United States International Development Cooperation Agency

Congressional Presentation Fiscal Year 1986

United States International Development Cooperation Agency

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

CONGRESSIONAL PRESENTATION

FISCAL YEAR 1986

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

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

INTRODUCTION

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

This overview summarizes development issues, policies and programs and contains information required under section 634 of the Foreign Assistance Act. The Executive Summary of this volume describes the content of this presentation. Detailed descriptions and justifications are provided in the separate Congressional Presentation Documents of the individual agencies and programs. The full Fiscal Year 1986 IDCA budget presentation to the Congress includes the following documents:

1. IDCA Congressional Presentation (this document).

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

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

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

4. Trade and Development Program (TDP).

   In a separate submission, the 1985 Development Issues Report, the annual report to Congress of the Interagency Development Coordination Committee which is chaired by the Director of IDCA, provides a full analysis of U.S. development policies, programs, and activities for the year 1984.

FY 1986 IDCA Congressional Presentation

CHAPTER I

Executive Summary

This document provides an overview of U.S. interests in the developing countries, describes the major current and long term problems they face, the near-term outlook for economic recovery and growth, and the major objectives, strategies and priority sectors of the U.S. economic assistance programs. The presentation also describes the various channels, bilateral and multilateral, through which U.S. official assistance flows to the less developed countries (LDCs). Various U.S. policies affecting relations with the developing countries, including those concerned with the North-South dialogue, international trade and the primary products exported by the LDCs are also discussed.

Chapter II documents the importance of the developing countries to the United States. U.S. exports to non-oil developing countries constitute about one-third of total U.S. exports (Table I), while a third of all U.S. imports also originate in the non-oil exporting LDCs. U.S. oil imports from all LDCs (including the oil exporters) account for 42% of our total imports (Table II). Moreover, the United States is heavily dependent on the LDCs for its critical requirements of strategic metals and minerals such as bauxite, chromium, cobalt, manganese, tin, nickel, zinc and tungsten as well as for a number of tropical products that cannot be produced in the United States.

U.S. direct investment in developing countries exceeds $50 billion. Total claims by U.S. commercial banks on the LDCs (mostly from loans) of nearly $160 billion constitute over 40% of aggregate U.S. bank claims on foreign residents and institutions.

Chapter III deals with the major problems and near-term outlook of the LDCs. Some of the problems or constraints they face are chronic and long term in nature; others more recent, have triggered the "economic crisis" that began in most LDCs in 1979. The crisis has been characterized by serious deterioration in the balance of payments that has occurred in many LDCs as a combined result of the 1979 increase in oil prices, a sharp upsurge in debt service charges and, in the case of sub-Saharan Africa, a series of severe droughts. The deficit on current account in the balance of payments of the non-oil exporting LDCs rose from $43 billion in 1978 to $108 billion in 1981. The short-term emergency that began in 1979 has forced the U.S. Government to enter the area of balance of payments assistance on a massive scale to supplement IMF and

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other resources which were not adequate to meet the unprecedented requirements.

Following the gradual recovery of the industrialized countries, the stabilitation of oil prices, and adjustment measures undertaken by individual LDCs, a significant improvement in the position of the LDCs has occurred since 1982. The balance of payments and debt service crises are now less severe than during 1980-82. The aggregate current account deficit of the non-oil LDCs declined from its peak of $108 billion in 1980 to $53 billion in 1983 and $45 billion in 1984; the debt service ratio[1/] also declined, but only slightly--from a peak of 24.4 percent in 1982 to an estimated 21.5 percent in 1984. In absolute terms, however, the value of the debt service payments required to be made has remained approximately constant. The growth rate of the real Gross Domestic Product (GDP) of the net oil importing LDCs increased from only 1.8% in 1982 to 2.6% in 1983 and to a projected 3.8% in 1984 (Table VII).

In spite of these improvements, the short-term crisis is not over. The real GDP growth rate of the net oil importers, projected at 3.8% in 1984, is substantially below the 5.4% growth rate that prevailed over 1967-76. The current rate permits no more than a 1% annual increase in real per capita income. The outlook for sub-Saharan Africa is still grim.

While the terms of trade of the non-oil LDCs have improved slightly in 1983-84, this recovery constitutes only a fraction of the deterioration that has taken place since 1977 (Table VIII). The current account deficit--$45 billion--is still high, particularly in the Western Hemisphere, the Middle East and Africa (see Table VIII and Chart VI); and the debt service ratio is still within the range of 22-25% in the Middle East and Africa, and is as high as 45% in the Western Hemisphere. In several major debtor countries (e.g., Bolivia, Mexico, Argentina, Sudan) the ratio is much higher than this average figure.

In sum: while there has been a significant improvement in the current situation of many LDCs, the short term crisis is still there and will continue to require substantial transfers

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

of fast disbursing balance of payments and food aid to particular countries in coming years. Exacerbated by the effects of drought on agricultural production, the plight of many African countries is now even more serious than in recent years.

The outlook for 1985 is for continued but slow recovery of LDC exports and GNP. Both will depend, in large part, on the continuing recovery of the industrialized countries. The U.S. economy, which recovered so strongly during the first half of 1984, experienced a substantial slowdown (to 1.6%) in the third quarter, a decline that was apparently again reversed in the fourth. For 1984 as a whole, the U.S. growth rate is expected to fall between 5.5% and 6.0%. A lower growth rate is projected for 1985. With regard to Europe, the IMF projects the European economies to grow by about 2.3% in 1984 and 2.4% in 1985. Thus, we anticipate a continuing, though no more than a moderate recovery in LDC output and balance of payments position in 1985.

A substantial improvement in health and education has taken place in the LDCs since 1960. For example, the infant mortality rate in the low income countries (other than China and India) declined from 163 to 114 per thousand over this period. Still, that rate is 11 times as high as the infant mortality rate in the industrial countries (10 per thousand). Life expectancy at birth is 50 compared with 71 in the industrialized market economies. The chronic long term problems that must be addressed include lagging food production, substantial population pressure on scarce natural resources, a continuing deterioration in the environment, shortage of capital and deficient technical know-how, high illiteracy and mortality rates in the low-income LDCs, and, in most developing countries, a set of policies and institutions that often impede rather than promote economic development.

A.I.D.'s objectives, strategy and programs are presented in Chapter IV. The first major economic objective of the United States in the LDCs is to promote broadly based, self-sustaining economic growth. The United States will assist the LDCs in creating the necessary conditions to ensure that growth is both self-sustainable and aimed at ensuring the participation of a broad segment of society. A.I.D.'s development assistance will give special attention to the agricultural sector, especially research and food production; the improvement of health, nutrition and education; family planning programs where population pressure is severe and such assistance is requested; the relief of unemployment and underemployment; and the development of energy and environmental protection. A second major objective, the promotion of political and economic stability, will require the continued provision of a substantial amount of balance of payments assistance to selected countries. The major recipients of this assistance will be countries of political and strategic importance to the United States, such as Israel, Egypt, Pakistan, Honduras, El Salvador, Costa Rica, and Jamaica. The third major objective is the provision of humanitarian assistance in countries suffering from severe famine or other natural disasters (e.g., droughts in sub-Saharan Africa). Finally, through its Trade and Development Program, the United States will promote the continuing expansion of its trade with the LDCs. For many LDCs, continuing growth of exports will be essential if they are to meet their debt service obligations.

While A.I.D. will continue to provide resource transfers and technical assistance, the LDCs themselves are expected to contribute significantly to their own development by altering their economic policies and institutions to remove obstacles or disincentives to growth and to promote the mobilization and more effective utilization of their resources. Inappropriate subsidies, controls on prices, foreign exchange and wages, overvalued exchange rates, trade restrictions, and similar forms of interference with market forces prevalent in many LDCs are examples of the type of policies that curtail economic performance and require reform. The United States will encourage countries to rely to a much greater extent on the market mechanism and to promote the development of policies designed to encourage private initiative and investment. The United States will continue to play a major role in institution building, including providing training and other resources that may be required to upgrade technical and managerial skills, improve the ability of the host government to plan and implement projects, conduct agricultural research and improve its extension services, and upgrade the operation of its clinics, hospitals and educational institutions.

Chapter V describes U.S. support of and participation in the most important multilateral organizations, including the World Bank, the regional development banks, the IMF, the United Nations and its major specialized agencies, the Organization of American States and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Since the United States is now providing substantial amounts of fast disbursing balance of payments assistance, coordination with other major donor agencies, particularly the IMF and the IBRD, is even more essential than it was in the past. The

United States is placing major emphasis on donor coordination to enhance the effectiveness and impact of development assistance, and has taken the lead among donor countries to increase awareness of the need for improved coordination and for strengthening coordinating mechanisms.

CHAPTER II

The Importance of the Developing Countries to the American People

The cumulative growth in world income, international specialization and trade over the last forty years has enhanced global political and economic interdependence and has increased U.S. political, security and economic interests in the developing countries. U.S. promotion of their development serves U.S. interests and is also an expression of the long U.S. tradition of concern for sufferers of misfortune and poverty.

1. International Peace and Stability

U.S. promotion of development supports U.S. efforts to achieve international peace and stability, to strengthen political relationships that further U.S. national interests, and to promote the political evolution of free and open societies. U.S. foreign assistance programs make an essential contribution to achieving U.S. foreign policy objectives. Conflicts, problems, and instability in developing countries, particularly in those that are close to our borders (Central America), that might draw us into a broader conflict (Middle East) and that involve strategic areas (Horn of Africa) have a direct impact on U.S. political and security interests.

Widespread poverty, economic crisis and severe economic dislocation can create an environment that is susceptible to violence, political instability, and the possible intrusion of those who try to exploit instability to their own advantage. When people have a reasonable hope that living conditions will improve over time and see that concrete steps are being taken to address their most pressing economic problems, they have a greater stake in the achievement of stability and peace.

2. Economic and Commercial Interests

Over the decades the United States has become more and more deeply involved in the world economy. Today the United States reaps substantial benefits from exporting goods and services to and importing from developing countries (including many critical raw materials and products otherwise unavailable) and from lending to and directly investing in these countries.

a. U.S. Exports to Developing Countries

As the result of increases over the last thirty years and particularly dramatic growth in the last decade, international trade today is without question of major importance to the U.S. economy. In 1983, U.S. merchandise and service exports accounted for 10.1% of U.S. Gross National Product (GNP) versus only 5.0% in 1950, 5.7% in 1960 and 6.6% in 1970.1/ Since 1960, U.S. exports, allowing for inflation, have increased in total value by over three and half fold (Table I and Chart I). It is estimated that over 5 million U.S. workers (1 out of 8 jobs in manufacturing) now depend on exports for their jobs. All sectors of our economy have been affected. In agriculture, an estimated 1 of every 3 acres planted by American farmers is for export sales. Fortunately for the U.S., the second half of 1983 marked the reversal of a serious decline of total exports experienced in 1982 and the first half of 1983. The decline had been caused by world recession, the appreciating dollar value and the debt problems of the developing world which had reduced their ability to import.

Developing countries constitute a substantial market for U.S. exporters. In 1983, U.S. exports to the developing world (both oil-exporting and oil-importing) totaled $80 billion or nearly 40% of total U.S. exports, with substantial amounts in every commodity category. These exports alone were responsible for an estimated 2 million jobs in the United States. U.S. exports to the non-oil LDCs amounted to $63.6 billion, constituting about 32 percent of total U.S. exports. During the decade of the seventies, the developing countries were the fastest growing U.S. export market. Between 1970 and 1980 the average growth rate of U.S. exports to the industrial countries was 16.9% (in current dollars), while U.S. exports to developing countries grew at a rate of 21.5% (20.9% to non-oil LDCs).

b. U.S. Imports from Developing Countries

In addition to being a market for U.S. products, the developing world is a major source of U.S. imports, including many crucial materials and products otherwise unavailable. Between 1960 and 1983, U.S. imports from LDCs increased five fold in real terms (Table II and Chart II). In 1983 almost

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1/ Calculated from Table B-1 of the Economic Report of the President, 1984

TABLE I

TRENDS IN U.S. MERCHANDISE EXPORTS

	1960	1965	1970	1975	1978	1979	1980	1981	1982	1983
EXPORTS (IN BILLION $)										
EXPORTS (CONSTANT 1972 $)	27.4	34.6	46.4	71.9	83.3	94.5	103.6	101.3	90.0	83.0
EXPORTS (CURRENT $)	20.6	27.5	43.2	107.6	143.8	182.0	220.8	233.7	212.3	200.5
Industrial Countries	10.8	15.7	26.4	61.7	82.6	106.7	125.4	129.4	117.2	117.6
Developing Countries	6.3	9.0	12.9	42.9	57.2	69.4	91.2	99.2	91.2	80.0
Oil Exporting 1/	0.9	1.3	1.8	10.4	16.0	14.5	16.9	20.7	22.1	16.4
Non-Oil Exporting 2/	5.4	7.7	11.1	32.5	41.2	54.9	74.3	78.5	69.1	63.6
Top 7 NIC 3/	(1.9)	(2.6)	(5.1)	(15.7)	(20.2)	(27.8)	(37.6)	(40.2)	(34.4)	(31.5)
Other 4/	3.5	2.8	3.9	3.0	4.0	5.9	4.2	5.1	3.9	2.9
ANNUAL PERCENT CHANGE										
Industrial Countries		7.8*	11.0*	18.5*	10.2**	29.3	17.5	3.2	-9.4	0.3
Developing Countries		7.4	7.5	27.2	10.1	21.3	31.5	8.7	-8.1	-12.3
Oil Exporting		7.6	6.7	42.0	15.5	-9.5	16.9	22.2	6.8	-25.8
Non-Oil Exporting		7.4	7.6	24.0	8.2	33.3	35.3	5.7	-12.0	-8.0
Top 7 NIC		6.5	14.4	25.2	8.8	37.6	35.3	6.9	-14.4	-8.4
Other		-4.4	6.9	-5.1	10.0	47.6	-29.1	22.0	-23.5	-25.6
PERCENT DISTRIBUTION										
Industrial Countries	52.4	57.1	61.1	57.3	57.4	58.6	56.8	55.4	55.2	58.7
Developing Countries	30.6	32.7	29.9	39.9	39.8	38.1	41.3	42.4	43.0	39.9
Oil Exporting	4.4	4.7	4.2	9.7	11.1	8.0	7.7	8.9	10.4	8.2
Non-Oil Exporting	26.2	28.0	25.7	30.2	28.7	30.2	33.7	33.6	32.5	31.7
Top 7 NIC	(9.2)	(9.5)	(11.8)	(14.6)	(14.1)	(15.3)	(17.0)	(17.2)	(16.2)	(15.7)
Other	17.0	10.2	9.0	2.8	2.8	3.2	1.9	2.2	1.8	1.4

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

2/ IMF definition plus Taiwan

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

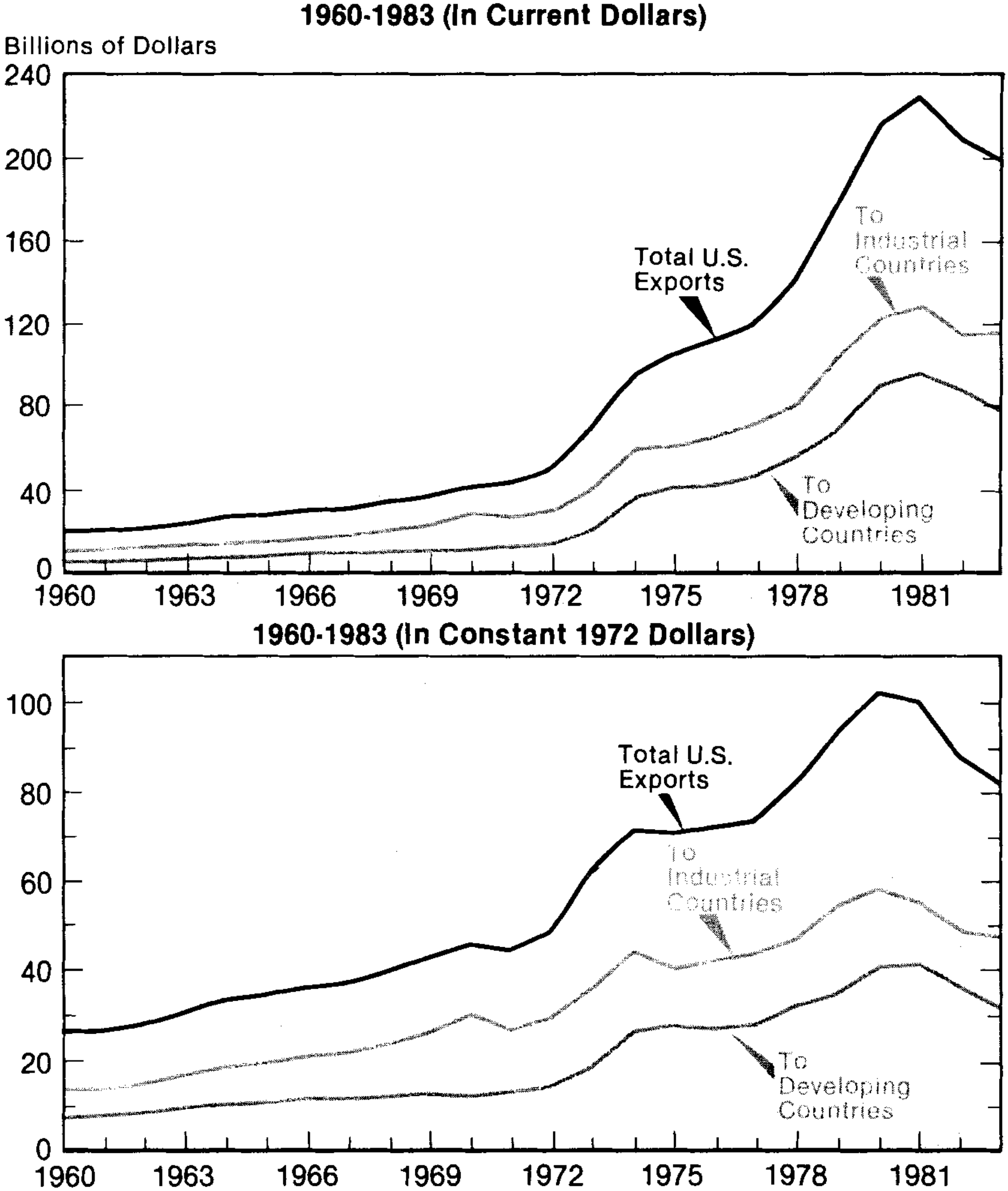
4/ Other = Non-Industrial Developed Countries, Communist, and unclassified

* Average Annual Growth in percent for the five year period

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

Source: International Monetary Fund, Direction of Trade Yearbook, 1984, as adjusted for Taiwan from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade.
Price deflator from The Economic Report of the President, 1984

Chart I
Trends in U.S. Merchandise Exports



SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1984, as adjusted by adding Taiwan data taken from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade. Price deflator from The Economic Report of the President, 1984.

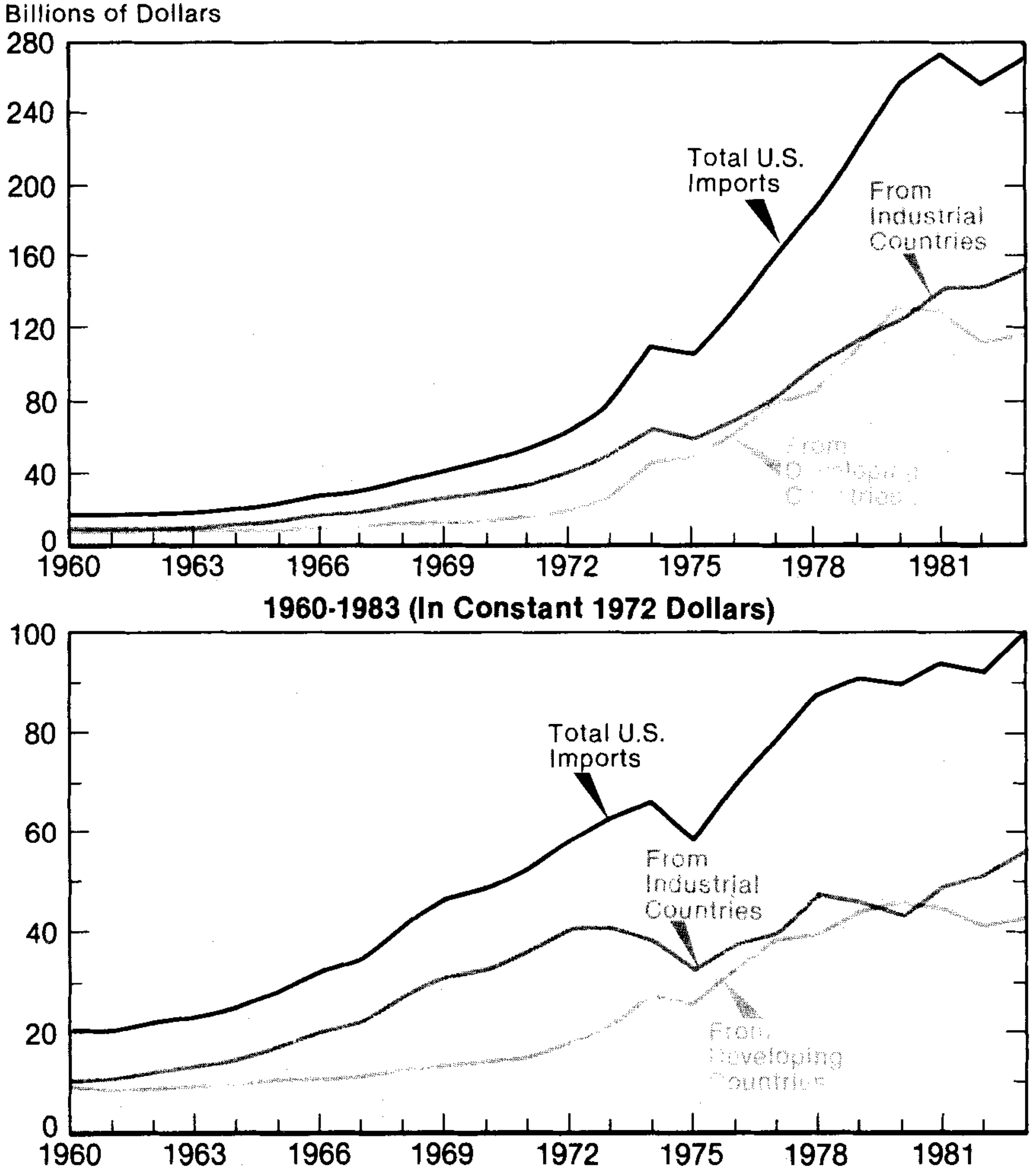
TABLE 11

TRENDS IN U.S. MERCHANDISE IMPORTS

	1960	1965	1970	1975	1978	1979	1980	1981	1982	1983
IMPORTS (IN BILLION $)										
IMPORTS (CONSTANT 1972 $)	19.8	27.5	47.9	57.6	86.9	90.3	88.8	93.1	91.4	99.0
IMPORTS (CURRENT $)	15.1	21.4	42.5	103.4	186.0	222.3	257.0	273.4	254.9	269.5
Industrial Countries	8.2	12.9	28.9	58.2	101.5	113.7	126.3	143.2	143.7	154.4
Developing Countries	5.6	7.2	11.1	44.7	83.3	107.1	129.5	129.2	110.5	114.6
Oil Exporting 1/	1.5	1.8	1.7	18.0	34.9	47.3	57.1	50.6	31.2	24.6
Non-Oil Exporting 2/	4.1	5.4	9.4	26.7	48.4	59.8	72.4	78.6	79.3	90.0
Top 7 NIC 3/	(1.5)	(1.8)	(4.3)	(11.7)	(25.3)	(30.4)	(37.0)	(42.6)	(45.8)	(53.6)
Other 4/	1.3	1.3	2.5	0.5	1.2	1.5	1.2	1.0	0.7	0.5
ANNUAL PERCENT CHANGE										
Industrial Countries		9.5*	17.5*	15.0*	20.4**	12.0	11.1	13.4	0.3	7.4
Developing Countries		5.2	9.0	32.1	23.1	28.6	20.9	-0.2	-14.5	3.7
Oil Exporting		3.7	-1.1	60.3	24.7	35.5	20.7	-11.4	-38.3	-21.2
Non-Oil Exporting		5.7	11.7	23.2	21.9	23.6	21.1	8.6	0.9	13.5
Top 7 NIC		3.7	19.0	22.2	29.3	20.2	21.7	15.1	7.5	17.0
Other		.0	13.5	-27.2	33.9	25.0	-22.7	-17.9	-26.4	-28.6
PERCENT DISTRIBUTION										
Industrial Countries	54.3	60.3	68.1	56.3	54.6	51.1	49.2	52.4	56.4	57.3
Developing Countries	37.1	33.6	26.1	43.2	44.8	48.2	50.4	47.3	43.4	42.5
Oil Exporting	9.9	8.4	4.0	17.4	18.8	21.3	22.2	18.5	12.2	9.1
Non-Oil Exporting	27.2	25.2	22.1	25.8	26.0	26.9	28.2	28.8	31.1	33.4
Top 7 NIC	(9.9)	(8.4)	(10.1)	(11.3)	(13.6)	(13.7)	(14.4)	(15.6)	(18.0)	(19.9)
Other	8.6	6.1	5.8	0.5	0.6	0.7	0.5	0.3	0.3	0.2

1/ Oil Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela
2/ IMF definition plus Taiwan
3/ Top 7 Newly Industrialized Countries (NICs): Mexico, South Korea, Brazil, Spain, Singapore, and Hong Kong
4/ Other = Non-Industrial Developed Countries, Communist, and unclassified
* Average Annual Growth in percent for the five year period
** Average Annual Growth in percent for the three year period
Source: International Monetary Fund, Direction of Trade Yearbook, 1984, as adjusted for Taiwan from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade.
Price deflator from The Economic Report of the President, 1984

Chart II
Trends in U.S. Merchandise Exports
1960-1983 (In Current Dollars)



SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1984, as adjusted by adding Taiwan data taken from the Department of Commerce FT-990, Highlights of U.S. Export and Import Trade. Price deflator from The Economic Report of the President, 1984.

$115 billion in imports, over 42% of total imports, came from developing countries. The proportion originating in non-oil LDCs was 33%. Imports from the developing countries from 1970 to 1980 increased substantially--at an average annual rate of 27.8% in current dollars, versus 15.9% for imports from industrial countries (Table II, Chart II). Imports from non-oil LDCs increased at an average annual rate of 22.6%. They benefit consumers and producers through lower costs and wider choices. Imports provide stimulus for technological change and competitive pricing, thereby increasing the overall efficiency of the economy. They allow exports which promote greater economies of scale, more intensive use of abundant factors, more investment and increased economic growth rates. In addition, through imports the United States gains access to many critical metals and minerals, such as bauxite, chromium, cobalt, manganese, tin, nickel and zinc (Table III). Most U.S. imports of petroleum come from developing countries as do all natural rubber and such everyday products as coffee, bananas, tea and cocoa.

c. U.S. Direct Investment Overseas

Developing countries have become important not only as trading partners but also as major recipients of U.S. capital. U.S. private direct investment in developing countries, despite recent small declines in the total amount, still totals $51 billion, about two times what it was in 1975 in money terms (Table IV). However, after allowing for inflation, the increase was only 13 percent.

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

d. U.S. Private Overseas Financial Flows

In addition to direct investment in the developing world, the U.S. private sector lends substantial amounts to these countries. In 1983 total claims of U.S. banks on developing countries (not including the offshore banking centers) was almost $159 billion. This total amount represents an eight fold increase since 1975 in money terms (Table IV). In real terms (adjusting by implicit U.S. GNP price deflators) the increase was three and two thirds fold.

TABLE III

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

	1970	1981	1982	1983
Bauxite/Alumina	88	94	96	96
Chromium	89	90	88	90
Cobalt	98	92	92	96
Manganese	95	98	99	99
Tin	81	77	68	72
Nickel	71	68	76	77
Zinc	54	64	58	66
Tungsten	50	50	46	39
Iron Ore	30	22	34	37
Copper	--	--	1	17

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

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

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

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

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

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

Source: Bureau of Mines, Mineral Commodity Summaries

TABLE IV

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

	1960	1970	1975	1980	1981	1982	1983
Total U.S. Direct Investment 1/ 2/	31,856	75,480	124,050	215,375	226,359	221,512	226,117
Developed Countries	19,310	51,819	90,695	158,214	165,396	164,157	169,582
Developing Countries	11,128	19,192	26,288	53,206	56,182	52,441	50,978
(as % of total)	34.5%)	(25.4%)	(21.2%)	(24.7%)	(24.8%)	(23.6%)	(22.5%)
Unclassified	1,418	4,469	7,067	3,955	4,780	4,913	5,557
U.S. Direct Investment in Selected Countries							
Brazil					8,247	9,013	9,002
Mexico					6,977	5,584	4,999
Panama					3,784	4,404	4,519
Hong Kong					2,729	2,984	3,310
Argentina					2,756	2,979	3,054
U.S. Banks' Total Claims on Foreigners 3/	4,122	10,799	50,240	172,592	251,539	355,705	389,329
Developed	2,415	6,372	22,737	55,939	81,964	124,021	134,901
Developing	1,699	4,229	19,877	70,532	102,630	144,492	158,668
Offshore Banking Center 4/	8	198	7,626	46,121	66,945	87,192	95,760
U.S. Banks Claims in Selected Countries							
Mexico					22,409	29,488	34,705
Brazil					16,914	23,260	24,482
Argentina					7,522	10,974	11,740
Venezuela					7,069	10,739	11,287
Panama					6,787	10,197	7,848
Korea					7,324	9,407	9,889
Hong Kong					4,126	6,668	8,429

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

U.S. bank lending to developing countries is heavily concentrated in seven countries of which five are in Latin America and two in Asia. Mexico, Brazil, Argentina, Venezuela, and Panama account for 57% of the total for developing countries, while Korea and Hong Kong together add another 12%. Recent debt service problems of some borrowing countries have caused real concern among U.S. banks. Fortunately, timely agreements on the rescheduling of debts and provision of additional resources by the United States, other donors, international organizations, the involved countries themselves and the banks have greatly lessened the dangers.

3. Humanitarian Concerns

The plight of the world's poor, such as in sub-Saharan Africa, is a concern of the American people. Ending the scourge of world poverty is an important aspect in the search for world peace. Improving the well-being and earning capacity of people in the developing countries are important objectives of U.S. development programs.

A cornerstone of development efforts is a focus on basic needs and the equitable distribution of the benefits of development to the lower income groups in developing countries. Many projects are specifically directed towards increasing the capacity and opportunities of the poor themselves to address their basic human needs in food, shelter, health care and education. Satisfaction of these needs rests fundamentally on increasing the overall employment and income earning potential of the poor.

CHAPTER III

Problems and Prospects of Developing Countries

1. The Problem Defined

The 120 countries that are classified as less developed vary substantially in per capita GNP, living standards and basic social conditions. It is useful to classify them into four general groups (in accordance with the IBRD classification of November 8, 1984), though the boundary lines between the different categories are admittedly arbitrary:

a. The Low-Income Countries: the poorest of the LDCs are the low-income countries, defined in terms of a per capita GNP of $400 or less (in 1983 dollars, see Table V for listing). This group is characterized by the worst malnutrition and the highest rates of illiteracy, disease and mortality. Typically, life expectancy is less than 50 years; children between the ages of one and four die at 20 times the rate of those in industrial countries; only 40 percent of persons aged 15 and older can read and write; and impaired physical and mental capacity is widespread. In addition, the infrastructure is deficient, housing is dilapidated and primitive, and for a substantial proportion of the population, there is no adequate sewage or access to clean water. While these conditions characterize the living conditions of the lower income groups in the LDCs generally, they are at their worst in these "low income" countries.

b. Lower-Middle Income Countries: This group can be defined as countries having a per capita GNP in the range of $400 to $790 (again in 1983 dollars or $805 in 1982 dollars). (See Table V). Their living standards are only slightly above that of the low-income economies. This group includes countries such as Egypt, Liberia, El Salvador, Honduras and Bolivia. Along with the "low-income" countries described above, countries in this category are eligible to receive concessionary credits from the International Development Association (IDA), the IBRD's soft-loan window. They are also eligible to receive concessionary loans (40 year terms) under A.I.D.'s Development Assistance program. With some exceptions, these countries do not significantly benefit from foreign investment or commercial loans from abroad. Historically, their economic growth has been comparatively slow.

The population in these two categories together (i.e., all countries with a per capita GNP of less than $791) accounts

TABLE V

Per Capita GDP of Less Developed Countries
(in 1983 dollars)

I. Low-Income Countries

Sudan	400	Tanzania	240
Pakistan	390	Uganda	220
Sierra Leone	380	Malawi	210
Cape Verde	360	Burkina Faso (Upper Volta)	180
Kenya	340	Burma	180
Sri Lanka	330	Guinea-Bissau	180
Ghana	320	Nepal	170
Haiti	320	Zaire	160
Sao Tome and Principe	310	Mali	150
Guinea	300	Ethiopia	140
Benin	290	Bangladesh	130
China	290	Afghanistan	n.a.
Gambia	290	Bhutan	n.a.
Madagascar	290	Chad	n.a.
Central African Republic	280	Comoros	n.a.
Togo	280	Equatorial Guinea	n.a.
Rwanda	270	Kampuchea	n.a.
India	260	Laos	n.a.
Somalia	250	Vanuatu	n.a.
Burundi	240	Vietnam	n.a.
Niger	240		

II. Lower-Middle Income Countries

Papua New Guinea	790	Guyana	520
Philippines	760	Indonesia	560
Morocco	750	Yemen, AR	510
Zimbabwe	740	Yemen, PDR	510
Ivory Coast	720	Lesotho	470
El Salvador	710	Liberia	470
Egypt	700	Mauritania	440
Honduras	670	Senegal	440
Solomon Islands	640	Djibouti	n.a.
Zambia	580	Maldives	n.a.
Bolivia	510	Western Samoa	n.a.

III. Middle-Income Countries

Ecuador	1,430	Peru	1,040
Colombia	1,410	Costa Rica	1,020
Paraguay	1,410	Grenada	990
Dominican Republic	1,380	Dominica	970
Jamaica	1,300	Botswana	920
Tunisia	1,290	Nicaragua	900
Congo	1,230	Swaziland	890
Turkey	1,230	St. Vincent & Grenadines	860
Mauritius	1,150	St. Kitts-Nevis	820
Belize	1,140	Thailand	810
Guatemala	1,120	Cameroon	800
St. Lucia	1,060	Lebanon	n.a.

IV. Upper-Middle Income Countries*

Uruguay	2,490	Brazil**	1,890
Algeria	2,400	Chile	1,870
Seychelles	2,400	Malaysia	1,870
Mexico	2,240	Fiji	1,790
Panama	2,070	Antigua & Barbuda	1,730
Argentina**	2,030	Jordan	1,710
Korea**	2,010	Syria	1,680

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* Those non-oil exporting developing countries with per capita GNP between $400 and $2,500 in current 1983 dollars.

** Newly industrialized countries, NICs, refers to the group of eleven countries which have recently become significant exporters of manufactured goods.

for about half of the world population.1/ These countries, along with a selected few others with whom the United States shares particular security and political interests, receive the bulk of U.S. concessionary assistance.2/

c. Middle-Income Countries: A third group of LDCs has a per capita GDP ranging from $791 to $1635, and can be characterized as "middle income". This group includes countries such as Colombia, Jamaica, the Dominican Republic, Guatemala, Costa Rica, and Turkey. While people in these countries are generally better off than those in the "low-income" and "lower-middle income" categories, the overall per capita average of this group conceals the substantial inequality in the distribution of incomes which prevails in most LDCs. Thus, a significant proportion of the population in this category is no better off than the average person in the first two groups.

d. Upper-Middle Income Countries: This group comprises countries with per capita GDP ranging from $1636 to $2500, and includes countries such as Jordan, South Korea, Argentina and Brazil. The category includes most of the NICs (Newly Industrialized Countries), and countries in this group have grown very rapidly -- in fact, faster on the average than the industrialized countries during the past two decades (Table VI). There are encouraging signs that, along with this growth, the incidence of poverty has fallen sharply.

The need for concessionary financing for the upper middle income countries is much less than that of the other three categories. Still, some of them face substantial debt service

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

2/ Countries with per capita GNP above $790 receiving substantial U.S. economic assistance include Israel, Turkey, Jamaica, and Costa Rica. A number of other countries that are large A.I.D. recipients and in which the United States has a strong security/political interest, such as Egypt, Pakistan, the Philippines, Honduras and El Salvador, have a 1983 per capita GNP of less than $790.

obligations (Brazil, Argentina, Mexico, Algeria) and have required debt rescheduling and balance of payments assistance. They must concentrate their efforts on expanding and diversifying their export earnings and, in many cases, on adopting measures designed to improve the allocation of resources by abolishing controls and freeing the exchange rate, stimulating private sector investment, and promoting the development of an export oriented economy.

2. Trends Over 1960-82

The period 1960-82 was a period of rapid growth for the lower-middle and upper-middle income LDCs. Real output increased at an average annual rate of about 5.3 percent for both of these groups. Their real per capita GNP increased at an average annual rate of 3.2 percent and 4.1 percent,1/ respectively, which compares with 3.3 percent for the developed industrial countries (Table VI). On the other hand, real per capita GNP of the low income LDCs (those with a per capita GNP of less than $400) increased at an average annual rate of only 1.1 percent over this period. Thus, while the difference in per capita GNP between the upper middle income LDCs and the developed countries has narrowed (in relative terms), the discrepancy between the developed countries and the low income LDCs has actually increased.

Health and education indicators show a substantial improvement for LDCs at all income levels. For example, for the low income LDCs, the infant mortality rate declined from 163 per thousand in 1960 to 114 in 1982; the child death rate for this group declined from 31 per thousand to 19; the crude death rate (age 1-4) fell from 24 per thousand to 16 (see Table VI, Chart III); the average life expectancy for this group increased from 42 to 50 years; while enrollment in primary schools increased from 38 to 72 percent. The middle and upper-middle income LDCs also shared in this improvement (see Table VI, Chart III).

On the other hand, the data also demonstrate the magnitude of the problem that remains. Thus, the infant mortality rate

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1/ These rates of growth for the two groups refer to the IBRD definition of "lower-middle" and "upper-middle" income LDCs, as presented in the World Development Report for 1984 (Table 1). The IBRD's definition differs somewhat from the suggested classification presented in Section 1 of this chapter.

Table VI

Basic Indicators of GNP Growth and Improvement in Health and Education Over 1960-82

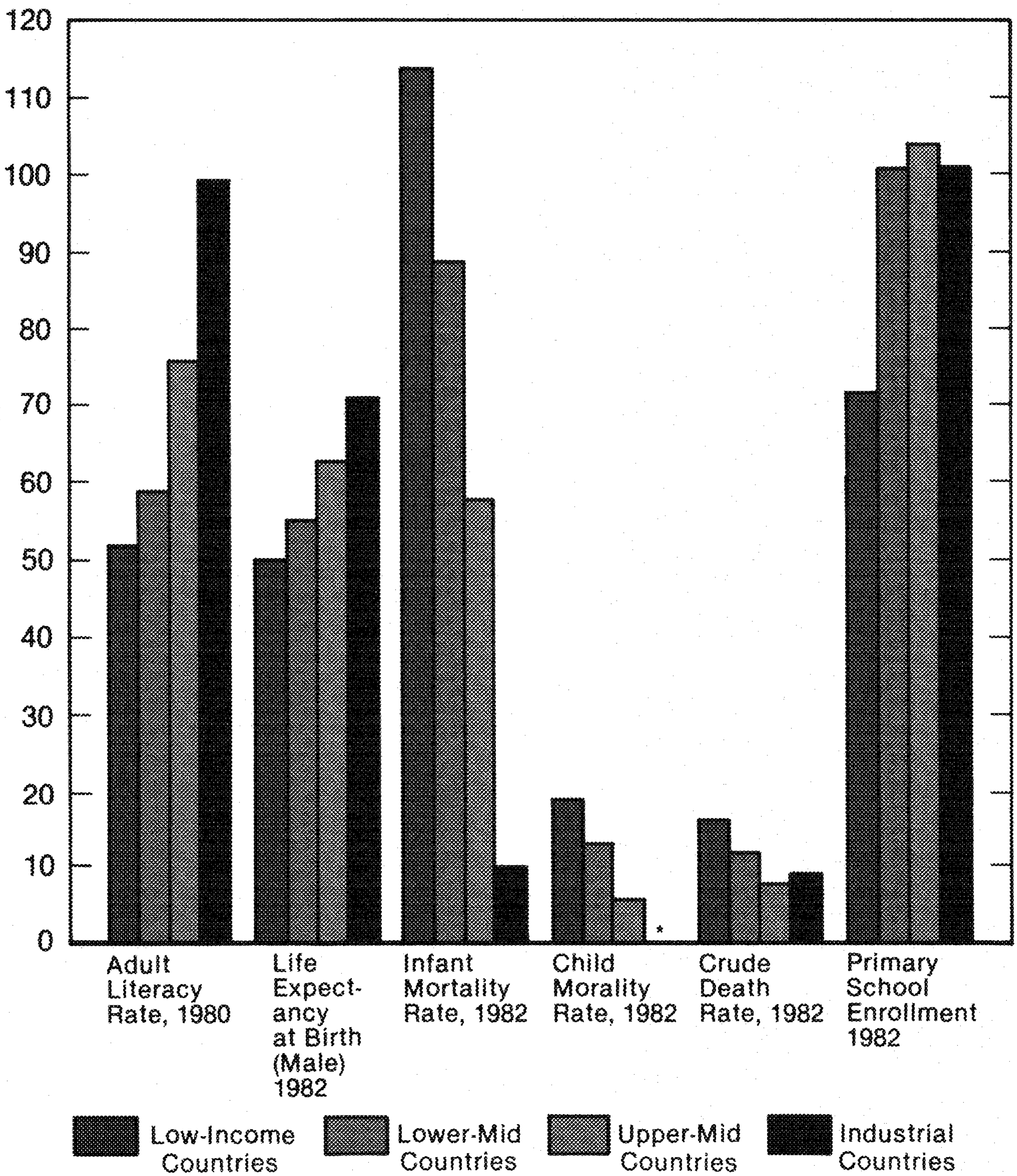
	GNP Per Capita 1982	Avg Annual Growth Rate 1960-82 Per Capita GNP	Avg Annual Growth Rate 1970-82 Aggregate GDP	Infant Mortality Rate (per 1,000 live births) 1960	1982	Child Mortality Rate (ages 1-4, per 1,000 children) 1960	1982	Crude Death Rate (per 1,000 pop.) 1960	1982	Life Expectancy at Brith (male) 1960	1982	Number Enrolled in Primary School as % of Age Group 1960	1982
Low-Income Countries (other than China and India) 1/	250	1.1	3.4	163	114	31	19	24	16	42	50	38	72
Lower-Middle Income 2/	840	3.2	5.3	144	89	29	13	20	12	44	55	66	101
Upper-Middle Income 3/	2490	4.1	5.4	101	58	15	6	13	8	55	63	88	104
Industrial Market Economies	11070	3.3	2.8	29	10	2	0	10	9	68	71	114	101

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

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

Chart III

Basic Indicators



SOURCE: World Development Report, 1984

*Less than half of a percent for industrial countries.

of the low income LDCs is eleven times that of the developed countries (114 per thousand versus 10); their child death rate of 19 per thousand compares with less than 0.5 per thousand for the developed countries; and the life expectancy at birth of 50 years compares with 71 for the DCs. The contrast in terms of per capita GNP is equally striking: an average of $250 for the low income LDCs versus $11,070 for the industrialized countries (in 1982 dollars).

3. Long Term Constraints to Development

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

a. Substantial population pressure on a limited and underdeveloped resource base.1/ Such pressure takes two distinct forms: a high population density in relation to agricultural land and industrial development; and/or a high rate of population growth. While some LDCs do not as yet suffer from a serious population density problem, a high rate of population growth boosts consumption and thus diverts resources from capital formation.2/

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

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

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

2/ A notable exception to this general rule is when labor is scarce in relation to land and natural resources, so that an increase in the labor force may induce an increase in per capita GNP. This may well have been the case in the U.S. during our period of rapid growth in the late 18th and 19th centuries, but is clearly not representative of the general situation of the LDCs today.

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

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

f. Severe distortions generated by inappropriate economic policies that further hinder the efficient use of available resources. The cumulative effect of all of these factors is a high rate of unemployment and under-employment and low labor productivity.

The following section will discuss in greater detail five areas that IDCA has identified for priority attention in the U.S. bilateral economic assistance program--human resource development and population growth, food and agriculture, unemployment, energy and the environment, and the policies of the LDCs. The emphasis on institutional strengthening, policy effectiveness, private sector involvement and technical development are in evidence in the development strategy for all IDCA assistance programs.

a. <u>Human Resource Development and Population Growth</u>

The problem of development is to a large extent one of developing human resources, i.e., ensuring that people are educated, trained in particular skills, healthy and productive. The primary aid objective in this area is to assist the LDCs in increasing the supply and improving the quality of services related to education, health and family planning. Numerous studies have shown that investment in human capital pays significant economic returns in addition to contributing significantly in itself to personal well-being. However, in most developing countries, the supply and quality of both education and health services, particularly primary education, primary health care and preventive health measures (e.g., safe drinking water) are very limited.

In many parts of the third world, particularly in the low-income LDCs of Africa, illiteracy rates are well over 50 percent, they are particularly high for the poor, for women, and for those living in rural areas. Access to education is uneven, the school dropout rate is high, and only a fraction of the school age population is enrolled. A critical problem facing vocational education and training programs is how to relate them to rapidly changing skill needs of LDC labor markets. A.I.D. seeks an increase in the percentage of children completing the primary grades.

Infant and child deaths constitute the most tragic aspect of poverty. Even in countries not ravaged by famine, the infant mortality rate of 114 per thousand and the child (age 1-4) death rate of 19 per thousand (Table VI) are completely unacceptable. The number of infants whose faculties are permanently impaired as a result of starvation and deficient nutrition is a multiple of this number. A.I.D.'s programs give special attention to infants and children under five years of age. Key components of A.I.D.'s programs to reduce infant and child mortality include oral rehydration therapy, immunizations against infectious childhood diseases, malaria control and development of a malaria vaccine.

High birth rates handicap efforts to achieve higher standards of living in developing countries. Birth rates in low income countries average 38 per thousand and are two and a half times as high as in industrialized countries. In the latter, birth rates declined gradually over a period of several generations as per capita incomes rose, education levels were raised, people moved from rural to urban areas, and the cost of educating children progressively increased. The population of these countries increased by 3 to 5 times before their birth and death rates were restored to a sustainable balance (i.e., within a range of 14 to 20 per thousand). This natural process cannot be allowed to run its course, as many LDCs are already densely populated, have a highly depleted resource base, and, owing to the wonders of modern health and sanitation, face a much greater imbalance between their birth and death rates than the industrialized countries experienced during their period of rapid development. Moreover, they do not have an empty continent to absorb their population surplus as Europe did during the 18th and 19th centuries. Thus, the governments of the LDCs are faced with the challenge of providing their people with the means and incentives to reduce their birth rates much more rapidly than the industrialized countries did during their period of rapid development.

Lower birth rates can contribute significantly to higher standards of living since they are likely to:

i. Raise the rate of capital formation: a high rate of population growth may mean that all of the increase in the GNP must be devoted to the production of additional consumer goods and services.

ii. Permit increased investment per child in terms of nutrition, health and education services, expenditures on social and physical infrastructure, etc., thus improving the quality of life as well as future labor productivity.

iii. Reduce strains on the natural resource base: erosion of the natural resource base and its consequences are a main factor behind the starvation found in several countries of sub-Saharan Africa today.

iv. Help alleviate maternal health problems associated with closely spaced births, thus contributing to lower infant mortality.

b. Food and Agriculture

The agricultural sector is of critical importance to low income countries. About two-thirds of the labor force in low income LDCs is engaged in agricultural activity; the proportion of poor people depending on agriculture for their livelihood is even greater. Agriculture accounts for almost 40 percent of the gross domestic product (GDP) in low-income countries and for an even larger proportion of total export earnings. In Central America, primary products account for between 60 and 65 percent of total commodity imports, a ratio that is much higher still in many low-income African countries. Agricultural production, particularly of foodstuffs, has lagged substantially behind potential in most LDCs. Yet, growth performance in the agricultural sector is a critical determinant of the growth rate of aggregate GDP. Experience over the last three decades shows that dynamic agricultural growth is essential to the improvement in nutritional standards and to ensuring that the benefits of growth are broadly distributed among the population.

A substantial proportion of the LDC population does not have access to enough food to meet nutritional needs. Still more are at the margin of adequacy. Agricultural production is very closely related to food consumption and nutrition. Increased food production not only increases its availability for general consumption, but also raises the income of the farmer and farm laborer, thus improving their ability to meet their requirements for food and other essentials.

The achievement of increased agricultural production will require the continued encouragement of the role of the private sector in agriculture, the development of human resource and institutional capabilities and the adoption of economic policies designed to provide appropriate incentives to producers. Unless policy changes are made quickly, however, food production in many countries is likely to grow more slowly than population. The United States supports efforts by the LDCs to become as nearly self-sufficient in foodstuff production as considerations of economic efficiency will permit, and to provide special assistance to small producers to increase their incomes and productivity and provide them with access to markets. In those cases where low-income countries are confronted with a serious shortage of foodstuffs that cannot be met with local resources, the Food for Peace program can be drawn upon to help fill the gap. However, care must be taken to ensure that the program will not depress long-term prices of basic foodstuffs in the recipient countries below the world market level, especially in the case of products that could be grown efficiently[1/] by local farmers.

c. Unemployment and Underemployment

Unemployment and underemployment rates are very high in densely populated LDCs. Estimates (for the two combined) generally fall within the range of 25-50%, though reliable data are almost never available. These high rates result from a number of factors, of which the most important are rapid population growth, slow development of the agricultural and manufacturing sectors, an undeveloped infrastructure, chronic shortage of capital, and in many LDCs, a set of policies that creates disincentives for the private sector and encourages the substitution of capital for labor.

d. Energy and Environmental Concerns

Development depends upon the availability of energy at affordable prices to meet industrial and household needs, and is essential to the process of modernization and productivity growth. The sharp increases in petroleum costs over the last decade have seriously constrained growth,

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

particularly in the low income oil-importing countries as they were not only forced to curtail their energy consumption but had to divert scarce foreign exchange from other essential imports.

A.I.D.'s energy programs respond to two sets of interrelated problems facing the LDCs: inadequate supplies of traditional energy sources, especially fuelwood, and heavy dependence on imported oil. About half the world's population and three-quarters of all people in the LDCs depend on traditional fuels (fuelwood, crop residues and dung). As population increases and oil prices remain relatively high, the demand for traditional fuels grows, contributing to deforestation, declining water tables, soil erosion, flooding, and declining agricultural production.

The United States seeks to encourage developing countries to expand production of their indigenous energy sources and to preserve and, if possible, restore their forests. Continuing attention will be given to assisting in the development of appropriate energy policies to encourage the substitution of energy forms that can be produced economically with local resources for imported oil. Policy areas which we are promoting include energy demand management, soil and forest conservation and the development of an appropriate price structure to stimulate energy production and conservation.

The deterioration of the environment is also an area of concern. It involves, first and foremost, the reduction of the tropical forests, the exhaustion of crop lands, and the advance of desert frontiers. Other environmental problems include the adverse consequences of indiscriminate use of pesticides, the depletion of fisheries and wildlife, and the lack of effective industrial and urban pollution control.

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

e. Policies of Developing Countries

The soundness of domestic economic policies is a key factor in determining the success with which economic assistance is utilized to attain the objectives of a short-term stabilization or long-term development program. Economic assistance can never be a substitute for the country's own self-help efforts. Domestic policies that discourage domestic savings, encourage the substitution of capital for labor, interfere with the market mechanism, promote corruption and the arbitrary allocation of resources by centralized authority, and create uncertainty in the private sector, may combine to defeat the purposes of any economic assistance program, no matter how substantial or well justified it may be. In the absence of needed corrective measures, the economic assistance program may provide little more than a breathing spell that will leave the recipient countries little better off than they were before.

The policy measures that directly affect the pace and pattern of development may be divided into distinct but interrelated categories. First are those policies involving the production of goods and services by the public sector. Second, policies involving prices, exchange rates and exchange controls, and all other policies that provide incentives or disincentives to private producers. The third consists of the fiscal, monetary and credit policies that affect the mobilization and allocation of resources between the public and private sectors. There is evidence that the public sectors of many developing countries have become too large, active and interventionist, at considerable costs in terms of efficiency and growth.

The scope and rationale for public production and investment varies widely across sectors. For many forms of infrastructure, there is a relatively clear and straightforward economic rationale for public sector involvement. Certain types of basic infrastructure do not permit the ready or efficient allocation of user charges (roads, flood control dams) and must be financed with tax revenues or loans. Similarly, direct public production and investment in activities related to agriculture that support private production, e.g., services associated with various forms of infrastructure and with agricultural research and extension, may be central to increasing agricultural production. Carefully executed feasibility studies should precede all major public investment decisions. Efficiency considerations may justify the use of private contractors in construction, operation, and maintenance, which can often be effective in holding down costs. Where prices can be charged to users of the services derived from the infrastructure, as in the cases of irrigation water and electricity, these prices should, to the extent possible, reflect the economic costs of the services. Failure to do so places a greater burden on the government budget and provides an artificial stimulus to the demand for the underpriced service.

In the case of public expenditure for social services (health, education, family planning, and nutrition), the challenge is to design programs in such a way that the services effectively meet basic needs, are produced on an efficient scale, reach the poor, and avoid subsidies for those that do not need them.

The appropriateness of public investment (and operations) in the industrial field is far more controversial. There is mounting evidence that far too often governments have undertaken activities in this sector which the private sector could undertake more effectively. Whether public or private, it is essential that industrial enterprises be exposed to market forces and incentives. When industrial enterprises are protected from market forces they almost inevitably become inefficient and, in the case of the "parastatals," 1/ are often a drain on the economy.

Policies which directly or indirectly influence the prices of goods and services affect the degree of efficiency in the allocation of resources and thereby the level of output and income. Such policies also affect the distribution of income and the incidence of poverty, although, at times, in ways unintended by the policy maker. Finally, pricing policies affect the capacity of the economy to mobilize financial resources.

In many developing countries, the exchange rate is overvalued while imports are curbed through import licenses and foreign exchange controls. As a result, incentives to produce

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1/ Fully or partially government-owned entities that operate as semi-autonomous agencies. They are often found in such areas as electricity production, telecommunications, port management, grain distribution, management of exports and banking.

for export are adversely affected, while imports (to the extent that foreign exchange is made available for them) appear relatively inexpensive. The consequence is a structure of production and demand that is excessively dependent on imports of raw materials and intermediate goods coupled with a diminished capacity to earn foreign exchange through exports and a correspondingly deteriorating balance of payments position. Both the overvalued exchange rate and the import licensing arrangements tend to reduce efficiency and to offer protection to selected import competing industries that would be unprofitable at world market prices and which often use less labor than exporting industries, thus aggravating the already serious employment problem faced by most developing countries. Similarly, measures calling for increases in the minimum wage or in fringe benefits, as well as ceilings placed on interest rates, may affect both the pattern of production and the choice of technology, inducing the substitution of scarce capital for generally abundant labor.

Many developing countries have pursued policies which keep the prices paid to farmers artificially low. The typical intent of such policies has been to ensure a regular supply of food to consumers, particularly urban consumers at "affordable" prices. The unfortunate result is often to depress production. Such policies generally penalize small farmers and farm workers which constitute a substantial proportion of the LDCs' population. Not only have such subsidies of food, energy and government services distorted production patterns, they have become in many countries an increasingly large component of the government's budget, expanding deficits and reducing the capacity of the government to undertake necessary productive investments.

The third set of policies includes those which directly affect domestic resource mobilization, including fiscal, monetary and credit policies. Fiscal policies will have a critical impact on public savings, depending on the extent to which tax revenues cover expenditures. Further, the structure of taxes will affect the balance between private savings and private consumption, the rate of growth of production and investment in the private sector, and the distribution of income.

Fiscal and monetary policies are intimately linked since the domestic financing of fiscal deficits usually occurs with central bank financing. Monetary authorities must then either restrict credit to the private sector or accept ensuing inflationary pressures. In either case, the effects on private savings and investments tend to be negative. The expansion of central bank credit to finance government deficits and high levels of inflation has been endemic in many developing countries.

Finally, public authorities are often reluctant to allow interest rates to reflect fully the expected rate of inflation and the real scarcity of capital. The consequence is reduced incentive to save along with credit rationing, which often favors public enterprises and influential patrons, and which rarely achieves an efficient allocation of resources. Even when the general interest rate is permitted to approach the market level, many LDCs set interest rate ceilings for particular sectors such as agricultural credit and low-cost housing. The result typically is to discourage the flow of funds to these sectors and to make institutions responsible for channelling funds to these sectors heavily dependent on government subsidies. Where developing countries have instituted appropriate interest rate policies, the results have often been dramatic, particularly in the increase in the savings rate.

In sum, policies in the developing countries should remove the distortions and disincentives to production, promote efficiency and economic growth by minimizing government intervention, and remove the uncertainty that so often characterizes government policy toward the private sector.

4. Current or Short-Term Constraints

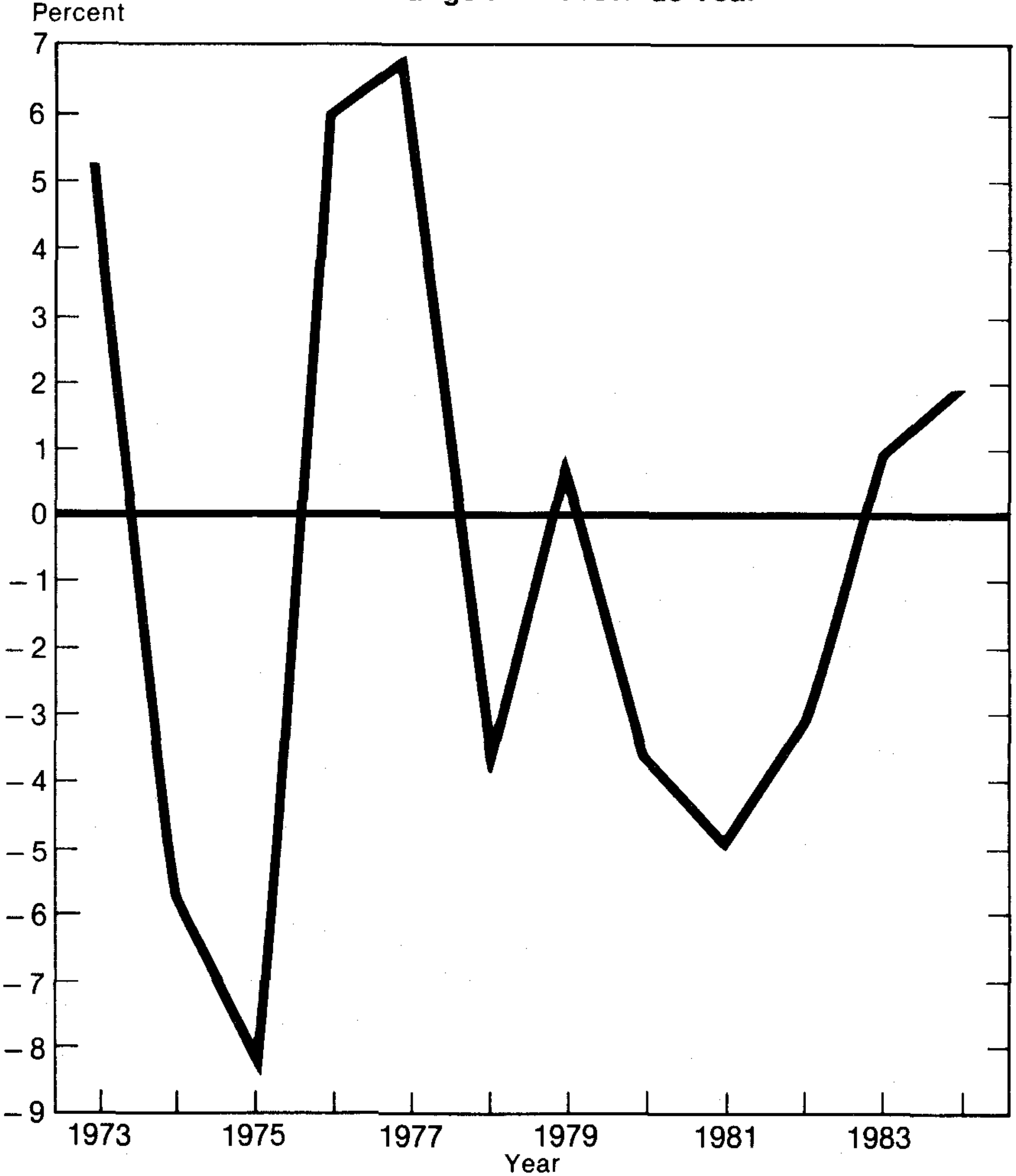
The world experienced a severe and prolonged recession beginning in 1979-80. The downturn started earlier in the United States (in 1979, when the increase in real output dropped to 2.8 percent, down from 5.0 percent in 1978 - see Table VII). The recession hit Europe in 1980 and Japan in 1981-82. It affected the LDCs with particular force: the real GDP growth rate of the net oil importing LDCs dropped to 2.5 percent in 1981 and to 1.8 percent in 1982 (compared with 6.5 percent in 1978 - see Table VII).[1/] Particularly hard hit were Africa, the Middle East and the Western Hemisphere. The growth rate of real GDP in the Western Hemisphere declined from 6.0 percent in 1980 to a negative 1.2 percent in 1982 and to a negative 2.8 percent in 1983 (Table VII). Other manifestations of the short-term crisis include the deterioration of the terms of trade of the low income countries which declined

Table VII
Industrial and Developing Countries: Changes in Output, 1967-84

	Average 1967-76	Change from Preceding Year 1977	1978	1979	1980	1981	1982	1983	1984	1985
Real GNP										
Canada	4.8	2.0	3.6	3.2	1.1	3.3	-4.4	3.3	4.6	3.1
United States[1]	2.8	5.5	5.0	2.8	-0.3	2.6	-1.9	3.3	7.1	4.0
Japan	7.4	5.3	5.1	5.2	4.8	4.0	3.3	3.0	5.0	4.1
France	4.7	3.1	3.8	3.3	1.1	0.2	2.0	0.7	1.3	1.7
Germany, Fed. Rep. of	3.4	2.8	3.5	4.0	1.9	-0.3	-1.1	1.3	2.7	2.4
Italy	4.3	1.9	2.7	4.9	3.9	0.2	-0.4	-1.2	2.5	2.5
United Kingdom	2.3	2.2	3.8	2.8	-2.5	-1.6	2.3	3.2	2.4	2.4
Other industrial countries	4.3	1.9	2.2	3.1	2.1	0.6	0.2	1.8	3.1	2.7
All industrial countries	3.7	3.9	4.1	3.5	1.3	1.6	-0.2	2.6	4.9	3.4
of which,										
Seven major countries	3.6	4.3	4.5	3.6	1.2	1.8	-0.3	2.7	5.2	3.5
European countries	3.8	2.4	3.1	3.4	1.5	-0.2	0.5	1.3	2.3	2.4
Developing Countries	5.7	6.0	4.7	4.3	2.3	0.7	-0.1	0.9	3.7	4.4
Oil exporting countries	7.0	6.3	2.3	3.7	-2.1	-4.1	-4.2	-0.8	3.8	4.6
Non-oil developing countries	5.6	5.8	6.4	5.0	5.0	3.1	1.7	1.8	3.7	4.3
Net oil importing LDCs	5.4	6.1	6.5	4.6	4.7	2.5	1.8	2.6	3.8	4.3
By Area										
Africa (excluding S. Africa)	4.8	2.3	2.5	2.0	3.0	1.7	1.3	0.8	3.2	3.6
Asia	5.0	7.3	9.8	4.8	5.5	5.0	4.5	7.0	6.6	5.8
Europe	5.5	5.4	5.4	3.8	1.5	2.3	1.7	0.9	2.2	2.8
Middle East	5.6	9.4	6.6	5.6	6.8	5.4	2.9	3.8	4.0	4.6
Western Hemisphere	6.6	5.1	4.3	6.5	6.0	1.1	-1.2	-2.8	1.1	3.4

1 For the U.S. through 1984, source is Department of Commerce, Survey of Current Business, and The Economic Report of the President. Projections for the U.S. in 1985 and data for all other countries is from the International Monetary Fund, World Economic Outlook 1984.

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



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

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

SOURCE: International Monetary Fund, World Economic Outlook, 1984.

substantially and continuously between 1978 and 1982 (Table VIII and Chart IV).

The most dramatic manifestation of the crisis in the LDCs is the upsurge in the current account deficit of the balance of payments and the increase in the debt service ratio. The deficit on current account of the non-oil developing countries increased from $43 billion in 1978 to $89 billion in 1980 and to a peak of $108 billion in 1981 (Table VIII, Chart VI). The Western Hemisphere was worst hit with its current account deficit increasing from $21 billion to $46 billion or by 115 percent (Table VIII). Debt service payments of the non-oil LDCs also increased dramatically during that period - from $52 billion in 1978 to $110 billion in 1982, while the debt service ratio increased from 19.8 percent to 25 percent during this period (Table VIII, Chart V, Chart VII).

Although the causes of the recent crisis are complex, the sharp increase in oil prices understandably played a major role. Between 1978 and 1980, the price of Arabian crude increased from $12.70 to $28.67 per barrel, an increase of 125 percent. This increase not only affected directly the balance of payments of the oil importing LDCs, but affected them indirectly as well through its impact on the level of aggregate demand in the developed countries. However, the substantial increase in LDC debt service charges, while also related to the oil price increases experienced since 1972, cannot be attributed entirely to this factor. Many LDCs borrowed heavily from Western commercial banks throughout the 1970s to finance unsound investment projects or for other purposes that failed to raise their debt carrying capacity, confronting the banks with the need for massive rescheduling or accepting defaults.

Two other factors that contributed to the recent crisis include the conflict in Central America and a continuing string of droughts in sub-Saharan Africa. The conflict in Central America contributed to the balance of payments gap of El Salvador and,

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1/ IMF, World Economic Outlook, September 1984, Table 2.

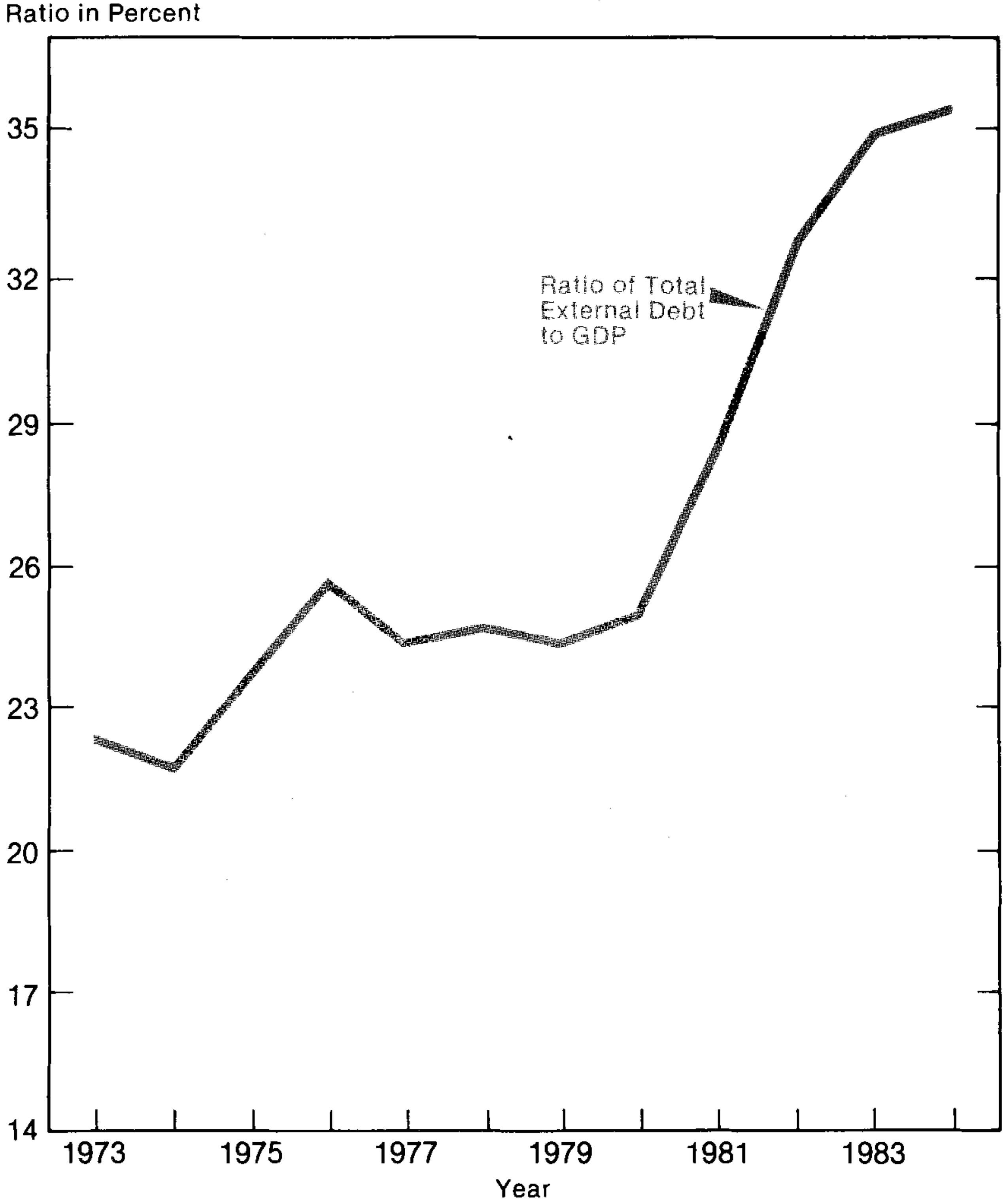
TABLE VIII

KEY MACROECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982	1983	1984	1985
TERMS OF TRADE FOR NON-OIL DEVELOPING COUNTRIES									
Percent Change from Previous Year	6.7	-4.1	0.7	-3.8	-5.1	-3.3	0.8	1.7	0.2
WORLD TRADE PRICES									
Percent Change from Previous Year									
Manufactures	8.0	14.5	14.0	11.0	-6.0	-2.0	-4.5	1.0	4.0
Oil	9.4	0.4	46.4	63.0	10.0	-3.9	-12.3	-1.3	
Non-Oil Primary Commodities (market prices)	21.2	-4.1	16.3	8.7	-14.6	-12.0	6.7	6.5	2.3
EXTERNAL DEBT OUTSTANDING OF NON-OIL DEVELOPING COUNTRIES (billions $)	288.0	342.9	403.6	484.6	572.4	649.7	685.5	728.9	764.6
DEBT SERVICE PAYMENTS OF NON-OIL DEVELOPING COUNTRIES (billions $)	35.8	51.8	66.6	77.4	98.1	109.7	98.9	107.2	124.2
DEBT SERVICE RATIO BY REGION									
Non-oil Developing Countries	16.1	19.8	19.7	18.1	21.4	25.0	22.3	21.7	22.7
Africa (excluding South Africa)	11.9	15.4	15.5	16.5	18.7	22.2	22.6	24.9	27.0
Asia	7.6	9.6	8.3	8.2	9.5	11.2	10.0	9.9	10.1
Europe	14.9	16.8	18.9	18.8	20.1	22.1	21.7	21.4	23.3
Middle East	14.1	14.5	16.9	16.9	20.1	22.9	22.9	23.1	25.5
Western Hemisphere	32.0	41.7	42.2	35.7	44.6	55.1	47.9	44.6	46.7
BALANCE ON CURRENT ACCOUNT (In billions of dollars)									
Non-oil Developing Countries	-30.4	-42.9	-63.3	-88.7	-108.5	-85.9	-52.6	-45.0	-45.0
Low income countries (excluding China & India)	-5.4	-8.5	-10.0	-12.0	-12.6	-11.8	-9.9	-10.4	-10.7
Africa	-6.6	-9.3	-9.6	-12.6	-14.1	-13.0	-10.2	-9.4	-9.6
Asia	-1.6	-8.3	-17.1	-25.3	-22.7	-14.3	-11.5	-6.2	-6.5
Europe	-9.1	-7.2	-10.1	-12.7	-10.4	-6.9	-5.4	-3.1	-3.0
Middle East	-5.1	-6.2	-8.4	-8.1	-10.6	-9.6	-10.2	-9.3	-10.6
Western Hemisphere	-8.5	-13.3	-21.3	-33.1	-45.9	-38.9	-15.5	-17.1	-15.5

SOURCE: International Monetary Fund, World Economic Outlook, 1984 tables 10, 20, 21, 22, & 38

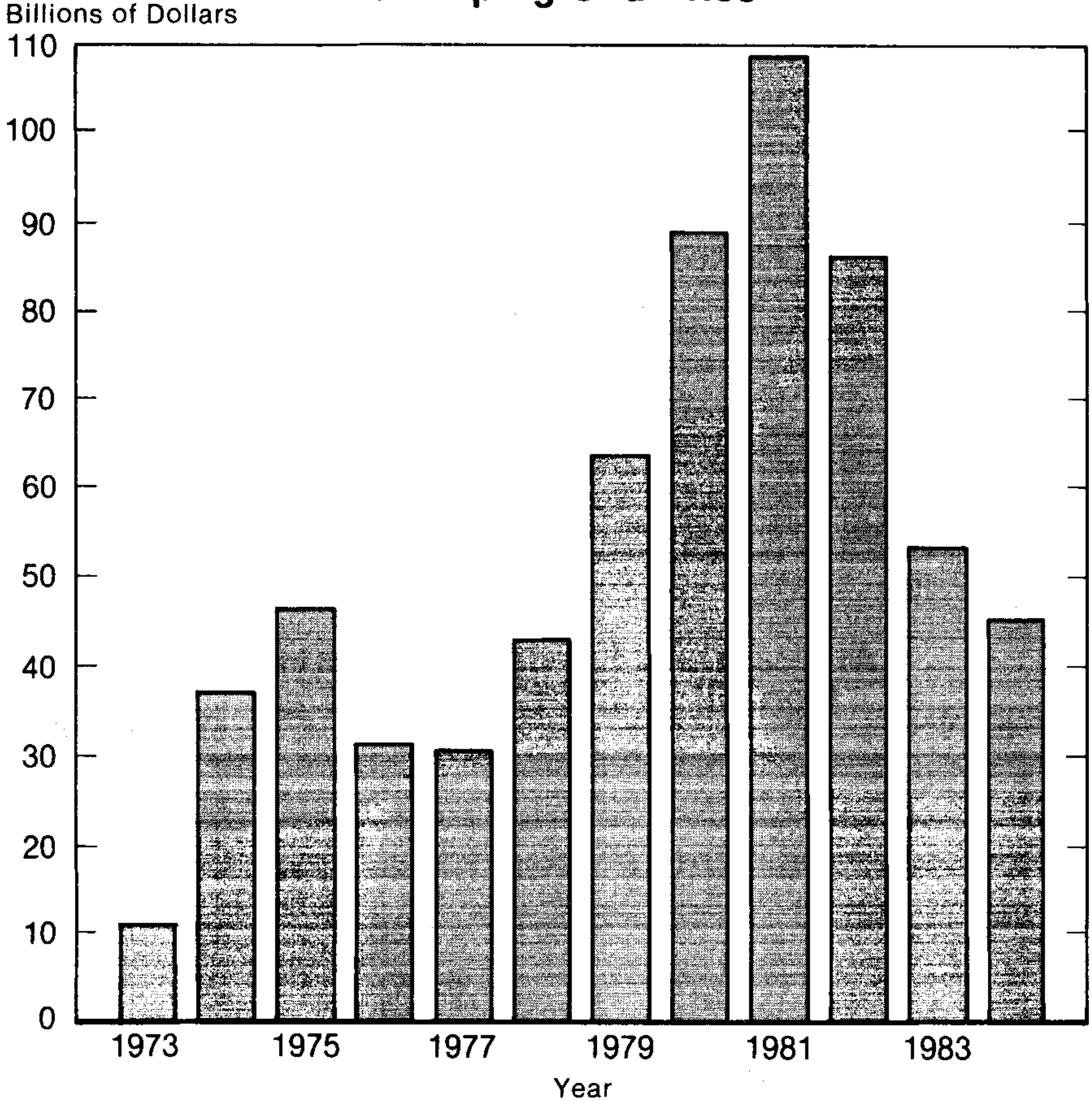
Chart V
Non-Oil Developing Countries
Debt Service Ratio and Ratio of External Debt to GDP



Debt Service Ratio = Annual interest and amortization payments as percentage of exports of goods and services.

SOURCE: International Monetary Fund, World Economic Outlook, 1984.

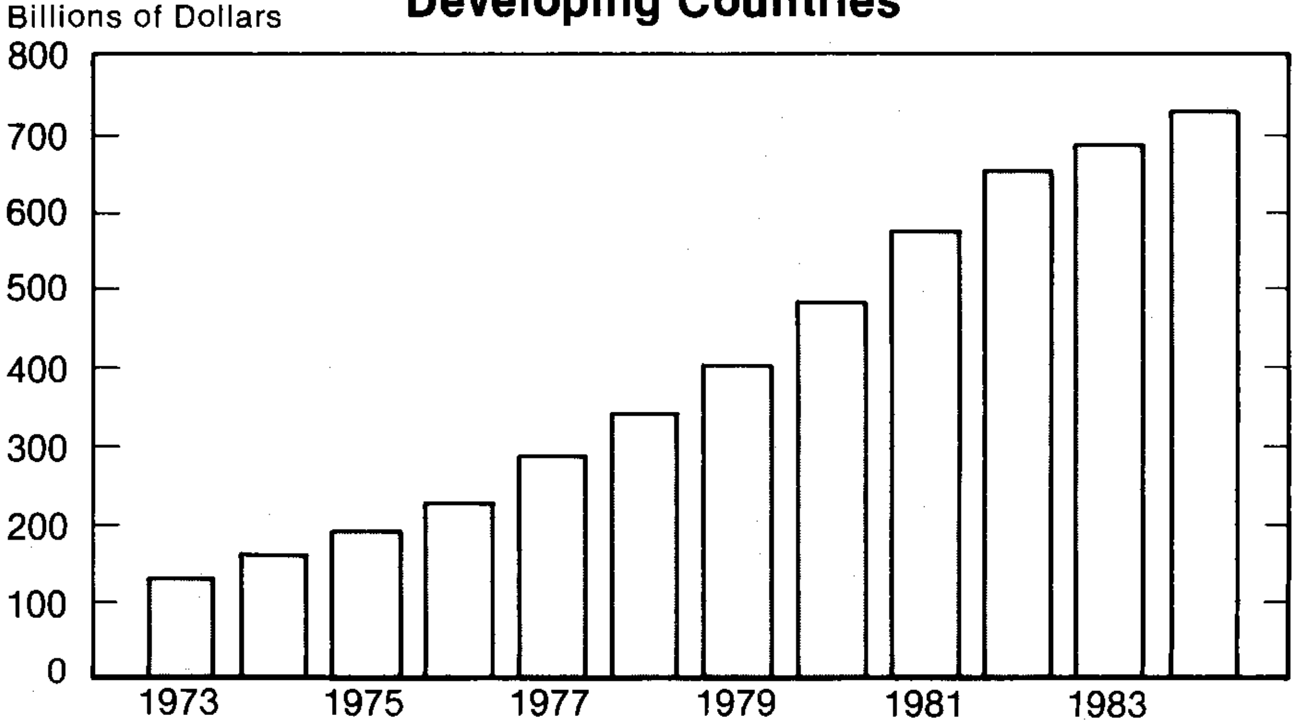
Chart VI
Current Account Deficit of Non-Oil Developing Countries



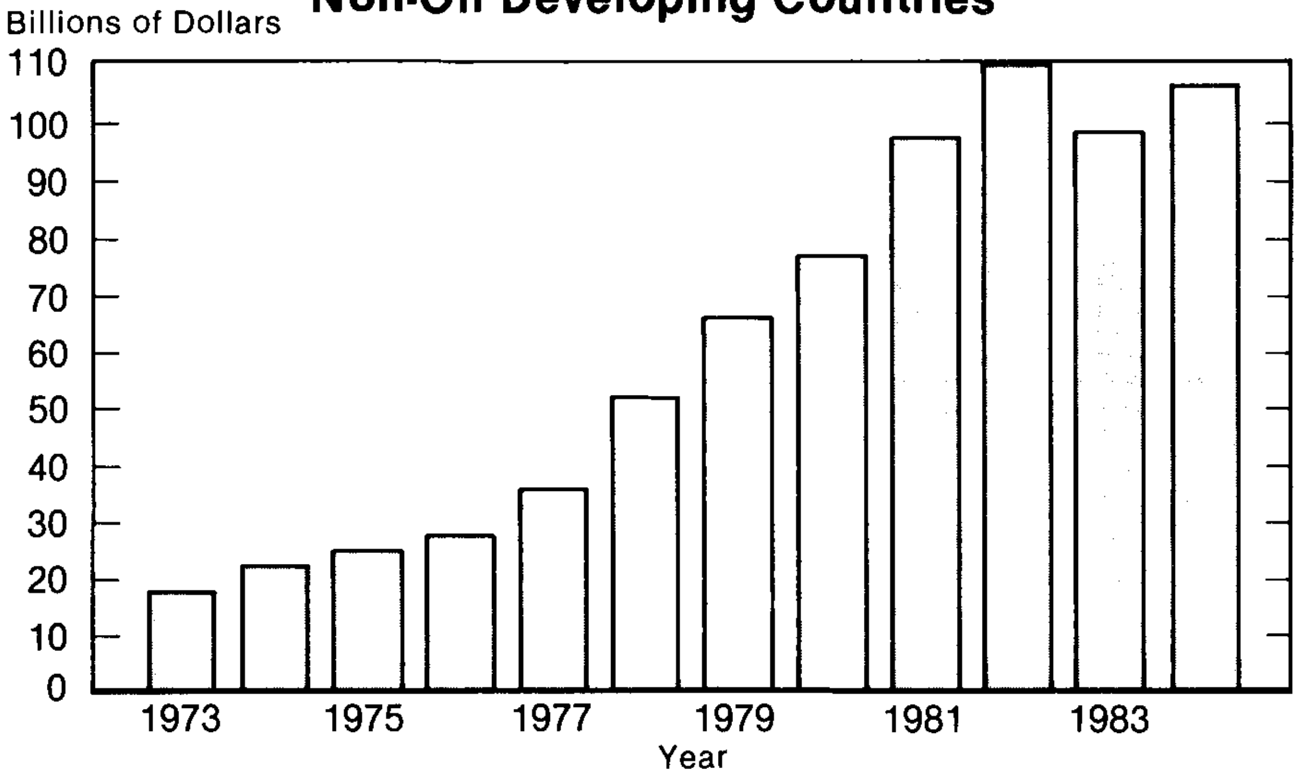
SOURCE: International Monetary Fund, World Economic Outlook, 1984

Chart VII

External Public Debt Outstanding of Non-Oil Developing Countries



Annual Debt Service Payments of Non-Oil Developing Countries



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

SOURCE: International Monetary Fund, World Economic Outlook, 1984.

to a somewhat lesser extent, to that of Honduras as well.1/ Both countries require substantial balance of payments assistance from the United States to enable their economies to continue to function and help contain the decline in living standards within bearable limits.

sub-Saharan Africa has been ravaged by a series of droughts since 1973. Real per capita output in sub-Saharan Africa, among the lowest in the world, has declined continuously since 1973. The problem can no longer be considered a short-term one. The requirement for food relief has increased substantially in recent years and is likely to persist. A long-term program to deal with the problem of recurrent famine in the region must be developed.2/

5. Developments Over 1983-84

Recovery from the recent recession began in the U.S. in 1983. The U.S.'s real GDP, which declined by 1.9 percent in 1982, increased by 3.3 percent in 1983 (Table VII). In 1984, it increased at an annual rate of 6.6 percent during the first three quarters, though a marked slowdown (to 1.6 percent) occurred during the third quarter.3/ In the European countries, the recession continued in 1983, but economic activity picked up noticeably in 1984. The industrial countries as a group are currently expanding production at an annual rate of about 5 percent with the lowest level of price inflation in fifteen years (Table VII).

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

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

3/ A recovery appears to be occuring in the fourth quarter though reliable data on fourth quarter performance are not available at the time of this writing.

The recovery of the industrial countries had a significant impact on the LDCs, particularly on the net oil importing countries. The latter's combined real GDP, which increased by only 1.8 percent in 1982, rose by 2.6 percent in 1983 and is projected (by the IMF) to increase at 3.8 percent in 1984 (Table VII). The combined current account deficit of the non-oil developing countries declined from a peak of $108 billion in 1981 to $53 billion in 1983, and is projected to decline further to $45 billion annually in 1984 and 1985 (Table VIII, Chart VI). The debt servicing situation also improved as a combined result of debt rescheduling and the recovery of exports. Thus, the debt service ratio (interest and amortization payments as a percent of exports of goods and services) of all non-oil developing countries declined from 25.0 percent in 1982 to 21.7 percent (Table VIII, Chart V) in 1984.

These overall data conceal some variations in the extent of the economic recovery in different countries and regions. The current account deficit declined significantly in all regions over 1981-84, except in the Middle East where the decline was only $1.3 billion. The improvement was most dramatic in Asia (down from $22.7 billion in 1981 to $6.2 billion in 1984), followed by the Western Hemisphere (from $46 billion to $17 billion), and Africa (from $14 billion to $9 billion). Note that while the deficit of the non-oil LDCs in the Western Hemisphere was cut by some 56 percent, it was still the largest by far. Their debt service ratio of 45 percent is about double that of the non-oil LDCs in the Middle East, Europe and Africa, and 4.5 times that of Asia (Table VIII).

6. Near Term Outlook

Given the heavy dependence of most LDCs on exports of primary products to the industrial countries, the economic outlook for the LDCs will depend heavily on the pace of economic recovery and growth in the developed countries. The picture here is mixed: the IMF projects real GNP to grow at very moderate rates in Western Europe in 1984--by 1.3 percent in France, 2.7 percent in West Germany, 2.5 percent in Italy, and 2.4 percent in the United Kingdom (Table VII). While these rates represent a marked improvement over the dismal record of 1982 and 1983, this projected recovery still appears very modest and tentative at this point. The much stronger recovery in the United States has slowed to an estimated 1.6 percent in the third quarter of 1984. Even with the substantial slowing of growth in the third quarter, real U.S. growth in 1984 is estimated at 6 percent. However, the outlook for 1985 is for lower growth--in the range of 3 to 4 percent (Table VII).

We may expect the near term economic outlook of the low income LDCs to continue to improve in 1985, but at a relatively modest rate. The IMF projected the real GDP of net oil importers to increase by 3.8 percent in 1984 and 4.3 percent in 1985 (Table VII). While these growth rates are substantially higher than those that prevailed over 1982-83 (1.8 percent and 2.6 percent, respectively--see Table VII), they are still significantly below the growth rate that prevailed over 1967-76 (average of 5.4 percent). The IMF projects no further improvement in the deficit on current account for the non-oil developing countries in 1985 and a slight increase in the debt service ratio (from 21.7 in 1984 to 22.7 in 1985--see Table VIII).

7. Implications for U.S. Policy

Balance of payments assistance for selected LDCs will have to continue on a substantial scale, at least over the near term. This assistance will be focused on countries that have a large deficit and are of political and strategic importance to the United States. Examples include El Salvador, Honduras, Costa Rica, Jamaica, Israel, Egypt, the Sudan, Kenya, and the Philippines. Whenever feasible, the provision of balance of payments assistance will be conditioned upon appropriate host government action to stabilize the economy and encourage private sector activity. Food aid on a large scale must continue to flow to the drought stricken areas of Africa, and measures must be taken to help them cope with their long-term food problems. At the same time, the traditional long term resource constraints in the LDCs, particularly in the low-income countries, must be addressed, with emphasis on health and education, population, agricultural production, unemployment, energy and exports, and on the removal of policy and institutional obstacles to the mobilization and efficient allocation of resources. In particular, adequate incentives should be provided to promote private sector activity. The challenge today is to help the LDCs solve their current economic problems while continuing to lay the foundation for future development.

CHAPTER IV

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

1. Background

Large scale official U.S. assistance to the developing countries began in the aftermath of World War II. The initial emphasis was on reconstruction in Europe and the Far East. It soon became clear, however, that the United States, as the wealthiest country and leader of the free world, could not remain indifferent to the plight of the developing countries. Although many other countries have subsequently joined the ranks of aid donors, the United States remains by far the largest contributor of economic assistance to the developing countries. Cumulatively over 1952-83, the U.S. economic assistance program for the LDCs totalled $138.2 billion.

Over time, the annual appropriations for economic assistance have increased substantially in current dollars, although not in constant dollar terms (see Chart VIII). In 1983, official U.S. economic assistance exceeded $8 billion, while the contribution of the second largest DAC[1/] donor, Japan, was $5.7 billion. Contributions of the third and fourth largest contributors, France and Germany, were $4.3 billion and $3.8 billion, respectively (Table IX).

Yet, when total Official Development Assistance is calculated in relation to a country's GNP (which provides a very rough approximation of ability to contribute), the U.S. ranks near the bottom of the list with a ratio of only 0.24 percent (Table IX). Among DAC donors, only Austria has a lower percentage (0.23) than the U.S.

The bulk of U.S. economic assistance moves through bilateral channels. In CY 1983, bilateral assistance was $6.1 billion, or 71 percent of total U.S. gross official development assistance (on a disbursement basis). In current dollars, U.S. bilateral assistance has increased significantly in recent years, from $4.7 billion in 1979 to $6.1 billion in 1983 (Table

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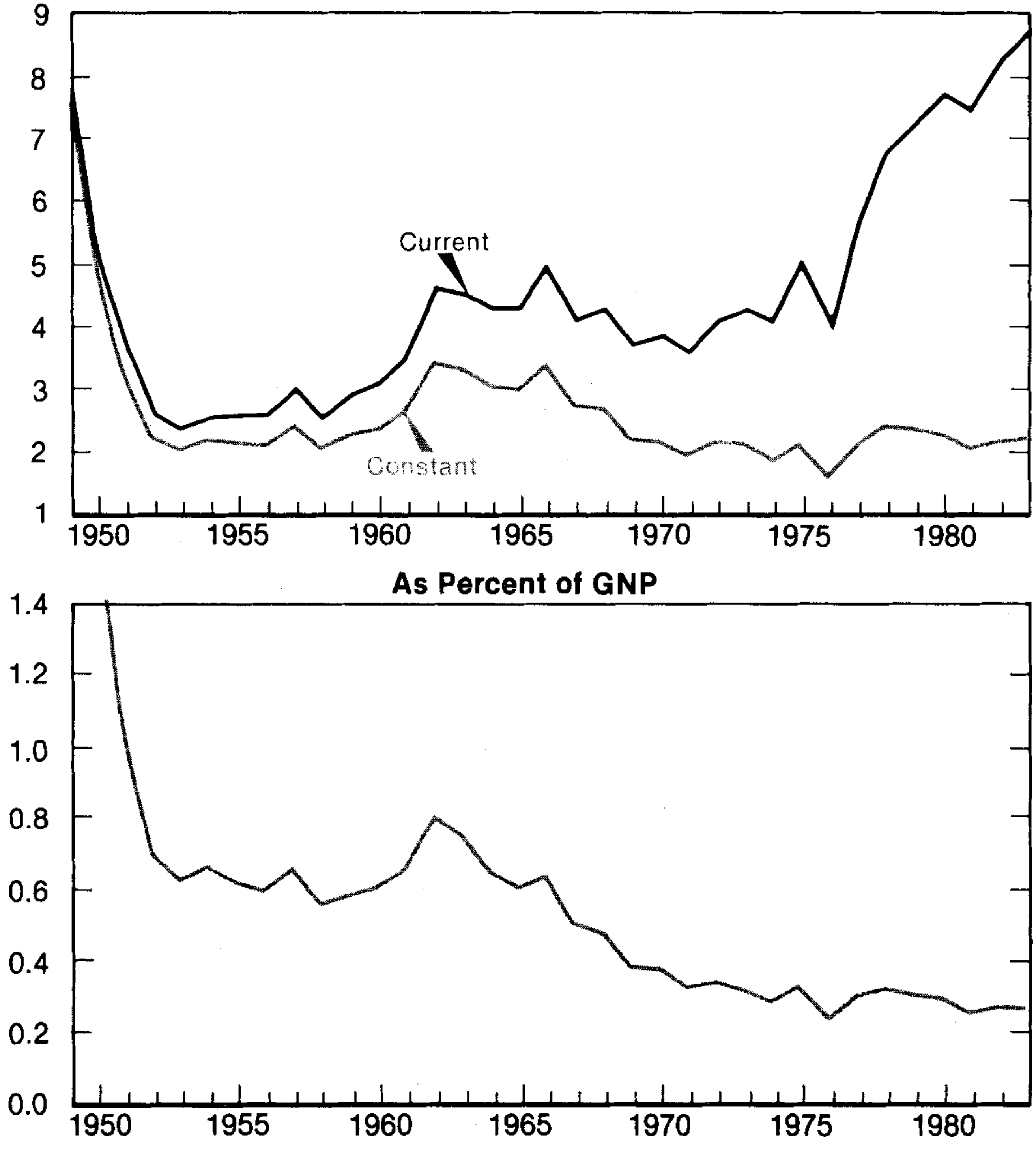
1/ Development Assistance Committee consisting of 17 western developed countries and the Commission of the European Economic Communities.

Chart VIII

U.S. Economic Assistance 1949-1983

In Billions of U.S. Dollars



SOURCE: A.I.D., U.S. Overseas Loans and Grants and Assistance from International Organizations. Price deflator and GNP figures from The Economic Report of the President, 1984.

Table IX

THE TOTAL NET FLOW OF OFFICIAL RESOURCES FROM DAC COUNTRIES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES

Net disbursements — $ million and per cent of GNP

Countries	1972-74 average		1978		1979		1980		1981		1982		1983	
	$ million	As % of GNP	$ million	As % of GNP	$ million	As % of GNP	$ million	As % of GNP	$ million	As % of GNP	$ million	As % of GNP	$ million	As % of GNP
Australia	338	0.54	633	0.59	649	0.54	680	0.49	669	0.42	949	0.60	869	0.56
Austria	39	0.15	126	0.22	101	0.15	139	0.18	193	0.29	208	0.31	153	0.23
Belgium	240	0.54	592	0.60	670	0.60	780	0.66	645	0.67	628	0.75	562	0.69
Canada	683	0.54	1 492	0.74	1 468	0.66	1 736	0.70	1 463	0.53	1 766	0.61	1 685	0.53
Denmark	134	0.51	509	0.99	593	0.99	608	0.94	603	1.09	573	1.06	578	1.06
Finland	29	0.16	50	0.15	88	0.22	116	0.24	133	0.28	144	0.26	155	0.33
France	1 562	0.65	3 168	0.67	3 687	0.64	4 853	0.74	4 628	0.81	4 463	0.83	4 282	0.83
Germany	1 273	0.39	2 569	0.40	3 505	0.46	4 197	0.51	3 850	0.56	3 696	0.56	3 779	0.58
Italy	344	0.25	611	0.23	750	0.23	1 183	0.30	1 206	0.34	1 428	0.41	1 566	0.45
Japan	1 858	0.48	4 368	0.45	2 895	0.29	4 831	0.47	6 194	0.55	5 814	0.55	5 715	0.49
Netherlands	364	0.63	1 094	0.84	1 475	0.98	1 660	1.04	1 524	1.09	1 495	1.09	1 223	0.93
New Zealand	32	0.29	68	0.42	68	0.34	75	0.34	68	0.29	64	0.27	61	0.29
Norway	94	0.49	355	0.90	440	0.96	513	0.89	509	0.89	610	1.08	623	1.13
Sweden	291	0.60	802	0.92	990	0.97	962	0.79	969	0.87	1 315	1.36	1 047	1.18
Switzerland	72	0.18	171	0.19	267	0.27	265	0.25	252	0.26	259	0.26	336	0.33
United Kingdom	1 340	0.75	1 821	0.57	2 298	0.55	1 689	0.32	2 542	0.50	1 950	0.40	1 812	0.40
United States	3 933	0.30	6 952	0.33	5 711	0.24	8 250	0.31	6 698	0.23	9 780	0.32	8 048	0.24
Total DAC countries	12 626	0.41	25 381	0.45	25 714	0.40	32 537	0.45	32 146	0.44	35 149	0.49	32 494	0.43

Note: Administrative costs excluded up to 1978, and in 1979 for Norway and Italy, except for the United States for which they are included for all years shown.

SOURCE: OECD, DAC Chairman Report, Statistical Annex, 1984 Table II.A.5.

Table X
U.S. Official Disbursements 1978-83,
With Breakdown into Bilateral and Multilateral Assistance
(millions of dollars)

Program	Calendar Year Disbursements					
	1978	1979	1980	1981	1982	1983
Official Development Assistance: Gross	6,296	5,343	7,793	6,487	8,891	8,616
Bilateral	4,105	4,733	5,019	5,019	5,546	6,113
Foreign Assistance Act, including Social Progress Trust Fund	2,719	3,156	3,403	3,389	4,109	4,571
Agricultural Trade Development and Assistance Act.	1,145	1,287	1,292	1,273	1,124	1,186
Sales for foreign currencies	--	--	--	--	--	--
Long-term credit sales	720	710	665	656	603	660
Donations	425	577	627	617	520	526
Peace Corps	71	95	98	102	101	116
Other, including multiple rescheduling†	170	196	226	255	212	240
Multilateral	2,191	610	2,774	1,468	3,345	2,503
Capital subscription payments●	1,699	60	1,844	634	2,473	1,650
African Development Bank	--	--	--	--	--	18
African Development Fund	--	25	25	42	58	100
Asian Development Bank:						
Ordinary capital	28	8	15	25	5	13
Asian Development Fund	120	--	222	3	238	110
Inter-American Development Bank:						
Ordinary capital	--	--	--	--	--	--
Interregional capital	27	--	96	--	109	40
Fund for special operations	175	--	375	--	376	99
International Bank for Reconstruction and Development	53	2	16	33	273	80
International Development Association	1,258	--	1,072	520	1,400	1,190
International Finance Corporation	38	26	22	11	14	--
Foreign Assistance Act	285	238	381	388	343	364
Agricultural Trade Development and Assistance Act.	86	97	180	190	157	138
Other	122	215	368	256	371	351
Other Official Flows: Gross	2,336	2,680	3,160	3,043	3,619	2,714
Export-Import Bank	1,047	1,769	2,302	2,400	1,892	1,858
Commodity Credit Corporation	840	552	150	18	--	221
Other, including multiple rescheduling	449	359	708	626	1,726	635
Total Official Assistance: Gross	8,632	8,022	10,953	9,530	12,510	11,330

* Less than $500,000.
● Entries for disbursements have been revised to a consistent issuance basis.
† Includes donations under section 416 of Agricultural Act of 1949, as amended in 1982.

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

X). The component that increased most significantly during this period is the Economic Support Fund, which grew from $1.9 billion to $4.2 billion over 1979-84 (Table XI).

The United States is also the major contributor to the resources of the multilateral agencies (IBRD, IDA, UN agencies and regional development banks), although the aggregate annual U.S. contribution to these agencies has not increased in recent years. In 1983, the U.S. contribution to the multilateral agencies totaled $2.5 billion, which compares with $1.3 billion for the second largest donor, Japan, and $1.1 billion for the third, Germany (Table XII).

In sum: while the United States is the largest donor to the LDCs and the multilateral agencies in terms of absolute dollar levels, the ratio of our economic assistance to our GNP is relatively low. We have increased sharply our ESF economic assistance since 1979, mostly for balance of payments support and Commodity Import Programs.

2. Objectives of U.S. Policy

A basic U.S. objective is to preserve the independence and promote the political evolution of free and open societies, and to support arrangements that facilitate the peaceful resolution of conflicts. It is in furtherance of this objective that we have provided a growing amount of assistance in recent years to countries of political and strategic importance to the United States.1/

A second major objective, closely related to the first, is the promotion of broadly based, self-sustaining economic growth in the developing world. The United States will assist the LDCs in creating the necessary conditions to ensure that growth is both self-sustaining and aimed at ensuring the participation of a broad segment of society, particularly the poor. For this reason, A.I.D.'s development assistance has given, and will continue to give, special attention to the agricultural sector, particularly food production, and to the improvement of health, nutrition, and education.

1/ E.g., Israel, Egypt, Pakistan, Honduras, El Salvador, Costa Rica, and Jamaica.

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

Development Assistance
(Functional Accounts Plus Sahel)

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

PL 480 Title I

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

Economic Support Fund

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

PL 480 Title II

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

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

*Not including funds for Israel

Table XII

ODA FROM DAC COUNTRIES TO MULTILATERAL AGENCIES, 1983

Nets Disbursements — *$ million*

Country	IBRD & affiliated institutions			IDB			Asian development bank			African development Fund[c]	EEC			UN agencies	Other	Total
	IBRD[a]	IDA	Total	Ordinary capital	Special fund	Total	Ordinary capital	Special fund	Total		EDF	Other	Total			
Australia	-	61.2	61.2	-	-	-	5.4	47.9	53.3	-	-	-	-	88.3	16.6	219.4
Austria	-	-	-	1.7	-	1.7	6.9	-	6.9	8.9	-	-	-	17.6	1.1	36.2
Belgium	18.1	37.4	55.5	3.3	-	3.3	0.5	-	0.5	1.0	36.8	41.8	78.6	37.8	14.5	191.2
Canada	30.0	99.7	129.7	13.2	24.2	37.4	5.6	115.4	121.1	66.8	-	-	-	179.2	46.2	580.4
Denmark	-	-	-	-	0.5	0.5	0.2	6.2	6.4	11.6	15.3	14.0	29.3	103.1	7.6	158.5
Finland	2.9	16.1	19.0	0.4	3.2	3.6	-	4.5	4.5	4.8	-	-	-	26.9	1.8	60.6
France	51.8	116.8	168.6	2.3	18.6	20.9	-	34.0	34.0	51.3	156.4	155.2	311.6	66.4	17.0	669.8
Germany	-	420.9	420.9	-	-	-	-	41.2	41.2	68.4	170.9	212.6	383.5	140.7	20.7	1 075.4
Italy	-	83.5	83.5	..	..	..	..	..	..	..	..	..	172.5	82.2	..	383.9
Japan	-	648.6	648.6	-3.0	6.7	3.7	-	301.3	301.3	58.8	-	-	-	287.8	35.6	1 335.8
Netherlands	13.2	82.2	95.4	3.3	3.0	6.3	-	9.5	9.5	1.5	46.5	53.9	100.4	135.0	35.1	383.1
New Zealand	2.3	2.2	4.5	-	-	-	2.6	1.0	3.6	-	-	-	-	3.4	2.2	13.7
Norway	3.4	41.1	44.5	-	-	-	0.3	5.1	5.4	14.7	-	-	-	161.0	26.7	252.3
Sweden	-	65.1	65.1	-	-	-	-	8.2	8.2	16.1	-	-	-	128.2	10.3	227.9
Switzerland	-	-	-	1.1	6.5	7.6	-	9.5	9.5	27.6	-	-	-	46.6	10.4	101.7
United Kingdom	27.5	280.8	308.3	0.7	1.8	2.5	1.8	27.3	29.1	15.6	113.2	166.9	280.1	82.3	28.1	746.0
United States	80.0	1 190.0	1 270.0	40.0	99.0	139.0	13.0	110.0	123.0	118.0	-	-	-	641.0	208.0	2 499.0
Total DAC Countries	229.2	3 145.9	3 375.1	..	..	..	..	..	..	..	..	..	1 360.7	2 227.4	..	8 930.0

a) Including IFC.
b) Disbursements for refinancing arrangements with IDA in 1983: $4.1 millions.
c) Including contributions to the African Development Bank.

Source: OECD, DAC Chairman's Report, Statistical Annex, 1984, Table II.C.3

A third major objective is to help alleviate the suffering of victims of famine and other natural disasters through provision of humanitarian assistance. U.S. large-scale assistance to Ethiopia at this time is a case in point. Humanitarian concerns have significantly affected the distribution of aid allocations: more than half of total U.S. economic assistance goes to countries with an annual per capita GNP of less than $800 (in 1983 dollars).

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

3. Strategy of the Assistance Program

Five basic elements are emphasized in the U.S. economic assistance strategy: economic policy reform; institutional development; reliance on the private sector and market forces; technology research, development and transfer; and donor coordination.

a. Economic Policy Reform

The ability of economic assistance programs to achieve their goals depends in large measure on the soundness of economic policies of the recipient countries. U.S. programs are designed to support the economic policies of LDC governments when these policies are deemed sound, and to promote their improvement when they are not. Inappropriate subsidies, price and wage controls, trade restrictions, overvalued exchange rates, exchange controls, interest rate ceilings, and similar forms of interference with market solutions prevalent in many LDCs are examples of the type of policies that have often curtailed economic performance. The importance of policy reform has become increasingly recognized by the LDCs themselves. The United States will continue to engage the developing countries in a dialogue aimed at improving their policy environment and development prospects.

b. Institutional Development

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

Institution building activities include training to upgrade technical and managerial skills, and technical assistance to establish or refine organizational objectives and structures, to streamline staffing procedures and to build appropriate incentives. In addition, capital assistance, when appropriate, must be provided to establish needed facilities and physical infrastructure.

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

c. Increased Reliance on the Private Sector and Market Forces

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

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

d. Technology Research, Development and Transfer

Developed countries, and particularly the United States, possess the institutional and human resources to generate major technological breakthroughs that are critical to increasing productivity and output. Developing countries should build an indigenous capacity designed to adapt modern technology to their situation, since few technological breakthroughs in the developed world can be readily adopted and efficiently applied unchanged to vastly different LDC needs and conditions. The technologies of the developing world are frequently too large-scale, too capital intensive, and too costly to apply unchanged to developing countries. In agriculture, in particular, variations in soils, rainfall, temperature, as well as differences in the availability of the factors of production, generally require substantial additional experimentation and adaptation. Thus, there is a need for the development of technologies appropriate to developing countries, with emphasis on techniques involving a more intensive use of labor while economizing on the use of capital and, in many cases, of land as well.

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

e. Donor Coordination

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

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

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

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

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

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

4. Priority Sectors for Development

The U.S. economic assistance program places major emphasis on six sectors: agriculture and nutrition, development of human resources, population planning, reduction of unemployment, energy and environmental protection, and economic stabilization.

a. Agriculture and Nutrition

The famine that now ravages Ethiopia, and which may cause the death of half a million people and physical and mental impairment to millions of children for the rest of their lives, only serves to dramatize the problem that is prevalent in many countries of Africa, particularly in the Sahel, as well as in several densely populated countries in Southeast Asia. The need is for a much greater effort in agricultural development, particularly in the area of food production.

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

The United States will make maximum use of its technical competence in identifying and solving problems in food and agriculture. A.I.D. and other elements of the U.S. Government, including the Department of Agriculture, university and private sector organizations are prepared to make a long-term commitment to help LDCs determined to alleviate their food production problem to undertake the required policy reforms and resource investments. In recognition of the crucial importance of food production, A.I.D. resources provided for this sector comprise the major portion of development assistance. In FY 1985, $755 million out of a total "Functional Development Assistance" program of $1,683 million (or 45% of the total)is allocated to "agriculture, rural development and nutrition." For FY 1986 $792 million is being requested.

b. Human Resource Development

Programs in the area of human resource development, defined as health and education combined, constitute the second largest category of A.I.D. bilateral expenditures under the Development Assistance Program. The amount for these two categories (and "Child Survival") in FY 1985 is $437 million, equal to 26 percent of the total budgeted for the Functional Development Assistance Program. The high mortality and illiteracy rates prevailing in many LDCs, particularly in Africa and the Middle East, and their deleterious effects on both the quality of life and productivity, were emphasized in Chapter III. U.S. assistance in both health and education emphasizes activities that benefit the largest possible cross section of the population, rather than sophisticated and costly services provided to a small urban minority. In health, the emphasis is on preventive health and sanitation measures (clean drinking water, immunizations), and primary health care outreach programs (e.g., oral rehydration, rural clinics staffed by paramedics) that have a massive impact and raise social development levels throughout a much larger proportion of the population owing to their relatively low per capita cost. For FY 1986 $146 million is being requested for health and $184 million for education. The total of $330 million for these two categories compares with $437 million in the FY 1985 estimate.

c. Population Planning

A.I.D. continues to support family planning in LDCs where rapid population growth is placing a serious strain on available resources and where high fertility is contributing to high infant and maternal mortality and morbidity rates. At the same time, A.I.D. has firmly disassociated itself from support for abortion-related activities as well as from any family planning program involving coercion. A.I.D. supports voluntary programs involving safe and accepted methods of birth control, and contributes materials, equipment and technical assistance when these are requested by the recipient governments. The amount requested for population planning under the Reagan Administration increased by 30 percent in comparison with the 1980 level. For FY 1985, $290 million is in the Continuing Resolution and $250 million is being proposed for FY 1986, compared with $290 million in the FY 1985 estimate.

d. Reduction of Unemployment

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

e. Energy and the Environment

Although oil prices have declined since 1982, the earlier increases and the severe balance of payments and debt servicing problems confronting most developing countries compelled them to find ways in which the heavy burden of their oil import bills could be reduced. Since 1972, oil prices increased twelve fold (by 1100 percent), while the prices of non-oil primary products and manufactured goods approximately doubled (see Chart IX).

Most developing countries also face the challenge of finding alternatives for their heavy dependence upon traditional fuels such as firewoods and wastes. The United States seeks to encourage the LDCs to expand production of their indigenous energy resources through technological transfers, appropriate pricing policies and provision of incentives to the private sector.

Protection and improvement of the environment is a significant U.S. concern, particularly in areas such as the Sahel where population pressure, along with faulty agricultural practices, deforestation and overemphasis on cash crops, has resulted in substantial soil erosion, which according to a recent authoritative report,1/ has contributed significantly to the recent series of famines in the region. The United States is interested in supporting country programs directed at reforestation, flood control and watershed management. All A.I.D. financed projects that could affect the environment are analyzed to ensure that no adverse impact occurs, or that, if it does, the program is modified to prevent or correct any damaging effects.

f. Economic Stabilization

The provision of fast-disbursing balance of payments assistance under our Economic Support Fund (ESF) program has assumed significant proportions in recent years (discussed further in Section 5 of this chapter). While not all ESF funding goes for balance of payments support or Commodity Import Programs, about 70 percent does. The lion's share of U.S. supplied balance of payments and CIP assistance has gone

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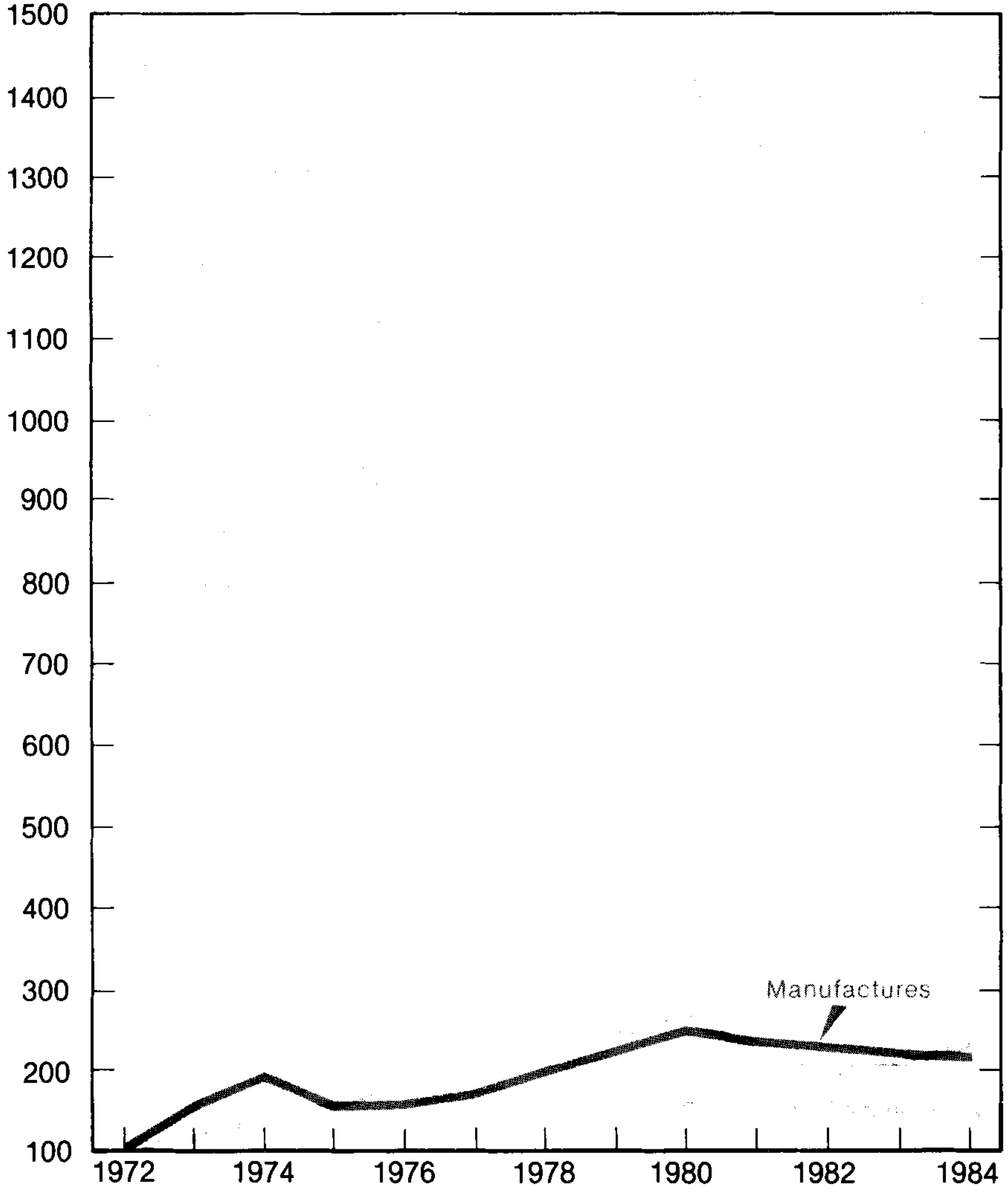
1/ By Earthscan, "Natural Disaster: Acts of God or Acts of Man", Washington, D.C. 1985.

Chart IX

Trends in Prices of Major Commodity Groups 1972=100



SOURCE: International Monetary Fund, World Economic Outlook, 1984.

to countries of strategic or political interest to the United States, such as Israel, Egypt, Pakistan, El Salvador, Honduras, and Costa Rica. The economic crisis that the LDCs have gone through in recent years has greatly aggravated their chronic unemployment problem, causing a major threat to their political stability. The balance of payments and CIP assistance provided by the United States has been devoted mostly to the importation of raw materials and capital goods essential to the conduct of normal economic activity by the private agricultural and industrial sectors. Given the extreme shortage of foreign exchange in these countries, there can be no doubt that the decline in real GNP and the increase in unemployment that they have experienced would have been much more severe without substantial U.S. balance of payments and CIP assistance.

5. Major Instrumentalities of the Bilateral Assistance Program

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

a. Development Assistance Fund (DA)

Development Assistance is administered by the Agency for International Development. This fund represents the basic mode of assistance of the A.I.D. program as governed by the development framework contained in the Foreign Assistance Act. Almost all DA funding is directed at specific developmental projects. The Development Assistance Program reflects the Congressional Mandate to seek the broadening of economic opportunities by focusing on sectors that most directly promote broad-based economic growth, i.e., provide benefits for and ensure the participation of the poor majority of the population. The programs are concentrated in countries where U.S. assistance is most needed, where there is a clear commitment to broadly-based growth and where the United States has a strong long-term interest in development. Data on trends in development assistance, broken down by major regions, shows that total functional development assistance (including the Sahel program) increased little over 1979-85 -- from $1,192 million to $1,846 million (in current dollars), which translates into an increase of only 8% in real terms (an average annual increase of 1.3% a year). The increase occurred in the African and Latin American regions. For FY 1986 a total of $1,676 million is being requested for functional development assistance plus the Sahel program (see Table XI).

b. Economic Support Fund (ESF)

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

As in the case of Development Assistance, the Administration attempts to direct ESF funds to the neediest people, in accordance with the Congressional Mandate, to the extent consistent with the other objectives of the program. However, since ESF funds are closely tied to the political and security interests of the United States, there is considerably more flexibility in allocating ESF funds among countries (in comparison with DA financing). On a worldwide basis, about 70 percent of ESF funding has been used to provide fast-disbursing economic assistance for balance of payments, budget support, and Commodity Import Programs (CIPs). The balance of about 30 percent has been project-type assistance. ESF assistance generally takes the form of grants and need not require the host government to put up local currency counterpart.

The trend in ESF assistance since 1979 is also shown in Table XI. Note that total ESF assistance increased from $1,942 million in FY 1979 to $3,146 million (in current dollars) in FY 1984, or at an average annual rate of 10.1% over this five year period. The estimate for FY 1985 is $4,212.8 million. Over the period 1979-84, substantial increases in ESF assistance were directed at all regions other than the Middle East - including Africa, Asia, Latin America and the Caribbean (Table XI). Major causes for the rapid expansion in the ESF program include, first, acute balance of payments and debt servicing problems that have affected almost all LDCs; second, the heightened security problems confronting the Central American countries and Pakistan; and third, compensation for access rights for the Rapid Deployment Force in the event of a military emergency, e.g., facilities in the countries on the Horn of Africa. In areas other than the Middle East, ESF financing has increased substantially between FY 1979 and FY 1985 - from almost zero to $425 million for Africa, $345 million for Asia, and $967 million for the Latin American/Caribbean. For FY 1986 a total of $2,824 million is being requested for ESF funds (not including funds for Israel) (Table XI).

c. <u>Food for Peace (PL 480)</u>

Under Public Law 480 (PL 480), the United States provides food aid to many countries to combat hunger and malnutrition. The program is also designed to encourage self-help, economic development, support of U.S. foreign policy goals, and expansion of U.S. agricultural exports. The Department of Agriculture and A.I.D. share primary responsibility for administering the program which is divided into three parts, as follows:

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

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

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

Amounts allocated to the Title I (and III) and Title II PL 480 programs are shown in Table XI. Note that annual funding allocations has ranged from $785 million to $1,106 million for Title I and $549 to $800 million for Title II. For FY 1986 $1,030 million is being requested for Title I (and III) and $650 million for Title II.

d. Housing Investment Guarantee Program (HIG)

This program is A.I.D.'s principal mechanism for helping developing countries address their enormous shortages of adequate shelter. It aims to demonstrate to local entrepreneurs and institutions that providing low-cost housing can be financially viable. Under this program, the U.S. Government fully guarantees for a fee U.S. private sector loans to finance low-income shelter and urban upgrading programs in these countries. While a non-concessionary interest rate is charged for the actual loans, the U.S. Government guarantee has the effect of making the funds available for much longer periods and on more favorable terms than would be obtained otherwise. The range of activities financed has included slum and squatter settlement upgrading, site preparation, provision of services, core housing, low cost housing units and community facilities. The HIG program may be largely suspended after FY 1986 owing to the U.S. Government's reluctance to accept additional contingent liabilities under any federal guarantee program. (A much more detailed discussion of the current status of the HIG program is presented in the main volume of the FY 1986 Congressional Presentation.)

e. Disaster Assistance

The disaster assistance program is administered by A.I.D. During the past twenty years, the United States has provided emergency relief assistance to victims of 772 foreign disasters in 128 countries in which 2.3 million have died and 770 million have been affected. In FY 1984 alone, the United States responded to 41 new disasters, including 11 related to food shortages in Africa. The amount allocated for disasters in FY 1985 was $25 million (which is over and above $60.0 million in emergency assistance to Ethiopia). The objective of this help is both to alleviate suffering in foreign countries resulting from disasters and to strengthen the country's ability to cope with disasters through increased reliance on their own resources. Assistance is provided to strengthen early warning systems for natural disasters, to foster preparedness among disaster plagued countries, to alleviate suffering by providing an efficient, rapid and appropriate response to requests for emergency relief, and to enhance recovery through rehabilitation programs.

f. American Schools and Hospitals Abroad (ASHA)

Through this program, A.I.D. assists private U.S.-sponsored non-profit schools and hospitals overseas to serve citizens of other countries. A.I.D. provides grants on an annual competitive assessment to increase the ability of the recipient institutions to transfer knowledge, train personnel, serve as models for replication and increase understanding between the American people and the peoples of these countries. Generally, funds provided go for permanent investments, although operating funds may also be provided. In FY 1984, 40 institutions received $30 million in grants. The assisted schools provided training to 134,000 students from 104 countries, while more than 3.3 million people received medical services from assisted hospitals and their community health programs.

6. Special U.S. Programs

a. Peace Corps

The Peace Corps is an important part of the U.S. development effort. It works in close cooperation with other U.S. development operations. Trained Peace Corps volunteers work next to their counterparts in 59 developing countries in such fields as food production, education, health, and natural resources conservation and management. The result of this direct contact is tangible evidence that Americans care about the well-being of poor people in the developing world. When the volunteers return they pass on to their fellow citizens a better understanding of the problems of developing countries and how closely we are affected by these problems. Many volunteers remain in the development field. Nearly 500 former volunteers are currently employed in A.I.D., for example. The Administration is determined to insure an increasing level of cooperation between A.I.D. and the Peace Corps in areas where cooperation will enhance our foreign assistance program.

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

The Inter-American Foundation was established by Congress in 1969 as an autonomous government corporation. It extends grants to local private groups in the Caribbean and Latin America, particularly those traditionally outside the mainstream of U.S. development assistance programs. The IAF promotes more equitable, responsive, and participatory approaches to development and foreign assistance in the region through its grants supporting self-help projects. The Foundation's funds come from Congressional appropriations and from the Social Progress Trust Fund of the Inter-American Development Bank. The Administrator of A.I.D. is a member of the IAF Board of Directors.

The African Development Foundation (ADF) was founded by Congress in 1983 to assist indigenous institutions throughout Africa in response to a need for greater local involvement of the poor in their countries' development. ADF is a non-profit semi-private corporation of the United States Government, which will specialize in small scale projects to be promoted by African individuals and community organizations.

c. Private Voluntary Organizations (PVOs)

Non-governmental organizations are involved in a significant portion of our bilateral development efforts. They have an excellent record of accomplishment in addressing problems that are basic to development, particularly in the fields of rural and small enterprise development, health and family planning. The United States supports PVO representatives in virtually every country in the world and is seeking to increase the PVOs' role through grants of official funds. They rely heavily on the private contributions of millions of Americans.

In FY 1983, A.I.D. provided just over $250 million in grants and contracts to PVOs and continued support to such special groups as the International Executive Service Corps and the Asia Foundation. The Agency also supported numerous field activities of some 70 groups whose programs coincide with A.I.D.'s overall priorities.

d. Refugee Assistance

Armed conflict, civil disturbances, famine, and human rights violations all contributed to the growth of the world refugee population last year. The State Department has the prime responsibility through the Refugee Assistance program for the immediate needs of refugees, particularly food, shelter, and medical supplies. In addition, A.I.D. assists some refugees and displaced persons to resettle and become self-supporting. A.I.D. assistance to address immediate needs includes P.L. 480 Title II and International Foreign Disaster Assistance. In recent years, Title II programs assisted refugees in Somalia, Pakistan, Kampuchea, Cameroon, Rwanda, and Ghana. Other A.I.D. activities which involve refugees include direct programs to assist refugees in Somalia and Sudan.

e. Overseas Private Investment Corporation (OPIC)

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

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

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

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

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

f. Trade and Development Program

The Trade and Development Program (TDP) was established in 1980 as an autonomous agency under IDCA. TDP promotes private sector participation in the development of Third World countries through the provision of project planning services that lead to the sale of U.S. technology for project implementation, and through the provision of government-sponsored technical assistance on a reimbursable basis.

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

Two kinds of TDP services are available. First, TDP makes available technology, technical-services, and training from U.S. Government agencies on a reimbursable basis. Second, TDP finances planning assistance, including project preparation and feasibility studies by U.S. agencies and private firms, on a grant basis. All TDP-sponsored activities must meet the dual criteria of development benefit to the host country and trade benefit to the United States.

Planning services for major projects that are likely to use U.S. goods and services are considered for TDP sponsorship if such projects are high on the list of development priority to the host country, and if there is host-country funding for project implementation. Development projects in the energy, agro-industry, mineral extraction, transportation and technical training areas are given priority consideration, as well as projects which provide the United States with access to strategic minerals.

7. U.S. Policies Affecting Development

This section will describe some significant areas of U.S. policy that affect the LDCs. The topics covered include action taken on the recommendations of the National Bipartisan (Kissinger) Commission on Central America, emergency assistance to Africa, U.S. policies in the areas of international and commodity trade, and the U.S. position on the North-South dialogue.

a. Special U.S. Development Initiatives

(1) Supplementary Assistance to the Caribbean

Acting on the recommendations of the National Bipartisan Commission on Central America headed by Henry Kissinger, Congress provided an FY 1984 Supplementary Appropriation for Central America and the Caribbean totalling about $382 million in economic assistance (excluding military). The breakdown was as follows:

Supplementary FY 1984 Assistance
(millions of dollars)

El Salvador	113.3
Costa Rica	66.2
Honduras	79.8
Guatemala	16.6
Panama	46.5
Total for Central America	322.4
Belize	10.0
Dominican Republic	50.0
Total for Caribbean Basin	382.4

Most of this assistance takes the form of fast disbursing ESF/balance of payments financing to enable these countries of political and strategic importance to the United States to surmount the current crisis while putting in place long term remedial measures to restore economic stability.

(2) Expansion of Trade Credit Insurance Programs for Central America

The Export-Import Bank has statutory authority to guarantee short-term credits provided by U.S. commercial banks, but this guarantee authority is restricted: the Ex-Im Bank can only extend guarantees to the extent that it finds that the loans do not involve an unreasonable risk. Under provisions enacted in 1984, the Ex-Im Bank itself can obtain reimbursement from A.I.D. for losses incurred in extending guarantees to banks providing trade credits to the Central American countries (up to a limit of $300 million). While this additional guarantee authority cannot be expected to restore commercial bank credits to the Central American region to the pre-1979 level, it is expected to result in a substantial expansion in the region's ability to import essential raw materials and intermediate goods. The program will extend to 1989.

(3) Economic Assistance to Africa

Sub-Saharan Africa is given special attention in the allocation of A.I.D. economic assistance for three distinct but interrelated reasons: (1) the severity of the drought in a number of African countries this year, particularly in Ethiopia; (2)the continuing decline in real output per capita since 1973 as a result of an almost uninterrupted series of droughts and famines that have severely affected at least 22 of the 38 sub-Saharan countries; and (3) a number of sub-Saharan nations have begun to correct some of the counterproductive public policies that have contributed to the declining incomes.

The drought has hit the Ethiopians with particular virulence this year. Of 42 million people, 6 million are considered at risk from famine. U.S. emergency assistance for all of Africa during FY 1984 totalled $173 million, twice the amount of 1983 assistance, and three times the amount of 1982 assistance. Between October 1 and December 31, 1984, the United States has authorized $125.4 million in aid to Ethiopia, including $115 million for the shipment of 234,000 metric tons of food. In addition, the United States has authorized assistance to Ethiopian refugees (under a special program) for $22.3 million, including 31,000 tons of food.

This year's drought is not an isolated occurrence. A long series of droughts has struck Africa since 1968. They were relieved only during 1974-75. Rainfall deficits are in the range of 20-60%. Real output per capita has declined continuously after 1973. It is estimated that the purchasing power of the exports of the 23 low-income sub-Saharan countries fell by about 22% between 1973 and 1982. While climatic changes can be partly blamed for this development, a number of man-made factors also contributed. These include substantial pressure by the rapidly growing population on limited natural resources, erosion, deforestation, overgrazing, and a set of inappropriate agricultural policies that discourage agricultural production, including farmgate prices set at artificially low levels, parastatal inefficiencies, uneconomic public investments and policies that discriminate against exports and the private sector.

Aside from substantial food assistance related to the current famine, the U.S. has appropriated $75 million in FY 1985 ESF funds for Africa to be allocated to countries in which governments are pressing extensive policy reforms whose implementation can be made more effective through additional U.S. assistance. The countries that have agreed to major policy reforms include Rwanda, Mali, Malawi, and Zambia. The disbursements of U.S. funds will be conditioned on adoption of agreed policy changes.

b. International Trade Policy

The cornerstone of U.S. trade policy is furtherance of trade liberalization through the General Agreement on Tariffs and Trade (GATT), an international body designed to establish procedures and principles to govern and organize international trade. A basic tenet of the GATT is the "most favored nation" concept which calls for non-discriminatory application of tariffs and other trade policies (with special exceptions to take into account the development situation of developing countries). Where protection for domestic industries is necessary, it is supposed to take the form of tariffs, not import quotas. Consultation, not unilateral action, should be the primary method to solve trade problems.

Since 1947, seven rounds of Multilateral Trade Negotiations (MTN) have taken place under the auspices of the General Agreement on Tariffs and Trade (GATT). As a result of the 1979 Round, the Tokyo Round, the United States cut tariffs on imports from developing countries by over one-fourth. More important, agreement was reached during the Tokyo Round on codes of conduct restricting the use of non-tariff barriers to trade, which will help assure improved market access for developing countries. The United States is a signatory to all of these codes, and has advocated that developing countries fully participate in them as well.

In earlier efforts to organize and liberalize international trade, relatively little attention was devoted to developing country trade problems and issues. Over the past decade, however, the developing countries have been increasingly viewed as important markets as well as competitors, and deliberate efforts have been made to include them in trade negotiations and to take into account their trade concerns and interests.

The Generalized System of Preference (GSP) is a framework aimed at addressing the special needs of the LDCs in the international trade system. It is a program permitted under GATT whereby individual developed countries unilaterally provide a preferential or zero duty for imports from developing countries. Through the use of these tariff preferences, developing countries are able to increase their exports and to diversify their economies. The U.S. GSP program provides duty-free treatment for imports of 3,000 products from 140 developing countries. All industrial countries currently have a GSP program in place.

Duty-free U.S. imports from the developing countries under GSP amounted to $10.8 billion in 1983. Since U.S. imports under GSP account for only four percent of total U.S. imports, they do not represent a major threat to U.S. economic interests. Our program includes provisions for the automatic removal of GSP eligibility from a beneficiary country for those products in which the beneficiary's shipments during the previous calendar year exceeded 50% of total U.S. imports of that product or a given dollar amount, which in 1983 was $57.3 million. In 1983, $10.7 billion in GSP-eligible exports from beneficiary countries were excluded from duty-free treatment because of these "competitive-need" criteria.

The major beneficiaries of the U.S. GSP program continue to be Taiwan, Korea, Hong Kong, Mexico and Brazil, which together accounted for nearly 70% of the value of GSP duty-free imports in 1983. This concentration of benefits is understandable in light of the product composition of the GSP program, the varying abilities of developing countries to export, and the trade policies of various developing countries. Nevertheless, the figure represents an increase from 1982 when the five countries accounted for 63% of GSP duty-free imports. LDCs that achieve a relatively advanced state of development in particular product lines, i.e., that become "sufficiently competitive" in these lines, are "graduated" from the GSP group, which means that the exports no longer benefit from the duty waiver under the GSP. Thus, $443 million of GSP trade was graduated under the President's discretionary authority in 1981, $651 million in 1982, and $900 million in 1983.

The U.S. GSP was established in 1976 and in October 1984 was extended by the Congress through mid-1993. The reauthorization bill will not force the removal of any countries or products; graduation will continue to be applied on a product-specific basis; and (for the first time) the President will be authorized to waive completely competitive need limits on a product specific basis. The renewed program will place considerable emphasis on the extent to which beneficiaries are (1) offering adequate market access to U.S. exports; (2) protecting U.S. intellectual property rights; (3) eliminating trade-distorting investment practices; and (4) ensuring various worker rights.

c. Trade in Primary Products ("Commodity Trade")

Discussions of international commodity trade issues have largely taken place under the auspices of the United Nations Conference on Trade and Development (UNCTAD) which was established to focus special attention on international economic relations and on measures that might be taken to accelerate the pace of economic development.

UNCTAD has long been concerned with the operation of commodity (primary product) markets because many LDC economies are dependent on commodity exports for their foreign exchange earnings. Severe price fluctuations of primary commodities can result in rapid changes in their foreign exchange earnings which can in turn create significant economic difficulties, particularly for less economically diversified countries. By resolution adopted in 1976, UNCTAD established the International Program for Commodities (IPC). The objectives of this program were to increase market access and reliability of supply of primary products, diversify production in the LDCs, improve the competitiveness of natural products against synthetics and substitutes, improve commodity market structures, and to develop the marketing, distribution and transport systems for commodity exports. These objectives were to be achieved, in part, through the negotiation of international commodity agreements financed by a "Common Fund." This fund would be used to set up buffer stocks of particular commodities and would seek to stabilize their prices around a long-term trend. It would be financed by contributions from all countries that subscribe to the commodity agreement, which was to include the major consuming countries.

The United States believes that trade in commodities should respond to free market forces. It is recognized, however, that international cooperation to stabilize commodity prices around a long-term trend may at times be in the interests of both producers and consumers. Therefore, the United States judges each proposal for such international cooperation on an individual basis. The United States has participated in price stabilizing agreements covering rubber, coffee, and sugar. Regarding specific agreements, the International Rubber Agreement will continue into effect until October 1985, and the United States has agreed to enter into negotiations toward a new agreement. We continue to participate in the recently renegotiated International Coffee Agreement. The current International Sugar Agreement, on the other hand, expired in December 1984. The depressed international sugar market has made it impossible to negotiate new price stabilizing provisions and, after January 1985, only administrative provisions of the agreement will continue. The United States declined to participate in price stabilizing agreements for tin and cocoa because of concern about their financial viability.

Negotiations toward the Common Fund Agreement were concluded in 1980, but the Agreement has not yet been ratified by a sufficient number of countries to provide it with the necessary financial contributions to enable it to operate. The United States signed the Agreement in 1980 but has not been prepared to consider ratification since none of the buffer stock commodity organizations have indicated their intention of associating with the Fund.

d. North/South Dialogue

International discussions of economic issues involving developed and developing countries are often referred to as the North/South dialogue. While North/South issues range from the very technical to the very general, there are two basic categories which encompass most of them -- trade and finance. Developing countries want improved access for their exports and improved terms of trade including higher and more stable prices for their raw material exports. In the related financial area, they seek much larger resource transfers on a more concessional and/or less conditional basis. They also seek debt forgiveness or renegotiation on much more favorable terms. To achieve these objectives they desire a fundamental restructuring of the existing international trade and world monetary system. The changes envisioned would give these countries a much more significant operational role in the international economic system and in the management of key institutions such as the IMF and IBRD.

The United States, along with other developed countries, recognizes the increasing interdependence of the international economy and has supported mutually beneficial, evolutionary changes in the international economic system. The United States, however, believes that the existing system has functioned reasonably well and that a radical restructuring of the system is neither needed nor desirable. A particular U.S. concern is that the powers, functions, and competence of the specialized agencies (IMF, GATT, IBRD), which have a proven record of success in promoting international growth and development, be protected from unwise interference or intrusion of the political issues so common within the United Nations system.

At the London Summit in June, 1984 the seven western industrialized countries stressed economic development and financial issues of importance to developing countries, emphasizing the substantive work underway in GATT, the IMF, the World Bank and similar operational institutions. They reaffirmed the five point strategy for dealing with debt problems on a case-by-case basis. They agreed to continue developing this strategy by encouraging closer IMF/IBRD cooperation, an enhanced role of the IBRD in fostering development, direct investment flows to developing countries, and multi-year rescheduling of external debts for debtor countries which are successfully improving their economic performance.

CHAPTER V

Multilateral Programs

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

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

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

A second category of UN organizations have mandates broader than development, but devote a considerable amount of their resources to development activities. These include organizations such as the UN Children's Fund and the UN Environmental Program.

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

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

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

1. Multilateral Development Banks (MDBS)

a. Trends in MDB Assistance

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

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

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

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

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

U.S. participation in recent replenishments has therefore encouraged MDBs to give precedence to loan quality over lending targets, to promote a favorable policy environment for development, and to move borrowers out of soft lending progressively as their creditworthiness and access to alternative financing permit.

The MDBs, the majority of which the United States was instrumental in founding, typically have capital and concessional lending windows. Lending from the capital windows is financed largely from borrowings on world capital markets against donor pledges of callable capital. Loans from capital windows have lending rates slightly better than could be obtained by the most creditworthy developing countries in international capital markets, and have considerably longer maturities. Concessional windows, which lend to low-income countries at highly concessional rates and extremely long maturities, derive their resources almost entirely from direct donor contributions. In addition, some of the MDBs have helped establish specialized institutions to promote private sector development.

The principal means of U.S. oversight of the MDBs is the regular review of proposed MDB projects within the U.S. government. Interagency review of MDB loans about to come to Boards of Directors for a vote focuses on the technical, economic and financial merits of the projects. In FY 84, the United States opposed (by a no vote or an abstention) 16 projects containing technical, economic or financial deficiencies.* Since the Banks know that the U.S. carefully monitors their operations and that poor project quality can affect the future level of U.S. contributions, concerns expressed by the U.S. often lead to project design improvement before proposals come forward for Board consideration. The U.S. can be most effective at influencing project design if it identifies potential problems while a project is still in an MDB's pipeline and therefore more susceptible to change. A.I.D.'s Early Project Notification (EPN) System, as well as Treasury's early warning system, are two of the methods the U.S. uses to identify needed modifications in MDB projects at this early stage.

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

*Excludes projects opposed due to unresolved country expropriation problems or human rights concerns.

All the MDBs have made increased efforts to enhance co-financing with commercial sources and to explore the potential for making equity investments in private enterprises. In addition, two events that took place during 1984 have special relevance for private sector involvement in development. The Board of Directors of the International Finance Corporation, which makes equity investments and arranges commercial loan packages for private ventures without government guarantees, reached agreement on a $650 million capital increase over 1985-89. This capital increase will support an innovative IFC program concentrating on: capital market development; corporate restructuring; oil exploration; and small and medium sized enterprises in sub-Saharan Africa. On November 4, 1983, the United States and other interested countries signed the final set of the negotiations for the establishment of the Inter-American Investment Corporation (IIC), an IFC-like institution for Latin America which will be linked to the Inter-American Development Bank.

Two major international economic problems, debt and the economic crisis in sub-Saharan Africa, have been the object of World Bank review during 1984. In the context of a study on its role in the coming years, the Bank is examining how it can best assist countries that are carrying a heavy debt burden. A related study on economic conditions in sub-Saharan Africa resulted in Bank commitments to focus increased attention on policies in borrower countries and coordinating donor activities at both the Consultative Group and local levels.

b. FY 1986 Budget Request for the MDBs

In most cases, the FY 86 budget request for the MDBs reflects agreed U.S. contribution levels negotiated internationally and already authorized by Congress. However, three of the items in the FY 86 request reflect expected U.S. participation in international funding arrangements for which Congressional authorization will be sought in early 1985: a Selective Capital Increase for the World Bank; a five-year capital increase in the International Finance Corporation; and the fourth replenishment of the African Development Fund (AFDF).

(1) The World Bank

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

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

The IBRD, whose capital is subscribed by member countries, finances lending operations primarily from borrowings in world capital markets and from retained earnings and loan repayments. Loans are repayable over 20 years or less, including a five-year grace period. The IBRD charges an interest rate on a cost-plus basis, based on its own cost of borrowing. The IBRD's loans - $11.9 billion in its FY 1984 - are directed toward countries at the relatively more advanced stages of economic development that can better afford to pay the market-related rate the IBRD offers. The largest borrowers from the Bank in 1984 were Brazil, Indonesia, Turkey and Korea.

The IBRD's subscribed capital was doubled in 1980 with adoption by the Board of Governors of a General Capital Increase (GCI). This increase was designed to support lending through the mid-1980s. For FY 1986 the Administration is requesting $109.7 million in budget authority for paid-in capital and $1,353.2 million in program limitations for callable capital as the fifth installment of the U.S. subscription to the GCI.

In 1984 the United States agreed, subject to Congressional approval, to participate in an $8.4 billion Selective Capital Increase (SCI) for the IBRD. In early 1985 the Administration will seek authorization for a two-year U.S. subscription of $1.5 billion to the SCI - $65.7 million paid-in and $685.4 million callable annually. The first installment of this U.S. subscription, as well as arrears of $7.4 million paid-in and $66.9 million callable from the 1970 SCI, are contained in the FY 1986 request.

(b) The International Development Association (IDA)

IDA is the World Bank Group's concessional lending window. It is supported by contributions from donor countries and reflows from previous loans. It is the single largest source of concessional development assistance for the world's poorest countries, lending $3.6 billion in 1984. IDA lends only to countries that have an annual per capita income of $790 (1983 dollars) or less. IDA loans must meet all the criteria for economic, financial and technical soundness that apply to other World Bank projects. IDA loans currently have 50-year maturities, including a 10-year grace period, and carry a 0.75% service charge.

The FY 1986 budget includes $750 million for IDA, the first of three equal installments of the U.S. contribution to the seventh IDA replenishment.

(c) The International Finance Corporation (IFC)

The IFC supports the private sector in developing countries by arranging and participating in equity financing and commercial loan packages for private enterprises. In FY 1984 the IFC made loans of $631.6 million and equity investments of $75 million.

As noted above, the U.S. agreed this year, subject to Congressional approval, to participate in a five-year, $650 million capital increase in the IFC. The FY 1986 request includes $35.0 million for the first installment.

(2) Regional Development Banks

These banks provide financing to developing countries within their geographical region. They have both capital and concessional lending windows. The regional banks are specialized in their focus and are staffed to a considerable extent with nationals of countries in the region.

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

The ADB, established in 1966, has a membership of 31 regional and 14 non-regional countries. The U.S. is both a member of the ADB and a contributor to the Asian Development Fund (ADF), its concessional lending fund. In 1983, the ADB and ADF approved loans worth $1.2 billion and $703.4 million respectively. Principal borrowers from the Bank were Indonesia, Pakistan, Korea, and the Philippines, and from the Fund, Bangladesh, Pakistan, Burma, and Nepal.

The FY 1986 funding request includes the third U.S. installments of both the ADB 1983-87 and the ADF 1983-86 replenishments, $13.2 million paid-in and $251.4 million callable for the ADB and $130.0 million for the ADF.

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

The AFDB, created in 1963, agreed in 1979 to amend its charter to admit non-African members. In May 1982, the charter amendments were ratified by the African membership, and 24 non-regional countries have joined the Bank. The United States became a member in February 1983. In 1983, the AFDB made loans totalling $573.8 million in the African region. AFDB loans are repayable over 15-20 years, with 3-5 years grace, at 10% interest plus a small statutory commission and commitment fee.

The AFDF, the concessional lending window of the African Development Bank Group, came into existence in 1973. The U.S. has been a member since 1976. Major donors are the United States, Japan, Canada, and Germany. The AFDF makes 50-year loans at a 0.75% service charge for projects in the poorest African countries. In 1983 AFDF loans totaled $343.8 million.

The FY 1986 request includes the fourth installment of the U.S. subscription to the AFDB's initial non-regional capitalization - $18.0 million paid-in and $54.0 million callable. In May 1984, the United States and other donors concluded replenishment negotiations to finance AFDF lending in 1985-87. Early in 1985 the Administration will seek Congressional authorization for U.S. participation in this fourth AFDF replenishment. The FY 1986 request for $75.0 million constitutes the first installment of the U.S. contribution.

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

The largest and oldest of the regional banks, the IDB provides development assistance to Latin American and Caribbean countries. Like other MDBs, the IDB provides resources on both market-related and concessional terms. The Bank's hard loan window utilizes capital market borrowings to fund the majority of its lending programs. In 1983 it lent $2.6 billion. The IDB's Fund for Special Operations (FSO) provides development loans on concessional terms to the poorest countries in the region. In 1983, lending from the FSO was $412.0 million.

The FY 86 request contains the third installment of the U.S. subscription to the 1983-86 IDB/FSO replenishment - $58.0 million paid-in and $1.2 billion callable for the IDB, and $72.5 million for the FSO.

During 1984, the Administration received Congressional authorization to participate in the initial capitalization of the Inter-American Investment Corporation (IIC), an IFC-like entity that the IDB is helping establish for the Latin American countries. The FY 1986 request includes the $13.0 million second installment of the U.S. subscription.

2. <u>The International Monetary Fund (IMF)</u>

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

The IMF is essentially a revolving fund of currencies, provided by every member in the form of a quota subscription and available to every member for temporary balance-of-payments assistance at any given time. It also makes use of borrowed resources. Nevertheless, the IMF is not an aid institution; there is no fixed class of lenders or of borrowers, no concept of "donor" or of "recipient."

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

Net disbursements from the IMF were SDR 8.7 billion during the first nine months of 1983, and declined to 5.0 billion during the first nine months of 1984. The decrease was entirely due to a reduction in IMF lending from SDR 10.3 billion in 1983 to SDR 6.6 billion in 1984, since repayments to the IMF held almost constant at SDR 1.6 billion in 1983 and 1984 during these two successive nine months period.

The number of active standby arrangements fell between April 30, 1983, and October 31, 1984, from 30 to 27. As IMF charges remain high and repayments rise over the next several years, the IMF could move from financing the "temporary" balance of payments deficits of member country LDCs to becoming a net claimant against their foreign exchange earnings.

In late 1983, Congress approved a US contribution of $8.4 billion to a roughly $29 billion increase in total IMF quotas. Because of the quota increases, IMF resources rose almost 50%; quotas totaled SDR 61.0 billion in September 1983 and rose to 89.3 billion as of September 30, 1984.

3. UN Organizations and Programs

a. United Nations Development Program (UNDP)

UNDP, headed by former U.S. Congressman Bradford Morse, is the major multilateral instrument for the delivery of grant technical assistance to the developing world. UNDP now provides such assistance to over 150 countries and territories. In 1983, UNDP projects amounted to over $466 million.

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

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

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

Since the establishment of the UNDP, the United States has consistently been its largest contributor. The United States pledge of $160 million for FY 1984 amounted to 23% of total contributions pledged. Other major pledges to UNDP included $47.5 million from the Netherlands (6.8% of the total), $48 million from Norway (7.6%), $52 million from Canada (7.5%), $45 million from Sweden (6.5%), $43 million from the Federal Republic of Germany (6.2%), $41.6 million from Denmark (6.0%), $27.7 million from the United Kingdom (4.0%), $27 million from France (3.9%), and $26.4 million from Italy (3.8%). A total of $120 million is requested for the U.S. voluntary contribution to UNDP in FY 1986.

b. UN Fund for Population Activities (UNFPA)

UNFPA was created in 1967 to assist developing countries with high population growth rates and low national incomes to solve their population problems. The Fund has made great strides since it became operational 14 years ago. It continues to offer flexible and cost-effective programs, well suited to complex population problems. The General Assembly has recognized the Fund as the focal point of population activities in the UN system. Through 1984, the Fund provided more than $1.2 billion in population assistance to developing countries. As of July 31, 1984 the Fund had completed some 1,900 projects, and was assisting over 2,000 projects in process. UNFPA expenditures on development assistance totaled $106 million in 1983.

The level of voluntary contributions to UNFPA which, over the last four years, had fallen short of conservative annual funding targets approved by the UN Development Program Governing Council, has now begun to rise again. In 1985, the United States has pledged $46 million (a 20% increase) and, counting all contributions, UNFPA will enjoy an overall resource increase of about 10%.

Total pledges from governments since the inception of UNFPA in 1967 amount to $1,232 million, of which the United States pledged $373.9 million, or 30.3 percent. The consensus reached at the 1984 International Conference on Population in Mexico City reaffirmed support for UNFPA, calling for increased international support for population programs and a strengthened UNFPA. At that conference United States' representatives also reaffirmed existing United States policy that in no case should abortion be promoted as a method of family planning. In response, the Executive Director of the UN Fund for Population Activities repeated in writing that his organization supports neither abortion nor coercive measures to achieve population growth goals. The FY 1986 U.S. voluntary contribution to UNFPA of $40 million is proposed.

c. United Nations Children's Fund (UNICEF)

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

Three broad categories of activities characterize UNICEF's work:

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

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

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

In 1983-84 UNICEF focused unprecedented international attention on opportunities for achieving a "child survival revolution," which, within 10 to 15 years could save the lives of half of the 40,000 children who currently die each day in developing countries. This UNICEF-led effort stresses the "GOBI" strategy, a package of low-cost, high-impact measures of proven effectiveness: growth charts (hence the "G") to enable mothers to detect infant malnutrition; oral rehydration therapy ("O") to provide an inexpensive home treatment to reduce the high death toll among children with diarrhea; the promotion of breast feeding ("B"); and immunization campaigns ("I") for young children.

The U.S. Government has always been a prime supporter of UNICEF and a member of UNICEF's Executive Board. The UNICEF Executive Director is a U.S. national. UNICEF's program directions generally coincide with U.S. development initiatives and policies. For example, UNICEF's efforts in promoting oral rehydration therapy, the use of infant growth charts to detect early signs of malnutrition, and other elements in UNICEF's effort to bring about a "child survival revolution" in developing countries, reinforce related U.S. assistance programs. In 1983, USAID, UNICEF, and WHO sponsored the International Conference on Oral Rehydration Therapy which has increased the use and effectiveness of this therapy in saving children's lives in developing countries.

Oral Rehydration Therapy (ORT) has begun to achieve dramatic results already - its use is up 90 percent during the past year and small-scale campaigns in Egypt, Bangladesh, India, Guatemala and Honduras have halved the rate of child deaths. ORT could become available to half the world's families within the next five years and save the lives of two million children a year. At the moment, less than 15 percent of the world's parents are using ORT and probably a majority of doctors and health workers have still not heard of - or not accepted - the ORT breakthrough. In support of such programs, the United States is providing a special contribution in FY 1985 of $7.5 million to UNICEF to finance child survival activities of indigenous private voluntary organizations.

All of UNICEF's income comes from voluntary contributions. In 1983, 129 goverments, The Holy See, and the Arab Gulf Fund (AGFUND) contributed to UNICEF. The United States contributed $42.5 million to UNICEF general resources, accounting for 17.6% of such contributions and making the USG the largest contributor. Other major contributors included the governments of Sweden (8.0% of 1983 contributions), Norway (6.9%), Italy (6.7%), Canada (4.4%), Japan (4.3%), the United Kingdom (3.8%), and the Netherlands (3.3%). The United States contributed $52.5 million in FY 1984 for an estimated 21.4% of general resources contributions. An FY 1986 United States voluntary contribution of $27.0 million is proposed. UNICEF is unique in the UN system in that private contributions and the sales of greeting cards raise about 15 percent of UNICEF funds.

d. World Health Organization (WHO)

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

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

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

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

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

The Food and Agriculture Organization (FAO) is a cooperative grouping of 156 member countries pledged to:

-- raising levels of nutrition and standards of living;

-- improving production and distribution of all food and agricultural products; and

-- improving the condition of rural populations; and thus contributing to an expanding world economy and to the elimination of hunger.

In serving the needs of its member nations, FAO has become the largest single organization providing agricultural technical assistance to developing countries. FAO responds to the urgent need for capital for agricultural development by helping countries to identify and formulate investment projects for submission to financing institutions. For this purpose FAO works closely with a number of international and national financing institutions, including the multilateral development banks, the International Fund for Agricultural Development (IFAD), Arab development funds, and national development banks.

Examples of FAO's principal activities include: plant production and protection; animal production and health; fertilizer; land and waste resources; fisheries; food policy and nutrition; forestry; social and economic policy programs; agrarian reform and rural development; and training of developing country nationals in all areas of agriculture.

FAO income is derived from two sources: assessed contributions from member countries, and voluntary extra-budgetary contributions by governments, international organizations, and various non-governmental donors. Of the total estimated resources available to FAO in the 1984-85 biennium, approximately 40 percent ($421.1 million) represents the assessed budget. The United States share of the assessed budget is 25 percent which, with adjustments, amounts to $88.5 million.

In addition to self-financed projects, FAO also executes projects funded by other UN organizations. Expenditures for these projects in 1983 amounted to over $430 million.

The FY 1986 United States assessed contribution to FAO is estimated to be $39.2 million.

f. World Food Program (WFP)

The United States has been a major supporter of the World Food Program (WFP) since it was established in 1962 by the United Nations and FAO to provide food aid in support of agricultural and rural development in developing countries. The program's resources come from voluntary pledges from over 100 participating countries in the form of commodities and cash for services such as shipping. Two thirds are in commodities and one-third in cash and services. The Program's "food basket" contains about 50 commodities including cereals such as wheat, maize, and sorghum, and protein-rich foods such as milk, meat, cheese, fish, and poultry, as well as edible oils, sugar, and tea.

In the 20 years of WFP's life, 1,191 development projects in 114 countries and 647 emergency projects in 96 countries have been approved. The WFP contribution is frequently only a part of the total project cost. The remainder -- often three or four times the value of the WFP input -- comes from recipient countries or other bilateral or multilateral sources. One of the primary values of WFP aid is its stimulus effect which may be the catalyst allowing a project to go forward.

WFP supports four types of projects:

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

-- infrastructure development, such as irrigation and road projects, in which part of the worker's earnings is paid in food;

-- production development projects, such as the supply of feed grains to support livestock and poultry industries; and

-- resettlement programs to sustain displaced groups until their first crops can be harvested.

Beginning with total resources of $85 million in 1963-65, WFP's target figure has gradually increased. The pledging target for the current biennium (1985-86) is $1.35 billion, of which 1.02 billion (or 75% of the target) was recorded as of November 10, 1984. The United States has remained the largest donor to the WFP, and has pledged $250 million for this biennium.

g. <u>United Nations Environment Program (UNEP)</u>

The United Nations Environment Program (UNEP) was established by the UN General Assembly in 1972 to catalyze and coordinate environmental activities throughout the international system. The U.S. has been UNEP's principal supporter since the organization's inception, contributing a total of $95 million to UNEP's Environment Fund through this year, or 30% of all contributions. The U.S. contribution of $10 million for FY 1985 will be 33% of the $30 million total. Other major contributors are Japan - $4 million or 13%; USSR - $3.75 million or 12%; Sweden - $2 million or 7%; FRG - $1.6 million or 5%; U.K. - $1.1 million or 3%. Of 85 total donors, UNEP's top ten contributors provide over 80% of the Environment Fund, with most LDC's making only token payments. For FY 1986 a U.S. contribution of $5 million is proposed - 22% of an anticipated $23 million total contribution from all donors.

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

UNEP's multilateral approach is uniquely suited to dealing with environmental problems which typically transcend national boundaries. UNEP's ability especially to involve developing countries in resolving such problems is essential to the fundamental goal of preserving the global resource base and promoting sustainable development. The Administration has placed particular importance on this goal. A recently signed Caribbean Convention to produce environmental action plans for the region is a good example of the benefits of UNEP's multilateral nature. A United States voluntary contribution of $3 million is proposed for FY 1986.

h. United Nations Industrial Development Organization (UNIDO)

UNIDO has the UN mandate for promoting industrialization in the developing countries. It is a major supplier of technical assistance for industrialization, serving as the third largest executing agency for UNDP-funded projects and also operating from trust funds and the voluntary United Nations Industrial Development Fund.

The United States has given special support to UNIDO's Investment Promotion Service (IPS) office in New York. This office trains investment officers from developing countries, who alert the U.S. financial community to investment opportunities in their home countries. The New York office also has cooperated with the U.S. in projects to assist entrepreneurs in developing countries and to promote private sector investment in the Caribbean.

The program puts developing country participants in touch with and establishes important links with a wide range of U.S. business people. It provides access for U.S. investors and for free market thinking to developing country leaders and investment prospects. One measure of the program's value can be inferred from the fact that other developed countries (Austria, Belgium, France, Western Germany, Japan and

Switzerland) have opened and fully funded offices patterned on the New York example.

In FY 1985 A.I.D. provided $100,000 of the $875,000 cost of UNIDO's IPS office in New York, one of eight such offices established by UNIDO. A voluntary contribution of $200,000 is proposed for FY 1986.

i. United Nations Capital Development Fund (UNCDF)

UNCDF was created in 1966 for the purpose of providing, on a grant basis, seed money for small catalytic development projects for the poorest people in the least developed countries. Operating under the administration of the UNDP, the Fund supports self-help projects too small for the multilateral development banks to finance and promotes the application of appropriate technology concepts. By the close of 1983, UNCDF was assisting 193 projects totaling $143.7 million.

The United States became a contributor in 1978 with a pledge of $2 million, which has been renewed for the same amount in succeeding years. In 1983 the U.S. contribution was 8.3% of total contributions. Continued U.S. support of UNCDF is consistent with U.S. interests in bringing grassroots level assistance to the poorest people with emphasis on appropriate light capital technologies. An FY 1986 United States voluntary contribution of $2 million is proposed.

j. International Fund for Agriculture Development (IFAD)

IFAD, a product of the 1974 World Food Conference, was created in 1977 with strong leadership by the United States. Its twin purposes are to engage the OPEC countries with western donors in a significant development effort and to focus international development assistance on increasing food production in the poorer developing countries. The Fund's activities are directed specifically at small farmers and the landless poor. Two-thirds of IFAD's resources are provided on "highly concessional" terms of 1% interest, 50 year repayment and 10 year grace period. These terms are available to countries with a GNP per capita of $300 per year or less. Countries with GNP per capita of $300-$600 per year normally receive loans on "intermediate" terms of 4% interest, five year grace and 20 year repayment. A few loans have been made on "ordinary" terms of 8% interest, three year grace and 15-18 year repayment, all to countries with GNP per capita of over $600 per year.

The Fund co-finances over two-thirds of its portfolio, permitting it to operate with a much smaller bureaucratic structure than most United Nations organizations. More than half of IFAD's loans are for projects designed by other international lending institutions, chiefly the World Bank and the regional development banks. Over the first six years of its operation, 1978-1983, IFAD's development investment of $1.6 billion was matched by another $6 billion in co-financing from other sources.

The United States pledged a total of $380 million to the initial capitalization of the Fund and its first replenishment, while the other OECD donors pledged $810 million, and OPEC $885 million. Overall, therefore, the proportionate shares are 43 and 57 percent for OPEC and OECD donors respectively.

International discussions on replenishing IFAD's resources for the 1985-1987 period are continuing. A key issue is the proportional contributions of the OECD and OPEC donors.

A.I.D. recently completed an assessment of IFAD's program. It concludes that IFAD's projects are generally well targeted to the small farmers and landless poor and have a strong potential for food production and agricultural sector development in the third world.

4. Non-United Nations Programs

a. Organization of American States (OAS)

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

b. Development Assistance Committee (DAC)

While not an aid-giving agency with development funds of its own, the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) brings together countries that provide about 75% of all official development assistance, bilateral and multilateral. The DAC's main purpose is to encourage a common development assistance effort and to assess member governments' policies with particular respect to the volume, terms, conditions, geographic, and sectoral distribution of their assistance to developing countries. It regularly reviews each member government's assistance policies and seeks to set quantitative standards in order to improve the effectiveness of development assistance. The statistical system built up by the DAC is the primary source of information on financial flows to developing countries. The U.S. has been actively involved in DAC efforts to increase aid effectiveness through improved aid coordination including implementation of the Statement on Coordination endorsed by members at the 1983 DAC High Level Meeting. Important issues addressed by the DAC in 1984 included the emergency and longer term needs in Africa, use of food aid as a development resource, basic education, and small scale industrial development.

Chapter VI

Comprehensive Development Budget

This chapter outlines and summarizes the Administration's request for development assistance and development-related programs for Fiscal Year 1986. It is designed to provide Congress and the public with a comprehensive picture of the resources devoted to bilateral and multilateral development assistance programs supported by the United States Government. While some of the programs for which statistical data are provided are not exclusively developmental in character, they are important to development and are included for the sake of completeness. Detailed submissions and justifications, including funding for multilateral agencies, are presented separately for each program.

The Administration's total budget authority request for development programs in FY 1986 is $7.68 billion, as shown in Table XIII. This table also compares the amount requested in FY 1986 with the estimated budget authority for FY 1985, and the actual FY 1984 budget authorities.

The FY 1986 budget request supports Administration initiatives in three major priority development areas: food and agriculture, human resources (including population planning), and greater involvement of the private sector in development.

1. Agency for International Development

For FY 1986, A.I.D. is requesting an appropriation of $4.96 billion 1/ for support of its economic assistance program; this amount includes both Development Assistance and the Economic Support Fund.

The budget request concentrates resources in two areas: (1) the immediate need for emergency assistance to respond to economic crises and disasters throughout the developing world, and (2) the long-term need to institutionalize development in recipient countries so they may achieve broadly-based economic growth.

1/ Excludes funding for Israel

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

	FY 1984	---------- FY 1985	----------		FY 1986
	Actual	Enacted	Supp.	Total	Request
BLIATERAL ASSISTANCE					
AID Development Assistance..1/.	2,011.5	2,307.1	26.3	2,333.4	2,133.4
Trade & Development Program....	16.3	21.0	---	21.0	20.0
Overseas Private Investment Corporation (OPIC)........	2/	2/	2/	2/	2/
Food for Peace (PL 480)....3/..	1,377.0	1,355.0	185.0	1,540.0	1,307.0
Economic Support Fund and Peacekeeping Operations...	3,300.5	3,870.0	---	3,870.0	2,861.0
Peace Corps....................	117.0	127.4	---	127.4	124.4
Inter-American Foundation......	13.0	12.0	---	12.0	8.7
Migration & Refugee Assist..4/.	328.7	325.5	25.0	350.5	337.7
Subtotal, BILATERAL.......	7,164.0	8,018.0	236.3	8,254.3	6,792.2
MULTILATERAL ASSISTANCE 5/					
International Bank for Reconstruction & Development...	79.7	109.7	30.0	139.7	109.7
Selected Capital Increase.	---	---	---	---	73.2
International Development Association..............	945.0	900.0	---	900.0	750.0
International Finance Corp.....	---	---	---	---	35
African Development Bank.......	18.0	18.0	---	18.0	18.0
African Development Fund.......	50.0	50.0	---	50.0	75.0
Asian Development Bank.........	13.2	13.2	---	13.2	13.2
Asian Development Fund.........	100.0	100.0	91.2	191.2	130.0
Inter-American Development Bank	38.0	38.0	40.0	78.0	58.0
Fund for Special Operations	80.4	72.5	72.5	145.0	72.5
IADB Investment Corporation	---	10.0	3.0	13.0	13.0
International Organizations & Programs................	315.0	358.7	0.0	358.7	196.2
UN Development Program.....	160.0	165.0	---	165.0	120.0
UN Children's Fund (UNICEF)	52.5	53.5	---	53.5	27.0
Organiz. of American States	15.5	15.5	---	15.5	15.5
Other IO Programs....6/....	37.0	34.7	---	34.7	33.7
International Fund for Agricultural Development.7/	50.0	90.0	---	90.0	---
Subtotal, MULTILATERAL.....	1,639.3	1,670.1	236.7	1,906.8	1,543.8
Gross total...................	8,803.3	9,688.1	473.0	10,161.1	8,336.0
Offsetting Receipts (A.I.D.)...	-730.0	-625.4	---	-625.4	-654.4
GRAND TOTAL...................	8,073.3	9,062.7	473.0	9,535.7	7,681.6

1/ AID DA excludes miscellaneous trust funds; includes IDCA/AID operating expenses and the Foreign Service Retirement Fund.
2/ OPIC does not request budget authority. Authority for loan guarantees is: FY 1984 - $100 million; FY 1985 - $150 million; FY 1986 - $150 million.
3/ PL 480 program levels (including receipts) are: FY 1984 - $1,825.5 million; FY 1985 - $2,091.0 million; FY 1986 - $1,680.0 million.
4/ Migration & Refugee Assistance included for information purposes only, as these are not development activities.
5/ Does not include callable capital for the Multilateral Development Banks.
6/ FY 1986: International Atomic Energy Agency, UN Environment Program, World Meteorological Organization Voluntary Cooperation Program, UN Capital Development Program, UN Voluntary Fund for the Decade for Women, UN Education and Training Program for Southern Africa, Convention in International Trade in Endangered Species, UNIDO, and UNDP Trust Fund (ICARA II).
FY 1984 and 1985 only: World Food Program, UN Trust Fund for South Africa, UN Institute for Namibia, UN Fellowship Program, UN Institute for Training and Research, Pan American Health Organization, and UN Fund for Victims of Torture.
7/ For IFAD I replenishment; funded from IO&P account.

a. Emergency Assistance

In the area of short-term assistance, A.I.D. has proposed an FY 1985 supplemental apppropriation for food aid and disaster and refugee assistance to help alleviate the suffering of millions who are affected by the drought and famine in Africa. The food aid portion of this request will supplement the on-going Food for Peace program administered by A.I.D. In FY 1986, the Food for Peace program will continue to respond to these emergency needs in Africa as well as long-term needs in that region and the rest of the developing world. Also, in FY 1986, A.I.D.'s Office of Foreign Disaster Assistance (OFDA) will continue to play a vital role in providing immediate relief to victims of man-made and natural disasters. Since the inception of OFDA, the U.S. Government has provided emergency relief to millions of disaster victims.

b. Long-term Assistance

To meet long-term development needs, the A.I.D. program concentrates its assistance in the areas of food production, education, training, population and health--areas which hold the greatest promise of meeting the basic human needs of the poor majority in the Third World. The various components of the FY 1986 Development Assistance program are as follows:

(1) Agriculture

For FY 1986, an appropriation of $792.4 million is requested for this account.

This account continues to be the largest portion, about 47%, of the request for Functional Development Assistance in response to the fact that insufficient food supplies and inadequate diets remain a principal concern in most developing countries. In FY 1986, the Africa and Latin America and Caribbean programs are projected to grow substantially because problems of hunger and malnutrition remain most acute in these parts of the world.

In FY 1986, the Agency's program in this account will concentrate on: (a) strengthening agricultural science and technology capabilities; (b) promoting private sector participation; (c) improving agricultural policies and incentives; and (d) inducing institutional development.

(2) Population

For Population Planning, A.I.D. is requesting an FY 1986 appropriation of $250 million.

Over the past 20 years, the United States has played a leading role in focusing attention on population issues, in urging international cooperation, and in the design and implementation of population strategies based on voluntary family planning.

There are now 4.5 billion people in the world, and 6 billion are projected by the year 2000. Most of the growth will take place in developing countries. Because of this, the A.I.D. population program concentrates its resources on voluntary family planning. A.I.D. gives preference in its funding to programs which provide a wide range of choices in family planning methods, excluding abortion. It also strongly encourages such programs to include information and services related to methods of natural family planning, wherever this is appropriate.

(3) Health

A.I.D. is requesting an appropriation of $146.4 million for the Health account in FY 1986.

The A.I.D. health strategy has increasingly focused on projects which are complementary to the existing private health care system, such as social marketing and group health schemes. A.I.D. health programs also target the institutionalization of a limited array of comprehensive services in critical areas such as immunizations, Oral Rehydration Therapy, prenatal care, child spacing and rural water supply. A.I.D. has also broadened its leadership role in research aimed at developing new vaccines for controlling malaria, measles and rotavirus--vaccines that could drastically reduce infant mortality in years to come.

A.I.D. will devote $25 million from this account to continue the commitment to child survival programs.

(4) Education

The FY 1986 request for the Education and Human Resources Development account is $183.5 million.

In the field of education, A.I.D. is concentrating its efforts on assisting countries to strengthen their school systems, especially to meet the basic educational needs of children. In addition to increasing the focus on school systems, A.I.D. programs support skills training related to employment opportunities for adolescents and adults. In Africa, A.I.D. will continue to support training at all levels, with an emphasis on skills and institutions related to increasing agricultural production. In Central America, the program includes a major effort to revitalize school systems.

(5) Energy, Private Voluntary Organizations and Selected Development Activities

For FY 1986, A.I.D. is requesting an appropriation of $223.1 million for the Energy, Private Voluntary Organizations and Selected Development Activities account.

Activities funded within this account include: (1) expanding the role and growth of the private sector; (2) developing employment and income earning opportunities for low-income people; (3) supporting the activities of Private Voluntary Organizations (PVOs); (4) improving the capability of cities and municipalities to provide for the urban poor; (5) promoting human rights; (6) providing assistance in the transfer, adaptation, and development of appropriate technologies for LDCs; and (7) providing research support and technical assistance in energy and natural resources planning and conservation.

(6) Sahel Development

For FY 1986, A.I.D. is requesting $80.5 million for the Sahel Development program.

The Sahel Development program is A.I.D.'s regional response to overcoming the serious economic constraints plaguing eight African countries.which share similar problems and development objectives. A.I.D. funding in the Sahel region is directed to supporting the goals of food self-reliance on a regional basis, environmental stabilization, and long-term growth.

c. Economic Support Fund

A.I.D. is requesting an FY 1986 appropriation of $2.82 billion for the Economic Support Fund (ESF). The request exclude funding for Israel on which a decision has not yet been made.

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

2. PL 480 Program

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

In FY 1986, a PL 480 Title I/III program of $1.03 billion is proposed, including $108.5 million required for U.S. freight differential. The need for this differential is brought about by the legislative requirement that 50% of the cargo shipped under the PL 480 program be on U.S. flag vessels. On the basis of the seasonal average prices projected by the Department of Agriculture and the mix of commodities tentatively programmed, the requested program level will finance shipments of 5.0 million metric tons of food aid. In FY 1985, 5.3 million metric tons have been projected for shipment.

For the PL 480 Title II program, $650 million is requested for FY 1986. On the basis of projected prices, this should finance delivery of 1.9 million metric tons of food.

Aiding victims of the African drought is now at the forefront of the Title II program. In FY 1985, the Administration is requesting a supplemental appropriation of $185 million for Title II. With this amount, and reallocating PL 480 resources and the allocation of 300,000 metric tons from the Wheat Reserve, the U.S. will be able to provide approximately 1.6 million metric tons of emergency food assistance to aid the drought and famine victims.

In FY 1986, over 300,000 metric tons of food, at a cost of $75 million, will be allocated to regular feeding programs of the World Food Program. The United States, as well as several other major donors, pledge food, services and cash to the World Food Program for projects similar to those sponsored by U.S. voluntary agencies.

3. International Fund for Agricultural Development

The International Fund for Agricultural Development (IFAD) is a specialized agency of the United Nations that began operations at the end of 1977. This unique institution is designed to assist small and landless farmers in developing countries. It is funded jointly by OPEC countries, developed countries and developing countries. Due to the absence of an agreement on a second replenishment for IFAD (FY 86-88), no funds are being requested at this point for FY 1986. The U.S. pledge of $180 million to IFAD's first replenishment (FY 82-85) has been completed with the appropriation of $90 million in FY 1985.

4. Multilateral Development Banks (MDBs)

The multilateral development banks are critical development institutions because of their ability to mobilize substantial capital for development projects in all sectors. The MDBs have been steadily increasing their emphasis on projects benefitting the poor majority over the last decade. In FY 1983, MDB resources made available for agriculture amounted to almost $5.15 billion. The second largest area of assistance for the MDBs was that of power and energy development, to which $4.25 billion was devoted in FY 1983. The United Stated encourages the MDBs to direct their resources toward countries with good macroeconomic and sector policies, and to use the level which their considerable lending programs provide to gain desired policy modifications.

With U.S. encouragement, and in accordance with their role as catalysts for private capital flows and indigenous private sector development in borrower countries, the MDBs have initiated programs for fostering greater commercial co-financing of their projects. In addition, in 1984 the International Finance Corporation Board of Directors agreed to a $650 million dollar capital increase over 1985-89 for an innovative program of loans and equity investments in the private sector.

In general, the Administration's request for $1.348 billion in budget authority for the MDBs in FY 1986 reflects agreed U.S. contribution levels negotiated internationally and already authorized by Congress. However, the FY 1986 request also contains funding for replenishments in three institutions for which Congressional authorization is being sought in early 1985: the five-year IFC capital increase mentioned above, a Selective Capital Increase in the World Bank, and the fourth replenishment of the African Development Fund.

5. International Organizations and Programs

The Administration's FY 1986 request in support of voluntary contributions to the programs conducted by international organizations is $196.2 million. UN agencies, especially the United Nations Development Programme (UNDP), have been active in providing assistance to less developed countries. Not only is UNDP the largest single channel for UN technical assistance, but its mandate is to coordinate all such assistance provided by the UN. UNDP assists host governments in defining their development goals and determining the activities to be assigned to various resource donors, including the multilateral development banks and the UN agencies. The UNDP finances and overseas projects amounting to over $550 million annually in 150 countries and territories. Although often small-scale, UNDP projects provide training and technical skills which contribute to the success of many larger assistance projects. The FY 1986 requests includes $120 million for support of the UNDP.

UNICEF encourages and assists the long-term humanitarian development and welfare of children in developing countries by providing goods and services which meet basics needs in maternal and child health, education, sanitation, clean water, nutrition and social services. UNICEF is in the forefront of a breakthrough in a successful program for increasing childhood survival and rehydration therapy. The FY 1986 request includes $27 million for support of UNICEF.

The Organization of American States' Development Assistance Programs (OAS/DAP) conduct major program activities in Latin America in rural development, technical and vocational training, scientific and technological research into new energy sources, food production and distribution, livestock improvements, promotion of tourism and adult literacy. In FY 1986, $15.5 million is being requested to support the activities of this organization.

The balance of the request for international organizations and programs will be used to partially support the programs conducted by the International Atomic Energy Agency, the UN

Environment Program, the World International Organization Voluntary Cooperation Program, the UN Capital Development Fund, the UN Voluntary Fund for the Decade for Women, the Convention on International Trade in Endangered Species, UN Education and Training Program for Southern Africa, UNIDO's Investment Promotion Service and the UNDP Trust Fund for Assistance to Refugees in Africa (ICARA II).

6. Peace Corps

To support the operations of the Peace Corps, $124 million being requested in FY 1986. In addition to its well-known work at the village level, the Peace Corps is continuing the program, begun in FY 1981, by which it assists developing countries in identifying needs and implementing alternative/renewable energy programs at the community level, and to develop the in-country capability to continue these programs. The FY 1986 request includes 2.8 million for a new African Food Initiative to promote increased food production at the community level. AID and the Peace Corps have recently signed an agreement by which cooperation between the two agencies at the mission and country level is increased. In addition, cooperative agreements at the Headquarters level between AID and Peace Corps support projects in forestry, nutrition, health and appropriate technology.

This new cooperative program is intended to further the development effectiveness of both agencies. Peace Corps volunteers assist in the implementation of selected AID projects, while AID will be able to provide a funding source for individual projects by Peace Corps volunteers.

7. Trade and Development Program

The Trade and Development Program (TDP) finances planning activities for capital projects which will enhance the productive capacities of developing countries and encourage the use of U.S. technology, goods and services in the implementation of these projects. TDP plays a critical role in the Administration's efforts to encourage greater private sector activity in development efforts. It has also been effective in meeting foreign competition for development-related export opportunities. The Administration is requesting $20 million for this program in FY 1986.

8. Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) encourages the participation of United Stated private capital and skills in the economic and social development of friendly less-developed countries. Its primary programs are (a) political risk insurance against losses due to expropriation, inconvertibility and war damage; and (b) investment financing through loans and guaranteed loans. In 1977, OPIC began a program to utilize its political risk insurance and all-risk loan guarantee authorities to promote increased exploration for, and production of, hydrocarbon resources by the U.S. private sector in LDCs. OPIC is expanding these activities in response to growing interest by private U.S. investors. OPIC operated on a self-sustaining basis.

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