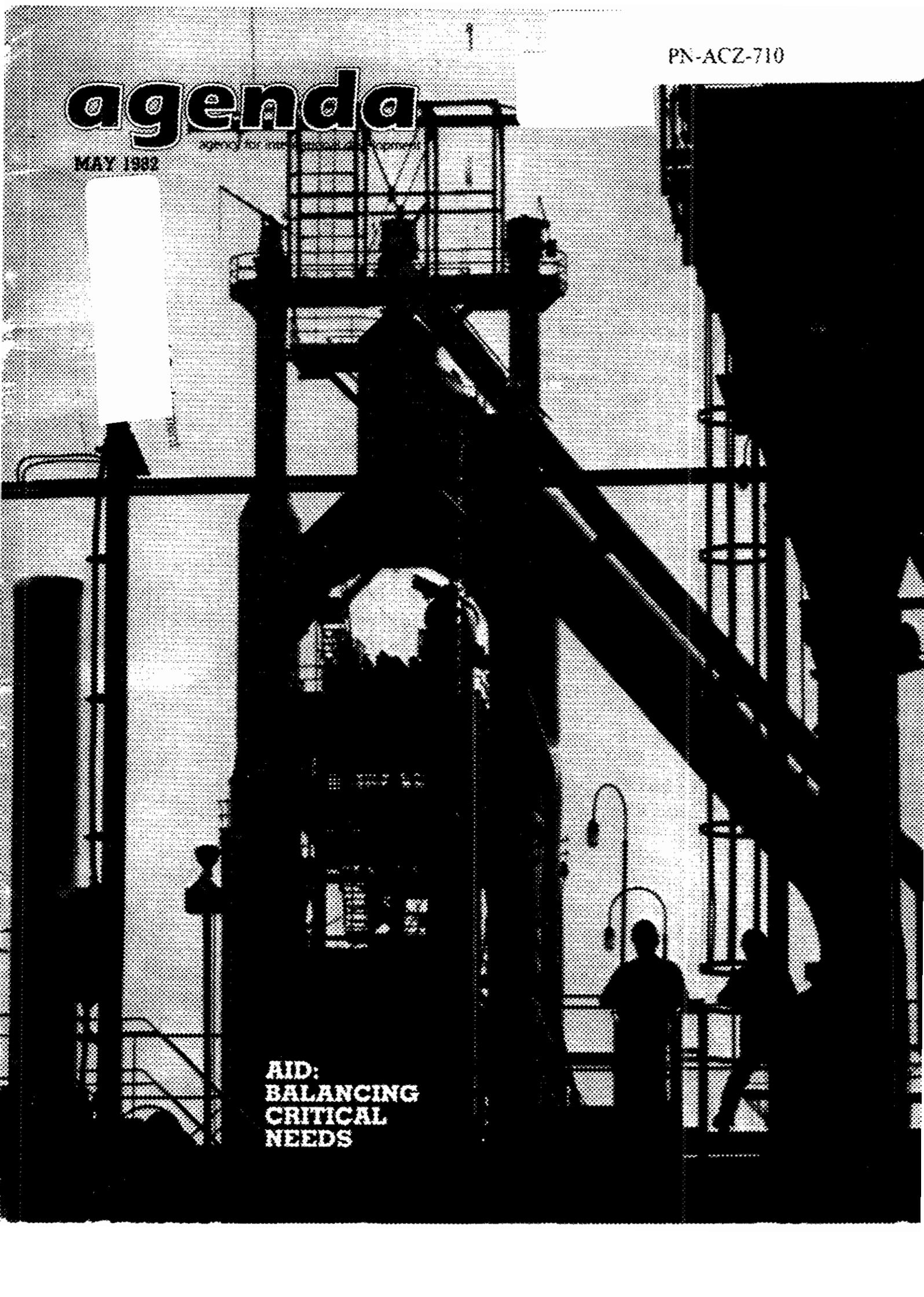


agenda

agency for international development

MAY 1982



**AID:
BALANCING
CRITICAL
NEEDS**

FACTS ABOUT AID

Agency for International Development
Washington, D.C. 20523

The Agency for International Development administers most of the foreign economic assistance programs of the U.S. government. AID Administrator M. Peter McPherson also serves as the principal adviser to the President and the Secretary of State on international development. AID does not administer foreign military aid.

AID has 5,594 employees, including 2,374 in Washington headquarters and 3,220 overseas, in 71 countries in Africa, Asia, Latin America and the Caribbean, and the Near East.

The purpose of the Agency is to help people in the Third World acquire the knowledge and resources to build the economic, political and social institutions necessary for a better life. AID has programs only in those countries that have requested them. The Reagan Administration regards economic aid as a tool of U.S. foreign policy, essential to the economic, political and security interests of the United States.

AID programs are authorized by Congress under the Foreign Assistance Act. Funds for loans and grants to carry out these programs are appropriated annually by Congress. AID was created in 1961. Most of its U.S. offices are in the State Department building in Washington, DC.

Foreign economic assistance provided by AID fits into two main categories:

- **Development Assistance**, in the form of loans and grants, aims at improving the quality of life of the poorest people in less developed countries, through programs in agriculture; rural development; nutrition; family planning; health; education and human resources; energy; and science and technology. Most of the goods and services used are purchased in the United States.
- **Economic Support Fund** provides loans and grants to selected countries of special political and security interest to the United States. Egypt and Israel are the fund's major recipients. The fund also is used to provide U.S. access to important military and communications facilities. Recipients purchase goods and services from U.S. institutions and firms.

AID's fiscal 1982 budget—\$1.8 billion for development aid and \$2.6 billion for the Economic Support Fund—reflects the Administration's concern with striking a balance between the need to limit the growth of federal spending and the need to provide an adequate level of economic assistance to achieve important U.S. foreign policy objectives. The \$4.4 billion total represents 0.57% of the federal budget for fiscal 1982. The Administration has proposed an additional \$350 million in the Economic Support Fund for economic aid to countries in the Caribbean Basin.

In addition, AID works closely with the Department of Agriculture in administering the Food for Peace (Public Law 480) program. Since 1954, this program has combatted

hunger and malnutrition; encouraged economic development; promoted U.S. foreign policy; and expanded international trade, including U.S. agricultural products. Funds for this program, except for a small AID-funded staff, come from the Department of Agriculture.

U.S. foreign assistance is aimed at a world in which:

- Average life expectancy is 54 years, compared with 74 in the United States.
- The average annual income for people in the Third World is \$543, compared to \$8,070 in developed countries.
- Almost a billion people live in absolute poverty.
- More than half a billion people are hungry and malnourished.
- About half of the people do not know how to read.
- Less than 10% of the people have as much clean water as they need.

The United States leads an international effort to alleviate and overcome these problems through programs such as:

- **Private sector development:** AID believes that the surest way to alleviate poverty is through the fostering of private enterprise, which alone can provide the needed jobs. The Agency is acting both to interest U.S. companies in investments in developing countries and to stimulate the growth of private sectors in those countries.
- **Policy changes:** The governments of many developing countries have policies that actually inhibit their economic growth. An example is food prices set at such a low level that farmers have little incentive to grow more. AID is helping these governments realize the need to change such policies.
- **Institution building:** Schools, colleges, training organizations, supportive government ministries and other institutions are necessary to the economic growth of developing countries. Helping build such institutions is one of AID's major thrusts under the Reagan Administration.
- **Technology transfer:** While emergencies may dictate a transfer of resources to developing countries, their greater need is a transfer of the technology to produce their own resources.

For further information, write the Public Inquiries Staff, Office of Public Affairs, Agency for International Development, Washington, DC 20523, or call (202) 632-1850.

Reporters and other media representatives may obtain further information from the News and Media Relations Division, Office of Public Affairs, Agency for International Development, Washington, DC 20523, phone (202) 632-4274.

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CONTENTS

May 1982 Vol. 5 No. 4

Caribbean Basin Initiative President Ronald Reagan Administrator M. Peter McPherson	2
AID: Balancing Critical Needs M. Peter McPherson	6
AFRICA: Development Now More Difficult. More Urgent Frank S. Ruddy	16
ASIA: Continuing Growth and Stabilization Eugene S. Staples	22
NEAR EAST: Peace and Security W. Antoinette Ford	25
Latin America: The Economic and Political Challenge by Otto J. Reich	32

This is the last issue of Agenda. AID's Office of Public Affairs thanks its readers for their loyal support. We have taken a look at our publication in the light of a recent readership survey and the Administration's determination to use your tax dollars more efficiently. Our evaluation has indicated that we need more insight into the types of readers on our mailing lists to assure that what we publish is useful to you. You may already have received a communication from us. We urge you to fill out the brief questionnaire and return it to us.

This issue of Agenda outlines AID's program for fiscal 1983, as presented to Congress by the Agency's top officials. The articles are excerpts from Congressional testimony, and offer the reader an overview of the state of international development.

Agenda is published 10 times a year by the Agency for International Development, a part of the International Development Cooperation Agency. Agenda is free upon request to the U.S. public. Readers are invited to submit original manuscripts (including speeches) and photographs on any aspect of international development. Such material cannot be returned unless accompanied by a stamped, self-addressed envelope of sufficient size and strength. Contents of this publication may be reprinted or excerpted unless copy-righted or non-AID source is noted. Credit to Agenda is requested. The opinions and conclusions expressed in Agenda are those of the authors, and do not necessarily reflect official AID or U.S. policy.

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Development
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In early March President Reagan submitted to Congress a bold new plan. It was called the Caribbean Basin Initiative. Emphasizing economic health as one of the keys to the future security of the Caribbean region, the President outlined his intentions to strengthen economically troubled nations in Central America and the Caribbean through a package that incorporates trade, aid and investments.

The plan represents a significant commitment to a multi-lateral conceived effort designed to bring stability to a region beset by economic difficulties.

While the backbone of the U.S. program is an unprecedented offer of one-way free trade with the region, economic assistance will play an important role.

In addition to asking Congress for authority to eliminate duties for imports from the Basin, the President requested a fiscal 1982 Economic Support Fund (ESF) supplemental appropriation of \$350 million for countries in the region that are particularly hard-hit economically.

Many Basin countries are now facing an acute liquidity crisis. They have been seriously affected by the escalating cost of imported oil and declining prices for the major exports. This has exacerbated their traditional structural problems and caused serious inflation, high unemployment, enormous balance-of-payments problems and a liquidity crisis. Following are excerpts from testimony delivered by President Reagan and AID Administrator M. Peter McPherson.

CARIBBEAN BASIN INITIATIVE

Trade, aid and investment are the backbone of the U.S. program.



A message from President Ronald Reagan

The economic, political and security challenges in the Caribbean Basin are formidable. Our neighbors need time to develop representative and responsive institutions, which are the guarantors of democracy and justice that freedom's foes seek to stamp out. They need to defend themselves against attempts by externally supported minorities to impose an alien, hostile and unworkable system upon them. The alternative is further expansion of political violence from the extreme left and the extreme right, resulting in the imposition of dictatorships and—invariably more economic decline, and more human suffering and dislocation.

The (economic) crisis facing most of the Basin countries is real and acute. Deteriorating trade opportunities, worldwide recession, mounting debt burdens, growing unemployment and deep-seated structural problems are having a catastrophic impact throughout the region. This economic disaster is consuming our neighbors' money reserves and credit, forcing thousands of people to emigrate, and shaking even the most established democracies.

This is not a crisis which we can afford to ignore. The people of the Caribbean Basin are our neighbors. Their well-being and security are in our own vital interest. Simple proximity gives to events occurring in the Caribbean Basin the power to touch our lives in profound and dramatic ways. The

migrants in our midst are a vivid reminder of the closeness of this problem to all of us.

The program I am presenting . . . is designed to improve the lives of the peoples of the Caribbean Basin by enabling them to earn their own way. It will help revitalize the economies of this strategically critical region by attacking the underlying causes of economic stagnation. Most significantly, it helps expand economic opportunities for the people of the Caribbean Basin so as to make possible the achievement of a lasting political and social tranquility based on freedom and justice.

I want to emphasize that this program is not an end in itself. What we seek in the final analysis is to help the people in the Basin build for themselves a better life, not just economically but across the full spectrum of human needs and aspirations. History, and particularly the history of this hemisphere, has shown that a pluralistic society with strong and free private institutions is our best hope in moving toward that ultimate goal.

Churches, free trade unions, business, professional and other voluntary associations, and an independent press are key among such institutions. In administering this economic program we intend to give this institutional aspect particular importance and to encourage progress in the beneficiary countries toward reasonable work-place conditions and opportunities for workers to associate freely and bargain collectively.

The United States has been developing this program in close consultation with the countries of the region and with other donor countries. Last July, we joined with Canada,

Mexico and Venezuela to launch a multilateral action program for the region. It was agreed that each country would develop its own program but within a multilateral consultative framework. Mexico and Venezuela are operating an oil facility for the Caribbean Basin. Canada is more than doubling its aid. The program I am presenting . . . is our contribution.

We have worked carefully with both government officials and the private sector in all the Basin countries to assess their needs and their own priorities. We also have consulted with other potential donors, including Colombia, as well as multilateral development institutions. This program thus is part of an overall coordinated effort by countries within and outside the region. This structure will ensure that not only will our own actions be effective, but their impact will be multiplied by the efforts of many others.

This program consists of integrated and mutually reinforcing measures in the fields of trade, investment and financial assistance.

- The backbone of this program is the offer of one-way free trade. I am requesting authority to eliminate duties on all imports from the Basin except textiles and apparel items subject to textile agreements. The only other limitation will be for sugar, as long as a sugar price support program is in effect, duty-free imports of sugar will be subject to quotas. Safeguards will be available to U.S. industry seriously injured by increased Basin imports. Rules of origin will be liberal to encourage investment but will require a minimum amount of local content (25%). I will designate beneficiary countries taking into account such factors as countries' self-help policies.

- I am proposing a five-year extension of the investment tax credit, now available for up to 10% of domestic investment, to investors in qualifying Caribbean Basin countries. A country would qualify for the benefit by entering into a bilateral executive agreement with the U.S. to exchange information for tax administration purposes.

- I am requesting a supplemental authorization for the fiscal 1982 foreign assistance program in the amount of \$350 million. This assistance will help make possible financing of critical imports for the private sector in Basin countries experiencing a severe credit crunch.

In a separate proposal, I am requesting additional foreign assistance program for fiscal 1982. It includes \$200 million for the Caribbean Basin. This program will be directed largely into longer-term programs aimed at removing basic impediments to growth. The fiscal 1982 aid request is an integral part of my overall program for the Caribbean Basin. We cannot think of this program as a one-time injection of U.S. interest and effort. Instead it must be a sustained commitment over a number of years if we really want to succeed.

In addition to these legislative requests, I am directing the following actions, which are within the discretion of the Executive Branch:

- We will extend most favorable treatment to Caribbean Basin textile and apparel exports, within the context of the overall textile policy.

- We will seek to negotiate bilateral investment treaties with interested countries.

- We will work with multilateral development banks and the private sector to develop insurance facilities to supplement OPIC's political risk insurance coverage for U.S. investors.

- The U.S. Export-Import Bank will expand protection, where its lending criteria allow, for short-term credit from U.S. banks, as well as local commercial banks, to Basin private sectors for critical imports.

- Working closely with the governments and private sectors of interested countries, we will develop strategies to ensure the most effective use of U.S. and private sector resources in each country. These strategies will coordinate and focus development efforts of local business, U.S. firms, private voluntary organizations, the U.S. Government, and Puerto Rico and the U.S. Virgin Islands. The strategies will seek new investment and employment opportunities and also will seek to remove impediments to growth including lack of marketing skills, trained manpower, poor regional transport, and inadequate infrastructure.

Puerto Rico and the U.S. Virgin Islands are important components of the U.S. presence in the Caribbean area. Their development must be enhanced by U.S. policy toward the region. We have consulted closely with Puerto Rico and the U.S. Virgin Islands about the Caribbean Basin Initiative.

The legislation I am requesting will reflect Puerto Rican and U.S. Virgin Islands interests in many important ways:

- The Accelerated Cost Recovery System (ACRS) and the Investment Tax Credit (ITC) will be extended to property used by companies operating in Puerto Rico and the U.S. Virgin Islands. Similar benefits will be available to other U.S. possessions.

- Excise taxes on imported rum will be transferred to Puerto Rico and the U.S. Virgin Islands.

- Imports into Caribbean Basin production from Puerto Rico and the U.S. Virgin Islands will be considered domestic imports from Caribbean Basin countries for purposes of the rules of origin.

- Industries in Puerto Rico and the U.S. Virgin Islands will have access to the same safeguard provisions as mainland industries.

In addition, a series of measures separate from legislation which I am submitting today also will support the efforts of Puerto Rico and the U.S. Virgin Islands to play a dynamic role in the Caribbean region. In particular we will support proposed legislation which will permit products from the U.S. Virgin Islands whose foreign content does not exceed 70% to receive duty-free treatment. At present the maximum foreign content permitted is 50%.

All these elements in the Caribbean Basin program are inextricably linked with each other and to the fundamental objective of helping our neighbors help themselves. A key principle of the program is to encourage a more productive, competitive and dynamic private sector, and thereby provide the jobs, goods and services which the people of the Basin need for a better life for themselves and their children. All the elements of this program are designed to help establish the conditions under which a free and competitive private sector can flourish.

Most countries in the Basin already recognize that they need reform many of their economic policies and structures to be protected and sometimes protected in order to take advantage of the new economic opportunities of this program. The United States and other nations in the Basin offer assistance and support, but only the people in the Basin themselves will make this program work.

Some of the benefits of this program will take considerable time to mature; others are designed to have an immediate effect. But the program must be sustained very soon because the challenge is upon us now.

In the Caribbean Basin, we seek above all to support those values and principles that shape the proud heritage of this nation and this hemisphere. With the help of this Congress, we shall see these values not just survive but triumph in a Caribbean Basin which is a community of peace, freedom and prosperity. □



A statement by
AID Administrator
M. Peter McPherson

The CBI is an integrated package of trade, investment, ment, and aid measures designed to assist the countries of the Basin in coping with an unfavorable international economic environment and in implementing more effective economic policies that stimulate private investment and employment in directly productive activities. AID has played and will continue to play a major role in planning the trade and investment measures and in implementing the aid component of the CBI. We will also assist Caribbean Basin countries in making the most of opportunities made available by the trade and investment components.

Through complementary efforts in trade, investment and aid, we will assist countries in the Basin to resolve their short- and long-term financial problems, contribute to a revitalization of their private sectors and support the adoption of a more positive set of government economic policies. These actions will lay the groundwork for sustained and broadly based economic growth and will provide solutions to principal development problems.

The major objective of the aid component of the CBI will be to assist the countries of the Basin in overcoming their external debt and internal economic disequilibria over the next few years through sound stabilization and recovery programs. This requires large and immediate infusions of foreign exchange for balance-of-payments support. It is primarily to this need that an additional \$350 million of Economic Support Fund (ESF) assistance requested for fiscal 1982—as well as the \$140 million currently programmed—is directed. These new resources will substantially increase total U.S. aid to the Caribbean Basin; however, our resources alone cannot bring about the degree of recovery needed to contribute to a relaxation of the social and political tensions now threatening U.S. interests in the Caribbean Basin. Our programs are part of a larger package of assistance which includes resources made available by other donors, including Canada, Mexico, Venezuela, and Colombia, plus the multilateral institutions such as the International Monetary Fund, World Bank, Inter-American Development Bank, and other assistance agencies.

U.S. participation in this stabilization and recovery effort is especially important for strengthening domestic as well as foreign private-sector confidence. This is crucial if the countries of the Caribbean Basin are to obtain other external resources in the form of commercial bank lending, suppliers' credits and direct foreign investment. An improved climate of confidence will also slow and ultimately reverse the flight of domestic capital abroad.

AID plays and will continue to play an important role in assisting Caribbean Basin countries to design programs that permit efficient use of foreign exchange and to utilize local-currency generations in accordance with development and economic needs. ESF assistance will be used primarily to encourage the allocation of resources toward private-sector imports of raw materials and intermediate goods, thus facilitating domestic production and employment without a further deterioration in the balance of payments. At the same time, we will be discussing with policy makers in the Caribbean Basin countries themselves and with other donors, including the International Monetary Fund and the World Bank, possible reform measures to ensure that ESF and other external

assistance is utilized effectively so as to have the greatest possible impact on increased production and employment generation.

While additional ESF resources will permit AID to focus increased attention on stabilization and recovery over the short term, increased levels of Development Assistance will enable us to continue working toward our principal long-range objective in the Caribbean Basin—the establishment of self-sustaining and broadly based growth within a democratic framework. Our Development Assistance program for the Caribbean Basin in fiscal 1982 will total \$211 million, compared with \$167 million in the previous year. Our 1983 request is for \$218 million. These resources will support new and ongoing programs in agriculture, rural development, nutrition, population planning, health, education, human resource development and other activities. Particular emphasis will be given to technology transfer, institutional development and training.

Policy and other reforms, as well as additional resources for key development projects assisted by AID and other donors, will be supported by PL 480 assistance. Programmed PL 480 resources for the Caribbean Basin countries total \$123 million in fiscal 1982, and \$121 million is requested for fiscal 1983. The resources will provide additional balance-of-payments support for the Caribbean Basin countries, while the local-currency generations will help finance development activities. At the same time, key foodstuffs will help countries overcome food deficits without creating disincentives to local production.

The trade and foreign investment components of the CBI are intended to have a long-range impact. Even in the short run, however, they will assist by eliminating duties on sugar imports up to specified ceilings. The identification of new export opportunities in the U.S. market and construction of the physical plants and supporting infrastructure needed to supply this market may take two or more years. This is illustrated by the case of Jamaica where the government is strongly committed to the type of development strategy this Administration believes is necessary to achieve sustained economic growth.

There are many opportunities available for AID to facilitate new domestic and foreign investment oriented to both external and local markets. In the less developed countries of the English-speaking Caribbean, for example, our proposed new fiscal 1983 projects include a sector structural adjustment program to support the identification and implementation of needed policy changes in the productive sectors of the economy. Other projects include the second stage of an agricultural research project to improve small-farmer productivity, a vocational skills development program to provide the human resources needed by a growing industrial sector, and an inter-island shipping and marketing project with private sector involvement to provide markets for increased agricultural production in the Eastern Caribbean, to name a few.

Increasingly, we are emphasizing administrative and managerial training to improve the efficiency of both the public and private sectors. In fiscal 1983 we will initiate training projects in Jamaica and the Dominican Republic, and the expanded Latin America and the Caribbean regional training initiative will be continued. In Haiti, a new project will assist the government in implementing policy and administrative reforms. AID also will continue to support training for other segments of the labor force. In addition, a work force development project will be implemented in fiscal 1983 in Panama, and a basic skills training program in Jamaica will receive additional support.

In agriculture, we will be looking for more opportunities to support crop diversification and agribusiness enterprises.



and export of these crops by the private sectors of these countries.

AID also will be supporting increased private sector development in industry and related services in the Caribbean Basin.

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through the International Development Cooperation Agency (IDCA) in the Trade and Development Program which facilitates the undertaking of feasibility studies while enhancing opportunities for U.S. firms to benefit from any new investments that might be generated by these studies. Also under

of the Overseas Private Investment Corporation (OPIC), AID's investment promotion programs can facilitate additional U.S. investment in the Caribbean Basin.

In summary, AID has both a short-term and a long-term role to play in implementing the Caribbean Basin Initiative. In the short term, we will be cooperating with the industrial and agricultural sectors of these countries to help them design and carry out recovery programs and other activities and to help them balance-of-payments problems. We will continue to support them.

We will continue to support them. We will continue to support them. We will continue to support them. We will continue to support them.

and export credit that will be required. Other investments in human resources and in such activities as agricultural research have payoff periods that are even longer. We know that the rates of return to these investments are high, and we will continue to support them. □



AID: BALANCING CRITICAL NEEDS

The U.S. will continue to play a lead role in development.

by AID Administrator
M. Peter McPherson



Much progress has been made in the developing world in the past three decades. The United States has played a leading role in that development. In his statements during the past year at Ottawa and Cancun, as well as in his speech last fall before the World Affairs Council in Philadelphia, President Reagan made clear his intention that U.S. leadership in this vital area will continue.

Our concern with assisting the development of countries of the Third World is based on a growing convergence of interests between them and the United States. There is, first, a commonality of security interests between ourselves and many developing countries. They are important for our national security, as we are important for theirs.

Major aid recipients are located in areas of strategic importance—in the Middle East, Caribbean and Central America, in the Pacific Basin, the Horn of Africa and Southwest Asia. Other AID recipients are important suppliers of energy and other raw materials essential to our economy. In addition, the local and regional defense efforts of developing countries contribute to international peace and security, and thus enhance our flexibility and capability to respond to problems on a worldwide basis.

Second, U.S. political interests and our continuing role of leadership in a market-oriented international economy can be substantially buttressed or hampered by the cooperation or hostility of developing countries. There are a variety of worldwide issues, from protecting the environment to controlling the illicit drug trade, maintaining a functioning international monetary system, preventing nuclear proliferation, and others on which the cooperation of developing countries is vital to an outcome consonant with our national interest.

Third, interdependence continues to be the overriding reality of international economic relations. When we and other donors provide substantial development assistance to stimulate agricultural productivity in developing countries, the pressures on our own supplies and prices are lessened. When our aid encourages policy reform, conservation and development of alternative energy sources in the developing countries, energy-related problems of our own economy are eased. When our assistance succeeds in helping slow down excessive population growth, it reduces future pressure on scarce economic resources, and it becomes less likely that a recipient country will require our assistance at some future time. When the United States and multilateral institutions help countries through dif-

difficult balance of payments crises, we preserve our trading partnerships and private-sector financial relationships. When development assistance is used to promote sound policies and stimulate economic growth in poor countries, we hasten the day when these countries can participate fully in the international economy and become strong and growing markets for U.S. goods and services.

Our reciprocal economic involvement with developing countries has become very substantial. Developing countries currently buy over one-third of our exports, and as much in value of our manufactured goods as do Japan, Western Europe, and the Communist countries combined. U.S. direct investment in developing countries (excluding OPEC countries) has increased three-fold in the past decade, and U.S. banks have an estimated \$48 billion in loans outstanding to developing countries.

Fourth, the humanitarian character of our assistance programs, a thrust that makes this a unique government agency, is evident throughout our fiscal 1983 request. Our focus continues to be on the basic needs of people in developing countries. We will continue to use funds in our economic assistance programs administered by AID, to the maximum extent possible, to address the major problems confronting the recipient countries—interrelated problems of food scarcity, excessive population growth, inadequate infrastructure, depletion of natural resources and dwindling energy supplies. The Development Assistance & Economic Support Fund, together with the PL 480 program and refugee assistance program, play an important role in assisting the poor majority.

Economic assistance has a vital role as a catalyst and facilitator of capital flows and in helping to establish the pre-conditions for greater private flow in the very low-income countries. It follows that our economic assistance should be provided in ways which mobilize the vastly greater resources of the American private sector in support of indigenous development and to stimulate growth of host-country private sectors and free-market orientation.

Our objective in development assistance is to pursue a balance between the needs of the present and the future. Current urgent needs must be dealt with, and we shall continue through PL 480 and disaster assistance programs to help those individuals to address these needs. But development is first and foremost long-term, and, in the long-term, foreign trade and private financial flows will represent the major source of economic growth for most developing countries.



The U.S. assistance program will strive to remove roadblocks to innovation and productivity.

However, we can assist and support the developing countries in establishing sound economic policies which will affect their economic performance and use our assistance to help them help themselves in preparing for the future.

Long-term development depends, to a large degree, on the nature of the policies followed by the developing countries themselves. By concentrating development assistance in those countries willing to pursue more open economies, and by seeking policy change in others, we intend to encourage adoption and implementation of policies conducive to indigenous private enterprise. We will thus be supporting of the economic growth and social development which are necessary to demonstrate that the free market

is an efficient, effective vehicle offering the best hope of meeting the basic needs of the poor majority.

Our agency-wide private-sector thrust also mobilizes U.S. private institutions—academic and agricultural, business and volunteer services—in support of our assistance strategy. We seek mechanisms to share with developing countries the science, technology, and management techniques of the U.S. private sector. Perhaps most important, our bilateral development assistance program will be increasingly a program of institutional development, a program essential to removing the roadblocks to technological innovation and productivity improvements.

Finally, we will work with the private



Despite progress, providing adequate food for all remains a problem.

sectors in the U.S. and the developing countries to devise measures that could lead to greater direct private investment and private sector participation in the development process. Included will be developmentally oriented private sector projects, and advisory assistance to encourage open host country investment policies, investment institutions and information.

Despite the progress I noted earlier, the problems of the Third World remain substantial. Notwithstanding success in increasing food production by introducing improved technologies and removing disincentives from the food production system, the ability to provide adequate food for all citizens remains a major concern for many of the developing coun-

tries. Deforestation and attendant soil erosion have not only reduced fuel supplies, but have also reduced the amount of land suitable for farming. Excessive population growth continues to inhibit our progress in solving all development problems. Lack of adequate health facilities and educational services not only mean a greater incidence of disease and illiteracy, but also further stifle developing nations' productive capacities.

The magnitude of development problems is such that we cannot rely solely, or even primarily, upon official economic assistance to solve them. We must adopt a coordinated approach embodying several mechanisms—greater private sector involvement, more emphasis upon technical assistance and institutional

development, and more careful targeting of our resources to those countries which have policies consonant with sound and broadly based economic development.

Fiscal 1983 Budget Request

The budget request for FY 1983 reflects the Administration's continued concern with striking a balance between the need to limit the growth of Federal spending and the need to provide adequate resources and incentives to meet our important foreign policy and development objectives.

Let me turn first to the budget request for AID. The development assistance budget request represents, in total, a small increase over the fiscal 1982 enacted appropriation. It reflects in-

creased attention to the initiatives we began last year, particularly that of stimulating greater involvement of the private sector in our development efforts.

The budget for the next fiscal year reflects particular attention to effective targeting of limited foreign assistance resources. Country and regional activities have been reviewed carefully to ensure that proposed programs serve U.S. foreign policy and development objectives. The planned program in functional areas is concentrated in those activities where the United States has particular expertise: food production, education and training, energy, population and health.

For the fiscal 1983 bilateral economic assistance program AID requests an appropriation of \$4.7 billion including \$1.8 billion for Development Assistance and \$2.9 billion for the Economic Support Fund. Development Assistance includes funding for functional Development Assistance programs, the Sahel Development Program, American Schools and Hospitals Abroad, International Disaster Assistance, Operating Expenses, and the Foreign Service Retirement Fund.

Approximately \$1.3 billion of the amount requested for Development Assistance is for the five authorized functional accounts. Of the amount allocated directly to country programs, 86% would go to "low income" countries—those with a yearly per capita income below \$730.

For the Agriculture, Rural Development and Nutrition program, we are requesting an appropriation of \$700 million. This ac-



There is still a critical need for primary education.

count remains the largest portion of the request for Functional Development Assistance, in response to the problem of inadequate food supply in the developing world. As I indicated, despite impressive gains in food production in some developing countries, many remain unable to meet their minimum nutritional needs.

The AID rural development program has three principal objectives: to help increase and sustain the productivity and income of small farmers; to assist in the

creation of employment opportunities for the rural poor; and to help improve access to, and utilization of, food.

To achieve these objectives, AID's program stresses the removal of economic policies inhibiting broadly based growth, the development of private and public sector capacity to foster increased agricultural production and employment expansion; the development and use of improved agricultural technologies; and the improvement of human resources, rural infrastructure and the natural resource base.

More than 40% of the request would go to Asia, the region with the largest share of the world's most seriously malnourished, where government policy reforms in countries such as Bangladesh and Indonesia are helping to increase host-country food production. Another 21% would go to Africa, where policy reforms are also underway in some countries, to help reverse the long-term trend of declining per capita food production.

Funds from this account also would be used to help developing countries address the problem of accelerating deforestation, which is threatening many areas in Africa, the Caribbean Basin, and Asia, resulting in critical shortages of fuelwood and causing extensive environmental degradation.

As in the past, a substantial portion of the funds requested would finance activities specified under Title XII of the Foreign Assistance Act, much of which is channeled through U.S. land-grant universities and other institutions eligible under that Title.

For Population, we request a fiscal 1983 appropriation of \$201 million. Excessive population growth in the developing countries is one of the primary obstacles to the expansion of per capita food production, reduction of malnutrition and chronic disease, and conservation of dwindling non-renewable resources. Despite recent encouraging reductions in birth rates in several developing countries, population in many others continues to grow at unprecedented rates.

The slight reduction in fiscal 1983 population budget below fiscal 1982 does not indicate a reduced priority for population planning. Rather, the slight drop is principally the result of a one-time increase in the program in fiscal 1982 to make up for short-falls in the fiscal 1981 programs in Asia.

About 40% of the funds are for country programs, with the largest portion going to Asia, where several major national family planning programs are well underway. The balance of the request is for AID's centrally funded programs to support family-planning activities through-



Manpower development and training has become a top priority.



Successful economic development will depend on mobilizing the private sector—both U.S. and LDC.

out the world, information and commodities, plus related policy initiatives and applied research.

AID's programs emphasize the provision of voluntary family planning services for the rural poor through paramedical workers and the private sector. I wish to stress that the program does not fund or in any way encourage abortions, or related research. In response to Section 104(d) of the Foreign Assistance Act, our population activities stress the importance of the links between family planning and the impact of programs in agriculture, rural development, health and education.

We are requesting an appropriation of \$114.1 million for Health activities in fiscal 1983. Approximately 37% of health funds will go to Africa, reflecting the enormous need for basic health services in that region. Much of our assistance to Africa will support rural water and sanitation programs and immunization campaigns to combat the diseases of early childhood, as well as tropical diseases such as malaria and schistosomiasis, which are major causes of death and disability in the region. Primary health care programs are well underway in Asia and Latin America. In these regions, our focus is on expanding access to basic health services. In fiscal 1983, we will be giving increased attention to programs in health planning and management, operations research, and in the transfer of proven health technologies.

Our request for Education and Human Resources Development totals \$116.4 million. The education situation in

developing countries remains critical despite sizable increases in their budgetary allocations to education and significant gains in school enrollments over the past several decades. Most countries still have severe shortages of trained manpower available to administer development and other programs effectively. One out of every four school-age children in LDCs does not even enter primary school, and only half of those who enter will stay in school long enough to acquire basic skills. More than one-third of the 2.1 billion adults in the developing world are illiterate.

While the need for resources to assist the developing countries with their educational requirements far exceeds the availability of funds, our program provides assistance in selected areas where the United States has recognized expertise. The fiscal 1983 program reflects the Administration's concern with increasing attention to manpower development and training, and the management capacities of educational institutions. The largest portion of our planned program is for training of administrators, managers, and scientific personnel to help recipient countries become able to carry out their own development efforts. The program also provides continued assistance with the improvement and expansion of basic primary education for children and with vocational and technical training, support for labor organizations, and related education activities.

More than one-third of the request would be allocated to Latin America, for manpower development activities and

continued efforts to help reduce that region's high primary school dropout rates. About one-fourth would go to Africa where the acute shortage of trained administrators remains a major obstacle to development.

For the Energy, Private Voluntary Organizations, and Selected Development Activities account, we are requesting authorization and appropriation of \$166.8 million for fiscal 1983, including \$10 million for activities in the Science and Technology program also authorized under this account.

The increase in the Section 106 account reflects our intention to fund several very high-priority activities aimed at a number of development problems, including growing demand for energy, environment and natural resources problems such as loss of agricultural land and water pollution, growing unemployment and problems associated with rapid urban growth.

As I already have pointed out, the planned activities place high priority on mobilizing greater involvement of the private sector—both U.S. and LDC—in development, including greater reliance on private and voluntary organizations. Approximately one-third of the request would be used for private enterprise activities, half of which would go to Latin America for such activities as promotion of cooperative banking, small business development and technology transfer. More than \$20 million would go to the new Private Enterprise Bureau for investment packaging, technical assistance, and related activities.



This shelter, developed under a joint CARE/AID project, will withstand the recurring storms and floods that plague Bangladesh.

The request also includes substantial funding for energy-related initiatives (such as energy management and research on alternative energy sources) and for support of U.S. private and voluntary organizations.

For programs of scientific and technological cooperation, we are requesting \$10 million for fiscal 1983 within the amount proposed for Section 106, under which such activities are authorized for fiscal 1983. The request includes funding for small competitive grants to stimulate innovative research approaches to development problems, and to build indigenous science and technology capacity in the developing countries.

For the Sahel Development Program, we are requesting a fiscal 1983 appropriation of \$93.8 million to fund the sixth year of U.S. support of a multilateral effort to help drought-ravaged West African countries achieve greater regional self-sufficiency in food production and general self-sustaining development. In response to past problems, AID is taking a number of steps to improve financial

management of the program, including measures to assure better control of funds at the project level and to strengthen host-country financial and program management.

For American Schools and Hospitals Abroad, we are requesting \$7.5 million for fiscal 1983 to continue support of overseas U.S. schools, hospitals and libraries which serve as demonstration centers for American ideas and practices in education and medicine. We plan to continue to give emphasis to geographic dispersion of the program, with special priority to institutions in less developed countries.

We are requesting \$25 million for fiscal 1983 to provide emergency assistance to countries struck by natural disasters such as floods, hurricanes and earthquakes, and by war, civil disturbances and other natural or manmade catastrophes. The program also supports assistance in disaster prediction and preparedness.

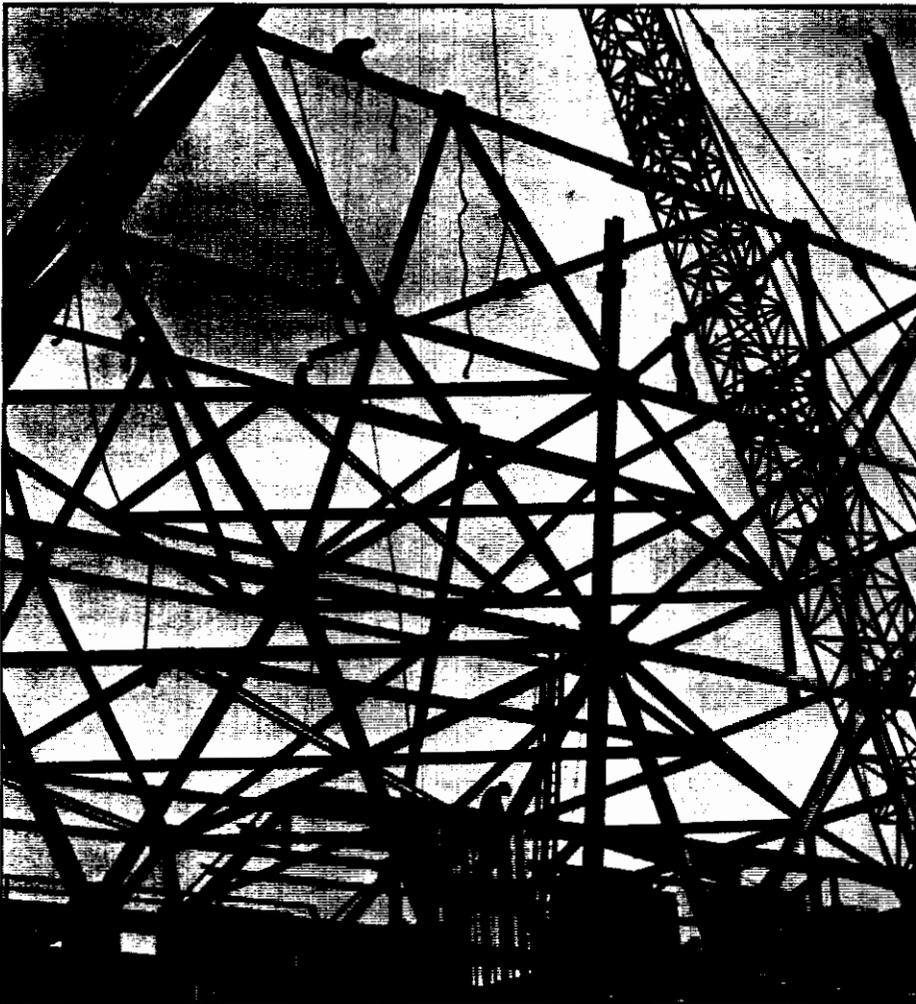
The fiscal 1983 request for the Economic Support Fund is \$2.9 billion for

economic assistance in support of critical U.S. foreign policy interests in areas of strategic concern to the United States. More than one-half of the request, a total of \$1.6 billion, is for the Middle East, principally for Egypt and Israel, to support continued U.S. efforts to bring peace to the region.

The ESF request also includes a total of \$326 million for strategically important countries in Central America and the Caribbean Basin, including \$105 million to continue support for the government in El Salvador.

Also, \$350 million will go to Turkey, as part of a multi-donor effort to help that country deal with its balance-of-payments problems. A total of \$325 million is allocated to countries and regional programs in Africa; and \$234 million is provided to Asian countries, of which \$175 million is for Pakistan.

In addition, the request includes \$75 million for a high-priority ESF Special Requirements Fund, to permit quick U.S. response to unforeseen needs for economic assistance in strategic areas. \$50



The Trade and Development Program fosters growth in middle income nations.

million of this amount is earmarked for the Caribbean Basin and is included in the \$326 million.

I would like to turn now to the request for other programs in which IDCA is involved.

PL 480

Food aid remains a principal element of our foreign economic assistance program. We use food to address the problems of agricultural development in LDCs (production and policy reform) and health and malnutrition, thereby increasing productivity to help break the vicious cycle of low production and extreme poverty. In the past year, we have increased our efforts to integrate PL 480 programs more fully with our overall country strategies and programs. We hope through our efforts not only to provide food to those who are in need, but also to teach them to help themselves to meet future food requirements.

The fiscal 1983 PL 480 request totals \$1.5 billion for all titles. The slight in-

crease in the PL 480 dollar level from fiscal 1982 to fiscal 1983 must be viewed in context. The total fiscal 1983 PL 480 program level increased by \$28 million or 2% over fiscal 1982 levels, although when discounted for inflation, it will provide for the shipment of approximately 175,000 less tons of food than that shipped in fiscal 1982 due in part to projected higher commodity prices.

The Title I request is \$859 million, including \$91.6 million to meet the cost of shipping at least 50% of PL 480 commodities on U.S. flag vessels. Fiscal 1983 funds will provide for the shipment of approximately 3.25 million tons of food. We expect to have Title III Food for Development Programs totaling \$146 million in fiscal 1983 (18% of total country allocations).

For the upcoming fiscal year, the Title II request is \$650 million, including \$250 million for ocean transport and overland delivery to land-locked countries. We will provide approximately 1.2 million tons of food for non-emergency programs of voluntary agencies and the World Food

Program, and about 400,000 tons for emergency/refugee requirements. This is less than in fiscal 1982 principally because of reduced estimates of emergency and refugee needs. In fiscal 1983, approximately 890,000 tons of Title II food, valued at \$243.5 million, will be donated to voluntary agencies and 314,000 tons of food, at a cost of \$75 million, will be allocated to fulfill our pledge to the World Food Program.

Overseas Private Investment Corporation

The Administration is requesting authority that would permit OPIC to issue up to \$100 million in loan guarantees and \$10 million in direct loans in the next fiscal year. The guarantee authority of these funds will be used with OPIC's insurance authority to finance private investment projects in developing countries, with special emphasis on projects in the Caribbean Basin. OPIC plays an invaluable role in the foreign assistance program because it facilitates the participation by private American investors in the economic and social development of Third World countries.

Voluntary Contributions to International Organizations and Programs

The budget request for voluntary contributions to international organizations and programs totals \$173.25 million. This request supports voluntarily funded development and humanitarian assistance programs of the United Nations (UN) and the Organization of American States (OAS). More than three-quarters of the requested funds are for two major UN programs—the UN Development Program and UNICEF. Other significant but more specialized assistance funded by this account include U.S. contributions to the International Atomic Energy Agency, the UN Capital Development Fund, and the assistance programs of the Organization of American States.

Trade & Development Program

The fiscal 1983 request for the Trade and Development Program (TDP) totals \$10.5 million. TDP plays a unique role in fostering the development of middle income countries while promoting trade opportunities for the U.S. and generating revenue from the sale of technology, goods and services. We plan to target TDP's funds increasingly at the critical stage of the planning process where U.S. firms competing with foreign firms are in the final stages of bidding for feasibility studies for large-scale projects, and we are instituting procedures to seek reim-



Disaster relief is an important part of development assistance to poorer nations.

bursement from U.S. firms that perform feasibility studies on projects funded by TDP and are subsequently awarded contracts.

International Fund for Agricultural Development

The fiscal 1983 request for the International Fund for Agricultural Development (IFAD) totals \$65.4 million. This amount represents one installment of the \$180 million U.S. contribution authorized by the Congress. The Administration supports IFAD's objective to help developing countries increase food and agricultural production in support of the broader goal of reducing hunger and malnutrition. Concern over the level of contribution by OPEC members and attempts to expand the Fund's permanent staff, which resulted in denial of an appropriation for fiscal 1982, has been resolved with an agreement to freeze permanent staff positions and a replenishment agreement to increase OPEC members' contributions to \$450 million.

Multilateral Development Banks

The budget request for multilateral development banks (MDBs) reflects the Administration's commitment to honor cost-sharing arrangements which already have been negotiated internationally. For all institutions, except one, arrangements had already been negotiated prior to 1981 and the budget request provides

funds to meet these commitments.

For the World Bank, the request provides the final \$16.3 million in indebtedness from the 1977 Special Capital Increase and the second installment, \$109.7 million, of the U.S. paid-in share of the Bank's General Capital Increase. For the International Development Association, the Administration's fiscal 1983 request is \$945 million. For the Inter-American Development Bank, our request is \$62.4 million for the capital window, completing U.S. financing under the last capital increase, and \$221.7 million in soft-window financing for the IDB's fund for special operations. The request for the Asian Development Bank and Fund includes \$248,000 in arrears to the hard window and \$131.6 million for the last installment of ADF III and partial payment of arrears remaining from the prior replenishment.

Only the \$50 million request for the African Development Fund represents a newly negotiated multilateral development bank contribution. Earlier this month, the U.S. reached agreement with other donors that subject to obtaining legislative approval it would provide \$150 million over from fiscal years 1983 to 1985, to the third replenishment of this Fund, compared to the \$125 million that the U.S. supplied under the prior replenishment. The Administration is requesting no appropriations for the African Development Bank, pending that institution's formal opening to non-regional membership.

Management Initiatives

I would like to return to the role of AID Administrator and give a brief summary of my overall management objectives for the Agency: what we set out to do last year, what we have accomplished and what we plan to accomplish in fiscal 1983.

Implementation improvement began last spring with a top management analysis of AID projects obligated in prior years. Special attention was given to troubled projects, particularly those not being implemented in a timely fashion.

This review resulted in the total fiscal 1981 deobligation of \$74 million. Through this exercise, we sensitized AID management at all levels to the need for rigorous portfolio analysis as a continuing process. We made it clear by this action that we are willing to make hard decisions when our projects are not working.

On a semi-annual basis, it is now expected that operating bureaus will refer troubled projects to responsible Washington staff or to Missions for corrective action. This continuing process will produce either deobligations or corrective action, sometimes requiring radical restructuring of individual projects.

One factor previously inhibiting performance in the field was the limited ability of Assistant Administrators and Mission Directors to act on their own authority. This has been changed. We have increased the delegation of project authority to the Assistant Administrators in Washington, and from them to the Mission Directors, from \$10 million to \$20 million. We have selectively authorized the Missions to approve projects with a longer life, doubling their authority to approve projects from five-years duration to ten years. On a selective basis, we also have increased the Missions' authority for operational program grants (OPGs) to U.S. private voluntary organizations from \$.5 million to \$1 million. Through these expanded delegations of authority, we expect to slash considerable time and cost from the contracting and project-approval processes.

The second area of administrative streamlining at AID was our program of reductions in personnel. We made every effort to implement the reduction program without crippling our operational capacity overseas. Since the bulk of our programs are actually implemented in the field, we felt that it was important not to impair our ability to carry out our responsibilities. We have been able to meet our lower personnel ceilings without reducing either flexibility or capacity in our country Missions.

Also, we were determined to reduce

redundancy and inefficient use of Washington personnel. For instance, in the 10% reduction in headquarters, we eliminated numerous duplicative policy and contract review procedures conducted by the various bureaus. The reductions forced limited reorganizations within the headquarters units, the effect of which was to reduce the shuffling of paper and layers of review within those bureaus.

We also are carefully examining a number of different functions both in the field and in Washington which might be contracted out. To the extent that contracting out is cost-effective, we would hope to achieve both lower personnel levels and the attendant lower operating costs. Contracting out is not a panacea, but it is an important element of flexibility.

We have achieved a substantial personnel decrease in Washington without using the "reduction-in-force" (RIF) mechanism.

I am committed to strong management, and I intend to take all necessary steps to avoid the management problems a RIF creates. To achieve the reduction through attrition, we have instituted a selective

Washington hiring freeze, we have begun a replacement program to put occupants of eliminated positions into vacancies in continuing positions. We will complete this program later this summer.

At the same time, we are maintaining the staffing levels for the Inspector General's program at a time when the Agency is reducing its overall personnel levels. In fact, our Inspector General program was exempted from the sharp personnel reductions in on-board strength imposed elsewhere in Washington. Currently, only the Inspector General's office is proceeding with normal hiring.

Operating Expenses

AID is requesting \$376 million in new budget authority to fund its fiscal 1983 operating expenses. This represents a \$45 million increase over the fiscal 1982 appropriation of \$331 million. However, it should be noted that \$9 million of this increase is to cover the cost of the October 1981 pay raise and the January 1982 lifting of the cap on salaries of federal employees, costs not included in the fiscal 1982 appropriation of \$331 million.

In spite of an overall decrease in per-

sonnel from 1982 to 1983 of 100 work-years, fiscal 1983 salary and benefit costs will remain at about the same level as the fiscal 1982 levels as adjusted for the pay raises which took effect this year. This reflects full-year funding in fiscal 1983 of the 1982 pay increase and various provisions of the Foreign Service Act of 1980.

The Agency has taken several steps in the past year, and plans further actions in the future, to minimize the impact on the operating expense budget of rapidly escalating prices overseas and in Washington. The use of the Section 636(c) authority in the FAA to purchase residences and office buildings in past years is now beginning to pay off. Funding required for rents and utilities overseas is projected to increase only 6% from fiscal 1982 to 1983. While no funds are available in fiscal 1982 to cover Section 636(c) acquisitions, we are requesting \$3 million in 1983 so that we may continue this trend in reducing rental payments in future years. Unfortunately, this avenue of relief is not available for our Washington operations.

As a result of our increased review and analysis of Foreign Affairs Administrative Support (FAAS) budgets and bills received from the Department of State, sharp cost reductions have been possible. We project a \$3 million increase in FAAS costs in fiscal 1983, for a level of \$23 million.

An increase in funding for staff training is requested in the next fiscal year. Training is essential if we are to increase the efficiency and effectiveness of our personnel, especially increased language training for personnel scheduled for overseas assignments. While language training is the largest single category in our training budget, other types of training are equally important, for example, that relating to project design and implementation, management (both project and non-project), and specialized training in areas such as agriculture, energy, and population.

AID's budget request for 1983 is the minimum amount necessary to carry out the operations of the Agency. However, it must be emphasized that the inflationary effects of doing business overseas account for almost three-fourths of the increase included in this request. For example, the cost of moving employees, family members, their household effects and related office supplies will increase \$2 million in fiscal 1983. Nevertheless, the Agency will continue to maintain its scrutiny and management of the operating expense budget to ensure that it represents only the minimum essential requirements of the Agency. □



Reduced cargo losses and improved port efficiency are the result of good management.

AFRICA: Development Is Now More Difficult, More Urgent

After steady growth in the 60s and 70s, the economic tides seem to be turning.

A statement by
Frank S. Ruddy
AID Assistant
Administrator for Africa



For fiscal 1983 the Africa Bureau is requesting a total of \$648.4 million, a 7% increase over the fiscal 1982 level. The Development Assistance request of \$323.4 million is 1.8% below that of the preceding year. And for ESF, the fiscal 1983 request is 17.3% higher than for fiscal 1982.

The \$323.4 million in Development Assistance requested will concentrate on the following areas: agriculture and rural development, \$142 million; health, \$32.4 million; education and human resources development programs, \$30 million; selected development problems, \$20 million; and population planning, \$5 million. The \$5 million figure does not include \$2 million for population in the Sahel Development Program and \$17 million for central bureau funding. The Sahel Development Program, which is a separate functional account, and for which \$93.8 million is requested, focuses on food production, environmental reclamation, health, population and related training. In addition to Development Assistance, \$325 million in ESF is requested primarily for programs in southern Africa and the Horn. \$191.7 million, in PL 480 assistance is requested, including \$43 million in Title III. The fiscal 1983 request, if appropriated, will be used to address a series of economic and social problems in Africa.

Overview of Trends in Africa

Over the last decade trends have materialized in Sub-Saharan Africa which suggest that economic development of the region is becoming both more difficult and more urgent. After moderate but steady growth and development in the 1960s and early 1970s, the economic performance of Africa has seriously declined, and projections for the 1980s are not bright.

A combination of factors has caused the downturn in African economic performance. Rapid population growth together with relatively slow rates of technological change, and the fact that in many areas the limit of cultivation has been reached are some of the reasons.

Sub-Saharan Africa's population in 1980 was approximately 353 million. Africa's population is growing at an average yearly rate of about 2.8%, and food production has not kept pace. This imbalance must be reversed; the dangers are self-evident. In agriculture—the predominant economic activity in this region—average yearly per capita growth rates were negative at .9%, and the per capita volume of exports (mostly agricultural commodities and minerals) fell at an average rate of 3.5% each year.

There has been a chronic decline in

Africa per capita food production since the early 1960s. Production increases have been attained almost exclusively by expanding the areas under cultivation. Food yields per hectare (1 hectare = 2.5 acres) have been stagnant, and at much lower levels than in other regions. Currently, average yearly growth in per capita GNP is projected between 1% and -1% between 1980 and 1990.

Potential and Progress in Africa

Notwithstanding the recent trends in Sub-Saharan Africa, the region has substantial long-term economic promise. It has the potential for increasing yearly production of cereals by approximately 16 million tons from rain-fed land and by approximately 9 million tons from irrigated land, for a yearly production increase of about 25 million tons. The potential average yearly rise in livestock products is estimated at 1.04 million tons.

The Sahel region could put 2 to 6 million hectares (5 to 15 million acres) under irrigation, and about 1.8 million of that could be under irrigation by the year 2000. This alone would mean increasing by half the amount of food produced. Significant overall production increases could be achieved through intensifying cultivation of dry land, applying different farm technologies and opening new lands through the control of onchocerciasis and other diseases.

Sub-Saharan Africa has nine major river basins running through several countries in the Sahel, central and southern Africa. Irrigation potential can be compared to the American West. The basins offer the possibility of putting some 14 million hectares (35 million acres) under irrigation, with estimates in the Sahel region alone ranging from two to six million hectares (5 to 15 million acres). Africa is estimated to have over one-third of the world's potential hydropower resources. Energy from hydropower is one of Africa's greatest underutilized resources. The natural highways which are formed by the rivers can serve as low-energy alternatives for moving agricultural products to markets and supplies to producers.

While distribution among countries is very uneven, Africa is a major producer of minerals such as copper, cobalt, chrome, and uranium. There has also been a steady increase in the number of oil deposits located, particularly in coastal waters. Only a small portion of the land has been surveyed in detail and the potential is believed far greater



Food production could increase significantly by intensifying dry-land cultivation.

than current production levels would suggest.

With respect to progress, Africa's absorptive capacity has been rapidly enlarging. Today an estimated 60% of all school age children are in primary schools. Since mid-1960 annual secondary and higher education enrollment have increased by 9.8% and 11.1% respectively. Conditions are being created which will increase Africa's ability to use its greatest resource, its people.

In the area of food production, new

hybrid cereal varieties have been developed, seed multiplication techniques replicated and new agriculture research started. A number of African countries are beginning to re-examine policies affecting food and agriculture production. These include food pricing and parastatal (public) enterprises. As a result of a joint assessment in Senegal, a declaration was issued calling for the abolishing of two major parastatals, reorganizing rural development agencies and promoting private cooperatives. The government also plans to

undertake new pricing policies and revamp the farm credit system. Private voluntary organizations are continuing to play a significant role, especially at the grass roots level, and in carrying out AID-funded activities. Under one project in Upper Volta, aimed at developing rural enterprise, 80 entrepreneurs have improved their business practices; 120 entrepreneurs have received loans; and a demonstration farm is now introducing new technology such as hand mills, peanut presses and other implements.

Description of the Fiscal 1983 Program

The fiscal 1983 request concentrates the Agency's efforts on a small number of key interrelated problems facing the African continent. AID assistance will continue to stress the production aspects of agriculture with particular emphasis on small holders. In that context, the Agency will place special emphasis on institutional development, policy reform, and building and supporting the private sector wherever appropriate.

Private Sector Activity

AID is placing special emphasis on support of the private sector of African economies, particularly indigenous small- and medium-size enterprises. We are now reviewing projects to assure that wherever appropriate the private sector is used and supported. For example, in Zimbabwe, 80% of the foreign exchange associated with our Commodity Imports Program (CIP) is reserved for imports for the private sector to assure that it will be able to update its plant and equipment and operate efficiently. . . .

In addition, we expect PVO grants of approximately \$31 million in Africa in fiscal 1983. This includes \$25 million from Development Assistance and \$6 million from ESF. We believe that AID/PVO cooperation is an effective means for enhancing the impact and effectiveness of our efforts.

Overall, we believe that support of the private sector is an efficient way to expand employment and productivity. Moreover, maximizing use of the private sector will lessen the burden of already overextended governments.

Agriculture

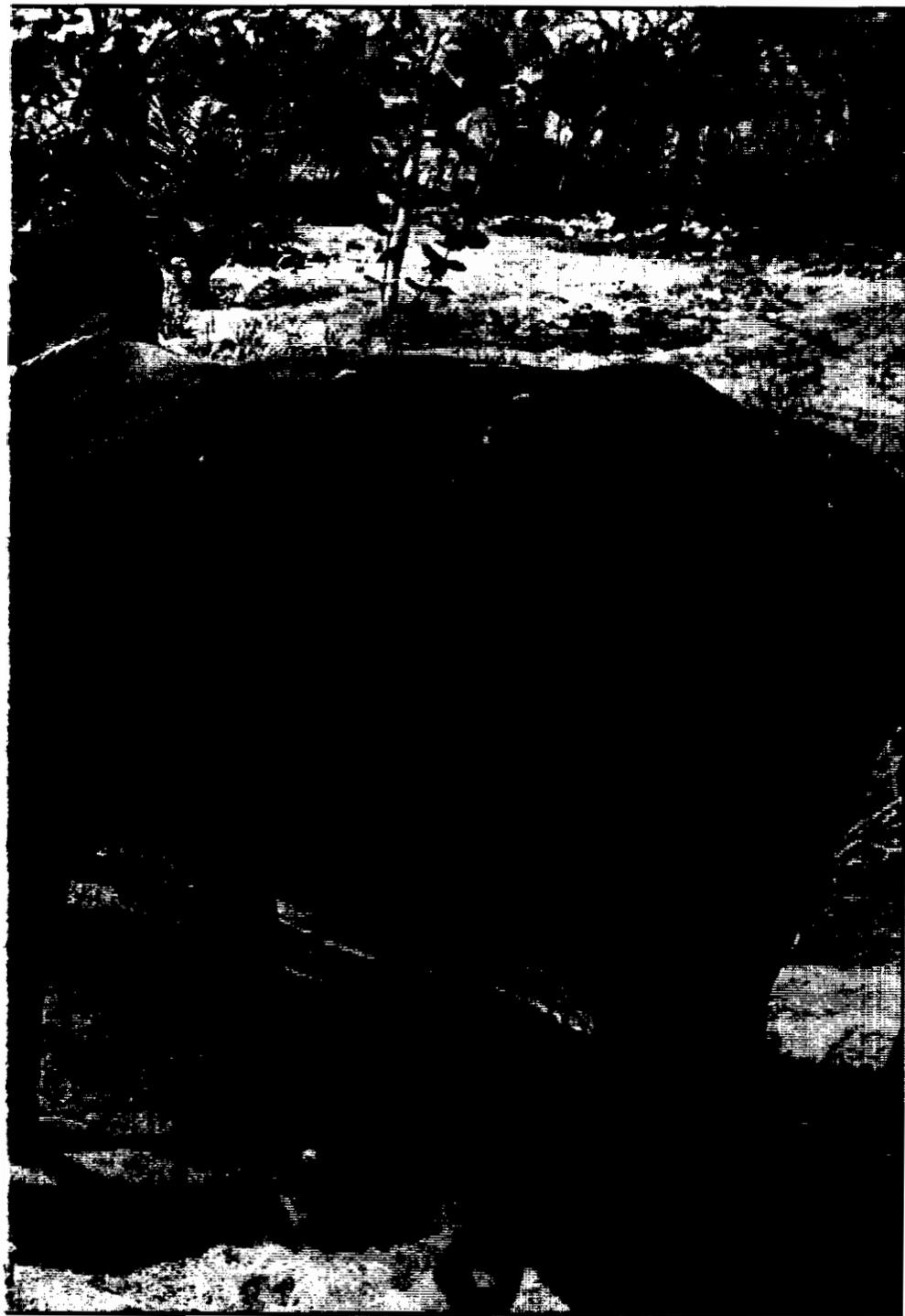
AID will seek to promote technical changes which will boost agricultural productivity, lessen peak-season labor problems and reduce agriculture losses. AID is emphasizing institution building in agriculture research and extension



for example, to achieve technical changes and to establish the capability of African countries to sustain the effort. Manpower development is being pursued as a means to promote institution building and to help increase agricultural productivity across the entire sector.

To improve efficiency in the employment of both AID and host country resources, AID has placed an increased emphasis on host country economic

policies. At the macro-economic level AID will seek to insure that its country programs are consistent with the intent of International Monetary Fund (IMF) and/or World Bank reform agreements with host countries. Where possible AID measures will actively reinforce host countries' efforts to comply with these agreements. Also, at the sector level, the Agency will seek to collaborate with host countries on devising ways to improve specific policies. AID



is especially interested in adjustments that will increase the influence of market forces in the determination of agriculture prices, liberalize marketing arrangements and expand the role of the African private sector in agriculture-related activities. Private enterprise activities such as a new agribusiness development project in Kenya, along with ongoing activities on the manufacture of farm implements in Uganda and Niger, as well as training,

are proposed for funding in fiscal 1983.

Health

The goal of the Africa Bureau health sector development program is to help countries address their health problems on a national and regional basis. Health programs are supported for the most part in four general categories:

- **Primary Health Care**—These multidisciplinary projects provide support for systems of health services for rural

communities. Projects usually consist of training village health workers and their supervisors and providing logistic support. Seven basic services are recommended for primary health care systems. \$13.9 million is proposed.

- **Health Planning, Management and Manpower Development**—Training and technical assistance are provided to countries and regional organizations to develop national capabilities to manage national primary health care programs. Bilateral, regional and multilateral projects address Africa's main constraint to health development—lack of health manpower. \$2.3 million is proposed.

- **Water and Sanitation**—Support is provided for developing safe water sources in rural communities, and maintaining environmental safeguards. Education of communities is an important aspect of these projects. \$4.7 million is proposed.

- **Endemic Disease Control**—Bilateral, regional, and multilateral projects address the tropical disease problems of vast geographic areas. Diseases such as malaria, schistosomiasis, onchocerciasis, and trypanosomiasis are endemic in most of Africa. Programs include surveillance, vector control, treatment, chemo-prophylaxis, and immunizations. A budget of \$10 million is proposed.

Population Program:

In Africa, progress in the population sector has been slow. The population issue in Africa has to be approached with great care and sensitivity. It must be carefully integrated with the provision of health services, with the opportunities for improvement in income and in general economic growth and employment opportunities. Otherwise it will be distorted and will backfire on efforts to establish programs. The implementation of a family planning program is a slow and difficult process. Partly it is organization, relating to establishing the kinds of systems for delivery of health services in conjunction with family planning; partly it is institutional. A lot is attitudinal. It is a matter of getting people to understand the relationships between population growth and the economic problems. AID recognizes the voluntary nature of population assistance and respects the free choice of developing countries to receive or refuse family planning assistance.

At least seven Sub-Saharan African nations (Botswana, Ghana, Kenya, Mauritius, Rwanda, Senegal, Uganda) have declared national population policies. Several others, including Nigeria and Sudan, have recently estab-



Increasing economic opportunity for a skilled workforce will be essential to development.

lished national population councils. At least 23 countries in the region now provide family planning services in government clinics.

Energy and the Environment

AID must continue to address the high cost and increasing scarcity of energy resources, as well as deforestation and ecologically unsound agriculture and livestock practices if Africa's productive capability is to be preserved and expanded. AID will support efforts to reforest and to conserve range and soil. These activities will be designed as components of agriculture production systems. In Mali, Senegal, and Burundi projects will focus on fuelwood renewable energy technology.

Education and Human Resource Development

In fiscal 1983 AID will help expand Africa's human resources capacity. Attention will be devoted to: (1) administration and technical skills training, as pre-conditions to institutional development and the transfer of technology; (2) strengthening indigenous private voluntary organizations (PVOs) and the business-industrial private sector by helping them develop management and entrepreneurial skills; and (3) expanding training opportunities in the United States through the Africa Manpower Training Project.

An example of technical skills training and development administration is the Agricultural Education Project in Cameroon. It will create an agricultural university capable of training managers,

researchers, planners and teachers who can effectively staff the agricultural support institutions of Cameroon.

Sahel Development Program

The Sahel Development Program was initiated in fiscal 1978 as a regional effort through which eight African countries cooperate with western donors and oil-producing countries of the Middle East (OPEC). Led by the United States and France under the Club du Sahel, 20 bilateral donors are now active contributors to a range of

Skilled managers are needed as well as skilled workers.



programs and projects to help the Sahel countries become self-sufficient in food and to build economic systems and institutions which will assure sustained economic growth and better and more secure life for their people. Donor assistance has increased from \$1.1 billion in 1976 to \$1.5 billion in 1980.

Twenty years from now, the Sahel can be feeding itself. Our long-term economic objective is to assist the countries in the region to increase agricultural production to levels where food imports will not be necessary. Sound economies in the region will contribute to the stability of the countries and provide opportunities for U.S. investments as well as access to mineral resources such as uranium (Niger) phosphates (Upper Volta), iron (Mauritania), and bauxite (Mali).

As a result of development strategy accepted by the donors and recipient countries, progress is being made. Agricultural research programs have been expanded and strengthened, extension services are reaching the farmer, new agricultural technologies are being introduced, range management and animal health improvements are being applied. The agriculture policy picture is starting to improve. In Senegal and Mali, cereal marketing through the private sector is now being encouraged. Senegal, Niger, Mali and Upper Volta are adjusting cereal pricing policies to provide more incentive to the farmer for both production and marketing.

In the fiscal 1983 program AID will continue to support the Sahel development strategy and direct resources to the agricultural sector—particularly toward rainfed agriculture which constitutes the mainstay of Sahelian agriculture. AID is providing technical assistance and key inputs (seeds and fertilizer for example).

AID also is supporting long range capital projects to develop water resources in the Senegal and Gambia river basins. AID is supporting efforts by other donors through its regional program which concentrates on institutional and development planning. . . .

Of the \$93.8 million request in fiscal 1983, \$27.6 million will be allotted to regional programs directly benefiting the individual countries in the basin area. The balance will be allotted to seven countries in the region under bilateral programs. Our assistance to Chad has been limited to relief and rehabilitation, and this effort has been with other donors. The civil war has brought extensive damage to Chad's economy. Nevertheless we propose to continue monitoring the situation, and



Agricultural research programs have been expanded and strengthened.

we will look for improvements before undertaking any extensive or long-term development projects.

Sahelian problems with financial management of AID funds continue to be a matter of serious concern. Steps have been taken to correct serious deficiencies in the accounting and management systems. Host country documents are being verified and accounting systems have been examined to determine their adequacy for certification by AID officials as a precondition to disbursement of funds. To correct the deficiencies, training programs, workshops and teams have been developed to improve the financial management skills of the local institutions concerned with the Sahel programs and projects.

The Economic Support Fund Program (ESF)

The fiscal 1983 request for \$325 million is intended to provide the United States with the resources necessary to stop the spread of further economic and political disruption and to support the efforts of friends and allies to deal with threats to security and independence. Economic Support Funds totaling \$325 million are requested for Sudan, Somalia, Kenya, Mauritius, Seychelles, Djibouti, Zimbabwe, Zambia, Botswana and the Southern Africa Regional Program, Liberia, Niger, Senegal and Zaire.

These countries are currently experiencing a broad range of economic and political problems. These include balance-of-payments and budgetary deficits, external debt burdens, deteriorating

terms of trade and declining output, and the threat of political instability.

While these funds have political and military, as well as developmental objectives, AID makes every effort to maximize their developmental impact. For instance, in Zambia and Kenya our Commodities Import Program is targeted on agricultural inputs; in Zimbabwe 80% of the CIP is reserved for the private sector, and the rest of the program has a strong developmental character. We believe that ESF funds are a particularly versatile development instrument when used as program assistance in support of policy reform.

PL 480

The fiscal 1983 program request for PL 480 is \$191.7 million. Of this amount, \$117 million will be allocated to Title I. Within Title I, \$43 million will be directed to Title III. The \$74.7 million balance of the request will be devoted to Title II.

By legislation, PL 480 embodies several objectives, among them the economic and social development of recipient countries. The Africa Bureau is committed to fostering sustained development as the objective of its assistance through PL 480 food resources. Specifically, the Africa Bureau seeks to utilize PL 480 resources (sales revenues and/or commodities) to address and alleviate the underlying causes of the need for food assistance, particularly in the agricultural and rural sectors. The Administrator has instructed our field missions to enhance the effectiveness of PL 480 food aid by: a) seeking policy dialogue

with host governments on ways to alleviate the constraints to improved food security; and b) increasing the degree of integration of PL 480 programs within the total AID development assistance program.

Self-help measures, under Title I use of local currency sales revenues, and policy dialogue, or integration with other forms of assistance are intended to enhance the development impact of Title I. The Title III program will be continued in Sudan and Senegal and a new program initiated in Somalia.

Title II grant commodities have been traditionally channeled into direct food distribution programs through maternal-child health centers, school feeding programs and food for work projects, all of which are administered by U.S. registered private voluntary organizations or by the World Food Program. Similarly under Title II Section 206, we are undertaking programs for food for development in Cape Verde, Mauritania and Upper Volta.

Other Donor Coordination

Other donor coordination deserves special emphasis at this time. The serious problems faced by many African countries can only be met by integrated projects and programs. Moreover, as certain governments find themselves less and less capable of meeting the recurrent costs associated with various projects, project and program planning requires an assessment of total donor activities as well as those of individual donors.

The extent of the problem is illustrated by the fact that although the United States is a major aid contributor in Africa, our assistance accounts for only 7% of total Official Development Assistance. There are no less than 52 bilateral donors in Sub-Saharan Africa: 17 of the Development Advisory Council of the OECD; seven Arab/OPEC; nine Arab multilateral, 12 other multilateral; and seven East Block. In addition, there were 34 PVOs associated with AID alone in fiscal 1981.

AID is promoting greater cooperation among donors in several ways by encouraging ongoing cooperative efforts in such donor groups as CDA (Cooperation for Development in Africa, formerly CADA) and the Sahel program, and through cooperative efforts with African groups such as ECOWAS (Economic Community of West African States), SADCC (Southern Africa Development Coordination Conference). We are also seeking opportunities for cofinancing with other donors, both bilateral and multilateral. □

ASIA: Continuing Economic Growth and Political Stabilization

U.S. economic assistance has contributed to the process.

A statement by
Eugene S. Staples
Acting Assistant
Administrator for Asia

For Asia, the Administration is requesting for fiscal 1983 \$407.6 million in Development Assistance funds, \$335.7 million in PL 480, and \$225 million in Economic Support Funds.

Importance of Asian Development

Asia contains 51.8% of the world's population possesses vast human and natural resources, is the seat of two of the world's most remarkable civilizations, and its development and modernization are policy matters of large import to the United States.

The United States has fought three major wars in my lifetime in Asia. Today most of the Asian continent is relatively stable and at work for peaceful purposes, although one must deplore the unfortunate exception of the Indochinese Peninsula and the bitter Soviet occupation of Afghanistan. The United States can take pride in its contributions to the process of stabilization and development which has characterized the post-Vietnam war period in Asia. Our economic assistance programs have been a major contributor to the process.

Both the United States and the Asian nations benefit directly from this con-

tinuing process of economic growth and political stabilization. U.S.-Asian (excepting Japan) trade has been growing over the past ten years at a yearly rate of 20%. U.S. investments in Asia (excepting Japan) now total \$8.4 billion. The ASEAN states in particular are demonstrating extraordinary capacity for growth. The five states which comprise ASEAN are growing at an average yearly rate of 6.8% at a time when the international economy generally is drifting and stagnant.

In spite of these positive trends in Asian development, most of Asia remains very poor. According to the World Bank, the Asia region contains about 75-80% of the world's poor. The percentage of poor people in the region ranges from 30% in Thailand, or 14 million people; to 50% in India, or more than 310 million people; to 86% in Bangladesh, or 87 million people. The average per capita GNP for the region is only \$224, compared to \$278 for Africa, \$769 for Latin America and \$970 for the Near East. Two countries—Bangladesh and Nepal—are included in the least developed category with per capita incomes of \$90 and \$130 respectively, while India, Indonesia, Pakistan and Sri Lanka are categorized as low income countries.

Even the extraordinary growth rates of the ASEAN nations as yet have not seriously transformed the poverty of the rural majorities in such countries as Indonesia and the Philippines, populations living in isolated and usually resource-poor regions. Generally, Asian population growth continues at rates considered far too high by the governments of the region. Health, nutrition and unemployment problems arising from an inadequate agricultural production base characterize the Asian populations.

AID Programming

AID programming in fiscal 1983 is designed in the light of the successes and failures of the past—AID's own record, that of other donors and the record, of course, of the Asian societies themselves—and of demographic, economic, social and institutional realities of the 1980s. AID arrives at its program decisions on the basis of macroeconomic analysis and through an intensive effort to learn from program evaluations. For example, this past year, AID conducted 40 program evaluations in Asia in addition to the numerous audits conducted by the Inspector General's office and by the General Accounting Office. We believe that AID's ability to make compass course corrections is improving.

The more salient of the Asian realities underlying our programming for the coming fiscal year are as follows:

First, an increasing recognition of the dynamism of the Asian private sector. One of the most timely new emphases in AID's program design is private sector development. . . . There is wide disillusionment in Asia with the record of public sector solutions for development problems, and the new AID initiative in private sector development is finding a receptive climate. . . .

A second salient reality is demographic. In spite of the highly encouraging record of some of the Asian societies in reducing population growth rates over the past decade, with very few exceptions the Asian governments remain convinced that their populations are growing too fast and that this creates increasingly unacceptable pressures on limited natural resource systems. Generally, the problem is most serious in those countries which have the largest populations. India, Bangladesh



Health, nutrition and unemployment are continuing problems in Asia.

and Pakistan, for example, contain a population of 873.9 million people. The population growth rate in India is estimated at 2.2%, in Bangladesh at 2.5%, and in Pakistan at 2.9% each year. In Indonesia, which has carried out a remarkably successful family planning program in the heavily populated central island of Java, the growth rate has come down from 2.7% in 1970, to an estimated 2.1% today. Thailand has succeeded in bringing its growth rate down to 2% in 1980 from 3.1% in 1965.

The point, of course, is that helping those societies which are dedicated to reducing population growth by methods culturally acceptable to the societies themselves remains important work for the U.S. foreign aid program.

A third salient Asian reality is the continuing need to worry about agricultural production. The achievements of the 1970s in regard to rice and wheat are highly satisfying to the Asian nations—and should also be a source of

Because of growing disillusionment with public sector performance, AID's private sector initiative holds great promise.





Appropriate technology leads to increased productivity.

pride to the U.S. Government, which played an important part in the research and training efforts underlying the wheat and rice green revolutions. But to achieve and to go beyond self-sufficiency to that point where the agricultural sector becomes a genuine motor of development for the very large poverty stricken rural populations is as yet only a dream in most of Asia.

AID's concentration increasingly is on those factors of production which are likely to generate such powerful increases in productivity. In addition to its continuing support for Asian agricultural science, AID is an important partner in major new Asian efforts to improve the productivity of the vast irrigation systems which dominate the South Asian subcontinent and on a lesser scale the Southeast Asian nations. Im-

proving water management is a complex, multidisciplinary, multiprofessional challenge that no one really has mastered in the Asian circumstances. The new AID effort being mounted with the cooperation of the Asian nations is likely to be one of the most important development enterprises of the decade.

A relatively newer element in AID Programming in Asia also corresponds to the demographic and natural resource requirements of the Asian nations. This is programming in what variously is called social forestry, agroforestry and energy forestry. The purpose is to stop and to reverse the degradation of forests and uplands, to bring to very poor villagers access to and whenever possible direct control of genuine resources of energy and in-

come. The benefits are multiple, including the downstream improvement of watershed and irrigation and power systems, and ultimately coastal fisheries. We are also working on energy policy problems with a number of the Asian governments, including conventional as well as non-conventional energy sources.

These programs all involve institution building, development and transfer of science and technology, and genuine innovation and experimentation. In Indonesia, for example, a consortium of American universities is at work in the difficult atmosphere of the outer islands creating a network of agricultural research and training institutions. In India, an imaginative cooperative program under the sponsorship of India's National Dairy Development Board, is using the highly successful dairy cooperative model it developed to create a system of oil seed cooperatives designed to overcome the large Indian deficit in oil seeds and to improve the income of small farmers. AID's assistance is channeled through the Cooperative League of America and the use of PL 480 commodities.

AID's Asian programs also give wide support to both American and indigenous Asian private voluntary agencies capable of reaching poor people on the ground. The small, innovative AID program in the South Pacific, for example, is mostly carried out through U.S. private voluntary agencies, while in a number of other countries the Agency provides co-financing for self-contained, country-level PVO activities in fields of AID priority.

Although in relative terms AID programs are much smaller than they were in the previous two decades, their concentration on key problems and AID's presence on the ground through our mission staffs give us the ability to discuss in a positive fashion a number of host country economic development policies. In Bangladesh, for example, the Bangladesh Government and the AID mission have worked together for years to use PL 480 commodity programs to increase private sector participation in fertilizer distribution—with notable increases in distribution and usage. In Thailand, as the result of a joint Thai-AID health program, the Ministry of Public Health decided to focus its health sector strategy on nutrition programs at the community level. To support discussions of development policy issues with recipient governments, AID is taking steps to strengthen its analytical capacity in both Washington and the field. □

NEAR EAST: Peace and Security Most Important Goals

For countries in the Near East Region, we are requesting \$1.963 billion in Economic Support Funds (ESF) and \$45.4 million in Development Assistance funds. Under a different appropriation, \$325 million in Public Law 480 Titles I and II is planned.

For the Middle East, we are requesting \$1.593 billion in Economic Support Funds. This includes \$750 million for Egypt, \$785 million for Israel, \$20 million for Jordan, \$8 million for Lebanon, \$15 million for Oman, \$6.5 million for the West Bank and Gaza, \$8 million for Regional Cooperation and \$500,000 for other regional activities.

U.S. interests in the Middle East are clear. The Administration's overriding goal is to help bring peace and security to the region. Our economic assistance programs are an essential element of this policy.

Egypt

To help support the economic progress in Egypt, we are requesting for fiscal 1983, \$750 million under the Economic Support Fund, the same basic level as in recent years. In addition, \$271.3 million is planned under PL 480—\$250 million under Title I/III and \$21.3 million under Title II. We are proposing that two-thirds of the resources made available under the Economic Support Fund (\$500 million) be provided as grants. The balance of the Economic Support Fund resources (\$250 million) and the PL 480 Title I would be provided as loans payable over a period of 40 years, this including a ten year grace period. Interest on the loans would be 2% during the grace period and 3% thereafter.

The Administration's request for Egypt is best understood in the context

U.S. economic assistance is essential in meeting those goals.

A statement by
W. Antoinette Ford
AID Assistant Administrator
for the Near East



of the quest for peace and security in the Middle East and the rapidly changing, sometimes volatile, political and economic scene there. The assassination of President Anwar Sadat had economic as well as political repercus-

sions for the Egyptian people. The orderly succession of President Hasni Mubarak was reassuring, but he has inherited an economy beset with significant problems.

President Mubarak already has initiated a broad and open discussion of the country's social and economic goals and priorities as well as the options available to achieve them. He has quickly reaffirmed the economic principles underlying President Sadat's "Open Door Policy" while simultaneously asserting that the ultimate purpose of increasing investment and hence productivity is to meet the needs of all Egyptian people. Attendant with this statement of Egyptian policy is the implication that sacrifices may be required to achieve the goal. We welcome President Mubarak's statement of the goal as well as the Egyptian willingness to seek new thoughts and ideas about how it can be achieved.

Still, it should be recognized that the process of sorting out priorities, examining the trade-offs between current consumption and future productivity, and the many other difficult problems which confront the Egyptian economy will take time to resolve.

The Government of Egypt's introspective examination of its economic problems is timely. During the last year, the economy suffered several shocks in addition to the death of President Sadat. First, there was a worldwide softening in the oil market which forced Egypt to lower its export prices. While Egypt was able to protect its export market, lower prices have reduced anticipated foreign exchange earnings. In the near term, there is no basis for expecting a recovery of oil prices.

Second, non-oil exports declined in real terms, as apparently did receipts

from tourism and remittances from workers abroad based upon preliminary data. Data concerning these last two items, combined with significant changes in government foreign exchange regulations, resulted in a sharp jump in the demand for foreign exchange and, hence, an open market exchange rate discount of 20% of the new rate.

Third, domestic inflation appears to be mounting significantly faster than the official, overall rate of 10%, especially for non-subsidized items.

Fourth, it is likely that domestic inflation is being fueled by a growing budget deficit and, concomitantly, by an apparent rapid growth in the money supply.

Even though real growth of the economy approached 9 to 10% in the past year, signs of significant weakness are evident. Large segments of the domestic manufacturing sector are not competitive with imports. Domestic price controls, administrative controls on output, restricted access to credit, an underemployed labor force, and drastically underpriced inputs—energy, for example—skew the allocation of resources in ways which will not serve the long-run needs of the Egyptian development effort.

Over the longer term, sustained economic growth and high levels of foreign exchange earnings will depend in large measure on Egypt's success in rationalizing its industrial and agricultural investment policies to move from capital- and energy-intensive industries to export-oriented labor-intensive industries. In order to make these investment decisions on a rational basis, the pricing system must be altered to reflect market scarcities.

The reforms can be carried out while at the same time maintaining Egypt's commitment to protect and improve the standards of living of its poorer citizens. The task now is for Egypt to make the policy choices to promote growth, efficiency and equity in the Egyptian context.

Decisive actions are needed:

- to promote a reduced rate of population growth. If the current high yearly increase of 3% is not lowered, Egypt's total population by the year 2000 will grow from the current level of 44 million to over 70 million;
- to bring energy prices more in line with world market prices. Egypt's energy prices now average about 20% of their economic value and cost the economy an estimated \$3 billion per year in revenues;
- to rationalize prices of farm products, and thereby maximize production;
- to reduce consumer subsidies to



Egypt's agricultural production must increase.

essential items for the truly needy. Last year direct budget subsidies amounted to almost 15% of GNP.

During President Mubarak's official State visit to the United States in February he sought assurances from the Administration that the United States would do its best to provide economic assistance in ways which would be responsive to Egyptian needs and which also would promise more expeditious implementation.

The assurances were provided in the form of an agreed statement of princi-



Reforms must accompany raising the standard of living for the poor.

ple between the U.S. and Egyptian governments. The substantive highlights of that statement were, in part, as follows:

"It is in the interest of both Nations to assure the success of the economic reform program in Egypt in a manner that recognizes the substantial capabilities of the Government of Egypt to accomplish its intentions and the continuing commitment of the United States to provide resources that may be utilized to this end."

"The United States endorses the intentions expressed by the Government of Egypt to acknowledge the continued need for economic reform and progress and to undertake necessary measures toward that end;" and

"Both Nations are now embarking on a new phase of greater interest in economic progress in Egypt with a view toward making U.S. assistance, as permitted by U.S. law, be of an optimum impact and to assure Egypt a more active role in the allocation and disbursement of the U.S. assistance."

This statement marks the beginning of a dialogue to enhance the understanding between our two governments on Egyptian economic goals, policy reforms, sectoral strategies, more effective implementation and the ways in which U.S. assistance can help Egypt realize its considerable potential.

As it completes its sixth year since resumption of U.S. assistance, the AID program has attained considerable momentum. Total fiscal 1981 program disbursements were \$1,027.1 million, nearly equalling obligations, which were \$1,132.9 million. The most impressive fiscal 1981 gains were in project disbursements, which at \$350 million were up 75% over fiscal 1980. Higher disbursements resulted from a variety of factors, including the increased use of quicker-disbursing program implementation modes, the maturation of a number of large capital projects, and greater attention to implementation by the Government of Egypt and AID.

AID program results are increasingly visible in such areas as electric power generation and distribution, village governmental systems and institutions, telecommunications, port capacity, commercial transport, urban water and sanitation systems, and an expanded population program that is building on accelerating acceptor rates in both cities and rural areas.

Despite the quickening pace of program implementation and the increasingly visible impact of U.S. assistance, a number of program and management concerns persist.



Israeli workers levelling a roadbed.

In fiscal 1983 expenditures will exceed obligations by an anticipated \$150 million. The overall pipeline, however, remains substantial—\$2.5 billion at the beginning of fiscal 1982. While the pipeline largely represents reservations of funds put aside for contracted costs of capital projects now in operation and on schedule, the pipeline also reflects the existence of some projects experi-

encing delays in final design or in execution. These projects are the subject of intensive dialogue and investigation by our mission in collaboration with Egyptian authorities.

Our concern with the pipeline also recognizes the urgency of demonstrating the benefits of peace to the Egyptian populace by improving their quality of life. Thus we have been attempting to

design projects that are relatively quickly disbursing. The Basic Village Services and Urban Neighborhood Services projects are examples. Both the Egyptian and the United States Governments are anxious to expand the use of quickly disbursing assistance where appropriate and active consideration is being given to alternatives.

Our fiscal 1983 program represents a combination of short-term economic stabilization efforts and longer-term activities aimed at developing self-sustained growth with equity. The main components of the Economic Support Fund program are: \$250 million Commodity Import Program to help assure the availability of essential raw materials and capital goods for industry and agriculture, some consumer items and to replenish the Trade Financing Facility; \$85 million to increase industrial production and productivity, especially in the private sector; \$154 million for infrastructure, including water and sewerage systems, and a new activity to expand the role of the private sector in housing; \$35 million for a new agricultural activity based upon the 1981 evaluation of Egypt's research and extension services and the current review of Egypt's agricultural growth opportunities by a U.S. Presidential team; \$98 million to finance the on-going portfolio of decentralization projects; \$50 million for two continuing education projects; \$50 million for new health and family planning activities to follow current sector assessments; and \$28 million for other priority concerns, including manpower planning and development, technology transfer and feasibility studies, and an energy planning activity.

Israel

For Israel in fiscal 1983 we are requesting \$785 million. Two-thirds, or \$525 million, is requested as a grant. The remaining one-third, or \$260 million is proposed as a concessional loan with a 10-year grace period, followed by a 30-year repayment period. Interest will be at 2% during the grace period and 3% thereafter, highly concessional terms. Together with the proposed FMS (foreign military sales) credits, U.S. economic assistance for fiscal 1983 tangibly reflects our commitment to support Israel, thereby encouraging it take the further risks necessary to achieve lasting peace in the Middle East.

In the Executive Branch's "Report on the Israeli Economy and Debt Repayment Prospects," submitted to Congress on March 9, 1982 we said:

"Israel, which in fiscal 1982 will receive about \$3 billion in economic and

military assistance from the United States, continues to experience balance-of-payments problems and rapid inflation. Some success was achieved in managing both problems in 1981, but consistent execution of policies designed to encourage exports and restrain domestic demand will be necessary to avoid a recurrence of past difficulties. The inflation problem will be particularly difficult to solve, but over time should respond gradually to appropriately restrictive fiscal, monetary and income policies. The Finance Ministry has indicated that it plans to implement such policies. While Israel's \$18.2 billion debt is high, with rapid but feasible increases in exports of goods and services, the financial burden of servicing external debt will become lighter."

Despite many serious problems, in particular the redeployment of military units from the Sinai, the continuing large oil import bill, and economic stagnation in Western Europe and North America, Israel achieved notable economic success in 1981. All major components of GNP grew impressively. At the same time, the rate of inflation dropped to 102%, still much too high, but an improvement over the 111% and 133% rates recorded in 1979 and 1980, respectively. Exports were up 5-6% over 1980, while civilian imports increased at a slightly higher rate. Overall, the non-defense goods and services deficit was probably between \$2 and \$2.5 billion, as compared with \$2.1 billion in 1980. Further, since Israel's foreign exchange reserves continued to grow in 1981, it may be inferred that net capital flows were sufficient to finance the current account deficit and the amortization of Israel's external debt.

We should note however that the austerity program introduced in 1980 was substantially eased early in 1981. Excise taxes on many consumer items, including cars, color televisions, toys, sports equipment, records, shoes, stereo equipment, and the like, were reduced or eliminated; subsidies have been increased; and income tax brackets are being adjusted with a view toward reducing the burden of taxes. These measures appear to have had the intended effects: GNP growth at 4.8% for 1981, or more than double the 1980 growth rate; and a drop in the inflation rate from 133% in 1980 to 102% in 1981. The longer-run impacts of these measures are difficult to predict but there is a real possibility that high subsidies and reduced taxes can stimulate consumption to a level consistent with the goals of reducing inflation and

maintaining balance-of-payments equilibrium. There is evidence that the Government is also concerned about these possibilities. In the latter part of 1981 it again took steps to rein in aggregate domestic demand.

Despite the progress achieved in 1981, Israel's basic problems remain unresolved. It must find a way to contain inflation and at the same time restore equilibrium in the balance of payments, and it must achieve these objectives without massive unemployment.

Over the next few years, Israel's success in sustaining progress towards balance-of-payments equilibrium will continue to depend to a large extent first on whether it can carry out a difficult austerity program; second, whether it continues to emphasize export growth; and lastly, whether it maintains its cash outlays for military purchases in line with available FMS funds.

As in the past, the ESF cash transfer program will be implemented on the assurance from Israel that it will import non-defense goods from the U.S. in an amount at least equal to the cash transfer level and that Israel will follow agreed procedures for selecting dry bulk carriers to ship grain.



Local women in Jordan call Food for Peace the "American feeding."

Jordan

In fiscal 1983 we are requesting \$20 million for Jordan in Economic Support Funds. This is \$5 million more than is currently planned for fiscal 1982. Of the \$20 million, \$15 million would be in the form of loans, with a 20-year repayment period, appropriately reflecting Jordan's "middle income" status. Over the past five years real growth in Gross Domestic Product has averaged 9% per year. Jordan continues to enjoy an overall balance-of-payments surplus, stemming from worker remittances, strong export performance and economic assistance provided under the Baghdad Agreements (amounting to about \$1.2 billion yearly).

Until fiscal 1982, the centerpiece of our request was the \$1 billion Maqarin Dam and Jordan Valley Irrigation Project. However, the inability of the interested parties to resolve riparian issues continues to make it impossible to begin construction of the project. Again, no request for financing Maqarin is contained in this budget.

However, water remains Jordan's priority development problem. Per capita daily consumption, approximately 13 to 15.6 gal. per day, is well below the World Health Organization minimum-safe health standard of 20.8 gal. Supply and distribution must be expanded, and use, intelligently and conservatively managed. In fiscal 1983, \$17 million of the \$20 million requested will be used for building water and sewer systems for the towns of Karak and Ma'an as well as technical assistance to the national water authority. These three projects are part of a country-wide development plan for urban water and sewerage services to deal with problems derived from rapid urban growth.

The balance of \$3 million proposed for fiscal 1983 is planned for the Development Administration Training III project to finance the training of Jordanians in the United States.

Lebanon

Political discord and violence continue to plague Lebanon. The central government continues to seek national reconciliation and to extend its authority throughout the country, but a variety of illegal armed groups and militias are reluctant to cooperate and frustrate the government's efforts. The pattern is distressingly familiar: Tensions can escalate rapidly to crisis proportions and put the lives of innocent civilians in jeopardy.

In fiscal 1983 the Administration is requesting \$8 million in Economic Support Funds of which \$4.5 million will be

channeled through U.S., Lebanese, and international private voluntary organizations operating in close coordination with the Government of Lebanon. We believe this is one effective way our funds can support our political interests in Lebanon. The funds requested will continue our support of health, education, credit cooperatives, vocational training, and private social institutions. These programs contribute directly to the welfare of the Lebanese people, especially lower income people most affected by the civil strife. In addition, the fiscal 1983 program will help strengthen Lebanese institutions in the reconstruction process by melding U.S. expertise with substantial flows of non-U.S. funds. To this end, \$1 million is proposed for technical assistance to the Council for Development and Reconstruction and \$2.5 million to establish an authority to administer Lebanon's national waste management program.

Oman

For Oman, we are requesting \$5 million in grant funds and \$10 million in loans for the Omani-American Joint Commission, the same level requested for fiscal 1982. The Joint Commission was established in 1980 as a part of our expanded economic, political, and security relationship with Oman. The Joint Commission finances development investments, offers opportunities for training, and facilitates commercial and technological exchanges between the two countries.

Oman, with its current oil revenues, has substantial financial resources; yet it remains a very underdeveloped country. With few natural resources other than petroleum and a largely untrained labor force, it faces the challenge of developing an industrial capacity and its modest agricultural and fishery potential to meet the needs of its people, as oil revenues diminish. The planned aid programs will assist the process of equitable development in Oman and provide tangible evidence to the Omani population of the benefits of our broadened relationship. The \$10 million loan is planned for a dam and related facilities to increase the supply of water to the capital city of Muscat.

Regional Activities

We are requesting \$6.5 million to continue our modest development effort for the West Bank and Gaza Strip. This program finances small scale development projects benefitting the predominantly rural and poor population. As in the past, the program will be implemented by U.S. voluntary agencies with



Economic assistance to Turkey emphasizes economic stabilization.

Middle Eastern experience. Emphasis will continue to be placed in the areas of pre-school, vocational and higher education, health, sanitation, and land reclamation for agricultural development and improved community water systems.

We are also requesting \$8 million in fiscal year 1983 to fund activities that can promote cooperation between Israel and its Arab neighbors, especially Egypt. Joint research projects have been started in the marine sciences, e.g., oceanographic, aquaculture and lakes management, involving U.S., Egyptian and Israeli institutions; infectious diseases; and psychological perceptions

of the Middle East conflict. These activities bring Arabs and Israelis together on problems of mutual interest and may lead to self-sustaining relationships. For fiscal 1983, funding will be required for these on-going activities and to finance new proposals in such fields as agriculture, health, energy, and water. We anticipate that other activities will become possible as the normalization process matures.

Finally under the regional program, we are requesting \$500,000 in fiscal 1983 to finance studies which relate to the design, implementation and evaluation of Economic Support Funds in the Near East region.

For Europe, we are requesting for fiscal 1983 \$350 million for Turkey and \$20 million for Portugal.

Turkey

We plan to provide \$350 million for balance-of-payments assistance to continue support of Turkey's economic stabilization program developed with the help of the IMF, which continues to monitor performance. We plan to provide the assistance in the form of a \$250 million grant and \$100 million loan, repayable in 20 years with a five-year grace period and 5% interest throughout. The Turkish government has shown great political courage in implementing its economic reform program. It needs and deserves the continued support of its allies and friends. We will do what we can do to encourage this support.



AID's programs in Lebanon contribute directly to the welfare of poorer people.

The Turkish economic stabilization program was adopted in January 1980. Its major features are the maintenance of a realistic foreign exchange rate, elimination of government subsidies to cover operating losses of most State Economic Enterprises (SEEs), fiscal and monetary austerity, elimination of most price and interest rate controls, and liberalization of the foreign investment regime.

Turkey's performance in 1980 and 1981 provides strong evidence that the new policies have taken hold. Wholesale prices, which doubled in 1980, increased by only 25% in 1981. The gross national product grew about 4.5% in 1981, compared to absolute declines in 1979 and 1980. Exports surged in 1981. This, coupled with strong growth in remittances from Turkish workers abroad and modest import growth, led to an improved balance-of-payments outcome. The current account deficit declined from about \$3 billion in 1980 to \$2.1 billion in 1981. Continuing assistance is needed to maintain the momentum of the stabilization program.

Portugal

The \$20 million request in grant funds 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.



A nation's human resources can be developed only through adequate training.

The fiscal 1983 funds will be in the form of a cash transfer for the fourth and final tranche 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 where the per capita income of \$700 is only one-third the national average.

Overall, Portugal's economic situation has improved markedly due to a consci-

entious application of an IMF stabilization program begun in early 1978, and with balance-of-payments assistance from 14 countries, including the United States. In 1980 the gross domestic product grew by 5.7%, inflation declined sharply, and real wages increased for the first time since 1976. However, the balance-of-payments is deteriorating as the result of drought, slowing export growth and the oil import bill, and may have reached \$2 billion in 1981. Financing the deficit should not pose a problem given Portugal's credit standing, substantial gold reserves and access to IMF resources.

For the next three years, AID will oversee the completion of several on-going projects and continue to provide some technical assistance and training. The pipeline has been reduced to \$30 million and the current program should be terminated by the end of 1984, except for commitments to the Azores related to Lajes Air Base.

Development Assistance Programs

In addition to these ESF programs, we are requesting \$45.4 million in Development Assistance funds for programs in Morocco and Yemen and for regional activities. In comparison to the ESF programs in the Near East these requests are modest. Nevertheless, they will finance programs critically important to the development plans of these countries.



Portugal's economic problems are evident in the quality of housing seen here.



Moroccan villagers wait to draw water from the village pump.

Morocco

Morocco is a long-standing friend and a country with considerable interest in U.S. trade and investment. Almost half the 21 million people subsist at poverty levels. Morocco faces an array of serious economic problems. The 1981 drought—the effects of which continue into 1982—severely reduced agricultural production, making it necessary to import 3 million tons of grain and thereby widening the trade deficit to about \$2 billion. The economy is further hampered by the cost of the Sahara conflict, low productivity in agriculture and many public enterprises, almost total dependence on imported energy, a 3% population growth rate, and excessive import demands. The Moroccans are presently negotiating a one-year IMF standby credit and a Compensatory Financing Facility (cereals option) arrangement which would help the ailing economy through its current severe financial squeeze. Morocco will depend heavily on external concessional aid in the next few years to help with its domestic problems and to enable it to finance its heavy debt service obligations, currently estimated at more than 30% of foreign exchange earnings.

In fiscal 1983, a total of \$13.5 million in grant funds is requested to directly address key Moroccan long-term development problems. AID's agricultural program is increasingly focused on rain-fed areas where productivity is low and where most of the rural poor live. Proj-

ects in the agriculture sector include cereals production, applied research, and range management. Our high-priority family planning project is showing progress as results of pilot activities are being replicated on an expanded scale in several areas of the country. The health program will include a continuing management improvement activity and a nutrition project which integrates Development Assistance grants with PL 480 food resources. Other basic

U.S. Economic Assistance to the Near East

	Fiscal 1983 (\$ millions)
Economic Support Fund	1,963.
Egypt	750.0
Israel	785.0
Jordan	20.0
Lebanon	8.0
Oman	15.0
West Bank/Gaza	6.5
Regional Cooperation	8.0
Project Development and Support	.5
Portugal	20.0
Turkey	350.0
Development Assistance	45.4
Morocco	13.5
Yemen	27.5
Regional	4.4

needs in Morocco are addressed through a low-cost housing program which combines Housing Guarantee and technical assistance and a training activity to improve the skills of government managers.

Yemen

We are requesting \$27.5 million in Development Assistance grant funds for the Yemen Arab Republic (YAR) in fiscal 1983. Yemen's geographic location makes the country's stability and prosperity important to its oil-producing neighbors and to the United States. The YAR is plagued by a low-grade guerrilla war fueled by the People's Democratic Republic of Yemen. The United States attaches great importance to the security and independence of the Yemen Arab Republic. We strongly support the right of the Yemeni people to develop their political, economic, and social institutions according to their own wishes and without foreign intervention. The U.S. assistance program, by addressing the economic and social causes of instability and poverty, both supports this goal and helps promote U.S. interests in maintaining the stability and security of the region.

While Yemen is a very poor country by usual social-economic indicators, its GNP grew explosively through most of the 1970s. However, as remittances peaked and then began to decline, foreign exchange reserves declined, government deficits have appeared and the balance-of-payments deficit has worsened dramatically. Given a very meager natural resource base, the YAR's most promising approach to development continues to be the mobilization of the country's human resources for agriculture and other sustainable enterprises.

Our development effort in Yemen focuses on a broadly based program of training and technical assistance to develop human resources and institutional capacities in such key sectors as primary education, agriculture, water resources, and rural development. In implementing this approach we are relying heavily on U.S. universities and private voluntary agencies. Of the \$27.5 million requested, \$25 million is for ongoing projects.

Regional Projects

In addition to these country programs \$3 million is requested to continue a scholarship program for students from the Near East area at the American University of Beirut, \$500,000 for project development and support requirements, and \$900,000 for a new regional population activities project.

LATIN AMERICA: The Economic and Political Challenge

**Aid programs
strive for
equitable
growth,
democratic
framework.**

A statement by
Otto J. Reich
AID Assistant
Administrator for Latin
America and the
Caribbean

The countries of Latin America and the Caribbean are of fundamental and growing importance to our national security.

Latin America and the Caribbean accounted for \$39 billion of U.S. exports in 1980, making it second to Western Europe as a market for our products. The region also accounts for 73% of all U.S. foreign direct and financial investment in the developing world. Ten million acres of U.S. cropland produce exports to our neighbors to the south, while we, in turn, depend on them for raw materials and other commodities.

The flow of this commerce and finance is essential to our own economy's ability to increase export earnings and create new jobs for U.S. workers. Exports account for one out of every nine manufacturing jobs in the United States, and the importance of foreign sales to our income and employ-

ment is likely to be even greater in the future. Our trading partners to the south, however, are faced with growing economic problems. Worldwide economic stagnation, high petroleum import bills for most, lower prices for major export commodities, a decline in tourism and high debt-service obligations have put severe strains on the balance-of-payments positions of many of these partners and their ability to carry out programs designed to bring about economic growth and development. Some face serious stresses arising from population pressures, resource scarcities and environmental degradation. Persistent, deep-rooted economic problems, in turn, have given rise to political strains and mounting terrorism.

Our national interest requires the unimpeded use of the sea lanes adjacent to North America and the Panama Canal. Half of U.S. trade including oil passes through the Panama Canal or the Gulf of Mexico.

Geographic proximity to Latin America and the Caribbean affects us in other ways. We are challenged, for example, by the increased flow of illegal immigrants and narcotics across our borders. To meet these problems we need to cooperate justly and generously with the countries involved.

Economic problems and inter-related social and political tensions have been growing in the region, particularly in the Caribbean Basin. The weakness of the international economy is making it difficult to implement the recovery programs sorely needed. In many cases, a legacy of unbalanced development and misguided economic policies has made domestic political conditions more volatile. The tensions so created contributed to the violence in El Salvador



and threaten to do so also in neighboring countries. President Reagan's initiative in the Caribbean Basin has grown out of our concern for the political and economic deterioration.

El Salvador is beleaguered by the efforts of guerrilla subversives to destroy the economy. No reasonable political solution can be attained on the economic ruins of that country. There is no political victory if the country is destroyed.

In Nicaragua, where revolutionary change has already occurred, our interests lie in support of a pluralistic society.

In Costa Rica, our immediate interest is to assist the country to recover from its most serious economic crisis since the 1930s. Costa Rica has traditionally been an example of democracy at work, demonstrating over most of the last two

decades that an open society and free market economy can achieve high rates of growth while spreading the benefits of growth widely. Costa Rica's continued well-being is vital as a stabilizing influence in the region and is critical to our long-term interests.

In Panama, progress continues in efforts to foster a democratic political system and an economic and social environment conducive to improvement in the economy and in the successful operation of the Canal. Modest gains have been experienced in all sectors of the economy except agriculture.

In the Caribbean, it is essential that we bolster the economies of the area with self-sustaining productive activity and more job opportunities in order to avert greater frustration and a turn to radical solutions antithetical to traditional values.

Jamaica, after the crucial elections of October 1980, has designed an ambitious economic recovery program, begun the structural adjustment process, and assembled substantial support for its efforts from the international donor community and the private sector. Progress toward economic recovery has been undercut by a softening of the international market for bauxite and carryover effects of the years of economic decline. Jamaica did, however, register its first year of positive growth in 1981 after seven consecutive years of steady economic decline.

Guyana reported a slight rise in 1980 in its per capita gross domestic product, which had been on the decline for three consecutive years. However, severe economic problems persist due to low productivity and falling prices of its export products, such as bauxite, sugar and rice.



Latin America and the Caribbean accounted for \$39 billion of U.S. exports in 1980.

The Eastern Caribbean Islands of St. Kitts-Nevis, Antigua, Montserrat, Dominica, St. Lucia and St. Vincent differ considerably in their stages of development, but through the provision of common government services and other means these islands seek to work together to minimize the inherent difficulties that their small island economies face. Because investment has been stagnant, unemployment is near 50% among young adults in some islands. Private sector production is hampered by small domestic markets, expensive and irregular cargo transport, the emigration of skilled workers, and a paucity of medium-to-long-term financing for new productive enterprises. The Barbadian economy has been a strong performer, together with that of Trinidad and Tobago. Grenada remains troublesome due to its political orientation, a situation that could repeat itself in other countries unless their economies recover and a sense of frustration is overcome.

The island of Hispaniola, shared by Haiti and the Dominican Republic, contains most of the population of the Caribbean outside of Cuba. Haiti remains by far the poorest and least developed country of the Western Hemisphere. Years of isolation and neglect have left its social, economic, educational, and legal institutions in ruins. Haiti is heavily dependent on U.S. trade, but an increasing number of U.S. businesses are beginning to invest there. A major effort is needed to alleviate poverty in Haiti, but it will be difficult to set in motion and will not bear fruit quickly. Recently the Government of Haiti announced policy and personnel changes which appear to improve its management of the economy.

The Dominican Republic has been severely affected by a plunge in world prices of all of its major exports—sugar, coffee, cacao, ferro-nickel and bauxite. The democratically elected government is attempting to deal with the country's problems by tightening imports, credit and public sector spending. In the meantime, preparations are continuing for the presidential elections scheduled in May.

South America, on the whole, is more developed than Central America and the Caribbean. Except for three countries—Bolivia, Ecuador and Peru—AID programs have been terminated or are in the final phases of termination. Bolivia, the poorest country of South America, has been plagued by political and economic instability. The most recent government, which assumed power



Poverty still affects one-third of the region's people.



on Sept. 4, 1981, has given some indication of its recognition of the need for changes but has yet to implement the political and socio-economic reforms that are sorely needed. AID is monitoring Bolivia's efforts to improve human rights and narcotics problems.

Ecuador, despite being a modest exporter of petroleum, remains one of the least developed countries in South America. Declining real exports and growing resource gaps are limiting the country's ability to meet the basic human needs of large segments of its population. In Peru, the government elected in July 1980 has taken bold initiatives to stabilize the economy and to promote long-term, broadly based growth. The focus is on the creation of jobs and increasing real incomes of the poor. These are difficult tasks, especially for a government which faces rising expectations generated by the return to democracy.

The Dimensions and Significance of Lack of Development

The worsening situations faced by many of the countries of Latin America and the Caribbean, particularly in the Caribbean Basin, call for increased efforts on our part to help restore economic and political stability and to promote equitable economic development in the region.

Poverty still affects one-third of the region's population and an average of 40% to 50% of the people in AID-assisted countries. In rural areas, the figures are even higher. Open unem-

ployment rates have risen to 20% or 30% of the economically active population in much of the Caribbean and Central America, and many of those who do have jobs are underemployed.

Prospects for the rapid alleviation of poverty and unemployment are limited. Likewise, there are no quick fixes to the problems of resource scarcities and environmental degradation. It will also take time to correct the inefficiencies engendered by misguided economic policies. As the region's population expands by 60% to 70% over the next two decades, the United States must improve its ability to identify emerging problems and assess alternative responses. Most importantly, it must be willing to support these responses with definite courses of action.

AID Strategy

AID's strategy is to help strive for the alleviation of poverty, the achievement of self-sustaining growth, the enhancement and respect for individual civil and economic rights, improvement in the socio-economic status of countries of Latin America and the Caribbean into an open and equitable international economic system. Central to this strategy will be a stronger effort to encourage and foster private enterprise as a major component of the development process. Our help to the private sector will consist primarily of encouraging the allocation of adequate resources toward private-sector credit and or foreign exchange needs, particularly the imports of raw materials and intermediate goods, thus facilitating



AID's strategy is to alleviate poverty and achieve growth in an equitable economic system.

domestic production and employment without a further deterioration in the balance of payments.

Not only does this strategy spring from our humanitarian tradition, but we also see it as the most effective way of furthering U.S. interests. For this purpose, we will continue to work closely with other instruments of U.S. international economic policy and to harmonize our approaches for the acceleration of economic growth and development.

We also will work closely with institutions that are needed to support the ex-

panded efforts of the private sector.

Our efforts, however, must be predicated on the wholehearted cooperation of the governments and citizens of the other countries. This effort will work better if they are strongly committed to equitable development and sound economic policies. This collaborative approach will also be used in securing the continued assistance of other bilateral and multilateral donors, since the needs go far beyond the capability and responsibility of this or any other single nation. We will discuss, with



Ending poverty will depend upon creating sufficient jobs.

other donors including the International Monetary Fund, the World Bank and the Inter-American Development Bank, possible reform measures to ensure that external assistance is utilized effectively so as to have the greatest possible impact on increased production and employment generation.

Fiscal 1983 Program

The proposed program for fiscal 1983 totals \$600.6 million: \$326 million. Economic Support Fund (ESF) monies: and \$274.6 million, functional Development Assistance. Of the combined total, \$305.4 million would be provided as loans and \$295.2 million as grants. Other proposed U.S. assistance to Latin America and the Caribbean includes \$185.2 million in PL 480 assistance and \$118 million in Housing Guaranties.

Thirteen bilateral programs and three regional programs will be the vehicles for the implementation of the program. Of the Development Assistance and ESF resources programmed, some \$297 million, or 49%, will be provided to Central America: \$196.6 million, or 33%, to the Caribbean: \$40 million, or 7% to South America; and \$67 million, or 11%, for the LAC Regional program, which may be used for emergency ESF assistance, and to support such programs as those of the American Institute for Free Labor Development and the Partners of the Americas. The proposed Development Assistance program is divided among AID's functional sectors as follows:

- Agriculture, Rural Development, Nutrition: \$127 million
- Population Planning: \$13 million, or
- Health: \$23 million
- Education and Human Resources Development: \$40 million
- Selected Development Activities: \$71 million

Here is a brief summary of what we will be doing in each of our functional sectors and with the Economic Support Funds:

Agriculture, Rural Development and Nutrition

Emphasis in this key sector continues to be on 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. In Peru, a new watershed management project will introduce irrigation systems, soil conservation, forestation and crop improvement programs in the sierra and high jungle areas. This is particularly important



Roadbuilding in Haiti, the Hemisphere's poorest country.

since only 3% of Peru's land base is considered suitable for intensive agriculture. Other new projects include agricultural education in Jamaica and agricultural planning in Panama. Ongoing projects in several other countries will continue to stress conservation of natural resources, forestry, fish ponds and promotion of agro-industrial activities.

Population Planning

These funds provide support for voluntary family planning services and contraceptives for the rural poor through paramedical workers and the private sector, as well as other activities designed to reduce the rapid population growth rate in the region. Much of this program is carried out by local private groups.

Health

Funding in the health sector provides for continuation of existing programs, especially low-cost delivery systems, as well as a new project in Peru to improve rural water systems and sanitation.

Education and Human Resource Development

Activities financed under this account will continue to focus primarily on relieving critical shortages of managers, administrators, technicians, and subprofessionals in both the public and private sectors. A new project in this area will be initiated in Jamaica. At the same

time, we will continue our support for rural primary education and for non-formal vocational and adult education.

Special Development Activities

This sector will continue funding for a variety of activities, such as alternative energy programs, small community initiated projects and numerous projects undertaken through private voluntary organizations. In addition, we will be assisting the private sector by transferring modern technology and



Harvesting coffee, a major export product in Costa Rica.

management practices (Ecuador), furnishing loans and technical assistance to small businesses that normally cannot borrow from commercial financial institutions (Haiti and Peru) and supporting other programs. An innovative program in the Caribbean region will establish an inter-island shipping and marketing system with private-sector participation.

Economic Support Fund

AID will direct these funds to support stabilization and recovery programs in the Caribbean Basin. Balance-of-payments support will be provided to Costa Rica, El Salvador, Honduras, Jamaica, and the Eastern Caribbean. Other assistance will be targeted largely in support of private-sector activities in industry and agriculture. The Private Sector Promotion project in Honduras will revitalize the private sector's role in production and employment, while a small grant to Jamaica will provide for technical consultancies and training.

The countries included in the Latin American and Caribbean region face growing economic problems, sometimes combined with political instability. These problems often are exacerbated by rapid population growth, high unemployment, rising balance-of-payments deficits, and restrictive national policies which aggravate rather than ameliorate the conditions affecting the individual countries.

The Agency for International Development remains committed to its traditional roles in the areas of small-farm agriculture, health, population, education and human resource development. At the same time, we remain sensitive to the need to counter persistent and deep-rooted economic problems which have often resulted in varying degrees of political turmoil. Thus our mix of projects must include quick-disbursing mechanisms that accelerate production and create jobs in the private sector, as well as activities that address long-term concerns. We realized long ago that the resources available to the Agency are not sufficient for the task. Therefore, we have assumed the additional role of catalyst and risk taker, attracting complementary public and private resources. Our efforts will continue to be directed to those countries which have demonstrated a willingness to implement appropriate policies upon which sound development programs can be carried out. Our national interests can best be served by working toward the goal of sustained, broadly-based growth within a framework of economic and political freedom. □

AGENDA INDEX 1982

Agriculture

Farms, Food and Growth
(March)
James F. Bednar

Focus: Thailand
(April)
Betty Snead

The Family Minifarm
(April)
Mitch Salomon

Appropriate Technology

Rethinking Fossil Fuels
(January/February)
Charles Bliss

The Renaissance of
Windpower
(April)
Philip C. Cruver

AID Programs & Projects

AID: Balancing Critical Needs
(May)
M. Peter McPherson

Private Enterprise: Key to
Third World Growth
(April)
Elise T.W. du Pont

The Population Factor
(April)
James F. Bednar

Africa

Africa: Development Now More
Difficult, More Urgent
(May)
Frank S. Ruddy

Marshaling Support for
Development
(April)
*Stephen Low and
George J. Pope*

National Energy Planning
(January/February)
Pamela Baldwin

Asia

Asia: Continuing Growth and
Stabilization
(May)
Eugene S. Staples

On the Air: Radio Thailand
(April)
Betty Snead

Latin America and the Caribbean

Caribbean Basin Initiative
(May)
*President Ronald Reagan
M. Peter McPherson*

Latin America: The Economic
and Political Challenge
(May)
Otto J. Reich

Proving Ground for 'Magic of
the Marketplace'
(April)
Maxine Stough

Near East

AID and Egypt
(March)
W. Antoinette Ford

Egypt: In Pursuit of Progress
(March)
James F. Bednar

Every 20 Seconds . . .
(March)
James F. Bednar

Farms, Food and Growth
(March)
James F. Bednar

Making the Most of People
(March)
James F. Bednar

Near East: Peace and Security
(May)
W. Antoinette Ford

The Population Factor
(March)
James F. Bednar

The Power Behind the Push
(March)
James F. Bednar

Stopgap
(March)
James F. Bednar

Development Approaches

Stopgap
(March)
James F. Bednar

Marshaling Support for
Development
(April)
*Stephen Low and
George J. Pope*

Education

Making the Most of People
(March)
James F. Bednar

Energy

Changes That Last
(January/February)
David Jarmul

Energy News Briefs
(January/February)

National Energy Planning:
Cornerstone
(January/February)
Pamela Baldwin

The Power Behind the Push
(March)
James F. Bednar

The Renaissance of
Windpower
(April)
Philip C. Cruver

Rethinking Fossil Fuels
(January/February)
Charles Bliss

Thinking Small
(January/February)
Allen R. Inversin

What About Nuclear Power?
(January/February)
Joseph R. Egan

Environment/Ecology

Changes That Last
(January/February)
David Jarmul

Extinction is Forever
(April)
Alexanderina Shuler

Health

The Family Minifarm
(April)
Mitch Salomon

Interdependence

National Energy Planning:
Cornerstone
(January/February)
Pamela Baldwin

We and They: Meeting Each
Other's Needs
(January/February)

What About Nuclear Power?
(January/February)
Joseph R. Egan

Straining at the Seams
(March)
James F. Bednar

They Call It the "American
Project"
(March)
James F. Bednar

U.S. Policy

AID and Egypt
(March)
W. Antoinette Ford

New and Alternative Sources
Shape Policy
(January/February)

Private Enterprise: Key to
Third World Growth
(April)
Elise T.W. du Pont

Proving Ground for 'Magic of
the Marketplace'
(April)
Maxine Stough

Viewpoint

Free Markets and the
Generals
(April)
Milton Friedman

What About Nuclear Power?
(January/February)
Joseph R. Egan

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