

UNCLASSIFIED

**Annual Budget
Submission**

FY 1990

**ASIA AND
NEAR EAST
BUREAU**

July 1988



Agency for International Development
Washington, D.C. 20523

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20503

OFFICE OF
ADMINISTRATION

JUL 19 1989

MEMORANDUM

TO: AA/PPC, Richard Bissell
FROM: AA/ANE, Julia ^{KB}/Chang Bloch
SUBJECT: FY 1990 Annual Budget Submission

Attached is the ANE Bureau's Annual Budget Submission (ABS).

ANE strongly supports the higher budget levels included in the Administrator's Approved Assistance Planning Levels. These levels are important to support the transition to a new foreign assistance program in the ANE region. They will also reinforce the policy reform efforts of countries which are performing well and managing their economies soundly. We also believe there is a real chance we can obtain these levels, if our proposals can be tied directly to U.S. interests.

The 1990's provide an important opportunity for the U.S., as our own economy adjusts to the changing international economic environment. We believe the countries of the ANE region, in particular the developing economies of Asia, are key to realizing that opportunity. In turn, A.I.D. must be in position to respond. The attached ABS provides a brief description of ANE's emerging strategy for new programs in the 1990's and includes:

- our assessment of U.S. economic interests and evolving economic conditions in the region;
- trade and investment;
- science and technology;
- new programming modes for ADC's;
- an accelerated attack on Asian poverty; and
- China.

In addition, the ANE Bureau has provided a brief description of programs in the areas you have identified as special concerns.

We look forward to the forthcoming series of budget reviews and to an A.I.D. proposal for 1990 which demonstrates the important role which foreign assistance can play in the coming decade.

Attachment: a/s

ASIA AND NEAR EAST
ANNUAL BUDGET SUBMISSION
1990

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OVERVIEW

The ANE Bureau strongly supports a 1990 budget based on the Administrator's Approved Planning Levels. Considering the likely need for substantial additional resources in the Philippines and for refugee resettlement in Afghanistan, plus the continued strong development performance of most countries in the region, we believe the proposed DA and ESF increases are reasonable and should be supported. Furthermore, for the first time since the Budget Summit, there appears to be a realistic prospect for a modest increase in economic assistance, assuming it can be tied directly to U.S. interests.

As others have suggested, there are several ways such an increase might ultimately be approved--as a shift in overall priorities from defense to international affairs, in anticipation of an easing of cold war tensions; as a refinement of priorities from military assistance to economic assistance; or, if the overhang of U.S. agricultural surpluses is eliminated, as a shift from food aid to dollar funded economic assistance. Pending decisions on the priority to be assigned to economic assistance by the new administration, we believe it is appropriate for A.I.D. to assert that our programs are successful and continue to make an important contribution to U.S. interests. This suggests that at this stage in the 1990 process, A.I.D. should preserve the option which the AAPL levels permit -- a final Reagan Administration budget which demonstrates leadership in international affairs. The ANE proposed 1990 budget is structured to serve this objective.

We believe our proposals deserve careful consideration by the Administrator, by the Secretary and ultimately by the President. In particular, these proposals should be included in the submission to OMB so that A.I.D. can have on record the innovative current program themes of the Agency to serve as a basis for discussions during the coming transition of Administrations.

The themes which are evolving in the ANE program are tailored to the changed environment the U.S. will confront in the 1990's. However, we are concerned the current legislative structure, in particular the continuing shortage of Sec 106 funding, will soon become a real constraint. The ANE Bureau therefore welcomes current proposals to rewrite the FAA and will continue to participate actively in this effort. As a minimum, we believe it is desirable beginning in the 1990 budget to have the same sort of flexibility as the Africa Fund provides in order to permit ANE to continue to develop these new themes for the next decade. The ANE countries are quite different from A.I.D. assisted countries in both Africa and Latin America, and additional flexibility will enable us to

adjust our programs to the changing economic and developmental circumstances in the region.

It is important to understand that these new programs have evolved over time and are based on the changing needs and opportunities in individual countries in the Region. The ANE Bureau continues to have strong ongoing programs and important new starts in traditional sectors such as agriculture, child survival and basic education and in recent areas of emphasis such as natural resources and the environment. These programs, together with the experience and contacts developed by our field staffs, provide a solid foundation for evolving new approaches to problems in the region such as trade and investment, and science and technology, as well as new modes of programming.

ANE believes that the evolving global economy and in particular the changes that are now taking place in Asia present both a challenge and an opportunity for the U.S. and for A.I.D. Increasingly, U.S. economic interests will become intertwined with those of the developing countries. Accordingly, U.S. foreign policy will come to depend as much on our ability to support mutual economic interests as it does to support security interests. In this changing context, the growing economies of the ANE region will become increasingly important to the U.S. in the 1990's

During the 1980's, and in several cases for a longer period, many countries in the ANE region have made considerable economic progress. They have managed their economies effectively, turning increasingly to market oriented, export led growth strategies; and they have been careful to manage their external debt to preserve resources for investment. In many cases, from Tunisia and Jordan to Indonesia and Thailand countries in the region now seem poised to achieve self-sustaining economic growth. Even several of the poorer countries such as India, Pakistan and Morocco are now in position to adopt more sophisticated development strategies which promise to stimulate the higher rates of growth necessary to relieve poverty.

In responding to the development assistance opportunities which these changes present, the ANE Bureau has stressed the comparative strengths of U.S. foreign assistance: our technical expertise and the strength of our field missions. This approach, in turn, has placed us in position to collaborate more closely with other donors in the region, notably the Japanese.

Japan has recently announced a doubling of its aid levels to \$50 billion for the period 1988-92. At the same time, the basic philosophy of Japanese aid is changing to emphasize the

quality of their assistance. Based on a continuing series of meetings with senior Japanese officials, it is apparent they are interested in learning from A.I.D's experience in Asia and are prepared to collaborate closely on country strategies and even specific projects. This collaboration presents the possibility of ensuring the technical and financial resources necessary for a major joint attack on poverty in the region, especially in South Asia where the bulk of the world's poor reside.

In summary, the Asia Near East Bureau already supports many of the U.S.'s most important current foreign policy concerns, from the Middle East to the Philippines. As the global economy continues to evolve in the 1990's, the economic facet of foreign policy will become increasingly important, and Asia will become more important to our interests. ANE's proposals for 1990 position the Bureau and the Agency to respond to this evolution.

Development Assistance Request

The ANE Bureau continues to support the overall 1990 Development Assistance planning levels allocated to our field missions, and with minor adjustments will follow the approved country allocations. These levels will permit us to continue to develop innovative projects in new program areas such as trade and investment and science and technology. In addition, we will begin several new projects in emphasis areas such as child survival, energy and natural resources. We will also utilize these levels to buttress movement to a new programming mode in Thailand.

As a practical matter, the AAPL level increases are not so large as to permit a radical change in program direction. Most of the increase over the FY 1989 CP would go for Afghanistan and the Philippines. For the remaining increase, less than 12%, the Bureau does not believe it makes sense to focus on only one or two additional countries to the exclusion of others. We believe there are prospects for successful new approaches in a broad range of countries in the Region; and given the number of "good performers" and the evolving nature of our programs, it is appropriate to support the efforts of as many missions as possible. Since our missions also see these new approaches as potentially important development opportunities, we will pursue them as best we can within budget availabilities. The higher AAPL levels are important because they provide resources for accelerating the transition to new strategies and programs just as the major countries in the region are on the verge of important economic change.

The ANE Bureau has concentrated increased funding in those programs where prospects for introducing successful new approaches are greatest, i.e. Indonesia, Thailand and India.

In addition, we have attempted to begin to restore funding in Bangladesh and Nepal to the levels we were able to fund prior to the budget battering which occurred between 1985 and 1988. These are successful programs in Least Developed Countries where the U.S. has traditionally had a leadership role. ANE believes it is important to preserve this leadership and that our strategies have good prospects for helping these very poor countries grow and overcome their poverty.

Finally, we are providing additional DA for three programs where the development need is great but where there is also powerful political momentum for increased levels--the Philippines, Afghanistan and South Pacific. In the Philippines, budget levels will be determined by negotiations on Base Rights and by the MAI. In Afghanistan, it is still too early to determine requirements, or the split between

multilateral and bilateral funding, or whether a program mounted from Kabul will be possible in 1990. Nevertheless, we believe it is prudent to plan for a modest increase in DA.

In the South Pacific, we believe the proposed increase is in line with current political priorities and that our newly approved strategy will make good development use of these resources. The small increase in the ANE Regional program is necessary to cover anticipated earmarks for biological diversity and Vitamin A.

Development Assistance
(\$000)

	<u>FY 1988</u> <u>OYB</u>	<u>FY 1989</u> <u>C.P.</u>	<u>FY 1990</u> <u>Proposed</u>
Afghanistan	22,500	22,500	40,000
Bangladesh	58,500	54,500	60,000
Burma	7,000	7,000	7,500
India	24,000	35,500	40,000
Indonesia	40,000	45,000	60,000
Morocco	12,500	12,500	12,500
Nepal	12,000	12,000	15,000
Pakistan	50,000	50,000	50,000
Philippines	40,000	15,000 <u>1/</u>	40,000
Poland	5,775	3,225	1,000
South Pacific	4,000	4,000	8,000
Sri Lanka	26,800	26,800	26,800
Thailand	15,300	16,000	20,000
Yemen	20,725	21,500	21,500
ANE Regional	23,063	22,363	24,000
TOTAL	362,163	347,888 <u>1/</u>	426,300

¹ Earmarked at \$40 million in the FY 1989 HAC and SAC appropriations legislation.

Economic Support Fund

ANE's priority foreign policy programs will also continue to be an important management responsibility of the Bureau. To the extent we can, consistent with U.S. foreign policy objectives, we will promote the same programmatic objectives as we do with our development assistance programs. In several ESF funded countries, notably Tunisia and Jordan, governments have adopted sound economic policies; and growth prospects for the medium term appear bright. In others, such as Egypt, Pakistan, and the West Bank and Gaza, ESF funds are being used for a broad range of individual activities in development assistance areas of emphasis such as child survival, energy, PVO's and the Private Sector.

There are several uncertainties with respect to specific ESF country levels. However, it seems unlikely that any programs will drop from the budget, especially considering the determination of Congress to continue funding countries such as Ireland, Poland and Cyprus. ANE has therefore accepted AAPL level funding as approved. However, the following are potential issues which may put upward pressure on ESF levels.

-- Philippine Base Rights and MAI negotiations may require as much as \$360 million of ESF compared to the \$250 million in the AAPL. Of the former amount, as much as \$200 million may be requested as a freestanding appropriation for the Philippines MAI program rather than as ESF. (Senior State officials are using \$300 million as the amount for the MAI.)

-- Afghanistan is an uncertain requirement which may demand more than the \$60 million AAPL. However, any additional amounts for 1990 will probably be allocated to the refugee account.

-- Base Rights negotiations with Portugal may result in a higher level, as may consultations on extending the access agreement in Oman.

-- West Bank and Gaza, both Jordan's program and the Direct Program, may require additional funds if order is restored. Progress on Middle East peace would result in substantial additional requirements, and even modest progress could result in a request to fund the Maqarin Dam.

-- The apparent decision of the Vietnamese to withdraw their troops from Cambodia may open the way to peaceful resolution of tensions and hardship in Indochina, perhaps with implications for A.I.D.

	Economic Support Fund (\$ 000)		
	FY 1988 <u>OYB</u>	FY 1989 <u>CP</u>	FY 1990 <u>Proposed</u>
Afghanistan	22,500	22,500	60,000
Cambodia	3,500	5,000	5,000
Cyprus	15,000	15,000 ^{1/}	10,000
Egypt	815,000	815,000	815,000
Fiji	--	--	1,500
Ireland	35,000	10,000 ^{1/}	--
Israel	1,200,000	1,200,000	1,200,000
Jordan	11,000	11,000	11,000
Jordan's West Bank/Gaza	7,000	23,000 ^{1/}	20,200
Lebanon	300	300	1,300
Morocco	20,000	20,000	20,000
Oman	13,000	15,000	20,000
Pakistan	220,000	250,000	250,000
Philippines	174,000	124,000	250,000
Poland	1,000	1,000 ^{1/}	--
Portugal	32,000	60,500	80,000
South Pacific	10,000	11,200	12,000
Spain	3,000	--	--
Thailand	5,000	5,000	5,000
Tunisia	10,000	12,500	17,500
Turkey	32,000	70,000	75,000
W.Bank/Gaza	2,000	7,500	11,500
Middle East Regional	5,000	5,000	5,000
ANE Regional	--	--	1,000
TOTAL	2,656,000	2,678,500	2,871,000

¹Adjusted to reflect consensus earmarks by HAC and SAC.

U.S. Interests and Evolving Economic Conditions
in the ANE Region

U.S. foreign policy interests in countries of the ANE region are well established. From NATO base rights, to Middle East peace, to freedom for Afghanistan, to Philippine democracy, the region encompasses many of the most sensitive U.S. security and political objectives. A.I.D.'s programs have made important contributions to the significant foreign policy progress which is currently underway toward achievement of these objectives.

It is also true, but perhaps not so widely acknowledged, that countries in the ANE region present a tremendous development challenge in terms of human impact. The A.I.D. assisted countries of the region include more than twice as many poor people as all the A.I.D. assisted countries in Africa and Latin America combined. In terms of infant mortality, educational opportunities for women, malnutrition, urbanization, absolute population growth, environmental degradation and nearly any other development issue, the scale of the problem is greatest in the ANE region. Here again, A.I.D. has been working with these countries for many years and has made important contributions to the significant development progress currently underway.

What is only now beginning to become apparent is the importance these countries hold for U.S. economic interests. Their scale is important--total GNP of these countries is more than twice the total GNP of A.I.D. assisted countries in Africa and Latin America. Their performance is also important--they have managed their debts reasonably well, many have adopted trade oriented economic policies, and most are growing at least moderately well. What is new to this dynamic environment is the changing U.S. economy and its growing interdependence with the international economy. The ANE Bureau believes the challenge for A.I.D. in the 1990's is to devise programs which serve U.S. economic interests as well as they have served U.S. national security and developmental interests.

The U.S. is an increasingly open economy, increasingly affected by international economic conditions. Our share of exports in GNP increased from 6 1/2 percent in the early 1970's to over 12 percent in the early 1980's. The level now stands at 9 1/2 percent and is rising. Capital inflows were \$6 1/2 billion in 1970 and \$213 billion in 1986. Even adjusting for inflation by holding to 1970 prices, the 1986 inflow would be \$71 billion, an elevenfold increase.

At the same time, the U.S. confronts a difficult adjustment in its own economy. Our budget deficit must come down, and our trade deficit must also come down. One alternative which

would achieve both objectives is to reduce consumption and accept a period of recession in our domestic economy. Clearly this would be a politically undesirable course and would exact an unnecessarily severe reduction in the U.S. standard of living. However, it is possible, with the fiscal policies which the Administration is now pursuing vigorously, to adjust and continue to grow. Such growth would necessarily be led by growth in net exports, and the share of exports in GNP would need to rise even more rapidly. Accordingly, adjustment for the U.S. will be easier and less painful the more favorable the external environment for U.S. exports, including growth, protection, and exchange rate policies in other countries.

Since competition among developed countries will remain strong, and the Japanese and the Europeans seem unlikely to accept a rapid increase in imports from the U.S., much of our export led growth will need to come in the developing countries. Over the medium and long term, these countries are the markets of the future. Already, U.S. links to the developing countries are increasing rapidly. Our share of exports to LDC's increased from about 30 percent in the early 1970's to 38 percent in the early 1980's. The level is currently at 33 percent and rising.

It is also clear that the countries of the Asia and Near East Region represent the greatest opportunity for an export-led adjustment in the U.S. economy. Developing Asia alone represents the most rapidly expanding potential market in the world. Import volumes are expected to grow at 9.5 percent annually over the 1987-1992 period, well above other regions. As the following chart indicates, the countries of the ANE region have the size, economic base, and growth performance to play a central role in an interdependent global economy.

Major ANE Country Programs

<u>Country</u>	<u>Population (millions)</u>	<u>Per Capita GNP \$ (dollars)</u>	<u>Total GNP \$ (billions)</u>	<u>Growth of GDP '80-'86 %</u>	<u>Growth of GDP 1987 %</u>	<u>Imports 1987 \$ (billions)</u>
Philippines	54.7	580	31.7	-0.9	5.1	8.1
Thailand	51.7	800	41.4	4.8	5.5	13.2
Indonesia	162.2	530	86.0	3.5	3.2	16.5
Bangladesh	100.6	150	15.1	3.7	4.0	2.9
India	765.1	270	206.6	5.3	1.8	21.8
Pakistan	96.2	380	36.6	6.7	7.8	7.0
Egypt	48.5	610	29.6	7.1	2.5	10.6
Morocco	21.9	560	12.3	3.3	0.9	5.0
Tunisia	7.1	1,190	8.4	3.5	5.8	3.4

These data underline the stake the U.S. has in these countries. There are very few countries in other regions of the world whose total GNP approaches ten billion dollars, much less the size of most of the Asian economies. There are also very few countries whose growth performance has been as solid. In large measure, this performance has resulted from sound economic policies and sound economic management. A.I.D. has had a direct role in this effort in nearly all of the above countries. The challenge for the 1990's is to sustain this performance and to develop new approaches to programming which not only contribute to continued growth in these economies, but also helps assure a strengthening of economic ties to the U.S. which serves our mutual interests.

Trade and Investment

The ANE Bureau considers trade and investment one of the most important and potentially promising new areas of A.I.D. involvement in developing countries. In part, ANE's interest results from World Bank studies of the experience of the NIC's and other countries in Asia such as Thailand and Malaysia. Those developing countries which adopted outward oriented trade policies (i.e., neutrality between production for the domestic market and for export as opposed to policies biased in favor of domestic production and against foreign trade) have had higher GDP growth rates, higher savings rates, better capital-output ratios and faster rates of employment growth. Outward-oriented policies also have favorable implications for poverty alleviation compared with policies biased toward import substitution. In part, ANE's interest in these policies results from the conviction that they can also serve longer term U.S. economic interests, since they parallel our own trade policies.

The challenge for the Agency and for our ANE field missions is to identify innovative and technically sound approaches in a program field where A.I.D. is only now beginning to develop experience. The Bureau conducted a conference in Jakarta in March which included representatives from our major field missions and from U.S. private businesses active in Asia. Following that conference, the Bureau will pursue a strategy for trade and investment programs which has three components.

First, we will attempt to identify and through policy dialogue lessen those constraints to trade which have the greatest impact on growth. These constraints include:

- Active governmental barriers such as tariffs and quantitative restrictions on imports, restrictive import licensing, subsidies for import substitution, government monopolies and other regulations which restrict competition and reduce exposure to market forces.

- Passive governmental barriers such as lack of recognition and enforcement of property rights in general and of intellectual property rights in particular, lack of contract enforcement, and ineffective criminal sanctions against fraud, embezzlement and other business crimes. Other passive barriers include corruption, red tape and other administrative delays and unpredictability in the enforcement of regulations which inhibit domestic as well as foreign trade and investment.

- financial barriers, in particular financial markets which are unable to meet the needs of businesses for working

capital, trade financing, and long-term lending for imports of machinery, construction material and other capital goods.

Second, we will attempt to enhance opportunities for effective participation of the people and businesses in ANE countries in trade and investment relationships and transactions which support rapid sustainable growth. These opportunities will be supported by:

-- Improving access to markets. Signals from the international trade market place will not be heard or heeded by businesses in a country which lacks institutions or sophistication to understand them. This includes identification of demand for exports, and also extends to quality control and other factors which enhance market entry. Import opportunities must also be known, especially regarding marketing and service inputs.

-- Facilitating business transactions and linkages. Business representatives in a country must have the ability to understand, negotiate and enter into the full range of international business transactions and relationships, including manufacturer's representation, dealerships, licensing and franchise arrangements, co-marketing and co-production agreements, joint ventures, etc. Development of this capacity requires an appropriate policy environment and private sector institutions and practitioners to promote international trade transactions.

The third component of the ANE trade and investment strategy will be to assist, within A.I.D.'s development mandate, in assuring that U.S. businesses have the maximum opportunity for fair and open access to the markets of developing countries in Asia and the Near East. This is an area where the Bureau is just beginning to formulate its ideas. It appears there are several areas where a contribution might be made, especially:

-- Improved coordination among the major agencies dealing with trade and investment in ANE countries, including Commerce, TDP, OPIC, Eximbank, USDA and USTR. A.I.D. has an especially important role in analysis of the policy environment and regulatory practices in ANE countries. The ASEAN program is being reformulated to focus on trade and investment and science and technology. It will serve as a unifying point for all U.S. programs in Southeast Asia.

-- Design of developmentally sound mechanisms to counter export subsidies, such as mixed credits and other preferential financing schemes by foreign competitors. As an example, the ANE Bureau will finance the environmental studies related to

development of a major refinery in Mangalore, India. This is a project the French had offered to finance partially with grant funds.

Even though the Bureau is just beginning to move into programs with a trade and investment focus, a recently completed survey identified 16 projects in 10 countries or regional programs with a significant trade and investment component.

In Indonesia, the mission has made trade a central focus of its strategy, beginning with the Financial Markets Development project in 1988. The 1990 budget includes a proposed new project, Trade and Technology, which will promote private sector U.S.-Indonesian trade and technology linkages and strengthen Indonesian marketing information channels.

The Jordan mission has made private sector programs the centerpiece of its strategy. Their 1990 budget includes a new Trade and Investment project which will focus on simplification and rationalization of business licensing, greater transparency and speed in approving investment incentives, and simplification of import/export procedures.

Science and Technology

The ANE Bureau is beginning to focus increasing attention on the importance science and technology can play in growth and the development of countries in the ANE region. Many of these countries have large economies and a substantial human resource base and are able to sustain comparatively sophisticated scientific and technological institutions. The success of the Green Revolution in stimulating faster growth in food grain production demonstrates the potential importance of systematic efforts to accelerate the absorption and local development of modern technology.

The ANE Bureau's efforts in science and technology seek to foster the development, absorption, and application of new technologies across the full spectrum of traditional development sectors. To promote this goal, the Bureau is implementing projects in seventeen countries aimed at improving local capacity to develop new science and technology focused on local needs and at propagation of new technology for domestic users. A large number of projects are designed to strengthen the S&T capacity of local institutions. Several approaches to institutional development are currently being developed in the region, including:

- support for the development of "centers of excellence" in which local research institutions in countries like Pakistan are endowed with modern scientific equipment;

- sponsorship of regional research collaboration and international research institution networks such as the Small Farm Machinery Network organized by IRRI;

- development of specialized institutions charged with developing and propagating science and technology such as the Thai Science and Technology for Development Board;

- sponsorship of local specialized training institutes such as the energy training section within the Thai Electricity Generating Authority; and

- strengthening of key government ministries to utilize research relevant to their particular sectors, especially through participant training.

In addition, increasing attention is being given to approaches to S&T which respond more directly to the needs of local firms as demonstrated by their willingness to purchase new technology. This "commercialization of technology" approach was pioneered in India through the Program for the Advancement of Commercial Technology (PACT) which supports the

pre-manufacturing research and development costs of Indo-U.S. joint ventures. The new Program for the Acceleration of Commercial Energy Research (PACER), also in India, seeks to develop ties between universities and commercial interests in order to stimulate development and local adoption of advances in energy technology.

Over the medium term, the ANE Bureau believes science and technology will become an increasingly important focus for A.I.D. The U.S. has a strong comparative advantage in this field. Our scientific and educational institutions are widely respected. A.I.D., through its participant programs, has financed training for many scientists and engineers in the Region. The comparatively open U.S. economy encourages technology sharing and joint development ventures in the private sector. Thus, as the ANE economies grow, there is an opportunity to nurture a disposition toward U.S. technology which ultimately can result in increased exports of U.S. capital goods and equipment.

For 1990, the Bureau will continue the transformation of its India program to a science and technology focus, with the introduction of new projects in biotechnology and research. In Tunisia, the mission is working on the new Carthage Institute of Technology project. This Institute, conceived on the U.S. model, will be organized as a small, private institution for training higher calibre students from Tunisia, elsewhere in North Africa and from the Middle East in management and technology. Designed as a "center of excellence," the Institute will focus on developing linkages with local and regional private businesses.

New Management Modes

ANE programs have evolved in response to changing country conditions, and the Bureau has adjusted management accordingly. The successful merger of the former Asia and Near East Bureaus is now complete, a significant accomplishment in its own right. Most recently, the Bureau has concentrated on upgrading its capacity to promote innovative private sector programs, creating special units for this purpose in missions such as Indonesia. In addition, a new office, reporting directly to the AA, is being created to strengthen Bureau support of field programs.

ANE is also beginning to review options for the overall management of field programs in selected countries, focusing first on Thailand and Jordan. In both countries, A.I.D. has had a long history of close cooperation on development issues and has provided substantial economic assistance. In both cases, development performance has been encouraging. Economic management has been responsible, and the governments have created a policy environment which nurtures free market, outward-looking growth. Between 1965 and 1986, these two countries were among the best performers in the developing world in terms of growth of per capita GDP, with Jordan averaging 5.5% and Thailand 4%.

In both countries, the A.I.D. program has also evolved. In Jordan, the focus of our current strategy is the private sector and creation of capital markets. The new Thai program is described below. ANE believes both programs are being successfully implemented and will have a significant impact in helping these countries sustain their development performance. Accordingly, we have now begun to plan the further evolution of these country programs.

In Thailand, if current economic performance can be maintained over the next decade, it could join the ranks of other advanced developing countries (ADCs) in Asia by the turn of the century. AID intends to directly assist Thailand in this difficult transition to ADC status over this period; and to establish means whereby both our countries benefit from a continuing relationship once the transition is successfully completed. The U.S. has invested a great deal of effort and substantial resources in this success story, and it is in our economic interests to continue to be involved. The Thais welcome and appreciate continued U.S. support for the nascent development institutions A.I.D. has helped create. In addition, our field presence and participant training programs have helped create a network of public and private sector relationships which will be important to Thai transition to ADC status. ANE believes it is important to Thai development

that these insitutional and professional relationships be maintained and that they provide the access to Thai decision makers which is important to U.S. political and economic interests.

Adjusting the AID program to the changing conditions in Thailand is taking place in three stages. The first stage reflected Thailand's needs as a lower income country and included projects in such fields as agriculture, health and population. This stage is ending and all associated projects will be completed by 1989. The second stage, which is just becoming fully operational, encompasses private sector trade and investment, science and technology, natural resources/environmental management, policy dialogue, PVO strengthening and training/exchanges. These programs are highly relevant to Thailand's transitional economy, will receive bilateral/central DA funding through the 1990's, and will be implemented by a bilateral Mission.

The third stage of development cooperation seeks to create programs and mechanisms which allow for a broader and more facilitative relationship with the United States even after Thailand becomes an ADC. Our current expectation is that third stage programs can best be managed in a collaborative relationship with the Thais. This will strengthen the mutuality of interests which we believe is important and could provide improved access to private sector professional and financial resources. We believe a joint Thai-American foundation or joint commission focusing on sharply defined areas (such as commercialization of technology and training and professional exchanges) might best serve this objective.

Under this proposal, which our field mission is beginning to develop in coordination with the Embassy, the foundation, or similar organization, would gradually assume responsibility for managing activites which help sustain ongoing institutional relationships and foster new relationships of mutual benefit, particularly in the private sector. U.S. leadership might come from a senior U.S. official, but most of the membership would come from the U.S. private sector. The Thais would have parallel representation.

We currently envision establishment of an endowment which would eventually permit the foundation to be self-financing. This endowment might be funded directly by A.I.D. and perhaps by the Thais and the U.S. and Thai private sectors. One possibility we are exploring is use of loan reflows on past U.S. assistance as a way to capitalize the endowment.

We hope to begin modest operation of such a foundation in about five years. In the latter part of the next decade, the

foundation's operations may increase with private sector contributions. In the meantime, the annually appropriated bilateral program would continue to support government-to-government policy dialogue as well as other mutual concerns related to security and anti-narcotics efforts. When Thailand reaches the status of an industrialized economy and regional security has stabilized, a mechanism will have been created in the form of the joint

foundation that can continue to nurture exchanges and institutional relationships. Admittedly much greater definition and elaboration is required for these changes and the ANE Bureau has accordingly requested the Mission to develop a CDSS to elaborate on these matters in mid CY 1989.

The ANE Bureau is also working on a comparable plan for Jordan, though we are not so far along. In essence, an increasing share of funds, possibly from the OYB but preferably from loan reflows, would be allocated to endow a foundation. Eventually a self-sustaining institution focused on private sector interests would be created. However, options in Jordan are circumscribed by strategic issues in the Middle East.

An Accelerated Attack on Asian Poverty

While the ANE Bureau has made considerable progress in adjusting its programs to respond to the changing economic environment in Asia, poverty remains a formidable problem in many of these countries. In fact, Asia--particularly South Asia--remains the home of the vast majority of the world's absolutely poor, a condition in which household income is so low that members suffer malnutrition, shortened life span and high infant mortality.

-- The A.I.D.-assisted countries in Asia and the Near East, excluding Europe, have a total population of over 1.4 billion, with an average per capita income less than \$370 per year. 60% of all the people who live in the ten poorest countries in the world live in three Asian countries--Bangladesh, Burma and Nepal.

-- According to the UN Food and Agriculture Organization's definition, over 500 million people in the region receive less than enough calories to sustain an active working life. This accounts for over 80% of all the hungry, malnourished people in the world. There are over 100 million malnourished children in the Asia and Near East region, accounting for over 75% of all the malnourished children in the world.

-- Over 7 million children under 5 years of age die each year in the region, accounting for more than 55% of all infant and child deaths in the world. Most of these deaths are due to diseases which can be readily prevented.

-- Many countries in the region have literacy rates below 30% and literacy rates for young women in rural areas below 15%. While strides have been made in primary school enrollments, female enrollments remain under 60% and primary completion rates under 40% in the lower income countries.

The ANE Bureau has a long history of active involvement with programs designed to help relieve this poverty. Even though the present situation is stark, considerable progress has been made over the years. The specter of famine which haunted South Asia for many years has been virtually eliminated, as demonstrated by India's ability to manage its worst drought in a hundred years. Infant mortality has been reduced and the ANE Bureau now has ongoing Child Survival programs in eight priority countries. Birth rates in Indonesia have dropped by more than 20% and densely populated countries such as Egypt, Bangladesh and Nepal have introduced major programs to distribute contraceptive supplies through commercial channels. The ANE Bureau will train over 7,000 participants from the region, and large numbers of privately funded students now come for schooling at U.S. colleges and universities.

Nevertheless, the ANE Bureau no longer has the Development Assistance resources necessary to have a direct impact on Asian poverty. Substantial food aid in countries such as India and Bangladesh is important, but increasingly the ANE Bureau will rely on its experience and technical expertise to provide leadership. Our strategy is to concentrate on policy reform to set the stage for the increased economic growth which is essential to help absorb the poor into higher-paying employment, as well as providing the government with revenues to use in its own effort to help lagging sectors. The Bureau is currently undertaking a comprehensive review of agriculture programs in the region to help determine the best strategy for raising rural incomes. In population, health and child survival we will continue to emphasize the importance of private sector delivery systems and to introduce new methods for ensuring sustainable financing for services.

Over the medium term, the ANE Bureau sees real potential for closer collaboration with the Japanese on Asian poverty. Japanese assistance levels dwarf A.I.D. programs in nearly all countries of the region. However, the Japanese have limited experience with economic issues in the region, particularly at the sectoral level, and very limited field staff. In addition, the history of Japanese involvement in the region has led many recipient governments to look for a balance to rising Japanese influence. All this presents an opportunity for A.I.D. to cooperate more closely with the Japanese and thereby to substantially increase the impact we can have on Asian poverty.

In an ongoing series of meetings with senior Japanese officials, considerable progress has been made in defining a common agenda. It is clear the Japanese are moving toward new modes of programming their growing assistance levels. We are now exploring our respective programming processes with a view toward a closer working relationship. The Japanese participated in a recent review of plans for our program in the South Pacific and have agreed to work with our mission on development of a new strategy for Bangladesh. In the field, we are working on cooperating on specific projects in Indonesia and India. If these efforts prove mutually satisfactory, the two governments will turn to considering concrete steps they can undertake in attacking Asian poverty. From ANE's perspective, the strength of our field mission structure and the longstanding relationships which we have developed provide us with important influence in this process.

China

The ANE Bureau is not proposing an assistance program for China in the 1990 budget. However, we believe the time is right for review of options for instituting a broader U.S. relationship with the Chinese which includes A.I.D.

It seems certain that China will have a tremendous influence on the economic development of Asia, particularly so in an environment of open trade. Furthermore, China represents a market of the future which could be very important to U.S. economic interests. Finally, China is a country with substantial development problems to overcome.

The continuing liberalization of the Chinese economy and political system suggests now is the time for a policy review of U.S. and A.I.D. interests in a possible assistance program. The ANE Bureau recognizes a traditional A.I.D. program is not desirable and that resource levels would necessarily be limited. However, the new themes of trade and investment and science and technology may provide an important avenue for closer economic cooperation between the U.S. and China.

ANE Bureau
New 1990 Projects

<u>Country/Project</u>	<u>1990 Obligation (\$000)</u>
Afghanistan	
Afghanistan Rehabilitation Support	22,000
Bangladesh	
Decentralization Support	2,000
Burma	---
Egypt	
Basic Health Services	5,000
India	
PVO Institutional Support	1,000
Energy Management Consultation & Training	1,000
Contraceptive Development and Research	2,000
Biotechnology Exchange	500
Indonesia	
Natural Resources Management	6,000
Child Survival	7,000
Trade and Technology	9,000
PVO Co-FI III	2,340
Jordan	
Financial Market Improvement	2,500
Trade and Investment	2,000
Morocco	---
Nepal	
Agricultural Research and Marketing	1,000
Oman	---
Pakistan	
Large Scale Power	22,000
Philippines	
Local Development Information Systems	2,500
Rural Development Training	2,000
Matching Fund for Agricultural Impact	7,000
MatchFund for Community Action	5,000
Targetted Child Survival	2,000
Industrial Guarantee Loan Fund	1,500
Trade and Investment Promotion	1,000

Sri Lanka	
Wetzone Intercropping and Diversification	2,500
Science and Technology for the Private Sector	1,000
Environmental Resources Protection	500
South Pacific	
PNG Provincial Health Management	2,000
Commercial Marine Resources	2,000
Regional Organizations	1,000
Business Management Training & Services	1,800
Tunisia	
Venture Capital Technology Response	2,500
Private Sector Development II	1,500
Carthage Institute of Technology	(Shelf)
Yemen	
Farming Practices for Productivity	2,200
Regional	---
TOTAL	<hr/> <hr/> 121,485

PRIVATE ENTERPRISE

ANE is centralizing the task of providing field guidance and support in a new office reporting directly to the AA to help our Missions foster broadbased, productive, self-sustaining private enterprises as vehicles to create national wealth, individual incomes, and employment opportunities.

The ANE approach to private sector development has a multi-sectoral orientation and incorporates private sector involvement in agriculture, health, education, and population as well as more traditional activities dealing with urban enterprise development. With program mixes dependent upon each country's development stage or regional focus and the opportunities available within this framework, ANE supports Mission efforts in policy reform, specific interventions dealing with regulations and institutions, and mission experimentation with specific activities which could lead to more rapid LDC economic growth. Initial priorities are:

-- private sector support. Mission programs dealing with micro and small enterprise development, cooperative business ventures, association strengthening activities and similar efforts which strengthen the private sector's capacity for enhanced economic growth are a major element of ANE emphasis. ANE will assist Mission efforts to establish forums, advisory councils, or ad hoc committees to obtain private sector advice, guidance and review of host country government measures which impact on efficient economic growth. New activities of this type are included in programs in Yemen, South Pacific, Philippines, Sri Lanka, Jordan, and Egypt. ANE will also support these activities on a regional funding basis, estimated at \$500,000 per year, by bringing together groups which have successfully implemented programs which speed the entry of the poor into formal commercial systems.

-- financial systems development. ANE recognizes that increased sophistication in all areas of financial transactions is a necessity to attract private sector capital for investment in productive endeavors. ANE will maintain close interaction with the PRE Bureau, especially regarding PRE Bureau's guarantee fund, the revolving fund, the financial markets development project, and similar activities. The ANE orientation is not limited to credit activities, but also includes assisting Missions with interventions dealing with systems reform, such as taxes or custom regulations, and specialized assistance which would help host countries with debt problems and the planning of debt management. The Indonesia financial markets effort is an example of these activities. We expect Philippines, Tunisia, and Egypt to develop projects focussing on financial markets.

-- privatization. As the trend toward liberalization continues to be of interest to host governments in seeking ways of increasing private sector investment to fulfill growth targets, ANE will support Missions and PRE in developing or securing information or activities which support interventions in this and related areas. Expected new interventions in Egypt, the Philippines, Jordan, and Tunisia are being planned.

-- training and business exchanges. Such programs as the IESC, Entrepreneurs International, and vocational training or similar business sponsored cooperative training programs will be more visible in our Missions in FY 1990. The trend in these programs can be seen by requests from Nepal, Bangladesh, Yemen, Egypt, Burma, South Pacific, and Indonesia. The expected level of funding among ANE Missions for these sorts of activities is about \$5M.

To better support initiatives in the private sector area which are seen to contribute to productive, efficient, self-sustaining economic growth, the ANE Regional Private Enterprise Development Project will be amended to increase funding from \$3M to \$8M, the PADS extended to 1993, and a consortium of 8(a) firms will carry out requested activities. Annual ANE regional funding is estimated at \$800,000, with Missions able to buy into 8a contracts at approximately \$400,000 annually. The regional project will also be used to buy into PRE funded projects on a cost sharing basis.

Women In Development

In the coming decade, the ANE Bureau will strengthen its commitment to integrate women, both as participants and beneficiaries, in our development programs throughout the region. The A.I.D. Women in Development (WID) Policy Paper, published in October 1982, asserts that "the major challenge for economic development is the need to make more efficient use of scarce resources. Women and girls are resources for development... Yet, their contribution would be dramatically increased if they were better educated, in better health, and had better access to training, services and jobs."

Countries in the ANE region are characterized by economic diversity. The region includes comparatively advanced economies such as Thailand, Jordan and Tunisia and some of the poorest countries in the world such as Bangladesh, Burma, Nepal and Yemen. These countries are also characterized by a wide range of social, political, and cultural systems as well as different religious beliefs. Socio-cultural traditions affect the roles women and men play in the economies of their countries; nevertheless a common trait of all ANE countries is that women are producers and consumers of goods and services, i.e., they are active participants in their national economies.

Thus, even in conservative Muslim countries such as Bangladesh, Yemen and Oman, a concerted effort can have a significant impact on women. Throughout the region, improved access to formal education, health and family planning services, agricultural and natural resources inputs and services as well as private sector support for both women and men will be critical to a long run improvement in the standard of living of the population and to the overall national economic development.

In the FY90 ABS's, fifteen missions have identified WID issues in 51 projects for a total LOP of \$1,448,776,000. ANE missions are adapting their programs to deal with gender issues in the context of country specific constraints and resources. Illustrative examples that reflect these ongoing WID initiatives are described below:

In Indonesia gender concerns have been factored into the agricultural and education and training programs. Credit programs have been adapted to facilitate access to women, and special incentives have been designed to increase female participation in higher education through "reserved funds" for women participants and the "spouse" training program. As the Indonesian mission moves towards a policy oriented portfolio, WID program emphasis, except for continued support for health

and family planning activities, will be directed towards integration of gender concerns in mainstream projects rather than projects that are specifically targetted to women.

USAID/Bangladesh has defined specific WID program goals which include: 1) integration of women into economically productive activities and 2) increasing female access to basic family planning and health services. The FY88-89 Action Plan aims at a ten percent increase in female labor force participation rate and a ten percent decrease in unemployment. The Women's Entrepreneurship Development Program has been extremely successful in providing poor women access to credit and fostering women's participation in small scale enterprises. The new Private Sector Initiatives project should incorporate lessons learned from previous experiences to foster female employment.

The AID Pakistan program is integrating gender issues in each phase of the programming cycle. Special emphasis has been given to improve access of females to education (Projects 391-0497 and 391-0498) and to foster women's participation in small scale enterprises through the Special Development Fund Project (391-0050).

The Nepal Mission is integrating women in agricultural activities by training women in the Institute of Agriculture and Animal Sciences and by including female agricultural extension agents in the Rapti Zone Project (367-0129 and 367-0155). In the health and population sectors the inclusion of female health workers has been instrumental in delivering services more effectively. Access to legal literacy programs and legal services to poor women are being continued through 1990 under the Women's Legal Services Project (367-0151). This project has had considerable impact enabling women to access the legal system and facilitating women's economic participation.

In Yemen, despite formidable constraints for females to participate in economic development, the mission is attempting to raise women's productive activity while meeting their basic needs throughout its portfolio. An interesting WID activity is the Technical Services and Feasibility Studies Project (279-0083). This project will serve as a flexible mechanism to fund discrete activities such as: 1) increased production and productivity; 2) rural income generation; 3) improved female access to basic education; 4) improved family health and sanitation; 5) child survival; and 6) efforts to lower birth rates. Project implementation will be carried out through buy-ins to centrally funded projects. Funds will also be used for future project development and design work.

USAID/India has incorporated gender concerns into various AID projects and supported the policy objectives of the GOI Department of Women. In the 1990 portfolio the emphasis is on training in management and in sectoral areas. This approach is consistent with the mission focus on technology transfer. Gender issues are also incorporated into Child Survival and Title II Food Aid Programs. CARE will be targetting feeding programs to those areas where female literacy is the lowest.

In addition to Mission WID initiatives the ANE Bureau has recently developed a WID Action Plan that details how the Bureau is proceeding to institutionalize the integration of women's issues into program and project processes. Major components of this Action Plan are:

- * Systems and procedures are established in ANE/Washington and in the Missions so that gender issues are included in country strategies and mainstream project activities in each Mission. Also, each Mission is required to develop gender disaggregated monitoring and evaluation systems for all pertinent projects.

- * WID Training sessions tailored to sectoral areas and specific aspects of the AID programming cycle are offered to Mission and ANE/W staff.

- * Improved methodologies for reporting sex disaggregated information on inputs, outputs and impact of projects are being developed.

- * Support for Research activities that enable ANE Missions to enhance the integration of gender concerns into their programs.

- * Country WID strategies are being developed with the objective of 1) focusing limited staff and funding resources on WID issues and 2) disseminating lessons learned throughout the region.

Environment and Natural Resources

The countries of the Asia/Near East Bureau are faced with a diverse and challenging set of pressures on their natural resources. The ANE Bureau has been, and will continue to be, a leader in implementing programs to deal with issues related to biological diversity, forestry, environmental management and protection, and integrated resource management.

1. Biological Diversity: Countries in the ANE Region include a vast diversity of habitats ranging from moist tropical rainforests to high altitude alpine scrublands, and coastal mangroves to semi-arid grasslands and deserts. Indonesia's tropical forests may contain the world's highest diversity of biological resources, while Egypt is primarily vast desert and managed agricultural lands. Yet conservation of natural ecosystems is an issue of concern to all missions not only to protect biodiversity, but also to maintain related ecological processes such as water quality regulation and soil retention. The natural resource base is the foundation for economic growth and will remain the primary source of income for most of the ANE countries well into the next century.

The ANE Bureau biological diversity program has included development of a number of successful cooperative agreements and small grants programs in biological resource conservation, under the Regional Environmental Activity Project. Working with the US Fish and Wildlife Service, the US National Park Service and the World Wildlife Fund - US, the Bureau has supported more than 20 projects each year throughout the region. The projects, ranging from support for protected area management to development of alternative incomes for local peoples outside parks, have all leveraged considerable matching funds from cooperating organizations.

The Bureau expects to see increased integration of biological resource conservation into existing mission programs in agriculture, forestry, and marine resource production. In addition, a number of projects that directly address biological diversity conservation are being conducted or designed (Nepal, Thailand, Indonesia, Sri Lanka, Jordan).

2. Forestry: Continuing deterioration and depletion of forest resources in the region have created the need for strong remedial action. The ANE Bureau response, in keeping with recent FAA amendments and the Tropical Forest Action Plan, has been to generate more public understanding and involvement, to intensify training and research activities, and to encourage long term planning as a guide for action. Emphasis on policy dialogue has led, in several countries, to increased private sector involvement in forestry activities, and a shift of

forest management responsibilities from national to local and regional levels. Increased extension and training capabilities within forest departments, and widespread adoption of agroforestry principles and practices also have been a part of ongoing projects and programs. Conservation activities such as creation of reserves and buffer zones, are increasingly incorporated into forested area programs.

One of the most innovative activities has been the Forestry/Fuelwood Research and Development Project (F/FRED). It is networking research specialists and institutions throughout the entire ANE region. These specialists design and carry out integrated research programs to identify, test, improve, and manage multipurpose trees and disseminate the results to potential users. Through widespread adoption of standardized methods and procedures, this project is accelerating and dynamizing forestry research and its applications in Asia.

3. Environmental Management and Protection: Water resource management; water and wastewater treatment facility construction, operation, and maintenance; control of industrial and urban pollution; and environmental training and institution building continue to be areas of critical concern in the rapidly industrializing countries of the ANE region. Use of toxic materials in the form of pesticides and industrial chemicals is rising rapidly in many ANE countries. Serious problems associated with disposal of outdated and/or unusable pesticide stocks exist in several countries in the region. Most ANE countries are in the process of either developing or attempting to implement national environmental standards and regulations as a means of protecting human health and the natural environment from anthropogenic activities.

One of the principal ANE response mechanisms for these concerns is the preparation of comprehensive environmental assessments as per 22 CFR 216 for all proposed projects with the potential for causing significant environmental effects. The environmental assessment process includes the preparation of detailed environmental impact mitigation plans which identify the measures to be taken to minimize expected impacts and specify the cost, duration, and responsible parties for implementation of each mitigative activity. It is ANE practice to involve host country representatives in the environmental assessment process to the fullest extent practicable in order to enhance institutional strengthening.

A unique and particularly successful ANE program in environmental protection is the International Environment and Development Service (IEDS), being implemented by means of a cooperative agreement between ANE and the World Environment

Center. IEDS sends technical experts from U.S. industry as "corporate volunteers" on short term assignments to industrial facilities in eligible ANE countries to advise their private sector counterparts on pollution control techniques, occupational health and safety, environmental management, emergency response, etc. The IEDS has expanded its scope to provide technical assistance and training to host country governments as well, by means of specialized workshops on such topics as hazardous waste management.

Under a Technical Service Memorandum of Understanding signed between AID and the Environmental Protection Agency in February 1988, EPA and AID are able to collaborate directly on environmental protection activities in cooperating countries. One of the first such activities will be a joint EPA-AID workshop on pesticide regulatory processes and procedures for Asian countries, to be held in Manila in 1988.

4. Integrated Resource Management: All of the above concerns are addressed in ANE programs that involve river basin planning, coastal resource management and pest management. The North African countries are facing severe economic losses and environmental degradation due to recent locust infestations. The ANE Bureau has developed a Bureau strategy as well as individual mission programs to deal with the locusts in an environmentally sound manner.

The six ASEAN countries are all actively involved in the ASEAN coastal resource management program. In addition, the Mahaweli River Basin in Sri Lanka is the site of a large scale water resource development project that will continue to integrate conservation of Sri Lanka's unique wildlife species and habitats with development of irrigated agricultural lands.

ANE region CDSSs address environmental and natural resource concerns. Many countries have completed, or are presently conducting, FAA required assessments of the status of their tropical forests and biological resources to submit as annexes to their CDSS's (Egypt, South Pacific, Indonesia, Burma, Morocco, Tunisia, Sri Lanka). The South Pacific RDSS has an overall goal of increasing incomes through agriculture and marine resource development while enhancing the conservation and management of natural resources.

Innovative natural resource management programs are being designed for a number of ANE countries. USAID and the Government of Thailand are embarking on a \$44 million dollar natural resource management project. This project will integrate conservation of biological resources with components in coastal resource management, land and water resource management, urban-industrial environmental quality, and

institutional strengthening. Activities will be oriented toward both policy and institutional changes at the national and local level.

New forestry and natural resource management initiatives are also being designed in Nepal and Indonesia. These projects are expected to begin in FY89 with increased funding in successive years. In Indonesia, a natural resource management project is being designed for Kalimantan, one of the most extensive areas of moist tropical forest on the earth. The project will address policy analysis, provincial level planning, and the development and management of biological reserves. In Nepal, AID supported the development of the recent forestry master plan and national conservation strategy. As a followup to those efforts, AID is launching a major effort to enhance forestry planning at the ministerial level and to contribute to conservation of biological resources in protected areas. Field initiatives are also planned in community and private forestry, conservation of ecosystems and reduction of fuelwood demand. AID in Sri Lanka is also planning to design a natural resource management project to begin in FY 90.

ENERGY

Over the past three years, the ANE Bureau has sought to focus ANE activities in the energy sector on four basic objectives:

- rationalization of energy prices;
- privatization of the energy system, focusing on power;
- expansion of cost-effective energy supplies for rural productivity; and
- incorporation of energy/environmental linkages in energy and environmental planning and project design.

New energy pricing work has been initiated in Morocco, Egypt, Jordan, Pakistan, and Bangladesh. Efforts to enhance the role of the private sector in energy conservation are underway in Morocco, Egypt, Jordan, Pakistan, India and the Philippines. Follow-up activities to the initial assessments of the potential for private investment in power generation are beginning in Pakistan, Thailand, and India and a new assessment has recently been carried out in Indonesia.

With respect to the third objective, the Bangladesh rural electrification program is entering into a third phase, in which policy dialogue on the financial and tariff issues will be critical. Likewise, USAID/Pakistan is seeking agreement with the GOP on an economically rational approach to rural electricity system expansion; and USAID/Manila, based on an assessment of the technical and economic problems of the rural electric cooperative system in the Philippines, has designed a new Rural Electrification Project. Morocco, Egypt, Indonesia, India, Nepal, and Pakistan are continuing to work on the potential for decentralized, renewable energy technologies. These efforts are increasingly oriented to accelerating commercialization of demonstrated technologies and attracting private investment in research and development. The new India PACER (Program to Accelerate Commercial Energy Research) Project represents an innovative approach for the Agency in this direction. Projects to address forestry and fuelwood are moving ahead in India, Pakistan, and Nepal. The F/FRED regional network is in place and a collaborative species testing program is beginning.

Several ANE missions, e.g., Thailand, Indonesia, and Sri Lanka, are planning new environmental management projects that will improve capacities to assess the environmental impacts of energy investments. Energy efficiency is of central importance to reducing environmental impacts from both the production and utilization of energy. AID projects in Morocco, Egypt, Pakistan, India, the Philippines and ASEAN are promoting both

private and public investments in energy efficiency. The ANE region has substantial coal and renewable energy resources that are under development for power generation. Programs in Pakistan, India, and Indonesia are assisting these countries in promoting the adoption of clean coal technologies and commercialization of selected renewable energy systems.

1990 NEW PROPOSALS

To address some of the problems discussed above, new energy projects are planned for FY 1990. In India a \$5 million Energy Consultation and Training Project will target energy inefficiencies particularly in the private industrial sector. In Pakistan a power project will be undertaken to help meet the power needed to sustain economic development.

CHILD SURVIVAL

The Asia Near East Bureau currently supports a major child survival program in each of the eight child survival emphasis countries. These countries are Morocco, Egypt, Yemen Arab Republic, Pakistan, India, Nepal, Bangladesh, and Indonesia. The Bureau also supports bilateral child survival activities in seven other countries. Because of limited Child Survival account funds, projects are also supported through the Economic Support Fund (ESF) and the general Health (HE) account. Significant amounts of Population account funds are also focused on child spacing in all AID-supported countries in the ANE region.

Child survival programs in the ANE region are sharply focused on two interventions which may have a major impact on reducing infant and child mortality, namely, fully immunizing infants and children against six infectious diseases and the use of oral rehydration therapy in the control of diarrheal diseases. Improved nutrition practices, especially breastfeeding, and family planning programs are the two other main interventions in the child survival program. Increasing attention will be given to acute respiratory infections which is another major cause of infant and child deaths.

Discussion

The total population in the 17 ANE-assisted countries exceeds that of the AFR and LA regions combined. Annual population growth in ANE countries represents two-thirds of the developing world's total growth, and the number of infant/child deaths is also two-thirds of the developing world's total. Immunizable diseases, dehydration resulting from diarrhea, and acute respiratory infection (ARI) are the leading causes of infant and child death. Malnutrition is estimated to be a contributing factor in 50-60 per cent of infant and child death. In addition, it is conservatively estimated that high risk births born to mothers too old, too young or too soon after a prior delivery subsequently represent 40-60 per cent of all infant and child mortality. Thus, a strong linkage between child survival, family planning and child spacing exists.

Because the focus on Child Survival is relatively recent and most of the programs are new, much of the activity to date has consisted of gathering baseline data, coordinating with other donors and laying the groundwork for well-conceived and comprehensive programs. Nevertheless, there is sufficient actual implementation experience in most of the emphasis countries to begin to assess project progress, problems/constraints and successes. During the next few months, the Missions and ANE/TR will be reviewing program data

for the annual update with emphasis on ORT and immunizations. Programs to prevent and control ARI and programs to deal with program sustainability issues will also receive priority attention.

Sustainability is rapidly becoming the key management issue in all health programs, but particularly in child survival which in many cases has developed as a program outside the "regular" programs of countries. It is a complex issue which needs to be analyzed in terms of at least some of the following: continuing need; roles of government, private sector and communities; cost effectiveness; optimum resource management and the demographics of the intended beneficiaries. In FY 1988, the new Health Sector Financing project (497-0354) in Indonesia which will examine alternative methods of sustaining and supporting health sector services will have a long term positive impact on the institutionalization and sustainability of child survival. Equally noteworthy is the new health financing project in Egypt which will directly reduce the recurrent cost drain of public hospitals on public resources. In the FY 1989/1990 period, the ANE Bureau will be supporting other initiatives aimed at health program sustainability.

Several programs are making significant progress toward the Agency's child survival goals. In Morocco and Pakistan, immunization of children 12-23 months of age has increased dramatically over the past 5 years. In contrast, the program in Yemen has gotten off to a slow start, but the pieces are now in place to begin to move ahead.

In addition to the child survival activities funded through CS, ESF, and HE accounts, ANE's other health and population and family planning projects have a significant potential impact on child survival and economic development in general. In particular, the potential impact of population and family planning projects on child survival will be closely examined when analyzing Child Survival country program progress.

AID's investment in nutrition (i.e. regular growth monitoring, breastfeeding, appropriate weaning and maternal nutrition), an important element in child survival, has been woefully weak. Although there have been some basic initiatives in Washington to rectify this, the response in the field has been slow. The Asia Near East Bureau has sponsored considerable research and data collection and analysis in vitamin A, child feeding, and lactation. It is now time to make practical use of this expertise, and a new emphasis will be placed on planning for child nutrition as an integral part of new and on-going child survival projects.

AIDS

ANE Strategy on AIDS

AIDS is not now a major health problem in the ANE region. However, the number of reported cases is increasing and AIDS will increasingly be a public health concern. By assisting countries to take action now, the spread of AIDS may be slowed.

Over the past year, as AIDS cases have been identified, ANE assisted countries and USAIDs have begun to draw an centrally funded projects to assess the extent and scope of impact of present and projected new AIDS cases on the health sector and to lay out a strategy or plan for controlling and preventing additional AIDS (HIV virus) transmission. At TR/HPN request the situational data and needs are being pulled together into a ANE Regional AIDS strategy. This basic document will describe not only AIDS within the ANE region but also include priorities for action and provide estimates of resources required. These estimates will be useful in negotiating a share of central resources for ANE countries. As needs surface in other ANE countries, TR/HPN will continue to seek central resources to mount prompt assessments of the status of HIV prevalence in these countries and to encourage Mission planning to utilize bilateral resources whenever possible as well as central resources.

II. Centrally-Funded (S&T/HEA and S&T/ED) Assistance to ANE

During FY 1988 dols. \$1.3 million have been budgeted for technical assistance and support to AID-assisted countries in the ANE region. Recipients of this assistance, thus, far include:

Indonesia
Needs Assessment

Plan for Information, Education/Communication Program (IEC)

Nepal
Condom procurement

Philippines
Needs assessment and partial IEC review; resident advisor recruited.

Assistance on design of AIDS surveillance system.

Sri Lanka
Initial condom procurement

Thailand
Needs assessment

IEC review

III. Planned Mission Obligation for AIDS Activities-FY '88-90

<u>Country</u>	<u>Project No.</u>	<u>Project Title</u> (thousand of dollars)	<u>Activity</u>	<u>LOP Planned for AIDS</u>
<u>EGYPT</u>	263-K-615	Commodity Import Program	Procure blood testing equipment	3,000
<u>PHIL.</u>	492-0341	Pop. Planning III	Surveillance, blood security, communication	2,000
<u>THAILAND</u>	493-0341	Emerging Problems in Development	Communications, epidemiology, prevention	18
<u>MOROCCO</u>	608-0171	Pop. & Family Planning Support III	Prevention	15
	608-0198	Pop. & Family Planning Support IV	Epidemiology, communications for prevention	1,800
			TOTALS	6,833

Basic Education

Overview of Problem

Illiteracy and lack of education are key problems constraining economic and social development in all sectors of the economies of developing countries. For more than 20 years evidence has been accumulating that education (as investment in human capital) is necessary for economic growth. Several countries in the ANE region have made good progress, but more needs to be done. A literate population and skilled workforce are absolutely critical to sustaining development progress. Investment in education, especially in basic education in developing countries, makes people more productive at work and at home. Basic literacy and numeracy are highly correlated with the success of development programs in agriculture, health, population and nutrition. Basic education contributes significantly to reducing fertility and improving health and nutrition, which in turn contributes to greater production.

A lack of basic education and skills training impedes productivity and technological advances and exacerbates the problem of unemployment. A dynamic private sector depends on a labor force with at least a primary education. As nations step more and more into the modern world, a poor educational base becomes a serious limiting factor.

Unfortunately basic education remains a significant problem in many ANE countries. Illiteracy and lack of education are key problems constraining economic and social development in all sectors of the economies of these countries. The LDCs are struggling with the need to educate increasing numbers of children with either static or diminishing shares of national budgets. Existing educational programs are frequently of low quality and do not contribute fully to the country's development efforts.

Literacy rates are low, especially in South Asia (25% in Bangladesh, 21% in Pakistan and 19% in Nepal) and strikingly lower for females (13% in Bangladesh, 10% in Pakistan and 5% in Nepal). Primary school enrollment rates are low, particularly for women in South Asia (Bangladesh, 49% Pakistan, 31% and Nepal, 4%). The illiteracy rate in Yemen stands at 80% and among women it is 98%. Only 6% of the Indonesian population has graduated from secondary schools.

Inefficient educational systems result in high dropout and repeater rates and poor quality of instruction and prevent children from attaining basic skills in reading and mathematics. Children in rural areas, the urban poor and females have the least chance to go to school. The lack of

access to education by females is particularly significant. In South Asia only a small percent of women complete even the fourth grade. Primary school completion rates in many of the ANE countries are less than half of initial enrollment.

The cadre of scientific, technical and managerial manpower needed to plan and carry out research and programs in science and high technology is inadequate in most countries. This problem of a lack of trained manpower finds its roots in the inadequate basic education infrastructure of the region. At the same time unemployment rates are growing markedly, causing major social problems in urban areas, while poor labor productivity and inadequate training are impairing the development of the private sector. The basic skills needed by these economies to make the transition to Advanced Developing Economies is lacking. A necessary step in making inroads on these problems is to improve the basic educational programs in the countries of the region.

In short, basic education must be one of the cornerstones in the economic and social development of the countries of the ANE region.

ANE Strategy

In the past, ANE efforts have focused on higher education, and we now have a number of fairly successful educational institutions which have been established as a result of AID assistance. While we are interested in following up these successful efforts with a series of modest second generation projects to enhance and strengthen the linkages between U.S. and host-country institutions, including private sector institutions, the most important task now for virtually all LDCs is to improve school systems for children 6-14. Priority must be given to improving the efficiency of educational systems rather than the expansion of already existing systems. For most countries in the region, the percent of the national budget allocated to education is second only to the defense budget, so reduced resources are being allocated to the problem. As an initial step in improving basic education, ANE's attention will first be directed at educational planning, research and policy analysis. Indonesia, Nepal and Yemen have already carried out highly successful education sector assessments.

Since many of the countries have abysmally low literacy rates in the rural population, particularly among women, the ANE Bureau's human resources strategy in future needs to focus on basic education in those countries (e.g., Bangladesh, Pakistan, Nepal and Yemen). Our interventions will focus on both increasing access to schooling in addition to improving the

efficiency within the system. Emphasis will be given to ungrading existing schools, improving training of women teachers and strengthening supervision at the local level of primary schools to insure the regular attendance of girls.

ANE Ongoing Program

At the present time, ongoing programs in basic education in the ANE region are being implemented in Afghanistan, Egypt, Indonesia, Nepal and Yemen. The project in Nepal is scheduled to terminate in FY 1989. A major new basic education project is in the early planning stages for Pakistan and plans are underway to expand our basic education activities in Yemen. USAID Bangladesh will be reviewing the possibility of starting new programs in this sector as it develops its CDSS in 1989. An April 1988 ANE letter to all Mission Directors alerted them to the Congressional interest in basic education, and we expect other USAIDs to consider new projects in this area.

The largest effort continues to be in Egypt, where ESF funds support a large basic education program consisting largely of construction activities. AID has provided over \$314 million for education and training since 1975. The major effort has been to increase primary school enrollment by financing construction of 1300 schools in rural areas currently underserved. To date over 500 schools have been completed and several new schools are being completed each week. In addition to the school building program, assistance has been provided for curriculum development, with special emphasis on efforts to encourage girls to enter and continue in the educational system. The impact on primary school enrollments is striking. In the three years since the first schools were completed, enrollment in these areas has increased 13% overall, with an even higher increase in girls' enrollment. In FY 88 \$38 million has been programmed to continue this project and \$18 million for FY89 will be used to support continuing activities such as improving access to primary and preparatory schools and enhancing the quality of instruction received.

In Afghanistan, the Education Sector Support Project has made an excellent start and is currently supporting both elementary school education and adult literacy programs. Several hundred schools are being provided with textbooks, instructional aids and administration materials. Plans are in place to extend support to additional schools in the near future. Approximately \$2 million per year of the project's funds can be attributed to basic educational activities.

In Indonesia, the Education Policy and Planning project is working at the central Ministry level and in selected provinces to improve the formulation and analysis of education policies

and the development of mid-and long-term planning in education. Approximately 90% of the project's resources can be attributed solely to efforts directed at the primary and secondary sub-sectors. With a current LOP of \$6.5 million and with an additional \$1 million scheduled for obligation in each of FYs 88 and 89, this represents an estimated \$8.5 million attributable to basic education over the 1984-1992 project life. An additional \$5.5 million add-on is being considered, all of which would be for basic education. In addition, several Indonesians have been trained under the General Participant Training II project who are university staff and whose upgrading affects basic education through the better preparation of their students, the nation's future primary and secondary school teachers.

In Yemen, the training of teacher trainers and educational administrators continues under the Basic Education Development Project. To date, 120 Yemeni educators have returned to positions in teacher training programs, educational planning and administration. Starting in September 1988 another 150 administrators will receive short-term training at Jordan's Institute of Public Administration. Funds are also planned for the Educational Development Support Project to support an assessment of Yemen's primary education curriculum, the development of learning objectives and to conduct research into the causes of educational deficiency. In FYs 88-89 \$1.5 million will be utilized for this project.

In Nepal, The Radio Education Teacher Training II Project is expanding pilot radio broadcasts as a cost effective means of improving the knowledge and skills of primary school teachers. As of 1987, more than 2,000 teachers had participated in training via radio. This project will continue into FY89, but may be phased out at that time.

The most significant new activity is a major basic education project now in the early planning stages for Pakistan (approximately \$65 million LOP), with an estimated obligation of \$10 million planned for FY 89. We expect the preparation of the PID to get underway in late summer or early fall.

Highlights of the 1990 Program

Ongoing activities will continue in Egypt, Indonesia, Afghanistan, and Yemen. The large new basic education project in Pakistan will be getting underway. In Bangladesh the USAID has indicated that the GOB may now be receptive to receiving assistance in this area and the Mission will review the possibility of a new initiative in this sector as it develops its new CDSS in 1989 with the view to perhaps a new start in 1990.

Planned ANE Obligations (DA)
for Basic Education
(\$ Millions)

	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
Afghanistan	3.0	5.0	11.0
Egypt (ESF)	(36.0)	(14.0)	(10.0)
Indonesia	1.0	1.0	-
Pakistan	-	10.0	10.0
Yemen	<u>.5</u>	<u>-</u>	<u>1.0</u>
<u>TOTALS</u>	4.5	16.0	22.0

Pipeline

The Asia and Near East Bureau's project pipeline (including DA and ESF) as of March 31, 1988 was approximately \$3.5 billion (35% of total obligations). This compares to 36% of total obligations in March, 87 and 39% in March, 86.

While the pipeline as a percentage of total obligations is declining, several Missions within the Bureau have significant pipelines (India, Philippines, Indonesia and Thailand). These Missions have taken steps to increase their rate of expenditures; however, additional steps are being taken to further reduce pipelines. During FY-87, approximately \$66 million was deobligated from slow moving or completed projects in those four countries and reobligated into quicker disbursing and higher priority projects in need of additional funds. During and after the Fall, 1987 Project Implementation Reviews, each Mission was recently asked to review its portfolio with a view towards identifying additional funds that might be available for deobligation, set performance benchmarks to monitor project implementation, or terminate/close out early projects or components of projects which are not meeting their objectives. As a result, we project an additional \$40 million in deobligations from these four countries during FY-88.

For Indonesia and Thailand, guidelines were issued for new projects to obligate only those funds sufficient to cover no more than 18 months of projected commitment requirements. Both Missions were also asked to review their on-going project portfolios so that funds which would be uncommitted more than 18 months could be reviewed for possible deobligation. In the Philippines and Indonesia, emphasis is being placed on quick disbursing assistance including, potentially, rural infrastructure programs and/or sector support approaches.

In India, we reduced the FY 88 OYB level to allow expenditures to "catch up" and to enable a restructuring of the program to emphasize science and technology transfer. Higher obligation levels should commence in FY-89.

Various projects in other ANE countries (including Bangladesh, Pakistan and Sri Lanka) are experiencing some unanticipated pipeline. These projects do not, however, represent major problems for the country's or Bureau's portfolio. Missions are addressing the problems on a project-by-project basis.

Mortgage

Because projects in the Near East region have historically been funded on an incremental basis, most are now (or will be shortly) facing problems with large mortgages caused by reduced OYBs. Yemen, Tunisia, Oman and the West Bank programs are already in this category. Yemen, West Bank and Tunisia are strong candidates for increased funding if additional resources become available. Morocco is facing problems on the DA side; however, the Mission has made some adjustments within its DA budget and we believe it will have resources to continue its programs. Jordan plans three new starts in FY-89, and, if the West Bank program continues to command large portions of Jordan's OYB, it could be faced with future funding problems.

On the Asia side, Burma, the South Pacific and Nepal were identified as having mortgage problems. In the case of Burma, it was agreed that the Bureau would work with the Mission to adjust each project in its portfolio by either curtailing its authorized funding level and scope of activities and/or selectively extending the projects' PACD consistent with limited obligation authority. One of the two projects with large mortgages in the South Pacific has already been cut back and future funding is being reviewed. There is concern about the currently large mortgage associated with the Nepal portfolio. Given the planned start of two new projects, the mortgage is expected to increase this year.

On balance, the Bureau is now more concerned about those programs with large mortgages than it is with those programs with large pipelines. Following expressions of concern from the Congress and PPC, ANE has made an intensive effort to review pipelines, and where appropriate deobligate funds. This process will continue, but the Bureau is on top of the situation. In the case of countries with large mortgages, we have reviewed projects for possible early termination, but for the most part we simply must continue to finance these activities in order to fully realize our investment.

The advantage of a modest pipeline is that it provides flexibility to evolve, and that flexibility has proven especially important in several of our country programs in Asia.

RURAL/URBAN SYMBIOSIS

Many ANE region countries have experienced unprecedented rapid urbanization since the 1950's. In 1980, 14 of the world's largest 35 metropolitan areas were in Asia. While leading cities in industrial and more developed countries will stabilize in size, many Asian metropolitan areas will double in population between 1980 and 2000. In India alone, the mission estimates that the number of cities with populations over one million soon will increase from 12 to 25. With cities in Asian countries now among the largest metropolitan areas in history, municipal governments and planners now face problems of these large metropolitan areas that were not faced by industrialized countries with greater resources.

Continued and rapid urbanization in many ANE countries has posed new challenges for development. The urban areas play a vital role in overall national development and provide employment opportunities for vast numbers of the working population leaving farming and rural areas. In many countries, however, urban transportation, infrastructure, and housing supplies have not kept pace with the influx of population to cities. Many residents, especially the urban poor, continue to live in overcrowded housing or squatter settlements unserved by adequate sewerage and sanitation, clean water or electricity. Inadequate transportation, power and water systems also adversely affect industry in these cities and slow the pace of national development.

In the past, the Asia/Near East Bureau primarily focused on rural development in its funding and projects. During the 1980's, A.I.D. has focussed more of its attention on the efficiency and effectiveness of national development programs, reflecting the fact that problems in the urban areas, if left unchecked, will affect the functioning and economic growth of both urban and rural areas. With many ANE countries expected to be 35 to 40% urban by the year 2000, past urban/rural dichotomies will break down. ANE is now poised to articulate a conscious strategy in support of rationale and productive urbanization.

Consistent with the ANE Bureau's move away from an exclusive focus on rural development, we have conducted some significant research and projects addressing the problems of urban/rural linkages and urbanization trends in the region. Research funded by AID over the last twenty years has addressed many issues arising from the trend toward increasing urbanization in many countries. These include research on basic demographic trends, urbanization trends, migration, the effects of urban consumption on agricultural development, balanced urbanization and secondary city development strategies, as well as topics specific to urban areas such as urban infrastructure, transportation and housing needs.

In addition, AID has, through the Office of Housing and Urban Development, developed and used methods for assessing both overall urban development trends and needs and housing needs for countries in each of the bureaus. Within the ANE bureau, this focus has led to major studies for the Bangkok metropolitan area development plan, included in the Sixth National Economic and Social Development Plan, the 1984 Nepal Urban Development Assessment and the 1986 Kathmandu Valley Urban Land Policy Study among others.

There are many current and completed ANE projects with both rural and urban beneficiaries or with a primarily urban focus. These include activities in family planning, child health and education, as well as small and micro-enterprise and private sector development projects which provide training or credit to entrepreneurs in both rural and urban areas. For example, Egypt's 1990 ABS includes a new Basic Health Services project, to improve health delivery systems to both rural and urban poor.

The most direct urban development assistance in the ANE bureau comes through the Housing Guaranty program, which began operation in the ANE region in the late 1960's and currently authorizes a substantial part of its limit of \$125 million per year in the region. HG programs in India and Thailand have focused on the development of private capital markets for housing lending to expand housing construction for low income groups. In Indonesia, the current HG program will aid in the development of a municipal finance system for local governments, reducing their dependence on central government outlays. In Jordan, the current HG program focuses on reforming fiscal and land policies and streamlining the permit process to facilitate low income housing construction. Other projects and studies funded by HG monies have helped to establish national housing strategies (Jordan) and national urban policies (Egypt).

Currently, however, the HG budget for ANE represents only 3.5% of its total funding sources per year, and the available ESF and appropriate DA (especially the SDA account) is equally limited. As urbanization continues, more urban and urban-rural linkages problems will need to be addressed and included in the country programs and development strategies, whether funded through the Housing Guaranty program or other sources.

Where funding sources have been more flexible and levels more adequate, such as Egypt, the ESF accounts have funded major urban projects. In Egypt, examples are water supply and sewerage services for Cairo, Alexandria, and the Canal cities; electrification, housing and community upgrading; and low cost health for the Egyptian poor. In addition, ESF has been used to stimulate private investment, and to improve tax administration in Egypt.

It is evident that, with sufficient funding, the ANE bureau projects have made substantial contributions in Egypt toward helping the Egyptians meet the demands of increasing urbanization there, while still pursuing its goals of developing the rural and agricultural areas. Well-balanced urbanization goals are, in fact, being pursued currently in a major Decentralization Sector Support Program which includes the development of infrastructure in secondary cities; planning, budgeting and management systems to implement and sustain projects; and a program to decentralize government functions through local level revenue generation.

As the ANE expands its current programming focus in many countries to include urban issues, it is our conviction that the rural-urban linkage approach is the most rational way to approach development of both the rural and urban areas within these rapidly-urbanizing countries. ANE recognizes that increased urban demand for agricultural products as inputs to manufacturing and food supplies will stimulate agricultural development and rural incomes in these countries, and in turn, rural residents may increase their demand for urban manufactured consumer goods. This potentially beneficial interrelationship between rural and urban producers and consumers can be supported and encouraged by both AID projects and policies.

There are current ANE studies and development projects that have attempted to strengthen the positive aspects of linkages between urban and rural areas. Many of these projects have been authorized in the last five years and are now being implemented. These include rural non-farm employment projects (Indonesia, Thailand), marketing systems projects (Jordan, Philippines), and farm to market infrastructure projects (Bangladesh, Indonesia, Pakistan). Finally, there are new proposed projects in the 1990 ABSs for a rural finance system in Bangladesh, and for a rural marketing system in Nepal.

Further, there are projects currently underway in several countries to decentralize governance, develop local area management and revenue generating capacities, and direct investment and economic activities to secondary cities (Thailand, Egypt, Indonesia, Philippines). Proposed projects in the 1990 ABSs include a Local Government Infrastructure and Services Project in Bangladesh and several local government "empowerment" projects in the Philippines.

In response to urbanization trends, ANE region CDSSs express concern over sustaining development gains in both rural and urban areas through increased productivity and efficiency in rural and urban production, and in sustaining or improving employment and income generating opportunities in these areas.

The current CDSSs for many ANE countries include some discussion of rural-urban integration, primarily through agricultural development. In the more rural countries, attention has been focused on rural infrastructure programs, rural finance, local institution building, rural non-farm industrial development, and marketing support (Nepal, Pakistan, Indonesia, India, Philippines).

In many countries, attention has been given to problems of urbanization and primarily addressed through housing guaranty policies and programs. Current country development strategy statements for Egypt, Thailand, and Sri Lanka, in particular, include shelter based urban development and infrastructure strategies, and housing and settlement strategies for both rural and urban areas. In addition, many countries emphasized secondary city or lagging regions development and private sector development in their overall strategies.

In conclusion, ANE Bureau experience in urban areas comes from extensive urban programming in Egypt where ESF funding has been used to fund major squatter settlement upgrading, urban health care, and water and sewerage projects, and in other countries, from HG and, to a limited extent, DA in urban and shelter-related projects. ANE has developed innovative programs to facilitate low income housing and urban infrastructure programs, to encourage the rationalization of urban land markets and finance systems, and to improve municipal management and planning capacities. For example, Jordan's local currency program currently supports World Bank projects in water, sewerage, transportation and small scale enterprise development in urban areas.

AID's future role in addressing urban problems in Asia and the Near East will depend on its financial resources and clear legislative mandates. With more limited resources, ANE can use grant assistance in conjunction with multinational development banks, such as the World Bank and Asian Development Bank, to develop projects in urban areas. In addition, ANE missions can continue to provide host countries with technical assistance to improve their institutional capacity to respond to urban problems, such as overburdened transportation and infrastructure systems, an overcrowded or deteriorating housing stock, and urban unemployment, to establish priorities for public investment in urban areas, and to review current policies affecting urban areas.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

12 JUL 1988

MEMORANDUM

TO: AA/FVA, Owen Cylke

FROM: A-AA/ANE, Thomas H. Reese 

SUBJECT: Food Assistance in FY 1990: ANE's Unique Potential

I. Overview

Food aid is and will remain an extremely important part of the A.I.D. programs in Asia and the Near East. In strictly financial terms, it contributes approximately 22% of total ANE resources, and nearly 32% of resources for ANE countries other than Israel. In FY 1988, food assistance to ANE countries is expected to total over \$834 million. This includes at least \$466 million in Title I/III, approximately \$280 million in Title II (including shipping costs paid by the USG and our contribution to the WFP) and \$88 million of Section 416 commodities.

Food aid is an important resource for many ANE countries.

- In five countries (India, Bangladesh, Tunisia, Morocco and Lebanon), food constitutes more than half of the total U.S. economic assistance provided.
- Food constitutes an important part of our assistance programs in at least seven others (Egypt, Yemen, Afghanistan, Pakistan, Sri Lanka, Indonesia and the Philippines).

The ANE region is also an extremely important part of the Food for Peace worldwide program. ANE countries account for approximately 47% of total food aid resources, including the largest programs in each of the food aid accounts.

- Title I. The \$180 million FY 88 Egypt program was by far the largest in the world; Pakistan's \$80 million program was second; because ANE programs rarely suffer from problems of absorptive capacity or arrearages and self-help measures and other provisions are generally completed on schedule, ANE countries often absorb the funds which "fall-out" from other regions at the end of the fiscal year.

- Title II. The India program, stabilizing at \$85 million, is the largest regular PVO Title II program; the total Title II contribution to India (including shipping costs and our contribution to the WFP) is well over \$100 million; ANE programs are critical to meeting Congressionally-mandated targets for tonnage, PVO participation, processed commodities, etc.
- Title III. The Bangladesh program averages \$60 million.
- Section 416. At \$32.8 million, the Philippines is the largest recipient thus far in FY 88 (due to Sugar Quota allocations made in FY 87); India will exceed that dollar level if it receives the planned allocation of 400,000 MT of corn.

ANE has also been the Agency leader in creatively using food aid as a development tool and in integrating food aid more fully into our country development strategies. To cite a few examples:

- Title I has been one of the most effective instruments to pursue policy reform; we have achieved substantial success in moving toward market pricing and less government control over markets in Pakistan, Egypt, Bangladesh, Morocco, Indonesia and Tunisia;
- Title I local currency is supporting critical development activities, e.g. reconstruction in Sri Lanka, counterpart to AID and other donor projects in Bangladesh, agriculture and health development activities in Indonesia, generating employment and income for the rural and urban poor in Tunisia and improving irrigated farming in Yemen;
- Title II is supporting effective humanitarian relief programs in the extraordinarily difficult environments; about one-fourth of the population is assisted in Lebanon and many Afghanis are assisted by food provided to refugee camps in Pakistan and shipped into Afghanistan from Pakistan.
- Both Title I and Title II are being used to mitigate the negative short-term effects of IMF/IBRD-led Structural Adjustment Programs in Tunisia and Morocco.
- The large Title II program in India, often considered one of the best in the world, is the centerpiece of the Mission's Child Survival program, directly attacking India's health and population problems and providing assistance to about eleven million beneficiaries. In Bangladesh, the largest Title II food-for-work program supplements the nutritional levels of five million families.

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- Monetization of Title II in Indonesia, India and elsewhere has been used to strengthen cooperatives, generate export opportunities for U.S. products, develop local production and export capacity and provide social services.

II. Management Progress and Opportunities.

Much of the credit for these accomplishments goes to the FVA staff and the ANE Bureau's capable overseas staff. FVA staff have provided better and more flexible guidelines, maintained contacts with the PVOs, shepherded proposals through the DCC and ensured that the commodities were shipped as needed. The overseas staff, of course, is largely responsible for developing, negotiating and monitoring implementation. And, of course, the role of the PVOs in the Title II program is critical to its success.

This Bureau has felt that there is also an important role for its Washington-based staff in the food aid planning and implementation process. We seek to ensure that food aid is fully integrated into our approved country strategies and to improve the technical quality and implementation of food aid projects. During the past year, ANE has stepped up its efforts to:

- reassess priorities frequently and advise FVA and PPC on allocation decisions;
- utilize the Bureau's technical, program and management staff to review CDSSs, Action Plans, new proposals and project implementation to see that food aid is used effectively; more specifically, we now generally hold special meetings to review the use of food aid as part of CDSS and Action Plan reviews; we hold technical reviews of new food aid project proposals before they are submitted to the DCC, and we have begun to review food aid programs as part of our regular country portfolio reviews;
- encourage Missions to negotiate meaningful self-help measures and to review and improve the management of local currency, and
- assist FVA to justify and defend proposals before the DCC.

I trust that FVA has found these ANE initiatives helpful. ANE would like to increase its participation in the coming year. Among the issues on which we might collaborate are three FVA initiatives -- the implementation of food aid management plans (such as that recently prepared in Bangladesh), the improvement

of Section 108 as an instrument for private sector development and the staffing of our Missions with "food aid certified" personnel.

III. Program Objectives and Opportunities.

We see the PL 480 program as having at least four major objectives: humanitarian, developmental, trade development and political. The size of food assistance programs in Asia and the Near East regions ceases to look large when we consider the needs and opportunities these regions offer to further those objectives.

In terms of humanitarian needs, a recent worldwide survey of nutritional status showed that the largest problems were in Asia, particularly in the subcontinent. However, food aid per capita to Asia is far lower than to Latin America and Africa. Of the eight countries that receive the highest level of U.S. food assistance on a per capita basis, six are in Latin America and the Caribbean and the remaining two are in Africa. India and Bangladesh, the two countries with the largest number of people in need of nutritional supplements, rank 42nd and 28th respectively in terms of per capita levels of U.S. food assistance. We need to keep these needs in mind when we make allocation decisions.

The development opportunities are particularly great in ANE. Many ANE countries have built up an impressive human resource and institutional base and are now creating the necessary policy framework which should permit economic "takeoff." Many analysts are now concluding that the growth trends and prospects for Asia are so positive that world economic power will shift toward Asia in the next century.

The combination of economic growth potential and large population base in a number of ANE countries creates excellent opportunities for market development. U.S. agricultural exports to ANE countries already total \$2.2 billion, and 71% of those exports are through commercial channels. If there are opportunities to replicate the Korean model, where annual commercial sales of agricultural commodities now exceed the total amount of PL 480 provided over many years, they almost assuredly are in Asia.

With the current U.S. trade deficit, market development can be expected to be increasingly important over the next decade. While A.I.D.'s role is appropriately to emphasize development and humanitarian objectives, A.I.D. must be increasingly sensitive to trade development opportunities. These objectives are not mutually exclusive. In fact, by finding trade opportunities within development activities we can probably forestall the efforts of other DCC members to utilize food aid for activities

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which have only trade benefits. Missions can, for example, seek opportunities to introduce new commodities which have nutritional benefit and which the U.S. can supply (as was done with wheat in Bangladesh), support trade development initiatives in connection with disaster relief (as was recently done using 416 corn to respond to the Indian drought) and support innovative trade development programs with local currency (as led to commercial dairy cattle and vegoil sales in Indonesia).

Food assistance is also expected to serve U.S. political interests, and there are needs in each region which must be addressed. However, we have noted a considerable resistance to cutting any program, particularly Title I, for fear of political consequences. Allowing Title I allocations to become entitlements can inherently become a negative influence on a recipient's domestic agriculture and limit the U.S.G.'s ability to respond to new priorities.

The Agency's difficulty in budgeting food aid resources to two politically important programs, the Philippines and Afghanistan, illustrates this problem. Everyone agrees that these programs must be considered high priorities, but current procedures prevent programming the Reserve, and political factors make it difficult to cut competing programs. We believe that part of the funding for these programs could come from further cuts in the Egypt program. As we have argued in the past, we believe that reductions in PL 480 would help Egypt to realize its goals for increased domestic production -- goals which are politically as well as economically important. Moreover, including a portion of Egypt's AAPL level of \$160 million as a "shadow" amount in the Reserve and budgeting for the Philippines would give our Missions additional leverage in the policy dialogue process in both countries.

IV. New Challenges and Opportunities

Changes in U.S. commodity availabilities and prices have considerable impact on our programs. During the past several years, the rapid emergence and equally rapid disappearance of dairy surpluses, followed by sharp reductions in rice and wheat availabilities have influenced the size, composition and allocation of resources. The current drought portends even more substantial effects.

In this increasingly unstable commodity environment, A.I.D. should do everything in its power to minimize the deleterious effects of supply and price changes on assistance levels and development programs. Avoiding abrupt shifts in program levels and commodities is also in the interest of U.S. suppliers and shippers. In this regard, ANE looks forward to working with FVA and PPC, the other regional bureaus and mission staff as well as with the PVOs and the USDA in assessing how we might best

accommodate to the current drought and expected commodity trends.

Another element of the environment requiring careful Agency monitoring is the Congress. In the past year, ANE, FVA and LEG successfully combined forces to defeat several undesirable earmarks. Another potential legislative action which we understand to be under discussion would establish an "Africa Fund," essentially an earmark of food resources for African countries. We believe that the USG should be responsive to the severe needs which exist in some African countries, but we are naturally hesitant to see earmarks which may reduce the availability of resources to equally deserving situations in ANE. Moreover, the experience of recent years (e.g., PVOs reluctance to expand activities, arrearages) suggests there are problems in programming food aid to Africa, not a shortage of resources. We would hope, therefore, to see A.I.D. carefully consider whether such an earmark in the best interests of the food aid program.

V. ANE Funding Priorities

As we approach the end of FY 1988, it is interesting to note that ANE's Title I/III budget has increased from its initial allocation of \$386 million to about \$466 million. In fact, this latter figure should really include the \$20 million of monetized Government-to-Government (GTG) Title II that we provided to the Philippines, raising the amount of monetized GTG (not including 416) to about \$486 million. FY 1987 numbers were roughly comparable.

ANE's AAPL figure for FY 1990 should be seen in this perspective; the \$386.5 million Title I AAPL is no more meaningful as a planning figure than were the "planning" figures in past fiscal years. Once again, there are high priority needs that are not addressed in the AAPLs that will certainly be funded. Experience has taught us, however, that the current system, particularly the inviolability of the Reserve at early planning stages, makes it virtually impossible to obtain reasonable planning figures.

Our inability to develop a realistic budget until half way through the fiscal year has a number of negative implications. Missions that are affected cannot pursue an orderly process of negotiating effective self-help measures and local currency uses, seriously diminishing the impact of our assistance. This delay also makes it difficult for recipient countries to prepare realistic commodity procurement and corresponding financial plans.

Although it may be impossible to convince OMB and the other DCC members to move to allocate the Reserve, it is important that we in A.I.D. have a common understanding of the needs and

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priorities. I think that FVA and PPC will agree that the most serious deficiencies of the current budget include the following:

- The Philippines. Since the beginning of the Aquino Government, the USG has been providing considerable amounts of government-to-government food assistance from Title I, Title II (206) and Section 416 (Sugar Quota). Aside from 416, the FY 1987 and 1988 levels reached about \$60 million and \$50 million respectively. The political imperative to continue this assistance will almost assuredly increase as the base negotiations proceed. ANE recommends a FY 1990 Title I figure of \$40 million to augment the planned \$13 million Title II PVO program.
- Afghanistan. The stage has been set for one of the largest human migrations the world has seen. The Swedish agricultural survey has found widespread damage to the country's agricultural base (e.g. extensive damage to irrigation systems, sharp reductions in the numbers of draft animals and herds). An estimated one million MT of food assistance will be needed to feed returning refugees. Given our political and humanitarian interests, the USG will want to provide a significant share of the resources required.

-- Once refugees are repatriated, we believe that FFW would be highly appropriate. Additionally, some form of grant government-to-government food program should also be introduced when this becomes feasible. A monetized program will encourage the revitalization of commercial markets for food commodities and, very importantly, provide resources to the new government that we expect to emerge once the Soviet withdrawal is completed.

Our FY 1990 budget proposal is for \$21.9 million, including ocean transport. This budget includes direct food distribution programs totalling \$12.2 million and a 206 program estimated at \$9.7 million. This program would provide about 108,000 MT, only about 10% of anticipated needs. We assume that the bulk of U.S. food assistance would continue to be channelled through the WFP.

- Sri Lanka. The U.S.G. has pledged \$75 million to assist in the reconstruction of Sri Lanka. The shortage of DA resources forces us to look to increased PL 480 to meet this commitment. For this reason, we propose that the FY 1990 level be \$26 million instead of the \$16 million AAPL level. Additionally, ANE proposes to explore shifting the existing Title I program to Title III, paralleling the Agency's shift from loan to grant with DA resources.

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- Indonesia. ANE proposes a \$25 million Title I level for Indonesia in FY 1990, \$15 million over the AAPL figure but still about \$12 million below the FY 1983-87 average. With the lower oil prices of the last several years, Indonesia has suffered a sharp decline in its foreign exchange reserves and increasing difficulty meeting its debt service burden. In addition to the balance of payments benefits, the Title I program has become an important vehicle for encouraging policy reform. The FY 1988 agreement calls for a reduction in trade controls which should benefit the Indonesian economy and may also lead to increased U.S. sales. Indonesia represents a large potential market for U.S. commodities.

- Yemen. ANE proposes a modest \$10 million Title I level in FY 1990. Yemen will continue to require imported food grains for the indefinite future and, despite its emergence as an oil producer, will continue to experience shortages of needed foreign exchange. With oil prices depressed, oil revenues will barely replace the decline in remittances and foreign assistance. The Yemen program also yields considerable development benefits. The Mission has been able to use Title I local currency to support important irrigation activities and to use the self-help measures to open discussions about economic policy areas which have been closed to other donors. Policy studies currently underway as part of the FY 87 Title I Agreement should set the stage for policy reforms which could be incorporated into the FY 1990 Agreement. Maintaining the Title I program at the \$10-15 million level will help the Mission to maintain progress on these issues.

- Other Priorities. ANE believes that several other countries (e.g., Tunisia and Morocco) will require higher Title I allocations. We would like to see FVA and PPC develop a list of priorities for the Reserve which would include these countries.

ANE's proposed PL 480 budget levels for FY 1990 are shown on the following pages. Because of the uncertainty about U.S. food prices, the Title II budget levels are obviously subject to revision. We strongly urge that the Agency do everything in its power to protect recipient and ration levels in on-going Title II programs.

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ANE PL 480 I/III Levels
(\$ Millions)

	<u>1988</u> <u>CP</u>	<u>Current</u> <u>1988 d/</u>	<u>1989</u> <u>CP</u>	<u>1990</u> <u>AAPL</u>	<u>ANE</u> <u>Proposed</u> <u>1990</u>
Bangladesh	60 <u>c/</u>	60	60	60	60
Indonesia	10	15	10	10	25
Egypt	180	180	170 <u>a/</u>	160 <u>a/</u>	140
Maldives	--	0.5	--	0.5	0.5
Morocco	40	40	40	40	40
Pakistan	80	80	80	80	80
Philippines	--	30 <u>b/</u>	--	--	40
Sri Lanka	16	26	16	16	26
Tunisia	5	25	10	15	15
Yemen	5	10	5	5	10
TOTALS	396	466.5 <u>e/</u>	391	386.5	436.5

a/ Mission recommends \$150 million in FY 1989 and \$140 million in FY 1990.

b/ Philippines also received \$20 million Title II, Section 206.

c/ Bangladesh includes \$15 million approved in FY 87 but which became a "buy-down" against FY 1988; was to have been additional FY 1987 flood relief.

d/ FY 1988 figures as of June 24, 1988.

e/ We expect this figure to rise another \$10-20 million.

ANE PL 480 Title II Levels for FY 1990

	<u>AAPL</u>	<u>ANE Proposed</u> (<u>\$000</u>)	<u>Est No. Of</u> <u>Beneficiaries</u>
Afghanistan	-	21,863	1,174,000 <u>a/</u>
Bangladesh	15,500	15,500	5,000,000
India	85,000	85,000	11,000,000
Indonesia	5,600	4,922	120,000
Lebanon	16,300	19,100	810,000
Morocco	15,000	15,000	1,045,000
Philippines	13,000	13,000	3,400,000
Sri Lanka	<u>-</u>	<u>190</u>	<u>333,500</u>
Total	150,400	174,575	22,882,500

a/ Does not include beneficiaries of estimated \$9.7 million Section 206 program.

AID PROGRAM IN FY 1990
TABLE 1 - LONG RANGE PLAN BY COUNTRY OR MAJOR PROGRAM AREA

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BUREAU FOR ASIA AND NEAR EAST

DECISION UNIT	FY 1987	FY 1988	-----FY 1989-----		FY 1990	-----PLANNING PERIOD-----			
	ACTUAL	ESTIMATE	CP	ESTIMATE	PROPOSED	1991	1992	1993	1994
LOCAL COST SUPPORT									
TOTALS:	---	---	---	---	---	---	---	---	---

BUREAU TOTAL

TOTALS:	3,350,093	3,093,359	2,989,886	3,019,388	3,299,800	3,333,000	3,339,000	3,312,550	3,293,500
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AGENCY FOR INTERNATIONAL DEVELOPMENT
 FY 1990 ANNUAL BUDGET SUBMISSION
 TABLE 2 - LONG RANGE PLAN BY APPROPRIATION ACCOUNT (\$000)

BUREAU FOR ASIA AND NEAR EAST

	FY 1987 ACTUAL	FY 1988 ESTIMATE	FY 1989		FY 1990 PROPOSED	PLANNING PERIOD			
			CP	ESTIMATE		1991	1992	1993	1994
AGRICULTURE, RURAL DEV. AND NUTRITION TOTALS:	222,101	219,471	174,257	203,345	211,453	207,420	206,600	210,300	206,200
POPULATION PLANNING TOTALS:	89,295	58,159	53,354	44,314	47,540	47,700	54,300	51,500	50,400
HEALTH TOTALS:	47,421	38,990	35,437	43,377	61,478	63,445	58,350	55,750	63,500
CHILD SURVIVAL FUND TOTALS:	12,500	13,500	15,000	7,500	13,750	15,750	15,750	16,750	8,500
EDUCATION AND HUMAN RESOURCES TOTALS:	27,314	31,958	45,637	45,535	57,409	61,035	57,670	52,600	52,600
SELECTED DEVELOPMENT ACTIVITIES TOTALS:	20,963	26,276	26,183	28,815	34,270	39,500	47,400	48,100	52,900
SUBTOTAL FUNCTIONAL ACCOUNTS TOTALS:	419,494	398,254	347,858	372,889	426,300	435,000	441,000	435,000	434,000
INTERNATIONAL DISASTER ASSISTANCE TOTALS:	2,650	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
TOTAL DA ACCOUNTS TOTALS:	422,144	390,754	350,358	375,389	428,800	437,500	443,500	437,500	436,500
ECONOMIC SUPPORT FUND TOTALS:	2,927,949	2,732,635	2,639,500	2,644,500	2,971,000	2,992,000	2,895,000	2,875,000	2,857,000
TOTAL DA AND ESF ACCOUNTS TOTALS:	3,350,093	3,093,359	2,999,858	3,019,889	3,299,800	3,329,500	3,338,500	3,312,500	3,293,500

AGENCY FOR INTERNATIONAL DEVELOPMENT

FY 1990 ANNUAL BUDGET SUBMISSION

TABLE 2 - LONG RANGE PLAN BY APPROPRIATION ACCOUNT (\$000)

BUREAU FOR ASIA AND NEAR EAST

	FY 1987 ACTUAL	FY 1988 ESTIMATE	----FY 1989-----		FY 1990 PROPOSED	-----PLANNING PERIOD-----				
			CP	ESTIMATE		1991	1992	1993	1994	
(N O N A D D S)										
PL 480 TITLE I	384,300	406,500	331,000	361,000	375,500	326,000	331,000	250,000	225,000	
PL 480 TITLE III	82,000	60,000	60,000	65,000	60,000	60,000	65,000	65,000	65,000	
PL 480 TITLE II	152,219	147,628	110,844	142,436	174,474	158,706	140,675	134,875	129,075	
HOUSING GUARANTIES	40,025	65,000	40,000	95,000	120,000	115,000	70,000	70,000	115,000	