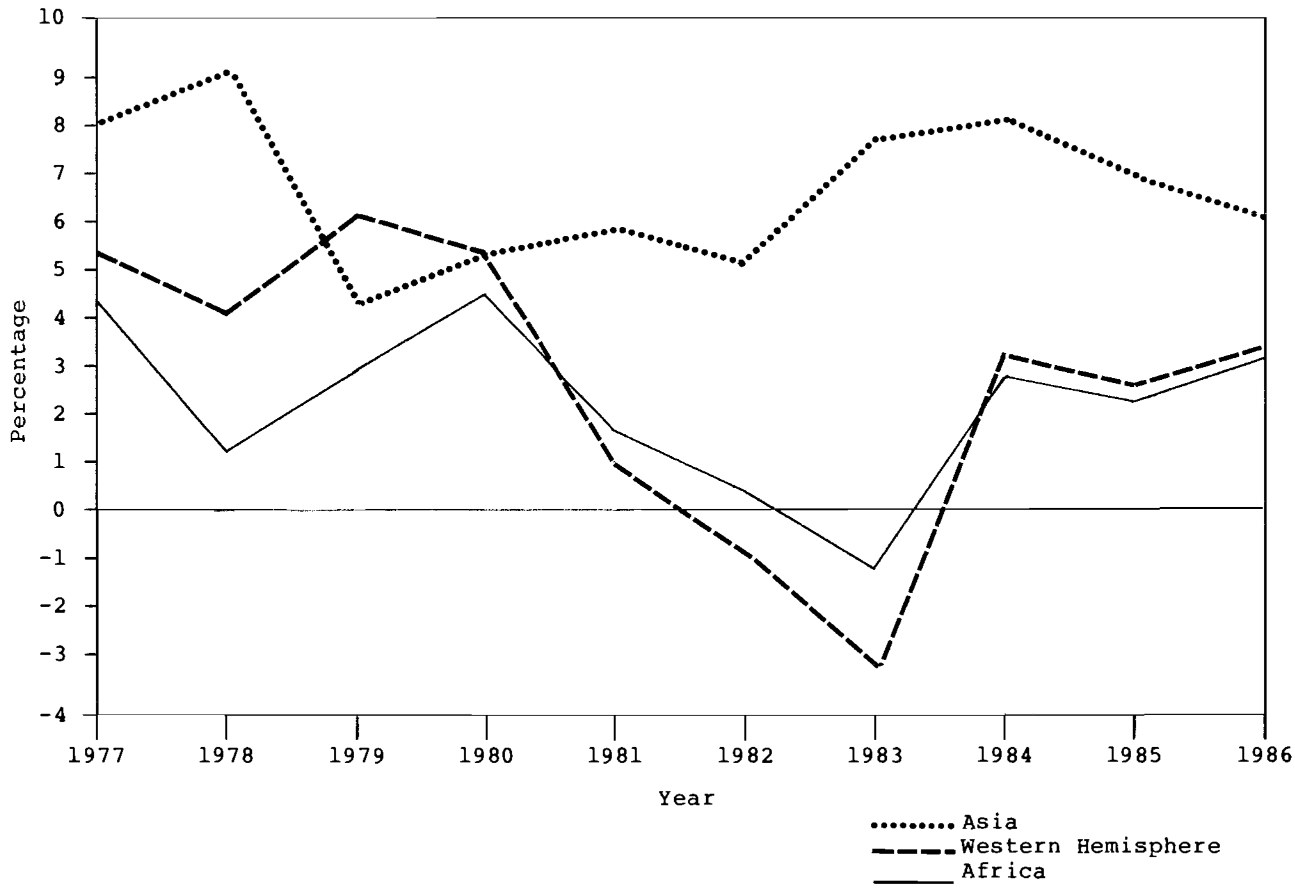
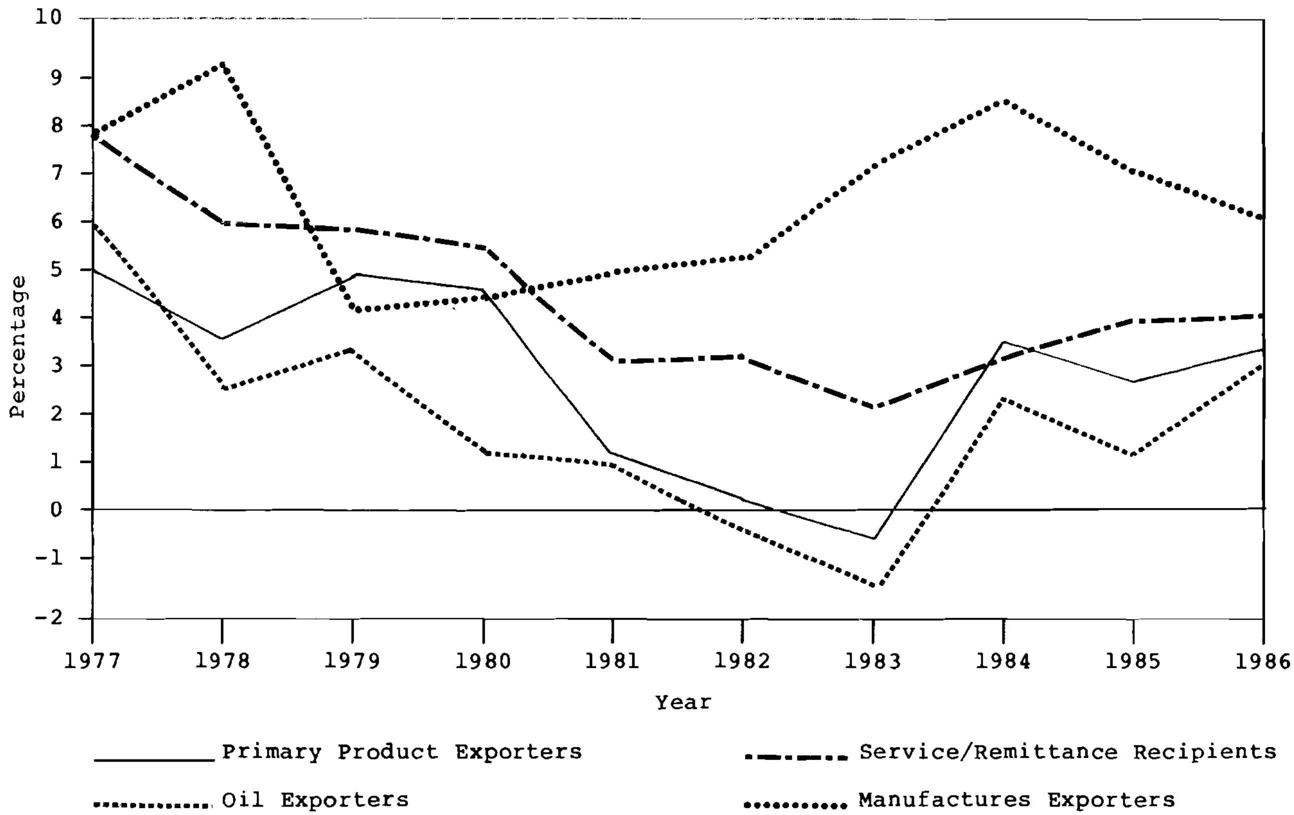


Figure 3-3. Real GDP Growth of Developing Countries, Grouped by Predominant Export



grown by 4.0 percent in 1985. This is down from 12.0 percent in 1984 and 8.9 percent in 1983, but it is better than the 0.9 percent growth in 1982.

Commodity Prices

In 1985 the average dollar price of non-oil primary commodities is expected to have declined by 11 percent. This decline completely eliminates in dollar terms the overall increase in these commodity prices experienced during the recovery in 1983 and 1984. Food, beverage, and agricultural raw material prices declined much more than the prices of metals (around 13 percent versus 2 percent for metals). The average dollar price of non-oil primary commodities is expected to be more than 25 percent lower than in 1980. Part of this decline is offset by lower import prices in dollar terms. Import unit values for developing countries are expected to have declined by 9 percent in dollar terms from 1980 through 1985.

Terms of Trade

Terms of trade for developing countries are expected to have declined in 1985 by 2.0 percent, after a 0.7 percent gain in 1984. For the non-oil-exporting countries, the 1985 decline is estimated to have been 1.8 percent. This reversed the 0.8 percent upward movement in 1984, and continued a decline that started in 1978. Since 1977, the terms of trade of the non-oil-exporting developing countries has decreased by over 18 percent.

3.1.3 Prospects

For developing countries, economic prospects for 1986 and beyond are quite good. The IMF estimates that aggregate real economic growth will increase to over 4 percent in 1986. Declining interest rates are enhancing prospects by reducing debt-servicing burdens.

Except for Asia, all regional growth rates are projected to increase in 1986. Asia's rate should slow, but still exceed the growth rates of the other regions. Likewise, all export groups, except the already fast-growing exporters of manufactures, are expected to do better. (See Table 3-1 for detailed IMF projections.)

3.1.4 Potential Problems and Uncertainty

Several factors influence the growth prospects for developing countries. The most important external influence is growth of the industrial countries. Although continued growth is expected, a further slowdown in growth in industrial countries would adversely affect developing country growth rates. Another major external concern is protectionism in both industrial and developing countries. In many countries, including the United States, pressures for protection from imports have been building. Access to international markets is vital for continued growth and development of developing countries.

Possible further declines in the value of the US dollar or oil prices have different implications for individual developing countries. These possibilities add to the uncertainty of the general forecast, especially as it relates to particular countries. A decline in the value of the dollar should help sustain growth in world trade and aggregate output, which would be of general benefit to developing countries. However, a decline of the dollar in terms of local currencies would decrease the competitiveness of the countries' exports in the US market. The boom in exports to the United States experienced by many countries might be at least slowed. On the other hand, a decline may help countries to pay foreign debts, buy needed US products, or compete in some non-US markets. Declining oil prices would generally help oil-importing countries.

Many individual developing countries, especially in Sub-Saharan Africa, are unlikely to share in the aggregate growth. Some still burden themselves with inappropriate economic policies which must be adjusted if they are to achieve economic growth. Many still have heavy foreign debts and debt service payments that will require rescheduling or additional capital inflows. Many face serious natural disasters, adverse market developments, or fundamental development problems.

3.2 INTERNATIONAL TRADE

3.2.1 US Trade Policy and Developing Countries

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 US 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.

The Administration's trade program, announced on September 23, 1985, emphasizes the linkage between liberalized trade and the economic development of both developed and developing countries. The trade plan is a three-pronged approach designed to alleviate the macroeconomic causes of the US trade deficit, strengthen the international trading system, and ensure fair trade for all countries. Measures to sustain noninflationary growth in the US economy and to encourage stronger growth in the economies of major US trading partners will contribute to the growth of world trade and will strengthen nondollar 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 should strengthen the rules governing international trade.

In the past few years, significant progress has been made through GATT in 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 the November 1984 session, contracting parties agreed to continue efforts to promote the expansion of trade opportunities and to work on the various aspects of the GATT Ministerial Work Program. It is hoped that a new round of GATT negotiations will provide the basis for additional trade liberalization by developed and developing countries.

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

Temporary preferential access to US 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 US market. These temporary preferences are granted in 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 Generalized System of Preferences and the Caribbean Basin Economic Recovery Act (which are discussed below) are cornerstones in the Administration's efforts to promote development through the expansion of trade opportunities.

Developing countries' adherence to the principle of trade liberalization will continue to be an important consideration governing US trade policy in future years. Through its participation in the multilateral development banks and the IMF, the United States will continue to assist in promoting market-oriented economic policies in developing countries. Reform of restrictive trade and investment policies will contribute to accelerated development and the overall growth of world trade.

Adequate and effective intellectual property protection in developing countries can be an important factor in promoting domestic innovation and in attracting needed technology through investment, joint ventures, licensing agreements, and other commercial activities. Such trade increases domestic resources in developing countries and expands domestic production and employment.

The United States is the largest, most open market for the products of developing countries. More than one-fifth of all merchandise exported from the non-OPEC developing world is shipped to the United States annually. The United States purchases over 40 percent of developing country exports to industrialized countries and accounts for over one-half of developing country manufactured goods exported to industrialized countries.

The exports of developing countries to the United States increasingly are more sophisticated, higher value manufactured goods. Since 1980, imports of manufactured goods from developing countries have nearly doubled. Most of this increase is attributable to growing imports of electrical machinery, telecommunications equipment, and office machines. At the same time, there has been substantial growth in developing country exports to the United States in traditional manufacturing sectors--sectors in which the United States is often criticized for being protectionist, such as apparel, steel, and footwear.

The US trade deficit with all developing countries has grown from \$16.3 billion in 1982 to \$51.46 billion in 1985. In 1983, US imports from all developing countries totaled \$108 billion. In 1985, imports from developing countries amounted to over \$123.1 billion, an increase of nearly 14 percent since 1983. In contrast, US exports to developing countries from 1981 to 1985 fell by approximately \$17 billion, or over 12 percent.

3.2.2 The Debt Crisis and Trade Finance

The world economic recession and the eruption of the debt crisis in 1981 and 1982 had a contractionary effect on developed country exports to the high-debt developing countries. US exports to Latin American countries fell by almost \$13 billion. In contrast, the United States has provided vital export markets for developing countries during the crisis. Much of the economic growth that developing countries experienced in 1984 and 1985 can be attributed to increased exports to the United States. Exports to the United States have helped many developing countries earn enough foreign exchange to avoid national insolvency and have helped to alleviate credit problems in the international financial system.

Many high-debt developing countries experiencing severe liquidity problems have found it necessary to reschedule credits (including trade credits), ration scarce foreign exchange, and curtail imports. In this environment, many official and private creditors have taken steps to limit their exposure in high-debt developing countries by reducing the availability of credits for trade and investment. The US

Export-Import Bank, however, has remained on cover in a number of high-debt developing countries and assisted in financing needed goods. This financing represents a signal to the private banking community and foreign export credit agencies that the US Government is willing to facilitate financial flows to the high-debt developing countries undertaking appropriate policies for sustained growth.

The United States and its major trading partners have made significant progress in recent years in eliminating the use of export subsidies in world trade. However, with the reduction of export subsidies through Organization for Economic Cooperation and Development guidelines and arrangements, another form of subsidy, tied aid credits, has grown in usage. Tied aid credits used for commercial purposes distort trade flows and divert needed funds away from development assistance objectives.

A major emphasis of US trade policy in 1985 has been to reduce the predatory use of tied aid credits. To this end, the Administration has proposed a credit facility to be used in conjunction with standard export credits to confront industrial countries using mixed credits for commercial purposes. The objective of the fund is to provide the necessary leverage on a few governments to join the majority of US trading partners in negotiating an end to tied aid credits. Eliminating the use of these credits for commercial purposes will make available additional aid funds for appropriate development assistance financing.

3.2.3 Trade Actions of Interest to Developing Countries

Protectionist pressures continued to be strong in the United States in 1985. For example, a complaint alleging serious injury to US producers of nonrubber footwear from increased imports was filed under the provisions of Section 201 of the Trade Act of 1974 and investigated by the US International Trade Commission (ITC). Although the ITC determined that imports of nonrubber footwear had caused serious injury to the domestic industry, the Administration rejected any form of import relief, citing the importance of free trade to the national and international economies.

The Administration in 1985 increased its efforts to address unfair trade practices abroad. Section 301 of the Trade Act of 1974 authorizes the President to take appropriate measures to eliminate the policy or practice of a foreign government which violates an international trade agreement or unreasonably restricts US trade. Cases were initiated against Korea's insurance and intellectual property rights practices and against Brazil's restrictive informatics laws. Bilateral consultations will be held with the respective countries. A case with Taiwan involving beverages and tobacco products was successfully resolved.

3.2.4 The Generalized System of Preferences

On October 30, 1984, President Reagan signed the Trade and Tariff Act of 1984, which included statutory authority to extend the US Generalized System of Preferences (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, semi-manufactured, and agricultural products. 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 $13.3 billion worth of imports from developing countries in 1985.

The Administration obtained some important changes in the 1984 renewal of GSP. The revised program provides the potential for further liberalization and for graduation from duty-free preferences under the President's discretionary authority. The new authority draws additional attention to US 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 US 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 US 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.

3.2.5 Caribbean Basin Economic Recovery Act

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 response 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, also known as the Caribbean Basin Initiative (CBI), is a multifaceted development program combining trade and tax liberalization with tailored financial assistance programs. Intended to promote self-sustaining revitalization of the economies of the 27 nations of the Caribbean Basin, the measures are designed to catalyze expansion of local productive capacity in response to the opening of new markets for Caribbean exports and to assist the development of key sectors of their economies, including tourism.

The centerpiece of the US program is the temporary extension of one-way, duty-free access to the US market for goods from designated Caribbean nations. Duty-free treatment is extended for 12 years on all products, with the exception of textiles and apparel, footwear, petroleum and petroleum products, leather apparel, and canned tuna fish. The CBI is expected to ensure the security of market access for products covered by the program, while providing an incentive for Caribbean countries to diversify their production for export. The program also offers the beneficiary nations the prospect of attracting new investors to the agricultural and manufacturing sectors of their economies by providing special access to the US market under a concessionary trade regime.

3.3 EXTERNAL INDEBTEDNESS

3.3.1 The Debt Build-up

External indebtedness of developing countries, both oil importers and exporters, increased at an exceptionally rapid rate throughout the 1970s. A notable aspect of the borrowing was the expansion of medium-term variable interest rate bank borrowing at modest spreads over the London interbank offer rate (LIBOR). At the time, interest costs were often lower than the pace of global inflation; the resultant negative interest rates were another incentive to borrow. During this period external debt increased at a compound annual rate of 22 percent, outpacing the 18-percent growth in export earnings of the non-oil-exporting developing countries. There was a consequent rise in the overall debt service burdens, but critical debt servicing difficulties during those years remained confined to the relatively few smaller countries with persistent balance of payments problems, despite repeated efforts at correction. In addition, two-thirds of developing country debt and debt servicing obligations were accounted for by about a dozen major borrowers, of which five were petroleum exporters (Algeria, Egypt, Indonesia, Mexico, and Venezuela) and five were significant exporters of manufactured goods (Argentina, Brazil, Israel, Korea, and Yugoslavia).

Global economic developments in the early 1980s, however, created serious financial strains which some countries with access to international capital markets and banking credits sought to ride out through further increases in their foreign debts. Sharp oil price boosts in 1979-80 increased the current account deficits on non-oil-exporting developing countries to $108 billion in 1981 from $42 billion in 1978. The sudden collapse in early 1980 of the price boom for other raw materials and commodities resulted in a serious terms of trade shift against many of the non-oil-exporting developing countries. Oil price declines in 1981-82 had the same effect on the oil exporters. Slower growth of the industrial countries followed by recession in 1982 led to a reduction in world trade. The sharp rise in interest rates in 1979-80 directly raised debt service obligations for countries that had contracted private credit at variable rates or that involved rollovers. All of these factors created additional adverse impacts on developing countries' payments positions and unprecedented increases in debt servicing burdens from 1980 to 1982.

The impact of external developments and responses to them by the developing countries varied greatly from country to country. Those that fared best kept control over growth of internal demand, maintained realistic exchange rates, favored a development strategy of export promotion relative to import substitution, and relied relatively less on variable rate bank credit. Countries that had great difficulties were those that failed to adjust government spending and development priorities, to control inflation, to maintain appropriate exchange rates and positive real domestic interest rates, and used international bank credit as a major source of internal development and balance of payments financing. Many countries whose debt servicing ratios rose abruptly began to build up payments arrearages in 1982, which dried up ordinary foreign bank credit.

3.3.2 The Debt Strategy

In response to this increasingly serious global liquidity problem, the United States developed a five-part strategy in early 1983 for dealing with the debt servicing problems facing an increasing number of countries. This strategy has subsequently gained wide international support. It was endorsed by the other six major industrial countries represented at the Williamsburg Summit in 1983 and reaffirmed in the declarations of the London and Bonn Summits in 1984 and 1985.

A major aim of this strategy was to address the problems posed by the loss of creditworthiness of debtor nations and to do so on a case-by-case basis. The strategy was not based on a formula but on the implementation of a set of conditions which, if fulfilled over the medium term, could lead to improved creditworthiness of the heavily indebted countries. Success of the strategy would be defined as the development in those countries of an improved capacity to meet their interest and debt repayment commitments on time while maintaining imports at levels sufficient to support a gradual return to sound economic growth.

The debt strategy implemented in 1982 consisted of five interrelated elements: (1) economic adjustments by the debtor countries; (2) economic recovery, sustained growth, and open markets in the industrialized countries; (3) adequate resources for the International Monetary Fund (IMF); (4) continued commercial bank lending for countries making determined adjustment efforts; and (5) readiness to provide bridge financing, as necessary, from central banks and governments on a case-by-case basis. An additional aspect was added in the Declaration of the London Summit in 1984, which encouraged banks to reschedule principal falling due over several years for countries that have been adjusting well and have favorable prospects, and pledged that governments would consider doing the same.

The first and most basic point of the strategy was that countries had to adjust their own economies to the realities of their balance of payments. That meant that they must establish control over money supply growth and the public sector deficit and reestablish and maintain a realistic exchange rate. It was agreed to implement the program in the framework of an arrangement with the IMF, because the IMF could provide advice and credit and, through its participation, help restore the confidence of foreign creditors. To further this objective, governments stood ready to provide temporary bridge financing in exceptional cases until IMF programs and debt restructuring could be effective. The resources of the IMF were expanded, including an increase in IMF quotas and an expansion and extension of the IMF's General Arrangements to Borrow.

The second major target of the strategy was the restoration of noninflationary growth in the developed world and the maintenance of open markets to provide debtor nations opportunities to increase their export earnings. Finally, the strategy required continued lending by the commercial banks so that developing countries, particularly the major debtors, could obtain financing for their normal current account deficits. There is really no alternative to commercial bank lending because none of the governments of the major developed countries is prepared to expand its official assistance to the extent necessary to substitute for the large net new bank credit needed to finance international trade. In the absence of adequate levels of commercial bank credit, developing countries would be required to maintain even larger trade account surpluses to pay for essential imports and meet their debt service obligations.

3.3.3 Developments Since 1982

Starting in 1981, heavily indebted developing countries faced a liquidity squeeze. They responded in varying degrees by restraining internal demand, devaluing their currencies, and negotiating with creditors to restructure their maturing debt and to secure new credits. Because the inability to borrow or permit sizable reserve drains imposed severe financing constraints, the sharp reduction in balance of payments deficits on current account has been particularly impressive and has exceeded expectations. Countries relying primarily on foreign private capital, after having permitted their deficits on current account to grow from less than $20 billion in 1977 to almost $75 billion in 1982, slashed them to as little as $1 billion by 1985.

These adjustments were initiated at a time when the impact of global recession and the contraction of import volume by the developed countries had been underway since 1980. However, with the onset of recovery in the industrial countries, especially the strong recovery in the United States beginning in late 1982, exports of non-oil-exporting developing countries responded quickly, rising in volume by 8 percent in 1983, 11 percent in 1984, and with another 3 percent rise anticipated in 1985. Reductions in imports by the non-oil-exporting developing countries began in mid-1981, accelerated rapidly in 1982, and continued in 1983. However, growth in imports resumed in 1984. In just three years, 1981-84, the indebted developing countries as a group turned an enormous trade deficit into a modest surplus. Those relying primarily on foreign market borrowing, which includes the most heavily indebted countries, shifted their trade from a modest $15 billion deficit in 1981 to a very sizable $56 billion surplus over that same period.

Reduction in nominal interest rates in the United States and elsewhere from peak levels in 1981 have also contributed to improvements in the current account positions of heavily indebted countries. The LIBOR, to which many international credits are now tied, is a full 5.5 percent less than the 1982 average of 13.2 percent, although the average interest rates paid on outstanding debts, including those that have been restructured, have declined somewhat less. Interest payments of indebted countries have stabilized even though total debt is now higher than at the onset of the debt crisis in 1982. As a consequence of these developments and adjustment efforts, current account deficits for the group of countries relying on foreign private credit have been drastically reduced and net new financing needs have shrunk commensurately.

The restructuring of outstanding debt undertaken by major debtors and their creditors has reduced uncertainty about the ability of borrowers to meet their payment commitments on time. The longer-term refinancing of short-term liabilities has eased liquidity pressures on market borrowers, particularly in the Western Hemisphere. In addition, some $40 billion of amortization payments due in 1983-84 on medium- and long-term maturities were rescheduled through formal multilateral arrangements. In all, commercial banks have rescheduled almost $150 billion since 1982 and governments have rescheduled $28 billion of direct or guaranteed credits to 30 countries.

In six cases, covering $77 billion of maturing debt, commercial banks agreed to reschedule not only payments already in arrears or falling due within a year but also payments falling due several years in the future. This procedure lengthens the repayment period and lowers the repayments due in the early years to provide time for adjustment policies to work. By agreeing to these multiyear reschedulings, creditors evidence increased confidence in the performance of the debtor and a willingness to relax somewhat the close surveillance of economic performance that prevailed in the earlier crisis period when the IMF was providing substantial new credits. This procedure can contribute significantly to the restoration of the creditworthiness of heavily indebted countries and their normal access to international capital markets. Typically, these commercial bank multiyear reschedulings involve consultation with the IMF regarding the debtor's economic adjustment goals and performance in achieving them.

Despite the substantial relief provided by the restructuring agreements and the rapid growth of exports, the debt servicing burdens of developing countries remain at high levels. The ratio of interest and scheduled amortization payments on medium- and long-term debt to exports of goods and services for all market borrowers rose from 16 percent in 1977 to 26.3 percent in 1982 and will probably be only slightly less at the end of 1985. There is considerable variation, however, among countries and regions. For Latin America, which has the highest ratios, there was a significant decline from 50 percent to 44 percent in 1985, although most of that was achieved through debt restructuring. Nevertheless, scheduled interest payments by Latin American debtor countries remain high, at almost $40 billion per year, and are equivalent to about 30 percent of the value of exports of goods and services in 1985.

While debtor countries achieved exceptionally rapid and sizable improvements in their balance of payments deficits, national authorities were less successful in addressing internal desequilibria and structural problems affecting long-term growth performance. The result was a continuation of high public sector deficits, excessive inflation rates, and misaligned prices, along with inappropriate financial policies which contributed to capital flight. Investment spending in the indebted countries, much of which had previously been financed by external borrowing, also declined with the reduced access to new foreign credits. Reductions in capital spending along with export shortfalls adversely affected total output so that GNP advanced little in 1982 and actually declined in 1983 for countries struggling with external debt problems.

Beginning in 1984, the pace of real growth in developing countries began to quicken as recovery proceeded in the developed countries and as adjustment efforts succeeded in developing countries. Nevertheless, recovery has been very uneven among countries and, in general, has fallen short of the high growth rates of the 1960s and 1970s. On a per capita basis, GDP declined sharply over the 1980-84 period. For the heavily indebted Latin American and Caribbean region the decline was about 10 percent, and for low-income countries, especially in Africa, the drop was somewhat larger.

Some governments, especially in Asia, had much lower debt and debt service levels relative to their economies in 1980 and reacted early to a deteriorating payments position and external financing constraints with adjustments in the level of internal demand and to inflationary distortions. They were then well positioned to respond quickly to the US recovery of 1983-84 and the revival of world trade and benefited quickly from export-led growth, restoration of their external financial position, and renewed access to private credit markets. They are continuing, nevertheless, to make internal adjustments, to strengthen domestic savings and rely less on foreign savings for their development needs, and to achieve greater productivity advances through more efficient use of resources. Some of the countries that rely on private international capital markets have been able to issue floating rate notes and similar instruments at interest rates below those of more conventional foreign bank rates.

In 1985 the recovery process appears to have slowed in most developing regions. Some countries that have successfully adjusted their external accounts can now turn their attention to the structural impediments to growth. On the other hand, some heavily indebted producers of oil and primary products continue to be adversely affected by falling international prices and will need to undertake further measures to improve their external situation.

3.3.4 Strengthening the Debt Strategy: The Program for Sustained Growth

The debt strategy as originally devised successfully dealt with the serious and widespread liquidity shortage prevailing during 1982-83. Considering that excessive borrowing and poor economic policies in the 1970s contributed to external debt problems in the early 1980s, it was clear that restoration of creditworthiness would take more than two years to achieve, especially for the most heavily indebted countries. However, increasing reluctance among banks to participate in new money and debt rescheduling packages in 1984-85 was creating growing uncertainties for borrowers. In addition, many major debtors must now turn their attention to the internal structural impediments to economic growth, to buttress significant improvements in their external accounts. In an effort to address these problems and to strengthen the debt strategy, Treasury Secretary Baker proposed a "Program for Sustained Growth" at the joint annual meetings of the IMF and World Bank in Seoul, Korea, in early October 1985. Building on the existing case-by-case approach, the program placed greater emphasis on both market-oriented economic policies to faster growth and adequate external financing to support it. This would be achieved through three essential and mutually reinforcing elements:

1. The adoption by principal debtor countries of comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment and to reduce inflation.

2. A continued central role for the IMF, in conjunction with increased and more effective structural and sector adjustment lending by the multilateral development banks (MDBs).

3. Increased lending by private banks.

An essential prerequisite to resolving the economic difficulties of the debtor countries is their adoption of sound fiscal, monetary, and exchange rate policies to reduce both external and domestic imbalances. In countries that have implemented measures to address these imbalances, a more comprehensive set of policies can now be applied, including both macroeconomic policies and longer term, supply-side, market-oriented policies to promote growth. As part of this process, greater attention needs to be placed on mobilizing the private sector in developing countries.

The international financial institutions must also play a role in this process, through support for the needed policies in conjunction with their lending programs. The central role of the IMF should continue, with greater emphasis on supply-side factors. The MDBs also have considerable scope to increase fast-disbursing structural and sector adjustment lending and to expand co-financing programs to stimulate commercial flows that would not otherwise be available to support comprehensive economic programs in the debtor countries.

If creditor governments are to be called on to support increases in MDB lending and if recipient countries are asked to adopt sound economic policies for growth, then there must be a corresponding commitment by the banking community to help support the principal debtor countries as they make the transition to stronger, sustained growth. While commercial banks have rescheduled nearly $150 billion in these countries' debt since 1982, annual net new bank lending to the principal debtor countries has declined from about $25 billion in 1982 to virtually nothing in 1985. Consequently, pledges of additional bank financing to support growth-oriented policies in debtor countries are essential to the comprehensive growth program.

The US Government sought commitments for new commercial bank lending of about $20 billion for the next three years to a core group of 15 debtor countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela, and Yugoslavia). This list is not intended to exclude any country from obtaining additional private credits. Countries now receiving adequate financing from commercial banks on a voluntary basis should continue to do so under the program, provided that they maintain sound policies. Moreover, it is anticipated that the banking community should be prepared to provide financing to other developing countries that adopt and implement the type of comprehensive economic reforms outlined for the program. The US Government has urged and the commercial banking community has responded by publicly pledging to provide new credits on the condition that the debtor countries make growth-oriented policy commitments as their part of the cooperative effort. The United States indicated that if each of the participants in this program does its part, and if the increased demand for quality World Bank lending demonstrates a need for increased capital resources, the US Government would be prepared to look seriously at the timing and scope for a general capital increase for the World Bank.

This initiative to strengthen the debt strategy focuses on the principal debtors that have access to private capital markets. However, there is another group of countries--the low-income developing countries, primarily in Sub-Saharan Africa--that face severe economic difficulties and protracted balance of payments problems and that are more dependent on official financing flows. To deal with their problems, Treasury Secretary Baker proposed that the $2.7 billion available from IMF Trust Fund reflows through 1991 be used in conjunction with other multilateral and bilateral resources to provide financing in support of comprehensive economic programs promoting structural adjustment and growth.

3.4 PRIVATE DIRECT INVESTMENT

3.4.1 US Government Investment Policy Toward Developing Countries

The US Government is working to strengthen the investment climate in developing countries to facilitate capital flows to them. Foreign direct investment plays an important role in the development process by providing many economic benefits--capital, managerial and technological know-how, new products, exports, employment opportunities--that official development assistance often cannot provide. The US Government strongly believes that domestic economic policy reform will be a key factor for those developing countries wishing to attract greater foreign direct investment.

The US Government has been successfully pursuing an investment strategy toward developing countries, as outlined by President Reagan in his September 1983 investment policy statement. Its objectives are as follows:

-- To create, through cooperation among developed and developing countries, an international environment in which direct investment can make a greater contribution to the development process

-- To support the multilateral development banks (MBDs) in their efforts to foster more rapid economic growth in the developing countries by encouraging the MBDs to explore ways to develop new programs to strengthen the role of the private sector in financial flows to the developing world

-- To conclude bilateral investment treaties and agreements with interested countries

-- To explore, through US bilateral economic assistance programs with developing countries, appropriate ways to increase nonofficial flows and to seek to ensure that these programs effectively support private direct investment

3.4.2 Recent Trends in Private Direct Investment Flows to Developing Countries

In the 1960s and 1970s, foreign direct investment flows to developing countries grew steadily. According to the IMF's October 1985 World Economic Outlook, net direct investment flows from industrialized to developing countries increased from an average $2 billion a year during the early 1960s to an average of about $6 billion in the following decade. In 1981, net direct investment flows to non-oil-exporting developing countries peaked at $13 billion in 1981 and subsequently declined in 1982 and 1983 because of the recession.

The United States has been the largest single source of foreign direct investment flows to developing countries, accounting for approximately one-half of the total flows from the industrialized to the developing countries. The United Kingdom and France have been the two other traditional sources. However, the IMF has found that the relative importance of these three major countries has declined. In recent years, Germany and Japan have significantly boosted their foreign direct investment flows to developing countries.

Foreign direct investment flows from industrialized to developing countries have been concentrated in a small group of countries with substantial domestic markets, abundant natural resources, or possibilities for export-oriented production: Brazil, Mexico, Singapore, Hong Kong, Malaysia, and the Philippines. In terms of regional distribution, US investment has focused largely on Latin America. The majority of the United Kingdom's investment is in the Commonwealth nations. France has invested primarily in Africa, while Japan's investments are mostly in Asia. Recently, foreign direct investment flows have been moving away from the highly indebted Latin American countries toward the more stable and promising South and East Asian countries. Since the start of the debt crisis in 1981, Commerce Department data show that US investment grew steadily in Southeast Asia and basically stagnated in Latin America.

According to a recent IMF study, Foreign Private Investment in Developing Countries, the significance of foreign direct investment to the developing countries relative to other capital flows has been declining since the early 1970s. Even though foreign direct investment flows continued to rise in absolute terms until 1981, bank credit constituted a substantially greater share of total private capital flows to developing countries. However, the study concludes that the financing pattern (i.e., the high level of bank lending) that supported the rise in the current account deficits of developing countries through 1981 will probably not be repeated. In particular, the study anticipates that new net lending through the international banking system will be more constrained, so that direct investment will probably play a relatively greater role in future capital flows to developing countries. The study suggests that developing countries could find it beneficial in the long term to encourage an even greater inflow of foreign direct investment so as to maintain the resource inflows necessary to sustain economic growth and avoid further economic deterioration.

3.4.3 Developing Country Policies Toward Private Direct Investment

Restrictive developing country policies toward foreign direct investment have been identified by the IMF as a factor contributing to greater reliance by these countries on bank credit. During the 1970s, many developing countries intensified restrictions on foreign direct investment, limiting foreign participation in certain industrial sectors and increasing local ownership requirements. However, as a result of the debt situation, a growing number of developing countries are becoming more receptive to foreign direct investment and are liberalizing their investment policies to attract greater investment flows. Some countries, such as Egypt, Jamaica, and Turkey, have moved away from policies that involved strict control over foreign direct investment toward more flexible arrangements. Other countries, like South Korea, Morocco, and Pakistan, have proceeded more cautiously, implementing gradual policy changes.

Nevertheless, many developing countries still believe it is necessary to regulate the flow of investment to their markets by imposing entry barriers and/or restrictions on established foreign investments. These regulations include minimum export levels, local input or labor content requirements, and maximum import levels. Such regulations tend to discourage foreign firms from pursuing investment opportunities in developing countries because of the increased uncertainty, risk, and cost. In an effort to counteract this, a number of developing countries offer incentives, such as direct subsidies or tax credits, or protected markets to foreign investors who agree to meet certain performance requirements. The use of both incentives and performance requirements distorts international trade and investment flows.

3.4.4 Current US Efforts To Facilitate Investment Flows

The US Government provides considerable assistance to facilitate investment flows. Included in this assistance are US Government bilateral programs such as those of the Overseas Private Investment Corporation (see Section 2.2) and US support for multilateral private sector-oriented institutions such as the International Finance Corporation (see Section 6.3.1). Agency for International Development programs, such as those of the Bureau for Private Enterprise and the Trade and Development Program, also facilitate private investment flows (see Sections 2.1.3 and 2.3, respectively).

Bilateral Investment Treaty Program

Bilateral investment treaties are an important part of the Administration's program to protect US direct investment abroad and to help increase private capital flows to developing countries. The United States has now signed treaties with six countries--Egypt, Haiti, Morocco, Panama, Senegal, and Zaire--and has initialed three--with Bangladesh, Cameroon, and Turkey. Negotiations are in various stages with approximately a dozen other countries. In March 1986, the US Government submitted a first group of six completed bilateral investment treaties to the Senate for ratification. Because these treaties provide US investors with access to and protection in foreign markets, the US Government believes the treaties will be favorably received by the Senate. The following are key elements of the US model bilateral investment treaty:

- National or most favored nation treatment for US investment abroad

- International law standards for expropriation and compensation

- Free transfers of funds associated with investments

- Procedures, including international arbitration, for the settlement of disputes

The Trade and Tariff Act of 1984

The Trade and Tariff Act, signed by the President in October 1984, enhances the Executive Branch's authority to implement US investment policy. Under the Act, investors may now bring complaints against certain foreign investment practices. The President was provided new authority to negotiate international agreements on barriers or other distortive mechanisms placed on foreign direct investment. The Office of the US Trade Representative is now permitted to impose duties or other import restrictions on products or services of countries using export performance requirements levied after passage of the Act. Finally, the President must take into account a country's use of trade-distorting investment measures in determining (1) whether to designate a country as a Generalized System of Preferences (GSP) beneficiary and (2) whether to grant product-specific waivers of GSP competitive-need limits. (For further details, see Section 3.2 on international trade.)

In September 1985, the President announced the formation of a trade strike force which is responsible for uncovering unfair trading practices, including distortive investment measures such as incentives and performance requirements, and developing strategies to counter these practices.

Investment and the New Round of Multilateral Trade Negotiations

The United States is making a determined effort to include investment in the New Round of Multilateral Trade Negotiations in the General Agreement of Tariffs and Trade (GATT). It is the view of the US Government that if GATT is to remain an effective instrument it will have to acknowledge the major impact international investment has on trade and devise ways to increase understanding of and cooperation on international investment issues. The US Government envisages that a work program on investment launched in the New Round might focus initially on trade-related investment issues, such as performance requirements imposed by governments on foreign investors. Over the longer term, the US Government would like a broader examination of investment issues in GATT, such as the right of establishment, national treatment, investment protection, and transparency of government policies as they apply to foreign investors.

Multilateral Investment Guarantee Agency

Last year, the World Bank proposed the establishment of a Multilateral Investment Guarantee Agency (MIGA) to improve the investment environment in the developing countries by offering insurance coverage against political risks faced by foreign investors. In October 1985, the Board of Governors of the World Bank approved the convention to establish MIGA and opened the convention for membership. The US Government has supported a sound MIGA and actively participated in the negotiations in order to achieve a satisfactory convention.

Under MIGA, risk coverage would encompass noncommercial events that affect an investor's rights or reduce benefits from the investment. The three generally accepted broad categories of noncommercial risks covered would be (1) currency transfer (i.e., the costs resulting from host government restrictions and delays in converting and transferring local currency); (2) expropriation (i.e., the loss resulting from host government action depriving investors of control over or substantial benefits from their investments); and (3) loss resulting from war or civil disturbance. The MIGA would add to these traditional risks breach of legal commitments between the host government and the foreign investor.

The MIGA will work to improve the investment climate in developing country members by seeking to remove impediments to the flow of investment, guided by the principles relevant in investment agreements among member countries. Another important feature of MIGA would be its investment-promotion activities. These are envisaged to include providing information on investment opportunities, preparing studies, advising member governments on investment policies and regulations, and cooperating with other international organizations engaged in related fields.

Organization for Economic Cooperation and Development

The US Government will participate in an Organization for Economic Cooperation and Development (OECD)-sponsored roundtable of foreign investment policy experts from selected OECD and developing countries. The roundtable will be held May 12-15,1986 at the German Foundation for International Development in Berlin, West Germany. The objective of the meeting is to examine ways to improve the climate for increasing the flow of foreign direct investment to developing countries and to encourage its contribution to economic development. Special emphasis will be placed on examining the main trends and determinants of foreign direct investment in the developing countries, including home and host country policies.

United Nations Code of Conduct Relating to Transnational Corporations

The United Nations has under consideration a global code of conduct relating to transnational corporations, covering a wider range of issues than any existing or proposed instruments. Work on a draft code was started in 1977 in the Commission on Transnational Corporations, a subsidiary of the Economic and Social Council, but has not yet been completed. The United States has actively participated in negotiations to ensure that the code is voluntary; does not discriminate between foreign-owned and domestic firms; provides equitable treatment for multinational corporations under international law; and applies to all enterprises regardless of whether their ownership is public, private, or mixed. In the US view, guidelines that affirm standards of good practice for both enterprises and governments can contribute to improved relations between firms and governments and may limit the tendency for unilateral government intervention in investment matters.

President's Task Force on International Private Enterprise

On December 12, 1984, the President's Task Force on International Private Enterprise released a report on how US Government assistance could be used to stimulate private enterprise development and promote investment in, and trade with, developing countries. The task force believes the US Government should do more to encourage, advise, and assist those developing countries willing to pursue private sector strategies and to support companies that want to take advantage of new investment opportunities in developing countries. Several recommendations were made by the task force on what the US policy response should be to foster the private sector role in the development process.

CHAPTER FOUR

DEVELOPMENT PROGRESS AND PROBLEMS

4.1 FOOD AND AGRICULTURE

4.1.1 Overview

Hunger and malnutrition are major development problems affecting people in the low-income, food-deficit countries of the world. The basic causes are low agricultural productivity and the inability of poor and malnourished people to purchase or otherwise acquire the food they need.

The World Bank estimates that the number of malnourished people in all developing countries could double, or even triple, from the current 500 million to 1.3 billion by the year 2000. While per capita food consumption is projected to increase by 21 percent in the industrial countries during the period 1970 to 2000, the developing countries are expected to be able to raise their per capita food consumption by only 9 percent during this period.

Real progress has been made in conquering hunger and malnutrition in a number of Asian and Latin American countries. However, most countries in Africa and the Caribbean are not able to produce and distribute the food they need or to afford their increasing food import requirements. Per capita food production in these food-deficit countries has declined over the past decade. To reverse this trend, and to meet the growing demand for food generated by both population growth and rising incomes, food production must increase by 3-4 percent annually. Such high food production growth rates, however, are rarely achieved and seldom sustained, even by countries with far more resources than these low-income countries. Therefore, these countries must also significantly raise their level of exports to generate the foreign exchange necessary to import food.

Prospects for improved diets in these and other developing countries are not encouraging. This is because the distribution of income and availability of food is skewed in favor of both higher income groups and urban consumers.

4.1.2 Future Prospects

Future food availabilities will be influenced significantly by the rate and distribution of income and population growth among developing countries. About 90 percent of the increase in world population projected between the present and the year 2000 will occur in developing countries.

Much of the population increase will occur in the relatively least developed countries which are now unable to ensure adequate food supplies for their populations. These countries will have to compete for available world grain supplies with middle-income and advanced developing countries. It is likely that the most advanced developing countries will be able to afford the food imports they require to satisfy their growing demand for direct human consumption and livestock production. However, low-income consumers in these countries will still lack enough income to purchase food for an adequate diet. Unless the production of major food crops in the least developed countries improves significantly and unless the purchasing power of the poorer segments in all developing countries is increased through broadly based growth, the recurring problems of hunger and malnutrition in the world will not be conquered.

Efforts to raise production by expanding the agricultural land base will be restrained by the fact that most good arable land, especially in Asia, is already being cultivated. Land under cultivation is expected to increase by only 4 percent by the year 2000. Thus, increased agricultural production must come largely from higher yielding production technologies that will permit one hectare of arable land, which supported 2.6 people in the early 1970s, to support 4 persons by the year 2000.

The Agency for International Development's (AID's) support of the international agricultural research centers, collaborative research support programs, and national research institutes in the developing countries helps these countries to achieve agricultural productivity gains. The Consultative Group for International Agricultural Research reported in 1985 that the new wheat and rice varieties typically out-yielded the old varieties by 400 to 500 kilograms per hectare. This means that, worldwide, these new varieties annually provide over 50 million tons of additional food--an amount equal to the annual grain consumption of a half billion people. The same report confirms that investment in agricultural research has paid remarkably high returns. It estimates that if just one major project at any of the international centers achieves the results anticipated, it will generate returns far exceeding the costs of the entire center.

The research task in Africa is especially challenging because the physical conditions for production are very difficult, labor is often a constraint at critical periods of the year, and research on food commodities by African institutions is limited and generally weak. AID has adopted a two-pronged strategy to strengthen both the agricultural research capabilities and university faculties of agriculture essential to maintain research capacity. To make the most effective use of scarce resources, AID will increasingly concentrate on about eight core countries, while building strong applied research capacities in neighboring countries to enable local scientists to screen and borrow technologies and adapt them to local conditions. Long-term assistance for four to six faculties of agriculture in the core countries will be provided to build linkages between education and research programs.

To raise yields, agricultural production, and rural incomes on a sustained basis is a formidable, but in no sense hopeless, task. The experience of the last 30 years has demonstrated that with carefully planned and administered programs such increases are possible. When economic assistance is tailored and coordinated with the self-help efforts of a government and its people, dynamic and productive agricultural systems have been established. This experience has also demonstrated that conquering hunger and malnutrition usually requires sustained improvements in the purchasing power of the poor majority. Expanded employment of nutritionally at-risk families in agriculture, its supporting rural enterprises, and other labor-intensive industries, has enabled them to raise their disposable incomes to purchase the food they need. This increase in the purchasing power by the poor majority is also the most effective way to create agricultural incentives for producers to adopt new, higher yielding technologies.

4.1.3 Policy Objectives

The US program in food and agriculture has two major objectives:

1. Increased food availability, through (a) increased agricultural production, with an emphasis on increasing and sustaining the productivity of agricultural resources and improving the incomes and market participation of small farmers, with special attention to food production, and (b) greater economic efficiency in the marketing and distribution of agricultural and food production, exports, and imports

2. Improved food consumption, through (a) expanded productive employment of those who now lack the purchasing power to obtain adequate food; (b) increased awareness and incorporation of sound nutritional principles in the design and implementation of production, marketing, health, and education policies and programs; and (c) effective direct distribution of food from domestic or external sources to those facing severe malnutrition and temporary food shortages

The primary means for achieving these objectives are activities that achieve the following:

- -- Improve country policies to remove constraints to food and agricultural production, marketing, and consumption

- -- Develop human resources and institutional capabilities, especially to generate, adapt, and apply improved science and technology for food and agricultural development, and to conduct research on developing country food and agriculture problems

-- Expand the role of developing country private sectors in agricultural and rural development, and the complementary role of the US private sector in assisting this expansion

-- Employ all available assistance instruments in an integrated manner, including the provision of PL 480 food aid in ways that contribute to the other three elements as well as meeting food security and nutritional needs

4.1.4 Progress in Meeting Objectives (Some Examples)

The Cameroon National Cereals Research and Extension project is providing $46.7 million to create sound research and extension institutions that will develop and test improved production packages and ensure strong linkages between research results and small farmers' needs. This 15-year project clearly recognizes the long gestation period between investments in research and increases in production. The project supports basic and adaptive research and policy-oriented research as well as extension services. The project is part of an overall program that is introducing the US land grant model (integrated education, research, and extension functions) and that is linked with the expertise of the International Institute of Tropical Agriculture. The AID-funded activities complement a major upgrading of research and extension infrastucture funded by the World Bank. The program has strong local support, and the Cameroon Government budget for research has nearly doubled this year.

In Honduras, the Choluteca Natural Resource Management project is stabilzing the hillside environment and reducing soil loss, while at the same time improving small farmer incomes. A $9 million AID investment in 1983 has enabled over 2,600 farmers to build terraces and wind barriers, learn composting techniques, and adopt new corn varieties, resulting in a doubling of production on approximately 30,000 hectares. This project is also encouraging neighboring farmers to adopt new agroforestry technologies to provide fuelwood, thereby further stabilizing the environment. Similar activities are being implemented under several Operational Program Grants in Haiti and the Watershed Management project in Panama. Regional efforts in this area are supported by the centrally funded Development Strategies for Fragile Lands project.

AID is encouraging a more active role for the private sector in Central American and Caribbean countries by supporting the creation of local organizations of business leaders and agricultural producers. These organizations link US investors and markets with local investors and producers. These efforts have led to major joint ventures in the production and export of various commodities including herbs, spices, vegetables, dehydrated banana and pineapple chips, juice concentrates, and ornamental plants. For example, the Small Farmer Marketing project in Guatemala is supporting the development of cooperatives among the disadvantaged highland Indians, who are now exporting fresh vegetables.

Site-specific field research, usually a key element in technology transfer, taxes both capital and human resources in many countries. The centrally funded International Benchmark Sites Network for Agrotechnology Transfer project was initiated in 1982 to test the feasibility of using simulation models rather than site-specific field testing. Under this $9.9 million project, 20 national and international agricultural research centers around the world are collaborating technically and financially to generate the data base needed to develop and validate crop performance prediction models. The project supports training of scientists from developing countries in computer simulation of crop response under various management and environmental conditions. If simulation models prove to be reliable predictors of actual crop performance, the approach used in this project will be a powerful new tool for agricultural technology transfer.

The Transformation and Integration of the North West Frontier Province's Provincial Agricultural Network project was initiated in FY 1984 to integrate agricultural research and education at the university level in the North West Frontier Province of Pakistan. This $64.5 million project (including $35.5 million provided by AID) will improve the quality of education offered and research undertaken by the Agricultural University at Peshawar. It will also strengthen linkages with the national agricultural extension service through a problem-solving, farmer-oriented outreach program. About 25 percent of the personnel and other resources of the university will be devoted to the outreach extension activities. AID assistance to the university includes technical assistance from the University of Illinois and Southern Illinois University; participant training; construction, including design services from the American firm of Skidmore Owing and Merrill; and commodities. Undergraduate and graduate training in the United States is provided for approximately 140 individuals, and short-term training in the United States and third countries is provided for approximately 65 individuals.

4.2 HUMAN RESOURCES DEVELOPMENT

4.2.1 Education and Training

Policy Objectives for Education and Training

AID policy for education, training, and related human resources (EHR) assistance is provided in the Basic Education and Technical Training, Participant Training, and Development Communications Policy Papers and reflected in sectoral and regional programming strategies. The objectives are to improve the following:

-- Basic schooling opportunities for the 6-14 age group, with particular attention to strengthening analytic, planning, and management capacities. Efficient allocation and use of resources is key to improving education quality as well as access for girls and children in poor and rural areas.

-- Skills training for adolescents and adults, with particular attention to training for self-employment and employment in small- and medium-size enterprises. AID emphasizes the need to involve employers fully in establishing and maintaining skills training systems ranging from vocational training institutions to in-service, on-the-job, and extension training programs.

-- Scientific, technical, administrative, and managerial training, especially of faculty, for training and research institutions, and staff development for programs in health, agriculture, population, and other sectors. Training support for private sector institutions and for private sector employment is increasing both in the general training programs and in projects focused specifically on private enterprise development.

Most education and training assistance is provided through bilateral programs of technical assistance, staff development, and institutional strengthening. Centrally funded programs support research and development, including education and training needs assessments, experimentation with alternative instruction and extension technologies, and administrative and financing options. Centrally funded programs also support participant training, labor development, and programs for women. Regional programs support regional training and provide technical support for the bilateral programs. In addition, the EHR offices (bilateral, regional, central) provide technical support for education and training activities under other funding accounts.

In FY 1985, the AID EHR sector program was supported with $188.5 million in Development Assistance funds, about $50 million in Economic Support Fund (ESF) programs, and about $5 million under the Sahel program. Project-related training components within other sector programs totaled some $100 million, with agricultural education and training the largest component.

The Need for Education and Training

Countries need basic schooling systems of sufficient size and quality to raise general education levels as well as advanced and specialized training capacities of sufficient diversity to meet labor market requirements and institutional needs for management, technical, and research personnel. However, until the basic education systems are established, the specialized training programs rest on a weak foundation, and only a fraction of a nation's human resources potential can be realized. For this reason, although AID programs in all sectors provide substantial and increasing support for high-level manpower development and for strengthening specialized training capacities, the priority within education sector programs is strengthening basic schooling and adult education systems.

Basic education sufficient to make informed choices is key to noncoercive approaches to fertility and other personal decisions, to efficient functioning of market economies, and to full participation in modern social and economic institutions. In the wage economy, rising education levels increase and diversify people's options for employment and specialized skills training. Employers benefit from improved efficiency and productivity and a wider range of investment and technology choices. Society benefits from economic growth, increased employment, and better distribution of opportunity. For the self-employed, basic education enables individuals to use available resources more productively and to respond more quickly to opportunities. Information is obtained more easily, new technologies and marketing practices are adopted more readily, risks are calculated more accurately, and inputs are used more efficiently. For individuals and families, household incomes and family welfare improve as education levels rise and more members develop economic skills. Education for girls and women is particularly important. As more women are educated, health, sanitation, and nutrition practices tend to improve, infant mortality to decline, and birth rates to fall.

The World Situation for Basic Education

Most developing countries now enroll 70-80 percent or more of the primary school age group. While this represents substantial quantitative progress, basic education in most developing countries continues to be qualitatively poor and inefficient. There are major disparities between and within countries, ranging from near universal enrollment in the wealthier countries and the urban areas of most countries to 30 percent or less in poorer and more rural areas. Among the problems in basic education facing developing countries are the following:

- Approximately 600 million adults cannot read or do simple calculations.

- Educational resources are poorly distributed, with children in rural areas, the urban poor, and females having the least opportunities to learn.

- Educational quality is poor, and schools are typically overcrowded, in poor repair, and lacking essential equipment, materials, and trained teachers.

- Primary school grade repetition and dropout rates are high; typically, only one-half to two-thirds of those who enter school complete the primary cycle and even fewer continue to secondary school or vocational training.

-- Most countries must make difficult budget choices between expansion and qualitative improvement.

-- Administrative, analytic, and logistic support systems are weak, making it difficult to use available resources efficiently and to implement needed reforms.

The World Situation for Advanced and Specialized Training

All countries continue to have specific needs for additional technical and professional manpower. The most serious trained manpower shortages remain in the poorest countries such as those of Sub-Saharan Africa, which have neither adequate technical training capacity nor broad-based general education systems. For other countries, the general shortages have eased considerably and the human resources development tasks are increasingly those of developing specialized skills and training capacities, providing local and external advanced training for key personnel, and working with employers to ensure that available skilled personnel are used effectively. A growing priority for all countries is training for self-employment and small-scale enterprise, the sectors likely to provide the needed employment growth.

Specialized and advanced training programs are very expensive, raising public policy issues of how best to allocate available resources between the specialized training and the general education systems. Countries simultaneously face problems of shortages of skilled workers, skilled worker unemployment or underemployment, and strong social and economic demand for additional training. Countries need to diversify technical training options, involve employers more fully, and consider alternative approaches for financing technical training and university study. There is a general need to address problems of inappropriate or inadequate labor market incentives, personnel policies, and professional support systems. Too frequently, available skilled and professionally trained personnel are adequate in number but ineffectively or inefficiently mobilized and utilized.

Progress Toward Meeting Education and Training Needs

Evaluations of major AID education assistance programs, such as those implemented in Brazil, Colombia, Jordan, and Korea, suggest significant and positive long-term impacts in helping countries establish schooling and training systems of adequate size and quality to raise general education levels and to meet labor market requirements for workers with advanced and specialized training. Most countries in which AID education programs were concentrated in the 1960s have made substantial progress in economic development, as well as in education, and no longer require concessional assistance.

While the specific problems differ for currently assisted countries, several general lessons from earlier programs are being applied in current AID programs in Nepal, Honduras, Lesotho, Botswana, Egypt, Yemen, and other countries with continuing education assistance needs.

A general lesson is that AID can contribute most effectively when it supports systemic reform over an extended period and strengthens key institutional capacities such as research and analysis, administration, teacher training, and instructional materials production. Assistance focused more narrowly or for shorter periods generally has been less effective or enduring. For this reason, AID emphasizes (1) detailed assessment of education and training system capacities and weaknesses as the first stage of program planning and (2) long-term program strategies aimed at systemic reform and strengthening of key institutions and institutional capacities.

A second general lesson is that training for key managers, technicians, and analysts is central to institutionalizing competence and ensuring lasting impact. External and local training is an important part of AID's strategies for strengthening institutions in all sectors, including education and training institutions, and will continue to be emphasized.

Education and Training Priorities for the Near Term

In addition to project-related training in all sectors, AID appropriations for EHR sector programs for FY 1986 are $180 million, compared with $188.5 million in FY 1985. In addition, about $2 million is appropriated under the Sahel program and approximately $50 million under the Economic Support Fund.

Advanced training for administrators, managers, and scientific and professional personnel is expanding in all regions, both as a major part of the EHR program and as a component of projects in other sectors. Training in local institutions and participant training in the United States are estimated at 50 percent of the EHR program and 10-20 percent of other sector programs. Over 15,000 individuals will receive training in US institutions in FY 1986, representing an annual investment of $150-$200 million. Training in local institutions includes project-related staff training at the technician level and skills training for small businesses, self-employment, and agriculture.

Programs supporting school system improvement and basic adult education are about 30 percent of the bilateral EHR effort, or $50-$60 million annually, with an additional $20-$30 million provided under Economic Support Fund programs. The major emphasis is on helping countries to allocate and use scarce educational resources more efficiently. Program priorities are education systems research and analysis, improvement of key administrative and management capacities, and ensuring the availability of essential instructional materials. AID is giving increased attention to local school administration and financing systems, including private schools, and is continuing a long-term program of experimentation on the use of radio and other media to extend education cost-effectively in rural areas.

Twenty-five percent of AID's EHR program supports projects in Africa, where education capacities are inadequate at all levels; 50 percent in Latin America and the Caribbean (about two-thirds for Central America); and 11 percent in Asia and the Near East. The remainder is allocated centrally in support of EHR programs in all regions.

International Assistance for Education Programs

Developing country expenditures on education and training total about \$60-\$70 billion. Total international assistance for education and training is estimated at \$4.5 billion. Almost 80 percent of this assistance comes from two sources: Organization for Economic Cooperation and Development countries (of which France, the United States, and the European Economic Community are the largest donors) and the World Bank (International Bank for Reconstruction and Development/International Development Association). US bilateral programs (including project-related training in noneducation sectors) represent about 7 percent.

4.2.2 Population

Policy Objectives for Population

The objective of US population assistance is to enhance the well being of families in developing countries by making family planning services available to couples and individuals. Increased access to a range of family planning methods gives families freedom to choose the number of children they want. As economic growth and development proceed, couples desire fewer children, leading to increased demand for family planning services and decreased fertility rates. Thus, voluntary family planning programs and sound economic policies are mutually reinforcing. The US Government supports voluntary family planning programs to assist countries that want to reduce high rates of population growth and to provide individuals with the means to achieve the desired number and spacing of their children. In its Strategic Plan for 1985, AID adopted the goal that 80 percent of couples in the developing world should have access to family planning services.

Current US policy on population assistance was articulated in Mexico City at the International Population Conference in 1984. The policy includes three central themes.

1. The United States continues to provide substantial support to voluntary family planning programs in developing

countries. The US position is that couples everywhere have the right to choose freely the number and spacing of their children.

2. Free market economic policies aimed at economic growth can alleviate population pressure. Voluntary family planning programs and economic development are mutually reinforcing. Each contributes to the goals of fertility decline and the improved circumstances of families and nations.

3. The United States will not support abortion as a method of family planning or coercion in family planning programs. US Government funds will be dissociated from organizations that support abortion-related activities and US Government funds will not be used to support family planning activities that involve coercion. The United States insists that population assistance be based on the rights of individuals and couples to choose freely the number and spacing of their children.

Population Growth and Economic Development

Since World War II, developing countries have experienced unprecedentedly high rates of population growth, largely because improvements in infant and child health created sharp reductions in mortality rates. Fertility rates have remained high, resulting in population increases of 2 to 3 percent per year. Such rates compound the difficulties of economic development, particularly in poor countries that must divert resources from needed investment in order to meet the basic needs of their growing populations.

Population growth in the short run also puts pressure on natural resources and the environment. However, with appropriate economic policies, societies have tended to be able to overcome these limitations in the long run by means of improved technology, the invention of substitute resources, the discovery of new resource deposits, and the provision of family planning services to meet the demand for smaller families. Although high population growth rates are a cause for concern, with appropriate economic policies and family planning programs they will not inevitably lead to crisis.

As countries experience economic growth and make family planning technology available, fertility rates tend to fall and population growth stabilizes at a lower level. There is evidence 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 that have instituted strong family planning programs along with sound economic policies. These include Taiwan, Thailand, South Korea, Indonesia, Mexico, and Colombia. In other countries, especially in Sub-Saharan Africa, birth rates have not declined. Many of these countries are just beginning to become concerned about high population growth rates, and many have little capacity to make family planning services available to their people.

Economic development and family planning programs are mutually reinforcing. As countries develop economically, families find advantages in having fewer children. In a traditional developing country, children begin to work early and provide income for the family and support to their parents when the parents reach old age. But as the society becomes more developed, couples rely less on their children for income, and they must spend more on their children's education. As has been the pattern in the developed world, these men and women begin to desire fewer, better educated children. The goal of population assistance is to make family planning services available to meet increasing demand in developing countries.

There is growing evidence that family planning programs are also important for improving the health of mothers and children. Children born too soon after the birth of an older sibling are less likely to survive into adulthood than other children. A child born within two years of an older sibling is twice as likely to die as a child born after a two-year interval. The older child is also at increased risk and is 50 percent more likely to die than a child followed by a longer birth interval. One-third of children in the developing world are born after too short an interval. Family planning to space births saves lives.

US population assistance policy is based on freedom of individuals to choose. If economic growth is sustained and if, through access to modern contraceptive technology, couples are free to choose the size of their families, the result will be increased prosperity for families and society. The United States does not support the idea that governments must choose for individuals the appropriate size of family and therefore strongly opposes government interventions that lead to coercion.

US Population Assistance

Over the last 20 years the United States has played a leading role in providing technical assistance and support for population activities. The largest proportion of US population assistance goes to providing family planning services, including training for physicians, paramedics, and field workers; commodities; and technical assistance in the design and improvement of distribution systems. In 1985 this amounted to about $234 million, or 82 percent of the total population assistance account.

Working with governments and nongovernmental organizations over the past 20 years, AID has developed and refined effective ways of strengthening institutions through which family planning services can be provided. In an attempt to increase the availability of these services, AID is placing greater emphasis on the involvement of the nongovernmental sector in family planning. In FY 1985, AID spent nearly half of its total population assistance budget in support of nongovernmental organizations. Through such organizations, AID supports community-based distribution of family planning services, using paraprofessional and volunteer personnel, and social marketing or commercial retail sales programs, which deliver family planning supplies through the commercial sector. AID support for subsidized retail marketing of contraceptives is receiving increased emphasis; support for this type of distribution has risen from about $7 million in FY 1981 to $52 million in FY 1985.

AID recognizes that effective family planning programs must offer services that are consistent with the cultural environment and the religious and philosophical convictions of the host population. Therefore, AID has encouraged inclusion of natural family planning in its programs in areas where this method is culturally appropriate. AID support to natural family planning has grown from $400,000 in FY 1980 to $7.8 million in FY 1985.

In addition to funding family planning services, the United States provides assistance to governments for analyzing population issues and collecting basic demographic information. AID spent $26 million on these activities in 1985.

The United States also supports population research, particularly biomedical research devoted to the safety and effectiveness of contraceptives and the development of promising new contraceptive methods. The United States also funds research on improved methods of delivery of family planning services. In 1985 AID spent $19 million, or 7 percent of the population assistance budget, on research.

International Assistance for Population

Worldwide population assistance expenditures total about $1 billion annually. Developing countries themselves provide well over half of this amount. The United States is the major donor of international population assistance (providing about one-half of the total donor assistance), along with Japan, Norway, Sweden, West Germany, Canada, the Netherlands, and the United Kingdom. In FY 1985, the US population assistance budget was $290 million. On the multilateral level, the UN Fund for Population Activities (UNFPA) and the World Bank are the principal donors.

In 1985 AID contributed $36 million to UNFPA. An additional $10 million which had been earmarked for UNFPA by Congress was withheld because of legislation enacted in 1985 requiring that funds be withheld from organizations that "support or participate in the management of a program of coercive abortion or involuntary sterilization." Although it is clear that UNFPA does not include coerced abortion or involuntary sterilization in its own programs, UNFPA has supported population activities in China. Incidents of coerced abortion in China have been widely reported and are believed to result from the Chinese policy of one child per family.

Population Prospects for the Near Term

AID will continue to accord priority in population assistance to the expansion of voluntary family planning services and related activities. This includes emphasis on expansion of the role of the private sector in the delivery of family planning services and supplies through either private voluntary organizations or commercial channels. In an effort to extend the choice of methods available and enhance the programs it supports, AID is increasing its support for natural family planning methods and for biomedical research on promising new family planning methods and the improvement of existing methods. The policy environment within which family planning programs operate is important to their success. AID will continue to provide technical assistance and financial support for policy analysis and policy development to maximize the mutually reinforcing effects of family planning services and other development policies and programs. The US program in FY 1985 will build on past experience, but will emphasize increased use of the private sector in service delivery, expanded method choice, policy development, and strengthening of local institutions.

4.2.3 Employment

Policy Objectives for Employment

The generation of productive employment opportunities at higher real wages in developing countries is a priority objective for AID. Through the attainment of this objective AID helps the people in developing countries satisfy their basic needs, releases the creative forces of individuals, and assists in expanding the potential for economic growth and welfare.

Low labor productivity and incomes in developing countries result from two basic interrelated causes: scarce complementary resources and policy-related distortions. Overcoming such basic causes calls for a long-term, consistent, and comprehensive policy approach. In this light, AID policy dialogue with governments of recipient countries addresses reassessment and reform of the policy setting. The policy dialogue is complemented by the selection and design of development projects.

AID's approach to employment and unemployment conditions in developing countries stands on the fundamental proposition that the goal of generating productive employment is best served by the promotion of economic growth in a competitive, free market setting. AID does not favor direct government intervention and control that deals with labor underutilization by increasing public employment; nor does AID favor a centralized planning focus that minimizes reliance on market forces and emphasizes protectionist measures and the short term. State-centered schemes have aggravated, not benefited, labor market problems in developing countries. An appropriate role for government is to help create the social and physical infrastructure essential to an efficient market-oriented economy.

AID's employment efforts rest on the following principles:

1. Strategies and policies that stimulate investment should be stressed. AID favors development of potential comparative advantages in as many productive sectors as efficiently possible. Such broad-based development enables a country to efficiently take advantage of intersector linkages and provides a measure of built-in protection against fluctuations in the international demand for some of its commodities or services. Consonant with its emphasis on encouraging developing countries to benefit from their comparative advantages, AID supports development of export potential in many of the developing countries it assists.

To help developing countries exploit their export potential, AID has carried out projects that facilitate production of nontraditional agroindustrial goods for export markets. For example, AID has supported efforts in Costa Rica and in Honduras to increase the quantity and quality of nontraditional exports by providing foreign exchange and technical assistance to entrepreneurs, assisting in the establishment of export associations, and strengthening the policy framework needed to promote exports.

To identify strategies and policies that stimulate employment and are consistent with AID's employment objectives, AID has established an Employment and Policy Analysis project. In addition to reviewing worldwide experience with enterprise- and employment-oriented policies, the project engages in country-specific analyses.

2. Prices should reflect the economic scarcity of goods, services, and production factors. In addition to enhancing product growth, the application of this principle by a developing country tends to maximize the productive employment derived from a given rate of output growth. Unfortunately, many policies followed by developing countries during recent decades have raised the cost of labor far above its true cost while lowering the price of capital below its scarcity value. AID opposes actions that distort factor prices and encourages settings in which prices reflect economic scarcity. Thus, AID discourages policies that tend to result in relative factor prices biased against the use of labor. For example, AID favors the deregulation of financial markets, increased competition in financial sectors, and free-market-determined interest rates. To help developing country governments identify important constraints resulting from price and related distortions, AID has supported special policy studies. In Panama, for example, policy studies are focusing on such areas as public sector efficiency, industrial policy, trade liberalization and employment, the labor code, and agricultural policies, among other aspects.

3. <u>Greater reliance should be placed on private sector initiatives within a competitive setting</u>. AID's emphasis on the private sector derives from its perception that the private sector is the main agent for growth and employment while the main role of government is to help create the right conditions for development. In line with this emphasis, AID has generated throughout Africa such new private sector initiatives as the Small Economic Activity Development project in Burkina Faso. AID's Bureau for Private Enterprise has helped develop capital markets in developing countries through loans and institution-building grants to various institutions such as commercial banks (Thailand), development banks (Morocco and Ecuador), leasing companies (Peru and Pakistan), and credit union systems (Bolivia), among other activities. Other examples are the centrally funded Market and Technology Access project, which identifies, tests, and evaluates methods of promoting collaborative ventures between small-and medium-size US and developing country businesses, and the Indonesia Private Sector Development Exploratory project, which provides consultant services for Indonesian entrepreneurs, funds special studies relating to constraints to the private sector, and assists in the development of a major industrial enclave in Northern Sumatra.

4. <u>Efficient education and training activities related to employment are important for preventing shortages of strategic skills that constrain output and employment</u>. Because the lack of access to adequate education and training services adversely affects the employment potential of particular population groups, AID seeks equality of opportunity for all persons in developing countries. AID emphasizes the importance of making those services accessible especially to low-income population groups. In line with these concerns, AID stresses the importance of improving the efficiency and effectiveness of the formal and nonformal education and training systems. Various projects reflect these priorities. For example, the Rural Information System project in Liberia uses the radio to broadcast educational programs to the rural population. The Lesotho Basic and Non-Formal Education System project works on reorienting and improving basic education so that it provides skills relevant for rural-based employment and incomes.

5. <u>Appropriate technology is important for conserving scarce capital and optimizing the utilization of abundant labor resources</u>. The economic potential of a country is enhanced if technological change results in efficient production techniques that make intensive use of the country's abundant productive resources. As labor is the relatively abundant factor in most developing countries, the development of labor-intensive techniques would be the appropriate course for these countries. Accordingly, AID promotes efforts to increase or develop the capacity of developing countries to generate, adapt, or diffuse efficient labor-using techniques. In this connection, AID has a cooperative agreement with A.T. International (ATI) that facilitates the transfer of capital-saving, employment-generating technologies to small, private enterprises in developing countries. ATI was set up to

respond quickly to situations where limited amounts of resources are needed to carry out innovative activities with a high-payoff potential.

Project Emphases

Small-Scale Enterprise. AID supports competitive small enterprises because they generate a substantial amount of productive employment, tend to be labor intensive, have the potential for competing effectively with larger firms, and provide important channels for entrepreneurs. This support is expressed through support for credit and training programs, research relating to small firm activities, and the elimination of government practices that discriminate against small firms. In the Dominican Republic, for example, the Small Industry Development project provides credit at market rates to small industries through private financial institutions and user-financed technical and management assistance to recipient firms. The Small Enterprises Approaches to Employment project focuses on improving the capacity of local institutions in developing countries to assist small-scale and microenterprises.

Rural and Agricultural Development. Improving employment conditions in rural areas through rural and agricultural development is an essential element in AID's strategy for ameliorating the employment situation in developing countries. Accordingly, AID seeks to improve rural employment conditions through programs and projects that (1) help develop small-scale rural private enterprises and the use of appropriate, capital-saving technology; (2) raise skills and education levels; (3) disseminate new agricultural technologies; (4) increase the availability of water, improved seed, credit, and other agricultural inputs; and (5) support the creation of rural infrastructure such as roads and irrigation facilities. There are many examples of AID rural and agricultural development projects and programs. Among them are the Kenya Rural Private Enterprise project to help accelerate the establishment of rural private businesses with strong forward or backward linkages to smallholder agriculture; the Small Farmer Production Pilot project in Egypt to help improve operations of 27 village banks and to provide a package of improved agricultural inputs, including credit, extension, fertilizer, and pesticides; and the Rural Development project in Central Tunisia, through which 2,530 hectares have been reseeded and 30,000 animals vaccinated, and which has increased forage quantity and quality tenfold on average on demonstration plots.

4.2.4 Health

Policy Objectives for Health

Overall AID objectives in the area of health are to reduce infant and early childhood mortality and to increase life expectancy by reducing disease and disability among the population at large, but especially among infants and children. Health status is affected by many socioeconomic variables, including household income, food availability, maternal time, and maternal education. However, selected specific health interventions can have a more direct, immediate impact on health. AID's health strategy focuses on interventions that are most effective in reducing mortality and morbidity at the lowest cost. These interventions, which have collectively become known as AID's Child Survival Action Program, include immunization; diarrheal disease control, including oral rehydration therapy; child spacing; improved nutrition practices; and, where appropriate, a limited set of other related interventions, such as control of acute respiratory infection.

Delivery of these highly effective interventions relies on maximum use of both modern advertising techniques and traditional health service systems. AID encourages more and better use of social marketing techniques, commercial production and retail sales of supplies such as oral rehydration salts and contraceptives, and private sector health practitioners in order to increase both demand and availability of these life-saving services. At the same time, AID emphasizes institutional strengthening of the health system in order to develop and maintain a sustained capacity to deliver child survival interventions. In order to institutionalize child survival programs within the health system, AID emphasizes cost recovery and cost containment; improved training and supervision of health personnel; strengthening of logistical support systems; and improved management information systems for planning, surveillance, evaluation, and operational research. AID also continues to support basic research related to child survival.

The World Situation for Health

Fourteen million children die each year in developing countries--10 million in AID-assisted countries alone. In some of the poorest countries, as many as one-fourth of the children die before they are five years old. Death and disease among third world children are not mysterious, but rather result from multiple, interacting conditions. A death attributed to diarrhea may have been precipitated by a recent bout of measles in a child undernourished from birth and unable to efficiently use the food he or she received because of intestinal parasites transmitted in contaminated water. In another child, lowered resistance from nutritional deficiency and/or disease may increase susceptibility to pneumonia. Children born less than two years after a sibling are twice as likely to die as those spaced further apart.

Prematurity, low birth weight, and complications of labor and delivery also contribute to infant mortality rates and reflect the lack of prenatal screening, supervised childbirth, and access to child-spacing information among a vast proportion of the populations of developing countries. Due in part to the high infant and child mortality rates, life expectancy in 32 of the least developed countries is 51 years, compared with about 75 years in the industrialized countries (1982 figures).

In recent years, epidemics of historic proportions have been reported in heavily populated tropical countries. Malaria in particular is now out of control in certain regions as a result of the emergence of disease vectors resistant to existing pesticides and parasitic drugs. Each year an estimated 300 million persons are affected by malaria, which results in as many as three million deaths annually among infants and children and causes suppression of the immune system, weakness, and susceptibility to repeated occurrences of disease among adults.

Approximately 200 million people suffer from the debilitating effects of schistosomiasis, and another 250 million from filariasis. An estimated 40 million persons are affected with the filarial disease onchocerciasis, one of the leading causes of blindness in the developing world. The other leading cause of blindness, severe vitamin A deficiency, affects as many as four million children each year in Asia alone.

Progress in Health Through US Bilateral Assistance

AID has taken a leading role in promoting child survival technologies. Since 1980, AID has allocated steadily increasing resources to (1) systematic immunization efforts, particularly against diphtheria, whooping cough, tetanus, measles, poliomyelitis, and tuberculosis for children, and against neonatal tetanus for women of childbearing age; (2) the expanded use of oral rehydration therapy, a simple but effective solution of water, glucose, and salts that prevents death and brain damage from dehydration; (3) child-spacing information and services, particularly in areas where high parity and closely spaced births contribute to high levels of child mortality; and (4) the integration of nutrition education, growth monitoring, and supplementary feeding into health services. In 1985 the Child Survival Action Program consolidated these efforts. Its Child Survival Task Force programmed $85 million of additional child survival, health, and nutrition funds allocated by Congress, over and above the regular health and nutrition accounts, to intensify AID's contribution to child survival.

A complete report of child survival activities carried out in 1985 is presented in a separate report entitled "Child Survival: A Report to Congress on the AID Program." A brief summary of AID efforts in child survival is presented here.

Immunization. In 1985 some $21 million was spent on immunization services and $22 million on immunization research. Additional increases in spending for immunization programs are planned in FY 1986 and beyond. The increased commitment to immunization programs will enable AID to make a significant contribution to the worldwide effort to achieve universal access to immunization by 1991. An even bigger challenge is the goal of achieving 80-percent immunization coverage in countries in which AID has development programs, given that only approximately 20 percent of the world's children are fully immunized against the six major childhood diseases for which immunization is available. AID is developing a long-term immunization strategy that will focus major efforts in selected countries and on children under one year old for maximum effectiveness. The efforts of other donors will be taken into account in developing AID's strategy. Increases in immunization coverage will be reported each year in this report.

AID's 20-year role in immunization research has involved the development of vaccines against malaria, rotavirus, cholera, leprosy, and typhoid. Other research has focused on existing vaccines and delivery systems to improve their effectiveness and to increase acceptability of vaccination programs in the field. Finally, AID is continuing to support research to improve the management and cost-effectiveness of immunization programs.

Oral Rehydration Therapy. As with immunization, AID has a long history of support for diarrheal disease control, especially for the development and dissemination of oral rehydration therapy (ORT) to prevent and control dehydration due to diarrhea. From early support for the Cholera Research Laboratory (now the International Centre for Diarrheal Disease Research/Bangladesh) to recent efforts to disseminate the message about ORT to families, AID has played a critical catalyzing role. There are now AID-supported ORT programs in more than 50 developing countries through direct government-to-government agreements, and many more are being mounted by private voluntary agencies and international agencies with AID funding. AID expenditures on ORT programs reached $37 million in FY 1985. AID will continue to sustain this level of involvement in order to extend the message about ORT to additional populations and to consolidate recent gains made in ORT coverage worldwide.

Child Spacing. The link between child spacing and child survival is strong and has been recognized by AID since it first began supporting family planning programs some 20 years ago. In the absence of appropriate child spacing, prospects for child survival are significantly diminished. Family planning services are provided through many of the same delivery systems that provide immunization, ORT, and other child survival interventions. Family planning commodities are similarly supplied through the same public, private, and commercial channels that supply oral rehydration salts and other child survival commodities. Finally, other child survival activities can be promoted successfully by means similar to those used to market family planning concepts and contraceptives. For all of these reasons, AID will continue to explore means to include family planning in its child survival efforts.

Nutrition. In spite of the growing recognition that undernutrition in childhood contributes more to child mortality than any other condition or disease, AID involvement in the effort to improve childhood nutritional status has lagged behind AID's visible and pioneering efforts in other child survival interventions. There are several reasons for this lag, including the multifactorial causes of malnutrition, the behavioral nature of nutritional problems, and the lack of a simple technology to prevent or control the condition. However, efforts are being made to improve practices including breastfeeding, weaning, dietary management of diarrheal disease, and other behaviors amenable to nutrition-education interventions. Growth monitoring and supplementary feeding programs are the other major components of programs aimed at improved child nutrition and survival, both of which have been supported by AID for some 20 years. An Agency strategy for nutrition within the Child Survival Action Program is currently being developed.

Other Related Interventions. Lasting improvements in child survival cannot be realized by applying the same formula to every country or program. AID continues to support related health programs, specifically those designed to reduce diarrheal and parasitic disease through improved water and sanitation systems and those designed to control malaria. The other group of diseases that disproportionately affects infants and young children, the group known as acute respiratory infections, cannot be prevented by available technology. However, AID has begun to support research in this area, as well as supporting action programs to control acute respiratory diseases through early diagnosis and treatment at the village level.

International Assistance for Health Programs

Major health campaigns promoted by multilateral donors during the 1980s have been intensified in the last year through the child survival activities of AID, the UN Children's Fund, the Pan-American Health Organization, the Government of Italy, and other bilateral and multilateral organizations, as well as private voluntary organizations such as Rotary. The total amount spent by international donor organizations is small relative to total health expenditures in developing countries; however, international assistance is targeted mainly to public health, and specifically to child survival, programs. Public expenditures for health in developing countries are estimated at $1 to $5 per capita in the low-income developing countries, and $6 to $30 per capita in lower middle-income developing countries. Most of these expenditures are for curative health services. Public expenditures represent from 15 to 70 percent of total health expenditures in these countries.

There is a clear relationship in a given country between infant and early childhood mortality and national economic indicators. When economic levels stagnate or fluctuate widely, gains in health status are negated, and expenditures on health programs are reduced. For these reasons, internationally supported child survival efforts are intended to maximize their impact on child mortality independent of economic fluctuations.

Health Prospects for the Near Term

A concerted effort will be made to reach the goal of substantially increased rates of immunization by 1991, while at the same time sustaining the attack on diarrheal disease and increasing efforts to promote child spacing and adequate nutrition. Where these efforts are carried out and sustained, prospects for increased child survival are indeed promising. Simultaneous efforts to increase demand for and availability of these services, to improve cost-effectiveness, to increase cost recovery, and to institutionalize these systems will be required to enhance the effect of these high-impact interventions in the short run and to ensure the viability of the program in the long run.

4.3 ENERGY, ENVIRONMENT, AND NATURAL RESOURCES

4.3.1 Energy

Policy Objectives for Energy

AID's energy assistance activities are designed to meet the following basic objectives: (1) to help countries develop sound national energy policies that are integrated with national economic policies and supportive of sustained economic growth; (2) to expand the production of indigenous energy sources that can be substituted for higher cost imported energy wherever economically justified; and (3) to improve the efficiency of energy use.

The World Energy Situation

The world market price for petroleum has fallen almost 20 percent in the last two years, substantially easing the energy situation in the United States. For many developing countries, however, there has been little relief. Energy prices in developing country currencies have, in fact, risen. Since 1981, the local currency price of fuel oil has increased 40 percent in Sudan, 140 percent in Peru, and 170 percent in Ecuador.

In developing countries the growing demand for energy has increased claims on scarce foreign exchange earnings. Figures for the period 1973-83 show that while energy consumption in the industrial market economies grew at an average annual rate of 0.1 percent, energy consumption increased at an annual rate of 5.5 percent in low- and middle-income countries. The United States actually registered an annual decline in consumption of 0.4 percent. Energy demand in developing countries is expected to grow rapidly and to account for at least half of the increase in world energy consumption during the remainder of the decade. This will occur in response to general population increases, increasing urbanization of developing country populations, and the requirements for energy inputs to fuel economic development. Requirements will increase for the conventional fuels used in the modern industrial, transport, and commercial sectors as well as for fuelwood and charcoal used by households and small industries.

Most of the commercial energy requirements of AID-assisted countries are for petroleum. Three-fourths of AID-assisted countries rely on oil for 50 percent or more of their commercial energy use. For all but a few such as Egypt, Indonesia, Ecuador, and Tunisia, this oil is imported. While some AID-assisted countries have domestic fossil fuel resources or hydropower potential, the level of investment in exploration and development is far less than required. For low-income AID-assisted countries, about 80 percent of their energy investments comes from multilateral or concessionary capital flows. Private capital is the investment source for most middle-income countries.

The increasing scarcity of wood fuels has created serious hardships in many AID-assisted countries. People must pay higher prices for household fuels or take the time to travel longer distances to procure wood or agricultural wastes to meet their domestic energy needs.

US Energy Assistance

In FY 1985, AID provided $120 million in Economic Support Funds for energy activities and $49 million in Development Assistance funds. During the last few years the share of energy activities financed by Economic Support Funds has increased significantly and accounts for almost 80 percent of AID energy obligations. The Economic Support Funds are used in Pakistan, Egypt, the Sudan, and the Philippines to develop domestic energy resources, to expand electrical generation and transmission facilities, and to strengthen key energy institutions. Capital assistance, training, and technical assistance also are provided. Program activities include electricity generation and distribution in Egypt; rural electrification projects in Bangladesh; rural electrification, energy, planning and conservation, equipment, and development of a coal mine in Pakistan; and assessment of energy resources such as peat and geothermal in Central America.

The Development Assistance program supports energy planning and policy development; technical assistance; research and training related to the development and production of energy resources, including fuelwood and other forms of biomass energy; and energy conservation. In addition, assistance is provided for research, demonstration, and assessment activities on various renewable energy technologies, and new technologies for using fossil fuels such as fluidized bed combustion systems and coal/water mix fuels.

AID is currently working to expand the private sector role in the development and management of energy activities in developing countries, and to utilize the technical and financial resources of private US firms to alleviate energy problems in developing countries. In many AID-assisted countries, the commercial energy sector is dominated by large parastatal corporations that control the operations of electric utilities, refineries, and the distribution and marketing of petroleum products. In order to increase private sector participation, policy reforms will be required to improve the functioning of energy markets; the technical and management skills of local personnel will need to be upgraded; and the flow of capital and technologies must be stimulated to increase productivity.

In a number of AID-assisted countries, there are attempts to involve the private sector more directly in energy activities. For example, AID has been working with the Government of Sudan to expand the role of private petroleum marketing companies in the procurement and internal distribution of petroleum products; in Liberia, the state-owned refinery was closed and products are procured through international markets. Private companies are also playing an increasingly important role in joint ventures to develop local fossil fuel resources--such as the Lakhra coal facility in Pakistan. Studies are underway in Pakistan and elsewhere to encourage the private generation of power through appropriate policy changes and technical assistance.

Another US agency, the Overseas Private Investment Corporation (OPIC) facilitates US private investment in the development of oil and gas reserves in developing countries. In FY 1985, OPIC provided political risk insurance or financing to 14 oil and gas projects involving a total new investment of almost $3.6 billion in six developing countries. (See Section 2.2 for more information on OPIC activities.)

Energy Prospects for the Near Term

During the next few years, petroleum prices are expected to remain soft because of excess productive capacity in Organization of Petroleum Export Countries (OPEC) and competition from non-OPEC producers. Given the decline in world market prices for petroleum, most renewable energy sources such as wind, solar, and biomass will be increasingly less competitive except in small-scale, high-value applications. Conservation and increased efficiency of energy use will continue to be very cost-effective with near-term payoff. The traditional fuel situation is not likely to change substantially in the near term.

4.3.2 Environment and Natural Resources

Policy Objectives for the Environment and Natural Resources

AID's environmental and natural resource policy reflects the need to ensure that international development assistance activities are environmentally sound and the recognition that long-term economic growth is dependent on the maintenance of natural resources. AID provides assistance to help developing countries identify and solve their environmental and natural resource problems by strengthening their institutional and scientific capability. Two areas of particular concern to AID are the need for conservation of biological diversity in developing countries and the need for careful management of development programs in humid tropical forest areas. AID has issued guidance in these areas to assist its field Missions in formulating program activities and promoting appropriate policies with host governments. AID and OPIC also conduct environmental assessments of their major development projects.

The World Situation for the Environment and Natural Resources

Developing country resources of land, water, and vegetation are increasingly vulnerable to two different but equally serious threats: dramatic disasters and slow deterioration. Recent events remind us of the vulnerability of developing countries to disasters. In some cases the direct cause of an environmental crises is man, as in the industrial accidents in Bhopal and Mexico City. In other cases, for example the African famine, man and drought have contributed directly to land deterioration and the disaster by following shortsighted agricultural and resource management practices. Many of the effects of natural resource deterioration are irreversible or are extremely costly to undo. Tropical forests are disappearing, and their valuable genetic resources are being lost. Semiarid rangelands are becoming deserts, and the people they support are losing their food supplies and their way of life. Steep hill lands are losing their topsoil, and upland agriculture is becoming less sustainable. At the same time, urban areas in many developing countries are experiencing some of the world's worst air and water pollution.

AID Environmental Activities

AID carries out a broad range of environmental and natural resource management activities, including environmental impact assessments of all its major project activities. OPIC also assesses the impact of its proposed projects and encourages US investors to take appropriate steps to mitigate adverse impacts.

Some AID development projects are concerned solely with the provision of natural resource information, technical or policy assistance to address critical environmental problems, or training of developing country personnel in natural resource management. Examples of such projects include support for the development of environmental profiles or national conservation strategies in Belize, Nepal, Sri Lanka, Zaire, Panama, Indonesia, and the Philippines. Technical assistance has been provided to help farmers in Haiti adopt soil conserving hillside farming techniques and to the Lake Victoria Authority to help implement programs to improve water quality and management to maintain the fish resources of the Lake. Technical assistance and training has been provided to a wide variety of African environmental agencies and to agencies responsible for the management of coastal areas in Asia and Latin America.

In the Near East region, AID has a large, ongoing portfolio of capital projects that address the environmental health problems of the urban poor by providing improved water supply and wastewater collection and treatment systems. Most of these projects are supported by Economic Support Fund rather than Development Assistance accounts. There are also components of other projects that address these problems as part of coordinated efforts to improve urban housing and environment.

AID is working with the World Environmental Center and US private businesses to improve the safety of potentially hazardous industrial facilities in developing countries and to develop emergency response measures to mitigate the effect of industrial accidents. In Tunisia, AID has begun a training program for representatives of Tunisian industries, which is led by the environmental officers of major US industrial corporations. This program will be extended to Turkey and Jordan in the coming year.

In response to the Bhopal incident, AID has negotiated a Cooperative Agreement with the World Environment Center's International Development and Environment Service. The Center will assist India in developing an improved program in industrial health and safety.

Environment and Natural Resource Prospects for the Near Term

Continuing deterioration of the natural resource base in developing countries is likely as the need for greater food supplies strains the capacity of existing agricultural land and water resources. However, with careful management and long-range planning, combined with appropriate government policies, many of these resources can be sustained and in some cases upgraded.

PART 3

US DEVELOPMENT ASSISTANCE PROGRAMS

CHAPTER 5

US PROGRAMS TO PROMOTE DEVELOPMENT

5.1 US BILATERAL ECONOMIC ASSISTANCE

In the allocation of US economic and development assistance, improved coordination of resources in support of US foreign policy is a major consideration. Key elements of the approach include the following:

-- An explicit statement of the foreign policy framework, setting forth objectives and analyzing the contribution of each foreign assistance program--military, economic development, and food aid--to the attainment of these objectives

-- Use of an integrated budget process in which all available foreign assistance resources are allocated within the context of the general foreign policy objectives and specific priorities in each prospective recipient country

-- Interagency review and debate of prospective aid levels, including scrutiny of the overall program by the Budget Review Board and the President to ensure that resources are directed to the highest priorities of foreign policy

Within this framework, bilateral US economic assistance flows from four categories:

1. Development Assistance (DA) expands economic and social opportunities with programs in sectors that promote equitable economic growth.

2. The Economic Support Fund (ESF) promotes economic and political stability in countries or regions where the United States has significant security interests and where the United States has determined that quick impact or sizable financial commitments are needed to avert major economic or political crises and help secure peace.

3. The Public Law 480 (PL 480) Program (Food for Peace) combats hunger, encourages development, and expands markets for US farmers.

4. The Housing Guaranty (HG) program secures non-appropriated funds from US private capital markets, at close to market rates of interest, to improve housing for low-income inhabitants of borrowing countries.

The amounts obligated or requested under these budget categories in FY 1984, FY 1985, and FY 1986 are shown in Table 5-1.

Table 5-1. U.S. Bilateral Economic Assistance Obligated or Requested, FY 1984-1986 (in $ millions)

Budget Account	FY 1984 Actual	FY 1985 Actual	FY 1986 Requested
Development Assistance (functional accounts plus Sahel)	1,468.5	1,862.2	1,675.9
Economic Support Fund (ESF)	3,146.2	5,247.4	4,024.0
Subtotal: AID	4,614.7	7,109.6	5,699.9
PL 480 Food Aid (Titles I, II, III)	1,590.5	2,167.8	1,680.0
Total Appropriated Funds	6,205.2	9,277.5	7,379.9
Housing Guaranty (HG) Program[a]	150.0	160.0	45.0

[a]US Government guarantees rather than expenditures of appropriated funds.

All forms of assistance are allocated in the context of their contribution to the promotion of US interests in a region or country. However, US country and regional interests are seldom singular. Assistance criteria can include any of the following factors:

- -- Access to raw materials important to US industry
- -- The possibility of destabilizing conflict
- -- The presence or prospect of sizable US private investment
- -- The relative importance of medium- as well as short-term US interests
- -- The character of the country's overall relations with the United States
- -- The country's position on human rights
- -- The extent of the country's efforts to acquire nuclear weapons

Additional, and equally important, criteria for the allocation of Development Assistance to a country are the following:

- -- The country's need, especially as measured by per capita income, the availability of food, and access to minimum health care and education services
- -- The country's economic progress and prospects, including its ability to effectively use US assistance
- -- The country's commitment to policies that promote growth

The terms of US assistance also emphasize US support of the poorer developing countries. The least developed countries receive nearly all assistance in the form of grants. Countries that are somewhat more developed economically, but nevertheless still poor, receive a balanced mix of concessional loans and grants. Programs that directly assist the private sector of developing countries can be provided on commercial rather than concessional terms.

Using these criteria, in FY 1985 the United States allocated to low-income (International Development Association [IDA]-eligible) developing countries 50 percent of all funds (DA and ESF) available to country programs (see Table 5-2). Of the 36 nations on the UN "least developed" list, 29 accounted for 11 percent of country-allocated bilateral assistance in FY 1985. Regional allocations under Development Assistance, the Economic Support Fund, and PL 480 are shown in Table 5-3 for FY 1984 and FY 1985. In FY 1985, Latin America and the Caribbean received the largest share of Development Assistance funds directly allocated by country, followed by Asia/Near East and Africa. The Asia/Near East region absorbed nearly 75 percent of the Economic Support Fund in FY 1985, with the majority of that amount going to Egypt ($1,065 million) and Israel ($1,950 million). Of the PL 480 total, Asia/Near East accounted for 33 percent, Africa 11 percent, and Latin America and the Caribbean 14 percent.

5.1.1 Development Assistance

Development Assistance programs reflect legislation that encourages AID to broaden economic opportunity in developing countries through support of sectors that most directly promote equitable economic growth. Development Assistance programs are concentrated in countries where US assistance is needed, where there is a clear commitment to broadly based growth, and where the United States has a strong and long-term interest in development. Development Assistance programs are described below. (Refer to Chapter 4 for more detail concerning US policy and programs in the activities funded under these accounts.)

Table 5-2. AID Functional Development Assistance (DA--includes Sahel) and Economic Support Fund (ESF) Programs, by Economic Level of Recipient Country, FY 1984-1986 (in $ millions)

GNP per Capita	Fiscal Year	Total	DA	ESF
Greater than $806	1984	1,641.8	171.3	1,470.5
	1985	3,106.0	256.7	2,849.3
	1986	2,155.0	211.5	1,943.5
Between $411 and $805	1984	1,486.8	310.3	1,176.5
	1985	2,145.6	367.1	1,778.5
	1986	1,702.2	369.2	1,333.0
Between $0 and $410	1984	845.2	414.1	431.1
	1985	949.3	493.9	455.4
	1986	940.4	450.1	490.3
Interegional and Regional Programs	1984	640.6	572.6	68.0
	1985	908.2	744.6	163.6
	1986	902.3	645.1	257.2
Total	1984	4,614.4	1,468.3	3,146.1
	1985	7,109.1	1,862.3	5,246.8[a]
	1986	5,699.9	1,675.9	4,024.0

Note: The above data include Israel, Egypt, and Turkey. (The allocations of ESF to Israel were $910 million, $1,950 million, and $1,200 million in FY 1984, 1985, 1986, respectively. The corresponding figures for Egypt were $853 million, $1,065 million, and $815 million; for Turkey $138.5 million, $175 million, and $150 million.) Israel and Turkey are in the first GNP per capita group (greater than $806); Egypt, the second (between $411 and $805). GNP per capita data are from the World Bank Atlas 1985.

[a] No GNP per capita figures were available for Afghanistan. US obligations for Afghanistan were $0.5 million in FY 1985 under ESF.

Table 5.3 Obligations for AID and PL 480 Programs, by Region, FY 1984 and FY 1985

Budget Account and Region	FY 1984 ($ millions)	FY 1985 ($ millions)	FY 1984 (percentage)	FY 1985 (percentage)
Development Assistance (functional accounts plus Sahel)				
Africa (includes Sahel Program)	340.4	352.2	23.2	18.9
Asia/Near East	443.9	493.9	30.2	26.5
Latin America & Caribbean	295.3	507.4	20.1	27.2
Interregional	388.8	508.8	26.5	27.3
Total	1,468.4	1,862.3	100.0	100.0
Economic Support Fund				
Africa	333.1	417.8	10.6	8.0
Asia/Near East	2,347.9	3,837.5	74.6	73.1
Latin America & Caribbean	464.1	985.0	14.8	18.8
Interregional	1.1	7.0	0.0	0.1
Total	3,146.2	5,247.3	100.0	100.0
PL 480 (Food for Peace)				
Africa	271.3	235.4	17.2	10.9
Asia/Near East	701.9	710.5	44.6	32.8
Latin America & Caribbean	240.4	300.2	15.3	13.8
Interregional[a]	376.9	921.7	22.9	42.5
Total	1,590.5	2,167.8	100.0	100.0
Housing Guaranty Program[b]				
Africa (includes Sahel Program)	22.0	15.0	14.7	9.4
Asia/Near East	85.0	85.0	56.7	53.1
Latin America & Caribbean	43.0	30.0	28.7	18.8
Interregional	--	30.0	--	18.8
Total	150.0	160.0	100.0	100.0

[a]Includes Europe, World Food Program, Emergency Reserve, stock adjustment for Title II, ocean transportation for Title I and Title II, initial payment on commodities by recipient countries under Title I, and prior year obligations financed during current year.

[b]Guarantees only, not appropriated funds.

The Agriculture, Rural Development, and Nutrition Account continues to absorb the largest portion of functional Development Assistance. The majority of the resources provided under the Sahel Development Program also are used to improve agriculture. The objectives of this assistance are to enable countries to become self-reliant in food, to ensure food security to their populations, and to contribute to broadly based economic growth. To accomplish these objectives, three elements are emphasized:

1. Improvement of economic policies in developing countries to remove constraints to food production, marketing, and consumption

2. Expansion of the role of the developing country private sector in agricultural and rural development and the complementary role of the US private sector in assisting this expansion

3. Development of human resources and institutional capabilities in developing countries and conducting research on food and agricultural problems

Despite remarkable progress toward increasing life expectancy and lowering infant mortality in recent years, the health of the majority of people in most developing countries remains poor. In some of the poorest countries, as many as one-fourth of the children die before the age of five. Hundreds of millions of adults suffer from chronic, debilitating diseases. The basic objective of programs under the Health Account is to assist developing countries to become self-sufficient in providing broad access to cost-effective preventive and curative health services. Primary health care (PHC) remains AID's top priority in its health assistance efforts. Immunization and child survival programs are of increasing importance. Within the broad framework of PHC programs, AID is concentrating on the following activities:

-- Improving the effectiveness and financial viability of basic health services

-- Decreasing death and disability from infectious diseases

-- Improving sanitation and the availability and quality of domestic water supplies

AID stresses private sector approaches to providing basic health care and emphasizes the need to introduce cost-recovery measures into public health programs of developing countries. AID continues to provide support for a broad range of indigenous institutions involved in the promotion of health, including women's groups, universities and research institutions, village-level health committees, private sector health practitioners and enterprises, and private voluntary organizations. AID also is increasing its support for technology development, adaptation, and transfer, principally through biomedical research relevant to health problems in developing countries.

All developing countries continue to have specific needs for more trained personnel. Most countries continue to struggle with the difficult task of expanding their school systems to enable children to obtain a basic education. Under programs in the Education and Human Resources Account, high-level manpower training and technical assistance to help countries improve the efficiency of their basic education systems are AID's two priorities. Manpower training for administrators, managers, and scientific and professional personnel has grown substantially. The private sector requirement for a better trained work force is receiving increased attention. External training in US universities is emphasized, although there is increasing support for short-term in-country training, training in third-country institutions, and strengthening of local training institutions. Support for basic education, which has declined in recent years, is again being emphasized.

The Selected Development Activities Account addresses cross-sectoral problems. Activities funded from this account play a particularly important role in the successful implementation of AID's efforts to promote the role of the private sector in development. The multiple objectives of programs provided under this Development Assistance account include the following:

-- Increasing the involvement of US-based and developing country-based private enterprise in third world development

-- Increasing employment and income-earning opportunities in developing countries by stimulating small- and medium-scale labor-intensive private enterprise

-- Increasing the flow of resources to low-income people by working more closely with US private voluntary organizations (PVOs) and cooperatives and building the capacity of indigenuous PVOs and cooperatives to mount development programs

-- Supporting developing country efforts to plan and carry out sound energy, natural resource, and environmental policies

-- Improving the capacity of developing countries to provide basic services to the urban poor and displaced persons

In addition to programs funded under the Development Assistance accounts, about 30 percent of the Economic Support Fund also is implemented in the functional areas discussed above. These funds represent an added resource for addressing the needs of the poor majority in developing countries. The balance of appropriations under the Economic Support Fund are used primarily to address the short-term economic stabilization needs of recipient countries. AID has substantially increased its participation in decisions on the use of local currencies generated by stabilization and structural adjustment programs financed under the Economic Support Fund. Table 5.4 presents allocations for FY 1984 and FY 1985 under the Development Assistance and Economic Support Fund accounts.

5.1.2 Economic Support Fund

The Economic Support Fund is a flexible assistance tool for promoting economic or political stability in developing countries in which the United States has especially strong security and foreign policy interests. Although administered by AID and the Department of State in generally the same manner as Development Assistance, Economic Support Fund resources tend to be used most often to address shorter term problems of economic stability. They can be used to provide immediate balance of payment support by furnishing assistance through commodity import programs and by providing cash grants to finance general imports rather than specific projects. The Economic Support Fund, however, also is often used to finance infrastructure and other capital projects necessary for long-term economic development and to support smaller projects that more directly address the basic human needs of the poor.

The programming of Economic Support Funds is prompted by political or security considerations, but, as required by Congress, funds are directed toward basic human needs and development goals to the maximum extent possible. Countries forced to direct large percentages of their domestic expenditures to security concerns often lack the resources to support vital economic development programs. Even balance of payments support can have a powerful, if indirect, effect on the welfare of the poor. Imports of raw materials, manufacturing and agricultural inputs, and other essential needs can help to sustain the level of economic activity and growth and the political stability on which much employment throughout these economies depends.

For FY 1985, $5,247 million was obligated under the Economic Support Fund. The bulk of those funds was provided in the Middle East to support continuing efforts to further the peace process. This included a cash transfer of $1,950 million to Israel to address inflation and balance of payments problems. It also included $1,065 million for a cash transfer and project and commodity assistance for Egypt. The purpose of this assistance was to encourage long-term development activities while at the same time permitting the large-scale import programs necessary to maintain growth rates and allow the Egyptian people to experience tangible benefits from the peace process.

Other important ESF recipients in FY 1985 included Turkey ($175 million), to assist its efforts to overcome serious economic problems; Pakistan ($ 200 million), to bolster its stability and security in the face of the Soviet threat posed through Afghanistan; the nations of southern Africa ($125 million), to facilitate the peaceful transition

Table 5-4. Development Assistance, Economic Support Fund, and PL 480 Program Obligations, FY 1984 and FY 1985

Budget Account	FY 1984	FY 1985	FY 1984	FY 1985
	($ millions)		(percentage)	
Development Assistance				
Functional Accounts				
Agriculture, Rural Development, and Nutrition	723.1	774.7	33.9	31.3
Population Planning	242.4	288.2	11.4	11.6
Health	128.2	252.3	6.0	10.2
Child Survival Fund	--	25.0	--	1.0
Education, Human Resources Development	120.7	186.6	5.7	7.5
Selected Development Activities (energy, PVOs, science and technology)	147.5	226.5	6.9	9.1
Subtotal Functional Accounts	1,361.9	1,753.3	63.8	70.7
Sahel Development Program	106.6	109.0	5.0	4.4
Subtotal Functional Accounts plus Sahel	1,468.5	1,862.3	68.8	75.1
Other[a]	665.4	616.0	31.2	24.9
Total Development Assistance	2,133.9	2,478.3	100.0	100.0
Development Assistance	2,133.9	2,478.3	31.1	25.0
Economic Support Fund	3,146.2	5,247.4	45.8	53.0
Total AID	5,280.1	7,725.7	76.9	78.1
PL 480, Title I, II, III (Food for Peace)	1,590.5	2,167.8	23.1	21.9
Total Obligated Funds	6,870.6	9,893.5	100.0	100.0

[a]American Schools and Hospitals Abroad, Private Sector Revolving Fund, International Disaster Assistance, Operating Expenses, Foreign Service Retirement Fund.

to majority rule; the Sudan ($114 million), to assist in resolving the serious economic crisis facing the country; the Philippines ($140 million); and several Latin American and Caribbean nations (in particular Jamaica, $81 million; El Salvador, $285 million; Honduras, $148 million; and Costa Rica $160 million). Liberia also received $43 million to help in overall development efforts. Many of the same themes are expected to continue in FY 1986, particularly the emphasis on Israel and Egypt, Turkey, several African and Latin American and Caribbean nations, Pakistan, and the Philippines.

5.2 OTHER US BILATERAL ECONOMIC ASSISTANCE

5.2.1 Public Law 480 and Food Aid

Objectives

The PL 480 program is the principal US food aid program. It provides over 60 percent of the food aid received by developing countries from all sources. In 1984 and 1985, famine assistance to Africa dominated public awareness and discussion of food aid. US food aid programs accounted for shipment to Africa of over three million tons of food valued at over $1 billion in FY 1985, a clear and generous response that demonstrated US concern for the victims of this famine. PL 480 resources are used in both bilateral and multilateral programs. High public awareness of its humanitarian aspects should not obscure the role of food aid as a major form of development aid and its effective use for development by many recipients.

The major categories of US food aid programs are designated by the relevant titles of the PL 480 legislation and Section 416 of the Agricultural Act of 1949. These programs are described below.

PL 480 Title I provides long-term, low-interest loans to friendly developing countries for the purchase of US agricultural commodities. These help relieve both chronic and temporary or unexpected food shortages while providing balance of payments support. A key feature is that recipient countries agree to undertake self-help measures to improve the efficiency of their agricultural production, marketing, and distribution or otherwise correct the conditions that created a need for aid.

PL 480 Title II provides for the donation of food commodities for humanitarian and development uses. Private US voluntary agencies (PVOs) receive many of these commodities for the feeding programs they administer. The programs are targeted on malnourished children or other nutritionally vulnerable groups. PVOs also administer small-scale food-for-work development programs and a variety of food emergency and refugee relief programs. Grant food under this title is also distributed through host government programs in some countries and by international organizations for feeding and development programs. The major multilateral program supported by PL 480 resources is the World Food Program (WFP), established with US encouragement by the members of the United Nations and the Food and Agriculture Organization in 1972. In 1985 the United States provided $80.7 million worth of food and approximately $30 million for transportation costs toward the worldwide WFP target of $1 billion.

PL 480 Title III provides for multiyear commitments of food aid and forgiveness of the debt incurred through Title I-financed purchases when the resource transfer involved is demonstrably applied to implementation of a development program specified in detail in a Title III agreement.

Section 416 of the Agricultural Act of 1949. The 1982 Amendments to this bill authorized the US Department of Agriculture (USDA) to donate dairy products from Commodity Credit Corporation stocks for poor people needing food assistance in foreign countries. The donations can be made through foreign governments or US private voluntary organizations. Although not a PL 480 program, administration of the Section 416 program was transferred from USDA to AID in 1983 to coordinate US overseas food donations. Congress amended the Act in 1985 to permit wheat donations under the program and to allow commodities to be sold or bartered under specified conditions. In FY 1985, 48 agreements for programs in 18 countries were signed for 146,962 metric tons of dairy products.

Background and Evaluation of Food Aid

PL 480 was enacted in 1954 in response to growing public concern over increasing US agricultural surpluses in a world where many economies had substantial food deficits. In the early 1960s, PL 480-financed shipments constituted over 23 percent of the value of total US agricultural exports. The numerical importance of PL 480 as a share of US exports has declined sharply as major food aid recipients have become commercial customers for US exports. This is in line with the market development objective of the program. In general, commodities are not available for shipment under PL 480 if the shipment would reduce commodities below the level needed for domestic use, appropriate carryover stocks, and anticipated commercial exports.

Because US food aid is development aid and administered as such, PL 480 has been an important factor in the developing country shift from recipients of food aid to commercial purchasers of US exports. Legislative revisions in 1966 unambiguously directed that the emphasis in the use of food aid be as a tool for improving recipients' agricultural productivity and economic performance. The result has been sizable growth in US commercial exports because recipients' demands for food increase faster than their food output as their productivity and incomes improve. At the same time, the composition of their food requirements also changes. Animal feed and animal products (in which the United States has a comparative advantage) are increasing in importance among developing country food requirements. Thus, because of food aid's contribution to development, US exports change from an aid-financed to a commercial basis, and recipients achieve a more mature, self-reliant relationship with donors.

Food Aid's Contribution to Private Sector-Based Development

Food aid resources contribute to private sector-based development in many ways. US aid emphasizes increasing agricultural productivity in developing countries. Farm entrepreneurs, both large and small, are the preeminent private economic actors in most developing economies, so any assistance intended to positively affect agriculture aids the private sector unless it is deliberately skewed otherwise, something which the United States does not do. The following examples demonstrate some of the ways that AID deliberately administers food aid and the embodied resource transfer to maximize positive impacts on the private sector:

-- In Bangladesh, Indonesia, Mali, and elsewhere, food aid has been used to smooth market fluctuations and create a stable market environment in which farmers can make rational investment decisions about fertilizer, seeds, and technology needed for higher output.

-- Food aid has allowed Indonesia and Pakistan, as well as other countries, to change their pricing policies in a way that protects consumers from sudden sharp corrections. Both consumers and farmers have benefited.

-- In Tunisia, Pakistan, and Senegal, food aid has provided the foreign exchange needed for increased investment in imports such as fertilizers and intermediate inputs essential to the private sector, items which had been severely limited.

-- In Zambia and Zaire, food aid relieved regulators' fears of dangerous local shortages and rampant speculation and enabled them to lift restrictions on trade and transport of food that hobbled business and the ability of the market to regulate the economy.

In all of these countries, food aid has facilitated policy dialogues on increasing the scope for market-based decisions made by profit-seeking economic actors.

The way in which food aid is distributed has helped to strengthen the private sector in many developing countries. Using private sector entities for transport and storage rather than parastatals has provided the necessary cushion of guaranteed business to permit business expansion. The judicious administration of food aid has increased private activities in transport, storage, and distribution while reducing or eliminating parastatal monopolies. Examples are found in Mauritania, Zaire, Sri Lanka, Somalia, and Egypt.

Legislation governing US food aid continues to emphasize the multiple objectives of food aid: humanitarian, developmental, market development, and economic support for political objectives. AID takes these objectives into account while maintaining development as the primary objective. The specific provisions of legislation concerning development before passage of the Food Security Act of 1985 include the following:

-- The requirement that at least 75 percent of food aid provided under Title I be allocated initially to countries whose per capita income is at or below the eligibility level of the International Development Association (IDA) ($790 in 1985).

-- The requirement that 15 percent of the amount available for Title I programs be conducted under authority of Title III. (The Food Security Act of 1985 reduces the 15-percent requirement to 10 percent.) Title III provides multiyear supply agreements of up to five years with IDA-eligible countries prepared to undertake specific actions to address constraints to equitable development, particularly in the food and agricultural sector. The value of the PL 480 commodities or local currency sales proceeds used for agreed-on development purposes may be applied against the country's repayment obligation to the United States--that is, the United States may "forgive" the loan.

-- Special incentives may be offered under Title III to the least developed countries. These include US financing of ocean freight and, in the case of landlocked countries, delivery to points of entry.

-- The requirement that a minimum quantity of 1.8 million metric tons of agricultural commodities be provided under Title II in FY 1986, of which not less than 1.3 million metric tons shall be for regular programs of voluntary organizations and the World Food Program.

-- Authority is provided under Title II, Section 206 to use the proceeds from sales of commodities under government-to-government agreements (other than in famine or other urgent or extraordinary relief circumstances) for (1) alleviating the causes of the need for assistance or (2) increasing the availability and effectiveness of the distribution of food to the neediest individuals in recipient countries.

-- The requirement for a determination that adequate storage is available in recipient countries and that the distribution of PL 480 commodities will not result in a substantial disincentive to or interference with domestic production or marketing.

Passage of the Food Security Act of 1985 enhances the developmental effectiveness of PL 480 and Section 416 programs. The Act

-- Establishes a Food for Progress program, which will authorize multiyear grant agreements fostering policy reforms conducive to market-oriented private sector development. The size of the program is limited to 500,000 metric tons of commodities and is to come from Title I appropriations, supplemented by a minimum of 75,000 metric tons under Section 416.

-- Establishes a program for using Title I local currency sales proceeds to extend private sector credit for agriculturally related activities. The Act encourages the President to use up to 25 percent of the aggregate value of Title I agreements toward this end. These local currencies will be channeled through local intermediate financial institutions.

-- Mandates sales of at least 5 percent of the aggregate value of nonemergency Title II commodities requested by private voluntary agencies. Private voluntary agencies requesting sales programs must submit a description of planned uses.

-- Mandates that 0.1 percent of PL 480 funds in FY 1986 and FY 1987 be used in farmer-to-farmer development programs.

-- Reduces the requirement level of Title III programs from 15 to 10 percent.

-- Encourages increasing the child immunization activities under Title I and Title II programs.

-- Requires at least 75 percent of the nonemergency minimum Title II commodity level to be processed, fortified, and/or bagged.

-- Raises the Title II commodity level, including nonemergency and emergency aid, to 1.9 million metric tons from FY 1987 to FY 1990. Of this amount, 1.425 million metric tons is designated for nonemergency programs.

-- Permits Section 416 commodities to be programmed under conditions largely paralleling PL 480 Title II programs.

5.2.2 Board for International Food and Agricultural Development

Objectives

Title XII of the Foreign Assistance Act directs AID to make more extensive use of US land grant, sea grant, and other qualified colleges and universities to carry out foreign assistance programs. The interest of developing countries in Title XII projects, as reflected in AID Mission requests, has grown continuously; in both FY 1985 and FY 1986 Title XII programs will account for approximately $400 million in institution-building activities in agriculture, rural development, and nutrition. A significant and increasing portion of these activities was carried out for AID by US universities.

In 1975, Congress created the Board for International Food and Agricultural Development (BIFAD) to advise AID officials and to participate in the formulation of agricultural development policy, the design of projects, and the use of US agricultural universities in AID programs. The legislation also provides for "Strengthening Programs" to enhance US university capacities for participating in AID programs overseas, and for "Collaborative Research Support Programs" to enable US institutions and those in developing countries to work together on projects to benefit both developing country and US agriculture. BIFAD helped to launch these programs by developing guidelines and providing for university participation in program reviews. BIFAD also fostered university collaboration in the design and implementation of country projects. As Title XII begins its second decade, the BIFAD chairman, E.T. York, Jr., has asked AID and the university community to contribute ideas on the priorities that should guide BIFAD.

Current Activities

BIFAD's current agenda is governed by a Joint Resolution, signed in April 1981 by AID Administrator M. Peter McPherson and then-BIFAD Chairman Clifton R. Wharton, Jr. It defines as the primary mission of BIFAD "...to help AID to mobilize and utilize the faculty and institutional resources of eligible universities, and to advise and assist AID to develop and implement the components of the Title XII program." In pursuit of this mission, BIFAD devotes a major share of its staff resources to identifying the most qualified individual and university contractors for meeting AID project needs. While AID decides on the selection of university contractors, BIFAD staff have played a crucial role in finding qualified bidders for less attractive projects, mitigating problems between AID and potential contractors, and offering advice.

BIFAD recently conducted a study of the efficiency and equity of the contractor selection process. The study's basic conclusion is that, although some improvements could lead to a fuller use of institutional resources, competition among Title XII institutions is usually effective in matching university resources to AID project needs. The study also found that small, less-experienced schools are increasingly joining in partnership with larger, more experienced schools to participate in AID projects.

The basic purposes of the AID-BIFAD partnership are to increase, broaden, and improve the participation of US universities in AID international development programs. Activities undertaken to achieve each of these goals are described below.

To increase university involvement:

- -- Regional Title XII Seminars provide AID and more than 75 universities with an annual opportunity to exchange perspectives about AID policies and programs, modes for university involvement, and problems in working together.
- -- Memoranda of Understanding commit AID and individual universities to dependable, longer term relationships.
- -- The Joint Career Corps provides for assignments of university faculty to AID Missions, alternating with periods at their home campuses.
- -- Technical Support to Missions programs provide university expertise to analyze country needs or to develop, design, and evaluate projects.
- -- The National Association of State University and Land Grant Colleges supports university policies that can increase faculty participation in international activities.
- -- The American Association of State Colleges and Universities explores ways for tapping more fully the potential of non-land-grant institutions for involvement in Title XII projects.

To broaden university participation:

- -- The contractor selection process for individual university projects--the subject of a comprehensive BIFAD study--ensures equitable treatment and understanding of all parties.
- -- Joint Memoranda of Understanding formalize cooperative relationships between AID and combinations of 1862 and 1890 land grant schools.

-- The Joint Enterprise method of university contracting provides for the inclusion of smaller institutions in project implementation.

To improve university contributions to development programs:

-- BIFAD has undertaken several special activities to improve the preparation of university faculty for service overseas. Recently BIFAD developed a program to improve French proficiency of faculty of universities interested in carrying out AID projects in Francophone Africa, and sponsored a special workshop for Title XII language coordinators to improve language training.

-- AID and BIFAD are collaborating on an improved evaluation process for Title XII country projects.

-- BIFAD plans to review evaluation results to assess what workshops might improve performance.

-- BIFAD organized reviews of "Strengthening Programs" in over 30 universities and is assessing lessons learned.

-- BIFAD reviews selected country projects and central research programs at its meetings and through on-site visits.

-- BIFAD has been conducting an analysis of the staffing of university projects overseas, and an assessment of the impact on Title XII procurement of AID delegation of authority to Missions.

BIFAD, together with its Joint Committee on Agricultural Research and Development also performs the following functions:

-- Advises on agricultural and rural development policies, allocation of funds, and Title XII program development and implementation

-- Explores ways for universities to contribute to greater US understanding of development assistance, including joint efforts with representatives of the extension community

-- Works with Historically Black Colleges and Universities to enhance their involvement in AID programs in agriculture, rural development, and nutrition

-- Works with the US Department of Agriculture and the National Oceanic and Atmospheric Administration to investigate possibilities for increased cooperation in international agricultural development between US universities and AID in such areas as fisheries, forestry, agricultural extension, and food aid

-- Fosters complementary and cooperative relationships between programs of the international agricultural research centers and those of AID and US universities

-- Assists in the development of improved policies and programs in training and institution-building, such as the recently developed strategy on international education and training, which identifies priorities and the university role, and the BIFAD-sponsored government/private sector/university seminar on participant training

-- Seeks to develop new relationships among private enterprises, universities, and AID for cooperation in international agricultural development, and new instruments for that purpose

5.2.3 Other Major AID Activities

Women in Development

Women are often among the poorest groups in developing countries. Throughout the third world, women head an increasing number of households and have ever-increasing economic responsibilities. For over a decade, US policy has recognized women's vital roles in and potential contributions to national economic and social development. Current data, research, and evaluation findings indicate that the ultimate success of a development activity may be keyed to women's effective participation in such critical concerns as agriculture and food production, employment and income generation, education and skills training, energy and natural resources, and water and health. During this past year, AID has developed several strategies and mechanisms to include women more effectively in mainstream economic development efforts. One target area has been the private sector.

Development of the private sector in developing countries can yield significant benefits for women, who constitute a majority of the unskilled labor force from which an invigorated private sector would draw its entrepreneurs and employees. The fact that women dominate the informal sector in many urban settings indicates that women have both the interest and the skill to participate in mainstream private sector development. To do this, they need full access to the resources introduced by development activities.

AID recognizes that gender distinctions can constitute a key variable in any economic development effort. A year-long effort has been completed to study and synthesize AID's experience in the last decade in integrating women and girls into its entire programming. Workshops will be held in 1986 to analyze data and issue recommendations for further policy development. The Agency is creating and utilizing a variety of means to teach its personnel how to address women's needs and talents from project design through completion of the evaluation of project effectiveness. AID's Policy Paper on Women in Development and guidance cables from the AID Administrator and the regional and central bureaus to the field Missions have required consideration of women's roles and potential project impact on women in all program and project planning documents.

To further emphasize and extend women-in-development capabilities among all AID staff, training workshops have now moved to the field. In 1985, a comprehensive training seminar on integrating women into development activities was held in Bangkok, Thailand, for AID field personnel and regional representatives of private voluntary organizations. Similar training activities are planned for the Latin America and Caribbean region in 1986 and for the Africa and Near East regions in 1987. To complement this effort, sector-specific guidance manuals are being developed under contract for use by AID staff in integrating women into Mission programs. Those already underway concern small-scale enterprise, agriculture, and primary education. Future manuals will address participant training, natural resource utilization (with particular emphasis on fuelwood and water), and nonformal skills training.

AID has played a major role in ensuring that women-in-development concerns are addressed by international donors, particularly the Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC), and by multilateral institutions such as the Asian Development Bank. Through the OECD/DAC Experts Group on Women in Development, AID has maintained a leadership role, emphasizing the importance of appropriate data collection and analysis regarding women's current and potential roles.

Throughout the United Nations Decade for Women (1976-1985), AID actively encouraged attention to and support for substantive women-in-development concerns. At the July 1985 Nairobi Conference marking the conclusion of the Decade, AID provided assistance for selected activities of non-governmental-organizations (NGOs). This included support for the NGO Organizing Committee, workshops on technology transfer and management training, preparation and dissemination of documents (including a study emphasizing the importance to women) of a private sector/free market development climate), and funding for the participation of over 100 third world women at the NGO Forum.

In its women-in-development efforts, AID continues to emphasize increased employment in the private sector, credit and technical assistance, agricultural development, technology transfer, education and training for women and girls in both the formal and nonformal sectors, development and distribution of instruction materials, and increased participation of women in AID-sponsored training overseas and in the United States. AID generally is increasing its efforts to target participant training opportunities to the most disadvantaged groups in developing countries. In this endeavor, women are being considered as the highest priority disadvantaged group.

The provision of technical assistance through private sector and academic organizations is a major AID priority in furthering its women-in-development strategy. This technical assistance effort will be increased substantially in 1986. The Office of Women in Development (WID) staff and consultants have provided a wide range of technical assistance to AID Missions, local private sector organizations, and other development institutions to enhance the integration of women into multisectoral development programs. One example of successful technical assistance to local organizations is a credit program for women active in Ecuador's informal sector businesses. In another instance, the WID Office has been co-funding with the Bureau for Private Enterprise a worldwide banking/loan guarantee project addressed at strengthening the role of women entrepreneurs in the private sector. The project facilitates commercial loans to women-owned small businesses through local affiliates that provide guarantees to banks. This banking project is currently working in 19 countries, and affiliates are being identified in several others.

Recently this worldwide banking project has been expanded to establish an independent international marketing affiliate, or group of affiliates, whose purpose is to strengthen market potential for local businesses through market testing, reliable distribution, quality control, and market feedback for product design. The initial emphasis will be on bringing developing country products to US, European, and Asian markets, as well as supporting trade in regional and domestic markets.

Through private voluntary organizations, AID is providing technical assistance to strengthen the training capabilities of indigenous women's organizations in Latin America and Africa, particularly in such areas as marketing, feasibility assessment, and business practices. Indigenous developing country organizations will then be able to train poor women in these skills for use in small-scale enterprises. In Haiti, AID has funded a private organization's work in planning a factory women's center for workers in the light assembly industry in Port au Prince. A variety of skills training, literacy, health, and child care programs will be offered to women employed in seven urban factories. In Jamaica, AID is supporting local organizations' training of women in higher paying, nontraditional skills such as construction and repair work for the private sector.

AID has funded an innovative pilot project in the Yemen Arab Republic that encourages policy dialogue between developing country policymakers and relevant AID Missions in the critical development areas of literacy and education, agriculture, health, and natural resource development. A specially designed microcomputer simulation model graphically demonstrates the key role women can play in the future economic development of the country. AID plans to issue a request for proposals to the private sector to replicate this computer model in several countries, keying each model to the individual country situation and the AID Mission's country development strategy.

The limited availability of census data on the roles of women in developing countries has been addressed successfully in recent years under AID's Statistical Data on Women project with the US Bureau of the Census, which produced information on women in 120 countries. The Bureau of the Census is developing appropriate updates and will utilize this information to strengthen the training of developing country census personnel in gender-disaggregation of data and research into gender issues. In this way, future census data will more accurately reflect women's contributions to mainstream economic development.

Human Rights

A central element of US foreign policy is the affirmation of human rights. This policy is grounded in the belief that the principles of civil, political, economic, and personal liberty are the sine qua non of civilization. The promotion of these democratic ideals and respect for basic human rights has long been a fundamental aspect of US foreign policy. AID is uniquely situated to play an active role in implementing this policy, recognizing that civil and political rights cannot be separated from economic policies and development.

Mandated in 1978 under Section 116(e) of the Foreign Assistance Act, AID's human rights programs encourage the enhancement of civil and political freedoms. AID's commitment to a vigorous human rights policy is reflected in the principles that undergird this policy: (1) adherence to the rule of law through development of a legal framework that honors fundamental civil and political rights; (2) free, democratic, and smoothly functioning electoral systems; (3) fair, independent, and accessible systems of justice that provide for due process; (4) the development of democratic principles, institutions, and organizations that promote human rights; and (5) increased access of women, ethnic groups, and minorities to the judicial system and to political processes.

A principal strategy underlying Section 116(e) initiatives is to strengthen the host country's legal system, focusing such efforts on establishing the fundamental principles of law. Through helping to establish a strong and independent legal tradition, which is intended to encourage a fair legal system with equal protection for all, significant progress can be made in protecting the civil and political rights of all the citizens of a nation. Projects implementing this principle have a particularly significant impact when related to institution building.

Another strategy underlying AID human rights initiatives is electoral reform. While Section 116(e) appropriately prohibits the use of funds to influence the outcome of any election, this does not affect the use of funds for election reform and related projects. The right to vote, the right to have secret ballots, and the right to a fair and accurate count of the votes are fundamental to the establishment and perpetuation of free elections.

These concepts are fully consistent with US foreign policy objectives and make the most effective use of finite development resources. Section 116(e) authorizes not less than $3 million annually "for studies to identify, and for openly carrying out, programs and activities which will encourage or promote increased adherence to civil and political rights...."

Human rights programs carried out in FY 1985 which are reflective of these principles include the following:

- $40,500 in Zaire to support training seminars for magistrates and legal professionals involved in the administration of justice. Topics reviewed include ethics and legal practices on the fringes of the law; judicial recourse and execution of judicial decisions; and scope, limits, and procedures of preventive detention.

- $321,260 to the Inter-American Institute of Human Rights to enable its Center for Electoral Assistance and Promotion to help plan and conduct training programs in Guatemala for official and party poll-watchers who monitored the balloting in the November 1985 election.

- $5,000 in South Africa for a seminar for professionals and academics involved in aspects of the law that discriminate against blacks, to investigate those laws and their applications and to explore ways of assisting those affected by the laws, as well as the long- and short-term possibilities of changing those laws.

- $53,160 to the International Human Rights Law Group for the translation into French and Spanish, printing, and dissemination of Guidelines for International Election Observing. The guidelines, developed under AID auspices in FY 1984, provide uniform criteria for evaluating elections and encourage the use of reliable fact-finding procedures by election observers.

- $346,835 for activities in cooperation with the Asia Foundation to support the LAWASIA Human Rights Standing Committee's Observer Program; regional publications on human rights issues in Asia; legal literacy programs with the ASEAN Law Association, the Academy for ASEAN Law and Jurisprudence, and the

University of the Philippines Law Center; a five-day regional law conference on the nonjudicial settlement of disputes; and human rights and civil rights in Bangladesh.

-- $100,000 to the Overseas Education Fund International to plan and conduct an International Forum on Women, Law, and Development which was held concurrently with the 1985 United Nations End of the Decade World Conference on Women. The Forum identified and discussed strategies for using the law to raise the legal status of women and increase their exercise of civil and political rights.

Through the implementation of Section 116(e) over a number of years, AID has successfully institutionalized human rights as an ongoing policy with a steadfast commitment.

Private Voluntary Organizations

The AID/private voluntary organization (PVO) partnership has a long, rich history dating to reconstruction efforts in Europe after World War II. It is a partnership based on the mutuality of AID and PVO interests in fostering self-help development in the third world. PVOs have a diversity of strengths and share the US commitment to overcoming problems of hunger, illiteracy, disease, and early death in the poorer countries of the world; solutions to these problems are integral to achieving economic growth and development. Success in AID and PVO programs flows from a joint understanding of what each side does best. PVOs provide important institutional structures through which considerable private, nongovernmental resources flow to the developing countries--reportedly worth over $1 billion in 1985. AID's financial support enables PVOs to expand and strenghthen technical capabilities in such critical development programs as credit and entrepreneurial advisory services, health services, forestry, appropriate technology, and agricultural development programs that PVOs are conducting in over 50 countries.

Besides providing material resources, PVOs have a proven ability to tap the US human resources base to transfer know-how to the developing world. PVOs have excelled in extending to remote communities of developing countries programs such as small enterprise development; primary health care (particularly in demonstrating basic health care practices such as oral rehydration, immunizations, and simple first aid); assisting communities to preserve their natural resources (whether through reforestation, land terracing, or other methods); and credit delivery to men and women unreached by the formal sector.

In FY 1985, AID continued its active support for and collaboration with PVOs. In addition to encouraging the participation of several of the larger PVOs in the distribution of PL 480 Title II commodities, AID has committed over $390 million in grants and contracts to PVOs representing a wide variety of resources and skills. AID is committed to pursuing jointly with PVOs international programs in disaster relief, food distribution, operation of overseas schools and hospitals, primary health care, rural technology, nonformal education, and other skill transfer programs.

Refugee Assistance

Because developing countries often bear the greatest burden for hosting current refugee populations, international assistance is essential to mitigate the negative impact of these flows of impoverished people. Programs designed to assist refugees in developing countries must also consider the development needs of the host country.

The United States defines refugees as people who have fled their countries because of persecution, or a well-founded fear of persecution, for reasons of race, religion, nationality, membership in a particular social group, or political opinion. This is the definition of "refugee" contained in the UN Convention and Protocol on the Status of Refugees.

The United States is the largest contibutor to international assistance programs for refugees and, in accordance with the policy of the UN High Commissioner for Refugees (UNHCR), works for resolution of refugee situations through (in order of preference) (1) voluntary repatriation, (2) settlement in first-asylum countries, and (3) when neither of the first two solutions is feasible, resettlement in third countries, including the United States.

Major US policy goals for refugee programs in FY 1986 include the following:

-- Continuing to assert a leading role in the United Nations to coordinate the response of the international communty to refugee problems

-- Working to increase the operational effectiveness of international organizations responsible for refugee-related matters

-- Promoting greater burden-sharing among donor nations for refugee assistance

-- Taking actions to preclude new refugee flows and to promote lasting solutions that minimize the need to resettle refugees in the United States

-- Admitting refugees to the United States where other solutions are not available

-- Ensuring that refugees admitted to the United States receive proper prearrival language and cultural orientation training, and monitoring reception and placement services to promote efforts toward refugee self-sufficiency

Outlined below are the major developments over the past year in the refugee situation worldwide, as well as a summary of US efforts to address refugee needs.

Africa. Drought and ensuing famine in Africa combined with civil strife have spurred massive movements of people across national borders. These movements significantly increased the number of refugees on the continent, strained the capacity of international relief mechanisms, and worsened the situation of established refugee populations in most African host countries. The number of African refugees grew from 2 million in mid-1984 to 2.8 million by mid-1985. These figures do not include thousands of drought victims who crossed borders in search of assistance but who were not affected by conflict.

A critical situation developed in Sudan where new arrivals of Ethiopians fleeing civil war and drought-induced famine strained the fragile infrastructure in Eastern Sudan and overwhelmed the resources in place for refugee relief. In addition, civil unrest and drought in Chad drove tens of thousands of Chadians into western Sudan, where the new arrivals received assistance along with the drought-affected Sudanese. In response to the Sudanese emergency, the US Government acted simultaneously to provide emergency relief expeditiously and to urge the UN system to provide leadership to the international community in dealing with the crisis.

Between December 1984 and March 1985, the United States contributed to the UNHCR about $2.5 million in in-kind relief supplies and Sudanese pounds for local purchase of food and fuel. The United States also fielded an assessment team comprised of medical, disaster, and water experts that has provided guidance to the UNHCR in coping with the situation and has instituted improvements in the health, water, food, fuel, and logistics sectors. With regard to food needs, in FY 1985 the United States approved $70 million worth of commodities for Sudanese drought victims and Chadian, Ethiopian, and Ugandan refugees.

US cash assistance, coupled with US bilateral food assistance, brought the US response to UNHCR emergency appeals to more than $20 million in FY 1985. These contributions address the needs of Ethiopian and Chadian refugees in Sudan, Chadian refugees in the Central African Republic, returnees from Somalia and Djibouti to Ethiopia, and Ethiopian refugees in Somalia and Djibouti.

US support of the Africa program of the International Committee of the Red Cross (ICRC) has averaged about 25 percent of ICRC's budget. FY 1985 contributions totaled $21 million. Much of the expansion in ICRC's program is related to the combined effects of drought and conflict.

Even as the emergency subsides, it is necessary to plan for follow-on programs to promote lasting solutions for African refugees. In many cases, longer term refugee needs will parallel those of other African drought victims. The

United States, which already funds several development-related refugee projects, supports international efforts that may in the future mitigate the effect of natural disasters on refugees and local populations.

Afghan Relief. Afghans in Pakistan continue to constitute the single largest group of refugees in the world. The Government of Pakistan reports registration of over 2.6 million Afghans; numbers continue to grow, although at a much slower pace than in years past. Since the initial influx in 1978, both the Government of Pakistan and the international community have been generous in providing for the needs of the refugees. The United States has been a major supporter of the relief effort, providing over $430 million since 1980--including almost $260 million worth of commodities--to the UNHCR, World Food Program, and a number of other international and private voluntary organizations. In keeping with Government of Pakistan policy, several relief organizations have expanded their programming to include projects that address the longer term needs of a population with no immediate prospect of voluntary repatriation. Greater emphasis is now placed on enhancing refugee self-reliance through programs that provide both general education and vocational training. Special efforts are being made to provide female refugees with income-generating skills compatible with local customs. The World Bank, in conjunction with the UNHCR, has also launched a series of reforestation, irrigation, and road building projects designed to employ refugee labor in repairing environmental damage caused by the presence of such a large refugee population.

Near East. The continuing strife in Lebanon generated new requirements for relief for refugees and displaced persons. The US Government contributed $75 million to the United Nations Relief and Works Agency (UNRWA) for Palestine refugees in the Near East during FY 1985. UNRWA programs provide education and medical care to over 2 million Palestinian refugees in the Near East.

Latin America. The total number of refugees and displaced persons in the region stabilized somewhat during 1985. Substantial US support was given to international organizations for refugee assistance in Latin America. In addition, there is a large US program for displaced persons (those fleeing conflict or civil strife but remaining within the borders of their own country) in El Salvador.

Southeast Asia. The United States and other donors support the efforts of the UNHCR and private voluntary agencies to provide care and maintenance for more than 150,000 Indochinese in the first-asylum camps of Southeast Asia. Additional assistance is provided to the United Nations Border Relief Operation for Cambodians on the Thai-Cambodian border. Repeated attacks by Vietnamese forces have caused more than 200,000 people to evacuate their camps in Cambodia and relocate in Thailand. Thai villagers affected by the refugee influx and fighting are assisted through a $5 million Economic Support Fund program.

Evaluation

AID has long recognized the important role of evaluation in developing and managing its activities and in assessing lessons learned from past projects that can help to guide future assistance efforts. The United States continues to endorse donor attention to evaluation and participates actively in the work of the Development Assistance Committee's Expert Group on Evaluation. In addition, AID is encouraging developing countries to use evaluations as a tool in effective project design and implementation and as an element of improved institutional capacity to manage development activities.

In AID, the evaluation function is driven by the information needs of planners and managers of assistance programs. The focus on utilization encourages evaluators to be responsive to short-term operational requirements and to ensure that longer term planning and policy formulation benefit from accummulated knowledge and experience. Recent trends in US evaluation efforts reflect a bilateral assistance emphasis:

-- In response to its growing level of nonproject assistance, AID has extended the scope of evaluation to include criteria and techniques for evaluating specific types of nonproject activities.

-- Evaluations are being designed to cut across traditional evaluation categories and topics, such as recurrent cost implications, alternative implementation approaches and their comparative cost-effectiveness, project impact on the role of women in development, and the contribution of aid to the development of effective local institutions in the private and public sectors.

-- The role of evaluation is being extended in comprehensive planning processes beyond the level of specific project and nonproject activities. This has entailed the greater use of evaluation findings and lessons in the preparation of long-term AID country development strategies and has resulted in clearer statements of development strategy benchmarks against which results can be measured.

-- A formalized linkage between evaluation and policy formulation is being established. During the past three years, a new series of AID Policy Papers drew on evaluated experience, including the cumulative findings of the Agency's project and program "impact" evaluations.

-- Evaluation work is being planned with greater attention to the timing of key decision points in the program and project cycle, in an effort to provide evaluation information when it is most useful.

-- Innovative evaluation methods are being applied for assessing interim impacts while a project or program is still being carried out.

The synthesis of evaluation findings and lessons learned is particularly important for policymakers, planners, and project designers as a basis for comparing and selecting alternatives. AID's evaluation staff emphasizes the analysis, synthesis, and dissemination of experience in selected development topics. Partly to support this effort, AID combined its central evaluation, information, and statistical offices into a single unit, the Center for Development Information and Evaluation. Concurrent with this effort, AID is vigorously applying existing requirements that call for consideration of evaluation findings and lessons in project and program design so as to establish in the designs themselves a firm basis for future monitoring and evaluation.

5.3. PEACE CORPS

5.3.1 The Role of the Peace Corps in 1985

The Peace Corps has a unique capacity and mandate within the US overseas development community to help countries in the developing world meet their needs for skilled manpower and to promote world peace and friendship between the people of the United States and those of the developing world. Building on 24 years of experience and the cumulative efforts of 110,000 Volunteers, the Peace Corps in 1985 pursued its tradition of providing person-to-person assistance to millions of the poorest people in the developing world. For the most part, the people served by Peace Corps Volunteers live in rural areas beyond the reach of many international assistance programs.

At the core of this tradition is the trained Peace Corps Volunteer who provides services that increase the capacity of the host country's poorer citizens to meet their own needs. Throughout 1985, Peace Corps Volunteers worked in 60 countries to bring about improvement in the areas of hunger and malnutrition, infant mortality, illiteracy and limited educational opportunities, inadequate health care, inadequate food production, and the decline in natural resources. A dramatic US response to the African famine drew renewed attention to the Peace Corps, and the agency's Volunteers increased in number from 5,500 to 6,000.

The Peace Corps budget for 1985 was $130.1 million. In addition, host countries continued to show their appreciation for the work of the Volunteers by making substantial cash and in-kind contributions to in-country operations. The single greatest area of expenditure continued to be the direct support and training of Volunteers overseas. The costs incurred in recruiting those Volunteers and in providing them with overseas staff support constituted the two other major expenditures. Three-quarters of all Peace Corps staff were stationed overseas; two-thirds of these were host country nationals.

The Peace Corps prepared for the challenges of the mid-1980s with the Africa Food Systems Initiative and increased program support in the inter-America region. During 1985, the Peace Corps upheld its policy of close collaboration with other programs serving the developing world. To maximize its impact abroad, the Peace Corps more closely documented the outcomes of its complementary activities with other Federal, international, host country, and private voluntary organizations. A report on worldwide PVO/USAID collaboration with the Peace Corps identified over 250 organizations that collaborated with Peace Corps Volunteers in 1985. Peace Corps programs addressing forestry and natural resources, fisheries, health, and nutrition received the greatest monetary support from PVOs and other organizations. Volunteer projects in agriculture, forestry and natural resources, and water and sanitation received the most financial assistance from AID.

The socioeconomic benefits to the poor derived from these collaborative efforts included better diets, improved quality of health and education levels, higher literacy rates, increased production of food products, greater quality and quantity of foods available in markets, income generation, and an increased supply of timber, firewood, and other forestry products.

In 1985, Peace Corps Volunteers were assigned in the following program sectors:

Education	39%	Small Enterprise Development	4%
Agriculture	21%	Water/Sanitation	4%
Health/Nutrition	10%	Energy	1%
Fisheries	7%	Other	8%
Forestry	6%		

Peace Corps Volunteers serve in 60 countries in Africa, Latin America and the Caribbean, Asia, the Near East, and the Pacific Region.

5.3.2 Program Summary

Regional Activities

The regional activities described below are among those in which the Peace Corps played a significant role during FY 1985.

Africa. Approximately 2,700 Peace Corps Volunteers served in Africa to expand small businesses and to promote economic development and self-sustaining productive capacity (particularly in food production and energy). During the latter part of FY 1984, the Peace Corps developed and proposed to the AID-Peace Corps Coordinating Committee a major new long-term integrated agriculture program, the Africa Food Systems Initiative, targeted at up to 12 African countries. Because of the urgency of the African food shortage, project development was moved from FY 1986 to FY 1985. Assessment teams were sent to Mali, Niger, Zaire, and Lesotho. A project design was constructed for Mali. Project implementation will begin in mid-FY 1986, with the assignment of special food production volunteers in the four pilot countries. The AID-Peace Corps Coordinating Committee played an important role in the development of this initiation.

Inter-America. Approximately 1,700 Peace Corps Volunteers served in the inter-America region. Volunteers worked to increase programming in small business and self-help housing. Nearly one-half of the Volunteers were involved in the planning, establishment, and technical support of income-generating projects. Volunteers were also involved with food production, education, and reforestation in rural areas where the majority of the population is concentrated. Two major activities played a significant role in Peace Corps development strategies for inter-America in 1985.

The Carribbean Basin Initiative continued to be directed toward small- and medium-scale agribusiness development. Volunteers conducted seminars in agribusiness and provided technical assistance in agribusiness development. Studies continue to show that for every $1 spent on training and technical assistance, the Peace Corps agribusiness project has generated $12 in capital investment and a projected $3 in net annual return on investments. This year the Caribbean Basin Initiative developed a companion effort in handicrafts development.

The initiative for Central America upheld the recommendations of the National Bipartisan Commission on Central America to support socioeconomic development in Central America by expanding Peace Corps programs emphasizing education. Volunteer activities centered on literacy, teacher training, self-help rural housing, health and nutrition, and small enterprise development.

North Africa, Near East, Asia, and Pacific. Approximately 1,600 Peace Corps Volunteers served in this region, working in projects to expand agricultural production on marginal lands, to provide increased health services and potable water to rural areas, and raise literacy rates throughout the region. The Peace Corps also placed more emphasis on the development of cost analyses and marketing strategies to help small farmers realize greater profits. As the number of young people in the workforce increased in these areas, more Volunteers were added to nonformal and vocational training programs.

United Nations Volunteers. The Peace Corps continued to support the United Nations Volunteers (UNV) program by fielding 16 new Americans for UNV positions. The Peace Corps contributed $75,000 to the UNV Special Voluntary Fund which is used to help pay costs for third-world nationals serving as UNVs. The Peace Corps also fully funded two American UNVs in program assistant positions, with the hope of increasing the visibility of American UNVs and requests for US national Volunteers.

Collaboration With Private Voluntary Organizations

The Peace Corps continued to expand its relationships with PVOs in 1985 by broadening existing relationships and by developing new collaborative arrangements with other PVOs. In FY 1985, the Peace Corps continued its collaboration with 14 PVOs and continued a program in Sudan where Volunteers were assigned to a renewable energy project under a formal agreement with the Georgia Institute of Technology. The Peace Corps signed two new memoranda of understanding in 1985, one with the Oral Rehydration Therapy Federation to work together in oral rehydration programming and training in nine countries where Peace Corps Volunteers serve, and one with the Red Cross to pursue new methods of bringing about development by sharing technical materials and skills.

Collaboration With the Agency for International Development

Cooperation between the Peace Corps and AID continues to expand, both in the field and at the interagency level. For the Peace Corps, this has meant a significant increase in its ability to target specific programs by fielding greater numbers of Volunteers and providing them with increased levels of technical support. Participating Agency Service Agreements (PASAs) with AID in effect during FY 1985 are described below.

Forestry. A joint AID/Peace Corps Forestry Resource Management Initiative, established in 1980 and amended in 1985 to continue to 1990, is delivering village-level forestry assistance. In 1985, several technical, multi-country, agroforestry training workshops were held for over 150 Peace Corps Volunteers and their counterparts. In addition, eight PL 480 African country assessments were conducted to develop pilot projects for 1985 and are expected to lead to pilot programs in FY 1986.

Combatting Childhood Communicable Diseases (CCCD). The CCCD program is a cooperative effort among African countries, the World Health Organization, the Centers for Disease Control, AID, the Peace Corps, and other donors to address the high infant and child mortality and morbidity rates in Africa. The Peace Corps Volunteers' primary role in this project is to assist host countries with the development and integration of a health education component for all CCCD project activities. Peace Corps Volunteers are cooperating with AID and the Centers for Disease Control on CCCD efforts in Zaire, Togo, Liberia, and Malawi, and the Peace Corps anticipates additional efforts in the Central African Republic and Lesotho in FY 1986. Through the Peace Corps/AID CCCD agreement, the Peace Corps provides programming and training support for Volunteers and their counterparts in these countries as well as selected countries in the Sahel.

Oral Rehydration Therapy (ORT). The Peace Corps ORT agreement with AID, signed in FY 1984, provides for programming consultation, technical assistance, and in-service training for Volunteers and their counterparts. Volunteers and their host country counterparts work at the community level to promote the increased use of ORT. The Peace Corps also supports technical staff conferences for Peace Corps staff, ministry officials, and representative agencies to support national efforts to define and plan ORT programs. Through the ORT agreement, the Peace Corps has provided programming and training assistance to Haiti, the Philippines, Nepal, Jamaica, the Dominican Republic, Senegal, Guatemala, Gabon, and Malawi.

Nutrition. The 1984 Peace Corps nutrition agreement with AID supports training activities in vegetable gardening for nutrition improvement. In-service training projects for Volunteers and host country nationals sponsored under this agreement were held in Honduras, the Dominican Republic, Mali, Western Samoa, Ecuador, Thailand, the Gambia, Jamaica, and Papua New Guinea. Additional training activities are planned for the Central African Republic, Lesotho, and Niger in FY 1986.

Small Project Assistance Program. This joint AID/Peace Corps program has been in operation for nearly three years. The program funds small development projects identified by Volunteers working with local community organizations in 34 countries. It has greatly enhanced the Peace Corps' ability to promote self-reliant development activities at the local level, particularly in food production, energy, small-enterprise development, and income generation. In 1985, health projects also became eligible for SPA funding.

Technical Assistance. Resources to provide technical assistance to Volunteers participating in the Small Project Assistance Program at the local level have also been made available to the Peace Corps. The technical assistance PASA allows the Peace Corps to provide assistance in training; program development; and on-site technical support in food production, energy, small-enterprise development, and health.

Information Collection and Exchange

For over 10 years, the Peace Corps has been publishing a series of technical instruction manuals based on the work of its Volunteers. These manuals include not only information on the technical material generated by the Volunteers and their counterparts in the field, but programming and training methodologies as well. Although these manuals were originally published for internal Peace Corps use, 1984 and 1985 witnessed a dramatic increase in the demand for these materials from PVOs, ministries in third world countries (both those with Peace Corps Volunteers and those without), and other development agencies such as AID, the UN Development Program, and the Food and Agriculture Organization.

5.4 US PROGRAMS IN SUPPORT OF REGIONAL DEVELOPMENT FOUNDATIONS

5.4.1 Inter-American Foundation

Mandate and Organization

The Inter-American Foundation (IAF) is a public corporation created by Congress in 1969 as an alternative to established assistance programs in Latin America and the Caribbean. Granted authority to conduct its affairs independent of US foreign policy agencies, the IAF works to explore and promote equitable, responsive, and participatory approaches to development and foreign assistance in the region. The IAF's funds come from Congressional appropriations and from the Social Progress Trust Fund administered by the Inter-American Development Bank.

Under its legislative mandate, the IAF is charged with responsibility for the following:

-- Assisting initiatives of Latin American and Caribbean organizations that provide opportunities for the social and economic development of low-income and otherwise disadvantaged groups

-- Fostering the participation in community and national development of groups that are usually denied a voice in development decisions and largely excluded from the benefits of programs

-- Encouraging the emergence and growth of democratic institutions, policies, and programs that shape and constrain economic and social change in Latin America and the Caribbean

The IAF is governed by a seven-person Board of Directors appointed by the President of the United States. Four members of the Board are drawn from the private sector and three from government. A president appointed by the Board serves as the chief executive officer of the IAF. The 67-person staff is located at the IAF office in Rosslyn, Virginia, but staff members travel regularly to Latin America and the Caribbean to review current projects and new proposals. The IAF maintains no overseas staff or offices.

The IAF selects projects for support from the large number of proposals it receives. It responds to initiatives from Latin American and Caribbean groups and does not set goals or directions for those who receive its assistance. The IAF does not have fixed priorities or guidelines for the allocation of its funding among countries, institutions, or program sectors. Its small size and independence allow the IAF to respond more quickly to proposals than other aid agencies and to support many organizations and ideas that might otherwise not have access to external assistance.

US Participation and Contributions

During the past 14 years, the Inter-American Foundation has made grants totaling more than $215 million for approximately 2,000 projects in 27 nations of Latin America and the Caribbean. IAF grants have varied in size from less than $1,000 to $2.5 million; the average grant is approximately $90,000. In FY 1985, the IAF approved approximately 380 new and supplemental grants totaling $24 million in support of projects to achieve the following:

-- Strengthen peasant, worker, and community groups so they can better promote the social and economic interests of their members. Particular attention is given to organizations that are participatory and democratic in their operations, are prepared to commit their own resources to the objectives being sought, and are likely to continue to grow and develop beyond the period of IAF assistance.

-- Support the development on institutions that can foster cooperation among peasant, worker, and community groups and provide them with such services as credit, technical assistance, training, and marketing and distribution facilities. Important among these institutions are federations of cooperatives, private development foundations, church and university programs, and agricultural service organizations.

-- Explore new approaches to the problems of deprivation among and discrimination against the particularly disadvantaged: ethnic and racial minorities, the rural landless, poor women, unemployed youth, and Indians. Promising activities are being supported in education, health and nutrition, and job creation.

-- Promote research and analysis at Latin American centers which can document and explain the conditions of poor and disadvantaged groups, assess alternative programs for the welfare of these groups, and clarify the issues and choices facing poor and disadvantaged people as they work to improve their situation. The Foundation also maintains a competitive program of fellowship awards for doctoral and master's degree candidates at US universities to conduct field research in Latin America and the Caribbean, and for junior researchers in Latin America and the Caribbean to study in the United States.

Among the grants made in 1985 were the following:

- -- $105,097 to Asesores para el Desarrollo in Honduras, to expand a credit program and provide training in management and administration to microenterprises that produce goods for local consumption in the marginal neighborhoods of Tegucigalpa

- -- $157,950 to the Instituto de Salud Hugo Pesce in Peru, to expand a health care program designed primarily for mothers and children which provides basic medical attention and training for community health workers in Villa El Salvador, a poor neighborhood of 300,000 inhabitants south of Lima

- -- $52,352 to the Asociación Uruguaya de Artesanos in Uruguay, to conduct a series of workshops for its 345 members and to complete a marketing and product development study related to exporting handicrafts

- -- $60,100 to the Cooperativa de Pescadores de Lagarto on the Pacific coast of Costa Rica, to provide technical and management training and to build fishing boats and a receiving station that will improve packing and marketing activities

- -- $5,100 to the Asociación de Grupos Solidarios Dominicanos in the Dominican Republic, to establish a small business that constructs push carts, and to contract for training programs in management and organizational development

5.4.2 African Development Foundation

Mandate and Organization

Established by the US Congress to provide direct assistance to Africa's poor, the African Development Foundation (AfDF) became operational in February 1984. Grassroots indigenous African organizations that represent the interests of or are controlled by the rural and urban disadvantaged are eligible for AfDF assistance. AfDF also works cooperatively with African scholars and researchers analyzing issues and problems affecting grassroots development. A major goal of AfDF is to encourage expansion of economic and social development activities at the local level--the center of life for most Africans. To achieve this goal, AfDF is authorized to provide grants, loans, and loan guarantees directly to self-help development initiatives of Africans at the local level. Organizations receiving support from AfDF must, therefore, demonstrate their commitment 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 of activities.

AfDF is governed by a seven-member Board of Directors. An Advisory Council, with significant participation and membership of professionals with expertise in African affairs, works collaboratively with the Board. A small staff with a combined African development experience of over 150 years executes AfDF's policies and programs.

AfDF Approach

AfDF is a unique organization within the development assistance community because it (1) provides direct support to indigenous organizations whose projects are designed, implemented, managed, and evaluated by Africans; (2) moves expeditiously to inform applicants of AfDF's funding decisions within four to six months of receiving completed proposals; (3) encourages the development of indigenous development models; (4) targets its resources to expanding the role of the poor in development; and (5) utilizes indigenous sources of expertise for technical assistance and auditing requirements.

AfDF Foreign Assistance Program

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

Approximately 40 percent of the projects supported by AfDF are classified as economic/private sector development initiatives. The majority of AfDF's assistance (96 percent) is targeted to less developed and least developed countries. Approximately 52 percent of all AfDF assistance goes to countries described by the UN Conference on Trade and Development as "least developed" (e.g., Sierra Leone, Mali, Niger, Lesotho, Botswana, Togo, and Rwanda), and 44 percent is earmarked for countries classified as "less developed" (e.g., Zimbabwe, Kenya, Zambia, Egypt, and Ghana).

CHAPTER SIX

US SUPPORT OF MULTILATERAL PROGRAMS

6.1 THE UNITED STATES AND MULTILATERAL DEVELOPMENT BANKS

A large proportion of US multilateral development assistance is extended through the four multilateral development banks (MDBs): the World Bank Group, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank. The MDBs continue to play a central part in US multilateral assistance programs because of their significant financial resources, their cost-sharing advantages, and their substantial experience in supporting development.

At the end of 1985, the Executive Branch was considering carefully the best means for strengthening the role of the MDBs in their efforts to accelerate economic growth in developing countries. A two-part proposal was advanced by Treasury Secretary Baker at the World Bank/International Monetary Fund Annual Meetings in Seoul in early October 1985. One part concerned the low-income countries, especially in Sub-Saharan Africa. The Administration was considering a new effort to address both stabilization and the longer term structural changes required for growth in their economies. The other part of the proposal related to the major debtor countries, especially in Latin America, where their was negligible progress toward achieving external financial equilibrium and economic policies did not appear to be addressing effectively the more difficult structural impediments to growth. The Administration envisaged a broad initiative involving fundamental policy reforms in these countries, greater lending by commercial banks, and more structural adjustment lending by the MDBs.

US leadership in the MDBs was notably strengthened during the last year by Congress' decision to provide the full level of support for multilateral development banks requested by the Administration: $1,548 million in budget authority and $3,684 million under program limitations. For the first time in more than a decade, the United States had met all its commitments to the multilateral development banks at the end of the fiscal year. (See Section 6.3 for further discussion of MBDs and their role in private sector development.)

With the completion in January 1984 of the negotiations for the Seventh Replenishment of the International Development Association (IDA), the United States undertook the responsibility to provide 25 percent of the $9 billion replenishment for fiscal years 1985 through 1987. On October 12, 1984, legislation to authorize US participation was enacted and, for the first time since 1980, the full amount of the IDA request for the current replenishment was appropriated. The full participation by the United States in the first year of the replenishment increased the likelihood that other participating countries would provide their full amounts and that the IDA lending program could proceed unimpeded.

Two major US initiatives of recent years to support the private sector--creation of the Inter-American Investment Corporation (IIC) and a capital increase for the International Finance Corporation (IFC)--were undergoing the ratification processes of participating governments. The United States joined the IIC on September 12, 1985 when Treasury Secretary Baker signed the Articles of Agreement on behalf of the United States after obtaining the necessary authorizing legislation. Authority for US participation in the IFC capital increase was under consideration in Congress at the end of the fiscal year. Negotiations for a Multilateral Investment Guarantee Agency to support private foreign investment and to operate under World Bank auspices drew to a close near the end of FY 85. The World Bank Governors agreed at the annual meeting in Seoul to open the convention for signature.

6.2 THE UNITED STATES AND INTERNATIONAL ORGANIZATIONS

6.2.1 United Nations Programs

The United States continues to be the largest contributor to UN humanitarian and development assistance programs. In 1984, according to official UN statistics, the United States provided over $660 million, or roughly 24 percent of funding, for operational activities for development in the UN system (excluding the World Bank Group). This support derives from US policy that the provision of development resources selectively through the UN system serves the fundamental US interest in international stability and economic development.

In this regard, US delegates to UN meetings speak in support of the positive role that the private sector and market forces can play in helping developing countries achieve economic development. For example, at a March 1985 meeting of the Economic Commission for Asia and the Pacific, the US delegation stated: "Government can best help [economic development] by ensuring the existence of an environment conducive to the interests of the private sector. And by private sector, we are speaking not just or even principally of large, often multinational, companies but of much smaller establishments, and of private individuals as well. Development comes from motivated individuals." The following paragraphs highlight some of the UN organizations involved in economic development which have attracted special attention during 1985.

The United Nations Development Program. The United Nations Development Program (UNDP) is the main funding and coordinating mechanism (about $700 million annually) within the UN system for the delivery of grant technical assistance. US support for UNDP in this role has been the cornerstone of

US policy toward the provision of technical assistance through the entire UN system. Since the establishment of UNDP in 1966, the United States has consistently been its largest contributor. The US contribution of $165 million in FY 1985 constituted approximately 23 percent of total pledges to the program.

During the June 1985 Governing Council session, the UNDP announced a number of reforms designed to improve the quality of its performance and enhance the Council's oversight of operations. These reforms include a total revamping of the design and review process for programs and projects; additional enforcement of existing guidelines; new organizational units to secure compliance; and an explicit emphasis on the accountability of all resident representatives, supervisors, and the Administrator for the effective and efficient use of resources. At the same time, the Council took the unprecedented step of creating a working group of the Governing Council that would work with the UNDP Secretariat in implementing the package of reforms. The Council also agreed that countries with annual per capita gross national product above $3,000 will fully reimburse UNDP for grant aid it provides, thereby releasing more funds for the most needy recipients. Independently of the Council, UNDP's Bureau for Africa has conducted a rigorous evaluation of the roundtable process by which UNDP assists countries in assessing their development needs and in following up on multilateral and bilateral assistance. However, implementation of suggested improvements has been slow.

UNDP continues to fund activities that directly and indirectly support the development of the private sector. UNDP also administers a number of funds, including the Capital Development Fund which provides grants and loans, particularly long-term loans made free of interest or at low interest rates, to help the poorest developing countries achieve accelerated and self-sustained growth. Assistance is directed toward diversification of their economies, with due regard to the need for industrial development and the use of light capital technologies as a basis for economic and social progress. Another UNDP-administered fund is the Voluntary Fund for the UN Decade for Women (renamed in March 1985 the UN Development Fund for Women). Created in 1976, this fund provides financial and technical assistance to promote the economic growth and social equity of the world's poorest women. The fund is a significant achievement of the UN Decade for Women, which ended with the Nairobi World Conference in July 1985. The United States has been a principal contributor to the fund, contributing $8.5 million between 1977 and 1985.

The International Fund for Agricultural Development. The International Fund for Agricultural Development (IFAD) is a joint development effort of the Organization of Petroleum Exporting Countries and the Organization for Economic Cooperation and Development. It focuses on improving the agricultural production and income-generating potential of the small farmers and landless poor in the least developed regions of the world. Due to IFAD's unique small-farmer mandate, its projects are specifically designed to overcome the barriers to increased small-farmer and entrepreneurial production. These barriers include inefficient, centralized input distribution systems, government-owned marketing boards, and agricultural prices that are fixed at artificially low levels. IFAD's efforts to work with the recipient governments to remove some of these constraints and promote small-farmer production have the dual benefit of urging developing countries toward more private sector-oriented systems and enhancing the food security of these countries by providing incentives to the small cultivators. The United States supports IFAD's small-farmer approach to agricultural development activities and has contributed to the successful conclusion of IFAD's second replenishment negotiations.

The World Food Program. The United States continues to be the major donor to the UN/Food and Agriculture Organization (FAO) World Food Program (WFP), pledging $250 million in commodities and associated transport services to WFP's 1985-1986 target of $1.35 billion. As the principal vehicle for multilateral food aid within the UN system, WFP provides food aid to governments for development projects and as emergency assistance. The bulk of WFP development commitments supports agricultural and rural development projects, and over 80 percent is allocated to the low-income, food-deficit countries. In 1984, WFP also committed $925 million for development activities and $233 million for emergency and humanitarian operations. Almost 40 percent of WFP's combined 1984 development and emergency resources was committed for Sub-Saharan Africa in response to the region's escalating food emergency. The emphasis on Africa continued in 1985. The United States also supports implementation of the 1985 UN/FAO Task Force Report recommendations on WFP, including measures to increase WFP autonomy in administrative, financial, and personnel matters.

The United Nations Children's Fund. The objectives of the United Nations Children's Fund (UNICEF) are in accord with US humanitarian interests in developing countries through its emphasis on mobilizing assistance from public and private sources throughout the world for programs benefiting children and mothers. Over the last three to four years, the United States has credited UNICEF with drawing major attention--from donor countries and developing countries alike--to the need for making available simple, inexpensive technologies, such as oral rehydration therapy, that can save the lives of thousands of children each year. In support of such programs, the United States provided a special contribution of $7.5 million to UNICEF in FY 1985 (in addition to a FY 1985 voluntary contribution of $53.5 million) which funded a three-year program to finance the child-survival activities of indigenous private voluntary organizations.

Population Assistance. The importance that the United States accords to problems of population growth in relation to economic resources is reflected by US support for an action plan with over 80 recommendations, which was adopted at the August 1984 International Conference on Population in Mexico City. US policy is to provide population assistance only to voluntary family planning programs in developing countries. In the face of mounting evidence of coercive practices in China during 1985, the Administration judged that it must dissociate US funding, even indirectly, from this coercion by withholding from its proposed 1985 contribution to UNFPA a portion equivalent to the amount of UNFPA support for the Chinese program. In August 1985, the Congress passed the Kemp-Inouye amendment requiring AID to withhold funding from any organization found to "support or participate in the management of a program of coercive abortion or involuntary sterilization." After further review of the evidence, the Administration concluded that UNFPA participates in the management of a program of coercive abortion and involuntary sterilization in the People's Republic of China, within the meaning of the Kemp-Inouye amendment, and so all US funding was withheld from UNFPA.

United Nations Conference on Trade and Development. The United Nations Conference on Trade and Development (UNCTAD) continues to be the main forum for North/South dialogue within the UN system. Unfortunately, this dialogue has been based on unrealistic demands for wealth redistribution and the flawed assumption that global political solutions can be found to international economic problems. The future effectiveness and relevance of UNCTAD will depend on the success of US and other like-minded country efforts to promote reform measures in the organization. There has been some progress under improved UNCTAD leadership, although admittedly against a backdrop of often unfocused and duplicative work programs. It should also be recognized that an ideologically neutral Secretariat can effectively support development. Major improvements were noted in the latest UNCTAD Trade and Development Report. UNCTAD's wide-ranging series of reports in preparation for a mid-term review of the "Substantial New Program of Action for the 1980s for the Least Developed Countries" was, for the most part, more thoroughly researched and objective than previously. The review itself resulted in a sober, balanced assessment of measures required by both the least developed countries and the international community in order to accelerate economic development. The UNCTAD Secretariat also cooperated with the US Mission in Geneva in sponsoring a two-day international symposium on entrepreneurship and economic growth. UNCTAD's Acting Secretary General attended the symposium and welcomed a closer dialogue between entrepreneurs and international organizations concerned with development.

United Nations Industrial Development Organization. On January 1, 1986, the United Nations Industrial Development Organization (UNIDO) will become the 16th specialized agency of the UN system. The agency is responsible for encouraging industrial development in developing countries and for promoting related cooperation among developing countries as well as between developed and developing countries. UNIDO has a mandate to deal with the private sector in carrying out its responsibilities. The new Director General has indicated an interest in exploring the ways in which the private sector can further UNIDO's goals. UNIDO's Investment Promotion Service, with seven offices worldwide, identifies projects in developing countries and matches them with sources of private investment capital in the developed countries. The New York Investment Promotion Office had a budget of less than $1 million in FY 1985 (of which the United States contributed $100,000), yet this office reports that it has been responsible for more than $160 million in direct investment in 16 countries since 1981. As a specialized agency, and under new leadership, UNIDO is expected to augment considerably the opportunities for private sector involvement in development.

United Nations Educational, Scientific, and Cultural Organization. On December 19, 1984, the United States confirmed its decision to withdraw from the United Nations Educational, Scientific, and Cultural Organization (UNESCO) effective January 1, 1985. During 1985, a US Observer Mission to UNESCO was established to protect American interests at UNESCO and to consult with like-minded member states on reform. Also, Secretary of State Schultz named a Reform Observation Panel of private citizens to assess and report on events within UNESCO and to express continued US interest in reform. The Panel worked actively throughout 1985.

6.2.2 Organization of American States

The inter-American system, consisting of six regional organizations, is built around the Organization of American States (OAS) as its keystone. The OAS, the Inter-American Institute for Cooperation in Agriculture, and the Pan-American Health Organization are the principal regional bodies engaged in technical assistance. In 1985, the United States contributed $105 million in assessments and voluntary contributions to these organizations. OAS programs in development assistance date from the early 1960s when the United States initiated the Alliance for Progress. Two decades of experience have created a tested body of OAS professionals and institutional procedures for managing cooperation for development projects attuned to area needs, conditions, and policies. To date, the OAS has trained approximately 88,000 specialists, some 33,000 since 1970. Many received training at one of the 23 specialized Inter-American Centers jointly funded by the OAS and member countries. These provide specialized training, research, and extension services in such fields as land and water use, public administration, and agricultural research. Some of these Centers have been turned over to the host country as initially intended, once they acquired a sound financial and institutional structure (e.g., the Inter-American Center for Trade Development in Colombia).

Former OAS trainees are found in key positions in government, the private sector, higher education, and in other multilateral organizations (e.g., UNDP). Indeed, because of the unique character of OAS capability in Latin America, UNDP and the United Nations Environment Program (UNEP) have contracted OAS services to execute projects. The Pilcomayo River Basin project is illustrative of this practice; the OAS contributed $75,000, UNDP contributed $1 million, and Bolivia, Paraguay, and Argentina each contributed an additional $1 million. Nonmember countries have also increased their support for OAS programs; for example, France provided $550,000 to a Nonconventional Energy project in Central America, to which the OAS contributed $370,000 and AID contributed $125,000.

OAS feasibility studies have led to over $6 billion in follow-on financing by the World Bank and the Inter-American Development Bank, which was created at OAS initiative in 1959. The Inter-American Institute for Cooperation in Agriculture has been equally successful in obtaining substantial external financing to expand its regular programs; it received $20.3 million in 1985. The third major element in the tripod of Inter-American multilateral cooperation, the Pan-American Health Organization, has worked closely with the OAS and the Inter-American Institute for Cooperation in Agriculture in an effective division of labor in areas such as animal disease eradication and animal husbandry. Coordination among the three organizations is greatly enhanced by a common language, educational background, and technical experience, as well as shared development objectives in the Americas. Each of these organizations has more than 25 years of experience in managing development projects. Each has also earned an enviable reputation for efficiency and achieving results, as evidenced by the increasing level of external and private funding from nonmember countries and nongovernmental institutions. At the same time, the United States, as the major contributor, has been successful in influencing program objectives and guidelines to adjust them to correspond to basic US objectives in development assistance.

6.2.3 Development Assistance Committee

The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) continues to undertake activities designed to enhance private sector development in developing countries. Recent efforts include a meeting devoted to the subject of "Broader Instruments of Development Cooperation with Low Income Countries: Strengthening the Enterprise Sector and Market Processes." Enterprise and private sector promotion also figured prominently in a meeting that dealt with the more advanced developing countries. Specific followup actions resulting from these meetings included the development by the OECD Secretariat of a compendium of measures being undertaken by DAC members to encourage private enterprise development and the scheduling of a seminar on private investment for April 1986.

The DAC is also continuing efforts to restrain a growing tendency among some of its members to mix official development assistance with private capital in mixed credit or associated financing transactions. The United States and most other DAC members consider such transactions to be aid distorting because the mixed credit operations are likely to be undertaken for predominantly commercial rather than developmental reasons. Two meetings were called to discuss these issues during 1985. The meetings yielded an agreement to increase the grant element from 20 to 25 percent, thereby, increasing the cost of mixed credit financing for the suppliers.

Numerous DAC activities are related to increasing the volume and improving the efficiency of members' official development assistance to the poorest developing countries. As a matter of policy, the organization requests that members direct their assistance to the poorer developing countries on highly concessional terms. Each member's performance against these objectives is reviewed biennially. In addition, during the past year the DAC has devoted two meetings to the mid-term review of the UN's Substantial New Program of Action for the 1980s for the Least Developed Countries and another to the low-income countries.

A review of African development needs and donor assistance was held in 1985 and members followed this up with further discussion on approaches to strengthening support for increased agriculture and food production. DAC work continues on issues regarding women in development and evaluation, and new attention is being given to environmental aspects of development.

6.3 MULTILATERAL EFFORTS IN SUPPORT OF THE PRIVATE SECTOR

The multilateral development banks (MDBs) support the private sector through a variety of instruments that include special affiliates for private sector investment, lending to development finance corporations, and, in some instances, direct lending to and equity investment in private enterprises. The United States has strongly advocated an increased role for the MDBs in support of private sector development. Largely due to US leadership in this area, several initiatives have been taken in the last few years to strengthen MDB capabilities to promote private enterprises:

-- The International Finance Corporation, the private sector arm of the World Bank, was voted a $650 million capital increase to expand its investment activities.

-- The International Investment Corporation was created in affiliation with the Inter-American Development Bank to invest in private enterprises in Latin America.

-- The Asian Development Bank approved an enhanced private sector lending and equity investment program.

-- Agreement was reached on a Multilateral Investment Guarantee Agency under the auspices of the World Bank to promote foreign direct investment.

The United States believes that these initiatives will enhance significantly MDB support for private enterprise, thus speeding economic growth in developing countries.

6.3.1 World Bank

International Finance Corporation

The International Finance Corporation (IFC) is the leading multilateral agency supporting the private sector in developing countries, having invested $5.6 billion in 537 private enterprises in 83 countries during its 30 years of operation. Recognizing the importance of stimulating private sector growth and IFC's capability in this field, the Corporation's Board of Directors voted in 1984 to double IFC's capital. The US proposed share of the $650 million capital increase is 27 percent, a percentage equal to the US share of the existing capital.

IFC provides both loans and equity capital to private enterprises without requiring a government guarantee, unlike most development finance institutions which do require a guarantee. IFC's financial commitment also acts as a catalyst for attracting other financing. The Corporation attracts funds from international capital markets by syndicating loans, underwriting debt and equity issues, and providing standby financing. Its involvement in a project is instrumental in facilitating foreign direct investment through raising investor confidence and facilitating negotiation of satisfactory investment arrangements by the partners. During the last five years, IFC mobilized $6 of private finance for every $1 investment of its own funds.

A major IFC contribution to the development process is its provision of technical assistance, most of which is project related, consisting of legal, financial, and engineering advice to project sponsors. IFC also offers policy advice to developing country governments interested in attracting foreign investment and improving the functioning of their private sectors.

The Corporation invests in a wide variety of industries in developing countries, but its initiatives in capital market development have been particularly unique. In addition to investing in development finance corporations and other local financial institutions, IFC has provided technical assistance to establish or improve the functioning of stock markets in a number of developing countries. The Corporation created and helped underwrite a mutual fund in Korea to stimulate increased portfolio investment from abroad and is seeking to create similar funds in other countries.

In addition to its ongoing Africa program, the Corporation has been in the forefront of efforts to establish an Africa Project Development Facility (APDF), a joint project of the UNDP, the Africa Development Bank, and IFC. Managed by IFC, the APDF will provide technical assistance to African entrepreneurs with project ideas who need assistance in developing proposals and obtaining financing for small- and medium-scale enterprises in the $0.5 to $5 million range, which is below the minimum for IFC participation. The APDF intends to prepare about 100 private sector projects in Africa over the next four years, mobilizing roughly $100 million in new investment.

IFC's current Five-Year Program has been designed to maximize the growth of the private sector in developing countries based on the $650 million capital increase. Investment is slated to grow 7 percent annually in real terms. Total net investment in current dollars is projected at about $4.4 billion, more than double the $1.9 billion in FY 1970-83. Gross investment, including syndicated IFC loans, is expected to reach $7.4 billion during FY 1985-89. The Five-Year Program places increased emphasis on the following investment areas, which are of critical importance.

Capital Market Development. IFC has earmarked 14 percent of its investments for financial market and institutional development, or roughly $500 million for FY 1985-89. IFC's efforts in this area will be directed at reducing obstacles impeding the growth of domestic savings and its efficient allocation. IFC plans to continue financial institution-building activities such as equity market development and to invest in a broad array of financial institutions including venture capital companies, commercial banks, brokerage firms, investment banks, and insurance companies.

Sub-Saharan Africa. IFC will devote 24 percent of its investment over FY 1985-89 to Africa. IFC's member countries advocated an accelerated investment program because of the benefits that a vigorous private sector could bring to the region. IFC's program for Sub-Saharan Africa includes (1) increased promotional activities; (2) IFC financial participation of more than 25 percent in selected projects; (3) more, smaller projects; and (4) increased support to development finance corporations. IFC will also manage the Africa Project Development Facility, as mentioned above.

Corporation Restructuring. IFC anticipates investing $210 million in about 60 companies which, although otherwise sound, must restructure their businesses because of severe market and financial difficulties brought about by adjustment programs or adverse or changing market conditions.

Energy Exploration and Development. IFC plans to invest $100 million of equity in an oil exploration program. Because IFC's share of each exploration project will average only about 10 percent, total project capital could reach $1 billion. The program also includes $150 million of equity and loans for the development of the successful ventures and a further $250 million for other energy projects. In total, IFC will invest $500 million from its own account, generating total project capital expenditures of $3-4 billion.

Multilateral Investment Guarantee Agency

Member countries of the World Bank reached agreement in 1985 on a convention establishing the Multilateral Investment Guarantee Agency (MIGA). The United States played a major role in shaping the provisions of the convention. The purpose of MIGA is to promote the flow of foreign direct investment to developing countries by taking steps to remove barriers to investment. These steps include the following:

-- Insuring investors against noncommercial risks such as currency transfer risk, expropriation, and war

-- Promoting sound investment policies in member countries

-- Preparing studies, providing information on investment opportunities, and cooperating with other international organizations engaged in related areas

The MIGA will facilitate investment flows not only from developed to developing countries but also between developing countries.

The World Bank Governors voted to open the MIGA convention for signature at the International Monetary Fund/World Bank annual meeting in Seoul. The MIGA will go into operation when 20 countries, 15 of which are developing countries, sign the convention. Total capitalization of MIGA will be $1.1 billion. The US share will be $222 million, or 20.5 percent, of which $22 million will be paid-in capital. US participation in MIGA will require Congressional authorization and appropriation.

The MIGA was created in the recognition that foreign direct investment can and should play a greater role in the development process. In recent years a number of developing countries have experienced serious financial problems due to overreliance on borrowing as a source of capital. While commercial borrowing will continue to play an essential role for these countries, it is important that they increase their reliance on foreign investment as a source of non-debt-creating external resources. In the long run, equity investment, with attendant transfers of technology and managerial know-how, can make an important contribution to the development process.

The relatively low levels of foreign direct investment in recent years are due in part to the perception that investors cannot be assured of a reasonable and timely return on their investments in developing countries, and especially that investing in developing countries entails significant noncommercial risks. Increasing the flow of foreign direct investment to developing countries requires that these perceptions change. This can best be achieved by improvements in developing country policies so that they offer reassurance of fair treatment to investors, and by direct steps to insure against noncommercial risk. The MIGA is expected to play a significant role in both areas through its insurance and dispute settlement activities and its role in promoting sound investment policies in member countries.

The MIGA will actively cooperate with and complement the activities of national investment insurance agencies, such as the US Overseas Private Investment Corporation, through coinsurance and reinsurance agreements and sharing of information on the investment climate in particular countries.

6.3.2 Inter-American Development Bank

A significant proportion of Inter-American Development Bank (IDB) loans is channeled through development finance corporations to private sector entities. For example, in 1984, agricultural and industrial credit loans to development finance corporations totaled $480 million, or 13 percent of total lending, most of which reached private enterprises.

The IDB's support of the private sector has been enhanced by the creation of its new affiliate, the Inter-American Investment Corporation (IIC). Negotiations to establish the IIC were completed in 1984, and it is expected that all 34 member countries will sign the charter by early 1986. The IIC's initial paid-in capital will be $200 million, of which the United States will subscribe to $51 million, or 25.5 percent.

The purpose of the IIC is to promote the economic development of its regional member countries by investing in private enterprises, preferably those that are small or medium scale. Enterprises with partial government share participation will be eligible for financing if the proposed investments can be demonstrated to strengthen private sector activities.

The IIC will operate much like the International Finance Corporation, lending to and making equity investments in private enterprises without a government guarantee. It will seek to catalyze additional sources of capital for Latin American businesses through cofinancing, loan syndication, joint ventures, and securities underwriting. The IIC will also provide technical and management assistance.

The creation of the IIC, in the US view, is the natural outgrowth of Latin America's economic development and reflects the IDB's institutional evolution. As Latin America has advanced economically, it has become increasingly clear that the lack of long-term investment capital for private enterprises has seriously restrained the region's development. One of the keys to Latin America's future growth is the revitalization of its private sector. The IIC will play an important role in pursuing this objective.

6.3.3 African Development Bank

The African Development Bank (AfDB) has focused on providing the basic infrastructure needed in African countries and thus has not played a significant direct role in supporting the emergence of a viable private sector in these countries. Nevertheless, the private sector has benefited from loans from the AfDB Group, especially those to development finance corporations.

Its planned $1.0 million contribution to the African Project Development Facility is a demonstration of the Bank Group's increasing commitment to promoting the private sector in Africa. It is expected that participation in the Facility will provide the AfDB Group with the necessary experience with the African private sector and its problems to begin, on its own, to promote directly private enterprise-oriented activity.

6.3.4 Asian Development Bank

On a cumulative basis, it is estimated that approximately $1.8 billion of Asian Development Bank lending has been channeled to private sector enterprises. This has been done mainly through credit lines to development finance institutions and, to a lesser extent, through loans to individual private sector projects, equity investments, and technical assistance. Total lending to development finance institutions as of December 31, 1984 amounted to $1.7 billion through 80 credit lines to 28 institutions in 19 developing country members. As of the same date, the Bank had lent $99 million to eight individual private sector projects in three of its developing country members. In addition, the Bank had provided $3.4 million in equity for three private sector investments from its equity investment facility, which was established in 1983.

Over the course of 1985, the Asian Development Bank undertook three initiatives to improve the effectiveness of its support for private sector activities. The first of these was its sponsorship of an international conference on privatization policies, methods, and procedures. The conference examined the roles that donor agencies might play in the privatization process and ways to address some of the constraints to fuller development of the private sector. Participants included representatives of bilateral and multilateral assistance agencies as well as representatives from recipient countries.

The second initiative involved the establishment of a private sector unit within the Bank's management to serve as a focal point for all private sector activity. It is to be responsible for promoting, processing, evaluating, and administering all private sector initiatives, including equity investments, and will establish and expand direct contacts with private sector entities in order to promote and develop suitable project proposals.

It is contemplated that the Bank will have to acquire staff expertise in areas such as investment and credit analysis, evaluation of project and country risks, marketing, and corporate management. Although some of these requirements can be met through the use of short-term consultants, recruitment of new staff from the private sector will clearly be necessary to get the program off the ground.

It is expected that the Bank's support for private sector activities will entail an increased flow of its own funds to private enterprises and the catalyzing of resources from other sources; policy dialogue with developing country members with a view toward creating an economic environment that is supportive of private sector development; strengthening of financial institutions and capital markets in developing country members; and assistance for efforts to "privatize" public sector enterprises in appropriate instances.

The Bank's third initiative was the launching of limited lending to the private sector without government guarantees. This program will allocate $100 million ($75 million from ordinary capital resources and $25 million from the Asian Development Fund's concessional resources) over the next 24 months. Individual loans are expected to range between $5.0 million and $30.0 million, with the Bank share normally not to exceed 25 percent. Maturities would not generally exceed 12 years, including a suitable grace period. Recipients of loans could include financial institutions within the private sector as well as individual enterprises.

Overall, the Asian Development Bank appears to have made a promising start in its private sector initiatives. It now remains to carry out the programs that have been identified. Important tasks for the immediate future will be suitable staffing of the private sector unit and development of a well-targeted program for lending without government guarantees.

GLOSSARY OF ABBREVIATIONS

ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Foundation
AID	Agency for International Development
APDF	Africa Project Development Facility of the International Finance Corporation
BIFAD	Board for International Food and Agricultural Development
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBIC	Caribbean Basin Information Center, International Trade Administration
CCCD	Combatting Childhood Communicable Diseases
DA	Development Assistance fund
DAC	Development Assistance Committee
DCC	Development Coordination Committee
DOL	Department of Labor
EEC	European Economic Community
EHR	Education and Human Resources
ESF	Economic Support Fund
FAO	Food and Agriculture Organization
GATT	General Agreement on Tariffs and Trade
GNP	Gross national product
GSP	Generalized System of Preferences
HG	Housing Guaranty program, AID
IAF	Inter-American Foundation
IBRD	International Bank for Reconstruction and Development (World Bank Group)
ICRC	International Committee of the Red Cross
IDA	International Development Association (World Bank Group)

GLOSSARY OF ABBREVIATIONS (cont.)

IDB	Inter-American Development Bank
IDCA	International Development Cooperation Agency
IEP	International Economic Policy, International Trade Administration
IESC	International Executive Service Corps
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation (World Bank Group)
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
ITA	International Trade Administration, US Department of Commerce
ITC	International Trade Commission
LIBOR	London interbank offer rate
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-governmental organization
OAS	Organization of American States
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
ORT	Oral rehydration therapy
PASA	Participating Agency Service Agreement
PHC	Primary health care
PL 480	Public Law 480 (Food for Peace)
PRE	Bureau for Private Enterprise of the Agency for International Development
PVO	Private Voluntary Organization
SPA	Small Project Assistance, a joint Peace Corps-AID program
TDP	US Trade and Development Program

GLOSSARY OF ABBREVIATIONS (cont.)

UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Program
UNESCO	UN Educational, Scientific, and Cultural Organization
UNFPA	UN Fund for Population Activities
UNHCR	UN High Commissioner for Refugees
UNICEF	UN Children's Fund
UNIDO	UN Industrial Development Organization
UNRWA	UN Relief and Works Agency
UNV	United Nations Volunteers
USDA	US Department of Agriculture
US&FCS	US and Foreign Commercial Services, International Trade Administration
WFP	World Food Program (UN/FAO)
WID	AID Office of Women in Development

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