United States International Development Cooperation Agency

Congressional Presentation Fiscal Year 1984

United States International Development Cooperation Agency

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

THE ADMINISTRATOR

TO THE CONGRESS OF THE UNITED STATES:

The International Development Cooperation Agency (IDCA), components of which are the Agency for International Development (AID), 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 describes the various programs and policies employed by this Administration to further our objectives.

IDCA's basic development objective is simply stated. We seek broad, sustained economic growth in the developing world. The American tradition of concern for people facing economic hardship is a fundamental motivation underlying our foreign economic assistance. Yet, enlightened American self-interest leads in the same direction. Economic progress of the developing countries is in the long-term political, security and economic interest of the United States.

Economic growth in these countries depends fundamentally on their own efforts and policies. Development cooperation in all its forms - from direct economic assistance through the important stimuli provided by trade and open markets - while often of greater significance to this effort, only serves to facilitate the process rather than substitute for a country's own efforts.

Economic development is a long-term process. The role of the U.S. in this process is to provide financial and technical assistance in support of host country development efforts. Our programs emphasize:

- increasing reliance on the private sector as a vehicle for carrying out development activities;

- establishing and maintaining a "policy dialogue" aimed at encouraging the adoption and implementation of policies which will promote sustained and broadly based growth;

- creating and strengthing of institutional capacity; and,

- creating indigenous capacity both to develop and apply a continuous stream of technological innovation.

Consistent with these basic emphases, our assistance will continue to focus on addressing basic development problems in the areas of food and agriculture, human resource development, and energy.

M. Peter McPherson

INTRODUCTION

This overview summarizes development issues, policies and programs. Detailed descriptions and justifications are provided in the separate Congressional Presentation Documents of the individual agencies and programs. The full Fiscal Year 1984 IDCA budget presentation to the Congress includes the following documents:

<u>Overview</u>

IDCA Congressional Presentation (this document)

<u>Volume I</u>:

Agency for International Development (AID)

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

<u>Volume II</u>:

International Organizations and Programs (IO&P)

<u>Volume III</u>:

Trade and Development Program (TDP)

The 1983 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 1982.

The IDCA 1984 Congressional Presentation itself consists of four parts. <u>Chapter I</u> explains the ties between developing countries and the United States. It discusses why, in addition to our humanitarian concerns, economic development is important to the United States from the perspective of our economic interests and our political and security needs.

<u>Chapter II</u> discusses the problems of the developing nations which must be addressed to help those nations achieve broadly based, self-sustaining growth and assesses their current economic situation.

Chapter III summarizes the tools through which the U.S. promotes development in the Third World. It outlines the bilateral and multilateral development policies and programs, as well as other U.S. policies and activities that have a major effect on development.

Chapter IV contains the Comprehensive Development Budget for 1984. It presents the budgets proposed for each of the bilateral development programs and the contributions recommended for each of the multilateral development programs.

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CHAPTER I

The Importance of the Developing Countries to the American People

The interests of the United States are linked to the developing countries in numerous and often complex ways. International economic interdependence is now a matter of fact, not opinion. This Administration is committed to helping developing countries provide growing opportunities for their people. We make this commitment in a spirit of partnership with developing countries to seek real solutions that will produce enduring growth of the world economy and in the quest for world peace. The spirit of partnership is not just between governments, it is a partnership between the private sectors and private/public cooperation as well. Support of the development of less developed countries (LDCs) promotes our economic and commercial interests, addresses political and security needs and gives expression to the strong and long-standing humanitarian concern of the American people for the plight of those living at the very margin of subsistence.

A. Trade

Trade is essential to the pursuit of our goal, a strong U.S. economy. The U.S. is now more dependent on international trade than at any time in our recent history. Exports generate higher real incomes and new jobs, and imports increase consumer choice and competition as well as providing materials essential to the functioning of our economy. It is estimated, for instance, that over 5 million U.S. workers are dependent on foreign trade for their livelihood. Furthermore, a recent study concluded that 80% of all new manufacturing jobs created in the late 1970s were linked to exports. In agriculture, one out of every three acres planted by American farmers is for export crop production.

The value of exports increased fivefold in the past ten years so that now 18% of U.S. goods are sold abroad. In 1980, the latest year for which UN trade statistics are readily available, world trade grew to $2,016 billion of exports compared to $315 billion in 1970 and $2,010 billion in imports compared to $326 billion in 1970. LDCs accounted for 17% of world exports and imports in 1970. In 1980, their share of exports went up to 27% and imports to 22%. They became in many respects the "growth markets" of the world. Preliminary data for 1981, however, indicates virtual stagnation in the growth of international trade and possibly even an absolute decline in the volume of trade for the first time in many years.

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(1) U.S. Exports to LDCs

As the economies of developing countries grow, their involvement in the international economic system usually increases. Development brings with it not only increased purchasing power, increased expectations and changing consumption patterns, but also an increasing need for technology and capital goods to generate and support further development progress. Many of these needs must be met through imports from the developed world.

The developing countries are an enormously important market for U.S. exports. Every state in the Union is involved in exporting to developing countries. In 1981, U.S. exports to the developing world (both oil-exporting and oil-importing) totaled over $99 billion or nearly 43% of total U.S. exports (Table 1), compared to a total of $15 billion in 1972 or 30% of our total trade.

Of the developing countries, the oil importers have in recent years represented the fastest growing buyers of U.S. products (Table 1). Our exports to these countries between 1978 and 1981 increased at an average annual rate of 25%, reaching $79 billion or nearly 34% of all U.S. exports. This compares to average growth rates of 16% for industrialized countries and 12% for oil exporting developing countries.

U.S. trade has, of course, suffered from the effects of the current world recession. Only exports to oil-exporting countries grew significantly. It is worth noting, however, that while exports to the industrialized world grew by 3.4% in 1981 over 1980, exports to the non-oil developing countries grew at almost twice that rate.

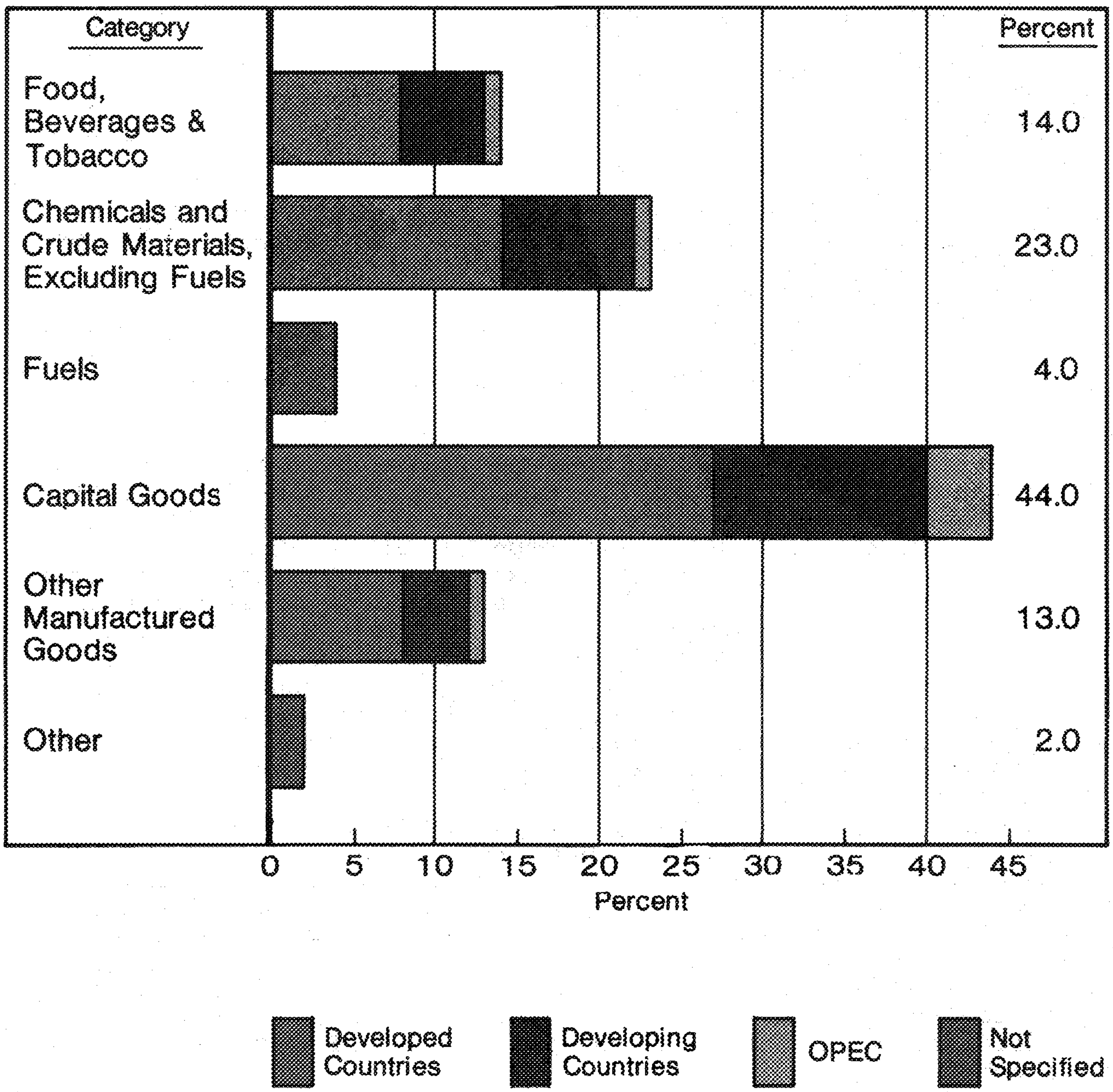
It is important to realize that this increased market for U.S. products does not reflect only purchases by the newly industrialized countries (NICs) such as Korea or Taiwan. Table I contains statistics for the top seven NICs. In terms of their percent of total U.S. exports, they increased their share from 12.9% in 1972 to 17.2% in 1981. By comparison, the rest of the non-oil exporting developing countries increased their share by almost an identical amount from 12% in 1972 to 16.4% in 1981. The growth of U.S. exports has been particularly dynamic in those countries which have achieved rapid economic growth and have pursued policies which promote economic efficiency and development, including outward-looking trade policies.

Chart I indicates the structure of U.S. exports in 1980. This structure is virtually unchanged from 1970. The largest component of U.S. exports is capital goods. However, in terms of destination of U.S. exports, there has been change over time as reflected below.

Chart I

Structure of U.S. Exports

As a Percent of Total 1980 U.S. Exports



SOURCE: UN Monthly Bulletin of Statistics, May 1982.

Exports	Total 1980	Non-Oil Developing Country Share 1970	1980
Chemicals	23%	5%	8%
Food, etc.	14	3	5
Other	2	-	-
Other Manufactured	13	3	4
Capital Goods	44	11	13
Fuel	4	-	-

In every category, the non-oil developing countries have received a greater proportion of U.S. exports in 1980 compared to 1970.

Looking at volume as opposed to percentage share, U.S. exports of manufactures1/ have shown especially strong growth, growing from $45 billion in 1973 to over $154 billion in 1981.

An estimated 500,000 Americans are employed in the production of manufactured products for export to the non-oil exporting developing countries alone. In addition, many more U.S. jobs are provided indirectly by exports of services, such as transportation, insurance, banking, management, technical assistance and other service areas. Exports of services have been a major positive element in the U.S. balance of payments. In 1980 the United States ran an overall surplus in services of $36 billion, of which more than $23 billion was accounted for by transactions with developing countries. In 1981, the balance was $39 billion of which $28 billion represented transactions with developing countries.

Exports of agricultural products are also very important. Total U.S. agricultural exports reached $43 billion in 1981 compared to $17.6 billion in 1973. It is estimated that the harvest of one out of every four farm acres in the United States is shipped to the developing countries. Two-thirds of our cotton exports - 40% of the entire crop - is exported to the developing world. These countries are also major customers for American rice, corn, and wheat. Overall, it is estimated that they account for 20-25% of U.S. gross farm income.

As in the case of manufactured exports, farm sales abroad, in addition to generating income for farmers, also stimulate indirect employment in grain elevators, trucking, shipping and other services.

1/ Chemicals, machinery, transport equipment and other manufactures except mineral fuel products, processed food, fats, oils, firearms for war and ammunition.

(2) U.S. Imports from LDCs

In addition to being a market for U.S. products, the developing world is a source of important and sometimes crucial imports. Trade is also a vital generator of foreign exchange and growth for developing countries, particularly the more advanced of those countries. Exports represent for most developing countries the major source of foreign exchange to finance imports and to service debt. For example, in 1980 total export earnings of the developing countries from trade with the United States alone were twice as large as the level of development assistance from all bilateral and multilateral donors combined. The enormous rise in their balance of payments deficits in recent years has made the development and utilization of the developing countries' export potential increasingly important to their long-term development prospects.

Table II indicates the relative role of the developing countries as sources of U.S. imports. Statistics on imports are skewed because of the tremendous increase in the price of oil over the past ten years. Thus, the most relevant item in Table II is the increase in imports from non-oil developing countries. In 1972, the value of these imports was $14 billion. By 1981, the value increased to almost $79 billion. The average annual growth was 18%. The share of this growth attributable to the NICs is, however, much greater than was the case for exports.

The structure of imports has shifted substantially over time as one might expect given the oil price increase. Charts II and III indicate change by product category as well as changes in shares by supplying groups. Over 44% of our imports currently are raw materials essential to the functioning of our economy. Petroleum is just one of the primary products we import from developing countries upon which this country is dependent. All of our natural rubber is imported from developing countries. Similarly, the developing countries supply 75% or more of our total imports of such important metals as tin, bauxite, zinc or cobalt (see Table III).

As a final note, Table IV presents the U.S. Balance of Trade Statistics for 1970 compared to 1980. Agriculture and high technology manufactures are two sectors where the U.S. has experienced positive and growing trade surpluses. The developing countries are in large part responsible for this contribution to the American economy.

Imports from the developing world provide major benefits to American consumers by reducing inflationary pressures. Import competition stimulates cost cutting technological change, which increases the overall efficiency of the

TABLE II

TRENDS IN U. S. IMPORTS

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
IMPORTS (Billions of $)										
Industrial Countries	40.2	47.5	63.1	58.2	69.7	81.5	101.5	113.7	126.3	143.2
Oil Exporting Countries 1/	2.7	4.6	16.1	19.9	29.0	37.8	34.9	47.3	57.1	50.6
Non-Oil Developing Countries 2/	13.8	18.6	29.9	26.7	32.8	40.2	48.4	59.8	72.4	78.6
Top 7 NIC trade partners 3/	6.7	9.4	12.4	11.7	15.9	19.5	25.3	30.4	37.0	42.6
ANNUAL PERCENT CHANGE										
Industrial Countries	27.6	18.2	32.8	-7.8	19.8	16.9	24.5	12.0	11.1	13.4
Oil Exporting Countries	17.4	70.3	250.0	23.6	45.7	30.3	92.3	35.5	20.7	-11.4
Non-Oil Developing Countries	38.0	34.8	60.8	-10.7	22.8	22.6	20.4	23.6	21.1	8.6
Top 7 NIC trade partners	36.7	40.3	31.9	-5.6	35.9	22.6	29.7	20.2	21.7	15.1
PERCENT DISTRIBUTION 4/										
Industrial Countries	68.3	64.5	58.4	55.0	52.6	50.8	54.5	51.1	49.1	52.4
Oil Exporting Countries	4.6	6.3	14.9	18.8	21.9	23.6	18.8	21.3	22.2	18.5
Non-Oil Developing Countries	23.4	25.3	27.7	25.2	24.8	25.1	26.0	26.9	28.2	28.7
Top 7 NIC trade partners	11.4	12.8	11.5	11.0	12.0	12.2	13.6	13.7	14.4	15.6

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

2/ IMF definition plus Taiwan

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

4/ Does not add to 100 due to exclusion of communist countries

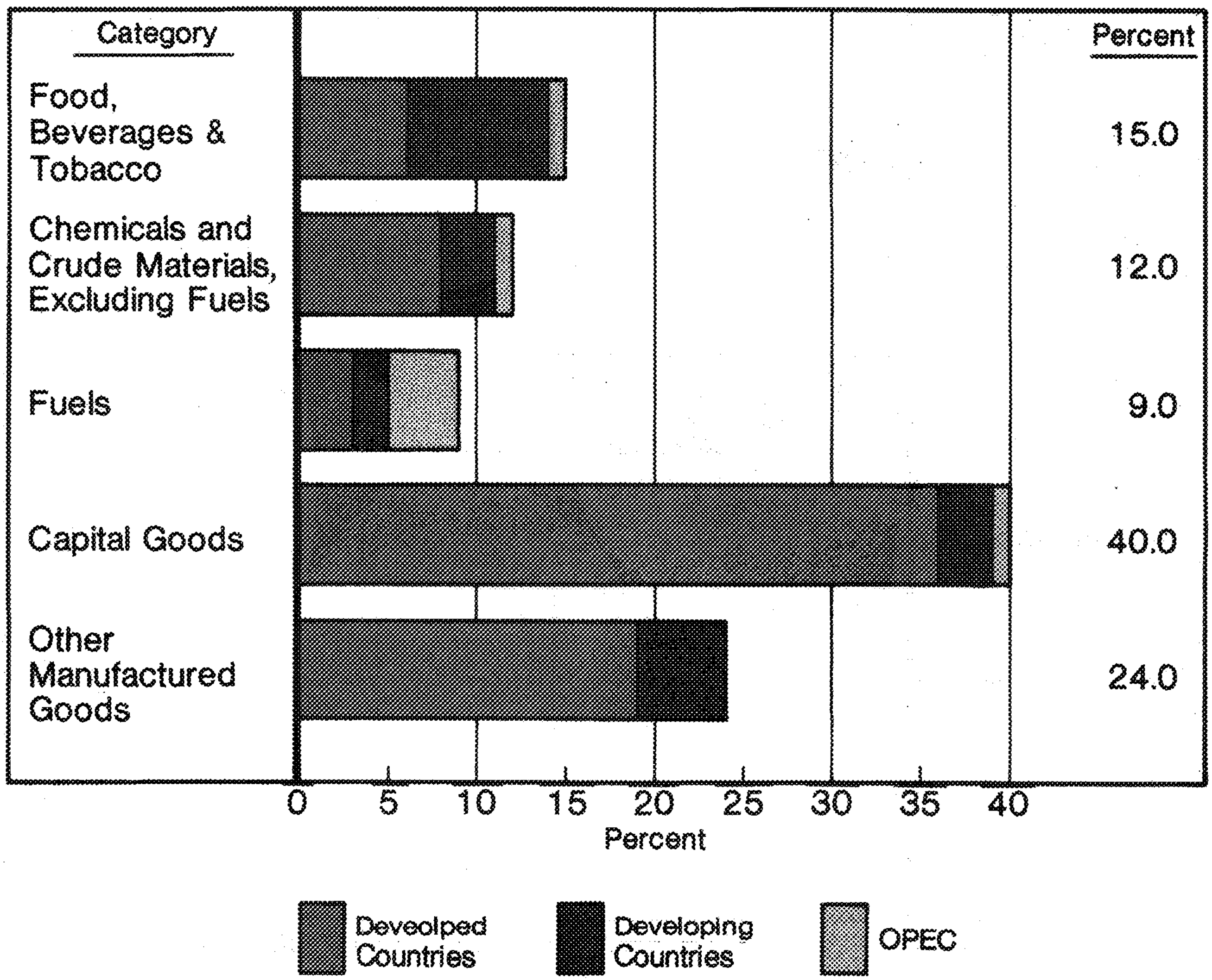
SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1982.

Department of Commerce FT-990, Highlights of U. S. Export and Import Trade.

Chart II

Structure of U.S. Imports

As a Percent of Total 1970 U.S. Imports

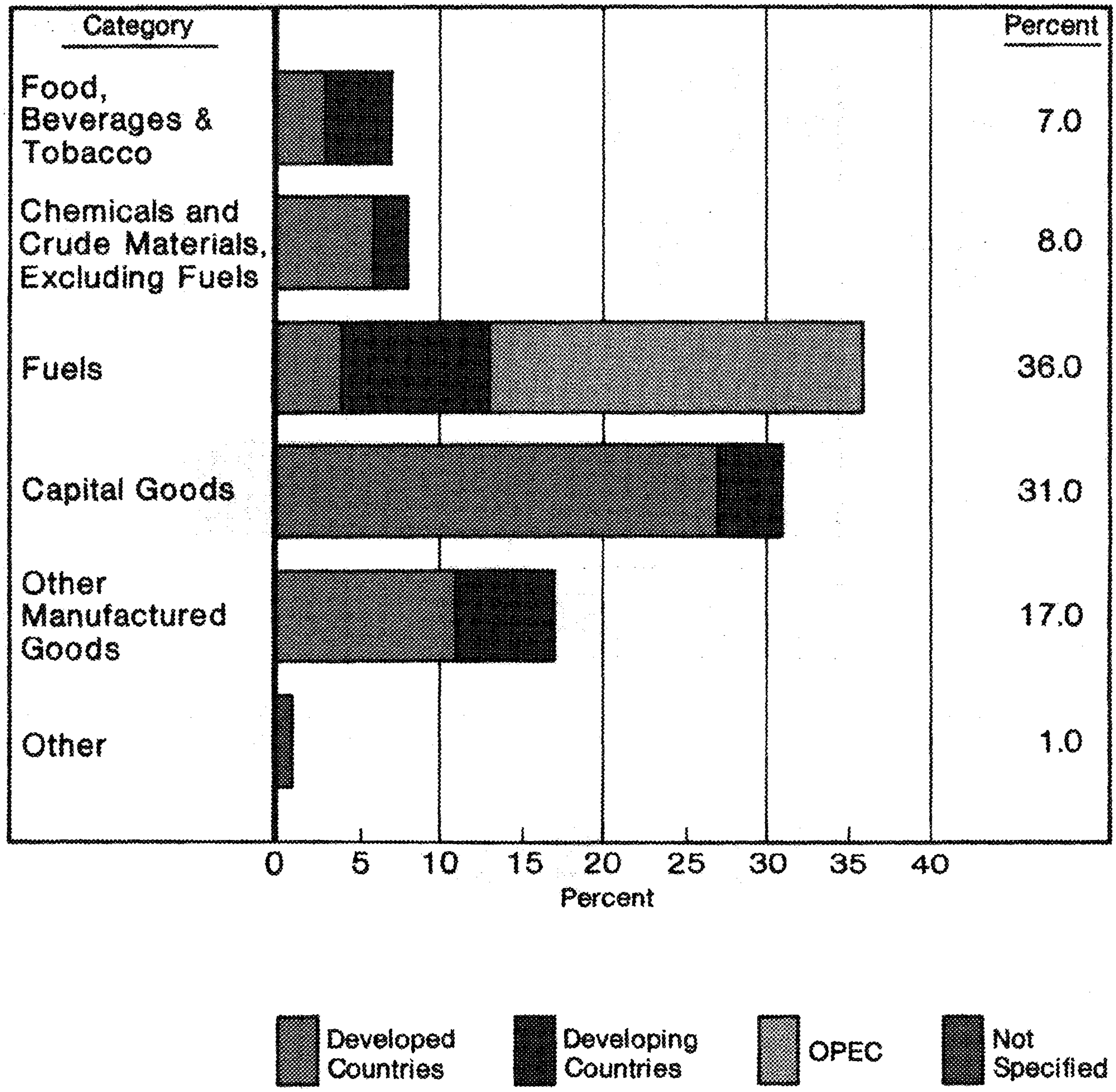


SOURCE: UN Monthly Bulletin of Statistics, May 1982.

Chart III

Structure of U.S. Imports

As a Percent of Total 1980 U.S. Imports



SOURCE: UN Monthly Bulletin of Statistics, May 1982.

TABLE III

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

	1970	1981
Bauxite/Alumina	88	94
Chromium	89	90
Cobalt	98	91
Manganese	95	98
Tin	81	80
Nickel	71	72
Zinc	54	67
Tungston	50	52
Iron Ore	30	28
Copper	–	5
Lead	10	10

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

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

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

Algeria	Israel	Morocco
Argentina	Korea	Trinidad and Tobago
Greece	Madagascar	Turkey
India		

Source: Bureau of Mines, Mineral Commodity Summaries

TABLE IV

U. S. Balance of Trade
(Billions of Dollars)

	1970	1980
Sectors With Net Trade Surpluses		
Agriculture	1.6	24.3
Crude Materials and Fuel (Non-Petroleum)	2.4	14.6
High Technology Manufactures 1/	11.7	52.4
Service Including Investment Earnings	3.0	36.1
Sectors With Net Trade Deficits		
Petroleum	2.3	75.8
Low Technology Manufactures 2/	8.3	34.8
Consumer Goods	4.7	18.3
Automotive Products	2.3	11.2

SOURCE: U. S. Department of Commerce, _Overseas Business Report_, National Science Foundation, as reported in USTR 26th Annual Report of the President on the Trade Agreements Program 1981-1982.

1/ Defined by the National Science Foundation as Research and Development intensive products. Includes:

Chemicals, electrical and non-electrical machinery, aircraft and parts, and professional and scientific instruments.

2/ All other manufactures not specified in footnote 1/ are considered low-technology.

economy. By providing larger markets for U.S. goods, trade with the developing world encourages greater economies of scale, stimulates investment, and increases economic growth rates.

B. Investment

External capital flows are critical to the process of economic development. As LDC economies expand and grow, they become increasingly capable of entering the international commercial capital market to fulfill their capital needs. Correspondingly, their dependence on official concessional flows from the developed world declines.

Perhaps the most important development in recent years that has worked to facilitate the integration of the developing countries into the world economy has been the markedly increased role of private international banks in the provision of medium and long term credits to the developing countries. The more traditional role of these banks had been one of providing short-term trade financing, and acting as a repository/investment outlet for their foreign exchange reserves. Over the past six years, the deposits of oil exporting developing countries in international banks have more than tripled, reaching almost $155 billion by the end of 1981. Over this same period, bank lending to non-oil developing countries increased at an annual rate of about 25% to a total of $275 billion by the end of last year. Almost two-thirds of these liabilities to international banks represented medium- and long-term credits, with five countries (Argentina, Brazil, Chile, Mexico, and Korea) accounting for roughly two thirds of non-OPEC developing countries' liabilities due to international banks. Fully 60% of net lending went to the Latin American region, an area in which U.S. private banks have a large exposure. On the whole, moreover, U.S. private bank lending to the non-OPEC developing countries has increased significantly, both in absolute amount and as a proportion of their total foreign liabilities. In 1970, total U.S. international lending was $79 billion. Of this 8% or $6 billion went to oil-importing LDCs. In 1980, 47% or $112 billion out of a total $240 billion lent internationally went to these countries. Not only, therefore, are the LDCs becoming more important as trading partners, they are major recipients of U.S. private capital flows. Table V provides a more detailed perspective on U.S. lending.

LDCs also provide opportunities for private direct investments. Not only do net earnings from the U.S. share of such investment flow back to this country over time, investments in the meanwhile provide opportunities for the export of U.S. goods and services. The United States represents the largest single source of direct foreign investment in developing countries. The total value of U.S. direct foreign investment increased from $75 billion in 1970 to $227 billion in 1981. Investment in the LDCs increased from $19 billion in 1970 to $43 billion in 1981. Table V provides more detailed information.

U.S. private direct investment in the developing world benefits both the investor and the host country. Private investment provides not only critically needed capital but also technology and management know-how. Because of the important contribution which the private sector can make to the development process, particularly the promotion of more market oriented economies, the United States encourages the American private sector to increase its involvement in the development process.

C. Humanitarian Concern

The plight of the world's poor strikes a responsive cord in the hearts of the American people. Improving the well-being and earning capacity of the poor are important objectives of U.S. development programs. A cornerstone of development efforts has been to focus on equitable distribution of the benefits of development to the lower income groups in developing countries. Many projects are specifically directed towards addressing basic human needs.

Food is the principal concern of most people in low-income countries. Hundreds of millions of people are so malnourished that their health is seriously threatened or impaired and their productivity reduced. Many poor countries lack the foreign exchange to meet their requirements for imports of food and commodities needed to enhance their longer run development prospects. As part of A.I.D.'s overall development assistance strategy, the Food for Peace program draws upon the abundant production of American farmers to provide food aid primarily to poor countries which suffer from food shortages. These shortages can result from a variety of causes:

-- chronic undersupply stemming from poor or limited resources and low productivity;

-- floods, drought, or other natural disasters;

-- political upheaval, which can disrupt food production or the food distribution network.

We supply food aid (under P.L. 480) for a variety of programs to benefit needy people, either directly to friendly foreign governments or through private voluntary agencies, the World Food Program (WFP) sponsored by the UN and the Food and Agriculture Organization. Such aid is provided only when

TABLE V

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

	1970	1975	1980	1981	Average Annual Percentage Change 1970-1981	Average Annual Percentage Change 1975-1981
Total U.S. Direct Investment	75,480	124,050	215,578	227,342	10.5	10.6
Developed Countries	51,819	90,695	158,350	167,112	11.2	10.7
Developing Countries 1/	19,192	26,288	39,525	42,769	7.6	8.4
(as of % of total)	(25.4%)	(21.2%)	(18.3%)	(18.6%)		
Bermuda, Bahamas			13,752	13,340		
Brazil			7,703	8,253		
Panama			3,171	3,671		
Argentina			2,494	2,735		
Hong Kong			2,078	2,655		
U.S. Banks' Claims on Foreigners		58.308	172,592	248,850		27.4
Developed Countries		33,034	99,951	142,489		27.6
Developing Countries 1/		24,629	70,584	104,028		27.1
(as of % of total)		(42.2%)	(40.9%)	(41.8%)		
Mexico		3,745	12,595	22,952		
Brazil		3,385	10,496	16,882		
Argentina		1,377	5,689	7,541		
Korea		1,791	5,697	7,291		
Venezuela		1,319	5,438	7,082		
Panama		1,138	4,974	6,743		
Hong Kong		289	2,247	4,113		

1/ Excludes Bermuda, Bahamas and Br. West Indies

SOURCES: *Survey of Current Business*, August 1982
Federal Reserve Bulletin

adequate storage facilities are available and when distribution of the food will not result in a substantial disincentive to the recipient country's own production nor seriously interfere with its food marketing system. These safeguards are important because many developing countries have the potential for increasing food production and because most of the population is dependent upon agriculture or agriculturally-related activities.

The law provides for donations of food for emergency/disaster relief as well as for programs to help needy people, particularly malnourished children. Another provision of the law permits the local currency generated by the sale of the food to be used to finance development programs such as increasing the availability of credit to farmers or improving on-farm storage and distribution facilities. In FY 1982, a total of 5,608,800 metric tons of American food went to the developing countries under P.L. 480.

The American people repeatedly demonstrate their compassion for people abroad affected by disasters through the rapid provision of disaster and other forms of assistance. While an expression of our humanitarian concern, such assistance also advances the U.S. national interest by strengthening goodwill toward our country.

Natural and man-made disasters are a constant threat to people throughout the world. Their highest toll is among the poor, who are the most vulnerable. Disasters often result not only in the loss of life and human suffering, but also the destruction of vital infrastructure. During the last 18 years, the United States Government has provided emergency relief assistance to victims of 691 foreign disasters. In these catastrophes:

-- 2.5 million people died;
-- 692 million people were seriously affected; and
-- $4.9 billion was provided in international relief, nearly one-half by the United States Government ($2.1 billion) and $230 million by the U.S. private sector.

Our approach to disaster assistance is not only in response to events but also endeavors to assist in reducing their occurrence and to reduce their impact when they do occur. The program provides early warning systems, technical assistance to strengthen and monitor disaster-related institutions in disaster-prone countries, and performs managerial and administrative functions to make the program increasingly effective. A 24-hour response capacity is maintained to rush life support goods and services to disaster victims anywhere in the world. During FY 1982, the U.S. responded to 36 disasters in 29 countries affecting some 18 million people. Fifty-eight percent of these disasters resulted from natural causes.

D. Political and Global Security Interests

American security is based on more than military strength. Recent events in the Middle East, the horn of Africa, Afghanistan, Central America and the Caribbean have clearly demonstrated that conflicts, problems and instability involving the developing countries, many of which may seem remote or unimportant, have a very direct effect on our political and security interests. Often the policies and actions of an individual developing country or group of developing countries can have a significant impact on key regional and global disputes and issues of importance to the United States.

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. However, when people have a reasonable hope that living conditions will improve over time and actions are being taken to address the most pressing economic problems, they have a greater stake in the achievement of stability and peace. U.S. security interests are therefore often closely linked to the internal political, economic and social health of individual countries and regions in the developing world. Our development efforts aim at improving that health by enhancing the long-term economic prospects and potential of the developing world and, where appropriate, assisting countries along with other donors to address immediate economic crises. By helping a country to address immediate economic crisis situations, it is hoped that it will be possible to avoid or minimize further economic and social dislocation while building the foundation for future economic recovery. Failure to help can prove to be extremely costly to the country and to the United States in the long-run.

U.S. political interests involve the resolution of a range of international problems whose solution requires international cooperation and common and concerted action by developed and developing nations. Prime examples of areas where the cooperation of developing countries is particularly important to the achievement of U.S. objectives include: disease control, refugee settlement, narcotics control, and the ending of international terrorism.

E. Direct Benefits and Costs of Development Assistance

Our efforts to promote economic development in the developing world encompass a wide range of policies and actions including our own macroeconomic policies and growth performance, international trade, foreign investment flows, private bank lending, official development assistance, and, more indirectly, efforts to promote a more secure global environment. While development assistance is thus just one part of our overall effort to promote development, it is often a critical factor in the international effort to support development in the low-income countries. Development assistance, however, remains a very small part of the total federal budget. Total economic assistance, including A.I.D. Development Assistance,the Economic Support Fund, Food for Peace, U.S. contributions to the UN development programs, and support for the Multilateral Development Banks, represents only one cent out of every federal budget dollar and less than 0.3% of our Gross National Product. By comparison, during the 1950s, economic assistance represented an average three cents out of every federal budget dollar and over 0.6% of our Gross National Product.

In addition to the general economic benefits to the United States which are derived from trade and the long-term economic development of the developing world, there are also important direct benefits. A major portion of the dollars spent by the United States for foreign assistance stays in the United States. It is estimated that close to 70% of U.S. bilateral economic assistance is spent on American goods and services. In addition to this direct procurement, foreign assistance activities can generate additional future demand for U.S. products through the need for replacement, purchase of complementary equipment and familiarization with U.S. products.

The United States also derives similar economic benefits from the activities of the Multilateral Development Banks (MDBs) through procurement of U.S. goods and services for MDB projects. It has been estimated that procurement of U.S. goods and services as a result of MDB operations exceeds the U.S. contribution to these institutions.

Finally, more than a third of U.S. bilateral assistance is in the form of loans. Almost $25 billion has been returned to the Treasury by developing countries in repayments of principal and interest since 1947. These returns on earlier loans are now received at an annual rate of $600-800 million.

CHAPTER II

Problems and Prospects of Developing Countries

About 800 million people in developing countries live in absolute poverty - a condition of life characterized by malnutrition, illiteracy and disease and altogether different from the meaning of poverty in developed countries. To live in absolute poverty usually means that life expectancy is less than 50 years; that children between the ages of one and four die at 20 times the rate of those in industrial countries; that six out of ten children finish less than four years of primary school; that malnutrition and disease are rampant; that impaired physical and mental capacity is the norm; and that human shelter is crowded and primitive.

The lack of infrastructure is another facet of conditions in developing countries: few roads; ancient vehicles for transport; oil lamps; primitive communication facilities; and hand carted water. The economies are described as agrarian because most of the population are subsistence farmers, who in years of good harvest on their small plots of land may earn a few dollars selling grain not needed to feed their families. Incomes are typically low - a few hundred dollars a year. Where there are exports, they are generally concentrated in one or a few agriculture crops or raw materials such as minerals. The political structure is often in like manner in the process of development. Many LDCs are relatively new nation-states and are in the process of consolidating their people into a national unity and obtaining agreement on the basic aims of the society.

The low-income countries (excluding China) account for about 80% of the world's poor.[1/] Their economic growth has been slow, and (as described in more detail in the next section) their growth prospects are relatively dim. In contrast, middle-income countries have grown fairly rapidly, and the incidence of poverty in these countries has fallen sharply. Tables VI and VII indicate where countries are in terms of per capita income.

1/ The definition of low-income countries and middle-income countries varies widely depending on the purpose, issue and institution involved. A commonly utilized demarcation is the IDA eligibility criterion. However, most of the comparisons in this section utilize the IBRD data and correspondingly their classification, which defined low-income countries generally as those developing countries which had an average per capita income below $400 in 1980. Middle-income countries are those above this level.

Table VI

Middle-Income Countries*

1981 Per Capita Income		1981 Per Capita Income	
820	Papua New Guinea	1720	Korea
820	Zimbabwe	1800	Seychelles
840	Swaziland	1820	Malaysia
870	Grenada	1880	Fiji
870	Morocco	1910	Panama
870	Nicaragua	2210	Brazil
870	Nigeria	2250	Mexico
900	Botswana	2530	Portugal
1110	Congo	2560	Chile
1120	Peru	2560	Argentina
1160	Guatemala	2790	Yugoslavia
1170	Ecuador	2820	Uruguay
1170	Ivory Coast	3500	Barbados
1180	Jamaica	3630	Bahamas
1330	Colombia	3760	Cyprus
1340	Dominican Republic	3910	Gabon
1340	Mauritius	4540	Greece
1420	Tunisia	5220	Singapore
1480	Costa Rica	5270	Trinidad & Tobago
1510	Turkey	5450	Israel
1560	Paraguay	5460	Hong Kong
1570	Syria	5770	Spain
1620	Jordan	7490	Bahrain

* Those non-oil developing countries with PCI $795 in 1981 current dollars (including Nigeria).

Table VII

Low-Income Countries*

1981 Per Capita Income		1981 Per Capita Income	
n/a	Bhutan	350	Gambia
n/a	Kampuchea	350	Pakistan
n/a	Laos	360	Uganda
n/a	Viet Nam	380	Sao Tome & Principe
n/a	Afghanistan	380	Sudan
140	Bangladesh	390	Maldives
140	Ethiopia	390	Togo
180	Burma	400	Ghana
180	Equatorial Guinea	n/a	Western Samoa
190	Guinea Bissau	430	Kenya
190	Mali	460	Yemen, AR
200	Malawi	480	Djibouti
230	Zaire	480	Mauritania
240	Burundi	500	Senegal
240	Mozambique	510	Yemen, PDR
240	Upper Volta	520	Indonesia
250	India	540	Lesotho
250	Rwanda	540	Liberia
280	Somalia	590	Honduras
300	China	590	Zambia
300	Guinea	600	Bolivia
300	Haiti	620	Solomon Islands
300	Sri Lanka	640	El Salvador
300	Tanzania	650	Egypt
310	Comoros	720	Guyana
320	Sierra Leone	750	Dominica
330	Benin	770	Thailand
330	Central African Republic	790	Angola
330	Madagascar	790	Cameroon
340	Niger	790	Philippines

* Those non-oil developing countries with PCI $795 in 1981 current dollars (including Indonesia).

A. The Constraints to Development

Low-income countries face a number of constraints that cannot be easily or rapidly remedied and which adversely affect their capacity for economic growth. First, physical infrastructure is typically inadequate, so that transportation, distribution, utilities, and communication are often deficient. Second, institutional factors loom large as contraints to more rapid growth. Institutions are needed in order to deal with the problems of analyzing, formulating, and implementing policies, mobilizing and allocating resources, and adjustment to difficult and uncertain economic circumstances. Particularly in low-income countries, institutions are frequently either underdeveloped or ineffective in absorbing and utilizing resource transfers. Developing countries need not only resources, but improvements in their capacity to utilize resources effectively. Third, development of institutions depends in turn partly on human resources - on healthy, adequately trained, productive people. Fourth, in low-income countries where there is neither much accumulated capital nor a favorable human resource base, natural resource availability represents an important determinant of production possibilities and growth prospects. Yet the natural resource base in most developing countries is under extreme pressure. In part, this is the inevitable result of high birth rates and population growth. Finally, these constraints are often compounded by the economic policies pursued by individual developing countries which create distortions within the economy and hinder the efficient use of the resources that are available. Table VIII resents various indicators of the economic and social situation faced at different levels of development. What follows is too simplified to reflect the enormous problem facing these countries, particularly those in the lower categories. It serves only to focus attention on the critical sectors and the types of changes needed within each sector.

(1) Food and Agriculture

The agricultural sector is of critical importance in low-income countries. About 70% of the labor force in low-income countries is engaged in agricultural activity, while the percentage of poor people dependent on agriculture for their livelihood is even higher. Agriculture accounts for almost 40% of Gross Domestic Product (GDP) in low-income countries, and growth performance in agriculture is a critical determinant of overall GDP growth. Experience over the last three decades also shows that dynamic agricultural growth is in most countries a necessary though not sufficient condition for broadly-based overall economic growth that permits the country to reduce hunger and malnutrition and achieve sustained improvement in per capita living standards.

TABLE VIII

BASIC INDICATORS

	GNP Per Capita $ 1980	Average Annual PCI Growth (%) 1960-1980	Adult Literacy Rate (%) 1977	Life Expectancy At Birth 1980	Crude Birth Rate Per Thousand Population 1980	Urban Population As a Percent of Total	Daily Per Capita Calorie Supply As a Percent of Requirement	Population Per Physician 1977
Low-Income Countries	260	1.2	50	57	31	17	97	5,810
Middle-Income Countries	1,400	3.8	65	60	35	45	107	5,840
Oil Exporters	1,160	3.3	57	56	40	39	103	8,020
Oil Importers	1,580	4.1	73	63	31	50	110	4,010
High-Income Oil Exporters	12,630	6.3	25	57	42	66	-	1,380
Industrial Countries	10,320	3.6	99	74	15	78	131	620

SOURCE: World Development Report 1982

Food production and consumption prospects are seriously deteriorating in a number of low-income, food-deficit countries. The basic cause of continuing hunger and malnutrition in these countries is the inability of the malnourished to purchase or otherwise acquire the food they need. While malnutrition receives less attention than outright starvation, it has a far wider impact on human lives and productivity.

Real progress has been made toward food and agricultural self-reliance in a number of Asian and Latin American countries, but many other countries remain beset with serious and precarious problems. Millions in Asia, Latin America and the Near East are still impoverished and malnourished. A deepening food crisis with chronic famine conditions in some areas is developing in sub-Saharan Africa, where per capita food and agricultural production continue to decline in a majority of countries.

Future prospects are influenced by two major factors: population growth and income growth. About 90% of the almost two billion increase in world population projected for the year 2000 will occur in developing countries, many of which are unable to assure adequate food supplies even for their current populations. Continuing per capita income growth in the middle-income and advanced developing countries is expected to generate substantial increases in the demand for basic grains for direct human consumption and for livestock production. Unless the production of major staples and/or other agricultural commodities in developing countries improves significantly more than it did during the 1960-75 period, and unless the effective demand of low-income families is increased through broad-based growth, a deterioration in per capita food consumption, especially in low-income countries, may occur.

This is a grim picture, but it is by no means hopeless. Efforts to increase food production will have to focus on higher yields on present acreage, requiring large investments in irrigation, seeds, fertilizer, pesticides, and research on higher yielding technologies, and often changes in land tenure patterns and agricultural institutions.

(2) Human Resource Development

The problem of development is in some measure one of human resource development -- ensuring that people are healthy, educated, and productive. Direct approaches to human resource development include increasing the supply of services related to education, health, and family planning. These are important because they directly affect the well-being of individuals, and also because they represent investment in human capital that has been shown in numerous studies to yield significant economic returns. However, in most developing countries, the supply of both education and health services, particularly primary education and primary health care, is very limited.

High birth rates handicap efforts to achieve higher standards of living in developing countries. Birth rates in developing countries, which average 38 per thousand in low-income countries, are two and a half times as high as in industrialized countries.

Lowering birth rates can contribute significantly to higher standards of living during the 1980s:

-- Since children need to be cared for, the volume of resources that can be privately saved and invested will be greater, the lower the number of births.

-- Lower birth rates over the decade will ease demands on health and education systems, food supplies, and housing, goods and services which are already inadequately supplied. The most important implication of this point is that lower birth rates permit an increased human investment per child, thus raising the quality of human resources and labor productivity over time.

-- Lower birth rates can help alleviate the health problems associated with closely spaced births, leading to improved maternal health and reduced infant mortality.

-- Slower population growth over the long term will reduce strains on the natural resource base.

(3) <u>Energy and Natural Resources</u>

One of the most severe constraints to progress in developing countries is posed by the availability and cost of various forms of energy. The most dramatic problem for low-income countries, most of which are net oil importers, has been the precipitous increases in oil prices, which drain foreign exchange reserves and limit the capacity to import other goods essential to growth. These price increases have also raised costs in a variety of important sectors, including agriculture (through fertilizer), industry and transportation. A more slowly evolving, but no less significant, energy problem is household fuels, such as firewood and charcoal, which are especially important to the world's poor.

The obstacles to progress posed by the deleterious effects of desertification, deforestation, and erosion are sources of grave and mounting concern. Mismanagement and neglect of the natural resource base are reducing the productive capacity of the world's agricultural lands, rangelands, and forests to the point where world food supplies are already being affected. The results are reduced supplies of goods essential to decent standards of living, worsened health conditions, and depressed productivity and incomes of those dependent on agriculture, including the bulk of the world's poor.

The changes needed include development of physical infrastructure. Institutions are needed in order to deal with the problems of analyzing resources, adjusting to difficult and uncertain economic circumstances, absorbing and utilizing resource transfers, and coping with maintenance of gains over time.

(4) <u>Policy</u>

Increasingly, it is being recognized that the policy framework of the LDC can equally inhibit growth. In the final analysis, the economic performance of the individual developing country is primarily dependent on its own policies and actions. The importance of domestic policy in economic performance was dramatically illustrated in the recent report of the World Bank on Sub-Saharan Africa, which noted that the main cause of the poor economic performance of these countries during the 1970s was not external, but rather policies which created economic distortions, inefficiencies, and disincentives to production, investment and savings.

The policy measures that directly influence the pace and pattern of development fall into three distinct but interrelated areas. First, policies concerning direct production of goods and services by the public sector. Second, policies affecting prices and incentives to private producers and suppliers, and demand by consumers. Third, policies such as fiscal, monetary and credit policies that influence the mobilization of resources, particularly financial resources for development, as well as the allocation of these resources between the public and private sectors.

Governments can be more or less active in each of these areas, reflecting broad policy decisions about the role of market forces and private enterprise in their development. There is mounting evidence that many developing countries' public sectors 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. Effective policies concerning both cost effectiveness and cost recovery are important to ensure that the infrastructure achieves its objective of facilitating production and development. For example, greater use of private contractors in construction, operation, and maintenance can often be effective in holding down costs. Certain types of basic infrastructure do not permit the ready or efficient allocation of user charges, e.g., roads, flood control dams, etc. However, 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 charge where possible for the services derived from infrastructure investment can not only place a direct burden on the government budget but is also likely to result in inefficient use or excess demand for the services provided.

Public expenditure for social services is also commonplace in most developed and developing countries, although the economic rationale for public production is not as clear cut as for infrastructure. These services -- including health, education, family planning and nutrition -- are important not only because they directly affect the well-being of individuals, but also because they represent productive investment in human capital. The challenge to most governments is to design the programs in such a way that the services effectively meet basic needs, are produced on an efficient scale, meet the objective of reaching the poor, and avoid subsidies for the non-poor.

Similarly, direct public production and investment in agricultural-related activities 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. The importance of agriculture to the developing world makes it essential that such activities be carried out effectively and efficiently.

The extent and appropriateness of public production and investment in industry is far more controversial. It has often reflected political and ideological considerations more than economic considerations of the size of the market, potential for monopolistic abuses, etc. The distinction between public and private industrial undertakings can, however, be blurred. Some wholly government-owned "parastatals" are run like private businesses and have substantial autonomy, while some private businesses are so closely regulated that they have relatively little room for discretion. There is mounting evidence that far too often governments have undertaken activities 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, a drain on the economy and, in the case of parastatals, often a drain on the treasury.

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 policymaker. Finally, pricing policies affect the capacity of the economy to mobilize financial resources. Some of the most pertinent examples include trade and exchange policies, policies affecting the prices of labor and capital, and specific policies that determine prices in critical sectors such as agriculture.

In many developing countries the exchange rate is overvalued. As a result, the incentives to production for export are reduced, while imports appear relatively inexpensive. The consequence is a structure of production and demand that is excessively dependent on imports, coupled with a diminished capacity to earn foreign exchange through trade and a correspondingly deteriorating balance of payments position. Along with overvalued exchange rates frequently go import licensing arrangements and highly protective tariff structures. Both tend to reduce efficiency and to offer protection to selected industries that would be unprofitable at world market prices and which often use less labor than their exporting counterparts, aggravating the already serious employment problem faced by most developing countries. Also, under such circumstances, export production that uses imports is further penalized. Similarly, policies which concern wages and interest rates affect both the pattern of production and the choice of technology, including the relative labor intensity of production.

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 and sometimes to discourage adoption of new techniques. Further, since poverty is predominantly a rural phenomenon and most of the poor depend on agriculture for their livelihood, such policies may in fact harm many of the poor. Not only have such subsidies of food, as well as energy and government services, distorted production patterns, they have in many countries become an increasingly large component of the government's budget, increasing deficits and reducing the capacity of the government to undertake necessary productive investments.

The third set of policies include those which directly affect domestic resource mobilization, including fiscal, monetary, and credit policies. Tax policy will have critical effects on public savings, depending on the extent to which tax revenues cover expenditures. Further, the structure of taxes will influence the balance between private savings and private consumption.

Fiscal and monetary policy are intimately linked in developing countries, because domestic financing of fiscal deficits usually occurs through expansion of the domestic money supply. 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 investment can be negative. The expansion of the domestic money supply to finance government deficits and high levels of inflation has been endemic in many developing countries.

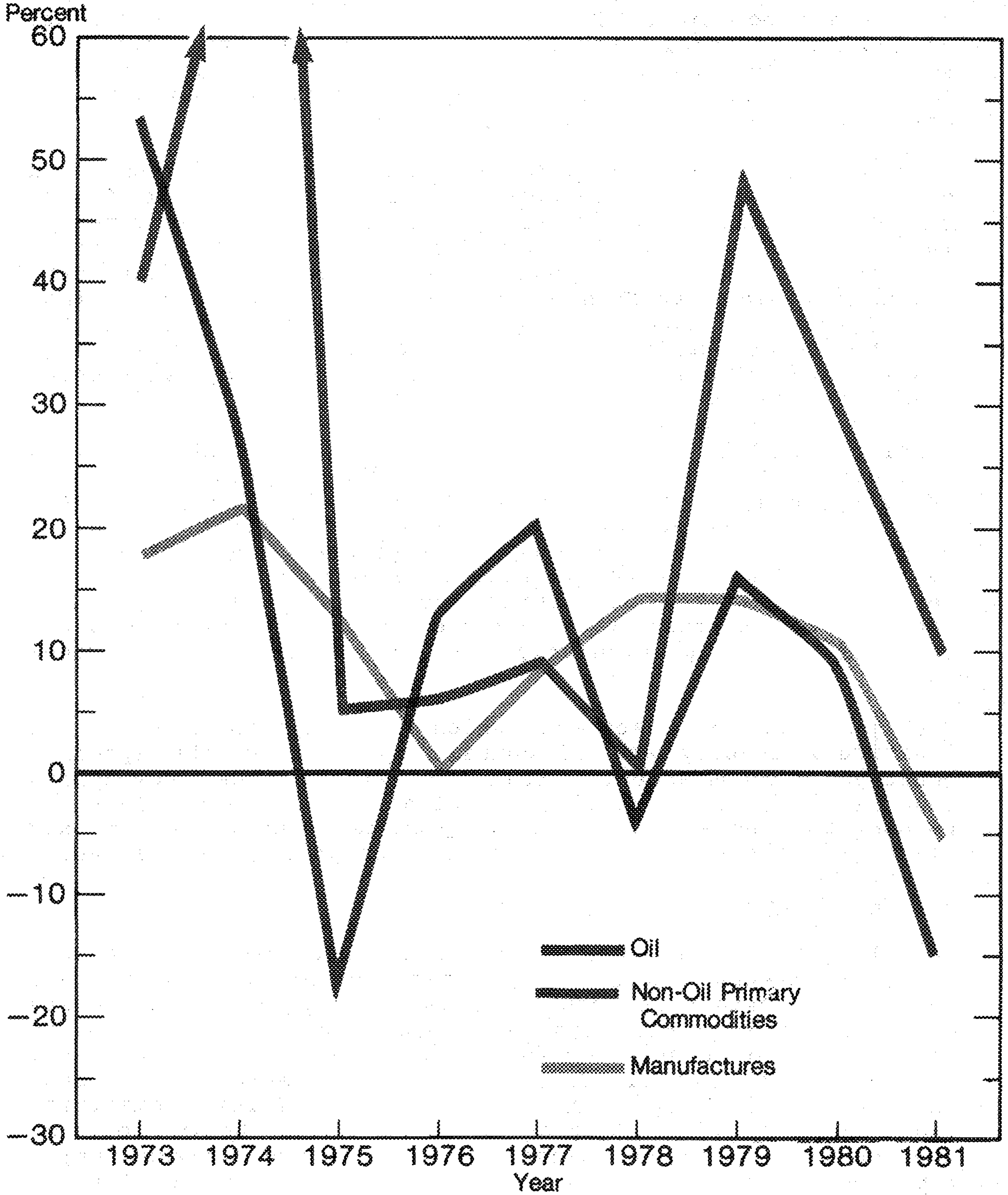
Finally, public authorities are often reluctant to allow interest rates to reflect fully the expected rate of inflation and the real scarcity of capital. The consequence is a reduced incentive to save along with credit rationing, which often favors public enterprises and influential patrons, and which rarely achieves an efficient allocation of resources. Where developing countries have instituted appropriate interest rate policies the results have often been dramatic, particularly in the increase in savings rates.

The policies and actions which are appropriate in an individual country are of course dependent on the specific country circumstances. Policies within the developing countries should remove distortions and disincentives to production, increase efficiency, promote economic growth, and place greater reliance on the market and private initiative.

B. The Current Environment

Largely as a consequence of the fact that the world economy is in the deepest and most prolonged economic recession since the 1930's, developing countries as a group have faced severe difficulties in 1982. High interest rates and inflation in industrialized countries both declined considerably in 1982. However, this favorable development was accompanied by a drop in import demand and declining world prices for commodities (see Chart IV), which took a particularly heavy toll on developing countries since it was often items which represented major export earners that suffered the largest price and demand declines. Developing countries' export volume to the industrial countries thus stagnated at the same time that the prices of LDC export commodities were declining. As happened in the 1974/75 recession, a number of

Chart IV
World Trade Prices for Major Commodity Groups
Percent Change from Previous Year



SOURCE: International Monetary Fund, Annual Report 1982.

low-income developing countries faced severe balance of payments problems and a debt servicing crunch in 1982. However, in this recession, the severity of the repercussions was heightened by the number of middle-income LDCs that also faced balance of payments and debt service difficulties.

It is not surprising, therefore, that 1982 was marked by a further deceleration of economic growth in the non-oil developing countries. Their combined real output showed negligible growth in 1982, following a 5.0% rate of growth in 1979, 4.8% in 1980, and 2.5% in 1981. Given population growth rates of over 2%, this has meant an actual decline in per capita income in many of these countries. Compared to the previous major recession in 1974-75, 1981 and 1982 LDC economic performance was substantially below the 1975 recession low point when LDC GNP growth had dropped to 3.9%. In addition to being the lowest aggregate growth rate in two decades, this continuing downward trend is itself serious. The cumulative effects of low and declining growth will probably be more difficult to reverse than was the case in the mid-1970s. It may be some time before developing countries' growth rates start to pick up.

Detericration of the international economic environment has severely affected the smaller low-income countries. In particular, 1982 saw a continuation of the trend since 1977, of stagnant or declining per capita incomes in countries of Sub-Saharan Africa. The earlier oil price increases of 1979-80 and the weakening of primary commodity prices have contributed heavily to a substantial deterioration of the terms of trade. This, combined with slow, and in some cases stagnant, export volume growth has led to a more than 25% decline in the purchasing power of this group's exports over the past decade.

The severity and length of this worldwide recession along with the stronger economic repercussions on developing countries was not paralleled in earlier years. Neither the 1974-75 recession nor the 1969-70 slowdown induced a reduction of comparable magnitude in developing countries' growth. The deceleration of growth was in both occasions mild in comparison with that occurring in the industrial world. In fact, in those cases the more advanced developing countries recovered sooner and in a stronger way than did the industrial countries. Many developing countries were able to maintain their growth by expansionary domestic policies, and a push on manufactures exports, both financed largely by an expansion in international borrowing. In the present recession, LDCs already holding large external debt (see Charts V and VI) have not been able to follow similar counter-cyclical policies to offset the unfavorable external events. Many developing countries have further contributed to their own difficulties by failing to take on a timely basis the policy measures required to adjust to the unfavorable international economic environment.

The nature of the present recession together with the closer linkage between changes in the industrial countries and LDC domestic growth rates suggests that there has been a progressive integration of the world economy, particularly for the more advanced developing countries which are heavily dependent upon the industrial world for exports of manufactures and intermediate products. This is demonstrated in part by the fact that in recent years, developing country trade with industrial countries continues to represent a growing share of LDC GNP.

During the last three years non-oil developing countries have had record current account deficits -- $86 billion in 1980, $99 billion in 1981 and $97 billion in 1982 (see Chart VII). These deficits were substantially above the $40 billion average of the mid-1970s and now represent a larger share of developing countries' GNP. The string of large deficits reflected a combination of interrelated factors, some of which have already been mentioned: the doubling of oil prices in 1979/80; the sharp rise in interest rates from mid-1979 through early 1982; the severe slowdown of economic activity in the industrial countries; deteriorating terms of trade; and, for several developing countries, unduly expansionary domestic measures and unsound exchange rate policies, which tended to enlarge already growing external imbalances or to prevent adjustment. Of these, the deterioration in the terms of trade was a major contributing factor. In 1982, the non-oil developing countries' terms of trade were at their lowest level since the early 1950s (see Chart VIII). In particular, the terms of trade of countries whose exports consist mainly of primary products underwent substantial deterioration in each of the past five years. Of these countries, the low-income countries suffered the most during this period with almost a 40% drop in their terms of trade.

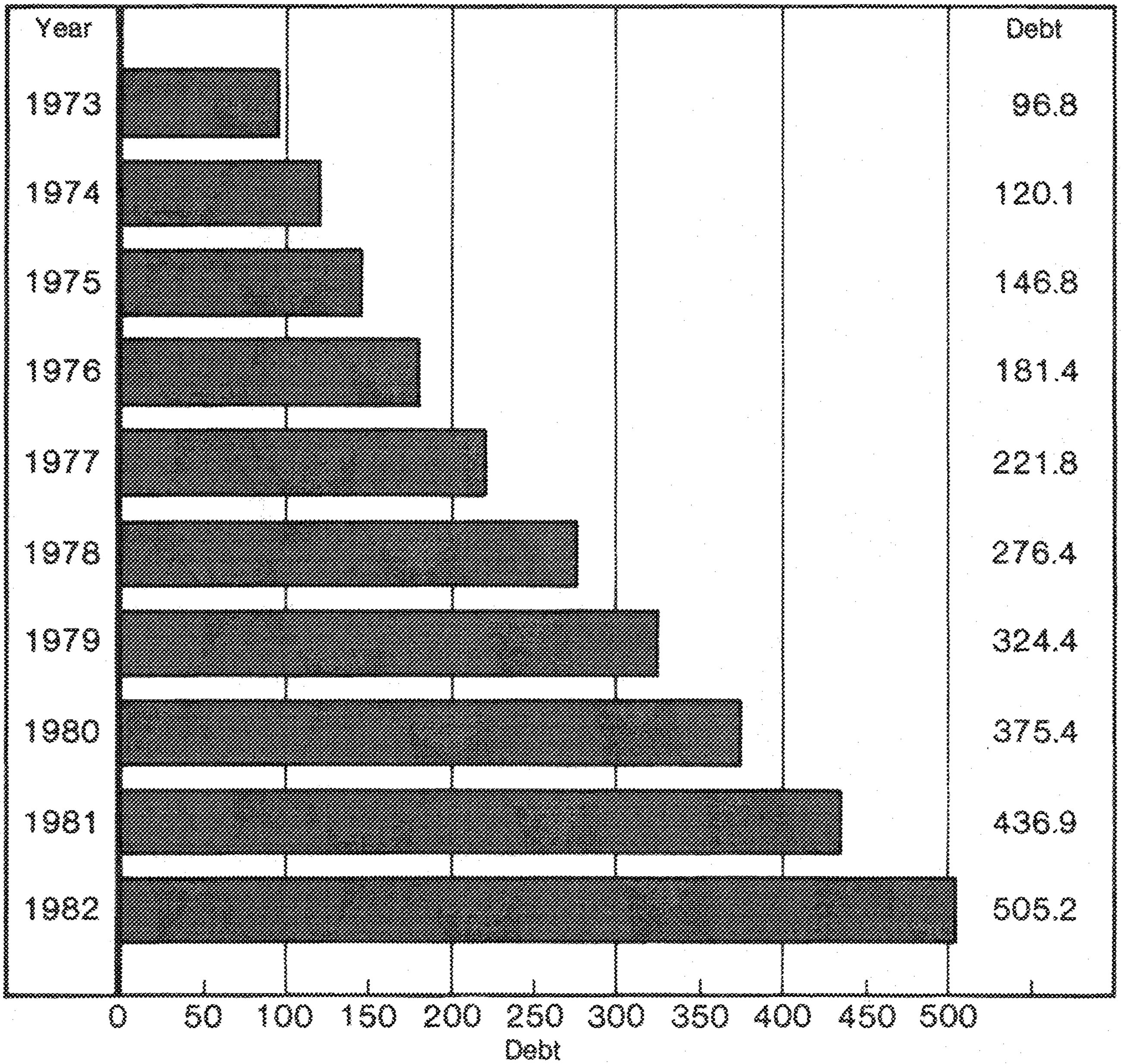
For non-oil developing countries as a whole, real growth in exports declined from a level of 9-10% a year in 1978-79 to 5.5% in 1980, 4% in 1981 and an estimated 2-3% in 1982. Export prices, which had declined by 6% in 1981, dropped by a further 4% in 1982.

On the import side, the expansion of earlier years came to a virtual standstill in real terms, dropping from a growth rate of 8-9% in 1978-79 to about 1% in 1980-81 and an actual decline in 1982. Again, the situation was most severe in the low-income developing countries, whose import volume declined by 2% in 1980 and 7% in 1981-82. The effects of the recession have not been confined to merchandise trade. Services have also been affected adversely. The developing countries service account deficit doubled over the last three years due to a decline in remittances from expatriate workers, a decline in tourism earnings and, most important, a

Chart V

Long-Term External Debt of Non-Oil Developing Countries[1]

In Billions of U.S. Dollars



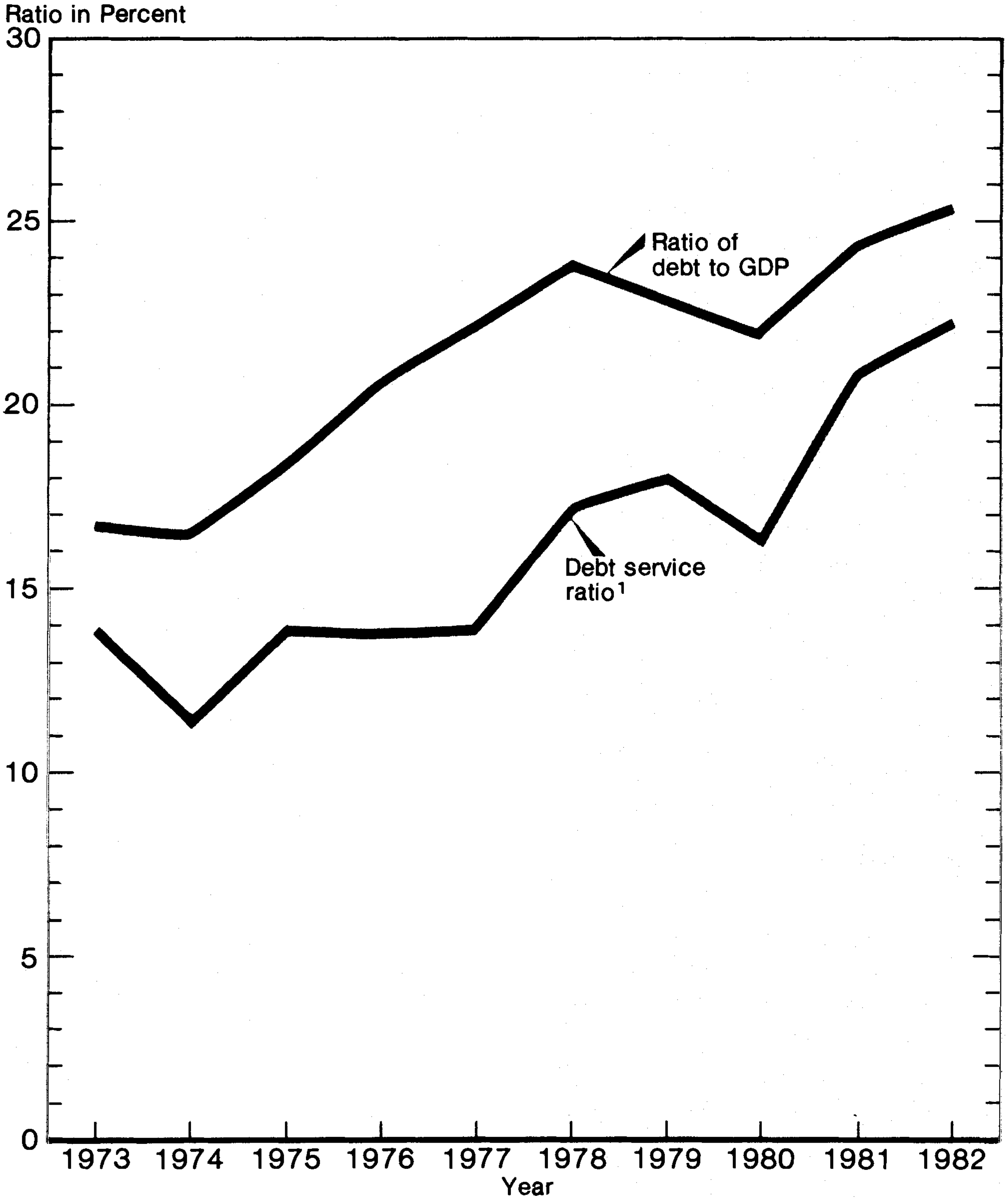
[1] Includes public and publicly guaranteed long-term debt as well as private debt incurred without guarantee.

SOURCE: International Monetary Fund, World Economic Outlook, April 1982.

Chart VI

Non-Oil Developing Countries

Debt Service Ratio[1] and Ratio of External Debt to GDP



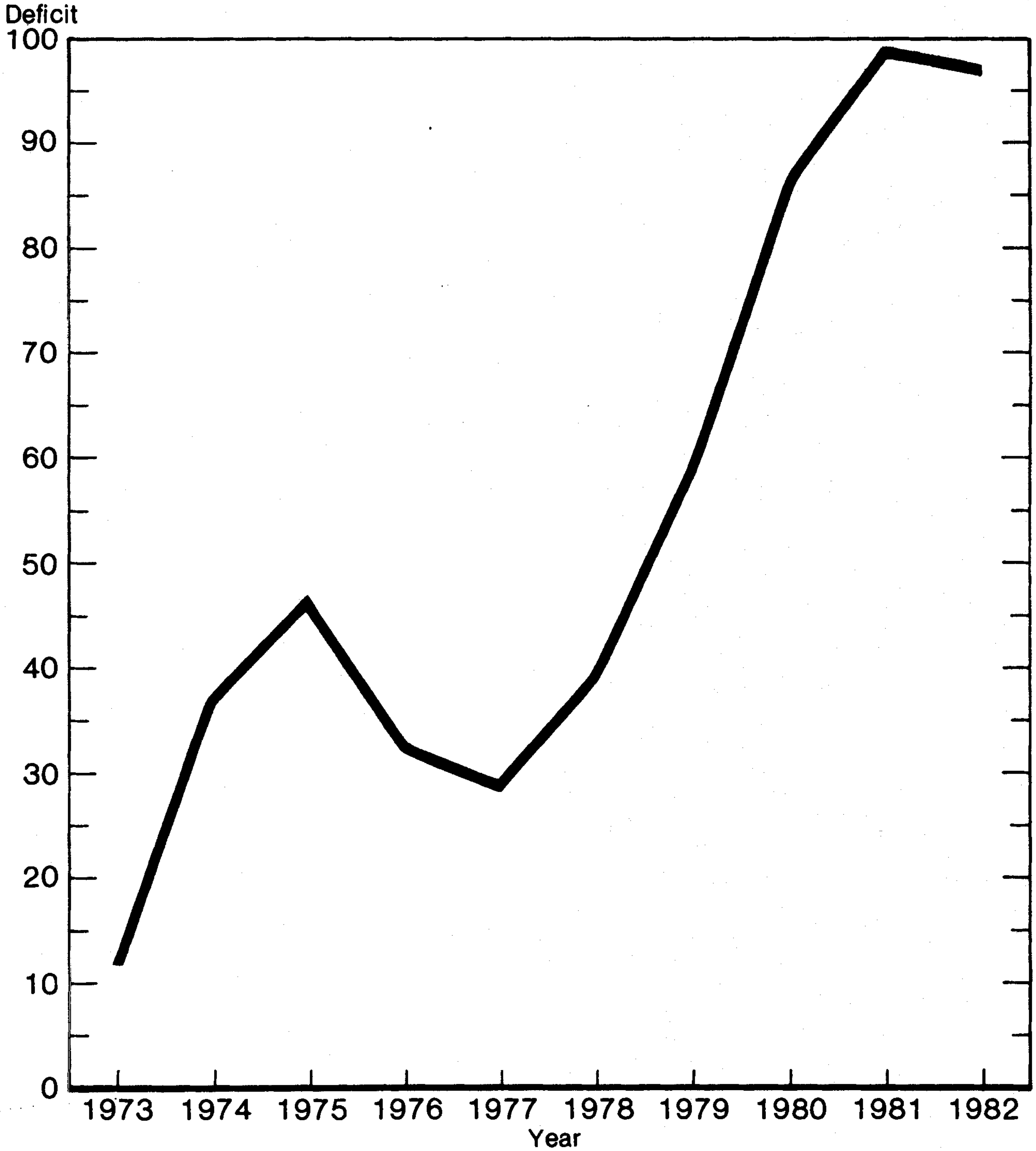
[1]Payments (interest, amortization, or both) as percentages of exports of goods and services.

SOURCE: International Monetary Fund, World Economic Outlook, April 1982.

Chart VII

Non-Oil Developing Countries Current Account Deficit

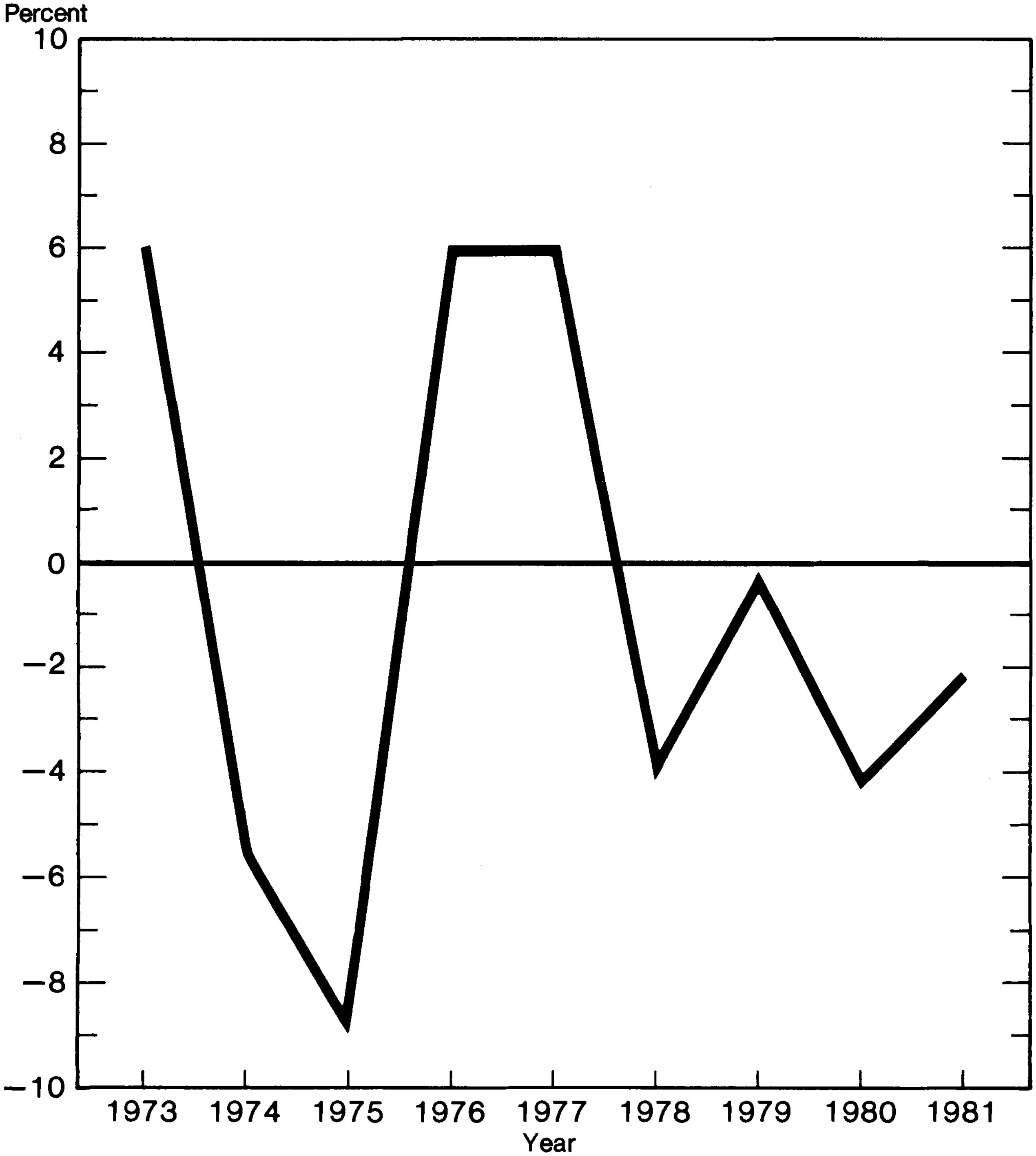
In Billions of U.S. Dollars



Current Account Deficit: An excess of liabilities over assets in the balance of payment account recording non-capital transactions.

SOURCE: International Monetary Fund, World Economic Outlook, April 1982.

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



Terms of Trade: The difference between the price of imports and the price of exports.

SOURCE: International Monetary Fund, Annual Report 1982.

sharp rise in debt servicing costs as interest rates doubled between 1978 and 1981. The latter problem, however, was significantly ameliorated by the decline in interest rates in the latter half of 1982.

For the last five years, the non-oil developing countries have managed to obtain financing for their larger current account deficits. In 1982, however, the pattern of financing revealed several signs of strain. For non-oil developing countries as a group, foreign exchange reserve growth, minimal in 1980 and 1981, turned negative in 1982. For low-income countries, declines in reserves were particularly large, and the ratio of reserves to imports of goods and services dropped from 30% in 1979 to roughly 15% in 1982.

Shifts in the composition of developing countries' external financing gave added cause for concern. Net Official Development Assistance (ODA) disbursements from DAC donors declined by 6% in 1981 (see Table IX), the first ODA decline ever recorded. Even more disturbing was the fact that ODA to the Least Developed Countries (LDCs) declined by 10%, a greater drop than the decline in ODA to middle and lower income LDCs. Preliminary estimates for 1982 show a marginal increase in ODA, but much less than sufficient to offset the 1981 decline. Charts IX and X present information on official development assistance in terms of developed countries' GNP and long term trends. Non-concessional borrowing (mainly short and medium term borrowing from commercial banks and other private sources) rose sharply during the last two years, but was concentrated heavily on a few large developing countries which are either endowed with oil reserves or are exporters of manufactures.

In 1982 a number of middle-income countries in Latin America and Eastern Europe began to have difficulties servicing their commercial debt. The concern with similar difficulties arising in a number of other countries caused commercial lenders to tighten up their risk exposure in many developing countries. The clear danger is that a general and sharp reduction in commercial bank lending would add to the debt servicing problem for developing countries trying to cope with needed structural adjustment at the same time that the world-wide recession makes it harder for their exports and economic growth to recover.

With varying degrees of success, many developing countries have implemented structural adjustment measures designed to reorient domestic resources more into export production, curb domestic demand and government deficits as a means of reducing inflation and import requirements, and generally bring their economies into line with the changing international economic environment. Further adjustments in economic policies are needed in many developing countries to achieve a sustainable economic position.

TABLE IX

NET OFFICIAL DEVELOPMENT ASSISTANCE FROM DAC COUNTRIES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES

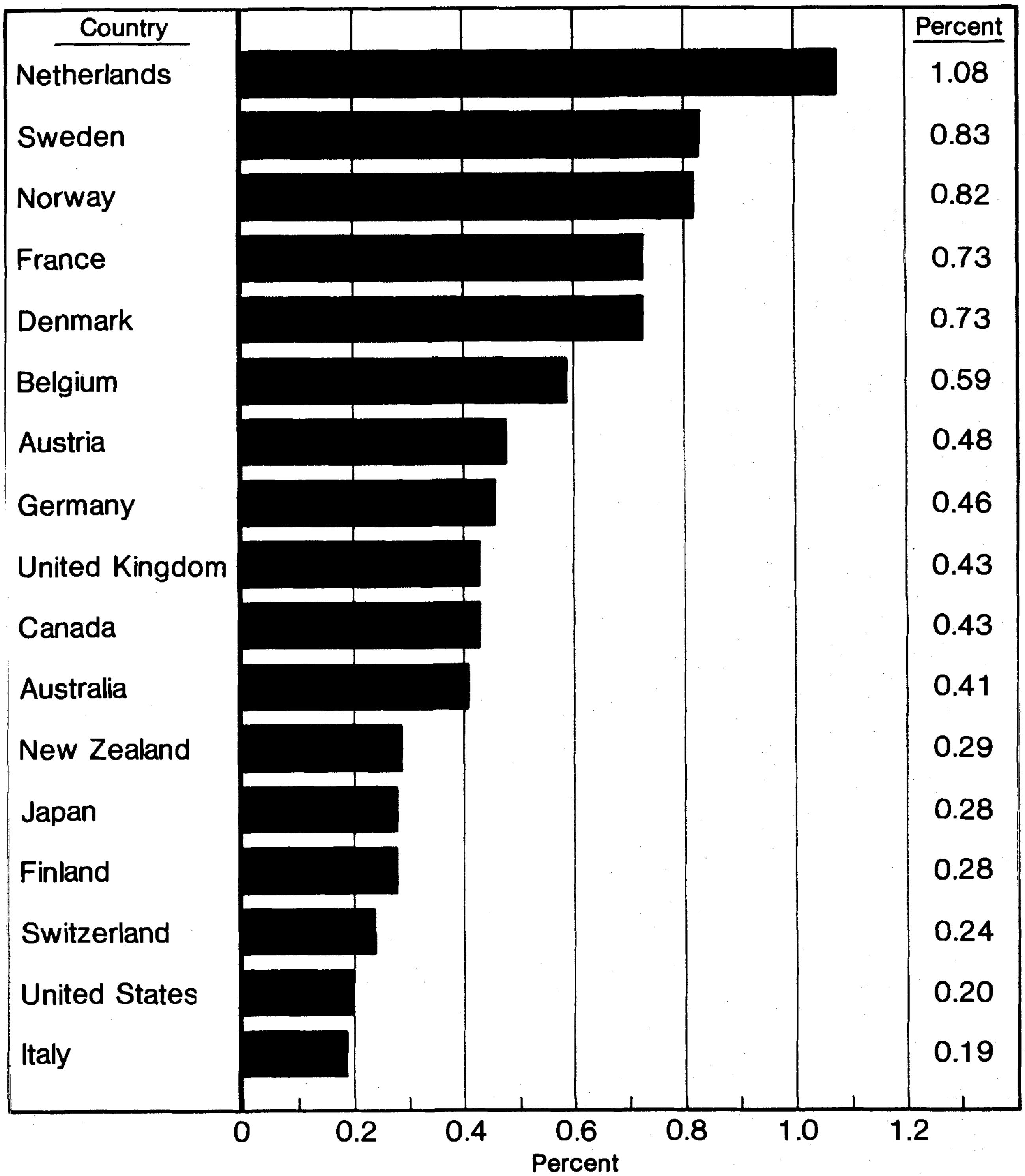
($ million and percent of GNP)

Net disbursements

Countries	1971 - 73 Average $M	as % of GNP	1979 $M	As % of GNP	1980 $M	As % of GNP	1981 $M	as % of GNP
Australia	266	0.54	629	0.53	667	0.48	649	0.41
Austria	23	0.11	131	0.19	178	0.23	314	0.48
Belgium	191	0.52	643	0.17	595	0.50	574	0.59
Canada	457	0.42	1,056	0.48	1,075	0.43	1,188	0.43
Denmark	100	0.46	453	0.76	474	0.73	403	0.73
Finland	21	1.42	90	0.22	110	0.23	135	0.28
France	1,286	0.63	3,449	0.60	4,162	0.64	4,177	0.73
Germany	881	0.32	3,393	0.44	3,567	0.43	3,182	0.46
Italy	159	0.13	273	0.08	683	0.17	665	0.19
Japan	711	0.23	2,685	0.27	3,353	0.32	3,170	0.28
Netherlands	282	0.59	1,472	0.98	1,630	1.03	1,510	1.08
New Zealand	21	0.23	67	0.33	72	0.33	67	0.29
Norway	64	0.40	429	0.93	486	0.85	467	0.82
Sweden	211	0.50	988	0.97	962	0.79	916	0.83
Switzerland	53	0.16	213	0.21	253	0.24	237	0.24
United Kingdom	648	0.41	2,156	0.53	1,851	0.35	2,194	0.43
United States	3,242	0.28	4,684	0.20	7,138	0.27	5,780	0.20
Total DAC Countries	8,616	0.33	22,811	0.35	27,256	0.38	25,628	0.35

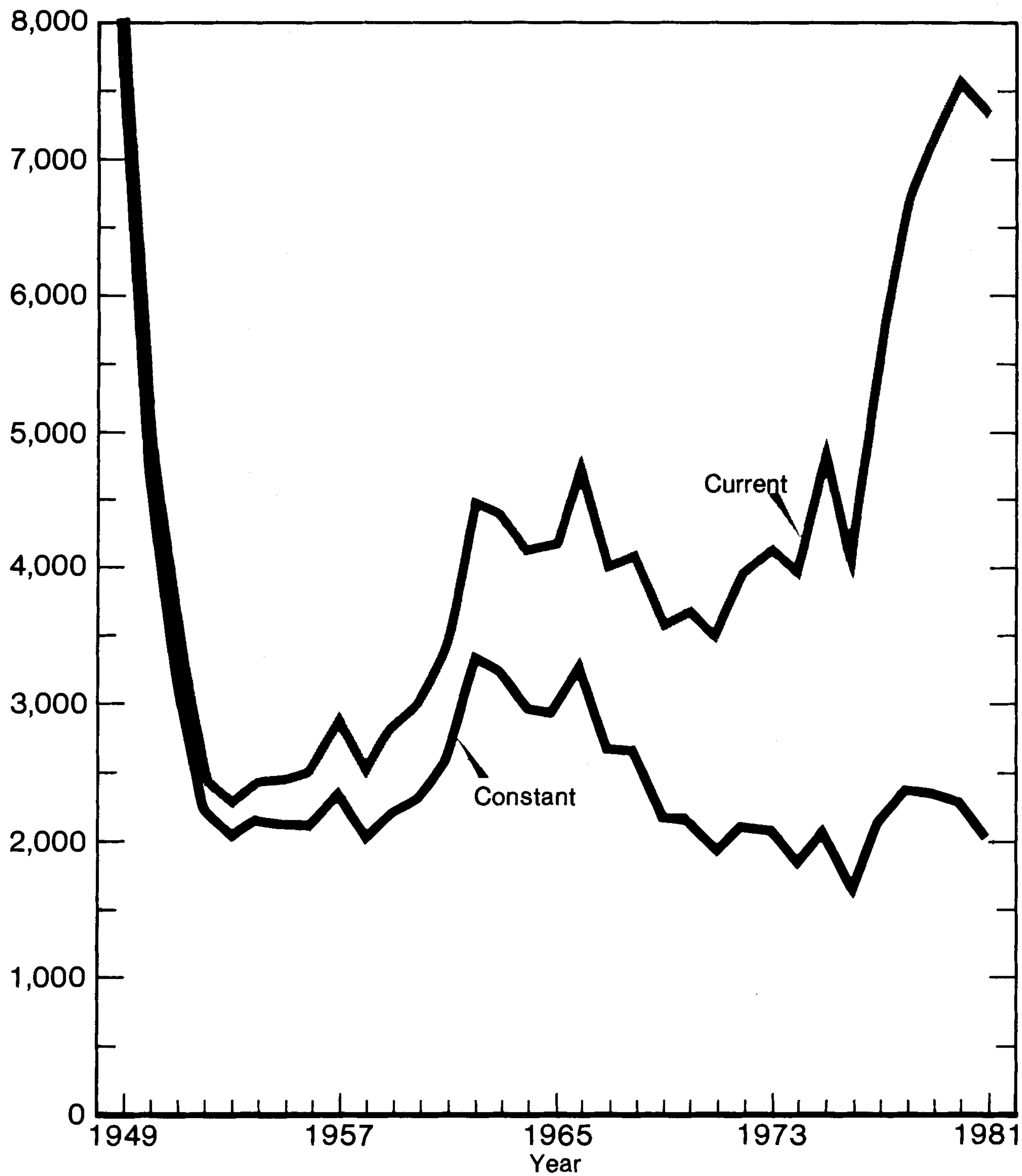
Source: OECD, DAC Chairman's Report, 1982, Statistical Annex

Chart IX
1981 Official Development Assistance
As a Percent of Gross National Product



SOURCE: OECD, DAC Chairman's Report, 1982, Statistical Annex.

Chart X
U.S. Economic Assistance Trends, 1949—1981
In Billions of U.S. Dollars



Obligations and Loan Authorizations in Current and Constant Dollars.

In addition to production and energy policy adjustments, most developing countries have had to adopt restrictive policies designed to restrict domestic demand further in order to control inflation and to reduce their external imbalance. In many cases, investment and other development expenditures have been sharply reduced. In some cases, this represents an adjustment to a more sustainable growth path. However, in low-income developing countries, with growth thus further constrained, the implications for stability and longer-run economic progress are serious. With specific reference to the least-developed countries, with a historically already low rate of investment in physical and human capital, the rate of growth of gross investment per capita has been decelerating steadily since 1975, the ratio of domestic savings to GNP declined substantially and never fully recovered the pre-1973 level, and, in more than half of the least developed countries, real GDP per capita was lower in 1982 than it was ten years earlier.

The implications for development programs now and in the future are serious. Austerity may often require reduction or postponement of development programs, particularly when donor sponsored projects require financial participation by the host countries. Debt accumulation, unless used for productive purposes, may encroach upon the ability of a country to borrow funds for development programs in future years. Actions to obtain a sustainable balance of payments position are critical for many developing countries. Such adjustment programs need to address not only demand management measures (reducing government expenditures for example) but also the contribution that can be made by measures directed at efficiency and aggregate supply expansion. More attention needs to be given to assessing the development implications of the adjustment measures pursued by the developing countries to resolve current economic problems in order to identify potential approaches which will promote the needed adjustment in ways that minimize any adverse impact on the country's long-term development. It is worth repeating that the challenge today is to solve current economic problems and sustain or at least not endanger future development prospects.

CHAPTER III

U.S. Programs and Policies to Promote Development

The preceding chapters explained why cooperation with the developing countries is essential to United States economic, political, strategic, and humanitarian interests, and summarized the international development problems and prospects of these countries. This chapter describes the programs and policies of the United States within IDCA's mandate to promote economic development in the Third World.

A. Bilateral Programs

The largest share of U.S. official development assistance is allocated through bilateral programs. They provide visible and tangible evidence of America's concern for international development and for improvement in the lives of poor people throughout the world. Official Development Assistance is just one aspect of our relationship with developing countries, but particularly for the lower income countries, it is often a significant component of their total available external resources and a critical factor to their development process.

Beginning with reconstruction efforts that followed World War II, the United States established itself as the world leader in providing development assistance. The U.S. assistance program has served as the model for other industrialized countries as they launched their own aid efforts. The United States aid program has been able to draw on the technology and research base of U.S. universities, private firms and government agencies to address development problems and to develop and implement innovative and flexible techniques which address specific development requirements and improve the effectiveness of our assistance.

Over the years the United States has sought to convince other donors to bear a greater share of the aid burden. The success of this effort is seen in the dramatic rise in the assistance levels of other donors. Although the United States still has the largest aid program in terms of absolute dollar levels, in relation to the size of our economy we are no longer a leader. The United States in fact ranks toward the bottom of the list of aid-donor countries on the basis of assistance as a percentage of GNP. The United States, with 0.20% of GNP allocated to Official Development Assistance, ranked 16th out of 17 OECD donor countries in 1981.

(1) Policy Direction of U.S. Assistance Programs

The major objective of United States economic development assistance efforts is the promotion of broadly based economic growth in the developing world. U.S. development assistance aims at helping the developing country create the necessary conditions for self-sustained growth in which the poor can participate, and from which they benefit. In so doing, our development resources are directed towards relaxing or removing key constraints which inhibit the broadly-based growth of productive skills and capacities, employment and incomes within the less developed countries.

(a) Priority Sectors for Development

The three major sectoral priorities for U.S. bilateral economic assistance remain food and agriculture, energy, and human resources (including population).

Food and Agriculture: Nutrition and food security are the principal goals - still considerably far off into the future. Outstanding successes have been achieved in recent years, however, particularly in improving the productivity of small farmers.

Following through on President Reagan's offer at the October 1981 summit meeting in Cancun, Mexico, to send highly qualified U.S. agricultural and agribusiness experts to developing countries, A.I.D. in coordination with the U.S. Department of Agriculture, has sent Agriculture Task Forces to five countries: Peru, Thailand, Honduras, Venezuela and Liberia.

The Task Forces focused on major impediments to food and agriculture development in the areas of policy, science and technology, and the private sector, examples of which follow:

- -- remove economic disincentives to agriculture production;
- -- conserve and efficiently use land and water resources;
- -- expand highway and farm-to-market road systems;
- -- encourage exports through private sector endeavors;
- -- stimulate increased savings;
- -- facilitate private sector competition in agriculture marketing;
- -- provide leadership, organization and financial support to agriculture research and extension;
- -- liberalize trade policies;
- -- assist small farmers who employ traditional agriculture methods;
- -- expand and streamline agriculture research and extension systems;

-- restore the land market and legalize rental of land; and,
-- reevaluate the Government's role in basic grain marketing and storage.
-- improve information systems for agricultural planning.

A.I.D. is following through on the recommendations of these Task Forces, funding additional follow-on studies where appropriate, and encouraging a continuing process of consultation between Task Force members and host country governments and private sector officials. Task Force missions are planned for up to five additional countries in 1983.

Energy: Although no increase in the real price of oil was experienced in 1982, the earlier increases have required and will continue to require difficult adjustments. Most developing countries also face the specific challenge of finding alternatives to their heavy dependence upon traditional fuels such as firewood and wastes. The United States seeks to encourage developing countries to expand production of their indigenous energy resources, renewable as well as conventional, with the principal impetus being provided by private sector investment.

Human Resources: This sector includes health, nutrition, education, and population. U.S. assistance continues to emphasize those kinds of activities that benefit the largest possible cross-section of the population, rather than the provision of complex services to a small minority usually located in the urban centers. The problems of rapid population growth, inadequate health and nutrition, illiteracy and lack of skills are still very serious and will continue to demand high priority by the international community as well as the developing countries themselves. In health and education, it is highly desirable to move away from the provision of complex, large-scale, expensive facilities that benefit only the few, and toward primary health care and outreach programs which can raise social development levels throughout a much larger portion of a country owing to their far lower per person cost.

(b) Strategy

U.S. assistance efforts address these development constraints through programs to encourage host country policy reform, to increase the vitality of the private sector, to improve the institutional capacity of LDCs, and to develop and spread new technologies.

Economic Policy Reform: Inappropriate subsidies, price and wage controls, trade restrictions, overvalued exchange rates, interest rate ceilings, and similar forms of interference with market solutions prevalent in many LDCs are examples of the type of policies and actions which often have curtailed LDC economic performance and therefore typify areas of needed policy reform. Such controls also often reduce the participation of the poor in development by reducing agricultural production incentives, overall employment opportunities, and the potential for small enterprise expansion.

Accordingly, this administration places a high priority on the development and implementation by the host government of effective and efficient economic policies which promote an open economic system and self-sustaining economic growth. The United States will continue to engage the developing countries which it assists in a dialogue aimed at improving their policy environment and development prospects. The levels of U.S. assistance to individual countries are themselves affected by a judgment as to whether the policy environment in the recipient country is, or is likely to become, conducive to effective utilization of the assistance. Policy improvements are produced by successfully persuading a developing country government of the strength and validity of the case for reform, and we intend to work cooperatively with other donors and the MDBs in pursuing this approach.

<u>The Private Sector in Economic Development</u>: The U.S. heritage of development through private initiative provides the guiding principle for our approach to economic progress in the developing world. In President Reagan's words, "Free people build free markets that ignite dynamic development for everyone."

The development experience of the last two decades suggests that the developing countries that have made the greatest strides towards self-sustaining growth have been the ones that relied to a relatively great extent on market forces for the organization of production and the allocation of resources. These are countries in which government and private enterprise complemented each other well in the pursuit of economic progress for the individual and for the nation as a whole.

There are two significant lessons that can be drawn from the experience of these "success stories":

> It is important for government policies to provide a setting in which the indigenous private sector as well as private investment from abroad can flourish.

International private capital, in the form of financial flows from international banking institutions and direct investment, can make a significant contribution to economic stability and development by serving as a vehicle for the transfer of expertise, training, and technology. During the past decade, the bulk of foreign financing, especially in middle-income developing countries, has come from private sources, not from foreign assistance.

By using relatively small amounts of public sector funds to attract greater amounts of private sector resources, A.I.D. project activities can creatively help support projects developed both by indigenous and U.S. private sectors. A.I.D. has identified ten developing countries in which it is believed the private sector could play a greater role in economic development. These are Costa Rica, Egypt, Indonesia, Ivory Coast, Jamaica, Kenya, Pakistan, Sri Lanka, Thailand and Zimbabwe. Reconnaissance teams are being sent to these countries to identify development-oriented investment proposals which might be of interest to firms in the U.S. private sector willing to participate in a joint venture or to act as a source of technology, marketing or management. U.S. Government participation could take a variety of forms to improve the investment climate ranging from bringing American and indigenous business firms together to funding feasibility studies, supporting capital market improvement, and management development or other related projects. These activities would promote broadly based development while strengthening the U.S. firms involved.

In an effort to encourage additional investment by U.S. firms, the Office of the Trade Representative initiated during 1982 a bilateral investment treaty program (BITs) with interested developing countries. These treaties provide for treatment of investment, expropriation, transfers, and dispute settlement. They are viewed as a mechanism for supporting the efforts of interested developing countries to attract increased U.S. private direct investment by contributing to the creation of a more stable investment climate and reducing investor perception of risk. The U.S. concluded its first BIT with Egypt in September 1982. This was followed by signature of a BIT with Panama in October. Negotiations are underway with a number of other countries in the Caribbean Basin and Africa.

<u>Institutional Development</u>: The growth of viable institutions, informal as well as formal, private as well as public, is essential to the success of any development effort. Experience in many countries and sectors has shown that where significant institutional development has not occurred it is not possible to raise productivity or provide services in a sustained way. For example, raising

agricultural production hinges critically 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, crop insurance, etc. 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 throughout the developing world. The new emphasis in A.I.D. programs involves a shift in the mix of development assistance activities in favor of institution building, rather than simply providing financing for ongoing project activities.

Institution building activities includes training to upgrade technical and managerial skills, technical assistance to establish or refine organizational objectives and structures, to streamline staffing procedures, and to build in appropriate incentives, capital assistance, and funds, when appropriate, to establish needed facilities and physical infrastructure.

It is important to note that this shift in emphasis makes significant demands on both donor and recipient countries. The recipient must insure that the institutions, once established with outside assistance, eventually become self-sustaining and that the institutions involve the broadest possible participation of all those individuals and groups essential to their success. For example, an agricultural extension service system limited to a few farmers with large land holdings is not likely to have a significant impact on raising production and productivity throughout the agriculture sector. On the donor side, the shift in emphasis toward institution building requires a longer term commitment.

Technical Development, Transfer and Extension: Experience has taught that, for dynamic economic growth, it is crucial for a country to have the indigenous capacity to develop and apply a continuing stream of innovations designed to increase productivity, employment and incomes, and to evaluate and adapt technologies transferred from industrialized countries.

Developed countries, and especially the United States, generally possess the institutional and human resources to generate major technological breakthroughs that are critical to increasing productivity and output in many fields. Building capacities to develop and adapt technology in developing countries, however, is important because few technological breakthroughs in the developed world can be readily adopted and efficiently applied under vastly different developing country conditions. Among other reasons, the technologies of the developed world are frequently too large-scale or capital- intensive to suit the economic environment of developing countries. Thus, there is a need, for example, for the development of appropriate technologies that maximize the use of labor - the most abundant factor of production in most developing countries. Such technologies make their greatest contribution in promoting employment, and thus raise the incomes of a broad majority of the poor in developing countries.

The U.S. development assistance effort has been involved in the past in programs aimed at strengthening the technological capabilities of developing countries and in encouraging technology transfers and diffusion. Transferring, adapting, and disseminating technologies in the agricultural and agribusiness fields will account for a larger share of development assistance resources. The farm systems approach to providing assistance to farmers emphasizes the links between laboratory research, farm level research and the public extension system linking the farmer to the laboratory.

Market mechanisms play a major role in the creation, adaptation, and dissemination of technologies. The United States will strengthen its efforts in support of indigenous producers to create and adapt suitable tools and equipment. Increased collaborative arrangements between the U.S. and developing country businesses, stimulated by conferences, trade fairs and the like, frequently result in increased flows of useful technologies to developing countries.

(2) <u>U.S. Assistance Programs</u>

The Agency for International Development administers three types of development assistance programs. To the maximum extent possible, these different forms of assistance are integrated and orchestrated where appropriate to the end of supporting policy initiatives and sector priorities.

(a) <u>Development Assistance Funds (DA)</u>

U.S. bilateral Development Assistance is administered by the Agency for International Development (A.I.D.), a component of IDCA. Development Assistance programs reflect a Congressional mandate to pursue the broadening of economic opportunity through a focus on the sectors that most directly promote broad based economic growth. A.I.D. is also engaged in development activities involving housing guarantees, women's economic role in development, and other fields. 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.

(b) Economic Support Fund (ESF)

This fund, which is part of the Security Assistance program, was established to promote economic and political stability in regions where the United States has special security interests and has determined that economic assistance can be useful in helping to secure peace or to avert major economic or political crises. The Secretary of State, in cooperation with the Director of IDCA, is responsible for policy decisions and justification for the ESF program. Administered by A.I.D., ESF resources meet a variety of needs including balance of payments support, financing of infrastructure and other capital projects, as well as support for development programs of more direct benefit to the poor.

(c) Food for Peace (P.L. 480)

The Food for Peace (P.L. 480) program was established to combat hunger and encourage development abroad, as well as to aid American farmers by expanding markets for U.S. agricultural commodities. USDA shares with IDCA the responsibility of directing the program, with foreign policy guidance from the State Department, and it is administered in the field by A.I.D. P.L. 480 is an important part of development strategies for developing countries because it provides resources necessary to meet national food and nutrition needs while developing countries increase their own food production.

The law provides for three different types of P.L. 480 activities as follows:

-- Title I provides for the sale of U.S. agricultural commodities for dollars on credit terms. Care is exercised to make sure that the transactions do not displace

-- commercial sales or disrupt normal trade, as well as to assure that food aid does not create a disincentive for local agricultural production.

-- Title II provides for the grant of U.S. agricultural commodities to governments and to private and international organizations for humanitarian relief. It is used to combat malnutrition, especially in children, to promote economic and community development, and for needy persons and non-profit school lunch and preschool feeding programs.

-- Title III, the Food for Development Program, provides multi-year supply commitments. It also permits the expenditure of the local currencies generated by the sale of P.L. 480 commodities to be credited as repayments on the P.L. 480 loan where the recipient country and the U.S. Government mutually agree on the use of these local currencies to support development activities in agricultural and rural development.

B. Other Programs

(1) 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 61 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.

(2) Inter-American Foundation (IAF)

The IAF 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 Administrator of A.I.D. is a member of the IAF Board of Directors.

(3) 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 development, health and family planning. The United States supports PVO representatives in virtually every country in the world and is seeking ways to increase their role in the development effort. They are supported to some extent by official funds but they rely heavily on the private contributions of millions of Americans.

In 1981 A.I.D. provided approximately $200 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.

(4) 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 by providing assistance for both immediate and long-term settlement. A.I.D. assistance to address immediate needs includes P.L. 480 Title II and International Foreign Disaster Assistance. Last year Title II programs assisted refugees in Somalia, Pakistan, Kampuchea, Chad, and Cameroon. Disaster Assistance was used for medical supplies and shelter for displaced persons in El Salvador and Lebanon. Other A.I.D. activities which involve refugees include direct programs to assist refugees (Somalia), regular A.I.D. projects that involve refugees because of their physical presence in a specific area (Jordan), and activities to alleviate the negative impact on a local population of the arrival of a large flow of refugees (Thailand).

(5) Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation (OPIC) provides political risk insurance 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, create demand for goods and services 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 and technology transfers 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. Financing on commercial terms is provided to privately-owned and operated businesses in developing countries. OPIC's policy is that the business be partially owned by a successful American company or have an equivalent long-term relationship with a U.S. firm. As a result of this policy, businesses in developing countries are provided with access to experienced management and the latest, most competitive technology which can be successfully adapted to local conditions.

Private investment tends to gravitate to the more advanced developing countries which offer predictable long-term growth opportunities. These countries tend to be our most active trading partners in terms of exports of manufactured and agricultural products and services. OPIC continues to back U.S. investment in those countries, and expects to expand its activities in them. An expanded OPIC program in the more advanced developing countries is important to their development process, frees concessional U.S. development assistance for use in the poorer developing countries, and helps American industry compete with government-backed investors and exporters from Europe and Japan. At the same time, OPIC will continue its special efforts to disseminate to U.S. companies investment information about the poorer developing countries, and to facilitate investments by small U.S. businesses and cooperatives in those countries. During the last three years almost one-third of OPIC's commitments went to smaller U.S. firms.

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 revenues earned from the insurance and financing services it offers to American companies. An important result is that this program neither requires Congressionally appropriated funds nor diverts them from programs providing concessional assistance.

(6) <u>Trade and Development Program</u>

The Trade and Development Program (TDP) was established in 1980 as an autonomous agency within 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 sponsors 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.

C. <u>U.S. Policies Affecting Development</u>

In addition to bilateral assistance and other programs, the Administration is sensitive to the impact of U.S. international policies on the developing world and seeks a coordinated approach in all fora.

(1) <u>Trade Policy</u>

Of specific relevance over the past year has been U.S. policy initiatives in international trade addressed both to furtherance of U.S. interests and in response to developing country initiatives.

(a) <u>General Agreement on Tariffs and Trade (GATT)</u>

The cornerstone of U.S. trade policy is furtherance of the principles of trade liberalization through the GATT, an international body designed to establish procedures and principles that govern and organize international trade. A basic principle of the GATT is the "most favored nation" concept which accords treatment on a non-discriminatory basis (with special exceptions to take into account the development situation of developing countries). A basic objective of the GATT is the reduction of international barriers to trade. Where protection for domestic industries is necessary, it is to take the form of tariffs, not import quotas. Consultation is to be the primary method to solve global trade problems.

Since 1947, seven rounds of Multilateral Trade Negotiations (MTN) have taken place. As a result of the 1979 Round (Tokyo), 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 full developing country participation in the codes.

In November 1982, the GATT held another Ministerial meeting to discuss progress made since the Tokyo Round and work to be accomplished over the next few years. It was held at a time of crisis in the world economy, characterized by severely depressed levels of production and trade. The Ministerial was unable to achieve as much as the United States had hoped in several important areas. For example, the Ministers failed to reach agreement on bringing agricultural subsidies under control or on subjecting "safeguard" actions to greater GATT discipline, although more work will be done in these and other areas. The political commitment by the Ministerial participants to preserve free trade was a step, although a small one, in the direction of strengthening the trading system. Developing countries are expected to benefit from the additional work that will be done in the area of safeguards, from the Ministerial's agreement to study ways to promote developed country trade with the deveoping countries, and from the renewed mandate and program for the GATT's Committee on Trade and Development.

In past efforts to organize and liberalize international trade, little attention was devoted to developing country trade problems and issues. Over the past decade, however, the developing countries are being viewed increasingly as important markets as well as competitors.

The Generalized System of Preferences (GSP) is a central structural framework to accomodate the special needs of the LDCs in the international trade system. It is a program under GATT where developed countries provide a preferential tariff for certain imports from developing countries. The U.S. GSP was established in 1976 and scheduled to run for 10 years. The Administration has indicated its intention to seek from Congress a renewal of the GSP. The GSP provides duty-free treatment for imports of 2,850 products from 140 developing countries.

Duty-free U.S. imports from the developing countries under GSP amounted to $8.4 billion in 1980. Our program includes provisions for automatic removal of GSP eligibility from a beneficiary country for those products in which the beneficiary's shipments during the previous calandar year exceeded 50% of total U.S. imports of that product or a given dollar amount, which in 1981 was $50.9 million. In 1981, $6.8 billion in GSP-eligible exports from beneficiary countries were excluded from duty-free treatment because of 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 60% of the value of GSP duty-free imports in 1981. 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 is down substantially from 1979, when the five countries accounted for 70% of GSP duty-free imports. The top five beneficiaries accounted for 71% of the value of competitive need exclusions in 1981.

(b) <u>United Nations Conference on Trade and Development</u> (UNCTAD)

UNCTAD has long been concerned with the operation of commodity markets because many LDC economies are dependent on commodity exports. By resolution adopted in 1976, UNCTAD established the International Program for Commodities (IPC). The objectives of this program were to stabilize commodity prices, improve real income of LDCs, increase market access and reliability of supply of primary products, diversify production in LDCs, improve the competitiveness of natural products against synthetics and substitutes, improve commodity market structures, and improve the marketing, distribution and transport system for commodity exports.

Eighteen commodities were initially identified for action: bananas, bauxite, cocoa, coffee, copper, cotton, hard fibers, iron ore, jute, manganese, meat, prosphate, rubber, sugar, tea, tropical timber, tin and vegtable oils.

The objectives of the program were to be achieved through international cooperation in measures, singly or in combination, to: set up buffer stocks, price ranges and supply management measures including export quotas; improve market information, compensatory financing, market access for LDC primary and processed products, and the industrial capacity of LDCs; and to encourage research and development and other unspecified special measures to deal with commodities experiencing a persistent price decline. A "Common Fund" was to be established that would provide financing for these objectives.

Limited progress has been made toward achieving these objectives. Negotiations for the International National Rubber Agreement have been concluded, and that Agreement is now operating. This is the only new price stabilizing agreement concluded under the IPC. Other price stabilizing agreements which existed prior to the IPC have been renegotiated (cocoa, tin, coffee) or are soon to be renegotiated (sugar) The U.S. belongs to the agreements covering rubber, sugar and coffee but not cocoa or tin. Negotiations have also been completed for the International Jute Agreement, the first non-price stabilizing measure under IPC, i.e. to promote research and market development of those commodities for which price stabilizing agreements are not appropriate. This Agreement is now in the process of ratification by governments. Negotiation of the Common Fund has also been completed, and the Agreement is awaiting ratification by 90 countries in order to enter into force.

(2) North/South Dialogue

International discussions of economic issues involving developed and developing countries are often referred to as the North/South dialogue. This term is unfortunate for it conveys a dichotomy between developed and developing countries on international economic issues. In reality, the circumstances and interests as well as the philosophy of individual countries often result in widely differing views among the developing countries on international economic issues. The same is true for the developed countries.

It is nonetheless true that the 125 nations plus the PLO that make up the developing world caucus (known as the "Group of 77") often adopt common positions in international fora on issues concerning the international economic system and possible changes in that system. While the position of an individual country may differ from this common position, it is believed by many that the adoption of a common front increases the possibility of achieving action favorable to their overall interests. This can, however, produce a position which is in effect the maximum common denominator or, worse, reflects the views of the most vocal members of the group, regardless of economic merit. Common positions can also reduce the capacity to progress since they quickly tend to become fixed.

While North/South issues range from the very technical to the very general, there are two basic categories which encompass most of these issues: 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. To achieve these objectives they desire a fundamental restructuring of the existing international trade and world monetary system (proposed Global Negotiations). These envisioned changes 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 than they currently possess.

The United States, along with other developed countries, recognizes the increasing interdependence of the international economy and has supported mutually beneficial 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 number of objectives underlie U.S. evaluation of proposals for changes in the system, including the achievement of stability and predictability that promotes trade and facilitates financial transactions, the efficient use of world resources, and continued international cooperative action on important global problems.

Against the background of a sluggish global economy, the June 6-8 economic summit at Versailles reaffirmed the commitment of the seven major Western economic powers to action which would reestablish sustained and balanced growth. Recognizing the vital role developing countries play in an increasingly interdependent world economy, and the importance of trade to developing countries' growth, the Summit leaders pledged to cooperate with them to strengthen and improve the multilateral trading system, and to expand trade opportunities.

Of particular note at the Versailles Summit was the participants' conclusion that global negotiations are "a major political objective," with good prospect for early launching, provided that the independence of the specialized agencies is guaranteed. To date, however, there has been no agreement on an implementing resolution in the UN General Assembly that would provide such a guarantee, and the talks have not gone forward.

UNCTAD will hold its sixth international conference in June 1983. UNCTAD VI is expected to cover much the same ground as prior conferences: a general discussion of the world economic situation; certain trade and commodity issues; and aspects of development finance. It may become the principle forum for continuation of the North/South dialogue.

D. Multilateral Development Banks

(1) Multilateral Development Banks

In recent years the United States has channeled a significant share of total foreign assistance resources to the Multilateral Development Banks (MDBs), whose work complements and augments other U.S. assistance efforts. These institutions, most 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 the small portion of donor contributions which is paid in as well as from borrowing on world capital markets against the much larger donor pledges of callable capital. Loan terms from capital windows are usually slightly better than could be obtained by the most creditworthy developing countries in international capital markets. Concessional windows, which lend to low-income countries at highly concessional terms, derive their resources almost entirely from direct donor contributions.

Since the MDBs receive funding from their donor nations based on multi-year international agreements carefully specifying the absolute level and relative share of funding which is pledged by each nation, the Administration is attempting to honor all previously negotiated international commitments to the MDBs. However, because of serious budgetary limitations, the time period over which the United States will meet some of its commitments has been extended. In the case of several regional banks, previously negotiated replenishments were concluded in 1982 and the U.S. participated in negotiations to determine funding levels for the next several years.

(a) Implementation of the Conclusions of the Assessment of U.S. Participation in the MDBs in the 1980s

Early in its term the Administration undertook the most comprehensive study ever done of U.S. participation in the MDBs. This study concluded that the Banks contributed to a number of important U.S. objectives, but that in several areas changes should be sought.

Over the past year, the Administration has made considerable progress in implementing the recommendations contained in this comprehensive study. U.S. efforts in the Banks have been directed toward four major objectives set forth in the assessment:

-- To foster greater MDB selectivity among countries and projects, and to make stronger efforts to promote the adoption of appropriate borrower economic and financial policies, including increased reliance on market forces.

-- To urge the Banks to concentrate increasingly scarce concessional lending on the poorest countries, "maturing" relatively more creditworthy countries into MDB capital window borrowing, and to begin to reduce U.S. participation in real terms in the soft loan windows.

-- To place greater emphasis upon the MDBs' role as catalysts for private capital flows and for development of an indigenous private sector in borrowing countries.

-- In the capital windows, to encourage the Banks to establish consistent programs to begin graduation of countries above an agreed income threshold and to reduce the overall share of paid-in capital in new capital replenishments.

Actions taken by the United States in pursuit of these goals have covered a broad spectrum. One essential feature of the U.S. strategy has been a careful review of the technical, economic and financial merits of all proposed MDB projects, as well as their consistency with the U.S. bilateral program. Because this more intensive U.S. project review usually has been conducted only shortly before MDB Board consideration, it has resulted in our opposing projects, or taking exception to certain aspects of them, in Board meetings more often than in the past. In order to play a more constructive role in the MDBs' project development and to avoid political misunderstandings which opposition to projects may cause, the United States has been making a concerted effort recently to obtain early-stage information on projects in MDB pipelines and to work with Bank staffs to address potential problems while there is still room for change in project focus. AID's Early Project Notification System at the early project development stage, as well as Treasury's early warning system a month before project negotiations, are two of the methods the U.S. uses to identify needed borrower economic policy modifications, problems in project design, or cases of Bank financing where alternative private financing may be available.

At the institutional level, the United States has actively encouraged the MDBs to support borrower efforts to pursue appropriate economic policies and create environments conducive to private sector participation. The United States has met with a favorable response to its urgings that the MDBs engage in more co-financing with private capital sources. The MDBs also have been exploring means to permit Bank participation in equity financing and guarantee private investment in borrower countries. The United States has also achieved some success in working with Bank Managements to develop stricter project assessment criteria and lending policies more likely to ensure efficient utilization of their lending resources and to promote self-sustaining development in borrower countries.

With U.S. encouragement, efforts have been made by MDBs to adopt more consistent and specific graduation and maturation policies. The past year has seen the World Bank produce an operational graduation policy much along the lines of what the United States considers appropriate. The Asian Development Bank (ADB) has also phased out lending to its most creditworthy borrowers and moved some former concessional borrowers toward hard-window financing. Reductions in the size of the Inter-American Development Bank's (IDB) concessional lending window under the next replenishment are also likely to result in the maturation of a number of Latin American countries into greater reliance on the harder term capital window resources.

In ADB and IDB capital window replenishment negotiations during the past year, the United States has pressed for a reduced share of paid-in resources, to the extent considered prudent in the interests of MDB financial viability and investor confidence. While neither of these negotiations has been concluded as yet, it appears that the agreements reached will provide for a lower proportion of paid-in capital than other past replenishments.

(b) <u>New Replenishment Negotiations</u>

Budget requests for FY 84 for the Asian Development Bank and Fund and for the Inter-American Development Bank reflect the results of new replenishment negotiations conducted in 1982. Of these the ADF is the only institution for which the replenishment negotiations have actually been concluded at this point. In April 1982 ADF donors agreed to provide $3.2 billion in new resources over the 1983-86 period, the U.S. share being 16% or $520 million. The Administration is requesting $130 million in Budget Authority for FY 84 to make the first payment under this replenishment.

Negotiations for a General Capital Increase (GCI) of the ADB's capital window are taking place at the present time and should be concluded in the next several months. The FY 84 Administration funding request for the ADB of $6.9 million in Budget Authority and $224.5 million in program limitations reflects the current U.S. position in the GCI negotiations, and provides for the U.S. to maintain its current 16.3% share.

Negotiations for a replenishment of the resources of the Inter-American Development Bank and its soft window, the Fund for Special Operations (FSO), to cover lending for the 1983-86 period began in January 1982 and should be completed soon. The Administration's FY 84 funding request of $58 million in Budget Authority for paid-in capital and $1231 million in program limitations for callable capital reflects the current U.S. position in these negotiations. In addition $133.6 million in Budget Authority is requested to cover previous FSO arrearages, to provide funding for a U.S. contribution to a contemplated new institution and to promote private sector development in the hemisphere and to provide $72.5 million to a new FSO replenishment. This U.S. position would permit overall IDB lending to grow at 13.8% per year while lending from the highly concessional FSO would be sharply curtailed.

The various Multilateral Development Banks are described more specifically below:

(2) The World Bank.

The World Bank is the largest of the MDBs and consists of three component institutions, the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). The common objective of these institutions is to promote economic growth and development in the developing world.

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

The IBRD, whose capital is subscribed by member countries, finances lending operations - $10.3 billion in FY 82 - primarily from borrowings in the 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 Bank charges an interest rate on a cost-plus basis, based on its own cost of borrowing. The Bank's loans are directed toward countries at the relatively more advanced stages of economic development that can better afford to pay the market related rate the Bank offers. The largest borrowers from the Bank in 1982 were India, Brazil, Indonesia, Mexico, and Turkey.

The Bank's subscribed capital was doubled in 1980 with the adoption by the Bank's Board of Governors of the General Capital Increase (GCI). This increase was designed to support Bank lending through the mid-1980s. For FY 84 the Administration is requesting $109.7 million in Budget Authority for paid-in capital and $1353.2 million in program limitations for callable capital.

(b) The International Development Association (IDA).

The IDA is the World Bank Group's concessional lending window. It is supported by contributions for donor countries and reflows from previous loans. It is the single largest source of concessional development assistance for the world's poorest countries, lending $2.67 billion in FY 1982.

IDA lends only to countries which have an annual average per capita income of $795 or less. 80% of IDA's cumulative commitments have gone to countries that in 1980 had per capita incomes of $410 or less. IDA loans nevertheless must meet all the criteria for economic, financial and technical soundness which apply to other World Bank projects.

IDA loans currently have 50-year maturities including a 10-year grace period. They carry no interest, but a small annual service charge is assessed. In the context of negotiations for a new IDA replenishment, the question of IDA terms, including the possibility of shortening maturities, is being considered.

Current IDA lending is financed by donor contributions to the Sixth IDA Replenishment, and by special contributions totaling $2 billion made by other donors to support the institution's lending level in the face of the U.S. decision to stretch out its IDA VI contribution over 4 years instead of 3 as originally planned. In FY 84 the Administration is seeking sufficient funding to complete the U.S. contribution to IDA VI.

Negotiations began in November 1982 and are expected to continue for most of 1983 concerning a Seventh IDA replenishment.

(c) The International Finance Corporation (IFC). The IFC makes loans and equity investments in its member countries. In FY 1982 the IFC made loans of $425 million and equity investments of $32 million. The IFC encourages private sector financing by risk sharing and by putting together financing packages for projects that would otherwise be difficult to finance on a purely private sector basis.

The IFC is currently nearing the conclusion of a four-fold capital increase which began in 1977, and does not require funding from the U.S. in FY 84.

(3) 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. They therefore tend to have a particularly detailed knowledge of the development conditions which confront their borrowers.

(a) The Asian Development Bank (ADB).

The ADB, established in 1966, has a membership of 31 regional and 14 non-regional countries. The United States is both a member of the ADB and a contributor to the Asian Development Fund (ADF), its concessional lending fund. In 1982, the ADB and ADF approved loans worth $1.2 billion and $547 million respectively. Principal borrowers from the Bank are Indonesia, Thailand, Korea and the Philippines, and from the Fund are Bangladesh, Pakistan, Sri Lanka and Nepal.

In April 1982, agreement was reached on a replenishment to fund the ADF in the years 1983-86, and negotiations for a five-year General Capital Increase of the ADB are nearing completion.

(b) The African Development Bank (AfDB).

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 non-regional countries are in the process of joining the Bank at this time. The United States expects to join the Bank in February 1983. Early in 1981, the United States authorized its full negotiated subscription to the AfDB and appropriated the first installment of its paid-in portion. In FY 84 the Administration is requesting $18 million in Budget Authority for its second paid-in installment and $54 million in program limitations for its callable portion.

(c) The African Development Fund (AfDF).

The AfDF, the concessional lending window of the African Development Bank, came into existence in 1973. The United States has been a member since 1976. Major donors are Japan, Canada, Germany, the United States, and Italy. The AfDF makes 50-year loans at a 0.75% service charge for projects in the poorest African countries. In U.S. FY 1982, AfDF loans totaled $428 million. In February 1982, the U.S. and other donors concluded negotiations for a $1.06 billion, three-year replenishment of the AfDF. The negotiated U.S. share is $150 million or 14% of the total. The Congress appropriated funds for the first $50 million U.S. installment in FY 83 and the Administration is requesting a $50 million appropriation for FY 84 for the second payment.

(d) Inter-American Development Bank (IDB).

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 borrowing to fund the majority of its lending programs. In 1982 it lent $1.8 billion. The IDB's Fund for Special Operations (FSO) provides development loans on concessional terms to the poorest countries in the region. In 1982, lending from the FSO was $792 million.

A replenishment to finance the lending programs of the IDB and FSO over 1983-86 will soon be finalized.

E. International Organizations and Programs

Included in this category are development-related programs of the United Nations and the Organization of American States (OAS), which benefit Caribbean and Latin American nations, and development-related programs. UN development programs support such priority goals as comprehensive development planning, the use of appropriate technology, rural agricultural development, environmental protection, disease eradication, and family planning. One advantage of these programs is their ability to work in fields and regions that are difficult for bilateral programs for policy, political, or historical reasons. The major international organizations and programs funded through voluntary contributions include:

(1) United Nations Development Program (UNDP)

UNDP is the coordinator and the principal channel of funding for technical assistance in the UN system. The UNDP is currently providing technical assistance to 152 countries and territories, and can call upon any individual organization, or a combination of the UN system's 35 specialized and associated agencies to bring a mix of resources and technical help to bear on its development programs. The activities of the UNDP are financed entirely through voluntary contributions of its members.

UNDP's policy of concentrating on the poorest of the developing countries will be strengthened during its Third Development Program Cycle (1982-86). Despite Governing Council approval of a program budget of over $5 billion, the U.S. and other donors appear unable to meet this target, causing the UNDP to scale back its prospective plans substantially. Nevertheless, out of its projected resources, approximately 80% of allocations for country projects will continue to go to countries with per capita incomes below $500. Special emphasis will be placed on activities directed toward increasing agricultural productivity, improving health and other social services, and employment generation. The UNDP also formulates multilateral programs addressing global concerns, and will use its unique position within the donor community to focus attention on these issues.

(2) International Fund for Agricultural Development (IFAD)

IFAD was established in December 1977 as a specialized agency of the United Nations within an initial funding of $1 billion, including $200 million from the United States. IFAD's purpose is to provide agricultural loans to developing countries to help small and landless farmers expand food production, improve nutrition and combat rural poverty. IFAD projects seek to stimulate private initiative among the poorest sections of the rural population with the dual objective of increasing agricultural productivity while also assuring that the benefits of increased production will accrue to those most in need. IFAD lending terms range from 15 to 50 years, with interest rates of one to eight percent. The softest terms are reserved for developing countries with per capita incomes of $300 or less (in 1976 dollars). Over two-thirds of IFAD's total loan commitments are in this category. A unique feature of IFAD is its tripartite governing structure consisting of three categories of members: OECD donors, OPEC donors, and the developing country recipients. OPEC members' contributions, comprising 43% of IFAD's funding, are substantially larger than those to any other institution in which OPEC does not exercise predominant influence. IFAD constitutes an important mechanism for channeling OPEC resources into constructive developmental activities.

By the end of 1982, IFAD's portfolio of projects amounted to just over $1.5 billion. The 1983 program of work is uncertain at this time, largely because the United States has not been able to make its contribution to the $1.07 billion 1981-1983 first replenishment, concluded early in 1982. The Congress authorized the $180 million proposed for the U.S. contribution but has not yet appropriated funds for this purpose. The current budget request for 1984 includes an appropriation request of $50 million. Most donors have deposited their instruments of contribution and deposited at least the first tranche of the replenishment obligation. The first replenishment calls for $415 million from other OECD countries and $450 million from OPEC countries.

(3) United Nations Children's Fund (UNICEF)

UNICEF is a long-term development institution focused on delivering basic services to mothers and children of the developing world. UNICEF's current programs in 110 countries are financed entirely through the voluntary contributions of member states and from private sources. Efforts are made to have programs planned and implemented by villagers themselves, and are designed to provide such social services as maternal and child health care, potable water, sanitation, adequate nutrition, and primary and non-formal education. Its principal development goal is to foster the long range improvement of the health, education and social welfare of children in the developing world through a concern for the total well-being of children and their families.

(4) United Nations Environment Program (UNEP)

UNEP was created in 1972 to stimulate assessment of major global and regional environmental hazards and to coordinate action to improve environmental management. UNEP's initiatives in protecting and maintaining the global environment have been strongly supported by the United States, and by developed and developing nations alike.

(5) United Nations Fund for Population Activities (UNFPA)

Established in 1967, the UNFPA promotes awareness of the social, economic, and environmental implications of population growth, and helps countries to develop and carry out strategies to deal with their population problems. UNFPA's multilateral character enables it to assist countries which do not receive U.S. bilateral aid. UNFPA's early work in basic data collection and education successfully raised worldwide awareness of the population issue. UNFPA is now shifting to country-specific programs concentrating on the delivery of family-planning services, as requested by the host country.
Couples of reproductive age in over 100 countries have been assisted through UNFPA programs.

(6) Organization of American States (OAS)

The OAS, which is not part of the UN system, 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 net contributors to the OAS program, and the U.S. share of contributions has declined to just over 50% of its budget.

(7) International Monetary Fund (IMF)

The IMF is 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 and 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 patterns and financing requirements at any given time.

The IMF is not an aid institution; there is no fixed class of lenders or borrowers, no concept of "donor" or "recipient".

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

Payments imbalances resulted in the non-oil developing countries seeking IMF assistance during the year ending September 30, 1982. Net drawings by these countries totaled 5.3 billion SDRs. Of this amount, standby or extended fund arrangements accounted for 4.6 billion SDRs.

CHAPTER IV

Comprehensive Development Budget

This chapter outlines and summarizes the Administration's request for development assistance and development-related programs for Fiscal Year 1984. 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 Fiscal Year 1984 is $7.4 billion, as shown in Table X. This table also compares the amount requested in Fiscal Year 1984 with that appropriated in Fiscal Years 1983 and 1982.

The Fiscal Year 1984 budget request supports Administration initiatives in the three major priority development areas: food and agriculture, energy, and human resources (including population planning).

A. Agency for International Development

For FY 1984, AID is requesting an appropriation of $4.84 billion for support of its economic assistance program; this amount includes both Development Assistance and the Economic Support Fund.

Reflecting the importance of the agricultural problem in developing countries, the largest portion of the Agency's functional development assistance request is for the agriculture, rural development and nutrition account. An appropriation of $725.2 million is being requested for this account, as compared to an FY 1983 appropriation of $700 million. The program concentrates on increased food production by small farmers, but funds will also be used to help developing countries address the problem of accelerating deforestation. In FY 1984, the Agency's program in this account will concentrate on: (a) strengthening agricultural science and technology capabilities; (b) promoting private sector participation; (c) improving country policies; and, (d) inducing institutional reforms.

A.I.D.'s energy program is sensitive to the interdependence of rural and urban energy needs and the traditional and

TABLE X

IDCA Comprehensive Development Budget
(budget authority in $ millions)

	FY 1982 (Actual)	FY 1983 1/ (Estimated)	FY 1984 (Request)
BILATERAL ASSISTANCE			
AID Development Assistance 2/...	1880.5	1818.5	1889.9
Trade and Development Program (TDP)................	6.9	10.5	22.0
Overseas Private Investment Corporation (OPIC)...........	3/	3/	3/
Food for Peace (PL 480) 4/......	1000.0	1028.0	1052.0
Economic Support Fund and Peacekeeping Operations......	3065.0	2986.6	2995.2
Peace Corps.....................	105.0	109.0	108.5
Inter-American Foundation.......	12.0	12.0	10.7
Refugees 5/.....................	423.0	395.0	344.5
Subtotal, BILATERAL..........	6492.4	6359.6	6422.8
MULTILATERAL ASSISTANCE 6/			
International Bank for Reconstruction and Development....	146.9	126.0	109.7
International Development Association..................	700.0	945.0	1095.0
International Finance Corp......	14.5	--	--
Asian Development Bank..........	4.7	.2	6.9
Asian Development Fund..........	116.1	131.6	147.1
African Development Bank........	--	--	18.0
African Development Fund........	58.3	50.0	50.0
Inter-American Development Bank.	48.0	62.4	58.0
Fund for Special Operations..	173.2	221.7	133.6
International Organizations and Programs....................	215.4	253.5	189.9
--UN Development Program........	(128.2)	(140.0)	(120.0)
--UN Children's Fund............	(41.5)	(42.5)	(27.0)
--Other UN Programs 7/..........	(29.7)	(55.5)	(27.4)
--Organization of American States......................	(16.0)	(15.5)	(15.5)
International Fund for Agricultural Development 8/.........	--	(24.0)	50.0
Subtotal, MULTILATERAL.......	1477.1	1790.5	1858.2
Gross Total....................	7969.5	8150.1	8281.0
Offsetting Receipts (AID).......	-669.6	-779.0	-845.9
GRAND TOTAL....................	7299.9	7371.1	7435.1

1/ Includes proposed supplementals for Operating Expenses ($9,938,000), Foreign Service Retirement Fund ($1,134,000) and ESF ($294,500,000).

2/ AID DA excludes miscellaneous trust funds and local currency programs; includes IDCA/AID operating expenses and the Foreign Service Retirement and Disability Fund.

3/ OPIC does not request budget authority. Authority for loan guarantees is: FY 1982 - $100 million; FY 1983 - $100 million; FY 1984 - $150 million.

4/ PL 480 program levels are: FY 1982 - $1.416 billion; FY 1983 - $1.509 billion; FY 1984 - $1.522 billion.

5/ Consists of Migration and Refugee Assistance; included for information only, as these are not development activities.

6/ Does not exclude callable capital for MDB's.

7/ Includes World Food Program, UN Environment Program, WMO/Voluntary Cooperation Program, UN Capital Development Fund, UN Educational and Training Program for Southern Africa, UN Decade for Women (in FY 1984 only), CITES and for FY 1982-1983, UN Institute for Namibia, UN Trust Fund for South Africa, UNITAR, and UN Fellowship Program.

8/ Funded from the IO&P account in FY 1983 and through AID in FY 1984.

modern sectors of the developing economies. A.I.D. devotes particular attention to traditional energy sources, but also undertakes programs that reflect the fact that the poor are directly and indirectly affected by national energy planning and policy, and efficient allocation and use of indigenous resources, both conventional and renewable. In support of these objectives, A.I.D. is planning obligations of $47.8 million in FY 1984.

In the field of education, AID is concentrating its efforts in assisting countries to establish more efficient systems of education, moderate their recurrent cost and administrative burdens, and relate their education systems more effectively to employment opportunities and trained manpower needs. To support its program, AID is requesting $121.5 million in FY/1984.

Through the efforts of AID, the U.S. is maintaining its traditional leadership role in the field of voluntary family planning. The objective of the AID population assistance program is twofold: (a) enhance the freedom of individuals in LDCs to choose voluntarily the number and spacing of their children; and, (b) encourage population growth consistent with the growth of economic resources and productivity. In support of the population program, AID is requesting somewhat over $212 million in FY 1984. AID gives preference in its funding to programs which provide a wide range of choices in family planning methods (excluding abortion) and strongly encourages such programs to include information and/or services related to methods of natural family planning, wherever this is appropriate.

In the health sector, AID is requesting $100.6 million in FY 1984. The basic objective of AID's program in health is to assist developing countries to become self-sufficient in providing broad access to cost-effective preventive and curative health services. AID intends to give special attention to encouraging LDCs to modify policies that inhibit cost-effective, self-sufficient health programs, and programs that stress private sector approaches to the provision of health services.

In addition to the above funds, some 25% of the Economic Support Fund request of $2.949 billion is projectized. These projects will be implemented in the same functional areas as are covered by the Development Assistance account. As such, these funds represent an added resource devoted to addressing the needs of the poor majority in LDCs. The balance of the ESF request will be primarily used to address the short-term economic stabilization needs of recipient countries for balance of payments support, through commodity import programs and related activities.

B. PL 480 Program

The Food for Peace (P.L. 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. Under this program, the recipient country and the United States government mutually agree on the use of the local currencies to support development activities in agricultural and rural development in the recipient country.

In Fiscal Year 1984, a PL 480 Title I/III program of $872 million is proposed, including $114 million required for the 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 about 3.7 million tons of food aid, somewhat less than the 4.1 million tons projected for shipment in FY 1983. Within the Title I request, $739.5 million would be allocated to country programs and $51.5 million would be placed in reserve for unforeseen country needs or emergency requirements. $149 million is planned for Title III. As a development incentive, repayment of Title III loans is not required to the extent that currencies equivalent to the dollar sales value of the commodities made available are used for agreed-upon development purposes.

For the PL 480 Title II program, which grants food for humanitarian feeding and emergency programs, $650 million is requested for Fiscal Year 1984. On the basis of projected prices, this should finance delivery of some 1.7 million metric tons of food. This total includes an emergency reserve of 407,770 metric tons and government-to-government programs totaling 48,815 metric tons. The balance of the request, more than 1.2 million tons, would go to the non-emergency feeding programs of PVOs and to the multilateral 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.

C. International Fund for Agricultural Development (IFAD)

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 middle-income developing countries. The request for the FY 1984 contribution to this organization is $50 million. $24 million was appropriated under the International Organizations and Programs account for this purpose in FY 1983.

D. Multilateral Development Banks

The multilateral development banks are critical development institutions because of their ability to mobilize substantial capital and to finance major infrastructure projects in all sectors. Following the example of the United States, these banks have been steadily increasing their emphasis on the poor majority over the last decade. In CY 1981, MDB resources made available for agriculture amounted to almost $4.6 billion.

The multilateral development banks provide the largest portion of financial assistance which is made available for energy projects. The MDBs are active in (a) assisting developing countries to increase their production of fossil fuels, lessening their dependence on high-cost imported oil; and, (b) initiating programs in renewable energy, particularly fuelwood. Reflecting the critical nature of the energy problem facing LDCs, total resources devoted by MDBs to energy activities in CY 1981 were almost $4.5 billion, virtually the same level as devoted to agriculture. In many instances, such as in the World Bank, the InterAmerican Development Bank and the Asian Development Bank, the percentage of their programs devoted to energy was larger than that devoted to the agriculture sector.

The MDBs fund activities in the area of human resource development and population planning to a lesser degree than the previous two areas discussed. This is consistent with the fact that education, health and population planning systems are traditionally assisted on a bilateral basis and are not as amenable to the large-scale interventions which characterize the MDB operations. Despite their lack of emphasis in these areas, in CY 1981 the MDBs devoted a total of $995 million to these activities, a not inconsiderable amount.

E. International Organizations and Programs

The Administration's FY 1984 request in support of the programs conducted by international organizations is $189.95 million.

UN agencies, especially the United Nations Development Programme (UNDP) and the Food and Agricultural Organization (FAO), have been active in providing development assistance to less developed countries. Not only is UNDP the largest single channel for UN technical assistance, its mandate is to coordinate all UN grant technical assistance. 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 oversees projects amounting to over $550 million annually in 150 countries and territories. Although financially small, UNDP projects provide training and technical skills crucial to the success of many larger assistance projects. The FY 1984 request includes $120 million for support of the UNDP.

UNICEF encourages and assists the long-term humanitarian development and welfare of children in developing countries through the provision of goods and services which meet basic needs in maternal and child health, education, sanitation, clean water, nutrition and social services. The FY 1984 request includes $27 million for support of UNICEF.

The Organization of American States' Development Assistance Programs (OAS/DAP) conducts major program activities in rural development, technical and vocational training, scientific and technological research into new energy sources, food production and distribution, livestock improvement, promotion of tourism and adult literacy. In FY 1984, $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 WMO/Voluntary Cooperation Program, the UN Capital Development Fund, the UN Voluntary Fund for the Decade for Women, and the Convention on Trade in Endangered Species.

F. Peace Corps

To support the operations of the Peace Corps, $108.5 million is being requested. In addition to its well-known work at the village level, the Peace Corps is continuing the three-year 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 Peace Corps is also recruiting, training and assigning volunteers to work in tropical reforestation projects in a parallel project funded by A.I.D.

G. Trade and Development Program

The Trade and Development Program's (TDP) operations are guided by the principle that through the provision of TDP assistance, appropriate development of LDC productive capacities is facilitated, and the climate for United States exports and the transfer of technology is enhanced. These guidelines embody the heart of the Administration's objectives in regard to both development and export promotion. TDP has been effective in helping the United States influence overseas development in a positive way and in meeting foreign competition for development-related export opportunities. The Administration is requesting $22 million for this program in FY 1984, more than a doubling of the previous year's level.

H. Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC), encourages the participation of United States 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, the Overseas Private Investment Corporation (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 operates on a self-sustaining basis.