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U.S. Actions Affecting Developing Countries

The 1991 Annual Report of the Chairman of the Development Coordination Committee
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TO THE CONGRESS OF THE UNITED STATES:

The Annual Report on Development Coordination discusses events of the 1990 fiscal year in accordance with the requirements of the Foreign Assistance Act, as amended. It represents the cooperative efforts of the member agencies of the Development Coordination Committee (DCC), under the coordination and overall responsibility of our staff.

The DCC, which I chair, was established by Congress to ensure coordination of development policies and programs within the U.S. Government decision-making process. Such coordination has both formal and informal aspects. On the more formal side, coordination occurs through the DCC and its subsidiary bodies, including the working group on multilateral assistance, the subcommittee on food assistance, and, of course, the working group that collaborated in the production of this report. The other major mechanism of formal coordination entails my participation or that of our staff members in the work of such interagency groups as the National Advisory Council, the Trade Policy Committee, the Economic Policy Council, the Interagency Group on International Economic Affairs, and others. On the informal side of coordination, 1990 saw a continuation of the daily working relations between members of our staff and other agencies of the U.S. Government, with my own personal involvement as needed. We continued to fulfill the mandate of ensuring that development goals and issues were taken into account in Executive Branch decision-making processes on international finance, investment, trade, technology, and other policy areas affecting developing countries.

U.S. policy in 1990 reinforced our longstanding goal of providing necessary resources and technical assistance to address basic constraints to development. As in previous years, we emphasized helping developing countries to establish sound economic policies in an environment conducive to encouraging private sector activities. In providing this assistance, we attempted to create a climate of mutual cooperation and respect to encourage the design of effective programs. In 1990, the challenges of Eastern Europe and the need for sound economic policies in that region were a matter of concern.
Whatever level of resources we provide to developing countries, there is little doubt that economic growth and development will depend fundamentally on their own programs and policies. Development cooperation in all its forms—from outright grants through the important stimuli provided by trade and open markets—while often of great significance to development, can never be a substitute for a developing country’s own efforts.

Sincerely,

Ronald W. Roskens
Acting Director
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CHAPTER 1

INTRODUCTION: OBJECTIVES AND PRIORITIES
OF U.S. ECONOMIC ASSISTANCE

The U.S. foreign economic assistance program is an integral part of the U.S. foreign policy framework. The economic assistance program seeks to promote political, social, and economic stability in developing countries by helping them achieve broad-based economic growth. These objectives are closely linked: lack of stability undermines long-term economic progress, and conversely, widespread poverty and economic stagnation breed instability.

Although the Agency for International Development (A.I.D.) is the major implementer of the United States Government (U.S.G.) development assistance program, other U.S.G. agencies, as well as Congress, private voluntary organizations, and foundations, participate in the economic assistance effort. U.S. assistance objectives and priorities are also served by U.S. support of multilateral institutions.

Many modes of assistance are available in the U.S. foreign assistance program, and each mode is selected in the context of a coherent policy framework. These modes include the provision of economic policy advice, development assistance projects and programs, food aid, contributions to multilateral organizations, and emergency aid to developing countries. They also include such special programs as insurance for U.S. companies' investment in developing economies, the Caribbean Basin Initiative, and the Generalized System of Preferences. In addition, the Support for East European Democracy Act of 1989 provides the framework for U.S.G. assistance to Poland and Hungary in response to political and economic development in these countries. The Enterprise for the Americas initiative lays out a comprehensive new policy for the hemisphere with trade, investment, debt and environmental elements. U.S. economic assistance supports the maintenance and extension of open international trade and investment, because expanding international trade is essential for economic growth in developing countries.

After carefully reviewing its mandate, A.I.D. formulated the following statement of mission:

A.I.D. administers economic assistance programs that combine an American tradition of international concern and generosity with the active promotion of America's national interests. A.I.D. assists developing countries to realize their full national potential through the development of open and democratic societies and the dynamism of free markets and individual initiative. A.I.D. assists nations throughout the world to improve the quality of human life and to expand the range of individual opportunities by reducing poverty, ignorance and malnutrition.

A.I.D. meets these objectives through a worldwide network of USAID missions in 80 developing nations. A variety of programs are developed and implemented guided by the following six principles:

-- SUPPORT FOR FREE MARKETS AND BROAD-BASED ECONOMIC GROWTH. Good, market oriented policies are essential to efficient resource allocation and broad-based economic growth. Because domestic policies are under the control of the government, not the donors, A.I.D. encourages governments to
focus attention on reforming their own overall economic policy framework. Policy reform, however, entails difficult and often politically sensitive structural changes. A.I.D. is committed to helping countries make needed changes by carrying out policy dialogue with their government to identify where changes are needed, what new policies are appropriate, and how to implement them and deal with their effects. A.I.D.'s approach to the policy dialogue with individual countries is based on the understanding that market economies have the best economic development track record. The adoption of good policies will continue to be an important consideration in allocating A.I.D. resources.

-- CONCERN FOR INDIVIDUALS AND THE DEVELOPMENT OF THEIR ECONOMIC AND SOCIAL WELL-BEING. People in economies undergoing economic policy reforms should not suffer inordinately in the short run from actions that will ultimately improve their economic circumstances. Therefore, much of our economic assistance will continue to be designed to cushion the short-term effects of reforms on the more vulnerable groups in society. Emphasis will be directed toward improvements in health care, water supply and sanitation systems, voluntary family planning services and education systems. A.I.D. will continue to nurture developing country capacity, private as well as public, to provide these services.

-- SUPPORT FOR DEMOCRACY. Open societies promote open economies. Democracy is both an economic development issue, as well as a political issue. Open societies which value individual rights provide better opportunities for sustained economic development than do closed systems which stifle individual initiative. A.I.D. is initiating important new programs to promote democracy and is considering ways in which A.I.D. can identify progress in establishing democracy as a factor in allocating A.I.D. development funds.

-- RESPONSIBLE ENVIRONMENTAL POLICIES AND PRUDENT MANAGEMENT OF NATURAL RESOURCES. Sustainable economic growth requires a reliable and sustainable supply of natural resources. In many countries we see this supply threatened by rapid population growth, poverty, and short-sighted policies. A.I.D. is a lead donor in encouraging responsible management of natural resources and in the future we will focus greater attention and resources on environmental economic issues. If the relationship between economics and conservation were better understood, economic forces could be used to benefit the environment while promoting growth. Also improving national income accounting is important to reflect more accurately the depletion of natural resources.

-- SUPPORT FOR LASTING SOLUTIONS TO TRANSNATIONAL PROBLEMS. In the case of narcotics, for example, A.I.D. targets its assistance to help those countries reduce cultivation and production. This is done through target area development initiatives and alternative incomes programs. The aim is to provide viable and alternative means of livelihood to farmers who are presently producers of illicit narcotics. Reducing the debt burden is another example of the A.I.D. approach to transnational problem solving. This includes outright debt forgiveness, debt-for-development programs and support of the Brady Plan. Under the Brady Plan, relief of the burden of commercial bank debts of highly indebted countries is offered in exchange for the reinforcement of appropriate policy reform efforts.
HUMANITARIAN ASSISTANCE TO THOSE WHO SUFFER FROM NATURAL OR MAN-MADE DISASTERS. For economic and humanitarian reasons, the A.I.D. commitment to provide assistance to countries ravaged by floods, famine, earthquakes, plagues and other disasters remains absolute.
CHAPTER 2

LEGAL, REGULATORY AND JUDICIAL REFORM

2.1 Background

Through the 1960s and 1970s, many poor countries, probably a majority, pursued policies heavily shaped by ideology, vested interests and/or an overarching concern with equitable distribution of the fruits of development even before there was much fruit to distribute. One major consequence has been that large spheres of economic activity have been reserved to government enterprises that are often inefficient while the areas left to private business have been heavily regulated and taxed. Another major outcome was reduced incentives to export both traditional and new products and increased incentives to produce substitutes for imports. This set of perverted incentives kept these countries out of the rapidly growing international markets while confining them to domestic markets that grew sluggishly if at all.

To correct these perversions, the international development community urged the countries concerned to undertake programs of economic policy reform and "structural adjustment" and redirected a significant portion of financial assistance to support such programs. Elements common to most of the programs were: removal of price controls and movement towards free markets for foreign exchange and capital, thereby, *inter alia*, raising agricultural producer prices; restraint of government expenditure and bank credit to curb inflation; and reform of the public enterprise sector through privatization, internal change, or by cutting off their subsidies. Thus, the general characteristics of these programs have been to rein in government regulatory and spending excesses and to "get prices right."

Throughout the past decade, these economic policy reform programs have been extended to more countries and to wider policy areas within countries. The international development community is largely agreed that the direction of movement is the right one.

But enthusiasm for the process must be tempered by two considerations. The first is that the extent and complexity of the policy distortions were very great in many countries. Consequently, the successes the IMF, the World Bank, and bilateral donors report in assisting host government policy reforms have left other extensive and complex policy distortions in place. There is, therefore, in nearly all the reforming countries, much more to be done to reach economic policy programs that fully and fairly promote competitive market forces and efficient use of resources.

The second consideration tempering enthusiasm for the current process of economic policy reform is its failure, in most cases, to attack the legal, regulatory and judicial (LRJ) barriers to broad-based growth.

These LRJ barriers are many and diverse. They involve, simultaneously, both too much government and too little government. There have been and there still are, far too many government mechanisms that protect monopoly, inefficiency, and corruption. There have been, and there still are, too few of the mechanisms required if markets are to operate competitively and efficiently. In short, it is not enough to get prices right and to restrain
government expenditures. To function efficiently, markets require an appropriate LRJ environment. The international development community is now looking beyond the policy changes heretofore featured in structural adjustment programs and is now critically examining the LRJ environment. That examination is the subject of this chapter.

Succeeding sections will pinpoint the role of the LRJ environment in affecting resource allocation and entrepreneurial initiative in poor countries. Phenomena that cause the LRJ environment to impede economic efficiency will be identified, and options for reform will be examined. Attention will focus initially on three pillars of the legal system underlying every market economy, namely security of private property, enforcement of contracts, and assignment of liability for wrongful damage.

Next, the discussion will consider supplemental categories of business law that facilitate the creation and funding of institutions necessary for efficient production and distribution of many goods and services. It will then review six common fields of business regulation that present options for removing obstacles to efficiency (if only by dismantling the regulatory structure altogether): namely licensing and concessions; regulation of labor, the financial market and prices; control of restrictive business practices; and official conflicts of interest.

Since legislation alone does not define the LRJ environment, the discussion will conclude by examining the functioning of the institutions that determine how the system operates in practice, namely the machinery for settlement of disputes and enforcement of judgments, as well as institutions that affect the transparency of that operation, notably the press.

2.2 The Legal, Regulatory and Judicial Environment for Development

The LRJ environment is taken here to comprise the set of rules, institutions and practices governing business transactions. It is a truisim that an LRJ system that has evolved within a tribal or feudal society is not adapted to the transactions that characterize a market economy. Most developing countries inherited from their former colonial masters LRJ systems that were consistent, at least in outward appearance, with business transactions characterizing pre-World War II industrial societies.

Again in nominal terms, many of the systems were updated to postwar conditions before independence, and nearly all developing countries have subsequently modernized them, often following quite faithfully recent legislative advances in the former metropole or other industrial democracies. At the same time many of these countries have retained LRJ restrictions over prices, marketing institutions, employment practices, foreign trade, investment and finance that the colonial powers instituted to meet wartime conditions--e.g., the monopsonistic agricultural marketing boards established in British colonies during the war. This has led to the striking peculiarity that most poor countries have a plethora of LRJ mechanisms that protect monopoly, inefficiency and corruption, while mechanisms required for competitive market efficiency are ineffective or absent.

Even when a poor country is endowed with appropriate legislation and institutions it does not automatically follow that implementation proceeds in such a way as to promote the formation of a market economy. The experience of such economies suggests that three additional elements must be present to a greater or lesser degree:
i. A machinery for settlement of disputes in whose integrity and effectiveness economic agents place a minimum level of confidence;

ii. An apparatus for enforcement of judgments under (i) whose integrity and effectiveness likewise enjoy the agents' confidence; and

iii. A minimum degree of consensus among economic agents as to what constitute reasonable rules of the game, and a minimum level of willingness to adhere to the rules;

At first sight it might appear that elements (i) and (ii) would suffice to impose the rule of law in business transactions, but without the consensus under (iii), the machinery for settling disputes and enforcing judgments would be swamped and thus ineffective. It can be argued that effective institutions under (i) and (ii) are a prerequisite to achieving the required consensus. Without machinery for dispute settlement and enforcement of judgments the incentive to adhere to rules is severely impaired.

The question now arises: what are the principal causes, in poor countries, of:

(a) absence of LRJ rules and mechanisms that favor an efficient market economy,
(b) the plethora of rules and mechanisms unfavorable to competition and efficiency, and
(c) weakness of implementation of "good" rules and mechanisms?

The first, probably most important answer is linked to the sources of political authority in the Third World. In many countries, notwithstanding the trappings of democracy, individuals and groups hold political authority over extended periods by virtue of (i) their hereditary positions in tribal or clan-directed societies, (ii) their material wealth, starting with but not limited to holdings of land, and/or (iii) their access to means of repression, notably the armed forces and the police.

The meaning of rule of law is that the legal system is sufficiently insulated from the locus of political authority to give persons not sharing in that authority a minimum degree of confidence that their rights under the law will be upheld if they follow its rules. In many poor countries this condition is not fulfilled. A person not sharing political authority cannot be confident that his property will not be confiscated; that his legitimate interest will be upheld if a customer or supplier violates a contract; that he will be able to collect damages from a party responsible for a tort; that he will be subject to (more or less) equal treatment under various types of regulations; or that, other things being equal, he will have equal access to concessions offered by the government to encourage investment, production and employment.

Such circumstances discourage investment by economic agents other than those sharing in the political authority, and restrict (except for instantaneous transactions) the circle of parties with whom they are willing to deal. In effect, one is reluctant to conclude contracts with agents other than those with whom one shares kinship or other social ties that facilitate enforcement outside the formal legal system. Clearly such a situation hampers efficient allocation of resources and retards economic growth.

*Pari passu* with the weakness of human resources that impedes governance at many other levels, implementation of legal systems so as to promote economic efficiency is also obstructed in poor countries by lack of training and experience on the part of the
responsible personnel. Some countries seem to be oversupplied with persons skilled at manipulating the law, but others certainly have fewer than they need. Even if the national supply is adequate, the government’s weakness often deprives the public sector of its fair share of legal draftsmen, judicial administrators, effective prosecutors, and so on.

Reviewing different areas of law, this chapter will examine possible shortcomings in the legislation currently in force in certain poor countries as well as in its implementation, and consider options for reforming these legal systems so as to enhance efficiency and growth.

2.3 The Concept of an Optimal Legal System

No pretense is made that A.I.D. or any other authority knows enough about the cultural background and constraints of individual countries to write ideal laws and design optimal means of implementing them. From the economic viewpoint, an optimal legal system must satisfy two conditions: (i) for a given set of social benefits generated by the system, it must minimize the sum of transaction costs associated with it; and (ii) the incremental social benefit generated by another measure of regulation would barely offset the additional transaction costs created thereby. Transaction costs are of two types: (1) costs incurred in conducting legal procedures, and (2) inefficiencies that arise in seeking to evade those procedures.

An example of transaction costs is those associated with the licensing of businesses. Some persons desiring to practice a trade decide to seek the required permits, while others decide to pursue the trade without the permits. The first group incurs application and registration fees; legal honoraria; other out-of-pocket expenses; and the opportunity cost of the time spent conducting such procedures and waiting for authorizations. These are transaction costs in the first sense. A member of the second group may have to pay protection money; he may also find it necessary to conduct his trade on a smaller scale and in a more transient manner than he would in the absence of licensing, thereby producing less, incurring higher unit costs and generating lower value added. These are transaction costs in the second sense.

Clearly a legal system does not achieve optimality by reducing transaction costs to zero. Just as society may decide democratically that new drugs should be tested and approved for human use, so also it may decide to zone some urban areas for nonbusiness use, or out of health or safety considerations restrict certain trades to specified areas. (Government may also restrict entry to reduce competition faced by current practitioners, but this is a less reasonable social objective, indeed in most cases a perverse one.) If these restrictions are to be enforced, then some transaction costs are unavoidable. Certain trades will be difficult to close altogether to operators without permits; suppression beyond a certain point would involve administrative costs in excess of the social cost posed by their operation.

An important element of transaction costs is the insurance premia that economic agents pay in order to limit the risk of having to cover damages caused by their actions (in the absence of insurance coverage, the cost becomes the risk of having to cover damages directly). Both damages and, accordingly, premia that suffice to compensate for them are minimized to the extent that (i) agents pay premia in proportion to the probability of
causing damages, and (ii) the legal system establishes rules for assessing damages objectively and assigning them fairly to those responsible. Lack of such rules makes costs less predictable, increases risk and poses obstacles to entrepreneurial initiative.

Saying that to each set of social objectives there corresponds an economically optimal LRJ system does not carry us far towards deciding what LRJ system is optimal for a given country. One reason is the variability of social objectives pursued by different governments at different times, and by different social groups, even individuals. Obviously it is not up to A.I.D. or any other outside agent to set social objectives for a sovereign country.

A case in point is ownership of agricultural land. In western industrial societies this is private property, subject to the same LRJ treatment as any other asset class. As will be shown in section 2.4.1 below, some Asian countries with vigorous market economies have pursued social objectives through programs of land reform in which holdings above certain sizes were confiscated at prices well below market. Others, especially in Africa, follow the policy that generalization of fee-simple ownership would prejudice legitimate interests of holders of subsidiary rights without compensating economic benefits.

A second reason for caution in prescribing a unique LRJ system is our lack of knowledge as to which of several alternative approaches to a legal or regulatory issue will yield the most efficient results. What transactions costs would have been incurred in the absence of a particular legal scenario? In what cultures is a comprehensive code more efficient than a common-law approach leaving it to the courts to formulate the law incrementally? What variant of corporation law represents the most efficient model for a particular environment—that of Delaware, New York, or Britain? Should one eschew current western models and look for earlier, less sophisticated variants? What is the interaction between the legal and political systems? Are some models more efficient in a multi-party versus a one-party state? In an inflationary versus a stable economy? What are the trade-offs between equity and growth? Is growth helped or hindered if small entrepreneurs have the same access to a sluggish judiciary as a captain of industry?

Notwithstanding these uncertainties one can properly take note of the increasing worldwide consensus that competitive market economies, equipped with safety nets for vulnerable members of society, perform far better in satisfying the wants of the masses than other types of economies. Therefore it is appropriate to seek general principles of LRJ reform suited to making competitive market economies function better, while watching out for cultural and other factors that call for variants of the overall strategy.

This will be done in the succeeding sections by first considering three basic elements of a legal system suited to a market economy, namely property, contracts and torts; next examining three further areas of business law, viz. company law, bankruptcy and secured transactions; then turning to six areas of business regulation, i.e., licensing and concessions, labor regulation, financial market regulation, price control, control of restrictive business practices and official conflicts of interest; and finally looking functionally at three categories of implementation, namely dispute settlement, executive enforcement and institutions promoting LRJ transparency.

Before proceeding to the first area of legal substance it is appropriate to acknowledge the intellectual debt owed by this field of analysis to the writings of the Peruvian economist Hernando de Soto, especially in his acclaimed work The Other Path (1989).
No other writer has yet assembled as much evidence of the obstacles posed to economic activity by a distorted LRJ environment.

2.4 Foundations of a Legal System for a Market Economy

As noted by de Soto, property rights, contracts and extra-contractual liability (known by lawyers as "torts") are the three foundations of a legal system suited to a market economy. The following sections consider briefly the relationship of each of these to development. Implicit in the discussion is not only the substance of the relevant laws but their manner of implementation, that is the extent to which the intent of the laws is realized through the machinery for settlement of disputes and executive enforcement.

2.4.1 Property Rights

In neoclassical economics a system of property rights is economically efficient if the rights are universal (i.e., all property is owned by someone, whether the party is private or public), exclusive and transferable. The theory says that property with no legal owner is likely to be abused; an owner without exclusivity will incur uneconomically high costs in protecting his claim; while transferability ensures that property accrues to operators capable of realizing the highest value added from it. Property law serves to establish and enforce property rights, settle disputes and assign rights among legitimate uses that are incompatible.

Going beyond these precepts neoclassical economics predicts that private ownership of the means of production will ensure substantially more efficient use of them than state ownership. Little more need be said about this in an era when state ownership has been resoundingly discredited and societies that until recently espoused doctrinaire communism are struggling to create and apportion individual property rights that will generate the incentives needed to revive production.

A dramatic illustration of the returns from facilitating private ownership in a poor country is provided by de Soto's estimate from a sample of 37 informal residential settlements in Lima, that investment in an average house in settlements where occupants were able to obtain land title was worth nine times that in houses whose occupants could not obtain title. This does not mean, of course, that the state may not have a legitimate interest in protecting certain domains from settlement, in which case denial of title can be justified.

Not surprisingly, de Soto finds that a business' ability to defend its rights in property is correlated with its status vis-à-vis licenses or permits required to operate legally. If the business chooses not to acquire or is denied legal status, then its access to the legal system to defend the property it uses in trade against encroachment by the state or private interests is severely limited. No one would argue that such access should be provided to anti-social enterprises, but De Soto's thesis, to which we return in discussing business regulation, is that rent-seeking bureaucrats and/or established businesses seeking a shield against competition have elevated the costs of registration and licensing far above the value of any social benefit generated thereby. Thus, reform in this area would not only enhance the value of much business property owned by small business-
men, along with their incentives to acquire, create and use such property, but it is also desirable on its own merits.

Postwar experience in some poor countries has led many economists to conclude that the neoclassical paradigm of private ownership as a key to efficient use of resources needs to be qualified where concentration of holdings passes certain limits. This applies particularly to ownership of land, and specifically in agricultural areas juxtaposing large individual or corporate holdings with smallholder agriculture and landless rural labor. Some experience—for example, that of Japan, Korea and Taiwan—suggests that state-imposed land redistribution, apart from its merits on grounds of equity, can lead to more intensive use of factors. Taiwan's land reform was conducted with sufficient skill so as to leave displaced landowners with incentives and some wherewithal to spearhead industrialization. This formula has not yet been put to the test in countries such as the Philippines, Morocco and much of Latin America, where landowners retain sufficient political clout to resist land reform.

A different type of qualification emerges from experience in rural Africa, where some administrations, encouraged by donors, have introduced individual land titling with the intention of stimulating agricultural investment through formation of a land market and use of land as collateral for bank credit. Evidence from several provinces of Kenya (Shipton 1989, Atwood 1990) suggests that this effort has often failed to produce the desired results. Traditionally, land is subject to hierarchies of rights and duties that shift as children grow up and parents age. Individual titling suppresses the interests of subordinate rightsholders both within the family—particularly female members—and outside it. Irrespective of the effect on resource allocation, the impact on social equity is decidedly adverse. In areas where both mixed farming and herding are practiced, with land rights subject to seasonal oscillation, interests of the pastoralists likewise tend to fall by the wayside.

At the same time the efficiency benefits of titling are thrown into question by the fact that only a minor fraction of successions and other post-titling transfers are registered. Meanwhile lenders' attempts to foreclose on land posted as collateral and resell it are frustrated by neighbors and kinsmen. Hence the banks remain aloof from smallholder credit.

This experience has encouraged social scientists to reexamine traditional land tenure systems in Africa and reconsider their supposed inefficiency. The current tendency is to stress the security of tenure associated with many systems, the finding that tenure issues are not a major obstacle to innovation, and the fact that, even under traditional systems, much de facto transfer occurs from relatively inefficient cultivators to persons who use more inputs and obtain higher yields. As for credit, this can be secured by chattel mortgages in livestock or machinery, cosignatures by patrons, and group guarantees, as seen in rotating savings and credit associations. A current hypothesis, linked to the discussion of financial market reform below, is that liberalization of that market through legalization of informal credit would increase the supply of credit and lower interest rates to farmers.

In a nutshell, issues of property in agricultural land highlight the tension between theory and observation, leading us to qualify the neoclassical paradigm regarding individual property. In some Asian countries with highly unequal land distribution, imposition of ceilings on holdings has had a beneficial impact on both equity and resource allocation,
while in some African countries imposition of individual titling on a complex web of tribal rights and obligations has compromised equity and failed to promote growth.

2.4.2 Contracts

Any exchange of goods or services involves at least implicit contracts. Contract law spells out the terms of implicit contracts, such as undocumented sales, and establishes procedures for implementing the terms of both implicit and written contracts, for settling disputes about implementation, for determining remedies for breach of contract, and in general for meeting contingencies not all of which can be anticipated even in a written contract. Contracts are particularly important for setting the terms of those transactions and relationships which stretch over a period of time.

Economically, contract law is subject to two tests: (1) it should enable parties to match their preferences, and (2) it should maximize predictability, meaning that it produces outcomes that the parties would have specified in their contract had they foreseen the relevant contingencies from the outset. An important condition for passing test No. 2 is that contract law must allocate risk in a fair manner.

De Soto's analysis of the informal sector in Peru illustrates the obstacles faced by a businessman who cannot resort to enforceable legal contracts. His inability to incorporate or form partnerships restricts his access to debt and equity capital, thus limiting the size of his venture and ability to realize economies of scale. The lack of effective guarantees for performance by unrelated customers and suppliers restricts his willingness to deal outside a circle of close social contacts subject to informal guarantees. Lack of access to enforceable loan contracts restricts the circle of borrowers whom a financier can service. Nonavailability of enforceable rental contracts dampens readiness to invest in rental properties, thus restricting the supply of rental housing—a phenomenon also associated with rent controls (and not only in poor countries).

2.4.3 Torts (Extra-Contractual Liability)

Tort law defines the responsibility of operators vis-à-vis parties with whom they have no contractual relationship. It identifies wrongful damages caused by action and inaction, enacts procedures for assessing their value, and thus lays the basis for insurance to spread risk efficiently, in the process enhancing predictability for business operators.

Tort law is subject to two economic tests: firstly, it should ensure that parties whose interests are wrongfully harmed will receive full, but not excessive, compensation. (Since in practical terms some awards will exceed actual damages while others will underestimate them, the criterion becomes one of ensuring that "expected" compensation is equal to damages.) Failure of the law and its enforcement to meet this test imposes transaction costs in the form of measures (i) to forestall wrongful damages that might be inflicted by competitors and others, and/or (ii) to compensate for excessive awards. The resulting costs and risks involved may deter operators from production (this is not limited to poor countries—cf. U.S. obstetricians who retire rather than pay insurance premia required to cover recent jury awards).
The second test is that the law should induce operators to take efficient precautions to avoid causing damages. Precautions are efficient when the incremental expected damage they avoid barely offsets their incremental cost. (Absolute precautions are not efficient because they are tantamount to non production). Operators can minimize their risks through liability insurance, at which point insurers assume the burden of ensuring precautions.

The issue arising most often in practice regarding torts is one of implementation rather than legal substance. In many countries small, poorly connected agents have little chance of collecting damages from powerful operators. The intervention of some court systems in transactions of the market economy is either too inefficient or too easily bent in favor of the powerful to give the majority of operators much confidence in that remedy. This may be offset partially by transferring the onus of collecting damages to an insurer capable of defending its own interest. The resulting costs must be reimbursed through relatively high premia (cf. collision auto insurance). For all businesses this increases operating costs; for those not properly registered, insurance is often not accessible.

2.5 Supplemental Business Laws

2.5.1 Company Law

The essential function of company law is to limit the liability of shareholders to their shares. Without such protection, equity investors in an enterprise whose assets are exceeded by its liabilities are themselves liable up to the full extent of their assets. Under such conditions few investors would be inclined to help capitalize enterprises over whose operations they had little control. In the production of many goods and services in a modern market economy, realizing economies of scale requires capitalization far exceeding the means of the entrepreneurs directly involved, their families, and/or partners.

Equity financing achieves its potential within the framework of securities markets, which do not yet play a significant role in most poor countries, though efforts have recently intensified to launch them.

2.5.2 Bankruptcy

The establishment of orderly procedures for transacting an enterprise's cessation is a vital component of business law. Bankruptcy is a normal, even necessary phenomenon in a market economy; its rate varies with the business cycle, but there is an underlying healthy rate for every economy.

Governments of poor countries often try to stifle bankruptcy of not only state-owned but also private enterprises on the ground that it leads to unemployment and wastage of capital. The result, however, is that scarce resources drain into inefficient enterprises, in the process creating unfair competition for efficient ones. Owners of bankrupt enterprises are also prevented from wiping their slate clean and getting a fresh start.

In cases where enterprises cannot be kept afloat, lack of adequate legislation and supervision vitiates orderly establishment of priorities among creditors and opens the
facto liquidation process to fraud. This increases the risk faced by financial institutions, creating costs which they must pass on to borrowers.

2.5.3 Secured Transactions

So as to facilitate investments financed at least in part by credit, creditors must be assured of ability to realize their collateral without delay in the event a borrower defaults on service payments. In some poor countries the law and its implementation are biased in favor of borrowers; there and in many other countries the realization of collateral is a tedious and expensive process. This has the effect of diminishing the credit worthiness of new borrowers and thus hampering investment.

2.6 Business Regulation

2.6.1 Licensing and Concessions

In many poor countries issuance of permits to enable enterprises to start up is a tedious process that imposes significant costs on would-be investors without generating a corresponding social benefit. De Soto offers precise data regarding the burden of official authorization procedures on aspiring Peruvian investors. In the case of housing, a group of low-income families desiring to build legally on state wasteland must spend on average 6 years 11 months to obtain the required permits. Adjudication of the land alone requires 207 bureaucratic steps, involving 48 different government offices and taking 3 years 7 months. The process would cost the average family $2,156, equivalent to 4 years 8 months of the minimum wage.

Simulating the opening of a store, de Soto and associates found the required procedures would take 43 days and cost 1 year 3 months equivalent of the minimum wage. Petty traders joining together to build a market would need 8 years to obtain the necessary permits. Obtaining approval for a mini-bus route would take a group of owners 26 months, while 27 months would be required for a single owner to obtain a concession to ply the route.

Taking a sample of 50 informal manufacturers, de Soto et al. found that the direct recurrent cost of keeping abreast of legal procedures would have amounted to nearly 350 percent of after-tax profit and 11.3 percent of production costs, 73 percent of this corresponding to nontax legal costs. Surveying 37 legally established manufacturers, they found that 40 percent of the administrative staff's working hours were devoted to complying with bureaucratic procedures.

In deciding whether to license new enterprises or expansion of existing ones, some governments take it upon themselves to police entry into particular sectors on commercial grounds and/or second-guess the commercial judgments of entrepreneurs. In 1985 India's Ministry of Industry rejected over 100 investment proposals on one or more of nine different grounds, of which three were (i) the existence of adequate capacity in the sector in question, (ii) the proposal fell short of "minimum economic capacity", and (iii) the feed-stock or raw material required by the project was not available (Gray 1991). Considering that efficiency calls for a constant movement of enterprises into and out of a given sector, it is difficult to reconcile such a licensing policy with efficiency.
Concessions consist of benefits which governments offer to businesses, both foreign and domestic, to induce them to invest, particularly in manufacturing. Typically they focus on exemptions from taxation. Many countries offer duty free import of capital equipment, and/or exemption from profits tax for a fixed period of years; drawbacks of customs duties on imports used to manufacture goods for export is another common feature. This latter benefit may take the form of declaring an enterprise to be a duty-free zone, or agreeing to its inclusion within an industrial estate that enjoys such status. Another common concession involves granting an enterprise access to government-controlled real estate on terms more favorable than are available on the private market. Some investors secure promises of protection against competing imports or against approval of investments by third parties that would compete for the same local market.

More often than not the results of these packages are disappointing, in that they attract less investment than expected. For their part many would-be investors complain about the bureaucratic tangles they encounter in seeking approval of concessions, involving a need to secure clearance from a multiplicity of agencies, engendering lengthy delays and escalation of investment costs, sometimes including payment of bribes. Some countries have witnessed repeated efforts to reform the system, typically through establishment of a superagency with the authority to ensure "one-stop shopping" for aspiring investors.

As with most types of regulation, legitimate social objectives militate against giving every operator all the concessions he might ask for. Granting investors extraordinary protection against competing imports and investors is in most cases a recipe for economic stagnation. In this vein, the Fiat Motor Company's enlisting Kenya government ministers in helping it in 1976/77 to break the exclusivity previously granted to another motor vehicle assembler was probably an economically positive development, notwithstanding its overtones of corruption.

The decision-making authority should have the competence to decide what concessions are undesirable and the power to refuse them. At the same time there should be a standard set of concessions whose approval is subject to as little administrative discretion as possible, so as to enhance the transparency and predictability of the system and minimize openings for corruption.

It should be noted that no system of licensing and concessions can or should guarantee commercial viability of an investment, nor protect it against ill-advised macroeconomic policies that bring about inflation and overvaluation of the exchange rate.

2.6.2 Labor Regulation

Most poor countries have detailed labor codes that end up by curbing employment creation in the formal sector. Adopted in response to a combination of pressures from trade unions, politicians seeking support from formal-sector wage-earners, and intellectuals who believe that labor regulation can improve the welfare of the masses, the codes typically include minimum wages, required supplements for overtime or night work, minimum safety and health conditions, vacation periods, participation in the social security system, restrictions on firing (which often requires government approval), severance pay, and procedures for settlement of labor disputes. Minimum wages often differentiate between agriculture and the rest of the economy, and sometimes between geographical areas.
All these provisions increase the cost of hiring labor for those employers, notably the formal sector, who are subject to government supervision. Security from dismissal hampers discipline and reduces workers' incentives to become more productive. Operators respond by substituting capital equipment and other factors of production for labor, and for some operations prefer to hire on a part-time and/or casual basis rather than expand the regular payroll. The stricter the code, the greater the risk that some potential investors will be deterred from any commitment. Strict codes also reduce mobility of labor between firms and industries, limiting the cross-fertilization of skills which is reported to yield positive results in economies such as Taiwan, Hong Kong and Singapore. (On the other hand Japan does very well with labor mobility that is much more limited than in western industrial economies.)

Unrealistic increases in the minimum wage unaccompanied by fiscal and monetary discipline aggravate inflation to the detriment of the development effort. Here again the effect is to restrict employment in the formal sector below what it would otherwise be, involving an obvious social cost.

A system of labor regulation is efficient when the social benefit of the marginal increase in job security and working conditions for formal-sector workers barely offsets the social cost of the marginal reduction in total employment in the formal sector. Beyond this point, greater equity for the minority of a poor country's labor force privileged to work in the formal sector is clearly offset by loss of job opportunities and thus income (and equity) for less fortunate citizens. Political dynamics in some poor countries, where the leadership concedes the demands of organized labor without being aware of the impact on job creation, has carried labor regulation well past this equilibrium.

The same dynamics makes it difficult to rescind any component of a labor code. However, growing appreciation of the benefits of market orientation has made policy makers increasingly aware of the social cost of limiting enterprises' freedom of maneuver. Senegal in 1988 abolished a requirement that all hiring by formal-sector employers be conducted through public labor exchanges. The severe fiscal crunch facing most governments has stiffened their bargaining posture in minimum wage negotiations. Many governments are in the process of replacing restrictions on job loss resulting from bankruptcy, cessation of operation or reductions in force, with versions of the "safety net" long characteristic of western industrial economies, notably unemployment compensation, "golden handshakes", and social welfare benefits in cash and kind. The Eastern European countries are in the forefront of this movement.

2.6.3 Financial Market Regulation

The essence of credit is the exchange of present claims over resources for future claims. Since no one would enter into such an arrangement without some mechanism to enforce future claims, the functioning of a credit market is particularly dependent on the LRJ environment.

Many poor countries have long been accused of engaging in financial "repression", meaning that controls on deposit and lending rates of interest, resulting in negative real rates, together with sectoral allocation of credit, have constrained the formal financial sector to a relatively limited role. Inter alia deposits have been diverted to nonbank institutions offering less security.
Structural adjustment programs have typically called for liberalizing the financial market by freeing interest rates and relying on indirect measures to keep credit expansion in line with prudent monetary policy. Reserve requirements constitute one such measure, though currently less popular than the discount rate and open market operations with government securities.

In some countries the reforms have hampered borrowers' ability and/or willingness to repay loans on time. Higher nominal interest rates have impeded their ability; moreover, where a borrower was once concerned to maintain his credit worthiness with a particular lender in order to secure additional loans at low real rates, it may now be in his interest to delay repayment while borrowing elsewhere at rates equivalent to the market rate demanded by his customary creditor.

Judicial systems in most poor countries are unprepared to deal on a low-cost and timely basis with the enforcement of contracts involving loan repayment. Timeliness is particularly important because the value of collateral may deteriorate as the borrower procrastinates. Anticipating heavy transaction (i.e., foreclosure) costs, lenders may find unprofitable some credit transactions that would otherwise increase efficiency by shifting resources into more productive uses. Hence one facet of desirable LRJ reform is to reduce these transaction costs, while retaining safeguards that protect borrowers from unjustified creditor claims. Costs of foreclosure must be low enough to pose a credible threat, i.e., they must not offset recovery of any part of the outstanding debt.

Some aspects of financial reform presuppose substantial upgrading of the market's LRJ environment via the infrastructure for prudential regulation. Financial liberalization increases competition among lending institutions for both deposits and borrowers and induces them to take greater risks than they did in a "repressed" environment. The system of government supervision designed to control these risks is not one of the modes of regulation that structural adjustment seeks to abolish or restrict; quite the contrary, notwithstanding the difficulty of the task (cf. the current U.S. savings and loan experience).

Examiners must analyze loan portfolios to look for concealed self-dealing in the form of loans benefitting related parties of an institution's principals; they must also look for nonperforming loans whose status is disguised by refinancing. A recent shakeout in Kenya's financial sector highlighted the low educational status of the central bank's examiners and their lack of incentive to persevere in ferreting out details of their subjects' operations. The result was a series of failures that has certainly lessened the flow of savings into the financial system. In a nutshell, inefficient bank examiners cost an economy much more than do non functioning agricultural extension agents.

In the same connection a country's LRJ system must be prepared to deal with insolvency of financial institutions. This is analogous to the previously cited need for efficient bankruptcy procedures, although in the present case the stakes tend to be higher because of the number of creditors (depositors) involved and the impact of failure of any financial institution on confidence in the sector as a whole. The ideal is a system of insurance for depositors, accompanied by intensive supervision; in its absence, some governments have tended to overreact to insolvencies by drawing on the budget to cover deficits, indemnifying even guilty parties. This has encouraged laxity in both operation and supervision of financial institutions.
Financial regulation in poor countries has traditionally been yet another instance where excessive restrictions on entry coincide with inadequate attention to matters that government ought to regulate. Liberalization has involved reducing these barriers to entry, although few disagree that special licensing (i.e., chartering) procedures are called for in view of the banks' power to create money. As with licensing of other categories of businesses, true promotion of competition requires that this be conducted transparently, based on standard criteria such as capital adequacy and non exceptionable managerial profiles.

Comprehensive reform entails thinking constructively about the role of the informal financial sector, which has traditionally been at best ignored, often subjected to harassment. Informal lenders have recourse to social relationships with borrowers and their families to ensure a high rate of repayment. In some countries they take as collateral post-dated checks, default on which is subject to criminal rather than civil penalties. In the extreme they rely on strong-arm tactics to recover movable assets. The informals depend very little on the formal legal system, even if it does not go so far as to outlaw them.

It has become increasingly clear that this sector alone can service the credit needs of large groups in society. Informals can play a key role in retailing credit which the formal sector provides them in the role of wholesaler. The question arises as to what if any regulation can effectively touch the sector and is desirable to limit abuses. To begin with a revision of the approach of outlawing informal finance is called for since, to the extent it has any effect at all, it only drives the activity underground and increases costs. It makes more sense to recognize the profession, perhaps warn the public about the lack of guarantees for deposits, and provide a legal basis for prosecuting misinformation and other types of fraud.

Finally, poor countries are currently the object of generous technical assistance aimed at helping them develop securities exchanges and associated regulatory bodies. In most countries the main obstacle to development of securities markets is the lack of adequate information about the financial condition of entities wishing to raise funds. The LRJ system must be capable of defining and enforcing requirements to provide reliable and relevant information—including rules to deal with insider trading abuses and other forms of fraud. Also required is a basic framework for the protection of minority interests.

### 2.6.4 Price Regulation

The majority of governments of poor countries have at one time or another instituted legislation and machinery to control wholesale and retail prices of so-called "essential" goods and services. Traditionally such measures have been motivated by a populist concern to protect the masses or selected groups from exploitation by producers and traders. Some governments (and not only in poor countries) have resorted to across-the-board price controls as a measure to control inflation.

Nowadays the consensus based on observation of price control in poor as well as not-so-poor countries is that its results are generally perverse. Its most severe drawback is to curtail supplies, leading to shortages which raise prices for many consumers, often among the poorest, who lack access to regulated distribution channels within which the controlled prices are enforced. Producers and distributors incur evasion costs, thereby raising
the cost of distribution. Based on the accumulated evidence, most structural adjustment programs call for reducing controls to limit them to products of public utilities and other so-called "natural monopolies".

An A.I.D.-funded research program by Moroccan government and university economists examined the impact of price controls and their removal on the business environment in that country. The study found that a substantial share of management energy was devoted to seeking positive action on requests to raise price ceilings in response to cost inflation. Firms tended to regard the ceilings as simultaneously minima and maxima, so that price competition was suppressed, and market shares remained static. Firms invested enough to retain market share but refrained from targeting export markets in the expectation that permitted margins on the home market would not cover the costs of breaking into foreign markets. Finally, the study found that, instead of causing inflation beyond that induced by inescapable cost factors, liberalization introduced an element of dynamism that made the respective markets more competitive and forced producers to become more efficient.

2.6.5 Competition Policy

Competition policy is widely regarded as a logical complement to free trade (and alternative to price control) in holding prices to levels compatible with efficiency. Free trade does a good part of the job vis-à-vis tradeable goods and services, but all industrial countries have found it desirable to take supplemental measures to promote competition in the domestic market.

The LRJ environment as a source of anti-competitive practices. The "trusts" whose behavior inspired the modern world's first active competition policy in the United States were, of course, private, but in many poor countries today anti-competitive practices are more an outcome of government intervention in the economy than they are of actions by private operators seeking to undermine competition or conspire against consumer interests. Governments award de jure or de facto monopolies to enterprises, public and private; favored enterprises receive overt and hidden subsidies and benefit from rigged government procurement; conversely licenses, concessions, foreign exchange and credit are denied to competitors. Much of this behavior is associated either with outright corruption, that is bribes paid by domestic and/or foreign operators, or with conflict of interest, where government officials maintain a personal stake in enterprises whose operations are influenced by their regulatory actions. (This phenomenon is treated specifically in the following subsection.)

These practices substantially increase both the costs of doing business and the risks to which enterprises are subject. Management resources are devoted to buying favor with officialdom. Conscious that their financial health depends on the favor of the current government, and aware that many governments lead a precarious existence, enterprises are more cautious about new investments than they would be if they could rely on their own business acumen.

The most important departure in curbing government-directed anti-competitive practices is adoption of the package of reforms identified with structural adjustment, that is substitution of the market mechanism for allocation of resources by government decree. This involves allowing the foreign exchange and interest rates to reach equilibrium levels,
so that foreign exchange and credit are no longer allocated by administrative fiat; it involves placing all imports, except those controlled for health and security reasons, under Open General License; and it involves the pursuit of macroeconomic policies that restrain budget deficits and inflation, thus forestalling the pressures that lead governments to reimpose discretionary import and credit controls.

Apart from these measures, regulatory regimes need to be revamped to maximize transparency and minimize official discretion. Laws that regulate licensing of enterprises should be supplemented with written regulations that specify clearly the criteria under which licenses will be granted or denied. The same holds for concessions.

**Control of restrictive business practices (RBP).** A majority of industrial economies did not follow the U.S. and Canada in enacting legislation against RBP by business operators until after World War II, but all of them now practice RBP control as an essential part of their policy toolkits. The EEC polices RBP in intra-European trade and harmonizes legislation among its members, while the OECD coordinates competition policy among the wider community of western industrial nations.

Conversely, few non-European developing countries have thus far adopted anti-RBP legislation. The current number is around ten, including four in Latin America (Argentina, Brazil, Chile and Colombia), five in Asia (India, Korea, Pakistan, Sri Lanka and Thailand), and so far only one in Africa (Kenya). There is some question as to the appropriate stage in a poor country's development for adopting such a measure. Korea did very well before establishing its Office of Fair Trade in 1981, although it did so then in response to a strongly felt need arising from weakening private initiative, over concentration of economic power among conglomerates, and unfair trade practices by firms with substantial market power (Gray 1991).

Notwithstanding variations in enforcement, there is a broad consensus among RBP-control authorities in these and the industrial countries as to what practices should be prohibited or restricted. India's Monopolies and Restrictive Trade Practices Commission reflected this consensus in summarizing its cases in 1985 as follows: restrictive zoning of dealers; tied sales; refusal to supply; collusive boycott of a supplier; discriminatory pricing or discounting; exclusive dealing; resale price maintenance; collusive tendering; price fixing; and a single supplier's abuse of market power to manipulate prices (Government of India, 1987).

There is much less consensus, even in industrial countries, as to what constitutes a ceiling on market share beyond which mergers and acquisitions should not be permitted to go. Poor countries justifiably point out that minimum economic scale in many industries is tantamount to a bigger share of a small market than of a large one. Where this is true, free trade that exposes producers to foreign competition is a preferable means of preventing abuse of market power.

In the hands of an administration not dedicated to the spirit of competition policy, RBP control legislation can become simply one more instrument for interfering with business initiative. This is illustrated by a recent experience where the inaugural uses made of a competition policy apparatus were perverse, aimed at frustrating initiatives by businessmen from an ethnic minority. Such moves, even if motivated by concerns of equity for an economically disadvantaged majority, undermine efficiency and retard growth.
One can argue that in this case introduction of an RBP control mechanism was premature. Experience suggests that in a society where arbitrary behavior by the administration is common, it is better not to undertake such regulation unless most decision-making power can be assigned to a judicial or quasi-judicial tribunal staffed by persons in whose integrity the business community will have a certain level of confidence.

It is also important to enact procedures ensuring timeliness and transparency in the tribunal's operations, and to provide for judicial review as to compliance with the law. An RBP control apparatus that interprets normal competitive behavior as unfair practices, discriminates among entrepreneurs according to ethnic origin, upsets mergers and acquisitions not conferring excessive market power, and/or delays its decisions interminably, increases business risk and deters investment.

2.6.6 Control of Official Conflict of Interest

It is becoming increasingly apparent that in some poor countries participation by public officials in business activity for their own account is a serious obstacle to the development of competitive markets. Often the pattern is set by a country's ruler, who appropriates shares for himself and/or family members in new as well as existing enterprises. Sometimes this is done through a holding company with diversified interests in agriculture, manufacturing and/or trade. A decision by an enterprise with such connections to move into a particular sphere sends existing operators in that sphere scurrying for cover. If the enterprise chooses to acquire a certain asset, perhaps a competing enterprise in its entirety, at an "affordable" price, brave is the owner who declines the offer. Brave also is the RBP control official who blows the whistle on the enterprise's unfair trade practices, or its accumulation of market power.

The ruler's behavior opens the floodgates for everyone else in the government, beginning with cabinet ministers but by no means limited to them. Few poor countries have legislation regulating the phenomenon, which is not addressed by standard rules against corruption, even though an official's involvement may begin with a de facto bribe comprising an offer of shares in return for regulatory favor. A Kenya government commission in the 1970s cited civil servants' potential as a dynamic entrepreneurial force, and urged them to enter business as long as it did not impinge materially on their official duties. The predictable outcome: such activity has not only interfered with performance of administrative functions, but represents a major anti-competitive force in the economy.

In many countries the ruler's example is the first obstacle to controlling conflict of interest. Even were it possible to convince him to set a different example, however, no less an obstacle is the low compensation received by civil servants in many poor countries. Few high-inflation countries have maintained the purchasing power of civil service incomes, notwithstanding ad hoc supplements effected by diverting nonsalary appropriations. Hence, civil servants cannot survive without outside income.

Structural adjustment programs address this issue by limiting new recruitment and sponsoring "golden handshakes" to encourage redundant staff to leave the service. Improved tax collection relieves part of the fiscal pressure, although simultaneous pressure to reduce deficits by compressing expenditure moves in the opposite direction. In some countries only with accelerated growth and an accompanying expansion of the
tax base can one anticipate returning to a pay scale that rewards competent civil servants on the basis of their opportunity cost.

2.7 Implementation

One cannot design a regulatory regime conducive to efficiency and economic growth without considering the institutions charged with implementing it. This section will discuss three categories of institutions for settlement of disputes, namely the judiciary, quasi-judicial regulatory bodies, and private arbitration; enforcement by the executive branch; and vehicles for promoting transparency in the LRJ system.

2.7.1 The Judiciary

In many poor countries a judicial system modelled on that of the colonial power exists side-by-side with a customary court system whose experience is limited to disputes over inheritance, land rights and petty trade, as well as domestic and criminal cases. Even in the system imposed by the colonial power many judges lack a modern legal training, and few have been exposed to the complexities of an industrial economy. Their compensation is such a pittance compared to the interests at stake in modern disputes over property, contracts, bankruptcy, secured transactions, and the fields of regulation described in the preceding section, that widespread corruption is unavoidable.

Weaknesses in existing judicial systems prompt many delegates from poor countries at UNCTAD’s annual session on RBP to argue that adjudication of RBP control should be entrusted to the executive branch or to a special commission rather than to the judiciary (UNCTAD, various years). Some countries have sought a way out of the impasse by following the French example in establishing a system of commercial courts whose judges receive special training and enjoy a higher pay scale.

The judicial system is generally neglected as an object of technical assistance aimed at strengthening institutions that promote economic growth. Fortunately it is not the sole vehicle for settling disputes in a market economy, as seen in the following two sub-sections. At the same time nothing can substitute for the judiciary in cases where the parties fail to agree on private arbitration, or as the locus of appeal from auxiliary spheres of dispute settlement. It is in recognition of this fact that a high-level colloquium of Moroccan businessmen has called for “modernization of judicial administration and training of the judiciary to understand the problems posed by the workings of competition” (AIPC-CGEM, 1988).

2.7.2 Quasi-Judicial Tribunals

The United States pioneered in developing quasi-judicial tribunals as a vehicle for economic rule making and dispute settlement, especially but not solely between government and private parties, independent of both the executive and judicial branches. Twin objects were to ensure greater impartiality and transparency than might be expected either from an executive dependent on the political process or from an anonymous civil service, while sparing the judiciary from becoming mired down in detailed application of economic policy.
In developing countries quasi-judicial tribunals have made their appearance in the fields of labor disputes (e.g., Kenya's Industrial Court), regulation of financial markets (e.g., Southeast Asian countries), and RBP (nearly all the ten countries cited in section 2.6.5. have established such bodies). Membership of the tribunals typically represents a variety of professions, including but not limited to magistrates. Tribunals differ in the degree of initiative expected of them; some depend on referral of cases from the executive, others generate cases through their own investigative staffs.

Tribunals also differ in their degree of independence from the executive. Some members serve lengthy fixed terms, while others are subject to removal at the pleasure of the head of government or responsible minister. The latter situation inevitably limits a tribunal's readiness to act in a manner contrary to personal or political interests of the executive.

2.7.3 Private Arbitration

This is a relatively untapped field in the developing world, but one offering a way out of the impasse created by persistent shortcomings in the judicial system. In essence it is an approach towards privatizing justice, which may be no less desirable a component of structural adjustment than is the more widely advocated privatization of state-owned enterprises in response to the public sector’s demonstrated incapacity to operate commercial enterprises efficiently. To be sure, it requires a legal framework that enforces awards made under binding arbitration, while punishing corrupt behavior by arbitrators. Judicial review must avoid reopening questions of fact, limiting itself to ensuring fair procedures.

Granting land titles to kinship and other groups as an alternative to individual titling is another approach to privatizing justice, since the group then arbitrates among individual and family claimants. An analogous point is the self-regulation conducted by certain professional groups—e.g., doctors, lawyers, accountants, architects, and quantity surveyors—both in industrial and poor countries. This practice is of course open to abuse, as such groups tend to be partial towards the interests of their own members vis-à-vis the public.

Sectors of the judicial establishment in poor countries oppose private arbitration as impinging on their prerogatives and establishing a class of pseudo-judges, much better paid than their public counterparts and not accountable to society. Perfect competence and impartiality cannot of course be guaranteed, but in a competitive system private arbitrators gain business by earning a reputation for those qualities. Recalling section 2.4.2’s definition of economically efficient contract law, an efficient arbitrator makes the award that the parties would have agreed to in the contract had they foreseen the contingencies that led them to summon him.

A scenario that relies on a sluggish, uneducated and often corrupt judiciary to settle property and contract disputes does not create a business environment conducive to investment, exports and job creation. Hence the premium on testing nontraditional approaches—among them private arbitration.
2.7.4 Executive Enforcement

Court judgments and decrees of regulators and quasi-judicial tribunals are of little effect unless the executive is willing and able to enforce them by seizing property and jailing physical persons or threatening to do so. Two categories of problems arise at this stage: one concerning the resources which the executive can mobilize to enforce the law, and the other concerning its readiness to do so in the face of contrary pressures on behalf of interested parties.

As regards resources, a ministry of justice or attorney-general's office is no less subject than other government agencies to fiscal constraints on staff activity. If budgets do not suffice to hire a minimum staff complement, and/or prosecutors' compensation is less than a living wage, obliging them to moonlight, the agency cannot follow up all its tasks in a timely manner and will likely give priority to actions linked to public safety. Even where the budget is adequate, well-financed commercial interests may secure favorable treatment at any stage of enforcement. (Cases in point are by no means confined to poor countries.) This will more likely be the rule than the exception in cases involving personal interests of officials.

In the context of privatizing justice, one way in which the U.S. itself economizes on prosecutorial manpower is to authorize private suits and provide for multiple damages under antitrust law. By contrast, most countries leave it to government agencies to receive operators' complaints and then decide whether to act.

2.7.5 Instruments of Transparency

In every society officialdom tends towards secrecy in the discharge of regulatory functions, and extra-official institutions are needed to promote the transparency that in turn enhances the integrity, timeliness, and predictability of economic regulation. Foremost among these institutions is the press. In an environment of press freedom, economic journalists like nothing better than to expose corrupt and self-interested actions of officials. Unfortunately such an environment exists in a minority of poor countries. Indeed, barring the occasional exposure of corruption by an official who has had a political falling out with the establishment, the press in poor countries is distinguished by its lack of attention to rampant conflicts of interest.

There is reason to believe that freedom of the press is much more closely linked to the cause of economic development than has generally been recognized heretofore. Even in situations where the electorate has little say in the choice of leaders, officials are more cautious about misusing the LRJ system to promote personal interests in the face of regular press exposure. Notwithstanding the sensitivity of the issue, given increasing indications of the detrimental impact of conflict of interest on the business environment and on the initiative of the majority of entrepreneurs, it can be argued that donors should be addressing it in the context of conditionalities for structural adjustment aid.

At the very least donors should push for freedom of economic reporting, and make it understood that sanctions against journalists who expose conflicts of interest will jeopardize aid arrangements. Economic journalism should also be an object of technical assistance, including scholarships for study of economics.
2.8 Conclusion

The goal of this chapter has been three-fold: (1) to highlight the role of the legal-regulatory-judicial (LRJ) environment in affecting resource allocation and entrepreneurial initiative in poor countries; (2) to identify typical shortcomings that make this role less positive than it might be; and (3) to examine options for reform. It was shown that the rules and institutions comprising the LRJ environment operate on efficiency via such subsidiary criteria as transparency, timeliness, stability, predictability, access, fairness, equity and integrity.

Clearly, appropriate legislation cannot alone create a favorable environment; there must also be machinery for settlement of disputes and enforcement of judgments which enjoy the confidence of economic agents, while only generalized respect for the rules of the game can prevent the machinery from being swamped.

The rules most conducive to efficiency and growth will vary widely from one culture to another, and even within a given country, e.g., as regards rural land rights. However, experience in countries of differing cultural backgrounds that have made substantial economic progress points to several categories of law and regulation where provisions with broadly similar characteristics, if not certifiably prerequisites for growth, have nonetheless had a positive impact.

The legal underpinning of every market economy seems to be a system that guarantees private property rights, enforces contracts, and assigns liability for wrongful damage. Further categories of business law supplement these provisions by facilitating the creation and funding of institutions in whose absence efficient production and distribution of many goods and services are not possible. Such laws limit company shareholders' liability, create orderly procedures for exit, and facilitate credit and investment through secured transactions.

Finally, the chapter reviewed six common fields of business regulation, namely licensing and concessions; regulation of labor, the financial market and prices; control of restrictive business practices; and official conflicts of interest. Each field presents options for removing currently widespread obstacles to efficiency, if only by dismantling the regulatory structure altogether (as in the case of much price regulation).

It turns out that many detrimental effects of the LRJ environment are traceable to its subjugation to the interests of powerful groups in society, including government officials engaging in business for personal account. Improvement of the LRJ environment is thus closely linked to political reform, over which the donor community's influence is limited. Donors may however be able to enhance transparency by promoting freedom of the press.

Inter alia the discussion in this chapter shows how much is still unknown about what LRJ environment is most conducive to efficiency and growth in a given country, and what changes in existing environments would be cost-effective. The field suggests itself as a candidate for expanded research.
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CHAPTER 3

DEVELOPMENT AND THE WORLD ECONOMY

3.1 The Economic Environment for Developing Countries in 1990

3.1.1 Economic Performance of Developing Countries

For the second consecutive year world economic growth slowed markedly in 1990. According to the International Monetary Fund’s *World Economic Outlook* (October 1990), the growth of gross domestic product (GDP) in its reporting countries fell from a respectable 4.1 percent rate in 1988 to 3.0 percent in 1989 and 2.0 percent in 1990. The cause of this decline is linked to events in the Middle East combined with a general world-wide recession. Whereas projections for 1990 GDP growth in industrial countries made prior to the invasion of Kuwait anticipated a modest decline, growth rates for the developing countries were expected to pick up slightly. Unfortunately, both groups experienced significantly slower growth rates. Industrial countries saw their average growth rates fall from 3.4 percent in 1989 to 2.6 percent in 1990. Developing countries, which were expected to experience growth rates of 4.0 percent in 1990, actually recorded a decline from 3.0 percent in 1989 to 2.2 percent in 1990.

No geographic region has been able to escape the worldwide economic slowdown. GDP growth in Africa fell from a 3.2 percent rate in 1989 to 2.7 percent in 1990. However, these aggregate growth rates mask considerable differences among the countries in the region. In a few countries, like Ghana, Kenya, Madagascar, and Uganda, where continued stabilization and structural reform efforts in recent years have stimulated investment and exports, growth rates are expected to remain in the 4.5 to 5.5 percent range despite the decline in prices of non-fuel primary commodities. In countries where policy reforms have been delayed, or where slippages in implementation are common, such as Cameroon, Cote d’Ivoire, and Zambia, output has started to contract, or has continued to decline.

In Asia, the growth rate remained constant over the two years at 5.0 percent. Most of this growth can be attributed primarily to domestic demand, particularly investment. Although export growth has slowed somewhat for most of the region, it remains a significant factor in Indonesia, Thailand, the Philippines, and more recently, Viet Nam.

GDP growth has been negative in the developing countries of Europe for the past two years, falling still further from a minus 1.4 percent rate in 1989 to a minus 3.1 percent rate in 1990. The short term prospects in this region are affected by the restructuring of the economies in Eastern Europe and the USSR from relatively inefficient production and distribution systems based on central planning toward more market-oriented systems. The recent declines in growth are due in large part to the short-run impact of the stabilization measures and the economic reforms being implemented.

Growth in the Middle East slowed from a 3.7 percent rate in 1989 to 2.6 percent in 1990. This reflects in large part the substantial reductions in output in Iraq and Kuwait. Other oil-exporting countries in the region are expected to see increased economic activity caused by the recent increase in oil prices.
Finally, growth of GDP in the Western Hemisphere turned negative from a 1.6 percent rate in 1989 to -0.4 percent in 1990. Much of the downturn in the region can be accounted for by Argentina, Brazil, and Peru where the disruptions associated with hyperinflation and the tightening of financial policies have led to a downturn in economic activity. In Mexico and Bolivia, where substantial stabilization and structural adjustment programs have been implemented, economic activity continues to strengthen.

In addition to the shocks on the economies of the developing countries from events in the Gulf, other adverse external conditions are blamed for developing countries' weaker economic growth performance. Chief among these were worsening terms of trade due to falling commodity prices, slower growth in export markets and the burden of external debt.

The volume of external debt rose slightly in 1990 with most of the growth explained by increases in official rather than commercial debt. This phenomenon can be attributed to the increased contribution to the new financing arrangements provided to heavily indebted countries by official creditors, as well as the debt-reduction operations concluded between developing countries and their commercial bank creditors.

A key factor influencing the growth performance of individual countries was the level of debt burden. A comparison of GDPs between countries with recent debt-servicing difficulties and countries without debt-servicing difficulties reveals the strong link between economic growth and debt burden. GDP growth in the debt burdened countries has continued to decline since the 1986 high of 3.5 percent, falling to 1.6 percent in 1989 and -0.7 percent in 1990. Countries without debt servicing difficulties actually saw their GDP growth increase from 4.3 percent in 1989 to 4.7 percent in 1990.

Capital formation is a prime source of economic growth. While gross capital formation as a percent of GDP generally declined throughout the eighties, it remained fairly constant from 1989 to 1990. In 1990 the investment to GDP ratio was 19.7 percent for Africa, 28.2 percent for Asia, 27.9 percent for Europe, 17.0 percent for the Middle East, and in the Western Hemisphere the ratio was 18.6 percent in 1990.

The only group that has continued to experience strong growth in gross capital formation is the four Newly Industrialized Countries (NICs) of Asia's Pacific Rim -- Taiwan, South Korea, Hong Kong, and Singapore. Their ratio of gross capital formation to GDP has risen steadily from 25.3 percent in 1986 to 29.5 percent in 1990.

For the fifteen heavily indebted countries the ratio of investment to GDP has continued to improve slowly from its 1984 low of 16.3 percent, although it has not come close to reaching the 1981 level of 24.7 percent. For 1990 the ratio is 18.4 percent.

Along with investment, international trade is a powerful force for economic growth. Most low income countries rely on exports of primary commodities to generate the foreign exchange needed to finance imports of capital goods and to service foreign debt. Since commodity prices in the world market exhibit wide swings, export earnings of developing countries tend to fluctuate from year to year. During 1990, prices of all commodity groups fell significantly, with the exception of fuel. Not surprisingly, the terms of trade for the developing countries fell by 0.2 percent in 1990. In terms of volume, the growth rate of exports fell from 8.6 percent in 1989 to 4.1 percent in 1990. If this situation persists in the 1990s the economic recovery that began in the mid-1980s
will be difficult to sustain. The economic welfare of people in developing countries in the 1990s will depend critically on developing countries’ ability to increase rapidly the capacity to earn foreign exchange with which to finance imports.

3.1.2 Economic Developments in Central and Eastern Europe

In 1990 the world witnessed sweeping systemic changes in the political and economic landscape of Central and Eastern Europe, as former satellites of the Soviet bloc embraced democracy and capitalism. The Soviets withdrew from the region because it had finally become clear that economic growth could not be engineered without freedom, both economic and political. By the end of the year, most of the old leaders were gone. Each country in the region held elections; dissident playwrights and free trade-union leaders became prime ministers and presidents. The two Germanies became one. Even in countries where former Communist parties were returned to power, the new governments proclaimed themselves committed to democratic pluralism and free markets.

But the next phase for those new democracies would be the harsh test of governing. By the end of 1990, the central and eastern Europeans faced much higher oil import costs, both because the Soviets were requiring payment in hard currencies and because of higher world oil prices. The progressive unravelling of their principal export market --- the Soviet economy --- was particularly worrisome. Domestically, the legacy of central planning meant having to shut down a great deal of unsuitable productive capacity, leading to declining output and loss of privileges, jobs and income. Some countries faced very high debt burdens, inherited from previous regimes that had borrowed in part to avoid having to make systemic economic reforms. Observers worried that if economic deterioration continued, or worsened, the temptation might be strong to revert to bureaucratic authoritarianism. There was also concern that the bumpy road of economic adjustment might inflame dangerous populist and nationalist sentiments. Yugoslavia was a gripping example of nationalist sentiment threatening to pull a country apart.

Despite extremely rapid political liberalization in 1990, progress in making the conversion from central planning to competitive private markets varied widely from country to country. Some countries were experiencing severe economic and financial crises at the beginning of the year, effectively precluding the option to pursue gradual or piecemeal economic reform. Poland and Yugoslavia both adopted “shock therapy” economic reform programs in the midst of hyperinflation and general economic unravelling. Czechoslovakia, which inherited a stable, although rigidly centrally planned, economy, was under much less immediate pressure to undertake reforms. Hungary, too, having inherited the most developed market system in the eastern bloc, was under less immediate pressure. But gradual reform did not allow these countries to avoid recession in 1990, while it left them much less prepared than they could have been to face world markets and attract foreign investment. By the end of the year, both were ready to implement more ambitious and comprehensive reform programs. Finally, in Bulgaria and Romania, severe economic and financial pressures continued to build while very little real progress was made on systemic economic reform.

Regional Economic Performance. The economic situation inherited by Poland’s new Solidarity government in 1989 was extreme: hyperinflation, caused by a complete collapse of budgetary discipline under the old Rakowski government, and rapidly falling production. The authorities successfully brought down inflation with strict monetary and
fiscal policies, and a restrictive wage policy. The currency was devalued, most prices were freed, and the trade and foreign exchange systems were liberalized. The results were dramatic: monthly inflation reduced to 4.7 percent by September 1990 (from 80 percent in January); foreign reserves up to over $5.4 billion, bolstered by a hard currency trade surplus of $3.4 billion for the year through September 30; worker absenteeism down by over 40 percent. But the adjustment was accompanied by deep recession: industrial sales down 20-30 percent, registered unemployment up and real wages down. Although privatization of small producers and retailers moved quickly, that of the large, state-owned concerns stalled over difficulties in establishing ownership and nationalistic concerns about foreign investment. Nonetheless, Poland made the most progress among the central and eastern European countries in implementing systemic change during 1990. Newly-elected President Lech Walesa promised to stay the course of comprehensive and rapid reform.

In contrast, perhaps because they were not facing an extreme economic and financial crisis, Hungarians elected a government which promised gradual change. Although starting the year with much more developed market institutions than Poland, by the end of the year indirect price controls still remained on the 70 percent of prices listed as "free;" the rest were controlled directly. Bankruptcy laws continued not to be applied against state firms. Controls remained on currency convertibility and movements of capital overseas. Still, progress was made. Foreign investment and profits repatriation were liberalized. Numerous privatizations occurred, with significant participation by foreign firms in joint ventures, although popular reaction against alleged sweetheart deals slowed the process. The economy shifted strongly from dependence on Soviet- and eastern bloc-oriented production and trade, dominated by state-owned firms, to trade with the West, characterized by a rising private sector. Foreign investment rose from negligible amounts to a projected $250 million. But slow adjustment did not allow the Hungarians to avoid serious recession in 1990. Industrial production fell by an estimated 9.6 percent in the first half of the year. Continuing problems in controlling budget deficits, and the money supply, re-fueled inflation. By the end of the year, Hungarians had apparently tired of delay. A new government was formed that successfully obtained parliamentary approval for a far-reaching, 3-year reform effort.

Czechoslovakia was singular among the countries of the region in that it enjoyed relatively mild inflation, unemployment and recession in 1990. Partly this was because the new government had inherited an economy that, although centrally planned, was relatively stable. The debt burden was comparatively modest. The government kept a tight rein on fiscal and monetary policy. Exchange rate flexibility (but not convertibility) was maintained; wage growth was low. The hitch was that very slow progress was made on systemic economic reform. By the end of 1990, over 80 percent of prices were still being fixed directly by the federal price office. Authority to hire and fire workers was restricted and unclear. Base wages continued to be determined by central planning. State-owned enterprises still accounted for nearly all of economic output, and subsidies to industrial production were being cut very slowly. But in spite of this slow start, in September Czechoslovakia became a member of the IMF and the World Bank, and with the help of these institutions, formulated an ambitious reform program to be launched at the beginning of 1991.

Experience in other centrally planned economies in which gradual reform was attempted was not encouraging. For example, Yugoslavia began in 1989 gradually to put into place structural and institutional reforms designed to lay the foundations for a market-based
economy. But in practice important measures like banking reform and bankruptcy laws were widely disregarded. Inappropriate sequencing of reforms brought disaster: prices and imports were liberalized, despite lack of fiscal and monetary control. The results were hyperinflation, which soared to an estimated annual rate of 1,200 percent, a trade deficit which more than doubled, and rapidly falling production.

The crisis produced a second, radical, attempt at reform, beginning in December of 1989. Tight monetary policies and a wage freeze practically ended inflation in the first quarter of 1990. But the cost of delaying comprehensive economic reforms until radical adjustment was forced by crisis was so high as to be politically unsustainable. Industrial production fell by an estimated 10 percent, threatening numerous bankruptcies and large-scale unemployment. Real wages in the "socialized" sector fell by some 22 percent in the first four months of 1990. The wage freeze fell apart, and the government began to miss its monetary targets. Internal political differences caused the budget to get out of hand. By September, monthly inflation had rebounded to 7.1 percent (implying 128 percent at an annual rate).

The countries that accomplished the least in terms of economic reform in 1990 were Bulgaria and Romania. Shortages were rampant, and in both countries the decline in industrial output accelerated. Trade deficits ballooned until shortages of hard currency foreign exchange appeared. Traditional export markets within the old Soviet bloc fell apart, but neither country was able to gear up hard currency-earning exports to the West. The Bulgarians stopped making payments on foreign debt altogether, a disastrous signal to foreign investors. The government's main accomplishment in 1990 was accession to the IMF and the World Bank. The Bulgarian Prime Minister, a former Communist, was forced to resign after failing to muster support in the Parliament for his economic program. The government began to make a serious effort to implement a strong reform program in 1991. In Romania, economic failure contributed to continuing erosion of popular support for the group of former Communists that overthrew Ceausescu.

A.I.D.'s Regional Program. The American objective in Central and Eastern Europe is to foster sustainable economic growth led by the private sector, and civil, pluralistic and democratic forms of government. Because political and economic developments in the region are unfolding so fast, the American assistance program is designed to be implemented on a regional basis. In FY 1991, A.I.D. will put into place a broad range of projects valued at $381 million, to assist those countries with the most comprehensive programs of reform. Most projects will assist more than one country.

The projects will assist central and eastern Europeans to pursue the following goals:

--- Develop democratic institutions. Projects will help Europeans to develop or strengthen electoral systems, grassroots political organizations, local government and public administration, national legislatures, legal systems, systems for civic education, and independent media.

--- Transform centrally planned economies to market-based economies led by the private sector. Project activities include:

   - funds to help new private investments get started;
   - assistance in enterprise restructuring and privatization;
- technical assistance to enterprises, including agriculture;
- technical assistance in reforming the policy, legal, and regulatory environments in which businesses operate;
- assistance in developing competitive financial and other business services;
- training in management and in economics; and
- assistance to improve the efficiency of energy use.

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Maintain or improve basic quality-of-life during the disruption of economic restructuring and political reform. Projects will help Europeans to reverse declining health standards, redress decades of environmental degradation, improve the availability and standards of housing, and develop a social safety net to cope with transitional unemployment.

To supplement these efforts during a period of difficult change, emergency food, medical and other humanitarian assistance will be made available.

3.1.3 New Crisis in the Persian Gulf

Iraq's August 2, 1990 invasion of Kuwait and the ensuing war set off a chain of adverse consequences that reached beyond the Gulf and that will affect a number of countries in 1991 and for years to come. The immediate impact was most obvious and severe on several "front line" states, such as Turkey, Jordan and Egypt, whose foreign exchange earnings depended significantly on trade with Iraq and Kuwait, on remittances from their respective nationals who worked in those two countries, and on tourism. Jordan was particularly hard hit, since a disproportionate share of its external trade was with Iraq, and the operations of its main seaport were virtually shut down during the course of the economic embargo and war against Iraq. Even though the war has ended, the port may remain closed as long as an embargo against Iraq is sustained. The effects were not limited, however, to these front line states. Countries as distant as Bangladesh, the Philippines and Pakistan saw citizen refugees returning from the Gulf by the thousands, thereby removing an important source of foreign exchange and adding to the pool of unemployed. Other countries, including several of those in Eastern Europe that had just begun the struggle to create market economies, saw their balance of payments prospects dramatically worsen as world petroleum prices rose in the wake of the crisis. While several industrial countries pledged assistance to cushion these blows, the amounts in many cases fall short of needs and actual disbursements were slow in forthcoming.

The Gulf War generated the need for reconstruction and replacement of infrastructure in the affected countries. At least in Kuwait, this is expected to restore the demand for outside labor. Egyptians, in particular, should find their services in high demand and Egypt's balance of payments will thereby benefit. However, some groups formerly employed in the region, notably Yemenis and Palestinians, may find that they are no longer welcome. As a result, Jordan, Yemen and the West Bank/Gaza territories may experience lingering and serious adverse effects from the conflict and its aftermath. There could be a quite substantial restructuring of the expatriate labor force in those oil producing Gulf States that formerly relied on workers from these areas. This restructuring is likely to favor Asian and indigenous labor at the expense of the aforementioned groups.
Lower oil prices will partially relieve the adverse impact of the crisis on petroleum importing countries, but some oil exporters, notably Kuwait and Iraq themselves, will find it more difficult to finance their respective reconstruction and recovery activities. Still other nations in the Middle East and North Africa will find that perceptions of insecurity in the region have damaged the investment climate and this may slow badly needed private capital inflows. Similar apprehensions may deter expatriate workers from returning to the Gulf, thereby perpetuating the burdens on their own countries' economies. The important tourism sector might recover only slowly.

The ultimate effects of the crisis on future bilateral trading patterns and other international economic relations within the region are still unforeseeable. However, it seems quite apparent that the demands on the world's supply of capital and donor resources will be significantly increased at least through the mid-1990s as a result of the Gulf crisis. This, added to the potentially massive demands for Eastern European reconstruction, will place upward pressure on the worldwide cost of capital which will in turn spill over to other developing countries and to the industrial nations, including the United States, as well.

3.1.4 Prospects and Potential Problems for Developing Countries

Undoubtedly the largest factors to contribute to worldwide and developing country growth in 1991 will be the aftermath of the war in the Middle East and the duration and depth of the worldwide recession. Independent of these two events, projections for developing country growth in 1991 had been relatively optimistic. Justification for this optimism stems from the anticipated success of the movement toward market economics, democratization, and private enterprise happening around the globe. GDP growth in the developing countries was expected to improve by 4.2 percent in 1991. Anticipated GDP growth of the non-fuel exporters was 4.2 percent.

The various geographic regions were all projected to perform slightly better than in 1990. For Asia, growth is projected to continue at a rate slightly higher than its 1990 rate of 5.0 percent. Although this represents a relative decline from the fast paced growth of the early 1980s, it is still far greater than the growth projected for any other region. In East and Southeast Asia growth is expected to be sustained or strengthened, in spite of recent monetary tightening. In the South Asian countries of Bangladesh, India, and Pakistan growth is also expected to grow slightly, but not by as much as in East or Southeast Asia.

Expectations of continued weak markets for coffee and cocoa, two commodities that constitute more than forty percent of the continent's agricultural exports, have kept growth projections for Africa rather modest, although better still than in 1990. Most of the projected improvement depends, however, on the ability of the region to sustain adjustment efforts.

Growth in the Middle East hinges on the strength of the opposing effects of increased oil prices and the disruption caused by the war. Growth in that region has been projected to reach 3.7 percent in 1991. However, an early cessation of hostilities coupled with a massive reconstruction effort and the return of expatriate workers could accelerate the growth rate significantly.
A significant improvement in GDP growth was projected for Latin America and the Caribbean following the negative growth experienced in 1990. This projection depends on the expectation that, in the absence of policy slippage, economic activity would begin to revive in Argentina, Brazil, Peru and Venezuela as the positive effects of policy reform begin to kick in.

Domestic structural reforms and macroeconomic stability are essential ingredients of a strategy to improve developing countries' medium-term economic performance. But two other factors will strongly affect this ability: The successful conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), and the developing country debt situation.

A favorable external economic environment can greatly enhance a country's prospects for growth, and the successful conclusion of the GATT negotiations to significantly liberalize world trade would provide an external environment where the potential benefits to developing countries would be quite large. It has been estimated that the elimination of the industrial countries' tariff and nontariff restrictions could raise the level of GDP in developing countries by almost three percent. This is equivalent to about twice the amount that industrial countries currently devote to overseas development assistance. Another effect of trade liberalization would be to increase the value of heavily-indebted country exports by an amount equal to half of their total external debt. Therefore, the successful conclusion of the Uruguay round may be the best form of assistance the industrial countries have to offer the developing world.

A further impediment to successful developing country growth is the issue of the debt burden. Since 1986, there has been a general decline in debt ratios in most groups of countries, with the notable exception of the low-income countries. Most of the reduction is due to restructuring of debts by official and commercial creditors under increasingly favorable terms, debt buy-backs, and when necessary, external debt forgiveness has been undertaken to reduce developing country debt, particularly in Africa. Some countries that have undertaken commercial restructurings under the new debt initiative include Costa Rica, Mexico, and the Philippines. Chile has continued its program of market-based debt reduction. Jamaica and Uruguay are currently working on waivers for buy-back operations. Unfortunately, wider application of these strategies is needed to ensure the ultimate success of the debt reduction effort and the future economic viability of developing countries.

3.2 U.S. Trade Policy and Developing Countries

The United States continues to be strongly committed to international economic and trade policies that accelerate the economic growth of developing countries and their integration into the global trading system. These policies are designed to encourage developing countries to pursue sound economic programs based on the principles of competitive market forces and fair trade. As part of this overall commitment, the United States supports the maintenance and expansion of an open world trading system that provides liberalized market access for goods and services produced by developing countries.
3.2.1 The Administration’s Trade Policy

President Bush has formulated a multi-part program to achieve the United States trade objectives: negotiate within the Uruguay Round to achieve liberalization of trade and strengthen disciplines in both goods and services, improve the protection of intellectual property rights, provide disciplines for the use of trade and investment measures, and pursue bilateral and regional market-opening initiatives, using the strength of our domestic market to further our objectives. Many of these elements are of particular importance to developing countries. Liberalizing trade in goods would open markets for exports such as textiles and agricultural products; opening markets for services, improving intellectual property protection, and liberalizing investment conditions would help attract capital; and strengthening disciplines would promote predictability and stability. Underlying this overall trade strategy is the firm and continuing commitment to fair and open competition in the world trading environment for all countries.

The Uruguay Round. A major element of the Administration’s trade program is the strengthening of the international trading system through the comprehensive multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT). The Uruguay Round of Multilateral Trade Negotiations was launched in September 1986 and represents a commitment by the international trading community to strengthen the multilateral trading system.

While the Round was scheduled to conclude at a Ministerial meeting December 3-7, 1990, in Brussels, the impasse due to lack of progress in agriculture at this time made conclusion of the talks impossible. As a result, the Trade Negotiations Committee (TNC) directed its Chairman to undertake consultations and pursue intensive discussions with the specific objective of achieving agreements in all areas of the negotiations, and to reconvene the TNC when there is appropriate basis for continuation of the negotiations.

The United States remains committed to maintaining and strengthening the multilateral trading system, and to a timely and successful conclusion of the Round. When it is clear that a basis exists for successfully concluding the Round, the United States will return to the negotiating table.

The United States will continue its effort, with the support of other agriculture exporting countries, to obtain fundamental reform in agriculture through substantial progressive reductions in internal supports, barriers to market access, and export subsidies.

We will continue to press our trading partners to meet the target of 33 percent reduction in tariffs in the market access negotiations, including achieving duty free trade in key sectors. Good progress appears possible in about half of the duty free initiatives.

The United States remains committed to development of a set of rules to govern trade in services, and urges its trading partners to make liberalization commitments (market access and national treatment) in the context of the Uruguay Round. We also continue to seek rules for intellectual property and investment.

Open markets are essential for long-term sustainable growth in the world economy. The GATT has played a primary role in creating an open trading system. The Uruguay Round remains our best opportunity for continued expanded world trade and a strengthened GATT. The United States hopes that a successful conclusion of the Uruguay
Round will foster market-oriented adjustment and that developing countries, particularly advanced developing countries, will assume increased GATT obligations and responsibilities commensurate with their increasing role in world trade.

**Fighting Unfair Trade Practices.** In 1985 the Administration intensified efforts to obtain more open access for U.S. exports to foreign markets and more equitable conditions for international trade. Progress toward this end has been made through the use of U.S. trade laws designed to open foreign markets -- including section 301 of the Trade Act of 1974, as amended by the Omnibus Trade and Competitiveness Act of 1988. Section 301 provides broad authority to take appropriate and feasible action to enforce U.S. rights under trade agreements and to eliminate or reduce foreign unfair trade practices that burden or restrict U.S. commerce.

Section 301 has been used in concert with other U.S. trade laws to achieve a wide range of policy goals: to eliminate foreign unfair practices or restore fair conditions of competition; to open foreign markets through enforcement of international agreements; to reinforce multilateral negotiations for equitable trading conditions; and to resist protectionist pressures at home and abroad.

Significant actions were taken in FY 1990, using the section 301 program as a tool, to liberalize trade for the benefit of all nations, not just the United States. Agreements were concluded with Japan on supercomputers, satellites, and wood products to open markets and change government polices. Japan also committed to expedite talks on market access for amorphous metals and take major steps to improve the copyright protection of foreign sound recordings. Brazil committed to seek legislation to provide patent protection for pharmaceutical products and the process of their production. Agreement was reached with Canada on access to Canadian fish by U.S. fish processors. Agreement was reached with Korea on a timetable for phasing out its import restriction on beef. The EC committed to modify its oilseeds regime and consultations were continued with the U.S. on an interim measure that allows U.S. producers of meat not treated with hormones to export to the EC. Thailand lifted an import ban on cigarettes in compliance with a GATT panel ruling and reached agreement to provide fair and equitable access for foreign cigarettes.

Also, under "Super 301" provisions of the 1988 trade legislation, the U.S. examined more than 40 trade barriers in a number of countries and analyzed them for consideration as "priority practices". The U.S. renewed identification of India as a priority country and its insurance and investment practices as priority practices, but terminated investigations into those practices pending conclusion of the Uruguay Round negotiations.

### 3.2.2 Other U.S. Trade Actions in 1990

**Eastern Europe and the Soviet Union.** The political and economic revolution in Eastern Europe resulted in a comprehensive and active trade policy response by the Administration. The program covers four general categories:

- Monetary and technical assistance: The U.S. has offered assistance bilaterally and multilaterally through the Group of 24 developed countries (G-24), the OECD, the IMF, and other multilateral institutions.
Integration into multilateral economic institutions: The U.S. has supported East European countries' membership in such institutions as the IMF and the GATT, based on their ability to accept accompanying obligations and has proposed OECD affiliate or "partnership" status for Poland, Hungary and Czechoslovakia.

Construction of a legal and policy framework for expanded bilateral trade and investment: The U.S. is negotiating a series of trade and investment agreements which will confer most favored nation (MFN) tariff treatment to Central and Eastern European countries and provide for investment protection and guarantees. During 1990 the President signed an investment treaty with Poland and a trade agreement with the Soviet Union, Czechoslovakia was granted MFN treatment, and a trade agreement was initialled with Bulgaria. Investment treaties are under negotiation with the Soviet Union, Czechoslovakia, Hungary, Yugoslavia and Bulgaria. In addition, duty-free treatment for items under the Generalized System of Preferences (GSP) has been extended to imports from Poland and Hungary, and is under consideration for imports from Czechoslovakia.

Export control review: The U.S., unilaterally and through the Coordinating Committee for Multilateral Export Controls (COCOM), undertook a comprehensive review of export controls and achieved a significant degree of liberalization.

3.2.3 The U.S. Market and Developing Countries

A key objective for strengthening the international trading system is the provision of open access to markets for fairly traded goods, particularly those from developing countries. The United States recognizes the importance of open and growing markets to help developing countries expand their economies and earn foreign exchange. The U.S. commitment to this policy is underscored by the fact that the United States continues to be a growing market for developing country exports. At the same time, we believe developing countries should pursue trade liberalization policies to enable their industries to compete in international markets.

Enterprise for the Americas. On June 27, the President announced the Enterprise for the Americas Initiative (EAI), laying out a comprehensive new policy for the hemisphere with trade, investment, debt and environmental elements. The fundamental objective of this economic initiative is to support the hemispheric trend towards market-oriented economic reform for all the participating countries.

In describing the trade component of the Initiative, the President set out the long-term goal of a hemispheric free trade zone, with "framework agreements on trade and investment" serving to begin the liberalization process. With country-by-country variations, these agreements set out some basic principles of trade relations including the protection of intellectual property rights, create a bilateral consultative mechanism and establish an immediate action agenda for trade liberalization.

A key step in this regard will be the negotiation of a free trade agreement with Mexico (as notified to Congress on September 25). Other countries that have started down this road by concluding framework agreements with the United States include Bolivia (even before the President's speech), Columbia, Ecuador, Chile, Honduras and Costa Rica. Several other framework agreements are being negotiated.
U.S.-Mexico Free Trade Agreement. In June 1990, Presidents Bush and Salinas announced their mutual goal of a comprehensive free trade agreement (FTA). United States and Mexico representatives agreed that such a comprehensive FTA should lead to the progressive elimination of impediments to trade in goods and services; to investment; to the protection of intellectual property rights; and to the establishment of dispute settlement mechanisms.

An FTA would also strengthen and broaden the important economic and trade relationship that already exists between the U.S. and Mexico. Mexico is the third-largest U.S. trading partner (after Canada and Japan), our second-largest supplier of strategic materials and a significant source of our oil imports. In turn, the United States is Mexico's single largest trading partner accounting for two-thirds of Mexico's overall trade.

In late August, President Salinas formally requested negotiations for an FTA. On September 25, President Bush notified the House Ways and Means and Senate Finance Committees of his Administration's intent to enter negotiations towards an FTA with Mexico. Following notification, the Committees have 60 legislative days during which they can disallow the use of "fast-track" procedures for Congressional consideration of the final implementing legislation. Formal negotiations are expected to begin in the spring of 1991. The possibility and basis of trilateral negotiations with the Canadian and Mexican Governments are currently being explored and should be determined by early 1991.

The U.S.-Mexico FTA will build on and reinforce the dramatic program of economic reforms and liberalizations on which Mexico first embarked in 1985. Since joining the GATT in 1986, Mexico has dramatically opened its markets to foreign imports by significantly reducing import tariffs and licensing requirements. From peaks in the mid-1980s of 100 percent, Mexico has cut its top tariff rate to 20 percent while its trade-weighted import tariff has fallen from over 25 percent to about 10 percent today. Under the leadership of Mexican President Salinas, the momentum of these substantial economic liberalizations has greatly increased.

The United States supports the Salinas initiative and Mexico's moves to improve market access, foreign investment opportunities, and intellectual property rights protection. Accordingly, in the past year, the Bush Administration has made several decisions that provide Mexican exporters with increased access to the U.S. market. In April 1990, the Bush Administration announced the results of the 1989 review of the Generalized System of Preferences program. New benefits to Mexican exporters amounting to $1.9 billion -- a record amount -- were granted in the form of new and redesignated products which would be eligible for duty-free treatment under the program. In February 1990, the United States agreed to improve significantly its quotas on imports of Mexican textile and apparel products. In October 1989, the United States agreed to a doubling of the steel "voluntary restraint agreement" (VRA) and to an automatic additional increase in early 1991.

The Generalized System of Preferences. The U.S. Generalized System of Preferences (GSP) has been substantially expanded during the last year. The program now provide duty-free entry for over 4,230 tariff classifications from 130 beneficiary countries and territories. Total GSP duty-free imports for 1989 were $10 billion.
Two new beneficiaries have been designated, Hungary in November 1989, and Poland in January 1990, while reviews to consider designation of Namibia and Czechoslovakia are underway. Panama and Bahrain had their benefits reinstated in 1990, while Paraguay, Chile and the Central African Republic are being considered for reinstatement. Liberia was suspended from the program effective July 1, 1990 after a review determined it did not meet the worker rights eligibility standard of the law.

Over the past year both an annual and special GSP product review have been conducted. The 1989 annual review added 23 new products, and expanded or continued GSP coverage for nearly $2.4 billion in 1989 imports. For the first time a special, off-cycle GSP product review was conducted to provide expanded benefits to the four drug producing and transiting countries in the Andean region, Bolivia, Colombia, Ecuador and Peru. This review resulted in an additional 66 products being added to the program.

The Caribbean Basin Economic Recovery Act. President Reagan's Caribbean Basin Initiative (CBI) is a program of trade, economic assistance, and tax measures to generate economic growth in the region through increased private sector investment and trade. The major elements of the CBI program are:

-- duty-free treatment for a broad range of imports into the United States,
-- assistance directed at private sector development,
-- special access to the U.S. market for CBI beneficiary exports of apparel made of fabric cut and formed in the United States, and,
-- allowance of U.S. tax deductions for expenses of business conventions held in qualifying Caribbean Basin countries.

Finally, since 1987 a new U.S. tax provision has allowed funds generated in Puerto Rico (through section 936 of the Internal Revenue Service Code) to be reinvested in CBI countries that have tax information exchange agreements in effect.

In August 1990, President Bush signed new CBI legislation. Its major feature is to make the CBI a permanent program. Also, in November USTR announced an initial package of measures to improve the operation of the CBI. The measures would increase trade, investment, and tourism mainly by improving information, promotion, and outreach to the region.

Andean Trade Initiative. In November 1989 President Bush announced the Andean Trade Initiative—a package of bilateral, regional, and multilateral trade measures designed to create opportunities for expanded trade and investment between the countries of the Andean region and the United States. Included in this first package was a special GSP review for products from Bolivia, Peru, Ecuador, and Colombia which resulted in additional products being granted duty-free treatment; seminars and workshops on how to do business with the United States; and a proposal to undertake an accelerated negotiation with these countries on tariffs and non-tariff measures in the Uruguay Round.

On July 23 1990, upon the occasion of President Borja's visit to Washington, President Bush announced a second Andean Trade Initiative package. The centerpiece of this
announcement was a proposal to seek legislation providing CBI-like, duty-free access for selected imports from Bolivia, Peru, Ecuador, and Colombia for a transitional period. President Bush proposed this draft legislation to Congress on October 5, 1990, and Congressmen Gibbons and Crane introduced it into the House of Representatives in the final days of the 101st Congress. The Administration expects early reintroduction of the proposed legislation.

3.3 Foreign Direct Investment

In recent years the world witnessed unprecedented economic and political changes in Eastern Europe and in a number of developing countries, including Namibia, Chile, Colombia, Nicaragua, Mexico, and Panama. These changes created conditions for an improved investment climate. The move of the centrally planned economies of Poland and Hungary towards market economies led to negotiations on business and economic agreements which could provide and protect new opportunities for U.S. business and strengthen those countries' moves toward market-oriented economies. The bilateral investment treaties which the United States is negotiating with several developing countries and reforming European countries demonstrate an increasing interest of these countries in attracting foreign investment. In 1991, the United States will work with other countries wanting to open up their investment climate through such initiatives as the U.S.-Mexico Free Trade Arrangement and the Enterprise for the Americas Initiative, both of which will contain significant investment components.1

3.3.1 U.S. Investment Policy

General Policy. The United States is committed to an open investment policy. This policy was confirmed in U.S. Government statements issued in 1983 and 1986. These statements describe the objective of U.S. Government investment policy as the reduction of foreign investment actions that impede or distort international investment flows. Underlying this policy is the belief that an open international investment regime, responsive to market forces, provides the best and most efficient mechanism to promote global economic development.

To maintain and to improve the investment climate abroad, the United States is:

--- Negotiating bilateral investment treaties and business and economic agreements to provide legal protection for U.S. investors abroad;

--- Working in the Uruguay Round to reach agreements limiting the use of such distortive investment practices as trade-related investment measures, upgrading protection of intellectual property rights, and guaranteeing the right of establishment for service providers.

-- Encouraging the Organization for Economic Cooperation and Development (OECD) to strengthen the National Treatment Instrument and the Codes of Liberalization; and

-- Encouraging the World Bank and the International Monetary Fund to pursue lending and structural reform programs that foster an environment favorable to foreign investment.

The United States has foreign ownership restrictions in a few sectors which are related to national security and regulated industries. Though itself not a restriction, the Exon-Florio provision of the Omnibus Trade and Competitiveness Act of 1988 empowers the President -- when other laws are inadequate or inappropriate -- to suspend or prohibit foreign acquisitions of U.S. companies which threaten national security.

On October 20, 1990, the President's authority to suspend or prohibit foreign acquisitions over U.S. companies under the Exon-Florio provision lapsed as Congress did not re-extend the Defense Production Act (DPA) prior to its adjournment. Until Congress takes action on the DPA, the Committee on Foreign Investment in the United States (CFIUS) is using its pre-existing authority to review foreign investment, adhering as close as possible to the Exon-Florio criteria.

Trade-Related Investment Measures. Many countries continue to place restrictions on incoming or established investment in order to achieve certain economic objectives and believe that the imposition of such measures is an issue of national sovereignty. These restrictions include foreign exchange restrictions, minimum export levels, local content requirements, and maximum import levels which discourage foreign firms from pursuing investment opportunities because of increased cost and risk. To counteract this, some developing countries offer incentives, such as direct subsidies, tax credits or protected markets, to foreign investors who agree to meet certain performance requirements. Investment incentives are costly and drain government revenues that could be used more productively elsewhere. The use of both incentives and performance requirements distorts international trade and investment flows. Furthermore, benefits achieved by one country are often at the expense of another. Reduced government interference, and increased reliance on free market principles will lead to sounder, more sustainable development.

In the Uruguay Round of Multilateral Trade Negotiations, the United States is seeking to obtain multilateral discipline over trade related investment measures (TRIMS). The declaration coming out of the 1986 ministerial meeting launching the Round states that: "Following an examination of the operation of the GATT Articles related to the trade restrictive and distorting effects of investment measures, negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade." This language reflects a consensus that investment measures affect trade flows, and recognizes the importance of establishing additional disciplines, as appropriate.

The Uruguay Round negotiating group on TRIMS had met over 20 times as of January 1991. Discussions have centered on approximately 12 TRIMs identified to date as being trade distorting; on the existing GATT articles' coverage of, and relevance to, the TRIMs listed; on the ways in which, and the degree to which, these measures distort trade; and on the ways in which the various TRIMs might be disciplined.
In addition to this multilateral approach the United States can also proceed bilaterally to discourage the use of trade-related performance requirements. Section 301 of the Trade Act of 1974, and Sections 305 and 307 of the Trade and Tariff Act of 1984 are our chief tools. The United States also takes into consideration a country's use of trade-related performance requirements in the context of granting benefits under the Generalized System of Preferences program and extending non-commercial risk insurance for investment under OPIC. Multilaterally, MIGA takes the use of TRIMS into account in administering its programs.

3.3.2 Foreign Direct Investment Flows to Developing Countries

Historically, the United States has been the single largest source of Foreign Direct Investment (FDI) to developing countries, accounting for approximately one half of total flows from industrialized to developing countries. Traditionally, U.S. FDI has concentrated largely in Latin America. Today, most U.S. FDI in developing countries is still concentrated in Latin America, followed by Asia and Africa. The United Kingdom and France have been the two other traditional sources of FDI to developing countries. However, the IMF reports that in recent years the share of FDI flows from these three countries has declined, as flows from West Germany and Japan have increased.

In the 1980s, several important changes took place in the pattern of FDI flows to developing countries: (1) the share of worldwide FDI going to developing countries diminished; (2) regional shifts (away from Latin America and towards Asia) occurred in the distribution pattern of foreign investment; (3) the share of these investment flows representing services has grown; and (4) the developing countries themselves (such as the Asian countries) have become increasingly home countries for multinational corporations.

In 1989, overall FDI flows, according to United Nations (UN) Center for Transnational Corporations data, reached $199.4 billion, up $47.5 billion, or 31 per cent, over the previous year. Worldwide FDI flows to developing countries in 1989 increased by $6.5 billion, from $28 billion in the previous year -- a 23 per cent increase. However, in spite of the improvements in the investment climate of some developing countries, the developing countries' share of worldwide FDI flows remained unchanged.

In 1989, according to U.S. Department of Commerce data, U.S. capital outflows to developing countries (excluding the Netherlands Antilles finance industry), rebounded to their 1987 level (after a significant drop to $0.6 billion in 1988), reaching $6.9 billion in 1989. In percentage terms, the developing countries' share of overall U.S. capital outflows reached almost 26 per cent in 1989, a slight improvement from 25 per cent in 1987 and 4.0 per cent in 1988.

The stock of U.S. direct investment abroad (excluding the Netherlands Antilles finance industry) reached $380.0 billion in 1989, a $34.6 billion increase over the previous year. The U.S. stock in developing countries reached almost $97.1 billion, a $7.7 billion increase (or 8.6 per cent increase over the previous year). The percentage share of the overall U.S. stock in developing countries decreased slightly from 26.3 per cent in 1980 to 25.6 per cent in 1989, after having increased to 31.4 per cent in 1984. Only a relatively few developing countries have increased their share of FDI.
The Latin American region was by far the largest recipient of U.S. capital outflows to developing countries in 1989, its share reaching almost 18 per cent of total U.S. capital outflows and 69 per cent of outflows to all developing countries. Mexico, Panama, Brazil and Chile were the largest recipients of U.S. capital investment flows to the Latin American region.

However, U.S. stock of foreign investment abroad in Latin America declined two per cent from the beginning of the decade. While the Latin American share both in terms of capital outflows and in terms of U.S. FDI stock slipped slightly as compared with 1980, it may improve during the next few years. Economic reform programs, privatization efforts and debt equity swaps play an important role in helping to restore private capital flows to the region.

Asia’s share (excluding the Middle East) of U.S. capital outflows reached almost eight percent in 1989. This is a 100 per cent increase from 1987. The annual rate of growth of U.S. stock of foreign investment abroad in Asia declined from 15.3 per cent for 1980-84 to 6.9 per cent for 1985-89. Indonesia, Singapore, Thailand and India registered the largest increases of U.S. capital outflows over the previous year. U.S. investment in Hong Kong dropped by $0.5 billion over the same time period, most likely in anticipation of the change in the political status of the island.

Africa, facing increased external debt, possessing limited natural resources, and lacking a large domestic market, trained labor force and adequate infrastructure, witnessed limited progress in attracting FDI. For the period of 1985-89, the annual rate of growth of U.S. stock of foreign investment abroad was negative, decreasing by 0.7 per cent per annum on average. Africa’s share of U.S. stocks of foreign investment abroad diminished, to 1 per cent, a drop from almost 2 per cent in 1984.

Another notable trend in FDI flows to developing countries in the 1980s was the growing share of the services sector. The increase in U.S. stock of foreign direct investment abroad in the services industries has become more pronounced with liberalization, innovative developments in financial instruments, and the advent of the techno-information age. Although during the 1980s the share of U.S. stock of foreign direct investment abroad going to services sectors in many developing countries was less than the world average, it nevertheless increased steadily. This trend was heavily influenced by investment in offshore banking and finance centers (the Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, and Panama).

3.3.3 Developing Country Policies Towards Foreign Direct Investment

During the 1960s and 1970s, many developing countries imposed restrictions on FDI, limiting foreign participation in certain industrial sectors and increasing local ownership requirements. These developing countries were concerned about foreign control over specific economic sectors, natural resources and major industrial enterprises. Some developing countries were wary of foreign investment because they feared foreign investors would engage in restrictive business practices, influence political decisions, and disregard critical social problems.

Since the ascent of worldwide debt problems, there has been a decline in FDI, commercial bank lending, and official development assistance to developing countries. This
trend has contributed to a change in attitude by a growing number of developing
countries. Realizing that foreign investors are important providers of capital, technology
and management skills, developing countries are beginning to liberalize their investment
policies to attract greater FDI flows. Some countries, such as Egypt, Jamaica, Namibia,
and Turkey have moved away from policies that involve strict control over FDI toward
more flexible arrangements. Major political and economic changes in most of Eastern
Europe have undoubtfully contributed to a changed philosophy towards FDI by the
developing countries.

There has been significant improvement in the investment climates of a number of Latin
American countries, e.g. Nicaragua, Colombia, Argentina, Chile and Mexico. Colombia,
for example, passed two major investment laws in 1989 aimed at creating a more
attractive investment climate: (1) copyright protection for computer software, and (2)
allowing up to 49 per cent foreign investment in financial institutions. There will be a
special commission meeting in Ecuador with a view toward liberalizing the Andean
Pact -- which will undoubtfully result in a more open investment climate in this country.
Argentina eliminated many impediments to royalty and profit remittances, and Chile has
also been encouraging FDI with legislation that provides guarantees of internationally
accepted legal treatment and allows the transfer of profits abroad.

In 1989, Mexico made numerous significant changes in its regulations and laws to make
its investment climate more attractive. Over 60 per cent of the Mexican economy is now
open to FDI and intellectual property protection is scheduled to be substantially
improved in early 1991. In addition, the 1987 Framework Agreement and the Binational
Commission provide consultation mechanisms for resolving problems, and an understand-
ing called TIFT -- Trade and Investment Facilitation Talks -- mandates negotiations on
trade and investment matters. The U.S. and Mexico also will be holding extensive
discussions in 1991 towards concluding a Free Trade Arrangement which should improve
Mexico's chances for attracting FDI (see section 3.3.4).

Recently, highly indebted developing countries have begun to attempt new techniques to
enhance FDI and other financial flows. Examples of these are debt-for-equity swaps,
which can bring about a reduction in foreign debt while at the same time increasing
foreign investment. Debt-for-equity schemes may be accompanied by appropriate
economic measures to reduce the inflationary impact of foreign investment.

3.3.4 U.S. Government Efforts to Facilitate Investment Flows

The U.S. Government has provided considerable assistance to facilitate investment
flows. Included in this assistance are:

-- Bilateral efforts:

(a) Bilateral Investment Treaties. The Bilateral Investment Treaty (BIT)
Program is a major U.S. Government initiative devised to encourage liberalization
of other countries' investment climates and to protect U.S. direct investment in
developing countries. Although some of the treaties of Friendship, Commerce
and Navigation (FCNs) negotiated by the United States with many countries
contain investment provisions, BITs go beyond FCNs in terms of the protection
they offer U.S. investors.
The purpose of the Program, established in 1981, is to encourage investment in developing countries by guaranteeing U.S. investors a stable and equitable legal framework for their investments. The following are key elements of a model U.S. BIT:

-- the better of national or most favored nation treatment for U.S. investment abroad;

-- international law standards for expropriation and compensation;

-- unrestricted and timely financial transfer of funds associated with investments; and,

-- procedures and mechanisms, including international arbitration, for settlement of investment disputes.

On October 20, 1988, the U.S. Senate gave its advice and consent to the ratification of BITs with eight countries (Bangladesh, Cameroon, Egypt, Grenada, Morocco, Senegal, Turkey and Zaire). On December 6, 1988, the President signed the instruments of ratification. During 1990, the Senate gave its consent to the ratification of a BIT with Panama and a Business and Economic Agreement with Poland. The President signed the instruments of ratification in December 1990. As of year-end 1990, five BITs (Bangladesh, Cameroon, Grenada, Senegal and Zaire) are in effect. The United States is currently negotiating BITs with several other countries.

(b) The Overseas Private Investment Corporation's Opportunity Bank and Investor Information Service, as well as its investment insurance and guarantee schemes covering commercial and non-commercial risk (Section 5.3);

(c) The Agency for International Development's Investment Mission Program and privatization efforts of the Bureau for Private Enterprise (Section 4.5);

(d) The Trade and Development Program's Investor Assistance Program (Section 5.6); and,

(e) The Export-Import Bank's export credits and guarantees to foreign buyers which often are deciding factors in financing FDI.

Multilateral efforts:

(a) U.S. Government support for government-sponsored private sector institutions such as the International Finance Corporation and the Multilateral Investment Guarantee Agency (MIGA) (Section 6.4), both of which suggest investment policy reforms through the Foreign Investment Advisory Service (FIAS); and

(b) U.S. Government support for international intergovernmental organizations such as the UN International Development Organization (UNIDO), in particular UNIDO's Promotion Service Office.
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Regional efforts include:

(a) **Enterprise for the Americas Initiative (EAI).** On June 27, President Bush announced the "Enterprise for the Americas Initiative." This initiative has three components: trade, debt and investment. The aim of the initiative in the investment area is to increase the potential for domestic and foreign investment in Latin America, encourage capital flows and improve the investment environment. Its two main programs are 1) a new sector loan program to provide support for investment reforms, administered by the Inter-American Development Bank (IDB); and 2) a new investment fund offering up to $300 million per year over the next five years in grants and loans administered by the IDB. The purpose of the fund is to foster a favorable investment climate in Latin America through technical assistance to support privatization and other investment reforms, human capital development such as worker retraining, and equity financing for small and micro sized enterprises.

The third pillar of the EAI, debt reduction, reinforces the incentives for economic reform, particularly in the investment area. The Initiative proposes to reduce existing debts to the U.S.G. of countries which are undertaking economic reforms, are liberalizing their investment regimes, and have negotiated agreements with their commercial banks, as appropriate.

Under this proposal the stock of A.I.D. and PL-480 debt owed by eligible countries would be significantly reduced. This debt reduction program also contains an innovative environmental element, which will channel funds to local environmental and conservation projects via local currency interest payments on the new, reduced obligations. Additional debt reduction will result from the U.S.G. sale of a portion of non-concessional Eximbank and CCC debt in order to facilitate debt-for-nature, debt-for-development or debt-for-equity swaps. We have gained authority from Congress to move forward on PL-480 debt reduction for eligible countries and are seeking as a matter of priority the authority to act on A.I.D., Eximbank and CCC debt.

(b) **U.S.-Mexico Free-Trade Arrangement.** On September 25, 1990, President Bush notified the Congress that the United States and Mexico intend to initiate negotiations for a free trade arrangement. U.S. goals in a free trade arrangement not only include reducing barriers to trade in goods and services, but to investment flows as well. The Free-Trade Arrangement will help Mexico attract capital needed for the modernization of the Mexican economy.

3.3.5 **Organization of Economic Cooperation and Development**

The Organization of Economic Cooperation and Development's (OECD's) primary mission with respect to investment is to coordinate and monitor developments as well as to strengthen cooperation among its member countries. However, over the past few years the OECD has also made efforts to strengthen investment relations with developing nations.
One aspect of the OECD's work which has broad investment implications focuses on reinforcing rules of the game for international economic and financial cooperation through the OECD Directorate for Financial, Fiscal and Enterprise Affairs (DAFFE). The OECD Codes of Liberalization and the OECD Declaration on International Investment and Multinational Enterprises constitute an important framework for multilateral cooperation and surveillance of national policies related to foreign direct investment. They further provide strong impetus for cooperation within the OECD and for efforts towards international liberalization in a broader framework such as the GATT.

The National Treatment Instrument provides the basis for the elimination of member state practices which discriminate against foreign-controlled enterprises after establishment. The Code of Liberalization of Capital Movements commits member states to remove barriers to cross-border flow of capital. Similarly, the Code of Liberalization of Current Invisible Operations sets the framework for removing impediments to multilateral trade in services. Work under way on the application and the updating of the Codes is being pursued with strong U.S. backing. Similarly, the United States has been the leading proponent of a strengthened National Treatment Instrument which, among other things, would provide for a surveillance of discriminatory measures through regular and detailed country examinations.

In their transition to market oriented systems, Central and Eastern European Countries are seeking advice in numerous areas affecting the climate for FDI including taxation, competition, regulatory reform and privatization. DAFFE and other parts of the OECD are providing policy assistance in these areas to aid these countries during their economic transformation.

Since 1986, the Directorate has maintained a continuing dialogue with the Dynamic Asian Economies (DAEs) and other developing countries interested in an exchange of views on the interrelated issues of financial and taxation policies, investment, competition and development.

The purpose of this dialogue is to contribute to a better mutual understanding and fruitful cooperation. As part of this dialogue the OECD convened four informal workshops in 1990. The workshops were attended by participants from government, business and academia. The April 3-4 workshop on "Trade, Investment and Technology" allowed both sides to better understand the economic changes in the world economy and recognize the increased interdependence of FDI, technology transfer and open access to information.

DAEs representatives stated that the best approach to insuring access to new technologies and markets is one which stimulates foreign direct investment and cooperation within the group of like-minded countries. The OECD Committee on Investment and Multinational Enterprises may organize a workshop with DAE participation in 1991.

The OECD Development Centre is expected to launch a project in 1991 which will focus on the macroeconomic problems associated with the transition from regulated to liberalized domestic financial markets. The Centre also will assess the impact on capital flows of divergent inflation trends, corporate tax avoidance strategies and differences in effective tax rates.
3.3.6 United Nations Code of Conduct Relating to Transnational Corporations

The United Nations has had under consideration a global code of conduct relating to transnational corporations, covering a wider range of issues than any existing or proposed instrument. The draft code defines the rights and responsibilities of countries and foreign investors in their interactions with each other.

Work on a draft code started in 1977 in the Commission on Transnational Corporations, a subsidiary of the Economic and Social Council. However, in 1982, after 17 drafting sessions, it was agreed that insufficient progress had been made in narrowing existing differences to justify the convening of a new round of negotiations. However, informal consultations were resumed over the past three years to finalize the negotiations. The 1990 General Assembly passed a resolution calling for intensive consultations aimed at achieving an agreement on the Code for presentation to the General Assembly at its forty-sixth session.

The United States actively participated in negotiations to ensure that the code is voluntary, balanced, does not discriminate between foreign-owned and domestic firms, provides equitable treatment for multinational corporations under international law, and applies to all enterprises, regardless of whether their ownership is public, private or mixed. In the U.S. view, guidelines that affirm standards of good practice for both enterprises and governments can contribute to improved relations between firms and governments and may limit the tendency for unilateral government intervention in investment matters.
CHAPTER 4
DEVELOPMENT: PROGRESS AND PROBLEMS

4.1 Food and Agriculture

A.I.D. Policy and Program Objectives. A.I.D. is committed to supporting sustainable economic growth in the developing countries, and agriculture will continue to play a central role in contributing to overall growth in most of these countries.

A.I.D.'s agricultural assistance resources are designed to increase the incomes of the poor majority and to expand the availability and consumption of food, while maintaining and enhancing the natural resource base. This focus recognizes that solutions to the problems of hunger, disease, illiteracy, infant mortality, and inadequate shelter must all be based on growth, but not growth at any cost. The natural resource base which makes agricultural growth possible must be protected for future generations.

Unfortunately, the soil, water, forests, and rangelands are increasingly vulnerable to depletion and degradation. Tropical forests are rapidly being converted to other uses, resulting in significant environmental and economic loss and decreased biological diversity. These problems are caused in large part by shortsighted agricultural and resource management practices as well as population pressure. The effects of these problems are extremely costly to arrest or reverse.

The single most important determinant of growth in average food consumption is increased income (though income growth does not always determine the nutritional quality of the food consumed). The effort to increase rural incomes and to sustain these increases requires economic policies that are conducive to economic growth and employment generation; programs that conserve and make efficient use of natural resources; and investments that improve rural infrastructure, government services and human resources.

A.I.D. recognizes that families as well as nations obtain food either by producing it or by purchasing it in the domestic or international marketplace. Accordingly, A.I.D. supports activities designed to:

-- increase farm and non-farm employment and incomes to enable low-income households to purchase food;

-- encourage market-oriented, efficient, low cost production of food and other crops on small family farms on a sustainable basis;

-- incorporate sound nutritional and food consumption principles into the design and implementation of agricultural and rural development activities;

-- promote private agricultural marketing, processing and distribution systems for food produced domestically and imported; and
provide food assistance, including targeted food assistance, to people currently unable to exercise market demand, with particular attention to children and women in low-income families.

A.I.D. emphasizes policy reform measures in the agricultural sector when these are needed, and provides assistance to strengthen the capacity of recipient countries to undertake their own policy analysis. Oftentimes pricing and marketing reforms are needed to permit more efficient production and distribution of agricultural inputs and outputs.

A.I.D. also encourages the development and strengthening of national agricultural research systems, focusing in particular on food crops. Other research priorities include adaptive on-farm trials of new crops and new cultivation practices that promise farmers higher and more stable yields by conserving soil and water resources. Animal vaccine research as well as research on livestock disease and nutrition are designed to improve the production, incomes and diets of farmers who depend on livestock for a living.

In the context of this income-oriented agricultural assistance strategy, A.I.D. supports agricultural systems that are productive, sustainable and environmentally sound. This approach recognizes that pressure on the world's fragile land resources is increasing relentlessly. Programs and farming systems that help to conserve the natural resource base, protect the environment, and preserve genetic diversity will help to maintain the capacity of nations and small farms to produce food and other agricultural products over the long run.

The Problem of Hunger. Between 1950 and 1984, world grain production more than doubled, resulting in a decline in the proportion of people with inadequate diets. In the 1980s, increasing poverty, declining food production per person, and rising food prices either halted or reversed these earlier improvements. And although the proportion of the population suffering from undernutrition declined, the absolute numbers of undernourished increased. Failing economies, population growth and drought conditions have contributed greatly to this negative trend. Stimulating economic progress, slowing population growth rates and strengthening agriculture and the natural resource base will be essential to alleviating hunger in the 1990s.

Although we are making progress in alleviating chronic hunger and malnutrition, the problem has not been solved. The extent to which hunger remains a problem will be influenced significantly by the level and distribution of income, by population growth, and by the nutritional status of the population at-risk. If growth in per capita income accelerates, if the increased income is shared equitably, and if food selection emphasizes nutritional quality, then the number of hungry and malnourished will decrease.

Even a small increase in the energy content of the average national diet—say, 2 percent over the decade of the 1990s—could reduce the proportion of people with energy-deficient diets by 10 percent. This will happen only if the poor share proportionately in the consumption of additional food made possible by increased productivity. Agricultural development plays a central role in contributing to growth because most of the poor depend directly on agriculture for subsistence, employment and incomes.

Increased farm productivity, broad based income growth, and growth in agricultural imports tend to be mutually supportive. That is, advances in agricultural productivity in
the poorest nations contribute to broadly-based growth in income, which historically has been associated with the rapid expansion of imports, including both agricultural commodities and manufactured goods.

The United States has an interest in helping to alleviate hunger by increasing the incomes of the poor, not only because of the moral imperative to do so, but also because it can contribute to increased opportunities for U.S. exports. Many developing countries are potential markets for agricultural exports, but this potential will be realized only to the extent these countries experience rapid and sustainable economic growth.

4.2 Human Resource Development

4.2.1 Education and Training

Program Description and Objectives. In FY 1990, A.I.D. provided $132 million for education and human resources (EHR) development under its Development Assistance (DA) EHR programs, and an additional $80 million for EHR under the Development Fund For Africa (DFA). Approximately, $80 million in additional support was provided through Economic Support Fund (ESF) and PL 480 programs.

Training is the major EHR program emphasis in all regions. Within the overall program, training accounts for almost half of the DA EHR assistance in the Asia, Near East and Latin American and Caribbean regions, about 60 percent of the DA EHR activity in Africa and more than 70 percent of ESF-funded EHR assistance.

In FY 1990, A.I.D. supported approximately 19,000 individuals for training in U.S. institutions, representing an annual investment of over $200 million.

Basic education, defined as formal primary and secondary schooling, is the second focus of the EHR account. Estimated DA/DFA funding for basic education in FY 1990 was $71.6 million and included new programs in Africa and Latin America. Assistance for basic education in Africa has shifted from primarily project-based assistance to a combination of technical assistance projects and policy-based budget support. Africa Bureau is also collaborating with multi-lateral and other bilateral donors in the funding, design and implementation of basic education assistance programs.

EHR Objectives. The EHR assistance portfolio objectives are to improve:

-- Basic school opportunities for children 6-14, with particular attention to strengthening analytical, planning and management capacities. More efficient allocation and use of resources is key to improving education quality as well as access for girls and other children, particularly in poor and rural areas. To improve resource use, it is necessary to strengthen local administrative and financing capacities and to involve communities and parents more directly in administration of local schools.

-- Skills training for adolescents and adults, with particular attention to training for self-employment and employment in small and medium enterprises. Employers should be involved as fully as possible in developing and financing training
systems, from pre-service training institutions to in-service, on-the-job and extension training programs.

-- Scientific, technical, administrative and managerial training as needed in support of A.I.D. programs in each sector. Participant training in the United States is an essential part of A.I.D. strategies to strengthen private and public sector institutions, including universities and other teaching institutions, to improve leadership in all sectors and to effect technology transfer.

To achieve these objectives A.I.D. emphasizes:

-- strengthened analytical capacity, detailed assessment of education and training systems and ongoing research and experimentation;

-- Program support contingent on reform of inefficient and ineffective education policies and administrative systems;

-- Support for instructional materials development, education technology applications and other requirements for improving instructional quality and ensuring full access;

-- Project-based technical assistance to help countries implement instructional system improvements at the classroom level and to improve support systems at the district, regional and ministerial levels; and

-- Training as necessary in all sectors.

Selected Program Examples. In the Latin America and the Caribbean region, A.I.D. supports expansion and revitalization of schools systems in Bolivia, Honduras, Ecuador, Haiti, El Salvador, Guatemala, Nicaragua and Jamaica. Enhancing the quality of basic education is a priority in the LAC region.

The Support To Private Primary Education Project in the Dominican Republic is an example of innovative assistance to improve the quality and efficiency of private primary schools in the areas of curriculum development and standardization, teacher and administrative in-service training, educational materials and information systems development, and classroom equipment and renovation/construction of classroom facilities.

Under the RTAC-II (Regional Technical Aid Center) Project A.I.D. moved quickly and efficiently to provide 7.5 million books throughout Nicaragua between August 1990 and February 1991, to replace textbooks in primary and secondary schools. RTAC-II used Nicaraguan Ministry of Education (MED) experts to evaluate and select thousands of primary school textbooks. MED officials worked closely with authors and editors to adapt textbooks to the Nicaraguan culture and language. As of February 1991, a total of 5,570,000 primary and secondary textbooks have been received in Managua. In excess of 1,000 teachers at all primary school grade levels have received orientation training in the use of the new textbooks.

The largest program allocation in LAC is for the Central and Latin American Scholarship Program (CLASP) which supports increased training in the United States and the
undergraduate and technical levels. The CLASP program includes the Central America Peace Scholars project, the Latin America and Caribbean Training Initiative, the Andean Scholars Program and the Presidential Training Initiative for the Islands Caribbean.

In the Near East, A.I.D. is funding a major education program in Pakistan to assist the government with the expansion and quality improvement of primary education.

The Pakistan Primary Education Development Project provides training, technical assistance and financial incentives to the Government of Pakistan for assistance to basic education. The focus of the assistance is on policy reform to improve school administration and financing, and to increase female enrollment.

In the Asia region A.I.D. supports participant training including regional programs for the ASEAN countries and the South Pacific.

In Africa, A.I.D. has basic education projects in Lesotho, Botswana, Swaziland, Mali, Ghana, Guinea and South Africa. The AFR Bureau is planning new basic education programs in Malawi, Uganda and Namibia.

The Ghana Basic Education Program was developed in collaboration with the World Bank and is integrated into the structure of the World Bank's new education loan. The activity combines technical assistance with direct budgetary support in return for policy reform and restructuring of the financing and management of the education system.

In addition to assistance to basic education, AFR has training activities in over 30 countries through its Human Resources Development Assistance for Africa Project (HRDA).

The Science and Technology Bureau has extended The BRIDGES (Basic Research and Implementation in Developing Education Systems) research project for two final years (1991-1992). Under the direction of Harvard University, BRIDGES has produced extensive findings and related training materials regarding policy options for the improvement of basic education. The extension will provide time for completing studies which are still underway and for disseminating research and training materials worldwide.

S&T also initiated phase two of the LearnTech Project. LearnTech (Learning Technologies for Basic Education) continues applied research in the use of radio to strengthen primary school instruction. Under the overall direction of the Education Development Center, LearnTech will also continue to explore the cost-effective use of other technologies, ranging from the use of carefully programmed posters where there are no text books to adaptations of computers and video-discs for advanced developing countries.

The Office of International Training provides administrative, analytic and field support for participant training programs, including administrative support for labor training and private sector training.
4.2.2 Population

Helping Families and Nations. The objective of A.I.D.'s population program is to increase access to voluntary family planning services. Family and national level rationales drive this assistance.

At the family level, the ability to plan the number and spacing of one's children makes a critical contribution to the health and survival of children and their mothers, as well as increasing the family's capacity for self-determination. Better access to family planning also reduces the need for women to resort to abortion.

At the national level, the burden of incorporating an ever growing population into the economy is overwhelming available resources in many countries. Sixty-eight developing countries now have population policies aimed at lowering population growth rates.

Lead Donor in Population. Today family planning services are generally more accessible than they were in the early 1980s thanks to increased support for family planning programs on the part of donor agencies and host-country governments. A.I.D. is the world's leading population donor, accounting for about 45 percent of all donor funding. A.I.D.'s funds are used in combination with host-country public and private resources to improve and expand family planning services. Over ninety countries are served through bilateral and centrally-funded A.I.D. activities.

In FY 1990 obligations for population activities totalled $280 million. A.I.D. provided $225.6 million under its Development Assistance Population Planning Account. Additionally, $35.8 million was provided for population activities under the Development Fund for Africa (DFA) and $18.6 million through the ESF.

Approximately 75 percent of this assistance was directed to family planning service delivery and supporting activities such as education, training and the purchase of contraceptives. The remaining 25 percent was used for demographic data collection, policy analysis, and operations and biomedical research.

Policy Emphasis on Voluntarism. A.I.D. population policy emphasizes strong support for voluntary family planning while firmly opposing abortion as a method of family planning, and coercion of any kind. Family planning organizations with funds from A.I.D. must either offer a range of safe and effective contraceptive methods to couples or must refer them to other sources of family planning.

A.I.D. funds no abortion-related activities. The Agency funds no foreign non-governmental organizations that promote or provide abortion as a method of family planning. In countries where abortion is legal, A.I.D.'s bilateral agreements require that U.S. funds be strictly segregated so that they are not used for abortion activities. Legislation passed in 1985 stipulates that no U.S. support can be provided to any organization that supports or participates in the management of programs involving coercive abortion or involuntary sterilization.

A.I.D. Population Activities. A.I.D. provides technical assistance and program resources through a wide range of A.I.D. activities such as demographic surveys, training of medical and paramedical personnel, contraceptive development, communications support, and support for services and contraceptives. For example, A.I.D.:
-- Has trained almost 150,000 medical and paramedical personnel from 120 countries in population-related technologies and practices.

-- Supports a contraceptive development program which has produced safer and more effective methods including: oral contraceptives, IUD's, and surgical contraceptive techniques. An entirely new method, a subdermal implant known as NORPLANT, has recently been approved by the FDA and will further expand contraceptive choices provided by A.I.D..

-- Works with the entertainment industry, producing pop songs and videos, which have "topped the charts" in many countries, on sexual responsibility among youth. Due to donated time and resources, this effort has reached tens of millions of people at minimum cost.

-- Supports the world's largest survey research effort, the Demographic and Health Survey Project, which has revolutionized our understanding of population trends through 139 surveys in 65 countries. Data generated by this project are used by developing country governments to evaluate and improve family planning programs.

Program Results. Fertility trends are closely monitored through A.I.D.'s Demographic and Health Survey project and evidence of program impact exists in various countries. In the 28 countries that have received the largest amounts of A.I.D. population assistance, recent surveys show that the average number of children per family has dropped from 6.1 in the 1960s to 4.5 today, a 26 percent decline.

Perhaps the most dramatic results are the first national-level fertility declines recently documented in sub-Saharan Africa. In Kenya, average births per woman fell from 7.7 to 6.7 between 1984 and 1989. Survey data from Kenya show that currently 49 percent of women of childbearing age want no more children. In Botswana, couples were having an average of seven children in 1981, today the average is close to five.

Due to growing numbers of people and increases in contraceptive use, an increase of about $7 billion to $9 billion will be required annually to meet the growing demand for family planning services. This represents up to a two-fold increase (from the current level of $4.5 billion) from all sources. Increasing access to family planning and stimulating local investment in services will remain critical development challenges in the 1990s.

A.I.D. is placing increased emphasis on evaluation of the population program, with the Office of population launching a new initiative for a more systematic assessment of overall program impact. This includes developing guidelines for comprehensive and systematic country-level evaluations relying on common evaluation criteria and measurement standards. Rather than creating a new evaluation system, this initiative improves methodologies for evaluating impact within existing systems. The initiative will be implemented through three mechanisms: strengthening evaluation activities within existing projects, in-house research by staff, and a new evaluation project being developed this year.
4.2.3 Health

In the health sector, A.I.D.'s activities continue to highlight child survival. The objectives set out in the 1986 Health Assistance Policy Paper guide the Agency's programs. These stress the reduction of infant and early childhood illness and death through increasing immunization coverage and the expanded use of oral rehydration treatment (ORT) to treat diarrhea. At the same time, it is clear that complementary interventions are essential to enhance and maintain advances in health. Alongside immunization and ORT, the Agency's programs reflect additional commitments:

-- To improve nutrition in young children through breastfeeding and proper feeding;

-- To support birth spacing, and reduce the illness and death of mothers;

-- To use child survival interventions as the basis for building comprehensive health care systems over time;

-- To emphasize the sustainability of gains in health;

-- To develop new technologies and improved systems for delivery of health and child survival services.

A.I.D. recognizes that other health interventions such as water supply and sanitation can make important contributions to child survival, and that other health problems not specific to children and their mothers need to be addressed where appropriate epidemiologically. Also, as populations age, adult health issues will become more important.

A recent-completed operations research program (PRICOR II) examined the quality of care actually provided in 12 child survival programs. Little noted but important deficiencies were identified through analysis of over 6000 patient-provided interactions. More recently, studies carried out by WHO have produced similar results. Attempts to resolve quality-of-care deficiencies through operations research have produced encouraging results. A follow-on project, Applied Research in Child Survival Services (ARCSS), will refine and institutionalize quality assurance strategies in child survival programs. ARCSS will adopt domestic quality assurance strategies reflecting U.S. leadership in this field. Because these strategies apply to virtually any type of health service, the project will also address non-child survival services such as tuberculosis control and general medical services.

Health Sector Programs. In the past several years, A.I.D. has focused increasingly on the health policy objectives of building improved and comprehensive health systems and emphasizing financial sustainability. As populations increase in developing countries, as consumers become better educated, and as incomes increase, the demand for health care grows. A.I.D. has led efforts to find new ways to provide care which can be financed in the long-term, and which is appropriate to the needs and resources of individual host countries.

-- In Bolivia, A.I.D. provided support to create a private non-profit health provider called PROSALUD. High quality curative services are provided at affordable prices. The fees charged for curative services also pay for
free preventive health services (immunization, child growth and development monitoring, and health education) for low and middle income people.

-- In Tunisia, staff of an A.I.D.-supported project met with government officials as well as local rural leaders to develop an action plan for domestic water supply schemes based on the "water user association" concept. These associations, legally constituted and comprised of local community beneficiaries, bear responsibility for the initial and on-going cost of these schemes.

-- The Nigerian Primary Health Care Support Program is a performance based approach to bring two major policy changes in the health sector. The first is a shift in control of primary health care services from the federal and state level to the local government authorities. The second is a change from a curative to a preventive emphasis at the primary level. These changes will be achieved through decentralization of budgetary and administrative control, as well as the re-training and strengthening of the staff at the primary level. Finally, this program has been designed to reduce the cost to the government of tertiary care through cost-sharing and increased privatization of the health care system.

-- In Indonesia, A.I.D. is assisting the government with a Community Health Care Fund to provide self-financing health care based on insurance principles. The project combines government-sponsored insurance, community financing and private commercial insurance plans to meet the needs of different sectors of the population. Also in Indonesia, A.I.D. is investigating opportunities for private sector involvement in providing urban water and sanitation services.

Where child survival needs are being met, other needs are identified and resources permit, A.I.D. also supports projects which address broader health needs. Examples of these include the following:

-- The Onchocerciasis Control Program of West Africa is run by the World Health Organization and supported by A.I.D. with the World Bank and other donors. This ambitious program employs a combination of pest control and drug treatment against onchocerciasis, or river blindness. The biting flies which carry the parasite have been cleared from more than one million square kilometers of land near waterways. And a new drug originally developed for veterinary use is being provided free by its manufacturer to protect infected people from the worst symptoms of the disease (namely blindness). A pilot program is being initiated to test ways PVOs can help governments improve their capacity to deliver this drug. A.I.D. also supports WHO's goal of eradicating guinea worm by 1995.

-- Several centrally-funded technical assistance projects provide support to field missions to design and implement health projects. The Water and Sanitation for Health III (WASH III) Project provides technical assistance for water supply and sanitation activities in engineering, institutional development, hygiene education, finance and related fields in rural and urban settings. Recently WASH has also been involved in pollution control activities. WASH project experience and studies have reconfirmed
the importance of linking the availability of water supplies and sanitation facilities with health behaviors to achieve significant health outcomes. The project also has explored relationships between community participation in a water supply project and subsequent participation in other primary health care activities. This study found that water supply projects which stress community involvement appear to have a "stimulus effect" on a community's subsequent participation in immunization and perhaps other primary health care activities. WASH is currently collecting information on water and sanitation sector organizations in five countries to see where non-project type assistance might be most effective. Guidebooks on the financial management of water and sanitation agencies are also under preparation.

Another centrally funded project, Vector Biology and Control (VBC) is working to develop more sustainable approaches to controlling malaria, a disease that kills more than a million African children a year. The project has concentrated on testing alternatives to insecticides such as treated bed nets, biological agents and environmental modification. Other VBC investigations have estimated the direct cost of a case of malaria to victim and community to be equal to the entire annual public sector health expenditure in many sub-Saharan countries. The average cost per case represented approximately 12 days of output, emphasizing that the disease is not only a health problem but has significant impact upon broader development objectives.

Child Survival Program. Health assistance work is supplemented and complemented by child survival activities. Together with the host countries and other donors, A.I.D. has supported ambitious efforts to expand immunization and the use of oral rehydration therapy. These specific treatments are promoted for their dramatic and life-saving potential, as part of broader efforts to strengthen delivery systems which can provide long-term preventive care to the host communities.

A.I.D.'s support for immunizations has contributed to dramatic results in many countries. For example, since 1985 coverage from measles vaccine has increased from 15 to 34 percent in Indonesia, 21 to 63 percent in Haiti and 23 to 84 percent in Pakistan. Also, in four countries--Egypt, Honduras, Pakistan and Kenya--A.I.D.'s goal to use ORT in 45 percent of the cases has been met or exceeded. In order to reach more children-at-risk with ORT benefits, A.I.D. is increasing its collaboration with the commercial sector leading to greater participation by private companies and health providers in all aspects of ORT, from research to production to distribution.

A.I.D. recognizes the dramatic improvements to child survival which are possible if infants are exclusively breastfed for the first four to six months of life. The agency has developed a Breastfeeding for Child Survival strategy because breastfeeding not only provides an ideal diet, it also enhances each of the other key child survival interventions: diarrheal disease control, immunizations, and child spacing. Wellstart, an A.I.D-funded project, provides training in breastfeeding management and consultation. Recent data from an A.I.D.-supported program (showing that fewer women practice exclusive--as opposed to partial--breastfeeding than previously thought) has helped to shape global policy by WHO and UNICEF which
emphasizes exclusive reliance on mothers' milk for infants from birth until four to six months of age.

In Haiti, it has been shown that even in the poorest of countries, people can and will contribute to the cost of their health care. The Expanded Urban Health Project will extend primary health care with an emphasis on child survival, family planning services, and AIDS prevention to low income people. A variety of cost recovery schemes are being explored.

**AIDS Programs.** Worldwide, 8 to 10 million people may carry the human immunodeficiency virus (HIV) which causes acquired immune deficiency syndrome (AIDS). In many developing countries, the virus affects men and women equally, and a growing number of infants now carry the virus, contracted from their mothers during pregnancy. The spread of HIV and AIDS jeopardizes recent advances in health and child survival, and the future scale of the illness threatens to overwhelm health care systems which are already overstretched.

A.I.D.'s policy is to prevent and control the spread of HIV. To that end, the Agency is active in program planning and funding, evaluation of programs, support of conferences and meetings, and technical support. In addition A.I.D.'s unique network of field missions is a source of expertise for project implementation.

The international response to HIV and AIDS is led by the World Health Organization's Global Programme on AIDS (WHO/GPA). A.I.D. provides vigorous support to WHO/GPA and to the regional divisions of WHO, such as the Pan American Health Organization (PAHO). For example, A.I.D. helped PAHO fund and organize two model workshops on AIDS prevention and counseling for the Caribbean region. Sixty participants from 19 nations participated, then used what they had learned to train others in their home countries.

There are two chief components of the A.I.D. technical support project. AIDS.COM develops and demonstrates effective public health communication strategies, prevention counseling approaches and methods for marketing condoms. AIDSTECH provides technical assistance and training in high-risk behavior change, identifying effective and affordable methods for keeping blood supplies free of HIV, monitoring the pandemic, and improving the logistics of condom distribution.

A.I.D. has participated with other U.S. government agencies in the development of a new mathematical model used to assess the future impact of HIV infection in developing countries. The model can help policy-makers to project the spread of the epidemic under different national and local conditions, and compare and evaluate the effects of potential interventions. The utility of this model was demonstrated recently in Uganda where the president, after attending a model demonstration that showed condoms reducing HIV's spread, changed this country's A.I.D.'s policy to promote condom use.
4.2.4 Human Rights and Democratic Initiatives

A.I.D. has actively supported the enhancement of civil and political rights for decades, and renewed its commitment to these rights in 1979 with the passage of Section 116(e) of the Foreign Assistance Act (FAA). The Act calls upon A.I.D. to support "programs and activities which encourage or promote increased adherence to civil and political rights." Since that time the program has grown to a total of over $93 million in FY 1990. This total includes funds allocated toward democratic institution-building, technical electoral assistance, and strengthening legal systems and courts administration.

The A.I.D. Administrator and the Secretary of State have emphasized that the strengthening of democratic institutions is a primary goal of U.S. foreign policy. In the last twelve months the Administrator has increasingly focused upon the promotion and consolidation of democracy, as democracy is an economic development issue, as well as a political one.

The establishment of democratic government is complementary to and supportive of the transition to market-oriented economies and sustained, broadly-based economic development. Our goal is to support the emergence of key characteristics of more open and democratic systems -- those that encourage transparent and accountable governments, the rule of law and respect for human rights, freedom of association and expression, and orderly and peaceful competition for political leadership and transitions of political power. A.I.D. has directly supported a broad range of activities to promote democracy and respect for human rights, reinforcing democracy as an explicit and integral objective of the Agency's worldwide program.

The A.I.D. Assistance Approach. A.I.D. support for Democratic Initiatives and Human Rights ranges across a broad spectrum. In FY 1990, for example, some of the specific activities funded include: promotion of informal dispute mechanisms of the Philippine judicial sector; extensive non-partisan electoral assistance with the numerous new democracies in Latin America; several projects in Africa which disseminate, through written and oral presentation, the legal and human rights of the individual; and, support for election observers during the Pakistan national elections held in October, 1990. The overall program is authorized by Section 116(e) and Title IX of the FAA, the LAC Administration of Justice program, and regular bilateral programs.

Africa. In Africa, projects will focus on four principle themes. The first is participation and decentralization: activities to support and encourage broadened participation of the African population in development at all levels; accountability and transparency to promote fairness and a level playing field with regard to local economic opportunities; and increased decentralization to foster local initiatives in development efforts.

The second theme is to provide an enabling environment to improve private sector development. This includes issues such as the rule of law, property contract rights, and regulatory environments as they relate to the investment climate. The Africa Bureau will also encourage activities to improve the enabling environment for PVOs or non-governmental organizations promoting participation or democratic institutions.

The third theme focuses on activities which support building democratic institutions and "civil society" -- centers of influence outside of government for a more open society and
economic system, such as NGOs, civic associations, chambers of commerce, community groups -- which are vital to democratic pluralism and economic development.

Finally, the Africa Bureau will continue supporting human rights activities in support of courts administration, strengthened legal systems, technical electoral assistance and democratic institution-building.

Asia. The Asia Bureau will continue focusing on democratic institution-building, supporting projects that encourage the development of human rights organizations and democratic principles, including: public understanding of democracy; improved functioning of democratic institutions; the study of democratic principles; and assistance to programs designed to promote the democratic process. Other projects will focus upon strengthening courts administration, strengthening legal systems and providing technical electoral assistance.

Europe and the Near East. The Eastern Europe program is designated for programs concentrating on certain key categories, such as political processes. These activities will focus primarily on election-related assistance, citizens' networks, and political organization. Strengthening local government and public administration is a second category, and will include support for national legislatures in Romania, Bulgaria and Yugoslavia, as well as Poland, Hungary, and Czechoslovakia (with the latter three directly supported by a U.S. Congressional Research Service program).

Support will also be given to activities designed to strengthen the rule of law; activities facilitating social process and cultural pluralism, such as educational reform, civic education and minority issues, and the transfer of books on democratic principles. Finally, assistance will be provided for activities promoting independent media, through support for an International Media Fund, and for training journalists. Some of these activities will be developed and managed by USIA, following the transfer of A.I.D.'s funding authority.

Latin America and the Caribbean. Activities will be promoted which adhere to the following general areas: Courts Administration -- activities covered under a regional program to encourage adherence to the rule of law through a legal framework conducive to civil and political rights. Assistance is provided to support activities which enhance the independence and competence of the judiciary.

Strengthening Legal Systems: Projects assisting a government to strengthen its legal system, focusing such efforts on establishing or preserving the fundamental principles of law.

Technical Electoral Assistance: Activities to encourage free and democratic electoral systems; to support local or international organizations that educate citizens on their right and responsibility to vote, to provide assistance to electoral tribunals; and to monitor elections through the presence of independent election observers.

Democratic Institution Building: Projects that encourage the development of democratic institutions, values, and pluralism, including strengthening: political parties; legislatures; accountability of government; local/municipal government; civilian control of the military; alternative information and opinion sources; citizen participation in labor, business, and other organizations; and democratic values and leadership training.
4.3 Women in Development

A.I.D. Policy. A.I.D.’s policy on women in development is derived from section 113 of the Foreign Assistance Act of 1961, as amended. It directs that the U.S. Government’s bilateral assistance be administered to give particular attention to programs, projects, and activities that contribute to integrating women into the national economies of developing countries.

The FY 1991 foreign assistance appropriations legislation earmarks $5 million from A.I.D.’s DA accounts for women in development activities in addition to funds otherwise available for such purposes. The legislation further earmarks $3 million of these funds as matching funds to support women in development efforts of USAID Missions overseas.

The emphasis of A.I.D.’s women in development effort is to develop and implement policies and programs that facilitate women’s full participation in, contribution to, and benefit from the economies and societies in which they live. Therefore, women in development is considered a cross-cutting issue in all strategies, policies, programs, and projects.

Program Objectives. The A.I.D. Office of Women in Development (WID) has a clearly defined strategic program to strengthen and institutionalize the gender issue within all A.I.D. activities. The primary goal is to optimize the use and expansion of women’s productive capacity to ensure sustainable national economic and social progress. The four intermediate objectives are:

-- Improve policies, systems, and procedures to institutionalize gender considerations;
-- Train A.I.D. personnel in gender considerations in development;
-- Design and implement performance monitoring systems; and
-- Strengthen the research base concerning gender issues.

The WID Office concentrates on four sectoral areas: agriculture, education, private sector development, and natural resources and environment. Activities are undertaken in each sector, focusing on the linkages of the following:

-- Labor, employment, and production: women’s productive roles, employment patterns, and participation in both formal and informal labor markets,
-- Economic policy reform and adjustment: research and analysis on the linkages between economic policy reform and women’s economic roles, productive capacity, and response to economic incentives, and
-- Human capital/social services: analysis of the impacts of socioeconomic factors such as education, nutrition, health, and fertility on program and project outcomes and action to improve/strengthen those impacts; research on how households interact, divide responsibilities, allocate risk and resources, share burdens,
organize their labor, and plan for the future, and the constraints and opportunities which household roles and resources present to women.

**A.I.D. Activities.** To effect the institutionalization process within A.I.D., four modalities are utilized within and by all A.I.D. central and regional bureaus and the overseas missions: providing technical assistance; training of A.I.D. personnel, including host country PVOs/NGOs, governmental counterparts, and contractors; developing research, analyses, and databases; and disseminating appropriate technical information and data. Examples of A.I.D. efforts in FY 1990 utilizing these modalities are detailed below.

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**Research and Information Gathering:** Using matching funds with A.I.D.'s Caribbean regional office, monies were provided for technical personnel to assess the constraints to the full involvement of women of the Caribbean in small enterprise undertakings. The analysis considered the factors which assist women in expanding their small enterprises, such as training in bookkeeping, and those which constrain them, such as the lack of information about available resources. The report also showed that while women want to borrow to expand the size of their enterprise's staff, they often refrain from doing so because they elect to use the profits to educate their children; a decision based upon an immediate household need versus long-term business growth. This technical assistance and resulting information will be used to not only assist private sector activities within the Caribbean area, but will also be integrated in policy development activities of A.I.D. itself.

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**Technical Assistance:** To assist USAIDs with the appropriate integration of women into all of their activities, matching funds were utilized with the Guatemala USAID to provide a team of technical personnel for analyzing the existing mission portfolio and providing recommendations for more fully integrating women into new or existing projects and programs. The team's recommendations are now being implemented within the USAID, and these efforts will be monitored over the next few years to test the assumptions and applications of these actions.

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**Information Dissemination:** To assist the Asia-Near East regional USAIDs with strategic and programmatic opportunities, the ANE Bureau and the WID Office shared the costs for assessing and providing recommendations for specific initiatives or activities that need to be applied for integrating gender issues. For example, one of the studies recommends appropriate programmatic responses in recognition of the relationship between women's education and employment opportunities, as well as identifying the demographic changes in this region to facilitate integration of gender considerations in the Open Markets/Open Societies framework. This information is being disseminated to all regional USAIDs and will be utilized in the development of training materials for future regional workshops.

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**Training:** Utilizing matching funds with the Senegal mission, the WID Office provided five days of country-specific training for A.I.D. personnel, country counterparts, and relevant NGOs/PVOs. This training assisted the mission in learning how to integrate gender issues into ongoing and anticipated new activities; how to measure the results; how to secure and track gender data; and how to
establish systems within the mission for monitoring and developing integrative activities in the future.

**Anticipated FY 1991 Activities.** The WID Office intends to continue its attention to the four primary sectoral areas, utilize similar modalities to meet its Congressional and A.I.D. mandates, and continue its matching of monies to further leverage WID as a cross-cutting issue within A.I.D. Additional emphasis and strengthening of the program are intended in the areas of training and monitoring or evaluating the interventions for WID activities. In particular, the WID Office intends to firmly establish indicators to measure its progress at both the institutional and programmatic levels, and to test its interventions against both identified levels. Moreover, as A.I.D. continues to expend more resources for WID related activities, it is anticipated that the four modalities used for integrating WID activities will be increased and tested, thus providing the basis for realignment or restructuring of the overall long-term strategic plan.

### 4.4 Energy, Environment and Natural Resource Development

#### 4.4.1 Energy

**Program Description and Objectives.** The primary goal of A.I.D.'s energy program is to promote the development of cost-effective, efficient, reliable, and environmentally sound energy systems in developing countries, in order to provide the energy services necessary for broad-based economic growth.

Energy is essential for development. Only with adequate, affordable, and reliable supplies of energy services can developing countries expand their economies and improve social services. In virtually every economic sector the process of development requires more and higher-quality forms of energy. The importance of energy also makes this sector an attractive target for the Agency's macroeconomic policy reform programs.

A.I.D.'s energy program is designed to address several constraints existing in the energy sectors in developing countries, including a lack of proper planning and management, low production and end-use efficiency, and uneconomic pricing policies. In recent years the Agency has emphasized issues in the power subsector, although significant work has also been supported in the improvement of thermal processes in industry. During 1991 A.I.D. will take a preliminary look at issues in transportation. A critical component of the Agency's energy strategy is to collaborate with multilateral development banks in order to leverage a much larger source of investment financing.

A.I.D. provides grants for pre-investment studies, training and institution building, planning assistance, technology transfer and innovation, and capital assistance. Capital assistance is provided in only a few of the largest recipient countries. In addition to supporting specific energy projects, A.I.D. is actively engaged in policy dialogue on energy-related issues, including price reform and development of incentives for greater private sector involvement in the energy sector.

**Global Energy Situation.** Commercial energy demand in developing countries is expected to triple over the next twenty years, straining capital resources and increasing energy-related environmental degradation. In 1970 developing countries accounted for only 10 percent of the world's commercial energy consumption. By the first decade of
the 21st century, this share is expected to jump to 25 percent. This growth is the
combined result of development itself, including the establishment of energy-intensive
industries and agricultural practices, and the demands of growing populations.

Lack of sufficient capital in the energy sector is already leading to energy shortages that
are a drag on the economies of several nations. In Pakistan, for example, power
shortages have led to a 15 percent loss in economic productivity, resulting in a 2 percent
drop in GDP. The Philippines and the Dominican Republic are experiencing similar
problems.

On the environmental side, increasingly serious air pollution in major developing country
cities has gained the attention of local and national governments, and the potential
threat of global climate change is receiving significant attention worldwide.

A.I.D. Energy Activities. The Agency's energy program focuses on increasing the
effective supply of electric power (and secondarily, process heat in industry) by promot-
ing a menu of options that simultaneously generate less environmental impact.

--- Energy Efficiency and Conservation. A.I.D. has provided support for energy
efficiency improvements in 25 countries, emphasizing efficiency at all stages of the
power subsector (including end uses) and with respect to thermal needs in the
industrial sector. The largest programs are in India, Egypt, Pakistan, and Moroc-
co, and potentially significant assistance has begun in Brazil, Costa Rica, Indone-
sia, and Poland. The programs focus on institution building, appropriate legisla-
tion and regulations, database development and management, auditing, technology
application and adaptation, training and education, and monitoring and evalua-
tion. During 1990 A.I.D. played a lead role in launching the Global Energy
Efficiency Initiative, an activity supported by a number of public and private U.S.
organizations that wish to raise the level of attention paid to energy efficiency
worldwide.

--- Renewable Energy Programs. A.I.D. is supporting the use of cost-effective
technologies using renewable resources -- biomass (agricultural residues), wind,
solar, geothermal, and small hydropower. The support is directed both at country-
and fuel-specific activities (including opportunities in Costa Rica, Honduras,
Kenya, Thailand, India, Pakistan, Indonesia, and the Philippines) and more
generically through support of publications, conferences, and reverse trade
missions. S&T's Office of Energy works closely with the U.S. renewable energy
industry in identifying potential applications.

--- Energy Policy and Planning. Energy policy and planning embraces all aspects of
the energy sector in developing countries. A.I.D.'s major areas of focus are least-
cost investment planning in the power sector, environmental management, energy
price reform, and the implementation of energy efficiency strategies related to
these approaches.

--- Private Sector Development. One aspect of energy policy to which A.I.D. gives
particular attention is the degree to which the private sector is allowed participa-
tion. This is considered critical in the power subsector, because the private sector
has better access to capital resources and a stronger incentive to run an efficient
operation. A.I.D. offers assistance to governments in drafting legislation, funding
for workshops in a number of countries around the world, study tours in the U.S. for developing country decisions-makers, and support to developers with a pre-investment feasibility study fund.

-- Training. Training programs are necessary component of an effective energy assistance program. Training is included in some of the programs described above, and S&T's Office of Energy runs a training program that offers courses in many aspects of energy sector management and project implementation.

4.4.2 Environment and Natural Resources

Program Description and Policy Objectives. The central objective of A.I.D.'s environment and natural resources policy is to help developing countries conserve their natural resources and to promote long-term economic growth by managing exploited resources for sustainable yields.

Although environmental services and products are critical to many developing country economies, natural resources are being used in ways that are not sustainable and environmental quality is rapidly declining. Rapid population growth, deforestation, loss of biological diversity, and increasing levels of pollution threaten human health and environmental quality. Environmental degradation threatens food production, health, and economic expansion in many A.I.D.-assisted countries. Promoting the proper management of natural resources is essential to A.I.D.'s goal of promoting broad-based economic growth.

Environmental degradation affects not only individual countries, but also the global community. Global environmental issues such as climate change and ozone depletion have highlighted the critical linkages between economic development and sustainable use of natural resources. Issues such as climate change also dramatically highlight that the developed and developing world share responsibility for and are equally affected by deterioration of the environment. In the United States, for example, the burning of fossil fuels contributes about 25% of global carbon dioxide emissions; developing countries contribute almost the same amount from the burning and clearing of forests.

These problems, if ignored, could have catastrophic political, economic, and social consequences. As these consequences become painfully clear, developing and developed countries alike are increasingly realizing that addressing environmental threats must be given high priority in international assistance.

In response to the accelerating threat of mass extinctions, A.I.D. has focused attention in recent years on conserving tropical forests and preserving biological diversity, including the protection of plant genetic resources in preserves and parks, as well as the generation of alternative sources of income to reduce pressure on wildlands. These concerns are integrated, when possible, into other elements of the Agency's environment program, including (1) promoting sound land use planning; (2) promoting reforestation, agroforestry, and watershed management; (3) improving water quality in both urban and rural areas; and (4) encouraging private sector participation in efforts to conserve natural resources.
International Cooperation on the Environment. Global environmental problems do not recognize national boundaries; their solutions require international cooperation. Climate change and ozone depletion will likely affect all nations adversely -- there will be no winners, only losers. Air and water pollution affect regions distant from points of origin. A species driven to extinction is lost to all future generations. Polluted water from one country can affect health and livelihoods in another.

A.I.D. continues to place a high priority on encouraging international cooperation in addressing global environmental problems. Opportunities for such cooperation will increase as the potential effects of environmental degradation are better understood. The response to depletion of the earth's protective ozone layer is a salient example of the international cooperation that is possible.

The United States is a leader in international efforts to reach a consensus on understanding the consequences of climate change. The primary vehicle for these efforts is the Intergovernmental Panel on Climate Change (IPCC), an ad hoc working group jointly established by the United Nations Environment Programme and the World Meteorological Organization to assess the state of knowledge about climate change and its impacts and to consider possible response strategies.

The United States will also be the largest contributor to the recently formed Global Environmental Facility (GEF), a multi donor mechanism for funding key environmental activities. The GEF will be administered by the World Bank.

A.I.D. led the effort within the Development Assistance Committee of the OECD to establish a Working Group on Development Assistance and Environment. Creation of this group is a clear signal of the importance that the DAC places on the environment and presents an important opportunity for cooperation.

A.I.D. Activities. A.I.D. supports environmental activities in the majority of countries receiving our assistance, funding efforts in forestry and conservation of tropical forests, watershed and water resources management, soil conservation, pollution control, conservation of biological diversity, and environmental policy and planning. Training and environmental education are important components of many of these activities.

A.I.D. is increasingly concerned with global environmental issues such as climate change. Its efforts to combat global warming are reflected in support for forest management, reforestation, renewable energy, and energy efficiency. A.I.D. supports research designed to improve our understanding of the likely effects of climate change on A.I.D.-assisted countries and to assess local sources of increasing levels of carbon dioxide emissions. A.I.D. is actively promoting policy reform and planning new initiatives to reduce rates of deforestation. The Agency continues to support agricultural research to develop new varieties of crops and to build capacity to breed varieties that are more resistant to drought and temperature variation. This will serve to strengthen the ability to respond to future climate change.

A.I.D. is focusing greater attention on the economics of conservation. Economics is a significant driving force behind environmental degradation in developing countries. If the relationship between economics and conservation were better understood, economic forces could be harnessed to benefit the environment while promoting development. A.I.D. is supporting a projects in Thailand and Indonesia to work with government and
university officials, and local NGOs to evaluate the impacts of current economic policies on the natural resource base. Several centrally-funded projects on the economics of conservation have been initiated in FY 1990 and FY 1991.

Improving national income accounting to reflect more accurately the depletion of natural resources is another important aspect of environmental economics supported by A.I.D. For example, the Bureau for Latin America and the Caribbean is supporting work to examine the ramifications of assigning values to natural resource depletion on Costa Rica’s national income accounts.

4.5 Institutional Development and Housing and Urban Development

4.5.1 Institutional Development

The word "institutions" includes local organizations such as community self-help groups and local PVOs, large-scale administrative units, and market structures such as systems of property rights, stock markets, contract systems, and financial intermediaries. Much of A.I.D.'s institutional development effort is focused on improving the "enabling environment" (i.e., the system of laws, regulations, and policies) within which institutions operate. This "enabling environment" determines whether developmentally useful institutions flourish or, alternatively, institutions evolve which distort incentives and resources -- constraining growth. A.I.D. also provides direct support to specific institutions, improving their procedures, sustainability, and growth. Increasing attention is being given to facilitating the efficiency of markets by improving financial intermediation and other market services essential to the growth of competitive markets.

A.I.D. pays particular attention to the efficient interaction of public and private institutions. Appropriate macro-economic policies encourage the development of market institutions which increase competitiveness, innovation, and efficiency. Legal environments which permit individuals to associate to pursue common goals and solve common problems -- in associations, contractual relationships, and local authorities -- are also important. Such environments, impacting on both markets and civic action, expand individual choice, encourage self-help, and unleash the creative energy of society.

Several of the Agency's policy statements address issues of institutional development. A concern for sustainability infuses all of A.I.D.'s project and program assistance activities; in this area A.I.D. is guided, in part, by its policy on recurrent costs. A.I.D.'s policy requires that institutions in developing countries work toward complete coverage of all recurrent costs by the time that donor assistance has been withdrawn. Sustainability also implies the evolution of specialized complementary institutions (e.g., agricultural marketing systems and agricultural research systems in support of agricultural development. Flexibility to respond to new needs and incentives for institutional innovation is also required.

A.I.D. guidelines on institutional analysis for program and project design documents identify four key issue areas:

- The characteristics of organizations A.I.D. is to work with -- including capability for undertaking the project,
- The internal dynamics of decision making within the organizations,

- The institutional weaknesses arising from insufficient or misallocated resources, internal conflicts, geographic location etc., and,

- The incentives and "rules of the game" imposed by laws and political economy of the country.

Every program and project paper will be required to address these issues and to present recommendations on how to address the problems identified. Every analysis should emphasize the sustainability of the institutions involved, and should consider the use of appropriate private or market institutions.

Non-project assistance should address the institutional dimensions of successfully effecting policy reform. This includes an analysis of political constraints, potential implementation weaknesses, and the changing role of the institution in a restructured economy.

In general, administrative allocation systems that direct scarce inputs to a favored few should be replaced with market-based allocation systems that channel resources to their most efficient uses. When government officers have the authority to decide which applicants actually receive public subsidies, for example, they can exercise that authority for their own advantage. More important, they may distort price signals and draw resources into unproductive uses. Even entrepreneurs may spend their efforts trying to gain political protection rather than seeking new markets, product innovation, or increased efficiency. In consequence, A.I.D. seeks to reform systems of licenses, municipal regulations, and trade restrictions, which operate to restrict competition and increase transaction costs, to the disadvantage of microenterprises and new firms.

In most developing countries, A.I.D. advocates greater reliance on the market. From the institutional perspective, this means developing institutions that will facilitate the emergence of larger and more competitive markets. This suggests emphasizing institutional innovations (both public and private) to reduce various transactions costs facing firms. Stable macroeconomic conditions are essential. Reform of contract and property law, market information services, and standards are important public services.

The issue of privatization warrants some elaboration. A.I.D.'s experience suggests that, given conditions currently prevailing in most developing countries, private sector institutions generally less costly, more responsive to clientele, and more innovative and efficient that public enterprises. There are, of course, broad exceptions in areas such as infrastructure, communications, transport, power, education, public health and agricultural research, although even in these traditional sectors there are opportunities for privatization or mixed systems. Where there is a reasonable choice, A.I.D. encourages institutional development options in the private sector and avoids activities that preempt viable private options.

A.I.D.'s Bureau for Africa has a number of strategic objectives illustrative of the kind of institutional initiatives that are of increasing importance to the Agency. For example:
- Reduced government involvement in production and marketing of goods and services. The operation of many parastatals in Africa often has crowded private activities out of the credit market and led to increasing fiscal instability.

- Improved equity and efficiency in providing key public services. It is difficult to maintain appropriate balance between funding out of general revenues and user fees; between personnel and operations costs, and between expensive quality services for the few and lower cost services for the many.

- Strengthened competitive markets to provide a healthy environment for economic growth led by the private sector. The Bureau has identified commodity and factor markets as the areas in which liberalization would be most effective in stimulating growth.

A.I.D.'s Bureau for Europe and the Near East has developed projects correcting the balance between public and private initiative. In Europe, the Democratic Initiatives Program includes such projects as the following:

- Developing the capabilities of the national legislatures by providing commodities, equipment, and technical assistance for their members and staffs,

- Developing the capabilities of local governments through training in policy analysis, budgeting and finance, and management.

- Assisting political parties, labor unions, and civil associations to develop into effective and stable democratic institutions,

- Assisting media to develop as independent institutions through training, equipment and technical assistance,

- Institutionalizing independent judicial systems by providing assistance in drafting legislation that will protect individual, political, and commercial rights.

In the Near East region A.I.D. is developing a regional project to enhance the capabilities of non-governmental organizations to implement democratic initiatives.

The improvement of competitive markets is an important objective of Bureau institutional strategy. The strategy focuses on improved financial markets and institutions, privatization of state owned enterprises, and the development of services to stimulate trade and investment.

The Bureau for Latin America and the Caribbean also places importance on the development of democratic institutions. Programs include support for strengthening the administration of justice, improvements in electoral processes, support for democratic political parties (through the National Endowment for Democracy), organizational and technical capacity of legislatures, improvements in municipal government, encouraging civilian control of the military, strengthening alternative information sources, and increasing civic participation.

4.5.2 Housing and Urban Development
Under the dual pressures of rapid population growth and historically unprecedented rates of urbanization, developing countries are undergoing profound changes in their social and economic structures. By early in the next century, urban populations in developing countries will exceed those in rural areas, with more than half of these nations’ poor living in cities. One of the most dramatic outcomes of this rapid urbanization will be the continued growth of “mega-cities”; by the year 2000, at least a half dozen cities in developing countries will have populations exceeding 15 million people. Equally important is the comparable growth of smaller towns and cities.

Although urbanization puts additional pressures on developing countries, urban places are also the locus of many off-farm employment opportunities and the centers in which much of the growth and restructuring of the economy must occur. Urban economic activities already generate half of the gross domestic product in developing countries, a proportion that is predicted to rise over the next decade. The efficiency with which urban problems are managed will be one of the key factors affecting overall economic development in the 1990s.

A.I.D.’s Office of Housing and Urban Programs has worked for more than 25 years on the world shelter problem, and in recent years on broader problems related to rapid urbanization. It has concluded that adequate, if minimal, shelter can be made available to all in a reasonable period of time if the right policies are followed, policies which rely on individual initiative, market forces, and the private sector to produce housing, with government providing the policy framework and basic infrastructure. Affordability, cost recovery, decentralization of authority and appropriate standards are essential elements of this approach.

Increasing municipal management capacity and providing local governments with the skills necessary to provide required services are key factors as well. Governments can, for example, work with the informal sector on increasing their efficiency and making their activities consistent with the overall urbanization process. They can adopt development standards at levels that are appropriate to the economy and the resources of the people. By providing infrastructure in strategic locations, they can ensure that minimal service levels are maintained and help guide urban growth. They can pursue economic policies that ensure the availability of credit at reasonable terms. They can also provide clear land title or less formal rights of occupancy that will give low-income families security of tenure, collateral for home improvement loans, and incentives to invest in their housing. These actions, by giving families a stake in their community, will promote greater social and political stability. Policies concerning land, infrastructure, and credit are likely to be most effective when they rely on the private sector and individual initiative and when the government places the responsibility and authority for developing and implementing urbanization and shelter programs as close as possible to the people who are most affected by them. Municipal decentralization requires both the transfer of fiscal and management responsibilities to local governments and the systematic training of local officials to improve their management skills and expand the pool of skilled public administrators to a size commensurate with need.

A.I.D. measures its success in the housing and urban development sectors by the degree to which policies are adopted that improve the ability of developing countries to use available resources to manage urbanization and produce affordable shelter for low-income families over the long run. The policies that are critical to achieving these goals are those that focus on the needs of low-income families, improve the functioning of
financial markets, rationalize development standards, increase cost recovery, decentralize
government authority, and allow land markets to operate efficiently. Success in these
sectors will substantially enhance the economic development potential of developing
countries as they inexorably become more urbanized.

The Office of Housing and Urban Programs operates through seven Regional Housing
and Urban Development Offices located around the world, which provide advice on
shelter and urban issues to all interested USAID Missions. The principal resource
available for capital assistance is the Housing Guaranty (HG) Program, under which
$100-$125 million in U.S. private sector loans, guaranteed by the United States govern-
ment, are made annually.

FY 1990 HG authorizations were based on a policy-based lending approach, which
combines necessary policy reform with the provision of shelter and urban services. The
majority of HG programs in FY 1990 focused on housing finance systems and the
provision of urban infrastructure, with increased private sector participation and market
oriented local financing being the primary policy agendas. Decentralization and
improved municipal effectiveness also figured prominently into the policy agendas of a
number of HG programs.

In addition to the HG program, the Office manages about $5 million in centrally grant-
funded technical assistance, research and training activities and co-manages significant
amounts of Mission resources. Through these programs, the Office engages in policy
dialogue with developing country governments on key issues and works to strengthen
institutions in relevant sectors. A major emphasis is placed on the training of counter-
parts in public and private sector organizations. Through this training, which takes place
locally and in the United States, a cadre of policy-makers and program implementers is
developed that can improve the country's capacity to address its shelter and urban
development needs.

With rapid urbanization, the issues of inadequate water and sewer infrastructure,
insufficient land use planning and urban management, and improper waste disposal
become even more significant. In FY 1990, the Office of Housing developed an urban
environmental strategy and action plan designed to incorporate these issues into A.I.D.
programming. Continuing activities will focus on the privatization of solid waste services
and the creation and maintenance of a data base of indicators of performance in the
environmental, shelter and urban sectors.
4.6 Private Enterprise Development

Program and Policy Description. A.I.D.'s private enterprise program is based on the fact that developing countries that have encouraged expansion of their private sectors through the expansion of free market systems have experienced self-sustaining economic progress and broadened the opportunities for individuals to make economic choices. Productive private enterprises generate increased income, purchasing power, employment opportunities, and overall economic growth.

The overriding intent of A.I.D.'s private enterprise policy is to promote the establishment of a climate conducive to private sector activity in developing countries, not to finance individual business entities per se. The objective is the establishment of viable, competitive markets and the expansion of private enterprise in order to reach the ultimate goal of economic growth. The private enterprise program is diverse, encompassing activities in policy reform, financial markets development, microenterprise development, privatization, and investment and trade promotion. The policy framework and significant actions for some of these areas are discussed below.

The private enterprise program is Agency wide, involving all bureaus and overseas Missions. USAID Missions are responsible for developing and implementing most of the Agency's private enterprise activities. A.I.D.'s Bureau for Program and Policy Coordination, the Bureau for Science and Technology, the central private enterprise program within the Asia and Private Enterprise Bureau, as well as the private sector offices of A.I.D.'s regional bureaus, provide technical assistance to Missions in private enterprise strategy development, financial markets, privatization, and micro-and small-enterprise development.

In FY 1990, A.I.D. obligated approximately $776 million of DA and ESF in support of private enterprise development. The amount remains relatively unchanged for FY 1991. These figures include obligations for policy reform activities as well as direct assistance to private enterprise and the use of the private sector in delivering traditional government services. Local currency generated through other A.I.D. programs provides additional resources for private enterprise development activities.

Program Objectives and Significant Actions. Effective financial markets are indispensable to the pursuit of sustained, broad-based economic growth. A.I.D.'s financial markets development program promotes a system of financial markets that is integrated, relatively undistorted and relies heavily on competitive financial institutions and on policies that facilitate competition. This system should be capable of effectively mobilizing private savings, allocating such savings to investment yielding maximum returns, and maximizing the participation of the general populace.

Financial markets development is needed to enable a country's financial structure to move beyond short-term lending with high collateral requirements to the effective mobilization and channeling of capital to finance business expansion. Examples in this critical area include reform of Bolivia's banking system, design of a debt/equity swap program for the Dominican Republic, and assistance to Indonesia's fledgling stock market.

The Agricultural Finance Group at Ohio State University, through a series of cooperative agreements with the Bureau for Science and Technology, has carried out extensive
research on rural financial sector development. The project's research on subsidized credit, market-oriented interest rates, and savings mobilization has substantially expanded the Agency's understanding and capability to promote rural finance in A.I.D.-assisted countries.

The Bureau for Asia and Private Enterprise's Financial Sector Development project helps countries identify and reduce policy, regulatory, institutional, and behavioral barriers to effective functioning of financial markets. Over the next five years, the project will focus on strategic planning for Missions, research and development to test new concepts and instruments, information dissemination, and will provide on-call technical assistance.

The Private Sector Revolving Fund, established by Congress in 1983 to provide a flexible, businesslike mechanism for expanding the availability of commercial credit to developing country private enterprises, promotes a market approach to development assistance. Projects may benefit U.S. firms, either as joint venture partners or as exporters of services and technology. The fund is particularly active in Indonesia, the Philippines, and Thailand. In FY 1989, Congress gave direct guarantee authority to the fund, thus significantly expanding its potential impact. Under this new guarantee authority, each dollar of fund assets will be leveraged to support eight dollars of developing country investment.

Microenterprise Development. Microenterprise assistance is an important element of A.I.D.'s private enterprise development strategy. By increasing incomes of the poor, providing opportunities for advancement of microentrepreneurs, and encouraging indigenous investment, such assistance makes a significant contribution to broad-based economic growth. A major objective of the program is to help people lacking access to capital to obtain the capital they need to achieve a higher level of business activity, expand employment, and increase income.

A.I.D.'s assistance to microenterprises is provided through a well-balanced mix of program types, with a strong focus on financial services and the development of institutions able to provide such services widely and sustainably. As of FY 1990, A.I.D. was actively sponsoring over 170 separate microenterprise activities in 47 different countries, through A.I.D. missions and 12 U.S. private voluntary organizations. The largest portion of that assistance took the form of credit for entrepreneurs (two fifths of the total). Another fifth of A.I.D.'s resources was devoted to training and extension for microentrepreneurs, while a roughly equal amount supported the institutional development of the credit and training providers. These are most frequently local non-governmental organizations (NGOs), but are also government programs, financial institutions, credit unions, and international NGOs. The remaining portions of A.I.D.'s microenterprise program included a mix of policy and regulatory reform and other types of assistance.

In FY 1990, A.I.D.'s new Office of Small, Micro and Informal Enterprise in the Bureau for Asia and Private Enterprise has focused on helping to improve the effectiveness of microenterprise programs supported by A.I.D., through assisting A.I.D. missions in project design and implementation, and by carrying out research together with practitioners concerning: (1) the role of microenterprises in economic development and (2) improved methodologies for providing both financial and nonfinancial assistance to microenterprise.
Among the countries with the largest A.I.D.-sponsored microenterprise programs are Indonesia, Sri Lanka, Philippines, El Salvador, Guatemala, the Dominican Republic, Honduras, Jamaica, Kenya, Senegal and Egypt.

Privatization. The Agency views privatization as an important vehicle to facilitate the adoption of free markets, that is, as a way to encourage private enterprises to compete with each other and to increase employment and incomes and to improve standards of living. Privatization is an important mechanism for increasing the quality of goods and services available to consumers and for spreading ownership and the benefits of economic growth. The determination of which activities are appropriate to the public and private sectors should be made on the basis of economic efficiency, innovation, and incentives. A private enterprise operating in a truly open and competitive environment is usually more likely to meet goals of economic efficiency and growth than is a partially or wholly state-owned enterprise.

Several dozen privatizations have occurred with A.I.D.'s support, including many successful ones in Costa Rica, Honduras, and Jamaica. These efforts have spread the ownership of major developing country corporations to tens of thousands of individuals, mobilized large amounts of local capital, and reduced the subsidy burden on developing country governments.

The Bureau for Asia and Private Enterprise has an on-going technical assistance program for privatization under its Divesture and Privatization project. The project has contributed to many of A.I.D.'s privatization activities by helping developing countries plan and carry out the transfer of state-owned and state-controlled enterprises and functions to the private sector. The project has sent more than 150 consultants to work on some 95 Mission projects in 45 countries and has privatized entities in the agribusiness, airline, finance, telecommunication, and manufacturing industries, among others.

Trade and Investment. A.I.D.'s trade development policy encourages developing countries to view international trade as a key instrument in the process of achieving broad based, sustained economic growth and to place greater reliance on complementary domestic competitive markets that support more open trade policies. A.I.D.'s investment and trade promotion policy focuses on building long term private enterprise ties between developed and developing countries, consistent with U.S. trade liberalization objectives.

During FY 1990, A.I.D. took significant steps to increase coordination with other federal agencies designed to increase U.S. competitiveness and reduce the trade deficit while at the same time promoting sound economic development projects.

Consistent with the President's directive to the Trade Promotion Coordinating Committee to "harness all the resources of the federal government to serve American exporting businesses...and provide a focal point for business and industry in the markets of the world's emerging democracies", A.I.D. provides active support to the seven on-going working groups.

Further, A.I.D., State, and the Department of Commerce have agreed that Missions should regularly share and coordinate commercial information, particularly concerning potential procurement from A.I.D. projects that could lead to greater U.S. exports. The team approach is meant to ensure that U.S. business gets primary consideration on project financing with U.S. foreign assistance dollars.
In May 1990, A.I.D. and Eximbank announced a joint financing facility to provide $500 million of "mixed credit" finance for capital infrastructure project development in four Asian countries (Indonesia, Pakistan, the Philippines and Thailand). The program seeks to provide financial support for U.S. suppliers/developers of major capital projects in the four countries and in four target sectors (construction, energy, telecommunications and transport). The program emphasized A.I.D.'s commitment to design development projects with mutually beneficial trade components.

A.I.D. has implemented programs to promote an environment conductive to private investment for the production of nontraditional exports. A wide range of business services (e.g., marketing studies, joint venture brokering, overseas promotion offices) have been provided to local and foreign investors and exporters. These groups have been instrumental in the passage of legislation in developing countries to stimulate investment and exports, the establishment of export-processing zones, and the adoption of other measures aimed at the development of a favorable business climate.

A.I.D. has been involved in investment and export promotion in Latin America for many years. Successful investment promotion centers include the Costa Rica Coalition for Development Initiative (CINDE) in Costa Rica, the Investment Promotion Council (IPC) in the Dominican Republic, the Salvadoran Foundation for Economic and Social Development (FUSADES) in El Salvador, and the Entrepreneurial Research Development Foundation for Investment and Export Development (FIDE) in Honduras.

The APRE Bureau has developed a trade and investment project that utilizes the International Executive Service Corp (IESC) and has cooperated with missions to develop programs linking private businessmen in the developing countries to U.S. businessmen in joint ventures.

USAID Missions in the Asia/Near East Region are also making trade and investment a major focus of their private enterprise programs. In Egypt, A.I.D. has assisted the private sector to develop programs oriented to the promotion of U.S.-Egyptian trade and investment. Similar programs are underway in Indonesia and Thailand. USAID Missions in Jordan, Tunisia, and Yemen support trade and investment activities that offer the host country and U.S. private sector entities the opportunity to seek out areas of mutual interest supportive of A.I.D.'s development mandate.

Future Efforts. A.I.D. has recently approved a new Business and Development Partnership initiative which focuses first and foremost on specific American industries and clusters of related industries with considerable potential to contribute to sound and sustainable market-based growth in developing countries. It focuses especially upon those resources which can make American firms effective as investors and suppliers in the emerging economies. The human resources most decisive in international competition involve high levels of skills in specialized fields and high levels of knowledge about specific country markets worldwide. These human resources which shape competitive advantage are not the result of our general American educational system alone, but emerge from the mix of experience and knowledge gained through actual commercial operations in the global market place. A.I.D.'s Business and Development Partnership initiative will work in harmony with the other economic arms of the U.S. government to assist American firms in gaining access to capital resources for third world investment on terms competitive within the global marketplace. The initiative has six components:
-- A Capital Projects Facility: A financing facility separate from DA and ESF which will support capital projects of direct strategic relevance to U.S. trade competitiveness.

-- A Trade and Investment Network: To provide advice, information, insight and counsel to American firms seeking to do business in the countries in which A.I.D. operates.

-- A Private Investment Advisory Council on Foreign Aid: A high level business advisory council consisting of CEOs of internationally oriented U.S. firms to advise A.I.D. as it develops and implements its programs.

-- Emerging Sectors in Development: A pilot competitiveness partnership with a few selected U.S. industries which offer extraordinary opportunities for development impact from American private sector investments in developing countries.

-- Competitiveness through Universities: A program to strengthen the permanent capability of some of America's best universities and business schools to understand and creatively respond to the challenges of Third World markets for American business.

-- Business Skills for Emerging Markets: A promotional program for the development of a cadre of young men and women in the U.S. private sector equipped with a strong command of business skills for emerging markets building a similar cadre within the A.I.D. foreign service.

4.7 Disaster and Refugee Assistance

4.7.1 Disaster Assistance

The Office of U.S. Foreign Disaster Assistance (OFDA) is responsible for providing rapid emergency relief assistance to foreign nations affected by natural and man-made disasters. OFDA also provides other humanitarian and technical assistance in prevention, mitigation and preparedness. This type of assistance includes, but is not limited to, contingency planning, training, preparedness, warning, and mitigation. The goal of the OFDA program is to save lives and reduce the suffering of victims in foreign countries stricken or imminently threatened by disasters. Property loss and subsequent economic and social disruptions associated with disasters are a major deterrent to A.I.D.'s and the developing countries' goals of fostering broad-based economic growth and sustaining the viability of development assistance programs. OFDA collaborates with bureaus within the Agency to reduce the threat posed by natural hazards to development.

Significant Actions in FY 1990. In FY 1990, OFDA responded to 52 disaster declarations, including:

-- Floods in Mexico, Tunisia, Indonesia, Paraguay, Tanzania, Zaire, Turkey, Nicaragua, China, the Philippines and Korea;

-- Earthquakes in Algeria, Peru, Iran and the Philippines;
Cyclones in the Philippines, Thailand, Madagascar, Western Samoa, Tuvalu, Tonga and India;

Drought in Angola, Ethiopia and Bolivia;

Food shortages in South Africa and Rwanda;

Epidemic in Uganda;

Civil strife in Sudan, Mozambique, El Salvador, Romania, Somalia, Lebanon and Sri Lanka;

Displaced persons in Liberia, Cote D'Ivoire, Guinea, Sierra Leone, Jordan, Turkey and Sri Lanka;

Volcano eruption in Indonesia;

Fires in Burma and Grenada;

Accidents and emergencies in Yugoslavia, Turkey, the Philippines, Colombia, Panama and Trinidad.

The principal responsibility of OFDA is to ensure effective coordination of U.S.G. international relief responses to both natural and manmade disasters. In carrying out this primary mission, OFDA has accomplished many of its FY 1990 operational objectives including establishing operating procedures for support with Department of Defense (DOD) regional commands; standardizing OFDA stockpiles and procuring rescue equipment; procuring improved emergency shelter material; training civilian and military technicians to operate OFDA's water purification units; establishing and training a U.S.G. sponsored search and rescue cadre; procuring satellite telephone and other communications systems; negotiating memoranda of understanding with other federal agencies; and establishing liaison with U.S. medical/health personnel and counterparts to develop international disaster response strategies.

Future Activities. Future direction will focus on: (1) more closely linking disaster relief, prevention, mitigation and preparedness to ongoing development efforts, (2) development of communications and information systems to facilitate relief operations and planning, (3) assessment of needs prior to and following disasters, (4) promotion of disaster mitigation institution building, and technology transfer in target countries, and (5) enhancing host country ability to respond to their disasters immediately. A.I.D. is requesting $40.0 million for International Disaster Assistance in FY 1992 and has established a development program in the field of disaster prevention, mitigation and preparedness at $5.5 million for FY 1992. A.I.D.'s emergency relief coordination capability and disaster preparedness program will be greatly enhanced in FY 1992 and will contribute to the success of the U.N. International Decade for Natural Disaster Reduction (IDNDR).

OFDA will continue to emphasize expanding host country public awareness of disaster threats and means of avoidance, as well as establishing close inter-governmental cooperation through the IDNDR and cooperative agreements with other donors. In FY 1991 and FY 1992 OFDA will encourage other A.I.D. bureaus, U.S. government
agencies, private industry, international financial institutions (the World Bank and Asian Development Bank), international organizations, (Organization of American States and Pan American Health Organization), private agencies (Partners of the Americas), and the reinsurance industry to improve disaster planning and to integrate disaster mitigation, preparedness and relief principles into their projects.

There are two major elements to OFDA's congressionally authorized activities in disaster prevention, mitigation and preparedness. These include (1) helping host countries to better manage their own disasters, and (2) transferring disaster-related early warning, mitigation and other technologies to host countries, as well as strengthening linkages among those countries' national and regional institutions, international organizations, and other donors.

By the beginning of FY 1992, the following actions will be initiated:

-- OFDA will be working closely with A.I.D.'s International Disaster Advisory Committee (IDAC) recently established to strengthen the role of private sector, industry, labor unions, private voluntary agencies, universities, and non-government expertise in meeting disaster assistance response requirements.

-- Development of regional strategies linking relevant disaster hazards with the target-country approach. Conduct early warning and public awareness programs on severe storms, floods, storm surges, tsunamis, volcanic eruptions, earthquakes, landslides, fires, and environmental hazards in the target countries within each region.

-- Demonstrate appropriate disposal techniques for hazardous materials focusing on incineration of overage pesticides.

-- Provide technical assistance to address environmental problems such as chemical hazards, pesticide disposal and other forms of pollution for target countries.

-- OFDA will stockpile materials to facilitate more adaptable, practical temporary shelter suited for the climate conditions where it may be deployed.

-- OFDA will strengthen regional response capabilities of the U.S. Missions and key governments through increased operational training, integrated planning and simulation exercises.

-- Mission Disaster Relief Officers designated by U.S. Ambassadors will be provided information on developing mission disaster relief plans, as well as manuals appropriate for implementing disaster assistance within their host country.

-- OFDA will initiate a greater number of disaster preparedness and mitigation activities in Africa and will establish two regional disaster preparedness adviser positions for Africa.
OFDA will apply the results of a study assessing the most effective methods used by organizations providing relief to displaced persons in Africa.

OFDA's goals and objectives for FY 1991 have effectively established our role for the decade of the 1990s. A measure of success of the IDNDR will be in creating the mechanisms by which technology, scientific knowledge, and management skills will be transferred to disaster-prone countries, and their experiences shared with U.S. counterparts.

4.7.2 Refugee Assistance

Despite several important successes in recent years, such as the return to their homes after long years in exile of some 43,000 Namibians in 1989 and 100,000 Afghans in 1990, the global refugee situation continues to be serious with some 15 million refugees requiring significant levels of humanitarian assistance. U.S. policy is to seek solutions to conflicts and an end to persecution so that these persons may return home. In the interim, the U.S. contributes toward their needs through programs of overseas assistance and of admission of certain refugees for resettlement in the United States. Central to these goals is a recognition that refugee problems are matters of international concern, requiring multilateral solutions.

Accordingly, the focus of U.S. policy concerns includes:

-- Protection and life-sustaining relief for persons who have fled across international boundaries to seek refuge from persecution and conflict;

-- Obtaining an effective and timely response from the international community toward refugees; and

-- Resolutions to the origin of refugee problems.

International assistance in maintaining and supporting refugee populations must recognize the refugees' often profound effects on the ecology and resources of the host countries and consider the development needs of those host countries as well.

Africa. There are now over 4 million refugees in Africa - persons outside their country of origin due to human rights abuses and persecution or general conditions of violence. The situation is complex and dynamic. Many sub-Saharan countries, for example, both generate (22 sites) and receive (34 sites) refugees. In addition, there are over 4 million internally displaced persons throughout the continent.

The major refugee emergency of 1990 was generated by civil conflict in Liberia, which began in December 1989. By the end of 1990 over 750,000 Liberian refugees had sought asylum in Ivory Coast, Guinea and Sierra Leone. Other refugee populations of current concern include: 900,000 Mozambicans in Malawi; over 450,000 Sudanese in Ethiopia, CAR, Zaire and Uganda; over 400,000 Somalis in Ethiopia and Djibouti; 370,000 Ethiopians in Somalia; over 300,000 Rwandans in five neighboring countries; 60,000 Mauritanians and uprooted Senegalese in Senegal; and 22,000 Senegalese in Mauritania.

The status of first asylum and humanitarian assistance is growing more uncertain, as the constantly increasing number of persons needing assistance has taxed host countries'
ability and willingness to accept more refugees. In some areas of Malawi, for example, refugees outnumber nationals. Development oriented local integration is a necessity, as over 2 million persons have been in refugee status for more than five years.

Under the Migration and Refugee Assistance appropriation, the Emergency Refugee and Migration Assistance Fund, and the extraordinary use of ESF, the U.S. Government contributed $61.2 million to the United Nations High Commissioner for Refugees (UNHCR) and $18.2 million to the International Committee of the Red Cross (ICRC) in FY 1990. The A.I.D.-managed Food for Peace Program provided most of the food.

Near East/South Asia. Continuing strife in the region generated new requirements for refugees and displaced persons. Assistance to over one million third country nationals who fled Kuwait and Iraq at the onset of the Persian Gulf crisis was provided from the Migration and Refugee Assistance appropriation and the President's Emergency Refugee and Migration Assistance Fund ($15 million) and the Food for Peace Program.

Afghans in Pakistan and Iran continue to constitute the largest group of refugees in the world. Over 5 million Afghans have been forced abroad as refugees, while several million more have become displaced persons in their own country. Since the initial influx in 1978, both the Government of Pakistan and the international community have been generous in providing for the needs of refugees. The United States has been a major supporter of the relief effort, providing almost $700 million since 1980 to the UNHCR, the World Food Program, and several other international agencies and private voluntary organizations. In FY 1990, the U.S. contributed $12 million to UNHCR programs in Pakistan, $3.6 million to the ICRC, and an additional $3.2 million was designated for private voluntary organizations. Despite the Soviet troop withdrawal in February, 1989, continued intra-Afghan fighting and war-related damage to the country's economic and agricultural infrastructure have prevented most refugees from returning home.

The United States contributed $57 million to the United Nations Relief and Works Agency (UNRWA) for Palestinian Refugees in the Near East during FY 1990. UNRWA programs provide education and medical care to over 2 million Palestinian refugees in the Near East.

East Asia. The United States and other donors continue to support the efforts of the UNHCR to provide care for almost 210,000 Indochinese in the first-asylum camps of Southeast Asia and Hong Kong. In June 1989, the United States joined 50 other nations at the International Conference on Indochinese Refugees to adopt a Comprehensive Plan of Action (CPA) for dealing with the situation of asylum seekers from Vietnam and Laos. The CPA emphasized protection of asylum seekers, procedures for refugee status determination, voluntary repatriation, and continued resettlement and orderly departure programs. In FY 1990, the U.S. contributed some $21.5 million to UNHCR to support the CPA. The U.S. also provided an additional $4.6 million for regional anti-piracy programs and to ICRC and voluntary agencies for their work with Indochinese asylum seekers. Additional assistance is provided to the United Nations Border Relief Operation for over 300,000 Cambodians in camps on the Thai-Cambodian border. In FY 1990, the U.S. contributed $10.7 million to UNBRO. Thai villagers affected by the refugee influx are assisted through a $2.5 million ESF program.
Central America. There are some 100,000 registered refugees in Central America and Mexico: these include approximately 45,000 Guatemalans in southern Mexico and Nicaraguans and Salvadorans spread throughout the region. Positive developments in the regional peace process and the democratic elections of a new, non-Sandinista government in Nicaragua, impelled the voluntary repatriation of some 11,000 Salvadorans and 30,000 Nicaraguans in the last months of 1989 and throughout 1990. During the same period, Guatemalan repatriation remained minimal. The United States contributed approximately $16.5 million to support UNHCR in providing care, maintenance, protective services and repatriation assistance for the Central American refugees and $1.6 million to ICRC programs in the region.

4.8 Evaluation

With the aim of creating a strong and independent central evaluation function, A.I.D. has begun a major expansion of the staffing, responsibilities and authority of its central evaluation office, the Center for Development Information and Evaluation in the Bureau for Program and Policy Coordination (PPC/CDIE). This initiative, to be implemented over a two-year period, adds an important new dimension to A.I.D.'s previous efforts to relate evaluation to the design and management of development activities, the assessment of program and project performance, and the synthesis of lessons learned as a basis for future assistance efforts.

The initiative parallels and supports steps that the Agency is taking to consolidate bilateral programs; to strengthen their quality and management; and to implement performance-based budgeting systems. In announcing the initiative, the Administrator reaffirmed A.I.D.'s commitment to "managing for results" and outlined the following three reasons for strengthening evaluation:

Evaluation tells us what results we are achieving, and the kinds of program strategies and activities that are most effective in differing country circumstances.

The evaluation process itself can be a powerful tool for management improvement for ourselves and for our counterparts in the countries in which we work.

Evaluation will strengthen our ability to account for the results of assistance programs. This is central for our efforts to gain the greater flexibility we seek from Congress in programming assistance.

The new mandate for PPC/CDIE includes the following elements:

--- An expanded agenda of evaluations targeted on strategic issues of performance, directly in support of senior management decision-making in the face of scarce budget resources. This will mean conducting more on-the-ground assessments of programs with greater rigor, and presenting the findings with greater candor. These assessments will cover all modes of assistance, and they will address both issues involved in specific programs and issues that cut across programs. These assessments, together with systematic monitoring of program performance measures, are intended to generate information useful to the Administrator and other senior staff in making strategic decisions about program priorities, alternatives and resource allocations, and for reporting on the Agency's progress to the Congress,
OMB and other groups interested in A.I.D.'s development performance and impacts.

-- **A broadened responsibility** to assess not only "what" we do but also "how" we do it, e.g., the tools of assistance, management and operational procedures, and organizational models. We are concerned about the process of assistance and ways to improve that process. A new series of operations and management systems assessments may examine such matters as A.I.D.'s use of technical assistance, the project design process, impediments to managing for results, and A.I.D.'s experience in performance-based budgeting.

-- **Establishment of PPC/CDIE as the center of excellence for A.I.D.'s overall evaluation system.** Other Bureaus and overseas missions will continue to have responsibility for formative evaluation during project implementation as an integral part of their operational management and decision making. PPC/CDIE will expand its role in providing technical assistance and training to missions and Bureaus in designing information and evaluation systems that support their needs for effective project and program management, and will also monitor the quality of evaluation work carried out by other units. PPC/CDIE will maintain its role as A.I.D.'s central information resource in support of Bureau and mission programs. We will continue to emphasize the analysis, synthesis and dissemination of development experience by combining in CDIE the Agency's central evaluation, information and statistical units.

In carrying out this challenging mandate, we are able to build on CDIE's recent experience in carrying out centrally managed impact evaluations and in providing technical assistance for mission-wide program performance information systems. However, we will also be breaking new ground in putting evaluation to work not only for A.I.D. but also for our host country partners, a concern we share with other bilateral and multilateral donors.

Innovative efforts will be undertaken to implement the initiative. These efforts include:

-- Establishing a participatory process for deciding on the topics and issues to be included in CDIE's evaluation agenda;

-- Designing more rigorous and more varied methods appropriate for evaluating the results of development programs, and for assessing the management, organizational and operational aspects of the Agency's activities;

-- Selecting key measures of performance and impact useful for monitoring progress in core program areas across the assistance portfolio;

-- Strengthening the ability of missions to use evaluation as an effective management and communication tool in the field, through staff training and technical assistance;

-- Extending the dimensions of the evaluation process to include host country participation and learning;
- Expanding our range of techniques (including empirically-grounded rapid appraisal methods) for obtaining information to meet short-term operational and decision-making requirements in a cost effective manner; and

- Developing increasingly effective ways of presenting, disseminating and reporting evaluation findings and conclusions, tailored to the varied information needs of senior managers, planners, policy makers and external audiences.

A.I.D. shares with other donors its concern for the role of evaluation in planning and managing development activities, for ensuring that future development efforts draw on the lessons learned from past experience, and for strengthening the evaluation capabilities of recipient countries. The United States continues to endorse donor attention to evaluation, and A.I.D. participates actively in the work of the Development Assistance Committee's Expert Group on Aid Evaluation. Through our membership in the Expert Group, we are participating in an innovative series of regional seminars, including developing country evaluation practitioners, trainers and clients, to encourage the use of evaluation as a tool in more effective project design and implementation and as an element in improving their public and private institutional capability to manage development programs. We also support efforts to share evaluation findings more systematically within the donor community, and to synthesize and disseminate our experience.
5.1 U.S. Bilateral Economic Assistance

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

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

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

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

Within this framework, bilateral U.S. economic assistance flows from four categories:

-- **Development Assistance** expands economic and social opportunities with programs in sectors that promote equitable economic growth.

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

-- **The Public Law (PL) 480 Program** (Food for Peace) combats hunger, encourages development, and expands markets for U.S. farmers.

-- **The Housing Guaranty** program secures nonappropriated funds from U.S. private capital markets, at close to market rates of interest, to improve housing for low-income inhabitants of borrowing countries.

The amounts obligated or requested under these budget categories in FY 1989, FY 1990, and FY 1991 are shown in Table 5-1.
Table 5-1 U.S. Bilateral Economic Assistance Obligated or Estimated, FY 1989 - FY 1991
($ millions)

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>FY 1989 Actual</th>
<th>FY 1990 Actual</th>
<th>FY 1991 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Assistance</td>
<td>2,431.7</td>
<td>2,516.8</td>
<td>2,790.7</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Functional accounts + Sahel &amp; Development Fund for Africa</td>
<td>(1,850.8)</td>
<td>(1,912.0)</td>
<td>(2,134.7)</td>
</tr>
<tr>
<td>Economic Support Fund</td>
<td>3,411.7</td>
<td>4,010.9</td>
<td>3,390.5</td>
</tr>
<tr>
<td>Special Assistance Initiatives</td>
<td></td>
<td>119.5</td>
<td>569.5</td>
</tr>
<tr>
<td>Central America</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reconciliation Assist</td>
<td>56.9</td>
<td>37.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Subtotal A.I.D.</td>
<td>5,900.3</td>
<td>6,684.3</td>
<td>6,751.0</td>
</tr>
<tr>
<td><strong>PL 480 Food Aid</strong></td>
<td>1,466.5</td>
<td>1,520.6</td>
<td>1,576.0</td>
</tr>
<tr>
<td>(Titles I, II, III)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Appropriated Funds</td>
<td>7,366.8</td>
<td>8,204.9</td>
<td>8,327.0</td>
</tr>
<tr>
<td>Housing Guaranty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program(^3)</td>
<td>105.0</td>
<td>99.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>


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

- Access to raw materials important to U.S. industry;
- The possibility of destabilizing conflict;
- The presence or prospect of considerable U.S. private investment;
- The relative importance of medium- as well as short-term U.S. interests;
- The country's position on human rights; and
- The extent of the country's efforts to acquire nuclear weapons.

Additional, and equally important, criteria for the allocation of Development Assistance to a country are the following:
-- The country's need, especially as measured by per capita income, the availability of food, and access to health care and education services;

-- The country's economic progress and prospects, including its ability to effectively use U.S. assistance;

-- The country's commitment to policies that promote growth; and

-- The development of human resources and institutional capabilities and the conduct of research on food and agricultural problems.

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

Using these criteria, in FY 1990 the United States allocated to lowest-income (International Development Association-eligible) developing countries 18.3 percent of all funds (Development Assistance and Economic Support Fund) available to country programs (see Table 5-2). Regional allocations under Development Assistance, Economic Support Fund, and PL 480 are shown in Table 5-3 for FY 1989 and FY 1990. In FY 1990, the Europe/Near East Region and the Latin America/Caribbean Region each received about a 25 percent share under Development Assistance, while the Africa Region received about 31 percent. The Europe/Near East region absorbed nearly 72 percent of the Economic Support Fund in FY 1990, with the majority of that amount going to Egypt and Israel. Of the PL 480 total, Europe/Near East accounted for 31 percent, Africa 17 percent, and Latin America and the Caribbean 19 percent.

5.1.1 Development Assistance

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

Agriculture, Rural Development, and Nutrition Assistance continues to absorb the largest portion of functional Development Assistance. The majority of the resources provided under the Development Fund for Africa also are used to improve agriculture. The objectives of this assistance are to enable countries to become self-reliant in food, to ensure food security to their populations, and to contribute to broadly based economic growth. To accomplish these objectives, two elements are emphasized:
Table 5-2 A.I.D. Development Assistance and Economic Support Fund Programs by Economic Level of Recipient Country, FY 1989-1991

($ millions)

<table>
<thead>
<tr>
<th>GNP per Capita</th>
<th>Fiscal Year</th>
<th>Total</th>
<th>DA</th>
<th>ESF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than $1,070</td>
<td>1989</td>
<td>1,629.5</td>
<td>115.7</td>
<td>1,513.8</td>
</tr>
<tr>
<td></td>
<td>1990</td>
<td>1,861.2</td>
<td>74.9</td>
<td>1,786.3</td>
</tr>
<tr>
<td></td>
<td>1991</td>
<td>1,641.9</td>
<td>102.9</td>
<td>1,539.0</td>
</tr>
<tr>
<td>Between $546 and $1,070</td>
<td>1989</td>
<td>1,837.4</td>
<td>362.2</td>
<td>1,475.2</td>
</tr>
<tr>
<td></td>
<td>1990</td>
<td>2,037.4</td>
<td>370.2</td>
<td>1,667.2</td>
</tr>
<tr>
<td></td>
<td>1991</td>
<td>1,741.4</td>
<td>309.0</td>
<td>1,432.4</td>
</tr>
<tr>
<td>Between $0 and $545</td>
<td>1989</td>
<td>929.1</td>
<td>613.6</td>
<td>315.5</td>
</tr>
<tr>
<td></td>
<td>1990</td>
<td>837.9</td>
<td>597.5</td>
<td>276.4</td>
</tr>
<tr>
<td></td>
<td>1991</td>
<td>868.6</td>
<td>709.5</td>
<td>159.1</td>
</tr>
<tr>
<td>Interregional and</td>
<td>1989</td>
<td>845.5</td>
<td>759.2</td>
<td>86.3</td>
</tr>
<tr>
<td>Regional Programs</td>
<td>1990</td>
<td>1,137.6</td>
<td>869.3</td>
<td>268.3</td>
</tr>
<tr>
<td></td>
<td>1991</td>
<td>1,241.8</td>
<td>1,004.3</td>
<td>237.5</td>
</tr>
<tr>
<td>Total</td>
<td>1989</td>
<td>5,241.5</td>
<td>1,850.7</td>
<td>3,390.8a</td>
</tr>
<tr>
<td></td>
<td>1990</td>
<td>5,910.1</td>
<td>1,911.9</td>
<td>3,998.2a</td>
</tr>
<tr>
<td></td>
<td>1991</td>
<td>5,493.7</td>
<td>2,125.7</td>
<td>3,368.0a</td>
</tr>
</tbody>
</table>

Notes:
Development assistance includes the Functional Development Assistance Program, the Sahel Development Program and the Development Fund for Africa.

The data given above include Israel, Egypt, and Turkey. The allocation of ESF to Israel is $1,200 million in FYs 1989 and 1991, and $1,194.8 million in FY 1991. The obligations for Egypt are $815 million in FY 1989, $898.4 million in FY 1990, and $849 million in FY 1991. The obligations for Turkey are $60 million in FY 1989, $143 million in FY 1990, and $50 million in FY 1991. Israel and Turkey are in the top group and Egypt is in the next group in terms of GNP per capita.

aNo GNP per capita figures were available for Mongolia, Namibia, or West Bank/Gaza. There is $2 million of estimated DA obligations for Mongolia in FY 1991. There are $7 million of planned obligations in DA and $10 million in ESF in Namibia in FY 1991. ESF obligations in West Bank/Gaza were $20.9 million in FY 1989, $12.6 million in FY 1990 and $22.4 million in FY 1991.

Source: 1989 GNP per capita data from World Bank.
Table 5-3 Obligations for A.I.D. and PL 480 Programs, by Region, FY 1989 and FY 1990

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Development Assistance (functional accounts plus Sahel Program and Development Fund for Africa)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>578.4</td>
<td>558.1</td>
<td>31.3</td>
<td>30.6</td>
</tr>
<tr>
<td>Asia/Private Enterprise</td>
<td>262.5</td>
<td>201.8</td>
<td>14.2</td>
<td>10.6</td>
</tr>
<tr>
<td>Near East &amp; Europe</td>
<td>176.1</td>
<td>257.6</td>
<td>9.5</td>
<td>13.5</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>414.7</td>
<td>390.5</td>
<td>22.4</td>
<td>20.4</td>
</tr>
<tr>
<td>Interregional</td>
<td>419.1</td>
<td>477.0</td>
<td>22.6</td>
<td>24.9</td>
</tr>
<tr>
<td>Total</td>
<td>1,850.8</td>
<td>1,912.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Economic Support Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>99.3</td>
<td>28.9</td>
<td>2.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Asia/Private Enterprise</td>
<td>15.0</td>
<td>13.4</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Near East &amp; Europe</td>
<td>2,801.4</td>
<td>2,866.9</td>
<td>82.1</td>
<td>71.5</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>461.7</td>
<td>1,094.0</td>
<td>13.5</td>
<td>27.3</td>
</tr>
<tr>
<td>Interregional</td>
<td>34.3</td>
<td>7.7</td>
<td>1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Total</td>
<td>3,411.7</td>
<td>4,010.9</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>PL 480 (Food for Peace)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>249.7</td>
<td>250.7</td>
<td>17.0</td>
<td>16.5</td>
</tr>
<tr>
<td>Asia/Private Enterprise</td>
<td>287.3</td>
<td>213.3</td>
<td>19.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Near East &amp; Europe</td>
<td>443.2</td>
<td>476.8</td>
<td>30.2</td>
<td>31.4</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>266.2</td>
<td>284.3</td>
<td>18.2</td>
<td>18.7</td>
</tr>
<tr>
<td>Interregional</td>
<td>220.1</td>
<td>295.5</td>
<td>15.0</td>
<td>19.4</td>
</tr>
<tr>
<td>Total</td>
<td>1,466.5</td>
<td>1,520.6</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Housing Guaranty Programb</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>3.0</td>
<td>0.0</td>
<td>2.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Asia/Private Enterprise</td>
<td>38.8</td>
<td>30.0</td>
<td>37.0</td>
<td>30.2</td>
</tr>
<tr>
<td>Near East &amp; Europe</td>
<td>57.2</td>
<td>64.5</td>
<td>54.5</td>
<td>64.8</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>6.0</td>
<td>5.0</td>
<td>5.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>105.0</td>
<td>99.5</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

a Includes Europe, World Food Program, emergency reserve, stock adjustment for Title II, ocean transport for Titles I and II, initial payment on commodities by recipient countries under Title I, and prior year obligations financed during current year.

b Authorizations of guarantees only; not appropriated funds.
-- Improving economic policies in developing countries to remove constraints to food production, marketing, and consumption; and

-- Expanding the role of the private sector in developing countries in agricultural and rural development and the complementary role of the U.S. private sector in assisting this expansion.

Despite remarkable progress in increasing life expectancy and lowering infant mortality in recent years, the health of the majority of people in most developing countries remains poor. In some of the poorest countries, as many as one-fourth of the children die before the age of 5 years. Hundreds of millions of adults suffer from chronic, debilitating diseases. The basic objective of programs under Health Assistance and the Child Survival Fund is to assist developing countries to become self-sufficient in providing broad access to cost-effective preventive and curative health services. Primary health care, with special emphasis on infants and children under 5 years old, remains A.I.D.'s top priority in its health assistance efforts. Within the broad framework of primary health care programs, A.I.D. is concentrating on the following activities:

-- Expanding immunization, oral rehydration therapy, and other health services for infants and children under 5 years old;

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

-- Decreasing the incidence of death and disability from infectious diseases; and

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

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

All developing countries continue to have specific needs for more trained personnel. Most countries continue to struggle with the difficult task of expanding their school systems to enable children to obtain a basic education. Under programs in Education and Human Resources Assistance, high-level manpower training and technical assistance to help countries improve the efficiency of their basic education systems are A.I.D.'s two priorities. Training for administrators, managers, and scientific and professional personnel has grown substantially. The private sector's need for a better trained work force is receiving increased attention. External training in U.S. universities is emphasized, although there is increasing support for short-term in-country training, training in third-country institutions, and strengthening of local training institutions. Support for basic education, which has declined in recent years, is again being emphasized.
Private Sector, Environment, and Energy Assistance addresses cross-sectoral problems. Activities funded from this account are particularly important to the successful implementation of A.I.D.'s activities to promote the role of the private sector in development. The multiple objectives of programs funded under this account include the following:

-- Increasing the involvement of U.S.-based and developing country-based private enterprise in third world development;

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

-- Increasing the flow of resources to low-income people by working more closely with U.S. PVOs and cooperatives, and building the capacity of indigenous PVOs and cooperatives to mount development programs;

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

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

In addition to programs funded under the Development Assistance accounts, a significant portion of the Economic Support Fund (see following section) also is implemented in the functional areas discussed above. These funds represent an added resource for addressing the needs of the poor in developing countries. The balance of appropriations under the Economic Support Fund is used to address the short-term economic stabilization needs of recipient countries. A.I.D. has substantially increased its participation in decisions on the use of local currencies generated by stabilization and structural adjustment programs financed under the Economic Support Fund. Table 5-4 presents allocations for FY 1989 and FY 1990 under Development Assistance, Economic Support Fund, Special Assistance Initiative and PL 480.

5.1.2 Economic Support Fund

The Economic Support Fund (ESF) advances economic, political and security interests by offering economic assistance to allies and developing countries of economic and strategic importance to the United States. By fostering economic development and reform, ESF helps to avert or alleviate the economic and political disruptions that can destabilize the economies of U.S. friends and allies. The Agency for International Development (A.I.D.) and the Department of State jointly administer the ESF program. A.I.D. implements the ESF program under the direction of the Administrator of A.I.D. and in accordance with the overall foreign policy guidance of the Secretary of State.

ESF primarily provides balance of payments support either directly, through cash transfers, or through the financing of commodity imports which permits the acquisition of critical raw materials and capital goods when foreign exchange is not readily available. Depending on the recipient country's economic situation, the fast-disbursing balance of payments or budgetary support provided through ESF creates leverage for the policy reforms required to facilitate sustainable economic growth by encouraging the adoption
of more rational economic and fiscal policies. Where longer-term political and economic stability is the primary concern, ESF finances projects of direct benefit to the poor. Recently, the use of ESF was expanded to include the provision of counter-narcotics assistance to countries in the Latin America and Caribbean region.

For FY 1990, $4,010,856 was obligated under the Economic Support Fund. The bulk of these funds was provided to the Middle East to support stabilization and peace efforts in that region. This included a cash transfer of $1.2 billion to Israel to address inflation and balance of payments problems. It also included the obligation of nearly $900 million in cash transfer and project and commodity assistance for Egypt. The purpose of this assistance was to encourage long-term development activities while also permitting the large-scale import programs necessary to maintain growth rates and to allow the Egyptian people to experience tangible benefits from the peace process.

As has been the case throughout the past decade, economic dislocation and political strife continue to place great strains on many countries. Many of these same countries have recognized that economic reform is essential for economic and political stability and have begun to implement urgently needed reforms. In the short term however, efforts to develop more rational and efficient economic policies can often exacerbate social and political tensions, unless buffered with external assistance. The Fiscal Year 1991 appropriation for grant ESF totals $3.141 billion. This level of aid reflects a firm U.S. commitment to economic development and growth in the third world.
Table 5–4  Development Assistance, Economic Support Fund, and PL 480 Program Obligations, FY 1989 and FY 1990

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Development Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Functional Accounts</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Agriculture, Rural Development and Nutrition</td>
<td>553.8</td>
<td>542.8</td>
<td>22.8</td>
<td>21.6</td>
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<tr>
<td>Population Planning</td>
<td>201.6</td>
<td>225.6</td>
<td>8.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Health</td>
<td>136.0</td>
<td>147.9</td>
<td>5.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Child Survival Fund</td>
<td>71.0</td>
<td>72.7</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>AIDS</td>
<td>40.0</td>
<td>41.3</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Education, Human Resources Development</td>
<td>148.9</td>
<td>142.8</td>
<td>6.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Private Sector, Environment &amp; Energy</td>
<td>138.1</td>
<td>166.2</td>
<td>5.7</td>
<td>6.6</td>
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<tr>
<td>Subtotal Functional Accounts</td>
<td>1,289.4</td>
<td>1,339.3</td>
<td>53.0</td>
<td>53.2</td>
</tr>
<tr>
<td>Private Sector Revolving Fund</td>
<td>5.0</td>
<td>3.4</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Sahel Development Program</td>
<td>6.4</td>
<td>1.9</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Development Fund for Africa</td>
<td>549.9</td>
<td>570.6</td>
<td>22.6</td>
<td>22.7</td>
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<tr>
<td>Subtotal Geographic &amp; Central Programs</td>
<td>1,850.7</td>
<td>1,915.2</td>
<td>76.1</td>
<td>76.1</td>
</tr>
<tr>
<td>Other a/</td>
<td>581.0</td>
<td>601.6</td>
<td>23.9</td>
<td>23.9</td>
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<td>Total Development Assistance</td>
<td>2,431.7</td>
<td>2,516.8</td>
<td>100.0</td>
<td>100.0</td>
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<td>Development Assistance</td>
<td>2,431.7</td>
<td>2,516.8</td>
<td>33.0</td>
<td>30.7</td>
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<tr>
<td>Economic Support Fund</td>
<td>3,411.7</td>
<td>4,010.9</td>
<td>46.3</td>
<td>48.9</td>
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<td>Special Assistance Initiatives</td>
<td>—</td>
<td>119.5</td>
<td>0.0</td>
<td>1.5</td>
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<td>Central American Reconciliation Asst</td>
<td>56.9</td>
<td>37.1</td>
<td>0.8</td>
<td>0.5</td>
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<tr>
<td>Total A.I.D.</td>
<td>5,900.3</td>
<td>6,684.3</td>
<td>80.1</td>
<td>81.5</td>
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<td>PL 480, Titles I, II, III</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Food for Peace)</td>
<td>1,466.5</td>
<td>1,520.5</td>
<td>19.9</td>
<td>18.5</td>
</tr>
<tr>
<td>Total Obligated Funds</td>
<td>7,366.8</td>
<td>8,204.8</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

a/ American Schools and Hospitals Abroad; Housing Borrowing Authority; International Disaster Assistance; Operating Expenses; and Foreign Service Retirement Fund.
5.2 Other U.S. Bilateral Economic Assistance

5.2.1 Public Law 480 and Food Aid

Objectives. The PL 480 program is the principal U.S. food aid program. It provides over 60 percent of the food aid received by developing countries from all sources. PL 480 resources are used in both bilateral and multilateral programs. While the humanitarian and relieve aspects of the U.S. food aid program continue to be important, it is the potential for assisting in longer term economic development that makes these programs a key element of U.S. bilateral economic assistance.

The major categories of U.S. food aid programs are designated by the relevant titles of the PL 480 legislation, Section 416(b) of the Agricultural Act of 1949, as amended, and the Food Security Act of 1985, as amended. In 1990, the Agricultural Trade Development and Assistance Act of 1954 (also known as PL 480), which authorizes the Food for Peace program, was substantially revised. The revised legislation charges the U.S. Department of Agriculture with implementation of the U.S. market-development-focused Title I concessional lending program, and charges the A.I.D. with implementation of Title II and Title III grant humanitarian and development programs. All of these programs are described below.

PL 480 Title I is a U.S. Department of Agriculture-managed program which provides for long-term, low-interest loans to developing countries for the purchase of U.S. agricultural commodities. These commodities help relieve both chronic and temporary or unexpected food shortages while providing balance of payments support.

PL 480 Title II, managed by A.I.D., provides for the donation of food commodities for humanitarian and development uses through private voluntary organizations (PVOs) and cooperatives, and international organizations such as the World Food Program (WFP), established with U.S. encouragement by the members of the United Nations and the Food and Agriculture Organization in 1972. Title II commodities received by U.S. PVOs and WFP are for regular feeding programs directed toward malnourished children or other nutritionally vulnerable groups, small-scale food-for-work programs, and a variety of food emergency and refugee relief programs. Grant food under this title is also distributed through host governments for emergency programs in some countries. Title II commodities may also be sold commercially (monetized), with the proceeds used for specific development purposes.

PL 480 Title III, a new bilateral grant development program created by the FY 1990 legislation and also managed by A.I.D., authorizes the provision of grant food assistance through governments of least developed countries which meet one of two types of specific eligibility criteria established in the legislation: 1) poverty criteria which is the same as that used by the World Bank to determine their Civil World Preference list (currently 1989 per capita GNP of $580 or less), or 2) food deficit criteria which are consumption of less than 2,300 calories per capita per day, a child (under five) mortality rate over 100 per 1000 live births, and the inability to meet food security requirements from domestic production or from commercial imports because of inadequate foreign exchange earnings.

The 1990 food aid legislation also extended the Food for Progress program authorized by the Food Security Act of 1985 and subsection (b) of Section 416 of the Agricultural Act
of 1949. Through the Food for Progress program, U.S. agricultural commodities can be provided to developing countries and emerging democracies on a grant or loan basis in exchange for development policy reforms promoting economic freedom, private domestic production of food commodities for local consumption, and the creation and expansion of efficient domestic markets in the recipient country. Title I appropriated funds and Section 416(b) commodities may be used to carry out the program.

Under Section 416(b), the Secretary of Agriculture is authorized to furnish eligible U.S. surplus commodities for carrying out programs of assistance in developing countries through (1) programs similar to Title II of PL 480, (2) Food for Progress programs, and (3) other activities as approved by the Secretary of Agriculture. According to the legislation, eligible commodities may include (1) dairy products, grains and oilseeds acquired by the U.S. Department of Agriculture (USDA) through price support operations and (2) other eligible agricultural commodities acquired by the USDA in the normal course of operations and available for disposition under Section 416.

Background and Evaluation of Food Aid. PL 480 was enacted in 1954 in response to growing public concern over increasing U.S. agricultural surpluses in a world in which many countries had substantial food deficits. In the early 1960s, PL 480 financed shipments constituted over 23 percent of the value of total U.S. agricultural exports. The numerical importance of PL 480 as a share of U.S. exports has declined sharply as U.S. food exports have expanded and major food aid recipients have become commercial customers. In general, commodities are not available for shipment under PL 480 if the shipment would reduce U.S. stocks below the level needed for domestic use, appropriate carryover stocks, and anticipated commercial exports.

Because U.S. food aid is development aid and administered as such, it has been an important factor affecting the shift in status of developing countries from recipients of food aid to commercial purchasers of U.S. exports. Legislative revisions in 1990 unambiguously directed that food aid be used as a tool for improving recipients’ agricultural productivity and economic performance.

Food Aid’s Contribution to Economic Development Through Policy Reform. A.I.D. continues to use food aid together with other forms of economic assistance to affect economic development by creating the policy environment necessary for achieving progress. Food aid can be used to (1) provide a secure supply of food to a country undertaking difficult policy reform, (2) provide food directly to vulnerable groups experiencing short-term difficulty in maintaining a satisfactory level of nutrition as the national government adopts structural reform measures, (3) supplement dollar-funded child survival, health, and nutrition projects implemented by USAID Missions overseas, (4) undertake food-for-work programs that alleviate underemployment and unemployment and assist infrastructure development and maintenance, and (5) generate local currency that can be used for development activities that will improve a country’s food security.

In FY 1990, PL 480 Title I concessional sales program appropriations were used to fund programs in 28 countries to provide 4.2 million metric tons of commodities valued at $749.6 million.

Under PL 480 Title II in FY 1990, 1.398 million metric tons were provided for regular and emergency PVO, and bilateral programs. Shipments in support of the WFP's
1990-91 target totaled 245,000 metric tons, $65.0 million in commodities and $22.7 million for transportation costs. An additional 244,700 metric tons valued at $44.8 million were provided to WFP by the U.S. Government for emergency programs. Under Section 416(b) availabilities, (1) 1.659 million metric tons of commodities valued at $157.4 million were provided to programs approved for regular and emergency activities; and (2) over 92,900 metric tons valued at $8.4 million were channeled through the WFP pledge.

Global economic conditions are making the grant form of food aid more important as a development resource. A.I.D. is implementing grand food aid program, both bilaterally and in support of U.S. PVOs that do more than simply provide direct feeding on a continuing basis, which can create dependency. Continued direct distribution of food to vulnerable groups is important, but it must be done in ways that help the recipients become self-reliant. Grant commodities can also be sold commercially (monetized). The objectives of monetization programs include increasing food and agricultural production, establishing reliable food distribution systems for low-income groups, developing food emergency preparedness plans, supporting community self-help initiatives, and removing constraints (such as the lack of credit) to more effective job creation by the private sector. Bilateral grant programs can leverage important policy reform while providing local currency resources for important development purposes.

Legislation governing U.S. food aid under PL 480 continues to emphasize the multiple objectives of food aid: humanitarian, developmental, market development and economic support for political objectives. A.I.D. considers these objectives while maintaining development as the primary objective. Program implementation requirements include the following:

-- Of total of annual appropriations for Titles I and III, not less than 40 percent shall be available for each title.

-- In FY 1991, a minimum of 1.925 million metric tons of agricultural commodities shall be provided under Title II. The required minimum increases 25,000 metric tons each subsequent year through FY 1995.

-- In FY 1991, not less than 1,450 million metric tons shall be for Title II regular programs of private voluntary organizations and the WFP. The requirement increases 25,000 metric tons each subsequent year through FY 1995.

-- At least 75 percent of the non-emergency minimum Title II commodity level shall be processed, bagged or fortified foods.

-- At least 10 percent of the aggregate value of non-emergency Title II commodity allocations must be available for partial or full sales or barter by PVOs to generate local currency to help cover logistical costs, enhance Title II program effectiveness or to implement income generating or other development activities.

-- Adequate storage must be available in recipient countries, and the distribution of PL 480 commodities must not result in a substantial disincentive to or interference with domestic production or marketing.
5.2.2 Board for International Food and Agricultural Development and Economic Cooperation

The resources of U.S. universities have been tapped since foreign aid as a national policy began with social and technical assistance programs in Latin America more than forty years ago. Programs to improve the quality of life in developing countries always have included agriculture, nutrition and rural development as critical elements, and the resources of U.S. land grant universities have been used to provide research, teaching, extension and other services.

Since its passage in 1975, the Title XII amendment to the Foreign Assistance Act has been instrumental in increasing the mobilization and use of U.S. university resources in development assistance programs. The amendment created the Board for International Food and Agricultural Development (BIFAD) as a presidentially appointed advisory group to the A.I.D. Administrator in the planning, development, implementation of the U.S. Government's international development programs, especially those concerned with agriculture, nutrition and rural development. The resulting Title XII partnership, a dynamic relationship between the universities and A.I.D., has been strengthened and expanded recently by two actions.

The BIFAD charter has been revised to create the Board for International Food and Agricultural Development and Economic Cooperation (BIFADEC). In its expanded role, the Board's purview includes all aspects of economic development and cooperation, in addition to its legislated focus on food and agriculture. Placing its activities in the context of overall economic and social development can make the Board's advice on food and agricultural development even more relevant and effective. The new charter also permits greater access to and the fuller utilization of the faculty and staff resources and institutional capacity of many more U.S. colleges and universities.

Coincident with the new BIFADEC charter has been the creation of the A.I.D. Center for University Cooperation in Development (Center). The Center facilitates more productive collaboration between A.I.D. and the U.S. higher education community in addressing development problems overseas, benefitting developing country counterpart institutions and contributing to the internationalization of American academia. The Center serves as the secretariat for the BIFADEC and its subordinate units. It also has Agency-wide responsibilities for promoting development cooperation between and among A.I.D., U.S. institutions of higher education engaged in international development activities and developing country institutions.

Objectives. BIFADEC's objective is to support long-term collaborative research by U.S. and developing country institutions for the mutual benefit of developing country and U.S. agriculture and to collaborate with international agricultural research centers. The Title XII partnership also continues to give high priority to helping developing countries strengthen their programs and institutions in agricultural research, extension and teaching, including the training of administrative, scientific, technical and other personnel.

Increasing attention is being given to collaborative efforts which can take advantage of the strengthened capabilities and development-related resources of U.S. colleges and universities and the institutions' growing attention to internationalizing their programs,
not only in agriculture and related fields, but also in the variety of subject matter areas with which development assistance and cooperation are concerned.

Activities. Successful economic and social development requires the strengthening and building of institutions to educate and train personnel, develop and disseminate improved and relevant technology and carry out research and analysis with which appropriate and supportive policies can be created. In addressing the problems of hunger and poverty, the Title XII partnership, through various programming mechanisms, taps the resources of Title XII and other U.S. institutions of higher education individually, through consortia and in collaboration with consulting firms and private and voluntary organizations.

The capacity of these institutions to be responsive to A.I.D. programming needs and to be available to serve as A.I.D. contractors has been enhanced and supported by matching support and other program grants. Building on the results of these efforts, A.I.D. has designed and implemented the University Development Linkages project. This new project encourages more creative, productive and sustainable collaboration between country and U.S. colleges and universities by matching university interests and resources with A.I.D. programs.

There is continued support for long-term collaborative research in eight priority subject matter areas: sorghum and millet, beans and cowpeas, small ruminants, peanuts, tropical soils management, nutrition, pond dynamics (aquaculture) and fish stock assessment. More than 150 projects involve 35 U.S. and 63 developing country institutions in 32 countries, as well as the international agricultural research centers.

Opportunities. The expanded role of BIFADEC, the creation of the Center and the internationalization of U.S. colleges and universities offer increasing opportunities for the Title XII partnership to make fuller use of the resources of U.S. and developing country institutions of higher education in meeting its legislative mandate. They include the following:

-- Human resource development. Skilled personnel are needed at all levels. Communication and collaboration between U.S. and developing country institutions and specialists, particularly in the development and application of technology to meet developing country problems, are essential to continued professional competency and growth.

-- Institution building. Both public and private institutions need to be developed and strengthened to meet the challenge of developing analytical and planning capacity, sustainable and complementary systems for food and fuel production and for natural resource preservation and the resources for overall economic and social development.

-- Technology development. The fuller application of modern research tools and technology in the natural and social sciences and in communication media is needed to help develop and disseminate new approaches to alleviating hunger and promoting economic growth.
Technical assistance. There continues to be a need for the traditional, "hands on" type of technical assistance, even as more collaborative relationships are increasing between U.S. and developing country specialists and institutions.

Research. More understanding is needed of the constraints to development. In the face of limited budgetary resource, improved targeting and programming require better conceptualization and analysis of sectoral, regional and national problems and understanding of the contexts in which they are to be addressed.

5.3 Oversees Private Investment Corporation

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

Foreign Investment. Encouraging U.S. private investment in developing countries has long been an important part of the U.S. Government's overall development assistance program. More recently, a consensus has emerged in the international community that both local and foreign private investment should take on a greater role in the development process, given the debt situation and inadequate levels of both concessional assistance and commercial bank lending to developing countries.

During FY 1990, OPIC pursued initiatives designed to facilitate U.S. private investment into regions and sectors having maximum development impact, where U.S. investors have traditionally found it difficult to operate. Accordingly, OPIC, in cooperation with A.I.D. continued its efforts to establish privately-owned and operated export processing zones in the West African nations of Cameroon and Togo. A major U.S. industrial park developer has been selected by the Government of Togo to carry out a feasibility study for the zone, and, if the project proves feasible, to commence construction during FY 1991.

In addition, OPIC initiated various "growth funds" in 1990, including the Eastern European Fund and the Environmental Investment Fund, the latter of which is designed to finance commercially and environmentally sustainable projects throughout the globe. (See discussion below).

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

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

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

More recently, OPIC instituted business income coverage that protects U.S. companies
from income losses caused by political violence that interrupts operations. In the face of
the continuing debt crisis, OPIC has also fostered debt-to-equity swaps by providing
political insurance for transactions involving the creation of new investment projects.
Furthermore, OPIC has begun to play a larger role in furthering privatization of
state-owned enterprises of developing countries through insurance coverage, as well as
financing.

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

In such situations, OPIC makes financing available to U.S. investors who otherwise
would be unable to invest in developing countries. Furthermore, because the loans
generally provide medium to long-term financing, they often encourage investors to
structure their projects to be more developmentally beneficial to the host country.

In addition to assisting traditional investments, OPIC provides medium-term debt
financing to establish or expand distributorships overseas. More recently, OPIC
developed an innovative financing program involving unique mechanisms, known as
"growth funds," which generate equity or quasi-equity investment. The concept,
implemented initially in sub-Saharan Africa, (i.e., the Africa Growth Fund) provides a
novel means of financing economic development in various regions of the world. For
example, the African Growth Fund, managed by Equator Bank, provides investment
capital and management services for the development of new productive ventures,
expansions of existing private sector companies, and privatization of state-owned
enterprises in a wide range of industries in the region.
Such funds can also provide the critical foreign currency equity component often required to complete the financial structure of a project, as well as meet the foreign currency requirements for debt swaps and conversions. OPIC is seeking to develop other growth funds serving Eastern Europe, the Caribbean, Latin America, Asia and the Pacific.

OPIC services that encourage wider participation in overseas investment by smaller U.S. businesses include investment missions, which bring U.S. investors in touch with local government officials and potential joint venture partners; a computerized data bank, which can match an investor's interest with possible joint venture partners and specific overseas investment opportunities; and an investor information services that provides investors with a wide range of information about foreign countries and their business environment.

**Highlights of FY 1990.** In FY 1990, OPIC insured or financed 127 projects in 43 countries around the world. On a regional basis, the largest share of the portfolio was in Latin America and the Caribbean, where there were 51 projects. Thirty-five projects were supported in the Near East and Asia, 27 in Europe, 13 in Africa. One project, OPIC's Environmental Investment Fund, is global in nature. In all, these projects involved a total U.S. investment of $2.9 billion and a total project investment of nearly $7.1 billion.

OPIC makes special efforts to promote investments in the poorest developing countries and those involving U.S. small businesses. As a result, 61 (or 48 percent) of the projects assisted in FY 1990 were in countries with per capita incomes of $984 or less (in 1986 U.S. dollars), and 35 (or 28 percent) involved small U.S. companies or cooperatives.

OPIC also conducted investment missions to Bolivia, Poland (twice), Nicaragua, Hungary, Guyana, Togo and Cameroon in FY 1990. Through these missions, many specific investment opportunities are being considered by prospective U.S. investors.

OPIC continued its support of the Caribbean Basin Initiative in FY 1990. Of all OPIC-assisted projects, 26 (or 20 percent) were located in the Caribbean Basin, and 13 of these (50 percent) were sponsored by small businesses. Total investment in all Caribbean projects was $302 million, of which U.S. investors supplied $225 million.

**Effects on Developing Countries.** When determining whether to assist an investment, OPIC is required to consider both the economic and social development benefits of a project. Therefore, OPIC selectively supports only investments that can favorably affect host countries. Applying this criterion, the FY 1990 projects insured or financed by OPIC are expected to employ by the fifth year of operation a total of 16,903 people, 2,773 of whom will be in managerial or professional positions. More than $4.7 billion of the total FY 1990 investment will be spent locally for goods and services, and an additional $75 million will be spent in other developing countries. Once in operation, these projects are expected to generate annually an estimated $261 million in net foreign exchange earnings and $219 million in net taxes and duties.

OPIC is also required by Congress to review possible adverse impacts that OPIC-supported investment projects may have on the environment of developing countries. In FY 1990, OPIC reviewed the potential environmental impacts of approximately 185 projects and carried out detailed assessments for 73 projects. Particularly complex analyses were
required for projects involving forestry, pulp and paper manufacturing, minerals and energy, agriculture, fertilizer manufacturing, natural gas processing, and fishing. As a result of these assessments, OPIC issued in FY 1990 four environmental notifications to host-country governments concerning projects involving fertilizer manufacturing, natural gas processing, and the use of agricultural pesticides. OPIC is required by law to issue such notifications for projects that it deems to be environmentally sensitive. In addition, OPIC formally rejected four projects on environmental grounds. The projects included forestry and agricultural investments in Africa, a mining project in the South Pacific, and a waste processing facility in the Caribbean. A number of other projects, likely to have been rejected, were discouraged prior to the formal application process.

OPIC is prohibited by statute from assisting projects in any country that fails to take steps to adopt and implement internationally recognized workers rights as defined by the Trade Act of 1974 as amended. Since 1987, OPIC has suspended its programs in seven countries (Central African Republic, Chile, Ethiopia, Nicaragua, Paraguay and Romania prior to 1990, and Liberia in 1990) on worker rights grounds. OPIC programs were reinstated in Chile in October 1990 as a result of progress in the application of worker rights. Following the events of 1989 in China, OPIC programs were suspended in that country on foreign policy grounds.

Effects on the U.S. Economy. OPIC-supported projects also provide significant U.S. employment and balance of payments benefits. During their first five years of operation, projects assisted by OPIC in FY 1990 are expected to generate 18,430 person-years of employment for U.S. workers and approximately $1.2 billion in U.S. exports for initial and ongoing procurement of materials and equipment.

5.4 Peace Corps

Peace Corps Philosophy and Goals. For the last 30 years, the Peace Corps of the United States has pursued its goal of helping countries throughout the world meet their needs for skilled manpower and of promoting world peace and friendship. By the end of FY 1990, the Peace Corps saw nearly 6,000 Volunteers working in a record 71 countries throughout the world--including, for the first time ever, in Central Europe.

In 1991, the Peace Corps faces new international challenges and opportunities. To respond to these, the Peace Corps has developed a set of initiatives designed to put Volunteers at the center of the great concerns of this decade.

Initiatives for the 1990s. More and more countries have expressed an interest in Peace Corps programs. A major goal of the 1990s is to have Peace Corps Volunteers (PCVs) serve in every nation that requests legitimate assistance.

-- Eastern Europe: With its entry into Central Europe in 1990, Peace Corps is demonstrating its belief that there should be no cultural, geographic or political barriers to the pursuit of peace.

-- Environment: In 1990, the Peace Corps began a collaborative arrangement with the Environmental Protection Agency (EPA) to help train Peace Corps Volunteers in pesticide management, waste disposal techniques, water pollution prevention, reforestation and environmental education.
Urban Programs: Fully 44 percent of the people in developing nations now live in urban areas, presenting those nations and Peace Corps Volunteers with an entirely new set of problems and challenges. With the growth of cities have come increased health problems, joblessness and a host of other problems. Peace Corps is recruiting and training Volunteers to address these new development challenges.

Small Business Development: As market-oriented economic systems become more prevalent in developing nations, the Peace Corps is expanding its work in small business development by providing marketing and production advice and improved techniques for enterprise development from farming to banking, and by offering skills in international commerce.

Minority Outreach: To ensure that Americans of all ethnic and racial groups have an opportunity to benefit from Peace Corps experience, the Peace Corps is strongly committed to involving more American minorities. In 1990, the number of minority trainees increased from 6.8 percent to 10 percent.

Involving America: All Americans benefit from the work of Peace Corps Volunteers. To involve more Americans in this important work, the Peace Corps is giving academia, business, civic clubs and individuals more opportunities to support Volunteer projects in the field through financial and other assistance.

The Peace Corps continues to provide person-to-person assistance to some of the poorest people in the world. Peace Corps Volunteers serve in rural and urban areas where they can best enhance the abilities of host-country citizens to improve their quality of life. Peace Corps' goals, as stated in the Peace Corps Act of 1961, are:

-- to promote world peace and friendship by making available to interested countries U.S. Volunteers who are willing to help the people of these countries meet their needs for trained manpower;

-- to promote a better understanding of the American people among the people served; and

-- to promote a better understanding of other peoples among the American people.

Since 1961, more than 122,000 Peace Corps Volunteers and staff have served in more than 100 countries. Fifty-five percent of these Volunteers have worked in education programs; another 25 percent were engaged in what have been generally labeled community development activities.

Today, the United States Peace Corps stresses a historic, broadly based grassroots approach to development. The 1980s brought increased congressional support for the Peace Corps and its Volunteers. The Peace Corps has been given strong support by the Congress and the President to persevere in its role as "leader for peace." As an expression of that commitment, Congress has approved funding for the Peace Corps to expand into 15 new countries in FY 1991.

Activities in 1990. During FY 1990, the Peace Corps continued its tradition of worldwide service. The Peace Corps budget totaled $165 million. In addition, host countries
continued to show their appreciation for the work of the Volunteers by making contributions to in-country operations. The single largest Peace Corps budget expenditure continued to be the direct support and training of Volunteers. The costs incurred in recruiting Volunteers and providing them with overseas staff support constituted the two other major categories of expenditures. More than half of all Peace Corps staff are stationed overseas.

During FY 1990, 3,058 trainees were placed by the Peace Corps. The average age of a Volunteer in FY 1990 was 31, although the median age was just over 25. The Peace Corps, as a matter of policy, is committed to recruiting larger numbers of Senior Volunteers (those 50 years of age and older). In FY 1990, 7.2 percent of Volunteers were Senior Volunteers (411 Volunteers). The distribution between men and women was almost even.

The following 71 countries hosted Peace Corps Volunteers in FY 1990:

--- **Africa Region:** Benin, Botswana, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Equatorial Guinea, Gabon, The Gambia, Ghana, Guinea-Bissau, Guinea (Conakry), Cote d'Ivoire, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Swaziland, Tanzania, Togo and Zaire.

--- **Inter-America Region:** Anguilla, Antigua and Barbuda, Barbados, Belize, Bolivia, Costa Rica, Dominican Republic, Ecuador, Grenada, Carriacou, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Paraguay, St. Kitts and Nevis, St. Lucia and St. Vincent.

--- **North Africa, Near East, Asia and Pacific Region:** Cook Islands, Comoros Islands, Fiji, Hungary, Kiribati, Marshall Islands, Federated States of Micronesia, Morocco, Nepal, Pakistan, Papua New Guinea, Philippines, Poland, Seychelles, Solomon Islands, Sri Lanka, Thailand, Tonga, Tunisia, Tuvalu, Vanuatu, Western Samoa and Yemen.

In FY 1990, the Peace Corps continued to support the Volunteer Partner Program. Created in 1987, this program seeks to expand the scope of Peace Corps service by varying the length of Volunteer tours, and thereby opening the Peace Corps experience to a new constituency. Programs for Associate Volunteers include veterinarians in Morocco, teacher trainers in the Philippines and university professors in Malawi. Many of these placements are a result of cooperative efforts developed between Peace Corps and specific organizations, such as the American Veterinary Medical Association. The program's flexibility allows increased recruitment of experienced, highly trained individuals who have skills frequently requested by host countries and who are difficult to recruit for full two-year tours of service. During FY 1990, the Peace Corps also continued its involvement with the United Nations Volunteer Program by supporting 32 American UN Volunteers.

In addition to its regular programs, the Peace Corps continued to support the Africa Food Systems Initiative, which became fully operational in FY 1987. This 10-year program is directed at improving food production within selected African nations--primarily in the Sahel.
Current plans to expand the number of Peace Corps Volunteers focus on strengthening training so that more generalists can be used in skill areas where the supply of Volunteers is low. This also can be accomplished by expanding recruiting efforts in skill areas in high demand but short supply, such as agriculture, education, forestry and fisheries.

Peace Corps Volunteer activities during FY 1990 are described below:

-- **Agriculture:** Agricultural systems in many regions of the world face tremendous pressures to produce more food, generate economic opportunity and sustain rural infrastructure. Furthermore, these challenges must be met in a way that does not degrade the environment or diminish the natural resource base. During FY 1990, more that 1,200 Volunteers worked with host country officials, farmers and community leaders to address apicultural and fisheries development objectives. Program areas included crop extension, soil and water conservation, farm management economics, co-op development, animal husbandry, apiculture, pesticide safety and fish pond construction and management. During this same period, several hundred additional Volunteers were involved in rural development activities that addressed secondary agricultural and aquacultural objectives.

Programming for FY 1991 will see a continuation of the emphasis on food security, small farm viability and the building of strong rural infrastructure. For FY 1991, there will be increased emphasis on agricultural sustainability as it relates to agricultural practices, economic viability, environmental quality and resource conservation. Also, heightened program activity in integrated pest management and pesticide safety is anticipated with a particular focus on the Inter-America Region.

-- **Education:** Since 1961, more than five million students in developing nations have been taught by Peace Corps Volunteers. In FY 1990, nearly 2,055 Volunteers in 55 countries worldwide carried out 141 projects. They taught English, mathematics, science and vocational skills; worked with the blind, deaf, and mentally and physically impaired; trained primary and secondary classroom teachers; and assisted communities with the development of non-formal education and youth-related activities. In addition to those Volunteers formally assigned to the Education Sector, nearly all of Peace Corps' 6,000 Volunteers are involved in some sort of educational activity. As Peace Corps expands the number of countries in which it serves in FY 1991, the majority of new PCVs will be working in education, especially in the teaching of English.

-- **Environment:** More than 600 Volunteers participated in environmental and natural resource projects in more than 50 countries during FY 1990. Two-thirds of the Volunteers worked in forestry-related areas such as agroforestry, forestry extension, forest management and watershed management. The rest pursued activities including national parks and wildlife management, conservation of biological diversity and soil conservation. The fastest growing activity area in FY 1990 was environmental education.

In FY 1990, the cooperative agreement between the Environmental Protection Agency (EPA) and Peace Corps shifted into high gear. Signed in September of 1989, the memorandum of understanding establishes a mechanism for collaboration on a wide range of global environmental issues. EPA and Peace Corps
fielded programming and training teams to address pesticide safety and handling issues in Latin America and environmental contamination issues in Central Europe.

Successful cooperative activities with the U.S. Forest Service and the National Park Service also continued throughout FY 1990. Under an Interagency Agreement, Peace Corps is able to use National Park Service personnel and training sites. In cooperation with the Forest Service, Peace Corps has been able to strengthen its programming and training in agroforestry, forestry extension and forest management.

In light of the wide-spread nature of many environmental problems, Peace Corps is preparing a basic environmental module so that all Peace Corps Volunteers in the field will receive training in environmental awareness and environmental issues.

**Health:** Peace Corps health Volunteers continue to focus on primary health services for those most in need, namely women and young children. They promote the development of local programs to meet basic health needs. During FY 1990, the majority of the 946 Volunteers in 45 countries worked within national primary health care systems on maternal and child health activities, nutrition, community health education and water and sanitation projects.

**Small Business Development:** The Small Business Development (SBD) sector of Peace Corps was formally established in 1983. Although Peace Corps Volunteers had been working on income generating activities since Peace Corps began in 1961, 1983 saw the formal recognition of small business development as a sector responsible for providing training and program support to the field.

Since that time, SBD programming has expanded in all three of the Peace Corps' administrative regions. Expansion has occurred in the number of Peace Corps Volunteers, the number of projects, the variety of projects and the integration of SBD projects with other program sectors such as agriculture, forestry and fisheries.

The Peace Corps currently has over 3,000 Volunteers working directly and indirectly in SBD-related projects. Twenty-two countries have SBD sectors and 27 have SBD-related projects. Of the Volunteers who work in the SBD sector, 41 percent are assigned to countries in the Inter-America Region, 34 percent are working in the Africa Region and 25 percent are serving in the Pacific, Asia, Central Europe and Mediterranean Region.

Current SBD projects fall into six broad categories: 1) Agribusiness; 2) Rural Non-farm Enterprises; 3) Urban Small Business Projects; 4) Cooperatives and Pre-Cooperatives; 5) Credit Programs; and 6) Business Education.

**Urban Development:** As recently reported by the University of Akron's Future Studies Program, the pace of world urbanization is accelerating as the 21st century approaches. The "rural poor majority" is quickly becoming an "urban poor majority". Peace Corps has been working on ways to support host country efforts to harness and guide self-help, private urban development initiatives. In FY 1990,
Peace Corps Volunteers were involved in 12 urban development projects in the area of local planning, engineering and architectural support for local initiatives and urban youth programs. Approximately 54 new Volunteers began working in urban development activities during FY 1990.

In several instances, notably in Tunisia, Togo and Cote d'Ivoire, Peace Corps and A.I.D.'s Regional Housing and Urban Development sector have been working together to promote joint urban development projects.

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**Women in Development:** Peace Corps' Women in Development Office works to ensure that an integrated approach in program planning and training is utilized so that the roles of women in their communities are responsibly and effectively addressed and integrated into all Peace Corps projects. The office publishes *The Exchange*, a quarterly Women in Development newsletter that serves as an information and resource tool for Volunteers around the world.

Volunteers are presently working on projects with women at the grassroots level in agriculture, fisheries, rural development, microbusiness, health, education and community development. Peace Corps has expanded its commitment to working in this area by establishing in-country Women in Development committees whose activities include establishing scholarship programs for girls, creating tools and resources to teach numeracy and literacy skills to girls and women, designing displays that highlight the achievements of local women and celebrating International Women's Day and Women's History Month.

**Peace Corps Collaborative Efforts:** The Peace Corps continues to be committed to a policy of collaboration with other development assistance organizations. The guiding rationale for this collaboration is the mutual benefits derived by each party as well as for project beneficiaries. Accordingly, the Peace Corps reviews and revises its activities with other Federal, international and host country organizations and Private Voluntary Organizations (PVOs) on a regular basis.

Peace Corps Volunteers work world-wide with a variety of PVOs on projects ranging from health to agriculture, to education. Peace Corps is also seeking to expand collaboration with additional PVOs. Collaboration that exists at the field level is strengthened by headquarters contacts, just as contacts made at the headquarters level assist Peace Corps posts in establishing new working relationships with PVOs in support of Volunteer projects.

**Peace Corps-A.I.D. Collaboration:** During the past 10 years, the Peace Corps and the U.S. Agency for International Development (A.I.D.) have carried out a unique program of interagency cooperation. Cooperation between the Peace Corps and A.I.D. has resulted in the more effective use of U.S. foreign assistance resources in the developing world. It has also meant that Peace Corps Volunteers and host country counterparts have received valuable technical and financial support from A.I.D.

This support has taken many forms--small grants for community projects, sorely needed equipment and supplies, improved training programs for Volunteers, training opportunities for host country counterparts and advice and guidance provided by A.I.D. technicians and experts. For A.I.D., this collaboration has meant greater access to the communities and people most in need of assistance, important feedback from Volunteers on how
A.I.D.'s development projects are functioning in the field, and the availability of skilled Volunteer assistance for critical A.I.D. programs in 62 countries around the world.

The Peace Corps and A.I.D. agree to collaborate through a number of Participating Agency Service Agreements (PASAs). These agreements combine A.I.D. and Peace Corps resources to enhance the Peace Corps' ability to target specific programs by fielding greater numbers of Volunteers and by providing Volunteers with increased levels of technical support. The following Participating Agency Service Agreements (PASAs) were in effect during FY 1990:

-- **Africa Small Business Assistance Program (ASAP):** Since 1987, A.I.D. and Peace Corps have cooperated in a unique program to encourage growth in the small business sector in Africa, funding needs assessments, project designs and project evaluations of small business assistance activities.

-- **Child Survival:** The purpose of this agreement is to strengthen Peace Corps Volunteers' participation in host country child survival projects that focus on growth monitoring, oral rehydration, infectious disease control, immunizations coverage and breast feeding. Twenty-five countries receive comprehensive programming and training support. Regional programming conferences for Peace Corps health staff in the field and their counterparts are planned for FY91.

-- **Combatting Childhood Communicable Diseases (CCCD):** This program is a cooperative effort among African countries, the World Health Organization, the Centers for Disease Control, A.I.D., Peace Corps and other groups. Peace Corps Volunteers are assisting the health education component of the program to address the high rates of morbidity and mortality caused by infant diarrhoea, malaria and immunizable diseases such as tetanus, measles and polio. Cote d'Ivoire has just been added as a Peace Corps CCCD country. An outside evaluator found that the recently completed Peace Corps/Togo CCCD project was very successful in increasing local capacity to solve health problems.

-- **Farmer-To-Farmer Program:** On August 31, 1990, the Peace Corps, A.I.D. and Volunteers in Overseas Cooperative Assistance (VOCA) signed a two-year collaborative agreement to support Peace Corps' participation in the Farmer-to-Farmer Program. Through this collaborative program, VOCA sends Volunteer U.S. agricultural professionals to assist developing country farmers and the Peace Corps Volunteers working with them. Peace Corps involvement in the program has been extended through March 1991, and negotiations are underway to continue the program for another year, through March 1992.

VOCA volunteers undertook the first Peace Corps/Farmer-to-Farmer assignment in February 1988. Since then, VOCA volunteers have been sent in response to 51 requests from PCVs in 23 countries. Thirty assignments were completed in 1990. Roughly 400 Peace Corps Volunteers have directly benefitted by working alongside the VOCA volunteers, or by participating in workshops or seminars presented by them. More important, the VOCA/PCV "teams" have worked with over 1,500 host-country farmers directly on their farms or at workshops, while at least 17,000 other host-country nationals--families, villages and cooperatives--have indirectly benefitted from the VOCA/PCV activities. In 1991, Peace Corps estimates completing 40 to 50 Farmer-to-Farmer assignments.
Forestry: The joint A.I.D.-Peace Corps Forest Resources Management Project continued to support Peace Corps' environmental and natural resources activities throughout FY 1990, its 11th year of successful efforts. This initiative has increased the Peace Corps' ability to work with host country governments, PVOs and communities on projects to support locally based forestry, soil and water conservation, parks and wildlife, biological diversity, environmental education and related programs.

Guinea Worm Eradication: Guinea worm is a debilitating waterborne disease that immobilizes up to 10 million people annually in 19 African countries, India and Pakistan. A UNICEF study in 1987 estimated annual losses of $20 million in rice production alone in one area of Nigeria where 195,000 families were affected. In 1989, the United States Peace Corps and A.I.D. agreed to use Peace Corps Volunteers and their counterparts to contribute to ongoing international efforts to eliminate Guinea worm disease in 10 African countries. The work of PCVs involved in this program includes surveillance, community program planning, community health education such as how to use water filters and improve existing water sources, and monitoring and evaluating existing projects.

The Microenterprise Development Program: To strengthen grassroots small business and microenterprise development, the Peace Corps and A.I.D. initiated a joint Microenterprise Development Program (MEDP) in August 1988. FY 1990 marks the third year of the program and a renewal of the MEDP PASA for four additional years.

MEDP concentrates on small business development support in 15 selected countries. Chosen by Peace Corps and A.I.D. for the strength, size, commitment and potential impact of small business development, these countries include Honduras, Costa Rica, Guatemala, The Dominican Republic and Jamaica in the Inter-America Region; Mali, Botswana, Ghana, Kenya, Lesotho and Senegal in Africa; Pakistan, Fiji and Western Samoa in Asia and the Pacific; and Poland in Central Europe.

MEDP provides training for PCVs, PCV counterparts, host country personnel and microentrepreneurs to improve their capabilities to assist small business and microenterprise development including:

- Pre-service training for both SBD and non-SBD Trainees, emphasizing the integration of SBD with other program sectors.

- In-service training focusing on basic business skills development for non-SBD PCVs and their counterparts working in small business and microenterprise-related projects.

- Intensive in-service business and extension training for SBD PCVs and their counterparts.

- Consultant support to improve services to small business people and to enhance SBD programming in targeted countries.
- Development of training materials and other resources to assist small business development in institutions and communities where PCVs are working.

Specific accomplishments under the program have been the development of enhanced SBD implementation plans and programming in each of the participating countries; development of pre-service and in-service microenterprise training models and materials; the identification of a skilled microenterprise training cadre; the training of over 700 Volunteers, counterparts and beneficiaries; and experience in collaborative microenterprise programming and training between the SBD and other technical sectors of Peace Corps, and between Peace Corps and A.I.D.

In the coming year, the scope of MEDP will expand, with limited assistance made available to non-target countries, the strengthening of the exchange of training and technical assistance expertise between countries, and the formation of regional networks of countries promoting small business development. As in past collaboration with A.I.D.'s ARIES (Assistance to Research Institutions for Enterprise Support) project, this new PASA draws upon the resources of--and works closely with--A.I.D.'s new GEMINI (Growth and Equity through Microenterprise Investments and Institutions) project, especially in the area of nonfinancial assistance to microenterprises.

-- Nutrition: This agreement supports activities that strengthen household food security and family nutrition. More than 255 Volunteers and 425 host country nationals have been trained to assess household nutritional problems and develop appropriate village-level solutions including family gardens, small-animal husbandry, post-harvest technology and nutrition education. The program's independent evaluator has found that the training has been quite successful, encouraging increased income and improved gardening skills for host country nationals.

-- Small Project Assistance: The Small Project Assistance Program, jointly established by the Peace Corps and A.I.D., has been in operation since 1983. It supports training assistance and provides funds for small-scale development projects identified by Volunteers working with local community organizations in more than 40 countries. A typical project might enable a community to build a grain storage facility, start a poultry-raising operation, or install a potable water system. Almost 3,000 projects have been funded since 1983.

The Peace Corps continues to be a strong influence in the international development arena. As Volunteers complete their service and return to the United States, their knowledge of and experience in the part of the world where they have served becomes a powerful force for increasing American understanding of the development issues facing other countries. Thousands of Volunteers continue to serve in government--some in elective offices. Many remain involved in development assistance through A.I.D., employment in private firms and other Volunteer organizations. Perhaps most important, Peace Corps Volunteers continue to present a positive image of Americans to much of the developing world and they provide Americans at home with a personal view of the contributions their country is making to assist other nations of the world.
5.5 Private Voluntary Organizations (PVOs)

The A.I.D.-PVO partnership has a long, rich history dating to reconstruction efforts in Europe after World War II. It is a partnership based on the mutuality of A.I.D. and PVO interests in fostering self-help development in third world countries. PVOs have a diversity of strengths and share the U.S. commitment to overcoming problems of hunger, illiteracy, disease, and early death in the poorer countries of the world. Solutions to these problems are integral to achieving economic growth and development.

Success in A.I.D. and PVO programs flows from a joint understanding of what each does best. PVOs provide important institutional structures through which considerable private, nongovernmental resources flow to developing countries—resources (as reported by PVOs registered with A.I.D.), worth over $1.5 billion in 1989. A.I.D.'s financial support enables PVOs to expand and strengthen their technical capabilities in the development programs they are conducting in over 60 countries in such critical areas as credit and entrepreneurial advisory services, health services, appropriate technology, forestry, and agricultural development.

Besides providing material resources, PVOs have a proven ability to tap the U.S. human resource base to transfer know-how to the developing world. PVOs have excelled in extending to remote communities of developing countries programs in small-enterprise development; primary health care (particularly in demonstrating basic health care practices such as oral rehydration, immunization, and simple first aid); preservation of natural resources (whether through reforestation, land terracing, or other methods); and credit delivery to men and women not reached by the formal sector.

In FY 1990, A.I.D. continued its active support for and collaboration with PVOs. In addition to encouraging the participation of PVOs in the distribution of PL 480 Title II commodities, A.I.D. has committed almost $512 million in grants and contracts to PVOs representing a wide variety of resources and skills. A.I.D. is committed to pursuing jointly with PVOs international programs in disaster relief, food distribution, operation of overseas schools and hospitals, primary health care, rural technology, non-formal education, and other skill-transfer programs.

5.6 The U.S. Trade and Development Program

The Trade and Development Program (TDP) is an independent U.S. Government agency within the International Development Cooperation Agency. TDP has an exclusive mandate to promote U.S. exports for major development projects in middle-income and developing countries.

TDP carries out this mandate by funding feasibility studies, consultancies, trade-related training, sponsorship of international conferences, and reverse trade missions. Contracts funded by TDP grants must be awarded to U.S. companies. U.S. involvement in project planning helps position potential U.S. suppliers of goods and services for follow-on contracts when these projects are implemented.

The majority of TDP's funds are obligated for feasibility studies for public sector projects. Host governments play an active role in developing the scope of work for the feasibility study, selecting the U.S. company to carry out the study, and monitoring the
progress of the work. TDP’s emphasis on host country participation, combined with the high degree of professionalism, skill, and objectivity of U.S. companies, ensures a satisfactory and useful study. This cooperation also engenders a cooperative relationship between the host country, TDP, and the U.S. business community that often extends to future projects.

TDP-funded activities provide a generous return to the U.S. economy. Through Fiscal Year 1990, approximately $3 billion of U.S. exports had been associated with TDP-funded activities, and an additional $18 billion in direct U.S. exports is expected to result from those projects over the next ten years. To date, over 400 companies in 40 states and the District of Columbia have benefitted from activities supported by TDP. U.S. business representatives who have participated in TDP-funded activities support them as important and practical ways to improve their marketing, exposure, and networking for future business activities.

All projects evaluated for TDP funding must meet the following selection criteria:

**Development Priority:** Projects must be developmental priorities of the host country and likely to be implemented. TDP must receive a formal request from the host government, and the U.S. Embassy must endorse TDP’s involvement in the proposed project.

**U.S. Export Potential:** Projects must present an opportunity for substantial sales of U.S. goods and services.

**United Financing Availability:** There must be assurances that untied financing for project implementation will be available and that procurement will be open to U.S. firms.

TDP has grown from a $4.9 million program in FY 1980 to its present level of $35 million for FY 1991. TDP has acquired several additional mandates throughout this period. The Support and East European Democracy (SEED) Act of 1989 authorized $6 million of no-year funding over a three year period for TDP activities in Poland and Hungary. TDP has recently been authorized to operate in Czechoslovakia and Bulgaria. The 1988 Omnibus Trade and Competitiveness Act authorized to disseminate information related to TDP major project activities; establish a TDP advisory board; and fund education and training programs in connection with TDP’s basic program. In addition, this Act transferred the authority to administer mixed credit activities (as provided in the Trade and Development and Enhancement Act of 1983) from the Agency for International Development (A.I.D.) to TDP.

**Success Story:** The TDP funded feasibility study grant to the Chilean Government is an example of a typical TDP activity. In FY 1989, The Chilean Telephone Company (CTC) announced an award of $29 million contract to the U.S. firm Scientific Atlanta (SA) for the first phase of a $700 million project. The entire project calls for the construction of 43 earth satellite stations which will be completed within three years. Scientific Atlanta fought a hard battle in competition with NEC of Japan and Alcatel of France. The success of Scientific Atlanta in winning the contract may be attributed to the company’s unrelenting effort to be competitive to meet the demands of CTC and the significant U.S. Government support and coordination. In late May of 1989, TDP became aware of the project during a visit to Chile by TDP’s Regional Director for Latin America.
Within two weeks, TDP was able to convey an offer of a $750,000 grant to CTC to make SA's offer more competitive. This grant offer, in conjunction with conventional Ex-IM Bank financing, and personal Ambassadorial support resulted in SA being award the largest single international contract in the history of the company.
5.7 U.S. Programs in Support of Regional Development Foundations

5.7.1 Inter-American Foundation

The Inter-American Foundation (IAF) is a public corporation created by Congress in 1969 to support the self-help efforts of the poor in Latin America and the Caribbean. Unlike larger bilateral foreign aid programs, the IAF works with private organizations rather than governments to promote the ideas and involvement of the region's poor in their own development at the grassroots level. The IAF is funded by Congressional appropriations and the Social Progress Trust Fund administered by the Inter-American Development Bank.

The IAF carries out its legislative mandate by:

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

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

-- Encouraging the emergence and growth of democratic institutions in the region; and

-- Contributing to public understanding and debate about institutions, policies, and programs that shape and constrain economic and social change in Latin America and the Caribbean.

The IAF is governed by a nine-person Board of Directors appointed by the President of the United States and confirmed by the Senate. Six members of the Board are selected from the private sector and three are appointed from U.S. agencies concerned with Inter-American affairs. The Board appoints a president who serves as chief executive officer, managing a 73-person staff based in Rosslyn, Virginia. The IAF maintains no overseas staff or offices; its country representatives work at the Rosslyn office, but travel regularly to Latin America and the Caribbean to review current projects and new proposals.

The IAF selects projects for support from a large number of proposals received in the field. The principal criteria for project selection are derived from the institution's legislative mandate, as implemented through the Board's policies. The criteria applied concern both the kinds of institutions to which grants may be made and the types of activities eligible for support.

Criteria on Institutions. Grants may be made to institutions that have the following characteristics:

-- They are local private institutions in Latin America or the Caribbean.

-- They are nonpartisan and do not engage in political activities.
They are established organizations with competent, committed leadership; a good record of performance; and roots in their local communities.

They are democratically organized and managed.

Criteria on Project Activities. Grants may be provided to support projects that have the following characteristics:

- They benefit poor people who participate in their design and management.
- They are technically and managerially feasible and have the support of the local community.
- They will strengthen the sponsoring organization and enable it to assume subsequent tasks.
- They represent part of a broad range of activities that are innovative and experimental and offer promise for expansion or replication in other settings.
- They are capable of being sustained with local support beyond the period of the grant.

Program Review. Over the past 20 years, the Inter-American Foundation has made more than 3100 grants totaling $312 million, in 36 countries throughout Latin America and the Caribbean. Many grants are made to grassroots organizations such as agricultural cooperatives, community associations, and small urban enterprises. Grants are also provided to larger organizations that offer credit, technical assistance, training, and marketing services. The average size of IAF grants is $70,000; however, the IAF has made grants ranging from less than $1,000 to $2.5 million. In FY 1990, the Foundation approved 377 new and supplemental grants totaling $21 million. Among the grants made in FY 1990 were the following:

- $80,460 to apply an ancient Andean technology of raised-field agriculture in 25 communities of the Lake Titicaca basin area. The project will introduce the raised-field technology to 200 Aymara peasant families in Bolivia.

- $41,000 for women's groups to establish small, self-managed community banks in four rural villages of Belize. Each group will establish a banking and management structure and become acquainted with principles of credit lending and successful small business management. The community banks will extend small loans to cottage entrepreneurs.

- $103,000 to carry out a multi-faceted outreach program to benefit homeless children in Brazil and promote public awareness of this growing social problem.

- $21,000 to enable an organization of Mayan Indian educators, writers, and performers to carry out a literacy and cultural education program in the Chiapas highlands of Mexico.

- $43,670 to conduct a reforestation program enlisting the involvement of youth in local tree planting projects in the Dominican Republic.
-- $103,000 to train development technicians and Chile’s urban and rural poor in sustainable agriculture techniques.

-- $40,273 to provide training, technical assistance, and credit for microenterprise development among low-income rural women in Costa Rica’s Nicoya Peninsula.

-- $31,000 to enable an agricultural cooperative to expand its loan program and carry out an extensive cooperative education program in 20 communities of Colombia’s southern Santander Department.

-- $34,940 for an Ecuadorian popular education center to design strategy, curricula and educational materials to be used by the government in reforming the national adult education system.

5.7.2 African Development Foundation

As of September 30, 1990, the African Development Foundation (ADF) had funded 259 grants in 29 countries in Africa, obligating a total of $22,436,037 dollars. More than 93 percent of this amount had been provided for economic development projects, the remainder going to development research.

The African Development Foundation was established by Congress in 1980, under the authority of the African Development Foundation Act (22 USC 290h). ADF was established to:

-- Strengthen the bonds of friendship and understanding between the people of Africa and the people of the United States;

-- Support self-help activities at the local level, designed to enlarge opportunities for community development;

-- Stimulate and assist effective and expanding participation of Africans in their development process; and

-- Encourage the establishment and growth of indigenous development institutions which can respond to the requirements of the poor in their countries.

The Foundation encourages and supports Africans in carrying out their own development strategies and programs by:

-- Providing support to small, community-directed development efforts;

-- Supporting sustainable development strategies by indigenous African organizations;

-- Supporting African scholars in research on grassroots development issues; and

-- Facilitating the dissemination of development information and ideas at the community-level throughout Africa.
Individuals and organizations receiving support from ADF must involve the poor in all phases of the project, including design, implementation, and management.

ADF has a Washington-based staff of 37 people. In Africa, ADF relies on a network of local development specialists, known as Country Liaison Officers, to assist grantees and potential grantees with technical assistance needs.

The following are brief descriptions of six of the projects ADF funded during Fiscal Year 1990:

**Senegal: Senegalese Women’s World Banking (WWB) Project (US$28,814, 18 Months)**

The Federation of Women’s Associations of Senegal (FAFS) is a non-governmental organization, founded in 1977, whose purpose is to improve the social, economic, and political condition of Senegalese women, particularly in rural areas. The Federation is broadly representative and is now composed of more than 160 women’s associations.

The goal of the project is to increase women’s access to credit through the creation of a financial institution capitalized by women. Their plan is to implement a promotional strategy and educational campaign that will result in increased FAFS membership and the sale of 30,000 shares of the bank at 10,000 Francs (CFA) per share. The project’s objectives are to:

-- Reach the largest possible number of women in both rural and urban areas through the media, posters, public speaking, and other means to make them aware of the existence of the project and to motivate their participation in it;

-- Make it possible for a large number of women to subscribe to WWB capital by talking to them about their financial resources and about the subscription terms;

-- Facilitate the regional establishment of assistance bases capable of meeting women’s specific needs for information; and

-- Inspire women to have self-confidence and to facilitate their effective integration into the country’s economy through the WWB.

ADF funds are being expended for communications, administrative support, travel, and other types of outreach costs.

**Sierra Leone: JACECREC Skills Development and Job Training Facilities for Disabled and Disadvantaged Rural Indigenes Project (US$193,383, 4 Years).**

The Jangee All-Age Community Education and Cultural Resource Center (JACECREC) is a registered, informal educational corporation, formed by Jangee Chiefdom residents.

The principal goal of the project is to stem the flow of rural to urban migration in Sierra Leone by creating medium and small-scale handicraft enterprises through training unskilled and illiterate or semi-literate adults in handicrafts production and marketing. The project’s objectives are to:
Train the handicapped and disadvantaged in the production of locally-consumed products such as hand tools, cloth, and baskets;

Upgrade the skills and knowledge base of indigenous craftspersons in the areas of applied design and appropriate technology;

Teach basic office skills—including typing, bookkeeping, shorthand, store-keeping, management, and communications—to local residents;

Collect and preserve the invaluable expertise of the community's indigenous craftspersons, renowned for their knowledge of herbs and natural dyes;

Promote literacy in indigenous languages; and

Provide a facility for the marketing of crafts produced by local craftspersons.

ADF funds are being used to pay for workshops, hand tools, administrative costs, and technical assistance.

**Ghana: Krobo Cold Storage Project (US$234,392, 5 Years).**

The Manya Krobo Fish Dealers Association is a commercially-oriented community development group of 38 women, registered with the Ghanaian government in 1989.

The goals of the Krobo Cold Storage Project are to promote income-generating activities for women, to stimulate economic activity in the Krobo community, and to provide an affordable source of protein to that community through fish supply and processing. The objectives of the project are to:

Construct a cold storage facility and office;

Purchase and install refrigeration equipment for a cold storage house;

Initiate a revolving credit program;

Provide training in oven construction and maintenance, fish smoking, business management, and cold storage monitoring and administration to the Association's members; and

Provide technical assistance to the management for two years.

ADF funds are being used to purchase materials and equipment for the cold storage facilities; to provide capital for the revolving credit fund; and to cover operating, training, and technical assistance costs.

**Rwanda: Gitarama Batik Project (US$84,718, 3 Years).**

The Gitarama Group of Craftswomen, registered in 1988, is a cooperative composed of 20 women who live in the Commune of Nyamabuye in the District of Gitarama, 87 kilometers south of Kigali, Rwanda. Because of the high demand for batiks throughout Rwanda, the Cooperative's members have chosen to make batik products; and they have
engaged a Canadian volunteer to train them in batik making, stenciling, silk screening, and pattern sketching techniques.

The goal of the project is to increase the financial resources of group members through the production of batik and stenciling products. The project's activities include constructing a workshop, purchasing equipment and material, and providing training in small business management and sewing to the Cooperative’s members.

ADF support includes funds to purchase construction materials, sewing machines, gas stoves, and office supplies as well as to provide technical assistance and training.

**Tanzania: Rubya Carpentry Training Program (US$25,000, 2 Years).**

Rubya Parish is a parish in the Catholic Diocese of Bukoba in Tanzania. The Rubya Parish Family Resource Center is located 90 kilometers southwest of Bukoba on the west side of Lake Victoria. The Center serves a host of small, isolated grassroots communities and provides for the physical, educational, counseling, and spiritual needs of the people.

The goal of the project is to contribute to the improvement of conditions of the disadvantaged families in the community by raising their standard of living through the training of youth. The core of the project is training in carpentry skills. Youth undergo a two-year training course, paying a small fee of about US$15.00, if able. Approximately one-quarter of the students, who show aptitude in carpentry but who cannot pay the fee either in cash or in-kind, are provided a scholarship by the Center. Youth are housed at the Center and work for part of their day in the agricultural plot, which produces food for the students and other Center beneficiaries.

First, youth are trained in making basic designs for simple window frames, doors, and furniture. As their training progresses, they advance to more sophisticated and larger items. Students are also trained in the use and care of basic hand tools as well as basic electrical tools used for carpentry.

ADF funds are being used for a period of two years to allow time for two instructors to be trained; for the purchase and installation of equipment; and for an assessment of the impact of the project on the local community.

**Zambia: Kasapa Brickmaking Project (US$73,625, 3 Years).**

The Kasapa Brickmaking and Civil Engineering (BCE) Cooperative Society, established in 1969, is comprised of 77 full and associate members. Kasapa Brickfield was once a highly profitable enterprise, employing 300 people. Over the years, its operations substantially declined until they came to a standstill in 1976. Now, new management is actively involved in trying to revive its operations.

The objectives of the project are to:

-- Revitalize the brickfield operation to attain production of at least 50,000 bricks per month;

-- Create permanent employment for the Cooperative’s members;
-- Reduce unemployment by creating additional jobs; and

-- Supply bricks at affordable prices to the community.

ADF is funding six components of the Kasapa project: installing 800 meters of pipe to supply water to the brickfield; reconditioning and maintaining the electric brickmaking equipment; renovating the plant building; constructing an office and storeroom; purchasing four oxen and ox carts; and providing working capital.
CHAPTER 6

U.S. SUPPORT OF MULTILATERAL PROGRAMS

6.1 United Nations Programs

The United Nations (UN) system comprises more than 30 specialized agencies, funds, and programs that provide development assistance throughout the world. During 1989, the last year for which statistics are available, concessional expenditures by the UN system on operational activities for development totaled $6.6 billion, of which grant expenditures accounted for $3.4 billion (as against $3.3 billion in 1988) and net loan expenditures for $3.2 billion (as against $3.7 billion in 1988).

The majority of concessional loan funds flow through the International Development Association (IDA), an affiliate of the World Bank. (See Section 6.4, which addresses the role of multilateral development banks). A significant portion, about 5 percent, flows through the International Fund for Agricultural Development (IFAD). IFAD was created through a joint effort of the Organization for Economic Cooperation and Development and the Organization of Petroleum Exporting Countries. The United States supports this effort to mobilize resources from nontraditional donors as well as IFAD’s focus on enhancing the productivity and incomes of small farmers in least developed countries.

The United States supports, through assessed or voluntary contributions, the development programs of a wide range of agencies and organizations within the UN system. Those described below accounted for over 90 percent of the funding and 84 percent of the implementation of grant-financed UN system development assistance carried out in 1989.

Food aid, channeled through the World Food Program (WFP), accounted for 22 percent of the UN system’s grant expenditures in 1989. Most WFP food aid is currently provided in the form of development (e.g., food-for-work) projects, including protracted assistance to refugees and displaced persons which, until 1989, was in the form of emergency feeding programs.

Technical assistance accounted for the remaining UN system grant expenditures in 1989, except for a small amount of grant capital assistance provided through the United Nations Capital Development Fund (UNCDF) for self-help and demonstration projects too small to be financed by multilateral development banks or IFAD. UN system technical assistance complements U.S. and other bilateral assistance by increasing the managerial and technological capacity of developing countries, strengthening their institutional infrastructure and creating investment opportunities.

The United Nations Development Program (UNDP) was established as the principal funding and coordinating mechanism for the delivery of the UN system’s grant technical assistance, but its funding role has decreased over the years. In 1989, UNDP and UNDP-administered funds (including UNCDF) financed only 37 percent of the UN system’s development grant expenditures (excluding food aid), as against 19 percent financed by the United Nation’s Children’s Fund (UNICEF), 6 percent by the United Nations Fund for Population Activities (UNFPA), and 38 percent by the UN system’s
specialized agencies and other UN organizations, either from their regular (assessed) budgets (10 percent) or from extra-budgetary (mostly bilateral trust fund) resources (28 percent).

Conversely, UN specialized agencies and other UN technical organizations at one time executed most of the projects financed by UNDP. Today, however, UNDP's Office of Project Services and the World Bank each execute 12 percent of the projects funded by UNDP and UNDP-administered funds, while recipient governments themselves execute a fast-growing proportion of the total (13 percent in 1989).

Over the past decade, efforts to improve the effectiveness of UN development assistance, as well as its responsiveness to the needs of developing countries, have focused on measures to strengthen coordination and team-work within the UN development system and to promote greater self-reliance on the part of recipient countries. Owing largely to the strong support of the United States and other major donors, these efforts gained momentum in the period 1987-1989. They culminated in the adoption by the UN General Assembly, in December 1989, of an important resolution calling for major reforms of the UN development system.

The process of implementing the various provisions of the resolution began in 1990 and is scheduled to be largely completed by 1992. The UNDP Governing Council contributed to that process with two important decisions aimed at improving collaboration between UNDP and its major technical partners within the UN system, and at assisting recipient governments to strengthen their capacity to manage and execute UNDP-financed projects on their own, with the technical support of the relevant UN specialized agencies or organizations.

Furthermore, in response to the concerns of member governments, UNDP continues to focus increasingly on broad cross-sectoral themes. Thus, during the period 1992-1996, UNDP's priorities will include the promotion of human development, in general, and the building and strengthening of national capacity in specific thematic areas, such as poverty alleviation and grass-root participation in development, management development, and environmental and natural resource management.

After UNDP and WFP, UNICEF is the third largest UN grant aid agency funded from voluntary contributions. UNICEF cooperates closely with developing nations in their efforts to address the needs of mothers and children as vulnerable groups. UNICEF projects generally utilize simple technologies, and entail a large degree of self-help and popular participation at the village level. UNICEF inspired, and provided the secretariat for the World Summit for Children, held in September 1990 in New York, which was attended by 71 heads of states, and resulted in a Declaration and Plan of Action to guide national efforts to address the needs of children.

UNFPA (with expenditures one third those of UNICEF in 1989) plays a leading role within the UN system in promoting population programs. The United States has not contributed funds to UNFPA since 1986 because of that agency's involvement in the China Family Planning Program. There have been reports of instances where some Chinese officials have resorted to coercive implementation of China's one-child policy. Although the UNFPA itself does not directly support coercion or abortion, it was determined that its involvement met the terms of current legislation which requires that
the U.S. not fund any organization which supports, or participates in the management of a program of coercive abortion or involuntary sterilization.

The Department of Technical Cooperation for Development (DTCD) was created in 1978 as the UN Secretariat's principal arm for technical cooperation. It is the largest executor of UNFPA-funded projects and the second largest executor of UNDP-funded projects. DTCD's main areas of project execution are natural resources, energy, development planning, public administration and finance, statistics and population.

The specialized and technical agencies of the UN system for the most part were created to perform regulatory, research, advisory and service functions in their technical areas of expertise for all their members (including developed as well as developing countries). Over the years, however, they have become increasingly involved in technical cooperation activities in developing countries. Following is a brief description of the technical cooperation activities of the major specialized agencies which, together with DTCD, are responsible for the implementation of half of the technical assistance expenditures of the UN system in 1989.

The Food and Agricultural Organization (FAO) seeks to raise levels of nutrition and living standards by improving the production and distribution of food and agricultural products. FAO is the largest supplier of technical assistance to the agricultural sector of developing countries and the largest executor of UNDP-funded projects. A major review of FAO's role, priorities, strategies, objectives, and field operations, begun in May 1988, was concluded in November 1989 with the endorsement by FAO's governing body of recommendations aimed at strengthening the organization's capacity to provide sectoral policy and technical advice to developing countries.

The United Nations Industrial Development Organization (UNIDO), which became a specialized agency only in 1987, was established primarily to promote and accelerate industrial development in the developing countries. It is the third largest executor of UNDP funded projects. The United States supports UNIDO's efforts to promote foreign investment in developing countries and its role as a major supplier of technical assistance for industrial development, in general, and for the development of small- and medium-scale enterprises, in particular.

The World Health Organization (WHO) spends 60 percent of its regular budget on technical cooperation activities. The organization is involved in a wide variety of programs ranging from tropical disease control to childhood immunization and related services. It is also coordinating the global effort to address the problem of (AIDS).

The International Labor Organization (ILO) provides technical assistance in a variety of labor and management-related fields. The United States particularly supports ILO activities aimed at promoting employment in the rural areas and informal sectors of the developing world.

The United Nations Educational, Scientific and Cultural Organization (UNESCO) provides technical assistance in the fields of education, science, communications, and cultural preservation. Concerned with UNESCO's politicization, the United States withdrew from the agency in 1984. It continues, However, to promote reform of the organization, and will reassess its position on membership if significant reform is achieved.
6.2 Inter-American Organizations

Beginning in August, 1989, A.I.D. began funding the Organization of American States (OAS)’s election monitoring activities in Nicaragua. Following the conclusion of the successful electoral process in February, 1990, A.I.D. continued financing OAS activities for the demobilization, repatriation, and resettlement of former Resistance members and their families. Altogether, A.I.D. provided over $30 million to the OAS for these activities, including election monitoring in Haiti in 1990. OAS success in these activities culminated in the recognition that the OAS must continue to develop and increase its capabilities in support of democratic elections. The Secretary General of the OAS has created a Democracy Unit within the Secretariat manage these activities.

Although sharply reduced from the days of the Alliance for Progress, the (OAS) continues to provide development assistance and other technical cooperation programs totalling some $47 million annually, including a $10 million voluntary contribution (A.I.D.) from the U.S. All OAS members make voluntary contributions. It is worth noting that the four largest Latin nations (Mexico, Brazil, Argentina and Venezuela) have become net donors - $4,490,000 in 1989 - an important U.S. objective. Canada, a new member in 1990, is planning to contribute both to the voluntary funds and to some specific OAS programs. The technical cooperation activities are of particular interest and importance to the smaller, Caribbean OAS members, some of whom are not members of the Inter-American Development Bank (IDB) and thus depend heavily on the OAS as a source of external aid.

The OAS has successfully "sold" its expertise as an executing agency to attract funds for specific development projects from A.I.D. - $5,136,900 in 1989 - and other U.S. agencies (NSF, NOAA, Department of the Interior), European countries, the IDB, UNDP, and UNEP. The Economic and Social Council (CIES) of the OAS, for example, received a $1 million grant from A.I.D. to identify areas of high risk for natural disasters for its emergency preparedness program. The U.S. Trade Development Program (TDP) is jointly funding with the OAS and private sector donors the OAS Trade Information Program (SICE), a high technology computer service which makes trade regulations, data, and importer-exporter information available throughout the hemisphere. TDP is also paying for a feasibility study by the OAS in telecommunications modernization for five Latin American nations; Italy is funding another telecommunications project. The IDB is jointly funding a regional development project in Central America (with an important environmental component). Some $10 million is expended annually on regional projects (e.g., tourism development, Amazon River basin cooperation, etc.) and on national projects. All of these projects contain a national counterpart in funds and in-kind contributions.

The OAS's Inter-American Council for Education, Science and Culture (CIECC) spends some $27 million annually on technical cooperation projects. This Council is the hemispheric counterpart of UNESCO and has managed to keep decisions and actions in carrying out technical assistance free of extraneous political issues. An in-depth evaluation of 20 years’ work on development projects in 1989 led to a refocusing of priorities, a reduction in the number of project areas, a simplification in the delivery of technical assistance, and improved accountability and evaluation requirements. Current priority areas are: Basic Education; Education-for-Work; Materials Technology; Biotechnology and Food; Environment and Natural Resources; Microelectronics and
Informatics; Preservation and Use of Cultural Heritage; and Cultural Policies. These multinational projects began in 1990 and will be periodically evaluated and adjusted to conform to defined priorities. CIECC also undertook in 1990 to design a program in education to prevent drug abuse (supported by external funding).

The OAS (CIECC) also manages annually an $8 million dollar graduate fellowship program. Over the past two decades over 91,000 Latin American and Caribbean students have benefitted from education or training in the U.S. (the vast majority) or in Latin American or Caribbean countries. A.I.D. recognized the cost-benefit effectiveness of OAS management of this program by awarding the OAS a $4.5 million undergraduate fellowship contract which was part of the Caribbean Basin Initiative Fellowship Program.

The Pan American Health Organization (PAHO), headquartered in Washington, is a specialized agency of the OAS and also the regional office for the Americas of the World Health Organization. Its basic purpose is to promote and coordinate efforts by countries in the western hemisphere to combat disease, lengthen life and promote the physical and mental health of the people.

In 1990, PAHO continued its emphasis on preventive rather than curative health programs, with a focus on primary health care. Its effective working budget of $65 million for calendar 1990, paid through assessments of member states, was augmented by almost an equal amount in voluntary contributions from other international organizations and major contributors such as the United States. The USG was assessed 61.27 per cent of the PAHO regular budget, or $39.7 million. The voluntarily supported programs enabled PAHO to undertake major new initiatives in Central America, the Caribbean, and Andean States and the Southern Cone. PAHO worked closely with the OAS in Nicaragua in the program for the repatriation and resettlement of the former Resistance and their families.

The Inter-American Institute for Cooperation on Agriculture (IICA), headquartered in San Jose, Costa Rica, provides technical cooperation in agriculture. The Institute's overall expenditures of $19,800,000 in 1990 went predominantly to five major programs: Agricultural Policy and Planning, Science and Technology Generation and Transfer, Rural Development, Agroindustry and Marketing, and Animal Health and Plant Protection, plus a subsidy ($1 million) to the Tropical Agricultural Research and Training Center (CATIE) in Turrialba, Costa Rica.

IICA, is currently executing a coffee development program in Haiti for A.I.D. for $8 million over a five year period. In 1990, IICA carried out other projects for A.I.D. for a total of $1,915,100. Overall, IICA managed projects totalling $18,630,000 for A.I.D., World Bank, IDB, CIDA (Canada), IFAD, Sweden, and others. The Institute continues its program of reconstituting the swine population in Haiti following the eradication of African Swine Fever there.

In addition, in cooperation with A.I.D. and APHIS of the U.S. Department of Agriculture (USDA), IICA is carrying out a fruit fly monitoring program in St. Lucia and Dominica. It is closely associated with control of medfly and screwworm in Central America. In cooperation with A.I.D. and other federal agencies, IICA is providing information on pesticide tolerance levels for imported agricultural products to countries in the Caribbean and Latin America. All these programs represent a major contribution.
6.3 Development Assistance Committee (DAC)

The rapidly changing international situation in 1990 presented new challenges to members of the OECD Development Assistance Committee (DAC) as they worked to improve policy coherence in the common development effort. Emerging democracies in Eastern Europe and the crisis in the Persian Gulf both required often extraordinary levels of additional resources and attention from member aid agencies. Nevertheless, the DAC made progress in the formulation of agreed aid policy principles in such areas as aid evaluation, aid and the environment, technical cooperation, and program assistance. Experts' meetings on population and science/technology yielded common orientations to underpin continuing DAC work in these areas. The 1990 High Level Meeting endorsed the launching of major DAC efforts on the issues of participatory development and the environment for 1991 and beyond.

Eastern Europe and the Gulf. Throughout 1990, DAC members emphasized their determination to support the efforts of emerging democracies of Central and Eastern Europe to achieve market oriented economic systems and pluralistic societies. DAC members were equally resolved that, as much as possible, such assistance should not come at the expense of efforts on behalf of recipient countries in other regions. Following Iraq's invasion of Kuwait, the balance of payments situation faced by most developing countries worsened significantly while donors faced enormous new requirements in the international opposition to this aggression. DAC members were particularly concerned that hard won gains under structural adjustment programs be preserved and extended even in the new and significantly more difficult international economic environment.

Participatory Development. The 1990 High Level Meeting reaffirmed DAC members' conviction of the vital connection between open, democratic, and accountable political systems, individual rights, and the effective and equitable operation of economic systems with substantial reductions in poverty. In coming years, the DAC will consider in more detail the operational implications of incorporating issues of participatory development into program planning and management as well as the best ways of carrying out donor coordination and dialogue with recipients on this issue. Participatory development has been identified by the DAC as a lead theme for development cooperation in the 1990s.

Environment and Development. In addition to ongoing activities of the Working Party on Environment and Development detailed below, the DAC is actively involved in preparations for the 1992 UN Conference on Environment and Development. Environment and development will be the focus of the 1991 High Level Meeting and of at least one other policy level meeting in 1991.

Ongoing Work on Common Principles. The United States presently accounts for about one fifth of the development assistance resources provided by all DAC members. The impact of U.S. development assistance, or that of any DAC donor, depends in large part on the extent to which DAC donors are able to operate from a set of commonly agreed operational principles in key areas of aid policy.
During 1990, the DAC made progress in developing common policy principles for aid evaluation, technical assistance, and program assistance. Work on principles for environmental impact assessments and country environmental studies marked the first in a series of environment and development issues on which common principles will be articulated.

Revised Guiding Principles on Women in Development, as prepared by the DAC Expert Group on Women in Development, were approved by the DAC in September 1989 and approved by the Council of OECD in January 1990. This version builds on the predecessor 1983 guiding principles, but expands their scope to take into account new priorities established by the Nairobi Forward Looking Strategies for the Advancement of Women, the conclusions of monitoring reports on the implementation by DAC members of the 1983 guiding principles, and the results of evaluations carried out by some DAC members which incorporated WID as a crosscutting issue.

Private Enterprise. During 1990, the DAC published "Promoting Private Enterprise in Developing Countries," which summarized conclusions and a compendium of measures taken by members. Common principles detailed included the recognition of the importance of a strong government to the provision of a growth oriented economic policy environment, an awareness that projects dependent upon public subsidies should be approached with caution, and an acknowledgment of the need for donor attention to the economic environment for trade-based enterprise development.

Conclusions on Population. Enlisting other DAC members' increased participation in population efforts is a U.S. priority; the United States currently provides about 45 percent of the DAC resources devoted to this issue. An experts' meeting in May 1990 helped to formulate a series of DAC agreed conclusions on population which were subsequently endorsed by DAC members at the policy level. Among the major recommendations were: bringing population matters much more prominently into multilateral and bilateral policy dialogues with recipients; providing increased funding for population programs; inviting the UNFPA and other competent international institutions to help developing countries put forward population program proposals in line with actual needs; improving coordination arrangements at the local and international level; and strengthening Member agencies' in-house population capacity for policy dialogue and operations. The DAC also acknowledged the need for increased effort to raise substantially the present low level of population assistance as well as the considerable differences in the extent to which individual DAC members participate in the international population assistance effort.

Science and Technology. The May 1990 experts meeting on science and technology did not attempt to reach agreed conclusions, but instead produced a series of "orientations" which contributed to and complemented recent DAC work on a number of key sectoral and general management issues. Reorientations and efforts suggested included the need for science and technology programs and priorities to be derived from a national dialogue among stakeholders rather than to be driven by technology suppliers; the desirability of developing involvement, commitment, and management capacity across the whole spectrum of the community and its institutions; the necessity for a strong national science and technology community; and an imperative at the international level to find ways to orient more of the world's science and technology effort to the development problems of the less advanced countries.
**Regional focus: Latin America.** The DAC followed up a regional meeting on South Asia in 1989 with another regional meeting, on Latin America, in November 1990. This meeting combined consideration of measures to promote sustained economic growth with consideration of measures to improve social stability. Topics covered included the status of economic and political reform efforts underway in Latin America; donor support for democracy initiatives (featuring a paper from the United States explaining A.I.D. programs to promote democratic pluralism); poverty and growth in Latin America; and economic integration. The discussion also provided an opportunity for the United States to answer DAC members' questions on the President's Enterprise for the Americas Initiative as well as the Partnership for Democracy and Development.

**Working Party/Expert Group Highlights:**

The *Working Party on Environment and Development* continued to discuss guiding principles for aid agencies in a variety of environmental areas with the objective of producing a draft policy package for the 1991 High Level Meeting. A.I.D. acted as the lead agency for a paper on pest management and commissioned a paper on environment and economics which will be a major input to draft aid guidelines in this area. Other policy issues for which draft guidelines are evolving (in addition to the completed guidelines on environmental impact assessments and country environmental studies already mentioned) include institutional development, global environmental problems, biological diversity, involuntary resettlement, disaster prevention, primary environmental care, and environmental education and training.

Increasing the aid quality of mixed credits and of tied aid generally was a major concern of the *Working Party on Financial Aspects of Development Assistance*. The group is assisting the Participants in the OECD Arrangement on Officially Supported Export Credits to develop a package of increased transparency and discipline measures for tied aid credits. In 1991, the Working Party will continue to refine an aid quality checklist for tied aid transactions, an idea first proposed by the United States in 1988.

The *DAC Expert Group on Aid Evaluation* held a joint seminar with the African Development Bank in an effort to explore with developing countries the ways in which they could better carry out evaluations as well as use evaluation findings. The Group continued work on guidelines for aid evaluation. In order to capture experience with the aid delivery process, the group developed a methodology on crosscutting issues and problem areas. This involved incorporating questions on the selected issue into the terms of reference of a wide range of evaluations to be undertaken in a given period. Participating agencies then prepared synthesis reports from which a global synthesis report was produced. The Group has applied this method to WID and is at work on similar ventures on technical cooperation and institution building. In support of the group's efforts to summarize donor experience, A.I.D. contributed two papers which were published in 1990, "Development Finance Institutions, a Discussion of Donor Experience" and "The Development Impacts of Program Food Aid, a Synthesis of Donor Findings and Current Trends and Strategies."

**6.4 Multilateral Development Banks**

The Multilateral Development Banks (MDBs) continue to play a very important part in international economic assistance efforts. Their loans and credits are a significant
portion of the total amount of funds going to developing countries. U.S. contributions to the MDBs are an important part of the total U.S. foreign economic assistance program.

1990 saw the creation of the first new Multilateral Development Bank to be created in almost twenty years, the European Bank for Reconstruction and Development (EBRD), which is scheduled to begin operations in April 1991. This institution will focus on supporting private sector and needed infrastructure development in the countries of Central and Eastern Europe. Its initial capitalization is $13 billion. The U.S. will be the largest shareholder, holding 10 percent of the shares. The countries of the European Community (EC) will hold 51 percent of the shares.

In 1990 the World Bank Group continued its efforts to help developing countries address their major economic problems. IBRD lending totaled $15.2 billion, including $2.65 billion for structural and sectoral adjustment loans aimed at improving the policy environment. IBRD loans are made at near-market rates of interest for terms of 15 to 20 years. The Bank acts, in effect, as a financial intermediary, mobilizing funds from the world's private capital markets and on-lending those funds to its-borrowers at a slightly higher rate of interest.

The ninth replenishment of the World Bank's soft loan affiliate the International Development Association (IDA) came into effect in 1990. This SDR 11,679 million replenishment will provide funding for the July 1, 1990, to June 30, 1993, period. IDA lending during 1990 totaled $5.5 billion including $1.31 billion in structural and sectoral adjustment loans.

The Bank continued its support for debt reduction operations, approving 3 such operations for Mexico, Philippines and Venezuela in 1990.

A major theme of Bank activity in 1990 was its effort to develop cost effective, sustainable means of alleviating poverty. The Bank resolved to expand its data as to the causes and extent of poverty in its borrowing members and to develop country specific programs to address the issue, which also take account of the lessons of past experience.

Another major issue addressed by the Bank was the problem of global environmental hazards. Throughout 1990 negotiations took place which led to agreement in November to create a Global Environmental Fund to assist borrowers with projects having global environmental implications. Finally donors pledged $1 billion to a core fund for this purpose, with several other donors promising to provide parallel or cofinancing resources. The U.S. agreed to provide up to $150 million in parallel financing over the three year life of the Fund.

The International Finance Cooperation (IFC), another World Bank affiliate, continued to provide risk capital, long-term loans, and technical assistance to private enterprises in developing countries. The United States is IFC's largest shareholder, owning 21 percent of the shares. During the IFC's fiscal year 1990, its board of directors approved 122 new projects, totaling $2.2 billion, a 29 percent increase over the previous year.

The Multilateral Investment Guarantee Agency (MIGA) is a new World Bank affiliate which is designed to encourage private investment in developing countries by issuing guarantees against non-commercial risks, carrying out promotional activities, and encouraging sound investment policies in member countries. Fifty-eight countries were
members of the MIGA as of December 31, 1990. The MIGA approved 4 investment guarantee operations in 1990.

In 1990 the Inter-American Development Bank began to implement the provisions of its Seventh Replenishment, which permitted the institution for the first time to make policy-based sector loans. The IDB lent $1.3 billion for such sector loans. The Enterprise for the Americans initiative, announced by President Bush in the spring of 1990 would encourage the IDB to assume an increasingly key role in assisting Latin American nations to remove obstacles to private investment and the participate in debt reduction programs.

The IDB’s new affiliate to support private sector programs the Inter-American Investment Corporation (IIC) expanded its operations in 1990, approving $54.8 million in loans and $11.8 million in equity investments.

The African Development Bank and Fund lent $3.3 billion in 1990. Donors considered the status of Bank operations in a mid-term review in January 1990 and began negotiations on a replenishment for the Fund in June. At the end of 1990 these negotiations were still ongoing, with donors including the U.S. seeking measures to assure that country performance was an important criterion in allocating Fund resources and that new measures designed to improve project quality were adopted.

The Asian Development Bank lent $2.4 billion in 1990 and its soft-loan window, the Asian Development Fund $1.5 billion. Like the World Bank, the ADB devoted attention to measures to expand its focus on sustainable poverty alleviation programs in view of the widespread continuing poverty in some member countries. Toward the end of the year negotiations commenced on a fifth replenishment of the Asian Development Fund but were not expected to be concluded until mid-1991.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>AFD</td>
<td>African Development Foundation</td>
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<tr>
<td>AFDB</td>
<td>African Development Bank</td>
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<td>A.I.D.</td>
<td>Agency for International Development</td>
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<td>BIFAD</td>
<td>Board for International Food and Agricultural Development</td>
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<td>CBI</td>
<td>Caribbean Basin Initiative</td>
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<td>CCCD</td>
<td>Combating Childhood Communicable Diseases</td>
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<td>CY</td>
<td>Calendar year</td>
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<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DCC</td>
<td>Development Coordination Committee</td>
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<td>EC</td>
<td>European Community</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<tr>
<td>FY</td>
<td>U.S. fiscal year (October 1 - September 31)</td>
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<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GSP</td>
<td>Generalized System of Preferences</td>
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<td>IAF</td>
<td>Inter-American Foundation</td>
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<td>ICRC</td>
<td>International Committee of the Red Cross</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IICA</td>
<td>Inter-American Institute for Cooperation on Agriculture</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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</tbody>
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GLOSSARY OF ABBREVIATIONS (cont.)

IMF - International Monetary Fund
MIGA - Multilateral Investment Guarantee Agency
NICs - Newly industrializing countries
OAS - Organization of American States
OECD - Organization for Economic Cooperation and Development
OFDA - Office of U.S. Foreign Disaster Assistance, A.I.D.
OPIC - Overseas Private Investment Corporation
PAHO - Pan American Health Organization
PVO - Private voluntary organization
TDP - Trade and Development Program
TRIM - Trade-related investment measure
UN - United Nations
UNDP - United Nations Trade and Development Program
UNESCO - United Nations Educational, Scientific, and Cultural Organization
UNFPA - United Nations Fund for Population Activities
UNHCR - United Nations High Commissioner for Refugees
UNICEF - United Nations Children's Fund
UNIDO - United Nations Industrial Development Organization
UNRWA - United Nations Relief and Works Agency
U.S. - United States
WFP - World Food Program
WID - Women in Development