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PORTUGAL

PROGRAM AND MANAGEMENT

IMPACT EVALUATION

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Prepared By:

Frederick F. Simmons, Team Leader
Development Associates, Inc.

Juan J. Buttari
Agency for International Development

Lawrence S. Graham
University of Texas at Austin

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I. INTRODUCTION

U.S. economic assistance to Portugal was initiated in 1975. It represented a key element of U.S. support for moderate political forces competing for power following the overthrow of the old regime in 1974. Over the next several years, the program incorporated a relatively wide range of activities, including technical assistance, project loans, balance of payments aid, PL-480 commodities, refugee and disaster relief, housing guarantees and grants associated with U.S. military base rights in the Azores. The program peaked in size in 1978, and is now being phased out. The USAID as well as AID/W felt it would be sensible to review the evolution of the program in Portugal to determine whether there were elements of AID's experience there which might be applied elsewhere.

In collaboration with PPC, the Near East Bureau assembled a small team of evaluators to assess the Portuguese program. The team was led by a retired AID foreign service officer with previous experience in managing politically-based programs. It also included an economist who recently joined AID after several years of international and academic experience and a professor of political science and public administration with an extensive background in Portuguese history and government. The scope of work drawn up for the study by the Mission and the Near East and Program and Policy Coordination Bureaus provided for a review of the historic context of the program in Portugal, a description and discussion of its composition and evolution, its impact on Portugal and Portuguese development and an identification of the lessons which might be derived from the experience. (A copy of the statement of work is attached as Annex A.) While the outline provided by AID/W for the report was followed in general, some minor adjustments were made to improve the manner in which the data were presented.

The team leader spent one week reviewing program materials in AID/W and interviewing persons who had been involved in the initiation of the program. He then went to Lisbon for a second week devoted to reading files and program documentation in the mission. At that point, he was joined by the two other team members. The team spent one week studying program materials and conducting extensive interviews of Portuguese officials in Lisbon who are or had been

associated with the AID program. The following week the team leader and the political scientist traveled to various field sites of AID-supported activities while the economist concentrated on materials available in Lisbon. Following the field visits, which included interviews with local government officials as well as representatives of the various central government institutions which had received aid (e.g., schools, health centers, university institutes), the team leader and political scientist returned to Lisbon. The remainder of the time was devoted to additional interviews, review of materials, and report drafting. The economist spent three weeks in Portugal while the team leader and the other team members remained a total of five weeks in the country.

The scope of the study was very broad and the time available was limited. In order to consider the program's overall impact and to assess the management techniques employed, some consideration of individual projects was required. However, with one or two exceptions, there were no previous project evaluations which could be drawn upon and the number of activities and the constraints on time precluded detailed analysis of any one element. It was not possible, for example, to make site visits in the Azores or to study any project in detail. Thus, while the team attempted to assess each project in a general sense, it was not able to conduct project-level evaluations. It sought only to understand the individual activities in sufficient depth to be able to draw reasonable conclusions from them. Needless to say there are risks in this approach. To the degree that detailed analysis of individual projects and activities is required to arrive at sound generalizations, stopping short of the appropriate level of detail weakens the basis for judgment. On the other hand, minor discrepancies in examining project details may not render overall judgments invalid. Therefore, the evaluation team attempted to weigh the need for specific knowledge against the time constraints and to arrive at a reasonable balance in light of the overall purpose of the study.

In this connection, it might be worth pointing out the obvious fact that if Mission-wide program and management evaluations are desired by Agency management, it would be sensible to continue to place an emphasis on project evaluation. While reasonably reliable program assessments can probably be made by experienced persons on the basis of field observation of Mission activities, the objective basis for judgment is considerably strengthened by the availability of sound project evaluations.

EXECUTIVE SUMMARY

Background

In April 1974, a group of junior officers known as the Armed Forces Movement overthrew the government of Marcelo Caetano. Caetano had been in power since 1968, but his predecessor, Antonio Salazar, had ruled Portugal since the early 1930s. The revolution ended fifty years of authoritarian rule and opened a new era in Portuguese history.

Unsettled political conditions prevailed for nearly two years after the revolution. During late 1974 and up until November 1975, leftist radicals increased their degree of control over governing coalitions. Many observers, including then Secretary of State Kissinger, feared Portugal was being taken over by the minority, but tightly organized, Communist Party. However, in November 1975 a countercoup by moderate elements finally ousted the Communists and established the framework for the functioning democratic system which has prevailed -- with varying degrees of effectiveness--to the present.

During the years of Salazar/Caetano rule, the economy was generally stable compared to other West European countries, yet it achieved relatively little development and was characterized by poor distribution of economic benefits. Overall output of the economy in the mid-70s placed Portugal among the middle income countries. Per capita GNP in 1978 which was approximately $2000 was roughly comparable to Argentina's. Portugal's literacy rate was the lowest in Europe in the early 1970s--though about average for middle income countries. The educational system had problems of quality, content and distribution. While the ratios of doctors and nurses to total population compared favorably with other middle income countries, the distribution of health services was distorted, with rural areas having only limited coverage. Housing and sanitary services were generally inadequate.

On the production side, the most serious economic weakness was in the area of agriculture. Between 1968 and 1977, total agricultural production actually declined. The manufacturing sector was the most dynamic growth sector in the years preceding the revolution, but as of 1974 it was still largely made up of small enterprises with out-of-date technology.

The revolution in 1974 was accompanied by considerable economic disruption. By coincidence, international developments in 1974 also brought higher oil prices and a slowdown in the world economy. As a result, real GNP in Portugal fell by 4%, from 1974 to 1975. The return of approximately 300,000 settlers from Africa in 1975 compounded the economic difficulties. By the end of 1977, Portugal faced a foreign exchange crisis, after having exhausted its initial foreign exchange reserves and having pledged nearly 50% of its gold stock against short-term loans.

The U.S. Response

In the fall of 1974, Portuguese President Costa Gomes visited the United States, and, among other things, discussed possible U.S. economic assistance with then President Ford. Against a backdrop of growing radicalization of the political

environment in Portugal, Congress considered and appropriated $25 million for economic assistance to Portugal and its soon-to-be independent African colonies. An AID-sponsored housing team visited Portugal in November 1974 and, following Congressional action on aid for Portugal, a second AID group went to Lisbon in January 1975 to develop an AID program. The first two projects, a Technical Assistance and Training grant and the Feasibility Studies loan, were committed in February. The first Low Cost Housing loan was signed in June 1975.

As the strength of radical political forces increased, the development of an AID program was not easy, but it did continue. With the moderate countercoup in November 1975, the threat of a Communist takeover was ended and longer term AID programming became easier.

In September and October 1975, the massive evacuation of Portuguese refugees from Angola became the focus of a special AID effort which entailed $7.5 million in support for an emergency airlift and $36 million in resettlement assistance.

The AID Program

As stated by the Mission, the basic purpose of U.S. economic assistance was to strengthen moderate political forces by demonstrating--with other Western European countries--that close association with the West offered the best hope, not only for the development of free democratic institutions, but also for meeting the most urgent economic needs of the country. As the Communist threat eased in late 1975, U.S. objectives shifted slightly toward a focus on supporting consolidation of a democratic government proceeding toward greater integration with Western Europe.

In support of these broad political objectives, a series of subordinate criteria were developed to guide the evolution of the program. According to these criteria, projects and activities should be carried out which would: (1) contribute to amelioration of balance of payments and liquidity difficulties through the relatively rapid disbursement of AID funds; (2) provide widespread and visible evidence of U.S. support for the moderate Portuguese government; (3) stimulate the economy with emphasis on increasing employment; (4) contribute to reduction of regional and personal income disparities by focussing on low-income groups, particularly in rural areas; (5) help break down the previous isolation of Portuguese technical and development institutions by increasing interchange with U.S. and European counterparts; and (6) provide maximum stimulation to the private sector.

A key policy constraint in the evolution of the AID program was the strong emphasis placed on minimizing the number of American personnel employed in Portugal to plan and administer AID activities. Initially based in part on potential threats to personal security, the longer term purpose was primarily to minimize any appearance or fact of intrusion into Portuguese affairs and to place primary responsibility for project implementation on GCP institutions.

Between 1975 and 1983, approximately $800 million in U.S. economic assistance was provided to Portugal. This assistance was furnished in the following forms: grant technical assistance (2.6%), development loans--including housing guarantees (16.6%), balance of payments loan (37.4%), refugee and disaster assistance

(6.7%), PL-480 agricultural commodities (26.8%) and development grants related to U.S. base rights in the Azores (10.0%). Seventy-five percent of the total aid was furnished in the three fiscal years 1976, 1977 and 1978. After FY-1978, the economic aid consisted only of small amounts of technical assistance, post-earthquake assistance for the Azores, PL-480 commodities and cash grants for Azores development. However, because of the substantial pipeline of development loan funds, PL-480 local currencies and numerous technical assistance activities, the USAID has sustained a substantial workload up to 1983.

With the exception of the housing guarantees, the PL-480 commodities and an initial $700,000 in disaster relief following the Azores earthquake in 1980, the funds utilized in Portugal were derived from Supporting Assistance (later called Economic Support Funds or ESF) appropriations and were justified primarily on political grounds.

The grant technical assistance activities consisted of a $10.8 million, wide ranging training and technical advisory project begun in 1975 plus a $10 million agricultural production project begun in 1980. The latter project has been carried out under a PASA with the U.S. Department of Agriculture. The development loan assistance was focused primarily on support for the efforts of post-revolution governments to increase the availability of various social services. It involved approximately $133 million to aid in the construction of low cost housing, schools, water and sewage systems, health facilities, and regional technical university institutes. Project activities were scattered widely throughout the country. The largest single program component was the $300 million balance of payments loan made in 1978 in conjunction with a multi-nation consortium organized largely through U.S. auspices in support of an IMF stabilization agreement. PL-480, Title I agreements covering $215 million in agricultural commodities were signed over the six years beginning in 1976. The GOP self-help measures included a variety of agricultural marketing research and production activities. AID granted $7.5 million to help finance the evacua- tion of refugees from Angola in 1975 and an additional $36 million to ease their absorption into the Portuguese economy and society. In 1980, following an earthquake in the Azores, AID provided emergency relief and follow-on recon-struction aid totalling $10 million. Finally, AID made grants totalling $80 million over a four-year period to facilitate Azores development in conjunction with an agreement covering U.S. base rights there.

The first two full-time AID staff members arrived in Lisbon in the spring of 1975. By early 1976 the USAID staff still consisted of only the AID representa-tive, his secretary, one additional American officer and three local employees. The size of full-time staff increased rapidly in 1976 so that by the end of the year it was composed of six Americans and seven local employees. The largest number of Americans was reached in June 1977 when seven were on board, but the local staff members peaked two years later at nineteen.

Conclusions

The fundamental purpose of the AID program initially was to strengthen moderate political forces in their competition with radical parties and later to help consolidate democratic institutions in the post-revolution period. The first project agreements were signed in February 1975, but they were for small amounts and were very slow in disbursement. No expenditures under any projects took place during 1975. Consequently, whatever impact U.S. aid had during the

critical months of 1975 during which the political conflict was at its peak was essentially psychological. Nevertheless, interviews with several Portuguese observers suggest that public expressions of support and the beginnings of economic aid efforts by the U.S. and West European governments did in fact reassure the moderate leadership.

Subsequently, as Portugal's balance of payments problems grew to crisis proportions, the government approached the U.S. for assistance on a larger scale than previously considered. In FY 1978, Congress appropriated $300 million to be used in combination with other donors to contribute to Portugal's stabilization program. The total multilateral package of $750 million assembled under U.S. leadership and in conjunction with an IMF agreement permitted the government to respond to the economic crisis, which in the absence of external aid would have required extreme domestic economic measures. Without such aid, some Portuguese observers felt the fragile democratic institutions might not have survived.

In support of the basic political objectives, program documents stated that aid activities needed to be relatively fast disbursing, provide visible evidence of U.S. support, stimulate employment, contribute to income disparities, help reduce the isolation of Portuguese technical and development institutions, and stimulate the private sector.

The files suggest that the early project assistance activities were directed primarily toward areas in which the government already had developed plans. By tying aid to these plans and by using Fixed Amount Reimbursement procedures for most activities, it was felt AID could achieve relatively rapid rates of disbursement and have a minimum involvement in project implementation. The records reveal that the time between completion of project papers and the signature of agreements was quite short, averaging only five months. However, with the exception of the low-cost housing projects in which AID was able to selectively attribute its contributions to units already under construction or completed, implementation took longer than anticipated. The average time required for disbursement of the project loans was approximately four years. In all cases, project assistance completion dates had to be extended. Thus, the project activities were not responsive to the desire for rapid disbursement.

Although the project loans were slower than planned, the Balance of Payments Loan and the PL-480 commodities had almost immediate economic results. In addition, the refugee assistance, while focussed primarily on other purposes, was also relatively rapid in disbursement and since much of it was used for local purchases, had a quick and favorable balance of payments impact.

The interest in a visible impact for U.S. aid was substantially achieved through the project loans for housing, schools, health centers and water supply systems. Portugal is divided into eighteen administrative districts on the mainland plus the Azores and Madeira. Housing projects were carried out in fourteen of the twenty, water and sewage projects in nineteen, school construction in fourteen and health centers and nursing schools in ten.

The loan project construction activities also had a measurable impact on employment generation, particularly in certain parts of the country. Analyses showed that these projects generated some 13,000 worker-years, and at the peak of disbursements in 1978 provided 4,400 employee/years of employment.

While the AID-supported activities increased the availability of social services to parts of the country which had been deprived prior to the revolution, the overall scale of the projects was not sufficient to have a major impact nationally. A partial exception to this conclusion may lie in the area of school construction. The Ministry of Education estimated that approximately 200 additional schools would be needed to raise the level of compulsory education from six years to eight. Under the project, 44 were constructed, which represented a significant contribution to the national target.

The objective of reducing the isolation of Portuguese technical and development institutions was well served by the program, particularly under the technical assistance activities, for nearly 500 Portuguese have been sent abroad for short- or long-term training. However, this has been one element of a much broader process of international interchange in which Portugal has been engaged since the revolution.

Efforts to stimulate the private sector proved to be largely unsuccessful. While on two occasions the USAID made preliminary proposals for major loans to stimulate private sector development, neither one materialized. However, private sector-oriented technical assistance activities have been developed in the agriculture area, in graduate training, in business administration, and in support for the International Executive Service Corps.

Impact on Portuguese Development

At the time of the revolution in 1974, Portugal faced three categories of economic difficulties: (1) problems of a cyclical nature which were aggravated by the revolution, i.e., primarily a serious balance of payments deficit; (2) structural problems in areas such as agriculture, manufacturing, education, income distribution, etc.; and (3) inadequate and poorly distributed social services such as housing, education, health, and sanitation services.

The AID program was concentrated primarily on responding to the first and third categories of problems and had only a limited focus on the second. The files suggest that initially AID--and the Embassy--viewed Portugal as a developed though low-income European country with essentially short-term problems. Relatively quickly after the program was underway, however, USAID communications and program documents reflected recognition that the economic problems facing Portugal were also structural in nature. Nonetheless, the record is also clear that the U.S. economic effort was seen as a temporary program geared primarily to helping overcome short-term economic dislocations.

On the Portuguese side, the first few years after the revolution were characterized by political instability and frequent changes of leadership. The continuity needed for planning and executing a long-term economic strategy was generally lacking. In addition, some of the actions taken by the government following the revolution in terms of improving the lot of poorer elements of the society served to compound the long-term economic problems needing resolution.

Despite the initial absence of a long-term focus, the Mission at a relatively early stage attempted to engage the program in some of the basic problem areas. Agriculture was identified as a sector of special interest as early as mid-1975, but the unsettling effects of land reform, uncertainties of agricultural development plans and organizational difficulties in the Ministry of Agriculture

precluded the development of project activities in this area until FY 1980. As mentioned earlier, unsuccessful efforts were made to develop projects in the private sector as well.

Assessing the overall development impact of the program is not easy. Most activities supported by the USAID are only recently completed or still underway. Most of the project assistance concentrated on increasing the availability of social services. Only small amounts of advisory assistance accompanied some of these projects--a level which apparently reflected the modest degree of interest in the GOP agencies involved. Efforts are underway in the Agricultural Development Project and the Technical Assistance and Training Project which have the potential at least for major impacts, but none are without problems and it is too early to make reliable judgments on the long-term effects.

There is another sense in which the development significance of the AID-financed activities is not clear. All the projects were designed to support government programs; and it is not possible to determine the degree to which the AID activities added to what otherwise would have taken place. That is, if the provision of AID resources simply made it possible for the government to divert its own funds into other uses or not use them at all, the only thing AID would have done is make a contribution to Portugal's balance of payments. To some degree this is what occurred. However, interviews with representatives of each of the Portuguese government agencies involved in the program suggested that U.S. aid resources did bring about increased activities in the areas in which the funds were used and that they were substantially additional to what would have taken place in the absence of AID support.

Mission Management

The primary management challenge facing AID at the beginning of the program in 1974 was to devise techniques which would make it possible to design and implement a sizeable economic assistance program with an absolute minimum of full-time American staff. During the early and mid-1970s, most USAID missions used Foreign Service National (FSN) employees predominantly in clerical, general services and other administrative support positions. Most so-called professional positions were filled by Americans, although in some missions at least a beginning had been made in filling some professional jobs with FSNs. However, in Portugal the strictures on numbers of Americans and the ready availability of bilingual local engineers, economists, accountants, etc., made it logical to draw on FSNs wherever possible. Review of the files, interviews and direct observation revealed that the USAID has utilized the FSN employees very effectively in professional as well as clerical posi- tions. They are regarded as equal members of the staff and participate actively in negotiations with Portuguese government agencies.

During the formative stages of the program, large numbers of short-term TDY personnel were used to design projects, define financial procedures and establish mission administrative practices. While detailed information was not available, fragmentary records revealed that 25-30 TDY personnel arrived monthly during this period, and it is difficult to understand how the small Mission managed to use them all reasonably effectively. However, the record suggests that an enormous amount of good quality work was produced by the Mission staff, by using short-term personnel and working long hours.

However, once the growing number of projects in the program began to reach implementation stages, TDY personnel were no longer adequate to cope with the growth in workload. Consequently, during 1976 the staff which began the year with two Americans and three local employees had grown to six Americans plus seven FSN employees.

The primary reason for limiting the numbers of American personnel was to minimize the appearance--or reality--of U.S. interference in Portuguese affairs. Indeed, occasional left-wing criticisms were levied against the American presence. However, concern with the size of the American presence was entirely a U.S. preoccupation. The Portuguese government imposed no limits and expressed no concerns regarding the number of Americans in the country. What was missing from the record was any indication that the Embassy or Mission made an effort to examine the implications of such a small full-time staff in either cost or presence terms. Since the severe limitations on full-time personnel resulted in substantial numbers of TDY personnel with the potential at least of giving the impression of an even larger American presence, it would have been sensible to examine the trade-off between full-time and short-term personnel more carefully to determine the best mix of each. There is no indication this was ever done.

With the exception of the Low-Cost Housing Projects, the FAR techniques of project financing were applied to all the project loans. At the time the program was getting underway in Portugal this system was relatively new in AID. It had been developed for use primarily in situations in which a large number of relatively identical units were being constructed (e.g., schools) so that AID could reimburse an agreed standard amount for each completed unit without becoming involved in the construction processes. The USAID quickly adopted this technique and applied it very flexibly. It used it in the Rural Vocational Education Project even though there was almost nothing uniform about the various construction activities. The Mission also devised a system of progress payments. While agency procedures now permit all of the departures from standard FAR practices which were employed by the Mission, the manner in which the USAID approached the process may well have helped AID/W establish some of the modifications which are now permitted under FAR.

Overall the record of project implementation, primarily through FAR, was very good. It did not result in the rapid implementation originally hoped for, but that was not primarily the fault of the procedures. However, GOP personnel interviewed almost universally expressed appreciation for the flexible and supportive role played by the USAID during implementation and frequently contrasted AID adaptability with the difficulties experienced with other donors.

Lessons Learned

There were few, if any, lessons learned from AID's experience in Portugal which could not also be derived from programs elsewhere. For example, during the same period in which the program in Portugal was evolving, programs with substantial political justification were also being carried out in Jordan, Syria and Egypt. Similar constraints on American staffing were imposed and the same or similar program management techniques were employed.

However, a few of the more obvious lessons suggested by the experience in Portugal might be worth recording.

1. Project assistance, no matter how skillfully and flexibly it is administered, cannot be expected to yield short-term balance of payments benefits.

2. The use of a small American staff supported by local professional employees and TDY assistance proved effective during the planning and design phases of the program--though it also helped considerably that generally talented persons with language skills were assigned to the Mission. However, once project activities reached the implementation stage, the small staff was not adequate and TDY personnel were not as well suited for this phase of program evolution. It was necessary to expand the size of the Mission rapidly. Thus, while it may be possible to begin a program with an extremely small staff, later increases should be anticipated during implementation stages.

3. In utilizing a small full-time staff combined with extensive TDY personnel, the trade-off, both in cost terms and American presence, should be carefully examined to ensure that the most sensible balance between full-time and TDY staff is achieved.

4. The use of a small field staff required extensive support by AID/W, both in the form of TDY personnel and Washington staff work. Before undertaking similar efforts in the future, it would be well to make certain the AID/W staff resources will be adequate for the task.

II. THE HISTORIC CONTEXT OF AID INVOLVEMENT IN PORTUGAL

A. The Political Setting

On April 25, 1974, a group of junior officers, known as the Armed Forces Movement (MFA), overthrew Western Europe's longest standing authoritarian government. In a matter of hours this "revolt of the captains" abruptly ended 50 years of dictatorial rule under Antonio Oliveira Salazar and, after 1968, his successor Marcelo Caetano. So suddenly and so completely did the old regime collapse that a power vacuum developed into which a wide range of military and civilian actors moved, all seeking to capture control of the state apparatus so that they could influence--or determine--the kind of regime which would emerge in the aftermath.

Simultaneously a popular uprising ensued which was quite distinct from the rapid succession of governments and the struggle for power at the center. In major urban centers--Lisbon, Porto and Setubal--poor families organized themselves and took over vacant housing, while workers in private businesses drove out owners and managers and occupied their places of work. South of the Tagus River the collapse of the old regime triggered mass movements of agricultural workers who seized large farms from absentee owners, declaring that the land belonged to those who worked it. All over Portugal, grass roots organizations of the most diverse sort sprung up, ranging from leftist-oriented groups in Lisbon and the south to conservative ones in the north representing small landholders. In a few weeks, what had long been a controlled society of limited participation ceased to exist and in its place revolutionary upheavals involving large numbers of people emerged.

Then, almost as quickly as it had begun, the Portuguese revolution came to an end. On November 25, 1975, a counter coup of moderate officers, led by General Ramalho Eanes, displaced the radicals from power. In their place democratic leaders came to the fore and a new set of representative institutions took shape.

By mid-1976 most power contenders, left as well as right, had accepted the premise that political differences and competition for control of the government would best be resolved through use of the vote and elections rather than by force.

Political Conditions Prior to the Revolution

While the turn of events which transformed politics in mainland Portugal was entirely European-based, the catalyst behind the captains' revolt came from Portuguese Africa. There the old regime had been involved in guerrilla warfare since the early 1960s in three very different theaters separated by thousands of miles: Guinea-Bissau in equatorial Africa, Angola to the southwest, and Mozambique to the southeast. Over time, the military burden created by this situation imposed an excessive drain not only on Portugal's limited economy (with over half of the government budget being dedicated to the maintenance of an increasingly tenuous African presence) but also on the nation's armed forces (with them alone bearing the brunt of the responsibility for holding the guerrillas in check and protecting core economic areas and population centers overseas). Badly underpaid, exposed repeatedly to long, arduous assignments in the back country, and given few opportunities for advancement, captains and lieutenants became increasingly restless and unwilling to shoulder the costs measured in terms of their lives and those of their enlisted men, while the regime's senior officials, military as well as civilian, led lives of relative ease in Lisbon.

Throughout the history of the "New State" (Estado Novo)--the name given by Salazar to the regime he created in the late twenties and early thirties--military discontent was not uncommon. Despite isolated earlier attempts at displacing Salazar from power, all failed. Over time, Salazar became particularly adept at maintaining power and keeping the military institution under tight control. Salazar's successor, Caetano, however was adept neither at managing the military establishment nor at administering the civilian bureaucracy he had inherited. Committed to a policy of economic modernization, Caetano never succeeded in assembling an administrative organization capable of implementing the changes he desired; nor was he

capable of doing anything in the African context except maintain the status quo. With the government increasingly paralyzed by the stasis of its own institutions, once the captains had organized their movement and gained the support of several key senior military men, toppling Marcelo Caetano proved to be a relatively easy task. What caught everyone by surprise, however, was the rapidity with which the whole regime collapsed, the subsequent power vacuum which emerged, and the determination of the radical military to deliver the overseas territories into the hands of guerrilla forces.

The Revolutionary Cycle

The initial coup was the consequence of carefully planned actions taken by junior officers. However, the coup leaders lacked a clear concept of what sort of government should follow. In these circumstances, military and civilian moderates attempted to fill the breach by constituting the first provisional government on May 16, with Palma Carlos as premier and General Spinola as president. An old man, Palma Carlos, was little more than a passing figure. But General Antonio Spinola soon proved to be one of the most salient of the new political personalities who quickly moved to the foreground in Portuguese politics.

General Spinola was a political conservative who, as the revolution progressed, became a rallying point for moderate forces, for those who found themselves caught between military and civilian radicals and the remnants of the conservative old regime. As commander of Portuguese forces in Guinea-Bissau in the early 1970s, Spinola had concluded that unless Portugal found some way to cut its costs in Africa, it stood the risk of losing everything. Considering Guinea-Bissau dispensable and of no economical benefit to the regime, he had argued for a negotiated exit from equatorial Africa and the concentration of resources and efforts in Angola and Mozambique. The outgrowth of these reflections and his frustrations in getting the Caetano government to listen was his book Portugal and Its Future. Originally banned, its publication was finally permitted in February 1974. The solution to the colonial question as proposed in his book was the creation of a Portuguese commonwealth and a gradual transition to independence for the colonies in such a way that the overseas Portuguese would not be

sacrificed. These views were in direct conflict with those of the captains, the same men who earlier had gone to Spinola for support in engineering the coup.

Once it became clear to the radicals that General Spinola was seeking to project himself into the political arena as the unifying public figure within the Junta of National Salvation for the purpose of reconstituting a moderate version of the previous ruling elite and delaying decolonization, they reacted quickly. Forming a coalition with newly mobilized leftist civilian forces, these junior officers successfully neutralized political moderates and forced Spinola's resignation on September 30, 1974.

With General Costa Gomes as the new president and Vasco Goncalves (one of the captains, now elevated to general) as premier, the revolution entered its radical phase. This cycle can be roughly equated with the second through the fifth provisional governments (July 17, 1974, to September 5, 1975), each of which was headed by Vasco Goncalves, though as indicated above, Spinola was not displaced as president until September 30, 1974.

Francisco da Costa Gomes and Vasco dos Santos Goncalves were as antithetical as any two figures to emerge during the revolution. An old regime general who had allied himself with coup forces, Costa Gomes was a relatively colorless personality who proved to be indispensable to the leftists. As largely a figurehead president, he embodied respectability and served the radicals well when they wished to argue that theirs was still a revolution representing a broad coalition of forces. Others saw him differently, nicknaming him "the cork" in reference to his ability to ride out shifting alignments and forces in the midst of turbulent events. Vasco Goncalves, in contrast, was essentially a populist who in his enthusiasm for the April 25th movement came to play the role of politician. Delivering long harangues and public messages designed to rally popular forces behind the Armed Forces Movement (MFA), he sought to build a new mass alliance uniting the people and the armed forces into a revolutionary force which would transform the country and prevent any return whatsoever to the old order.

Throughout this period (September 1974 - September 1975) political events recorded a steady movement leftward. Each new crisis brought with it the formation of a new government and redistribution of ministerial positions. During the reign of the third provisional government (October 1974 - March 1975), the radical military gave more solid organizational structure to the MFA and used it as the primary vehicle for consolidating its alliance with popular revolutionary forces.

Preempting and aborting a right-wing coup of pro-Spinola military officers on March 11, these men--by then commonly referred to as "goncalvistas"--formed an even more radical fourth provisional government, one in which leftist military officers openly aligned themselves with Marxist politicians ranging from members of the Portuguese Communist Party across a broad spectrum of newly emergent revolutionary groups. In July and August 1975 the revolution peaked. Thereafter the revolutionary coalition began to disintegrate. Internal MFA dissension, coupled with the inability to maintain a viable leftist government, led eventually to intervention by military moderates--men who called themselves social democrats. But before this occurred, extensive nationalizations occurred within Portuguese industry and commerce; peasant cooperatives were set up in the south; and housing commissions representing the urban poor were recognized as legitimate new organizations within the revolution. All these developments proved to be singularly difficult to reverse once the revolution had run its course.

With the collapse of the fourth provisional government on July 16, 1975, reaction against the revolutionary pace of the preceding months set in. Land occupations in the south of Portugal coupled with fear of the extension of the revolution into the conservative north triggered a counter revolution. Violent mob action in northern areas against the government and the ransacking of Communist Party headquarters in several northern towns placed the country on the brink of civil war. The "goncalvistas" made one final attempt to retain control of the revolution through the formation of the fifth provisional government. But on September 6, Costa Gomes forced Vasco Goncalves to resign and called on Admiral Pinneiro de Azevedo to form a sixth provisional government, one which would hopefully moderate the split which had developed between pro-communist and pro-socialist forces within the MFA and

without. Moves by the radical left in the Lisbon area to undercut military discipline and to drive a wedge between officers and enlisted men constituted the final factor which brought together a new coalition of military officers and led to the mobilization of a successful counter coup on November 25.

After November 25, 1975, with the consolidation of control by military moderates under the leadership of General Antonio Ramalho Eanes, Portugal moved away from further revolutionary conflict toward electoral competition and democratic politics. In this transition, General Eanes' role was decisive. Projected into the presidency of the republic, first on an interim basis and later ratified by popular mandate, Eanes served as the focal point for the consolidation of control by democratic forces. In his role as commander-in-chief, he partially depoliticized the Council of the Revolution (the military body which overrode all civilian authority) and committed himself to the dual policy of disengaging the military from politics while contributing to the construction of a new set of democratic institutions --those which later were to lead to the redefinition of Portugal as a semi-presidential parliamentary system under the 1976 Constitution.

After November 1975, the possibility of the leftist forces regaining power and transforming the regime into a Marxist state was essentially over. As a consequence, the Communist Party lost control of the ministries of labor and agriculture and was replaced at senior governmental levels by Socialist Party members. In this process of displacing the radicals from power and bringing democratic forces to the fore, three events stand out: legislative elections in April 1976, presidential elections in June, and ratification of the new constitution. A crucial factor in the acceptance of this constitution was the understanding that it was to be considered a transitional document, reflecting the balance between left and right forces in the Constituent Assembly. Articles 286 and 287 left open the possibility of considering a new constitution in 1981. Once reopened, the outcome of that process has been agreement on a new constitution, under terms which prescribed a two-thirds majority in the National Assembly, without the necessity of a new national plebiscite. While the 1982 constitution has contributed to the further consolidation of democratic governance and has done away with the military's Council of the Revolution as a check on the National Assembly, the prime

minister, and his Council of Ministers, it has been no more successful in permitting the denationalization of enterprises acquired by the government during the radical phase of the revolution than the previous one.

The Consolidation of Democratic Government

In the years between 1976 and 1983, there were eight constitutional governments. The first two consisted of a minority Socialist government headed by Mario Soares and, subsequently, a Socialist (PS)/Social Democratic Center (CDS) coalition government, also headed by Soares. Three nonpartisan "technocratic" governments followed in which President Eanes sought to assert presidential leadership over the National Assembly. But neither Alfredo Jorge Nobre da Costa, Carlos Mota Pinto, nor Maria de Lurdes Pintasilgo (Portugal's first woman prime minister) could sustain majority support in the assembly. A center-right coalition then emerged in which Francisco Sã Carneiro put together an alliance of his own party--the Social Democratic Party (PPD/PSD) --with the CDS and the PPM (the Partido Popular Monàrquico). Following Sa Carneiro's tragic death in an airplane accident in December 1980, Francisco Pinto Balsemão, also PSD, succeeded as premier. For the next two governments, the center-right alliance held, but not without considerable tension among the three parties in the coalition and challenges within the PSD to Balsemão's leadership.

In this array of civilian politicians amidst a rapid succession of civilian governments, three names stand out: Mario Soares (PS), Francisco Sa Carneiro (PSD), and Alvaro Cunhal (PCP). Soares, in particular, has played an important role in bulding a democratic Portugal. Rallying socialist forces behind him during the long hot summer of 1975, he more than any other single individual was responsible for neutralizing the Goncalves government's attempt to establish a monopoly over the press and communications. Likewise, once the commitment to holding elections held firm, he was successful in building an electoral coalition which carried the Socialist Party to power in the first constitutional government. Afterwards, he engaged in the kind of pragmatic coalition formation that made possible an alliance between the PS and the CDS in the second constitutional government.

Following the hiatus of the technocratic governments, Francisco Sa Craneiro emerged for a brief period as a political force fully as potent as Eanes. To him more than any other person, construction of the Democratic Alliance (AD), consisting of his own party the PSD, the CDS, and the PPM, is owed. A consummate politician, Sa Carneiro transcended the political divisions separating the center-right and put together a coalition which for a time represented Portugal's greatest hope in stabilizing the political situation. Even then, despite his unforeseen death in December 1980, the AD coalition held together after his death until April 1983.

The third of the civilian political personalities, Alvaro Cunhal, is today the most durable figure on the Portuguese left. Long the secretary general of the Portuguese Communist Party (PCP), it was the force of his personality which sustained the PCP during the long years of dictatorship and made possible the development of a small but highly effective party organization. A skillful politician, once it became apparent that building a cohesive MFA-PCP alliance was impossible, he moved to support democratic elections. A Stalinist, he has consistently been the Communist Party secretary-general in Western Europe least sympathetic with Eurocommunism and the one most ready to identify his own country's future with that of the Soviet Union.

With President Eanes' decisive reelection in December 1980, the ratification of a new constitution in 1982, and new national assembly elections in April 1983, Portugal entered the last half of 1983 with the same tentative accommodation between left and right political forces that has existed under all constitutional governments since 1976. The only new factor in Portuguese politics since 1980 has been the emergence of a center coalition in the National Assembly, consisting of the Socialists and the PSD under Soares's premiership. This has produced the ninth constitutional government. Yet, at this writing it is not clear whether it will be any more successful in establishing stable leadership than has been the case with previous governments.

B. The Economic Setting

Portugal's economic status, compared with other groupings of countries at the approximate time period in which the AID assistance programs were executed, is reflected in Tables I and II.

As shown in Table I, while in 1978 Portugal's per capita GNP was higher than the mean per capita GNP of industrialized countries, it was only one-fourth of the per capita GNP of industrialized countries. One may see that it was more or less at par with Argentina, not too far above Chile, and substantially below Venezuela. Moreover, although not shown in the table, it may be pointed out that Portugal's per capita GNP was significantly lower than the per capita of Greece ($3250) and Spain ($3470), two relatively low income European countries. If per capita GNP is taken as a gross measure of the capacity of a society to provide for its members, these figures suggest that while Portugal was relatively well-off compared to most so-called less developed countries, it had a long way to go before attaining the standard of living typical of the industrialized societies and that it shared some of the problems faced by the developing world.

In terms of its adult literacy rate, in 1975 Portugal was, with a 70% rate, well below countries with a similar per capita GNP. The relatively high rate of adult illiteracy is likely to be an important constraint to technological innovation and, as illiteracy was more acute in rural areas, it is of special significance for agricultural and general rural development.

Life expectancy at birth may be used as a crude indicator of general health conditions. Portugal's situation (69 years of life expectancy) was consistent with what its relative GNP per capita position would lead one to expect. It was much better-off than the low income countries and it was also relatively well-off compared to most middle income countries; nevertheless, its life expectancy at birth had to rise over 7% if it was to reach the levels of the industrial countries.

The last column in Table I relates to the capacity of an economy to directly feed its population; it suggests that Portugal's agriculture has done badly

TABLE I

PORTUGAL

ITS POSITION IN TERMS OF SELECTED BASIC INDICATORS

	GNP Per Capita In 1978 (Dollars)	Adult Literacy Rate In 1978 (%)	Life Expectancy at Birth In 1978 (In Years)	Average Index Of Food Production Per Capita for 1976-78 (1969-71=100)
Portugal	1990	70	69	82
Low-Income Countries*	200	38	50	97
Middle-Income Countries*	1250	71	61	106
• Argentina	1910	94	71	114
• Chile	1410	88	67	94
• Panama	1290	78	70	103
• Venezuela	2910	82	66	97
Industrialized Countries*	8070	99	74	108

Source: The World Bank, World Development Report, 1980 Table 1 (August, 1980)

* Figures are weighted averages.

when its performance is compared with that of most other countries, regardless of their classification. While a definitive conclusion would have to take into account the high one-time population growth Portugal experienced in the mid 1970s (see below), Portugal's low index of food production per capita is nevertheless consistent with the proposition that Portugal has suffered from poor performance in the agriculture sector.

Economic Conditions Prior to the Revolution

As indicated previously, prior to the Revolution in 1974, Portugal had been ruled for nearly fifty years by two autocratic governments, one headed by Antonio Salazar from 1928 till 1968 and the other by Marcelo Caetano, from 1968 until 1974.

The economic philosophy that prevailed during the Salazar era was akin to mercantilism and involved an emphasis on balanced budgets, fiscal solvency and corporate free enterprise within the limits of state control. During most of these years the economy was stable compared to other Western European countries; yet, it experienced relatively little development.*

In the 1960s, closer links were established with Western Europe and the international community. Thus, after joining the European Free Trade Association in 1959, Portugal joined the GATT, the International Bank of Reconstruction and Development (IBRD) and the International Monetary Fund (IMF) in the early 1960s. These steps opened Portugal and its colonies to foreign investment, facilitated the migration of Portuguese workers to other European countries and helped expand the tourism sector.

Partly in response to these changes, economic growth accelerated with GNP rising at an annual rate of 6.2% during the 1960s. Such growth was based on high rates in industry, construction and services, with agriculture, by

* See Eugene K. Keefe, et al , Area Handbook for Portugal (U.S. Government Printing Office, 1977), Chapter 12.

contrast, growing by just over 1%. The impact of high GNP growth was felt almost exclusively in urban areas.

From 1968 to 1973 investment levels were high, at about 21% of GNP. During these five years, industry and construction experienced annual growth rates of 10% and 12.5% respectively, while GNP grew at approximately 7%. In contrast, agricultural production declined. In these years, immediately preceding the 1974 Revolution, an import substitution strategy based on a tariff structure which favored manufacturing was adopted by the Government. New capital-intensive production aimed at the protected domestic and colonial markets was encouraged.* Foreign investment was attracted by low labor costs, substantial incentives to industry, a tradition of stability and a pro-private sector official posture.

It was also notable that prior to 1974, Portugal had traditionally experienced a trade deficit in its balance of payments which was more than offset by remittances from Portuguese migrant workers in Europe and, to a lesser degree, by receipts from tourism. As a result, Portugal's balance of payments on current account had a history of surpluses and by 1973, the country had accumulated a substantial amount of international reserves held largely in the form of gold.

A final underlying characteristic should also be noted: while the official unemployment rate was very low during the periods preceding the Revolution, between 100,000 and 160,000 Portuguese emigrated in search of employment abroad every year. The important balance of payments impact of these workers' remittances has already been indicated. Had these workers not migrated, the labor market--as well as the balance of payments--situation would have differed considerably.

Agriculture

As shown in Table II, in 1960 the sectoral structure of Portuguese GNP resembled that of other middle income countries in that industry and services

*See Eugene K. Keefe, Area Handbook p. 337-8.

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TABLE II

GDP BY SECTOR OF ORIGIN
(Percents)

		Agriculture	Industry	Services
Portugal	(1960)	25	36	39
	(1974)	14	47	39
Low Income Countries	(1960)	50	17	33
Middle Income Countries	(1960)	22	31	47
Industrialized Countries	(1960)	6	40	54

Sources: The World Bank, World Development Report 1980 and Portugal: An Economy in Transition (1977)

had greater weight than agriculture. During 1960-1974, the contribution of the industrial sector rose significantly while that of agriculture fell by the same number of percentage points. The situation was not simply one of a relatively dynamic industry with slow growing services and agriculture; in fact, as mentioned before, agriculture experienced a decrease in its absolute level of production. It is noteworthy that from 1968 to 1973, Portugal's GNP grew at an annual rate of 7% as mentioned, while agricultural GNP experienced an annual decline of 0.8%. In fact, the trend of negative growth in agriculture lasted through 1977.

The regressiveness of the agricultural sector entailed important implications of which the following should be mentioned:

- A stagnant agricultural sector contributes to population and labor force outmigration from rural areas. In fact, Portugal has experienced strong rural to urban migration flows in recent decades. These flows have been so substantial that labor shortages in rural areas seem to have developed during the 1960s.* Were they to persist, these shortages could prove to be an important constraint for agricultural and rural development; moreover, as is likely to be the case, such constraint may become even more serious if migration outflows involve losses of some of the more skilled or productive workers.

  Another impact associated with rural-urban migration flows relates to the relative demand for social services in urban areas to which they give rise. As is further indicated below, internal migration was one of the causes for the housing shortage experienced in Portuguese cities in recent times.

- A deteriorating agricultural sector threatens grave balance of payments consequences. For example, in 1974 food and agricultural products accounted for 16% of Portugal's exports and for 20% of its imports, but the value of imports was two and one half times the value of exports.**

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* See Eugene K. Keefe, Area Handbook, p. 337-8

** See Department of State, Balance of Payments Loan for Portugal, Budget Amendment, Fiscal Year 1978, Congressional Submission, pages 11-12

- A declining agricultural sector in a country in which approximately 30% of the labor force is dedicated to agricultural activities tends to make the distribution of income more unequal and thus increases the potential for social unrest.

Several causes accounted for the poor performance of Portugal's agriculture;* the most important of them were:

- Inadequate investment. Agriculture's share in gross fixed capital formation was low; agricultural credit arrangements were inadequate, with most tenant farmers having no access to production credit;
- Antiquated production methods and lack of modern equipment;
- Inadequate extension services and lack of farm-oriented research;
- Insufficient exploitation of irrigation potential and improper use of irrigation facilities;
- A complex and frequently conflicting system of prices and subsidies for agricultural commodities; and
- An inadequate land tenure structure. In the north, small and fragmented uneconomic farms prevailed. In the south, large land-holdings were the norm and there probably was some margin for a fuller utilization of land.

Manufacturing

Although it was the most dynamic sector during the 1960s and early 1970s, in 1974 manufacturing was largely a sector of small enterprises with obsolete technology. Almost 75% of the enterprises employed less than five persons; differentials in managerial skills, organization, technology, and marketing and investment planning capacity were wide; the typical small enterprise experienced difficulties in gaining access to external financing, a factor which contributed to low profitability and antiquated technology.

* For a review of conditions in the agricultural sector see World Bank, Portugal: An Economy in Transition (March 1977)

The close links between the owners of many of the larger firms and domestic financial institutions, together with the government licensing system, tended to hinder the entrance or expansion of new entrepreneurs and contributed to what basically were oligopolistic structures.

Education

As seen in a previous section, Portugal's literacy rate was relatively low; in fact it was the lowest in Europe in the early 1970s.

The educational system in 1974 suffered from the following problems:

- Wide differences in the quality of education between urban and rural regions. These differences related to variations in the number and quality of available teachers and equipment as well as to type of schooling:
- Training at the technical and scientific level had generally been neglected;
- Curricula content was outdated;
- Adequately trained teachers were in shortage;
- School facilities in the poorer sections of urban areas were overcrowded;
- Functional buildings, equipment, and learning/teaching materials were in short supply;
- The proportion of the government budget that was allocated to education was relatively low.

These conditions entailed two kinds of implications. On the one hand, they involved serious income distribution consequences; on the other, they constituted an important obstacle to Portugal's development prospects.

Health and Sanitation

In 1976, the population per physician and per nursing person was 800 and 520 respectively. This compares favorably to the corresponding figures for middle income countries. Moreover, about 65% of the population had access to safe water, a figure higher than the average for middle income countries.

Yet, comparison of these health-related indicators with the industrial countries reveals that Portugal falls short of most of them.* Furthermore, Portugal's infant mortality rate in 1973 was among the highest in Europe. The most common causes of death among the young were infectious and parasitic diseases, with respiratory diseases next. Enteritis, diarrhea and pneumonia were the most prevalent diseases.

This relatively bad situation in part reflected the deficient sanitary conditions in housing. In this connection, a housing census carried out not long before 1974 indicated that 47% of Portuguese houses lacked bathrooms. As one would expect, countryside conditions were worse and this was particularly true in the north-east. The lack of sewage systems in most houses in the rural areas was aggravated by a lack of running water in many of them and by deficient or absent garbage collection facilities.

Housing

In part as a consequence of rural-urban migration flows, a housing shortage developed during the 1950s and became more severe during the 1960s. This process was accompanied by soaring rents and an expansion of shantytowns around larger cities.

In response to market conditions, the construction and housing sector expanded and became, during 1968-1973, one of the most dynamic sectors in the economy; during those years it provided a major portion of industrial employment. Nevertheless, it is reported that, even in 1973 at the peak of construction activity, the number of housing units under construction was the lowest per thousand of the population of any European country; moreover, in 1974 the housing deficit was estimated at over 500,000 units, a high number for

*See the World Bank, World Development Report 1979, p.169. All industrialized countries had a lower population per nursing person ratio and, with the interesting exception of Japan and Ireland, all also had a lower population per physician ration.

Portugal's population.* It should also be noted that a dramatic drop in the activity of the construction sector started in late 1974.

Income Distribution

As reported by the IBRD, by 1973 the bottom 50% of households were receiving only 14% of total income while the top 5% received 40%. This situation reflected an acute concentration of economic power. Even the high growth rate period of 1968-1973 was not translated into significant benefits for a substantial number of the population. In this connection it is of interest to note that real wages for agricultural workers fell during these years.**

The Economy During 1974-1977: Selected Trends

As discussed previously, dramatic political changes took place in 1974. These changes were to have important economic consequences. By coincidence, 1974 also brought consequential events in the world economy. As a result, a significant slowdown took place. Real GNP, which from 1973 to 1974 had grown only 2%, fell by 4% from 1974 to 1975. The balance of payments which, as mentioned above, had traditionally been in surplus, experienced significant current account and overall deficits in 1974 and 1975.

Consumer prices rose in 1974-1975 at about twice the rate they had experienced in the early 1970s. Investment fell to slightly over 16% of GNP in 1975 relative to a level of around 26% in 1973. Unemployment rose to 5.6% of the labor force and the public deficit reached 10% of GNP in 1976.

The causes for deterioration of economic conditions were diverse and may be classified as internal and external with, as is to be expected, significant interaction among them. The main external causes related to: (a) the sharp rise in oil prices which led to a tripling of oil-related import expenditures; (b) the world recession which affected adversely Portugal's exports and reduced

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* See Keefe, et al , Area Handbook, pp. 109-110.
** See Keefe, et al , Area Handbook, pp. 94-95.

the demand for Portuguese workers in Europe; (c) the loss of the colonies which, among other effects, entailed a shrinking of Portugal's exports markets; and (d) the return to Portugal of between 600,000 to 800,000 settlers from the former colonies. The internal causes were related to governmental policies which attempted to reduce the inequality of income and raise the standard of living of the poorer segments of the population. In this connection, the following actions occurred: a substantial number of farms and manufacturing plants were taken over; wages rose significantly; labor unions became very active; price controls and subsidies were used in an attempt to stop the rise in selected consumer goods prices. Along with these events, productivity fell, the private sector became increasingly distrustful of government, both domestic and foreign, investment declined and the economy suffered a loss of managerial know-how.

While aggregate production rose after 1975, the unemployment rate nonetheless continued to rise; inflation ranged from 20 to 27% and the balance of payments deficit on current account widened to the equivalent of 8 and 9% of GDP in 1976 and 1977 respectively. By the end of 1977, the country faced a severe foreign exchange crisis after having exhausted its initial foreign exchange reserves and with nearly 50% of its gold stock pledged against short-term loans.*

C. Resultant U.S. Government Response

In the months immediately following the coup in April 1974, the U.S. Government support for the moderate political forces in Portugal in their efforts to create a new democratic political order was limited to public statements of endorsement. However, in October 1974, President Costa Gomes came to the United States on an official visit. During his call on then President Ford, it was agreed that the U.S. would explore and develop a program of economic and technical assistance to Portugal. As a result, a U.S. team visited Lisbon initially in November 1974, and a follow-up team

* See Hans O. Schmitt, Economic Stablilization and Growth in Portugal International Monetary Fund, 1981.

went to Lisbon in January 1975. Discussions were held with the Ministries of Planning, Finance, and Foreign Affairs as well as some of the technical ministries to explore economic assistance requirements and project alternatives.

Also in late 1974, a new U.S. Ambassador to Portugal was designated along with a new DCM. Subsequently, most of the Embassy staff was also changed to reflect U.S. recognition of the new political situation evolving in Portugal and to facilitate the break with the old regime.

Against the backdrop of apparent growth in Communist strength in the still confusing and rapidly changing political situation in Portugal, in December 1974 Congress considered and authorized, as part of the Foreign Assistance Act of 1974, a program of economic aid for Portugal and the soon to be independent African colonies. The amount was relatively small, $25 million in grants and loans for FY-75. However, it was coupled with a strong endorsement of the Portuguese Government's decision to grant independence to its African territories. Section 50 of the Foreign Assistance Act of 1974 included the following:

> "Congress finds that the Government of Portugal's recognition of the right to independence of the African territories of Angola, Mozambique, and Guinea-Bissau marks a significant advance toward the goal of self-determination for all peoples of Africa, without which peace on the continent is not secure . . . Congress commends the Portuguese Government's initiatives on these fronts as evidence of a reaffirmation of that Government's support for her obligations under both the United Nations Charter and the North Atlantic Treaty Organization."

Utilizing short-term visits by AID/W personnel, projects were developed in late 1974 and early 1975 in the areas of Technical Assistance and Participant Training, Low Cost Housing and Feasibility Studies. The first of these was grant-funded and the latter two were loans. The first agreements completed under the authority and funds voted by Congress were the Technical Assistance and Training grant and the Feasibility Studies loan which were signed on February 28, 1975. The first Low Cost Housing loan agreement was signed several months later on June 30.

The signature of these agreements took place against the background of an increasing radicalization of the Portuguese revolution beginning late in 1974 and reaching its peak during the "hot summer" of 1975. There appeared to be a serious danger that the revolution would be captured by Communist elements. In some quarters in the U.S. there was a strong feeling of pessimism regarding the ultimate outcome. Indeed, then Secretary of State Kissinger was reported in April of 1975 as predicting that within a year Portugal would be a Communist nation or a neutralist nation under heavy Communist influence.

The period of uncertainty and growing radicalization which began in late 1974 prevailed through most of 1975. As indicated earlier, it was not until the counter coup of November that the Communist threat was clearly removed. However, by late October the position of moderate forces in the government was somewhat stronger than it had been during the summer. Throughout 1975, relationships between AID personnel attempting to design assistance programs and GOP ministry officials were sometimes difficult. Many government officials were hesitant to be associated closely with American aid efforts. The ambiguity in the political arena also posed difficulties for future programming. During the preparation of the annual budget submission in July 1975 it was necessary to develop various alternative programs for FY-1976 and FY-1977 to reflect the possible outcomes of the still unresolved political conflict. As the political crisis moved toward resolution in November and soon thereafter, the U.S.--and the European--response became clearer and more substantial in size.

In this connection, in response to a suggestion by the Portuguese Foreign Minister in October 1975 a Portuguese-United States Joint Economic Commission was established. Similar commissions were being or had been created in Saudi Arabia, Egypt and Jordan. The Commission was envisaged as an informal joint body to coordinate U.S. bilateral aid projects. The Commission met only once, in January 1976, and it discussed the "continuation and expansion of economic cooperation between the two countries with specific reference to U.S. assistance to Portugal's programs of economic development."

The revolution in 1974 was followed quickly by the decision to grant independence to Portuguese colonies in Africa. However, the arrangements for transferring political power to African parties broke down in Angola in 1975 and by the summer of that year, widespread fighting led to a mass exodus of Portuguese nationals back to Portugal. In the panic which ensued, a special airlift was organized to evacuate Portuguese refugees. The U.S. provided approximately twenty percent of the emergency airlift through a $7.5 million grant for contract air services. Subsequently, AID also provided $36 million in grant funds to the Portuguese government and private voluntary organizations for assisting refugees from Angola as well as Mozambique on their return to Portugal.

The AID program continued to evolve over the next several years. However, it did so primarily in response to changing economic and program conditions. The basic political resolution which took place in November 1975, in which the moderate, democratic forces prevailed, has not been threatened in any fundamental sense since that time.

III. THE AID PROGRAM IN PORTUGAL

A. Program Policies and Objectives

The economic problems which evolved following the revolution of April 1974 set the framework for U.S. assistance efforts. The indications of serious economic difficulties in Portugal were evident by the fall of 1974 and the problems grew in intensity for the next three years, peaking in 1977-78 with the serious balance of payments crisis mentioned earlier in this report. The threat of economic disaster posed substantial problems for moderate political elements attempting to fend off radical pressures during the extended period of confusion following the revolution.

In this context, the basic purpose of U.S. economic assistance as defined in mid-1975 was to strengthen moderate political forces among those competing for political power in Portugal by demonstrating--together with other Western European Countries--that close association with the West offered the best hope, not only for the development of free, democractic institutions, but also for meeting the most urgent economic needs of the country. With the increasing strength of democratic institutions during 1976 and 1977, the crisis atmosphere which characterized the year and a half following the revolution abated considerably. Accordingly, the objective of AID assistance was amended slightly in later program documents to one of contributing to the consolidation of a stable and democratic government responsive to the needs of its people and proceeding on a path toward greater integration with Western Europe. Thus, throughout the period after 1974, the basic purpose of U.S. economic assistance was political in nature in a more explicit sense than is true with most AID development programs.

It should also be pointed out, however, that there were elements of U.S. aid that were not so closely linked to this political rationale. For example, in June 1979, the U.S. and Portugal reached agreement on the extension of U.S. rights to utilize the Lajes Base in the Azores. The agreement included provision for a grant of $80 million for economic and social development in

the Azores, to be disbursed over a four-year period beginning in FY-1980. Similarly, following a serious earthquake in the Azores in January 1980, AID provided $700,000 in emergency relief and $10 million for reconstruction and rehabilitation. While both of these components of the AID program were provided within the broad framework of U.S.-Portuguese political relations, they were not specifically focused on the political objective described earlier.

Subordinate to the broad political objective of the program were several other parameters, or criteria, for economic aid which were developed by the USAID and the Embassy and were reflected in program documents. These criteria called for AID programs and activities to:

- Contribute to the amelioration of the overall balance of payments and liquidity difficulties by providing foreign exchange resources. Consequently activities should be undertaken which had a likelihood of relatively rapid disbursement.
- Provide widespread and visible evidence of U.S. support for the moderate Portuguese government and clear indication of U.S. concern for economic improvement.
- Have a stimulative effect in other areas of economic difficulty, particularly in employment generation.
- Contribute to the reduction of regional and personal income disparities by concentrating on programs of maximum benefit to low-income people, particularly those in neglected rural areas.
- Help to break down the previous isolation of Portuguese technical and development institutions by increasing interchange with U.S. and European counterparts.
- Provide the maximum possible stimulation to the private sector.

While not specifically reflected in USAID program documents at the time, correspondence and interviews indicated that the USAID was concerned with selecting activities for financing which were consistent with the basic human needs thrust of AID's development assistance mandate. This interest was, of course, facilitated by the fact that most of the sectors of primary Portuguese government interest and those in which projects were also most readily available fell generally in the basic needs areas.

Finally, one of the key policy constraints on AID program development in Portugal, particularly during the early phases of the program's evolution, was the strong emphasis placed on minimizing the number of American personnel employed in Portugal to plan and administer AID activities. Initially this limitation was based in part on the assessment that there were potential threats to the personal security of official Americans. However, by 1976 such security problems had largely disappeared. Nonetheless, there was a continuing concern that AID-supported activities should be carried out in such a way as to minimize any appearance of interference by the U.S. in Portuguese affairs or institutions and to place primary responsibility for project implementation on GOP agencies. Consequently it was felt that the number of full-time American staff should be severely limited.

Review of the files and discussion with the participants suggests that the broad political rationale for the program was the basic starting point for the program. This, combined with the growing balance of payments problems faced by Portugal, the interest of the GOP in increasing the social services available to the population and the severe limitation on numbers of full-time American staff were the chief determinants influencing the evolution of the program. The other criteria listed above largely grew out of these basic considerations together with the experience gained as the program evolved.

In any discussion of program objectives it is important to keep in mind that in the evolution of most AID programs, the definition of objectives and the selection of program criteria generally take place in tandem with the development of the projects or activities themselves. Indeed, in varying degrees, depending on the circumstances, recorded objectives and criteria constitute an after-the-fact rationale for the activities chosen for implementation as much as they do pre-condition for selection. The record suggests that, as indicated above, the political purpose provided the basic framework for the program in Portugal. The definition of subsidiary objectives and criteria grew substantially out of a pragmatic assessment of what was possible and sensible as the program progressed rather than any theoretical construct developed in advance.

B. Program Composition

The economic assistance provided to Portugal since 1975 is shown on Table III. It is presented on an obligation basis and does not reflect actual expenditures, which in some cases were slightly below the obligated amounts.

As the table demonstrates, the assistance provided took basically six forms: technical assistance, development loans (including housing guarantees), direct balance of payments support, refugee and disaster relief, cash grants connected with U.S. base rights in the Azores, and PL-480, Title I agricultural commodities. The preponderance of the assistance, i.e., 77% was committed in the first four years of the program with 75% following in the three fiscal years 1976, 77 and 78. Those were the critical years during which the post-revolution governments and political parties were struggling to establish workable democratic institutions. After FY-1978 when the large balance of payments loan was provided as part of an international effort to help Portugal over a severe economic crisis, the aid consisted only of small amounts of technical assistance, post earthquake support for the Azores, PL-480 commodities and cash grants linked to Azores base rights. However, because of the lead time involved in development loan projects, the planning and utilization of PL-480-generated currencies, and the execution of a wide range of technical assistance and training activities, the USAID sustained an active and substantial workload throughout the eight and one-half year period covered by the program.

All of the funds used in Portugal, other than the housing guarantees, the PL-480 resources, and the initial $700,000 in disaster relief provided after the Azores earthquake in 1980, came from Supporting Assistance (later Economic Support Fund) authorizations. While Congress enjoined the Executive Branch to take into account the policy directions of the development assistance chapter of the Foreign Assistance Act whenever Supporting Assistance Funds were used for economic development purposes, the funds were not constrained by the legal provisions associated with development aid. More specifically, section 531 of the Foreign Assistance Act, which governs ESF/Supporting Assistance, states: "The Congress recognizes that under special economic, political or security conditions, the national interests of the United States may require economic

TABLE III

U.S. ECONOMIC ASSISTANCE TO PORTUGAL
FY-1975 - FY-1983
($000s)

	FY 1975	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	TOTAL
TECHNICAL ASSISTANCE										
Technical Assistance and Training	750	1,000	4,000			5,000				10,750
Agriculture Production						10,000				10,000
DEVELOPMENT LOANS										
Feasibility Studies	1,000									1,000
Low Income Housing	13,250		10,000							23,250
Housing Guarantees		20,000	20,000							40,000
School Construction		11,000	15,000							26,000
Basic Sanitation		8,000	12,000							20,000
Health Sector Support			17,000							17,000
Rural Vocational Education			6,000							6,000
BALANCE OF PAYMENTS LOAN				300,000						300,000
REFUGEE AND DISASTER RELIEF										
Refugee Airlift		7,500								7,500
Refugee Relief and Resettlement		35,000	1,000							36,000
Azores Disaster Relief and Recon.						5,700	5,000			10,700
PL-480 AGRICULTURAL COMMODITIES*		25,000	70,000	40,000	40,000	29,000	11,000			215,000
AZORES BASE RIGHTS GRANTS						20,000	20,000	20,000	20,000	80,000
TOTAL	15,000	107,500	155,000	340,000	40,000	69,700	36,000	20,000	20,000	803,200

*In addition to the commodities provided under PL-480 Title I, U.S. agricultural imports were also financed through annual Commodity Credit Corporation credits from FY-76 to the present. Repayment periods for these credits were limited to three years and the interest charged was basically commercial rates. Therefore, they are not included on this table. Nonetheless, the CCC credits were beneficial to the Portugal government in easing short-term balance of payment problems, and they have helped to finance the flow of basic agricultural imports domestically.

support for countries in amounts which could not be justified solely under Chapter 1 of Part I. In such cases, the President is authorized to furnish assistance to countries and organizations, on such terms and conditions as he may determine, in order to promote economic or political stability." Thus, while the funds used in Portugal were utilized for economic purposes, they could be employed with a greater degree of flexibility than would apply to development assistance appropriations authorized under Chapter 1 of the Act.

From the perspective of relative size, the $300 million Balance of Payments loan was the largest single component of the program constituting some 37.4% of the total. The combined PL-480 Title I program reached $215 million and represented 26.5% of the program. The development loans at 16.6% and the technical assistance grants at 2.6% constituted a relatively small proportion of the overall effort, but together they represented the largest part of the workload sustained by the USAID staff during the life of the program. The grants associated with the U.S. base rights constituted about 10% of the program, but they were dispersed very quickly through an annual cash grant agreement which required only that the funds be used for economic development in the Azores.

1. Technical Assistance Grants

The technical assistance component of the program consisted of two projects, the Technical Assistance and Training Project and the Agriculture Production Project. The former is a multi-faceted project with a wide range of training and advisory activities. The latter is more narrowly focused, and grew out of analytical and design efforts funded under the Technical Assistance and Training Project. Both are grant funded.

Technical Assistance and Training Project

One of the first two project agreements signed, the Technical Assistance and Training Project has spanned the entire period covered by program in Portugal and, indeed, is still active, although the uncommitted funds are now almost entirely gone. The first agreement for this project was signed

TABLE IV

TECHNICAL CONSULTANTS AND TRAINING GRANT - PROJECT 150-0001
FINANCIAL STATEMENT BY FUNCTIONAL CATEGORIES
SUMMARY TABLE - MARCH 31, 1983

(All values in thousand of dollars)

Functional Categories	Funds Sub-obligated Between Feb. 1975 - March 31, 1983				Plan. Levels	Grand Total	%
	Training	Consuls.	Commods.	Total			
A. MAINLAND	2,595	3,854	402	6,851	2,145	8,996	83.7
I. AG. & RURAL DEVELOPMENT	658	1,603	259	2,520	1,600	4,120	38.3
a) Min. of Ag./Fish. (MAP)	158	331	11	500	200	700	
b) Rural Univs. (POLITECH)	491	1,244	248	1,983	1,400	3,383	
c) Inst. Ag. Credit (IFADAP)	10	28	0	37	*	37	
d) Other	0	0	0	0	*	0	
II. HEALTH, POP. & NUTRITION	269	422	46	737	133	871	8.1
a) Min. of Soc. Af. (MPS)	81	278	1	359	133	493	
b) Emergency Med. Services (EMS)	156	135	45	336	-	336	
c) Basic Sanitation	33	10	0	42	-0-	42	
d) Other	0	0	0	0	-	0	
III. ED. & HUMAN RES. DEVELOP.	618	1,131	85	1,834	208	2,042	19.0
a) Min. of Ed. (MEC)	85	84	0	169	94	263	
b) Business Mgt./Adm.	279	665	82	1,025	2	1,028	
c) Pub. Adm./Finance	255	383	3	640	111	751	
d) Other	0	0	0	0	-	0	
IV. SELECTED DEV. PROBLEMS	1,049	698	13	1,759	204	1,963	18.3
a) Nat. Comm. Sci./Tech. (UNICT)	150	197	0	347	140	487	
b) Industrial Development	47	8	0	54	-	54	
c) Sines Environ. Control (GAS)	100	26	0	127	-0-	127	
d) Algarve Environment	0	0	0	0	-	0	
e) Nat. Civil Eng. Lab. (LNEC)	72	0	0	72	-0-	72	
f) Housing Dev. Fund (FFH)	37	90	0	127	-0-	127	
g) Transport./Communication	38	0	0	38	-0-	38	
h) Labor	495	252	10	757	-	757	
i) Export Development	19	0	0	19	*	19	
j) Investment Promotion	43	100	0	143	-	143	
k) Cooperatives	18	0	0	18	*	18	
l) Women in Development (WID)	17	25	3	44	45	89	
m) Energy	11	0	0	11	19	30	
n) Other	2	0	0	2	-	2	
B. AZORES	329	1,197	61	1,586	*	1,586	14.8
I. AG. & RURAL DEVELOPMENT	263	630	61	954	*	954	8.9
a) Special Studies	0	32	0	32	-	32	
b) Univ. of Azores (UA)	251	548	61	360	-0-	360	
c) Reg. Sec. Ag./Fish (SRAP)	12	0	0	12	*	12	
II. HEALTH, POP. & NUTRITION	0	45	0	45	-0-	45	0.4
a) Special Studies	0	45	0	45	-0-	45	
b) Other	0	0	0	0	-0-	0	
III. ED. & HUMAN RES. DEVELOP.	50	85	0	135	*	135	1.2
a) Pub. Adm./Finance	20	0	0	20	-	20	
b) Vocational Trg. (SER)	30	85	0	115	-	115	
c) Other	0	0	0	0	-	0	
IV. SELECTED DEV. PROBLEMS	16	437	0	452	-	452	4.3
a) Industry	10	31	0	41	*	41	
b) Transport./Communication	0	205	0	205	-0-	205	
c) Investment Promotion	1	40	0	41	*	41	
d) Energy (Geothermal)	3	150	0	153	-	153	
e) Hydrology	0	0	0	0	*	0	
f) Other	[illegible]	10	0	11	-	11	

TABLE IV (CONTINUED)

PROJECT 150-0001 FINANCIAL STATEMENT AS OF MARCH 31, 1983

(All values in thousand of dollars)

Functional Categories	Funds Sub-obligated Between Feb. 1975 - March 31, 1983				Plan. Levels	Grand Total	%
	Training	Consuls.	Commods.	Total			
C. MADEIRA	22	72	- - 5	99	*	99	0.9
I. AG. & RURAL DEVELOPMENT	16	50	5	71	*	71	0.6
a) Reg. Sec. Ag./Fish. (SRAP)	16	50	5	71	*	71	
II. HEALTH, POP. & NUTRITION	0	0	0	0	-	0	0.0
a) Reg. Sec. Soc. Af. (SPAS)	0	0	0	0	-	0	0.0
III. ED. & HUMAN RES. DEVELOP.	6	13	0	19	*	19	0.2
a) Pub. Adm./Finance	6	13	0	19	-	19	
b) Postsecondary Ed.	0	0	0	0	*	0	
c) Other	0	0	0	0	-	0	
IV. SELECTED DEV. PROBLEMS	0	8	0	8	*	8	0.1
a) Hydrology	0	0	0	0	*	0	
b) Other	0	8	0	8	*	8	
D. LANGUAGE TRAINING	56	0	0	56	3	58	0.5
E. MISCELLANEOUS EXPENSES	3	0	0	3	5	8	0.1
F. UNPROGRAMMED					3	3	0.0
GRAND TOTALS	3,004	5,122	468	8,595	2,155	10,750	100.0

SUMMARY BY MAJOR FUNCTIONAL CATEGORIES (Mainland, Azores and Madeira)

I. AG. & RURAL DEVELOPMENT	938	2,283	325	3,546	1,600	5,146	47.9
II. HEALTH, POP. & NUTRITION	269	467	46	783	133	916	8.5
III. ED. & HUMAN RES. DEVELOP.	674	1,230	85	1,988	208	2,196	20.4
IV. SELECTED DEVELOP. PROBLEMS	1,064	1,142	13	2,219	204	2,423	22.6
- LANGUAGE TRAINING	56	0	0	56	3	58	0.5
- MISCELLANEOUS EXPENSES	3	0	0	3	5	8	0.1
- UNPROGRAMMED					3	3	0.0
GRAND TOTALS	3,004	5,122	468	8,595	2,155	10,750	100.0

NOTE: Due to the rounding of dollar figures to the nearest 1,000 dollars, the sums of individual elements may differ slightly from the totals presented.

Key to signs in the Planning Levels Column:

-0- No new activity anticipated
- Remote possibility of activity
* Initial stages of development
** Advanced stages of development

SUMMARY OF FINANCIAL ACTIVITY DURING MARCH 31, 1983

A. New Sub-obligations (New PIO's Issued)..... - 58,175.00
B. Net Adjustments to Old Sub-obligations (Adjustments to Old PIO's) ..... - 8,172.00

Net Change in Sub-obligations (A+B) ..... - 50,003.00

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on February 26, 1975 in the amount of $750,000.00. Later amendments in FY-1976, FY-1977 and FY-1980 brought the total obligated to $10,750,000. While this represents only 1.3% of the $803.2 million in economic assistance committed through FY-1983, this project has doubtless generated more activities and probably had a broader long-term impact on Portugal than any other element of the USAID program.

Table IV shows in summary form the activities carried out under this project. Of the $10,750,000 covered by the agreements, 83.7% has been allocated or planned for activities in mainland Portugal and 15.7% for the Azores and Madeira. Nearly half of the total (47.9 percent) has been devoted to agriculture and rural development with 22.6% applied to a miscellaneous category of activities under the heading of "selected development problems" and 20.4% has gone for education and human resources development. Of the $8.6 million which had been sub-obligated in implementation documents as of March 31, 1983, $3 million or 35% had been committed to participant training, $5 million or 60% for short and long-term advisors and $468 thousand or 5% for commodities. By March 1983, only $3,000 out of the $10.8 million remained unprogrammed.

The Technical Assistance and Training Project was designed and has been administered in a fashion not generally followed by AID currently--although in an historic sense it is not unique and some aspects of the project are found in other AID programs even today. When the program in Portugal was initiated in 1975, there was--as established earlier in this report--a strong interest in undertaking projects and activities as quickly as possible to demonstrate U.S. support for moderate political leadership. Since the development of detailed plans and project documentation would have taken several months, the project authorization and the agreement covering the initial $750,000 were very general in nature and simply approved the funds for technical assistance and participant training activities to be agreed upon later. Thus, while the basic agreement obligated the $750,000 it provided virtually no description of how the funds would be used, leaving that to the discretion of the USAID staff working with their counterparts in the Portuguese government. Under this general arrangement, the specific activities agreed upon were defined

in sub-obligatory documents, primarily PIO/Ts and PIO/Ps. This same arrangement applied to the later agreements which essentially amended the first agreement by providing funds for additional programming. Thus, over the life of the project a total of $10,750,000 has been obligated in project agreements which contain only general statements of intent and none of the usual detailed project descriptions. At the time of the last amendment in FY 1980 which added $5 million to the project, there was discussion between the USAID and AID/W regarding the need for AID/W approval of specific sub-activities carried out under the project. While it was not a written condition of approval, the Mission was asked to submit relatively detailed sub-obligating documents for AID/W approval when the amounts involved exceed $500,000. Other than that, the Mission has been essentially free to choose and to execute any training or technical assistance activity it develops in collaboration with the Portuguese government without reference to AID/W for approval purposes.

Following signature of the first project agreement in February 1975, activities got underway only very slowly. The political environment was characterized by considerable uncertainty and, until the fall of 1975, by the growing power of leftist forces. There was, in general, a lack of awareness of and interest in U.S. technical advice and training, and for a time, the USAID's designated contact for participant training purposes was the Institute of State Participation, an agency created to oversee the newly nationalized industries and firms whose interest was limited largely to improving the management skills of the agency and nationalized industries staff.

With the improved political climate beginning in late 1975, technical assistance and participant training activities increased. During 1976 and 1977 long and short-term consultants were financed in the areas of health, labor, education, economic planning, agriculture, export promotion and public administration. In addition, a much larger flow of participants took place. During the early years the selection of Portuguese participants for professional visits to the United States as well as the provision of American consultants was based largely on taking advantage of

targets of opportunity. Project activities were scattered widely across many fields. However, over time--while never completely foregoing the opportunity to take advantage of ad hoc opportunities--the USAID increasingly focused its training and consultant selections on areas of primary program interest. As a result, by the time the participant training elements of the project were evaluated in 1982 it was found that 87% of the participants had been drawn from Portuguese institutions in which the USAID had a longer term program commitment. In several instances initial participant and short-term consultant visits led to longer term contracts such as the ones between the University of Rhode Island and the University of the Azores, the Purdue University contract for assistance to the three regional university institutes, and the development of the Agriculture Production Project.

In an evaluation focused on assessing broad program and management issues, it was not possible to examine any project in detail, particularly this one, which involves such a large number of activities. However, an attempt was made to review a small number of sub-projects and to make at least superficial examination of their impact.

Rural Vocational Education

The Rural Vocational Education activity has involved assistance in upgrading three regional university institutes on the mainland at Vila Real, Covilla, and Evora, and plus one in the Azores.

This assistance has included the construction or improvement of physical structures and the provision of equipment under a loan agreement as well as the provision of technical assistance. The technical assistance has been carried out under two contracts, one with the University of Rhode Island to work with the University of Azores and the other with Purdue University to work with the three mainland institutions. The two contracts have been financed on a grant basis. The project costs sub-obligated for this activity have totaled $3.4 million, including the amounts utilized for the contract and funds expended directly by USAID. Thus, 32% of the overall project has been devoted to this single

activity. The evaluation team visited each of the institutions on the mainland but was not able to go to the Azores.

As this project progressed, the three institutions on the mainland with which Purdue works have undergone a change in status. In Vila Real and Covilla they have been upgraded by the Portuguese government from post-secondary polytechnic institutes to university institutes and in Evora from a university institute to a university. Each has taken on its own institutional character, reflecting local conditions as well as the program choices of its leadership.

The most visible U.S. contribution on first inspection is to be seen in these schools' physical plant facilities, equipment and books. While these needs are important in the establishment of any new institution and should not be neglected, more significant in terms of the mounting of teaching, research, and extension programs is the personnel side, not only the people trained for specific roles but the quality of the local leadership. In a country whose institutional history is filled with instances of individuals concentrating excessive power and resources in their own hands, the most encouraging aspect of this experiment in regional institution-building lies in the Instituto Universitario de Tros-os-Montes e Alto Douro (IUTAD). The combination of forceful leadership on the part of the rector and the assembling of a team of competent individuals to whom responsibility for program development has been delegated has produced a strong core program focussed on agriculture. The fact that a nucleus of trained individuals with good working relationships and with commitment to the region has emerged as the primary reason one encounters in Vila Real the most effective use of the scientific and technical equipment, participant training, and consultants of any of the regional universities supported by USAID in Portugal. In Covilla at the Instituto Universitario da Beira Interior (IUBI) and in Evora at the University of Evora, the results are mixed, but for quite different reasons. At IUBI, the primary thrust of the Purdue contract toward agriculture was incompatible with IUBI's regional role. Operating in an area in which there is a well-developed textile industry, local needs argued for investment primarily in improved technologies in textile

production rather than agriculture. In fact, while the agricultural needs of the surrounding region are quite different from those of Vila Real to the north, neither IUBI's mandate nor the possibility of the establishment of regional institutes in nearby cities has made it possible to move from the theoretical justification for an agricultural program to concete actions in this area. Nevertheless, the overall use of funds for physical plant construction and equipment by IUBI provide no grounds for criticism. The delays and complications which emerged all fall within the range of normal expectations in confronting the problems of moving from plans to operations in middle-range developing countries. IUBI has experienced problems in participant training and the use of consultants. In Vila Real the presence of the core group of Portuguese professionals made it possible from early on to achieve a more effective institutional match on the Portuguese and U.S. side than has been possible in the other cases.

Like IUBI, at the University of Evora the physical plant accomplishments of the program are more readily evident than those in the personnel area. There progress in making use of scientific and technical equipment has been even slower than at IUBI. But here there is a difference in scale and institutional role that argues for considering that institution's need to be more long-term. First, in Evora the mandate on the Portuguese side is to develop a university, not simply a regional institute with specialized training. Secondly, the regional political environment is far more complex and the social chasms which must be transcended far greater. On the personnel side, the results are mixed. Here the personnel development model was largely the same as at IUTAD, but because Evora's five-member Portuguese team was not as complete, it was difficult on the Portuguese side both to release the personnel to participate in longer term U.S.-based training as it was to make full use of foreign consultants. For personnel development to work, effective counterpart relations are essential and these are difficult, if not impossible, to develop unless there is a suitable match in local and foreign personnel.

The cumulative impact represented by these new regional university institutions, established outside urban coastal centers and given a

mandate to offer more practical education, is one of the brightest institutional developments in post-revolutionary Portugal. Fragile as all new institutions and faced with the difficultites inherent in reversing centuries of excessive centralization, these university centers have great potential. While it is too early to hold them up as examples, one should nevertheless single out this use of grant and loan funds as potentially one of the best investments of external resources in Portugal's long-term development. At this writing, Vila Real has come the farthest in realizing the ideal of a regional university center with practical programs linked to the development needs of the surrounding area. With the proper leadership, faculty development, and external support there is no reason why the other centers should not realize their potential too over time.

In this connection, it is interesting to note that this combined capital and technical assistance project was more a product of USAID initiative than most of the other activities. An interview with the first AID representative revealed that at the time the USAID was exploring with the Ministry of Education the possible avenues of U.S. support for educational development, no mention was made of these regional institutes. It was only after USAID urging that the Ministry endorsed the idea and included it in the loan package.

The New University of Lisbon

While the development of a program in business administration at a Lisbon-based university is worlds apart from the demands placed on institution-building at the regional level in a country long dominated by the capital city, the lessons to be learned and the overall assessment are not all that different. Assistance under the Technical Assistance and Training Project totaling $680,000 has made it possible for the Economics Faculty of the New University of Lisbon to develop a masters degree program in business administration by drawing on the support of the Wharton School of Finance.

As in the case of the institute at Vila Real, local leadership combined with the mobilization of matching resources, physical and human, on the Portuguese side, made it possible to pass successfully through the first phase of institution-building: the mounting and staffing of a new operation with the capability for self-maintenance. The combination of identifying and naming a key individual with practical experience in the relevant professional field (here business) and mounting quickly a core group of staff (this time from the economics faculty) created the conditions in which participant training and foreign consultantship through the Wharton School could produce relatively fast results.

Those working within the business administration program on the Portuguese side have established workable professional relationships with the Wharton School, and after a year, have been able to offer a program in business administration geared to the needs of Portugal's business community. The factors which explain why it was possible to mount a new program here so successfully are these: not only was there focused support on the Portuguese side for this endeavor, as manifested through the New University and the local business community, but also there was effective interfacing of skills and supports among the Portuguese participants in the program, Wharton School representatives, and USAID/Lisbon personnel. Currently, three U.S. business-administration faculty members are teaching in the program (two from Wharton and one from Columbia University). Equally current and important is the business outreach program in which executive seminars, conferences and specialized programs are held to attract interest in the business community and to involve them in the business administration program.

Health Services

In the health sector, USAID/Lisbon came very close to initiating a broad effort to strengthen national health services in 1978 only to find that there was not enough policy coherency and staff integration in the Ministry of Social Affairs to make implementation possible. However, since then it has been possible to achieve many of the goals of the original project by disaggregating it into several different program

components. A contract was signed with Management Sciences for Health Inc., on December 14, 1982, for $300,320 to strengthen the administrative and management systems of the Secretariat of State for Health and to improve the curriculum of the School of Public Health. When all related training and consultancies are added to this amount, the total programmed for developing an integrated medical information system and cost management services comes to $493,000. Included within these funds are also consultancy services provided by the National Center for Health Statistics to assist the Ministry with its morbidity survey study.

Although an integrated approach to the health sector could not be achieved because of implementation difficulties, it was possible to have an impact by developing successful counterpart relationships. Work on the 1978 contract had identified the absence of basic medical information and systematized record-keeping as a problem area. Utilizing a targets-of-opportunity approach, contact was maintained with a key individual in the Cabinet for Studies and Plans (GEPS)--the planning unit in the Health Ministry. As a consequence it was possible to develop a consultant agreement with Management Sciences for Health Inc., to organize and set up an integrated management unit of the ministry--Gestao Financeira--to develop a more effective system for cost control.

Support for Democratic Trade Unionism

During the radical phase of the revolution, the leftists and particularly the Portuguese Communist Party captured control of the labor union movement. While the Communist-dominated CGT/Intersindical still represents the majority of the organized work force, the non-communist UGT has come a long way and represents today a major labor movement which is more and more in the position of a close second to the CGT. Under the Technical Assistance and Training Project, two grants were made to support non-communist unions- the first, to the AFL-CIO's Free Trade Union Institute (FTUI) in the amount of $243,000 and the second, to its Asian-American Free Labor Institute (AAFLI), a successor to FTUI, for $340,000. The first grant was made in January 1979, and the second in January 1981.

The purpose of the FTUI and AAFLI grants has been to make funds available to an AFL-CIO sponsored training institute to develop a labor exchange program in Portugal. The program is directed toward bringing democratically-oriented labor union leaders in Portugal in contact with their U.S. counterparts, as well as at bringing to Portugal U.S. labor experts who can assist their Portuguese counterparts in labor union organization, training, and support activities. In contrast with other technical assistance activities, this program has been administered primarily through the Labor Attache at the Embassy. The general success of the earlier program, in reinforcing the UGT as an alternative to the CGT and in establishing contacts for the first time for UGT leaders with their U.S. counterparts, led to the second, more expanded grant. While different in operational details, both have provided funds for the same general activities: trade union education, publications, organizational work, and support costs. Under the first phase of the AFL-CIO/UGT program, 69 pro-democratic Portuguese trade union leaders were brought to the United States; 16 American trade union leaders came to Portugal; numerous trade union seminars were held in Portugal; and initial trade union support was provided, such as assistance in setting up two regional offices. Under the second program through an agreement signed in October 1982, additional seminars were funded; assistance was given to democratically-oriented trade union publications; support was designated for developing a badly needed economic research capability, and two additional UGT regional offices were equipped.

Scientific and Technological Workshops

Under a cooperative agreement with the U.S. National Academy of Science, Portugal's National Council for Scientific and Technological Research has sponsored three U.S./Portuguese workshops designed to promote longer-term counterpart relationships. For this purpose, $190,000 was set aside for the technical assistance component and $150,000 for training on October 8, 1981. When consultances generated by these meetings are added in, the total is $487,000.

These three workshops brought together U.S. and Portuguese personnel in specialized scientific areas, helped establish continuing cross-national working relationships, and strengthened scientific programs and research capabilities. While modest in scope, focused workshops and programs of this sort that develop new networks for technology exchange have helped reduce isolation and have contributed to Portugal's long-term economic development.

Observation/Consultation Visits

Less structured than the foregoing programs, the grant also made possible numerous professional visits to Portugal. Two instances may be cited as illustrative: first, the sending of a team of U.S. economists from MIT trained in macro-economic planning for work in fiscal and monetary policy and, second, consulting arrangements in support of the Portuguese private sector.

At the end of 1975, Portugal was rapidly exhausting its foreign exchange reserves. With a financial crisis approaching, the then Minister of Finance, Dr. Jose da Silva Lopes, was influential in arranging for the MIT group to study the economic situation and to make recommendations. While Silva Lopes was no longer Finance Minister by the time the group arrived in May 1976, they worked closely with him off and on over the next two years. Their findings and recommendations proved very valuable in Portugal's negotiations for a stand-by arrangement with the International Monetary Fund. The agreement with the IMF was a central element of the multi-lateral balance of payments package assembled under U.S. leadership in 1977-78.

Under the Technical Assistance and Training Project, funds have been provided the International Executive Service Corps (IESC) to support their program of technical assistance to the Portuguese private sector. In addition, funds have also been used to finance analyses and feasibility studies related to private investment in Portugal.

Assessment

It is not possible to arrive at any reliable overall judgment regarding the impact of this project. In the first place, most of the longer-term endeavors are either still underway or too recently completed to assess their consequences. Secondly, the evaluation team could not devote the time required to examine in adequate detail such a wide range of activities as are included in this project. Nonetheless, there are, perhaps, a few generalizations which can be made.

The first impression one gains from an initial examination of the project data is of considerable fragmentation and dispersion of effort. For such a relatively modest amount of money to have been spread over the wide range of activities reflected on Table IV during an eight year period prompts a question of whether anything could have been accomplished. Yet closer examination and interviews with Mission staff revealed a greater degree of coherence than appears at first glance. Already mentioned earlier was the fact that, of the 400 participants sent for mostly short-term training, 87% were selected in fields relevant to Mission programs. In fact, the Mission frequently utilized participant training grants as a means of creating a greater awareness of obstacles to Portuguese development that could later be the focus of USAID or other assistance. Also, already mentioned was the fact that during the early stages of the program's development there was only limited Portuguese interest in American training and that it was primarily at this stage the USAID tended to take an ad hoc target opportunity approach to use of these resources. This tendency was markedly reduced in later years as it became easier to focus attention on a smaller number of major issues.

While it is clearly too early to judge reliably, there are some activities which appear to have a significant long-term potential. As mentioned earlier, the most likely one in the view of the evaluators is the technical assistance and construction support provided to the regional technical institutes. It is obvious that the technical advice from Purdue has not been entirely effective for a variety of personal and institutional reasons. But the three institutions visited by the evaluation team

represent a genuine new departure in Portuguese educational development and over time, they may have a significant impact on their respective communities. The impact will not be due primarily to U.S. assistance but rather to creative and dynamic Portuguese leadership; but the U.S. has played an important role in the establishment and invigoration of these institutions. Similar comments on a more limited scale could be made about other activities supported under this project, such as the assistance provided the New University of Lisbon. Of course, only time can tell what will be the impact of the training, observation tours and consultants on Portuguese life, but there is no question that this project contributed substantially to the objective established at the beginning of the program of reducing the isolation of Portugual and opening its institutions to new ideas and techniques.

Agricultural Production Project

Almost from the beginning of the AID program in 1975, the USAID expressed interest in supporting Portuguese efforts focused on agricultural development. Programs in this field were not only seen as important to Portugal's long-term development but were also considered a central feature of AID's emphasis on basic human needs. However, agriculture, both in a real sense and in a Ministry organization sense, was particularly subject to revolutionary excesses and for several years there were simply no sensible avenues for the application of U.S. economic resources. Over time, however, opportunities arose for a broad agriculture study which was financed under the Technical Assistance Project and which led to the design of the Agriculture Production Project.

This project was approved by AID/W in August 1980 and the project agreement signed with the Portuguese government the following month. The project anticipates a five-year period of implementation and total funding of $14.5 million with $10 million contributed by the U.S. and the remainder by the Portuguese government. As with all such projects, it got under way so slowly that by the end of the first year only $500,000 had been expended. As of March 31, 1983, $2.6 million of the AID funds had

been disbursed, which was approximately one-half the amount projected for that date at the beginning of the project.

AID contributions to the project consist of technical advisory personnel--both long-term and short--provided under an agreement with the U.S. Department of Agriculture, participant training--again both long and short-term in nature -- and a variety of commodities and equipment. The GOP contributions are related primarily to participant training costs and administrative and logistic expenses.

The project is very broadly focused on supporting the Ministry of Agriculture and Fisheries (MAP) programs of agricultural production improvement. More specifically, it supports MAP programs with the following objectives:

- Integrated and decentralized regional development programs coordinated by MAP, making key production inputs available to farm families, including credit, limestone, fertilizers, improved seed varieties and breeding stock;
- Strengthened extension services reaching smaller farm families, utilizing cooperative organizations;
- Extension programs linked to research results but also providing feedback regarding farmer production problems which require further research;
- A regular program of applied research and demonstration of improved soil fertility, improved varieties and production practices in the priority production areas;
- An effective and efficient credit system in operation, making credit readily available to small farm families;
- Increased capacity and improved capability of GOP soil testing facilities in the project area;
- Increased capacity of the GOP seed processing facilities producing certified seed of improved varieties; and
- Strengthened MAP planning and policy formulation capability leading to agricultural production which reflects coordinated public and private institutional efforts to increase production of smaller farm families.

The project was designed to have two phases. Phase I, which has been completed, involved the preparation of a detailed plan for Phase II. In addition it included the following activities.

- The study of transportation problems involved in the production and distribution of limestone (large areas of Portugal suffer from acidity problems);
- The establishment of corn-fertilizer-lime tests to determine fertilizing levels for various soil condition;
- The assessment of equipment, staff and programming needs of Portugal's seven soil laboratories;
- The identification of the production constraints faced by the major existing farm systems and design of improved systems;
- The development of effective procedures for limestone mining and processing in order to expand limestone production; and
- A review of MAP policies, especially those related to competition in the European Economic Community.

In December 1981, a Ministry Coordinating Group was created for the PROCALFER program. The U.S. Department of Agriculture has two long-term advisors attached to this coordinating group and they organize the large number of short-term consultants who are financed under the project.

Assessment

The project is only halfway through the five years originally projected and in expenditure terms, only just over one-quarter implemented. Consequently, it is not possible to assess its ultimate impact. At this point, it seems to be proceeding satisfactorily. As would be expected with such a complex technical undertaking with so many facets, there have been problems as well as successes. The policy and economic studies appear to be a useful tool in assisting Portugal's policymakers define a strategy for entry into the European Common Market. The studies have also been used to help establish price and subsidy changes in 1982 in connection with corn, fertilizes and bread. There has been a growing interest among GOP officials in developing more effective and timely budgeting

procedures, and the budget methods developed under the project have contributed to this objective. Progress has been made in increasing the limestone available to farmers--production has grown from 18,000 tons in 1980 to 72,000 tons in 1982. The related efforts to increase the number of soil analyses completed have also been relatively successful. Compared with other agriculture credit lines, such as the IBRD project under which $55 million in unused funds have been deauthorized, PROCALFER funds have moved reasonably well--although the demand for credit has been lower than expected.

The principal problems encountered by the project have derived from the frequent changes and instability of the organizational structure of the Ministry of Agriculture and Fisheries. It is, obviously, quite difficult to design and manage coherent, long-term programs amidst frequent changes of leadership and institutional insecurity. There have also been periodic problems with short-term consultants, something which is inevitable in a project which uses them so extensively.

Overall, however, the project seems to be making acceptable progress. It is working in a very difficult area, but one that is central to Portugal's economic viability, particularly as it looks forward to entry into the European Common Market.

2. Development Loans

As reflected in the previous section of this report dealing with program policies and objectives, projects for AID support were sought initially which could have a favorable political impact and also be relatively fast-disbursing, provide widespread and visible evidence of U.S. interest and support, stimulate employment, and benefit low income people. In a process begun during initial team visits and continuing after the USAID was established in mid-1975, USAID personnel met periodically with representatives of the Ministry of Planning as well as other technical ministries to review the investment plans of the government and to consider which elements met the criteria for U.S. financial support. The post-revolution governments had been largely unable to develop specific

plans in support of the general policies they espoused. Consequently, particularly at the early stages, the focus was on activities already included in the investment program of the previous regime which might lend themselves to AID financing. Indeed, during the initial discussions, some suggestions were made for U.S. aid in areas, such as road building or other transportation investments, which did not fall within the basic human needs areas or meet some of the other criteria adopted by USAID and the Embassy.

Within a relatively few weeks after the team's arrival in February 1975, agreements were signed for grant technical assistance and training support plus a loan to finance feasibility studies for other potential future projects. Both of these activities were very slow in getting underway and had little visible impact in terms of providing evidence of U.S. support.

In June 1975, however, the U.S. and Portugal signed the first development loan project in the amount of $13,250,000 for low cost housing. The remainder of the development loans, all in basic human needs areas, were committed in FY-1976 and FY-1977. In FY-1976, agreements for $19 million in loans and $20 million in housing guarantees were signed, and in FY-1977, loans in the amount of $60 million and a second amount of $20 million in housing guarantees were committed. All the AID project loans (not including the housing guarantee loans) were repayable over 25 years, carried a 5% interest rate and a five-year grace period. No development loans were made after FY-1977.

Feasibility Study Loan

The feasibility study loan agreement was signed on February 25, 1975, in the amount of $1 million. It had three purposes: (1) to finance sectoral, market and project feasibility studies; (2) to provide for consulting services needed for the planning, design and scheduling of development projects; and (3) to supply funds for other studies and consulting services upon which the Portuguese government and USAID could agree upon. The fields to be covered were food and nutrition; health, education and human resources development; transportation; power and industry; and urban development.

Drawdowns under the loan were very slow. Five studies were agreed upon under the loan, but only three actually went forward. None resulted in a major investment. Four years after the loan agreement was signed only $15,000 had been expended and ultimately $400 thousand was de-obligated because of lack of interest on the part of the Portuguese government. The files and interviews suggest that the government was reluctant to borrow funds to make feasibility or other pre-investment studies. Grant funds under the Technical Assistance and Training Project were available for some studies of this sort and other donors also were prepared to help in this area on a grant basis.

Thus, overall the project had a very limited impact.

Low Cost Housing

In contrast with the feasibility studies project, the low cost housing loans and guarantees had a relatively quick as well as substantial impact, in part because of the strong government interest in activities in this area.

The provision of housing for lower income families was a pressing need at the time of the revolution. It was assigned a high priority by the revolutionary government not only because of the serious shortage of housing units, but also because of growing unemployment in the construction industry following the revolution. The government's interest was heightened by the seizure of unoccupied houses and apartments by bands of poor people in the aftermath of the revolution.

The high priority assigned to housing by the government, the fact that a program was already underway which involved construction scattered widely throughout the country, and the AID interest in supporting basic human need programs all combined to prompt AID also to assign a high priority to activities in this area. Consequently, the first team to visit Portugal in November 1974 was focused on housing and the first draft of a project paper was available for review by February 1975.

The Low Cost Housing project had two financial components and was carried out in two phases. Both Low Cost Housing Projects I and II were made up of a combination of AID loans and housing guarantees authorized under Section 222 of the Foreign Assistance Act. Under the first project, a loan in the amount of $13,250,000 was combined with an AID guarantee for a loan from the U.S. private sector in the amount of $20,000,000. As indicated above, the AID loan was provided on a 25-year basis at 5% interest and a grace period of five years. The terms of the guaranteed loan were 30-year repayment, 9.7% interest and a 10-year grace period. The initial loan agreement was signed in June 1975 and the guarantee in November 1975. The second phase of the low cost housing project consisted of a $10 million AID loan on the same terms as the first and a $20 million guarantee, also with the same maturity and grace period as the first, but with the somewhat lower interest rate of 8.19% . The second loan agreement was signed in March 1977 and the guarantee was signed in September of that year. At the time the first phase of the project was developed, a technical assistance component was also contemplated. It envisaged assistance to the National Housing Development Fund (FFH) in the areas of planning, budgeting, construction, design, and implementation procedures. This element of the project never materialized--at least on the scale contemplated. The record is not entirely clear regarding the reasons for dropping the technical assistance activities from the project. However, interviews revealed there were differences of views between AID technicians and FFH personnel regarding the standards of housing being constructed--with AID advisors suggesting that the quality and costs should be lowered to reduce the burden on the government budget, for example. This difference of opinion apparently was at least one reason the FFH chose not to pursue the technical assistance option except in a limited and ad hoc fashion.

The loan and guarantee funds were used to support a larger GOP program for low cost housing being conducted by the FFH. With the two phases combined, the total GOP program reached the equivalent of $346.25 million of which AID funds and guarantees represented 18% or $63.3 million. Under this program, units of one to five bedrooms were constructed. The USAID considered that the larger units were not suited to AID criteria for low

cost housing and chose, therefore, to limit financial support to the smaller units, i.e., up to three bedrooms. Inasmuch as the AID support represented a relatively small portion of the total GOP program, it was possible to utilize AID funds entirely for the smaller apartments. The overall ratio of small versus large units does not appear to have been altered or influenced by AID support. The AID funds were essentially "attributed" to the type of apartment which met the USAID's criteria for low cost housing and the GOP funds covered the remainder.

With its financial role limited essentially to one of attribution, the USAID impact on the overall design and policies of the GOP program was negligible. However, the attribution process did facilitate relatively rapid disbursement of funds. In the first project, the guarantee funds, which were largely disbursed somewhat ahead of the AID loan, were expended within 18 months after the agreement was signed. The second phase took somewhat longer, but overall the record of disbursement for both phases and for AID and guarantee funds was better for the housing projects than for the other project loans.

Although AID support for low cost housing had a relatively limited influence on GOP institutional practices related to housing planning and construction in Portugal, the AID-assisted projects, nonetheless, did have an impact. AID funds were attributed to the construction of over 7,000 housing units, and while some portion of them might have been built even in the absence of U.S. support, there is little question that AID support made possible a larger total effort than would otherwise have been the case. In addition, an "Evaluation of AID Shelter Programs in Portugal," prepared by Richard T. Pratt Associates in 1980 concluded that low income families were the main beneficiaries of the program. There is also no question but that employment in the construction industry increased as a result of the project and that the Portuguese balance of payments also benefitted, since the AID funds were spent almost entirely for local inputs.

The projects were not without their problems. Because of the relatively high cost housing, which was constructed over the reluctance, in general,

of the USAID technicians, the extent of the subsidy which had to be met from the government budget was greater than it needed to be. There were a host of implementation problems resulting from contractor bankruptcies, strikes, low worker productivity, and the like. In addition, in many instances hookups of electricity, water, and sewerage systems were late due to budget shortages and poor management at the local level, and there were reports of houses standing unused due to these delays in service hook-ups.

School Construction

In the period prior to the revolution in 1974, the Ministry of Education, under the leadership of an enlightened and strong minister, had developed plans for a major expansion of preparatory and secondary education, particularly in the rural areas of Portugal. The principal focus was on raising the number of years of compulsory education from six to eight and on reducing the disparities in educational opportunity between the regions. The plan drawn up by the Ministry of Education included provision for constructing the additional facilities needed for this substantial expansion in coverage. Thus, after the revolution, the new leadership found plans already available for a large increase in the number of preparatory and secondary schools. The total number of new and renovated schools required was approximately 200.

This situation was almost ideally suited for post-revolution U.S. aid. It involved the construction of facilities in many parts of the country. Since plans were already in place, it was assumed that implementation would be relatively straightforward. Discussions with the Ministry of Education led rather quickly to the formulation of the initial project. The first project, School Construction I, was approved by AID/W in June 1976 and the agreement signed with the Portuguese government on August 13. The project provided $11 million to be used in the construction or expansion of 24 preparatory and secondary schools. The second phase of the school construction project involved a loan of $15 million to support the construction of 20 schools. It was signed the following fiscal year, on September 30, 1977.

The USAID elected to use the Fixed Amount Reimbursement procedures for the School Construction projects as well as all the other development loan projects other than Low Cost Housing. It was felt that this approach, in combination with the fact that the ministry planning for numbers, types, and locations of the schools was relatively complete, would permit rapid implementation. In fact, while the school construction projects did progress more rapidly than some of the others, the first one required approximately three and one half years for disbursement and the second somewhat longer. Most of the problems which were encountered related to difficulties with private contractors employed by the government, many of which were relatively small and had limited capacity. Indeed, all the construction activities supported by the AID loans suffered delays as a result of strikes, labor unrest and contractors who went bankrupt during the difficult times following the revolution. The schools constructed in the Azores were particularly subject to delays and some were not completely finished under the project (although they were subsequently).

While there were a modest number of participants sent abroad for training and observation tours from the Ministry of Education and a smaller number of short-term American consultants made available in education areas through the Technical Assistance Project, the School Construction projects did not have a technical assistance or advisory component. The project was, as its title suggests, a construction project. It resulted in the construction of 44 new or enlarged schools, many of them in rural areas not previously served by such institutions. Thus, while the program clearly contributed to the expansion of educational opportunities, it had no impact on the quality or content of the educational programs themselves.

In the case of the Low Cost Housing Projects, the AID loans were used in conjunction with a much more sizable government-financed effort. With the School Construction projects, however, the activities being supported under the loans constituted the sum total of the GOP effort. There is little question that the government would have carried out a school construction program on some scale whether or not AID support was available. On the other hand, however, interviews with Ministry of

Education representatives suggested that without the U.S. aid, the program would have been much smaller.

Basic Sanitation

As with the School Construction and Housing projects, the Basic Sanitation Project was carried out in two segments. The first loan in the amount of $8 million was signed on August 13, 1976, and the second one for $12 million on September 30, 1977. The loans made possible the construction of 36 water supply and 27 sewage systems. Of the total $20 million, $19.5 million was designated for physical construction and $500,000 for U.S. consultants and on-the-job training programs for key Portuguese personnel.

The GOP executing organization was the Directorate General for Basic Sanitation of the Ministry of Public Works. Prior to the revolution, this office had been non-operational and concerned essentially with reviewing and approving plans for water and sewage systems, but not with executing such plans. Therefore, under the AID-financed project, it was necessary to establish a different sort of operation and to assign the necessary staff to execute contracts and supervise construction activities.

The implementation of the Basic Sanitation projects was the slowest of the development loan activities--other than the Feasibility Study loan. The first project required five years for disbursement and the second one slightly longer. The relatively slow implementation was due in part to the necessity of first establishing workable systems of project management in an organization which had only limited experience in this area. Subsequently, the problems experienced with all the project loans (inadequate contractors, bankruptcies) also impacted on the Basic Sanitation project.

However, although delays and problems were encountered, the project did result in the construction of over 60 water and sewage systems distributed through 17 of the 18 mainland districts and the Azores and Madeira. Most of the systems were relatively small and located in rural communities. In the mid-1970s, it was estimated that 47% of the housing units in Portugal lacked sewage facilities and 33% lacked running water or readily available

pumped water. In rural areas, the statistics were even worse. Thus, while the size of the project was not sufficient to have a substantial impact on a problem of this scale, it certainly had a beneficial effect on a major issue.

In another sense, the impact of the project was also limited. Even before the execution of the project was complete, the government had decided to return to the arrangements which had prevailed prior to the revolution. Under these arrangements, responsibility for the construction of basic community services, such as water and sewage, is assigned to municipalities rather than the central government. Thus, the Basic Sanitation projects were, in effect, one of a kind efforts which will not be duplicated in the future. While there were a few lessons learned in terms of overall packaging of water and sewage systems, this experience will be applied in the future only in the review of certain types of projects submitted for review by municipalities.

Health Sector Support

The post-revolution governments were committed to expanding primary health care services and achieving a more equitable distribution of such resources so that people in rural areas and the urban poor would have better access to medical care. The government requested and obtained a World Health Organization review of Portugal's health problems and plans and on its completion, asked for AID support in establishing an expanded system of health centers.

The resultant project involved a loan in the amount of $17 million. The agreement was signed on September 30, 1977. As originally designed, the loan was to cover the construction of 17 centers in various parts of the country, having a target population of 300,000. The location and design of the centers were provided for in the GOP's 1977-80 Health Sector Development Plan.

Because there was an acute shortage of nurses skilled in primary care and preventive health services in the Azores, it was decided that the project

should be altered to reduce the number of centers to 14 and to include provisions for the construction of a nursing school and dormitory in the Azores. Thus, the project ultimately included the construction of eight primary centers and five intermediate centers in rural areas plus one first class center in Lisbon, in addition to the nursing school in the Azores.

As originally conceived, the project was to include a major grant-funded technical assistance component to help with planning and organizing health care services as well as the associated training programs. However, as mentioned in the previous section of this report dealing with technical assistance, this aspect of the project did not eventuate. A limited amount of technical assistance was provided, but not on the scale or the integrated basis initially planned.

While the U.S. support has permitted a larger effort than otherwise would have been possible, the Portuguese government has constructed a number of centers from its own resources and also has benefited from support from other donors, including Norway, Sweden, the United Kingdom, and WHO.

The Ministry of Health has not found it easy to staff the centers with the necessary personnel. As is the case in many countries, it is frequently difficult to attract medical and nursing personnel to rural and remote areas. However, by March 1982, all but one of the centers was staffed and in operation. Other than the problem of staffing, the construction of the centers suffered from the same contracting problems and delays experienced by the other projects. Nearly five years were required to complete disbursements under the project.

As with the School Construction and Basic Sanitation projects, the impact of the U.S. assistance was limited largely to the construction of the physical facilities. No AID advisors were involved in the design of the centers or planning for the health care services to be provided.

Rural Vocational Education

The Rural Vocational Education Project involved a loan in the amount of $6 million combined with grant-funded advisory personnel furnished through the Technical Assistance and Training Project. The loan agreement was signed on September 30, 1977. It provided funds for constructing new buildings or expanding existing facilities at three university institutes on the mainland and one in the Azores. It also included provision for the purchase of a modest amount of equipment at each location.

The project is treated at greater length in the earlier section on Technical Assistance. Suffice it to state at this point that while the construction activities under the loan suffered the same delays as with other projects, the overall impact of the project in both a physical and a program sense has been very positive. This project probably has the greatest potential for long-term impact on Portuguese development of any of the development loan projects.

3. Balance of Payments Loan

In fiscal year 1978, the USG provided a $300 million loan to the Government of Portugal to assist with balance of payments problems over a period of 18 months. This loan was the USG contribution to a $750 million balance of payments support package in which 14 industrial countries participated. The U.S. played a key role in organizing the international consortium involved in providing this assistance.

As mentioned earlier in this report, prior to the revolution, Portugal had a history of current account surpluses in its balance of payments, and in 1973 the country enjoyed substantial international reserves. In 1974, however, Portugal experienced a current account deficit of over $800 million, or 6% of GDP; by 1977 the deficit had widened to the equivalent of 9% of GDP. Moreover, between 1974 and 1976, the country's foreign debt increased five times.

The central bank's foreign exchange reserves, $1.6 billion at the end of 1973, had fallen to $162 million by December 1976. While in 1977 the country still had a significant amount of unpledged gold reserves, the use of these reserves could be accomplished only gradually lest havoc be created in what is a very sensitive market. Accordingly, those reserves proved to be relatively illiquid.

Faced with Portugal's increasing international deficits, an initial attempt was made by the international community to finance them through conventional means.* In this connection, an increase of long-term developmental assistance by the European Free Trade Association, the European Investment Bank and the World Bank was of some help. Moreover, several European central banks had made short-term loans against gold collateral. Nonetheless, it became clear that, barring an outright sale of Portuguese gold, usual international financial sources would not afford adequate balance of payments support for Portugal in the short term.

In these circumstances, the United States proposed to other countries a coordinated effort to help meet Portugal's unusual financing requirements. At first the United States considered a three-year $1.5 billion consortium. However, this original concept was modified as it was judged that wider international support could be obtained for a shorter undertaking and that conventional bilateral and multilateral sources would be adequate to cover Portugal's financing needs in later years. Consequently, the United States opted for a shorter period and a smaller target amount.

In mid-May 1977, the United States convened a meeting of potential participants in this special assistance effort for Portugal. Virtually all countries attending the meeting expressed strong political support for

*See on this Hans O. Schmitt, op. cit.

Portugal's efforts to consolidate its newly-established democracy and appreciation of the link between the prospects for these efforts and Portugal's balance of payments needs. Representatives of Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Norway, Portugal, Sweden, Switzerland, The Netherlands, the United Kingdom, Venezuela, and the European Community as well as the United States attended the mid-May meeting.

The participants generally agreed that most of Portugal's financing needs over the following 18 months would have to come from special balance of payments loans. The United States' proposal of a coordinated set of bilateral loans was broadly endorsed as the best framework. During the meeting, the essential characteristics of individual loans were specified --medium term, repayable at non-concession rates, untied as to projects or country of procurement, no encumbrance of Portuguese reserves. It was also agreed that drawdown of funds under these loans would be conditioned on continued Portuguese adherence to an economic program on a schedule worked out in cooperation with the IMF.

The U.S. loan, signed on March 1, 1978, provided for two cash dollar transfers--the first for $200 million and the second for $100 million. Both transfers were conditional upon adherence by Portugal to the economic stabilization program worked out with the IMF. The loan was for a 10-year maturity, the interest rate was 8.15% (the approximate cost of ten-year money to the U.S. Treasury at the time) and there was a two and a half year grace period. The Bank of Portugal was the borrower on behalf of the GOP.

As prescribed in the agreement, the loan was used for balance of payments financing. The loan and the wider financial support it stimulated were instrumental in enabling Portugal to meet short-term balance of payments obligations and in facilitating the implementation by the GOP of a program for financial stability and recovery. That program included: the adoption of a floating escudo under a crawling peg regime, increases in interest rates, limits on domestic credit expansion and on credit to the public sector, increased pressures for reducing public sector expenditures

and for fuel price increases. Although a fall in real wages accompanied these measures, balance of payments adjustment was achieved while maintaining relatively high rates of economic growth.

Interviews with Portuguese officials, who held relevant government positions at the time the balance of payments loans were made, indicated that they felt the loans and the U.S. role in assembling the consortium had been extremely important. Without the support it received from the international community, the GOP probably would have had to take drastic economic measures which might have led to social unrest and considerable erosion of popular support for the government and for democracy in Portugal. In addition, prior to this time, the international banking community had demonstrated some reluctance to lend to the Portuguese government because of concern over political instability. The successful experience with these coordinated loans was apparently reassuring to the major commercial banks and, according to the then head of the Central Bank, made Portugal's access to commercial lending much easier.

4. Refugee and Disaster Relief

The leaders of the 1974 revolution were committed to a political solution for Portugal's costly colonial wars. This solution very quickly became one of decolonization. In May 1974, one month after the revolution, Portuguese leaders began talks with independence parties from Guinea-Bissau, Mozambique and Angola. As a result of these and subsequent negotiations, independence for Mozambique was set for June 25, 1975 and for Angola for November 11, 1975. As independence approached for Mozambique, relatively large numbers of white settlers left the country--one report placed the figures at 100,000. In Angola, fighting between the three political factors created increasing insecurity as independence approached. The continued fighting led to a growing flood of departing white Portuguese settlers. The total number who fled Angola in the late summer and early fall of 1975 was estimated at between 500,000 and 800,000.

By September 1975, the number of refugees seeking to flee Angola for Portugal had become so large, emergency programs were required. Consequently, AID contracted for aircraft to participate in a special airlift for refugees fleeing Angola. The United States contribution to this airlift--to which other European countries contributed as well--totaled $7.5 million during September and October 1975. The AID financed aircraft transported approximately 36,000 refugees from Angola to Portugal and this represented about 20% of the total non-commercial airlift.

The refugee airlift shifted the location of the problems from Africa to Portugal. In the midst of a depressed economy and a revolutionary process, Portugal was faced with the need to absorb 600,000 to 800,000 refugees--nearly 10% of the mainland population--over a very short period of time. This deepened the already existing housing shortage, strained health facilities and increased food imports. To ease the burden, the United States agreed to provide special assistance. In addition to the funds contributed for the airlift, AID provided $36 million to ease the absorption of the refugees into the Portuguese economy and society. In February 1976, $15 million was provided and in May of that year, an additional $20 million in grant funds was contributed. A year later, in September 1977, AID granted an additional $1 million to support refugee activities.

The $35 million granted in 1976 was used to finance immediate basic assistance to the refugees. The bulk of this grant was disbursed to the GOP as a reimbursement for eligible expenditures for such things as food, clothing, medical care, and family allowances. Of the $35 million grant, $1.5 million was allocated to Caritas Portuguesa through the U.S. Catholic Relief Services, and to the Alianca Nacional das ACM's de Portugal, an affiliate of the Y.M.C.A. The 1977 $1 million grant was allocated to Caritas Portuguesa, with the agreement of the GOP, for the continuation of its refugee relief programs. A measure of the relative importance of USG disbursements for this purpose is reflected in the fact that the GOP had estimated one-year (1976) support costs for refugees at about $160 million.

The agency which acted in behalf of the GOP in connection with the implementation of the relief assistance was an ad hoc agency, the Institute for Assistance to Returned Nationals (IARN). The bulk of the USG grants were provided to this institution.

The assistance channelled through Caritas Portuguesa and the Alianca Nacional das ACM's de Portugal was oriented to helping the refugees return and integrate themselves to their communities of origin. In this connection, the funds were used to cover basic needs, shelter, vocational training and loans for the financing of small business activities (including farming) which would serve to generate employment.

The record suggests that the refugee programs were, on the whole, quite effective. A very large number of "retournados" were absorbed into an already weak economy with a minimum of disruption. Assistance provided the refugees was limited in extent and duration, and it included some rather creative elements, such as the loans to help refugees establish themselves in new small businesses. In addition, the U.S. grant funds, which were used largely for local-cost items, made at least a modest contribution to easing Portugal's growing balance of payments problems.

Azores Relief and Reconstruction

An earthquake on January 1, 1980 in the Azores elicited an immediate response from the U.S. Government in the form of emergency aid such as tents, blankets, and food. In June 1980, the disaster aid was followed by a $5 million grant and in March 1981 by a third grant, also for $5 million. The June 1981 grant provided funds for pre-fabricated modules for homes, stores, and offices plus reconstruction materials such as wood, cement, and reinforcing rods. The second $5 million grant was focused primarily on support for low-cost housing.

In September 1982, AID/Washington published an evaluation document, "January 1, 1980, Azores Earthquake Reconstruction: A Report After Two and One Half Years," which provides a detailed analysis of the results achieved under this program. What is notable about these funds, which

were utilized for reimbursement of expenses related to reconstruction, is how quickly and effectively they were disbursed. Here the construction delays noted in the other programs where physical construction was entailed were much more limited. Comparison of this report with other program activities suggests that this difference in performance derives from the severity of the damage and the need for immediate correctives, the resources and support mobilized by the central government in support of the Regional Government, and the widescale cooperation obtained by the Regional Government from the local population. The second $5 million grant for construction has been as slow to disburse as the other construction activities.

5. PL-480 Agricultural Commodities

In the search for U.S. aid resources which could provide evidence of U.S. support, have a favorable balance of payments impact and be relatively fast-disbursing, PL-480, Title I agricultural commodities were a logical candidate. Portugal was increasingly a food importer and PL-480 offered long-term loans for agricultural imports which could both relieve pressure on the balance of payments at the same time local currency resources were generated for supporting the GOP investment budget. Six PL-480 agreements were signed in fiscal years 1976 through 1981. The total amount committed in the five agreements was $215 million. The first agreement was signed in March 1976. All five of the agreements provided for eighteen-year repayment periods. For the first two years, the rate of interest was set at 4.5% with two years grace while for the last three years the interest rate was 5% with three years grace. The loans are re-payable in dollars. Inasmuch as Portugal would otherwise have had to use its own foreign exchange to purchase the commodities obtained, the effect of the PL-480 program was to permit the government to borrow dollars on a relatively long-term basis at a very concessional interest rate and use the generated escudos for development purposes.

Under the various PL-480 agreements Portugal imported wheat, rice, corn, sorghum and cotton. With all PL-480, Title I agreements, the benefitting government agrees to undertake certain "self-help" measures directed

primarily toward reducing its long-term dependence on imported agricultural commodities. The Portuguese government committed itself to measures aimed at contributing to development in rural areas and at enabling the poor to participate actively in raising agricultural production through small farm agriculture. The nature of the specific measures involved can be illustrated by the FY-1978 loan agreement according to which the government agreed to undertake the following:

a. Construct bulk grain handling facilities at an appropriate deep water port and continue construction of inland grain handling facilities;

b. Construct wholesale food markets near population centers as market aids to small growers and distribution aids to all consumers, including the lowest income sectors of the urban population;

c. Develop the capability of collecting and analyzing agricultural data necessary for the formulation of rural and agricultural development policies, including the development of an adequate market news service;

d. Establish a nationwide service to provide farmers with frequent, current market information;

e. Develop the fisheries industry, including both production and marketing;

f. Create a special line of credit for farmers, private entrepreneurs, and privately-organized cooperatives to finance medium and long-term investments in production, processing, and marketing facilities, with special emphasis on the development of crop and cattle production;

g. Encourage practical applied research directly related to the production objectives of farmers, and improve the effectiveness of extension services to transfer technology to small and medium farmers.

The local currency generated by the agreements was to be used in carrying out these self-help measures.

The impact of the PL-480 resources was of two sorts. The most direct--and most significant--impact was to relieve pressure on Portugal's balance of payments. In the five years covered by the agreements, the imports financed under PL-480 represented between 3% to 8% of Portugal's total agricultural imports.* The long re-payment periods and the fact that the commodities could be shipped within a matter of weeks after the agreements were signed made the PL-480 assistance very attractive to the GOP.

The second impact of PL-480 was in the use of the local currencies generated by the sales of the commodities. The agreements make clear that the local currencies are owned by the Portuguese government. The obligation of the government is essentially to arrive at an understanding with the U.S. on how they will be used and then to report on their expenditure. There has always been a difficulty with Title I programs in determining the degree to which the use of generated proceeds adds to the level of a government's development effort or conversely, substitutes for local budget resources are then used for other purposes. In the case of Portugal, the record is ambiguous--as it is in most countries. It appears that with the early agreements, the generated proceeds were essentially "attributed" to various activities, and it would be difficult to demonstrate any significant increase in development activity as a result of the program. However, over time the Ministry of Finance appeared to collaborate more effectively with the USAID in the allocation and disbursement of PL-480 proceeds so as to have a more genuine development impact. For example, with USAID urging, PL-480 generated escudos equivalent to about $1 million were allocated to the Rural Vocational Education project to support the university institutes and the local costs of the Purdue University contract. Similarly, funds were made available to provide credit to support the Agriculture Production Project. In both these cases, they appeared to be additional to what otherwise was available through the budget. There may be other similar examples. In

* In addition to the agricultural imports financed under PL-480, Portugal also drew on CCC-financing arrangements to import commodities from the U.S. Some years the amounts were quite substantial. However, since the repayments periods were short (three years) and the interest rates essentially set at commercial levels, they have not been treated as aid in this report.

any event, the evidence suggests that because of active USAID collaboration with the Ministry of Finance, some additionality was achieved, so that there have been genuine development benefits derived from the PL-480 local currency resources.

6. Azores Base Rights Grant

While the four payments of $20 million each, made to the GOP for the economic and social development of the Azores, fall under the general rubric of economic assistance, these funds differ from the others included in the U.S. economic assistance program to Portugal. First, these are moneys paid by the U.S. Government in fulfillment of the Lajes air base agreement as a consequence of the June 18, 1979 accord signed between the two countries. Second, while the terms of the agreement did stipulate that these funds generally should go for economic and social development in the Azores, detailed accountability by the GOP regarding the use of the funds was not made a condition of the grant. In the exchange of notes, it was agreed that the GOP would not provide a formal letter discussing their internal affairs in this case, i.e., how the money actually would be utilized. The U.S. position was that "We have no objection if the GOP on its own, wishes to maintain a segregated, or other special Azorean account arrangement for dealing administratively with AID proceeds." It was also recognized that "while the Cash Transfer will also have a positive impact on Portugal's balance of payments, this too is incidental to the purpose of the project."

Implementation details in this case, accordingly, concern only how the money would be transferred in each of four payments, for 1980, 1981, 1982, and 1983. On the Portuguese side, some information was volunteered in the form of sending to the Embassy copies of the Regional Government of the Azores Development Plan, its proposed and approved budgets, and quarterly reports on the implementation of its budget, particularly its capital funds budget.

In all these transactions, the intent has been to grant maximum flexibility for all parties while establishing a special Azorean development fund

account for use by the Regional Government of the Azores for implementation of its own development plan. In setting up these arrangements, it was always quite clear that the escudo resources resulting from the AID dollar grant were to be considered a direct part of the Regional Government's annual budget. By so doing, the GOP was relieved of a substantial part of the financial burden of setting up the Azores as an autonomous region with its own funds and accounts, at a time when requests for socio-economic development far exceeded the central government's capacity to respond to them.

The primary impact of this grant, consequently, has been on Portugal's balance of payments through making available new foreign currency and providing additional budgetary resources. Cash payments have been made by the USG to the Central Government. The dollar amounts are deposited in central government accounts and escudo equivalents are subsequently transferred to the Regional Government of the Azores.

C. Program Management

The basic framework for AID program management in Portugal was described in Section II-A. Of the policies and criteria listed in that section, those which influenced management choices were primarily the following four:

1. To the extent possible, projects needed to be designed and implemented in such a manner as to have a maximum impact on Portugal's balance of payments, i.e., they should utilize techniques which would result in relatively fast disbursement.

2. To the extent possible projects and activities should be designed and carried out so as to provide wide and visible evidence of U.S. support for moderate political forces and concern for Portugal's national development.

3. The number of American staff members employed to administer AID activities should be kept to an absolute minimum.

4. Methods of implementation should be used which would place primary reliance on the Portuguese institutions involved in AID-supported activities and would minimize any appearance of U.S. intrusion in Portuguese affairs.

There is, obviously, a degree of conflict between some of these management guidelines. For example, the maximum impact of U.S. assistance on Portugal's balance of payments problems could be made by cash grants or loans--a technique which was indeed employed in FY-1978 when the $300 million loan was executed. But such a loan, while very potent economically, would have little visible impact in terms meaningful to the population in rural areas. Similarly, visibility of U.S. assistance achieved through widespread construction activities requires extensive field travel by Americans and thereby increases the likelihood of charges of American interference in Portuguese affairs. Indeed, there were occasional left-wing newspaper articles in the early years criticizing the Portuguese government or the U.S. on these grounds. Consequently, the trade-offs between these management constraints were necessary over the years to arrive at the best combination of activities and implementation techniques in support of program objectives.

USAID Staffing

Program planning and design activities were begun in the fall of 1974 using TDY teams. The initial work was focused primarily on low-cost housing, because GOP interest was strong and there was an established ongoing program to which AID support could be related. However, as indicated earlier, the first Low-Cost Housing Project was not ready for signature until June 1975. It was preceded in February 1975 by signature of the Technical Assistance and Training Grant and Feasibility Studies Loan, which were designed by TDY personnel. The AID representative and his secretary arrived in Lisbon in the spring of 1975, although the AID representative was not formally transferred until June 1975. By the end of 1975, the AID representative and his secretary had been joined by three local employees and early in 1976 by a third American staff member. They were also aided by the temporary assignment of one or two junior Embassy officers on rotational training assignments.

This small group with the support of of TDY personnel from AID/W and elsewhere--doubtless working very long hours--produced a remarkable volume of high quality work. In a memo to the Ambassador dated April 13, 1976, the AID representative described 26 separate projects or activities in which the small staff was engaged. The memo reflected the AID representative's conclusion that his unit had reached a "saturation point given: (a) the limitation on U.S. AID personnel in Lisbon and (b) the inability of AID (unlike the World Bank) to operate large, complex programs with a minimum of field staff by assigning adequate personnel in Washington to handle a mass of administrative mechanics."

To deal with the activation, the AID representative outlined three management options to be considered: (a) for AID/W to take on a much larger share of the administrative mechanics and "develop on a pilot basis a kind of Washington Mission with a minimum of personnel in the field," similar to the IBRD; (b) increase the number of staff members in AID Portugal, or (c) refrain from considering any new projects or activities without a corresponding elimination of ones already underway.

While the files do not contain a written response to the AID representative's April 13 memo, the facts suggest that the Ambassador and AID/W--possibly through the cumulative effect of a series of operational decisions--opted for the second alternative. By December 1976, the number of American personnel had doubled to six and the local staff had increased to seven. (As a reflection of the growing importance of financial management, included in the added American members was a Controller). In September 1976, the USAID offices were moved from the Embassy to occupy a floor in a separate office building some distance away.

The number of American personnel in the USAID peaked at seven in June 1977, where it remained until September 1980 when it started downward. The number of local staff members reached a maximum of 19 in the latter half of 1979, and began to decline at about the same time. By the fall of 1980, the pipeline resulting from the sizeable project obligations in FY-1976 and FY-1977 had declined substantially and there were no plans for new obligations other than the annual grant related to the Azores air base.

Even a cursory review of Table III is sufficient to recognize the size and complexity of the AID program in Portugal. Project and non-project loans, technical assistance grants, housing guarantees, PL-480 programs with local currency generations, and refugee relief, were all combined in the program, and they were carried out in a period of a relatively few years.

The small AID staff utilized three basic techniques to respond to the management challenge. In the first place, the Mission employed Portuguese professionals whenever possible to minimize the number of Americans required. Engineers, an economist, training officers and accounting personnel were recruited locally. Secondly, large numbers of TDY personnel from AID/W and other sources were utilized to design projects as well as to carry out some administrative functions. There is no overall record of the number of TDY personnel who visited the Portugal AID mission in those early years. However, the files show that in June 1976 alone approximately 25 visitors--mostly from AID/W--came through the Mission and stayed anywhere from a few days to several weeks. A similar number is reflected in a fragmentary record for October of that year. As is discussed later in this report, the extensive use of TDY personnel was concentrated primarily in the early years of the program when the Mission's principal focus was on program development and project design. The use of TDY personnel later for program implementation was much more limited. The third technique involved use of FAR procedures for all project assistance other than the Low-Cost Housing projects and technical assistance. This helped reduce the time and staff required for project supervision.

Relations with the Government of Portugal

As reflected in the initial section of this report, from the time of the revolution in April 1974 until November 1975, the political environment in Portugal was characterized by almost continuous changes and uncertainty. There were six provisional governments during this period and from late 1974 until September 1975 the Communists and other left-wing elements increased in power until many feared they would take control. It was substantially in this period that AID attempted to develop a program of economic assistance which could support the moderates.

Because of the frequently changing governments and the growing fear of a Communist takeover, relations between AID officers and Portuguese government representatives were sometimes difficult. Many GOP officials were hesitant to become identified with the U.S. and most were uncertain regarding the future of their positions and authority. However, even during the most difficult periods the AID representative continued to work with the GOP and to develop plans for future activities. One memorandum prepared by the AID representative in July 1975--in the middle of the so-called "hot summer" of 1975--discussed Planning Ministry interest in U.S. training and even the possibility of U.S. technical assistance in agriculture. However, in mentioning Planning Ministry enthusiasm for possible U.S. assistance, the memo went on to state, "such an attitude is no doubt extremely fragile, perhaps gone in a wisp, but nevertheless welcome while it lasts."

During this period, the nascent USAID worked with and through the Ministry of Planning, which had been established after April 1974. However, by April or May 1975, the files reflect USAID concern that coordination arrangements were not entirely satisfactory. While the Minister of Economic Planning was the designated point of coordination for economic assistance donors, no one below the Minister's level had been assigned operating responsibility, so the day-to-day problems of aid administration and project development were very cumbersome. The reasons for the Government's lack of action in this regard are not entirely clear. In part, it appears to have been a consequence of the confusion and uncertainty which accompanied the frequent changes of government and political instability. In part, it also appears to have derived from the fact that while the moderate political leadership recognized the importance of U.S. and West European assistance, they saw it as an essentially temporary requirement and one which did not warrant formal or long-term coordination arrangements.

In any event, the problem became increasingly troublesome for the USAID and Embassy following the counter coup of November 1975 because with the clarification of the basic political issues a period of more intense project development and aid activity began. For the next year, there were periodic efforts to convince the GOP to establish a central unit to coordinate foreign assistance. In a talking points paper prepared for the Ambassador to meet

with the Prime Minister and President in August 1976, the following was included:

> "In order to be sure, however, that we continue to be responsive to Portugal's priorities it is important that there be a central unit or committee within the Portuguese government to coordinate foreign assistance. We receive requests for assistance from many agencies at all levels both in Lisbon and from local authorities. It is often difficult to know who does or does not speak for the Portuguese government. It is important that there be designated a single point within the Portuguese government which can speak on behalf of the government to foreign assistance agencies and determine priorities for limited funds."

As a consequence of this and other U.S. representations, the Minister of Planning in November 1976 designated an official in his own office as a point of contact for U.S. economic assistance "until such time as is formally established an entity for coordinating foreign aid." Subsequently, the Ministry of Planning was combined with the Ministry of Finance to create a Ministry of Finance and Planning. Formal coordinating responsibilities for AID were assigned to the Director General for Treasury. In a still later move, the government designated the Secretariat for Planning of the Ministry of Finance and Planning as the GOP's official coordinator for all foreign economic assistance. However, in the case of U.S. economic aid, responsibilities remained with the Treasury Secretariat of the Ministry.

The Director General of Treasury has played a facilitative as opposed to a control-type role vis-a-vis AID. Following initial discussions with his office, USAID has worked easily and directly with the various Ministries involved in the AID program. The Director General's office has been available to help solve operational problems, facilitate contacts or answer questions regarding national planning and budget.

IV. PROGRAM AND MANAGEMENT ASSESSMENT

A. Performance in Relation to Objectives

As reflected in part IV-A of this report, the broad rationale for U.S. economic assistance to Portugal was, at its inception in 1975, to contribute to the U.S. objective of strengthening moderate political forces in their competition for power with radical elements. After the counter coup of November 1975, which essentially resolved the political struggle in favor of the moderates, U.S. objectives shifted somewhat toward supporting the consolidation of democratic institutions in the post-revolution period. The role of economic assistance was to help the government deal with some of the serious economic issues then facing Portugal.

Interviews with a number of Portuguese participants in, and observers of, the events of 1974 and 1975, suggest that U.S. economic aid did indeed have a positive impact on the political environment. However, it is not at all clear just how this impact took place nor the degree to which it affected political events. A review of Table V shows that there were three agreements which were signed prior to the events of November 1975, which are taken as marking the end of the period in which the Communists threatened to take control of the government. In February 1975, the Technical Assistance and Training Grant and the Feasibility Studies loan agreements were signed. Both were quite small in size. In June, the first Low-Cost Housing Loan agreement was signed. While this agreement was linked to a larger housing loan guarantee, the guarantee agreement was not signed until November. The first two projects were very slow in getting underway and neither of them aroused widespread interest within government agencies. No disbursements took place during 1975 and, indeed, by September 30, 1976, nineteen months after the Technical Assistance agreement was signed, only $326,000 had been utilized. It wasn't until 1978 that any funds were disbursed under the Feasibility Studies loan. The Low-Cost Housing project was much more substantial, totaling $43.3 million, with the potential for a sizable economic impact, on a local level at least. But, again no disbursements took place in 1975. Consequently, whatever impact U.S. aid had in the critical period in which the moderates were competing for

TABLE V

PERIOD OF DISBURSEMENT

Project/Activity 1/	Proj. Paper Date	Proj. Auth. Date	Proj. Agreem. Date	6 MOS	12 MOS	18 MOS	24 MOS	30 MOS	36 MOS	42 MOS	48 MOS	54 MOS	60 MOS	66 MOS	72 MOS
Project Loans 2/															
Low Income Housing I	6-10-75	NA	6-30-75												
Housing Guarantee I	2-21-75	2-28-75	11-03-25												
School Construction I	5-17-76	6-30-76	8-13-76												
Basic Sanitation I	5-25-76	6-25-76	8-13-76												
Low Income Housing II	9-10-76	9-29-76	3-04-77												
Housing Guarantee II	9-08-76	9-24-76	9-30-77												
Basic Sanitation II	2-11-77	9-26-77	9-30-77												
Health Sector Support	5-20-77	9-26-77	9-30-77												
Rural Vocational Edu.	8-20-77	9-21-77	9-30-77												
School Construction II	3-07-77	9-16-77	9-30-77												
Non-Project Loans/Grants 3/															
Refugee Assistance I	12-15-75	1-07-76	2-23-76												
Refugee Assistance II	4-22-76	5-11-76	5-26-76												
Balance of Payments	10-07-77	11-07-77	3-01-78												
Azores Relief & Rehabil.I	6-08-80	NA	6-27-80												
Azores Relief & Rehabil.II	4-03-81	5-22-81	6-19-81	4/											

1/Does not include technical assistance activities or the Azores Base Grant

2/Disbursements were reported on an accrual basis

3/While the Refugee Relief and Azores Reconstruction activities differ in basic objectives from the other projects, they have been included to reflect their relative rate of disbursement

4/Still in Implementation

control of Portugal's political institutions was entirely psychological. It seems evident that the outcome of the political struggle which took place in 1974 and 1975 was determined by internal forces and that the role of U.S. economic assistance was marginal. Indeed, one of the program documents at the time stated, "While the course of the Portuguese Revolution will be determined primarily by factors within Portugal itself, and U.S. aid will not be decisive, the appeal of those who support individual liberty and a more pragmatic road to socialism will be strengthened, we believe, if they can demonstrate the availability of substantial resources from the West." Interviews with a number of Portuguese observers of the political developments of 1975 suggest that U.S. and West European public expressions of support did, in fact, bolster the moderate forces. In particular, the offers of assistance in dealing with the escalating economic problems were apparently reassuring to their leadership. It is possible that a more detailed and sophisticated examination of the political crises of 1974 and 1975 could provide a coherent explanation of the role of external assistance in this period, but lacking that, it is still possible to assert that apparently there was an impact from the pledges of U.S. economic aid and that almost certainly the impact was positive.

In the period which followed the counter-coup in November 1975, during which there was a gradual consolidation of democratic processes and moderate leadership, there developed the increasingly serious balance of payments crisis mentioned earlier. In late 1976, the Portuguese government approached the U.S. government for balance of payments aid. The assistance provided by the U.S., in combination with aid from other European donors and Japan within an IMF framework, provided a total of $750 million for stabilization purposes. Without this loan, the economic crisis then facing Portugal would have required stringent internal measures which would have resulted in widespread unemployment, price increases, and reduced credit availability. The Portuguese interviewed were unanimous in the opinion that this economic crisis of 1977-78 was almost as threatening as the political confusion following the revolution. They also felt that U.S. action to organize a multilateral assistance effort had been instrumental in helping Portugal respond to a problem which could have menaced the existence of the still fragile political institutions.

There were, thus, two periods of crisis in which economic aid figured. In the first, in 1974-75, the promise--though not the actuality--of assistance probably served to bolster moderate political forces in their struggle with the radical left. In the second, 1977-78, large scale balance of payments aid undeniably made it possible for a relatively new and weak moderate government to avoid draconian economic measures which might have led to the disruption of democratic processes. However, there still remains the question of the extent to which the economic assistance program met the other policy criteria described in Section III-A of this report.

In order to support the basic political purpose of the program and to be responsive to the economic problems facing the government following the revolution, early program documents asserted that AID activities needed to have the following characteristics: to be relatively fast disbursing; to provide visible evidence of U.S. support for the moderate government; to stimulate the economy, particularly increased employment; to contribute to reduction of regional and personal income disparities; to help break down the isolation of Portuguese technical and development institutions; and to stimulate the private sector.

The early project assistance, that is, the series of loans for housing, school construction, basic sanitation, health sector support and rural vocational education were selected in part because the government had already developed plans for investments in these areas. By tying U.S. support to these plans, it was believed disbursements could take place relatively rapidly, thereby contributing to balance of payments amelioration as well as increasing social services available in rural areas. With the exception of the Low-Cost Housing Projects (which financed projects already under construction or completed by attribution), the Mission decided to utilize the Fixed Amount Reimbursement (FAR) procedures for construction activities. By using these procedures, it would be possible for AID to have a minimum of involvement in project implementation and to follow relatively simple disbursement procedures which, again it was felt, would result in relatively fast implementation.

Review of the data on Table V reveals that the time between completion of the project papers, their approval by AID/W and the signature of agreements was generally quite short. While no comparative data for experience in other countries were available, the average lapse of only just over five months from submission of the project paper to signature of the agreement seems minimal. There were no records in Mission files regarding PIDs, and doubtless in most cases, none were prepared. Both the Mission and AID/W appear to have been responsive to the crisis atmosphere in Portugal at the time and minimized any delay in project review. However, Table V also reveals that actual disbursement of the loans, once signed, was not spectacular. The average length of time for completion of the ten project loans after the agreement was signed was approximately four years. Again, while no comparative data were available and it is very difficult to compare different types of loans in different countries, this experience would appear to fall somewhere in the average range for AID. The housing loans and particularly the housing guarantees were disbursed rather rapidly, apparently largely because the Mission was able to choose from projects already underway and to attribute U.S. support to those which most closely met agency criteria. AID assistance represented overall only 18 percent of the total housing program carried out by the GOP during 1975 and 1976. But the rest of the loans took much longer and in every case --even the housing loans--the Project Assistance Completion Dates had to be extended. (It should be noted, however, that during recent years there was no requirement for rapid implementation, and the Mission essentially permitted the GOP to set the pace in accordance with its own priorities, and this resulted in a slower rate of implementation.)

Table VI shows the disbursements of aid and agricultural commodity funds by calendar years. It reveals that the impact of project assistance disbursements was not felt until 1976 and did not peak until 1978. Thus, the evidence suggests that, for the most part, the project activities were not responsive to the desire for rapid disbursement.

However, although both AID and the Ministry of Finance were interested in fast disbursing activities, the files and interviews indicate both parties were thinking in relative terms and each was also interested in a development as well as a balance of payments impact. Communications between the USAID and

TABLE VI

DISBURSEMENTS BY CALENDAR YEAR

($000s)

PROJECT/ACTIVITY 1/	1975	1976	1977	1978	1979	1980	1981	1982
PROJECT LOANS								
Low Cost Housing I		4,900		8,300				
Housing Guarantee I		10,000	10,000					
School Construction I			3,154	5,705	1,597			
Basic Sanitation				3,435	1,884	1,271	301	
Low Income Housing II				4,800	4,700	500		
Housing Guarantee II				10,000	10,000			
Basic Sanitation II				500	1,811	3,939	2,250	1,990
Health Sector Support				830	1,948	4,089	7,906	976
Rural Vocational Education				1,650	500	701	1,760	144
School Construction II				2,923	4,984	3,262	2,117	665
SUB-TOTAL		14,950	13,154	38,143	27,424	13,762	14,334	3,775
NON-PROJECT LOANS/GRANTS 3/								
Refugee Assistance I		15,000						
Refugee Assistance II		15,855	3,911					
Balance of Payments				300,000				
Azores Relief and Rehabilitation I						5,000		
Azores Relief and Rehabilitation II							50	2,050
Azores Base Rights					20,000	20,000	20,000	20,000
SUB TOTAL		30,855	3,911	300,000	20,000	25,000	20,050	22,050
AGRICULTURAL COMMODITIES 2/								
PL-480 Title I		25,000	70,000	40,000	40,000	29,000	11,000	
SUB-TOTAL		25,000	70,000	40,000	40,000	29,000	11,000	
TOTAL		70,805	87,065	378,143	87,424	67,762	45,384	25,825

1/Disbursement data for AID financed activities are reported on an accrual basis.

2/Dates of actual shipment of agricultural commodities were not available. Consequently for purposes of this table, it was assumed that deliveries of PL-480 financed commodities took place in the same calendar year as the fiscal year in which agreements were signed.

3/This table is intended to show the annual economic impact of disbursements under the assistance program. Since the disbursements under the Technical Assistance and Agriculture Production projects were relatively small, spread over several years and took place substantially in the U.S., they have not been included here.

AID/W generally reflect awareness that project assistance, by definition, does not involve rapid disbursement. The evidence suggests, however, that even taking this into account, the loan projects took longer than anticipated. In fact, during House Foreign Affairs Committee hearings in February 1979, Representative Studds questioned Assistant Administrator Wheeler regarding the large unexpended pipeline remaining from the projects for which funds were appropriated in FY-1976 and FY-1977.

Although the loan projects proved to be slower in balance of payments impact than originally hoped or planned, the large Balance of Payments loan in 1978 and the PL-480 Title I assistance certainly met the requirements in this regard. Once agreement was reached in each of these areas, the resources flowed very rapidly. Finally, while the refugee assistance activities were focused on a particular set of problems in 1975-76, they did have relatively quick balance of payments effects, as demonstrated in Table VI.

The second criterion guiding the development of the AID program in the early stages was that the activities should visibly demonstrate U.S. support for Portugal. The files reveal that the USAID and the Embassy informed the government that the U.S. was primarily interested in supporting activities which would impact on rural areas and on lower income groups. This was consistent with the interest in visibility as well as the priority assigned by AID to basic human needs projects. It also coincided with the interest of the post-revolution governments in Portugal to improve the provision of social services throughout the country. Consequently, the AID loans for housing, schools, health centers, water supply, etc., fit well into both countries' interests. The loan projects certainly resulted in widespread evidence of U.S. support. Portugal is divided into eighteen administrative districts on the mainland, plus the Azores and Madeira. Housing projects were carried out in fourteen of the twenty areas; water supply and sewerage projects were financed in nineteen; preparatory and secondary schools were constructed in sixteen; and health centers and nursing schools were supported in ten. While the Lisbon and Porto areas received, perhaps, a disproportionate share of housing and school construction activities, this is understandable in light of the concentration in these areas of most of Portugal's urban poor. Otherwise, project activities were relatively widely distributed throughout the country.

While the files reflect periodic concern over the fact that the GOP was not reliably placing signs on construction sites crediting U.S. financial support, overall the record was satisfactory in this regard. During the field travel conducted for this evaluation, project sites which were visited, uniformly carried signs showing U.S. support, and municipal and other personnel attached to the projects were well aware of the extent of U.S. assistance.

The third criterion for aid programming listed above was the stimulation of the economy with particular emphasis on increasing employment. The revolution in 1974 was followed not only by a period of political confusion, but also by considerable economic deterioration. One of the most troubling elements of this deterioration was the growing rate of unemployment, particularly in the construction industry. It was partly for this reason, therefore, that the government desired to increase housing and other construction activities.

A calculation of the labor cost component of each of the loan projects is contained in Table VII. Analysis of each project suggested that approximately fifty percent of loan funds was used for labor costs in each loan, with the exception of the Basic Sanitation loan which involved utilization of approximately forty percent for labor costs. Applying this rate to annual project disbursements, it was possible to calculate the portion of U.S. disbursements which resulted in payments for wages. Again, using average wage rate information, calculations were made of the number of persons employed each year as a result of the AID-financed construction activities. (See Table VIII). This analysis concluded that nearly thirteen thousand worker/years were generated by the AID loans and that at the peak of project disbursements in 1978, the AID financing provided 4369 employee/years of employment. In terms of relative magnitude, the employment generated in 1978 was equivalent to approximately 36 percent of the number of unemployed workers in the construction sector at that time; it thus follows that, had it not been for AID assistance, in all likelihood the unemployment rate in construction would have been higher. It is apparent, therefore, that the additional employment resulting from the AID-financed construction activity was more than nominal and represented a substantial fulfillment of the employment objective.

TABLE VII

LABOR COSTS BY CALENDAR YEAR AND AID ASSISTED PROJECT LOANS 1/
($000)

PROJECT TITLE	1976	1977	1978	1979	1980	1981	1982	1983	TOTALS	Total no of worker/years
Low Income Housing I	2,475	-	4,150	-	-	-	-	-	6,625	1,489
Housing Guarantee I	5,000	5,000	-	-	-	-	-	-	10,000	2,199
School Construction I	-	1,577	2,852.5	789.5	-	-	-	-	5,219	1,190
Basic Sanitation I	-	-	1,374	753.6	508.4	120.4	-	-	2,756.4	582
Low Income Housing II	-	-	2,400	2,350	250	-	-	-	5,000	1,080
Housing Guarantee II	-	-	5,000	5,000	-	-	-	-	10,000	2,182
Basic Sanitation II	-	-	200	724.4	1,575.6	900	796	175.6	4,371.6	790
Health Sector Support	-	-	415	974	2,014.5	3,953	488	-	7,874.5	1,404
Rural Vocationalization	-	-	825	250	350.5	880	72	223	2,600.5	506
School Construction II	-	-	1,461.5	2,492	1,631	1,058.5	332.5	-	6,975.5	1,366
TOTALS	7,475	6,577	18,678	13,333.5	6,300	6,911.9	1,688.5	398.6	61,422.5	12,788

1/ Assumes that labor costs represent 40% of the total AID expenditures for Basic Sanitation Loans and 50% for the remaining loans.

TABLE VIII

WAGES AND OVERALL LABOR COSTS IN ESCUDOS AND US$ BY CALENDAR YEARS

	1976	1977	1978	1979	1980	1981	1982	1983	TOTALS
Wage/Employee/Hour 1/ (in Esc.)	31.8	36.3	41.6	52.0	65.0	81.4	95.6	111.8 5/	
Wage/Employee/Year 45 hrs/week and 52 wks (in Esc.)	74,412	84,942	97,344	121,680	152,100	190,476	223,704	261,612	
Total Labor Cost Employee/Year using the 2.02 factor (in Esc.) 2/	150,312	171,583	196,635	245,794	307,242	384,761	451,882	528,456	
The same as immediately above (in U.S.$) 3/	4,772	4,344	4,275	4,936	5,797	5,892	5,686	5,581	
Total AID expenditures 4/ in Project Loans by Calendar Years (in U.S.$)	7,475,000	6,577,000	18,678,000	13,333,500	6,360,000	6,911,900	1,688,500	398,600	61,422,500
Total number of employee/years financed by AID assisted projects 6/	1,566 (7%)	1,514 (7%)	4,369 (36%)	2,701 (21%)	1,097 (n.a.)	1,173 (n.a.)	297 (n.a.)	71 (n.a.)	12,788

1/Base: 1973 nominal wages according to GOP National Institute of Statistics; Source: Dec.82 Bank of Portugal Quarterly Report
2/The 2.02 factor was estimated by USAID office
3/Based on following average exchange rates to the US$: 1976 = 31.5; 1977 = 39.5; 1978 = 46.0; 1979 = 49.8; 1980 = 53.0; 1981 = 65.3; 1982 = 79.4; 1983 = 94.6.
4/Source: USAID office
5/Estimated by USAID office
6/Numbers in brackets show jobs created as a percentage of total unemployed workers, in the building construction sector, by years. Based on numbers provided by the GOP National Institute of Statistics.

The fourth criterion for aid, as stated earlier, was to reduce regional and personal income disparities. The principal vehicle in support of this objective was the provision of increased public services to parts of the country which had been relatively deprived prior to the revolution. AID support for the construction of schools, health centers, housing, and water and sewerage systems clearly contributed to this objective. In addition, technical advisory assistance and training in the field of agriculture and rural vocational education has a long-term potential for helping raise incomes in rural areas. However, while the new schools, health centers, etc., had an important impact on a local level where they were constructed, the scale on which the programs were carried out was generally not sufficient to have a significant impact nationally. For example, in a country in which sewage systems were absent from about 47 percent of the housing, the construction of twenty-seven waste disposal systems is only a beginning. Similarly, while some seven thousand housing units were constructed under the AID loans and guarantees, the government estimate in 1975 was that there was a need for 500,000 new housing units. For Lisbon alone, seventeen thousand families were living in squatter settlements. Based on a Shelter Sector Assessment Update prepared in April of this year, the housing shortfall is even greater now than it was in 1975, due, in part at least, to the return in 1975-76 of over 600,000 refugees from Angola and Mozambique. The case of school construction, it should be pointed out, is somewhat different. Some forty-four preparatory and secondary schools were constructed under the AID supported projects. The Ministry of Education indicated a total of approximately two hundred schools were needed at the time the project was begun. For one project to provide over 20 percent of the requirements is not an insignificant accomplishment. Overall, however, the scale of the loan projects and the long-term nature of the agriculture and other technical assistance activities suggest that there has been at best only a negligible impact on the problem of income disparity as a result of AID efforts.

The fifth objective listed above was to reduce the isolation of Portuguese technical and development institutions by increasing the interchange with U.S. and West European counterparts. There is no question that the AID program in general and the Technical Assistance project in particular have contributed to

this goal. The numbers of Portuguese who have been sent abroad for short or long-term training is very impressive, and there has been a growing Portuguese interest in U.S. technical exchanges. However, this is doubtless only one element of a much broader process of international interchange. For example, the Portuguese government is now committed to entry into the European Economic Community, with all that that entails, and is preparing for the necessary economic adjustments to make it possible. Thus, while the AID program has contributed to this objective--and as reflected in the section of the report dealing with the Technical Assistance project, has had some important contributions in selected areas--AID activities must be seen in the context of a much larger process which has been taking place in Portugal since the revolution.

The final program criterion listed above was to stimulate the private sector. Of all the initial program objectives, this one proved most difficult to achieve. Over the years since 1975, the USAID and Embassy periodically suggested project activities directed toward the private sector. For example, as early as October 1975 the program proposed for FY-1977 included provision for a $20 million Small Producer Credit loan. Under the project, a loan fund would have been established in a Portuguese banking institution to make credit available for small entrepreneurs. Similarly, following the U.S.-supported IMF stand-by arrangement in 1977-78, credit was again very limited in availability for the private sector and import limitations also constrained private ventures. Consequently, the USAID proposed for FY-1980 a $100 million Private Sector Modernization Loan which would have provided foreign exchange for private imports of capital goods. Again, the loan funds which would have had a beneficial balance of payments impact would have been administered through existing credit institutions.

The files do not reveal the reasons these specific proposals never were implemented. In the case of the first, it appears to have been displaced by activities in the social services area to which the Portuguese government assigned a high priority and which could probably be implemented more quickly. In the case of the latter proposal, by 1980, program commitments were already on a marked decline and the only project activities financed that

year were the Agriculture Production Project and an addition to the Technical Assistance and Training Project.

However, although no major programs in support of the private sector were ever undertaken, several activities on a smaller scale were initiated. For example, the Agriculture Production Project involves encouragement and support for private sector organizations, particularly cooperatives. In addition, under the Technical Assistance and Training Project, assistance has been provided to the New University of Lisbon in establishing a graduate program in business administration, and the International Executive Service Corps has been supported in providing assistance to a number of private businesses.

B. Impact on Portugal and Portuguese Development

The post-revolution governments of Portugal faced major economic problems of three sorts which, of course, in the real world were intertwined.

First there were problems incorporating elements of a cyclical nature which had been aggravated by the events and the economic policies of the revolution. A serious and growing balance of payments deficit was the most dramatic expression of this area of difficulties. This category of problems could be attacked through a combination of domestic austerity measures aimed at restructuring public and private credit, making Portugal's prices more competitive in the international market, restoring private sector confidence and through the provision of outside resources to help the government meet its short-term balance of payments obligations.

The second broad category of issues related to structural problems whose solution required a long-term development perspective. This type of problem encompassed such matters as a stagnant agriculture sector, a manufacturing sector largely formed of relatively inefficient small enterprises, a weak education system and wide income disparities. Problems of this sort were aggravated by the loss of the colonies. A strategy for dealing with problems of this type called for an emphasis on public investment related to agriculture, manufacturing, education, etc. The essence of the strategy was that

resource uses should have positive long-term impacts on productivity and growth.

The third category of economic problems related to social issues which were intertwined with the income distribution dimension mentioned in the second category. This problem category included such issues as inadequate housing, health services, sanitation and other manifestations of poverty. In this area, it is possible to adopt policies which alleviate the conditions through what are basically economic transfers which do not deal with the causes or, alternatively, institute programs which attempt to attack the underlying causes through long-term development programs.

Review of the AID program carried out over the years reveals that it was directed primarily toward responding to the first and third categories of problems and had only a limited focus on the second. The question to be asked, therefore, was whether the program could--or should--have placed greater emphasis on areas with greater relevance to the long-term development problems facing Portugal. Several factors converge on this issue.

In the first place, the records suggest that, initially at least, AID viewed Portugal as a relatively low income but developed European country with short-term problems. In January 1975, an AID/W memorandum recommending the loan terms to be applied to the Portuguese aid program included the following: "While Portugal is Western Europe's least developed country, with a per capita GNP of $1,021 (1972), it is considerably better-off than traditional AID recipients . . . Whatever the prospective economic difficulties Portugal is facing, these appear likely to be more short-to-medium term in nature than the long-range structural difficulties associated with more traditional aid recipients. The principal need, in economic terms, is to help alleviate a hopefully temporary situation, rather than meeting a perceived need for long-term support."

Once the program got underway, the program documentation submitted from the field relatively soon reflected recognition of the fact that the economic

problems facing Portugal were structural as well as short term in nature. However, even though there was growing recognition in the field and in Washington of the long-term development problems underlying Portugal's difficulties, the record is clear that the U.S. economic aid effort was seen by the U.S. as well as the Portuguese government, as a temporary program geared to helping overcome short-term economic dislocations. Portugal was not seen as a long-term recipient of U.S. economic aid.

On the Portuguese side, the government, for the first few years after the revolution, was characterized by political instability and relatively frequent changes of leadership. The continuity needed for planning and executing a long-term economic strategy was generally lacking. In addition, some of the actions taken following the revolution in terms of improving the lot of the poorer elements of the society served to compound the long-term economic problems needing resolution. The government was committed, following the revolution, to an improvement in services available in rural areas and the emphasis in the AID program on housing, schools, water supply, health centers, etc., reflected government priorities for that period at least as much as it did AID concern for responding to basic human needs.

Despite the initial focus of U.S. assistance on short-term political objectives, the "temporary" nature of the AID committment and the constraints on GOP capabilities to develop and execute a long-term development strategy, the files reveal that the USAID and the Embassy were aware of the need for a development perspective. The record also shows that attempts were made employ U.S. resources in attacking structural problems.

Mention was made earlier of two abortive efforts to design projects focused on the private sector, the second of which would have been directed toward facilitating the importation of more up-to-date capital equipment for small and medium-sized enterprises. In addition, almost from the beginning of the program, USAID attempted to engage the GOP in agriculture and agriculture-related support activities. A preliminary program proposal made in September 1975 included provision for an agricultural project. However, a month later a cable summarizing recommendations for FY-1977 stated:

> "A major omission in our illustrative program is in the field of agriculture. Thus far, the unsettling effect of land reform and the uncertainties of future agricultural development plans do not permit any firm programming of capital resources in that field at this time, although we would assume a good share of our technical assistance money would be used in agriculture. We would not want to discount the possiblity of a significant program in agricultural development if and when an opportunity is presented."

The uncertainty which characterized programming in the agriculture sector in 1975 has persisted throughout the period of U.S. assistance. Despite periodic efforts to undertake activities in this field, it was not until FY-1980 that a technical assistance activity was initiated in this field, although PL-480 local currency generations were programmed in support of agriculture objectives from the beginning. Even now, organizational problems and instability in the Ministry of Agriculture have limited the effectiveness of the AID-supported activities. Other donors have experienced similar difficulties. In September 1978, the IBRD signed a loan for $70 million to be used for agricultural credit. As of September 1982, only $1 million had been drawn down. In 1983, $55 million was deauthorized. The German economic assistance program has also included an agriculture component, but it too has suffered from serious implementation problems.

As reflected earlier in this report, the AID program supported the construction of 44 schools, mostly in rural areas. In many localities, this program had a very significant impact. However, the project had little or no impact on the quality of education in terms of content. As originally conceived, this project was to include a modest technical assistance component consisting of short-term advisory visits and participant training. While the files suggest there were a small number of one to three-week visits by American educators in the field of curriculum development, there is no evidence to suggest any impact on strengthening or improving the content of education programs.

In sum, then, while the preponderance of U.S. assistance was directed toward helping the GOP with relatively short-term balance of payments problems and building up the social services infrastructure, there is ample evidence that the USAID was also concerned with the longer-term development needs of the

country and that within the constraints of fund availability and GOP interest and capability, made reasonable efforts to focus its efforts in that direction.

Assessing the overall development impact of what was carried out is not easy. In the first place, most of the U.S. supported programs are only relatively recently completed or actually still underway. Most of the project assistance was concentrated on increasing the availability of housing and sanitary, education and health services in various parts of the country. A very small amount of technical assistance accompanied each of these activities--a level which apparently reflected the modest degree of interest on the part of the GOP agencies involved. In both the housing and health areas, the USAID intention had been to include more substantial technical advisory components, but in both cases there was insufficient interest on the part of the GOP to sustain any major effort. There are activities underway, however, in connection with the Agriculture Production, and the Technical Assistance and Training projects which have the potential, at least, of having major impacts. They are treated in more detail elsewhere in the report. Each of them, however, includes institutional development efforts which could have a long-term effect on either a regional basis or on specific institutions, or in the case of the Agriculture Production project on a national level. However, none of them is without problems and it is too early to make reliable judgments on the long-term effects.

There is another sense in which the development significance of the AID-financed activities is not entirely clear. All of the loan projects undertaken by AID were designed to support on-going or planned activities of GOP ministries and agencies. As with all aid activities in these circumstances, it is difficult to determine the degree to which the AID activities added to what would otherwise have taken place. That is, if the provision of AID resources simply made it possible for the government to divert the funds it would otherwise have used for school construction into road building, for example, or not use them at all, the only thing AID might have accomplished was to add a modest amount of dollars to Portugal's foreign exchange reserves and possibly increase slightly the total size of the government budget.

In these circumstances, the process of programming aid resources would be essentially one of attribution. (Needless to say, this issue is not restricted to the Portugal program). To some degree, at least, that is what occurred. In the case of low-cost housing, for instance, the goverment program was substantially larger than the amount coming from AID and U.S. funds were attributed on a selective basis to financing the size and type of housing units which met AID criteria. On the other hand, the evidence also suggests that the total scale of the housing program was considerably larger than it would have been had U.S. support not been received. The same principal appears to apply to most of the other activities. In some cases, such as school construction and basic sanitation, the AID-supported program constituted essentially the total government effort involved. However, it was obviously not possible to establish what size program the government would have supported in these areas if aid had not been available. These were, after all, areas of high priority to the post-revolution governments. Presumably, therefore, some amount of construction would have been funded. Nonetheless, the GOP officials interviewed who were involved in both projects felt quite strongly that these programs would have been much smaller and spread over a longer period if AID resources had not been available.

The issue also arises, of course, in the case of the utilization of PL-480 generated local currency. The indications are that with the earlier programs, the use of the generated proceeds had very limited impact since they were apparently attributed to projects in a manner in which little or no additional development activity took place. However, the Mission made a special effort with the later PL-480 programs, especially in 1979 and 1980, to collaborate with the government in utilizing PL-480 generated funds for additional or expanded development activities.

Thus, while the record is certainly not entirely clear, overall it appears that U.S. aid resorces did result in increased activities in the areas in which the funds were used. The impact, therefore, was substantially as intended.

Finally, some mention should be made of the manner of the capacity of the GOP institutions to absorb development assistance. At the same time the AID

program was begun in 1975, it was assumed, as stated earlier, that Portugal was essentially a low income, but developed, European country with a complete and well-established set of government institutions. This was one of the reasons for believing that by using flexible Fixed Amount Reimbursement techniques and by supporting government programs that were planned or underway in areas of priority interest, it would be possible to execute projects with a very small USAID staff and achieve relatively rapid disbursement. Experience with the GOP bureaucracy brought this basic assumption into question. The structure of public administration in Portugal is indeed complete, well-established and generally staffed with competent officials. However, it is also very centralized, cumbersome and slow moving and not oriented toward working with foreign donor-financed development projects. As mentioned in an earlier section of this report, the government was very slow in making the necessary organizational arrangements for coordinating foreign assistance and this slowness characterized the responses of most of the government ministries to the AID activities. In most cases, the sizes of the staffs involved in executing aid-supported projects were small and considerable time was required to work out agreed operating procedures.

Thus, the longer-than-anticipated disbursement periods are largely explained in terms of the limited absorptive capacity of the government machinery. By 1978, the problem of absorptive capacity had become sufficiently serious that the AID representative, in a letter to AID/W, stated, "I would say that if we had an additional appropriation in FY-1978, we could not have developed new projects in the same areas in which we are now operating--housing, basic sanitation, health, etc.,--because the absorptive capacity is simply not there. There are other areas of great need, of course, particularly related to agricultural development, but with all of the international donor interest in Portugal, new projects are difficult to find. The World Bank and others began working on projects in agriculture over three years ago and as yet not a single escudo has been disbursed."

However, although the USAID did experience considerable difficulties, the evidence suggests that the efforts made by AID to simplify project execution, in part through the flexible application of FAR techniques, resulted in faster implementation than has been experienced by other donors. For example, under

the German government aid program, a total of approximately 650 million marks has been committed since the revolution. Of that amount, only 150 million has actually been expended. The IBRD has also experienced relatively slow drawdowns of most of their loans.

It should be acknowledged, however, that the problem of government administration was not the only obstacle to project execution in the early stages of program. During the economic stringencies of 1977 and 1978, credit was very restricted and in a number of cases contractors went bankrupt. Needless to say, this substantially delayed completion of sub-projects whenever it occurred.

C. Mission Management

The basic operational challenge facing AID at the initiation of the program in 1974 was to devise management tools which would make it possible to design and implement an effective assistance effort with an absolute minimum of full-time American staff. Indeed, until February 1976 the "American staff" consisted of only the AID representative and his secretary. While the strictures on numbers of Americans eased during 1976 and 1977, relatively tight control over staff size has continued to be applied up to the present time. As indicated in section IV-C of this report, the methods employed by the USAID to respond to this constraint were primarily the following: (1) extensive use of Foreign Service National (FSN) Portuguese staff members in professional as well as clerical and support positions; (2) substantial reliance on short-term technical, program and administrative support personnel from AID/W and elsewhere; and (3) the flexible application of project implementation techniques, particularly the Fixed Amount Reimbursement procedures.

At the time the program was getting underway in Portugal, most USAID Missions used FSN employees predominantly in clerical, general services and other administrative support positions. While there were doubtless some Missions where FSN employees were filling technical and program positions, the numbers were probably rather small. Relatively large Missions were still to be found, particularly in Asia, and most professional positions were occupied by Americans. In some countries, technically-trained local personnel were scarce

and there was a reluctance in these circumstances to hire persons who otherwise might be employed by the host government. However, in Portugal the strictures on numbers of Americans and the ready availability of bilingual local engineers, economists, and accountants, for example, made it very logical to fill USAID personnel requirements locally whenever possible. Since AID program documentation and correspondence include only a very small amount of classified material and seldom anything of a security nature, it is relatively easy to draw local employees into the design and implementation processes.

Review of the files and interviews suggests that the Mission has utilized the FSN employees on the whole, very effectively. They are regarded as equal partners with the American staff members in program matters and appear to participate actively in negotiations with Portuguese government agencies. During evaluation team field travel, it was evident that FSN staff members had built effective working relations with GOP and local government personnel involved in AID-supported projects.

In an earlier section of the report, mention was made of the large numbers of TDY personnel utilized in the Portugal program particularly during the early stages of the program. Indeed, knowing how small the USAID staff was until the latter part of 1976, it is hard to imagine how they coped with the flood of short-term visitors. The evidence suggests, however, that once the initial projects reached the implementation stage, TDY personnel were no longer adequate to cope with the geometric expansion of workload. In addition, short-term personnel cannot meet most of the requirements associated with implementation, which requires a greater degree of continuity than design work does.

By mid-1976, the Mission had under implementation the Low Cost Housing loan and guarantee, the first School Construction and the first Basic Sanitation loan projects, as well as the Technical Assistance and Feasibility Studies projects. With these activities being implemented on top of the requirements for future planning, it was no longer possible for the three American and four local employees in the USAID to cope with the workload relying only on TDY support. Thus, by the end of 1976 the numbers of both American and local

personnel had doubled and the FSN staff doubled again in the following six months.

Initially, a key reason for limiting the numbers of American personnel related in part to the volatile and unpredictable political situation and the feeling that there might be a risk to personal security. However, by sometime in 1976 this danger was no longer present. At that time it would have been logical to re-examine the matter of Mission staffing to determine whether the original decision remained valid. Discussions with senior Portuguese, both in and outside the government, suggested that the issue of numbers of American personnel in the USAID was entirely a matter of American concern. Certainly the record shows the Ambassador was concerned that large numbers of official Americans might become the focus of left-wing criticism or might imply a degree of intrusion in Portuguese affairs which needed to be avoided. However, the large numbers of TDY American personnel necessitated by the limits on full-time staff in Lisbon may have given an impression of larger numbers than would have been projected by a slightly larger full-time staff and smaller numbers of short-term personnel. In any event, the record does not reveal evidence of any systematic examination of such a trade-off. It is possible that an increase of three or four full-time staff members could have eliminated the need for a much larger number of TDY visitors. To the extent the concern over numbers related to the image being projected to the Portuguese public or politicians, such a trade-off should have been considered.

In this connection, the two largest technical assistance activities are also designed with a view to minimize the number of full-time personnel located in Portugal with extensive use being made of short-term advisors. The short-term consultants scheduled for the Agriculture Production Project in 1982 totaled 54, some for very short periods. While some short-term personnel fit quickly and easily into project processes, many do not and the benefits from short visits can, in some circumstances, be minimal. The evaluation team did not look in depth at any of the projects and therefore is not in a position to judge the effectiveness of this approach to technical assistance. However, on the face of it, the use of such large numbers of short-term personnel suggests that careful Mission monitoring is needed to ensure that a proper balance is

being struck and that an adequate benefit is being obtained from short-term personnel.

With the exception of the Low-Cost Housing projects, the USAID used Fixed Amount Reimbursement (FAR) techniques for all its project loans. At the time the program was getting underway, this system of reimbursement was relatively new in AID. It had been developed primarily for use in situations in which there were large numbers of small, widely scattered sub-project construction activities similar or identical in nature. For example, in Jordan it was used to reimburse the government for the construction of a number of schools of similar size and design. Generally, an agreed lump-sum payment was made on completion of each unit which met AID specifications. In this way, the USAID did not need to involve itself in the construction process, but only checked to make certain the finished product met the agreed specifications.

The USAID in Portugal employed the FAR procedures both flexibly and effectively. Indeed, it was applied in situations which were considerably removed from the original concept. It was used with the regional university institute structures built or renovated under the Rural Vocational Education project, even though there was almost nothing uniform about the various construction activities under this project. In addition, while the original FAR concept assumed that payment generally would only be made on completion of an agreed unit, the USAID devised a system of progress payments based on percentage of the work completed. This was responsive to GOP needs for funds before final completion, yet it also substantially protected USAID interests in achieving a completed product. In general, this technique worked well, although there were a small number of schools which were not completed during the project and for which USAID did make partial payments. (The schools are now being completed by the government.)

In another instance the USAID, with AID/W concurrence, agreed to a non-competitive contract for school construction. During the period in which these loan projects were being implemented, a number of contractors went bankrupt, resulting in delays and added costs to the GOP. To avoid the use of marginal contractors, the Ministry of Education proposed in some instances that a contract be negotiated with an established firm which could reliably complete

the projects on time. The Mission and AID/W agreed to the procedure, inasmuch as the FAR approach limited the exposure of AID funds in any event.

Overall, the USAID record in project implemenation, primarily through the flexible application of FAR procedures, was very good. While projects were not completed as rapidly as originally hoped, by comparison with the slowness of implementation experienced by other donors, the USAID record was excellent. The GOP personnel interviewed generally expressed appreciation for the adaptable and supportive role played by the USAID during implementation and frequently contrasted AID flexibility with the difficulties experienced with other donors.

Overall, then, the three techniques adopted by the Mission to accommodate to limits on American personnel worked effectively. None of the three was new or original with the Portugal Mission. Constraints on staff numbers during this same period were also in force in Syria, Egypt and Jordan, partly for the same reasons which applied in Portugal. In fact, the Mission responses in these other countries were essentially the same. Portugal was, in some respects, in a slightly more favorable position than the other three. It was doubtless quite easy to entice AID/W personnel on TDYs to Portugal because of its relatively easy access and pleasant surroundings. Nonetheless, the record suggests the Mission applied all three techniques in a flexible and creative manner with good effect. One must admire the large amount of high quality work produced by the small staff, particularly in the crisis atmosphere, which prevailed during the early stages. There are, perhaps, grounds for concluding that small staffs are more productive than large ones. They tend to be less structured, more flexible, less bureaucratic and probably harder working. It seems to be easier to maintain a spirit of comraderie and high morale than it is with larger organizations. In any event, these qualities appear to have characterized the work of the Portuguese Mission.

Technical Assistance Flexibility

In Section IV-B.1 of this report, mention was made of the fact that the USAID was given a wider range of authority in executing the Technical Assistance and Training Project then is generally available to other Missions with similar

projects. It was felt in the Mission that this greater degree of discretion had been very helpful in responding flexibly to emerging needs in Portugal. The Mission suggested this approach might be usefully applied more widely in AID. Consequently, the evaluation team reviewed the procedures which had been followed, discussed them with mission staff and the Near East Bureau Office of Development Planning in AID/W.

The Technical Assistance and Training Project was approved initially on the basis of little more than a general statement of intent. The Mission was given the authority to develop participant training and technical assistance activities with very few AID/W limitations. The project was extended and funds were added in subsequent years on the same basis as with the original project. However, the USAID was asked to seek AID/W endorsement -- in effect, project approval -- for all subprojects with a total cost of initially $250,000 and subsequently over $500,000. In addition, activities implemented through or needing support from AID/W officers, e.g., Near East Bureau Offices, Office of Contract Management, Office of International Training, were carried out on the basis of approved PIO/Ts and PIO/Ps. Nonetheless, the Mission was able to initiate a relatively wide range of training and technical activities with minimal constraints imposed by AID/W. It should be noted, however, that AID/W periodically asked for tighter controls, more focus, larger units of management and faster utilization of funds.

The political circumstances prevailing in Portugal and the desire to show quick results argued for such an approval and it is to the Agency's credit that it rose to the occasion. However, the degree of discretion granted the Portugal AID operation was perhaps not as distinctive as it first appears. Most Missions have rather wide authority in using participant training funds. There have been a variety of techniques used over the years to gain this flexibility. The most common one has probably been to establish generalized development training projects which permit missions to choose candidates from a wide range of fields, in addition to those directly leveled to ongoing projects. Thus, the flexibility afforded in the Portugese Mission did not represent a significant departure, particularly for a Mission whose funds were derived from Supporting Assistance/Economic Support Fund appropriations.

In the area of technical advisors, the picture is less clear. A number of years ago, most Missions maintained a modest reserve of unprogrammed funds under a heading called Technical Support, which could be used for ad hoc or unplanned requirements, particularly for project design work. The increased and centralized control over such funds in the late 1970s made this funding technique impossible. Some Missions have attempted to establish broadly defined feasibility study projects to meet this need with at least some success.

The Agency has also attempted to increase the degree of authority delegated to field missions, generally, to initiate new activities with only limited AID/W control. In the case of the Near East Bureau, most Missions can now approve new projects involving up to $10 million in life of projects pending and amend the size of existing projects up to 50 percent of the original authorization amount or $30 million, whichever is less. However, this approval authority is subject to AID/W approval of PIDs for new projects.

There is and always has been a tension between the Missions' desire for a maximum range of authority to plan and approve projects in the field and AID/W requirements for information for the Congressional process and control for policy purposes. This tension is not likely ever to be completely resolved.

The relatively blank check given the Mission in planning and executing the Technical Assistance and Training Project was quite appropriate to the circumstances. A case could be made that too many small, ad hoc activities were carried out, and that the project would have benefitted from a greater degree of focus. However, this case can also be refuted on reasonable grounds, and the evaluation team's conclusion was that, overall, the Mission has used its authority sensibly. It has generally kept AID/W reasonably well informed on project activities, and as mentioned earlier, has sought advance AID/W approval for sub-projects involving funding of over $500,000. Nonetheless, it is probably unrealistic--and perhaps undesireable--to follow a practice of approving funds for projects on the basis of only a general statement of intent. Most field missions would welcome such an approach and would execute such projects sensibly and responsibly. However, AID/W's legitimate requirements for information--especially for Congressional

presentation purposes and for following consistent policy lines, argue for an adequate opportunity for headquarters to review and approve at least PID-stage materials before a project is undertaken. There are situations in which AID must be prepared to depart from its established procedures, and the circumstances in Portugal argued for such a departure. However, in the judgment of the evaluation team the fact that AID was able to respond to the special requirements in Portugal does not provide adequate grounds for a general exception.

V. LESSONS LEARNED FROM AID'S EXPERIENCE IN PORTUGAL

A. AID Experience in Portugal Compared With Elsewhere

At the time the program was initiated in 1975, there were several conditions present in Portugal which paralleled those found in other countries in which AID has programs. Portugal was a middle income country with an institutional and physical infrastructure base similar to countries in other parts of the world, particularly in Latin America. It had a complete set of old and established government institutions. In addition, like many other developing countries, it was characterized by an historic tendency to focus national resources on coastal urban centers, particularly Lisbon and Porto, and to neglect the rural interior. Portugal's need for long-term improvements in agriculture, education, etc., was similar to the problems found in other AID recipient countries.

However, the differences between Portugal and other AID recipients were probably greater than the similarities. The period in which the AID program was initiated was an immediately post-revolutionary period in which basic political issues were still being resolved. The atmosphere for AID activities was, accordingly, different from the usual situation. The rationale for AID was much more directly political than generally is the case. In addition, the U.S. had an immediate and long-term security interest in Portugal related to the U.S. base in the Azores, Portugal's role in NATO and its strategic position in Europe.

Portugal possessed, probably, a larger and more educated workforce than most AID recipient countries; in most respects this made AID's work with government institutions, contractors, and the general populace easier and also facilitated recruitment of local staff members.

Portugal is an old European country which for hundreds of years carried on overseas "aid" activities of its own in colonies which dwarfed the metropole. Partly as a consequence of this fact, it did not generally view itself as a less developed country, middle income or otherwise. Therefore, many of its

middle and upper level officials did not see a need for some of the technical assistance and institutional building activities which are generally included in AID efforts, though this attitude has declined over time and there now appears to be a much greater interest than before in development.

Finally, Portugal's location, only a few hours from the East Coast of the U.S., and its attractive climate and European culture made it relatively easy to attract able AID officers, both long-term and TDY personnel. The inclusion of the Portugal program in AID's Near East Bureau also appears to have facilitated the use of technical personnel on their way to or from larger programs in the Middle East.

B. Lessons Learned

Despite the preponderance of differences as opposed to similarities, the program in Portugal did produce some lessons which might be applicable elsewhere. None of them appear to be particularly distinctive, and most of them could also be derived from program experiences in other countries. For example, somewhat similar program conditions prevailed in other Near East Bureau countries such as Jordan, Syria and Egypt. These programs also had an overriding political rationale and, as mentioned previously, were administered by very small staffs. Indeed, some of the same management techniques employed by the Mission in Portugal were also used in these and other countries. Nonetheless, a few conclusions might be worth mentioning.

1. Short-term vs. Long-term

a. During the initial period of program formulation in Portugal, there was a strong preoccupation with short-term problems such as the balance of payments deficit, and the U.S. aid program was viewed essentially as a temporary effort to deal with such problems. However, the USAID relatively quickly recognized there were underlying structural and long-term obstacles to Portugal's recovery and development. For a variety of reasons, mostly beyond the control of the Mission, it proved to be very difficult to apply U.S. aid resources to the long-term problem areas. Consequently, the largest proportion of U.S. aid was

devoted to relatively short-term issues and to the improvement of social services. However, almost from the beginning, the Technical Assistance and Training Project provided a means for drawing attention to and engaging in some of the long-term problems facing Portugal. This project facilitated development of the Agriculture Production Project and has supported sensible advisory activities in several other areas. These activities appeared to prompt a growing GOP interest in long-term development issues. Given time, it is likely that the activities begun under the Technical Assistance Project would have led to a much more substantial focus on structural problems.

Even in programs with a relatively short term focus--and a crisis atmosphere--long-term development problems should be taken into account. Although it may not be possible to begin major programs in these areas as part of the "short-term" effort, there may well be opportunities to use participant training and technical assistance activities to increase awareness and lay the groundwork for a more substantial effort by AID or perhaps other donors.

b. Project assistance, no matter how skillfully and flexibly it is administered, cannot be expected to yield short term balance of payments benefits. This appeared to be well-understood by most of the AID officers involved in the Portugal program, but there was a considerable amount of rhetoric at the time the program was started which implied that at least some of the participants were expecting much quicker results than were realistically possible.

2. Mission Staffing

a. There appears to have been several benefits associated with the decision to operate the Portugal program with a very small staff. The record suggests that the Mission has been able to produce a large volume of high quality work. The Mission was generally characterized by high morale. The local employees have been well-integrated with the American staff members. There was a minimum of organizational structure and hierarchy to

impede flexibility and creativity. However, perhaps the clearest lesson to be derived is the obvious one that to operate small missions effectively, it helps if they are staffed by talented people.

b. It would be nice if the experience in Portugal pointed to an optimum mix of skills which could be employed by small missions generally. However, program content--actual or anticipated--is the primary determinant of mission staffing and this will vary in different countries and situations. Even mission leadership might vary depending upon whether the program will emphasize capital projects vs. institutional development vs. balance of payments, etc. Perhaps the only common theme--other than the stress on talent--would be an emphasis on language skills.

c. The history of the Portugal AID Mission suggests that it is possible to design and initiate a new program with a very small number of talented people supported by an adequate flow of short-term support personnel. It is not easy, however, and the record implies that it requires a great deal of hard work and long hours. Nonetheless, once a new program reaches the point at which implementation activities begin in earnest, the workload grows geometrically. The routine work of implementing development projects--conducting site visits, working out details of financial flows, dealing with unanticipated problems, negotiating with counterparts, troubleshooting, etc.--are not easily handled by TDY personnel. Regular contacts with counterpart personnel, collaboration on problem solving, progress reporting, all require continuity. The work is frequently routine and sometimes grubby, but it is essential for sound and timely project implementation. Local employees can, of course, be employed to good effect. But the three-fold increase in total personnel--U.S. and local--which took place in USAID/Portugal between June 1976 and June 1977 demonstrated that projects cannot be implemented with very tiny staffs. While it may be possible to start small, later increases should be anticipated.

d. In designing and managing development programs which involve the combined use of full-time persons in the field supplemented by short-term visits of support personnel, a careful examination should be made of the most

effective balance between the two categories. A somewhat larger number of full-time personnel might substantially reduce the number of short-term visits required and therefore possibly reduce the total costs involved. Similarly, a concern for minimizing the American presence by limiting the number of full-time personnel may in fact give the impression that even larger numbers are involved because of the sizable flow of TDY personnel.

Thus, from the perspectives of total costs as well as total American presence, the trade-off between full-time and short-term personnel requirements should be carefully examined.

e. During the early years, the small size of the USAID staff in Portugal required the extensive use of TDY personnel from AID/W. If such an approach is considered in the future it would be well to determine first whether the depth of technical personnel resources in AID/W is still adequate to sustain the requirements.

f. Indeed, while this study was focused essentially on Mission activities, the record suggests that substantial amounts of support from AID/W were required. Not only did this take the form of TDY personnel in relatively large numbers, but much greater program documentation and implementation support by AID/W staff was necessitated by the small size of the Mission in Lisbon.

3. Other

a. The flexible application of Fixed Amount Reimbursement (FAR) procedures in Portugal proved to be very effective. They were regarded by most of the Portuguese involved as relatively simple and they also met U.S. requirements for accountability, etc. The FAR financing methods were relatively new at the time the Portugal program was established. The Mission, working with AID/W, applied the concept creatively and probably contributed to the evolution of the system for worldwide application.

b. The Technical Assistance and Training Project was authorized by AID/W and the agreement was signed on the basis of only general descriptions of intent. No detailed project paper was prepared. The Mission was given authority to implement activities under the project with little or no further AID/W approval or involvement, except to execute PIO documents. This approach was appropriate in light of the political nature of program objectives and the desire to initiate activities in the shortest possible time. The Mission has, on the whole, exercised its discretion sensibly and with good effect. In similar circumstances elsewhere the same approach should be considered.

However, AID/W requirements for information for the Congressional presentation process and its need to establish consistent policy lines argue that under more usual circumstances a suitable degree of AID/W review in advance of project authorization is warranted. Delegations of authority to field missions have been developed to meet this need. Under these delegations, Missions are given authority to approve new projects totaling up to $10 million once AID/W has approved a PIO for the project. Departure from this general framework is probably not warranted--or needed--except in special circumstances such as prevailed in Portugal in the mid-1970s.

c. The economist member of the evaluation team has made two suggestions in light of the experience in Portugal. One is based on the proposition that the planning phases of new programs require different types of skills than the later implementation stages. He suggests the establishment of professional support teams, such as economists, in AID/W to service Mission requirements for long-term planning and analysis. The second proposal discusses the possibility of undertaking economic studies of countries not currently receiving aid as a basis for development planning in the event programs must be initiated in a crisis atmosphere. These suggestions are included in Annex C.

ANNEXES

Annex A. Statement of Work

Annex B. Persons Interviewed

Annex C. Two Suggestions for Improving the Management of AID Economic Programming Resources

ANNEX A

PORTUGAL PROGRAM AND MANAGEMENT IMPACT EVALUATION STATEMENT OF WORK

I. Background

The U.S. assistance program to Portugal was initiated in 1975 during a period of extreme political and economic crisis. A small USAID was established and a fairly large and diverse assistance program developed. The USDH staff was kept quite small while the program expanded to include such elements as refugee and disaster relief, a balance of payments loan, PL 480, housing guarantees, Fixed Amount Reimbursement (FAR) social project loans, an Agricultural Production Program grant, and an extremely flexible TA grant. This program is currently phasing out so that by the end of the year all projects, with the exception of the Agricultural Production Program and certain sub-projects financed under the Technical Consultancies and Training grant will be completed. USAID/Lisbon, the Near East Bureau and PPC/E are convinced that valuable lessons applicable to the development of similar approaches in other countries, both in the region and worldwide, can be learned from the study of the AID experience in Portugal.

II. Scope of Work

The contractor is expected to provide the services of a senior evaluation specialist to act as team leader for the Portugal Program and Management Impact Evaluation. The other team members will consist of one AID direct-hire and two consultants (one U.S. and one Portuguese). Contracts for the two consultants will be handled separately by AID. The contractor will be responsible for the synthesizing of the findings from each of the team members into a final report. The report should cover the following (subject to refinement by the contractor and AID/W):

A. The Historic Context of AID Involvement in Portugal

1. Recent Portuguese History

   a. Political

   b. Economic

   c. Social

2. Resultant U.S. Government Response

   a. Political

   b. Economic

B. The AID Program in Portugal

1. The Nature of the Program

   a. USG policies, priorities and goals in Portugal as reflected in program documentation and the structure and emphases of the AID program.

      1. Explicit and implicit objectives of AID involvement in Portugal.

      2. Types of assistance offered (e.g., loans versus grants, technical assistance, commodity imports, etc.).

      3. Sectors emphasized in development activities.

      4. Mission size and composition to handle program.

   b. Shifts in policies/priorities/objectives over time as circumstances and relations between USG and GOP changed.

   c. Differences between stated versus actual nature of program.

2. Implementation of the Program

   a. Levels of implementation.

      1. Funding levels.

      2. Expatriate presence (i.e., AID staff plus contractors).

      3. Differences between stated and actual levels of implementation.

   b. Modes of Implementation.

      1. Funding mechanisms.

      2. Contracting mechanisms.

(a) technical consultants

(b) commodities

3. Levels of involvement of USG versus GOP in planning and implementation of program and projects.

c. Changes in implementation over time.

d. Working relationships/responsibilities between AID and GOP.

e. What role did the GOP play in the success of AID's program?

f. Role and extent of AID/W backstopping and implementation assistance.

C. AID's Impact on Portugal and Portuguese Development

1. What contributions has AID made to the longer-term development of Portugal?

a. Economically.

b. Socially.

c. Institutionally.

d. Were these the intended impacts? If not, why not?

2. What political impact did the AID program have on the longer-term relations between the two countries?

3. How well did AID's policies and priorities and implementation modes reflected in AID's program address Portugal's problems and needs in terms of the following:

a. Appropriate sectors.

b. Project design.

c. Role of GOP.

4. Factors beyond AID's control that affected the program. How?

D. Lessons Learned from AID's Experiences in Portugal

1. What has AID learned about program and project design and implementation from its experiences in Portugal?

2. What makes AID's experiences in Portugal similar/dissimilar to AID programs elsewhere?

a. How can these similarities/differences be seen to have affected the outcome(s) of AID's activities in Portugal?

b. To what extent can lessons learned in Portugal be applied to other AID recipient countries?

E. Methodology and Timing

1. Methodology

a. Documentation review AID/W and Mission.

b. Interviews: (1) with available AID and State personnel (Washington and Portugal) who were involved at Washington or field level with the Portugal program and (2) if possible, Portuguese officials who had working relationship with AID program.

c. Project site visits.

2. Time Frame

a. 2 - 3 weeks AID/W prior to trip for document review and interviews.

b. 4 - 5 weeks Portugal for document review, interviews and preparation of draft report.

c. 2 weeks Washington wrap-up, interviews and meetings with AID personnel to present, discuss and further refine the report.

F. Reports

The contractor, as team leader, is directly responsible for preparation of the final report. This report should reflect a consensus of the conclusions reached by the entire team, if possible. (Note: Individual team members may submit dissenting views in the event that there are major differences of opinion. These will be appended to the report itself and receive the same distribution.) A draft of this report should be orally discussed with USAID/Lisbon prior to departure from Portugal and submitted to AID/W for review within 2 weeks after return from Portugal. Upon acceptance by AID/W of this report, the contractor will provide a camera ready copy of the final report to AID not more than 15 days after acceptance by AID/W.

ANNEX B

PERSONS INTERVIEWED

1. Portuguese Government and Institutions

Eng. Simões Cordeiro
Program's Coordinator
Directorate General for Basic Sanitation

Eng. Tavares da Silva
Director of Studies and Planning
Directorate General for Hospital Construction/
Ministry of Housing and Public Works

Dr. José Silva Lopes
Economic Counselor
Caixa Geral de Depositos

Eng. António Vasconcelos e Sá
A.I.D. Program Coordinator
Housing Development Fund

Dr. João Martins
Director of Planning & Control Services
Ministry of Housing and Public Works

Eng. Silvino Maio
A.I.D. Program Coordinator
Directorate General for School Facilities/
Ministry of Education

Prof. António Réfega
Technical Advisor to Director General for Higher Education
Directorate General for Higher Education/
Ministry of Education

Dr. António Labisa
Chairman of Board
Companhia Nacional de Navegacao, EP

Eng. José Almeida Alves
Director of the Coordinating Group
(Agriculture Program)

Eng. Augusto Rosa Azevedo
Deputy Coordinator of PROCALFER
(Agriculture Program)

Prof. Carlos Barral
Director of Graduate Business School
New University of Lisbon

Dr. Roberto Carneiro
Secretary of State for Local and Regional Administration
Ministry of Internal Affairs

Prof. Ario Lobo de Azevedo
Rector
Universidade de Évora

Dr. Manuel Raminhos Alves de Melo
Director General for Treasury
Directorate General for Treasury/
Ministry of Finance

Dr. Alberto Regueira
Secretary of State for Planning/
Ministry of Finance

Mr. José Melancia Godinho
Mayor
Golegã

Dr. Duarte Alonso
Director
Health Center - Meda

Mr. Gilberto
Head of Aministrative Services
Health Center - Meda

Eng. A. Pereira
Municipality Engineer - Alijó

Dr. Luis d'Oliveira
Director
Health Center - Nelas

Eng. José Gonçalves dos Santos
Mayor
S. Comba Dão

Prof. Cândido Manuel Passos Morgado
Rector
Instituto Universitário da Beira Interior - Covilhã

Prof. Fernando Real
Rector
Instituto Universitario de Tras-os-Montes e
Alto Douro - Vila Real

Prof. José Lima Pereira
Vice-Rector
Instituto Universitário de Trás-os-Montes e
Alto Douro - Vila Real

Prof. José Torres Pereira
A.I.D. Program Coordinator
Instituto Universitário de Trás-os-Montes e
Alto Douro - Vila Real

Eng. Arnaldo
Instituto Universitário de Trás-os-Montes e
Alto Douro - Vila Real

Eng. A. Fortunato
Head of Wood's Division
Instituto Universitário de Trás-os-Montes e
Alto Douro - Vila Real

2. U.S. Embassy/USAID/ETC

Donald R. Finberg
AID Representative

Charles Buchanan
Deputy AID Representative

Michael Lukomski
Program Officer-USAID Portugal

John Gwynn
Labor Attache, U.S. Embassy

Stephen B. Watkins
Economic Counselor
American Embassy

Ms. Mollie Iler
Agricultural Attache
American Embassy

Mr. James Black
Administrative Coordinator
USDA (Agriculture Program)

Dr. Glen Purnell
USDA Team Leader (Agriculture Program)

Prof. Thomas Gunter
Long-Term Advisor
Instituto Universitário da Beira Interior
(Purdue Program)

Mr. Mário Moura
USAID - Finance Officer

Mr. José Luis Pinheiro
USAID - Economist

Mr. José Trindade
USAID - Engineer

3. Other

Frank C. Carlucci
President, Sears World Trade
Former U.S. Ambassador to Portugal

Robert H. Nooter
International Bank for Reconstruction and Development
Former Assistant Administrator
Near East Bureau, A.I.D.

Glen O. Patterson
Deputy Assistant Administrator
African Bureau, A.I.D.
Former AID Representative, Portugal

ANNEX C

TWO SUGGESTIONS FOR IMPROVING THE MANAGEMENT OF AID ECONOMIC PROGRAMMING RESOURCES

Skill-Specific Activities and USAID Missions

One interesting point which comes out in the report and which relates to the management of USAID's resources has to do with the allocation of its personnel for program strategy or design activities, as opposed to implementation activities. As indicated in Chapter V, the USAID Mission in Portugal was able to initially develop its work by considerably relying on TDY personnel from AID/Washington; however, once the initial projects reached the implementation stage, the Mission had to expand its permanent staff. This suggests that work at the mission level undergoes phases which have a substantial content of skill specificity and that required skills vary depending on whether one is dealing with the identification of an appropriate strategy or program, or with the implementation of an existing program.

It stands to reason that for overall program design the fundamental skills called for relate primarily to the ability to identify strategic issues, constraints and solution paths, and are essentially involved with what may be termed strate- gic planning. Instead, program or project implementation basically relates to managing and coordinating skills. It is to be noted that the difference in the main skills called for at different stages does not imply any prior judgment regarding qualification levels or the degree of difficulty involved; moreover, there is considerable overlap in the skills required at both stages as well as a gray area between design and implementation. Nonetheless, design is something conceptually different from implementation and such a difference is of consequence for the allocation of USAID staff.

The notion of the skill specificity of different phases in connection with a Mission's activities can be related, for example, to the use of economists within USAID, an issue of current and special interest. The Agency has now been for some time experiencing a shortage of economists and, until at least very

recently and in spite of recruiting efforts, not much progress had been achieved toward the solution of the shortage. The shortage of economists has given rise to suggestions relating to ways through which USAID might meet the situation. Thus, for example, ideas which range from changing the background or level of expertise required from USAID economists, to complementing economists with specialists in other areas, and to concentrating economists in regional centers are being formally or informally discussed.

It would seem that when a country program is being established, or the Agency's development strategy vis-a-vis a given country is being reviewed or set, the critical skills required relate more to the conceptualization and identification of fundamental problems and solutions than to the following up of day-to-day economic events, or to evaluation and implementation abilities.

USAID's experience in Portugal confirmed that TDYs are an effective means of accomplishing selected key goals. When one links this lesson with the notion that certain skills are especially useful at certain phases of mission activities, and with the difficulty in recruiting suitable economists at USAID, the following possibility emerges: Why not allocate economists and the needs for distinct economic skills over a country program's life cycle?

One way of doing this is by using economists with relevant and significant experience, and with a solid academic background in frequent and potentially protracted TDYs, to address issues that relate to strategy and program setting, to the analysis of special problems, and for taking part in selected discussions or negotiations. These economists, which may be grouped in an ad hoc high mobility task force, would be based in USAID's central office but, depending on need, would be on cumulative overseas assignments for, say, as much as four to six months per year. While in the central office, this group of economists would engage in work directly related to their ongoing overseas responsibilities, in applied research or in directly providing inputs for the policies of USAID. In turn, economists with a greater project and management related orientation would probably be more productive in aspects having to do with the analysis of the economic implications of day-to-day events, for daily consultations and for project evaluation and follow-up. Naturally, they may also be involved in

project management although an economist, qua economist, has no comparative advantage in this respect.

While some missions may require the type of economist that is being suggested for the high-mobility task group all or most of the time, it is unlikely that this is the case in all or in most of the missions. What is more likely is that all missions will need this type of economist part of the time.

The approach suggested has several advantages. First, it would lead to the utilization of a scarce resource according to the resource's comparative advantage, thus increasing the efficiency with which USAID allocates its staff. Second, it is a way of combining the best characteristics of the modi operandi of USAID (its overseas projection) with those of other effective institutions (the World Bank, for example). Third, it would help diminish the scarcity of an important resource as it would probably attract to AID a greater influx of suitable economists. (The rationale for this last statement is that many talented economists are not able to join AID because they cannot move their families to overseas posts; yet, presumably many of these persons would be willing to engage in frequent and extended travel if they were able to operate from Washington.) Fourth, it has the potential of adding flexibility to the FS and GS dichotomous structure by permitting a greater degree of mobility between both occupational categories.

In sum, it is appropriate to note that while the issue of the type of skills required over different phases in a mission's life cycle has been related to the use of economists, it may well have fruitful implications for the use of other professional skills.

Economic Studies of Countries Not Receiving Foreign Assistance

As indicated in Chapter III, the Portuguese economy suffered serious structural problems which had a bearing on its long-term development potential. As noted in the report, while not long after the start of the program in Portugal USAID explored the government's interest in an agricultural development project, it was not until 1980 that such a project was started. Moreover, USAID has not funded private enterprise development projects and its contribution in

the field of education did not involve activities in the areas of curriculum development or reform of the educational system. Had USAID been able to start, or start earlier, programs or projects in these three area -- agriculture, private sector development and education reform -- it is very likely that the development impact of the United States assistance program in Portugal would have been stronger.

While it is quite probable that, given the conditions faced in Portugal when the USAID program started, not very much more could have been made in terms of carrying out foreign assistance activities in the three critical areas mentioned, it is nonetheless possible that under comparable, yet somewhat different, circumstances a more vigorous development impact might be feasible than what was accomplished in Portugal. In this light, one could argue that a guiding principle or basic objective for USAID's operations is that in the application of its resources the Agency should strive to attain the maximum developmental impact while meeting particular sets of short-term objectives -- in the case of Portugal these objectives related to political conditions and balance of payments difficulties. From this perspective, it is valid to ponder about factors which might make the attainment of this basic objective easier. One such possibility is considered next.

In revolutionary or quasi-revolutionary contexts, political events frequently occur with unanticipated celerity. In many such junctures -- Portugal in the mid-1970s, for instance -- the defense of United States' interests calls for an agile and determinate offer of economic resources to heretofore non-aid recipient countries. Such countries will often be semi-developed or middle income countries which, though ahead in the development process relative to the typical recipient of USAID assistance, still suffer from serious structural economic problems calling for a long-term development approach.

Unfortunately, while the determination of the areas and types of activities through which U.S. assistance could have the most favorable developmental impact requires previous and careful analysis, the flux of events in contingency situations frequently leaves little time for studies of the type called for. When this happens, much of the potential developmental impact of the United States resources may be lost.

One means of significantly diminishing the risk of such an outcome is by periodically carrying out strategic development assessments of selected countries. Such assessments would constitute the analytical groundwork on which relevant development programs could be built; furthermore, the knowledge gained through such studies would strengthen the hand of USAID representatives during the discussions with host country officials.

The studies in question would be aimed at identifying fundamental constraints in the economies, priority areas for the allocation of investment and foreign assistance resources, and the types of programs and projects called for. In order to accomplish these goals, the studies should include analyses of the recent economic history, of the economic and institutional setting and, as appropriate, of efforts by other international donors.

Naturally, in the process of ascertaining the relevance of what is suggested one would have to identify first the relevant countries and, secondly, determine whether appropriate studies do in fact exist. It is also worthwhile to point out that if the tasks involved in the preparation of the studies are beyond what USAID can carry out with its present resources, the possibility of executing them through cooperative efforts with selected USG or international gencies may be explored.