United States International Development Cooperation Agency

Congressional Presentation Fiscal Year 1990

United States International Development Cooperation Agency

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

CONGRESSIONAL PRESENTATION

FISCAL YEAR 1990

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

TABLE OF CONTENTS

INTRODUCTION.....1

CHAPTER 1 - U.S. Interests in the Developing Countries

1.1. Long Term Strategic Interests.....4
1.2. Commercial Interests.....5
1.2.1. Trade.....5
1.2.2. Investment and Credit.....8
1.3. Humanitarian Concerns.....10
1.4. Impact of the Foreign Assistance Program.....10

CHAPTER 2 - Situation of the Developing Countries

2.1. Classification of the Developing Countries.....13
2.2. Contraints to Development.....13
2.2.1. Human Resources.....13
2.2.2. Institutions.....14
2.2.3. Infrastructure.....14
2.2.4. Policy.....15
2.2.5. Instability.....16
2.3. Current Situation.....16
2.4. Implications for U.S. Policy.....21

CHAPTER 3 - U.S. Policies and Programs to Promote Broad-Based Economic Development and Stability

3.1. Background.....22
3.2. Objectives of U.S. Policy.....22
3.3. Objectives of Development Assistance.....25
3.4. Strategy of the Assistance Program.....25
3.5. Bilateral Programs.....26
3.5.1. Development Assistance (DA).....27
3.5.2. Economic Support Fund (ESF).....27
3.5.3. Development Fund for Africa (DFA).....27
3.5.4. Food for Peace (P.L. 480).....28
3.5.5. Housing Guaranty Program (HG).....29
3.5.6. International Disaster Assistance.....30
3.5.7. American Schools and Hospitals Abroad (ASHA).....30
3.5.8. Private Voluntary Organizations (PVOs).....31

3.6. Associated Financing Policies and Practices.....31
3.6.1. Enhancing the Competitiveness of U.S. Exports..32
3.6.2. Cofinancing Arrangements with Official Sources.32
3.6.3. Private Sector Revolving Fund.....32

3.7. Other Related U.S. Programs.....32
3.7.1. Peace Corps.....32
3.7.2. Inter-American Foundation (IAF) and African Development Foundation (ADF).....33
3.7.3. Overseas Private Investment Corporation (OPIC).....34
3.7.4. Trade and Development Program (TDP).....35

3.8. Related International Trade Policy and Programs.....36
3.8.1. General Agreement on Tariffs and Trade (GATT).....36
3.8.2. U.S. Generalized System of Preferences (GSP)...39
3.8.3. Caribbean Basin Initiative (CBI).....40

CHAPTER 4 - Multilateral Programs

4.1. Introduction.....42
4.2. Multilateral Development Banks (MDBs).....43
4.3. World Bank Group.....45
4.3.1. International Bank for Reconstruction and Development (IBRD).....45
4.3.2. International Development Association (IDA).....46
4.3.3. International Finance Corporation (IFC).....46
4.4. Asian Development Bank and Fund (ADB/F).....49
4.5. African Development Bank and Fund (AFDB/F).....49
4.6. Inter-American Development Bank/Fund for Special Operations (IDB/FSO).....49
4.7. International Monetary Fund (IMF).....50
4.8. United Nations Organizations and Programs.....54
4.8.1. United Nations Development Program (UNDP).....54
4.8.2. United Nations Children's Fund (UNICEF).....55
4.8.3. World Health Organization (WHO).....57
4.8.4. Food and Agricultural Organization (FAO).....57
4.8.5. World Food Program (WFP).....58
4.8.6. United Nations Environment Program (UNEP).....59
4.8.7. United Nations Industrial Development Organization (UNIDO) and Its Investment Promotion Service (IPS).....59

4.8.8. United Nations Capital Development Fund (UNCDF).....60
4.8.9. International Fund for Agricultural Development (IFAD).....60
4.8.10. World Food Council (WFC).....62

4.9. Organization of American States (OAS).....62

CHAPTER 5 - Comprehensive Development Budget

5.1. Trends in U.S. Economic Assistance.....64
5.2. Agency for International Development.....64
5.2.1. Development Assistance.....68
5.2.1.1. Development Fund for Africa.....68
5.2.1.2. Agricultural.....68
5.2.1.3. Population Planning.....68
5.2.1.4. Health.....69
5.2.1.5. AIDS Prevention and Control.....69
5.2.1.6. Child Survival Fund.....69
5.2.1.7. Education and Human Resources Development.....69
5.2.1.8. Private Sector, Environment and Energy.....70
5.2.2. Economic Support Fund.....70
5.2.3. Special Assistance Initiatives.....70

5.3. Food for Peace (P.L. 480) Program.....70
5.4. International Fund for Agricultural Development.....71
5.5. Multilateral Development Banks.....72
5.6. International Organizations and Programs.....72
5.7. Peace Corps.....73
5.8. Trade and Development Program.....73
5.9. Overseas Private Investment Corporation.....73

ACRONYMS.....75

INDEX OF TABLES AND CHARTS

TABLES

1.1. 1987 Net Import Reliance of Selected Nonfuel Mineral Materials as a Percent of Apparent Consumption.....5a

1.2.1. Trends in U.S. Merchandise Exports.....6a

1.2.2. Trends in U.S. Merchandise Imports.....6b

1.3. U.S. Direct Investment Position Abroad and U.S. Banks' Claims on Foreigners.....9a

2.1. 1987 Per Capita GNPs..... 13a

2.2. Basic Indicators of GNP Growth and of Improvement in Health and Education between 1965 and 1985.....17

3.1. Official Development Assistance of OECD/DAC Countries as Percent of GNP (Net Disbursements).....23

4.1. U.S. Contributions to the Multilateral Development Banks, Fiscal Years 1987-1990.....48

5.1. U.S. Economic Assistance Obligations by A.I.D. Administered Programs Fiscal Years 1979 - 1990.....65

5.2. IDCA Comprehensive Development Budget.....66

CHARTS

2.1. Year-to-Year Percentage Change in the Terms of Trade of Non-Oil Developing Countries.....18

2.2. Capital Importing Developing Countries' Ratio of External Debt to Exports and Ratio of Debt Service Payments to Exports.....19

UNITED STATES
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INTRODUCTION

Surveying the experiences of national economies since 1945, we see that where economic growth has been rapid and where participation in that growth has been broadly based, family incomes, food availability, life expectancy, and other measures of development have registered impressive gains. The thread that most clearly ties together the countries of rapid broad-based economic growth is the extent to which those countries relied on market forces and open trading systems to ensure efficient production and appropriate rewards to innovation and investment.

In contrast to the successful economies, others continue to have difficulties. Many developing countries are stagnating with deteriorating economic bases and declining family incomes. The particular macroeconomic and sectoral policy choices constraining growth in these nations are unique to each country, yet some generalizations are possible. Many of the developing nations' economic problems stem from government efforts to control economies rather than allowing market forces and individual enterprise to generate growth. These government controls have generally involved restrictions on prices and trade, protection of government-owned enterprises, and other regulations driving entrepreneurs underground and confining growing economic rewards to a small fraction of the citizenry.

In his address to the leaders of 22 developing nations at the 1981 Cancun Summit, President Reagan stressed the importance of economic growth to human progress. Increasingly concerned with slow economic growth in many nations, the United States is committed to providing leadership in efforts to restore and accelerate economic development. As we construct economic assistance programs for developing countries, we are working to draw together all the available modes of assistance in a coherent framework. America's capacity to assist developing countries is multifaceted. It includes our ability to provide economic policy advice, development assistance projects and programs, emergency aid, food aid, and contributions to multilateral organizations. It also includes such special programs as investment guarantees and the Caribbean Basin Initiative as well as maintenance and extension of an open international trading and investment system with tariff relief under the generalized system of preferences.

Recognizing that each developing economy is unique, A.I.D. needs to be very flexible as it tailors a multifaceted program of assistance that corresponds with the circumstances of each country. To that end, it is time to take stock of where we and the developing economies are headed: to look at why some countries have succeeded; to look at why economic growth in particular countries has been negligible; to look at the fundamental causes of the continued poverty of those countries; and to ask how economic assistance can better contribute, in particular circumstances, to fostering broad-based growth.

As we approach the policy dialogue with individual countries, we do so knowing that market economies have the best track record. But we also know that we cannot see into the future and anticipate all the secondary effects of even apparently straightforward policy changes. We do not have textbook solutions telling us or developing nations exactly how to proceed. Policy reforms will always be difficult. Risk and uncertainty are inherent elements of development. Country conditions are constantly changing as is the world economic environment. Some of our efforts, however well planned and implemented, will fail.

But our objective remains to realize the maximum contributions to growth from our economic assistance. To that end, we will pursue flexibility while adhering to a number of guiding principles. Six of these deserve mention here.

First, we recognize the overriding importance of appropriate national economic policies. The United States, through A.I.D., is committed to helping countries make needed changes by working with their governments to identify where changes are needed, what new policies would be appropriate, and how to implement them and deal with their effects. A recent survey of 42 aid-recipient countries tends to confirm that those countries whose fiscal, monetary, trade, pricing and regulatory policies promoted efficiency in resourse allocation tended to register higher growth rates than those countries where restrictive policies were practiced.

Second, we believe that people in economies undergoing economic policy reforms should not suffer inordinately in the short run from actions that will ultimately improve their economic circumstances. Although most of the difficulties the more vulnerable groups face predate policy reform efforts, such efforts can temporarily exacerbate their plight. Therefore, much of our economic assistance in support of policy reforms will continue to be designed to cushion the short-term effects of reforms on the more vulnerable groups.

Third, although we emphasize the importance of stimulating economic growth, we also highly value actions we take that

directly improve people's lives: e.g., improvements in health care, water supplies, sanitation, voluntary family planning services, and education systems. We will continue to nurture developing country capacity, private as well as public, to provide these services.

Fourth, ensuring that economic gains, in productivity, health, and education, are permanent is of the greatest importance. To that end, our programs and projects must incorporate mechanisms insuring their continuation over time. Thus, for example: the uses of oral rehydration must be incorporated into the practices of private health care providers, of national health systems, and of families. Activities we initiate or expand must involve recurrent costs that are manageable and likely to be acceptable to subsequent governments. For example, the fee-for-service concept can often insure the viability of health activities. We also expect that activities we initiate will reach a broad segment of society that will value, benefit from, and work to continue them. Often, we take extra steps to insure the extensive involvement of women. Since actions would be reprehensible that would provide prosperity to one generation at the expense of the resources passed on to subsequent generations, we must work to safeguard natural resources to insure preservation of each nation's resource base.

Fifth, our commitment to provide humanitarian assistance to countries ravaged by floods, famine, earthquakes, plagues and other disasters remains absolute.

Sixth, we recognize that the economic successes of the advanced developing nations require new policy choices on our part. We will continue to explore options transforming our relationship with the those countries into a productive and more mature partnership linked through private trade and investment and through scientific, technical and educational exchanges.

Finally, we celebrate the inauguration of the Development Fund for Africa as a response to the need for flexibility in provision of assistance to diverse economies. The Fund, in an important sense, will serve as a laboratory for testing ideas about how the U.S. economic assistance program might be made most effective in the years to come.

Chapter 1.

U.S. Interests in the Developing Countries

1.1. Long-Term Strategic Interests

U.S. relations with the developing countries, though dominated by political considerations, are influenced by security, commercial, technological and cultural interests as well. Consequently, many of the developing countries recognize the United States as an essential agent in the fostering of world economic integration and growth. Most of these countries welcome U.S. assistance as a means of raising living standards and reducing suffering, and the United States, with its long history of humanitarian aid, relative abundance of resource and technological expertise, is eminently qualified for the task.

By offering economic assistance, the United States can achieve greater influence affecting both the well-being and the behavior of the developing countries. In an increasingly integrated international economy, these countries can benefit or harm the United States in many ways. If they prosper and move toward democracy, they will make the world more comfortable, humane and stable. Their economic development and cultural variety will enrich the world. If they are unable to cope with their problems of poverty, instability, disease, inadequate education and weak institutions, hundreds of millions of people will continue to suffer from the effects of proverty, and the United States will be adversely affected as well. Failing and desperate countries are often prey to their worst political impulses and to interference from outside powers hostile to the United States.

Both political and economic upheavals can disrupt U.S. supplies of strategic minerals as well as of other imports. Similarly, both political and economic problems can induce developing nations leaders to deny U.S. access to military facilities. Countries unable to grow out of their debts threaten U.S. banks and buy less from U.S. exporters. Countries may be unable to control epidemics which know no national borders, such as acquired immune deficiency syndrome (AIDS), or to act on world scale problems such as narcotics, deforestation, species elimination, desertification, and environmental pollution. Finally with the almost inevitable proliferation of nuclear weapons, it is in the U.S. interest to have multiple channels of influence in developing societies.

Development assistance is justified by more than a practical conception of the U.S. national interest. It also is justified

on commercial grounds, and it is an appropriate response to America's long tradition of humanitarian assistance.

1.2. Commercial Interests

The issues of U.S. trade, investment, and financial relations with developing countries have become a more important part of U.S. commercial interests, particularly following the emergence of several economies that, with the help of U.S. assistance and open economic policies, have developed rapidly, e.g., Korea, Taiwan, Brazil.

1.2.1. Trade

From 1970 to 1987, a short period in U.S. economic history, the U.S. economy became almost twice as dependent on trade and more than doubled its trade with the developing countries. The sum of U.S. merchandise exports and imports as a percentage of gross national product (GNP) rose from an eight percent average during 1968-72 to 15% in 1987. During this period, the sum of U.S. exports to and imports from the non-OPEC (Organization of Petroleum Exporting Countries) developing countries rose from 2.0% to 4.9% of GNP. These trends will continue as the world economy becomes more integrated. Such integration is both a purpose and a result of U.S. foreign policy.

U.S. imports of strategic commodities are an especially important segment of our trade with developing countries. The supplies of a number of these commodities originate mostly outside the United States; and for many of them, developing countries are the major suppliers (Table 1.1). A trade interruption caused by instability or hostility in one of these countries could lead to a dangerous reduction in U.S. stocks.

The United States has taken the lion's share of manufactured exports from the developing countries. In 1987 the U.S. bought 34% of the developing countries merchandise exports to industrialized countries.*

On the other hand, the debt service problems in many of the non-oil exporting developing countries have resulted in severe cut-backs in their imports since 1981. This has important implications for trends in U.S. merchandise exports and imports, as well as in the U.S. domestic economy.

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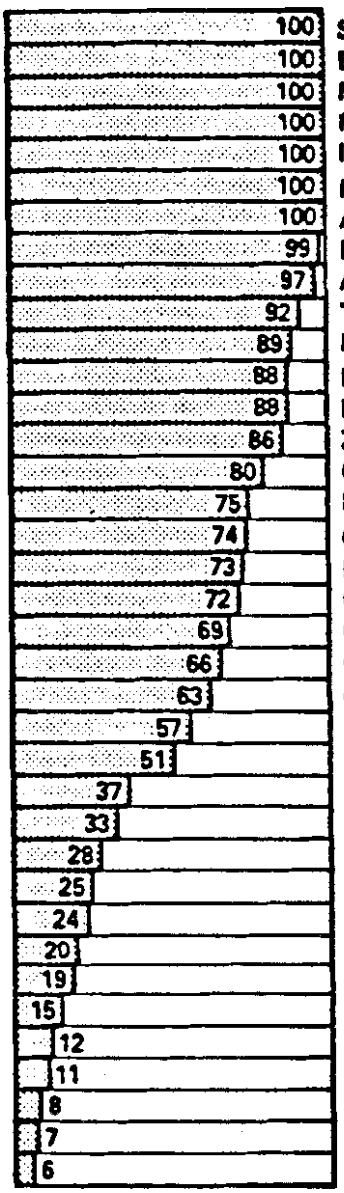
* International Monetary Fund, Direction of Trade Statistics, Yearbook, 1988, pp. 8 and 406.

TABLE 1.1.

1987 NET IMPORT RELIANCE [a] [1] OF SELECTED NONFUEL MINERAL MATERIALS AS A PERCENT OF APPARENT CONSUMPTION [2]



		MAJOR SOURCES
ARSENIC	100	Sweden, Canada, Mexico
COLUMBIUM	100	Brazil, Canada, Thailand, Nigeria
GRAPHITE	100	Mexico, China, Brazil, Madagascar
MANGANESE	100	Republic of So. Africa, France, Gabon, Brazil
MICA (sheet)	100	India, Belgium, Japan, France
STRONTIUM (celestite)	100	Mexico, Spain, China
YTTRIUM	100	Australia
GEM STONES (natural & synthetic)	99	Bel.-Lux., Israel, India, Republic of So. Africa
BAUXITE & ALUMINA	97	Australia, Guinea, Jamaica, Suriname
TANTALUM	92	Thailand, Brazil, Australia, Canada
DIAMOND (industrial stones)	89	Republic of So. Africa, UK, Ireland, Bel.-Lux.
FLUORSPAR	88	Mexico, Republic of So. Africa, Spain, Italy, China
PT-GROUP METALS	88	Republic of So. Africa, UK, U.S.S.R.
COBALT	86	Zaire, Zambia, Canada, Norway
TUNGSTEN	80	China, Canada, Bolivia, Portugal
CHROMIUM	75	Republic of So. Africa, Zimbabwe, Turkey, Yugo.
NICKEL	74	Canada, Australia, Norway, Botswana
TIN	73	Brazil, Thailand, Indonesia, Bolivia
POTASH	72	Canada, Israel, German Dem. Rep., U.S.S.R.
ZINC	69	Canada, Mexico, Peru, Australia
CADMIUM	66	Canada, Australia, Mexico, Fed. Rep. of Germany
BARITE	63	China, Morocco, India
SILVER	57	Canada, Mexico, UK, Peru
ASBESTOS	51	Canada, Republic of So. Africa
GYPSUM	37	Canada, Mexico, Spain
SILICON	33	Brazil, Canada, Norway, Venezuela
IRON ORE	28	Canada, Brazil, Venezuela, Liberia
COPPER	25	Canada, Chile, Peru, Zaire, Zambia, Mexico
ALUMINUM	24	Canada, Japan, Venezuela, Brazil
CEMENT	20	Canada, Mexico, Spain
IRON & STEEL	19	EEC, Japan, Canada, Republic of Korea
LEAD	15	Canada, Mexico, Peru, Australia, Honduras
SALT	12	Canada, Mexico, Bahamas, Chile, Spain
BERYLLIUM	11	Brazil, China, Switzerland, Republic of So. Africa
TITANIUM (sponge metal)	8	Japan, U.S.S.R.
NITROGEN	7	Canada, U.S.S.R., Trinidad & Tobago, Mexico
SULFUR	6	Canada, Mexico

[a] Estimated.

[1] Net import reliance = imports − exports + adjustments for Government and industry stock changes.

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

Note:
For a number of minerals, net import reliance data are withheld or incomplete. However, commodities for which sufficient data are available to indicate a significant degree of import dependency include: andalusite (Republic of South Africa), antimony (China, Republic of South Africa, Mexico, Bolivia), bismuth (Mexico, Belgium-Luxembourg, Peru, United Kingdom), gallium (Switzerland, France, Federal Republic of Germany, United Kingdom), germanium (Belgium-Luxembourg, China, United Kingdom, France), iodine (Japan, Chile), ilmenite (Australia, Canada, Republic of South Africa), mercury (Spain, Algeria, Turkey, China), rhenium (Chile, Federal Republic of Germany), rutile (Australia, Republic of South Africa, Sierra Leone), and vanadium (Republic of South Africa, European Communities, Canada).

Source: Bureau of Mines, United States Department of the Interior. Mineral Commodity Summaries, 1987. Washington, D.C.

In the 20 years between 1960 and 1980, nominal U.S. merchandise exports to the non-oil exporting developing countries other than the seven newly industrialized countries (NICs)* grew substantially from $3.5 billion to $36.7 billion (Table 1.2.1.). Over the same period, nominal U.S. merchandise imports from that group increased from $2.6 billion to $35.4 billion (Table 1.2.2.). Since these numbers represent changes in prices as well as changes in quantity, a more accurate measure of real growth appears in the share of these countries in total U.S. exports and imports.

While the real volume of U.S. exports (line two of Table 1.2.1.) more than tripled between 1960 and 1980, the non-oil exporting developing countries' (other than the top seven NICs) share held roughly constant at 17% in 1960 and 16.6% in 1980. Their share in provision of U.S. imports fell from 17.2% in 1960 to 13.8% in 1980 while the real volume of those imports more than quadrupled. The real volume of U.S. exports to these countries and the real volume of U.S. imports from these countries more than tripled, between 1960 and 1980. Given the large increase in total U.S. trade, it may be remarkable that these non-oil exporting developing countries lost in their share of U.S. imports, but it is far more remarkable that they have been able to hold their own in their share of U.S. exports.

In the four-year period 1983 to 1987, the share of the non-oil exporting developing countries (NOEDC), other than the seven NICs, in both U.S. exports and imports declined while U.S. real imports were rising 57% and real exports were rising under 26%. Exports from the United States to these NOEDCs went from 16.2% of total U.S. exports in 1983 to 13.7% in 1987. Much of this decline was due to financial restraints on Latin America's ability to import and involved a drop in real export volume to that region. The significance of the decline in U.S. exports to Latin America has been estimated to have cost the United States nearly 400,000 jobs during 1982.** Although merchandise imports from non-oil exporting developing countries other than the seven NICs were up 13.5% in 1987 over 1986, growth of U.S. import share has been lackluster, up only 0.4%. The effect this will have on the ability of the NOEDC-nonNIC to generate hard currency with which to repay burgeoning debts is still in question.

U.S. trade with the developing countries should be seen as playing to the strengths of the U.S. economy. This trade operates to increase U.S. employment, productivity, and living

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* Newly industrialized countries are Mexico, Taiwan, South Korea, Brazil, Spain, Singapore and Hong Kong.

** S. Dhar "US Trade w/Latin American: Consequences of Financing Constraints", Federal Reserve Bank of New York Quarterly Review, Autumn 1983. As quoted in GATT, International Trade 1986-87, pg. 23.

TABLE 1.2.1.
TRENDS IN U.S. MERCHANDISE EXPORTS

	1960	1970	1980	1983	1984	1985	1986	1987
EXPORTS (IN BILLION $)								
EXPORTS (CONSTANT 1982 $)	67.8	111.6	244.8	197.9	211.1	210.4	218.0	249.9
EXPORTS (CURRENT $)	20.6	43.2	220.8	200.5	217.9	213.1	217.3	250.4
Industrial Countries	10.8	26.4	125.4	117.6	130.4	129.6	137.4	158.5
Developing Countries	6.3	12.9	91.2	75.7	78.6	75.8	72.8	82.7
Oil Exporting 1/	0.9	1.8	16.9	16.4	13.9	11.9	10.4	10.6
Non-Oil Exporting 2/	5.4	11.1	74.3	61.5	67.7	67.7	65.5	75.6
Top 7 NICs 3/	1.9	5.1	37.6	29.0	32.9	35.4	34.8	41.4
All Other NOE DCs	3.5	6	36.7	32.5	34.8	32.3	30.7	34.2
Other 4/	3.5	3.9	4.2	7.2	8.9	7.7	7.1	9.2
ANNUAL PERCENT CHANGE								
Industrial Countries		11	17.5	0.4	10.9	-0.6	6.0	15.4
Developing Countries		7.5	31.5	-13.2	-3.8	-3.6	-4.0	13.6
Oil Exporting		6.7	16.9	-25.8	-15.2	-14.4	-12.6	1.9
Non-Oil Exporting		7.6	35.3	-8	10.1	-0.1	-3.2	15.4
Top 7 NICs		14.4	35.3	-8.4	13.6	7.5	-1.8	19.1
All Other NOE DCs		2.4	35.4	-7.5	7.0	-7.2	-4.7	11.2
Other		6.9	-29.2	-25.1	-23.6	-13.5	-7.8	29.6
PERCENT DISTRIBUTION								
Industrial Countries	52.4	61.1	56.8	58.7	59.8	60.8	63.2	63.3
Developing Countries	30.6	29.9	41.3	37.8	36.1	35.6	33.5	33.0
Oil Exporting	4.4	4.2	7.7	8.2	6.4	5.6	4.8	4.2
Non-Oil Exporting	26.2	25.7	33.7	30.7	31.1	31.8	30.1	30.2
Top 7 NICs	9.2	11.8	17.0	14.4	15.1	16.6	16.0	16.5
All Other NOE DCs	17.0	13.9	16.6	16.2	16.0	15.1	14.1	13.7
Other	17.0	9.0	1.9	3.6	4.1	3.6	3.3	3.7

1/ Oil Exporting Countries as defined by the IMF: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela
2/ IMF definition plus Taiwan
3/ Top 7 Newly Industrialized Countries (NICs): Mexico, Taiwan, South Korea, Brazil, Spain, Singapore, and Hong Kong
4/ Other = Non-Industrial Developed Countries, Communist, and unclassified

SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1987, as adjusted for Taiwan. The price deflator is from The Economic Report of the President, 1988 implicit price deflator of exports p.253.

TABLE 1.2.2.

TRENDS IN U.S. MERCHANDISE IMPORTS

	1960	1970	1980	1983	1984	1985	1986	1987
IMPORTS (IN BILLION $)								
IMPORTS (CONSTANT 1982 $)	64.5	146.4	267.7	277.0	351.4	381.4	420.3	434.5
IMPORTS (CURRENT $)	15.1	42.5	257	269.8	341.2	361.6	387.1	424.1
Industrial Countries	8.2	28.9	126.3	154.4	204	227.7	249.9	260.9
Developing Countries	5.6	11.1	129.5	120.8	120.1	115.5	115.1	136.1
Oil Exporting 1/	1.5	1.7	57.1	24.7	25.7	21.6	19.7	24.2
Non-Oil Exporting 2/	4.1	9.4	72.4	80.6	97.8	98.0	100.6	118.8
Top 7 NICs 3/	1.5	4.3	37.0	44.0	55.6	58.6	61.0	73.8
All Other NOE DCs	2.6	5.1	35.4	36.6	42.2	39.4	39.6	45.0
Other 4/	1.3	2.5	1.2	12.6	17.1	18.4	22.1	27.1
ANNUAL PERCENT CHANGE								
Industrial Countries		17.5	11.1	7.4	32.1	11.6	9.7	4.4
Developing Countries		9	20.9	3.7	16.8	-3.8	-0.3	18.2
Oil Exporting		-1.1	20.7	-21.2	4.0	-16.0	-8.8	22.8
Non-Oil Exporting		11.7	21.1	13.5	21.4	0.2	2.6	18.1
Top 7 NICs		19	21.7	17	26.3	5.4	4.0	21.1
All Other NOE DCs		6.3	20.4	8.7	15.5	-6.7	0.6	13.5
Other		13.5	-22.7	14.3	35.7	7.6	20.1	22.6
PERCENT DISTRIBUTION								
Industrial Countries	54.3	68.0	49.1	57.2	59.8	63.0	64.6	61.5
Developing Countries	37.1	26.1	50.4	38.1	35.2	31.9	29.7	32.1
Oil Exporting	9.9	4.0	22.2	9.2	7.5	6.0	5.1	5.7
Non-Oil Exporting	27.2	22.1	28.2	29.9	28.7	27.1	26.0	28.0
Top 7 NICs	9.9	10.1	14.4	16.3	16.3	16.2	15.7	17.4
All Other NOE DCs	17.2	12.0	13.8	13.5	12.4	10.9	10.2	10.6
Other	8.6	5.9	0.5	4.7	5.0	5.1	5.7	6.4

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

2/ IMF definition plus Taiwan

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

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

SOURCE: International Monetary Fund, Direction of Trade Yearbook, 1987, as adjusted for Taiwan. The price deflator is from The Economic Report of the President, 1988 implicit price deflator of exports p. 253.

standards over the long run. For example, the rapidly growing developing countries, such as Korea, Brazil, Taiwan, Malaysia, Mexico, Thailand and even those with growing agricultural exports, such as Brazil, Malaysia, and Mexico, have become the fastest growing markets for U.S. agricultural exports. This is because as income rises in developing nations, more food and more expensive kinds of food are purchased. For example, during its period of rapid growth from 1970 to 1981, when its agricultural production was increasing almost 5% per year, Brazilian agricultural imports from the United States increased 25% per year. Taiwan was a net grain exporter during the early 1950s. By 1986, Taiwan was importing 60% of all cereals consumed, mainly in the form of feed grains, to support diets which have shifted from staples to meat and poultry. In Malaysia, incomes rising partly as a result of growth in the agricultural sector have made possible increased agricultural imports from the United States. From 1967 to 1983, Malaysia's imports of U.S. food, feedgrains, soybeans, and other oil seeds grew from a wheat equivalent of about one million metric tons to almost 2.4 million metric tons. Soybean imports grew to support the livestock industry even though Malaysia is the leading exporter of palm oil which competes with soybean oil in some uses.*

The point is often made that the rapidly growing developing countries which are buying more U.S. agricultural exports also are sending more manufactured goods into U.S. markets. This surge in manufactured imports has provided American consumers with goods at low prices. A secondary effect of these low-priced imports has been low inflation. However, this import surge is now receding following the depreciation of the dollar. Much of the production in the developing countries, particularly in the "Four Asian Tigers," is owned or controlled by U.S. firms, reflecting U.S. skills in investment, product development, international organization and marketing. Some elements of U.S. management and of organized labor have lobbied against imports where the lobbyists have attributed various kinds of injuries to increased U.S. imports of particular manufactured goods. But the injuries underlying these complaints have been due in varying degrees to a failure to recognize and adjust to changes in the world economy which tend to make the world more prosperous. Most sectors of the U.S. economy have responded adequately to world economic changes. The U.S. economy has been and remains the world's main source of change in processes and products. From nylon, the canning tomato, and mass retailing to the personal computer, American innovations have forced adjustments on domestic producers and on those of other nations. The United States benefits along with all other countries when the world economy is made

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* "Foreign Economic Development Assistance and American Agricultural Exports," A.I.D. (working paper) February 5, 1987.

dynamic by invention, the creation of new industries, reduced protection, and the increased interchange of products, services and ideas. As less educated, less productive, and, therefore, lower paid foreign workers move up to low-technology mass manufacturing, American workers can move up to jobs of higher productivity in agriculture, high technology manufacturing, and services. These shifts in specialization will be facilitated by the current Uruguay Round trade negotiations.

Threats to free trade in the form of protective barriers represent a serious impediment to development efforts and debtor solvency. Agricultural and textiles - two major developing country exports - remain the biggest exceptions to the trend to more liberal trade. Estimates of the costs to developing countries from protectionism by industrial countries range from 2.5% to 9% of developing country GNP.* For countries that are unfortunate enough to be both debt burdened and specializing in a product for export into a protected industry, the aspiration that sufficient hard currency can be earned to make debt payments may be a fantasy.

Not surprisingly, developing countries are not the only participants faced with the increased costs of protectionism. Estimates of the cost to industrial countries range from .3% to .5% of GNP.

Recent developments in the international trade sector have been both promising and worrisome. Concessions to developing countries are being discussed in the current Uruguay Round trade negotiations to reduce or drop tariffs and other barriers that block imports of about 130 agricultural tropical products.** Similarly, U.S. import quotas on sugar were recently increased by 40%. Although the increase was mainly a response to this past summer's drought, it nonetheless represents a movement in the direction of free trade.*** In the other direction, proponents of the U.S. textile industry are still favoring a further restriction on imports of foreign textiles, although recent efforts by the U.S. Congress to enact an import-limiting textile bill were unsuccessful.****

1.2.2. Investment and Credit

U.S. investment in and credit to the developing countries have important long-term and short-term effects on U.S. interests. It is in the long-term U.S. interest to invest in and lend to the developing countries. Compared with these countries,

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* World Development Report, 1988, The World Bank, Washington, D.C., 1988, p. 16.

** Inside U.S. Trade Vol. 6 No. 39 - Sept. 30, 1988.

*** U.S. Department of Agriculture and U.S. Trade Representative announcement July 22, 1988.

**** Inside U.S. Trade. Vol. 6 No. 38 - Sept. 23, 1988.

the United States has a relative abundance of capital, technology, and management skills while they have a relative abundance of low-skilled labor and of undeveloped natural resources. Production is greater in both areas when they are linked by trade and investment. In this way, flows of direct investment and credit from the United States to the developing world bring about mutual enrichment. An example of this kind of relationship occurred in the ninteenth century, when British capital and technology combined with American labor and resources. Athough there were some defaults, the general result was both increased U.S. indebtedness and increased U.S. creditworthiness; faster growth in both countries with consequently higher returns to capital, land, labor and technology; and increased trade. Similarly, productive capital flows reached into other countries and colonies as Europe served as the world's banker.

Credit from U.S. banks to the developing countries grew rapidly from 1960 to 1983 after which it plateaued at a high level (Table 1.3.). U.S. private investment in the developing countries grew moderately from 1960 to 1981 and continued to increase after 1981 but at a rate considerably slower than its pre-1981 rate (Table 1.3).

Thus, if the nineteenth century U.S.-United Kingdom pattern is appropriate for today's economic relations between the United States and the developing countries, only half of that pattern has been operating recently, and that half has run out of steam. That is, financial flows in the form of U.S. loans and investment first increased then stagnated, while the export surplus which should result from such flows to the developing nations has in fact become an import surplus. The United States has now a low savings rate and a high trade deficit and is under pressure to continue lending to permit larger imports into highly indebted developing countries and to alleviate the pressures on those countries to raise exports and suppress imports in order to service their debts.

The foreign assistance program provides the United States with a means to help achieve acceptable growth rates in the developing countries and to incorporate these countries in a healthy world economy. The policy dialogue and structural adjustment elements of U.S.-funded bilateral and multilateral assistance programs encourage the developing countries to make growth-oriented reforms. Growth will increase debt-servicing capacity and attract more and more productive credit and investment. In its World Development Report, 1987, the World Bank projected that, if developing countries' reforms were matched by fiscal and trade adjustments in the developed countries, annual world economic growth could average 5% overall and 3.9% per capita during 1986-95. At that rate, world income would rise 60% during the decade.

TABLE 1.3.
U.S. Direct Investment Position Abroad and U.S. Banks' Claims on Foreigners
(Millions of Dollars, End of Period)

	1960	1970	1980	1981	1982	1983	1984	1985	1986	1987
Total U.S. Direct Investment 1/	31,856	75,480	215,375	228,348	221,843	226,962	233,412	232,667	259,562	308,793
Developed Countries	19,310	51,819	158,214	167,439	164,312	169,975	174,057	172,750	194,691	233,315
Developing Countries	11,128	19,192	53,206	56,163	52,618	51,430	53,932	54,474	60,270	71,174
(as % of total)	(34.5%)	(25.4%)	(24.7%)	(24.8%)	(23.6%)	(22.5%)	(23.1%)	(23.4%)	(23.3%)	(23.0%)
Unclassified	1,418	4,469	3,955	4,780	4,913	5,557	5,423	5,443	4,602	4,304
U.S. Direct Investment in Selected Countries										
Argentina				2,756	2,979	3,080	3,157	2,785	2,919	2,854
Brazil				8,247	9,013	9,026	9,551	9,480	9,187	9,955
Hong Kong				2,729	2,984	3,310	3,799	3,124	3,980	5,453
Mexico				6,977	5,584	5,006	5,380	5,087	4,750	4,997
Panama				3,784	4,404	4,519	4,061	4,611	4,293	4,780
SubSaharan Africa				NA	NA	2,270	2,420	2,074	2,236	3,100
U.S. Banks' Total Claims on Foreigners 2/	4,122	10,799	172,592	251,589	355,705	391,312	400,162	401,608	444,745	460,261
Developed	2,443	6,384	55,239	80,758	122,205	134,029	140,262	152,020	184,161	NA
Developing	492	4,149	69,173	101,554	143,820	158,927	158,969	149,709	156,555	NA
Other	1,179	68	2,059	2,332	2,488	2,596	3,008	3,245	5,618	NA
Offshore 3/	8	198	46,121	66,945	87,192	95,760	97,923	98,235	97,923	NA
U.S. Banks Claims in Selected Countries										
Argentina				7,522	10,974	11,740	11,043	11,462	12,091	11,990
Brazil				16,914	23,260	24,667	26,315	25,283	25,716	25,879
Hong Kong				4,126	6,668	8,429	7,283	6,797	8,307	8,216
Korea				7,324	9,407	9,889	9,285	9,226	7,182	5,094
Mexico				22,409	29,488	34,802	34,824	31,799	30,698	29,534
Panama				6,787	10,197	7,848	7,707	6,645	5,436	4,739
Venezuela				7,069	10,739	11,287	11,017	10,871	11,108	10,834

Sources: 1/ Department of Commerce, International Direct Investment, 1984. Department of Commerce, Selected Data on U.S. Direct Investment Abroad, 1950-76. Department of Commerce, Survey of Current Business, August 1987

2/ Federal Reserve Bulletin, Nov. 1988, Table 3.18 pp. A61.

3/ Offshore banking centers = Bermuda, Bahamas, British West Indies, and Netherlands Antilles

Developed: Generally follows the assignment of countries made by the United Nations to include Canada, Western Europe, Japan, Australia, New Zealand, and the Republic of South Africa.

Developing: Generally follows the assignment of countries made by the United Nations to exclude the Developed Countries and Communist Countries in Europe and Asia but includes the rest of the world.

1.3. Humanitarian Concerns

Throughout U.S. history, religious groups, private voluntary organizations, foundations, and individuals have helped those less fortunate overseas. The programs described in this document are only the most recent examples of private and public efforts dating back to the thirteen colonies where the American people have reached out to the poor, the hungry, the untutored and the victims of man-made and natural calamities. The foreign assistance programs funded by the American people form a part of this tradition. The opening language of the Foreign Assistance Act makes a ". . . commitment to assist people in developing countries to eliminate hunger, poverty, illness and ignorance."

This point of view guides the planning, negotiation, implementation and evaluation of many long-term U.S.-supported activities in the developing world. The immediate relief of human suffering is the purpose of assistance to disaster victims. Where people are injured by flood, volcanic eruption, earthquake, landslide, fire, epidemic or storm; when droughts or locusts cause famine; when families are driven from their homes by man-made or natural disaster, the United States will always be quick to respond. Whether in Ethiopia, India, Mexico, or elsewhere, people in extremity will find American-supplied blankets, food, medicine and the technical services needed for recovery and prevention.

Other parts of our assistance program support longer-term attacks on the causes of world poverty. As explained below, this program has been associated with and has fostered a fundamental improvement in living conditions in the developing world.

1.4. Impact of the Foreign Assistance Program

While highly desirable, it is difficult to identify or quantify all of the results from the dollars and work invested in the foreign assistance program. However, the impact of the foreign assistance program can be seen where countries implement important policy reforms and through particular development projects and humanitarian relief programs. But the primary value of the U.S. economic assistance program is as a component of U.S. foreign economic policy.

Due to its predominant role in the world during the post-World War II period, U.S. views of desirable international economic policies have strongly influenced events. During this period the United States, with few exceptions, has promoted policies to foster growth, competitive domestic markets, and the free international flow of trade, credit, and investment. The U.S. domestic market has been freer than that of any major

industrial state and much freer than developing country markets. Its trade barriers have been among the world's least restrictive. It has allowed capital to move in and out of the country freely. It has never questioned the right of foreigners to invest in the United States. It has allowed world market forces to determine the international value of its currency.

The absolute size of the U.S. assistance program is so large that it has been able to play a growing role in promoting policy reform, open borders, freer domestic and international markets, efficiency, and broad-based growth in developing nations. The world has moved in the direction sought by the United States. This is a fact, and to an indeterminable extent, it is a U.S. policy.

Since large-scale economic assistance to the developing countries began in the 1950s, their economic and social progress has been unprecedented in history. No other group of countries has experienced such rapid progress in per capita income, literacy, longevity, and child survival. For example, between 1950 and 1980 in the developing world, life expectancy increased from 42 to 59 years; and the mortality rate for children aged 1-4 declined from 28 to 12 per thousand. The Organization for Economic Cooperation and Development (OECD) has contrasted the relatively rapid growth of per capita income in the developing countries during 1960-84 with the strong but slower growth of per capita income in the currently industrialized countries during the preceding century. According to the OECD, per capita income in the currently industrialized countries grew at about 1.8% per year from 1850 to 1960. In contrast, during 1960-1984, per capita income growth in the developing countries averaged 3.4% annually, almost twice as fast.* The World Bank figures for the developing countries for 1965-86 are a little less favorable. They show per capita income growing at just over 3.0% per year.** Clearly, all the data show that, in recent decades, many of the low-income developing countries bettered the earlier growth rate of the industrialized group which included the United Kingdom, the United States, Germany and Japan. In surveying recent experience, one relationship stands out; greater economic freedom has characterized the fastest growing developing countries.

The association of economic freedom with economic growth has not been lost on China and Russia. Without consistent U.S.

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* Twenty-five Years of Development Cooperation, OECD, Paris, 1985, p. 12.

** World Development Report, 1988, The World Bank, Washington, D.C., 1988, p.222.

policies favoring freer trade and unrestricted capital movements, and without growth and liberalization in the developing world, the dismantling of the Chinese agricultural communes and the Soviet policy of glasnost would have been less likely. Given the importance of the United States during this period, it is reasonable to assume that a different policy together with less bilateral aid, less support for the multilateral banks, less emphasis on policy reform, etc., would have resulted in less prosperity, less world economic integration, less freedom, and less visible rejection of the Soviet economic model.

Chapter 2.

Situation of the Developing Countries

2.1. Classification of Developing Countries

One hundred and eighteen countries, with a combined population of over three and a half billion people, are classified as developing.* They are historically and culturally diverse and cover over half the globe. Per capita income is a useful proxy and means to rank these countries along the continuum of development. Using a per capita income ceiling of $3,385 to distinguish the developed from the developing nations, the World Bank subdivides the developing nations into five groups as shown in Table 2.1. The lowest-income group where per capita income is $480 or less contains 44% of the countries and almost three quarters of the people. For hundreds of millions of people in this group, much in their working lives is little changed from centuries past. Yet, for the developing nations as a whole, two of the most comprehensive indicators of human progress show substantial improvements over the past 40 years. Between 1950 and 1980, average life expectancy rose 40%, from 42 to 59 years; and infant mortality among children aged one to four fell more than 50%, from 28 per thousand to 12 per thousand.

2.2. Constraints to Development

Despite the diversity among these countries, which is only superficially captured by a per capita income ranking, most of them face similar constraints to development. Most of the people of the developing nations are clever and hard working in the use of the often ingenious but narrow knowledge and the few tools they possess. But in contrast with residents of developed nations, they are born into societies with relatively few tools and machines per worker and with little knowledge of or access to advanced technology. Most oppressive for development, the institutions and the public policies of many developing nations inhibit the individual initiatives that are essential to growth and economic development. Each of these constraints merits elaboration.

2.2.1. Human resources

People in developing countries are relatively unproductive and, therefore, poor partly because they lack knowledge and the

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* OECD classification, includes Taiwan and Hong Kong. Classification is for statistical purposes only.

TABLE 2.1.

1987 PER CAPITA GNP
RANKED BY 1987 GNP PER CAPITA
(US DOLLARS)

Income Group and Country	1987 GNP Per Capita
v (Over $3,385)	
Bahamas, The	10,320
Oman	5,780
Barbados	5,330
Cyprus	5,210
Trinidad & Tobago	4,220
IV ($1,941-3,385	
Venezuela	3,230
Seychelles	3,180
Portugal	2,890
Algeria	2,760
Gabon	2,750
Korea, Rep. of	2,690
Antigua & Barbuda	2,570
Yugoslavia	2,480
Argentina	2,370
Suriname	2,360
Hungary	2,240
Panama	2,240
Uruguay	2,180
Brazil	2,020
Romania	n.a.
III ($941-1940)	
Poland	1,920
Mexico	1,820
Syrian Arab Republic	1,820
Malaysia	1,800

Income Group and Country	1987 GNP Per Capita
III ($941-1940)	
Botswana	1,030
Paraguay	1,000
Cameroon	960
Jamaica	960
Lebanon	n.a.
II ($481-940)	
Guatemala	940
Congo	880
El Salvador	850
Thailand	840
Nicaragua	830
Honduras	780
Cote d'Ivoire	750
Dominican Republic	730
Papua New Guinea	730
Tonga	720
Egypt	710
Swaziland	700
Morocco	620
Philippines	590
Zimbabwe	590
Yemen Arab Republic	580
Bolivia	570
Western Samoa	560
Senegal	510
Cape Verde	500
Djibouti	n.a.

Income Group and Country	1987 GNP Per Capita
I (480 or less) (cont'd)	
Pakistan	350
Kenya	340
Central American Republic	330
Sudan	310
Rwanda	300
Benin	300
China	300
India	300
Maldives	300
Sierra Leone	300
Togo	300
Somalia	290
Niger	280
Sao Tome & Principe	280
Uganda	260
Burundi	240
Zambia	240
Gambia, The	220
Tanzania	220
Madagascar	200
Mali	200
Burkina Faso	170
Guinea-Bissau	170
Bangladesh	160
Lao People's Dem. Rep.	160
Malawi	160
Nepal	160
Zaire	160
Bhutan	150
Chad	150
Mozambique	150

III ($941-1940) (Cont'd)

St. Kitts and Nevis	1,700
Costa Rica	1,590
Jordan	1,540
Fiji	1,510
Mauritius	1,470
Dominica	1,440
Peru	1,430
St. Lucia	1,370
Grenda	1,340
Chile	1,310
Belize	1,250
Colombia	1,220
Tunisia	1,210
Turkey	1,200
St. Vincent & the Grenadines	1,070
Ecuador	1,040

I ($480 or less)

Kiribati	480
Indonesia	450
Liberia	440
Mauritania	440
Solomon Islands	420
Yemen, People's Dem. Rep.	420
Sri Lanka	400
Ghana	390
Comoros	380
Guyana	380
Nigeria	370
Haiti	360
Lesotho	360

I (480 or less) (Cont'd)

Ethiopia	120
Afghanistan	n.a.
Burma	n.a.
Equatorial Guinea	n.a.
Guinea	n.a.
Kampuchea, Dem.	n.a.
Vanuatu	n.a.
Viet Nam	n.a.

education needed to increase their productivity. Even in a society with excellent policies and institutions, a poorly educated citizenry would produce well below the potential they could have reached with greater education. Although there have been striking increases in the percentage of children in school in the developing world, illiteracy, an easily observed indicator of under-utilized human capacity, remains widespread in many countries. In extreme cases, as in Haiti, 70% of the population cannot read. But even the more literate developing countries are generally deficient in apprenticeship programs, technical schools, research and development capabilities, and the managerial and policy development capacities which would enable people to adopt, develop, and use the knowledge which makes the developed countries so productive.

The concept of human capital embraces all the education, training, and experience that individuals acquire. It also embraces the nutrition and health that determine the physical capacity and mental alertness people bring to their work. In these as in the educational elements of human capital, many of the people of the developing nations are ill equipped for the process of accelerated development. Hunger, intestinal parasites, poor nutrition and endemic diseases such as malaria weaken bodies and dull minds. Thus poor health is both a cause and an effect of poverty. Poor people cannot afford proper food or medical care, and nutritionally deprived people with chronic ailments do not make successful students, aggressive entrepreneurs, or highly productive workers.

2.2.2. Institutions

Generally, developing countries lack many of the specialized, competent, and trusted institutions taken for granted in the developed world. For example, in developing nations both rural and urban dwellers often lack land titles because institutions to survey and record property rights are deficient. Without secure titles, farmers and householders invest less than they otherwise would in productivity-enhancing improvements. Similarly, the courts which might protect property and contracts are often weak, unreliable, and open to subornation. The result is further weakening of incentives for savings, investment, and productive innovation. Again, financial markets can serve to allocate resources efficiently to productive uses. But such markets typically are weak in the developing world.

2.2.3. Infrastructure

Inadequate roads, ports, power, water and communications are both a cause and a result of low productivity and poverty.

Because a country is poor it can afford few of these expensive assets which are usually built ahead of demand and only pay off over the long term. The lack of such assets increases the cost and uncertainty of farm families' production and of business and government programs. Cases are commonplace where export orders cannot be filled because businesses cannot afford to stockpile large pre-production inventories, and essential production inputs reach the factory late because of poor transportation facilities. Also typical is the case of the tile factory in one of the most developed of the developing countries which cannot afford its own diesel generation plant and which loses batches of drying tiles whenever public power fails. Where infrastructure does exist, it is often badly maintained due to inadequate budgets and ineffective maintenance institutions. Private producers therefore are forced to cope with deteriorating roads, silted irrigation canals, irregular electrical and telephone service, and other examples of mismatches between the scale of construction and arrangements for maintenance.

2.2.4. Policy

As a result of personalism, statism, inappropriate theory, interest group pressures, and institutional incompetence, developing country governments have implemented many policies that have resulted in the inefficient use of resources and that have severed the causal relationship between productivity and reward. For example, import substitution policies have saddled consumers with expensive, low-quality domestic production and have penalized exports. Parastatals have drained government budgets of money that could have been more efficiently spent if left with the taxpayers. Price ceilings on fuel, meat, eggs, milk and cooking oil have led the producers of these goods to cut back on production and have contributed to smuggling and to the corruption of government officials. Excessive government wage concessions to favored groups, rarely the poorest groups, have reduced employment and have exacerbated fiscal deficits. Elaborate licensing requirements, extensive regulatory procedures, and other red tape inhibit entrepreneurs. However, over the past 20 years, much has been learned by the providers and recipients of development assistance about the nature and impact of inappropriate economic policies. Reforms are now under way in dozens of countries. But the reform process is proving difficult. While market solutions are now accorded much greater respect than during the 1970s, many administrators remain opposed to economic liberalization; and problems of sequencing and timing are only the most easily described of the difficulties encountered by reform-minded policy makers.

2.2.5. Instability

Another key difference between developed and developing countries is the greater degree of instability in developing nations in military, political, economic, social and cultural circumstances. Because the future is less predictable in a developing country, the individual is less willing to make a long-term commitment to an investment, a job, a leader, a political party, a currency, an economic policy, or a principle. These varieties of instability have many causes, among which are:

- short national histories; most developing countries are ex-colonies;
- national boundaries set as a result of the geo-political rivalry of colonial powers rather than from a long period of nation building, particularly in Africa and Asia;
- ethnic and religious divisions and animosity, e.g., in Sri Lanka, Nigeria, India. These divisions often lead to the imposition of restrictions on entrepreneurial minorities; and
- governments overburdened by excessive responsibilities and the awakened demands of people who, in most developing countries, are becoming informed, urban, dissatisfied, mobile and politicized.

Instability encourages the brain drain, capital flight, a preference for trading and quick profits over investment and asset creation, hoarding, distrust of business partners and government leaders, and a pervasive domination of the immediate parochial interest over the long-term strategic effort.

2.3. Current Situation

The current situation of the developing nations is a mixture of positive and negative circumstances. On the positive side, the industrial economies have been expanding since 1982 and increasing their immense capacity to offer the markets, know-how, and capital that can support economic development. The Uruguay Round of trade negotiations has opened the way for a reduction in the subsidization and distortion of the agricultural commodity trade on which many of the poorer developing countries depend. The 1980s have seen a trend toward democracy with elected governments taking power in Brazil, Argentina, Peru, Bolivia, El Salvador, the Philippines, Pakistan and elsewhere. Strong, representative governments

Table 2.2.

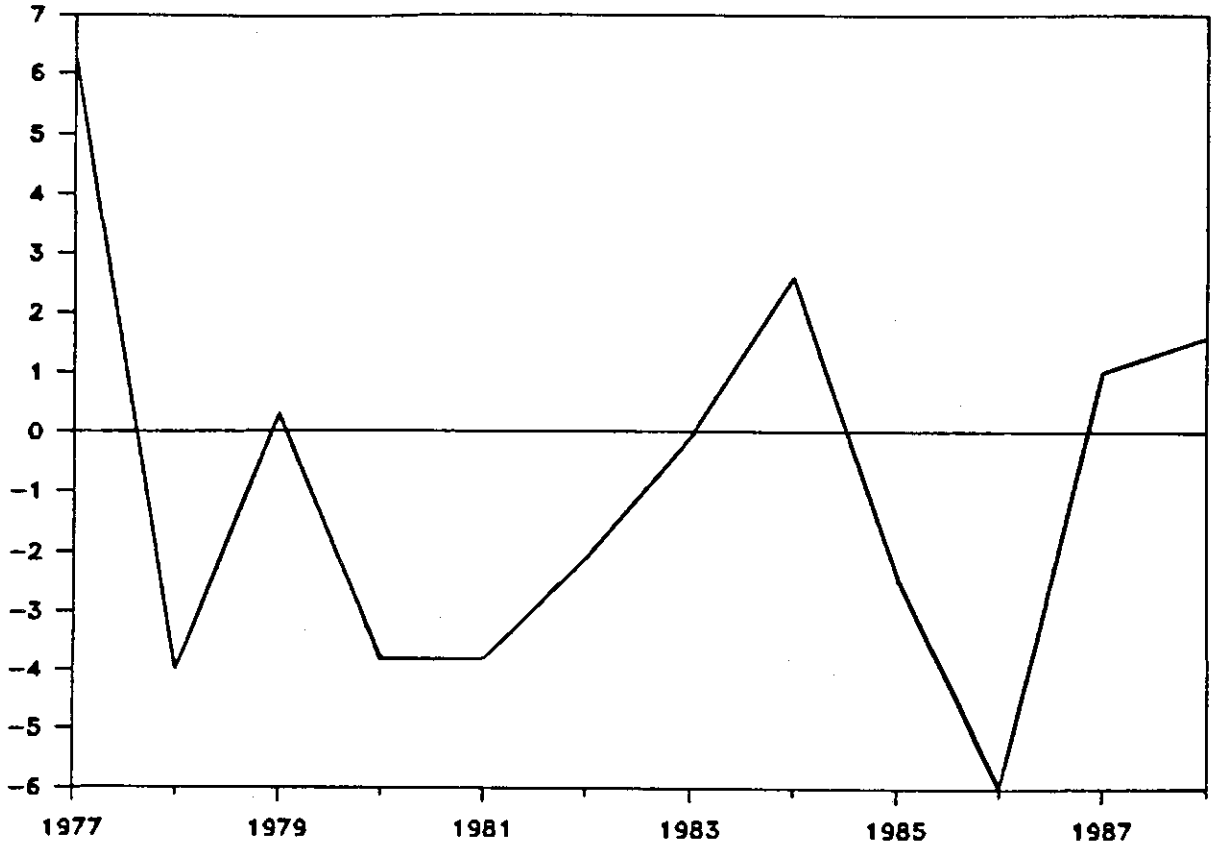
Basic Indicators of GNP Growth and of Improvement in Health and Education between 1965 and 1985

	GNP Per Capita 1986	Avg Annual Growth Rate: GNP Per Capita 1965-86	Avg Annual Growth Rate: Aggregate GDP 1973-80/80-86		Infant Mortality Rate (per 1,000 live births) 1965	1986	Child Mortality Rate (per 1,000 children aged 1-4) 1965	1985	Crude Death Rate (per 1,000 pop.) 1965	1986	Life Expectancy at Birth (male) 1965	1986	Number Enrolled in Primary School as % of Age Group 1965	1985
Low-Income Countries[1/]	$ 270	3.1	4.8	7.5	122	69	19	9	16	10	47	61	74	99[4/]
Lower-Middle Income[2/]	$ 750	2.5	6.3	1.8	133	77	22	11	17	10	47	59	75	104
Upper-Middle Income[3/]	$1890	2.8	6.6	2.5	83	50	11	4	11	8	58	67	96	105
Industrial Market Economies	$12,960	2.3	3.7	2.5	24	9	1	(.)	10	9	68	76	107	102

1/ IBRD definition (World Development Report, 1987): Per Capita GNP of less than $400 (in 1984 dollars)
2/ IBRD definition: Per Capita GNP of $400 to $1650 in 1984 dollars.
3/ IBRD definition: Per Capita GNP of $1651 to $6840 in 1984 dollars. A.I.D. does not regard countries with a per capita GNP above $2500 as LDCs. The Upper-Middle Income countries include some developed countries such as Israel and Greece.
4/ This figure is heavily weighted by China with numbers enrolled in primary school counted at 118% of the primary school-age population.

Source: International Bank for Reconstruction and Development (IBRD), World Development Report, 1987, Tables 1, 2, 28, 30 and 33.

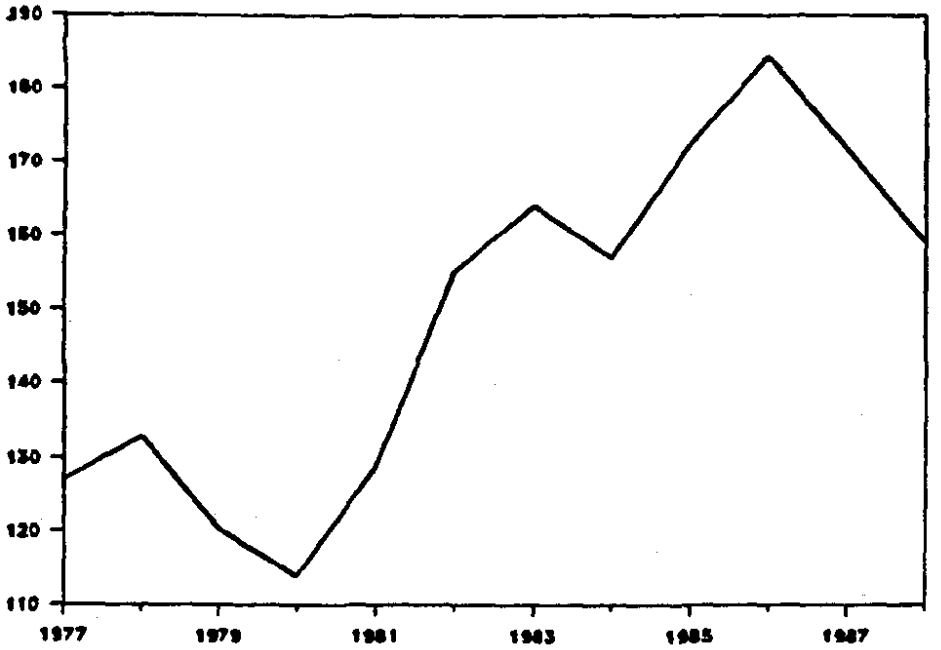
Chart 2.1.
Year-to-Year Percentage Change in the Terms of Trade*
of Non-Oil Developing Countries



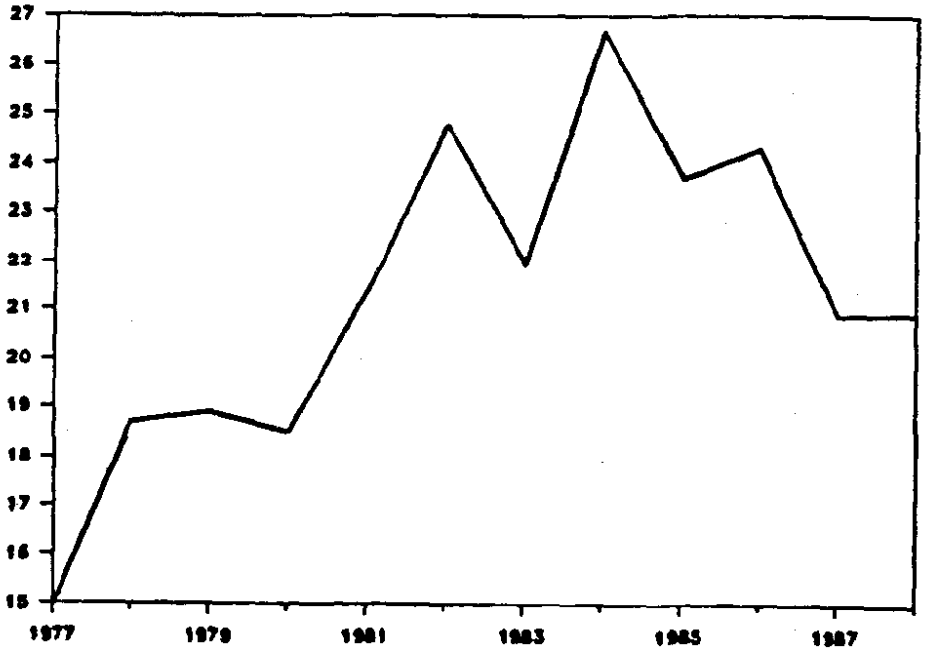
* Terms of trade for a single year: The ratio of the weighted average unit value of exports over the weighted average unit value of imports. In years where the rate is negative, more of a country's exports are required to purchase the same amount of imports.

Source: International Monetary Fund, World Economic Outlook, 1988, Table A28; 1988 is projected figure.

Chart 2.2.
Capital Importing Developing Countries
Ratio of External Debt to Exports



Ratio of Debt Service Payments to Exports



* Capital Importing Countries: All developing countries EXCEPT Iran, Iraq, Kuwait, Lybia, Oman, Qatar, Saudi Arabia, United Arab Emirates.

Source: International Monetary Fund, World Economic Outlook, 1987, (Table A50; 1988 is projected figure)., Table A51; 1988 is projected figure.

should make it easier for people to make and carry out the hard national decisions on debt, inflation, fiscal policy, saving and divestiture.

As Table 2.2. shows, the developing countries experienced fundamental progress during the twenty years between 1965 and 1986. Per capita incomes grew at historically unparalleled rates. In continuation of one of the key developments of the twentieth century, in virtually all developing countries, there has been a rapid rise in the number of children in school. Infant and child mortality rates declined by over one third to over one half, and life expectancy increased twelve years on average. Over the last six years, oil prices and inflation have declined. The worst of the debt crisis seems to be over: the international financial system did not collapse and a more cooperative spirit has arisen between the creditors and debtors. Never has there been so much consensus on the importance and impact of policy in causing and in alleviating economic problems.

On the negative side, living standards have declined for many developing countries during the 1980s. The terms of trade, for non-oil exporting developing countries has been dismal; for six out of the last nine years this ratio has been negative, significantly so in 1986. Fortunately, the last two years have seen a rally in the terms of trade, indicating that fewer of a country's exports are required to purchase a given level of imports (Chart 2.1.). Net resource flows to the developing countries, including export credits and private lending and investment, declined from $119 billion in 1980 to $68 billion in 1986.* Most of this decline was due to a massive reduction in net commercial lending from the developed to the developing countries. Payments on external debt have fallen since 1986 in proportion to exports (Chart 2.2.). This is attributable primarily to strong growth of exports and Paris Club reschedulings in many developing countries. The prolonged expansion in the industrial world is threatened by protectionism and by domestic and international imbalances; slow growth, even recession, are possibilities. Finally, many developing countries still suffer from weak institutional capacities, while maintaining policies that encourage inefficient uses of resources while sustaining barriers to internal and external competition. To overcome

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* OECD DAC, Development Cooperation, 1987 Report, p.46.

these obstacles to development, further policy reforms and structural adjustments must be implemented.

2.4. Implications for U.S. Policy

The situation of the developing countries has some clear implications for the near-term objectives of U.S. policy. To support worldwide economic development, the United States needs to:

- maintain industrial world economic growth by:
  - o reducing the U.S. fiscal deficit,
  - o reducing trade imbalances in the United States, Germany and Japan, and
  - o avoiding protectionism;

- further liberalize trade, especially through the Uruguay Round, to allow world market forces to keep shifting world resources to their most productive uses even as technological and other changes continually modify the location and character of "most" productive;

- maintain and extend coordination with multilateral institutions and with other bilateral donors to strengthen the international financial system and to assist economic liberalization in and resource flows to the developing nations;

- keep aid flowing to debtors undertaking serious structural adjustment so reforms can become established long enough to restore satisfactory growth rates;

- further develop an international consensus to deal with high debt nations not likely to attain international financial solvency in the near term; and

- continue to support multilateral programs to identify and treat environmental injuries aggravated by inadequate or inappropriate development, e.g., pollution, deforestation, and species elimination.

Chapter 3.

U.S. Policies and Programs to Promote Broad-Based Economic Development and Stability

3.1. Background

Large-scale U.S. economic assistance began after World War II. The objective at first was the reconstruction of war-torn economies in Europe and the Far East. As those economies recovered, U.S. support shifted to the growing number of developing countries, many of which were just gaining political independence. With over half the world's population, the developing countries contained the world's worst extremes of poverty and offered examples of and potential for political, military and economic instability. Eventually, most of the countries the United States had helped to recover from World War II joined the United States in aiding the developing nations. The United States has remained the largest aid donor, but most of the other donors eventually surpassed us in terms of the percentage of GNP devoted to foreign assistance (Table 3.1.). Norway, the Netherlands, and the other Scandinavian countries are now at the top of that list in percentage terms. Japan, on the other hand, is rapidly approaching the U.S. level in absolute terms.

Most U.S. assistance flows bilaterally and directly to developing countries through the programs and field missions of the Agency for International Development (A.I.D.). The remainder moves indirectly through U.S. support to multilateral development banks, United Nations (U.N.) programs, and private voluntary agencies. For example, in FY 1989, U.S. development budget authority was $7.5 billion for bilateral assistance and $1.5 billion for multilateral assistance (see Table 5.2., Chapter 5). During the last 10 years, U.S. economic assistance has increased sharply in current dollars while rising some 31% in real volume and declining somewhat as a percentage of GNP.*

3.2. Objectives of U.S. Policy

Foreign assistance is guided by long-standing objectives of U.S. foreign policy. These include:

- to maintain world peace;
- to protect the independence of nations and promote their internal freedom;
- to maintain and expand an open and equitable international economic system;

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* Source: Various A.I.D. Congressional Presentation Main Volumes. Price deflator from the Economic Report of the President, 1988, p. 253.

Table 3.1.

Official Development Assistance of OECD/DAC Countries as Percent of GNP (Net Disbursements)

	1985	1986	1987
Australia	0.48	0.47	0.33
Austria	0.38	0.21	0.17
Belgium	0.55	0.48	0.49
Canada	0.49	0.48	0.46
Denmark	0.80	0.89	0.88
Finland	0.40	0.45	0.50
France (incl. DOM/TOM)*	0.78	0.70	0.75
Germany	0.47	0.43	0.39
Ireland	0.24	0.28	0.20
Italy	0.26	0.40	0.35
Japan	0.29	0.29	0.31
Netherlands	0.91	1.01	0.98
New Zealand	0.25	0.30	0.30
Norway	1.01	1.17	1.09
Sweden	0.86	0.85	0.88
Switzerland	0.31	0.30	0.31
United Kingdom	0.33	0.31	0.28
United States	0.24	0.23	0.20
Total DAC countries	0.35	0.35	0.34

Source: OECD, Development Cooperation, 1986 Report, Paris, 1987, p. 52.

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* French Overseas Departments and Territories

- to promote broad-based economic growth in the developing countries; and

- to relieve suffering and the extremes of poverty.

Foreign assistance serves these objectives in several ways. In an open and increasingly interdependent world economy, foreign assistance helps countries to grow and to create economic opportunities for their citizens. Foreign assistance complements and encourages flows of direct investment, private credit, and free trade. A.I.D. policy dialogue constantly combats the tendency in many countries toward autarky, economic centralization, and economic controls. It promotes the diversification of political and economic power, and it encourages developing countries to participate in the free world economic system which has been so beneficial for growth since World War II. Increasing prosperity leads in turn to further integration into the world economy with consequent freer movement of investment, credit, technology and trade among nations and the free movement of prices and goods within nations. Rising prosperity also leads to a better quality of life for the peoples of the developing nations.

U.S. legislation directs foreign assistance to the poorest countries and to the poorest people. It relieves poverty directly through humanitarian assistance and through development projects in agriculture, nutrition and health. Less directly, it alleviates poverty by complementing a variety of other forces contributing to economic development and a more prosperous world. When humanitarian aid helps poor countries to overcome expensive and destabilizing calamities and when development assistance helps them to break through ancient barriers to growth, they are less apt to be sidetracked from the long-term policies and discipline essential for development.

By giving developing countries a stake in the world economic system and by providing the basis for dialogue regarding their economic policies, foreign assistance protects the growing U.S. interest in economic relations with these countries.

By contributing to prosperty, foreign assistance increases the likelihood of stability within nations. By reinforcing other influences linking the developing economies to the international free market, it gives these countries an incentive to maintain interdependencies and to resolve conflicts peacefully.

3.3. Objectives of Development Assistance

In its own programs and in U.S.-supported development assistance provided by the multilateral agencies, A.I.D. has identified five strategic objectives: accelerating economic growth in ways which ensure that such growth results in rising family incomes; alleviating hunger; improving health--especially reducing infant and child mortality; improving education; and alleviating unmanageable population pressures. The first four of these objectives have challenged mankind throughout history. Rapid increases in population, which give rise to the fifth objective, began in the nineteenth century in the West. A.I.D. and predecessor agencies have worked toward these objectives for over forty years, and the American people can be proud of the fact that hundreds of millions of people beyond our shores have benefited and will continue to benefit from this effort. As a result of this work, often performed under difficult conditions in remote places, understanding of the nature of the obstacles to development has improved, and the strategy for attacking these development obstacles has become sharper and more effective.

3.4. Strategy of the Assistance Program

From its work with a variety of peoples and problems in Europe, Asia, Latin America, the Caribbean, and Africa, A.I.D. has distilled a clear and practical development strategy. The strategy relies on A.I.D.'s hands-on tradition, particularly its field missions, and draws on technical expertise developed in A.I.D. and the United States. The strategy has many elements including policy dialogue, institutional development, technology transfer, and reliance on the private sector and market forces.

Wherever A.I.D. provides assistance, A.I.D. personnel work with the country's leaders to develop and implement policies conducive to economic growth and development. The assistance relationship is defined by a continuing policy dialogue that determines the character of both program and project assistance and that seeks agreement on appropriate policy evolution.

U.S. foreign assistance is used to build the many institutions essential to a modern society: policy formulation units, agricultural research institutes, road maintenance departments, family planning clinics, etc. Assistance for training is provided in many ways: development of indigenous case studies for a business school, short-term training in the United States for policy makers, apprenticeship programs, training of mothers in oral rehydration, construction of elementary schools, development of high school textbooks, etc.

Through both U.S. and host country programs technology is developed, transferred, tested, applied and evaluated. Examples include oral rehydration therapy, extrusion processing of high protein food supplements using local legumes, a mini rice thresher, an inventory control system for a manufacturer, techniques for measuring and reporting water loss in an irrigation system spanning several political jurisdictions, and an early warning system for famine.

Using the above measures plus the leverage inherent in concessional transfers, A.I.D. encourages government and business to rely on free markets and profit incentives to produce efficiency and equitable growth. One of the traditional interests of A.I.D.'s private enterprise initiative has been micro and small-scale enterprise. We have found that these businesses exemplify the entrepreneurial spirit of people in developing countries. Unfortunately, the smallest enterprises are often those most vulnerable to repressive national economic policies. Consequently, U.S. assistance to the small-business sector takes the form of active policy dialogue in conjunction with both lending and technical assistance resources.

This four-part strategy governs the programs implemented by A.I.D. and influences U.S.-funded programs at the multilateral development agencies. It must be emphasized that even though this strategy is comprehensive and vigorously pursued, it is only one small part of the campaign for development. The United States and other donors must do their part, but the primary responsibility in terms of both resources and policies rests with the developing countries.

3.5. Bilateral Programs

Bilateral means that the program is executed by the U.S. Government in direct cooperation with a public or private organization in a developing country. A bilateral program does not flow through a multinational donor organization such as the United Nations or the World Bank's International Development Association; nor, with rare exceptions, does a U.S. bilateral program contain funds from another donor. Line-item designations in congressional spending bills separately identify our contributions to multinational organizations and the elements of the foreign assistance programs we administer on a bilateral basis. Below are brief descriptions of the major elements of our bilateral assistance program.

3.5.1. Development Assistance (DA)

This represents the basic mode of economic assistance governed by the development objectives of the Foreign Assistance Act. Most DA funds are used for development projects. The Development Assistance program implements the Congressional mandate of 1973 to seek the broadening of economic opportunities and to ensure the participation of the poor majority in the development process. DA projects are concentrated in countries where U.S. assistance is most needed, where there is a clear commitment to broad-based growth, and where the United States has a strong long-term interest in development. Most DA is allocated to seven functional accounts: Agriculture, Rural Development, and Nutrition; Population Planning; Child Survival; Health; AIDS Prevention and Control Fund; Education and Human Resources Development; and Private Sector, Environment, and Energy. During the period FY 1979 through FY 1989 appropriations for these accounts increased from $1,192.3 million to $1,740.4 million. In real terms, spending for this portion of the DA account declined over the period.

3.5.2. Economic Support Fund (ESF)

The ESF account is used to promote economic and political stability in areas where the United States has special security interests and has determined that economic assistance is essential to assist the host government to secure peace or avert major economic or political upheavals. ESF is provided as cash transfers or through commodity import programs for recipient countries which are experiencing balance-of-payments problems, and finances development projects where long-term economic development is of highest priority. Israel receives the largest share from this account. Other major recipients are Egypt, Pakistan, Jordan, the Philippines, El Salvador, Costa Rica, Honduras, Guatemala and Turkey. ESF appropriations experienced a sharp decline from FY 1987 ($3.91 billion) to FY 1988 ($3.26 billion), and were straight-lined for FY 1989. Around 95% of the country allocations for the account have been earmarked by Congress.

3.5.3. Development Fund for Africa (DFA)

In the FY 1988 appropriations act, Congress approved the Administration's request for this special funding mechanism for sub-Saharan Africa to replace the traditional functional account divisions, as well as the Sahel Development Program account (the DFA excludes ESF also being requested for Africa). This Fund provides for greater flexibility in addressing the complex problems that continue to beset Africa, approaching these in both the short to medium term and the long term. This flexibility allows A.I.D. to be more immediately responsive to those governments of African countries which are

most committed to better and fairer economic management. Through the Fund, A.I.D. will integrate project and non-project resources to promote broad-based growth, in part, by strenthening the role of the private sector. Fundamental to this approach is economic policy reform to reduce African government interventions in the productive sectors of the economy and to increase those governments' capacity to provide social services more equitably and efficiently. A.I.D. programs will focus on four problem areas: (1) improving the efficiency and equity of public sector activities; (2) promoting competitive market development; (3) increasing the potential for long-run increases in productivity; and (4) food security.

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

The U.S. Government's food aid program serves a variety of objectives -- humanitarian, economic development, foreign policy and market development of U.S. agricultural exports. There are two statutory sources of food aid: Public Law 480 (P.L. 480) -- the Agricultural Trade and Development Act of 1954, as amended -- and Section 416(b) of the Agricultural Act of 1949. The Department of Agriculture and A.I.D. share primary responsibility for administration of the program.

- Title I of P.L. 480 authorizes the provision of long-term, low-interest loans to friendly countries to purchase U.S. agricultural commodities to sell for local currencies in their commercial markets. Self-help measures contained in Title I agreements assist in the development of better infrastructure for food production, storage, marketing and distribution.

- Title III of P.L. 480 authorizes concessional food sales to eligible recipient countries over a multi-year period and includes a provision for offset of the repayment obligation when local currency proceeds and/or commodities are used for agreed upon development purposes.

- Title II authorizes food donations on a grant basis to benefit needy people through private and voluntary organization (PVOs), the U.N. Food and Agriculture Organization (FAO) and its implementing agency, the World Food Program (WFP), international relief organizations and through various government-to-government programs. Title II commodities can also be sold commercially in local markets (monetized), with the proceeds being used for specific development projects.

- Section 416 authorizes the use of U.S. Government surplus commodities, when available, mainly for programs similar to those authorized under Title II of P.L. 480.

- Food for Progress is a relatively recent program, which can draw on resources available under either Title I or Section 416 authorities. It is designed to expand free enterprise elements of the economies of developing countries through changes in commodity pricing, marketing, import availability and increased private sector involvement.

While the U.S. Government's food aid program is best known for meeting the emergency and short-term needs of the hungry, there is growing recognition that food aid can play an important development role in helping to resolve those problems which prevent developing countries from meeting their own food needs. During FY 1990, A.I.D. will continue to explore and support alternative approaches to strengthen the effectiveness and self-sustaining developmental impact of food aid programs.

Amounts allocated to the various titles of P.L. 480 programs are shown in Table 5.1 in Chapter 5. Between 1979 and 1989, annual funding obligations have ranged from $785 million to $1,100 million for Title I and from $549 to $1,068 million for Title II. For FY 1990, $817.9 million is being proposed for Titles I and III, and $665.0 million is proposed for the Title II program (see also footnote 3 to Table 5.2).

3.5.5. Housing Guaranty Program (HG)

This is A.I.D.'s principal program for assisting developing countries to address their enormous shortages of adequate shelter for lower-income people. The program guaranties housing loans from American banks to developing countries and provides for technical assistance, institutional development, and training. It encourages private sector solutions to housing problems.

Shelter programs make an important contribution to improving the quality of life of poor families. They also contribute to a recipient country's economic growth and employment objectives. Housing Guaranty (HG) loans can also play a crucial role in helping less developed countries (LDCs) to establish sound policies, including the legal and regulatory frameworks, for their shelter programs. HG loans and associated technical assistance demonstrate to local entrepreneurs and institutions that low-cost housing can be financially viable. The HG program finances infrastructure and services that usually cannot be provided by the families themselves or by the private sector, including slum and squatter settlement upgrading, site preparation, provision of services, core housing, and community facilities.

Project technical assistance and training funds requested for 1990 will be used to support the loan guaranty program and to strengthen urban analysis capabilities which will provide the framework for more effective urban programs.

3.5.6. International Disaster Assistance

During the 24 years since its inception in 1964, the Office of Foreign Disaster Assistance (OFDA) has helped 135 countries by responding to 988 disasters in which an estimated 2.8 million people have died and over 941 million have been adversely affected. Immediate and effective relief remains A.I.D.'s goal in disaster assistance. The A.I.D. Administrator, who serves as the President's Special Coordinator for International Disaster Assistance, maintains constant readiness within OFDA to speed relief to disaster victims wherever they may be.

In FY 1988, OFDA responded to the greatest number of disasters ever declared within a 12 month period. In addition to these 60 disasters, OFDA provided relief assistance in 12 countries in response to prior-year disaster declarations. OFDA administered a program totaling $63.5 million and responded to critical needs around the world, including floods in Argentina, Bangladesh, Benin, Brazil, Burkina Faso, China, Costa Rica, Dominican Republic, India, Lesotho, Niger, Paraguay, and Sudan; devastating fires in Burma and the Philippines; earthquakes in India and Nepal; severe storms in Haiti, Jamaica, the Philippines, and Vanuatu; epidemics in Benin, Guinea-Bissau, Mali, Mauritania, and Sudan; civil strife and displaced persons in Burma, Mozambique, Panama, Somalia, Southern Africa, Sudan, Thailand, and Uganda; insect infestations in Algeria, Chad, Ethiopia, Mali, Mauritania, Morocco, Niger, Senegal, Sudan, and Tunisia; drought in Botswana, Ethiopia, Madagascar, Niger, Uganda, and Zambia; and landslides in Papua New Guinea and Turkey.

3.5.7. American Schools and Hospitals Abroad (ASHA)

The ASHA program, also administered by A.I.D., assists private, non-profit, American-sponsored overseas schools and hospitals which serve citizens of other countries and demonstrate American ideas and practices in education and medicine. ASHA assistance increases the capacity of those institutions to transfer American technical ability and to educate a cadre of citizens who can communicate, share values, and work with Americans in business, government, the sciences, and other mutually benefical endeavors. ASHA grants help selected institutions to build and renovate facilities, purchase equipment and, in a few cases, meet operating costs of educational and medical programs. In FY 1988, 41 institutions

received grants totaling $40 million. In the five-year period, FY 1984-1988, 91 institutions have been assisted with a total of $168.5 million in grants. Each year, these schools and hospitals are educating 200,000 students from more than 100 countries and are providing medical services to more than four million persons.

3.5.8. Private and Voluntary Organizations

Private and voluntary organizations (PVOs) play a significant role in relief and in development. Although the PVOs registered with A.I.D. vary tremendously in size, scope and capability, they all work to improve the quality of life of people in less developed countries. Over the course of 15 years, A.I.D. assistance to PVOs has increased dramatically from $39 million in FY 1973 to $430 million for FY 1987. At a time when A.I.D.'s own resources are severely limited, PVO programs that combine A.I.D. and PVO resources are an increasingly important part of A.I.D.'s effort to foster self-sustaining development in the third world.

In recent years, a hallmark of PVO efforts has been the shift in emphasis from conducting short-range relief projects to planning and implementing long-term programs and developing indigenous institutions with activities geared toward eliminating the underlying causes of world hunger and poverty. While continuing to be responsive to immediate human needs, particularly during emergencies, many PVOs are now involved in projects contributing directly to growth and economic development. The A.I.D./PVO partnership is based on a mutual commitment to overcoming problems of hunger, illiteracy, disease and premature death in the poorer countries of the world. Our collaborative successes flow from an understanding of and respect for the particular strengths each brings to the development effort.

In its work overseas, the diverse PVO community embodies the traditional American values of pluralism, voluntary action, and a concern for others. PVOs provide direct channels for private, people-to-people efforts and have the flexibility to operate in areas not always open to other avenues of development assistance. By joining forces and complementing each other's capabilities and scope, A.I.D. and PVOs can accomplish more together than either could alone. A.I.D. is committed to strengthening this partnership.

3.6. Associated Financing Policies and Practices

A.I.D. has three types of associated financing programs. One is designed to match financial offers made by foreign competitors of U.S. exporters. Another provides concessional

resources for cofinancing with other official sources. A third program provides non-concessional finance to firms and intermediate credit institutions in developing countries. Criteria that govern the operations of these programs are consistent with the OECD Development Assistance Committee's (DAC) Associated Financing Guidelines.

3.6.1. Enhancing the Competitiveness of U.S. Exporters

The Trade Financing Facility (TFF) for Egypt was created in 1981 and under special circumstances draws from the U.S. Commodity Import Program for Egypt. Its purpose is to match the terms of mixed credits offered by foreign competitors of U.S. exporters. Under the TFF, A.I.D. grants can be combined with export credits provided by the U.S. Export Import Bank and/or with private funds. A second program, the Tied Aid Credit Program, was established under the provisions of the Trade and Development Enhancement Act of 1983 and is administered by A.I.D. It protects a U.S. firm whose low bid on an international contract is threatened by subsidized credit from the government of a competing firm.

3.6.2. Cofinancing Arrangements with Official Sources

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

3.6.3. Private Sector Revolving Fund

Since late 1981, when A.I.D.'s Bureau for Private Enterprise was established, A.I.D. has been managing an investment program to support the growth of private enterprise. For this purpose, A.I.D. extends loans at or near market terms directly to private firms and financial institutions. When a financial intermediary is used, it may pass on the capital in the form of debt or equity to small or medium-sized firms.

3.7. Other Related U.S. Programs

3.7.1. Peace Corps

The Peace Corps continues to play an important role in U.S. overseas development efforts. Over 6,000 Peace Corps volunteers (PCVs) work with over 255 organizations and institutions, many of which are private voluntary organizations, in some 65 countries. PCVs work at the grass-roots level with host country sponsors in such areas as food production, health and nutrition, education, water and

sanitation, natural resources conservation, and small business development. When PCVs return home, they better understand developing countries and how all of us are affected by their problems. Many have joined A.I.D. Their overseas experience adds to the effectiveness of development programs in A.I.D. and elsewhere. The Peace Corps and A.I.D. identify areas where cooperation will enhance foreign assistance programs. In Africa, the Peace Corps continues to focus on helping improve food production.

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

The Inter-American Foundation, a federally chartered public corporation, was created in 1969 by Congress to provide new approaches for U.S. development assistance in Latin America and the Caribbean. Grant funds are provided through an annual Congressional appropriation and the Social Progress Trust Fund administered by the Inter-American Development Bank. During its 18 years of operation, the Foundation has made 2,780 grants totaling approximately $271.6 million to support projects in 30 countries. Foundation support has been matched by contributions totalling approximately $342.6 million from the project participants and their supporters.

During FY 1988, the IAF obligated 381 new and supplemental grants and carried out other program activities having a combined value of approximately $24.8 million. Grants supported self-help initiatives in agricultural and rural development, education and training, community services, and small urban enterprises. About 16.5% of the Foundation's total budget was dedicated to administrative expenses.

The African Development Foundation (ADF) is an independent public corporation of the U.S. Government. The Foundation was created by Congress in 1980 and became operational in 1984. Its congressional mandate is to provide development assistance directly to grass-roots organizations of villagers and disadvantaged rural and urban people in Africa, without regard to short-term U.S. foreign policy objectives. ADF has funded projects in Egypt and in 23 sub-Saharan African countries: Benin, Botswana, Cameroon, Cape Verde, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

3.7.3. Overseas Private Investment Corporation (OPIC)

OPIC is a financially self-sufficient, government-owned corporation; and the director of the International Development Cooperation Agency (IDCA) serves as Chairman of the Board. The Corporation meets its operating expenses and obligations from revenues earned from the insurance and financing services it provides to American companies. An important result is that while Congressional authorization is necessary, usually every four years, this program requires no annual appropriations.

OPIC provides political risk insurance, direct loans, and loan guaranties to U.S. investors in new or expanding businesses in over 100 developing countries. These investments in manufacturing, resource development, financial services, agribusiness and food processing, and other productive enterprises are important to the economic and social development of these countries. They provide local employment, increase a country's GNP and tax revenue, earn foreign exchange, and stimulate growth in international trade. They also transfer new technology as well as management skills and know-how not readily available to many fledging economies. As aid levels continue to stagnate or decline in real terms, and increased attention is focused on the positive contribution of the private sector to the development process, the relative importance of the OPIC program has increased in the U.S. foreign assistance effort. OPIC-backed investments make positive contributions to the U.S. economy through increased exports, improvements in the balance of payments, and expanded employment.

OPIC's insurance covers a portion of the loss that a U.S. investor would incur in the event of currency convertibility problems, expropriation; and war, revolution, insurrection or civil strife. Coverage is available for loans, technology transfers, contractors and exporters, and cross-border leasing arrangements as well as for equity investments. This past year, OPIC introduced business income coverage. This coverage protects the income of investors in the event of damage caused by political violence which interrupts the operation of the foreign enterprise.

OPIC's direct loans and loan guaranties on commercial terms are provided to new or expanding privately owned and operated businesses in developing countries. The business must be at least partially owned by a successful American company, or a U.S. company must be substantially at risk in the project to be assisted. As a result of this policy, businesses in developing countries are provided with access to experienced management and technology as well as to U.S. capital.

In response to changing needs, OPIC has increasingly become involved in innovative programs. These include fostering debt-to-equity conversions to help reduce developing countries' external debt, while at the same time ensuring developmentally beneficial investment. OPIC, moreover, has assisted through its programs the privatization efforts of countries and has supported capital investment funds for targeted developing regions, such as sub-Saharan Africa, which should stimulate investment through investment portfolio diversification. In addition, during OPIC's recent reauthorization, the Corporation has been authorized, on a pilot basis, to provide equity capital to projects in Africa and the Caribbean as an important means of stimulating U.S. overseas investment. OPIC also looks toward collaborating with the World Bank's new Multilateral Investment Guarantee Agency (MIGA) as an additional means of supporting third world development.

In addition to financial services, OPIC offers promotional services to facilitate overseas investment of American businesses. These include investment missions, where U.S. investors meet local government officials and potential private joint-venture partners; a computerized data bank for matching investors' interests with possible joint venture partners and specific overseas opportunities; investor information services; and conferences, seminars, and other educational programs.

In FY 1988, OPIC provided insurance and financial support to 167 projects, 81 of which were in the poorest group of developing countries. These 167 projects involved a total investment of $3.0 billion. Once in operation, these projects are expected to generate annually an estimated $63 million net foreign exchange savings and $137 million in tax revenues for the host countries. These development benefits are not accomplished at the expense of U.S. economic interests, however. On the contrary, the ventures assisted in FY 1988 are expected to generate 12,984 work years of U.S. employment and about $1.6 billion in U.S. exports during their first years of operation.

3.7.4. Trade and Development Program (TDP)

The U.S. Trade and Development Program (TDP) was established on July 1, 1980 as a component organization of the International Development Cooperation Agency (IDCA). The recently signed Omnibus Trade and Competitiveness Act of 1988 makes TDP an independent agency within IDCA.

TDP is unique among foreign assistance programs because of its dual mandate to address both U.S. trade and aid objectives simultaneously. TDP attempts to promote U.S. exports in a manner which also fosters economic development in the third world. TDP operates in a partnership with the U.S. private sector by providing grants to developing countries to enable

U.S. firms to conduct planning studies of major projects, such as dams and power facilities. Through the judicious use of TDP funds, TDP increases the likelihood that American goods and services will be procured for use in the projects and exported to the host nation. TDP involvement at this early stage has helped to mitigate the impact of foreign subsidies and to improve the competitive position of U.S. firms in overseas markets.

TDP's success in getting U.S. firms involved in developing countries is measured not only by the amount of exports generated from projects resulting from TDP-financed studies but also by the penetration of newly emerging markets and the development of diplomatic trade relations which might be lost without the backing of the United States via TDP support. TDP estimates that over $1.2 billion in U.S. exports have already been generated from the approximately $113 million invested in TDP-financed studies from FY 1981 to FY 1988.

3.8. Related International Trade Policy and Programs

3.8.1 General Agreement on Tariffs and Trade

The United States was the driving force behind the formation of the General Agreement on Tariffs and Trade (GATT) in 1947. The GATT is the principal multilateral forum through which the United States works to improve the world trading system.* Periodic multilateral negotiating sessions or "rounds" are conducted under the auspices of the GATT to obtain reductions in barriers to international trade, that is, to liberalize international trade.

GATT members are now in the midst of the eighth GATT negotiating round, initiated in Punta del Este, Uruguay in September 1986. Previous negotiating rounds tended to concentrate on lowering tariff barriers to trade in manufacturers; the Uruguay Round will consider the full range of trade issues, including agricultural and services trade, intellectual property rights protection, investment barriers, dispute settlement and GATT rules. The Uruguay Round is especially significant for developing economies because:

-- it emphasizes efforts to increase the integration of less developed economies into the international trading system and to increase their participation in the GATT;

-- the more advanced developing economy members are being encouraged to participate as full trading partners; and

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* GATT is both a code of rules and a forum in which negotiations and other trade discussions take place. As of January 1988, 96 countries, accounting for more than four-fifths of world trade, were Contracting Parties, as members are called.

-- there is a major emphasis on liberalization of international trade in goods of particular interest to developing countries such as agricultural and tropical products.

An overall U.S. objective is to strengthen the international trading system in a way that increases market access for developing countries. With respect to the first two points, in addition to improving the international trading system, the United States is attempting to obtain changes in selected GATT rules it sees as detrimental to economic growth in LDCs.

Among the GATT rules that the United States finds to be a problem are selected "special and differential treatment" provisions that allow developing economy members to exempt themselves from GATT prohibitions against restrictive trade measures. Of major concern, is the GATT provision that allows a special balance-of-payments waiver permitting developing economies to impose quantitative import restrictions. At a minimum, the balance-of-payments waiver should have a fixed time period of relatively short duration. Some waivers have been in place for decades helping to protect inefficient domestic industries and, in many cases, to sustain unsound exchange rate, trade, monetary and fiscal policies.

A second problem area concerns the GATT rules whereby LDCs are not obliged to reduce their own trade barriers in exchange for better access to export markets--the reciprocity principle. LDCs, however, can benefit their consumers, improve their international competitiveness and encourage economic growth by reciprocally lowering their trade barriers. The view of the United States is that the GATT, by not requiring reciprocity from LDCs, is missing an opportunity to promote their economic growth.

With respect to trade in agricultural and tropical products, following the opening of the Uruguay Round in 1986, the United States proposed that for agriculture over the next decade, all countries should eliminate export subsidies, import barriers and domestic agricultural programs that support producer revenues. There would be exceptions for food security considerations and for needed improvements in agricultural productivity, e.g, in research, extension, physical infrastructure and dissemination of market information.

The proposal to liberalize international trade in agriculture is extremely important for LDCs because, for the majority of low-income economies, agriculture constitutes a large part of economic activity; and the sector is extremely significant as an employer and as a foreign exchange earner. For example, in 1985 the average share of agricultural in the GDP of low-income countries was 36% compared to a 3% average share in

industrialized market economies; for low-income countries, average agricultural exports constituted 53% of total export earnings relative to 13% in industrialized economies; and an average of 71% of the national work force in low-income countries was employed in agriculture compared with 7% in the industrialized countries.*

Several studies suggest that a major liberalization of international trade in agriculture could yield substantial benefits for developing economies. For example, a 1987 IDCA-financed assessment of the initial effects of liberalizing trade in seven major, internationally traded agricultural commodities for 52 developing economies finds that:

-- the foreign exchange earnings of most of the 52 would rise;

-- the foreign exchange expenditure of many grain-importing LDCs would decrease and some would become exporters; and

-- producers' gains in LDCs would tend to be larger than consumers' losses--the net change is positive for the majority of the 52 economies.

The United States also is attempting to facilitate trade liberalization in the Uruguay Round by encouraging the more industrialized countries to eliminate their trade barriers to exports from the poorest of the developing economies. The United States is seeking a political commitment from its industrialized trading partners to collective removal of tariff and possibly some non-tariff barriers to exports from selected, poor economies. Implementation would be linked to (1) a successful outcome of the Uruguay Round, (2) participation in the liberalization initiative by other major trading partners and (3) the provisions in the U.S. Omnibus Trade and Competitiveness Act of 1988. If the initiative can be successfully instituted, the measure will substantially improve the export and economic growth prospects for many of the world's poorest countries.

IDCA policy reform efforts and U.S. strategic concerns in the Uruguay Round are coincident and mutually reinforcing. Policy reform designed to liberalize LDCs' economic policies, including trade policies, has been the main theme of IDCA policy dialogue with LDC governments for almost a decade. From IDCA's point of view, hesitation by LDCs to liberalize all aspects of their economic policy frameworks is costly in terms of foregone opportunity to pursue economic growth and development.

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* World Bank, World Development Report 1987.

Liberalization in LDC trade policies achieved through gaining LDCs' compliance with reformed GATT rules, however, can afford a more visible (and therefore more difficult to avoid) form of liberalization compared to commitments made in the context of a bilateral assistance agreement. At the same time, IDCA technical and financial assistance programs can help LDCs implement many of the structural changes that would accompany their participation in a reformed GATT.

Many LDCs are in the process of reforming their trade regimes in the context of the International Monetary Fund (IMF) or World Bank lending programs. The multilateral trade negotiations in the Uruguay Round, however, are based on the principle of reciprocal reductions in trade barriers. To recognize the unilateral reductions in trade barriers that some LDCs have instituted, it has been suggested that LDCs receive credits in the Round for trade-liberalizing steps taken after 1986. Although the credit idea requires substantial development to make it operational, and it would require a case by case approach, the United States is interested in the principle and will continue to explore it.

3.8.2 U.S. Generalized System of Preferences (GSP)

On October 30, 1984, President Reagan signed the Trade and Tariff Act. The Act included statutory authority to extend the U.S. Generalized System of Preferences (GSP) through mid-1993. The program of temporary, duty-free tariff preferences for approximately 3,000 tariff classifications of goods imported from about 140 beneficiary countries and territories covers a broad range of manufactured, semi-manufactured, and agricultural products. However, textiles, apparel, footwear, and leather-related products as well as import-sensitive steel, glass, and electronic articles are excluded by U.S. law from GSP eligibility. During 1987, the United States imported almost $16 billion worth of goods qualifying under the GSP program. The Trade and Tariff Act of 1984 also provides the potential for further tariff liberalization and for graduation from duty-free preferences under the President's discretionary authority. This provision is intended to implement the U.S. commitment to ensure that the benefits of the GSP accrue to those countries most in need of preferential treatment in order to compete in the U.S. market. In making GSP eligibility determinations, the President must take into account certain country practices of beneficiary developing countries. These include a consideration of the extent to which the beneficiary is (1) providing access to its markets for U.S. goods and services, (2) reducing or eliminating trade-distorting investment practices, (3) providing adequate intellectual property rights protection, (4) aiding practices related to international terrorism, and, (5) engages in

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* GATT, International Trade 1986-87, Geneva, 1987, calculated from Appendix Tables A4-A8, pp. 159-167.

expropriation of U.S. property without compensation. Finally, the Trade and Tariff Act provides unlimited access for GSP-eligible articles from countries designated by the President as "least developed." Each year, the Administration reviews the GSP program in order to determine whether changes should be made in product or country eligibility. On January 1, 1989 four NICs, Hong Kong, Singapore, South Korea, and Taiwan, will be "graduated"; and this will make room for other LDCs to become major GSP players.

3.8.3 Caribbean Basin Initiative (CBI)

President Reagan's Caribbean Basin Initiative (CBI) is an unprecedented program of trade, economic assistance, and tax measures designed to generate economic growth in the region through increased private sector investment and trade. Since the small and fragile economies of the region have been seriously affected by fluctuating costs of oil and by declining markets for their major commodity exports, the Administration proposed the Caribbean Basin Economic Recovery Act, which the President signed into law on August 5, 1983, and which immediately became known as the Caribbean Basin Initiative. The CBI is a multifaceted development program combining trade and tax liberalization with economic assistance and enlarged access to the U.S. market.

To promote self-sustaining revitalization of the economies of the 22 beneficiaries, CBI measures are designed to catalyze expansion of local productive capacity in response to the opening of new markets for exports. Such expansion is expected to assist the development of key sectors in the economies of the 22 nations, including tourism.

The major elements of the CBI program include: (a) duty-free treatment for many imports into the United States; (b) increased economic assistance targeted at private sector development; (c) special measures to support the economic development of Puerto Rico and the Virgin Islands; (d) special access to the U.S. market for CBI beneficiary exports of apparel made from fabric manufactured and cut in the United States; (e) allowing CBI beneficiary countries to compete in the U.S. Government procurement market; and (f) allowing U.S. tax deductions for expenses of business conventions held in qualifying Caribbean Basin countries. Finally, the new tax law allows for tax-free funds generated in Puerto Rico to be reinvested in CBI countries that have tax information exchange agreements in effect.

A series of reports and data reveal that, in the face of continuing low world prices for the region's traditional exports, substantial progress in diversifying exports and

developing new products is being achieved. Non-traditional exports have grown rapidly for the area as a whole and particularly for select CBI countries. CBI manufactured exports to the United States from A.I.D.-assisted countries rose from $716.4 million in 1982 to $1.9 billion in 1987. For the period 1983 to 1987, Central America achieved an annual average growth rate of 19% in non-traditional exports, with the Caribbean Islands registering a 25% growth rate for the same period. Furthermore, a recent Department of Commerce study funded by A.I.D. substantiated that more than $1.5 billion was invested in 646 companies from 1983 to 1987 in the region, creating more than 116,000 jobs.

Chapter 4.

Multilateral Programs

4.1. Introduction

U.S. participation in multilateral development organizations and programs is long-standing. Many of these programs grew from U.S. initiatives to marshall international support for the developing countries.

The multilateral development banks (MDBs) respond to the need of the LDCs for capital to finance development. The World Bank Group includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and a recent addition, the Multilateral Investment Guarantee Agency (MIGA). The regional banks include the African, Asian and Inter-American Development Banks and their associated concessional lending windows (as well as the Inter-American Investment Corporation in the case of the IDB). The International Monetary Fund (IMF), the World Bank's sister institution, lends primarily for balance-of-payments stabilization, but is becoming increasingly involved in longer-term lending through its (now Enhanced) Structural Adjustment Facility (ESAF).

United Nations (UN) organizations also are important in the multilateral context. A number of UN organizations and special programs focus on the problems and process of development: examples are the United Nations Development Program (UNDP), the World Food Program (WFP), the UN Fund for Population Activities (UNFPA), the World Food Council, and the UN Capital Development Fund.

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

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

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

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

4.2. Multilateral Development Banks (MDBs)

The MDBs -- the World Bank, Asian Development Bank, African Development Bank, and Inter-American Development Bank -- consist of both capital and concessional lending windows. Lending from the capital windows is financed largely from borrowings on world capital markets against member pledges of callable capital. Loans from capital windows have lending rates slightly lower than could be obtained by the most creditworthy developing countries in international capital markets and have considerably longer maturities. Concessional windows, which lend to low-income countries at highly concessional rates and extremely long maturities, derive their resources almost entirely from direct donor contributions. In addition, some of the MDBs have specialized institutions which promote private sector development.

During 1988 the United States and other members agreed to a $74.8 billion General Capital Increase in the World Bank. Ratification of the Multilateral Investment Guarantee Agency (MIGA) also was sought and obtained from the United States and others, so that this institution was able to hold its first Executive Board meeting in September 1988 and to begin recruiting personnel. Only a very preliminary meeting to prepare for negotiations in 1989 on the 1990-92 replenishment of the International Development Association (IDA IX) took place at the time of the World Bank annual meeting in 1988. No negotiations went on in the regional development banks: because of a continued lack of agreement on operational changes in the IDB, negotiations for the capital increase in that institution which were halted in 1987 were not revived.

In the absence of funding negotiations throughout most of the year, the United States has focused attention on implementation of a number of agreed initiatives in the MDBs:

-- preparation of country lending strategies to guide the programs of the Asian and African Development Banks (a key U.S. demand for the IDB negotiations as well);

-- improvement in the quality and procedures for World Bank/IMF Policy Framework Papers;

-- greater focus in the World Bank on environmental aspects of its lending and on stronger support for the private sector;

-- focusing special attention on the sustainability and careful design of efforts specifically aimed at the poorest segments of LDC populations;

-- ensuring the effectiveness and monitorability of policy-based lending; and

-- improvements in the quality of loan preparation and processing in all the MDBs.

Once changes in the operating policies of an MDB are instituted, the principal means of U.S. oversight with regard to their implementation is the regular review of MDB projects. Inter-agency review of a loan about to come to the Board of Directors for a vote focuses on the technical, economic and financial merits of the proposed activity. In FY 1988, the United States opposed, either by a negative vote or an abstention, 40 loans with serious perceived deficiencies in these areas. (This figure excludes other projects opposed due to unresolved country expropriation problems or human rights concerns.) While the United States has traditionally been alone in its opposition to MDB loans, increasingly over the past year other countries have begun opposing or expressing open criticism of loans in the Board.

While our negative vote is generally insufficient to prevent Executive Board approval, the MDBs know that poor project quality can adversely affect the level of U.S. contributions. Concerns expressed by the United States, therefore, often do lead to design improvements before projects come forward for Bank consideration. One of the most effective means for influencing project design is for the United States to identify potential problems while a loan is still in the preparatory stage and more susceptible to change. This is the purpose of A.I.D.'s Early Project Notification (EPN) System, which routinely solicits the views of A.I.D. missions and selected embassies on upcoming MDB loans so that any concerns

may be discussed with relevant MDB staff at headquarters well in advance of Board presentation and a constructive dialogue can be initiated at the field level. This may well obviate the need for a negative U.S. vote in the Board; however, if agreement cannot be reached on the issues, a negative U.S. position may still be warranted.

One area in which A.I.D.'s EPN System is critically important is in identifying potential problems concerning the environmental aspects of MDB loans. The potentially adverse impacts of some development projects funded by MDBs is a continuing concern. A.I.D. has augmented its EPN review process by directing special attention to MDB projects in selected areas where environmental problems appear especially likely to occur. This review serves as the basis for discussion of project issues with other U.S. Government agencies and environmental groups. It also contributed to the development of the semi-annual listing of potential problem projects for the Congress. The United States is continuing to enhance its work with A.I.D. missions, other U.S. Government agencies and concerned private environmental groups so that potential environmental problem projects can be identified and addressed more expeditiously with Bank staff.

Major efforts are continuing in the World Bank and IMF to reinforce collaboration among donors on programs of structural adjustment. The expansion of the IMF's (now Enhanced) Structural Adjustment Facility and the impending negotiation of IDA IX lend new urgency to strengthening the development of Policy Framework Papers to include greater input from the country concerned and from other donors with substantial resources to contribute to the reform program. The World Bank also has made great strides to coordinate donors under its $7 billion Special Program for Africa, in conjunction with which the United States has tentatively agreed to program about $500 million over FY 1988-90.

4.3. World Bank Group

The World Bank Group, the largest of the MDBs, now consists of four major component institutions: the Bank, or IBRD; IDA; the IFC; and, as of this year, the MIGA. In the FY 1988 budget, the Administration obtained the U.S. share of the one-time start-up capitalization of the MIGA, so, as in FY 1989, there is no MIGA budget request. The three Bank components for which there is an Administration budget request are:

4.3.1. International Bank for Reconstruction and Development (IBRD)

The IBRD, whose capital is subscribed by member countries, finances lending operations primarily from borrowings in world capital markets, as well as from retained earnings and loan

repayments. Loans are repayable over twenty years or less, including a grace period of up to five years. The IBRD charges a variable interest rate on a cost-plus basis, derived from its own cost of borrowing in international financial markets.

IBRD loans, which amounted to $14.8 billion in 1988, are directed toward middle-income developing countries that can better afford to pay the market-related interest rate the IBRD charges. In 1988 the largest borrowers from the IBRD were Mexico, Brazil, India and Indonesia.

Congress has authorized U.S. participation in the $74.8 billion General Capital Increase (GCI), amounting to $420.6 in total paid-in capital and $13.6 billion in callable capital. In FY 1989, Congress appropriated $50.0 million of the $70.1 million annual paid-in request, while providing program limitations for more callable capital than had been requested. The FY 1990 request for $90.3 million in paid-in and $2.24 billion in callable capital reflects these developments and also includes the second-year installment of our GCI subscription.

4.3.2. International Development Association (IDA)

The IDA is the World Bank's concessional lending window, funded by contributions from donor countries and reflows from previous credits. It is the single largest source of concessional development assistance for the world's poorest countries, with lending totalling $4.5 billion in 1988. Major borrowers were India, China, Bangladesh and Ghana. IDA formally lends to countries with an annual per capita income of $835 (1986 dollars) or less, but in reality focuses most of its resources on countries with under $550 per capita income. IDA loans must meet all the criteria for economic, financial and technical soundness that apply to other World Bank loans. IDA loans carry a 0.75% annual service charge and have maturities of 35-40 years with a 10-year grace period.

In FY 1988, the United States began making contributions to the IDA VIII replenishment, negotiated in 1986. (IDA IX negotiations will take place over the course of calendar year 1989, necessitating budget requests beginning in U.S. FY 1991.) The FY 1990 budget includes the third and final $958.3 million installment of the U.S. contribution to IDA VIII, as well as slight arrearages from earlier installments.

4.3.3. International Finance Corporation (IFC)

The IFC supports the private sector in developing countries by arranging and participating in equity financing arrangements and commercial loan packages for private enterprises in the developing countries. During 1988, the IFC approved loans amounting to $1.05 billion and equity investments of $221.8 million.

Of the $114.9 million requested for the IFC in FY 1990, $35.0 million will go toward the final installment of the U.S. contribution to the 1985 capital increase of the IFC. The remainder is payment on past U.S. arrearages owed on earlier installments of the same capital increase.

TABLE 4.1: U.S. CONTRIBUTIONS TO THE MULTILATERAL DEVELOPMENT BANKS, FISCAL YEARS 1987-90 ($000)

	FY 1987 Actual	FY 1988 Actual	FY 1989 Actual	FY 1990 Request
IBRD				
Paid-in	55,805	40,176	50,001	90,252
Callable	(688,262)	(437,320)	(2,292,973)	(2,241,864)
IDA	830,100	915,000	995,000	965,000
IDA Special Facility for Sub-Saharan Africa	64,805	-	-	-
IFC	7,206	20,300	4,892	114,936
MIGA				
Paid-in	-	44,403	-	-
Callable	-	(177,612)	-	-
ADB				
Paid-in	13,233	15,057	-	-
Callable	(251,367)	(276,504)	-	-
ADF	91,406	28,000	152,392	230,712
AfDB				
Paid-in	20,480	8,999	7,345	10,641
Callable	(59,356)	(134,918)	(135,063)	(134,810)
AfDF	90,427	75,000	105,000	105,000
IDB				
Paid-in	16,417	31,600	-	31,618
Callable	(1,111,561)	(119,404)	-	(-)
FSO	17,263	25,732	-	63,725
IIC	-	1,303	-	25,500
TOTAL BUDGET AUTHORITY	1,207,141	1,205,571	1,314,630	1,637,384
PROGRAM LIMITATIONS	(2,110,546)	(1,145,758)	(2,428,035)	(2,376,673)

4.4. Asian Development Bank and Fund (ADB/F)

Established in 1966, the ADB has a membership of 32 regional and 15 other countries. The United States was a driving force behind the ADB's creation and has always played a major role in the institution. The United States also has contributed to the ADF since it was set up in 1974. In 1987, the ADB and ADF approved loans amounting to $1.48 billion and $957.6 million, respectively. The ADB makes loans at a variable interest rate with 10-30 year maturities and up to 7 years grace. The ADF has a 1% service charge, 35-40 year maturities and a 10-year grace period. Principal borrowers in 1987 included Indonesia, Pakistan, and India in the ADB, and Bangladesh, Pakistan, and Indonesia in the ADF.

No funds are requested for the ADB in FY 1990, since the demand for ADB loans has not warranted a new General Capital Increase since the one agreed in 1984. Of the $230.7 million Administration request for the ADF, $184.6 million is needed for U.S. first and second installment arrearages to the ADF-V replenishment, in order to ensure that other donors do not withhold a portion of their contributions. The remainder of the ADF request will go toward the third installment of the U.S. contribution to the ADF-V replenishment.

4.5. African Development Bank and Fund (AfDB/F)

Created in 1963, the AfDB opened its membership to non-African countries in 1982 and the United States joined in 1983. The AfDF, AfDB's concessional arm, was created in 1973 and the United States has been a member since 1976. AfDB loans are repayable over 12-20 years, with up to 7 years grace. The current lending rate (set every six months according to borrowing costs) is 7.46%. The AfDF makes 50-year loans with a 0.75% service charge. In 1987, AfDB lent $1.34 billion (principal borrowers were Morocco, Nigeria and Algeria); AfDF loans totalled $769 million (principal borrowers were Tanzania and Senegal).

The FY 1990 request includes the third installment of the U.S. subscription to the 1987-91 AfDB capital increase, including the arrearage resulting from FY 1989 appropriations. It also includes the $105 million second installment of the U.S. contribution to the AfDF V replenishment (covering 1988-90).

4.6. Inter-American Development Bank/Fund for Special Operations (IDB/FSO)

The IDB and FSO provide development assistance to Latin American and Caribbean countries, and the United States is the major contributor to both windows. The IDB lends at a variable interest rate, with maturities of 15-25 years. The FSO lends at an interest rate of up to 4%, with maturities of 25-40 years and grace periods of 5-10 years. In 1987, the IDB lent $2.0 billion, the FSO $346 million.

The FY 1990 request for the IDB and FSO will complete payment on U.S. subscriptions and contributions owed to these two institutions. The $25.5 million requested for the Inter-American Investment Corporation will complete the U.S. subscription to the $200 million initial capitalization of the Corporation.

4.7. International Monetary Fund (IMF)

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

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

The IMF has served as an aid institution in the administration of its Trust Fund. The Trust Fund originated when the IMF sold one-sixth of its gold between 1976 and 1979 and loaned a portion of the auction receipts to the IMF's lower-income members on highly concessional terms.

The IMF sold the IMF gold in an attempt to demote gold and elevate the Special Drawing Right (SDR) to the status of principal international reserve asset. Special Drawing Rights were first created in 1969 to serve as a supplemental international reserve asset of IMF members. The value of an SDR has fluctuated over time. In June 1980, it was worth $1.32; in June 1985, $1.00. By November 1988, it was back to $1.34.

In March 1986, the IMF created the Structural Adjustment Facility (SAF) to relend SDR 2.7 billion in Trust Fund reflows that will accrue between 1985 and 1991. The SAF is designed to support comprehensive growth-oriented economic programs for low-income countries with protracted balance-of-payments problems. Of the 62 countries currently eligible, China and India have indicated that they would not avail themselves of the Facility. SAF loans are made at an interest rate of one half of one percent and are to be repaid, after five years of grace, within 10 years of the date of the loan.

The SAF provides for three separate loans to be disbursed in just over two years to a participating country. The initial SAF arrangement provides a loan equal to 20% of the country's quota. The second-year arrangement provides a disbursement of 30% of quota and the third provides 13.5% of quota.

During the design of the Structural Adjustment Facility, the IMF and the World Bank cooperated in introducing a new procedure leading to the publication of policy framework papers (PFPs, cited above in the last paragraph of 4.2.). A PFP, each projecting over a three-year period, describes the major economic problems and challenges facing an eligible country seeking a SAF agreement. It delineates the objectives of a medium-term policy program and the broad thrust of a macro-economic and structural adjustment policies to be implemented to address those problems and challenges. It identifies external financing requirements and the likely available sources of financing. It provides statistical projections and specifies policy actions for each of the next three years.

The PFP is intended to be the member's presentation. It is developed in close collaboration with the staffs of the Bank and the Fund. It is reviewed by the Executive Directors of the Bank and the IMF Board. A SAF arrangement is not submitted to the Fund's Board until the applicant's PFP has been completed. The PFPs are updated annually and reviewed in connection with the presentation of each subsequent annual program. To be eligible for second and third-year arrangements, countries must remain in need of balance-of-payments assistance and must adhere to their structural reform programs.

On December 29, 1987, the Fund announced the establishment of the Enhanced Structural Adjustment Facility (ESAF), whose objectives, basic procedures, and financial conditions parallel those of the Structural Adjustment Facility. The ESAF is to provide resources totaling SDR 6 billion to low-income developing countries engaged in economic and structural adjustment. These resources will supplement those of the SAF. The additional resources are designed in particular to assist the adjustment efforts of low-income countries faced with high levels of indebtedness as well as those whose exports are concentrated in commodities--often one commodity--whose prices have remained persistently weak in world markets.

Access under the ESAF is determined for individual countries on the basis of their balance-of-payments need and the strength of their adjustment effort, with maximum access at 250% of quota and provision for somewhat higher access in exceptional cases (contrasting with SAF access of 63.5% of quota). The financial terms applying to loans under the ESAF are the same as those under the SAF.

The first SAF arrangement (with Burundi) was approved by the Fund's Executive Board in August 1986. By the end of September 1988, 27 countries (21 in sub-Saharan Africa) had obtained SAF arrangements; nine had been authorized second disbursements; and Dominica had completed all three drawings. The first ESAF arrangements, for Malawi and Bolivia, were approved in July 1988; and these remained the only ones approved before October 1988. Bolivia's ESAF arrangement replaced its SAF arrangement.

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

Most IMF assistance is provided under stand-by arrangements. An IMF member anticipating a balance-of-payments problem negotiates a stand-by arrangement, specifying the amount of assistance to be made available to it and the conditions of economic policy and practice the member must fulfill to be permitted to draw the assistance. In effect, a stand-by arrangement provides a nation with an overdraft privilege against which it may draw, as needed, provided it has met the performance conditions specified in the agreement. Between 1982 and 1986, the number of active stand-by arrangements fluctuated between 23 and 35. At the beginning of October 1988, 17 stand-by arrangements were in effect (9 in sub-Saharan Africa); and Chile, Ghana, and Tunisia were engaged in extended financing arrangements. The latter is a longer version of a stand-by arrangement. It makes assistance available for up to three years and allows up to 10 years for repayments.

All stand-by and extended arrangements include country commitments to specified policies and to some specific quantified outcomes. In addition, ongoing Fund consultations with each of its members help them to avoid, or to correct, inappropriate or inconsistent economic policies. SAF and ESAF-eligible countries are opting for arrangements under these programs in place of stand-by or extended financing arrangements. The SAF and ESAF option provides foreign exchange on concessional terms instead of at the near market rates of stand-by and extended financing arrangements.

In August 1988, the IMF introduced a Compensatory and Contingency Financing Facility to assist countries with IMF-supported adjustment programs to maintain the momentum of adjustment efforts in the face of a broad range of unanticipated, adverse external shocks. By offering "ex ante" financial assurance against external shocks to members engaged in economic adjustment, the contingency financing mechanism will reduce the vulnerability of adjustment programs, thereby encouraging members to undertake longer-term adjustment programs with greater confidence.

The IMF also plays a key role in arrangements for restructuring the foreign debt of developing countries. Since the emergence of widespread balance-of-payments problems in 1982, developing nations have frequently negotiated the restructuring of their official and officially guaranteed debt to foreign banks and to foreign governments. These restructurings provide relief to the debtors by postponing interest and amortization payments. With few exceptions, creditors have made all restructurings conditional on the introduction of IMF-supported adjustment programs. During 1986-87, the Paris Club agreed to accept a SAF arrangement as satisfying that condition in the absence of a stand-by arrangement. (In October of 1988, 21 of the 26 countries with SAF arrangements in place did not have stand-by arrangements.)

Within their restructuring arrangements, commercial banks generally link subsequent disbursements of concerted bank lending to a country's adherence to an IMF arrangement. The IMF role is therefore to assist the debtor government to construct an appropriate adjustment program, to provide foreign exchange to support implementation of that program, and to provide its imprimatur indicating conviction that the debtor appears likely to be able to overcome its balance-of-payments problems.

There is also normally a close link, though no cross-conditionality, between World Bank adjustment loans and Fund stand-by and extended financing arrangements. The IMF generally supports and monitors a country's stabilization program (and plays a more extensive role under the Structural Adjustment Facilities). The Bank then assists adjustment measures. Nearly all of the Bank's structural adjustment loans have been implemented in the context of an IMF facility or monitoring program.

Net disbursements from the Fund peaked at SDR 11.5 billion during the 12-month period ending September 30, 1983. They declined to SDR 1.5 billion during the 12 months ending September 30, 1985. This decline in net disbursements resulted from both a decline in "purchases" from the IMF--in effect, loans from the IMF--and an increase in "repurchases" from the IMF--in effect, repayments of IMF loans. Referring to 12-month periods ending on September 30, purchases fell from SDR 13.5

billion in 1983 to SDR 4.8 billion in 1985. Repurchases rose from SDR 2.0 billion in both 1983 and 1984 to SDR 3.3 billion in 1985.

During the years 1980 through 1985, the Fund provided net disbursements that helped to finance the temporary balance-of-payments deficits of member countries. But its 1986 and 1987 negative net disbursements have made the Fund a net claimant on members' foreign exchange earnings. During 1986, repurchases of SDR 5.1 billion, exceeded purchases of 3.2 billion. Net disbursements were thus a negative SDR 1.9 billion. In 1987, net disbursements remained negative at SDR 1.9 billion; and in 1988, repurchases of SDR 7.5 billion exceeded purchases of SDR 2.8 billion so net disbursements were again negative at SDR 4.7 billion. In addition, the Fund is now collecting some SDR 3.0 billion a year in service charges from members with obligations to it.

During the past three years, members' dependence upon the resources of the Fund has held at a very high level, and developing nations have replaced industrial nations as users of Fund resources. The use of Fund credit as a percentage of members' total quotas (a member's quota measures its subscription to the IMF) never exceeded 19% before 1975 but rose to 25% in 1975 and to 45% in 1977 before an increase in quotas helped reduce the ratio to 26%. Use of Fund credit as a percent of quotas reached a peak of 48% in November 1983, before a quota increase briefly reduced the rate to 34%. Net disbursements carried the ratio back above 39% in late 1984, and it remained near that level through April 1986, before dropping gradually to 29% during September 1988. By historical standards, this remains a high level of member dependence on Fund resources. This increased dependence has involved a shift from industrial nations to developing nations as users of Fund resources. In 1970, industrial nations held 75%, in 1975, 44%, of drawings on Fund resources. In October 1988, developing nations held 100% of drawings on Fund resources.

4.8. United Nations Organizations and Programs

The United States supports several UN organizations and programs with activities in the developing countries.

4.8.1. United Nations Development Program (UNDP)

The UNDP, headed by former Export Import Bank President William H. Draper, III, is the major multilateral instrument for the delivery of grant technical assistance to the developing world. In 1987, UNDP expenditures totaled $936 million, including funding for projects in some 152 countries and territories.

UNDP coordinates UN technical assistance. Operating through the Specialized Agencies and other UN bodies, UNDP provides technical assistance to developing countries. The UNDP country programming process encourages recipient countries to examine their development needs and to assign priorities to development efforts.

UNDP goals for the fourth programming cycle 1987-1991 include: revised criteria so that low-income countries receive a still larger share of total UNDP resources; strengthened dialogue with recipient governments in the country programming process; work with countries on revised strategies for economic management where indicated; and weighting in favor of developing countries facing severe geographic, ecological or economic handicaps.

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

Since the establishment of the UNDP, the United States has been its largest contributor. In FY 1988, the U.S. pledge of $110 million amounted to 11.3% of estimated total contributions. Other major pledges to UNDP included $87.5 million from Sweden (9.0%); $86.1 million from the Netherlands (8.8%); $82 million from the Federal Republic of Germany (8.4%); $79 million from Japan (8.1%); and $78.5 million from Norway (8.07%). For FY 1989 the U.S. contribution is $111 million.

4.8.2. United Nations Children's Fund (UNICEF)

Begun as an emergency program for European children in the wake of World War II, UNICEF gradually evolved into a long-term, voluntarily funded, humanitarian, development program. Its main objective is to improve the health and living conditions of children in developing countries and to assist children to become productive members of their societies. UNICEF works closely with governments and local communities in 119 countries, often in collaboration with UNDP, WHO, and other UN and multilateral organizations as well as bilateral aid agencies and non-governmental organizations (NGOs).

Three activities are undertaken by UNICEF:

- planning and designing primary health care and basic services for children;

- delivering supplies and equipment for these services; and

- providing funds for the training of local personnel needed to work on behalf of children, i.e., teachers, nutritionists, health and sanitation workers, and so forth.

In 1987-88, UNICEF continued to focus international attention on opportunities for achieving a "child survival revolution." UNICEF believes it possible within 10 to 15 years to save the lives of half of the 40,000 children who currently die each day in developing countries. UNICEF stresses the "GOBI" strategy, a package of low-cost, high-impact measures: growth monitoring to enable mothers to detect and prevent infant malnutrition; oral rehydration therapy to provide an inexpensive home treatment to reduce the high death toll among children with diarrhea; the promotion of breast feeding; and immunization for mothers and young children. Additional aspects of UNICEF's program include the "three Fs" of family spacing, food supplements, and female education.

The U.S. Government always has been a prime supporter of UNICEF and a member of UNICEF's Executive Board. The UNICEF executive director has always been a U.S. national. UNICEF's program directions generally coincide with U.S. development initiatives and policies. UNICEF's efforts in promoting oral rehydration therapy and immunization, for example, as well as other elements in UNICEF's effort to bring about a "child survival revolution" in developing countries, reinforce U.S. assistance programs aimed at promoting child survival. In 1983, A.I.D. sponsored the first International Conference on Oral Rehydration Therapy in cooperation with UNICEF, WHO and the International Centre for Diarrheal Disease Research/Bangladesh. The conference increased the use and effectiveness of this therapy in saving children's lives in developing countries. A.I.D. sponsored a follow-up conference in December 1985 with the World Bank and UNDP joining the previous cooperating organizations. In December 1988, A.I.D. will cosponsor, with the UNDP, UNICEF, WHO, and the World Bank, a third International Conference on Oral Rehydration Therapy. In the period FY 1985-1988, in addition to its contributions to UNICEF's general resources, the United States provided special contributions to UNICEF totaling approximately $25 million for child survival activities.

All of UNICEF's income comes from voluntary public and private contributions. The U.S. contribution in 1988 of $54.4 million will account for about 18.8% of governmental contributions to UNICEF's general resources. Other major contributions to UNICEF in 1988 include the governments of Italy (12.8%); Sweden (11.7%); Norway (9.9%); and Finland (7.6%). For FY 1989, the U.S. contribution is $60.4 million. UNICEF is unique in the UN system in that private contributions and the sale of greeting cards raise about 16% of UNICEF's general resources.

4.8.3. World Health Organization (WHO)

The World Health Organization (WHO) functions as the chief coordinating authority on international public health. It works to build strong national health services to enable countries to become self-reliant in meeting the health needs of their citizens. WHO's approach to health is preventative rather than curative. Since its formation in 1948, WHO has worked to help member countries control diseases. It can take much of the credit for the eradication of smallpox and is now working with A.I.D. to support development of a vaccine against malaria. WHO launched and is leading the international fight against acquired immunity deficiency syndrome (AIDS), including medical research and the development of preventative measures.

Currently in the latter stages of the Seventh General Program of Work for 1984-89, WHO has focused even greater attention on primary health care, such as provision of safe water, adequate nutrition, and essential drugs and immunizations, particularly those that combat the six basic childhood diseases.

The World Health Organization has adopted a budget of $634.0 million for 1988-1989. It has the largest regular budget of any UN specialized agency. WHO expects to receive almost an equal amount in voluntary contributions and contracts from member governments, private agencies and other international bodies, such as UNDP and UNFPA. The (assessment) payment for the United States in FY 1989 is $62.5 million.

4.8.4. Food and Agricultural Organization (FAO)

The Food and Agricultural Organization (FAO) is the UN specialized agency with primary responsibility in the areas of agriculture, fisheries, forestry and nutrition. FAO was established in 1945 and maintains headquarters in Rome, Italy.

FAO income is derived from assessed contributions from 158 member countries and voluntary extra-budgetary contributions by governments, international organizations, and non-governmental donors. The 1989-1990 FAO assessed budget is over $495 million. The U.S. share of the assessed budget is 25% which, with adjustments, amounts to $61.3 million. FAO estimates that it will receive over $700 million in extra-budgetary resources during the 1989-1990 biennium.

FAO deals with plant production and protection, animal production and health, fertilizers, land and water resources, fisheries, food policy and nutrition, forestry, agrarian reform and rural development, and training for developing country nationals in all areas of agriculture.

The United States is encouraging FAO to undertake a significant review of its administrative and financial structure, its goals and objectives, its management approaches, past accomplishments and the effectiveness of its field programs. This will better prepare FAO to meet the challenges of the late 1980s and 1990s. Originally conceived as an agency for information gathering and analysis and as a forum for inter-governmental discussion, FAO also has become a major channel for development assistance to the developing countries through field programs funded chiefly through extra-budgetary resources. FAO estimates that, in 1989, resources for its field programs will reach over $325 million. It expects the UN Development Program to provide close to one-third of those funds.

4.8.5. World Food Program (WFP)

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

Over 50 participating countries make voluntary pledges in the form of commodities and cash (for services such as shipping) to the WFP. The United States has been a major supporter of WFP providing, over the years, about a quarter of WFP resources. However, Canada is the largest contributor to the WFP.

WFP development commitments include:

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

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

WFP also channels emergency food aid to refugees and victims of civil strife and natural disasters. In 1987, WFP provided over $200 million in support of emergency operations.

The United States pledged $250 million in commodities and freight toward the $1.4 billion 1987-1988 pledging target. The pledging target for the 1989-1990 biennium is $1.4 billion, of which $603 million has been pledged to date. The U.S. pledge is not available now.

4.8.6. United Nations Environment Program (UNEP)

The United Nations Environment Program (UNEP) was established by the UN General Assembly in 1972 to catalyze and coordinate environmental activities throughout the UN system. The United States has been UNEP's principal supporter since the organization's inception, contributing a total of $117.7 million to UNEP's Environment Fund through 1988. For FY 1989, a U.S. contribution of $9.5 million will be provided.

Among UNEP's broad program components in the 1987-1988 budget biennium, the largest annual funding was allocated to Earthwatch, which provides monitoring and assessment, including the Global Environmental Monitoring System (GEMS); Environmental Awareness, which includes education, training and environmental data; Terrestrial Ecosystem, which includes the tropical forests and regional seas; Environment and Development, including environmental management tools and the energy program; Health and Human Settlements; and Arid Lands and Desertification Control. This distribution of resources generally reflects U.S. program priorities.

UNEP's multilateral approach is uniquely suited to dealing with those environmental problems that transcend national boundaries and require international attention and actions. UNEP's ability to involve developing countries in resolving such problems is essential to the fundamental goal of preserving the global resource base and promoting sustainable development. The Administration has placed particular emphasis on this goal. The United States is a party to two recent beneficial international agreements achieved under UNEP auspices: the 1984 Cartagena Convention on protecting the marine environment in the Wider Caribbean region, a product of the Regional Seas Program; and the 1985 Vienna Convention, which protects the ozone layer.

4.8.7. United Nations Industrial Development Organization (UNIDO) and its Investment Promotion Service (IPS)

On January 1, 1986, UNIDO became the 16th specialized agency of the UN system, twenty years after its establishment in 1966 as an autonomous organization within the United Nations. UNIDO seeks to promote industrial development and to assist in accelerating industrialization in the developing countries.

UNIDO's Investment Promotion Service (IPS) works with the private sector. IPS hosts investment promotion officers from developing countries and supports their efforts to attract private investment capital for industrial projects in their home countries. The IPS program maintains eight offices worldwide (in Austria, Federal Republic of Germany, France, Italy, Japan, Poland, Switzerland, and the United States), each funded by their respective host governments.

The North American IPS office has been located in Washington, D.C. since 1987 and offers developing countries first-hand knowledge of U.S. business and financial practices, thereby facilitating their dealings with potential investment partners from the U.S. private sector. Moreover, the IPS program stimulates the private sector in developing countries, producing a catalytic impact on their domestic economies. This industrialization ultimately leads to increased markets for U.S. goods and services.

The Washington, D.C., IPS office budget was $150,000 in FY 1988 and $250,000 in FY 1989. These budgets were fully funded by U.S. voluntary contributions and reflect a substantial decrease from the U.S. contribution of $937,000 for UNIDO's operating budget for IPS activities previously managed from New York. A U.S. voluntary contribution of $500,000 is proposed for FY 1990 UNIDO's IPS activities. This fully funded U.S. contribution would provide the United States with an unprecedented opportunity to shape the future direction of IPS activities.

4.8.8. United Nations Capital Development Fund (UNCDF)

UNCDF was created in 1966 for the purpose of providing, on a grant basis, seed money for small, catalytic development projects for the poorest people in the least developed countries. Operating under the administration of the UNDP, the Fund supports self-help projects too small for the multilateral development banks to finance and promotes the application of appropriate technology concepts. UNCDF expenditures for 1987 were about $39.5 million.

Continued U.S. support for UNCDF is consistent with U.S. interests in bringing grass-roots level assistance to the poorest people with emphasis on appropriate light capital technologies. The United States contributed $980,000 to UNCDF for 1988, representing about 2.5% of the total. Major donors to UNCDF in 1988 were: Sweden (19.9%); the Netherlands (17.8%); Denmark (11.9%); and Norway (11.3%). The U.S. contribution for FY 1989 is $1.5 million.

4.8.9. International Fund for Agricultural Development (IFAD)

IFAD is a United Nations specialized agency created in 1977 with strong leadership from the United States. It is the only international financial institution founded on the premise of burden sharing between the OPEC and OECD countries. IFAD focuses international development assistance on increasing food production in the poorer developing regions. The Fund's activities are directed specifically at small farmers and the landless poor, through concessional loans and grants. For the initial capitalization and first and second replenishments, the United States has pledged a total of $460 million to IFAD, while

the other OECD donors have pledged $1 billion and OPEC $1 billion. The proportionate shares have been between 40% to 42% and 58% to 60% for the OPEC and OECD donors, respectively.

An additional special characteristic is IFAD's tripartite structure, which divides voting strength in the Fund's Governing Council and Executive Board equally among OECD members (Category I), OPEC members (Category II) and the LDCs themselves (Category III). Relationships among IFAD's members are generally constructive, with little political polarization. In practice, decisions have been made on the basis of consensus rather than actual votes.

IFAD is primarily a facilitating and co-financing institution for the world's poorest people. For the ten-year period 1978-87, cofinanciers invested $3,373.2 million in all projects (34.4% of total project cost) supported by the Fund compared to IFAD's investment of $2,337.1 million (23.9% of total project cost). Domestic contributions were $4,081.6 million (41.7% of total project cost). During 1987, IFAD initiated 84% of the projects it funded and cooperating institutions 16%. In 1987, 57% of IFAD's regular loans were highly concessional (50 years term at 1% service fee) and benefited low-income rural people, especially landless families and women. In the 1977-1987 period, 84% of IFAD's loans to Africa were targeted to people with annual per capita incomes below $300 in 1976 prices.

In developing its projects, IFAD closely studies the policy environment of a potential loan to identify potential obstacles to smallholder production. If host country policies discourage small farmer agricultural production (through controlled prices, state-owned marketing channels, etc.), IFAD will work with the recipient government to make the adjustments necessary for market-based incentives.

In addition to IFAD's traditional development efforts, in 1986 the Fund launched a Special Program for Sub-Saharan African Countries Affected by Drought and Desertification. This special program has received over $300 million in pledges, including $10 million from the United States in FY 1987, for a four-year (1986-1989) effort to assist low-income, food deficit African countries suffering for the long-term effects of drought and desertification. By the end of 1987, 12 projects were financed with these resources and another 14 are scheduled to be financed during the 1988-1989 period.

The $2.5 million contribution appropriated by the Congress for FY 1989 is the last installment for the U.S. commitment of $80 million under IFAD's Second Replenishment. A zero amount is shown for FY 1990 because negotiations for IFAD's Third

Replenishment have been delayed beyond the closing of the U.S. FY 1990 budget. When these negotiations are completed, the Administration will request funding for IFAD.

4.8.10. World Food Council (WFC)

The World Food Council (WFC) was created by the General Assembly pursuant to a resolution of the 1974 World Food Conference. The Council is tasked with (a) reviewing annually, at the Ministerial level, major problems and policy issues affecting the world food situation, and (b) making recommendations to the UN system, regional organizations, and governments on how to solve world food problems.

Recent WFC-sponsored discussions have dealt with poverty as the chief cause of hunger and malnutrition. More specific issues on which WFC has focused attention are: international trade and cooperation in food and agriculture, the resulting need for fundamental international policy changes, and specific WFC member countries' activities in these areas. WFC plans to increase communication and coordination with other UN agencies as well as to increase depth of policy analysis, program efficiency, and accountability.

Having neither operational nor financial functions, the WFC has a small budget, primarily for salaries of the staff; and it is funded directly from the UN's operating budget. The small professional staff of WFC is led by an executive director who has traditionally been from the United States.

4.9. Organization of American States (OAS)

Since its creation in 1948, the Organization of American States (OAS) has focused on peacekeeping and security (based on the 1947 Rio Treaty) in the Latin America region. It also has fostered economic development, democratic initiatives, and human rights in Latin American countries. Specific OAS development initiatives which complement current U.S. goals in the region are democracy-building, legal development, and prevention of drug abuse.

Three categories of entities fund OAS economic development initiatives: Western Hemisphere member countries, non-member countries (Canada, Israel, Italy, France, Spain) and other development and international organizations (A.I.D., IDB, the World Bank, UNDP, UNEP). Argentina, Brazil, Mexico, and Venezuela have gradually become net donors rather than net recipients of OAS development programs. Concomitantly, the U.S. share of voluntary contributions has gradually declined from 66% in the 1960s to 49% in 1988.

In FY 1988, U.S. voluntary contributions to the OAS totaled $12 million. These contributions to OAS Development Assistance Programs mobilize human and natural development efforts to promote economic development consistent with U.S. interests in the area.

The OAS has been highly receptive to U.S. economic development policy guidelines and has adjusted its priorities to meet current development needs in the hemisphere. Specifically, these adjustments include efforts to promote democratic initiatives such as the OAS Legal Development Program, and the special electoral assistance program for Haiti. The latter program was inspired by the U.S. Administration of Justice program to enable member countries to apply their own laws more effectively while promoting due process for all. In 1987 the OAS also approved a comprehensive program on drug abuse and trafficking for the entire hemisphere.

Other current priority areas of technical assistance include marine resource development, pre-investment feasibility studies, training, Inter-American centers. These programs are implemented through four OAS voluntary funds for development: the Special Multilateral Fund (SMF), the Special Projects Fund (SPF), the Special Development Assistance Fund (SDAF), and the Special Cultural Fund (SCF).

OAS programs have achieved notable accomplishments to date: 91,000 specialists have been trained; financial support from non-member countries and institutions is increasing, reflecting confidence in the Organization; and OAS pre-investment feasibility studies have generated over $6.5 billion in down-stream loans from the World Bank and Inter-American Development Bank. These accomplishments have been effected by OAS under continued budget austerity. Budget economies, reprogramming, and focus on priorities have enabled the OAS to carry out its activities with no increase in its budget, even for inflation, since 1982.

Chapter 5.

Comprehensive Development Budget

This chapter presents some background on the resources the United States has devoted to economic assistance and outlines the Administration's funding request for economic and development assistance and development-related programs for FY 1990.

5.1. Trends in U.S. Economic Assistance

Since economic assistance became a factor in international relations after World War II, the United States has been the largest and most creative aid provider. In no year throughout this period has any other provider come close to the U.S. aid level in dollar terms; however, most countries have exceeded U.S. assistance as a percent of GNP in recent years (see Table 3.1.). The United States pioneered the projectizing of aid, it sponsored the development of the international lending agencies, it made the poorest of the poor a target group, it led the creation of the international agricultural research centers, it was the main force in shifting worldwide aid budgets toward the private sector, it spearheaded the growing trend to policy-based assistance, and it is still unique among national and international donors in implementing its program through resident field missions.

Both Development Assistance and the Economic Support Fund are authorized under the Foreign Assistance Act of 1961 and are administered by A.I.D. Table 5.1 shows trends in Economic Support Fund and Development Assistance over the years 1979-1990.

The Administration's total requested budget authority for bilateral and multilateral development programs in FY 1990 of $8,697.2 million appears in Table 5.2. The table also shows the actual budget authority for FYs 1987, 1988, and 1989.

5.2. Agency for International Development

A.I.D. is requesting a total appropriation of $5.97 billion for Development Assistance and the Economic Support Fund to carry out its economic assistance programs for FY 1990. A.I.D.'s basic program objective is continued emphasis on promoting sustained and broad-based economic growth in the face of changing demographic and environmental conditions. This budget also reflects the Administration's most critical foreign policy

Table 5.1.
U.S. Economic Assistance Obligations by A.I.D. Administered Programs
Fiscal Years 1979 - 1990 1/ (US $ Millions)

Development Assistance
(Functional Accounts Plus Sahel/DFA)

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	248.3	397.8	246.5	42.6	257.1	1,192.3
1980	268.0	392.3	257.0	34.3	256.3	1,207.9
1981	300.3	397.2	233.3	61.2	282.0	1,274.0
1982	328.8	400.3	280.8	39.4	346.7	1,396.0
1983	315.3	392.2	328.9	43.7	361.2	1,441.3
1984	340.0	392.0	295.3	51.8	400.8	1,480.3
	Africa	Asia/NE	LAC	DR/U*	CFP	TOTAL
1985	352.2	493.9	507.4		527.3	1,880.7
1986	378.9	442.1	461.5		431.5	1,714.0
1987	396.7	427.9	436.7		405.5	1,666.9
1988	553.6	388.5	415.9		470.2	1,828.3
1989	554.5	357.9	388.8	20.5	418.7	1,740.4
1990 2/	568.0	370.1	370.9	20.0**	431.0	1,740.0

PL 480 Title I

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	82.7	273.4	72.5	312.8	43.6	785.0
1980	140.0	280.7	93.6	352.8	0.0	867.1
1981	147.4	195.2	82.2	368.6	0.0	793.4
1982	124.0	149.0	126.6	320.0	73.0	792.6
1983	144.1	167.5	193.4	290.5	54.0	849.5
1984	127.0	183.0	180.5	313.0	47.0	850.5
	Africa	Asia/NE	LAC		CFP	TOTAL
1985	182.4	558.0	260.6		98.7	1,099.7
1986	160.2	506.9	197.4		124.2	988.7
1987	131.4	454.0	197.7		127.6	910.7
1988	82.4	466.4	167.0		47.8	763.6
1989	106.0	425.0	176.0		144.9	851.9
1990	99.5	369.0	164.0		157.5	817.0

Economic Support Fund

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	53.0	0.0	8.0	1,881.3	0.2	1,942.5
1980	132.7	22.0	15.2	1,988.2	0.1	2,158.2
1981	163.0	32.0	143.4	1,860.0	0.9	2,199.3
1982	294.8	155.0	328.9	1,991.1	0.5	2,770.3
1983	286.1	255.8	500.4	1,929.1	0.1	2,971.5
1984	333.1	280.0	464.1	2,063.7	5.2	3,146.2
	Africa	Asia/NE	LAC	DR/U*	CFP	Total
1985	417.8	3,837.5	985.0		7.0	5,247.4
1986	245.2	4,006.4	659.5		1.5	4,913.0
1987	164.8	2,927.9	818.5		1.0	3,912.3
1988	39.7	2,495.9	484.8		0.4	3,020.8
1989	152.1	2,912.4	572.8	0.6		3,638.0
1990	83.3	2,703.2	544.6			3,331.1

PL 480 Title II

Year	Africa	Asia	LAC	NE/E	Centrally Funded Programs	Total
1979	87.1	192.8	63.3	56.2	149.8	549.2
1980	153.3	256.3	58.9	40.3	209.3	718.1
1981	174.7	289.0	90.7	56.2	0.0	610.6
1982	84.6	239.4	59.8	84.4	155.8	624.0
1983	95.2	215.2	76.2	57.9	155.0	599.5
1984	144.3	158.8	59.9	47.1	329.9	740.0
	Africa	Asia/NE	LAC		CFP	Total
1985	53.0	152.5	39.5		823.0	1,068.1
1986	187.4	227.5	63.2		280.6	758.7
1987	112.8	168.7	45.8		224.9	552.3
1988	205.5	223.6	74.2		211.9	715.2
1989	67.6	170.9	66.0		325.4	630.0
1990	72.0	189.9	67.3		335.7	665.0

1/ FYs 1979-1988 reflect actual obligations; FY 1989 figures are estimates; FY 1990 figures are request levels.
2/ Actual request levels have increased because the prior year includes a higher estimate for deobligation/reobligation budget authority. See Main Volume, pp. 278 and 285.
*Disaster Reserve/Unallocated ** Private Provision of Social Services

SOURCE: Various A.I.D. Congressional Presentation Main Volumes

TABLE 5.2
IDCA COMPREHENSIVE DEVELOPMENT BUDGET
(Budget Authority in Millions of Dollars)

	FY 1987 ACTUAL	FY 1988 ACTUAL	FY 1989 APPROP	FY 1990 REQUEST
BILATERAL ASSISTANCE				
A.I.D. Development Assistance..../1	2,198.2	2,365.8	2,373.1	2,418.0
Trade & Development Program.....	20.0	25.0	25.0	25.0
Overseas Private Investment Corporation (OPIC...../2	--	--	--	--
Food for Peace (PL 480)...../3	1,083.1	1,059.6	1,098.1	930.9
Economic Support Fund.....	3,876.2	3,269.4	3,258.5	3,349.1
Special Assistance Initiatives.....	--	--	--	200.0
Central Am Reconciliation Asst.....	--	27.7	36.3	--
Peacekeeping Operations.....	31.7	31.7	31.7	33.4
Anti-Terrorism Assistance.....	9.8	9.8	9.8	10.0
Peace Corps.....	138.0	146.2	153.5	163.6
Narcotics...../4	118.4	98.8	101.0	115.0
Inter-American Foundation.....	11.8	13.0	16.6	16.9
African Development Foundation.....	6.6	7.0	8.0	9.0
Migration & Refugee Assistance.../4	360.9	362.4	412.0	380.0
Subtotal, BILATERAL.....	7,854.7	7,416.4	7,523.6	7,650.9
MULTILATERAL ASSISTANCE /5				
International Bank for Reconstruction & Development.....	55.8	40.2	50.0	90.2
International Development Association.....	830.1	915.0	995.0	965.0
Contribution to the Special Facility for Sub-Saharan Africa	64.8	--	--	--
International Finance Corp.....	7.2	20.3	4.9	114.9
African Development Bank.....	20.5	9.0	7.3	10.6
African Development Fund.....	90.4	75.0	105.0	105.0
Asian Development Bank.....	13.2	15.1	--	--
Asian Development Fund.....	91.4	28.0	152.4	230.7
Inter-American Development Bank....	16.4	31.6	--	31.6
Fund for Special Operation.....	17.3	25.7	--	63.7
IADB Investment Corporation.....	--	1.3	--	25.5
MIGA.....	--	44.4	--	--
International Organizations & Programs.....	208.6	214.6	223.6	209.0
(UN Development Program).....	(107.5)	(110.0)	(111.0)	(107.8)
(UN Children's Fund (UNICEF)).....	(51.1)	(54.4)	(60.4)	(33.9)
(Organization of American States)	(13.5)	(12.0)	(10.0)	(10.0)
(Other IO Programs)...../6	(36.5)	(38.2)	(42.2)	(57.3)
International Fund for Agricultural Development.....	28.7	30.0	2.5	--
Subtotal, MULTILATERAL.....	1,444.4	1,450.2	1,540.8	1,846.3
Gross Total.....	9,299.1	8,866.6	9,064.4	9,497.2
Offsetting Receipts (A.I.D.).....	(763.0)	(787.0)	(780.0)	(800.0)
GRAND TOTAL.....	8,536.1	8,079.6	8,284.4	8,697.2

Table 5.2 Continue

/1 A.I.D. DA excludes Miscellaneous Trust Funds; includes IDCA/A.I.D. Operating Expenses and the Foreign Service Retirement Fund.

/2 OPIC does not request Budget Authority. Authority for loan guarantees is: FY 1987 - $200 million; FY 1988 - $200 million; FY 1989 - $175 million; FY 1990 - $175 million.

/3 PL 480 program levels are: FY 1987 - $1,463.1; FY 1988 - $1,478.8 million; FY 1989 - $1,481.9 million; FY 1990 - $1482 million.

/4 Migration & Refugee Assistance and Narcotics included for information purposes only, as they are not development activities.

/5 Does not include callable capital for the Multilateral Development Banks.

/6 Includes: International Atomic Energy Agency, World Meteorological Organiztion, UN Capital Development Fund, UN Development Fund for Women, UN Education and Training Program for Southern Africa, Convention on International Trade in Endangered Species, UNIDO Investment Promotion Service, UN Environmental Program, UN Fund for Victims of Torture, World Food Program, UN Trust Fund for South Africa, UN Institute for Namibia, UN Fellowhip Program, World Heritage Trust Fund, ICSOC, UN Center on Human Settlements, UN Afghanistan Emergency Trust Fund, Intergovernmental Panel on Climate Change, and UN Trust Fund for International Research and Training Institute for the Advancement of Women.

objectives: protection of our national security interests; alleviating suffering of the world's poor; promoting democratic values; supporting the war on narcotics; and promoting U.S. trade abroad.

5.2.1. Development Assistance

For FY 1990 A.I.D. is requesting $2.4 billion for Development Assistance. This figure includes $1.2 billion for the functional accounts; $565 million for the Development Fund for Africa (DFA), which Congress approved in FY 1988; and $619 million for American Schools and Hospitals Abroad, International Disaster Assistance, Housing Guaranty Borrowing Authority, and Operating Expenses.

5.2.1.1. Development Fund for Africa

In FY 1988, Congress approved the Administration's request for a special funding mechanism for sub-Saharan Africa in order to provide the flexibility needed to promote economic growth in the world's poorest region. The FY 1990 request level for the Development Fund for Africa (DFA) is $565 million, which includes the Southern Africa Development Coordination Conference (SADCC) program ($50 million). Through the DFA, A.I.D. has begun to seek out new ways to improve significantly the coherence and effectiveness of U.S. assistance to the region in renewing economic growth which is broad-based, market oriented, and, above all, sustainable. Program focus is shifting from the previous mix of Development Assistance-funded projects and Economic Support Fund programs largely supporting balance of payments to a DFA program which focuses on the sector-specific constraints to development. Resources will be increasingly allocated on the basis of economic performance and potential for growth, as well as need.

5.2.1.2. Agriculture

Of the total for functional development assistance, $477.8 million is intended in FY 1990 for programs under the Agriculture, Rural Development and Nutrition account for programs designed to: increase farm and non-farm employment and income; promote private agricultural marketing and distribution; encourage market-oriented, efficient, low-cost production of food and other crops on small family farms; and incorporate sound nutritional and food consumption principles into the design and implementation of agricultural and rural development activities.

5.2.1.3. Population Planning

Of the total for functional development assistance, A.I.D. intends $201.6 million in FY 1990 for Population Planning to support voluntary family planning activities to relieve the

serious problems exacerbated by high population growth rates: disease, poverty, malnutrition and environmental degradation.

5.2.1.4. Health

For FY 1990 A.I.D. intends $125.9 million in health funding (exclusive of $71 million requested under the Child Survival Fund and $42 million requested under the AIDS Prevention and Control Fund). These programs help expand basic health care and thereby reduce morbidity and mortality from illnesses prevalent in the developing world. A major focus is the health problems of children and mothers. Activities include development or improvement of vaccines as well as immunization programs and making oral rehydration therapy (ORT) available worldwide, and encouraging increased private sector involvement in developing health service systems. New sources of financing for health services are also being examined, including the possibility of user fees and improved efficiencies in the delivery of public sector services.

5.2.1.5. AIDS Prevention and Control

The Agency for International Development intends to use $42 million for the AIDS Prevention and Control Fund in FY 1990. In addition to providing support to the WHO Global Programme on AIDS, A.I.D. funds will support specific AIDS control projects in selected countries at high risk for AIDS spread.

5.2.1.6. Child Survival Fund

Of the total for functional development assistance, $71 million is intended in FY 1990 for the Child Survival Fund. The A.I.D. child survival strategy places major emphasis on ORT and immunization. Two other interventions are also integral to this program: child spacing and a focused nutrition package emphasizing breastfeeding, weaning and growth monitoring. A.I.D. and other donors, including UNICEF, WHO, UNDP, and the Pan American Health Organization (PAHO), have joined together in the worldwide effort to achieve the ambitious goals of universal childhood immunization and universal access to ORT in this century. A.I.D. is integrating child survival activities within the regular programs of the Agency. It should be noted that funding for child survival activities also comes through other development assistance accounts, including health, population, and agriculture, as well as some ESF and P.L. 480 local currency generations.

5.2.1.7. Education and Human Resources Development

Of the total for functional development assistance, $139 million is intended for FY 1990 Education and Human Resources Development to cover programs emphasizing basic education,

including improved primary and secondary education; skills training for adolescents and adults; and advanced or specialized training for key managers, technicians, scientists and other leaders. A.I.D. programs are designed to help meet these needs and to assist countries to consider alternative, creative, cost-effective and sustainable approaches to education.

5.2.1.8. Private Sector, Environment and Energy

Of the total for functional development assistance, $137.6 million is intended for the Private Sector, Environment and Energy account in FY 1990. (This includes $8.7 million for the Office of the Science Advisor.) This account addresses cross-sectoral development problems and includes support for private enterprise development, private and voluntary organizations, and technical assistance, training and research to make the most efficient use of energy resources, as well as support for the Science Advisor's office and other science and technology efforts.

5.2.2. Economic Support Fund

For FY 1990, the Administration is requesting $3.349 billion for the Economic Support Fund (ESF), including $18.0 million under deobligation/reobligation authority. ESF provides economic assistance to address economic, structural, and development problems in countries of particular security and political interest to the United States. Economic support is provided to allies and developing nations heavily burdened by external debt and in a number of countries is provided in conjunction with military base or access rights agreements. To the extent feasible, such assistance conforms to the basic policy directions underlying development assistance. ESF finances balance of payments and related support, often in the context of multi-donor structural adjustment programs. Development projects of direct benefit to the poor are also financed under this account.

5.2.3. Special Assistance Initiatives (SAI)

In FY 1990, proposed legislation for A.I.D. calls for the creation of a new account for SAI. This account would provide funds for extraordinary assistance in developing countries. The SAI would be inaugurated in FY 1990 with $200 million for the Philippines. These resources would be used to help nurture economic growth, thereby fostering the consolidation of Philippine democracy.

5.3. Food for Peace (P.L. 480) Program

Public Law 480 (P.L. 480) provides for two basic types of food aid -- concessional sales (Title I) and grant (Title II). A

second source of food aid is Section 416, which authorizes the use of U.S. Government surplus commodities, when available. Section 416 is programmed separately from P.L. 480, but can be used in most types of grant food aid programs

For FY 1990, a Title I/III program level of $817 million is proposed, which will finance shipments of an estimated 3.9 million tons of food aid. This figure includes $70 million to finance ocean freight differentials. With the exception of the freight differential, in general, recipient governments must cover all costs associated with transporting the commodities from the United States to their own countries. Total budget authority requested for Title I in FY 1990 is $265,945,000 which excludes a carry-forward of $207,055,000 and $344,000,000 in estimated receipts.

The Title II level proposed for FY 1990 is $665 million, which includes $217 million for ocean transportation to all countries and overland delivery to landlocked countries. An estimated 1.9 million metric tons of food can be provided at this funding level. Budget authority requested for Title II in FY 1990 is $665 million.

In FY 1990, the U.S. provision of 260,742 metric tons of food, valued at $65 million is planned for both regular and emergency feeding programs of the UN/FAO-sponsored World Food Program (WFP). The United States, with eleven other major donors, biennially pledges food, services (such as ocean transport costs), and cash to WFP for projects similar to those sponsored by U.S. voluntary agencies.

FY 1990 program levels of Section 416 surplus commodities, unknown at this time, will depend upon the Commodity Credit Corporation (CCC) inventory and commodity availability.

5.4. International Fund for Agricultural Development (IFAD)

IFAD is a specialized agency of the United Nations located in Rome, Italy. With strong U.S. backing, it began operations in 1977 to help poor farmers and landless people in developing countries. To date, grants from the OPEC countries have provided roughly 40% of IFAD's hard currency funding with the balance coming from the OECD countries.

Congress provided $30 million in FY 1988 and $2.5 million in FY 1989 for IFAD for the final increments of the U.S. pledge under IFAD's second replenishment. A zero amount is shown for FY 1990 because negotiations for IFAD's third replenishment have been delayed beyond the closing of the U.S. FY 1990 budget. After a satisfactory agreement is reached, the Administration will request funding for IFAD within existing resources.

5.5. Multilateral Development Banks

The multilateral development banks (MDBs) are critical development institutions that are able to mobilize substantial capital for development projects in all sectors and for policy-based adjustment programs. The Administration's FY 1990 request of $1.6 billion contains the second installments of both the U.S. subscription to the general capital increase in the World Bank and the U.S. contribution to the new African Development Fund replenishment, as well as other ongoing payments to MDB replenishments, including $965 million for IDA.

5.6. International Organizations and Programs

The Administration's FY 1990 request in support of voluntary contributions to the programs conducted by International Organizations is $209 million. United Nations organizations are important in the multilateral context. A number of UN organizations and special programs, such as the United Nations Development Program (UNDP), have mandates exclusively directed towards the problems and process of development, while others, such as the U.N. Children's Fund (UNICEF), pursue development activities within the context of broader responsibilities.

The UNDP is the major multilateral instrument for the delivery of grant technical assistance to the developing world. Not only is UNDP the largest single channel for UN technical assistance, it also plays a central coordinating role for technical assistance provided by all UN agencies. In selected poor countries, the UNDP provides a broader donor coordinating mechanism through the Roundtables, analogous to the World Bank's Consultative Groups (CGs). The Roundtables are restricted to countries in which no CG exists but for which the coordination of donor activities is considered to be important and mutually beneficial. The UNDP country programming process is designed to encourage recipient countries to examine their development needs and to assign priorities to development efforts. The FY 1990 request for the UNDP is $107.8 million.

UNICEF encourages and assists the long-term development and welfare of children in developing countries by providing goods and services which meet basic needs in maternal and child health, education, sanitation, clean water, nutrition, and social services. UNICEF continues to focus international attention on opportunities for achieving a "child survival revolution" that, within 10 to 15 years, could save the lives of half of the 40,000 children who currently die each day in developing countries. UNICEF's promotion of oral rehydration theraphy (ORT), a low-cost home treatment used to reduce the high death toll among children with diarrhea, and immunization campaigns for young children are among some of the elements in the organizations's efforts to bring about a "child survival

revolution" in developing countries. The FY 1990 request for UNICEF is $33.9 million. The remaining $67.3 million of the request for International Organizations and Programs will be used to support the programs conducted by the International Atomic Energy Agency, the Organization of American States' Development Assistance Programs, the International Convention and Scientific Organization Contributions, the UN Trust Fund for South Africa, the UN Environment Program, the World Meterological Organization Voluntary Cooperation Program, the UN Education and Training Program for Southern Africa, the Convention on International Trade in Endangered Species, UNIDO's Investment Promotion Service and the UN Fund for Victims of Torture.

5.7. Peace Corps

The FY 1990 request for Peace Corps programs is $163.6 million. Roughly 25% of the 6,000 Peace Corps volunteers serve in a broad range of A.I.D.-funded development projects, with particular emphasis on education and food production programs, but also in such areas as health, nutrition, water and sanitation, natural resources conservation, and small business development. Volunteers collaborate with over 255 institutions, many of which are PVOs, in over 65 countries worldwide.

5.8. Trade and Development Program

The Trade and Development Program (TDP) finances planning activities for capital projects which will enhance the productive capacities of developing countries and encourage the use of U.S. technology, goods and services in the implementation of these projects. The result has been increased private sector involvement in development efforts. TDP-financed activities have already generated an estimated $1.2 billion in U.S. exports from the approximately $113 million invested from FY 1981 to FY 1988. The Administration is requesting $25 million for this program in FY 1990.

5.9. Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) operates on a self-sustaining basis, requiring no congressionally appropriated funds. OPIC provides political risk insurance, finance and loan guarantees to U.S. investors in new or expanding businesses in developing countries. OPIC's insurance covers a portion of the loss that a U.S. investor would incur in the event of currency convertibility problems, expropriation, war, revolution, insurrection or civil strife. OPIC's direct loans and loan guarantees on commercial terms are provided to new or expanding privately owned and operated businesses in developing countries. In FY 1988, OPIC provided insurance and financial support to 167 projects involving a total investment

of $3.0 billion. These ventures are expected to generate about $1.6 billion in U.S. exports during their first years of operation.

ACRONYMS

A.I.D.	-	Agency for International Development
ADB	-	Asian Development Bank
ADF	-	African Development Foundation
ADF	-	Asian Development Fund
AfDB	-	African Development Bank
AfDF	-	African Development Fund
AIDS	-	Acquired Immunodeficiency Syndrome
ASHA	-	American Schools and Hospitals Abroad
CBI	-	Caribbean Basin Initiative
CCC	-	Commodity Credit Corporation
CG	-	Consultative Group
DA	-	Development Assistance
DAC	-	Development Assistance Committee of the OECD
DFA	-	Development Fund for Africa
EPN	-	Early Project Notification
ESAF	-	Enhanced Structural Adjustment Facility
ESF	-	Economic Support Fund
FAO	-	Food and Agriculture Organization of the United Nations
FSO	-	Fund for Special Operations
GATT	-	General Agreement on Tariffs and Trade
GCI	-	General Capital Increase
GDP	-	Gross Domestic Product
GEMS	-	Global Environmental Monitoring System
GNP	-	Gross National Product
GSP	-	Generalized System of Preferences
HG	-	Housing Guaranty
IAF	-	Inter-American Foundation
IBRD	-	International Bank for Reconstruction and Development ("World Bank")
IDA	-	International Development Association
IDB	-	Inter-American Development Bank
IDCA	-	International Development Cooperation Agency
IFAD	-	International Fund for Agricultural Development
IFC	-	International Finance Corporation
IIC	-	Inter-American Investment Corporation
IMF	-	International Monetary Fund
IPS	-	Investment Promotion Service
LDC	-	Less Developed Country
MDB	-	Multilateral Development Bank
MIGA	-	Multilateral Investment Guarantee Agency
NGO	-	Non-governmental Organization
NIC	-	Newly Industrialized Country
NOEDC	-	Non-oil Exporting Developing Country
OAS	-	Organization of American States
OECD	-	Organization for Economic Cooperation and Development
OFDA	-	Office of Foreign Disaster Assistance (A.I.D.)
OPEC	-	Organization of Petroleum Exporting Countries
OPIC	-	Overseas Private Investment Corporation
ORT	-	Oral Rehydration Therapy
PAHO	-	Pan American Health Organization
PCV	-	Peace Corps Volunteer
PFP	-	Policy Framework Paper

PVO	-	Private and Voluntary Organization
SADCC	-	Southern Africa Development Coordination Conference
SAF	-	Structural Adjustment Facility
SAI	-	Special Assistance Initiatives
SCF	-	Special Cultural Fund of OAS
SDAF	-	Special Development Assistance Fund of OAS
SDR	-	Special Drawing Right
SMF	-	Special Multilateral Fund of OAS
SPF	-	Special Projects Fund of OAS
TDP	-	Trade and Development Program
TFF	-	Trade Financing Facility
UN	-	United Nations
UNCDF	-	United Nations Capital Development Fund
UNDP	-	United Nations Development Program
UNEP	-	United Nations Environment Program
UNFPA	-	United Nations Fund for Population Activities
UNICEF	-	United Nations Children's Fund
UNIDO	-	United Nations Industrial Development Organization
WFC	-	World Food Council
WFP	-	World Food Program of the U.N. FAO
WHO	-	World Health Organization
WMO	-	World Meteorological Organization