

**Quarterly Meeting Report - March 15-16, 1984**

**A C V F A**

**Advisory Committee on Voluntary Foreign Aid  
U.S. Agency for International Development**

**Examination of the Reports of the  
Kissinger and Carlucci Commissions**

**Convened at: U.S. Department of State  
Washington, D.C.**

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**Prepared by: The Newman & Hermanson Company  
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# **Meeting Agenda**

# AGENDA

## QUARTERLY MEETING ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID

**Thursday, March 15, 1984\***

**8:30 a.m.** Registration

**9:00 a.m.** Introductions. **E. Morgan Williams**  
Chairman, ACVFA

Opening Remarks: **Julia Chang Bloch**  
Assistant Administrator  
AID/Bureau of Food for Peace and Voluntary Assistance

**9:15 - 12:00 noon** *An Examination of the Report of the National Bipartisan Commission on Central America (Kissinger Commission)*

Moderator: **David G. Iyer**  
President, Save the Children Federation  
Member ACVFA

Overview: **Dr. William Walsh**  
President, Project Hope  
Member, ACVFA  
Member, Kissinger Commission

Commission members and AID officials will be questioned by a panel of PVO leaders and ACVFA members. Commission members and AID officials who will answer the panel's questions are:

**Dr. William Walsh**, President, Project Hope, Member, Kissinger Commission

**Ambassador Harry Shlaudeman**, Executive Director, Kissinger Commission

**Marshall D. Brown**, Acting Assistant Administrator, Bureau for Latin America and the Caribbean, AID

**Richard Scammon**, Director, Elections Research Center; Member, Kissinger Commission

The panel of PVO/ACVFA representatives and their assigned issues are:

Issues	Panelists
• The Absorptive Capacity of Central America for Economic Development	<b>George Chauncey</b> Director, Washington Office, Presbyterian Church Member, Interfaith Action for Economic Justice
• The Role of PVOs in Central America	<b>Edward Marasciulo</b> , Chief Operating Officer, Pan American Development Foundation
• Education, Literacy, and the Role of Women	<b>Elise Smith</b> , Executive Director, Overseas Education Fund President, Private Agencies in International Development
• Lending and Small Business	<b>William Burrus</b> , Executive Director, ACCION International/AITEC
• Agrarian Reform	<b>Edward Bullard</b> President, Technoserve, Inc.
• Displaced Persons	<b>Julia Taft</b> Advisor on Refugee Affairs Member, ACVFA

**12:00 - 1:45 p.m.** Lunch

\*Plenary sessions will convene in the Loy Henderson Auditorium. All sessions will begin promptly at the times indicated.

**2:00 - 5:00 p.m.**

**An Examination of the Report of the Commission on Security and Economic Assistance (Carlucci Commission)**

**Introductions:** **E. Morgan Williams**  
Chairman, ACVFA

**Moderator:** **Alice Green Burnette**  
Director, Office of Private Sector Development  
Peace Corps  
Member, ACVFA

**Overview:** **Wallace J. Campbell**  
President, CARE  
Member, Carlucci Commission

Commission members and AID officials will be questioned by a panel of PVO leaders and ACVFA members. Commission members and AID officials participating in this meeting are:

**Wallace Campbell**, President, CARE

**L. Dean Brown**, President, Middle East Institute

**John Wilhelm**, Executive Director, Carlucci Commission

**Richard Derham**, Assistant Administrator, Office of Program and Policy Coordination, AID

The PVO/ACVFA Panel and their assigned issues are:

<b>Issues</b>	<b>Panelists</b>
• Development Education	<b>James Joseph</b> President, Council on Foundations Member, ACVFA
• Africa Programs	<b>C. Payne Lucas</b> Executive Director, Africare
• P.L. 480/Food for Peace	<b>E. Morgan Williams</b> President, CLUSA Chairman, ACVFA
• Development Assistance/ Security Assistance Balance and Country Approach	<b>Larry Minear</b> , Church World Service and Lutheran World Relief
• Primary Health Care	<b>Dr. Russell Morgan</b> Executive Director, National Council on International Health
• Agency Reorganization and Legislative Proposals	<b>Frank Kiehne</b> Executive Director, Private Agencies in International Development

**Friday, March 16, 1984**

**9:00 - 11:00 a.m.**

Four subcommittees will meet concurrently:

- **Development Education:** A discussion of the citizen's network proposed by the Carlucci Commission: What should it be? (Room 1105)
- **Women in Development:** Mr. Antoine van Agt nael, Chief Borrowing Operations I, World Bank, will discuss how and where a small business in a developing country can obtain sources of financing. (Room 1107)
- **PVO Corporate Relations:** The discussion will center on carrying out recommendations made in the Report on PVO-Corporate Collaboration presented at the December meeting. Future Subcommittee activities will be determined. (Room 1207)
- **P.L. 480/Food for Peace:** A review of the December meeting hearings on Title II (minimum tonnage and disincentive issues) to determine what recommendations should be made to the Administrator. A review of the African drought situation; A review of AID's plans for a celebration of the 30th anniversary of P.L. 480, with a discussion of the PVO role in this effort. (Room 1205)

**11:00 - 12:30 p.m.**

**ACVFA Business Session (Room 1105)**

- Review of the plenary sessions and recommendations to the Administrator
- Reports from the subcommittee
- A Discussion and determination of major themes for the Haiti meeting, June 17-20, 1984
- Status report on action being taken to resolve Conflict of Interest problem
- New subcommittee assignments
- Other business

# **Executive Summary**

## EXECUTIVE SUMMARY

The quarterly meeting of the Agency for International Development (AID) Advisory Committee on Voluntary Foreign Aid (ACVFA) was conducted March 15-16, 1984 at the Department of State in Washington, D.C. Major topics chosen for the meeting were:

- o The Report of the National Bipartisan Commission on Central American (Kissinger Commission)
- o The Report of the Commission on Security and Economic Assistance (Carlucci Commission).

The meeting was attended by approximately 150 people representing private voluntary organizations, cooperatives, government agencies, associations, businesses and many other organizations and interests.

The first day of the meeting was devoted to plenary sessions which focused on the Kissinger and Carlucci Commission reports, respectively. In both sessions a two-panel approach was used in which Commission members and government officials were questioned by panels of PVO executives on specific issues addressed in the reports. Specifically, the issues covered during the session on the Kissinger Commission Report were:

- o The Absorptive Capacity of Central America for Economic Development
- o The Role of PVOs in Central America
- o Education, Literacy, and the Role of Women
- o Lending and Small Business
- o Agrarian Reform
- o Displaced Persons.

Subjects addressed by the panelists during the afternoon session on the Carlucci Commission Report were:

- o Development Education
- o Africa Programs
- o P.L. 480/Food for Peace
- o Development Assistance/Security Assistance Balance and Country Approach
- o Primary Health Care
- o Agency Reorganization and Legislative Proposals.

The first half of the morning on the second day of the meeting was devoted to concurrent meetings of four of the six standing subcommittees: Development Education, Women in Development, PVO-Corporate Relations and P.L. 480: Food for Peace.

During the meeting of the Subcommittee on Development Education, there was extensive discussion of pertinent recommendations of the Carlucci Commission, particularly their idea of establishing a privately funded citizens' network to promote development education.

The meeting of the Subcommittee on Women in Development was devoted primarily to a presentation by Antoine van Agtinael a Senior Investment Officer at the World Bank, on business development and capital formation.

The Subcommittee on PVO-Corporate Relations was briefed on the various activities planned by AID to encourage greater cooperation between PVOs and corporations in development activities. The Subcommittee also began discussing a strategy for bringing representatives from both groups together at its next meeting.

Three major topics covered during the meeting of the Subcommittee on P.L. 480: Food for Peace were: critical issues covered in the testimony presented at the December meeting; AID's response to the crisis in Africa caused by the drought; and plans for AID's observance of the 30th anniversary of P.L. 480.

Following the subcommittee meetings, the Advisory Committee conducted its regular business meetings. Action was taken on a number of items including: plans for the June meeting in Haiti; comments on the recommendations of the Kissinger and Carlucci Commission; and Subcommittee reports and reassignments.

The meeting concluded at 1:20 p.m.

# Plenary Sessions

## Topics:

- **Report of the National Bipartisan Commission on Central America**
- **Report of the Commission on Security and Economic Assistance**

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID  
OPENING PLENARY SESSION  
THURSDAY, MARCH 15, 1984

Presiding: E. Morgan Williams, Chairman

THEME: AN EXAMINATION OF THE REPORT OF THE NATIONAL BIPARTISAN COMMISSION  
ON CENTRAL AMERICA (KISSINGER COMMISSION)

After brief introductions of the members present from the Advisory Committee on Voluntary Foreign Aid, Chairman Williams turned the session over to Julia Chang Bloch, Assistant Administrator of AID's Bureau of Food for Peace and Voluntary Assistance (FVA), who gave opening remarks and welcome.

Chairman Williams then introduced David Guyer, the moderator for the opening plenary session on the Report of the National Bipartisan Commission on Central America (the Kissinger Commission). Mr. Guyer is President of Save the Children Federation, Chairman of the Board of the American Council of Voluntary Agencies, and a member of the Advisory Committee on Voluntary Foreign Aid.

Mr. Guyer introduced members of the Kissinger Commission and an AID official who were to comment on the Report and respond to questions: Dr. William Walsh, President, Project Hope and member of the Kissinger Commission and the ACVFA; Ambassador Harry Shlaudeman, Executive Director of the Kissinger Commission; Marshall D. Brown, Acting Assistant Administrator, Bureau for Latin American and the Caribbean for AID; and Richard Scammon, Director of the Elections Research Center and a member of the Kissinger Commission.

Mr. Guyer then introduced the panel of representatives from private voluntary organizations convened by ACVFA to raise issues relevant to PVO's and to development of policy in Central America: Edward Marasciulo, Executive Vice President of the Pan American Development Foundation; Elise

Smith, Executive Director of the Overseas Education Fund and President of Private Agencies in International Development; William Burrus, Executive Director. ACCIGN International/AITEC; Edward Bullard, President of Techoserve, Inc.; and Julia Taft, advisor on refugee affairs and a member of ACVFA.

## OVERVIEW

Dr. Walsh began his overview of the Kissinger Commission's Report by outlining two of President Reagan's prime objectives in appointing a bipartisan Commission:

- o Recognition of sensitive and substantive political differences along party lines on the issues arising in policy discussion on Central America; and
- o Awareness that the U.S. could not again endure a major divisiveness on policy such as arose in debate about the Vietnam conflict, and that such divisiveness could hinder implementation of appropriate solutions if it developed along party lines.

The original mandate to the six Democrats and six Republicans on the Commission was to develop medium and long-term policy recommendations. The Commission soon realized the necessity to address as well the effects near-term decisions would have on long-term policy. Additionally, the Commission developed a goal early in its work to work toward policy recommendations based on consensus. In research and hearings, the Commission sought a wide range of opinion and expertise, including every living past President of the U.S., every living ex-Secretary of State, and eight Congressional advisors; during foreign travel in Central America, Mexico and Venezuela, the Commission heard government officials, opposition party members, and private sector representatives. The Commission explored the Contadora process and a variety of opinions from Contadora countries on its value.

Major conclusions of the Commission included:

- o The peace and security of Central American nations are vital to the interests of the United States. Caribbean sea lanes are critical both to future potential military defense and present trade needs of the U.S.
- o The real problem in Central America is poverty: the inequitable distribution of resources with accompanying degrees of political chaos and, in several places, severe human rights violations.
- o Given the extreme poverty in this area, "revolution" is the "way of the future" in Central America; the United States needs to take an interest in the kind of revolution: indigenous and peaceful revolutions are deemed inevitable, probably necessary, and acceptable, as long as no outside imposition was involved. However, revolutions influenced by powers hostile to the United States and democratic processes are not to be tolerated.
- o The Commission recognized that the security of El Salvador, despite excesses by the right and left, is vital to the security of the United States. While advocating substantial military aid to the government of El Salvador to enable its stabilization, the Commission felt unqualified to determine the dollar amount and recommended that this needed to be an executive decision; consequently, none of the \$8 billion in aid recommended by the Commission is for military assistance. The Administration's proposed military package should be separated from the Commission's economic package, though of course the two are interdependent, particularly in El Salvador at the present time.

- o Once Central America becomes more peaceful, then progress should be stimulated by economic aid, but aid based on fundamental democratic principles: self-determination, the ability to elect, movement toward a democratic process (if not immediate democracy as we know it). The Commission recommended vast aid programs in education, health, agrarian reform, cooperatives, various forms of economic assistance, and relief of external debts by U.S. banks, either by restructuring the debts or lowering interest rates. Currently, 58% of export dollars from Central America are used in debt service, seriously contributing to continued impoverishment of these countries.
  
- o The Commission endorsed the Contadora process, but while the recommendation was to support the growing strength of the process, the Commission honored the requests of Contadora country Presidents for the U.S. to refrain from such high involvement in Contadora that the process would become identified as a "North American program," causing the Contadora presidents to lose the support of the Democratic left in their countries and eventually leading to the collapse of the Contadora process.
  
- o The Commission recommended that Congressional initiatives for economic aid include several considerations:
  - (1) Evaluation of the countries' capacities to absorb aid in constructive, growth producing ways;
  - (2) Inclusion of the countries themselves in determining how aid is utilized and administered; and
  - (3) Commitment of aid over at least a five-year period, rather than for shorter, less effective timeframes.

Dr. Walsh encouraged U.S. private voluntary organizations to look ahead to assistance in the implementation of economic aid, particularly in the areas of health, land reform, farming, financing, teaching, and massive literacy programs. He pointed out that AID lacks manpower to accomplish these alone; he cautioned the PVO's, however, to be mindful that aid programs are, inevitably and realistically, connected integrally to U.S. foreign policy, and those administering such programs must exercise discretion in policy discussions as part of their obligation in receiving funding.

In closing his overview remarks, Dr. Walsh counseled patience, pointing out that long-term historical influences and current legal systems cannot be rapidly changed. The issue that must be confronted, he said, is how to help and not become the very type of foreign interventionist the United States deplores. Citing the increasing prevalence in Central and South America of elected governments as grounds for optimism, Dr. Walsh urged that focus be kept on both the need for self-determination by the people of Central America, and on achievement as well as crisis in this area.

Ambassador Schlaudeman, Executive Director of the Kissinger Commission, pointed out that the President sent to Congress an omnibus bill, the Central American Democracy Peace and Development Initiative, to address most of the issues raised by the Commission.

Marshall Brown emphasized the importance of the fact that current Congressional considerations of the U.S. relationship with Central America include specific recommendations about PVO involvement, indicating that a certain portion of development assistance is to be channelled through PVO's and cooperatives. He noted that the increased funding will increase the scope and pace of work already in progress by implementing agencies.

#### THE ABSORPTIVE CAPACITY OF CENTRAL AMERICA FOR ECONOMIC DEVELOPMENT

Ed Marasciulo of the Pan American Development Foundation observed

that the U.S. has been providing bilateral assistance to Latin America for at least 40 years with little evidence of social progress. He asked what real guarantees exist that the U.S. can put into place an administrative process for economic and social reform on the scale of and as efficient as the military aid systems which are now in place, and whether there is an absorptive capacity for simultaneous military and economic/social development programs. He particularly questioned what new or different conditions now prevail to indicate absorptive capacity.

Mr. Brown answered by contrasting the level of aid under the Marshall Plan, which provided in currently equivalent dollars \$42 billion in four years, to the Kissinger Commission proposal, which would provide \$8.4 billion in five and one-half years. He said this would add 5% to the gross national product of the region, less than provided to other developing countries, including Colombia, Taiwan and Korea.

Noting the pronounced economic decline of the last four years in Central America -- Salvadorean per capita incomes are down 35% -- Mr. Brown cited as primary problems a severe contraction in public sector spending and a decline in business activity. The Commission, which addressed these needs, found no absorptive problems at the macro-economic level.

Mr. Brown outlined the Commission's fundamental approach in the first three years to provide stabilization through foreign exchange to the private sector ("macro-economic balance of payments stabilization aid"), producing jobs, transforming goods, and earning further foreign exchange. At the same time, technical assistance and training would be provided to the governments in developing programs to meet basic human needs. Emphasis in the later years of the proposal would gradually shift to equity and spreading the benefits of growth, based on an expectation that governments would then have increased revenues and increased capacity for implementation.

## THE ROLE OF PVO'S IN CENTRAL AMERICA

Mr. Marasciulo, having been assigned to cover both of the first two issues due to the absence of another panelist, urged PVO input in planning. Given the Commission's proposed reliance on the private sector, questioned the government-to-government approach, suggesting instead U.S. private sector involvement in dealing with the Central American private sector.

Mr. Brown asked how the private sector could make up the difference between lost earnings and currently available AID assistance. The reply was that pump priming arrangements were available through the PVO's but their assistance needed to be solicited; PVO's afford specialized information about unique situations in each country in Central America, a region more diverse than monolithic.

Ambassador Shlaudeman noted the Commission's reasoning that restoration of economic growth was pivotal to establishment of programs to protect basic human needs, and cited Honduras and El Salvador as two instances where reforms were underway, albeit slowly. He also stated his own conviction that an improved psychological climate which the Kissinger Commission proposal would foster was essential to overall societal improvement.

Dr. Walsh added that the Commission proposed a small loan guarantee program at the outset of the plan to encourage micro-entrepreneurs (owner operated businesses with up to three employees) broadening the population base of involvement and increasing public sharing in economic benefits, with an aim to restoration of the common market. He noted that the common market was formerly extremely successful in Central America; he said the problem had been a lack of profit sharing by the public.

Mr. Brown emphasized that aid alone is insufficient for real change, and that policy change must occur as well; whether macro-economic or in terms of increased access to education for women, policy-based

conditionality of U.S. aid is essential. He stated that what is new about the Commission's proposal is not only its size, but its performance-based approach, including negotiations in policy dialogue to ensure operative democratic processes.

Mark Bail, ACVFA member, asked about the intended scope of conditionality, given that it is not explicit in the Report. Ambassador Schlaudeman confirmed that conditionality was not explicit but very much part of the Commission intent.

Mrs. Anna Chennault, another ACVFA member, asked about involvement of other countries in supplying aid to Central America and what accounted for the disparity between the Central American experience and countries receiving aid after World War II, such as Korea, Taiwan and Japan. Ambassador Schlaudeman said that the Report envisages wide participation by other countries in Latin America, Western Europe and Asia. Dr. Walsh discussed the development of labor movements in Central America as an influencing factor, and Mr. Brown noted that the countries receiving post-World War II aid had developed the very kind of labor-intensive export policies the Commission has recommended for Central America.

Morgan Williams, ACVFA Chairman, asked why PVO's were not more specifically mentioned in the Report as essential implementing agencies for the Commission's recommendations, and what the role of cooperatives should to be, as the Report is largely silent about those as well.

Dr. Walsh replied that Commission awareness of the pivotal role of PVO's and cooperatives was high but that editing of the original draft of 600 pages condensed many of the Commission's findings; however, the majority of such work as technical assistance for agrarian reforms, training for small loan guarantee programs, and conducting massive literacy campaigns will need to be implemented by PVO's. The government lacks the manpower to implement these programs. A participant noted that particular emphasis was placed on the role of PVO's in health care programs (see page 77 of the Report.)

Michaela Walsh, ACVFA member, raised the issue of the Commission's attention to the needs of women, particularly in terms of input into the findings and involvement of Central American women in the implementation. Dr. Walsh's reply was that the Commission talked with women leaders in Central America in formulating the recommendations -- in fact, he said, the leading presidential candidate for the next election in Honduras is a woman -- but the Commission did not put a percentage on the money to be spent on women. Mr. Scammon said that more specific attention had been paid to children, particularly in regard to the birth rate as it affects the normative age curve, which is severely depressed in contrast to Western Europe.

Alden Hickman of the Heifer Project asked for clarification of Dr. Walsh's remarks regarding PVO attitudes toward U.S. foreign policy when receiving implementation funding for Central America; he observed that AID might well find itself dealing with unclear areas of authority in who designs and determines the purpose of PVO programs. Dr. Walsh expanded his earlier remarks with specific mention of the freely elected socialist government of Costa Rica, and U.S. foreign policy's relationship to it: that policy does not dictate the form of government, but does stand firm on the need for democratic process in its establishment and on-going life; for example, free elections are critical. He also stressed again that PVO's accepting the funding need to refrain from destructive public positions against U.S. policy.

Mr. Marasciulo quoted the Carlucci Report (the Report of the Commission on Security and Economic Assistance) in regard to the apparent lack of public understanding of the interdependence of military and economic programs and urged emphasis on a bilateral focus. Dr. Walsh noted his regret that the military assistance aspects of the Kissinger Commission Report, were intended to be far less prominent than the medium and long-term economic development, judicial and social reform proposals, which have taken first place in public view.

## EDUCATION, LITERACY, HEALTH AND THE ROLE OF WOMEN

Elise Smith of the Overseas Education Fund described some of the factors relating to expansion of the productive contribution of women to their societies in Central America including the following: the critical role of women entrepreneurs in small businesses (e.g., in Honduras, women are 60% of small business owners), and the need for women in the labor force to increase industrial bases in urban areas, as well as human needs which have a particular impact on women, including malnutrition, the mortality rates, massive illiteracy, and low access to technological training and credit. She noted a general silence in the Report on the role of women and cited the AID policy paper on women in development that "to pursue a development planning strategy without a focus on women in development is wasteful and self-defeating"; she then asked in what specific ways the Commission saw full participation taking place.

A Commission representative responded that separate consideration had not been given to men and women in discussing the general economic and social needs in Central America, and that the Commission determined its function was to suggest broad policy, not to specify details of implementation; the Commission's Congressional advisors had counseled that legislative exactitude was the prerogative of legislators who would draft the proposals for Congressional consideration. He urged that those concerned with equity issues for women communicate clearly with Congress as the proposals are shaped into legislation.

Ms. Smith raised the issue of using informal structures, as well as formal educational avenues such as primary schools, universities and vocational institutions, to ensure adequate outreach, particularly to rural women, a resource she said would be neglected if only formal institutions are used. Dr. Walsh's reply was that the Commission recommended a two-tiered approach, using in-home, informal methods for literacy education, and at the same time vastly increasing scholarships to lower and middle class students to 2,000 scholarships per year over a five

year period. Ms. Smith stressed her concern that non-formal educational mechanisms be used to teach technological, "hard" skills as well as literacy.

Michaela Walsh pointed out that on page 72 of the Report the Commission recommended only one PVO to provide executive assistance for training of small business managers in Central America; she noted that several other PVO's as well as Women's World Banking also provide services of this kind. She recommended that a variety of service organizations be utilized for this work.

Mildred Leet observed that the Commission recommendation to build economic growth over the first three years seemed to imply a "trickle-down" premise. She asked whether this meant that programs to serve the poor, and particularly women in poverty, would take effect only after the first three years. Dr. Walsh's answer was that the overall strategy included three fundamental components:

1. To stabilize the economy;
2. To resume economic growth, by creating income, jobs, and government revenues, so that they in turn can increase their own social, educational and economic programs; and
3. To spread the benefits of growth and equity, devoting approximately 1/3 of the total resources, somewhat smaller in the early rather than later years, with major expansions of equity, education, literacy, health, nutrition, low-cost housing, assistance to small enterprise, and bringing women into the mainstream.

He noted that a form of the "trickle-down" approach was used with very limited success in the era of the common market, approximately 1960 to 1975, and that the Commission had been clear both in its report and in its visits with Central American officials, politicians and financiers

that this approach would not be tolerated again. He observed, however, the need to rebuild the economic infrastructure in order to create a sound base for further economic growth. Mr. Brown added that the Commission approach is two-pronged: one to involve direct equity programs to smaller entrepreneurs, and one to encompass a new economic growth strategy. He described the Central American economic strategy of the last twenty years as being "capital-intensive import substitution growth"; that is, developing industries which did not create many jobs and sold to an internal protected market. By 1979, he said, growth opportunities were exhausted; now the financial structures must change and shift to export-oriented, labor-intensive goods for non-traditional markets in the U.S. and elsewhere. Mr. Brown declared that in such economic transformation itself would change the ways in which benefits are generated and spread in society, with greater employment and higher incomes for those now in poverty.

ACVFA member Julia Taft asked for clarification on her understanding that the \$8 billion for the five year period was intended only as a start to prevent total dissolution of the economic fabric of Central America. Dr. Walsh confirmed that the total real need figure as determined both by the countries themselves and by the Commission's financial advisors to achieve the necessary growth was \$24 billion, and that the Commission expected \$16 billion additional monies from multilateral organizations and from other countries, Western Europe, Japan, and others. He said the \$8 billion would achieve restoration of per capita income to a 1978 level; at the present time, it was reduced almost to the 1960 level, which in the long run would make countries more susceptible to foreign ideologies.

Dr. Walsh added that one issue of implementation strategy to be determined in Congressional deliberations is how to restructure loans to Central America while not pursuing the same policy with Mexico, Brazil and Argentina.

#### LENDING AND SMALL BUSINESS

William Burrus of ACCION International opened his remarks with two

points: first, he voiced his concern that the socio-economic assistance and human development programs are critically overdue; second, he noted that though the ACVFA hearings were to address the development aspects, these recommendations need to be framed in the context of the extent to which military solutions are sought or required. Small businesses are among the most adversely affected segments of society by an environment of political and military disorder.

He then asked, given the reality that the majority of the Central American population are poor, why the Report emphasized economic measures such as expanded trade opportunities, and improved investment climate, the foundation of privately-owned venture capital companies, and expanded availability of OPIC insurance -- top-down approaches out of the reach of most micro-businesses, worker-owned industries, and cooperatives (not only agricultural cooperatives but also credit unions and others), including small businesses owned and operated by women. He noted in particular the income - and employment-generating possibilities of such businesses.

Mr. Brown commended these and related observations and urged the PVO community to forward their insights, expertise and comments to Congress, to promote the most effective possible legislation. Dr. Walsh asked the PVO's to examine the issue of giving assistance to those countries currently in relative tranquillity. Mr. Brown recommended extension of aid to El Salvador even while conflict is in need of resolution, as is currently being done in the area of agrarian reform, through Technoserve, Overseas Education Fund, and others.

#### AGRARIAN REFORM

Edward Bullard from Technoserve began his comments by acknowledging PVO expertise in implementation of economic and social need programs; he cited as an example, the agrarian reform cooperative in El Salvador with which Technoserve is working. He affirmed that agrarian reform is needed to create more egalitarian societies in Central America but cautioned that that methodology for achievement of these reforms will need careful

development, involving complex questions of adjudication, evaluation of property, payment of debts, management of enterprises, training employees, and protection of small land-holders once larger parcels are broken up. He added that those responsible for drafting and implementing legislation also need to recognize that support of democratic processes may well mean that actual land reform decisions will not necessarily be of the kinds that PVO's, the Commission, or U.S. policy makes would select. For example, a democratically elected assembly in El Salvador could decide to expropriate large land-owners and pay them with bonds of low value. By the tenets of the Commission Report, this decision would stand as an authentic democratic expression.

Mr. Marasciulo observed that the issue of the will of the people in agrarian reform has usually been expressed through revolutions, in the absence of a democratically elected government. He noted that the establishment and registration of "meets and bounds" for property are essential for agrarian reform; that Honduras began to develop land registration twelve years ago, and that Costa Rica and to a certain extent Nicaragua have been working toward official registration as well. He added that U.S. policy toward Central America is undergoing a shift away from intervention strategies and toward support of the will of the people as expressed in increasingly democratic processes.

Dr. Walsh said that the line between truly democratic decisions and those influenced by American anti-democratic intervention is difficult to determine, adding that PVO's and government agencies working in Central America need to distinguish as carefully as possible between technical assistance and intervention.

#### DISPLACED PERSONS

Julia Taft, ACVFA member and international advisor on refuge affairs, first raised her concern about the potential impact of more than 1 million refugees both in political tensions between north and south, and in the strain on traditional asylum policies of countries contiguous to those

undergoing political upheaval, with resultant increased reluctance to accept refugees and reduced commitment to humanitarian treatment. She described the refugee camp conditions in Central America as "the worst in the world" and in need of immediate assistance. She observed that in serving the clientele of displaced persons, some PVO's in El Salvador are working in conjunction with the host government, and others are working independently in order to protect their credibility with their client population, and asked the Commission representatives what advice they had for PVO's attempting to maintain client trust, remain non-partisan, support U.S. foreign policy, work as humanitarians, receive funding under AID guidelines, and stay on a good footing with the host country.

Dr. Walsh responded that U.S. policy toward displaced persons is to care for all in need, regardless of their political affiliations, so that those who serve these populations are themselves essentially nonpolitical. He cited as particularly effective refugee care-givers the International Red Cross and Catholic Relief Services, both of which serve non-registered refugees in El Salvador. He also described the work of Project Hope in El Salvador, wherein the organization worked to receive host country authorization prior to distribution of their supplies. He observed that work with displaced persons was not political, but instead difficult and dangerous.

Ms. Taft said that political alignment was not the PVO's problem but the host governments' which often have difficulty believing the PVO's are truly nonpartisan. She emphasized the need for dialogues with the countries receiving this kind of aid to help establish trust that certain services could be apolitical -- a difficult concept for countries traditionally volatile and political themselves. Mr. Scammon suggested that PVO's can help establish their independence by coordinating with programs that are internationally recognized and governmentally endorsed as neutral, notably the International Red Cross.

Audience comments included remarks by Georgeann Potter, Assistant Regional Director for Latin America and the Caribbean of Catholic Relief Services, who confirmed that their organization worked exclusively with non-registered refugees as a security measure for the clients, and described the danger to the CRS counterpart in EL Salvador, Caritas, four of whom were arrested and released only after U.S. Embassy intervention. Next Kate Rafferty, Associate Director for Central America for Partners of the Americas, raised a concern that implementation reflect both cultural sensitivity in regard to the Central American populations, and respect for the infrastructure of indigenous PVO's already working diligently to help their own countries.

Mr. Brown, in closing remarks, noted that the current Administration had endorsed the Report of the bipartisan Commission, the "most sweeping reform package ever put forward" to foster human rights, democratic process and social justice in Central America.

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID  
SECOND PLENARY SESSION  
MARCH 15, 1984

Presiding: E. Morgan Williams, Chairman

THEME: AN EXAMINATION OF THE REPORT OF THE COMMISSION ON SECURITY AND  
ECONOMIC ASSISTANCE (CARLUCCI COMMISSION)

After brief introductions and opening remarks, Chairman Williams called upon Larry Minear to give an update on the status of the Emergency Supplemental Appropriation Bill for Food Aid for Africa. Mr. Minear reported that the House had approved an appropriation of \$150 million for food aid to drought-stricken Africa, and that it had been reviewed by the Senate Appropriations Committee and was to go before the full Senate for action the following week. Attached to the bill were several amendments, including \$93 million for emergency military aid to El Salvador, and some \$20 million for covert operations against the Nicaraguan government. Mr. Minear commented that PVOs, who have been tracking the food aid response to the drought over several months, were concerned that the attachment of these controversial amendments to the bill would delay the much-needed assistance to Africa.

Chairman Williams then turned the meeting over to the moderator, Alice Green Burnette. Ms. Burnette began by briefly summarizing the objectives of the Carlucci Commission, which was formed on February 22, 1983 for the purpose of reviewing the goals, activities, and resource availability problems of U.S. foreign assistance programs, and examining ways of improving their contribution to U.S. foreign policy and national security goals in the '80s. The Commission's report was issued in November, 1983.

## REMARKS BY COMMISSION MEMBERS

After introducing the panel of Carlucci Commission members and the PVO/ACVFA panelists who would question them on the report, Ms. Burnette briefly reviewed the meeting's format, and presented the first speaker, CARE President and Commission member Wallace J. Campbell.

In his general overview of the Commission's report, Mr. Campbell first summarized its procedures. The members, who were assembled from a broad section of the U.S. institutional public, were divided into task forces which reviewed and discussed the extensive reports and data produced for the Commission. To illustrate the discussion process, Mr. Campbell recounted some of his own experiences as a member of the Security Task Force.

Regarding the report's substance, Mr. Campbell observed that the Commission's most controversial and widely publicized recommendation was the proposal to consolidate the government's security and development organizations into one agency, a proposal which Mr. Campbell personally opposed, and which the Secretary of State did not endorse. Mr. Campbell pointed out the following important recommendations, which had received less attention:

- o The creation of a citizens' network to coordinate and stimulate support for the government's work overseas
- o An increased appropriation for economic assistance
- o The effective use of the Food for Peace program
- o The addition to the report's second draft of a recommendation to promote the private sector
- o Encouragement of the use of the primary health care sector in development and outreach programs
- o Expansion of development education, including a substantial increase in funds for private sector initiatives
- o Expansion of human resource development and institution building.

In conclusion, Mr. Campbell added that the input of the PVOs which presented testimony at hearings set up by the Commission was stimulating and interesting.

The floor was then turned over to L. Dean Brown, Commission member and President of the Middle East Institute, who further explained the Commission's recommendation of a "superagency" to consolidate security and development functions. Mr. Brown had advocated the idea in order to express the need to develop a mechanism for establishing better understanding and more efficient collaboration between U.S. government agencies that deal with aid action and appropriation. This collaboration would facilitate treatment of countries as countries rather than components of an aid program, consideration of their real and individual problems, and a more effective use of resources. Even if the notion of a "superagency" is unrealistic, the recommendation is valuable in that it expresses this need.

The third speaker, John Wilhelm, the Carlucci Commission's Executive Director, agreed that even if the idea of a "superagency" is rejected, its goals are valid and need not also be rejected. Mr. Wilhelm pointed out other important contributions of the Commission. First, it brought together people of very diverse political persuasions who set aside their differences in the interest of creating a more viable foreign assistance program. Secondly, the Commission addressed foreign assistance in terms of its mutual benefits, and put humanitarian and development interests at the center, not the periphery, of U.S. foreign policy.

As Richard Derham, Assistant Administrator for the AID Office of Program and Policy Coordination, declined to speak at this time since he was not a Commission member, the moderator moved to questions from the panelists.

## QUESTIONS FROM THE PVO/ACVFA PANEL

### Development Education

James Joseph, President of the Council on Foundations, observed that support for security and economic assistance is polarized between different constituencies with different value frameworks and political strategies. He therefore questioned the Commission's assumption that because military and economic assistance are integrated at the policy level, development education at the citizen level can effectively be carried out through an equally integrated strategy. He asked for evidence that such a package approach can be effective.

John Wilhelm responded that polarized constituencies have been unable to deliver an aid bill, while broader bipartisan efforts providing a balance of constituencies have done so in the past. Wallace Campbell subsequently reiterated this idea, noting that coordination, not integration, is essential for this purpose.

Richard Derham added that to separate security and economic concerns is to create a false dichotomy. In a legislative context, separate constituencies get bogged down arguing about position and priorities rather than working together to increase and improve aid. In a country context, development is impossible without a secure environment, and security depends on economic equity. Therefore, both assistance and development education programs must be structured to take into account the mutually reinforcing interrelationship of security and economic concerns.

James Joseph observed that the panel had produced no evidence to show that such coordination can work, and furthermore that what works for short-term political strategies may not work for long-term efforts like development education. Richard Derham argued that he was speaking in a long-term context, and that people at the grass-roots level are capable of understanding an integrated approach.

Mr. Joseph then posed a second question: The Commission proposed the formation of a citizens' network for development education, funded from private sources; but institutional donors have demonstrated no interest or support for this kind of activity. Why does the Commission assume that there are private donors ready to fund a citizens' network?

John Wilhelm first made the point, in response to Mr. Joseph's question regarding evidence, that to provide concrete documentation on every issue was beyond the time and resources of the Commission. Members were voicing judgments based on extensive experience. Moving to the question about funding the citizens' network, he reported that many on the Commission thought it would need an up-front government grant to get it started, after which private sources would take over, in the much same way that the UN organization operates.

Mr. Joseph responded that the UN model was perhaps applicable to the economic side of development education, but that he was less optimistic that the private sector would support military assistance.

Ms. Burnette then called for questions from the Advisory Committee and the audience, and recognized C. Payne Lucas, Executive Director of Africare. After commending the Commission for its work on the report, Mr. Lucas commented that to suggest that there exists adequate private money to fund development education is pipe-dreaming, as demonstrated by the difficulty of getting a matching grant for the Biden-Pell amendment, and of raising funds even for food relief programs. In development assistance itself, corporations cannot be expected to provide the basic infrastructure needed to set up operations abroad; the government must step in to foster an aggressive private sector program. In just the same way, the initial outlay for a development education program must come from the government, and the Commission's first concern must be raising a constituency among Congress and the American public to set the political wheel in action.

Wallace Campbell argued that CARE's success demonstrates the availability of private money for development, and that for a citizens' network to work effectively, funding must originate from the private sector. Government help may follow, but without private initiative, it is not a citizens' network.

There followed several more comments to the effect that economic and security questions must be separate in development education. Alden Hickman of Heifer Project asserted that the American people respond well to appeals for economic assistance, but are more reluctant to give when military motives are mixed with humanitarian ones. James McCracken of Christian Children's Fund commented that the private sector is incapable of providing an amount of money comparable to that available from the military-industrial complex, but the government should heed the private sector's plea for humanitarian action, since it is unrealistic to talk about U.S. security in a world of want. The addition of weapons riders to a bill for food assistance to Africa is cynical and creates a complex problem.

Frank Kiehne, Executive Director of PAID, which co-founded the Joint Working Group on Development Education, stated that ideally, support for this effort must come from an intelligent partnership of government and private sources; however, we have illusions about how easily the two constituencies can work together, based on examples from an earlier, more idealistic period when there was a consensus on humanitarian and military goals. In this new and different climate, the more we divide economic and security concerns in a development education program, the more successful that program will be, since people give mainly for humanitarian reasons.

### Africa Programs

The moderator then moved to the issue of Africa Programs, and introduced C. Payne Lucas, who raised a question concerning the security aspect of the new aid initiatives for Africa discussed in the Commission's report. Mr. Lucas asked whether the government should not exercise

extreme caution in allocating security assistance to governments which, though they may be friendly, exploit the people and deprive them of their human rights. Who do we mean when we say we will reward governments which are making progressive structural and economic changes? Caution is essential, because regardless of short-term security aid, economic policies which fail over the long term to address the needs of the people result in widespread economic and political turmoil.

In response to this question, John Wilhelm noted that first one must define what constitutes security assistance. There has been a significant expansion in assistance from the security (152) account of the budget, which in addition to foreign military sales, credits and grants, contains Economic Stabilization Funds (ESF). ESF are really economic rather than military assistance, and have been allocated to provide cashflow for ongoing projects so as to facilitate a solution in Southern Africa. They were used, usually with a political and economic justification, because the requirements are less stringent than those for development funds.

Richard Derham agreed that in AID, ESF are considered economic, not military aid, and are used for development purposes. Mr. Lucas' concerns, though, apply equally well to economic assistance. AID recognizes that the political context in which economic assistance is given cannot be ignored; political and human rights factors are taken into account to ensure that aid will be used not just in the short term, but in a long-term development framework.

L. Dean Brown explained that when the Commission recommended that in Sub-Saharan Africa and the Caribbean "particular attention be given to careful construction of integrated security and economic assistance programs, recognizing that increased resources may be needed," the security funds they had in mind were ESF, since they are available for immediate use, in contrast to development projects whose benefits are years away. John Wilhelm added that another of the Commission's recommendations involved loosening up the restrictions on development assistance, which, particularly in the African region, are considered overly rigorous and confining.

C. Payne Lucas then asked the panel what measures the Commission was recommending to attract American investors to Africa. The panel answered that it was only in the course of the discussions that the need to focus particularly on Africa and the Caribbean came up, and the Commission did not get so far as to discuss specific country programs. In fact the Commission did not intend to discuss country or regional programs at all; only because the problems of Africa and the Caribbean were considered to be unique, immediate, and severe was special reference made to these regions. In addition, the government's approach to private sector involvement is to concentrate on building the indigenous private sector. For these reasons, the specific question of U.S. investment in Africa was not raised.

Two final comments questioned the rationale behind the Commission's and the Administration's treatment of Africa. Peter Davies of the Meals for Millions - Freedom From Hunger Foundation reiterated the point made earlier by Jim McCracken that to tie military aid for Central America to a humanitarian food aid bill for Africa is cynical, and sends to the American public and to the developing world the dangerous message that despite rhetoric about human rights, U.S. foreign policy is basically security-oriented. Frank Kiehne added that the preoccupation with parallelism that led the Commission to link Africa and Central America and to describe them in oversimplified terms as two sides of the same coin leads to just the sort of situation Mr. Davies described. The government has approved a much larger aid figure per capita for Central America and at the same time cut IDA funding, which is the main source of concessional aid to Africa. The Commission, in its emphasis on bilateral rather than multilateral aid, lost the opportunity to make a case for IDA, which is more beneficial to Africa.

The panelists refrained from commenting on these statements on the grounds that they were not there to defend the policies of the present administration. Ms. Burnette then moved on to the topic of P.L. 480, and introduced ACVFA Chairman and CLUSA President E. Morgan Williams.

## P.L. 480/Food For Peace

After summarizing the recommendations for P.L. 480 set forth in the Carlucci Commission report, Mr. Williams brought up an area which it did not cover: the ways in which P.L. 480 can be used more creatively to make America's food technology and production system, one of its biggest resources, a more effective instrument of peace and economic security in the world. Mr. Williams outlined four goals for this thirtieth anniversary year of Food for Peace:

1. Make America a reliable supplier of food, through both commercial and relief channels.
2. Look for new ways to use the food production system and food technology; for instance, negotiate food security agreements with other countries.
3. Unite all constituencies concerned with food and hunger into a new coalition to lobby for better funding, better legislation, and more creative food programs.
4. Create closer ties between agribusiness, the development community, and AID.

Mr. Williams then asked for comments from Commission members on these goals.

In the discussion which followed, it was agreed that there are many possibilities to be explored for using this great underutilized resource more effectively, and while the Carlucci Commission would not object to Mr. William's suggestions, it did not delve into this area. As Mr. Wilhelm explained, coordinating food aid is a problem, since government agencies and other interested groups each have their own objectives which they fear will be interfered with thorough collaboration. The need was expressed to form a new relationship between these groups, to reallocate responsibilities, rejuvenate P.L. 480, and create more effective programs.

Ms. Burnette suggested that at the business meeting the Advisory Committee might make recommendations to the AID Administrator on this subject, and adjourned the session for a ten-minute break.

Development Assistance/Security Assistance Balance and Country Approach

After reconvening the meeting, Ms. Burnette called upon Larry Minear of Church World Service and Lutheran World Relief for questions on the issue of development/security balance and the country approach. Mr. Minear first stated that his questions would be asked in the context of the alienation, unalleviated by the Carlucci Commission report, of the development community from the U.S. foreign aid program; and the view that the report is more negative than positive in relation to the interests of equitable development in the Third World.

Mr. Minear's first question referred to John Wilhelm's statement that the Carlucci Commission placed humanitarian and development interests at the center of U.S. foreign policy. Quoting from the opening lines of the report's executive summary, he pointed out their emphasis on security as the primary policy objective, and stated that the report does not address the concerns of development groups whose support for foreign aid programs is eroding and cannot be rebuilt by approaches which treat the balance issue in terms of percentages. He asked if the Commission really placed development interests at the center of foreign policy.

John Wilhelm responded that the report emphasizes mutual benefit, and that the satisfaction of humanitarian and development goals is in the United States' own interest. This emphasis unambiguously places these goals at the center of U.S. foreign policy. To Mr. Minear's objection that these interests were not made a priority, Mr. Wilhelm answered that the report does not prioritize on any issue.

Mr. Minear's second question was twofold. First, regarding country integration, the report recommends that U.S. country programs integrate military and economic assistance operations and objectives. Mr. Minear

questioned the assumption that these activities are mutually reinforcing. Secondly, he questioned the rationale for recommending more consistency between interest rates charged on military and economic loans in view of their very different purposes.

To the first part of this question, Richard Derham answered that economic and military assistance form a seamless web, but that in resource allocation the individual country's situation must determine the proper assistance balance.

The question of interest rates spurred a great deal of discussion. Richard Derham explained that all long-term loans create a long-term debt burden, which some countries are unable to carry. The current legislation forces AID to impose such burdens unhealthily, when in many cases grants, not loans, are called for. Dean Brown added that the report does not adequately face up to this problem, but only suggests small ways to alleviate it for certain countries which have incurred military debts.

John Wilhelm explained that the purpose of the Commission's recommendation to lower the terms for military loans was not to encourage more loans, but to advocate a change in the current policy, which was based on the supposition that higher interest rates would restrain developing countries' appetite for arms. Not only has this policy failed to do so, it has also forced us to provide military assistance on terms inconsistent with development goals.

Wallace Campbell added that when we lend money for purchasing arms, we lose control over the type of arms bought, so that countries may buy sophisticated offensive weapons rather than simple defensive ones. By giving grants, we could control military buildup. As Dean Brown subsequently pointed out, it has become the practice over the last couple of years to forgive arms debts anyway. At least we should give poorer countries the option to repay in local currencies, which could be used in the private voluntary sector for humanitarian assistance.

Larry Minear concluded that the discussion had clarified their mutual intent to avoid the militarization of aid programs and of Third World society. Moving to his third question, he observed that in the new PVO policy, there is an emphasis on integrating PVO activity country by country into AID's development strategy. When this strategy package includes military policy, does this not pose complicated problems for PVOs?

The panel members answered that with intelligent management and competent personnel, such integration can be successful and mutually supporting; but cooperation with all of AID's inputs must begin at the planning level, with the five-year country strategy statements (CDSS).

Larry Minear then asked how such integration will be possible given the coordination of security policy with the CDSS. Wallace Campbell answered that such coordination is extremely difficult, since security programs are not subject to the kind of reporting to Congress and other agencies that would be necessary. The best person to coordinate policies would be the ambassador, since only he has access to security information within the country. John Wilhelm added that in the past every AID director played this role, and in some cases a joint economic office was set up for the embassy and AID. For integration to be successful, a similar system would have to be reinstated.

At this point, Ms. Burnette asked for further questions from the floor. The idea of bringing PVOs in on AID strategy sessions was enthusiastically praised, and Ms. Burnette responded that the Advisory Committee could reinforce the view that the PVO community should have an input into development strategy through a recommendation to the AID Administrator.

Glen Leet of the Trickle-Up Program praised the Commission's suggestion, to which Wallace Campbell referred earlier, that LDCs should be allowed to repay debts in local currencies to be used for PVO programs. He stressed that this policy would increase support for aid

programs by alleviating fears that the money will be used unwisely by governments with no political will for development. It would also greatly increase PVO effectiveness, and ultimately contribute to security by enhancing stability. Richard Derham agreed that this approach is attractive, but cautioned that it would require not just a reprogramming, but an allocation of new funds.

Julia Taft summed up the discussion by concluding that its implications were to challenge the development community to see its function in the overall strategic interest, and the security community to make responsible military investments which complement economic development needs in the host country.

#### Primary Health Care

The moderator then moved on to the topic of primary health care, and introduced Dr. Russell Morgan, Executive Director of the National Council on International Health. Dr. Morgan expressed frustration on behalf of his organization that, though health care was mentioned in the Carlucci Commission Report, it was not focused on. AID has had little interaction with PVOs in the area of health, and closer collaboration is needed. Health workers could be particularly useful in development education, since they can bring back to the U.S. a deep understanding of the value of foreign aid programs. Dr. Morgan suggested that the Office of Health collaborate with PVOs on strategic planning, and asked for the Commission members' comments.

Wallace Campbell responded that the Commission would sympathize with these suggestions, and that some of AID's budget for health projects had gone unused last year. He urged PVOs to submit more health proposals. Richard Derham added that AID is interested in expanding the use of PVOs in the delivery of its health programs and is exploring ways to do so in its Strategic Plan.

## Agency Reorganization and Legislative Proposals

After a brief introduction by Ms. Burnette, Frank Kiehne commended the members for their hard work, and praised the PVO task force briefing on military assistance programs. Out of this meeting came a concern that military programs had received less evaluation than development assistance programs. In addition, the Commission recommended legislative initiative in the area of concessionality for military assistance, but not for development assistance. He asked for the Commission members' comments on these issues.

Dean Brown answered that in the absence of adequate evaluations, the group had to make judgments on the basis of its collective experience. Historically, continuing evaluation is not a part of military assistance programs, which are usually initiated for political reasons, and are judged on the basis of success or failure.

John Wilhelm agreed that the Commission's evaluative effort was inadequate, and since there existed more data on economic components, they were more carefully scrutinized. In fact, a major finding of the Commission was the need for an overall evaluation system taking into account all the impacts of assistance programs. Richard Derham added that AID encounters problems in its evaluation of the Economic Stabilization Funds. In the development community, it is becoming clear that it is difficult to evaluate the effect of discreet projects; however, the systematic effect can be discussed. For example, a multilateral task force is currently working to evaluate the cumulative effect of AID over the past thirty years.

On the issue of concessionality, John Wilhelm commented that action was taken regarding the military account because the problem there was seen to be particularly acute.

Finally, in answer to Mr. Kiehne's question of why Secretary of State Schultz responded negatively before the House Appropriations Subcommittee

on Foreign Affairs to the Commission's recommendation of a Mutual Development and Security Administration, Richard Derham stated that a reorganization this year would take much time and effort, that the administration has more pressing priorities, and that it would not be worth the cost. AID is already involved in providing better coordination between foreign assistance agencies, and more interaction in the decision-making process. Even without a reorganization, some part of the Commission's recommendation can be achieved.

Dean Brown added that the whole report's thrust is that foreign aid has lost steam in Congress and among the public, and that changes must be made in order to restore it.

The discussion ended with two final comments from Advisory Committee members. Anna Chennault cautioned against idealism and urged that the real economic situation of the United States, both domestic and international, must be taken into account, in discussions about foreign aid. Willie Campbell stated that the PVO community is going ahead with a major development education program, but success in the area of military security cannot be assured.

Before adjourning the meeting, Ms. Burnette and John Wilhelm announced the availability of data presented to the Commission from the following sources:

- o A volume of papers to be published later this year by Praeger
- o The Commission's archives, copies of which will be placed in the National Archives and in Georgetown University Library.

Ms. Burnette congratulated the Commission on receiving such valuable and extensive data, announced upcoming sessions and activities of the Advisory Committee meeting, thanked the participants, and adjourned the session.

## **Subcommittee Meeting Summaries**

- **Development Education**
- **Women in Development**
- **PVO-Corporate Relations**
- **Food for Peace**

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID  
SUBCOMMITTEE ON DEVELOPMENT EDUCATION  
MARCH 16, 1984

Presiding: Willie Campbell, Co-Chairperson

Co-chairperson Willie Campbell called the meeting to order at 9:00 a.m. in room 1105 of the State Department. After introductions all around, Mrs. Campbell announced that the meeting's purpose was to examine the Carlucci Commission's recommendation of a citizens' network for development education, and its relation to the Biden-Pell program and the PAID/ACVA Framework for Development Education in the United States. As a general basis for the discussion, the following questions were circulated to the participants:

- o What was the exact CSEA (Commission on Security and Economic Assistance) proposal and the intent behind it?
- o What should be the objectives of the citizens' network? How do they differ from those of the Biden-Pell program?
- o What should the scope of the network be?
- o Whom should it embrace?
- o What kind of structure should it have?
- o What possible ramifications might result?
- o What is AID's position on the concept of a citizens' network?
- o Is AID seriously interested in the establishment of a citizens' network?

- o Does AID have any plans made or in the making for follow through on the proposal?
- o What is the nature of the support AID might give to the development of a citizens' network? e.g., a Biden-Pell Grant or other seed funds, organizational and public relations assistance, material resources, official endorsement, etc.
- o Are there any legislative initiatives pending in regard to the formation of a citizens' network?
- o Should the ACVFA fund the preparation of a concept paper delineating a citizens' network? What should the scope of work for such a project be?

Following her opening remarks, Ms. Campbell called upon Wallace Campbell, Carlucci Commission member and President of CARE, to summarize the citizens' network proposal. According to Mr. Campbell, the Commission envisioned the network as a loose framework for cooperation among existing independent organizations. It would be a small entity, funded, at least initially, from private sources. It would function in the general political milieu in a nonpartisan capacity to create enthusiasm for important development issues, and to stimulate and coordinate the development education interests and activities of its constituents. Beyond this loose concept, the details were not spelled out.

Several comments and questions arose in response to this idea. Mr. Campbell agreed with the suggestion of Kate Semerad, AID Assistant Administrator for External Affairs, that the network's function would be to build a constituency for development assistance, with the ultimate goal of gaining support on Capitol Hill for foreign aid programs; development education would be a means to this end, not an end in itself. Enso V. Bighinatti, Assistant to the President of the American Red Cross, asked what entity would be responsible for the network, to which Wallace Campbell replied that, though this was not spelled out, it was assumed

that it would not be an arm of any agency, but would have a life of its own. He added that, while the Commission had recommended an integration of economic and security assistance, the question of how to organize a constituency for security assistance in a development education program was never answered. He agreed with Willie Campbell's suggestion that the security component would not be essential to the citizens' network concept.

Willie Campbell then turned the discussion to the network's potential role in the whole development education picture, and specifically, its relation to two other major efforts - the Biden-Pell program and the PAID/ACVA Framework paper. She called upon Beth Hogan, Program Manager of AID's Development Education Program, to summarize the Biden-Pell program.

Ms. Hogan stated that the Biden-Pell Amendment charges the AID Administrator with the responsibility of encouraging public analysis, discussion, and debate of issues presented in the Report on World Hunger, published in 1978. The Amendment encourages AID to support the ongoing work of private and voluntary organizations in their efforts to educate the American public on political, economic, technical, and social factors relating to world hunger and poverty. Although Biden-Pell funding is not limited to PVOs, most of it does go to support their activities.

Ms. Campbell then gave a brief overview of the PAID/ACVA Framework for Development Education, a strategy paper providing general advice for development, refugee, and relief organizations nationwide. The Framework is one of three major thrusts of the newly-merged PAID/ACVA entity.

Andrew E. Rice, President of the International Development Conference, provided a historical context for these movements by tracing constituency-building activities for development over several decades. The International Development Conference, a loose grouping of international organizations which educates informally through conferences and follow-up programs, dates back thirty years, and has found support

through many administrations. In 1959, the White House Conference on Foreign Aspects of Mutual Security spawned a citizens' group called the Committee for International Economic Growth (CIEG). The CIEG, led by Eric Johnston, then head of the Motion Picture Association of America, embraced business, labor, trade, and voluntary organizations. It held conferences, published a newsletter, and provided technical assistance for development education, but died after five years when support faded under a new administration. A third revolution came in 1970 with the formation of the Overseas Development Council. This organization, a national board of about one hundred institutions with leadership coming mainly from large foundations, has supported research programs and scholars, worked successfully with Capitol Hill and the media, and attempted through educational means to reach influential leadership in the Washington area.

Mr. Rice stressed that these antecedents must be carefully looked at in considering the possibility of a citizens' network. He questioned the wisdom of creating a new organization when perhaps an existing one could be strengthened instead. In any case, a citizens' network must not function as a membership organization, but must work through existing organizations to stimulate and coordinate their activities and to make them more effective.

Wallace Campbell agreed that this was the role which the Commission had envisioned for the network. The discussion now focused more directly on the network's potential constituency and leadership. In answer to questions from participants, Mr. Campbell indicated that a core group of interested Commission members, including Michael Samuels, Clifton R. Wharton, David Rockefeller, Dean Brown, Robert Delano, and others, were holding discussions, making preliminary plans, and seeking proper leadership. In addition, AID Administrator Peter McPherson had expressed great interest in pursuing the citizens' network idea.

As for the network's constituency, Kate Semerad pointed out that it would be small and diverse. Traditionally, support of foreign assistance has rested with a well-educated urban elite; the average person feels it

is a waste of money. In addition, the disparate groups interested in foreign assistance have conflicting points of view and fight among themselves. Only if they can agree to disagree and work together, as they did on the Carlucci Commission, can the network prove effective.

Willie Campbell added that the development education community now recognizes the need to reach beyond the elite to the "man in the street." She asked if there had been any discussion by the Commission on how to do this. Wallace Campbell responded that much can be done immediately and inexpensively if there exists a focal point to coordinate large-scale efforts. Some possible alternatives are:

- o Have a group of prestigious people represent the network on public radios and television
- o Ask the Ad Council to donate free advertising time
- o Tie in some Biden-Pell work to provide study materials for high schools and colleges.

Willie Campbell then asked PAID Executive Director Frank Kiehn to explain more about the implementation of the PAID/ACVA Framework and PVO efforts to build support among the grass roots for development assistance. Mr. Kiehne reported that the PAID/ACVA Joint Working Group on Development Education had refined the framework paper, printed 30,000 copies in a popular form, and gained endorsements from distinguished Americans in order to make the document appeal to a broader section of the public. Other projects now underway include:

- o Plans for a professional journal to increase the proficiency of development education practitioners, organized by the subgroup on communications
- o Solicitation of the Chicago Foreign Relations Committee as a resource for a forum in May
- o Establishment of a working group of educators to meet in July, by the subgroup on coalitions and networking
- o Formation of a "critical issues" subgroup.

Mr. Kiehne added that the PAID/ACVA experience demonstrates the need to separate economic and security concerns in development education. Any new development education mechanism such as the citizens' network will have to recognize this need when building a constituency. Willie Campbell agreed that the network would function better if security matters were left out of it.

John White of the AID Bureau for Program and Policy then reported on AID's response to the Commission's citizens' network proposals. Three possible options for organizing the network were being examined:

- o A Washington-based lobby organization
- o A direct mail organization
- o A campaign to organize opinion leaders and involve them in a debate on foreign assistance.

Regarding funding, AID saw the network as a private organization which would be free to express political opinions and whose main function would be lobbying; as such it would be ineligible for AID assistance.

Advisory Committee member Markham Ball argued that the network's function should be eligible for public funding, perhaps even through the Biden Pell program. John White argued that the citizens' network should be broader in scope than the Biden-Pell program, which supports only projects which educate the public on the need for foreign assistance. In fact, the network's function should go beyond development education to the expression of opinions on foreign assistance policy. This activity would prohibit the network from receiving any kind of AID funding.

At Willie Campbell's suggestion, the discussion now touched on the last of the questions which had been prepared for the meeting: should the ACVFA fund a concept paper on the citizens' network, and what should its scope be? Enso Bighinatti asserted that the citizens' network concept remains vague, and that a serious study of the issue must be funded by someone, in order to create a concrete proposal for discussion. Three important questions must be addressed by such a study:

- o Will the network's primary function be political action or education?
- o What issues will the network actually embrace? Will there be a single focus or an acceptance of different points of view?
- o Will the network direct its efforts to the elite, or attempt the more difficult task of reaching "the man in the street?"

Mr. Bighinatti's suggestions generated extensive comment. Willie Campbell pointed out that one of the assets of the PVO community in a citizens' network would be its ability to reach beyond the elite to a broad based constituency of religious and other interests. She asserted that any study which the Advisory Committee sponsored should include the Biden-Pell program and the PAID Framework as well. She asked for comments on this from Markham Ball in his capacity as Policy Subcommittee Chairman. Mr. Ball replied that the whole network concept is too vague, amorphous, and unclear for the Committee to make any recommendation at this time.

Wallace Campbell responded that the concept is not totally nebulous; there is enthusiasm, and interested people have begun working on it. The Commission purposely refrained from spelling out details because the network should have a life of its own when it gets started. In response to Mr. Bighinatti's suggestions, Mr. Campbell stated that differences of opinion within the development community cannot be avoided, but need not prevent a coalition of interests from working together. Regarding the network's function, he suggested that perhaps two entities would be needed - one for education and one for political action.

Beth Hogan commented that any study of the citizens' network idea should examine models provided by development education programs in other countries. The Commission had reviewed these models, but not in detail. It was later mentioned that a report on programs in 10-13 industrialized countries was available from AID.

Frank Kiehne then raised the concern that there had been inadequate consultation with PVOs on the citizens' network, and that the idea was being pursued without a consensus. PVOs want to be involved in the planning stages, and much dialogue must take place before a unified concept can take shape.

At the suggestion of Enso Bighinatti the participants now turned their attention to possible actions or recommendations which the Subcommittee could make on the proposal. Wallace Campbell suggested recommending that if and when the concept is formalized, PVO leaders be involved in the planning. Andy Rice proposed stating that the Subcommittee feels that there is a need for considerable study and clarification, that a specific proposal must be developed, and that it hopes AID will taken an active role, perhaps in the form of funding. Tom McKay of FVA/PVC cautioned against recommending AID funding before it was clear where the citizens' network belonged. Perhaps it should not be lumped together with development education, which is only one component of the development education concept. Frank Kiehne suggested that the Subcommittee should not take action except to express the need for further consultation and study on the idea.

A question then arose concerning who should take the leadership role in this consultation. Frank Kiehne had understood that AID was already working to do so. Kate Semerad replied that AID was merely discussing its own potential role and hoped the organization and definition of the citizens' network concept would come from the constituency itself - that is, the PVOs, labor, agriculture, and business organizations, and foreign affairs councils who would participate in the network. Tom McKay agreed that since the network is supposed to be private the leadership role should not fall on AID. As Willie Campbell commented, the fact that AID had asked so quickly to examine the concept had caused people to look to it for leadership. Kate Semerad suggested that ideally, all groups which might become involved in the network should build on the concept in their own way, as AID has done, and meet at a later date to come up with a plan.

Markham Ball commented that, though the PVO community is relatively well-organized, other parts of the citizens' network constituency are not, so that any confederation will have to be very loose. Perhaps the term "network" will prove to be an overstatement. Enso Bighinatti agreed: it is dangerous to name the vehicle for the idea before its function and constituency are defined.

To summarize, Wallace Campbell reviewed his interpretation of the Commission's proposals, and stressed that there are interested individuals working on them, but that further consultation among all potential participants, and some leadership initiative are needed. Willie Campbell concluded that there was not a sufficient consensus to take any action on the recommendations at this time, particularly since only two Subcommittee members were present. However, the Subcommittee expressed interest, and hoped that consultations and a more structured approach would follow. The Subcommittee wishes to continue to discuss the network concept and to consider future recommendations after further consultations with potential participants have gone forward.

SUBCOMMITTEE ON DEVELOPMENT EDUCATION  
MARCH 16, 1984

ATTENDEES

Mr. Enso Bighinatti, American Red Cross, ACVFA Member  
Marguerite Turner, Overseas Development Council  
Charles Wattles, Peace Corps  
Amy S. Nickell, Lexington, Kentucky Public Schools (Fayette County)  
Frank C. Kiehne, PAID  
Wallace J. Campbell, CARE  
Andrew E. Rice, International Development Conference  
Kathryn Young, U.S. Chamber of Commerce  
Markham Ball, ACVFA Member  
Carolyn Lauer, Asian American Free Labor Institute, AFL-CIO  
Kate Raftery, Partners of America  
Francis A. Luzzatto, Peace Corps  
Beth Hogan, AID, Bureau for Food for Peace and Voluntary Assistance  
Tom Harper, New TransCentury Foundation  
Kate Semerad, AID, Bureau for External Affairs  
John J. White, Jr., AID Bureau for Program and Policy Evaluation  
Willie Campbell, ACFA Member

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ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID  
SUBCOMMITTEE ON WOMEN IN DEVELOPMENT  
MARCH 16, 1984

Presiding: Michaela Walsh, Chairperson

The third meeting of the Subcommittee on Women in Development was convened at 9:00 a.m. by ACVFA member and Subcommittee Chairperson Michaela Walsh in Room 1107 of the Department of State. The meeting of the Subcommittee was adjourned at 11:00 a.m. by Ms. Walsh.

Chairperson Walsh introduced herself and stated that the work of the Subcommittee is to encourage and legitimize recognition of women's role in the economy and to promote the serious consideration of women's business development (as opposed to income generation or grant-seeking) among government officials and others in the development field. The first two meetings outlined guidelines to help PVOs identify potentially viable businesses and to evaluate their own operation as a potentially viable project.

As a result of interest expressed by members and participants at the past two Subcommittee meetings, Antoine Van Agtinael, Chief of the Borrowing Operations Division I in the Financial Operations Department of the World Bank, was invited to discuss capital formation and the establishment of a support for micro-business owned and operated by women in developing countries. Mr. Van Agtinael, formerly Senior Investment Officer with the Capital Markets Department of the International Finance Corporation, has banking and investment experience in Thailand and West Africa, among other developing countries. He has written extensively on how economic institutions create the structure capital. Ms. Walsh recommended his published works as valuable resources to clarify and simplify this complex field.

## SUMMARY OF THE PRESENTATION

Mr. Van Agt nael began with the very basic question: how can any new entrepreneur obtain money in a developing economy? At the outset of the presentation he stressed that the views he expressed were his own and not necessarily those of the World Bank or any other financial institution with which he has been affiliated.

Mr. Van Agt nael pointed out that women are widely active in finance in developing countries: In Hong Kong and Thailand women are at least as active as men at high levels in investment banking and the stock market; in Western Africa, women entrepreneurs dominate the "real world" marketplace, if not the world of finance.

Beginning with a comparison of how financial systems operate in industrialized as opposed to developing countries, Mr. Van Agt nael laid groundwork for understanding how those systems can be improved and utilized by and for smaller entrepreneurs.

### Industrialized Countries: Basic Financial Structure

Industrialized countries, such as the United States and Canada, operate with the following major financial institutions:

- o Commercial banks (an important, but not a sole source of money)
- o Stock markets
- o Bond markets
- o Pension funds (becoming very important)
- o Insurance companies
- o Leasing companies
- o Venture capital companies.

The total amount of available financing for entrepreneurs is derived from all of these. Small entrepreneurs may obtain primary funding from a different "slice" of these categories than larger corporations, but all categories play roles in overall sources of funds.

Small U.S. companies are primarily financed by:

- o The owner, family and friends -- those who trust and believe in the business person -- who supply one-third to three-fourths of all capitalization for small business;
- o Banks;
- o Small business investment companies, venture capital companies that can provide both equity and long-term money to entrepreneurs;
- o Venture capital companies.

Venture capital companies, in particular, play an increasingly important role in the U.S. and Canada, and are becoming more numerous in Japan and Western Europe. In the developing world, however, they are only beginning to emerge.

Therefore, the situation for new small businesses in industrialized countries is:

- o There are many places to go for money; and
- o Because there are so many places, the competition among these sources of funds is conducive to small business.

#### Developing Countries: Basic Financial Structure

A very different situation prevails in developing countries, where the financial sector is frequently highly disorganized. There, sources of funding usually include:

- o Three to ten banks, one or two of them government-owned, which supply 70-90% of funds;
- o The unorganized money market, which actually supplies funds to most smaller businesses, at 30-40% interest rates.

As a result of this top-heavy situation, the banks in developing countries frequently operate with very little competition. This situation tends to support large business and fails to stimulate smaller, growing enterprises.

Other sources of funds -- stock markets, bond markets, venture capital companies, leasing companies, small business investment companies, pension funds, and insurance companies -- exist on a limited scale and are beginning to grow, but at the moment these sources are much less significant sources than the banks.

Therefore, the delivery systems (the mechanisms whereby money gets from savers to investors), are dominated by the banks. The banks, in turn, because they are in such a favored position, have exclusive determination over which businesses are funded through the formal sector.

In developing countries, the financial environment for small business is that:

- o Money is scarce;
- o Money on the unorganized money market for small business is very costly.

The world of finance includes a "perverse law" that the less money an entrepreneur has on hand, the more it costs to obtain more, if it can be obtained at all. This law reflects the reality of finance and is unlikely to be altered. What can and needs to be done is to make money available, even if at a high price.

To date, global economic advisors have advocated reorganization of these systems by making bank interest rates go down.

The underlying premise of the advisors was to curb the oligopolistic tendencies of the banks by "fining" them in terms of curtailed interest. The banks reacted by reducing the interest rates paid to their savings account customers. For example: if interest charged for loans has an 8% ceiling, then savings account customers would be paid only 5%, at best; the spread in most countries is closer to 4-6% and can be wider.

Therefore, while the first assumption about the reorganization plans might be that investors would be better served, actually that is not the case. What really happens is that banks lose savings customers. The following example was presented to elucidate this point: "if you are a market woman in Ghana, your bank might give you a loan at 8%. If you have some extra cash because you just made a big sale and your supplier doesn't need the money yet, would you place your extra money with the bank at 4%? On the contrary, if you buy a piece of land, you might show an enormous profit. If you lend it to friend, you might get 30% interest. Especially when there is an inflation rate of 40%, you will look for options other than the bank's savings accounts."

This means that savings are not mobilized. The amount of monies available for lending is shrinking; when money is scarce, the one who suffers is the small borrower. Those who have personal influence, who are known to bankers and who operate large corporations continue to get money.

As for direct allocation of credit, studies over the last year by the World Bank show rather conclusively that this form of financing presents two problems:

- o The money does not go where it was intended to go; and

- o More often than not, it goes to larger rather than smaller enterprises, to established as opposed to new enterprises, and to those with political connections instead of business people.

In fact, through direct allocation of credit governments have gained access to money at a privileged rate, and many kinds of public enterprises have sprung up which are financed on an unrealistic basis: they get money, they get it first, and they get it at a low price. This is a misdirection of the original intent of the reorganization plans.

For example: many developing countries have adopted social security schemes. Employees of large companies -- the small part of the society in developing countries who are within the controllable economy -- pay into these social security systems each year. That money then goes not toward financing new enterprises or toward building the economy, in many cases, but into government coffers to finance government deficits at interest rates such as 5% or greater. Since inflation runs at perhaps 20% or more, the result is that contributors putting money into these social security systems are losing 15% each year.

Mr. Var: Agtnael reaffirmed his perspective that systems of reorganization based on artificial controls of interest rates and direct allocation of credit simply do not work, and that what is needed is a better understanding and improvement of the current systems.

Question: What happens if interest rates are changed for loans and savings to 20 and 16 instead of 8 and 4?

Answer: We need to look at the macro picture, because several things begin to happen at once. First of all, if inflation is 30%, more savings will be attracted than otherwise, but the difference is still a negative real rate, not an optimal situation. The aim is to get informal money market interest

rates down and savings interest up, in order to achieve positive real rates. This has two impacts: more savings are mobilized, and public enterprises will take less money; and government deficits become smaller, resulting in a positive impact on inflation, which ultimately has a reducing impact on the informal money market. So the effect is to work from both sides.

Ultimately the financial system enters a transitory phase (seen, for example, in Chile, Brazil, and Turkey) where there are very high interest rates; in fact, very high real interest rates. This process works itself through, though temporarily it's a very brutal process. During this period some people lose everything, companies go under, and people lose jobs. But after the transition is over, a system is created wherein savings are better mobilized and the price of money is more in line with the scarcity of money in that economy, with an increased chance of money being allocated where it will be best utilized.

### Profitability and Credit

Question: At a 20% interest rate, money will not be going to small entrepreneurs, will it? Only established or successful businesses can make a return on that kind of money, and high interest rates preclude expansion...

Answer: I don't believe that. I don't believe that it is the large entrepreneur that has the highest return on investment. In developing countries, small entrepreneurs now must and do use the unorganized money market, where interest rates may be as high as 30-40%; by bringing the bank rates and the unorganized money market interest rates more into alignment, the unorganized rates go up, and those who benefit are the smaller business men and women.

If it is true that a small business pays, for example, 25% for business loans from a bank, and the large business pays 20% for a loan, the small business pays 5% more. It is true that 5% goes toward the banks instead of into the business person's own capital. However, what really happens is the entrepreneur is paying 25% now as opposed to 30% in the past from the unorganized money market, so in fact that business person isn't losing 5%, but rather gaining 5%.

Successful small businesses, in fact, make a lot of money. They can afford fairly high interest rates. Based on observation of many balance sheets and discussions with many small entrepreneurs, I believe chances for a small business to be quite profitable are somewhat greater than for a well-established, large business with competitors, not always, but often. Large companies tend to drift toward the average. Small companies are either quite profitable, or they make very little money at all and go out of business. Given high profitability and interest rate levels they also tend to retain enough internally to build up their capital.

### Business Failure Rates

Comment: In our work with street vendors, we ran a comparison study in one country between street vendors and restaurants, basically a continuum of food catering establishments. Our broad results confirm your argument: smaller businesses do have a high level of productivity and so are more profitable; credit is not a constraint at all, and high interest rates are not a constraint.

A need for those working to assist small business is to recognize that some survive and some fail. There is too often an illusory goal of total success; to help small enterprises, one should be willing to accept that there is a high failure

rate of new business in any society. I think that is an issue that is not confronted.

Answer: This is a problem that faces people in the World Bank, AID and other organizations working with developing economies. We are so used to the idea that everything has to succeed; the fact that perhaps 30-40% of all new businesses are write-offs is difficult to take. In venture capital, there are a few big winners, a few losers, and lots of average survivors.

Question: What about figures that say one out of 10 new businesses in the U.S. fail within the first year, and over 1/5 in the first three years? Is that accurate?

Answer: I think that's accurate, yes. But businesses that fail within the first year probably shouldn't have begun at all. Failure after four or five years, on the other hand, often means bad luck or other problems; the market shifted against the business, for example.

I have no evidence to say that the failure rate in the developing countries is going to be higher or lower, only that there is going to be a high failure rate. That has to be taken as a given, no matter how much sound assistance is available.

#### CAPITALIZATION: EQUITY AND DEBT

Small companies need two things:

- o Debt capital, or credit, borrowed money with fixed payment schedules which, if they go unpaid, can drive a business person out of business; and
- o Equity, or risk capital, which has more flexibility.

In explaining how small businesses get money in developing countries, Mr. Van Agtmael discussed the pyramids presented in Charts A and B which follow. The bottom rungs of the pyramids represent the "easiest" money to obtain and the top rungs, the most difficult, with a line dividing small from large companies. "Small" is taken here to mean companies with less than 100 employees each and assets of less than \$1 million (the definition will vary somewhat from country to country). Sources of money at the top of the pyramids are unavailable for small companies; nevertheless, they are an important part of the total picture. According to Mr. Van Agtmael, an economy is "like a tree; old branches die off and new branches grow on. The only way to keep the tree growing is to have it happen that way." Finance is a graduating process wherein movement through the life cycle of a business results in some businesses growing away from certain markets and certain sources of funding, leaving these to newer, smaller companies. The smaller companies, on the other hand, need to look ahead and plan for growth.

#### Sources of Funds: the Equity Pyramid

Where do small companies get risk capital in developing countries? Some sources are clearly more advantageous than others. Referring to Chart A, the Equity Pyramid, the sequence is roughly as follows:

- o Government-sponsored equity schemes: These are small and, in most developing countries, largely unsuccessful efforts, due to inadequate management. Usually financed from abroad through grants to the LDC Ministry of Finance, the schemes are frequently managed by someone "making perhaps \$20 a month." Such a person would tend to recognize and work with two types of people -- one "in a Mercedes" who will probably receive funding; the other "on a bicycle" who will not. Mr. Van Agtmael used this example to underscore the point that someone making \$20 a month is not qualified to make business decisions about likely successes. Particularly in light of new business failure rates, such judgments are very difficult

SOURCES OF FUNDS

SMALL COMPANIES IN LDCS

THE EQUITY PYRAMID

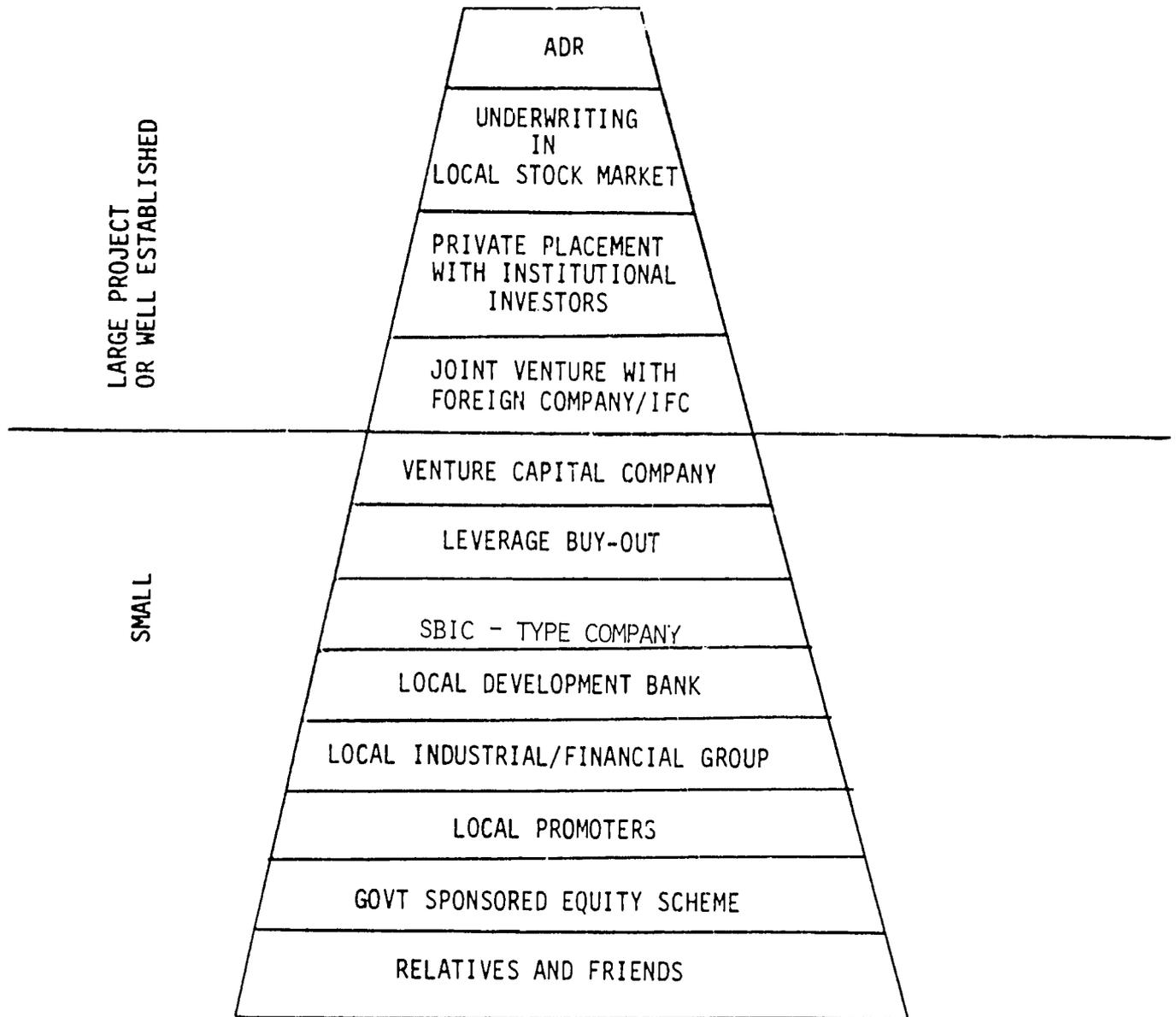


CHART A

11  
D

for the unskilled to make. Even in cases where these schemes are somewhat successful, the amount of funding provided by them is negligible. Consequently, government-sponsored equity schemes are not reliable alternatives for small entrepreneurs.

- o Local promoters: As a counterpoint to government-sponsored equity schemes, local promoters are often distrusted by economic advisors while in fact they are one of the most sound sources of equity for small entrepreneurs. Local promoters are usually people who "already drive a Mercedes and have sent their children to college" and love business, know how business operates, and have run one or more successful businesses themselves, and thus have money to invest. They also have very good records of "putting the money in the right place."

Question: Could you talk about the micro-environments, the villages? And can you compare local promoters to money lenders?

Answer: Indeed, I have been working mostly in urban environments as opposed to agricultural environments, and the promoters are mostly for small to medium businesses, primarily in urban environments. Outside of the cities there are very few promoters, because that system depends on trust, a tradition of fair play, good bookkeeping, and a willingness to disclose financial information.

In rural environments successful business people generally put money into their own enterprises. Cooperatives have a record of uneven success. Money-lenders provide debt capital, not equity, and they are more prevalent in the rural environments. (See discussion under the Debt Pyramid.)

Local promoters are useful and effective in localizing money in an urban environment; a business person's most vital skill, in addition to getting out the product and making a profit, is to develop alliances and trust relationships with local promoters.

- o Local industrial/financial group: These are available to invest in a business that has survived one-two years and has 50-100 employees. With a good track record and expertise, an entrepreneur can sell some equity to a local industrial/financial group. For example: a company producing auto parts for an automobile manufacturer can approach the manufacturer with a proposal to sell 25% of the company to provide risk capital for a piece of machinery which will ensure that the manufacturer will get the product in time and on a regular basis. The manufacturer, with an interest in making sure of a steady supply, may well buy in.
- o Local development banks: These have been most inefficient in providing equity. Their drawbacks included a fear of risk, an inability to judge good investments, and a scarcity of funds. They have usually provided equity for massive projects -- new projects with 500 people and 100 textile looms, for instance.
- o Small business investment companies: Based on the U.S. model, these do work fairly well. However, there are very few; Kenya, Brazil (which has two), the Phillipines, and Korea have established SBIC-type institutions. There need to be many more.
- o Venture capital companies: While track records for established companies are too brief for definite conclusions (3-5 years), early returns are promising. Within their first ten years of operations, the prime criterion for success will

be whether or not the founding corporations are realizing significant earnings and consequently, high returns on the dollars invested by the venture capital companies.

These types of investment companies are most effective in stimulating growth of smaller companies, and they should not be run by the government. The optimal source of funding for entrepreneurs should come from entrepreneurs.

Question: You're discussing enterprises with 10 or more employees, quite a large scale contrasted with new, small entrepreneurs. How would the venture capital concept apply in providing risk capital to enterprises of one to five employees? Also, an important issue for small enterprises is spreading their risk; i.e., once people accumulate capital, they may not want to expand, they may want to invest in several smaller companies and "spread their risk." How can risk be minimized for smaller enterprises?

Answer: The best method is to work to create small companies with funds to invest, managed by someone who is an entrepreneur and therefore qualified to make judgments likely to result in successful enterprises, and invest money in a number of different places, so the risk can be taken more broadly and can be shared with others.

A good venture capital company has a pool of investments in 10-20 different companies, managed by those who can also intervene with good technical assistance and advice when necessary, e.g. detecting when a company wants to move into a production line in which there is already high competition. On this point a word of caution: some investors are tempted to become overly involved in their investment companies. In West Africa, for example, Mr. Van Agtmael said he has found many good entrepreneurs who have one weakness -- trying to do too many things at the same time. They want to be personally involved when they invest. Other investors, in Latin America, for example, are able to focus on one

business and invest their excess capital in others without dividing their attention.

Another problem is that the environment sometimes works against outside investors. Sound investing requires decent bookkeeping by companies which receive venture capital. Two primary kinds of environmental factors can deter investment:

- o Very high corporate taxes hinder movement toward a disclosed economy; a favorable tax environment is necessary for a successful investment situation; and
- o Accounting systems need to be efficient and accurate; in fact, computers are coming into widespread use in such places as Brazil, the Ivory Coast, and Thailand, where companies are making use of computers to develop good accounting systems, in many cases, much sooner and with greater rapidity than equivalent-sized American companies.

The remaining rungs of the pyramid apply more to the future as far as smaller companies are concerned; however, as noted, small businesses should give these larger sources of equity consideration in long-range planning.

#### Sources of Funds: the Debt Pyramid

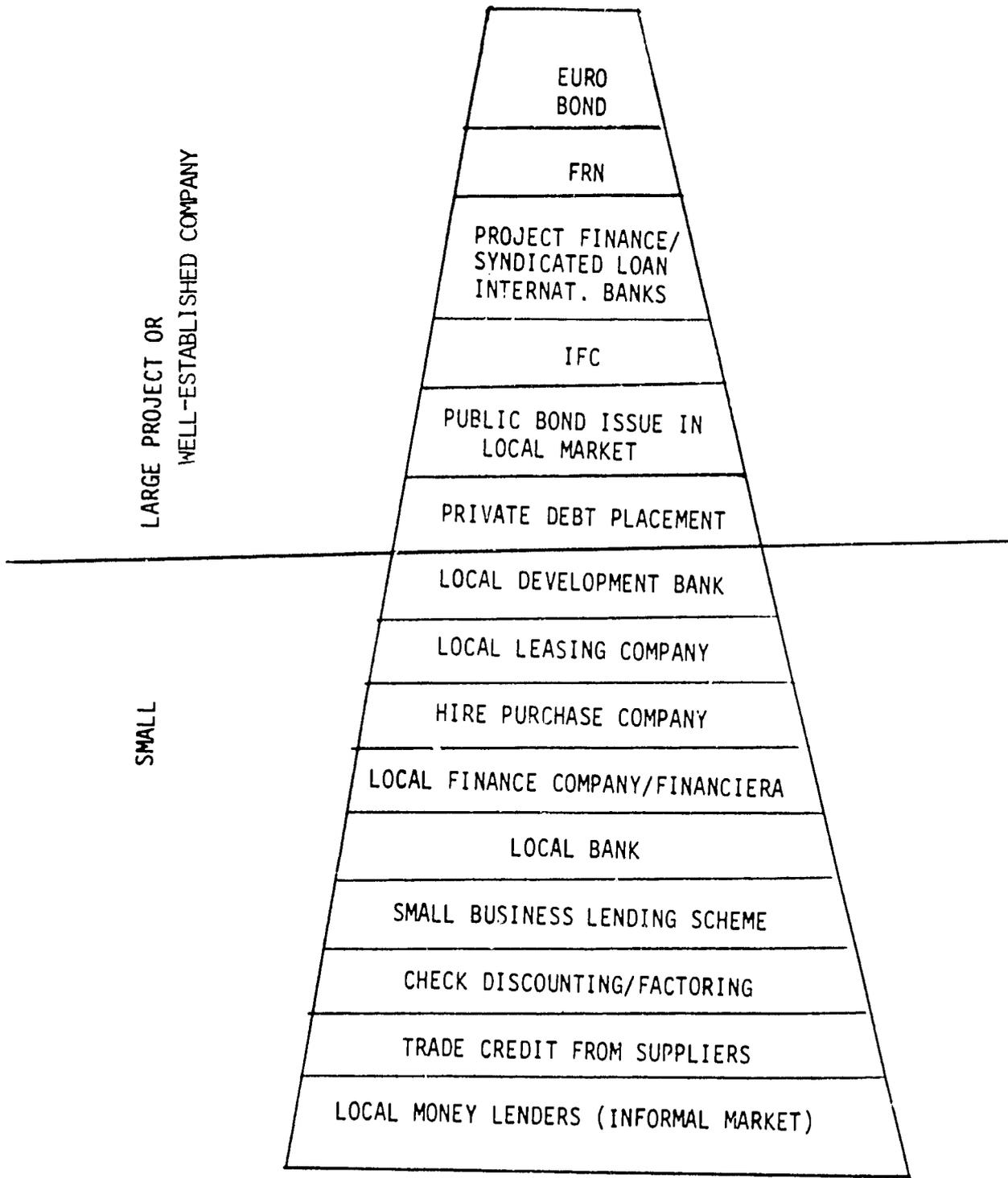
Mr. Van Agtinael recapitulated at this point to describe the credit situation in the developing world as comprised at least half from the informal money market, in addition to the official financial sector. There are usually links between the formal and informal systems.

Chart B, the Debt Pyramid, illustrates the progressive levels of financing with the least complex source serving as the base of the pyramid.

SOURCES OF FUNDS

SMALL COMPANIES IN LDCS

THE DEBT PYRAMID



- o Local Money Lenders (Informal Market): This extremely significant and viable source of funds is often "much maligned" to the detriment of realistic development planning. For example, in Thailand the Chinese rice miller funds the agricultural system. These lenders serve as quite efficient credit institutions. They make money. They take risks. Interest rates are somewhat exorbitant. However, that is a reflection of the total financial system, the risk, the size and duration of the credit. The best economic planning approach is to let the informal system flourish as much as possible, according to Mr. Van Agtmael: don't damage it. The most effective approach to improvement of the overall financial system is to improve the formal systems by stimulating competition with the informal system -- making more money available, and to smaller enterprises -- so that gradually the informal system will lower its rates. Putting individual lenders in the informal system out of business or making laws against them just makes credit more expensive, not less, because then the informal system has to operate illegally. Mr. Van Agtmael's advice to the group was to "Realign them, use them, and recognize that they are by far the most important source of loans for small business."
  
- o Trade credit from suppliers: This is also a functionally important but frequently overlooked source of credit. This system operates on the basis of a cash flow gap; for example, money that the supplier is due in 90 days for supplies a business person has already received. If the business person pays the supplier in 180 days, the supplier may object but will accept the situation because the supplier needs the business.
  
- o Check discounting/factoring: Basically trade credit finance, this serves as a link between the formal and informal sectors. Names for this approach differ; the Chinese

businesspeople usually refer to this system as check discounting. The system operates as follows: I write you a check dated two months from today for \$1,000. You cannot cash that check today. You take that check to a discounting company, which gives you \$800 today. The difference is the "interest" which serves their reward for risk-taking, and their profit. While these systems are not reviewed by international institutions evaluating worldwide money markets, they are real and important sources of funds in developing countries.

- o Small business lending schemes: This approach is becoming very popular and has achieved some good results. However, there are problems due to realities of tribal lending and other possible abuses, but on the whole the schemes are working. This approach works similarly to venture capital companies; for example: in Kenya, the World Bank gave a local bank a certain amount of term money, with the understanding of mutual risk. When a Kenyan bank manager wanted to lend money, the World Bank put up half of the funds at his request, making funds available but preserving local credit judgement.

Question: These schemes could be described as "a window in the bank."

Answer: Yes, it's a window in a bank for small enterprise.

Question: The problem with this system seems to be that there's not an infrastructure based on the sympathetic banker or entrepreneur who knows how to evaluate those opportunities.

Answer: The whole concept of these schemes is that you use the bank as the delivery system. For example, in the case of Kenya Commercial Bank, the real judges of the applicants are the branch managers so there is a delivery system: the providers

and supervisors of the process are the bank branches. The incentive systems for the branch managers are inadequate so there are elements of these schemes that need improvement. Nevertheless, there is a partially effective delivery system. The basic concept of these schemes, established by both the World Bank and AID, is to make use of existing delivery systems to get money out to smaller entrepreneurs.

The problem that needs to be resolved is the lack of incentives for branch managers. Their performance ratings are not currently tied to their successful decisions in lending money to small business. A possible solution is to link training for career advancement -- considered a "plum" by branch managers -- to their involvement in these programs.

Question: What happens when people are encouraged to go to the banks and expect "friends" there and are disappointed?

Answer: In the places where these schemes now exist, there have been good returns on the money -- and that is the "proof of the pudding" really.

Question: How can these delivery systems be made available to those who lacked previous access, for example, one-woman enterprises? The problems seems to be two-fold: (1) training is needed to fill out a loan form, apart from the risk and anxiety factors involved in entering the bank and going through the transaction, and (2) from the bank's point of view, the amount of paperwork required by a branch manager/loan officer is great enough to be a disincentive to work in this area.

Answer: The process simply should not be too easy. If a prospective borrower lacks the ability, time and courage to fill out the forms, that person may not be a good candidate for the programs, or for very significant business growth.

- o Local bank: Due to the initiation of programs such as small business lending schemes, local banks in developing countries are beginning to view small business people as potential borrowers more so than in the past. As previously stated, a problem up to now has been that money is concentrated in a few hands. The challenge for those who endeavor to set up more rational and efficient financial systems is to disperse that power. Individual entrepreneurs, however, cannot "fight but have to join" the existing system in order to do business now, and they need to be shrewd about identifying where the sources of money are, and how to access them. Mr. Van Agtmael observed that "the hallmark of a successful entrepreneur in a developing country is that he or she has a banker as a friend." Using the banking system means making some compromises, because sometimes bankers are not friends to small business and may even work to sabotage them.

The entrepreneur needs to position herself or himself, both socially and practically, in such a way that trust is gained from bankers and the business person can demonstrate that responsible loan repayment is possible.

Comment: A training process is now going on to address some of these issues. In Kenya, for example, a Barclay's manager has been placed in a one and a half year training program to focus on creation of incentives in the banking system among branch managers to encourage lending among small-scale entrepreneurs, among women, and with the new equity programs.

Answer: When viewed from a "macro" level, the starting point, again, is to make the financial systems much more competitive. Eliminate interest rate controls (as discussed at the beginning), so price competition is stimulated; increase access to the financial systems; and encourage a diversity of financial institutions to emerge and conduct business successfully,

serving as intermediaries especially in the banking system. Stimulate more banks: this will eventually cause atrophy in the oligopolies and banks will begin to operate as service institutions rather than weighting their funding toward larger business and real estate investments.

Comment: A possible source of bank training for small business people was uncovered when interviewing an Abidjan woman, who said she had a son studying medicine at University College, London. Many small women entrepreneurs invest in education for their children. These children, in turn, know how to operate in the banking system, and are in a position to assist their mothers with bank paperwork. This may be an important, informal aspect to recognize as a possible path to bring market entrepreneurs into the financial system.

Answer: It is important to recognize that, in one way or another, entrepreneurs will have to learn how to deal with their banks. Banks systems are changing and will become more responsive over time, but that process may take 10-15 years, and meantime those working with small entrepreneurs will need to select methods -- whatever they may be -- to help the entrepreneurs deal with the banks as they are currently constituted.

Question: The banks must also be encouraged to become more responsive to small business people, by showing the banks that this is a profitable market.

Answer: This is not an easy prospect, however. What is important to a bank? The only thing that counts to a bank is to get its money back. The bank doesn't share in the profits. So whether a company is very profitable is interesting to a bank only to the extent that this enables a company to pay back its loan.

Attention or lack of it paid to profitability is a basic difference between venture capital companies which provide risk capital and banks which provide credit. A major problem with the banking system is that the credit eligibility "threshold" is very high. There are ways to lower the threshold, but this is not really advisable because not everyone should obtain credit.

Due to the way banks currently operate in developing countries, coupled with the unreliability of bookkeeping systems among businesspeople, collateral becomes of primary importance in giving and obtaining credit and, as such, presents potentially another obstacle. Banks need to "kick the bricks." They require land, buildings, and other collateral to make loans. Without collateral, loans are very difficult to obtain.

- o Hire purchase companies: Accessible by even very small companies, these mechanisms can provide major expense items, such as transportation. Hire purchase is an expensive option, but it provides an efficient source of money for cars, trucks, tractors, combines, and the like. Hire purchase is similar to leasing (see description below), but there are some legal distinctions. Of these the most significant is that the entrepreneur becomes the user/owner of a piece of machinery, not simply a temporary lessee. Payments are made in installments to the bank. If a hire purchase institution is not paid, it repossesses. While this process is unpleasant, and the money is expensive, hire purchase does make capital equipment available, which is important to smaller companies in developing economies.
- o Local leasing companies: These are very efficient financial delivery systems for small- to medium-size companies (10-100 employees) rather than individual street vendors. Such a company, at some point in its history, will need to obtain a piece of machinery, a car or something large requiring a major capital outlay. Leasing in developing countries is

not a tax maneuver as in the U.S., but rather a mechanism to deliver money in a more flexible way while creating its own collateral, the equipment itself which can be repossessed. Fourteen local leasing companies have been established in various countries and have a good preliminary track record.

- o Local development bank: While a project must be of fairly well-established size to qualify for loans from a local development bank, obtaining credit is somewhat less difficult than obtaining equity.

As with equity, a company which intends to continue growth will want to be aware of the top rungs of the debt pyramid in projecting future plans.

#### INSTITUTIONAL ASPECTS OF EQUITY AND CREDIT

Without going into close detail about how a financial institution looks at an entrepreneur, the following sections (see attached appendix pages) present an overview of factors considered in credit evaluations and outline some parameters of the institutions which comprise the overall financial system.

#### Ratios

An entrepreneur needs to ensure the ratios are in line in order to qualify for a loan. Following are explanations of terms used in figuring basic financial ratios:

- o Leverage: how much debt is being incurred as opposed to a business person's own risk capital.
- o Liquidity: how much extra cash is available.
- o Activity: is the business person capable of turning over accounts payable -- can the entrepreneur collect as well as sell?

- o Interest coverage: can the business person carry the burden of the loan sought?
- o Profitability: is the enterprise profitable?

Key to any enterprise is cash flow. The first thing any entrepreneur needs to learn is how to make a cash flow statement. Consciousness of cash flow needs to be a constant, daily awareness; this is a shared trait among successful entrepreneurs. Not only does the entrepreneur "hustle," but also the business person knows where cash comes from and where it goes and how much is "hanging around."

### Creditworthiness

Many bankers place a much higher priority on an assessment of the total picture than on the financial statement alone, evaluating answers to questions about the market, the industry, competition, the track record of this enterprise, and cash flow. Financial statements can serve as a double-check on other information, but general business knowledgeability is key.

### Major Risks of a New Project

Business projections are always described as "conservative," never as "aggressive". A company's projections need to be used by a banker as a guide to deeper investigation, looking at the assumptions underlying the projections; for example: Why does someone have a sales growth of 15% projected? Why does this person believe he or she can sell so much? Overlooking a crucial fallacious assumption is all too easy and dangerous; here an astute banker can be of genuine assistance to an enterprise, by asking penetrating, pivotal questions until good answers are found, or inadequate answers revealed.

## WOMEN ENTREPRENEURS IN DEVELOPING ECONOMIES

According to Mr. Van Agtinael, women in Thailand and West Africa are generally much better contract negotiators than men. Women need to develop the "social skills" of business such as making friends with bankers.

Question: Why are women not good at social skills with bankers?

Answer: It probably has to do with the difference between the formal versus the informal money market. The government bureaucracies, the banks, and the large companies in most developing countries are male-oriented (except in Thailand, where women participate in close to equal numbers in the financial systems). The "real" world -- the markets -- tend to be female-oriented. That makes a step between the informal and formal markets that is difficult to ascend.

Question: What is the attitude of bankers toward women?

Answer: It is denigrating and discriminatory. However, while we can work to change the banks, it is more important, and yields more immediate results, to develop business acumen on the part of the entrepreneurs themselves.

Question: Is this where the money lenders come in?

Answer: I don't know much about the money lenders in West Africa, but I suspect many of them are women, given the way the system operates; as we have seen, women control the marketplace in Africa.

Question: Why are women better contract negotiators?

Answer: Perhaps they are tougher; I just know they develop better contracts.

Question: What is your experience of women's success in seeking and obtaining loans, as compared on a percentage basis with men?

Answer: Where I had the opportunity to work most directly at the grassroots level was in Thailand, managing loans to companies of 10-100 employees, and Thailand is an anomalous situation. Women have a very important role in all aspects of business there, unlike other countries.

Question: I came in a few minutes late, and you may have touched on this. I understand AID is delivering grants accompanied by technical assistance and sometimes equity positions. Are there similar efforts outside AID?

Answer: We did touch on that earlier: creating venture capital, SBIC-type companies in developing countries. To be very short: be wary of funding through governments unless the money is free. Again, these companies need really good people who understand the business world to operate effectively. If I were working directly with these programs, I would find it wise to work with women managers because the people who will receive the greatest amount of small business funding will be mostly women, since they currently control the marketplace.

Question: I understand that the National Chamber of Commerce has a committee on women to set up a banking structure to service small-scale women investors.

Answer: I want to say something unpopular: I do not believe that specialized services are very effective. They tend to become isolated and insignificant. A much more effective approach is to work through the existing structures and establish realistic mechanisms in them, to reform them.

Chairperson Walsh commended Mr. Van Agt nael on the clarity and simplicity of his presentation, which provided the Committee with the fundamentals to understanding market conditions and financial institutions which can apply in working to meet the needs of women entrepreneurs.

APPENDIX 1

RATIOS

(Rough estimate)  
Acceptable

1. <u>LEVERAGE:</u>	$\frac{\text{Debt}}{\text{Equity}}$	or	$\frac{\text{Debt}}{\text{Assets}}$		
	Debt/Equity				
				Manufacturing	3 : 1
				Trading	6 : 1
				Banks	11 : 1
				Finance companies	20 : 1
2. <u>LIQUIDITY</u>					
Current Ratio	:		$\frac{\text{Current Assets}}{\text{Current liabilities}}$		1.2
Quick Ratio	:		$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$		0.8
3. <u>ACTIVITY</u>					
Inventory turnover:			$\frac{\text{Sales}}{\text{Inventory}}$		5 x
			$\frac{\text{Inventory}}{\text{Cost of sales}} \times 365 = \text{nr. of days}$		60
Collection period:			$\frac{\text{Receivables}}{\text{Sales}} \times 365 = \text{nr. of days}$		60 - 90
4. <u>INTEREST COVERAGE</u>					
=			$\frac{\text{Profit before tax} + \text{interest} (+ \text{depreciation})}{\text{Interest}}$		
5. <u>PROFITABILITY</u>					
Return on assets	=		$\frac{\text{Net profit}}{\text{Assets}}$	Manufacturing	5%
				Finance companies	0.7% - 1%
Return on equity	=		$\frac{\text{Net profit}}{\text{Equity}}$		15 - 20%
Net profit margin	=		$\frac{\text{Net profit}}{\text{Sales}}$		5 - 10%

## APPENDIX 2

### CREDIT WORTHINESS

#### 1. Financial statements

#### 2. Management

- experienced?
- educated? modern or " traditional " (owner/manager)
- sensitive to technological change?
- not stretched too " thin " (running many companies?)
- labor relations?
- recognizes the importance of strategy (has clear idea where it is going)?

#### 3. Industry / competition

- are there known problems in the industry
- growing or decaying?
- growing too fast?
- subject to price controls?
- subject to business cycles?
- competitive or monopolistic?
- can others enter easily (new competition)?
- is everybody " jumping on the band wagon " of the success of the pioneer company?
- is the industry protected against imports by duties : tariffs or import ban!

#### 4. Market

- growing?
- new or mature ?
- domestic or exports?
- protected again foreign competition (quotas / tariffs)
- substitution possible?

#### 5. Size

- what is large in domestic market context?
- sales / assets / profits (yard sticks)?
- large within industry / market share?
- is projected market share realistic?
- are expansion or new project plans too large for demand?

#### 6. Backing

- major international company? technological backing?
- major domestic " group " or " family "?
- family - venture or young entrepreneur?
- where will the money come from if everything does not immediately go as expected?

#### 7. Technology

- is technology moving fast? quickly outdated?
- is quality adequate? quality controls?
- competition?

## APPENDIX 3

### MAJOR RISKS OF A NEW PROJECT

1. Resource risk
  - a. amount of reserves (especially oil)  
(independent evaluation of reserves)
  - b. quality of reserves (especially metals)  
(test drilling, independent consultants)
2. Construction risk
  - a. depends on complexity of technology
  - b. is technology appropriate?
  - c. does engineering firm have proven expertise?
  - d. cost overruns
  - e. completion delays
  - f. sensitivity of costs to inflation/timing
  - g. is estimate of investment costs based on firm orders?
3. Operating risk
  - a. raw material supply
  - b. bottlenecks in transportation/dependence on one railroad, energy supply, port, etc.
  - c. variations in projected operating expenses
  - e. environmental concerns (lobbies, interest groups, etc.)
4. Market risk
  - a. monopolistic/oligopolistic/competitive market
  - b. projections of market demand
  - c. market share
  - d. domestic demand or world market
  - e. competition/supply
  - f. new projects coming on stream ( "fashions" )
  - g. variability of prices on world market
  - h. sales contracts
5. Political risk
  - a. area
  - b. country
  - c. region
  - d. governmental actions affecting commercial viability
  - c. nationalization
6. Force Majeure risk
  - a. earth quakes
  - b. epidemics
  - c. floods

## APPENDIX 4

### LDC INSTITUTIONS AND MARKETS

Antoine W. van Agtmael

#### 1. TYPES OF INSTITUTIONS

##### A. Commercial banks:

- provide the bulk of the financing for corporations
- generally 60-90 % of total financial assets
- cost of intermediation ("spread") tends to be high, especially if banks effectively form a cartel
- form: mostly overdraft, term loans limited
- also: foreign exchange, letters of credit, sometimes consumer finance, deposit taking
- "collateral" rather than "balance sheet" oriented

##### B. Development Banks:

- created mostly in 1950's and 1960's, often with the assistance of the World Bank
- provide long term, fixed rate loans
- project financing, both new projects and major expansions
- rates and terms are generally attractive in comparison with commercial bank loans
- supply tends to be limited
- projects must have a distinct socio-economic impact, and allocation of loans is sometimes politically linked despite "objective" criteria
- sometimes bureaucratic

##### C. Investment Banks

- intermediaries rather than lenders
- fee rather than asset oriented
- money market dealers
- underwriters
- traders and market makers in stocks and bonds
- project financiers (incl. loan syndication)
- money managers
- corporate finance
- main task is: to introduce new, innovative concepts into the financial markets
- successful if they can compete with the banks and the financial system is flexible

**D. Other types of lending institutions:**

- Leasing companies
- Finance companies
- Export-import Banks (Korea, Brazil, Bladex, etc)
- Mortgage (Housing) banks
- Hire purchase companies
- Check discounting houses
- pawn shops
- unorganized money market

**E. Other Financial Institutions**

- Insurance companies
- Pension Funds
- Mutual funds
- Venture capital companies

## 2. FINANCIAL MARKETS:

### A. Equity market

- stock exchange
- securities commission
- over-the-counter market
- need arises when the major companies in a country become sufficiently large to need equity from outsiders
- requirements:
  - \*legal framework
  - \*regulatory framework
  - \*disclosure, accounting profession, auditing standards
  - \*tax measures
  - \*investment alternatives realistically priced
- profile:
  - \*market capitalization \$1-30 billion
  - \*20-600 listed companies, 10-50 actively traded
  - \*price movements tend to be volatile

### B. Bond markets:

- rarely well developed
- interest rates often controlled
- government bonds, corporate debentures
- need first class companies, long term needs, flexible interest rates, and at least "neutral tax treatment"
- private placements

### C. Money markets

- treasury bills
- certificates of deposit
- promissory notes
- commercial paper
- bankers acceptances
  
- well developed in only a few countries (Philippines, Chile, Korea, Brazil)
- flexibility of interest rates crucial
- market makers needed

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SUBCOMMITTEE ON WOMEN IN DEVELOPMENT

MARCH 15, 1984

ATTENDEES

Michaela Walsh, Womens World Banking, ACVFA Member  
Maria Otero, USAID Office of Women in Development  
Barbara Brown, Centre for Development and Population Activities (CEDPA)  
Marla Solomon, Overseas Education Fund  
J. Perkins  
Monique Cohen, Equity Policy Center  
C. Lynn Roberts, Southeast Consortium for International Development/Center  
for Women in Development  
Alden R. Hickman, Heifer Project International  
Mildred Robbins Leet, Trickle Up Program, Inc.  
Carole Millikan, AID/LA/DR  
Alice Burnette, Peace Corps, ACVFA Member  
Marguerite Berger, International Center for Research on Women  
Diana S. Field, Peace Corps  
Miriam E. Brandao, Partners of the Americas

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID  
SUBCOMMITTEE ON PVO-CORPORATE RELATIONS  
FRIDAY, MARCH 16, 1984

The Subcommittee was convened by its Chairman, Kenneth Smith, at 9:00 a.m. in room 1107 of the State Department with fourteen people in attendance. The Chairman first stated the meeting's objectives: namely, to review recommendations made at the previous Subcommittee meeting, and to decide on appropriate courses of action. He then summarized the Subcommittee's efforts over the previous eighteen months to foster PVO-corporate relations in the Third World in the interest of economic development. Following these opening remarks, he called upon Deborah Kennedy, AID Project Officer, to report on concurrent AID work in the area.

Ms. Kennedy described an AID-sponsored workshop project, undertaken in conjunction with the Fund for Multinational Management Education, to instruct PVO management and fund-raising personnel in ways to approach corporations about providing services relating to business operations overseas. The project, now complete, was successful, but revealed several obstacles to cooperation, notably a lack of venture capital for joint projects on the part of PVOs. Ms. Kennedy announced the continuation of this work through a new eighteen-month AID/Fund project which will sponsor:

- o A study fund to finance project development efforts of PVOs and corporations
- o Group meetings to introduce corporate executives to the potential benefits of collaboration with PVOs in overseas operations
- o Research to document successful examples of PVO-corporate cooperation.

The project has been approved, and will begin May 1, 1984.

The Chairman then called upon Subcommittee member James Morgan, International Coordinator of Rodale Press, a Pennsylvania publishing firm whose international activities provide an example of PVO-corporate collaboration in development. The firm, which performs research and publishes materials in the areas of agriculture, health, and self-help, was called upon by the government of Tanzania to provide technical assistance to its personnel. The project resulted in a training workshop, held in May 1983, and partially funded by AID. Plans are now underway to expand these activities in collaboration with approximately 15 interested PVOs. The firm is currently discussing with AID the possibility of similar collaborative projects in the future.

The Chairman next called upon Advisory Committee member Anna Chennault of the Export Council. Referring to the discussions of the Kissinger and Carlucci Commission reports at the plenary sessions on the previous day, and to other recent discussions of AID funding directions in relation to U.S. foreign policy, Ms. Chennault pointed out that the success of AID programs in many areas of the world demonstrates the value of government-private sector cooperation. A notable example is Asia, where several former aid recipients have become major U.S. trading partners. Nevertheless, in countries such as Egypt, where substantial government money has been spent, U.S. private sector activity has been minimal, with contracts going instead to other industrialized countries. In response to a question from Miles Winn of the International Human Assistance Programs, Ms. Chennault subsequently elaborated on specific reasons for this negative investment climate.

In conclusion, Ms. Chennault observed that for U.S. companies to become interested in overseas business activities, they must be made aware that they will benefit in return. She stressed that the current U.S. trade situation poses a major obstacle to such activities, and urged the Subcommittee to voice its concern.

At the suggestion of Chairman Kenneth Smith, the discussion focused next on existing barriers to PVO-corporate cooperation in the Third World,

and on the role the Subcommittee could play in breaking down these barriers, particularly at the next Advisory Committee meeting to be held in Haiti in June, 1984.

Chairman Smith began by pointing out that there exists a large market for private business ventures in developing countries, and cited as an example the vast untapped supply of lobsters off the coast of Somalia, as yet unharvested for lack of a system to organize the local population. Interest in such ventures is rising in the business world; but few corporations know how to set up an economically viable operation within the country. A catalyst is needed to unite the investor with the market. Companies, particularly smaller ones, are reluctant to turn to the government for help because they are mistrustful of bureaucracy. Probably, PVOs could best play the role of catalyst, but up to now have seldom done so because:

- o In general, corporations know little about PVOs, and it doesn't occur to them to approach one
- o The PVO community as a whole demonstrates less interest in collaboration than does the private sector
- o There exists no formal organization to act as "marriage broker," to link and inform the two groups.

In response to this discussion, Anna Chennault observed that the People's Republic of China will be an important potential market for private-sector investment, and suggested that the Subcommittee make proposals concerning the direction of future U.S. involvement there. She also noted that examples of successful PVO-corporate cooperation should be publicized, and future activity encouraged, since it is in the spirit of AID to help countries that are willing and able to help themselves.

Miles Winn further observed that perhaps one reason for the lack of PVO interest in collaborating with corporations is that in many developing

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countries, dealing with the private sector necessitates entering into the internal political arena to change structural and tax policies that constrain private business activity. He asked if the Subcommittee was suggesting that PVOs should involve themselves in this way.

Kenneth Smith agreed that such involvement is often necessary; in fact, many host countries are willing to make policy changes in the interest of economic development. PVOs are perhaps best equipped to instigate such changes, since most have already formed a relationship with the host government. Small and medium-sized businesses, in contrast, are in no position to intervene.

At this point, Chairman Smith observed that up to now relations between PVOs and corporations have functioned only on a one-to-one basis. He suggested that the June meeting in Haiti might provide a good opportunity to link PVO organizations with business organizations in order to establish a productive working relationship.

The Subcommittee's response to this suggestion was favorable. Stan Hosie, Executive Director of the Foundation for Peoples of the South Pacific, referred to the success of a similar interchange at the American-South Pacific Trade Conference in Hawaii. The conference, organized by three major PVOs, brought together representatives from national governments, South Pacific area businesses, and U.S. corporations to discuss trade and mutual collaboration.

John Costello of Helen Keller International reiterated the need to establish relationships at the organizational level, and reported a current emphasis in PAID on development education, with the corporate sector as a primary target. Skepticism and lack of communication, he agreed, are the biggest barriers to collaboration, and the success stories must be made public. As an example of such a success story, he described a joint Helen Keller International/Hoffmann Laroche project to fortify food with vitamin A in Indonesia.

As there was a consensus among the participants that the Haiti meeting would provide an appropriate opportunity to unite PVO and business organizations, Anna Chennault suggested that it would be fruitful to create a format to define priorities for discussion and target areas for the future. Chairman Smith concurred, asking Debbie Mace Kennedy and her colleagues at AID to plan a day of activities in conjunction with the main Advisory Committee meeting, with the objectives of arriving at a beneficial long-term marriage between PVO and business organizations, discussing future options (for example, other conferences, or the establishment of a fully-staffed information office), planning future meetings, and urging the organizations to inform their members. In addition, he asked the participants to submit in writing ideas on how to structure the June meeting.

In the ensuing discussion, it was suggested that the following parties be invited to the meeting:

- o Organizations that represent both large and small businesses and PVOs
- o Haitian business organizations
- o Members of the banking community
- o The U.S. commercial attache in Haiti (an existing mechanism to assist American businesses in trade and investment)
- o Representatives of U.S. and Caribbean government agencies
- o OPIC and World Bank personnel.

Two final issues were raised before the Chairman adjourned the meeting. John Haberern of Rodale Press questioned the way in which the objectives of collaboration with PVOs would be presented to corporations: would social conscience or the profit motive be stressed? Chairman Smith answered that although the main objective is Third World social and economic development, it must be made clear to corporations that overseas operations will increase their productivity and profitability well. Mr. Haberern expressed concern that PVO uneasiness about the profit motive and the view of corporations as competition are potential obstacles to collaboration.

Also, the participants repeatedly referred to the issue of the lack of communication. It was generally agreed that existing organizations, information offices, and publications are inadequate to serve this purpose. Stan Hosie asked whether the Subcommittee itself could not serve as a vehicle for providing information, but Chairman Smith responded that it possessed neither the staff nor the resources to undertake such a project. He added that AID can help and encourage this effort informally, but should not play a primary catalytic role. The participants agreed upon the need for a centralized informative newsletter focusing directly on the issue of PVO-corporate relations.

On this general note, the discussion ended, and the meeting was adjourned.

SUBCOMMITTEE ON PVO-CORPORATE RELATIONS  
MARCH 16, 1984

ATTENDEES

Kenneth Smith, ACVFA Member  
Eugene Grasberg, Agribusiness Council  
Russell Morgan, NCIH  
S.W. Hosie, The Foundation for Peoples of the South Pacific  
John H. Costello, Helen Keller International  
Michelle Easton, AID, Bureau for Africa  
John Haberern, Rodale Press, Inc.  
Daniel R. Smith, HHS/HRSA/OIHA  
James Morgan, Rodale Press, Inc.  
David A. Pasquarelli, Florida Association of Voluntary Agencies for  
Caribbean Action  
Madeline Bradstock, Project Orbis  
Charles Hartley, International Executive Service Corps  
David Papworth, U.S. Telecommunications Training Institute  
Deborah Kennedy, AID, Bureau for Food for Peace and Voluntary Assistance  
Luke Hingson, Brother's Brother Foundation  
Miles Winn, International Human Assistance Programs

ADVISORY COMMITTEE ON VOLUNTARY AID  
SUBCOMMITTEE ON P.L. 480: FOOD FOR PEACE  
MARCH 15, 1984

The meeting was called to order at 9:00 a.m. by LaVern Freeh, ACVFA member, who consented to chair the meeting in the absence of Philip Johnston, who was in Africa. Mr. Freeh began by reviewing the agenda items for the meeting which were:

- o A review of testimony presented at the December Subcommittee meeting
- o Discussion of actions planned in response to the African drought
- o Presentation on AID's plans to commemorate the 30th anniversary of P.L. 480.

ACVFA member Mary McDonald added another item to the agenda: discussion of the problem of shortages in commodities that are shipped in containers (e.g., oil) to developing countries.

Following these preliminaries, the meeting proceeded with discussion of the first agenda item.

TESTIMONY ON P.L. 480

Mr. Freeh began the discussion of the December testimony on P.L. 480 by inviting additional testimony; however, none was forthcoming.

Subsequent to the December meeting, Richard Loudis of CARE was requested to analyze and summarize the testimony presented by the six PVO representatives. He prepared a paper which outlined four major areas of concern covered by the testimony:

- o Multi-year obligations
- o Minimum and sub-minimum tonnage
- o Expansion of the Title II outreach grant program
- o Title I commodities sales in Egypt.

Mr. Freeh proposed that these four areas serve as the framework for the discussion of the testimonies.

#### MULTI-YEAR OBLIGATIONS

Currently multi-year programming authority exists for the World Food Program which receives bi-annual pledges. The need for multi-year commitments was addressed in the recommendations of the Carlucci Commission and also by Secretary of Agriculture, John Block, in a statement last year in New York and there is also apparently Congressional support. The standard general provisions of the Annual Agricultural Appropriations Bill, Section 608 of P.L. 480, indicates that P.L. 480 should be funded on a "no-year" basis, i.e., that the funds are available until expended. Exercising this authority for multi-year funding commitments would prevent the wasteful practice of rushing to expend funds by the end of the fiscal year. Nevertheless, full utilization of the budgetary resources appropriated by Congress for Title II has seldom been a reality. At the end of the year, funds appropriated for Title II have been transferred to Title I. Prior to this recent practice, all Title II funds were spent during the fiscal year and never carried over. Obligation of commodities under Section 416 program is permitted up to three years. Furthermore, the minimum tonnage provision of Title II obligates the government to provide at least 1.7 million tons annually. Hence, there is no reason for not permitting multi-year programming of these commodities through PVOs.

PVOs have a need for multi-year guarantees if they are to develop new programs or expand existing programs. This type of commitment is also considered essential for adequate collaboration with host country governments.

Mary Keegan made a motion, which was seconded by Mary McDonald, that the Subcommittee inform the Advisory Committee that it strongly supports multi-year obligations to support PVO programs. The motion was carried.

#### MINIMUM AND SUB-MINIMUM TONNAGE

The second issue covered in the testimonies was the proposed increase of the minimum and sub-minimum tonnages over a four year period and its potential effect on the commodity mix.

Since the 1960's and early 70's, there has been a decline in the Title II program from approximately 3 million tons to 2 million tons. During that time, need has increased. USDA estimates that the food needs of low income developing countries is about 12.4 million tons, a 5% increase over fiscal years '82 and '83, and the nutritional cereal needs are about 32.8 million tons. These figures represent the minimum need to supply adequate caloric intake on a per capita basis. A greatly expanded Title II program is needed, and it is important to assure that there will be an increase in the ceiling for Title II appropriations in next year's Farm Bill.

Currently the 1981 Farm Bill authorizes a \$1 billion ceiling, although annual appropriations are only about \$650 million. Specifically, it is felt that Section 201(b)3 should be amended so that the minimum tonnages available to voluntary organizations and the World Food Program are increased by 125k tons annually over the 1986-1989 period so that by 1989, a minimum tonnage of 2.2 million tons, and a sub-minimum tonnage of 1.5 million tons is achieved.

OMB and USDA have agreed to increase appropriations for P.L. 480 by \$150 million over the Administration's \$90 million supplemental request in FY 84 and by \$175 million in FY 85 as part of the Helms/Holston Compromise for freezing private prices.

Following the overview which was presented by the Acting Chairman, there was a discussion of two recommendations presented in Loudis' paper for possible adoption by the Subcommittee:

- o To increase the minimum tonnage for Title II from 1.7 million to 2.2 million metric tons, and
- o To increase sub-minimum tonnage for PVOs and the World Food Program from 1.2 million to 1.7 million metric tons without reducing the value of the commodity mix.

Mary McDonald moved that the recommendations be adopted. The motion was seconded by Robert Beasley.

In the discussion which followed, ACVFA member Julia Taft inquired whether the issue is really tonnage or the nutritional value of the commodity mix. Extensive discussion of this point ensued; however, no conclusion was reached on the question.

Bill Pearson, Chief of the Program Operations Division of FVA, indicated that during the last six years approximately 55-60% of the overall commodities in the Title II program have been shipped as processed, blended or evaluated foods. This level has been consistent, and there was no intent in planning this year's budget to reduce it.

The majority of whole grain foods move in response to basic gross food shortages, such as the current conditions in Africa where there is an absolute lack of staple food. In the majority of the on-going PVO programs there is more than 55 or 60% of the blended and fortified foods. Mr. Pearson explained that this policy has been consistent for a number of years and no effort is planned to change it.

A question was raised regarding the availability of funding. It was noted that the discussion of funding would be centered on the FY 86 budget. Julia Bloch, Assistant Administrator of the Bureau for Peace and Voluntary Assistance (FVA) indicated that if out-year funding did not

appear adequate, the Advisory Committee should address that issue and take actions to insure that funding is available. However, a substantial case would have to be made at this time, supported by facts and figures, to effect changes in the appropriations requests which have already been prepared by AID and submitted to the Congressional Budget Committee for review for FY 85. ACVFA member Julia Taft remarked that the Subcommittee should have an opportunity to review the proposed budgets before they are submitted. In this manner, the Subcommittee could assist FVA and AID in making a case for its requests.

ACVFA member David Guyer expressed the concern that "need" rather than "numbers" should be the criterion for Title II food aid. Africa is facing critical shortages; on the other hand certain countries in Latin America and Asia have dropped out of the programs because they no longer need food. Food should not be "forced" on countries that don't want it, but instead made accessible to those that need it.

Julia Taft moved that the Subcommittee table the motion on the Title II tonnage increases. The motion was seconded and passed. Further information on the subject will be provided to the members for the next ACVFA meeting.

#### OUTREACH GRANTS

Vern Freeh presented a brief summary of the third subject covered in the December testimony: Title II outreach grants. It is the view of many PVOs that they would be able to carry out their Title II objectives more effectively if PVOs were permitted to sell commodities. This could be accomplished by expanding the regulations for Title II outreach grants which currently restrict PVO activities to logistic support, i.e., distribution, transportation, etc. The proposed expanded program would permit limited non-logistical support to enrich the PVOs operations. The proposed FY 85 obligation for the centrally funded outreach grants is only \$3.9 million which is inadequate for infrastructure development and maintenance and vital health care, nutrition and training programs. Integration of such activities is necessary, albeit costly. The expanded

dollar Title II outreach grant program offers a mechanism for providing such integrated services. Another mechanism would be permitting local currency sales of some additional Title II commodities by PVOs for such projects.

Bill Pearson indicated that both these mechanisms were being evaluated by the Agency. AID is looking at ways to increase outreach grant funds and to expand the range of PVO services. AID is also actively exploring ways in which to broaden the commodity sales authority. A new procedure is being considered which would require outreach proposals to be submitted along with food aid requests. Presently, there are more requests than the budget can accommodate. Because of limited funds, it is likely that outreach funds will be targeted to newer voluntary agencies.

Following the discussion, a vote was taken on a motion made earlier -- that the Subcommittee support the expansion of outreach grants to (1) allow PVOs to sell commodities, and (2) permit non-logistical services. The motion was carried.

#### TITLE I SALES IN EGYPT

The final issue from the December testimony reviewed by the Subcommittee was the need for an evaluation of the disincentive effects of Title I sales in Egypt. Testimony presented in December by Larry Minear, Church World Services/Lutheran World Relief, recounted the negative impact of Title I sales on agricultural production in Egypt despite the self-help development requirements of the legislation which stipulates that P.L. 480 resources should not be programmed in a manner which would depress producer incentives.

Egypt, which accounts for 25% of Title I sales, has the greatest potential for a major problem; however, proper use of local currencies generated by sales could counteract disincentive effects by encouraging local production.

A recommendation was made that AID evaluate the impact of the Title I program in Egypt with respect to the self-help provisions of Section 109, identify possible disincentives and its report findings to the Subcommittee. A motion was made by David Guyer and seconded by Mary Keegan that the recommendation be adopted.

In the ensuing discussion, the point was made that perhaps the Subcommittee could better spend its time in identifying mechanisms which could assist Africa during the present crisis, rather than discussing the food production disincentive effect of Title I sales in Egypt. It was also suggested that the record should be clarified to indicate that the disincentive issues that are being contemplated by the Subcommittee are related to Title I and not to Title II.

David Guyer commented that, in his view, the situation in Egypt is as precarious as the situation in Africa in that 40% of Egypt's foodstuffs come from abroad. The Nile Valley, one of the most productive areas in the world is going "downhill," with production of cash crops taking precedence over garden crops. It is important that the record reflect the Subcommittee's concern about this matter.

Glen Leet, Director of the Trickle Up Program, remarked that another aspect of the disincentive issue is that the rural poor in Egypt do not have the money to purchase the food that is locally produced. Local currency derived from the sale of food would be used for rural development or rebuilding the country's infrastructure. Getting purchasing power to the rural poor is essential to development. The problems of poverty in developing countries are not solved with foreign exchange, but with local currency.

Mr. Leet indicated that the Subcommittee is actually perpetuating a bad policy -- making available food in situations when food should be the mechanism to produce local currency that could be used to combat illiteracy, inadequate health services, etc. He encouraged the Subcommittee to consider an endorsement of the Kissinger Commission recommendation -- that poor countries should be encouraged to seek multilateral debt renegotiation and be required to utilize additional

monies made available to them for purposes that relate to the intent of Congress (to assist the poor in developing countries), and to stabilize their economies rather than enriching the rich in those nations.

Mr. Leet concluded by requesting the Subcommittee to act on two recommendations:

- o Encourage the agencies that are handling food aid to work cooperatively with other agencies that are conducting food programs in the country; and
- o Encourage the utilization of local currency.

James McCracken of the Christian Children's Fund concurred with recommendations of Glen Leet and Wallace Campbell. That indicated that counterpart funds that are used for the repayment of national debts should be used for consciousness raising in the host government and committees to community and "people development" areas. Countries should be permitted to use soft (local) currency to service their huge national debts only if they agree to certain conditions concerning the use of the funds.

The Chairman suggested that there would be further discussion of this subject at the June meeting. Before leaving the topic, Richard Loudis pointed out that there are no soft currency payments to the United States. More Title III programs rather than more Title I sales programs are needed to ease the debt burden. The Chairman called for a vote on the motion that AID evaluate the impact of the Title I program in Egypt with respect to the provisions of Section 109 and report to the Subcommittee on the findings. The motion was carried.

#### NEEDS IN AFRICA

The next major agenda item discussed by the Subcommittee was the worsening conditions in Africa that are being caused by the prolonged drought. The role of PVOs in response to the crisis in Africa was discussed extensively. One participant observed that PVO on-site

management is needed to assure that proper programmatic approaches will be taken to address the needs in Africa.

Julia Chang Bloch, Assistant Administrator of FVA briefed the Subcommittee on the current situation and AID's emergency assistance plans. As she spoke she referred to two charts (Exhibits A and B) which show the extent of food demand in the respective regions of the continent. She noted that although a number of PVOs are starting new programs in Africa, there are still 22 countries without PVO activity. She delineated some of the deterrents to programs in those countries including poor transportation systems and a lack of distribution systems. In some cases the host country governments do not have the resources for handling food once it arrives.

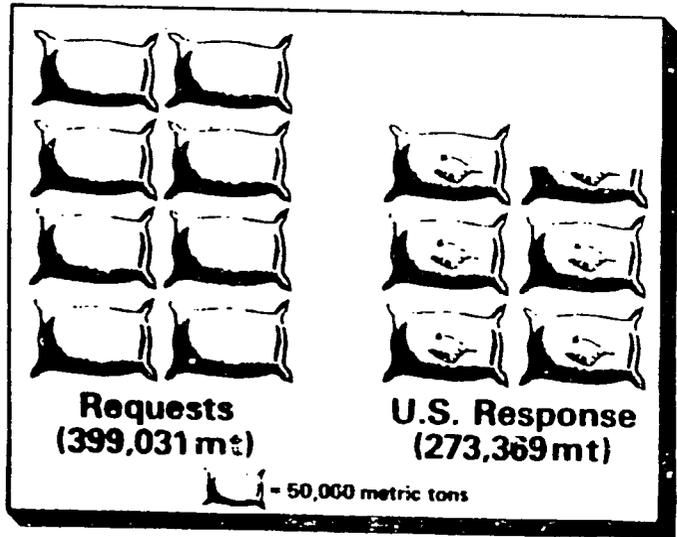
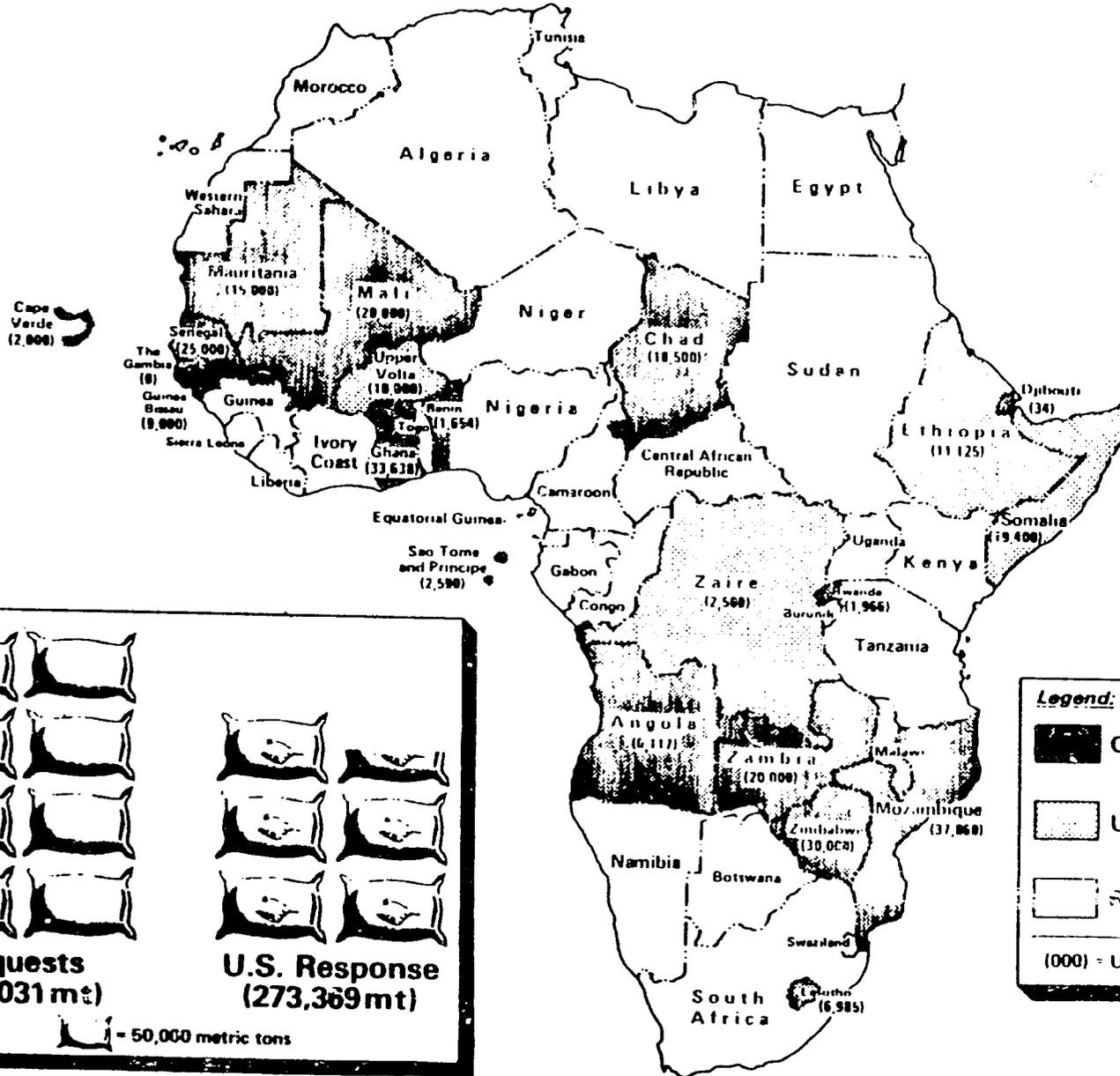
The situation is receiving attention from the media and Congress. However, Mrs. Bloch cautioned that P.L. 480 would lose the credibility which has been built largely on the fine work of PVOs if there is a major diversion (e.g., food rotting on docks). Such problems would fuel the arguments of those who believe that food aid should be ceased. Mrs. Bloch stated, "we have to be caring and compassionate, but we must make sure that the food reaches the people..."

Next, Richard Loudis was called upon to update the Subcommittee on the activities of the Ad Hoc Group on the African Food Crisis. Mr. Loudis began by explaining that his work with the Ad Hoc Group was outside of his position with CARE.

The Group was formed on November 22, 1983 in response to the following series of events:

- o In April 1983, an FAO World Food Program Report was released which indicated that 600,000 tons and \$60 million of non-food assistance were needed in 18 African countries

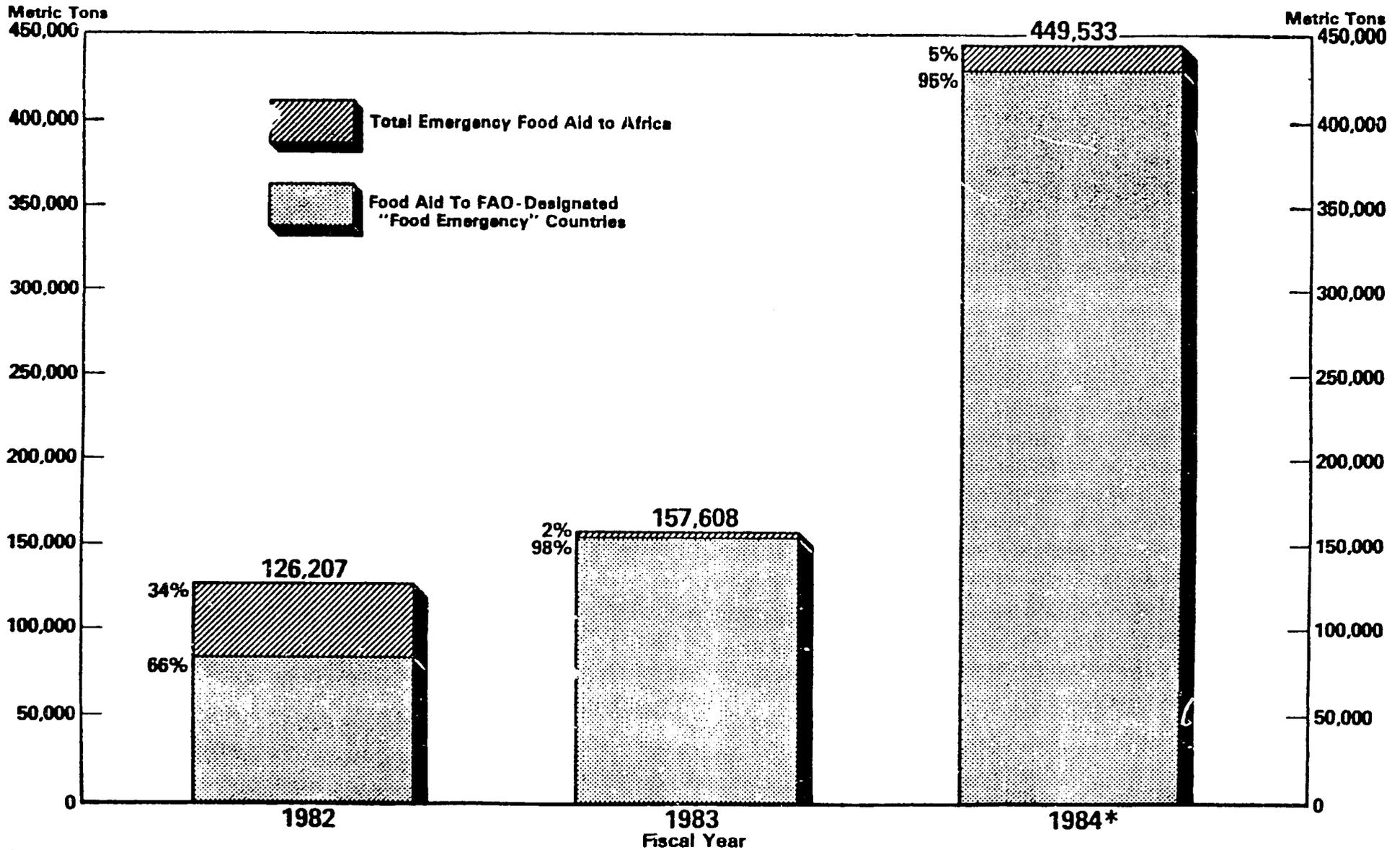
# PL 480 Title II Food Aid African Emergency Requests versus Approvals FY 1984--U.S. Response in Metric Tons



# PL 480 Title II

## Food Aid to FAO-Designated "Food Emergency" Countries in Africa

(As percent of All Emergency Food Aid to Africa)



\* Includes pending supplemental request.

- o In July 1983, USDA published a report which stated that worldwide food aid needs were 12.5 million tons and 33 million tons would be necessary to meet nutritional needs
- o On September 30, FAO reported that the number of countries in Africa facing serious shortages had increased to 22 and that 700,000 tons were needed along with \$77 million of non-food assistance (seeds, fertilizer, transportation)
- o On November 1, the Administration testified that there was a question as to whether all legitimate requests for food could be met, given the FAO estimates and present budgetary constraints.

The Ad Hoc Group was formed (1) to increase public awareness of the food aid crisis and (2) to encourage a fuller commitment to food and non-food assistance from the United States during the crisis. The Group is comprised of all the major voluntary organizations working to provide food aid in Africa. Additionally, there has been a great deal of networking to involve organizations that normally do not become involved in such emergency relief situations, such as cooperative development organizations and commodity interest groups.

To date, the Ad Hoc Group has conducted two press conferences and other public information activities, which have produced mixed results. Current reports of the National Oceanic and Atmospheric Administration (NOAA) predict that weather problems will continue to plague southern Africa. Mr. Loudis outlined the potential results of these predictions:

- o Only Malawi is expected to have a normal harvest;
- o Botswana, Zimbabwe, Zambia and South Africa are expected to produce one-half of their normal harvests;
- o The crops have been devastated in Mozambique and over 4 million people need immediate relief;

- o South Africa has lost over \$1 billion in export earnings, and it will have to import food this year; and
- o In Eastern Africa, Kenya and Tanzania are experiencing drought, Ethiopia has low rainfall; and Somalia's corn crop has failed.

Some 30 nations have responded to Africa's plight. To date, the United States has approved \$103 million or 269,000 tons of food aid or about 12% of the total 2.3 million tons requested.

Mr. Loudis noted that this information is based on marketing years and the marketing year in southern Africa ends in May. After May, there will be additional needs which are not reflected in the current estimates.

The Ad Hoc Group was concerned by the attempts of the U.S. Senate to link the food aid requests with controversial and non-germane amendments such as the amendments to provide military assistance to Central America and covert aid to Nicaragua. However, Senator Danforth was successful in amending an emergency energy bill with a supplemental request for P.L. 480. To facilitate quick passage he requested an \$82 million Title II supplemental rather than the original \$150 million amount. However, it is anticipated that action in the House of Representatives or in conference will increase the amount to the level of the original request.

Mr. Loudis concluded his remarks by delineating three recommendations proposed by the Ad Hoc Group to the Subcommittee for consideration as possible courses of action to pursue immediately:

1. That the President declare a disaster and appoint a special coordinator for disaster assistance. This is provided for under Section 493 of the Foreign Assistance Act.
2. Encourage that consideration be given to the use of the emergency window of the wheat reserve which would provide for up to 300,000 tons of wheat to be released immediately.

3. In accordance with Section 492 of the Foreign Assistance Act, up to \$50 million of non-food assistance can be transferred from Chapter I accounts in order to respond to the current crisis to increase absorptive capacity. This amount could be replenished by future appropriations.

ACVFA member Mary McDonald made a motion to adopt the recommendations, and Mary Keegan seconded the motion. Discussion followed on the recommendations. It was pointed out that the existing mechanisms for coordination appear to be working effectively. The Chairman reminded the Subcommittee members that they are appointed to serve in an advisory capacity. It was determined that, for various reasons, the Subcommittee would not take a position on the recommendations and that further discussion of the ramifications would be necessary. Subsequently, the motion was withdrawn.

#### COMMEMORATION OF THE P.L. 480 ANNIVERSARY

Peggy Sheehan, Chief of the FVA Title Division, reviewed a tentative agenda for the P.L. 480 anniversary celebration beginning July 7. Ms. Sheehan has been requested to coordinate the activities for AID's observance of the anniversary.

Stage I of the plan involves working on the national, state, and local levels at conferences and workshops as well as working with various organizations. Some PVOs have submitted proposals under the Biden-Pell Amendment to conduct special projects for the anniversary. The activities planned for the anniversary are intended to stimulate dialogue on food aid and to provide a starting point for projects that will continue over the next 18 months. In addition to the PVO community, USDA involvement is being sought. The 30th anniversary ceremony will be carried out in conjunction with the World Food Day observance and presentation the Hunger Awards.

Mrs. Sheehan invited the Subcommittee to submit recommendations and ideas for the program. She indicated that an update on the plans will be provided in June. Mr. Freeh complimented Ms. Sheehan on the plan and asked members to send her their suggestions.

Morgan Williams, ACVFA Chairman, indicated that there is increased interest within the agricultural community in world affairs and collaborative projects with businesses. The 30th Anniversary of P.L. 480 presents an opportunity to build new coalitions and to involve groups that have not been included in past ceremonies. For example, past hunger award ceremonies at the White House have failed to include people who represent commodity interests. Mr. Williams also expressed concern that the various P.L. 480 celebrations planned by AID, USDA, cooperatives, farm groups, and commodities groups should be better coordinated than in the past or they might end up competing with each other.

Julia Chang Bloch and Peggy Sheehan responded to these concerns by explaining that steps are being taken to ensure better coordination and to involve USDA in planning the AID celebration.

Mr. William stressed that the anniversary observance should focus on future cooperation among the various groups to serve common interests, rather than the past. However, Julia Taft pointed out that past success stories must also be highlighted to assure continued public and Congressional support for foreign assistance.

#### OTHER BUSINESS

In view of time constraints, Mary McDonald asked that the item she added to the agenda -- discussion of commodity container shortages -- be held over to the next meeting. She also referred to a memorandum sent to all ACVFA members by ACVFA Executive Director, Sherry Grossman, which requested that a determination be made as to whether the Subcommittee should remain in existence. Ms. McDonald made a motion that the

Subcommittee should be continued. The motion was seconded by Mary Keegan and carried by the unanimous vote of the members.

David Guyer commented that perhaps the "P.L. 480" designation of the Subcommittee is too confining and that the group should consider changing its name to reflect the broader categories of its deliberations. It was decided that this suggestion would be discussed at the next meeting.

The meeting was adjourned at 10:55 a.m.

SUBCOMMITTEE ON P.L. 480: FOOD FOR PEACE  
MARCH 16, 1984

ATTENDEES

Paul B. Green, Millers' National Federation  
John L. Cooper, People to People International  
Martha McCabe, Cooperative League of the USA (CLUSA)  
Dick Loudis, CARE  
Mary Barden Keegan, ACVFA Member  
Robert Beasley, ACVFA Member  
Mary M. McDonald, ACVFA Member  
Julia Vadala Taft, ACVFA Member  
Bill Pearson, Office of Food for Peace, FVA  
Peggy Sheehan, Department of State  
LaVern A. Freeh, Land O'Lakes, Inc., ACVFA Member  
E. Morgan Williams, Cooperative League of the USA, ACVFA Chairman  
David L. Guyer, Save the Children  
Glen Leet, Trickle Up Program  
Arlene, Lear, American ORT Federation

# **ACFVA Business Meeting**

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID  
BUSINESS MEETING  
MARCH 26, 1984

Chairman E. Morgan Williams called the meeting to order at 11:30 a.m. and in his opening remarks, briefly summarized the agenda items to be discussed by the Committee.

I. NEW SUBCOMMITTEE ASSIGNMENTS

Chairman Williams announced the appointments of LaVern Freeh and Willie Campbell to the positions of P.L. 480 Subcommittee Chairman and Development Education Subcommittee Co-chairperson, respectively. He suggested that any other Committee members desiring assignments or reassignments to subcommittees contact Advisory Committee Executive Director Sherry Grossman. The Chairman then asked for comments from the floor on subcommittee assignments or responsibilities. It was suggested that the Advisory Committee communicate to AID Administrator Peter McPherson its desire to advise him on specific policy questions and request that he provide suggestions on how the Committee could best focus its efforts. It was agreed to present these recommendations in person in order to discuss them with him and get his reactions.

II. DISCUSSION OF THE HAITI MEETING, JUNE 17-20, 1984

To begin the discussion, Sherry Grossman provided a brief update on plans for the June meeting in Haiti. Though the general theme of "Maximizing Development Assistance in the Caribbean" had been decided on, she suggested that the Committee narrow the focus to one or two important aspects of this theme. She reported that the Mission Director in Haiti had made two suggestions regarding the meeting:

- o That the Advisory Committee go to Haiti one day early for intensive briefings to provide a good basis for discussion.
- o That the meeting focus on one issue of particular importance to Haiti, and discuss its regional applications.

These suggestions were generally approved by the Committee. Kenneth Smith reported that the PVO-Corporate Relations Subcommittee had agreed on the need for a regional approach and had discussed using the meeting as an opportunity to bring PVO organizations and U.S. business organizations together, not only to focus on potential collaboration in Haiti and the Caribbean region, but also to foster long-term relationships for future cooperation. Alice Green Brette suggested that the local and regional approaches could be combined by going to Haiti a day early to look at AID work there as the Mission Director suggested, and then using this information on local AID-PVO relationships as a springboard to a broader regional focus.

Another subject of discussion was the meeting's format. It was suggested to make the schedule more relaxed than in the past, and to spread out the subcommittee meetings so as to allow participants to attend more than one. To this end, the possibilities of lengthening the meeting, creating three rather than two time slots for subcommittee sessions, and meeting on different days of the week were discussed. Some members felt that participants would be reluctant to commit more time to the meetings. There was general agreement that crisper, more efficient scheduling was needed in any case. The Committee then passed the motion to lengthen the meeting from one and one half to two days to give more time to the subcommittees. Chairman Williams resolved to refer this recommendation to the Operations Subcommittee for discussion and implementation. One further note on format was the suggestion to use a panel or open discussion approach similar to that used to present the Women in Development issue in Jamaica.

Chairman Williams next pointed out the need to draw up an invitation list for PVO leaders, government personnel, AID resources, and other

people interested in development and private voluntary work in the region. He asked the Committee members to send in names of persons they would like to invite as soon as possible. It was also suggested that AID Administrator Peter McPherson be invited so that the Committee could seek his guidance.

During the discussion, several suggestions regarding possible agenda items were brought up, such as the pressing problem of Africa, and the issue of disaster planning and its effect on development in the Caribbean. Recognizing the need to set priorities, Chairman Williams suggested that all ideas be submitted to the Program Subcommittee over the coming two weeks so that it could set up a realistic agenda.

### III. REPORTS FROM THE SUBCOMMITTEES

#### A. Report of the Subcommittee on Development Education

Subcommittee Co-chairperson Willie Campbell reported that the discussion had focused on the Carlucci Commission's development education recommendations, particularly the idea of a citizens' network. The members expressed concern about the intermingling of security matters with economic services, and about the possibility that the network would be primarily a political entity whose function was lobbying, rather than an educational one with development objectives. The citizen's network was discussed as one of three general movements in the area of development education, also including the Biden-Pell proposals and the PAID/ACVA framework. The Subcommittee expressed interest in further examining the citizens' network concept, its structure, and its ramifications, but was not ready to make a recommendation to the full Committee at this time regarding its endorsement.

#### B. Report of the Subcommittee on Women in Development

Chairman Michaela Walsh reported that the Subcommittee had heard an informative presentation by World Bank staff member Antoine van Agtinael,

resulting in a discussion on equity in debt financing and related new AID grants. For the Women in Development meeting in September, she indicated that several people had expressed interest in working on the agenda, but that the \$8,000 which she understood to have been budgeted for the meeting would be inadequate. It was clarified that this money was to cover only logistical needs. Finally, Ms. Walsh requested staff assistance for interviewing and data collection for the meeting. Chairman Williams suggested that she draw up a summary of her requirements and submit it to the Logistics Subcommittee.

#### Report of the Subcommittee on PVO-Corporate Relations

Chairman Kenneth Smith reported that having generated significant interest in cooperation for development on the part of corporations and PVOs, the Subcommittee faced the question of how to realize that cooperation. It had opted to work with PVO and business organizations to create a formal system for accessing the interest and capabilities of both parties. The Subcommittee recommended that a series of options on how to organize such an operation be drawn up and presented to the leadership of these organizations at the Haiti meeting, in order to set up a system which could be put into place in the U.S. soon afterward.

#### Report of the Subcommittee on Food For Peace

Chairman LaVern Freeh summarized the Subcommittee's discussion of three agenda items:

1. AID's plans for the commemoration of the thirtieth anniversary of Food for Peace, and the potential role of PVOs in these plans.
2. A review of action taken in response to the drought situation in Africa, presented by Assistant Administrator Bloch and the Ad Hoc Group on the African Food Crisis. The Subcommittee supported their activities but took no action.

3. A review of testimony presented at the December Subcommittee meeting on Title II minimum tonnage and potential disincentive effects. This discussion resulted in three recommendations to be considered by the full Committee for presentation to the AID Administrator:

- o Authorize multiyear obligations under P.L. 480 Title II
- o Improve Title II program effectiveness by providing PVOs with additional commodities for AID local sales projects and by expanding the Title II outreach grant program
- o Have AID evaluate the impact of the Title I program in Egypt with respect to the self-help provisions of Section 109 and possible disincentives, and report back at the June meeting with hard data so that a decision can be made.

In the brief discussion which followed, the date for AID to report to the Subcommittee on its evaluation was moved to September, as June was felt to be unrealistic. The motion was carried to endorse these recommendations and to present them in a letter to the Administrator.

#### IV. OTHER BUSINESS

##### A. Health Sector Recommendations

The Committee voted on two health-related recommendations to the AID Administrator. The first sprang from paragraphs in the Kissinger Commission report on health sector activities and the potential for PVO assistance in primary health care needs in Central America. The Committee recommended that the Administrator request the Director of the AID Office of Health, in cooperation with other AID offices, to initiate preliminary policy discussions with the U.S. PVO and cooperative community for the purpose of exploring the potential and strengthening the capacity of this community to respond to the health needs of developing countries, particularly in the areas of oral rehydration therapy and child immunization. After a brief discussion, the motion was carried to endorse this recommendation.

The second recommendation, to create a new subcommittee on primary health care, generated extensive discussion. It was generally agreed that health is a critical issue which needs to be focused on more directly and effectively, but there was some question as to whether the Advisory Committee had enough time and manpower to form a new subcommittee. It was suggested that, since health is an important part of all existing subcommittees, each should develop a specific health focus and integrate it into its objectives. Michaela Walsh volunteered that it could be incorporated into the Women in Development Subcommittee. A third suggestion was to wait and decide on the need for a new entity based on the recommended discussions between the AID Office of Health and the PVO community. Finally, the motion was carried to table the recommendation in order to gather more information and bring the issue up before the Planning and Operations Subcommittee.

#### B. Budget

Although the PVO/AID Policy Subcommittee did not meet at this Advisory Committee session, it had prepared and distributed information on three issues:

- o The level of assistance being provided through PVOs to meet the 12% and 16% targets
- o Overall trends in the PVO program budget
- o Status of the Comprehensive Program Grant.

Regarding the third issue, an AID task force had prepared a paper exploring the parameters of the problem. Based on comments on the paper from AID senior staff, and on information from a group of interested individuals in the PVO community, recommendations were to be made to the AID Administrator. The motion was carried to make a draft of this paper available to the Advisory Committee and the PVO community so as to include their point of view in the final recommendations.

Regarding the first two budget issues, several questions were raised, the most important of which involved the relatively small increase in the overall PVC budget for 1981-85. A suggested explanation was that the agency had decided to program more money for field programs and less for centrally-funded activities. In fact, the Advisory Committee itself had argued for a reasonable balance between central and field-funded activities in the formation of the policy paper. The small central budget increase reflects this policy, not a change in relations with PVOs. In fact, the agency is making a conscious effort to increase total PVO funding. Finally, it was recommended that an analysis of the budget data, the decentralization issue, and the need to increase the overall budget should be reviewed and acted upon at the June meeting.

#### V. REVIEW OF THE PLENARY SESSIONS AND RECOMMENDATIONS TO THE ADMINISTRATOR

Working from a draft prepared by Markham Ball, the Committee reviewed seventeen recommendations to the AID Administrator based on the findings of the Kissinger and Carlucci Commission reports discussed in the plenary sessions of the meeting the previous day. The Committee made the following changes and additions:

1. Add a comment congratulating the Commission on the historical background work that went into the Kissinger Commission report.
2. Strengthen the recommendation to reflect the Committee's disappointment at the lack of any mention of the PVO community in the report.
3. Change "people-to-people programs" to "non-formal education and training programs."
4. Add that AID should appoint someone to be responsible for the women's perspective in the implementation of the program.

5. Change "effectively functioning democratic institutions" to "democratic self-determination," and "equitable distribution of wealth and income" to "economic and social development that fairly benefits all." Add "elimination of poverty, i.e., hunger, disease, and illiteracy."
6. Change "equitable distribution of wealth and income" to "economic and social development that fairly benefits all," as in #5.

At this point Alice Green Burnette commented that IESC should be congratulated on being the only individual PVO mentioned by name in the report. Its skill in using the processes of the Commission to gain recognition and assured funding could be instructive to other PVOs. There was some discussion on this point, and several Committee members expressed the reservation that to encourage such activity on the part of PVOs would cause competition and hostility between organizations, and impede the cooperative effort to gain more support for PVO activities. Therefore, an additional recommendation was inserted expressing concern at the fact that one PVO was singled out in the report when there are dozens doing excellent work in the area. The Committee now moved on to recommendations on the Carlucci Commission report.

7. No changes.
8. Strike the recommendation and rewrite it to the effect that the Committee is interested in the concept of a citizens' network for development education, but feels that it needs further study and clarification, and that it must be initiated by the private sector. The Committee would like to be included in the planning and implementation of the concept but cannot endorse it until adequate information is provided.
9. Modify to the effect that although military and humanitarian assistance programs are related, they should not be as totally dependent on each other as the Commission's report suggests.

10. No changes.
11. Change to say that there should be a clearer division of responsibilities in the implementation of P.L. 480, though the Committee would support programs to facilitate coordination between the various constituencies involved.
12. To the sentence "The Committee believes that greater use must be made of U.S. agricultural commodities for humanitarian purposes," add the clause "...and cautions against long-term institutionalization of the P.L. 480 programs in areas no longer in need of surplus food." Also, change the wording as in recommendation #5, above.
13. Modify to remove any implication that PVOs should be pressured into becoming involved in political processes. Recommend that AID should involve PVOs in its planning whether the PVO has a federal grant or not.
14. No changes.
15. No changes.
16. Strike and include in a cover letter to the recommendations.
17. After some discussion, this recommendation, which involved the relationship between PVOs and U.S. policy, was considered to be too complicated and important to be acted upon without further study and discussion. The Committee decided to put it on the agenda for the next meeting.

#### VI. STATUS OF THE CONFLICT OF INTEREST PROBLEM

The Committee passed a motion to recommend that the Advisory Committee's charter be changed to specify that all members serve in a

representative rather than an individual capacity, so as to avoid members' being subject to conflict of interest laws.

After suggesting that any questions or comments be referred to the Planning and Operations Subcommittee, the Chairman adjourned the meeting.

**Appendix A**  
**List of ACVFA Members**

ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID

Mr. E. Morgan Williams  
Chairman, ACVFA  
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12/11

## **Appendix B**

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