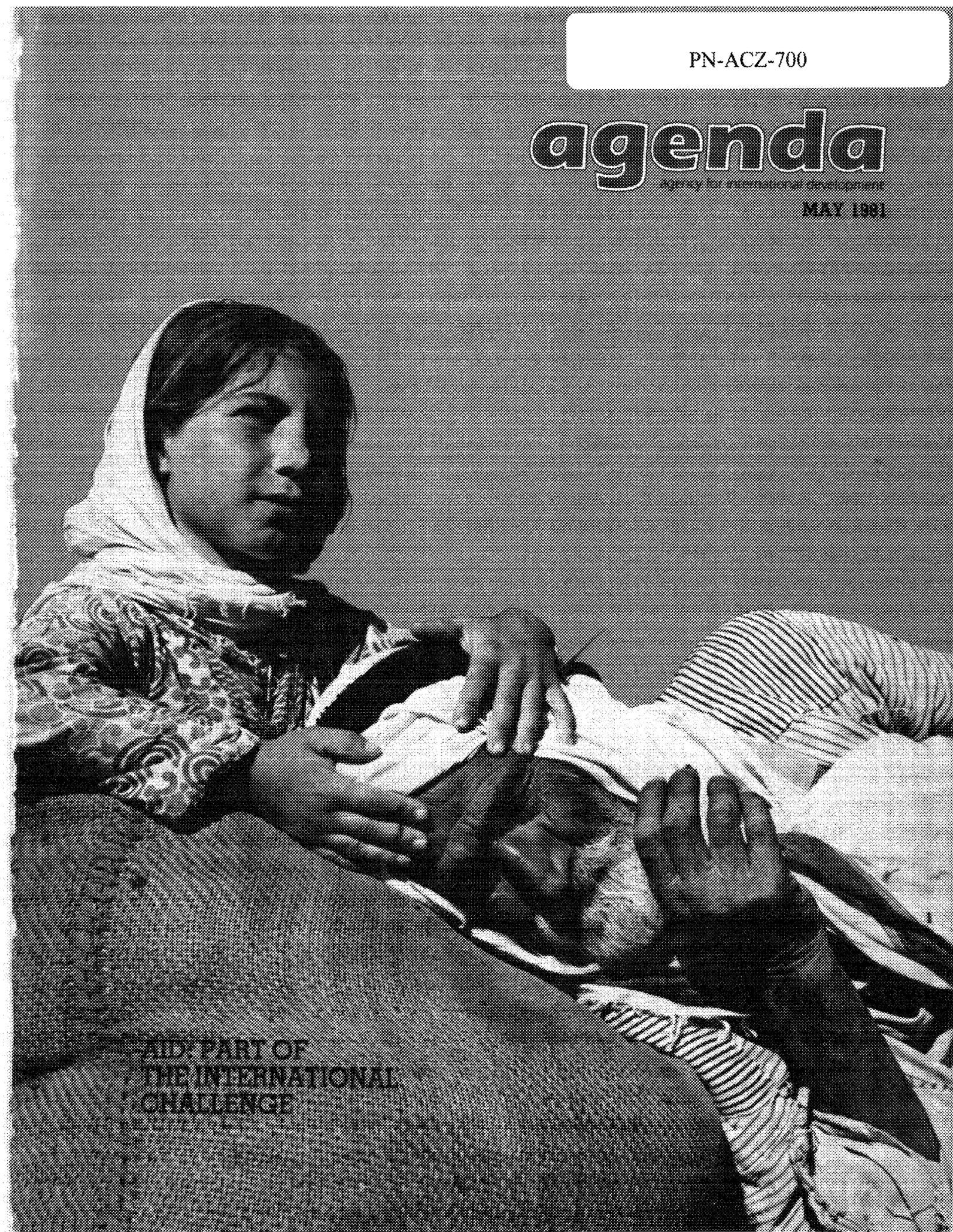


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agenda

Agency for international development

MAY 1981



AID: PART OF
THE INTERNATIONAL
CHALLENGE

DEVELOPMENT UPDATE

One Man's Opinion: "My friend Hofmeyr used to farm up in Thompson's Falls in Kenya," writes the editor of the *World Aid Digest*. "When his farm was bought for resettlement five years ago, he retired." But no lazy man, Hofmeyr. He returned to the bush where a local chief suggested he might plow the fields for a fee. He organized the transportation to market of mangoes that otherwise would have rotted on the ground, and with the encouragement of a tribal chief, started growing and shipping pineapples to market—incidentally involving the local people in his flourishing enterprises and demonstrating his techniques. "In the middle of the untouched, virgin bush he introduced a cash crop which benefits anybody within reach of the main station." There were no feasibility studies, reports the *Digest*, no appraisals, no technical assistance, no soft loans or grants, and no hassling between government and aid agency over how the scheme should be run. Concludes the *Digest*: "In most countries aid has played its role in preparing infrastructure . . . Hofmeyr's pineapples trundle hundreds of miles over aid-financed roads for delivery to an aid-financed airport. He buys aid-financed fertilizer . . . It could be said that more attention should be paid to farmers like Hofmeyr. Private initiative cannot build roads, but it can grow pineapples, while aid agencies can build roads, but they have yet to prove that they can grow pineapples."

The end of the Asian elephant? Possibly. According to the Asian Elephant Specialists' Group meeting in Sri Lanka, unless urgent conservation measures are taken, the Asian elephant may be no more. There are now 35,000 of them—15,000 in India and fewer than 250 in Bangladesh, where their survival is considered hopeless. The group identified projects to be carried out in the next two years with a World Wildlife Fund grant: an elephant management program in Burma; a habitat survey in Indonesia; a conservation program in Thailand; support for an elephant reserve project in India; and the relocation of nearly 800 elephants that will be displaced by a hydro-electric and irrigation project in Sri Lanka. Specialists agreed to work out a scheme of compensation to farmers whose crops are destroyed by elephants, so they will not kill the animals.

Eight years ago Costa Rica had to export 62 pounds of bananas for every barrel of oil it imported. Today it has to export 924 pounds of bananas per barrel of oil.

"To whom it may concern: Our company understands there are many business opportunities in developing countries. Could you provide further information?" This is an example of letters received recently by the Agency for International Development. At least in part they are the impetus for a study looking toward closer cooperation between the federal government and private business in the development of Third World countries. Raymond Malley, director of AID's Office of Business, says U.S. firms could play a much greater role in development than they have. "In both the developed and developing worlds, medium-sized and small companies have only scratched the surface of their potential to become involved in commerce and cooperation."



Cover: In the 1980s, the world is faced with increasingly complex challenges—food, water and energy shortages; economic crises; threats to peace and human survival. The United States is helping to meet these global challenges. This issue of "Agenda" is devoted to in-depth discussions of the U.S. development assistance program for the coming year.

Cover photo: United Nations

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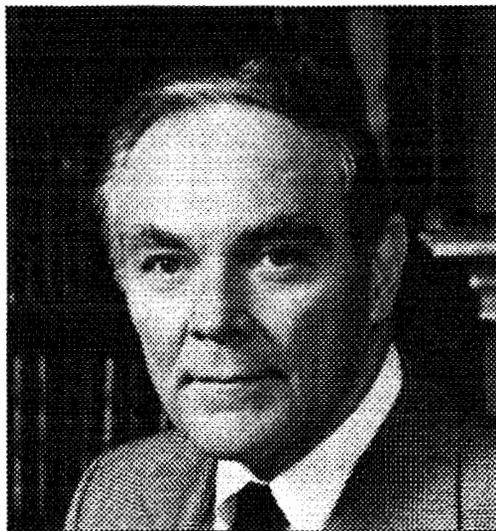
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DEVELOPMENT ASSISTANCE: Part of the International Challenge

Foreign aid must address political, economic, security and humanitarian issues.

A statement by Secretary of State Alexander M. Haig, Jr.



The conduct of foreign policy and exercise of influence requires many tools. It is the role and purpose of one of these tools—security and development assistance—that is the subject for discussion today.

Security and development assistance should be seen in the context of the international challenges that confront us and the foreign policy we have devised to overcome them. Today's world presents the United States with three prominent trends. First, power is diffused widely among many nations and some are prepared to use violence to advance their ends. Second, we and our allies are now more vulnerable to international unrest and violent change. Third and most dangerous, the growth of Soviet military power is now capable of supporting an imperial foreign policy.

The last trend is most alarming. Soviet adventurism in the Horn, in South Asia, in the Persian Gulf and in Southwest Africa appears to conform to a basic and ominous objective: to strike at countries on or near the vital resource lines of the West.

The depressed world economic condition is equally familiar. The spiraling cost of oil has been a punishing blow to all nations. It has been particularly crippling to the developing nations. It is estimated that developing countries paid \$50 to \$60 billion in 1980 for their oil imports. Adding to this burden is another \$50 to \$60 billion in trade deficits. All of this comes at a time when world population will increase by half in just the next 20 years. . . . Economic dislocations of this magnitude create conditions for violent disruptions, with dangerous political consequences.

Our response to these challenges will require:

- A strong, prosperous and productive American economy, because we can do little to help others if we are disabled ourselves.
- An American defense posture that restores the confidence and determination of friends, and that deters adversaries from pursuing adventures.
- The resources to protect our in-

ternational security interests and to promote peace and prosperity abroad.

The President has proposed a far-reaching and dynamic program to restore the health of the American economy. I fully support his proposals.

The revised defense budget which the Congress will review in a short time is designed to revitalize our armed forces and rebuild our capacity to defend our vital interests. . . .

Before going into the details of the Administration's foreign assistance request, let me say a few words about the general directions of our economic policy and how we will shape assistance programs to complement these policies.

First, in the formulation of economic policy, in the allocation of our resources, in decisions on international economic issues, a major determinant will be the need to protect and advance our security.

Second, we shall continue to work

with other countries to maintain an open international economic system. This will include efforts to engage the U.S. private sector more fully in the economic development process.

Third, the United States will not forsake its traditional assistance to the needy of this world: the undernourished, the sick, the displaced and homeless.

Fourth, there will be neither abrupt nor radical redirection of our international economic policies. Where necessary, policy will be changed in an evolutionary fashion, with minimal disruption and uncertainty.

Fifth, the United States will not abandon institutions and agreements devoted to global economic and political stability. The United States will continue to bear a fair share of the cost to maintain and operate international organizations.

Achieving these aims will require careful coordination and a varied as-

sortment of foreign policy tools. Among the tools most important are our foreign aid programs—development and security assistance, contributions to the multilateral development banks and international organizations and the Food for Peace program. Together these programs can serve to meet the challenges of our adversaries and advance our interests and values.

Bolstering the defenses and economies of strategically important friends and allies requires that we strengthen our security assistance programs. This does not mean, however, that we attach less importance to our economic assistance programs. We do well to help developing nations overcome the barriers to sustained economic growth.

Sufficient funding and flexibility for our aid programs will not produce the results we seek unless these programs are carefully coordinated and skillfully executed. To these ends I



have asked (that) allocations of all types of foreign assistance in which the (State) Department is involved (be coordinated).

M. Peter McPherson, AID Administrator, will also report to me; there will not be a staff layer between us. He will be responsible for the overall budget and programs of economic development assistance and will deal accordingly with the Administration, Congress and the public. We shall consult with Congress in the months ahead as to how we propose to deal with the organization of the International Development Cooperation Agency. At this time, McPherson is both Administrator of AID and Acting Director of IDCA.

Security Assistance

I referred a moment ago to the President's proposals for reconstituting America's defense capabilities. Our security assistance program goes hand in hand with this effort and must enjoy equal priority. This is because the friendly states we support can themselves help us assure our most vital national interests.

For example, many of our security assistance partners enjoy a geographic proximity to the resources our economy demands. Others possess timely knowledge of complex regional events and are best suited to understand these events and assure that they do not slip beyond responsible control. Finally, many of our partners have military forces trained and experienced in operating in difficult areas.

As we strengthen these states, we strengthen ourselves and, for the reasons just mentioned, we do so more effectively and at less cost. Friendly states can help to deter threats before they escalate into world-shaking crises. The issue is not whether a local state can single-handedly resist a Soviet assault. Rather, it is whether it can make that assault more costly, more complicated, and therefore potentially less likely to occur.

In practical terms, this means that



the air defense system we help a friendly state develop could one day serve as a pre-positioned shield under which Western relief forces would move. We hope that day never comes, and all of our efforts are aimed at preventing it. However, in judging the economic value of these programs it is necessary to recognize the connection that frequently exists between today's assistance and tomorrow's needs.

In examining our overall security and defense needs, we have tried to balance the requirement for budgetary stringency with the need to revitalize our international position. From this review we concluded that our national interests demand a significant funding increase for our

security assistance programs and at increased levels above FY 81.

The President is requesting that the Congress appropriate \$4.27 billion to finance a total \$6.87 billion security assistance program for FY 82.

Almost 70% of the program for FY 82 is for the Middle East, with Israel and Egypt as the largest recipients.

Let me say something about the importance of these two countries. . . .

Adequate defense capability for Israel, Egypt and other responsible Arab states will not only help deal with outside pressures, but will support our objective of a lasting Middle East peace. Individual and regional insecurity undermines every prospect for peace.

Our programs in the Middle East



and Persian Gulf area, working with such states as Oman, are designed to deter threats to both regional security and Western energy interests.

Our FMS (Foreign Military Sales) assistance to Europe will focus on four European nations: Greece, Portugal and Turkey in support of their NATO roles, and Spain in connection with our defense agreement and our use of Spanish bases. A sizable Economic Support Fund program is planned for Turkey as we continue to respond to that country's economic needs in cooperation with other donors.

Turkey and Greece are two of our most important allies. Greece and Turkey are important to each other's defense and as allies and friends both are indispensable to us.

In East Asia, Korea will receive a large amount of FMS financing for force modernization, with significant programs also scheduled for Indonesia, the Philippines and Thailand.

In Africa, our equipment, training, and/or economic support will help to enhance the security of a selected number of states friendly to the United States.

It is clearly in our interest, for example, to help Sudan and Tunisia withstand pressures from Libya. This is important in its own right and vital to our larger interest. For as the threat to these important states mounts, so too—indirectly—does the pressure on Egypt, with all that means for the prospects of peace and for our broader regional strategy. This suggests a

central point: *The Interrelationship between threats and events in different theaters.* If we are to act with coherence and consistency, these interrelationships must be reflected in our own policies.

For Central America, the Caribbean, and South America we are recommending a total program of \$212.6 million. Especially noteworthy are our efforts to support the Duarte government in El Salvador, which we believe offers the best chance for a resolution of that country's conflicts.

This year we are also proposing that a portion of the foreign military sales program be available to selected countries as a direct U.S. credit at up to a 3% interest rate. This is necessary if our security assistance partners are to build their defenses and at the same time avoid amassing crippling debt burdens.

The benefits of our security assistance program will be limited unless we have the necessary flexibility to use these resources effectively and efficiently. This includes being responsive to unforeseen and rapidly changing events. It is impossible, in March 1981, to predict with certainty where crises may erupt in the coming months. We are therefore proposing special requirements funds for the Economic Support Fund and Military Assistance Program and a number of amendments to legislation that would facilitate the achievement of our policy objectives. If we have the capability to respond quickly and adequately in those cases where security assistance would make the difference, the need for United States involvement might be reduced or eliminated. . . .

Development Assistance

While security assistance is specifically designed to shape events and address short-term problems in countries and regions of major political importance to the United States, development assistance provides the United States with other opportunities to influence economic, social and political change abroad.

We remain committed to a strong



development assistance program as an integral element of our overall policy toward our international economic and security objectives.

U.S. foreign policy interests should guide our allocation of foreign aid. But the humanitarian aspects of the development assistance program should not be overlooked. As a cooperative partner helping to meet the needs of the developing countries, we will contribute to the achievement of a variety of key U.S. foreign and economic policy goals.

In our budget submission to Congress, a \$1.9 billion AID appropriation is requested.

Over 50% of the proposed development assistance program will be used to alleviate malnutrition and hunger.

Multilateral Development Banks (MDBs)

Over the past two decades, a growing percentage of U.S. official aid has gone to support multilateral development banks (MDBs). We intend to meet our existing obligations to these institutions as we move, in an evolutionary way, toward a greater emphasis on bilateral rather than multilateral assistance.

In this process, we shall keep in mind that multilateral institutions carry out two major functions:

First, they mobilize additional capital from other donors for economic progress in developing nations, nations that are important to U.S. security and economic interests.

Second, they foster increasing effi-

ciency in the international economic system by encouraging developing countries to adopt Western market-oriented policies that improve productivity.

The President is therefore requesting appropriation of \$1.48 billion for MDB subscriptions and contributions for FY 82. Because this request has been held to the minimum it is essential to have your support for the full amount specified.

International Organizations and Programs

Voluntary U.S. contributions to international organizations and programs are another important element of our foreign development assistance strategy. Among the important efforts in this area are the United Nations Development Program (UNDP) and the U.N. Children's Fund (UNICEF). These activities provide basic technical, health and educational assistance to developing countries.

Conclusion

The program presented to you today represents our best judgment of the resources required to carry out our activities in these austere times. Cuts were made in the development assistance programs totaling over a billion dollars, a 26% reduction from the previous budget—equaling if not exceeding reductions proposed for the domestic agencies.

For the past two years Congress has failed to enact a foreign aid appropriations bill. This has caused us substantial difficulties. We have been forced to neglect vital aspects of our assistance programs; U.S. foreign policy interests have been undermined. We should work together in the authorization and appropriation of these fiscal year 1982 foreign aid requests to assure a U.S. partnership with the nations that strengthen our common economic and security interests. □

This article has been adapted from testimony in hearings before both houses of Congress in March.

LATIN AMERICA:

A Search for Solutions Amid Turmoil

A statement by Edward W. Coy



The United States has vital economic and security interests in Latin America and the Caribbean. In 1980 alone, the countries south of us purchased

nearly \$39 billion of U.S. exports, vaulting the region ahead of Canada and into second place behind Western Europe as a market for our products. Seventy-seven percent of all U.S. foreign direct and financial investment in the developing world is in Latin America and the Caribbean, as are 43% of all U.S. bank claims on foreigners. Produce from 10 million acres of U.S. cropland is exported to Latin American and Caribbean countries. We, in turn, depend on the region for significant shares of several important raw materials and other commodities, and it is in our interest that these supplies be maintained.

The continued health and growth of this large market is vital to our need to increase export earnings so that we can offset the effects of rising petroleum prices and create new, productive jobs for our own unemployed workers. Exports already account for one out of every eight or nine manufacturing jobs in the United States, and the importance of foreign

The U.S. role in the Americas is changing.



sales to our income and employment is likely to be even greater in the future. For these reasons we must be responsive to the need for change in development structures, programs

and institutions that countries must undertake to overcome their serious balance-of-payments problems. These problems confront almost all non-oil-producing Latin American and Caribbean countries as they struggle to cope with petroleum price increases, falling coffee and cacao prices, and rising debt burdens.

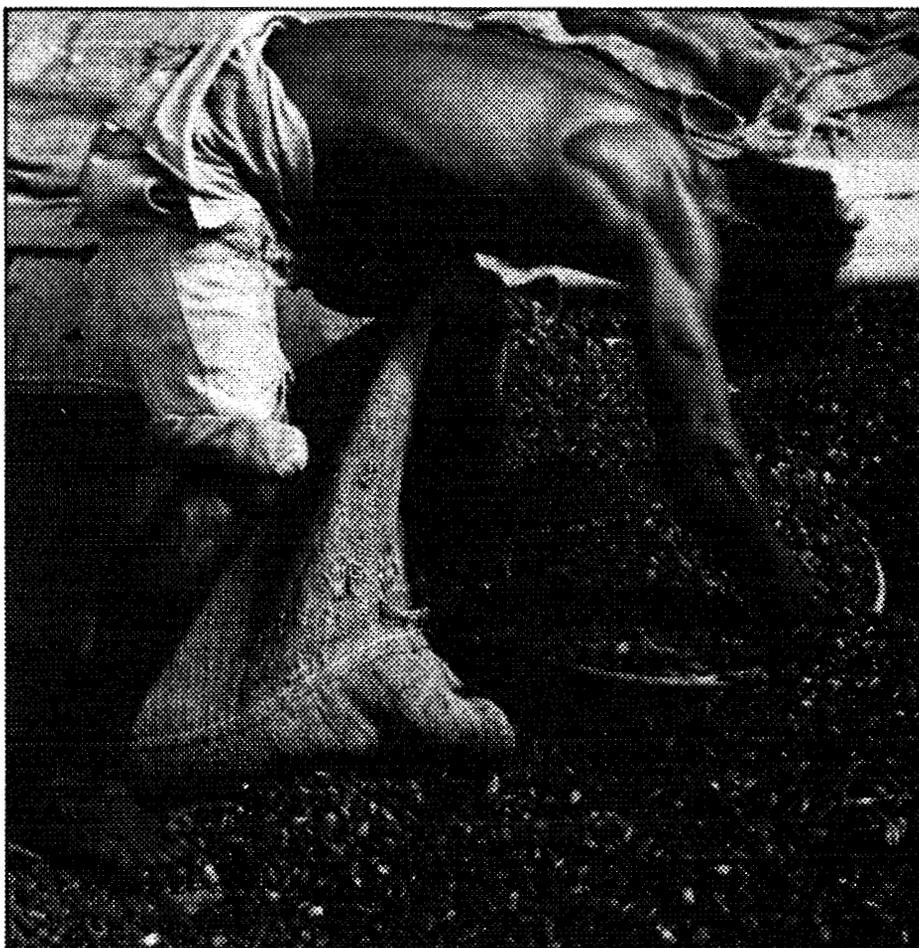
The geographic proximity of Latin America and the Caribbean has a direct bearing on our national security. Our vital concerns in the region include unimpeded use of the sea lanes adjacent to North America and the Panama Canal and continued access to oil from Venezuela, Mexico and other exporters in the hemisphere. Latin America and the Caribbean are also important to our efforts to limit the spread of nuclear and conventional weapons. Other important U.S. concerns are the increased flows of undocumented workers and narcotics across our borders.

For these and other reasons, we must be profoundly concerned about the growing economic problems and interrelated social and political tensions in the region since at least the early 1970s. These problems are now closest to the surface in Central America. In El Salvador, the establishment in power of either the extreme left or

of the extreme right would be inconsistent with our interests. The poverty and inequitable patterns of growth that long characterized El Salvador—and sowed the seeds of revolutionary ferment—have also been the legacy of Guatemala and, to some extent, Honduras. We have been encouraged by the efforts made in Honduras to break with the old pattern and provide peacefully for more equitable growth and greater political participation. The growing violence in Guatemala indicates that time may be running out there as well, although that country has begun to take a series of measures that may still stem the tide.

Costa Rica, with a long traditional democracy and equitable growth is now experiencing its most serious economic crisis since the 1930s. We have strong interest in helping that country regain its economic footing, preserve its democratic traditions, and contribute to the revitalization of Central America as a whole. The most encouraging developments in Middle America in the last year have been in Panama. After a serious economic crisis in the middle and late 1970s, Panama's economy is now recovering, due largely to the canal settlement and to a more positive government attitude toward private investment. Nevertheless, Panama's oppressive debt burden means that its economy remains highly vulnerable to unfavorable external developments.

Vulnerability to external economic forces also characterizes the small economies of the Caribbean, which lie astride vital shipping lanes in the North Atlantic. Jamaica experienced a decline in per capita income for most of the 1970s, and its democratic traditions were shaken by growing crime, violence and extremist rhetoric. But the democratic traditions held. Jamaicans reaffirmed their support of democracy last year and elected a new government whose economic recovery program stresses, among other things, the need to revitalize the private sector. Economic recovery there will take many years and require



much external assistance. Guyana—like Jamaica a major producer of bauxite and alumina—also experienced economic difficulties during the 1970s. Our interests there, as in Jamaica, call for continued support to the government's commitment to equitable development, encouragement of the country's private sector and greater attention to market forces.

In the Eastern Caribbean, most of the small island-states experienced stagnant or declining per capita incomes during the 1970s; their export performance has fallen far short of their need to pay for sharply higher petroleum import bills. Only in Barbados was economic growth satisfactory. In Grenada, a revolutionary group came to power in 1979 with a political orientation that views the U.S. with concern and suspicion. Continued economic stagnation in the Eastern Caribbean, and a growing sense of frustration, could lead others

to seek similar remedies. Economic recovery in St. Lucia, Dominica, and St. Vincent and the Grenadines suffered a serious setback in September 1980 when Hurricane Allen wreaked its destruction on these islands.

Most of the population of the Caribbean, outside of Cuba, is on the island of Hispaniola, shared by Haiti and the Dominican Republic. Haiti, the poorest country in the Western Hemisphere, has been experiencing declining living standards in rural areas for decades. Thousands of Haitian "boat people" have come to our shores in the last few years seeking better opportunities and surveys show that many more would like to come. The major effort needed to alleviate poverty there will be difficult to set in motion and will not bear fruit quickly. Continued large-scale attempts at emigration will be inevitable. Poverty in the Dominican Republic is less pervasive but still serious. Rapid migra-

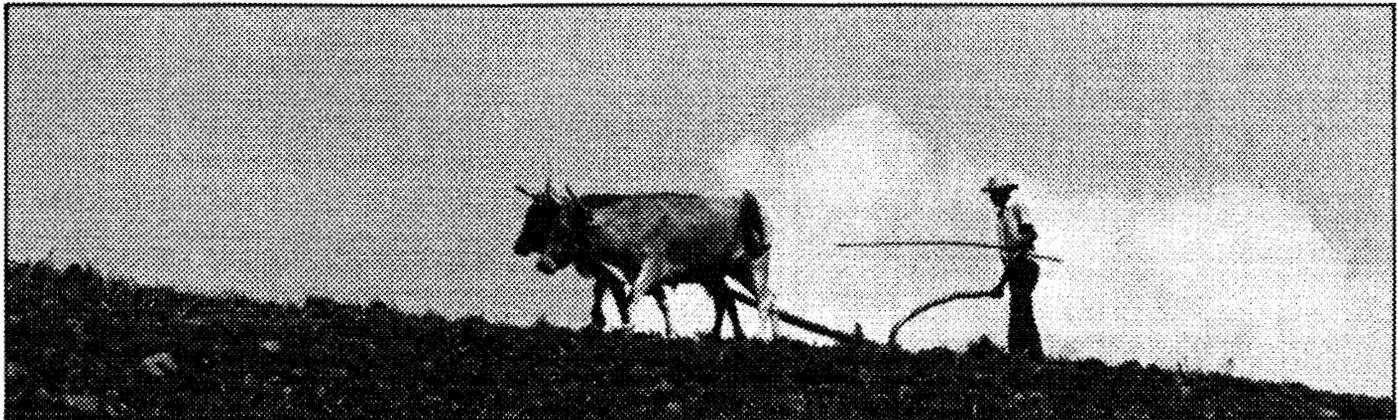


spread in Bolivia, which remains South America's poorest country despite its wide range of mineral exports. Unfortunately, the military coup in July 1980 has diverted Bolivia's attention from development problems and has sown the seeds for future unrest. We remain ready to increase our assistance to Bolivia when commitment to development reappears.

The Dimensions and Significance of Lack of Development

The vital interests of the United States in the Western Hemisphere are clear.

It also is clear that these interests will best be protected if we encourage and support the aspirations of the people of Latin America and the Caribbean. The unrest we see in the region today is due in very large measure to the inequitable development patterns of the past and, in a number of countries, the present. This unrest has been aggravated by slower economic growth, caused by the unhealthy state of the world economy. It has also been aggravated to some extent by the actions of those hostile to our interests. But the fundamental cause of this un-



tion from farms to cities has created a disturbingly high unemployment rate in that country. A democratically elected government is struggling to come to grips with these problems.

The majority of the Latin American and Caribbean population lives in South America, which on the whole is more developed than Central America and the Caribbean. Nevertheless, there are large pockets of extreme poverty, notably in the Andean countries of Ecuador, Peru and Bolivia. The restoration of democratic governments in Ecuador and Peru has brought into office administrations genuinely committed to equitable development and to an important role for the private sector. Both countries are modest petroleum exporters, but these exports are expected to decline soon, and both countries need considerable assistance in relieving rural poverty by revitalizing their agricultural sectors. Rural poverty is even more wide-



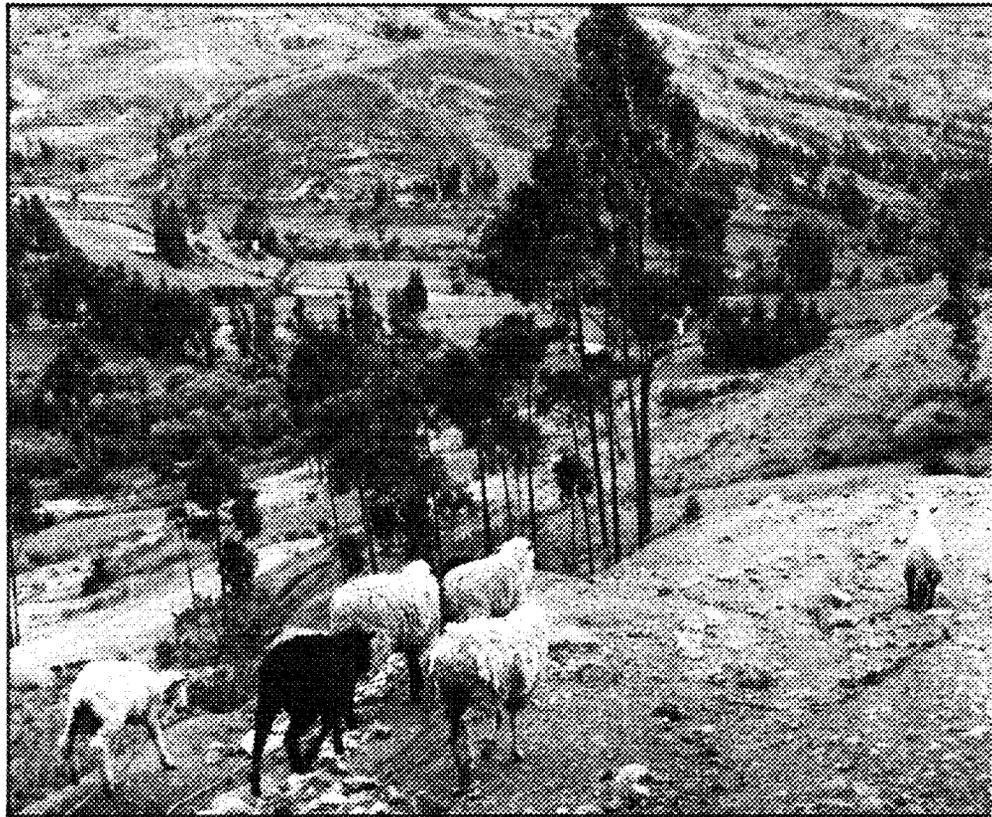
rest remains the same—the persistence of poverty and of inequitable patterns of development.

AID Strategy

AID's strategy is to help respond to this challenge, not just because we support the aspirations of the Latin American and Caribbean people, but also because we believe that this is the most effective way of furthering U.S. interests. AID, of course, cannot do the job all by itself. We must work together with other bilateral and multilateral donors, and we need to work in an environment where other instruments of U.S. international economic policy support the same goals. Above all, we must constantly seek collaborative approaches with the governments of the countries in which we work and with other governments of the region. The problems we are working to solve are common problems; we must all cooperate in finding and carrying out solutions.

AID cooperates with Latin American and Caribbean governments by assisting them to design, test and adopt new policies, to build new institutional structures and to develop new service systems to better meet the needs of the poor and to increase productive employment opportunities. Priority is given to countries with a strong commitment to equitable development and sound economic policies.

Our programs are carried out not only with governments but also with a variety of private-sector organizations. We have a long history in the region of support for cooperatives and credit unions. We are working with other groups to improve the status of women and to raise public awareness of the dangers of environmental degradation. Through projects with the Latin American Agribusiness Development Corp. (LAAD), we are helping small farmers earn higher incomes. Consistent with the recommendations of a private-sector mission that recently reviewed agricultural development in Central America and the Caribbean, AID plans to give even more support to private-sector agri-



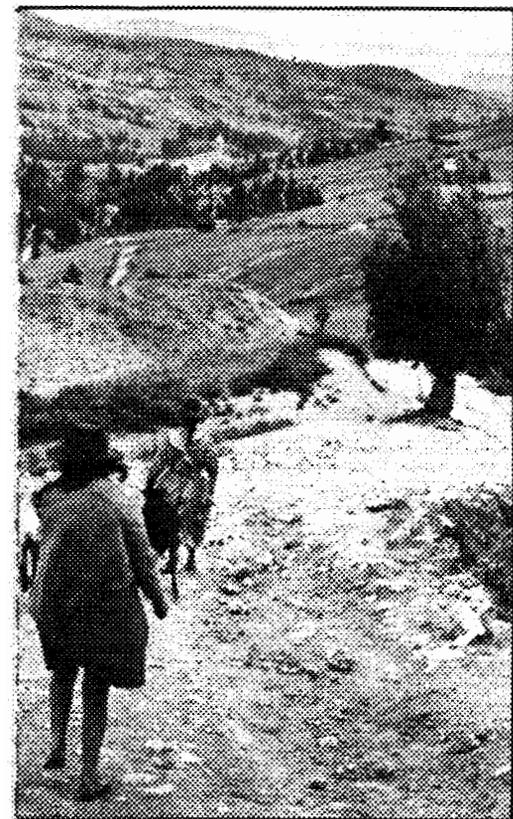
cultural and agro-industrial activities.

AID's strategy is more effective when Development Assistance can be combined with other funding instruments that provide greater flexibility and can be activated quickly to respond to U.S. interests when emergencies require prompt attention to balance-of-payments and employment problems. Such a quick response capability, of course, is what makes Cuban assistance so tempting to some countries in the region. We have been at a considerable disadvantage because of our very limited capacity to respond in the same way. This situation places a premium on close cooperation between AID's bilateral assistance program and the overall economic support programs of the IMF and IBRD. However, our limited capacity to support their stabilization efforts directly has hindered our ability to insure that stabilization is accompanied by continued economic growth and development.

Economic Support Funds and PL 480 assistance (food aid) are important instruments for achieving these ob-

jectives. We believe that U.S. interests would be better served if we could count on greater availability and greater flexibility in the use of these resources.

AID's assistance to Latin America and the Caribbean is provided through its bilateral missions and also through several regionwide projects and two sub-regional programs. The Central America regional program remains a key part of our strategy for the countries of Central America and Panama. Peace and security in this sub-region will depend in the long run on the evolution of democratic governments and pluralistic, equitable societies. Each country is different, but developments in any one country are closely linked with the fate of the others. Despite the recent lack of economic progress and the political upheavals in several countries, trade among the five Central American Common Market countries has continued to expand and regional cooperation has continued on many fronts. The 1980 peace treaty signed by El Salvador and Honduras is a most welcome development. Many problems



ects. We believe that the Caribbean Group is planning an important role in arresting the economic decline of many Caribbean countries and laying the groundwork for renewed growth.

FY 1982 Program

The proposed program for FY 1982 totals \$385.3 million, including \$120 million from the Economic Support Fund (ESF) and \$265.3 million of functional Development Assistance. Of the combined total, \$198.6 million, or 52%, would be provided as loans and \$186.7 million, or 48%, as grants. Other proposed U.S. assistance to Latin America and the Caribbean includes \$158.1 million for PL 480 programs and \$40 million for Housing Investment Guarantees.

The FY 1982 program will be implemented through 13 bilateral programs and three regional programs. Some \$174.3 million, or 45% of Development Assistance and ESF resources, is programmed for Central America. Another \$149.4 million, or 39% of the total, is allocated to our programs in the Caribbean. South America is scheduled to receive \$45.4 million, or 12% of the total, while the remaining \$16.2 million, or 4% of the total, will support regional programs with such organizations as the American Institute for Free Labor Development and the Inter-American Institute for Agricultural Sciences.

Agricultural and rural development will account for nearly half of AID's Development Assistance budget. Special emphasis will be given to agricultural research, extension and supporting activities that will result in greater food production, higher incomes and increased employment for small farmers and other poor people in rural areas. Increased support will also be given to private-sector agricultural and agro-industrial activities consistent with these objectives. New programs in soil conservation, natural resources management, and forestry will be supported in Haiti, the Dominican Republic, Honduras, and Ecuador.

Population planning activities will expand by 40% from their FY 1981

level. These activities will improve the capacity of countries to relieve some of the pressures on their scarce natural resources and will permit women to play an increasing role in development.

Health sector activities will focus on consolidating low-cost health systems in countries where the basic model has already been introduced, and on extending this model to other countries.

Education and human resource development programs will emphasize rural primary education; non-formal vocational and adult education; and training programs to relieve critical shortages of managers, administrators, technicians and sub-professionals.

Special development activities will stress job creation, especially in small private enterprises. AID funds will also continue to support alternative energy programs; small, community-initiated projects; and a variety of other small projects undertaken through private voluntary organizations.

AID's role in Latin America and the Caribbean has changed considerably over the past two decades. We are no longer the dominant source of financial assistance. Our primary task now is to play the lead role as a catalyst and risk-taker, attracting complementary public and private resources in support of innovative solutions to the problems of slow economic growth, poverty, unemployment and inequality that have created so much unrest in the region. In the face of rapid population growth and deteriorating natural resources, much of AID's effort is aimed at finding solutions for the long run. But given the balance-of-payments problems and social and political unrest now confronting us in Latin America and the Caribbean, protecting U.S. interests requires that we be in a better position to provide some short-run solutions as well. □

Edward W. Coy is Acting Assistant Administrator for AID's Latin America and Caribbean Bureau. This article has been adapted from testimony in hearings before Congress in March.

AFRICA:

World's Poorest Struggle for Survival

A statement by Roy A. Stacy

U.S. and African
interests
are at stake.



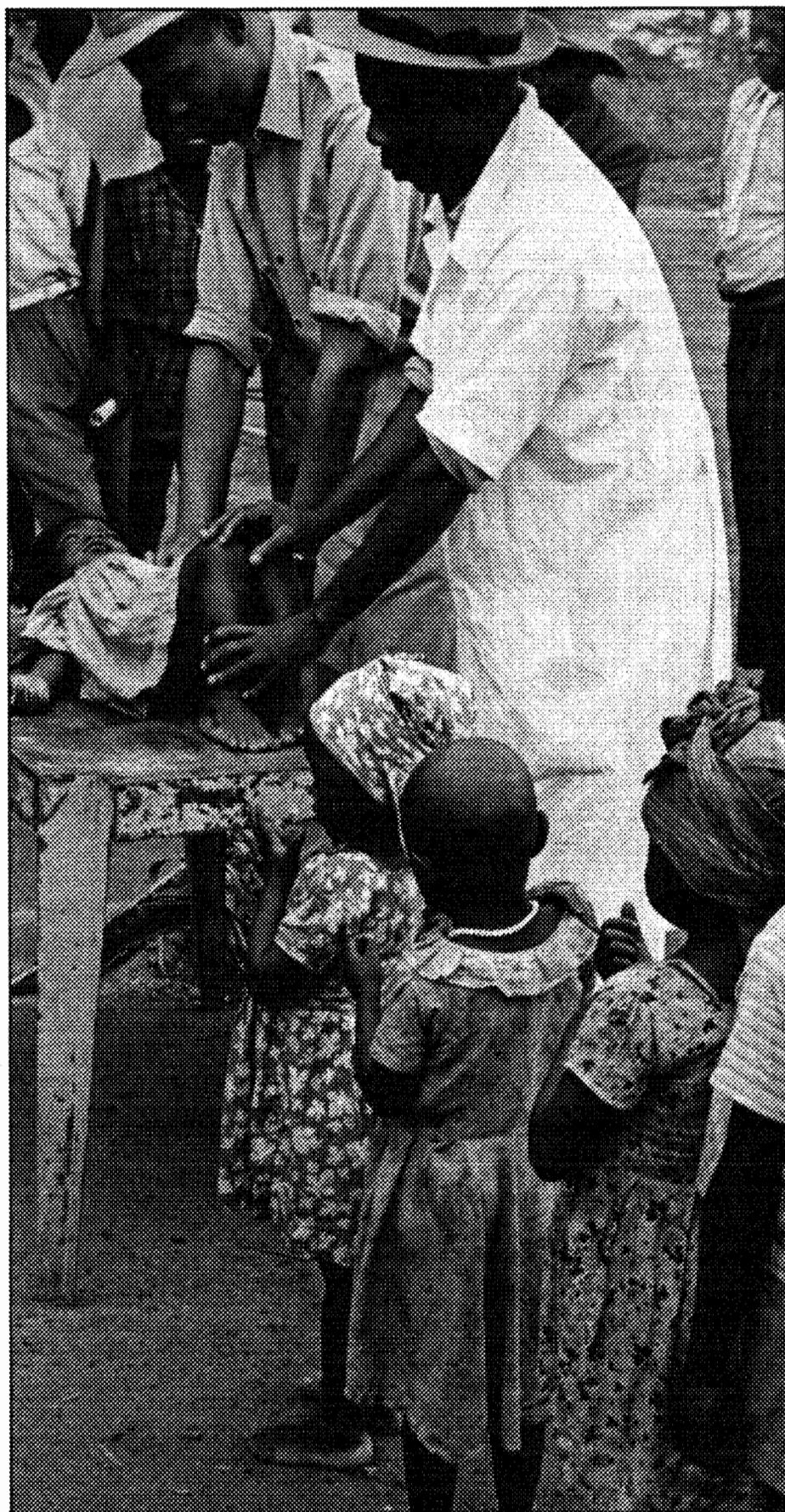
U.S. economic assistance to Africa provides the opportunity to work on perhaps the most complex development problems in one of the poorest

regions of the world, Sub-Saharan Africa. Nonetheless, this area has the potential for assuming, despite its poverty, an important economic role in the international community. Its markets and exports may now be modest by world standards, but in the coming decades its contribution can be significant and critical in the face of rapidly growing world demand for minerals, raw materials, food, investment opportunities and new markets.

For FY 1982, AID is requesting a total of \$836 million for its African programs. Compared to FY 1981, this request represents a 29% increase in Development Assistance and a 59% increase in Economic Support Funds.

The \$390.5 million in Development Assistance for FY 1982 will concentrate in the following areas: \$154 million for agriculture and rural development; \$46 million for health; \$37 million for education and human resources development; \$41 million to address selected development problems; and \$5 million for family planning. In addition, another \$32 million will finance population activities in Africa. The Sahel Development Program, which is a separate functional account for which \$107.5 million is requested, focuses also on food production, environmental reclamation, health and related training. In addition to the Development Assistance, \$231 million in Economic Support Funds is requested primarily for programs in Southern Africa and the Horn. About \$215 million in PL 480 (food aid) assistance, including \$132 million in Title I (direct food aid) and \$83 million in Title II (food for work), will also be programmed to meet growing concessional food needs and help stimulate greater local production.

Although AID assistance to Africa has increased since 1975, several factors have limited the impact. For



example, inflation has in fact reduced the real level of aid from FY 76-80—during a period when the program in Africa has been expected to reach more countries. In addition, catastrophes such as drought and political upheavals, creating vast populations of refugees, have exerted demands on extraordinary emergency assistance.

Our primary goal remains increasing food production. Africa is the only region of the world where per capita food production has declined over the past 20 years. This has meant that the demand for food imports has soared at a time when foreign exchange and heavy country debt is severely limiting commercial import possibilities for most African nations. The reasons for the generally unsatisfactory state of African agriculture are complex. They include a growing rural labor shortage. Because younger people are migrating in ever-increasing numbers from the countryside to the cities, the rural population is becoming an aged one. Climatic extremes and a growing scarcity of easily tillable land, the deficiency of applied farming research, the absence of a proven technological package and crop mix to offset the rising cost of improving technology (fertilizer, pest and disease prevention, extension and management), are all factors. Other problems are a lack of roads; government interference in marketing; and an "incentive" price that is all too often biased against agriculture—especially when it is in the form of overvalued exchange rates, lower producer prices and subsidized urban consumption.

While we are extremely concerned about food supply over the next several years, over the long run there is some cause for optimism. A number of African nations have the physical potential to produce surplus food grains for export to neighboring deficit countries. The continent is blessed with major river basins and other water resources that can eventually contribute to closing the food gap, as well as to diversifying the region's exports. We intend to work toward

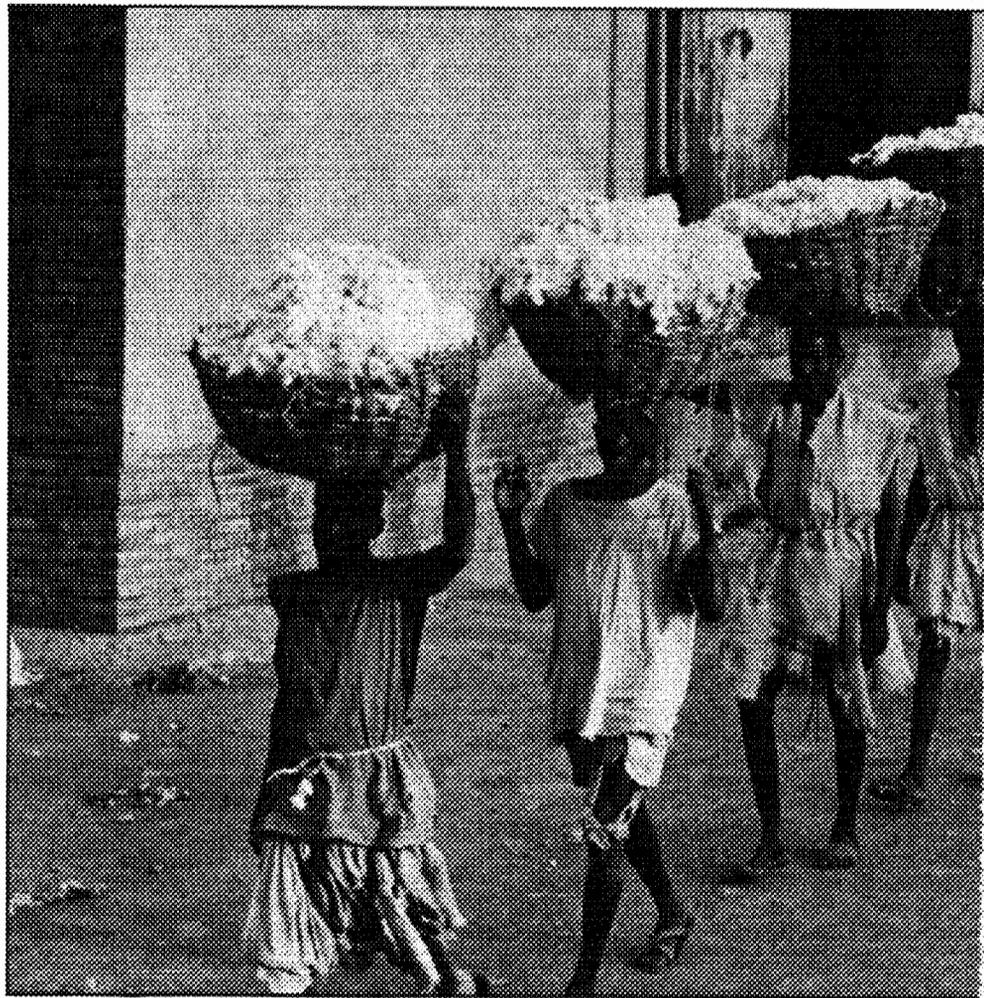
greater intra-African trade, particularly in food grains.

Energy availability and deforestation share the No. 2 berth among the most critical problems in Africa. In many countries, people are decimating the forests in their search for fuelwood. The United States will work with other Western donors to expand our reforestation effort. Small-scale, decentralized activities related to renewable energy will be funded as a basic part of rural development efforts. These new activities will complement intermediate efforts to assist rural agriculture production.

One of the most critical problems since the mid-1970s has been the growing number of refugees and displaced persons within sub-Saharan Africa. Political conflicts within and between countries, economic dislocations and climatic hardships, such as drought, have generated millions of displaced persons and the largest refugee population in the world. Moreover, the return of these people to their homes is unlikely in the foreseeable future.

The presence of a large number of displaced persons drains the countries' scarce financial and managerial resources, overburdens their limited infrastructures and threatens their economic and political viability. It is more than just a question of life support. The \$20 million Africa Resettlement Services and Facilities project will help many of the African nations that now have the largest concentration of displaced persons and are ill-equipped to provide for them. We urge the committee's strong support for this new and needed initiative so that the very high costs of emergency programs can be reduced in the future.

A fourth, and intensifying, problem is over-population. Africa has the highest rate of natural population growth of any developing region, averaging nearly 2.9% annually. Moreover, population growth rates will continue to increase between now and the year 2000 because the factors encouraging high fertility will change very little. The balance between human beings, animals, food



and land in some countries will deteriorate. In Africa, the general perception of survival is still closely linked to the number of healthy offspring who can work on the family farm. Labor remains the key scarce input in high-risk farming systems. Until infant mortality rates begin to fall, until the decline in per capita food production is reversed and until more modern farming techniques can be introduced, it will be difficult to convince rural Africans that they need to reduce the size of their families. Many African governments, however, now appreciate the need for family planning, and 34 countries have started some kind of family planning program. The introduction of family planning and population activities in Africa must be clearly tied with efforts in food production, health, and education.

Another major area of need is health.

Totally inadequate health services (i.e., only one-fifth of all people can obtain adequate health care) and the consequences pose one of the most serious problems facing Africa. The problem is greatest for women and children. For example: Approximately half of the deaths in African countries occur among infants in the first year of life; and one-third of all children will die before reaching 5 years of age. Additionally, 75-80% of infant and childhood illness and death is attributable to infections and/or communicable diseases and malnutrition. Many who reach adulthood will be less productive because they have incurred diseases. The majority of endemic diseases can be prevented by immunization, nutrition programs and other public health measures, and there will be more emphasis on these. In response to overall health problems of



Africa. The United States provides only some 8% of Official Development Assistance (ODA) to this region. This means that we have an important stake in efforts to assure collaboration between ourselves and the other principal donors to Africa. This task has assumed great importance in recent years. The following are several initiatives that are especially significant:

- **The Sahel:** The Sahel Development Program (SDP) is a unique long-term program through which eight African countries cooperate with Western and OPEC donors in the OECD-based Club du Sahel. While SDP started as a U.S.-French initiative, 23 bilateral donors are now active. The club has been cited by the Brandt Commission as a unique experiment in North-South cooperation.

- **CADA:** Concerted Action for Development in Africa, or CADA, is an association of the six principal bilateral Western donors to Africa: Germany, Belgium, Canada, France, Britain and the United States. CADA is looking into more focused actions in food research, irrigated agriculture, reforestation, child immunization and rehabilitation of transportation systems in Southern Africa.

- **Arab/OPEC Funds and Japan:** Several Arab States have established bilateral development aid funds. They also operate some multilateral funds and, together with non-Arab members of OPEC, provide substantial development assistance to many African countries. The Arab/OPEC funds are interested in strengthening their cooperation with the Western donors working in Africa.

Unless reversed soon, the converging and worsening development problems in Africa portend alarming food crises, new waves of refugees, political instability, and the loss of economic opportunity for both the United States and Africa. □

Roy A. Stacy is Acting Assistant Administrator for AID's Africa Bureau. This article is adapted from testimony in hearings before Congress in March.

the rural poor majority. AID assists African countries in planning, managing and implementing integrated (health/nutrition/family planning), low-cost rural health programs. Environmental sanitation and provision of safe-water supplies also will receive more support.

In all of these programs, primary components are broad training, and expanding management capability in order to build an institutional capacity by which African countries one day may plan and execute their own development.

PL 480 resources are a valuable complement to the Development Assistance Program in Africa and are integrated at both the planning and project level. The primary objective of PL 480 has been to help governments with their food needs. Title I concessional sales programs are pred-

icated on balance-of-payments and foreign policy considerations. Title II programs are based primarily on humanitarian concerns through government-to-government arrangements, U.S. non-profit voluntary agencies and multilateral organizations. In keeping with the policy to use food resources for basic development activities, Title II (206) and Title III food for development programs are under way in Senegal, Sudan and Upper Volta. We anticipate similar programs in FY 1982 in Mauritania, Cape Verde, Rwanda, Tanzania and Somalia. These food resources not only provide local currencies to support new food production actions, but also provide an invaluable instrument for policy dialogue and policy changes designed to establish stronger producer incentives.

Other donor coordination is especially important for U.S. programs in

NEAR EAST: Support for Peace and Progress

A statement by Alfred D. White

U.S. aid is helping
stabilize an area
where conflict rules.



The countries of the Near East to which the United States gives aid reflect a range of foreign policy interests and economic and political conditions. To

meet U.S. objectives we are requesting \$40 million in Economic Support Funds (ESF) for Jordan, Lebanon and Oman and \$21.1 million in Development Assistance for Yemen. We also expect to provide \$565,000 in PL 480 Title II (food aid) for Jordan to be distributed through voluntary agencies.

Jordan

We are requesting \$20 million in ESF funds for Jordan in FY 1982. This is less than the amount proposed in previous years. The reduction, which began in FY 1980, largely reflects continued improvement in the economy



and substantial assistance from other donors. Economic growth has averaged about 9% annually over the last five years. Per capita income now exceeds \$1,000, despite an extremely high population growth rate of 3.6% annually. With nearly half the labor force abroad in Saudi Arabia and the Gulf States, unemployment is nonexistent. In fact, Jordan now imports unskilled labor.

Water is still Jordan's top development problem, however. In FY 1982, \$15 million of the \$20 million proposed will be used to build water and sewage systems for the towns of Karak and Madaba. These two projects are part of a country-wide development plan for urban water and sewage services started in 1978 to deal with problems derived from rapid urban growth.

The balance of funds proposed for FY 1982 is planned for technical assistance activities in agricultural production and in community-based social development.

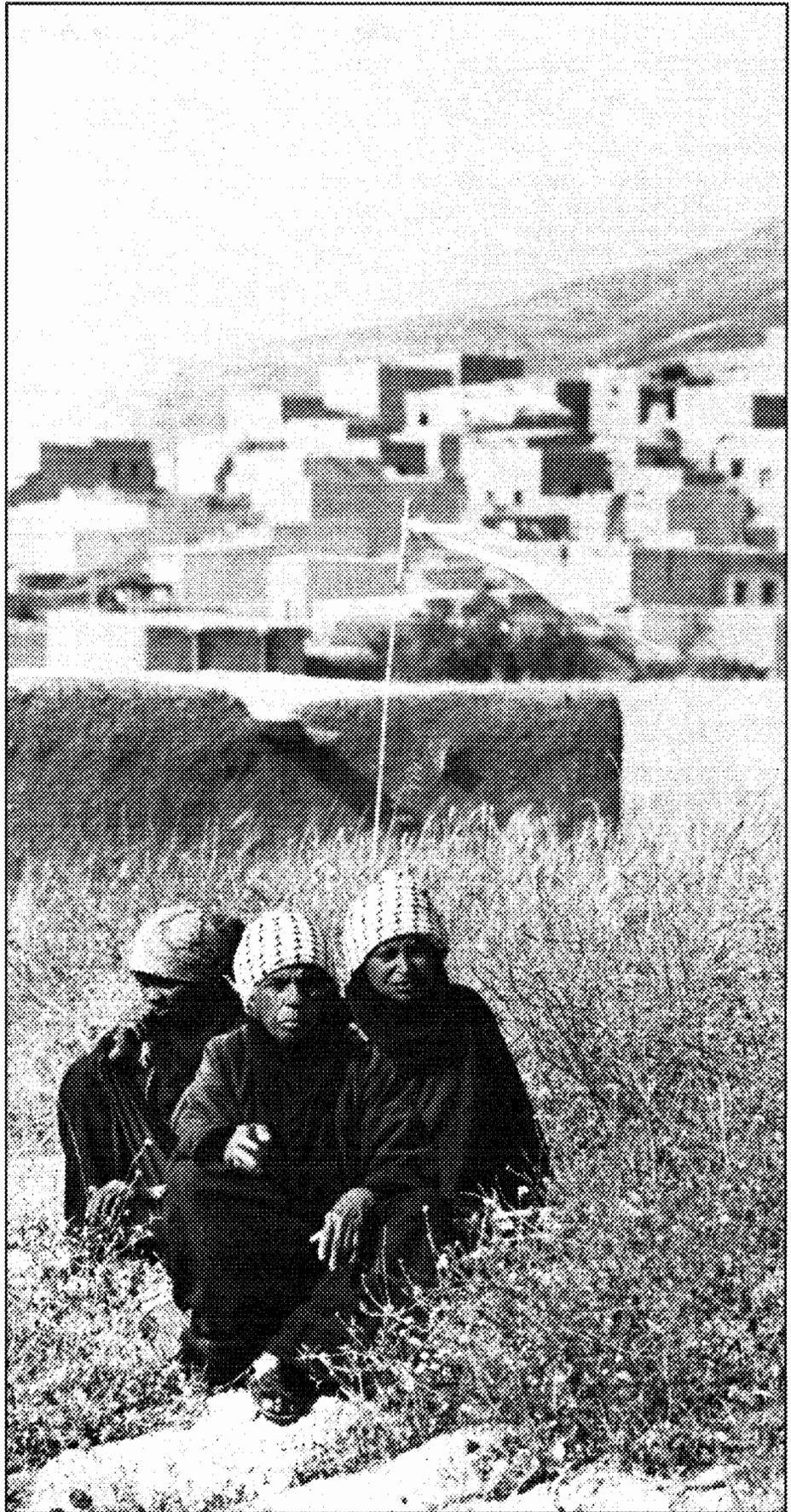
Lebanon

We are requesting \$5 million for Lebanon to continue a program of private voluntary organization activities and support to the government's reconstruction efforts.

Political discord continues to plague Lebanon. Despite a moderation in the level of tensions since 1977, sporadic violence continues both between and within the major communities. The central government continues its efforts to extend its authority and to achieve national reconciliation, but a variety of illegal, armed groups and militias are reluctant to cooperate and have frustrated the government's efforts.

Yet there has been some economic progress. Economic activity is thought to be roughly 70 to 80% of the 1973 prewar level. Most observers detect improvements during the last two years, especially along much of the coastal area. That area, particularly around Tripoli, where light industry, much of it relocating from Beirut, appears to be developing rapidly.

Agriculture in the Bekkaa Valley is



also doing quite well. Farmers are exporting produce throughout the region. In contrast, the Beirut area continues to limp along without noticeable gains. In all areas the potential for renewed violence and the lack of political cohesion discourages long-term investment, inhibits planning and precludes fuller economic recovery.

The mainstay of the economy remains the export of labor services; some 250-300,000 Lebanese work in the Arab oil states. These workers send home about \$1 to \$2 billion dollars each year. Together with other financial flows, these earnings ensure an adequate import level, which in turn sustains living standards and allows for a modest increase in foreign exchange reserves. Reserves are now approximately \$6 billion and can provide important support when the time is right for rebuilding.

Last year, the subcommittee requested assurances that the Lebanese government's comprehensive development plan is in place and asked AID to report on how its projects fit into the country's plan.

The Lebanese have done some broad planning. In 1977 the government created the Council for Development and Reconstruction (CDR) and charged it with coordinating Lebanon's reconstruction and development effort. It produced a broad reconstruction program, some preliminary economic analysis and cost estimates, and a listing of priority projects. More recently the CDR formulated, and the government in July approved, a 12-month expenditure budget for the use of Arab aid. This program allotted some \$290 million among specific priority projects. Included is rehabilitation work on the Beirut airport and seaport; the telecommunication system; the highway system and the expansion of power generating capacity. To date \$170 million in Arab aid has been provided for this program.

Unfortunately, political and security conditions do not yet permit the start of a comprehensive, systematic reconstruction effort. Nevertheless, within the limitations we ensure that

our programs are targeted on important Lebanese priorities. In its earlier efforts at developing project priorities and more recently in its budget planning, the Lebanese government has designated health, housing, and education as priority needs. These priorities have also emerged from our bilateral discussions on program priorities with Lebanese officials.

Given this situation, we are continuing to provide economic assistance to Lebanon from the ESF account through U.S. private organizations with demonstrated effectiveness and close working relationships with the government of Lebanon. We believe this is the most effective way our funds can support both our political and economic interests in Lebanon.

The requested \$5 million for FY 82 is needed to continue support for health education, credit cooperatives, vocational training, private social institutions and development planning, and to begin a new program in housing. These assistance programs contribute directly to the welfare of the Lebanese people. They provide a tangible expression of U.S. good will and concern and tend to strengthen the forces of moderation and political cohesion.





Oman

For Oman, we are requesting \$5 million in grant funds and \$10 million in loans for the Omani-American Joint Commission. The Joint Commission was established in 1980 as a part of our expanded economic, political and security relationship with Oman. The Joint Commission will sponsor or assist development projects, offer opportunities for training and promote or facilitate commercial and technological exchanges between the two countries.

In late FY 80 the first \$5 million in grant funds was obligated for Joint Commission programs and the commission is now operational. Initial discussions with the Oman government on Joint Commission projects suggest that the primary focus of activities will be on agriculture, fish-

eries, water and health. We expect to finance the design of a system of small check dams to capture rain water runoff to recharge aquifers. Participant training is also an early possibility.

The second tranche of grant funds requested for FY 82 will be used to continue to support the operations of the Joint Commission; develop projects; and finance training and other activities. We expect to use the loan funds to support construction of the small dams to be designed in FY 81.

Yemen

In addition to these Economic Support Fund programs, we are requesting \$21.1 million in Development Assistance funds for the Yemen Arab Republic (YAR) in FY 82.

In the past year, events in the Middle East, particularly in the Persian

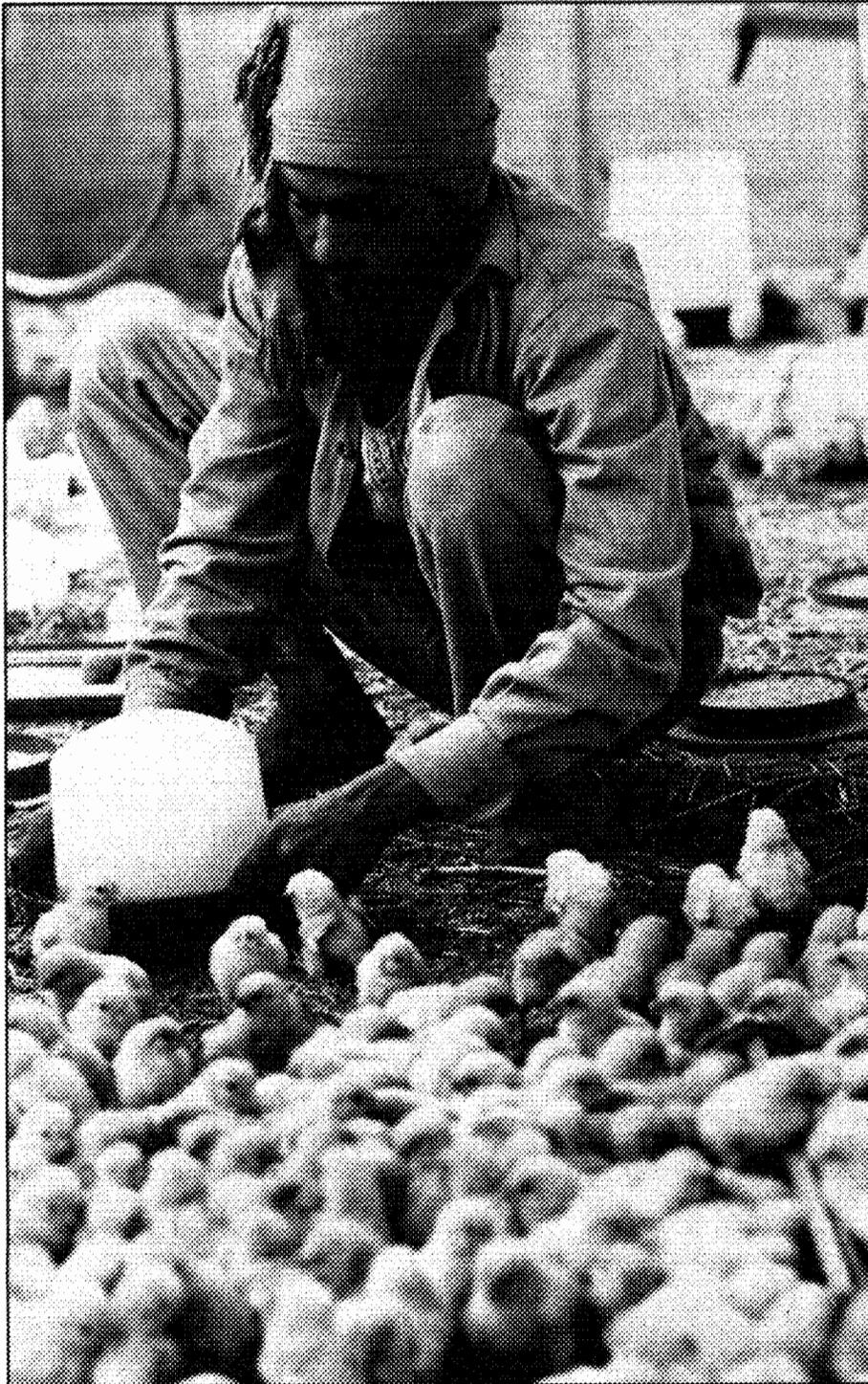
Gulf, demonstrated the importance of the YAR to U.S. foreign policy in the area. The turmoil and disruption generated by the Iran-Iraqi war, plus the danger that parties hostile to U.S. interests could exploit the situation to increase the need for a stable, moderate YAR. The U.S. assistance program, by addressing the economic and social causes of instability and poverty, is a key element of this policy.

Past testimony before this committee has emphasized the paradoxical nature of the economy. On the one hand, per capita GNP, fueled by migrant remittances, has increased dramatically in recent years (to \$540 in 1979). On the other hand, the YAR remains a country of extreme poverty as measured by most quality-of-life indicators.

The new decade marks a departure from the rapid growth of the 1970s—migrant labor and remittances appear to be leveling off. Other factors such as capital flight caused by the 1979 conflict with the People's Democratic Republic of Yemen, a 1980 current account deficit for the first time in five years, and a significant drawdown of foreign exchange reserves to pay for increased imports are harbingers of the economic problems that will face the country in the next few years.

As a result of these problems, the role of foreign aid in financing Yemen's development plans has become even more important. Although aid has increased steadily over the past few years, the development challenge is still monumental. Life expectancy is 45 years; literacy remains at 26% for men, 2% for women; infant mortality continues at a high rate of 160 per 1,000 births. Without adequate schools and teachers, safe water, sanitation and basic health services, the people of Yemen have no opportunity to improve their lives.

Our development effort in Yemen seeks to address these basic deficiencies by focusing on a broadly based program of training and technical assistance to develop human resources and institutional capacities in such key sectors as education, agriculture, water and rural development. To do



this we are relying heavily on U.S. universities and private voluntary agencies.

The U.S. aid program is uniquely capable of providing the kind of technical assistance and training needed for a long-term strategy of institutional development. As such, it complements very well the capital and physical in-

frastructure focus of other donors. The proposed budget for FY 82 also contains \$300 million for Turkey, \$20 million for Portugal and \$7.5 million for Cyprus all in Economic Support Funds. We are also managing prior year disaster relief funds for Italy, Yugoslavia and Romania, and Economic Support Funds for the Azores.

Turkey

For FY 82, we have requested \$300 million for Turkey for balance-of-payments assistance to continue support for that country's economic stabilization program. U.S. assistance will be provided as part of an OECD multidonor consortium effort and will be within the framework of an IMF stabilization program to be carried out by the Turkish government. We admire the political courage which the Turkish government has shown in implementing its economic reform programs. We believe Turkey's allies and friends should continue to help the Turkish Government maintain the momentum already achieved in addressing fundamental problems in the economy.

Economic conditions improved only slightly in the months immediately following the introduction of the reform. The general price level rose sharply as the State Economic Enterprises doubled, tripled or even quadrupled prices, shortages were alleviated only slowly because of Turkey's precarious balance-of-payments situation and a rash of strikes; exports and workers' remittances remained at depressed levels; and output did not increase.

The United States, other OECD donors and Turkish authorities soon will jointly review the details of the economic stabilization program and consider the needs for external financing to assure the continued success of the reform program. The next consortium pledging session is tentatively scheduled for early May. We anticipate that the consortium again will provide sufficient assistance to insure continued economic recovery.

Cyprus

In FY 82 we are requesting \$7.5 million for Cyprus to demonstrate the continued U.S. concern for the people of Cyprus and U.S. interest in a solution to the problems that separate them. As in prior years, U.S. funds will be transferred to the United Nations High Commission for Refugees for administration and will be used for relief and rehabilitation.

Portugal

The \$20 million request for Portugal is in accordance with the exchange of diplomatic notes dated June 18, 1979, between the United States and Portugal regarding Lajes Air Base in the Azores. In addition to military assistance, the United States also agreed to provide \$80 million in economic assistance, subject to congressional authorization and appropriation. The FY 82 funds will be for the third of four tranches which the government of Portugal plans to use for the economic and social development of the Azores, one of the least developed regions of Portugal.

Most activities funded in prior years are nearing completion. The pipeline has been reduced to under \$50 million. The first \$5 million provided in FY 80 for reconstruction assistance following the Jan. 1, 1980, earthquake, has been fully disbursed and a design team is now in the Azores examining a low-cost housing project to be funded with the \$5 million in the FY 81 budget.

Overall, Portugal's economic situation has improved markedly due to a conscientious application of a stabilization program begun in early 1978.

Disaster Assistance Programs

I would like to briefly touch upon the reconstruction programs that are being mounted to help governments and their people overcome the effects of major earthquakes.

Southern Italy

Reconstruction Program

The earthquake last year in Italy was considered the most devastating disaster to strike Western Europe since World War II. After helping in relief efforts, AID sent a team in December to ascertain what the country would need to rebuild. The team found that school buildings had more damage than had any other public facility. They also found that the Italian people were concerned that the lack of schools would stimulate emigration, further weakening the economic base of the area. Because schools would have an



impact on a large portion of the affected population and would also be a permanent and highly visible symbol of American friendship for the Italian people, AID plans to focus U.S. assistance there—for building 12 medium to large schools. The \$45.2 million now available (relief assistance was \$4.8 million) will be obligated in agreements for specific projects.

Greece

In February and March 1981, Greece was hit with a series of relatively strong earthquakes. According to current estimates, 79,000 people have been made homeless, but fortunately there have been relatively few fatalities. As soon as the earthquake struck, the U.S. ambassador made use of his discretionary authority and turned to military channels for tents, blankets and other immediate relief supplies. These supplies and others were quickly provided to Greek authorities and subsequently charged to AID disaster appropriations. Currently, the United States has committed almost \$600,000 for emergency relief to Greece. As of now, the Greek government has not requested any reconstruction assistance.

Romania

Following the earthquake in March 1977, Congress authorized \$20 million for Romanian assistance. An initial \$7 million from the International Disaster Assistance Account was used to purchase repair and replacement medical equipment on an emergency basis. Of the \$13 million appropriated in October 1977 for additional building repair and medical equipment, educational equipment, seismic monitoring equipment and earthquake equipment, \$11 million has been disbursed.

Yugoslavia

Yugoslavia received a \$10 million grant which was executed in September 1979 to finance reconstruction of six schools and six health facilities. To date, one school and one health clinic have been completed. Four other schools and two health facilities are more than half-finished. □

Alfred D. White is Acting Assistant Administrator for AID's Near East Bureau. This article has been adapted from his testimony in hearings before Congress in March.

ASIA:

A Question of Balance

A statement by Frederick W. Schieck

The people-food imbalance is at the core of underdevelopment.

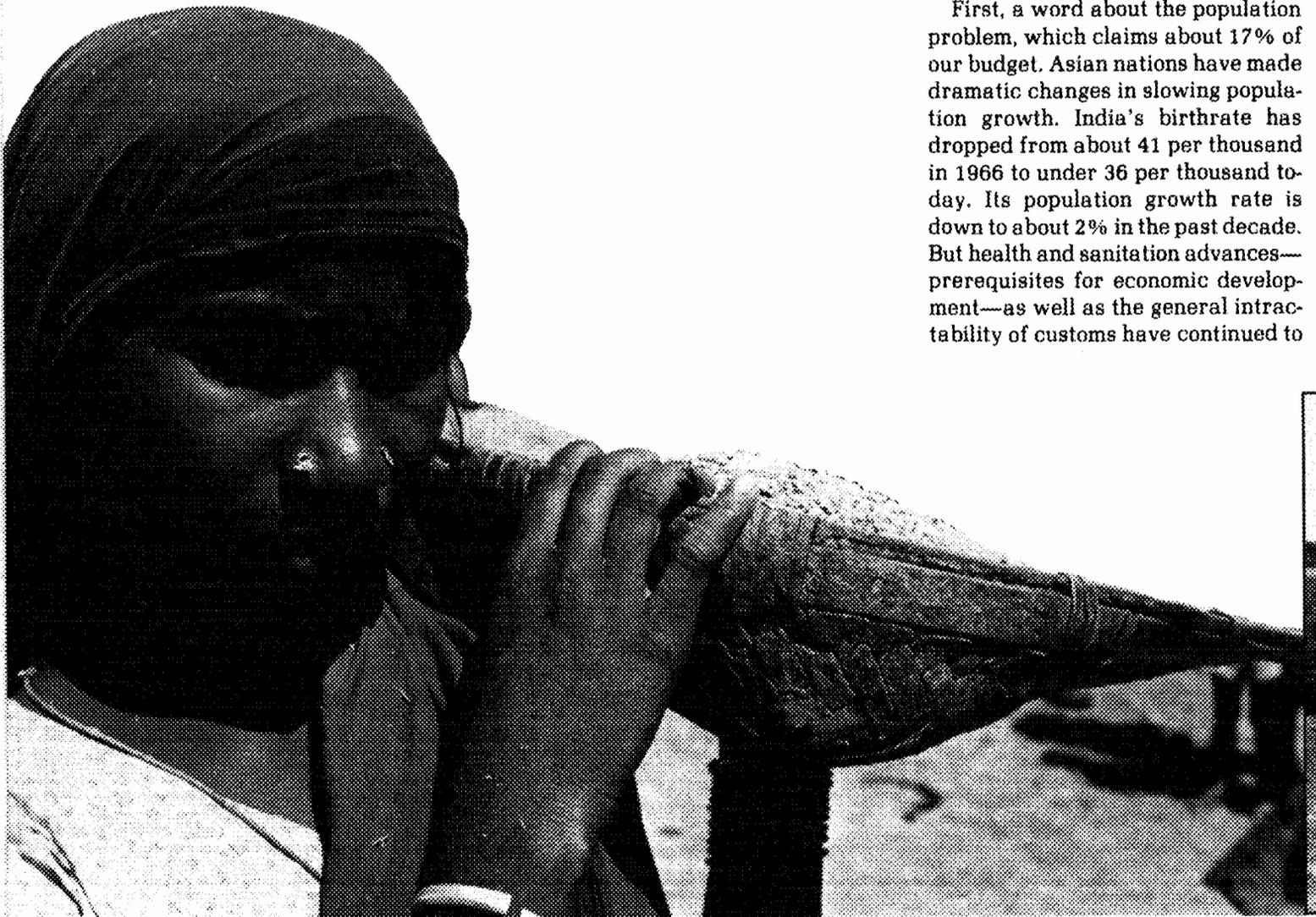


This year, as in years past, our program reflects the great needs and unrealized potential of millions of people who live in Asia.

Lacking economic opportunity and held back by hunger and disease, these men and women, willing but unable to provide for themselves, constitute a wasted resource not only to their nations but to the world at large.

While this statement may sound all too familiar, progress is being made which reflects well on both the Asian nations and on our own country. But poor countries do not develop overnight, just as we didn't. The basic problem we are addressing is the one that lies at the core of underdevelopment: The food-population imbalance.

First, a word about the population problem, which claims about 17% of our budget. Asian nations have made dramatic changes in slowing population growth. India's birthrate has dropped from about 41 per thousand in 1966 to under 36 per thousand today. Its population growth rate is down to about 2% in the past decade. But health and sanitation advances—prerequisites for economic development—as well as the general intractability of customs have continued to



boost population beyond tolerable limits in many Asian nations.

There has been important progress in food production. To cite an example from India again, that country has withstood severe crop failures on the strength of home grown reserves—a first in modern Indian history. India can look forward to sustained food grain self-sufficiency, even with per capita consumption rising somewhat. Over the last 10 years the Philippines has been able to dispense with food grain imports almost entirely. Food grain production has grown at 4% per year on the average, well ahead of population growth. Even in Bangladesh, the country that for so long has epitomized food shortages and hunger, there has been noteworthy progress. As a result of good weather, sustained price incentives and ample fertilizer, Bangladesh today is reaping record harvests. Wheat production has surpassed all expectations—over a million tons last year, up from 105,000 tons in 1970.

However bright these statistics, they are only a beginning. By one calculation, Asian countries must achieve annual increases in agricultural production of 4% if the 60-million-ton food gap projected for 1990 is to be closed. Our effort in this area will use about 69% of the entire budget for

Asia. Our program will concentrate increasingly on five areas: irrigation, particularly water management; national agricultural research, education and extension; increasing upland and secondary crop yields; improving watershed management; and improving agriculture sector planning, pricing and marketing capabilities.

The food-population relationship also has a new dimension: energy. Energy shortages and higher fuel prices threaten many countries' hard-won gains in food production, and for others push production goals further and further into the future.

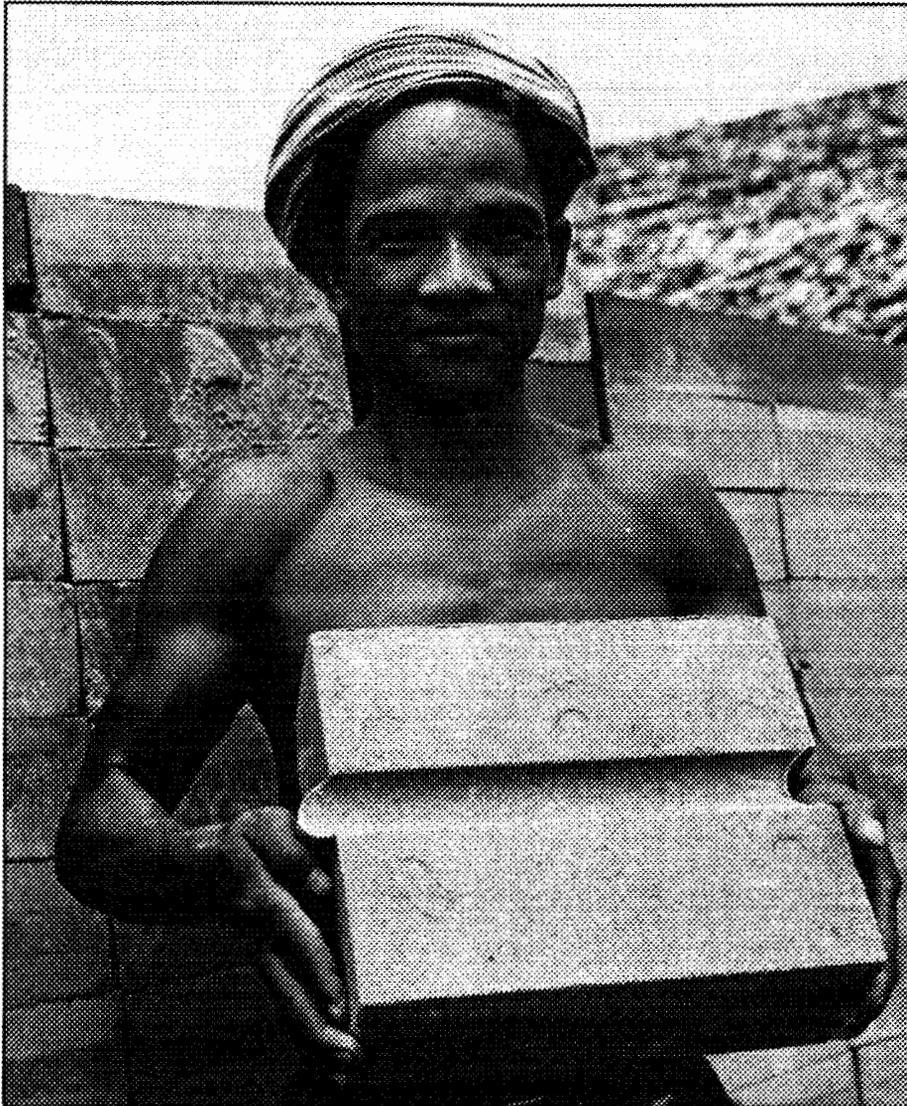
Almost all of the Asian countries are dependent on imported petroleum. For too many of the Asian countries, the choice will be between using foreign exchange to pay for energy or for future development investments. Such choices mean a slowdown in the rate of growth in agricultural production. The cost of imported oil is beyond reckoning in human terms, but not financial ones:

Sri Lanka's oil imports have jumped from 7% to 51% of foreign exchange earnings over the past eight years. And this year, Bangladesh, a country with no fat to trim, will pay over half of its foreign exchange earnings for imported oil. India's oil imports cost \$264 million in 1972, and required

8% of its foreign exchange earnings. This year, India will spend \$6 billion for imported oil and use 70% of its annual foreign exchange earnings to pay for it.

By and large, Asian countries are coping with the rising cost and scarcity of energy by adopting conservation measures, reducing subsidies and developing new energy resources. AID will devote \$32 million, or 7% of the 1982 Asian program, to energy as part of a multi-year effort lasting through FY 1986. The energy program will focus on the development of fuelwood supplies and renewable energy resources while supporting overall national energy planning. This strategy complements the World Bank's expanding capital assistance program in conventional energy development, including a planned, small-scale hydropower project in Thailand, energy planning in Indonesia, and planned projects to grow and harvest





fuelwood in the Philippines and Nepal.

The growing ability of the Asian countries to manage their own development efforts, to undertake difficult policy changes, support complex programs and alter them as needed is becoming more and more apparent. In the long run the development—and the very independence—of the Asian countries depend on the capability of their own national and local institutions. The availability of trained personnel, of strong, capable institutions, is an important limiting factor on the pace of development. Thus, AID-supported programs such as the local resources management and rural services center projects in the Philippines and the provincial area development and regional planning projects

in Indonesia are designed to support national government efforts to decentralize program planning and decision making and mobilize local resources.

Because we believe that it is important to understand whether or not our investment is paying off, we have undertaken a number of evaluations not only to guide project implementation, but also to structure subsequent projects, and to identify the common denominators which can then help in designing similar projects and programs where needed. For example:

- All senior county level officers of the Bangladesh family planning program are being trained in Indonesia, learning first-hand the elements of a successful family planning program.

Moreover the lessons learned in Indonesia were applied to the new population project in the Philippines.

- The Philippines rural electrification project guided us in Indonesia and in Bangladesh. In each of these countries, moreover, other donors have expressed the wish to follow and pattern their rural electrification projects after ours.

- The findings of major evaluations of food aid programs in India, Bangladesh and the Philippines will lead to better integration of food aid in development programs throughout the region.

Our achievements have an impact beyond the individual projects and the resources we provide. AID recipients and donors alike look at us for leadership and technical expertise, especially in agriculture, health and family planning.

Among international donors the United States continues to be a leader in the techniques of development assistance. . . .

The United States has been a leader, first in the policy shift under the Congressional New Directions toward basic human needs programs, and then in developing the programs themselves:

We have led with food production programs built around the principle of incentives for small cultivators.

We have led with primary health care and family planning service outreach.

We have been among the first to recognize the need to address the distinct problems of women, to encourage decentralization and local initiatives, to focus on alternative energy and to include in our program design an assessment of environmental impact.

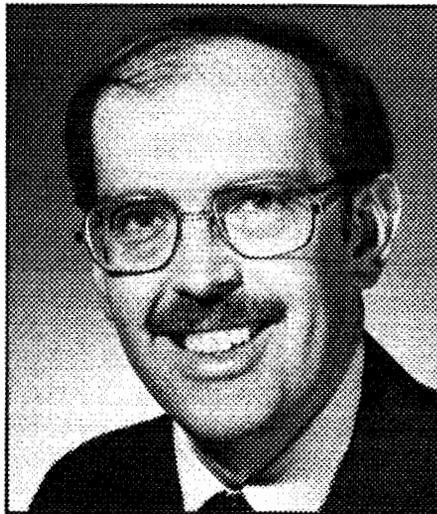
And we have led in the design of programs that recognize and take advantage of the role of the private sector—whether in family planning and health or in food production and distribution. □

Frederick Schieck is Acting Assistant Administrator for AID's Asia Bureau. His remarks are adapted from testimony before Congress in March.

AMERICA: Continuing a Proud Tradition of Helping Others

Development
assistance also
protects U.S.
interests abroad.

A statement by
AID Administrator
M. Peter McPherson



Developing countries have made much progress in the 30 years or so since their modern, independent economic growth began and since the United States first launched the concept of large-scale international development assistance. Our satisfaction at these accomplishments must be tempered, however, with concern over today's problems and those of the rest of this century.

Over the past 30 years the economies of developing countries grew faster than the industrial nations had ever grown in any comparable period. At the same time, life expectancy—a useful index of a country's health and general living standard—rose from 32 years (just before World War II) to 50 years, an increase that took the industrial countries the entire 19th century to achieve. Adult literacy rose from one-third in 1950 to about one-half by 1975, while the number of students in primary schools more than tripled.

Substantial progress has been made toward economic self-reliance and diversification. In the early 1950s many of the countries that have achieved these advances were just emerging from colonial status, were torn by unrest or open warfare, were dependent upon one or two commodities for the bulk of their exports, and had barely begun to create the educational, research and governmental institutions on which modern development depends.

The United States can be proud of the contributions we made to this historically unprecedented record of economic and social advancement. The United States was at the forefront of the industrial nations in recognizing the need for international economic and technical assistance to the developing countries, in creating programs to provide such assistance, in urging other industrialized coun-

tries to increase their aid efforts, in promoting the expansion of the burden-sharing multilateral assistance agencies. Private U.S. investment in developing countries has been encouraged and the system of international trade strengthened in recognition of the opportunities trade can offer as an engine of growth, especially for market-oriented economies.

This progress has also brought home to us the reality of problems that persist and affect us all ever more directly. We have learned that continued progress in Third World development is of growing importance to our own domestic and international well-being.

In the past year public awareness of our interdependence has been highlighted by the President's Hunger Commission, the Brandt Commission, and the Global 2000 study. The Global 2000 report in particular presents a sobering picture of large-scale interrelated problems caused by population growth, energy scarcity, forest destruction with attendant soil and atmospheric effects, and pressure on food production capacity. The Hunger Commission focused on food production and effective demand for food, the constraints on growth, and the implications for development assistance and for the already vast numbers of hungry human beings in the poorer countries. The Brandt Commission stressed the wider framework of economic policies and institutions and the need to strengthen these policies

A
B

“This Administration is committed to finding practical means of enhancing the private sector’s role in assistance programs . . .”

and institutions if we are to have a chance of meeting the problems of the next two decades as effectively as we have the previous three.

Future directions in all these areas, and in the progress generally of the developing countries, will have direct impact on the well-being of the United States. The entire planet’s ability to sustain greatly increased numbers of people, to control atmospheric pollution, to produce sufficient energy and to reduce stark disparities in income levels and employment opportunities that lead to heavy pressures to migrate to stronger economies will depend on the rate of economic progress in the developing countries and the extent to which this progress is shared among the entire population. Failure to make acceptable progress in ameliorating conditions of poverty can only lead to domestic instability and increasing frustration on the part of Third World governments over the workings of the international system and the distribution of economic and institutional power in that system as it is now constituted. Such instabilities, as we know all too well, can quickly spill over into regional disequilibrium and create opportunities for interventions that are to the interest neither of the countries directly involved nor to ourselves.

The decision to provide aid to a country is, of course, a key foreign policy decision. Successive Congresses and Administrations, beginning with Roosevelt and Truman and continuing with President Reagan, have recognized the importance to our foreign policy of a strong, broadly based foreign assistance program. The balance has fluctuated over the years between military and economic aid and between the meeting of short or longer

term objectives, but at no time have we lost sight of the tremendous importance such resources have to our overall national security interests. There is no doubt that this Administration shall continue to stress the importance of substantial development assistance to helping achieve our national objectives.

Technical and economic assistance needs vary from country to country, as do the degrees and kinds of U.S. interests; as a result, the array of programs we conduct or help finance is also quite varied.

The total FY 1982 request for all foreign economic and financial assistance is \$8.1 billion, a reduction of \$1.5 billion from the Carter budget. This request represents slightly more than 1% of the entire federal budget.

Bilateral Programs

Approximately 80% of the FY 1982 request is allocated on a bilateral basis. The major bilateral programs are:

1. AID Development Assistance (\$1.9 billion) concentrates on programs pinpointed to areas of special concern to the United States—e.g., the Caribbean—that draw on our comparative advantages and special priorities—as in technology transfer, use of the private sector, and support for equitable growth in a limited number of priority sectors.

2. The Economic Support Fund (\$2.6 billion) promotes economic and political stability where the U.S. has special security interests. These funds, while directed more explicitly to political objectives, are very important to achieving economic development objectives. Budgetary increases this year are directed especially to helping meet urgent foreign policy priorities in Central America, while

providing for enhanced flexibility (in close consultation with Congress) to meet ever-changing special requirements as they develop throughout the year.

3. PL 480 Food for Peace (\$1.2 billion, about 5.5 million tons). PL 480 provides Third World countries with food supplies to meet national food and nutritional needs while they increase their own food production. As we integrate development programs more effectively, one of my major goals will be the enhanced link between food aid and our other development activities.

4. Refugee Assistance (\$568 million) represents a very substantial U.S. program designed to alleviate the misery and suffering now found with increasing severity worldwide. During 1980, major refugee relief programs were supported in Kampuchea, Somalia, Pakistan and Zimbabwe. This aid provided immediate survival support followed by supplies of tools, seeds and shelter in order to permit refugees to become self-sustaining, either in a foreign land or within their own borders.

5. Housing Guarantees (\$150 million in guarantees, no appropriation required) are designed to provide shelter and associated urban services to low income families. Efforts related to Housing Guarantee now include technical assistance for institution building and helping countries prepare medium-to-long term shelter development plans.

6. The Peace Corps (\$95 million) fields about 6,000 volunteers in over 60 developing countries. Volunteers now carry out important development assignments in key basic human needs areas. Increasingly, AID and the Peace Corps are cooperating on joint ven-

**“Future directions . . . and the progress generally
of the developing countries will have a direct
impact on the well-being of the United States.”**

tures of common interest.

7. **Other** bilateral activities include the Inter-American Foundation (\$13 million proposed in FY 1982) which extends grants to local private groups in the Caribbean and Latin America.

Multilateral Programs

About 20% of this request is for international development institutions, especially the multilateral development banks (MDBs). The international character and varied financing windows of the MDBs make them especially able to work on difficult policy issues and to fund large development infrastructure projects that directly increase the productivity of poor people in countries of significant importance to the U.S. These projects often complement U.S. bilateral programs, an effort we shall try to strengthen. These banks generate about three dollars from other donors for every dollar we provide, as well as much larger flows in support of development by the banks' borrowings from the private banking system.

Private Investment

This Administration is committed to finding practical means of enhancing the private sector's role in assistance programs and in LDC development, both in the programs noted above and in two special organizations in our bilateral program:

1. The financially self-sufficient Overseas Private Investment Corp. (OPIC) provides political risk insurance and loan guarantees to U.S. investors in new or expanding businesses in developing countries.

2. The Trade and Development Program (TDP) (\$7 million, FY 1982 budget request), promotes private sector participation in Third World

development through the provision of project planning services that lead to the sale of U.S. technology for project implementation and through the provision of government-sponsored assistance on a reimbursable basis. Directed principally at middle-income countries that can finance their own development, it complements development assistance programs which focus on the poorer countries. . . .

More than half of the AID's development assistance budget is focused on food related problems. Increasing food production distribution and consumption within a growth with equity strategy is a primary goal.

In FY 82, \$727.8 million is requested for this sector. AID's farm level efforts to increase food production are varied. Through training, technical assistance and financial support, AID will foster the improvements needed to increase the production of the family farmers. Our focus on the total farming system offers a promising approach to research and development of technologies most useful to farmers. Through additional research—in U.S. universities, in international agricultural research centers and in the growing national research establishments in low income countries—AID intends to stimulate the continued development and dissemination of improved agricultural technologies.

The agricultural production policies of recipient countries are also critical. We have two major instruments for influencing policy. First, through technical and capital assistance we help reduce policy and related institutional impediments to equitable growth. Second, by providing PL 480 food aid in the context of a long-term agricultural development plan, we encourage policy changes to

reduce food deficits while addressing the worst immediate aspects of such shortages on the needy.

The grave implications of a related problem, accelerated deforestation, are upon us. This is a threat both to rural energy needs and to agricultural productivity. Forests are being cut for fuelwood at a rate faster than the process of natural regrowth. Consequently, erosion is increasing and the resulting siltation reduces streamflow, increases flooding and affects the utilization and maintenance of irrigation systems. Adequate supplies of potable water are equally threatened. Forestry assistance is now a key element of AID's program, as is our assistance to help developing countries manage their natural resources more efficiently and productively.

Deforestation has itself been accelerated by the worldwide fossil fuel energy crisis. With the upward spiral in the price of petroleum-based fuels, the pressure on fuelwood supplies has intensified. AID is therefore giving increased emphasis to the development and diffusion of alternative rural energy sources such as bio-gas and mini-hydro, as well as more efficient energy conversion devices, such as wood-burning stoves. We are also strengthening institutions for energy planning and policy analysis. Over \$77 million is sought for all types of energy programs in FY 82.

Rapid population growth in developing countries exacerbates food, environment and energy problems. Between 1980 and the year 2000, the world's population is expected to increase about 4½ billion to over 6 billion people; 90% of that increase will take place in the developing countries. While the demographic situa-

“There is no doubt that this Administration shall continue to stress . . . development assistance to help achieve our national objectives.”

tion is serious, it is not hopeless. Worldwide population growth rates are no longer rising. Among the 13 most populous developing countries, all have experienced crude birth-rate declines. However, significant countries and regions of the developing world are still growing at rapid rates that offset development gains and contribute to local and global instability.

As the largest donor for international population programs, the United States has played an important part in bringing about decreased population growth rates. We have led in developing and disseminating the most widely used contraceptive methods; in providing contraceptives; in developing inexpensive service delivery systems; in training personnel; and in increasing motivation for family planning among individuals, communities and national leaders.

We must continue to assert our leadership. Today, demand for population programs far exceeds available resources. Our funding request of \$253.4 million for population programs is essential to keep up the momentum in the highest priority program areas.

Illness and early death are still common among the poor in developing countries. Primary health care, a combination of the most basic preventive and curative health services, is among the most promising means of reducing childhood disease and death, of diminishing poor hygiene and related poor nutrition, as well as the often fatal effects of too frequent pregnancies. Most developing nations have made a firm commitment to primary health care and many look forward to the extremely ambitious goal of universal access to primary

health care by the end of the century.

AID has been a leader in financing primary health care programs since the early 1970s and has helped finance nearly 50 programs in 36 countries. Part of the challenge before us is to help developing countries establish systems that can be self-sustained through government efforts and participation of local communities. We are requesting \$120.4 million in FY 1982 to meet the challenge and carry on other priority work in the health sector.

The education problems that developing countries face are enormous. Indeed, because of the rapid growth of the youthful population and the acute shortages of teachers and instructional material, developing countries face the very real prospect of having more school-age children out of school in 1985 than a decade earlier. Our strategy is to help developing countries find cost-effective ways of improving their basic educational programs.

AID also focuses on critical higher-level manpower shortages that undermine economic progress in the developing world. AID has supported the training of over 200,000 professionals in a wide range of fields critical to development. I am personally concerned that AID's participant training program has declined in the last decade, notwithstanding continuing high demand for American university and specialized training.

In order to help meet these education and training needs, we are requesting \$109.6 million for FY 82, primarily for programs in Latin America and Africa. The bulk of these funds will be used to support programs for basic primary and non-formal education as well as vocational, technical and professional training.

The \$1.9 billion AID has requested

for the Development Assistance program is nearly half a billion less than was proposed in the Carter budget. This cut does not represent a reduction in need for funding of agriculture, health, population and other programs around the world. Rather it represents the outcome of a difficult set of choices in which this Administration has had to give very high priority to reaching an appropriate balance between income and expenditures, a process in which every budget had to be scrutinized and virtually every program had to be restrained no matter how sound the objectives.

As we reviewed the previous budget, I came to realize how central our Development Assistance program is to America's relations with countries around the world. Indeed, for many countries the Development Assistance program is our primary expression of participation in what for them is most important—their rapid economic and social development. Thus, this program serves not only our generalized interests in helping to solve some of the world's most critical problems, but also our very immediate political interests in achieving a satisfactory relationship with countries important to us on the three major continents where the program is carried out.

This is a worldwide program, focused on a critical set of development issues—food, population, health, education and energy. It serves our foreign policy interests well, and will leave a lasting impact on vast numbers of poor people. □

M. Peter McPherson is the Administrator for the U.S. Agency for International Development. His remarks were part of testimony before Congress in March.

WHAT THE MEDIA SAY...

Many countries are too poor to be credit-worthy to the commercial banks and it would be shortsighted for the United States to compound their problems by denying official aid as well . . . This is the role for concessional aid. Call it a grubstake. Call it national security. It is the only economic instrument the United States has in many countries. This aid need not be given indiscriminately to all comers. If countries will not help themselves, there is no place for U.S. aid other than to lease allies for short periods. . . . When countries are prepared to help themselves, it would be folly to withhold our assistance. . . . Those who oppose such a program are taking risks with U.S. national security.

—**Sidney Weintraub**
Christian Science Monitor

The remedy (for recurring African famines) lies in building on, rather than draining the great strengths of Africa's village civilization. The effort to build stable nation-states and prosperous industrial economies on the narrow base of raw materials produced for export, introduced in the colonial period for a no more exalted purpose than deriving a profit for empire, has proved beneficial to some Africans and non-Africans alike. But obliging Africa's villages to produce first for the consumption of others has undermined the very village self-sufficiency on which the exploitive status quo depends. Let there be no mistake about the risk. In Africa's future, there may indeed be a failure of food pro-

duction for local consumption. The consequences would be horrific. Any relief program would be overwhelmed. Millions would die in weeks. My guess is that they would go silently to their graves. Then, at least, the problem of hunger in Africa would be solved.

—**James Harkin**
New York Times

The North-South meeting, planned for late October after more than a year of diplomacy, is expected to be the first occasion when President Reagan tells other world leaders in detail how the United States envisages Western economic cooperation with developing countries. Nominally a question of economics, development policy actually affects Washington's overall relations with its allies, the Third World and the oil-exporting countries. . . . Some European leaders, who acknowledge privately that the U.N.-sponsored global negotiations have bogged down, share many of Washington's views. In Britain, Prime Minister Margaret Thatcher's government insists that it will no longer listen to demands for assistance based on a colonial past. France, 85% of whose aid is bilateral,

has always preferred helping its clients directly rather than through international organizations. West Germany prefers to direct its aid to regions it considers vital to European security. . . . The Mexico summit meeting should be a format for Reagan to explain his ideas and perhaps agree to adjustments.

—**Joseph Fitchett**
Washington Post

As long as the United States had nuclear superiority over the USSR it did not have to use any weapon blatantly to keep other nations in line. That superiority having disappeared, aid, food, human rights, interference and subversion are now built-in elements of foreign policy. Mercifully the temptation to use lethal weapons, in particular nuclear arms, has been checked by the "balance of terror." Armaments are messy anyway; food gives you a kill—without a drop of blood.

—**South magazine**
London, England

The time is favorable for a reasoned, thoughtful public discussion of foreign assistance. Bureaucratic squabbles, personal power plays, and overheated ideological rhetoric, whether from hard-nosed laissez-faire conservatives or moralizing progressives, is out of place. A strategy compatible with market principles, yet tempered by genuine humanitarian sympathy—a free market with a conscience—represents the prudent choice to which the Reagan Administration should incline.

—**James O'Leary**
New York Times

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