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**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



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F. Burnett
9/8/00*



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**



FY 1981

PORTUGAL

**DEPARTMENT
OF
STATE**

JUNE, 1979



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Country Development Strategy Statement
Portugal

May 25, 1979

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I. Summary and Conclusions

This CDSS proposes an economic assistance program for Portugal for FY 81 as follows: (\$ millions)

Project Loans	-0-
Balance of Payments Loan	30.0
Azores Base Related Grant	20.0
Technical Assistance and Training Grant	3.0
PL 480 Title I	40.0
	<hr/>
	93.0

Table I shows total U.S. economic assistance to Portugal from FY 1975 to the present.

Table II shows the present financial status of all AID activities in Portugal.

Table III shows a more detailed break-out of all of the technical assistance activities presently under way.

Table IV lists all units of management presently handled by the mission and the project manager responsible.

The principal U.S. foreign policy objective in Portugal is to strengthen the democratic process in this NATO partner and poorest country of Western Europe emerging from 50 years of dictatorship. There has been considerable progress since the Revolution of April 25, 1974: (a) the turning back of a near-takeover by Communist forces in 1975, (b) the decolonization of the African colonies and the successful reabsorption of 600,000 refugees, (c) the establishment of a democratic and constitutional process for political change, (d) the full guarantees for human rights and desire to improve the lives of those poorest groups particularly in the rural areas (e) the initiation of negotiations to enter the European community, and (f) the initiation of an economic stabilization program with the IMF which began to address the balance of payments disequilibrium.

But in the summer of 1979 severe problems still remain which continue to threaten this fragile democracy.

1. In the eyes of the man in the street the political process doesn't work. With ten governments since the revolution and the inability of the parties to agree on a program, little or no longer-term development measures have been put into place.
2. The balance of payments, while improving is still precarious.
3. Unemployment is unacceptably high at about 13%.
4. Economic growth is virtually stagnant.
5. Per capita income of approximately \$1600 already the lowest in Western Europe is falling. Furthermore the national average masks great disparity between the urban resident and the rural subsistence farmer or farm worker.

In comparison with the less developed countries of Africa or Southeast Asia, Portugal's development problems are manageable. It is a small country soon to become part of a relatively prosperous community. It's population growth rate of slightly over 1% is typical of more developed countries. It has a fair number of highly skilled technical people and the population is extremely homogeneous and pacific. Nevertheless, no Portuguese compares himself with a Zairean or an Indian or a Bolivian. His dissatisfaction is based on comparison with French, Dutch, Italian, Germans and British. He sees himself in relation to them as very poor indeed, and he increasingly sees the system under which he is living albeit democratic, as not stimulating any growth. Therefore, his impatience is increasing and the newly established democratic system is under increasing strain.

The Europeans are concerned of course that a stable democracy succeed in Portugal and they have clearly shown their interest in helping. (See Table V summarizing external assistance.) All knowledgeable observers realize that the Portuguese development problem is a structural one of small, often inefficient, enterprises protected in the past by cheap raw materials and markets derived from the African colonies and dependent on a domestic labor force whose wage demands were held down by strong authoritarian leaders. European and U. S. observers have agreed with most knowledgeable Portuguese that for balanced economic growth here providing greater opportunity to lower income groups the key policy initiatives needed are as follows:

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- a) a sensible agricultural investment strategy. Portugal imports half of its food at the same time that 28 per cent of its labor force is involved in agriculture. Food imports account for close to \$1 billion annually and production of most crops is below the averages for the 1960's.
- b) a reform of public administration so that the public sector will function at a minimum level of efficiency. With the public sector regulating a good share of the economy, its managerial inefficiency is a major deterrent to economic activity.
- c) removal of some major disincentives to private investment through a clear policy on nationalization, credit policies, labor legislation, etc.
- d) development of an investment strategy which emphasizes efficient export industry and de-emphasizes large-scale uneconomic public investments (e.g. Sines, Moncorvo, iron mines, etc.)
- e) reduction of public sector financial waste and, thereby, the public sector's rate of growth and its increasing demand for credits.

The U. S. can either choose to continue helping Portugal as it grapples with these problems or leave it to the Europeans. On balance, the Embassy/USAID have opted for a modest program of assistance not because the problems in real terms are so great (in comparison with say, Egypt) but because the consequences in political terms of not addressing them are sufficiently disturbing and potentially destabilizing in southern Europe that we believe the U. S. should not ignore them.

No one would argue that \$30 million in balance of payments support (of a total \$4.6 billion in foreign exchange earnings) is going to make or break Portuguese democracy, nor will \$40 million in PL 480 assistance. They are simply useful tools in encouraging with other western donors, some basic measures by the GOP without which it is difficult to see the Portuguese economy moving in the near future. But to be useful tools, they must be available when the appropriate GOP measures are taken and likewise withheld when they are not taken.

What are these measures and how are the proposed AID inputs related to them?

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A. Balance of Payments - \$30 million

Portugal's balance of payments registered its worst imbalance in 1977 when the severest account deficit reached \$1.5 billion, more than 9 per cent of GNP. The stabilization measures adopted that year quickly had a positive effect on the external sector. The current account deficit fell precipitously to \$775 million in 1978 and will likely be between \$700 and \$800 million in 1979. This result, however, was accompanied by a sharp turn-down in the domestic economy. If Portugal is to contain its balance of payments deficits within manageable limits and achieve an acceptable degree of economic growth and reduction in unemployment over the medium term, it will require a number of the following measures:

- restoration of private sector confidence by legislation clarifying and limiting the basis for nationalization; by either return of some nationalized enterprises to the private sector or removal of special privileges and subsidies; by guaranteeing certain investment against nationalization.
- revise existing labor legislation to permit greater freedom in hiring, firing, and pay negotiations.
- revision and liberalization of tariff system to encourage investment in labor-intensive export industry.
- establish special credit fund for small-medium export industry to modernize its capital equipment.
- prepare a public investment program and medium-term development strategy emphasizing agriculture, small and medium export industry and upgrading of human resources.

At the time of the negotiation of the loan, negotiations would be held with the government and a statement of intentions received from the GOP on the basis of which the cash transfer of \$30 million would be made to the Bank of Portugal.

B. Agriculture and Rural Development

The GOP performance over the past five years in developing an agricultural investment strategy does not provide great encouragement for the future. Nevertheless, increased productivity and income in the rural sector is basic to economic growth and political stability.

As a basis for \$40 million in PL 480 Title I credit, the GOP would:

- create operational regional and sub-regional entities which would develop regional investment plans and

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strategies, and which would combine research, extension, and credit functions.

- the provision of a supervised credit program for small and medium farmers based on regional development plans.
- the development of an investment strategy and the provision of credit for agro-industry to provide off-farm employment in rural areas.
- the creation and continuation of a Trust Fund of \$1 million to provide local currency support for American consultants assisting in the professional training of staff at selected university polytechnical institutes.

PL 480 would only be provided if counterpart were used in a timely way. The withholding of PL 480 in one year must not preclude the provision of PL 480 in the following year if the GOP took the necessary measures.

C. Institutional Development

Institutional development through the provision of U. S. consultants and the financing of training and observation visits in the U. S. by responsible GOP specialists would continue with an additional \$3 million amended to the present grant agreement. Such technical assistance would continue:

- a) to the four rural polytechnical institutes at Vila Real, Covilha, Evora, and the Azores with contracts with U. S. agricultural schools
- b) the labor program through AFL-CIO
- c) consultants and training for regional agricultural planning as well as extension, research, and management of credit programs.
- d) planning of rural health programs and emergency medical services.
- e) administrative reform including the establishment of an Institute of Public Administration.
- f) regional economic planning.

Under the amended agreement the 'GOP would continue to be required to pay international travel of participants, as well as (in selected cases) international travel of consultants and all in-country costs of both technicians and participants.

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D. Azores Development Grant - \$20 million

The base-related grant payment of \$20 million per year would be deposited in an Azorean Development Fund and available for investment projects which met certain general development criteria established in an exchange of letters between the US and Portuguese Governments.

The Regional Government of the Azores has made it clear that the funds would be used for such investments as:

- small airports
- ports
- roads
- telecommunications
- agricultural production infrastructure
and agro-industry
- educational and health facilities
- technical assistance

The U. S. would not directly approve or manage the individual projects financed by the fund but would provide the good offices of the AID staff in Lisbon and Ponta Delgada to put the Azorean Regional Government into contact with U. S. institutions which could help plan and implement projects. Procurement would be limited to U. S. or Portuguese sources.

Table I

SUMMARY OF U.S. ECONOMIC ASSISTANCE TO PORTUGAL

(\$000's)

	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>	<u>Proposed FY 80</u>
AID Project Loans	14,250	19,000	60,000	-	-	-
AID Technical Assistance Grant	750	1,000	4,000	-	-	-
AID Refugee Relief Grant	-	35,000	1,000	-	-	-
AID Housing Investment Guaranty	20,000	-	20,000	-	-	-
AID Refugee Airlift	-	7,500	-	-	-	-
AID Balance of Payments Loan	-	-	-	300,000	-	30,000
PL 480 Title I	-	25,000	70,000	40,000	40,000	40,000
CCC Credits	-	62,000	118,600	206,000	150,000	NA
Ex-Im Bank	10,000	-	62,500	11,000	25,000	NA
TOTAL	45,000	149,500	336,100	557,000	215,000	

STATUS OF A.I.D. GRANTS, LOANS AND HOUSING GUARANTEES

Table II

AS OF APRIL 30, 1979

(IN DOLLARS)

LOAN/GRANT NO.	PROJECT NO.	DATE OF AGREEMENT	T I T L E		AMOUNT LOAN/GRANT	DISBURSEMENTS	UNDISBURSED BALANCE	FINAL DATE FOR SATISFYING CONDITIONS PRECEDENT TO DISBURSEMENT	FINAL DATE FOR SUBMISSION OF DOCUMENTS REQUESTING DISBURSEMENT
-	-	-	Angola Airlift	G	7,500,000	7,500,000	-	NOT APPLICABLE	
150-15-995-001	150-0001	02/28/75	Technical Consultants & Training	G	1) 5,750,000	1,603,306	4,146,694	CPs Met	12/31/80
150-Z-004	150-0002	02/28/75	Consulting Services	L	1,000,000	150,284	849,716	CPs Met (2)	06/30/80
150-Z-005	150-0003	06/30/75	Housing for Low-Income Families I	L	13,250,000	13,250,000	-	CPs Met	01/31/79
150-K-006	150-0004	08/13/76	School Construction I	L	11,000,000	6,778,462	4,221,538	CPs Met	10/31/79
150-K-007	150-0005	08/13/76	Basic Sanitation I	L	8,000,000	2,546,458	5,453,542	CPs Met	02/27/81
150-K-008	150-0006	03/04/77	Housing for Low-Income Families II	L	10,000,000	3,904,691	6,095,309	CPs Met (2)	12/31/79
150-K-601	150-0007	02/23/76	Refugee Assistance	G	35,000,000	35,000,000	-	CPs Met	03/31/78
			- High Commissioner for Refugees	G	(33,500,000)	(33,500,000)	-		
			- Aliança Nacional das ACMs de Portugal (YMCA)	G	(346,000)	(346,000)	-	CPs Met	03/31/78
			- Catholic Relief Services	G	(1,154,000)	(1,154,000)	-	CPs Met	03/31/78
150-K-602	-	09/20/77	Catholic Relief Services	G	1,000,000	992,207	7,793	CPs Met	06/30/79
150-K-009	150-0018	09/30/77	School Construction II	L	15,000,000	1,960,693	13,039,307	CPs Met	(06/30/81) (4)
									(12/31/81) (5)
150-K-010	150-0010	09/30/77	Basic Sanitation II	L	12,000,000	657,218	11,342,782	CPs Met	06/30/81 (4)
150-K-011	150-0011	09/30/77	Health Sector Support	L	17,000,000	436,509	16,563,491	(CPs Met (06/30/79)(3)	06/30/81
150-K-012	150-0012	09/30/77	Rural Vocational Education	L	6,000,000	832,525	5,167,475	CPs Met	06/30/81 (4)
150-K-013	-	03/01/78	Balance of Payments Support	L	300,000,000	300,000,000	-	CPs	02/24/79
150-HG-001	-	11/03/75	Housing Guaranty Project	HG	20,000,000	20,000,000	-	CPs Met	05/31/77
150-HG-002	-	09/30/77	Housing Guaranty Project	HG	20,000,000	10,000,000	10,000,000	CPs Met	06/30/79
					482,500,000	405,612,353	76,887,647		

- (1) Of this amount \$4,569,606 committed by sub-obligation;
- (2) Additional conditions precedent are to be met prior to any disbursement for a particular service (Loan Z-004), or sub-project (Loan K-008). (Section 3.02 of the Loan Agreements);
- (3) Pertains only to the Nursing School in Ponta Delgada;
- (4) Only for services rendered and supplies furnished, on or before the project completion date (PACD) of September 30, 1980;
- (5) Only for construction of Azorean Schools completed on or before the project completion date (PACD) of March 31, 1981.

SOURCE: CONTROLLER'S OFFICE
USAID/LISBON

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TECHNICAL ASSISTANCE AND TRAINING GRANT Table III

FINANCIAL STATEMENT BY ECONOMIC SECTORS AS OF MARCH 31, 1979

(THOUSAND OF DOLLARS)
SUMMARY TABLE

ACTIVITIES	SUB-OBLIGATED			PLANNING LEVELS	GRAND TOTAL
	Feb, 1975 - March 31, 1979				
	TRAINING	CONSULT.	TOTAL		
1. RURAL AND VOC. EDUCATION	235	2,372	2,607	59	2,666 (46)
a) University of Azores	141	641	782	-0-	782
b) Other Univ/Polyt. Institutes	73	1,723	1,796	9	1,805
c) Other Educational Activities	21	8	29	50	79
2. HEALTH	196	118	314	52	366 (6)
a) Public Health	63	71	134	42	176
b) Basic Sanitation	33	29	62	10	72
c) Environmental Protection	100	18	118	-0-	118
3. ECONOMIC AND REGIONAL PLANNING	136	211	347	101	448 (7)
a) Bank of Portugal	6	115	121	-0-	121
b) Reg. Planning	46	16	62	33	95
c) Directorate G. for Treasury	48	1	49	36	85
d) Statistics	12	15	27	32	59
e) Commercial Coordination	24	-0-	24	-0-	24
f) High Commissioner for Refugees	-0-	10	10	-0-	10
g) Air transports Planning	-0-	54	54	-0-	54
4. PUBLIC ADMIN. AND ADV. MANAGEMENT	285	86	371	218	589 (10)
a) Institute of State Particip.	232	-0-	232	50	282
b) Institute of Public Administ.	-0-	31	31	148	179
c) Export Development Fund	14	55	69	20	89
d) National Cooperatives Instit.	19	-0-	19	-0-	19
e) Advanced Management	20	-0-	20	-0-	20
5. LABOR	316	126	442	-0-	442 (7)
6. LOW-INCOME HOUSING	29	51	80	24	104 (2)
7. AGRICULTURAL DEVELOPMENT	94	61	155	107	262 (4)
8. INDUSTRIAL DEVELOPMENT	136	3	139	51	190 (3)
9. LANG. TRAINING AND MISC. EXPENSES	24	-0-	24	10	34 (5)
10. UNPROGRAMMED				649	649 (10)
GRAND - TOTAL	1,451	3,028	4,479	1,271	5,750

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TABLE 3A
PORTUGAL - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)	PORTUGAL			REFERENCE GROUPS (ADJUSTED AVERAGES)		
				- MOST RECENT ESTIMATE) /a		
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	SAME GEOGRAPHIC REGION /c	SAME INCOME GROUP /d	NEXT HIGHER INCOME GROUP /e
TOTAL	92.1					
AGRICULTURAL	41.7					
GNP PER CAPITA (US\$)	380.0	990.0	1850.0	1898.8	1796.4	2839.0
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	382.0	754.0	983.0	1869.3	1525.0	2376.4
POPULATION AND VITAL STATISTICS						
TOTAL POPULATION, MID-YEAR (MILLIONS)	9.0	9.1	9.8*	.	.	.
URBAN POPULATION (PERCENT OF TOTAL)	22.7	26.9	28.8	43.0	52.2	..
POPULATION DENSITY						
PER SQ. KM.	98.0	99.0	106.0	81.4	27.6	55.8
PER SQ. KM. AGRICULTURAL LAND	186.0	211.0	235.0	135.2	116.4	83.6
POPULATION AGE STRUCTURE (PERCENT)						
0-14 YRS.	29.2	28.5	27.3	26.2	34.8	40.0
15-64 YRS.	62.8	61.8	62.5	63.4	56.0	55.3
65 YRS. AND ABOVE	8.0	9.7	10.2	9.9	5.7	3.8
POPULATION GROWTH RATE (PERCENT)						
TOTAL	0.7 /f	0.1 /f	0.4	0.8	1.6	2.9
URBAN	1.4	1.8	2.4	2.2	3.4	..
CRUDE BIRTH RATE (PER THOUSAND)	24.0	21.1	19.2	19.2	27.0	31.7
CRUDE DEATH RATE (PER THOUSAND)	10.8	10.4	10.5	9.0	9.9	7.9
GROSS REPRODUCTION RATE	1.6	1.5	1.5	1.3	1.9	1.6
FAMILY PLANNING						
ACCEPTORS, ANNUAL (THOUSANDS)	..	..	..	.	.	.
USERS (PERCENT OF MARRIED WOMEN)	..	..	..	38.0	19.3	..
FOOD AND NUTRITION						
INDEX OF FOOD PRODUCTION PER CAPITA (1970=100)	76.2	100.0	82.9	113.7	103.8	114.7
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)	107.0	118.0	118.0 /g	127.4	110.4	113.4
PROTEINS (GRAMS PER DAY)	77.0	85.0	85.0 /h	92.8	77.7	89.9
OF WHICH ANIMAL AND PULSE	33.0	40.0	..	39.3	22.2	48.0
CHILD (AGES 1-4) MORTALITY RATE	5.2 /i	3.4	2.2	1.6	1.9	..
HEALTH						
LIFE EXPECTANCY AT BIRTH (YEARS)	62.3	66.1	68.7	68.9	63.0	60.2
INFANT MORTALITY RATE (PER THOUSAND)	77.5	58.0	37.9	34.5	38.2	22.1
ACCESS TO SAFE WATER (PERCENT OF POPULATION)						
TOTAL	..	..	..	68.3	67.7	83.0
URBAN	..	..	..	74.3	83.5	100.0
RURAL	..	..	..	64.4	41.5	36.5
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)						
TOTAL	..	..	..	94.0	70.3	57.8
URBAN	..	..	..	94.0	90.7	99.3
RURAL	..	..	..	93.0	38.3	..
POPULATION PER PHYSICIAN	1180.0	1120.0	900.0	686.5	1310.8	976.9
POPULATION PER NURSING PERSON	1430.0	1090.0	870.0	339.0	849.2	676.1
POPULATION PER HOSPITAL BED						
TOTAL	190.0	170.0	170.0	178.0	275.4	325.8
URBAN	..	..	..	70.0	129.9	250.0
RURAL	..	..	..	1770.0	965.9	770.0
ADMISSIONS PER HOSPITAL BED	..	10.0	12.0	15.3	18.9	18.7
HOUSING						
AVERAGE SIZE OF HOUSEHOLD						
TOTAL	3.9	3.7	..	..	3.9	..
URBAN	4.0	..	..	..	..	..
RURAL	3.9	..	..	..	..	..
AVERAGE NUMBER OF PERSONS PER ROOM						
TOTAL	1.1	0.8	..	0.9	0.9	..
URBAN	1.0	..	..	0.8	0.8	..
RURAL	1.1	..	..	1.0	1.0	..
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)						
TOTAL	40.5	64.2	..	57.5	59.2	..
URBAN	88.5	99.0	78.0	..
RURAL	27.4	12.5	..

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TABLE-3A
PORTUGAL - SOCIAL INDICATORS DATA SHEET

	PORTUGAL			REFERENCE GROUPS (ADJUSTED AVERAGES)		
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	- MOST RECENT ESTIMATE /a		
				SAME GEOGRAPHIC REGION /c	SAME INCOME GROUP /d	NEXT HIGHER INCOME GROUP /e
EDUCATION						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY: TOTAL	131.0	98.0	116.0	108.0	97.6	104.1
FEMALE	129.0	96.0	94.0	99.5	87.4	120.3
SECONDARY: TOTAL	20.0	57.0	49.0 /1	62.8	47.8	44.7
FEMALE	16.0	51.0	..	63.6	42.6	46.0
VOCATIONAL (PERCENT OF SECONDARY)	46.0	32.0	40.0	28.2	22.7	18.7
PUPIL-TEACHER RATIO						
PRIMARY	34.0	34.0	27.0	24.9	25.4	30.6
SECONDARY	19.0	17.0	14.0	17.3	24.9	16.3
ADULT LITERACY RATE (PERCENT)						
	62.0	71.0	..	88.3	96.3	..
CONSUMPTION						
PASSENGER CARS PER THOUSAND POPULATION						
	17.0	54.0	98.0	90.4	32.3	53.4
RADIO RECEIVERS PER THOUSAND POPULATION						
	95.0	142.0	174.0	199.0	201.9	195.5
TV RECEIVERS PER THOUSAND POPULATION						
	5.0	40.0	66.0	132.5	97.9	108.4
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION						
	63.0	84.0	91.0	97.1	70.9	108.0
CINEMA ANNUAL ATTENDANCE PER CAPITA						
	3.0	3.0	4.1	6.6	4.4	..
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSANDS)						
	..	..	4100.0 /1	..	..	..
FEMALE (PERCENT)						
	..	..	25.5	32.4	17.4	26.9
AGRICULTURE (PERCENT)						
	..	..	32.5 /1	32.8	38.4	25.7
INDUSTRY (PERCENT)						
	..	..	33.7 /1	..	..	..
PARTICIPATION RATE (PERCENT)						
TOTAL	..	..	44.6	39.1	33.7	40.1
MALE	..	..	56.4	56.7	50.8	55.8
FEMALE	..	..	32.3	29.7	12.6	24.7
ECONOMIC DEPENDENCY RATIO						
	..	..	0.9	0.9	1.4	1.6
INCOME DISTRIBUTION						
PERCENT OF PRIVATE INCOME RECEIVED BY						
HIGHEST 5 PERCENT OF HOUSEHOLDS	..	56.1 /k,1	56.3 /k,m	31.9	20.2	..
HIGHEST 20 PERCENT OF HOUSEHOLDS	..	79.4 /k,1	78.6 /k,m	59.7	47.9	..
LOWEST 20 PERCENT OF HOUSEHOLDS	..	6.2 /k,1	7.3 /k,m	4.0	3.2	..
LOWEST 40 PERCENT OF HOUSEHOLDS	..	20.6 /k,1	21.4 /k,m	12.9	13.7	..
POVERTY TARGET GROUPS						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN	..	..	..	..	..	..
RURAL	..	..	..	194.9	157.9	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN	..	..	..	295.1	448.8	..
RURAL	..	..	454.0 **	309.2	313.1	..
ESTIMATED POPULATION BELOW POVERTY INCOME LEVEL (PERCENT)						
URBAN	..	..	..	18.2	23.2	..
RURAL	..	..	20.0	24.2	54.5	..

.. Not available
 . Not applicable.

NOTES

- /a The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.
- /b Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1973 and 1977.
- /c Europe; /d Upper Middle Income (\$1136-2500 per capita, 1976); /e High Income (over \$2500 per capita, 1976); /f Due to emigration, population growth rate is lower than rate of natural increase; /g Av. 1969-71; /h 1965; /i disrupted enrollment due to political unrest; /j Estimates based on inquiry of employment conducted by Institute of National Statistics; /k Highest 25% and 50% and lowest 25% and 50% of households; /l 1968; /m 1973-74.

* Revised population figure for 1977 is 9.7 million.

September, 1978

** This figure is for 1976. The estimate for 1977 is \$480.0

DEFINITIONS OF SOCIAL INDICATORS

Note: The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform. Due to lack of data, group averages for Capital Surplus Oil Exporters and indicators of access to water and excreta disposal, housing, income distribution and poverty are simple population-weighted geometric means without the exclusion of extreme values.

LAND AREA (thousand sq. km)

Total - Total surface area comprising land area and inland waters.
Agricultural - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow.

GDP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by base conversion method as World Bank Atlas (1975-77 basis); 1960, 1970, and 1977 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita.

POPULATION AND VITAL STATISTICS

Total population, mid-year (billions) - As of July 1; if not available, average of two mid-year estimates; 1960, 1970, and 1977 data.

Urban population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Population density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area.

Per sq. km. agriculture land - Computed as above for agricultural land only.

Population age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Population growth rate (percent) - total, and urban - Compound annual growth rates of total and urban mid-year populations for 1950-60, 1960-70, and 1970-75.

Crude birth rate (per thousand) - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Crude death rate (per thousand) - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Gross reproduction rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1975.

Family planning - acceptors, annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family planning - users (percent of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of food production per capita (1970=100) - Index number of per capita annual production of all food commodities.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10 percent for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for a minimum allowance of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Child (ages 1-4) mortality rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group.

HEALTH

Life expectancy at birth (years) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970, and 1975.

Infant mortality rate (per thousand) - Annual deaths of infants under one year of age per thousand live births.

Access to safe water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to excreta disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.

Population per hospital bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per hospital bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average size of household (persons per household) - total, urban, and rural -

A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes. Statistical definitions of household vary.

Average number of persons per room - total, urban, and rural - Average number of persons per room in all, urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted enrollment ratios

Primary school - total, and female - Total and female enrollment of all ages at the primary level as percentages of respectively primary school-age population; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema annual attendance per capita per year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

EMPLOYMENT

Total labor force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force.

Participation rate (percent) - total, male, and female - Total, male, and female labor force as percentages of their respective populations. These are ILO's adjusted participation rates reflecting age-sex structure of the population, and long time trend.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

INCOME DISTRIBUTION

Percentage of private income (both in cash and kind) received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

Estimated absolute poverty income level (US\$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated relative poverty income level (US\$ per capita) - urban and rural - Relative poverty income level is that income level less than one-third per capita personal income of the country.

Estimated population below poverty income level (percent) - urban and rural - Percent of population (urban and rural) who are either "absolute poor" or "relative poor" whichever is greater.

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ECONOMIC DEVELOPMENT DATA
(Amounts in Millions of US Dollars)

NATIONAL ACCOUNTS	Actual					Estimated	1974	1975	1976	1977	1978	1973	1975	1977	1978
	1973	1974	1975	1976	1977	1978									
	(Annual Data at 1975 Prices and Exchange Rate of \$1 = Esc. 25.55)						Annual Growth Rate				As Percent of GDP				
Gross Domestic Product	15,233	15,340	14,773	16,117	17,020	17,667	0.7	-3.7	9.1	5.6	3.8	96.8	100.0	100.4	100.8
Gains from Terms of Trade	506	385	-	-104	-77	-137						3.2	-	-0.4	-0.9
Gross Domestic Income	15,739	15,725	14,773	16,013	16,953	17,530	-0.1	-6.1	8.4	5.9	3.4	100.0	100.0	100.0	100.0
Imports (incl. NFS)	6,170	6,464	4,738	5,567	6,296	6,195	4.8	-26.7	17.5	13.1	-1.6	39.2	32.0	37.1	35.3
Exports (incl. NFS)	3,962	3,340	2,899	3,038	3,245	3,303	-15.7	-13.2	4.8	6.8	8.0	25.1	19.6	19.1	20.0
Resource Gap	2,208	3,124	1,839	2,529	3,051	2,892						14.1	12.5	18.0	15.3
Consumption Expenditures ^{a/}	12,723	14,032	14,203	15,503	16,021	16,433	10.3	1.2	9.1	3.3	2.6	80.9	96.1	94.5	93.7
Investment Expenditure (incl. Stocks)	4,718	4,432	2,409	3,143	4,050	3,924	-6.1	-45.7	30.5	28.8	-3.1	30.0	16.3	23.9	22.4
Domestic Savings ^{b/}	2,510	1,308	570	614	999	1,234	-47.9	-56.4	7.7	62.7	23.5	15.9	3.9	5.9	7.0
National Savings ^{b/}	4,055	2,620	1,593	1,465	2,054	..	-35.4	-39.2	-8.0	40.2	..	25.8	10.8	12.1	..
MERCHANDISE TRADE	Annual Data at Current Prices ^{a/}										As Percent of Total				
Imports	621	761	565	607	693	..						20.5	14.5	14.0	..
Capital goods	1,769	2,635	2,185	2,431	3,043	..						58.4	56.1	61.3	..
Intermediate goods	183	375	621	696	743	..						6.0	16.0	15.0	..
Fuels and related materials	458	677	522	595	485	..						15.1	13.4	9.7	..
Consumption goods	3,031	4,648	3,893	4,329	4,964	5,300						100.0	100.0	100.0	100.0
Total Merch. Imports (c.i.f.)															
Exports	347	369	324	312	334	..						18.8	16.8	16.5	..
Agricultural products	273	366	306	351	364	..						14.8	15.8	17.9	..
Wood and Cork Products	560	684	577	533	602	..						30.4	29.8	29.6	..
Textiles, clothing & footwear	243	290	254	230	301	..						13.2	13.1	14.8	..
Machinery and transport equipment	420	559	474	396	426	..						22.8	24.5	21.2	..
Other	1,843	2,278	1,935	1,822	2,027	2,437						100.0	100.0	100.0	100.0
Total Merch. Exports (f.o.b.)															
MERCHANDISE TRADE INDICES	1975 = 100														
Export Price Index	80	103	100	90	94	102									
Import Price Index	61	87	100	95	97	106									
Terms of Trade Index	131	118	100	95	97	96									
Export Volume Index	119	114	100	105	111	120									
VALUE ADDED BY SECTOR	(Annual Data at 1975 Prices and Exchange Rate of \$1 = Esc. 25.55)														
Agriculture	2,231	2,139	2,131	2,103	1,947	2,044	-1.8	-2.7	1.5	-10.0	5.0	16.2	15.9	12.6	12.8
Industry	6,080	6,322	5,731	5,978	6,601	6,883	4.0	-9.3	4.3	10.4	4.3	44.3	42.7	42.9	43.1
Services	5,419	5,462	5,568	6,423	6,446	7,031	0.8	1.6	15.8	8.6	3.0	39.5	41.4	44.5	44.1
Total	13,730	13,973	13,410	14,564	15,394	15,978	1.8	-4.0	8.6	5.7	3.8	100.0	100.0	100.0	100.0
PUBLIC FINANCE	Current Prices										As Percent of GDP ^{a/} Market Prices				
Current receipts	1,657	1,836	2,256	2,456	2,991 ^{b/}	..	10.8	22.9	8.9	21.8	..	17.4	14.3	14.8	16.5
Current expenditures	1,740	2,493	2,901	2,908	3,484	..	43.3	16.4	0.2	19.8	..	16.9	18.3	17.6	19.2
Current surplus/deficit (-) of the State	-83	-657	-645	-452	-493	..						4.5	4.0	2.8	2.7
Balance of Autonomous Funds and Services	55	278	89	324	142	..						1.9	0.6	1.9	0.8
Current Deficit of Central Govt.	-28	-379	-556	-128	-351	..						2.6	3.5	0.8	1.9
Balance of Local Governments	91	106	16	18	49	..						0.7	0.1	0.1	0.3
Balance of Social Security System	-12	-94	-337	-112	-114	..						0.6	2.1	0.7	..
Current Deficit of Public Sector	51	-367	-867	-222	-316	..						2.5	5.5	1.3	1.7
Capital Expenditure	457	642	784	1,040	1,042	..	40.5	22.1	32.7	0.2	..	4.3	5.0	6.3	5.8
Overall Deficit	-327	-681	-1,618	-1,168	-1,507	..						4.6	10.2	7.0	8.3
LABOR FORCE AND OUTPUT PER WORKER^{c/}	TOTAL LABOR FORCE ^{d/}						VALUE ADDED PER WORKER (1975 PRICES AND EXCHANGE RATE \$1 = Esc. 25.55)								
	In Thousands		Percent of Total		Annual Growth Rate		In US Dollars		Percent of Average		Average Annual Growth Rate				
	1974	1977	1974	1977	1974	1977	1974	1977	1974	1977	1974-77	1974-77	1974-77	1974-77	
Agriculture	1,300	1,219	34.5	32.2	-2.1	-0.8	1,684	1,597	45	39	-1.8	-1.8	-1.8	-1.8	
Industry	1,307	1,276	34.7	33.7	-0.8	-0.8	4,837	5,173	130	127	2.3	2.3	2.3	2.3	
Services	1,160	1,291	30.8	34.1	3.6	3.6	4,709	5,303	127	130	4.1	4.1	4.1	4.1	
Total	3,767	3,786	100.0	100.0	0.2	0.2	3,709	4,066	100	100	3.1	3.1	3.1	3.1	

a/ Statistical discrepancy is included in the consumption data.
b/ Includes workers' remittances.
c/ Total employed labor force excluding workers abroad and unemployed.
d/ Estimates

* Exchange Rates 1973: \$1 = Esc. 24.67; 1974: \$1 = 25.408; 1975: \$1 = Esc. 25.55; 1976: \$1 = Esc. 30.23; 1977: \$1 = Esc. 38.278; 1978: \$1 = Esc. 43

.. Not available

. Negligible

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BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE AND DEBT

(Amounts in Millions of U.S. Dollars at Current Prices)

SUMMARY OF BALANCE OF PAYMENTS	Actual					Estimated
	1973	1974	1975	1976	1977	1978
Exports (F.O.B.)	1,843	2,278	1,935	1,823	2,027	2,437
Imports (F.O.B.)	2,745	4,277	3,605	3,932	4,533	4,833
Trade Balance (X-M)	-902	-1,999	-1,670	-2,109	-2,506	-2,396
Net Non Factor Services	67	-74	-169	26	52	194
Tourism Receipts (Gross)	(550)	(513)	(360)	(332)	(403)	(583)
Resource Balance	-835	-2,063	-1,839	-2,083	-2,454	-2,201
Net Investment Income ^{a/}	86	129	-14	-133	-179	-327
Net Transfers ^{b/}	1,097	1,111	1,037	972	1,134	1,585
Balance on Current Account	348	-823	-817	-1,264	-1,499	-943
Direct Foreign Investment	110	109	122	75	57	..
Public M&T Loans						
Disbursements	158	153	231	249	387	..
Amortization	74	67	77	68	93	..
Net Disbursements	84	86	154	181	294	..
Other M&T Loans						
Net Disbursements	..	..	..	..	213	..
Short-Term Capital and Errors and Omissions	135	-82	-89	206	..	..
Other Capital (N.E.I.)	-332	156	-58	641	1,046	..
Changes in Official Liquid Foreign Exchange Reserves (- = Increase)	-345	554	688	141	-111	..
Official Reserves						
Gross End of Year ^{c/}	2,813	2,292	1,535	1,385	1,450	..
Of Which: Gold	1,149	1,181	1,137	1,125	1,025	..
Foreign Exchange	1,633	1,079	391	250	361	..
GRANT AND LOAN COMMITMENTS						
Official Grants & Grant-like	-	-	3	-	-	-
Public M&T Loans						
IBRD	-	-	-	36	74	-
IDA	-	-	-	-	-	-
Other Multilateral Governments	-	20	45	96	113	-
Suppliers	28	27	35	48	39	-
Financial Markets	23	413	83	152	121	-
Public Loans n.e.i.	-	-	-	-	-	-
Total Public M&T Loans	51	460	163	458	435	-
DEBT AND DEBT SERVICE ^{d/}						
Public Debt Outstanding and Disbursed	609	723	826	1,005	1,304	-
Interest on Public Debt	24	22	35	38	56	-
Repayments on Public Debt	74	68	78	67	93	-
Total Public Debt Service	98	90	113	105	149	-
Other M&T Debt Service	..	..	..	..	332	-
Total M&T Debt Service	..	..	..	..	481	-
BURDEN ON EXPORT, NON FACTOR SERVICES AND WORKERS' REMITTANCES (%)						
Public Debt Service	2.4	2.0	2.9	2.9	3.7	-
Total M&T Debt Service	..	..	..	..	11.9	-
EXTERNAL DEBT						
Disbursed Only						
IBRD	32	-	-	2.4	-	-
IDA	-	-	-	-	-	-
Other Multi-lateral Governments	163	321	388	24.6	29.8	30.7
Suppliers	321	388	400	30.7	-	-
Financial Markets	388	400	-	-	-	-
Public Debts n.e.i.	400	-	-	-	-	-
Total Public M&T Debt	1,304	-	-	100.0	-	-
Actual Debt Outstanding On Dec. 31, 1977						
Disbursed Only						
IBRD	32	-	-	2.4	-	-
IDA	-	-	-	-	-	-
Other Multi-lateral Governments	163	321	388	24.6	29.8	30.7
Suppliers	321	388	400	30.7	-	-
Financial Markets	388	400	-	-	-	-
Public Debts n.e.i.	400	-	-	-	-	-
Total Public M&T Debt	1,304	-	-	100.0	-	-
Average Terms of Public Debt						
Interest as % Prior Year						
DO&D	4.8	3.6	4.8	4.6	5.6	-
Amort. as % Prior Year						
DO&D	14.9	11.2	10.8	8.1	9.3	-
IBRD Debt Out. & Disbursed	45.2	42.2	39.0	35.6	32.2	-
IBRD DO&D as % Public Debt Out. & Disbursed	7.4	5.8	4.7	3.5	2.5	-
IBRD Debt Service as % Public Debt Service	6.3	6.9	5.6	5.8	4.7	-

a/ Largely interest payments.
b/ Largely workers' remittances.
c/ Gold is valued at official prices.
d/ Debt service as a ratio of earnings from exports, non factor services and workers' remittances.

.. Not available

Europe, Middle East and North Africa Region
April 19, 1979

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STATEMENT OF BANK GROUP OPERATIONS IN PORTUGAL

A. STATEMENT OF BANK LOANS
(As of March 31, 1979)

<u>Loan No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (less cancellation)</u>	
				<u>Bank</u>	<u>Undisbursed</u>
Five loans for power development fully disbursed				57.5	-
1301	1976	Electricidade de Portugal	Power	36.0	30.6
1334	1976	Republic of Portugal	Highways	24.0	22.1
1432	1977	Banco de Fomento Nacional	Development Finance	50.0	43.9
1541	1978	Republic of Portugal	Water Supply	40.0	40.0
1559	1978	Republic of Portugal	Education	21.0	21.0
1603	1978	Republic of Portugal	Agricultural Credit	70.0	70.0 /a
1649	1979	Quimica de Portugal, E.P.	Fertilizer Modernization	58.0	58.0 /a
TOTAL				356.5 /c	285.6
of which has been repaid				29.2	
TOTAL now outstanding				327.3	
Amount sold			2.6		
of which has been repaid			2.1	.5	
TOTAL now held by Bank /b				326.8	
TOTAL undisbursed					285.6

B. STATEMENT OF IFC INVESTMENTS
(As of March 31, 1979)

None.

/a Not yet effective.

/b Prior to exchange adjustment.

/c In addition a \$40 million loan for a Second Highway Project was approved in May, 1979.

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II PORTUGUESE ECONOMIC SITUATION
AND BALANCE OF PAYMENTS

Following are highlight of changes in the economy broken down by periods 1970-1973, 1974-1975, 1976-1978, and 1979. Detailed discussion of balance of payments is included in Section II C.

A. Pre-Revolution 1970-1973

The chief characteristics of the economy during the period were as follows:

1. GNP grew steadily, averaging 7.5% annually and gross fixed investment averaged 21% of GNP. The output of construction and manufacturing increased but agriculture, forestry and fishing declined. Average annual production in agriculture declined by 0.8%, and the combined contribution of agriculture, forestry, and fisheries fell from 22% to 15% of GDP. The percentage share of agriculture and processed foods (including fish) in exports fell from 26.2% to 18.9% and that of forestry went from 18.9% to 14.9%.

The contribution of manufacturing to GDP rose from 30% to 36%, and its share of exports increased from 54.9% to 66.2%.

2. Registered unemployment was only 2% of the labor force. There was a net outflow of 160 thousand each year seeking employment abroad, mostly in France, Germany, and the colonies. By 1973 an estimated 1 million Portuguese citizens were residing abroad. Employment levels in agriculture declined from 28.1% to 25.3% of the workforce; for manufacturing they rose from 26.1% to 27.8%. Yet manufacturing employment declined by 103.9 thousand; and the low levels of unemployment was due largely to the exodus of workers.
3. Investment policies favored capital intensive production facilities aimed largely at serving protected domestic and colonial markets. Government policy consciously used a restrictive tariff system and investment incentives which discouraged exports at the expense of import substitution.
4. An overall balance of payments surplus averaged \$380 million annually from 1971 through 1973, and by end 1973 gross international reserves exceeded \$2.9 billion -- just over one year of imports at the 1973 level. About 41% of these reserves were in gold quoted at the official price of \$32 per ounce. The economy benefited from more than \$600 million annually of remittances from workers living abroad.

B. Immediate Aftermath of the Revolution

Events following the revolution of April 1974 can be looked at in two periods 1974-1975 and 1976-1978 as characteristics of the economy shifted somewhat.

1. 1974 - 1975

a. Economic conditions deteriorated rapidly after the revolution, with real growth declining 2.8% annually, compared with average annual growth of about 8.6% during 1971 - 1973. This drop in growth occurred despite sharp 23% annual average increases in public administration expenditures. In 1974 despite the slow-down in growth, private consumption continued to grow at the pre-revolution rate of 9.7%. In 1975, when GDP declined 4.3%, private consumption declined less than 1%, thus permitting it to rise as a percent of GDP from 67.9% in 1973 to 80.8% in 1975. Public consumption rose at a 12% annual average in 1974/75, rising from 13.2% to 15.4% of GDP. This increased government expenditure was offset, however, by declines in agriculture (-2.0%), manufacturing (-3.3%), and construction (-6.2%). Investments fell to 16.3% of GDP by 1975 compared with 26.3% in 1973, and savings went to 3.8% of GDP from 8.9% in 1973. Consumer prices rose at an annual rate of 24%.

b. A decline in economic activity reduced Europe's need to import Portuguese workers at a time when decolonization brought some six hundred million people from the former colonies to the mainland (swelling the domestic population by over 6%). Unemployment rose to about 16% of labor force.

c. The overall balance of payments moved from a \$335 million surplus in 1973 to a \$633 million deficit in 1974 and exceeded \$1 billion in 1975. Imports declined 10.2% in 1974 and 1975, but exports declined at an average rate of 15.7%. The sharp rise in oil prices, caused Portugal's petroleum imports to rise from \$154 million in 1973 to \$531.3 million in 1974 and to \$572.2 million in 1975. The decline in exports resulted principally from the world recession and the loss of colonial markets. Recession abroad, and political and economic instability at home, contributed to the fall-off in emigrant remittances and tourism receipts; in 1975 and 1976 the latter averaged 37.1% below the \$550 million level of 1973.

d. Nationalizations of private companies during this period had a major impact on these trends decreasing managerial know-how especially in manufacturing and causing a fall-off in private investments. There was the decline in worker discipline and productivity. Wages for the

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manufacturing sector were increased sharply through the introduction of a minimum wage, and they rose by even greater amounts in the agriculture sector where the guaranteed daily wage replaced payment based upon output.

2. 1976 - 1978

Economic trends improved substantially during 1976-1978 as a result of changes in G.O.P. policies and in conditions abroad. GDP growth was positive but declining at 8.6%, 5.7%, and 2.5% levels for 1976, 1977, and 1978 respectively. The GOP instituted a wage policy which by the end of 1978 depressed real wages some 13.1% below 1975 levels. The escudo was devalued to adjust to conditions of trading partners, and later the GOP introduced a moving exchange rate. As a result, the value of the escudo was about halved between 1973 and end 1978. These measures became necessary as budget deficits and resultant monetary expansion sustained a high rate of inflation which, in turn, brought a decline in Portugal's foreign exchange holdings.

As Government expenditures continued to exceed rising revenues, the overall budget deficit rose; it increased by 79.4% in 1976 alone before leveling off in 1977 at over four and a quarter times the 1974 level. Money supply rose at an average annual rate of 21.9%, reaching 25.7% in 1978. The balance of international trade continued to deteriorate; the current account leveled off at a \$1.5 billion deficit in 1977 but recovered in 1978 to a \$775 million deficit.

The 1976/78 revival of economic activity was accompanied by a substantial fall-off in the rate of expansion of private consumption, to a 1.4% average annual rate compared with 8.8% in 1974 and 1975. The annual expansion rate of public consumption also fell, from a 12% average to 6.6%, while exports and imports rose in real terms. Gross domestic investments, which had fallen to 13.2% of GDP in the 1974/75 period rose to an estimated 23.6% of GDP.

During the period unemployment continued high reaching over 13% of the labor force by end 1978. Inflation for 1978 ran at slightly over 22%.

3. Early 1979

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Data available for 1978 and the first quarter of 1979 indicate that the GOP stabilization program of April 1978, adopted in agreement with the IMF, is having a strong effect. The stabilization program aimed primarily at curbing the balance of payments deficit. At the end of the first year of the stabilization program, the current account deficit is well under the \$1 billion ceiling and perhaps as low as \$775 million.

However, secondary targets of the program were tougher to meet. Domestic credit expansion exceeded agreed rates, largely because the budget deficit was considerably larger than projected. Stabilization measures designed to lower inflation (reduced budget deficit, higher interest rates, wage ceilings) apparently have brought growth to a standstill. Earlier GNP growth estimates for 1978 of 6% were not met, as annual 1978 expansion fell to just under 3% and the economy was virtually stagnant in early 1979. The slowdown has generated heated debates in the legislature, which in February 1979 rejected the Government Investment Plan and Budget for 1979. The voting was based largely on political motivations but it did underscore the politization of the debate surrounding economic issues.

The average citizen is feeling the pinch; inflation continues in 1979 at about 25% and real wages are lower today than in 1973. The GOP has already had to ease its previously announced 18% ceiling on wages for 1979.

The slowdown of activity observed for 1979 can be measured by other 1978 year-end indicators: industrial production showed no change over 1977; steel production dropped during the fourth quarter; heavy industry production was off; capacity utilization declined in the fourth quarter.

Civil construction indicators point to a recession in that industry; the rate of increase of cement consumption has declined; the number of construction starts was lower during late 1978 than the previous year.

Agriculture suffered from wet weather and production is down; wheat production 1978/79 will be about 10% lower than 1977; other major crops will also show drops in production.

The fishing sector is likewise plagued with problems and 1978 saw 6% lower catch than in the previous year.

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Throughout 1979 the economy will continue to slow; industrial production is not expected to increase over 1978; the civil construction sector will remain depressed; price levels will probably not be contained at the 18% level projected, and pressure will grow to relax further the GOP 18% ceiling on wages.

The balance of payments will be helped by emigrant remittances projected as rising by possibly 13% as well as tourism receipts at about 18% over those of 1978. Exports will continue to increase in 1979 considerably in excess of increases in imports.

Measures taken to stimulate the economy will undoubtedly lead to some increase in the current account deficit from \$775,000,000 to a projected \$947,000,000. Further details on projected changes in the balance of payments are given in Section II C.

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~~UNCLASSIFIED~~C. BALANCE OF PAYMENTS ANALYSIS

To understand the changes occurring in Portugal's overall balance of payments from 1973 through 1978 one need only to observe the deterioration in the current account over the period:

CURRENT ACCOUNT BALANCE	<u>1973</u> 348	<u>1974</u> -823	<u>1975</u> -816	<u>1976</u> -1244	<u>1977</u> -1495	<u>1978</u> -775	<u>1/</u>
OVERALL BALANCE	335	-633	-1014	-1286	-1480	505	

Most of the deterioration in current account took place during 1974 and 1975 but there was no recovery in the economy in subsequent years so that in 1977 the same volume of exports could have only purchased 75% of what they might have in 1973.

Portugal's current account deficit reached a peak of \$1.5 billion in 1977 compared with a surplus of \$348 million in 1973. Major causes for the drastic shift were: worsening of Portugal's terms of trade over the period (estimated to be responsible for 45% of balance of payments deterioration); decline of exports due to loss of the African colonies, the general recession in Europe, a decline in domestic production due to worker unrest and a drop in both tourism receipts and emigrant remittances as a result of the unstable political climate.

Exports since 1973 declined in real terms by 5% while imports rose by the same amount. Devaluations of the escudo by about 70% between 1973 and the end of 1978 helped prevent exports from falling further. The change in volume of exports and imports between 1973 and 1978 accounted for about 20% of the deterioration in the balance of payments. However, even before 1974 exports did not offset more than 2/3 of import costs.

The decline in tourism earnings and worker remittances, together with the sizeable increase in debt service payments, accounted for almost 35% of the balance of payments worsening between 1973 and 1977.

The deficit on current account (\$1.5 billion in 1977; estimated at \$775 million in 1978) was financed by Portugal's drawing down liquid foreign reserves and by extensive foreign borrowing. Liquid foreign exchange reserves dropped from \$1.6 billion in 1973 to \$424 million in 1977. These reserves covered 27% of Portugal's deficit over that period; the 73% balance had to be covered by foreign borrowings; by the end of 1977 external borrowing reached almost \$4 billion. Fortunately Portugal started with a very small external debt. Thus, the current debt level is still not excessive, particularly when one considers the level of gross international reserves.

1/ Exceptionally heavy foreign borrowing, of over \$1 billion brought about the positive overall balance.

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Current projections foresee a sharp deterioration of the balance of payments during the early 1980s. After relatively small external financial shortfalls in 1979 and 1980, the gap will likely grow rapidly to \$400-\$500 million per year by 1981. This surprising jump arises from the precipitous increase in amortization payments on the large debts contracted in 1977 and 1978. Not only must Portugal meet those payments, but it must also generate sufficient additional earnings needed to sustain an acceptable level of economic growth. Failure to do so would result in a continuing rise in unemployment and inflation, increase in labor dissatisfaction, and persistent political instability.

Large annual deficits in current account cannot be sustained for long, regardless of the willingness of foreign donors to assist. A stabilization policy must be pursued which continues to reduce import demand, and allow resources to be shifted into exports. In the medium term agricultural output and manufacturing for export must be given priority in investment and policy. Whether this can be carried out in an environment of growth, at the cost of inflation and larger payments deficits, is highly debateable. The massive external inflows, which stability with growth would require, will not be available. Declines in real percapita consumption will have to be faced. If increased private sector investment is not forthcoming, the burden will fall on the public sector to achieve a significant rise in its savings rate.

Improved performance by the public sector will be the key to raising the share of domestic savings in GDP and relieving pressures on the balance of payments. The public sector will have to ensure that most of any increases in output is saved, if the balance of payments is to be made viable.

The balance of payments estimates for 1978 and projections together with the underlying assumptions for years 1979-1982 are set forth in the following tables.

BALANCE OF PAYMENTS ANALYSIS (\$ US Millions)
(ESTIMATES FOR 1978 AND PROJECTIONS FOR 1979 - 1982)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
I. <u>CURRENT ACCOUNT</u>	- 776	- 947	- 814	- 717	- 567
A. Trade Balance (FOB)	-2315	-2498	-2571	-2683	-2767
1. Imports	-4748	-5340	-5925	-6636	-7432
2. Exports	2433	2842	3354	3953	4665
B. Invisibles	- 96	- 159	- 113	- 54	40
1. Tourism	431	466	553	646	765
a. Expenditures	- 161	- 184	- 212	- 254	- 305
b. Receipts	592	650	765	900	1070
2. Transportation (Net)	- 172	- 215	- 220	- 225	- 230
3. Interest Payments (Net)	- 329	- 345	- 376	- 405	- 425
4. Other (Net)	- 32	- 65	- 70	- 70	- 70
C. Unilateral Transfers (Net)	1635	1710	1870	2020	2160
(Of which, Emigrant Remittances)	(1671)	(1800)	(1980)	(2140)	(2300)
II. <u>CAPITAL ACCOUNT</u>	933	731	684	503	309
A. Short Term (Net), Errors & Omissions	175	0	150	150	150
B. Medium & Long Term	758	731	534	353	159
1. Debt Amortization (Net)	- 445	- 390	- 423	- 629	- 786
2. Private Investments (Net)	70	125	150	175	175
3. Private Foreign Financial Credits	575	450	350	350	350

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	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
4. Multilateral Assistance	90	130	150	150	150
5. U.S. Bilateral Assistance	290	236	92	67	30
a. PL-480	(36)	(36)	(-)	(-)	(-)
b. CCC	(180)	(150)	(-)	(-)	(-)
c. AID	(46)	(22)	(60)	(35)	(30)
d. MAP	(28)	(28)	(32)	(32)	(-)
6. Other Bilateral	53	30	40	40	40
7. Supplier Credits	125	150	175	200	200
III. <u>BALANCE</u> (deficit-)	- 157	- 216	- 130	- 214	- 258
IV. <u>MONETARY MOVEMENTS</u>	157	216	130	214	258
A. Foreign Borrowing	791	120	-	-	-
B. Bank of Portugal Amortizations	- 441	- 435	- 268	- 413	- 285
C. IMF	- 53	- 87	154	183	198
a. Drawdowns	(-)	(-)	(227)	(227)	(227)
b. Amortizations	(- 53)	(- 87)	(- 73)	(- 44)	(- 29)
D. Gold Sales (Net)	365	300	200	200	200
E. Liquid Reserves (Increase-)	- 505	318	44	244	145
V. <u>GROSS RESERVES</u>	5319	4555	4311	3867	3522
Foreign Exchange (End of Period)	871	437	393	149	4
Gold (End of Period)	4418	4118	3918	3718	3518
VI. <u>FINANCE SHORTFALL</u>	(-)	100	150	400	500

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ASSUMPTIONS UNDERLYING BALANCE
OF PAYMENTS ANALYSIS

- (a) International Dollar Price Increases: 7% in 1979; an annual average of 6% during 1980/1982;
- (b) World Trade: 5% real growth in 1979 and 1980; an annual average of 6% in 1981/1982;
- (c) Portugal's Average Annual CPI Increase: 20% in 1979, declining progressively to 12-14% in 1982;
- (d) Portugal's Real GDP Growth, Market Prices: 0 to 2% in 1979; 3% in 1980; an annual average 4% in 1981/1982;
- (e) Exchange Rate: a rate of Escudo depreciation lower than in 1977 and 1978, but sufficient to maintain export competitiveness/profitability.
- (f) Agriculture: sufficient growth in domestic output to permit agriculture import volumes to decline 2% annually;
- (g) Labor: relative labor peace throughout the period; real wages constant in 1979 and increasing only 1-2% in 1980/1982.
- (h) Credit Policies: fairly tight credit policies, with special benefits for agriculture, export and import-substitution activities.
- (i) Investment: gradually increasing private sector confidence

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- and reduced GOP emphasis on large, uncertain investment projects;
- (j) International Monetary Fund: successful conclusion of GOP-IMF negotiations, perhaps in two stages over the coming year, permitting Portugal access to all its upper credit tranches, the EFF and the Witteveen facility;
- (k) Foreign Money Markets: relative dollar stability vis-a-vis other major currencies.

Following are comments of the more important elements in the Current, Capital and Monetary Movement Accounts:

CURRENT ACCOUNT NOTES

The overall 1978 current account deficit is estimated to be \$775 million, substantially below the \$1.5 billion deficit registered in 1977.

Estimated 1978 imports were slightly lower, in real terms, than in 1977; industrial imports declined significantly. Exports in 1978 increased about 13% in real terms over 1977; the domestic credit squeeze and the decline in economic growth contributed to this rise in export earnings. Export projections for 1979 and 1980 foresee increases of 16 and 18% respectively.

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Tourism receipts for 1978 showed an increase of 35% over 1977. Increases should continue beyond 1979 at some 18% per year.

The bulk of the Unilateral Transfers account reflects emigrant remittances. Estimates for 1978 show an increase of 44% over 1977. Increased emigrant confidence, higher domestic interest rates, hidden capital repatriation all contribute to this increase. The growth rate for remittances should decline to about 13% in 1979, 10% in 1980, and 8% annually in 1981-1982.

CAPITAL ACCOUNT NOTES

Debt Amortization shows a sharp increase after 1980 due to repayments of such items as accumulated CCC loans and the large 1978 private sector borrowings.

Private Foreign Financial Credits were used extensively after the 1978 IMF standby was concluded. This borrowing is expected to continue in 1979, both to meet current needs and to build up reserves.

MONETARY MOVEMENT ACCOUNT

IMF Operations - the GOP did not draw from the IMF in 1978. Indeed, it repaid 22 million dollars on its 1974/1975 borrowings.

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As a result, Portugal is within its first credit tranche ceiling. We have assumed that the GOP will, during the coming year, negotiate access to its remaining credit tranches, the EFF, and the Witteveen facility. The total amount available would thus approximate dollars 681 million (i.e. 334 from the remaining credit tranches and from EFF; 347 million from the Witteveen facility. Figures based upon a quota of U.S. dollars 220 million). We distributed this amount evenly over the three year period 1980/1982 on the assumption that Portugal would draw the funds as rapidly as possible. We presume also that repayment of these credits would not begin until 1983.

Gold Sales - we estimated 1978 receipts from gold sales at \$365 million based upon sales of 63 tons and an average price of \$180.38 an ounce. We anticipate that the Bank of Portugal will resume gold sales this year, but will seek to minimize such sales in order to avoid the possibility of domestic political repercussions and a loss of international banking confidence.

Gross Reserves - We have treated gross reserves, and particularly liquid reserves, as rediduals. These figures do not include holdings of the Treasury and the commercial banking system. Gold reserves, progressively reduced by sales, are computed at an average value of \$200 per ounce. The projections show that decisive action will be necessary to avoid an unacceptably sharp fall in

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reserves.

Financial Shortfall - these figures are the difference between 1) projected liquid reserves and, 2) a hypothetical level of liquid reserves needed to maintain international confidence. The Bank of Portugal, following its difficult experiences of 1976 and 1977, would probably like to maintain liquid reserves at \$700 to 800 million. Believing that this target will prove impossible, we have set a hypothetical target of \$500 to 600 million.

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AID LOAN ASSISTANCE PROPOSAL

Proposed AID assistance (Loans and PL-480) totaling \$70,000,000 in both years 1980 and 1981 are not expected to make dramatic impacts on the projected balance of payments deficit; but such direct assistance to cover the current account deficit should not be ignored entirely. The GOP borrowed extremely heavily in 1978 (borrowings exceeded \$1 billion in 1978 a large portion of which was commercial) and will borrow about \$700,000,000 in 1979 to cover this deficit; additional borrowing (particularly from commercial sources) at such magnitudes will not be easy in 1980 and beyond. As political uncertainties in 1979 continue to dampen investor confidence, the GOP will look to concessional lenders, including the U.S., for assistance in meeting the deficit.

However, the value to the U.S. of the assistance proposed is not so much in its direct balance of payments impact, but rather in how that assistance can be used to persuade the GOP to address causes, rather than symptoms, of its problems.

Portugal's balance of payments difficulties, particularly deficits in current account, are structural in nature. That is, structural changes in the economy are urgently needed if recurrent balance of payments problems are to be avoided. At a minimum such changes will have to address the following set of conditions prevailing today: 1/

1. Inefficient, low-technology and non-productive agricultural sector, lacking supporting infrastructure and institutions to plan resource allocations and execute programs; large amounts of food and feed commodities totaling \$1 billion are presently imported which could be produced in Portugal.
2. A weak and marginally competitive industry sector accustomed to operating under a plethora of protective tariffs, price subsidies and protected markets. Public policies have stimulated the growth of import-substitution industries; and export oriented industries lack information on foreign market requirements and standards, as well as knowledge of modern manufacturing techniques and quality control methods to ensure competitiveness abroad.
3. Ineffective planning of resources allocation and investments necessitating excessive and inflationary public expenditures in non-productive or non-essential investments, public sector administration, and price subsidies to both industrial and agricultural sectors.

1/ A detailed discussion of each of these is contained in the analytical paper prepared by Mr. E. Anderson (AID/W) during his visit to Portugal in April 1979.

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4. Inefficient and archaic public sector management, lacking experience in problem solving, development planning and program budgeting and execution;
5. Stagnant growth of private sector, due to unclear or unacceptable GOP policies on labor relations, nationalizations, expropriations, foreign investments, all of which act as disincentives to further investment and employment generation. Both foreign and domestic investors require greater confidence that nationalizations will not continue and that they will be able to deal with labor on an equal footing with the necessary flexibility to adjust to changing economic conditions. In addition, many industries require technical and financial support in order to overcome past difficulties and to expand production on a competitive basis.

All of the above conditions impact directly or indirectly on the balance of payments and have contributed to the large deficits in recent years. Major restructuring, policy changes and action programs are required by the GOP.

U.S. assistance has a significant role to play in helping Portugal to restructure its economy and thereby to protect its democratic structure -- the principal U.S. policy objective in Portugal during the past five years. Failure to continue our assistance would encourage the GOP to pursue short-term policies that would worsen the nation's economic prospects over the medium term.

Also, it would suggest to the other assisting nations and the private financial community that we are no longer determined to support Portugal's democracy. Given the general uncertainty about the country's future finances, other donors would tend to limit their own lending programs, thereby aggravating Portugal's external problems. Continuation of U.S. assistance will encourage others to maintain their financial support.

Even more important, it will enable us to continue our dialogue with the GOP, encouraging it to persist in its efforts to restructure the economy. The AID and PL-480 loans proposed for 1980 and 1981 should be grouped in order to provide an amount which would enable us to force a genuine impact on the modernization of Portugal's economy. Consequently, AID assistance in terms of a \$30,000,000 AID loan and a \$40,000,000 PL-480, Title I agreement in each of years 1980 and 1981 would be made available on the basis of GOP agreement to undertake a program of structural reforms.

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Reaching agreement with the GOP on a program of reforms will require extensive negotiations prior to authorization of the AID assistance. However, the AID loan will be fast disbursing for maximum balance of payments support, and not tied to accomplishments under a negotiated program.

What Reform Measures to Seek

In selecting possible areas to seek reforms, the Mission must frankly consider unpredictable future political developments. Nevertheless, the Mission would tend to focus on two priority areas and, within those broad areas, those specific reforms which we believe have greatest priority. These two broad areas are:

1. stimulating private sector activity, particularly for exports, and
2. increasing agricultural production and diversification.

A number of the measures which are needed to strengthen the industrial sector are listed below. Agreement with the GOP to undertake some of these would be the basis for approval of the AID loan. Reform measures to be sought in the agricultural sector in return for the PL-480 assistance are discussed in the following section.

Industry

Portugal's future role in the world economy will be as a manufacturing nation; also, renewed growth of the industrial sector will have to be the leading edge of its economic recovery program. Stimulating private sector activity will be essential to reducing unemployment (and absorbing farm labor) and to increasing foreign exchange savings through export growth. To achieve this, private sector activity will have to be stimulated at two levels:

1. through the attraction of major new foreign investments, and
2. the expansion or creation of medium and small industries particularly those offering prospects for exporting products.

Reform measures which could favorably influence private sector activity through either increasing the business confidence or through direct support include:

1. Revision of existing labor legislation to permit industries to employ workers and to pay wages consistent with productivity and changing market conditions. Business managers must be allowed to hire, fire and pay workers in consideration of company earnings allowed to make timely business decisions

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without the delays and financial costs involved at present.

2. Revision of legislation establishing clearer rationale for nationalizations. Such factors as management incompetence, financial difficulties, etc., should be eliminated as a basis for nationalization. These are highly subjective factors and many of which are normal occurrences in a competitive economy. The areas for public sector involvement in industry must be more clearly and specifically defined.
3. Nationalized enterprises not considered essential to the public sector (such as beer or cork) should be returned to the private sector. They should, if retained by the Government, be opened to competition from the private sector; at the least they should not be given special tax, credit or other privileges.
4. Given the lack of private sector confidence, the GOP could establish a guarantee fund to provide up to 100% coverage against nationalization. This fund could be in an acceptable hard foreign currency (preferably, a combination of ECM currencies) as further assurance to investors that payment will be made. The GOP could also establish a special loan fund to encourage private sector activity in priority areas (i.e. exports) but loans should be extended at market rates to avoid encouraging the substitution of capital for labor.
5. The tariff system, including all charges on imports, should be revised (and tariffs reduced when possible) to assure that import charges are consistent and that they encourage the flow of resources into investments which maximize the use of labor -- one of Portugal's most abundant production factors. This would increase Portugal's preparedness for entry into the European Common Market.
6. Programs designed to address financial, technical and managerial needs of medium/small industry should be developed particularly for industries having export potential. A network of appropriate institutions located throughout Portugal with trained staff should be established along the lines of a small industry extension service.
7. Compensation should be made promptly to former owners for properties nationalized or confiscated after the revolution; settlements pending in courts should be rapidly concluded.

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8. A special program to stimulate new investments or modernization of agro-industries in rural regions should be initiated.
9. Improvements are required in the foreign investment code, particularly in the regulations affecting remittance of profits and capital. Such other changes in the code and local banking operations seen necessary to facilitate business transactions and attract investment capital should be made.
10. Broad scale and long range industrial planning should be undertaken to allocate investment resources consistent with Portugal's resource advantages and its development goals. Particularly urgent would be initiating such programs as are needed to ensure that Portuguese industry will be able to compete successfully as a member of the EEC.

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AGRICULTURE AND THE RURAL SECTOR

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AGRICULTURE

Introduction.

A most critical sector of the Portuguese economy is the agricultural: while providing some 14 percent of the gross domestic production (GDP), it employs about one-third of the labor force. (Each agricultural worker contributes less than one-half of the average value added per worker.) In 1978, based on the 1968-77 ten year average, wheat was down some 60 percent; other cereals, 35 percent; and some fruits, 70 percent. The olive harvest was the worst in thirty years, and the grape harvest, the worst in almost 40 years. Consequently, food imports approached \$1 billion, (almost one fifth of all imports and the largest single category of imports) and accounted for one-half of the food consumed in the country. In practical terms, one farm family could not produce enough for itself and one other non-farm family.

Agriculture represents the single most significant obstacle to a growing, well-balanced economy. It is also that sector which has been most neglected by governmental policy makers, traditionally lacking an integrated, comprehensive, and coherent development policy. The current absence of an agricultural development plan has resulted in declines in total crop production and productivity. In general, the sector suffers from inadequate investment, weak (or non-existent) governmental supporting services (of credit, research, and extension to farmers), an inhibitive land ownership pattern (of small, fragmented holding in the north and large, mismanaged collectives in the south), inauspicious soil and climatic conditions (including some annual floodings), and a misguided system of prices and subsidies which has distorted resource allocation and, in some cases, has reduced production, while spurring demand.

It is that sector where the largest increases and benefits can be expected at relatively low costs, provided that such investments are causally linked to productivity. As the World Bank maintains in its country study:

The outlook seems discouraging, yet the very backwardness of Portuguese agriculture means that yield could be increased not only by 10 or 20 percent but by 200 or 300 percent given a sustained, well-orchestrated effort over the long term. 1/

1/ Portugal Current and Prospective Economic Trends, The World Bank, November, 1978, p.5.

Agriculture within the Portuguese Economy.

This primary sector has lagged behind the rest of the economy, since at least 1950, despite a high level of sustained aggregate economic growth. From 1950 to 1974, the Portuguese economy generally benefitted from cheap labor, a constant population, the provision of relatively cheap raw materials, and growing foreign exchange earnings from exports, immigrant remittances, and tourism. However, the agricultural sector did not participate to any substantial degree in this growth. As internal demands have increased for agricultural products, importation of food stuffs increased.

While agriculture satisfied one of the basic conditions of economic growth, by releasing underemployed labor to other sectors and the external labor markets, it failed to respond to the expanding aggregate demand for food and raw materials and to increase real farm income. 2/

Scarce foreign exchange was diverted from capital formation to food imports at a critical time for the Portuguese economy. In the late 1960's, the agricultural trade deficit amounted to some ten percent of the total trade deficits; for the first nine months of 1978, that had more than doubled to 21 percent.

In either real or current terms, the annual growth of agriculture has been conspicuously low: while the total GDP grew by 205 percent from 1953 to 1975, agricultural GDP increased only 20 percent. From 1953 to 1963, the Portuguese economy grew at a real annual rate of 5.7 percent; in the decade thereafter, it grew 6.6 percent per annum, and for 1973-77 increased 2.9 percent per annum. For the same time periods, the values of agricultural production increased at a disappointing 0.9 percent and 0.8 percent, respectively, with a decline of 3.5 percent from 1973 to 1977. In current cost terms, the gross agricultural product rose almost seven-fold from 1950 to 1977, from 12.5 to 79 billion escudos, while non-agricultural product showed a twenty-three fold increase (from 25 to 575 billion escudos). In 1953, agriculture contributed 32.4 percent of the GDP; by 1963 it had declined to 22.1 percent; by 1978, it has fallen precipitously to 14 percent.

Since 1973, the performance of the sector has become even more disappointing. At current prices, from 1973 to 1977, the

2/ Portugal: Agriculture Sector Survey (Volume I), The World Bank, March 16, 1978, page 1.

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agricultural product rose some 66 percent, while non-agricultural product rose 113 percent, thereby exacerbating the unbalance within the economy. In real terms (based on 1963 prices), the value of agricultural production fell some 2.1 billion escudos.

Instead of halting this downward trend through increased fixed capital formation, the economy has denied capital to agriculture. In 1963, nine percent of the gross fixed capital formation benefitted agriculture; by 1975, about 5.4 percent of the fixed capital was vested in agriculture. This is barely enough to cover depreciated non-land assets. At a time when the agricultural sector needed greater infusions of capital, government and the private sector were investing progressively higher amounts of resources in other sectors.

Agricultural Production.

Recent statistics for individual crops graphically show the extent to which agriculture is in crisis. We find that production of major crops in 1977 was consistently below 1973 levels. Production of wheat in 1977 reached only 38 percent of that produced in 1973; similar figures show barley at 40 percent of 1973 levels, oats at 70 percent, rice at 67 percent, wine at 47 percent, and maize at 79 percent. Only potato production increased since 1973, and, at that, by only 9 percent.

In 1978, production of all grains is estimated to have been some 982,000 metric tons (MT), up approximately five percent from the 1977 production levels, but still 36 percent below the 1966-1975 ten-year average. Of the major grain crops, not one closely approached the ten-year average. For example, wheat production in 1978 reached 252,000 MT, less than half of the actual ten-year average of 572,000, while corn was about 20 percent off its mark (443,000 MT in 1978, as compared to a 531,000 ten-year average).

Low-Productivity Levels.

Productivity has fallen to abyssimal levels: only in the production of rice does Portugal exceed world averages per

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hectare (though Portuguese yield is only 75 percent of average production in the developed nations). In relation to wheat, corn and potatoes, productivity is less than the world average (in the case of corn, by half) and roughly equivalent to those levels obtaining in the developing world. For oats and beans, the productivity level achieved is even lower: 50 percent of that obtaining in the developing world; in relation to barley, rye and sunflower, productivity was only 70 percent of that registered in the underdeveloped nations.

Portugal and Greece share a similar agriculture environment, yet in 1974, Portuguese wheat yield was only 48 percent of that obtaining in Greece; for rye, 47 percent; for barley, 35 percent; for oats, 40 percent; and for corn, 39 percent of those levels achieved in Greece. Had Portuguese productivity matched that of Greece in 1973, Portugal would have satisfied domestic production. Had Portuguese productivity only equalled the world average (which is not so ambitious considering the yields from countries with poor soils and primitive technologies) and cultivated the same amount of land, as it had in 1973, imports would have totalled only 20,000 tons of wheat (instead of 166,000) and 237,000 tons of corn (instead of 795,000).

This data is sufficiently expressive to reach an initial conclusion. The agricultural sector has been stagnating for at least the past quarter of a century and has been mired in a profound crisis that has had severe consequences on the national economy, contributing significantly to an aggravation of the inflation rate, to a disequilibrium in the commercial balance, and to a braking of the process of economic growth and development. 3/

Proposed Role of Agriculture in the Portuguese Economy.

Some five years after the Revolution of 1974, Portuguese agriculture still does not possess the technology, organization, and capital needed to revitalize itself and play a decisive role in the economy. In keeping with the concept of balanced economic growth, we envision the following as the major

3/ Plano de Médio Prazo, 77-80: Diagnóstico de Situação e Estratégias de Desenvolvimento do Sector de Agricultura, Silvicultura, e Pecuária, Ministério do Plano e Coordenação Económica, 1977, p. 22

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contribution of agriculture to the economy:

1. increasing food production to substitute current imports and provide exports in commodities of comparative advantage (wines, fruits, vegetables, and wood products);
2. supplying raw materials to the agro-industrial sector;
3. increasing the productivity and real income of the rural labor force, while transferring excess labor to the rest of the economy; and
4. generating its own capital requirements through rural financial institutions.

The Problems in the Agricultural Sector.

The stagnation of the agricultural sector emanates from Portuguese geography and a history of neglect. Soil conditions in Portugal are modest, with progressively more mountainous terrain northward from the Tejo River. The climatic conditions are not conducive to optimum levels of production: a protracted dry season follows a wet winter (during which 70 percent of the annual rainfall is concentrated). As a corollary, heavy winter rainfalls flood the major river systems: lack of dams, levees, irrigation retention schemes, and other flood-minimizing structures result in loss of life, livestock, and agricultural inputs, just prior to spring plantings.

Compounding the problem has been the nation's centuries old policy of living beyond its means. Labor has been exported to America and Western Europe and capital and managerial talent had been exported to African and Asian colonies. More recently, during the Salazar-Caetano regime, a mercantilistic and corporative philosophy benefitted wealthy landowners and managerial classes; their interests in banking, commerce, and industry led them to extract rents from the land (for non-agricultural pursuits), rather than invest for increased agricultural production. Imported food and raw materials

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(especially from the colonies) deprived the economy of a sense of urgency in developing agricultural resources.

Few small farmers and large landowners utilized the modern technology long existent in the rest of Europe. Except for the subsidization of consumer food staples and certain commodities, the dictatorship maintained a "laissez-faire" policy favoring large commercial farming and latifundios (large, plantation-type landholdings in the Alentejo). Investments were limited to prestige projects; no serious efforts were made to extend pilot projects or replicate the results of agricultural research endeavors.

Current Constraints to Sector Development.

Since the Revolution of 1974, the structure of the agricultural sector has changed somewhat, despite the lack of a governmental development strategy. These impacts -- the net results of which have continued and deepened stagnation in the sector -- include the geographical and occupational shifts of rural labor and populations and the government's legalization of organized labor's seizure of the latifundios. In the north, rural labor has been attracted to the more urban coastal areas because of the high wages rates obtaining in more industrial pursuits, the availability of suitable social infrastructure, the under-employment in agriculture, and the non-availability of manufacturing jobs in rural areas.

In the south, the government, after legalizing worker seizures of latifundios in 1975, has decided to return gradually some of the land to former owners. Of the 3.5 million hectares in the agrarian reform zone (about one-half of cultivable land in Portugal), 35 percent will be collectivized, 29 percent will be in private hands, and 36 percent will be nationalized. The Government thus must de-collectivize a net 132,000 hectares and return it to private hands, compensating the collective sector with 113,000 hectares of lands from nationalized sources. The use of police force, in the face of, unwilling rural workers, has created a atmosphere of tension in the Alentejo -- the major wheat-growing area of the nation. This political unrest, coupled with mismanagement and misallocation of capital resources (to wages and other current accounts), has led to an overall decrease in production and productivity.

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In addition to natural resources and past agricultural sector inertia current constraints to the expansion and revitalization of the sector include land use patterns, technological insufficiencies, inadequate institutional structures, and economic barriers. The Government, however, has not formulated action programs to correct structural deficiencies in these areas.

Land Use Patterns. Since 1952, the land use pattern in Portugal has not changed significantly: the average size of a holding is about 6 hectares, of which 65 percent is in arable land; of the arable area, one-third lies fallow. On one hand, there is a great degree of concentration of wealth, with one percent of the units of production constituting one-half of the total area cultivable. On the other hand, extensive fragmentation exists, with 60 percent of the landholdings having areas of less than 5 hectares and constituting less than 18 percent of the total agricultural area. (The most unviable landholdings, measuring less than half a hectare, represent 23 percent of the total number of units of production.)

In the Alentejo, large latifundios exist, representing some 0.05 percent of the national landholdings and some 17 percent of Portuguese agricultural lands. Today, the latifundios still exist, but generally are collectives: the previous large landholders having been displaced by worker's commissions. In some cases, the land had been nationalized, with title vested in the state. In recent months, minor amounts of land -- not more than 500 hectares each -- have been returned to the previous owner (or share-cropper). However, four years after lands were expropriated by "the agrarian reform", compensation has still not been made.

Minifundios, holdings of 20 hectares or less, constitute 73 percent of total holdings and 37 percent of agricultural lands; the average number of separated parcels per holding is seven, with each averaging less than half a hectare. In the rural northeast, holdings composed by six or more parcels represented 64 percent of productive units. This fragmentation has inhibited production of surpluses: nation-wide, almost 75 percent of the farms were oriented predominantly toward self-subsistence; this is more pronounced in family farming (85 percent of all holdings) in which 85 percent

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reserved at least 50 percent of their production to family consumption. Of total arable land, some one million hectares lies permanently fallow, while another 220,000 hectares are permanent pasture land.

Technological Insufficiency. The lack of a technological advance in Portuguese agriculture is attributable to the ineconomical land tenure patterns (as discussed above), a history of investment scarcity, low levels of educational achievements by farmers, and absence or failure of government to provide research and extension services. As labor left the sector, new farming techniques were not adopted to maintain and exceed production level.

Agriculture credit, available through at least thirteen dispersed channels (such as savings and loan institutions, commercial banks, special subsidy funds and commodity regulatory institutes) has been generally inadequate. In 1974, although agriculture contributed some 12 percent of GDP and 61 percent of total bank savings deposits, it benefitted from only 5.2 percent of the 302 billion escudos outstanding in credits. In 1975, institutional credit reached only 80,000 farmers (about 12 percent of farmers), with 70 percent of such credits short-term in nature. In 1974, three-fourths of all agricultural credit issued from the Caixa Geral de Depósitos, a highly-centralized and slow-moving savings and loan institution, where all loans appraisals are conducted by a staff of seven; loan supervision is almost non-existent.

In 1975, a special "emergency agricultural credit" fund was established and, by September, 1978, had lent 8.5 billion escudos; such loans were to be used for fertilizer, land preparation, pesticides, seed, feed and supplements, and farm implements. However, these loans have increasingly been used on collectives to pay wages, purchase livestock, maintain farm equipment, and buy fuel. Seventy-three percent of the emergency credit has been extended to the "agrarian reform" zone; 80 percent of these credits have gone to collectives. (Although the Communist-dominated Alentejo comprises 30 percent of the land area and contributes 30 percent of the agricultural domestic product, it received 93 percent of the

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emergency credits in 1976 and 67 percent in 1978.) There has been no causal relationship between increased production and credit; production and productivity in collectives have decreased since credits were first provided in 1975; until 1978, accountability for credits was not required. Government policy since 1974 has been to use agricultural credits as a method of unemployment compensation.

A relatively low level of educational attainment has impeded improvement in on-farm management capacities and technology. In 1970, 44 percent of farm owners were illiterate, while another 55 percentage had only primary education; only one percent had a high school or university education. This resulted in only 3 percent of the farmers introducing new crops or new production processes during the previous year. Seventy-five percent had not even a rudimentary system of accounting; even when considering farm units from 100 to 1,000 hectares in area, almost half of the landholders did not keep receipts and expenses registers.

The lack of education, compounded by the subsistence nature of many farms, result in lower levels of utilization of fertilizers, mechanized equipment, high-yield seeds, and other inputs. In the absence of a person-to-person extension effort, many farmers do not understand the implications of such utilization, nor are they able to apply inputs, as directed, to optimize crop production. As a result, while tractors rose from 19,000 (in 1967) to 121,000 (in 1978), it still represents one of the lowest ratios of tractors to cultivated areas in Europe. For threshers, similar statistics showed increases from 5,700 to 6,350; and for combines, from 1,300 to 4,300. Fertilizer consumption has increased from 765,379 tons in 1965 to 1,014,500 in 1978. From 1970 to 1975, use of pesticides remained at approximately the 17,250 ton level. While these indices of inputs were increasing in real terms, agricultural (including forestry) production was decreasing (in 1963 factor costs) from 18 billion escudos in 1965 to 17.1 billion in 1978. The gap between inputs and production can be attributed in large measure to the lack of a credible and effective extension service, so critically needed where educational levels are very low.

Historically, research and extension has played passive roles in the agricultural sector. Under the Salazar-Caetano regime,

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these functions were divided amongst twelve autonomous jurisdictions, with little geographic coherence. Understaffed, under-financed, under-qualified, and isolated from the day-to-day problems of the farmer, the research and extension services served generally to substitute for unemployment compensation. The Government recently consolidated all research in one National Agriculture Research Institute. However, neither sufficient specialized staff and or adequate budgets have been made available to design or implement a plan to increase agricultural production. Soil acidity, crop-cross fertilizations and planting techniques, optimal rotations, farm management, and crop storage have yet to be researched; the integration of scientific investigations, plant breeding, and seed production, with a yet-to-be established extension service will take a great deal of effort. Currently, extension is undertaken through 140 stations and field headquarters and 19 irrigation centers.

It continues to suffer from a shortage of experienced mid-level technical staff. The stations lack vehicles and consist mostly of dilapidated facilities. Demonstration and field days with farmers are rare, and there is little evidence of knowledge of the important agricultural problems or potential of the area by agents. 4/

The low salaries and life-style in the rural areas mitigate against the attraction and retention of qualified agents; incentives and in-service training (especially in farm investment appraisals) should be provided.

Institutional Restraints. A wide range of institutional restraints have also limited growth in the agricultural sector. Land tenure patterns and the rural social structure have maintained the great majority of the rural population near the subsistence level, unable to increase landholding size or yields. Instead of developing a coherent agricultural strategy, the Government has regulated market competition and administered subsidies to select interest groups and commodity producers through a bewildering array of institutes, boards, and commissions. Only with the

4/ Portugal: Agricultural Sector Survey (Vol. I), op. cit.,

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revolution in 1974, have rural workers been able to organize and represent their economic and social interests. This, however, has been limited to the Alentejo, where massive seizures of large landholdings were made and approved by the Government as "agrarian reform".

Economic Restraints. The final constraint is economic in nature: the distortion in the market place and in resultant resource allocations. Although subsidies in the agricultural sector were originally made to alleviate higher consumer prices, the real incidence of the benefits falls to processors and intermediaries, rather than the producer or the consumer.

A complex system of administered prices and subsidies has kept prices of major commodities artificially higher than import prices, thereby shifting incentives for greater efficiency in resource use. 5/

For 1976, almost 15 billion escudos (or almost one-fourth of the agricultural GDP) was granted in sector subsidies. By 1978, subsidies had reached 30 billion escudos, a level equivalent to one-third of agricultural GDP and more than twice the national budget's current account deficit. However, the objectives of price stabilization, resource allocation toward more efficient production, and income distribution, in general, are not being achieved. The subsidies have tended artificially to inflate domestic demand while deflating supply, thereby contributing to a inflationary spiral; wheat, corn, and meat subsidies have diverted land and financial resources from more profitable meat production through pastures to uneconomical wheat cropping and high-cost imported feedgrains. Far from contributing to the development of the sector, subsidies perpetuate and deepen the stagnation in agriculture.

5/ Portugal Agricultural Sector Survey (Vol. I) , World Bank, page iii.

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RURAL SECTOR

Urban/Rural Panorama: An Introduction.

Portugal is a predominantly rural nation. The 1970 census revealed that 26 percent of the population lived in urban areas, with about half living in the metropolitan centers of Lisbon and Porto and 92 percent living within 30 miles of the Atlantic coast. Even within these litoral districts, however, there is a pronounced rural character: only 35 percent of the population is urban. As one travels farther east from the coast, the population becomes progressively more rural.

Great discrepancies in income, investment patterns, and social infrastructure exist between urban and rural areas. This dichotomy generally parallels and is reinforced by the gap arising between the agricultural and non-agricultural sectors of the economy. Portuguese commercial, industrial, tourism, and banking/insurance complexes are generally concentrated on the coast. For the purpose of geographic clarity, those areas of highest rural concentrations are in the hinterland (adjacent to the Spanish border)- the northeastern region of Trás-os-Montes (districts of Vila Real and Bragança) the east-central Beiras Interiores (Guarda and Castelo Branco) and the southern Alentejo (Portalegre, Beja and Évora).

For the purposes of this strategy paper, in order to define the reality of rural existence and the phenomenon of rural poverty, the Trás-os-Montes area was selected as a case study. We believe that it reflects the development status and typifies the problems and prospects of other largely rural areas.

Demography and Demographic Shifts.

Trás-os-Montes, in the northeastern extremity of Portugal, represents some 12 percent (10,800 square kilometers) of the nation and, in 1977, maintained less than 5 percent (some 484,000) of the total population. Density per square kilometer equalled 45 inhabitants, as compared to the national density average of 107 and to that of the nearby northwestern coastal region of 353. Twenty years previously (1957), 17 percent more persons lived in the region, representing 6.4 percent of the

national population; regional population density was 52 inhabitants, while national and nearby densities were recorded at 97 and 285, respectively. These statistics clearly show that Trás-os-Montes is a net emigratory area: from 1957 to 1977, while national density increased 10.3 percent, regional density declined 13.5 percent and adjacent coastal (urban) areas increased some 24 percent. Interesting enough, within Trás-os-Montes, from 1960 to 1975, the urban areas increased 29 percent representing (in 1975) roughly 9.8 percent of the total regional population.

National population trends, therefore, are from rural to more urban areas, where commerce and industry are located; within the northeast, the trend is also to more urban zones. Emigration, mainly to France and Germany (and, in the 1960's to the African colonies) has also been a prevalent reason for declining population. Were it not for 40,000 refugees returning to the northeast from the former African colonies in 1976, and inflating regional population by 9 percent, the migration rate would have been much higher.

Regional Gross Domestic Product.

In 1970, the Portuguese GDP approximated 164.5 billion escudos; Trás-os-Montes contributed some 4.8 billion escudos (2.9 percent of GDP). Only the region's extractive industries and electricity are of national importance. The structure of the Trás-os-Montes economy is given below:

<u>Component of Economy</u>	<u>Regional Production (Billion Escudos)</u>	<u>Percentage of Regional GDP</u>	<u>Percentage of Regional Workforce</u>
Agriculture	2.03	42.4	68.6
Electricity	1.13	23.6	0.4
Extractive Industry	0.11	2.3	0.5
Manufacturing	0.10	2.1	4.7
Construction	0.27	5.6	3.8
Services and (Other)	1.15	24.0	22.0
Total	4.79	100.0	100.0

Rural Employment.

While population declined some 4 percent from 1970 to 1975, the labor supply stayed relatively constant (declined by 0.43 percent to 159,400 in 1975). With the need for workers at 135,700, in 1975, employment figures declined by 1.5 percent per year from 1970 to 1975. As a result, about 20,000 persons (12.5 percent of the workforce) were unemployed. By 1976, with 40,000 former inhabitants of the African colonies (Guinea-Bissau, Moçambique and Angola) inflating the regional population by some 9 percent, the registered unemployment rate hovered at the 19 percent level. In light of the subsistence nature of the regional economy, and generally under-estimated unemployment figures nation-wide, it is conceivable that, by the end of 1976, at least one in every five persons willing and able to work was unemployed. The composition of the workforce by sector is indicated above.

Structure of Agriculture.

About three-quarter of the region's landmass is involved in the primary (productive) sector. In Bragança, 82 percent of the district is forest. Although agriculture is of great importance, the region has the highest percentage of uncultivated land in Portugal; about 93 percent of agricultural lands are dry and provide vast permanent meadows. In 1975, less than 1500 hectares (concentrated in the district of Vila Real) were irrigated; this represents 2.15 percent of total irrigated areas in Portugal. In terms of employment and gross domestic product, the dominance of agriculture is more marked in Trás-os-Monstes than in any other region. Only half of the agricultural lands are occupied by properties between 4 and 20 hectares in size; as one travels eastward in the region, small holdings (of less than 3 hectares) diminish in number, with the Spanish-border areas of Bragança having about 25 percent of its agricultural lands in 50 hectares (or larger) holdings. The region, however, has the highest level of fragmentation of land-holdings, with parcelization increasing as one goes farther east.

Major agricultural produce are potatoes, rye, wheat, corn, wine and olive oil. Around the Douro River (in the Port wine demarcated zone), wine is the only agricultural product. The following chart indicates the declining trends in regional production, yields, and contribution to total nation production levels:

PRODUCTION AND PRODUCTIVITY IN TRÁS-OS-MONTES

Crop	<u>Production/Productivity for 1972</u>				<u>Production/Productivity for 1973</u>			
	<u>Tons Produced</u>	<u>% of Nat. Production</u>	<u>Reg. Prod per Hect. (in Tons)</u>	<u>Nat. Prod per Hect. (in Tons)</u>	<u>Tons Produced</u>	<u>% of Nat Production</u>	<u>Reg. Prod per Hect.</u>	<u>Nat. Prod per Hect.</u>
Wheat	55,637.7	9.1	1.5	1.2	28,900	4.8	0.9	1.3
Corn	21,711.1	4.2	1.1	1.3	18,100	4.0	0.8	1.2
Rye	64,338.9	39.1	0.9	0.7	51,400	35.4	0.8	0.7
Barley	2,665.6	4.3	0.6	0.7	2,400	2.8	0.7	0.9
Beans	2,036.6	4.0	0.2	0.15	1,500	3.9	0.15	0.13
Potatoes	235,915.3	20.6	9.4	10.2	171,200	16.9	8.2	9.5
Olive Oil*	63,664.0	10.8	n/a	n/a	77,400	8.8	n/a	n/a
Wine *	811,676.0	9.9	n/a	n/a	1,087,200	12.3	n/a	n/a
Cork	3,747.0	1.9	n/a	n/a	713	0.6	n/a	n/a

* In hectolitres

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Although the region has vast tracts of meadows and potential pasture land, in 1972, it had less than nine percent (92,000) of that total national number of beef cattle, 12 percent (88,000) of goats, 14 percent (146,000) of swine, and 10 percent (240,000) of sheep. However, due to a lack of slaughter facilities and the primary subsistence nature of regional farmers, in terms of cattle slaughtered for consumption, beef represented only 3.49 percent of national levels; sheep and goats 1.59 percent; and swine only 0.80 percent. (By 1975, however, there was an increase in those levels to 3.86, 2.18, and 1.01 percent respectively.)

Structure of Industry.

Industrial activity — much like its agricultural counterpart — is essentially small-scale, with many enterprises being family owned. Firms tend to have low levels of fixed capital formation. Given small enterprise sizes, management techniques are traditional and highly personalized; improved techniques and technology are difficult to introduce. Engineering and technical staff (especially at the mid-levels) are limited in number and qualification.

Extractive industries employed some 1600 and produced 146 million escudos of tin, wolframite, copper, gold, magnetite, hematite, and granite. Potentials in mining exist only in hematite, where a 500 million ton reserve of low-quality exists in Bragança, and in wolframite, where a 20-year reserve is located in Vila Real.

Manufacturing employed some 4.8 percent of the regional laborers, but represented only 2.1 percent of the gross regional product. From 1971 to 1974, the total number of manufacturing firms rose from 205 to 245. The following chart presents the structure of the manufacturing sector:

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Sub-Sectors	1971		1974	
	No. of Firms	Percentage of Sector	No. of Firms	Percentage of Sector
Food, Drink and Tobacco	116	56.6	126	51.4
Textiles and Shoes	0	-0-	1	0.4
Wood, Cork and Furniture	55	26.8	67	27.3
Paper and Graphics	10	4.9	13	5.3
Chemicals and Petroleum	13	6.3	14	5.7
Non-Metallic Minerals	7	3.4	19	7.8
Metalurgy and Machinery	4	2.0	4	1.7
Miscellaneous	0	-0-	1	0.4
Total	205	100.0	245	100.0

In 1971, only 14 firms employed more than 21 persons, while in 1974, this figure had almost doubled to 25 firms, due to increases in the food, wood, and non-metallic sub-sectors. According to a 1970 sample, the following are the functional contributions to the regional industrial sector in order of importance:

Food, Drink and Tobacco	- 40.9 percent
Non-Metallic Minerals	- 32.7 percent
Wood, Cork and Furniture	- 18.2 percent
Chemicals and Petroleum	- 5.4 percent
Paper and Graphics	- 2.8 percent

Although the food sub-sector was dominant in the regional manufacturing sector, in 1974, Trás-os-Montes was the least

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developed region from the point of view of agro-industries. Some 126 companies (employing 1100 persons) contributed less than 7/10 of one percent of the total value added in the industrial sector; of agro-industry companies, 90 percent (employing 700) were involved in the baking of bread.

Energy.

Trás-os-Montes produces almost one-third (3.4 billion kilowatt hours) of the nation's electricity, yet consumes only 1.2 percent. Almost 42 percent of this consumption is directed to domestic use. The lack of rural electrification (15 percent of the localities were without electricity in 1975) and low industrialization levels dictate a low consumption-per-inhabitant level: 295 kilowatt hours per year. This represents 30 percent of national levels and about 20 percent of levels obtained in Lisbon.

Structure of Construction Industry.

In 1975, the construction industry employed approximately 5,000 individuals, about 750 less than in 1970. This represented 3 percent of the regional workforce and about 2.5 percent of all construction workers in the country. Wide oscillation occurs in employment each year (1973 had 30 percent more, and 1974, 31 percent less laborers than the previous year). This is attributable to the temporary utilization of agricultural workers who are employed as new investments are realized.

The industry is characterized by small-scaled, undercapitalized entrepreneurial units. Ninety-one percent have less than 10 workers (including management and technical staffs); there were only 10 companies with more than 50 employees. Sufficient managerial and technical engineering staff does not exist. In 1974, there were only 12 incorporated construction companies, employing 459 persons and enjoying 6 million escudos in capital; an average company had 38 employees and had half a million escudos (\$10,000) in capital. In 1975, construction in

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the region amounted to, 900 million escudos (2.2 percent of all construction undertaken in Portugal), of which 85 percent represented housing construction. In 1975, the average construction workers in the region received three-quarters of the prevailing national "take-home" pay, or about 20 percent less than similar workers located 50 miles away.

Services Sector.

Some twenty-two percent of the regional workforce are employed in the tertiary (services) sector. The great majority of these workers are concentrated in the public administration (staff at regional and district offices of central ministries or local government employees) and in the nationalized banking and insurance sub-sector.

Tourism employs some 600 persons. Although it is a major ingredient of the national economy, tourism is not important in this most scenic area of Portugal. The region, with two percent of the rooms available nationally has three-quarters of them in inferior tourist establishments. From 1970 to 1975, lodging more than doubled in number; however, the remoteness of the region, the increased room availability and its inferior nature yielded an occupancy rate of only 17 percent.

Social Infrastructure.

Housing. Of the 115,200 families included in the 1970 census, 40 percent lived in overcrowded or inadequate housing. This represents one-third more than the national average, giving Trás-os-Montes the dubious distinction of having the worst-housed population. The influx of African refugees from 1970 to 1975, exacerbated this situation. In 1977, the Portuguese Government estimated that of the 110,240 households:

- only 8 percent had running water, electricity, and bath and toilet facilities;
- another 0.3 percent had water, bath, and toilet, but not electricity;

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- another 3.6 percent had only electricity and toilets;
and
- another 0.4 percent had only toilets.

The vast majority had none of these amenities.

From 1977 to 1980, more than 14,000 housing units should be constructed to provide adequate lodging. This implies a construction rate of some 3,600 households per year, a 203 percent increase from the 1971-76 average (1,175 per year). In already-existing structures, water, sewerage and electricity must be provided to satisfy the basic necessities of the population and to correct the inter-regional and intra-regional disequilibria.

Education. The Portuguese Government has made a conscious effort to provide education to the children of Trás-os-Montes. From 1970 to 1975, on the primary education level, the number of students per classroom declined from 32 to 29, while student/teacher ratio dropped from 33 to 25; for the preparatory level, the students per classroom rose from 42 to 46, with students per teacher declining from 16 to 12. For secondary education students per class generally remained at the 42 level, with the ratio of students to teachers dropping from 18 to 17. Trás-os-Montes had the lowest levels of school attendance: less than 3 percent of the 5 and 6 years old were in school; of those children from 7 to 12, only 76 percent were enrolled; of those from 13 to 17, only 20 percent attended classes. This represents 40, 98, and 70 percent, respectively, of comparative national figures. The first six years of school are obligatory; in Trás-os-Montes, only 64 percent of those eligible attend school during this obligatory period, reflecting only 74 percent of national levels.

The single major impediment to increasing educational levels is the geographical dispersity of secondary schools. In some cases, with the closest school 20 miles away and the lack of school buses, a family must have sufficient income to either

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transport its children to school or to arrange boarding facilities at the town in which the school is located. Within the subsistence-based economy, few families can afford the "luxury" of school during the non-compulsory secondary education years; as a result, only 20 percent of the possible students attend high school.

The effects of low educational achievement levels on the regional population are confirmed in the cultural activities of the area. The northeast has the lowest levels of newspaper and journal printing, cinema attendance, and numbers of radios and televisions in the nation. In 1975, there were only 1.2 issues of newspapers or magazines per inhabitant, per year, compared with over 126 in Lisbon. Attendance at movies was less than one per inhabitant per year, compared with about 10 in Lisbon. There were only 95 radios and 30 televisions for each thousand Transmontanos, while in Lisbon, there were more than 200 and 120, respectively.

Health. The state of health is abyssimal in the rural northeast, by any standard of measure. In terms of physicians, para-medical (nursing) personnel, and facilities, the region has the lowest levels in all of Europe. The following chart graphically shows the situation vis-à-vis the national average and urban areas in 1970 and 1975 per thousand population:

<u>Category of Measurement</u>	<u>In Rural Regions (Trás-os-Montes)</u>	<u>National Average</u>	<u>In Urban Region (Lisbon)</u>
Doctors (1970)	0.3	0.9	1.3
(1975)	0.4	1.2	1.7
Nurses (1970)	0.15	1.05	1.47
(1975)	0.52	2.00	2.52
Social Service (1970)	-0-	0.06	0.11
Professionals (1975)	0.05	0.13	0.19
Beds (1970)	1.9	5.5	7.3
(1975)	2.8	5.2	6.0

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Demographic statistics in health concretely show that the two districts of rural Trás-os-Montes are by far the worst in continental Portugal. The chart below shows mortality statistics for Bragança, Vila Real, the national average, Porto and Lisbon for 1970 and 1975:

	General Mortality (per thousand)		Infant Mortality (per thousand)	
	<u>1970</u>	<u>1975</u>	<u>1970</u>	<u>1975</u>
Bragança	8.2	12.59	68.2	75.8
Vila Real	9.0	12.08	90.9	57.4
Porto	9.4	8.12	74.0	44.0
Lisbon	11.5	9.72	43.4	30.7
National Average	9.5	10.00	56.9	38.7

The information presented above is disturbing in that general mortality increased in the region from 1970 to 1975, while similar indices in urban-oriented areas was declining rather significantly; while infant mortality declines somewhat during the same period, in 1975, the regional infant death rate was still 72 percent higher than the national average and 120 percent higher than that obtaining in Lisbon.

A further interesting statistic -- indicating coverage of services, rather than mortality -- is that of birth given without medical assistance. In 1970, 73 percent of deliveries were made without medical assistance, while the figures had dropped to 51 percent by 1975. This was some 141 and 240 percent, respectively, above national average levels.

Accessibility.

The Portuguese Government estimates that about one-quarter of the Trás-os-Montes population live in areas where road accessibility is exceptionally poor or non-existent. The extremely rugged terrain and scarcity of population makes construction of roads and rail lines extremely costly and of

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questionable cost/benefit ratios. As the region has no airport, it is inaccessible by air; given the non-navigability of the Douro (due to narrow river-bed, rapids, and dams), river transportation is severely limited.

In addition to living in a geographically inaccessible area the Transmontano feels himself psychologically separated from the rest of Portugal. The obvious and stunning differences in living standards between Lisbon and Bragança (highlighted by radio and television) reinforces rural beliefs that the northeast is a forgotten and neglected part of Portugal. The highly centralized political system and the remoteness of Trás-os-Montes results in large time gap between the perception of problems by the rural population and Lisbon permission to undertake corrective actions. This sense of neglect, when joined to the traditional suspicion of the rural dweller, lack of visits by government officials to the area, and generally low regional educational achievement levels, develops into a sense of despair and minimization of individual contribution to the political or economic well-being of the country.

Rural Income and Distribution.

Given the lack of higher paying industrial/commercial employment and the seasonal nature (and relatively low salaries) of agricultural labor, workers in rural areas lag far behind their urban counterparts. The following table indicates the percentage of families at various income levels on selected occupational pursuits in rural and urban sectors, by monthly income for 1974:

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Percentage of Families by Monthly Income Level
(in 1,000 escudos)

Socio-Economic Category of Head of Family	Less than <u>1.5</u>	1.5 to <u>2.5</u>	2.5 to <u>4.0</u>	4.0 to <u>5.0</u>	5.0 to <u>7.5</u>	7.5 to <u>10.0</u>	10.0 to <u>15.0</u>	More than <u>15.0</u>
In Rural Areas	15.5	20.0	23.6	15.8	14.6	5.4	3.1	2.0
In Urban Areas	5.7	8.5	17.0	15.4	21.7	12.3	10.2	9.2
Agricultural Land Owners (Rural)	14.3	32.2	25.5	14.1	7.9	3.2	1.7	1.1
Agricultural Land Owners (Urban)	7.9	11.9	20.8	13.9	21.8	8.9	9.9	4.9
Agricultural Workers (Rural)	15.8	30.0	33.5	12.4	6.4	1.2	0.5	0.2
Agricultural Workers (Urban)	5.3	20.7	33.0	14.9	17.5	4.3	3.2	1.1
Office Workers (Rural)	1.5	3.8	16.0	19.6	27.5	14.7	10.5	6.4
Office Workers (Urban)	0.7	2.2	9.8	13.7	25.5	20.1	17.6	10.4
Manual Workers (Rural)	0.8	7.0	27.7	24.7	28.1	7.4	3.7	0.6
Manual Workers (Urban)	0.8	3.8	20.5	24.1	30.9	11.3	6.8	1.7
Unemployed (Rural) *	37.8	20.7	16.4	10.2	8.8	3.1	1.8	1.2
Unemployed (Urban) *	16.3	18.1	22.1	11.3	13.4	6.9	5.4	6.5

* Refers to unemployed head of household; family income may derive from pensions, welfare benefits, rental income, and/or work of other family member.

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In 1974, about 60 percent of all families in rural areas made less than 4,000 escudos (approximately \$100) per month, as compared to only 31 percent of urban families. The rural family mean was about 2,500 while the urban mean was 40 percent higher at 3,500 escudos. In the "poorest of the poor" category, we find that percentage of rural families earning less than 1,500 escudos (less than \$38) was three times higher than urban families at a similar level. Seventy-five percent of the rural families with unemployed heads of household, had an income of less than \$100 per month; in urban centers, this percentage declines to 56 percent. The structure of income distribution shows that rural areas have higher percentages of families in the income levels below \$100 per month; in the \$100-\$125 range, the percentage of rural and urban families remains generally similar, while in higher income levels, urban family percentages increase. The income gap widens between rural and urban societies the farther income varies either above or below the \$112 per month level.

The daily salary of the rural male worker rose, in current terms, from 54 escudos in 1968 to 247 escudos in 1978; female rural worker's salaries rose from 32 escudos to 169 escudos during the same period. Although a significant inequality remain between male and female earnings, the gap has narrowed: in 1968, a man's salary was 70 percent higher than a woman's but by 1978, was only 46 percent higher. In 1977, while the typical Trás-os-Montes worker was making 190 escudos per day, his urbanized cousins, living less than 100 miles away in Porto, were earning 220 escudos per day (in industry or transport sectors). As regards median salaries in the construction industry, workers in Trás-os-Montes were earning about 182 escudos (\$6.00) per day in 1976, while the national average was 203 escudos and the urban average was about 210.

Inflation appears also to have impacted severely on the rural sector; this and the predominance of agriculture in rural areas has lessened the real disposable income of those closest to the margin. From 1968 to 1976, while the producer selling prices for cereals had increased 76 percent, for fruits, 85 percent, for olive oil, 240 percent, and for wine 111 percent, the overall consumer price levels in rural areas

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increased 188 percent. During the same period, the average cost of labor jumped 240 percent. Caught between high labor costs, high costs of inputs and consumer goods, and low prices for his production, most rural landowners produced enough only to satisfy his immediate food needs, buy limited amounts of necessary consumer goods, and purchase agricultural inputs; he desisted from relatively large investments to increase agricultural production.

Constraints to Rural Development.

The rural sector has generally stagnated for the last quarter century, generally due to the lack of investment in agriculture, the non-existence of diversification to agro-industrial and extractive industry pursuits, the limited developments in wood-related industries and in construction, and the present inadequacy of the tourism sector. The higher wage levels in industrial/commercial areas, coupled with the availability of more social infrastructure and a lessening of the detrimental psychological impact of isolation in urban areas, have attracted people from the Portuguese rural interior to the coast, to other European nations, and (before 1974) to the African colonies. While emigration out of agriculture has tended to reduce rural underemployment somewhat, it has also led to underutilization of resources (especially land) and under-capitalization in farms, irrigation, roads, electricity, and housing.

Obstacles to a viable rural sector tend to be societal and administrative in nature. The low levels of educational attainment and high levels of functional illiteracy impair the introduction of new technology in agriculture and the creation of a skilled or semi-skilled labor force to service industrial/commercial enterprises. As a corollary, managerial and technical talent is scarce; well-qualified, innovative entrepreneurs or technicians are almost impossible to attract given the lack of social infrastructures in rural areas. Completing the vicious circle is the fact that without such talent -- in either the public or private sector -- continuing, long-term economic and social development is impossible.

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A further constraint is the typical rural social pattern of distrust and the consequent lack of cohesion and association to attain certain goals. Rural areas are so isolated and remote, that the individual must count on himself more than on a government (which has consistently ignored him) or on other rural residents (who are viewed as unreliable and competitive). Perspectives of action and assistance barely extend outside the family unit: few cooperatives exist and little community action is noted.

Such non-collaborative attitudes reinforce (and, in turn, are reinforced by) a tradition of depending on outside action to change the rural milieu. In the highly-centralized Portuguese political and administrative world, the rural resident waits for a Lisbon bureaucrat (who usually is unaware of the rural reality) to decide courses of action. There is no history of local initiative; rural citizens did not resolve their own rural problems. Few local resources are available: financially, localities have no significant taxing or spending authority; technically, localities have practically no qualified planning, managerial, engineering and accounting staffs to formulate and implement problem-solving strategies.

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A PROPOSED DEVELOPMENT STRATEGY

RURAL DEVELOPMENT

STRATEGY.

Introduction.

The future of rural regions and agricultural development are inextricably linked; an advance in agriculture provides the pivotal point around which regional and family income disequilibria can be corrected. In general, from the agricultural point-of-view, maximum value must be derived from the soil, forests, pastures, and irrigated lands and from livestock production. The discouraging of present land-use and ownership patterns (excessive fragmentation of holdings) and the emphasis on cooperatives (or consolidation by other means) are absolute necessities. The resuscitation of agriculture would curb food imports, provide increased rural incomes, narrow the income gap between agricultural and industrial workers, lessen immigration flows and supply related industries.

As a corollary, employment in relative labor-intensive industries must be encouraged to ensure Portugal a more competitive position in world markets (in preparation for Common Market entry). Dairy production and cattle/animal raising (and slaughtered or processed by-products) must be expanded and operated on an industrial/commercial basis. Increased production in agricultural processing (agro-business) must be encouraged to increase the value added in rural regions. In addition, actions should be taken to expand wood-related industry, textile and clothes manufacturing, and construction. The establishment of a tourism zone, centered around the quiet and lush-green recesses of the Douro River, would further help stem the out-migration and increase income levels in the region.

Social Infrastructural Pre-requisites to Development.

The establishment of these new industries assumes that the requisite managerial and technical talent (as well as skilled and semi-skilled workers) is, or will be, available in the region.

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The presumption is that educational facilities exist in the region to train and reinforce the skills of the labor force at all levels. New industry creation also presupposes the existence of social infrastructures (housing, water/sewerage, electricity, schools, medical facilities) to attract and/or maintain the managers, technicians, laborers, and their families in a measure of comfort, convenience and safety, comparable to that prevailing nation-wide. However, these pre-requisites to development in rural areas do not exist. Schools and health centers are currently poorly staffed due to a critical lack of housing and amenities generally taken for granted in urban centers. A trained and skilled labor supply does not exist and functional illiteracy approximates one-third of the rural population.

Given the lower levels of development in rural areas, an economic strategy should emphasize increased construction of social infrastructures for both economic and social (equity) considerations. In addition to a large-scaled effort in school (including higher education) and health center construction and staffing, inter-and intra-regional (and international) communication links (roads and railways) have to be reinforced and expanded. New units of adequate housing must be provided, along with water and sewerage systems for those areas currently without such services. Roads have to be built within the region to allow produce easier access to non-regional markets and to lower the physical and psychological problems associated with isolation.

The major construction effort in education and health must be accompanied by the provision of adequate numbers of qualified staff and a redirection of services in each field. The current lack of accommodation for professionals dictates that functional housing — units for teachers, doctors, nurses, etc. — should be built close to the structures in which they will be employed. Education should be directed first at the primary and preparatory levels, with major emphasis in adult education and vocational/agricultural training to reduce functional illiteracy. Polytechnical and university institute education should also be stressed as a resource in regional planning and development; such institutions of higher education should train extension agents, undertake applied agricultural research, and teach basic management

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concepts to businessmen and farmers. Non-degree, community-based, practical programs to farmers, managers, and technicians should be given, if these institutes are to be true catalytic change agents.

Elements of an Agricultural Development Strategy.

The key determinant of the success of a rural policy will be the relative advances made in agriculture. Strategies must be tailored to each region, taking into consideration the farm size and land tenancy structure in the area. In the north, smaller, highly fragmented units rely on intensive, mixed farming. In the center, medium-sized, more consolidated holdings abound, producing mixed cereals and livestock. In the south, large, relatively consolidated units would utilize extensive farming techniques.

As previously indicated, major obstacles to agricultural development include fragmented land ownership, unsuitability of soil conditions to crops planted, technological insufficiencies, inadequate institutional structures, and economic barriers. The resolution of the problems requires an integrated, comprehensive approach to agriculture, stemming from a decision at the highest levels that agriculture is a prime priority. The following are essential elements which must be addressed by a development strategy:

1. Providing extensive regional research into efficient land-use, soils, cropping, seeds, fertilizer/pesticide use, farm management, irrigation, dairy/cattle herd production, and economic returns from capital/investments (for different crops/livestock). (In order to avoid duplication and provide maximum general knowledge for the entire agricultural sector, interchange of information between regions is absolutely necessary.)
2. Activating a dynamic and creditable extension service which disseminates information and demonstrates new techniques/crops adapted to regional reality. Such a

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service would provide regular personal contact with the farmer, maintain demonstration farms, conduct training/informational sessions, and make available (through mass media) new techniques and market price information.

3. Providing credit, linked to increased production, available from one agency to farmers (not consumers or intermediaries, as is currently the case) at non-subsidized, prevailing interest rates. Credit would be extended for seed, fertilizer, pesticides, herd expansion, irrigation, land (especially to enlarge and consolidate small holdings), buildings (for storage, marketing, and processing), machinery, and other fixed capital, but only if a causal relationship is demonstrated in the investment proposal between the intended uses of credit and increased production and/or increased net returns.
4. Eliminating most price subsidies over a three year period, thereby allowing the market to set agricultural prices. The staff and funds used to implement subsidies would then be utilized to create and finance an institution to provide agricultural credit to stimulate production and restore incentive to producers.
5. Maintaining law and order in the Alentejo and implementing agrarian reform legislation. This would entail returning some land to former owners, immediately compensating the expropriated at just costs (so as to reinforce that confidence so necessary for increased production) and defining the land rights and conditions of tenure (including rental payments to the Government) for the new beneficiaries of the land reform.
6. Encouraging reforms in land holding patterns. This would include both the return of baldio (common lands) to traditional owners for management in common and the enlargement of very small farms by consolidation or by using the government's preemptory rights to purchase marginal holdings for enlarging small farms.
7. Providing incentives to a revitalized livestock sub-

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sector. This includes replacing imported feedgrains and concentrates with pasture and forage, expanding the cattle breeding herd, increasing the number of sheep on improved pastures, and introducing better genetic quality in swine.

8. Stimulating selective import substitution (of pork, fish, meat, corn, sorghum, pulses, and oil seeds), as a result of careful study of international prices and internal resource constraints and
9. Reorganizing the Ministry of Agriculture and Fisheries. Such a restructuring would include a reallocation of functions and resources from defunct institutions (or commissions) to the Ministry, creation of a consolidated budget to assist in management and planning of sector resources, development of an in-house, continuing agricultural training and education program, expansion of the staff involved in medium and long range planning and sector policy analysis, and immediate regionalization of the Ministry in the predominantly rural areas.

Non-U.S. Assistance

Non-U.S. assistance to the Portuguese agricultural and rural sectors have been generally by European nations and European banking institutions. Brazil has provided some \$70 million in the form of credits for agricultural capital goods and food commodities. In recent years, the United Nations and World Bank have been investing in the sectors. The totality of agricultural or rural developmental assistance is shown below on a calendar year basis:

<u>Year</u>	<u>Country/ Institution</u>	<u>Non-U.S. Assistance (in \$ million)</u>	<u>Purpose</u>
<u>1976</u>	West Germany	35.000	Flood protection and irrigation loan
	European Investment Bank	23.000	Loan for hydroelectric plant in rural area

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<u>Year</u>	<u>Country/ Institution</u>	<u>Non-U.S. Assistance (in \$ million)</u>	<u>Purpose</u>
<u>1977</u>	Brazil	50.000	Credits for agricultural capital goods and commodities
	Canada	7.000	Wheat grant
	Netherlands	0.225	Integrated rural development loan
	Netherlands	3.000	Loan to University Institute of the Azores and Polytechnical Institute of Vila Real and for planning in Madeira
	West Germany	30.700	Rural road construction loan
	European Investment Bank	58.000	Irrigation loan
<u>1978</u>	Brazil	20.000	Credit for agricultural capital and commodities
	Normay	10.000	Rural hospital construction loan
	Normay	0.021	Grant for animal production, forestry training, and integrated health services.
	United Kingdom	10.000	Rural development loan
	International Bank for Reconstruction and Development	70.000	Agricultural credit loan
<u>1979</u>	European Investment Bank	2.400	Loan for agricultural development

<u>Year</u>	<u>Country Institution</u>	<u>Non-U.S. Assistance (in \$ million)</u>	<u>Purpose</u>
<u>1979</u>			
(Contd.)	International Bank for Reconstruction and Development	50.000	Loan to increase nitrogenous fertilizer production
	United Nations Development Program	0.672	Grant for rural extension and drainage
	Netherlands	0.130	Grant for agricultural development
	Norway	1.250	Grant for agricultural development
	West Germany	0.300	Grant for agricultural development
	Sweden	1.400	Grants to University of Minho and University Institute at Évora

PROPOSED UNITED STATES ASSISTANCE.

The Past.

A.I.D. Project Assistance. The United States commitment to the rural sector has been a main focal point of our foreign aid project assistance program in Portugal. All projects were conceived and designed to improve the quality of life of the poorest of the poor; the resident of rural Portugal. The summary table, below, indicates the incidence of our intervention in the rural sector. Of total financing in these social-oriented projects, 87 percent is focussed on the rural sector (except for housing); of the 125 beneficiary site, only 10 percent are located in urban centers.

RURAL ASPECT OF U.S. ASSISTANCE

<u>Project</u>	<u>Financing (in \$million)</u>		<u>Sub-Project Location</u>	
	<u>Total</u>	<u>Rural Areas</u>	<u>Total</u>	<u>Rural Areas</u>
Basic Sanitation I	8.0	7.8	34	33
Basic Sanitation II	12.0	9.9	32	28
School Construction I	11.0	8.8	24	19
School Construction II	15.0	12.9	19	17
Health Sector Support	<u>15.0</u>	<u>13.5 *</u>	<u>16</u>	<u>15 *</u>
	61.0	52.9	125	112

* The non-rural sub-project is the Ponta Delgada (Azores) nursing school; however, the school is expected to receive most of its students from rural areas.

In addition to this site-specific sub-projects, the U.S. is also assisting (in the amount of \$6 million) in the establishment of four politechnical and university institutes in the rural regions of Trás-os-Montes (Vila Real), the Beiras Interiores (Covilhã), the Alentejo (Évora), and the Azores (Ponta Delgada, Angra do Heroísmo, and Horta). These institutions will be the future poles of economic development in these regions; they are currently re-cruiting and training staff to provide services in agricultural research, train extension agents, assist in regional planning, and conduct wool manufacturing research (in the case of Covilhã), in addition to providing sciences and humanities education. Of the \$5,750,000 currently committed to Portugal in grant financing, approximately 68 percent of the programmed amount is directly attributable to support for agriculture and the rural sector.

Public Law 480. From FY 1976 to FY 1978, the U.S. has been providing \$135 million in Title I concessional sales. Commodities imported under the program include:

- Rice - \$42.0 million
- Wheat - \$40.6 million
- Corn/Sorghum - \$22.8 million
- Feedgrains - \$12.6 million
- Raw Cotton - \$12.6 million
- Tobacco - \$ 4.4 million

TOTAL \$135.0 million

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71.

In order that P.L. 480 not be a disincentive to national production, the agreements for concessional sales call for the use of counterparts funds (generated by the local sale of the commodities) to be used for agricultural and rural development; self-help measures were specifically provided in the agreements, and annual self-help reports required. Since 1977, these reports have not been submitted in a timely fashion and usually have been forthcoming only after strong representations by the Embassy. The contents of the reports have been generally unsatisfactory, reflecting the fact that a majority of the counterparts funds have yet to be utilized which in turn reflect the fact that Portugal has had no agricultural or rural development plan or investment strategy.

Of the \$25 million included in the March 18, 1976 agreement, more than \$1.1 million remain unallocated; programmed sub-projects include construction of ten grain storage (silo) facilities, three cooperative milk collection centers, a slaughterhouse, and two wool handling storage facilities, most of which were underway when the agreement came into effect. For the agreement signed on October 22, 1976 (for \$70 million), \$67.2 million remains unobligated; the amount programmed would finance three fruit/wholesale markets, three buildings (and working capital) for cooperative production of feed grains. (It is interesting to note that one-third of these sub-projects were already underway when counterpart funds became available). On August 4, 1978, a third agreement was signed for \$40 million: no counterpart funds have as yet been programmed by the Government of Portugal although it constituted a commission (which has no full-time staff) in August, 1978, to prepare regulations on the use of funds and to give final technical approval on the investment proposals.

It is the current plan of the government to establish an agricultural credit fund for investments in regional production programs with the unprogrammed balance of local currency counterpart generated by P.L. 480 (approximately \$108.3 million). As of December 31, 1978, 280 applications (totalling \$94 million) had been received for the use of these funds; however, only a very few applications have been approved, as no viable mechanism for investment proposal review, analysis and approval has as yet been created.

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This negative experience pattern with regard self-help measures arises from the Portuguese Government's lack of a clearly-defined, coherent, integrated, and comprehensive agricultural development plan. Of the \$135 million in escudos generations, more than 80 percent remain to be programmed and a larger amount remains to be disbursed: The fact that more than one-third of those sub-projects programmed were already under construction prior to P.L. 480 generations (and therefore had financing assured via the national budget) indicates that the Government had no new developmental purpose for the counterpart generations. Indeed, although counterparts are generated in ledgers, we have had trouble in pinpointing exactly when and where nationalized or public enterprise importing corporations paid for these commodities and what type of a fund was created and its de facto uses.

C.C.C. Credits. In addition to the P.L. 480 concessional sales program, since 1976, the Commodity Credit Corporation has authorized \$526.4 million in credits for the following agricultural sales:

- Corn/Sorghum	- \$303.7 million
- Wheat	- \$ 97.3 million
- Soya beans	- \$ 40.0 million
- Raw Cotton	- \$ 17.2 million
- Tallow	- \$ 9.5 million
- Dairy Cattle/ Breeding Swine	- \$ 5.5 million
- Rice	- \$ 15.2 million
- Soyabean Meal	- <u>\$ 38.0 million</u>
TOTAL	\$526.4 million

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The Future.

The U.S. has \$40 million available for a new P.L. 480, Title I program for FY 1979. Its applicability to Portugal will be based on determinations that:

1. P.L. 480 does not, in fact, have a disincentive effect on agricultural production;
2. the counterpart funds can be programmed immediately in accordance with a rational development scheme;
3. the self-help measures will be reported on a timely basis; and
4. the requisite independent audits will be undertaken to verify generations of counterpart funds and uses of such generations.

To the extent that cheap (concessional) agricultural imports have relieved the pressure on the Government to develop an agricultural and rural strategy, the P.L. 480 program has acted as a disincentive to increased production. Availability of such imports has merely made the Portuguese economy more dependent on imports, and more unwilling to reform the agricultural structure. Without adequate and meaningful self-help measures, P.L. 480 will subsidize and encourage the misallocation of resources within the economy.

After waiting more than three years to allocate moneys made available under P.L. 480, we have an experience pattern which shows a lack of movement in agriculture. While P.L. 480 and C.C.C. credits have contributed to high levels of food imports, and while counterpart has not been used as agreed in agricultural sector development, production has fallen and remains at low levels. Although the Portuguese Government had agreed to establish a \$1 million trust fund for polytechnical and university institutes in the rural areas, no fund has, in fact, yet been established after ten months and the task of dynamizing the institutes has been severely impaired.

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As a result, if we are to have a new P.L. 480 program, the U.S. government will insist that self-help measures be instituted immediately and that all residual counterpart from other agreements be allocated (and contracts/agreements signed for effecting disbursement) by October 1, 1979. This would mean that a system for reviewing, remodeling, analysing, and approving investment proposals (and supporting the farm unit with technical services after the proposal is approved) on the regional level should be in place by June 20, 1979.

With the signing of a new P.L. 480 agreement, more than \$140 million will become available for the agricultural and rural sectors. We do not agree with the Portuguese Government that all the funds should be provided in credit at subsidized rates. We believe that an integrated program at the regional level will bring the only true results; the elements of this new program include:

1. the creation of regional and sub-regional entities which will combine research, extension, and credit functions and which would define regional investment plans;
2. the provision of supervised credit (extended in furtherance of a regional agricultural production plan) at the prevailing market interest rates (to small and medium farmers) who will undertake to participate in an extension program;
3. the development of regional investment strategies for agro-industries and provision of credit therefor; and
4. the creation of a \$1 million trust fund to provide local currency support for American technicians (financed under the Technical Assistance Grant) assisting in the professional training of the staff at selected university polytechnical institutes.

Although prevailing interest rates have been predominantly negative for the past few years and although banks and other institutions had a surplus of credit available for private use

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during the past two years, credit has reached only twelve percent of the farmers in Portugal. This is generally due to three phenomena: a.) the bewildering array of institutes, banks, commissions, councils, etc. who are issuers of credit and their inadequate investment review and follow-up staff, b.) the relative non-accessibility of credit, because these channels of financing are not located in the more rural areas and because an overly-centralized system results in a long drawn-out approval process, and c.) the inhibitive costs of compiling a proposal and the lack of small farmer technical expertise to assemble a proposal.

The P.L. 480 funds would thus be administered in each region by an entity of the Ministry of Agriculture, which would have staff to disseminate the latest technology and induce investment proposal from farmers. These rural regional delegations would help develop a credit proposal, analyse soil conditions of the credit seekers, review proposals for sufficiency, and authorize credit to be extended by the local bank (Caixa Geral de Depósitos) debiting the credit account of this regional delegation of the Ministry. If the investment plan has merit, no more than three weeks should elapse between the receipt of the proposal and the provision of credit. On a monthly basis, thereafter, the extension services would visit the farm, first to ensure that the proposal was implemented and second, to follow-up in ascertaining the need for more appropriate technology or more credit/inputs.

Institutionally, P.L. 480 funds could be used to pay incentive salaries of extension agents, research, and financial/economic analysts to staff the regional offices. We believe inventive pay will be absolutely necessary to attract qualified professionals to the rural areas of Trás-os-Montes, the Beiras Interiores, and the Alentejo — areas where the standard of living and comfort are considerably below those generally applying in the more urban areas of Portugal. P.L. 480 could also be used for construction of sub-regional rural offices of the Ministry of Agriculture and demonstration farms in each concelho. These offices would serve as home base for agricultural and livestock extension agents, researchers, credit analysts, and sub-regional planning staff. Counterpart funds could also be provided for staff housing, the single major constraint to attracting and maintaining managerial and technical personnel in the rural regions. In essence,

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P.L. 480 would be used to create an operative and viable region and sub-region structure which would define and implement regional agricultural development plans.

Operationally, the great bulk of P.L. 480 would be assigned to provide agricultural credits to all types of farmers, cooperatives, and collectives that present production-linked investment proposals. These funds could be utilized to pay for land consolidation (for small farmers), irrigation, up-grading pasture, buildings for storage, marketing, and handling (but not housing), agricultural inputs (seed, fertilizer, pesticides), machinery, and other capital costs. Salaries would not be a financable item. Interest rates would be established at the prevailing cost of money at the time the credit agreement is signed — and will not be liable to change. Rates below the current market interest rate would tend to misdirect scarce credit resources and subsidize inefficient and sub-optimal uses of factors of production, i.e. easy credit would be utilized to undermine increased production. (Pressures are great to divert 13 percent money from the vagaries of agriculture, to bank term deposits yielding 20 percent). In order to support current loan and grant programs aiding regional education institutions, to which the U.S. and Portuguese Governments have committed themselves, the P.L. 480 generations would also be used to create a trust fund, financing local currency costs of visiting consultants and departing participants in such fields as: agricultural extension, laboratory techniques, animal husbandry, regional development, farm and small-scale industry management, and textile technology.

In addition to P.L. 480, agricultural development can be assisted by a readjustment of elements/commodities made available under C.C.C. credits. As discussed above, the livestock sub-sector can contribute greatly to the resurgence of agriculture; high-grade swine, sheep, and cattle have been imported -- and will continue to be -- to improve the animal stock of the nation. A major shift in C.C.C. credits, for example, from feedgrains to livestock would have a three-fold benefit of improving the sub-sector's production, encouraging use of grazing and pasture lands rather than imported feedgrains, and improving small farm income.

IV. Institutional Change and Development

Through a variety of specialized reports and studies AID/W has been made aware of the institutional weakness which exist in Portugal in almost every development field. A recent study by a distinguished AID team lead by Dr. John Macy documented the difficulties of the public sector. Other reports such as those by Dr. Murdock discuss the weakness of agricultural institutions.

In general, although a political revolution occurred in April 1974, the institutions which most directly affect the lives of the majority of Portuguese citizens have not been significantly changed since the time of the Salazar dictatorship. Portugal is still very much paying the price of decisions made during that period. Measures remain in effect which were designed originally to create duplication of services and functions in order to keep potential opponents to the leadership divided. Likewise measures which require the most minor decision to be made in Lisbon and within Lisbon only at the highest level are still in effect. For years any serious study in the social sciences was discouraged because it was seen as potentially destabilizing. As a result, there is a woeful lack of economic and administrative talent. There was and continues to be no structure for the professional civil service, and public employment during most of the 20th. century was seen not as a means of providing service to the population but as an employment mechanism for those who either were closely related to the top leadership or who through their academic or professional achievements might be potentially threatening if left outside of the public sector.

One of the most obvious generalizations one can make about Portuguese institutions is that there exists a large number of highly qualified technical people-agriculturalists, medical doctors, engineers, chemists, etc. but where these people are employed in the public sector, their skills are largely unused. Institutions do not exist to bring these skills to bear on daily problems of the large majority of the population.

Let us sight a few examples to illustrate this problem. There are perhaps thousands of well-trained agricultural scientists in Portugal as well as a relatively well-trained extension service. However, about three-fourths of these people live in either Lisbon or Porto, work in Ministry offices and have generally no contact with farmers or with the real world of agriculture. It is difficult to find a small or medium farmer in Portugal who has ever in his lifetime had on his farm an agricultural extension agent. The agricultural agents and scientists have for the most part prepared reports which they send to each other; they attend conferences and

meetings in Lisbon and some international conferences but have little practical effect on Portuguese agriculture.

Likewise, the agricultural researchers in Portugal, many at an international standard of professional competence usually work on projects which they select and more often than not have little bearing on the problems immediately facing the farmer. Furthermore, there is little institutional relationship between these researchers and an extension service and so the results of the research are primarily intended for international journals and improving the prestige and status of the researcher rather than improving Portuguese agriculture. The state, which finances a great deal of this research, has up until now found it impossible to really structure its financing to those activities of immediate practical importance.

In the area of higher education, the social sciences, as mentioned earlier, have traditionally been neglected in favor of the humanities, law, and the physical sciences. Training in management and administration has been almost totally absent. Within Portuguese society, perhaps the highest prestige is attached to the doctor and full professor at a university and it is not uncommon for ministers to leave their posts in order to do an additional piece of work on their doctoral dissertation. Practical adult community education has been almost nonexistent and the university community has traditionally prided itself on its separation from the work-a-day world rather than on its contribution to improving the productivity and efficiencies of the economy. Secondary education, too, has been in the past quite formal, centralized, traditional and without a vocational education component. There has been significant curriculum improvement since the revolution and a marked increase in the interest and attendance of rural children at the secondary level. Still in many parts of the country, no more than 25% of the secondary school age population is in school and nation-wide the average is about 50%.

In the area of health, there is much debate presently on the establishment of a National Health Service. Although the doctor to population ratio is satisfactory, the doctors are largely concentrated in Lisbon, Porto and Coimbra. Many are highly specialized and there is little incentive to concentrate on general primary health care. Health services in the rural areas while generally available through conscripted doctors (who must serve two years in rural areas after graduation from medical school) the system is unnecessarily expensive. There has been little attention to

preventive health measures and public health although concern for this has been significantly increased since the revolution.

Still there are positive aspects. A rather efficient emergency health care system is taking shape. Likewise, everyday experience reveals that even in the most rural areas, if an individual is seriously injured, he receives some kind of care within a reasonable time. But, so-called luxury services such as dental services, ophthalmological services, health education, nutrition advise, maternal and child care education are very largely non existent.

Another factor of importance in describing Portuguese institutions is their traditional isolation from their European counterparts. Portugal, during the Salazar period, was a most inward looking country with its attentions primarily focused on the African colonies. Only now are serious professional and institutional linkages being established with outstanding foreign institutions.

There was, of course, no trade union movement during Salazar-Caetano period and with the revolution of 1974, the organization of workers in many industries was entirely in the hands of the Communist party. There is no management experience in labor, management and negotiations since the traditional relationship was a paternalistic one between the owner of an enterprise and his workers.

AID Strategy.

From the beginning of the AID program in 1975, a key objective of the U. S. has been to support institutional initiatives of the GOP which would either have direct benefit to lowest income groups or improve overall public sector management and administration. A total of \$5.75 million dollars in grant funding has been approved and has financed about 225 Portuguese officials on study and observation programs in the U. S. and the services of about 100 U. S. short-term consultants in Portugal.

Among the accomplishments thus far of this program are the following:

- leaders of Portugal's emergency health services have studied models in the U. S. and are now instituting several reforms in Portugal.
- leaders of housing finance have examined in Salt Lake City with U. S. experts the Portuguese experience in the field and are now changing their own system as a result of observations in the U. S.
- rectors of agricultural schools for the first time were exposed to U. S. extension research and education in rural areas and are instituting changes in Portugal as well as establishing their own institutional linkages with U. S. agricultural schools.
- specialists in environmental protection as a result of their training in the U. S. are helping develop Portugal's first environmental protection legislation.

- U. S. specialist in small loan programs worked with GOP counterparts to set up a small loan program for Portugal's 700,000 refugees from Africa. The program has been one of the country's major successes in recent years.
- U. S. economists have worked with the Bank of Portugal in analyzing issues related to the important and successful stabilization program.
- the University of Rhode Island is working with the University of the Azores in developing departments of agriculture, fisheries, and food technology.

Many other examples can be cited.

The attached table summarizes the present state of funding of the technical assistance program. We propose for FY 81 an additional \$3 million dollars which will continue financing of the following activities:

- Rural Vocational Education between U. S. universities and four polytechnical institutes
- AFL-CIO Labor Training
- Regional economic planning
- Public Administration and the establishment of an Institute of Management
- Housing finance and the management of public housing programs
- Regional agricultural planning
- Selected feasibility studies in the Azores and other least developed regions.

TECHNICAL ASSISTANCE AND TRAINING GRANTFINANCIAL STATEMENT BY ECONOMIC SECTORS AS OF APRIL 30, 1979

(thousand of dollars)

SUMMARY TABLE

ACTIVITIES	SUB-OBLIGATED FEB 1975-APRIL 30, 1979			PLANNING LEVELS	GRAND TOTAL %
	TRAINING	CONSULTANTS	TOTAL		
1. RURAL AND VOC. EDUCATION	287	2,373	2,660	50	2,710 (46)
a) University of Azores	141	641	782	- 0 -	782
b) Other Univ/Polyt. Institutes	126	1,723	1849	- 0 -	1,849
c) Other Educational Activities	20	9	29	50	79
2. HEALTH	196	118	314	52	366 (6)
a) Public Health	63	71	134	42	176
b) Basic Sanitation	33	29	62	10	72
c) Environmental Protection	100	18	118	- 0 -	118
3. ECONOMIC AND REGIONAL PLANNING	166	213	379	69	448 (7)
a) Bank of Portugal	6	115	121	- 0 -	121
b) Reg. Planning	76	18	94	1	95
c) Directorate G. for Treasury	48	1	49	36	85
d) Statistics	12	15	27	32	59
e) Commercial Coordination	24	- 0 -	24	- 0 -	24
f) High Comm. for Refugees	- 0 -	10	10	- 0 -	10
g) Air Transport Planning	- 0 -	54	54	- 0 -	54
4. PUBLIC ADMIN & ADV MANAGEMENT	285	89	374	215	589 (10)
a) Inst. of State Participation	232	- 0 -	232	50	282
b) Inst. of Public Admin.	- 0 -	34	34	145	179
c) Export Development Fund	14	55	69	20	89
d) National Cooperatives Inst.	19	- 0 -	19	- 0 -	19
e) Advanced Management	20	- 0 -	20	- 0 -	20
5. LABOR	316	126	442	- 0 -	442 (7)
6. LOW-INCOME HOUSING	29	51	80	24	104 (2)
7. AGRICULTURAL DEVELOPMENT	94	61	155	107	262 (4)
8. INDUSTRIAL DEVELOPMENT	136	3	139	51	190 (3)
9. LANG. TRAINING AND MISC. EXPENSES	27	- 0 -	27	7	34 (5)
10. UNPROGRAMMED				605	605 (10)
GRAND-TOTAL	1,536	3,034	4,570	1,180	5,750

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AUTONOMOUS REGION OF THE AZORESOUTLINE

AID Involvement: Present and Future

Geographic and Demographic Background

Structure of the Azorean Economy

- Agriculture
- Fishing
- Industry
- Energy
- Service Sector

Governmental Structure

Social Infrastructure

- Education
- Health
- Housing
- Public Utility Services

Product Disequilibria

Azores Development Strategy

- Introduction
- Agriculture
- Fisheries
- Manufacturing
- Market Diversification
- Energy
- Transportation
- Tourism
- Budget Allocations

Annex A

- Portuguese-United States Economic Cooperation Program

Annex B

- Regional Government of the Azores Investment by Sector, 1978-80

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AUTONOMOUS REGION OF THE AZORESAID Involvement: Present and Future

The present AID program to Portugal includes a major component of assistance to the Azores. This is summarized in Annex A. In addition to these projects undertaken, AID has agreed to continue financing services of selected consultants through FY 79 and FY 80 to help the Azorean Regional Government (ARG) prepare projects for future financing from whatever source such funding might be available.

The US has been discussing for some time the renewal of the agreement governing the use of the Azores Base at Lajes. We expect such an agreement to be signed in June or July 1979 and to extend through FY 83. In exchange for the use of that base, it is foreseen that the US would provide 60 million dollars in military assistance and 80 million dollars in grant economic assistance to the Portuguese Government.

In accordance with desires expressed by the GOP, the entire economic assistance portion will be used exclusively in the Azores. It is expected to be provided in four equal installments of \$20 million each in FY 80 through FY 83.

Following signature of the base agreement, the US intends to discuss with the GOP the establishment of an Azorean Development Fund (or regional bank or other such regional fund) into which US funds can be disbursed. The fund would be utilized to finance the development plan of the Regional Government of the Azores; the United States would not exercise project approval over this fund, but would reserve the right to be informed to how funds were being utilized. Such possible investments would be in the fields of transportation (airports, roads, and ports), telecommunications, agriculture, agro-industry, health facilities, educational facilities, basic sanitation, fisheries modernization, as well as a whole range of institution building through technical assistance and training. Based on present AID experience in the Azores, the principal obstacle to the rapid and effective use of the funds is likely to be ARG inexperience and incapacity in effective implementation.

AID does not foresee itself being involved in the detailed review of the programming of the funds and does not plan to tie the use of the funds.

General advisory assistance by the AID staff in Lisbon and in Ponta Delgada would continue to be available to the Azoreans particularly in placing them in touch with US institutions which would be helpful in program implementation. Some of the procedures appropriate to the reimbursable assistance program would likely be applicable here particularly in the later years of the agreement. US AID responsibility and

assistance under the program would be provided by the Portuguese liaison officer in Ponta Delgada and his secretary as well as the USAID staff in Lisbon on frequent TDY to the region.

Geographic and Demographic Background

The archipelago of the Azores consists of nine islands located at 38° north latitude and 28° west longitude near major shipping lanes in the Atlantic ocean. It lies some 900 miles west of Continental Portugal and 2,300 miles east of the United States. From the western-most island (Corvo) to the eastern-most (Santa Maria), there is a span of 370 miles. Although it has only some 890 square miles in total land area, it possesses an economic zone around the islands equivalent to some 385,000 square miles.

Its location within the Gulf Stream moderates its temperatures (from a winter average of 55° F. to a summer average of 75°F.) and provides ample rainfall (approximately 1200 millimeters) throughout the year, yielding a lush green countryside conducive with a variety of crops and excellent pasture land. The islands, volcanic in origin, are generally characterized by a volcano cone interior and a relatively flat coastal strip around the perimeter of the island. (The 600 population concentrations are located in those narrow strips.) Signs of volcanic activity are still evident today.

The following table provides general geographic and demographic information to show the dispersion of the islands and the differences extant among them:

<u>Island</u>	<u>Population</u>	<u>Rural Percentage</u>	<u>Area (sq.miles)</u>	<u>Miles from Nearest Island</u>
Corvo	370	100	7	10 (Flores)
Faial	15,350	65	66	5 (Pico)
Flores	4,800	100	55	10 (Corvo)
Graciosa	6,600	100	24	25 (S. Jorge)
Pico	15,880	100	167	5 (Faial)
Santa Maria	7,900	100	38	40 (S. Miguel)
Sao Jorge	11,000	100	92	12 (Pico)
Sao Miguel	136,100	85	288	40 (S. Maria)
Terceira	66,000	80	153	22 (S. Jorge)

Demographically approximately three-quarters of the 264,000 inhabitants (in 1977) lived on the islands of Sao Miguel and Terceira. The population of the Azores is 2.8 per cent of that of continental Portugal; it has higher rates of birth, death, child mortality and emigration. The birth rate is about 2.16 per cent per annum (as compared with 1.93 for all of Portugal); the death rate, 1.13 percent as compared to 1.04; infant mortality, 4.63 per cent of live births (as compared to 3.81). While the emigration rate was 0.15 percent for continental Portugal, the Azorean rate was 3.00 percent The result is that while the population of continental Portugal has increased

some 6.9 percent from 1970 to 1975, Azorean population dropped 12.3 per cent. The population in the archipelago today approximates that obtaining one hundred years ago. The major determinant of this dramatic population decline has been emigration to the United States and Canada since 1900, increased as a result of volcanic activity and earthquakes experienced during the mid-1960's. Since 1960, some 125,000 Azoreans have emigrated; this represents almost 40 per cent of the 1960 population.

Structure of the Azorean Economy

The Azorean economy is a traditional underdeveloped and rural one, characterized by the predominance of the agricultural sector (especially livestock). The following table illustrates the structure of the economy:

Structure of Azorean Gross Domestic Product, 1974

(in million escudos)

<u>Sector/Sub-Sector</u>	<u>Value of Production</u>	<u>Percentage of GDP</u>	<u>Percentage of Labor Force</u>
Agriculture, Forestry, Livestock	2,058.1	47.0	46.6
Fishing	76.8	1.8	3.3
Industry	458.9	10.5	10.7
Construction	203.4	4.6	6.7
Energy	29.3	0.9	0.2
Commerce, banking and insurance	554.0	12.6	14.5
Transport	336.4	7.7	4.0
Other Services	654.6	14.9	15.5
	<u>4,381.5</u>	<u>100.0</u>	<u>100.0</u>

Agriculture. As indicated above, the primary (productive sector) has the dominant role in the Azorean economy. Due to the excellent climatic conditions, soil fertility (especially for pasture), and an abundant non-skilled labor supply, agriculture (including dairy livestock production) has a pre-eminent role. The few commercial crops that exist — sweet potato, chicory, tobacco, pineapple, and tea — are concentrated

on Sao Miguel island. All other crops are generally linked to livestock production and are destined to fuel the subsistence economy.

Major crops in the Azores for 1976 include the following:

<u>Crop</u>	<u>Production (Tons)</u>	<u>Cropped Area (ha.)</u>	<u>Yield (Kg./ha.)</u>
Wheat	4,600	2,700	1,704
Corn	50,400	19,400	2,598
Broad Beans	4,800	5,100	941
Green Beans	2,100	400	5,250
Potatoes	52,300	6,900	7,580
Chicory	28,800	800	36,000

Given favorable climatic and societal conditions and the existence of large tracts of fertile lands currently uncultivated, increases in agricultural production are highly probable.

Productivity is generally above that prevailing on the mainland. In 1976, Azorean productivity levels exceeded those on the mainland by the following amounts:

- for wheat, 32.2 per cent,
- for corn, 139.2 per cent,
- for broad beans, 50.1 per cent,
- for green beans, 4,387.2 per cent.

Only in the production of potatoes does mainland productivity per hectare exceed Azorean levels (and that by only 4.3 per cent.)

The sector is characterized by monoculture: given the higher value of beef and dairy products, pasture (for cattle grazing) has expanded usually at the cost of other agricultural production. Forty-four per cent of total island area is in pasture, 22 per cent in forests and 22 per cent in cropped lands. From 1970 to 1974, cereal production decreased by 1,400 tons, while corn output increased; as a result, the Azores now has to import cereals. Currently, the structure of the agricultural sector is conducive to livestock grazing; land tenure patterns impede the achievement of more profitable crops.

Prime constraints in the sector include landownerships patterns (that do not allow profitable production), a low level of mechanization, deficient technical assistance to the

farmer (as evidenced by low utilization of fertilizers and high-yield seeds), and an unsatisfactory system of storage and marketing. Land distribution has dictated a subsistence economy: in 1965, 52 per cent of the holdings had less than one hectare, while another 39 per cent had less than five hectares. Sixty per cent of all holdings was operated by the family unit; forty per cent of the total produced only for the immediate needs of the family. In terms of mechanization, there was one tractor for every 200 hectares, a low level confirmed by excessive parcelization and the ruggedness of the terrain.

Extension services have been effective only in the livestock (essentially dairy) sub-sector; agricultural extension services (located on each island) have been hampered by the general low educational level of farmers, geographic inaccessibility of many areas, and lack of financial resources. The lack of storage facilities (so necessary in an island economy plagued by the vagaries of sea and air transport) effectively limits sales of excess production, thereby lessening the incentive to produce more.

Fishing. Fishing contributes about two per cent of the domestic regional product, although it employs some four per cent of the labor force. Given the recent extension of territorial and "economic zone" waters around the Azores, it is expected that this sector will have a profounder impact on the economy. For a region surrounded by and dependent on the sea, fishing occupies a small part of the economic activity of the archipelago. It is essentially artisanal; commercial efforts have yet to be mounted in the sub-sector. According to a Regional Government report, no port in the archipelago is adequately equipped to supporting fishing. Forty-one per cent of the fishing "fleet" is non-motorized. Less than 7,600 tons of fish were unloaded at the Azorean ports in 1975. Major commercial elements of the sub-sector include tuna (1/3 of the total value of production unloaded) and marine algae (achieving 33 million escudos in value in 1974.) Constraints on the sub-sector center themselves on the seasonability of species, the disorganization and antiquated nature of technology, the lack of cold storage capacity, and low profitability of under-utilized processing plants.

Industry. Azorean industry, integrally related to agriculture and fishing, is almost exclusively linked to current consumption, contributing only 10 per cent to each of regional product and work force. It is characterized by small units of production; 76 per cent of the firms have less than five workers, while only 3.1 per cent have more than 50 workers. (Similar figures for the continent show 69 and 5.4 per cent.) In 1975, the gross value of production was 2.1 billion (\$75 million), or 24 per cent of the total value added in the archipelago, a relatively low level for manufacturing.

Predominantly artisanal in nature, manufacturing has extremely low levels of productivity: the value added per worker is approximately \$3,000, much lower than the \$6,600 level obtaining in continental Portugal.

Approximately 85 per cent of the gross value of production of industry is concentrated in the processing of food, drink, and tobacco; almost half of this is related to dairy products. There was little diversification of products in the sector; in 1975, principal production was concentrated in powdered milk (30 per cent), cheese (13 per cent), sugar (12 per cent), feed (11 per cent), and flour (10 per cent.). This sector dramatically shows the intra-regional imbalances: 75 per cent of the production and value added was located in Sao Miguel, the island with half the archipelago population, with 94 per cent of those firms with over 50 employees and with 63 per cent of those firms with over 20 employees. Six other islands — Corvo, Flores, Graciosa, Pico, Santa Maria, and Sao Jorge — together contributed four per cent of the sector production.

A major constraint to increased production is the lack of raw materials in the islands and thus the need to transfer them from the mainland. Dependence on air and maritime transport (the latter of which is a national, Lisbon-based monopoly) is currently unavoidable; however, such transport, in itself, represents a bottleneck (with its irregular scheduling and high costs of freight). Other limitations include an insufficient and costly energy supply and a lack of professional managerial and technical staff, as well as skilled laborers. This latter constraint renders an industry replete with managerial incapacity and timid entrepreneurial initiative. The high levels of emigration have seriously impaired work standards in the islands; qualified manpower is susceptible to emigration pressures, thereby lowering the quality and rate of construction and industrial development. A final restraint on development in the sector is the lack of affirmative Regional Government policies to encourage both local and foreign private investment; a regional code for foreign investor has not been established and labor legislation linking employment to efficiency and productivity has not been enacted.

Energy. The region, in general, and certain islands, in particular, are hampered by the restricted production and distribution of electricity. Energy sources are basically thermal (78 per cent in 1975), with hydroelectric production lagging due to insufficiency of water volume in Azorean streams and impossibility of water storage (due to the permeable nature of volcanic soils). Although production has increased 160 per cent from 48 megawatts in 1970 to 125 in 1978, consumption has not been totally satisfied, resulting in frequent power cuts. In 1975, per capita energy consumption was 312 kilowatt hours, a figure corresponding to 25 per cent of that on the mainland and 10 per cent of European

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levels. Electricity reaches some 85 per cent of the region's population, with electrification, in 1975, reaching only 25 per cent on Pico and 48 per cent on Sao Jorge. Due to the nascent status of Azorean industry, industrial consumption is equivalent to one-third of total electric power utilized. In order to provide the higher needed levels of energy production, the Regional Government has committed itself to develop its geothermal resources, found essentially on São Miguel island, and explore other non-traditional energy sources on other islands.

Service Sector. The tertiary (services) sector accounts for 35 per cent of both the working population and the gross regional product; the major elements are trade/transportation, banking, insurance, and public administration. The sector size (which tends to be larger than in similar underdeveloped societies) is attributable to the existence of two intercontinental airports in the region (on Terceira and Santa Maria), the presence of an American/Portuguese Air Force base (on Terceira), and the exigencies of geography, with the regional government maintaining offices on three different islands and delegations on the other six. (A discussion of the Regional Government and its constraints follows.)

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Governmental Structure.

The Portuguese Constitution recognizes the special status of the Azores and Madeira archipelagos and thus provides each with autonomy. This status stems from a past experience pattern and set of problems unique to the isolated existence of the islands, as distinct from those of the continent. A Statute of Autonomy broadly outlined the areas of regional and national competence and established a government for the Azores. However, while governmental structures have been delineated, the extent of autonomy and the powers and authority implicit therein, have yet to be defined some three years after the Constitution was ratified. Indeed, autonomy has been the subject of much negotiation between central and regional government authorities.

Currently, the regions are in a period of transition, during which various responsibilities for the maintenance of public services are being transferred to the regions. The Azores is changing from an area in which three separate districts administered Portuguese law to a unified region responsible for its self-governance. Structures are being remolded and personnel retrained and recruited to effect this change from administration to government. During this interim, autonomy is poorly defined and is, at times, a function of faits accomplis, rather than negotiated settlements. Conflicts abound, with each government blaming the other for lapses in the provision of services to the Azorean public.

The structure of the Regional Government is parliamentary in nature, with an Assembly of 43 elected deputies, and a cabinet-like Executive, consisting of a President, a Regional Secretary Assistant to the President (de facto Vice President), a Regional Sub-Secretary for Planning, and nine Regional Secretaries. These regional secretariats are located on three different islands:

- São Miguel (Ponta Delgada): Commerce and Industry, Finance, Labor, and Social Infrastructures;
- Terceira (Angra do Heroísmo): Education, Public Administration, and Social Affairs; and

- Faial (Horta); Agriculture and Fisheries, and Transportation and Tourism.

The office of the President (together with the Vice President and Sub-Secretary) is located in Ponta Delgada; however, the Regional Department of Studies and Planning (DREPA), the major component of the office of the President, is located in Angra do Heroísmo. The Regional Assembly meets in Horta; cabinet meetings of the Regional Secretaries rotate amongst the three capitals of the Azores.

The most salient characteristic of the governmental structure is that of geographic division. Three capitals (corresponding to the three old district headquarters) serve a population of 260,000 persons scattered amongst nine islands. Although, on its face, it is inefficient, the political realities of inter-island rivalries and chauvinism dictate a geographic dispersion of government powers.

This new experience in self-government will require the hiring and training of technical and administrative personnel. One of the major needs of the Regional Government is the improvement of the technical expertise of regional and local officials in financial analysis, management, accounting, planning, and related matters. In the absence of incentives, the physical and psychological status of isolation in the islands and the lack of social infrastructure mitigate against attracting and maintain highly-qualified technicians.

Social Infrastructure.

The Azores is a product of centuries of neglect; historically, it has been on the periphery of Portuguese attention. During the period of colonial expansion, the islands were a way-station and supply base: the vocation of the islands was to supply and serve, while development -- either economic or social -- was minimal. During the twentieth century, at a time in which increased investments were needed to improve the quality of life, the Azores -- as other basically rural areas -- were ignored by an authoritarian regime. While the continent progressed,

led by the industrial and social investments in urban areas, the gap between the continent and the Azores widened. The high rate of emigration also has drained the regions of many of its most productive citizens.

Education. As of 1970, only 71 percent of those between 6 and 14 were enrolled in obligatory education; about 35 percent of the Azoreans were illiterate. Given the lack of adequate facilities, the situation has not improved to any appreciable extent. Due to a declining school population (2.3 percent from 1970 to 1974 and 8.8 percent from 1974 to 1977), teacher-student and student classroom ratios have improved. However, primary education is still available in only half of the 684 extent population centers. Of the 301 primary schools:

- 85 need major repairs,
- 147 have no running water,
- 151 have no electricity, and
- 109 have no kitchen facilities.

As a result, about 30 percent of the population is not serviced by basic education.

Preparatory education (for those from 10-12) has lost about 15 percent of its students since 1974, while only sustaining a 4 percent decrease in teaching staff. Although preparatory education is compulsory, no building has yet been constructed for preparatory education; currently, classes are given in high school buildings, pre-fabricated structures, or adapted houses in only eleven of the nineteen concelhos. Given the predominance of courses without teachers and of teachers with only minimum qualifications, the newly-created University Institute of the Azores will expand its teacher training program.

Facilities providing high school education are located only in urban areas. As six islands are without public school at this

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level and transportation to urban centers of the other islands is difficult, we find that less than one quarter of those eligible for high school are attending school. In 1977, 6,800 students were enrolled in secondary education -- an increase of 6.5 percent from 1976. In addition to adequate number of facilities, the quality of teaching staff represents a major obstacle to the sector; some 40 percent of the staff have minimal qualifications for teaching.

The University Institute of the Azores was established some two years ago to provide the region with a local institution which could educate technician, teaching, and managerial staffs, assist in planning the economic development of the region, provide agricultural/fisheries research, and train agricultural/fisheries extension agents. The university, which is located in the three cities of the Azores (Ponta Delgada, Angra and Horta), is currently in a formative stage of its growth, undertaking the construction of its physical plant and the specialized (Ph.D.) training of its professional staff.

Health. In 1975, there were only 100 doctors (including interns, doctors fulfilling their military obligation, and National Health Services physicians), yielding one doctor for each 2,600 Azoreans (considerably greater than the one to 800 ratio on the continent). The scarcity of doctors in the less populated islands (Santa Maria, São Jorge, Corvo, and Graciosa), results in higher ratios (one doctor to each 3,500 to 4,900 in population). The age of many doctors, the lack of general practitioners in some areas and various specialists in all areas of the archipelago, and the concentration of health structures in urban centers, all combine to limit the availability of quality health services to each Azorean.

As regards paramedic staff, there is one nurse for every 1,100 Azoreans (as compared with 550 on the mainland). Of the 298 health professionals, 52 percent are nurses with minimum qualifications while another 7 percent are mid-wives. On four islands (Santa Maria, Corvo, Graciosa, and Faial), there are no mid-wives, while on Terceira, there is one for 21,000 and on São Jorge, one for every 13,000 inhabitants. A new

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nursing school at Angra do Heroísmo, together with the replacement of the current Ponta Delgada school, will ultimately have a capacity of 180 nurses and will help improve the paramedical situation.

In 1976, the region had 29 health centers or hospitals with in-patient capacity and 158 for out-patient services only, (In 1975, there were 6.8 beds for every 1,000 Azoreans, well above the 5.4 beds per thousand on the mainland). According to the Regional Government, the major constraints in the health sector are human and not structural.

One can conclude that the major deficiencies in the health field are human in nature. There is urgent need to train and specialize personnel and to offer conditions which would permit their stay in the region. While needs of a material character (hospital units and some equipment in already-existing facilities) are less pressing, health centers merit attention. But the salient problem is to provide the current health infrastructure with human means necessary for its full utilization. 1/

Housing. While population decreased some 10.5 percent from 1950 to 1970, housing units increased some 3.9 percent to 64,140; this is approximately 2,000 units less than what was calculated as being necessary. Of the 64,000 housing units, some 11,500 were in advanced disrepair and lacked essential sanitary conditions. With emigration since 1970, it is estimated that only 62,000 families are currently resident in the islands. With a decreasing number of families, but increasing numbers of condemnable housing units, the government believes that 8,900 more units are necessary to maintain all Azorean families in at least minimum conditions.

Public Utilities Services. Much of the housing that does exist is not provided with adequate public services. In 1970, of all occupied houses in the Azores, 36 percent did not have running water, 47 percent were not electrified, 24 percent did

1/ Açores: Alguns Aspectos Sócio-Económicos, Departamento Regional de Estudos e Planeamento, December, 1976, p. 138-B.

not have toilet facilities. Only 9 percent were connected to a public sewerage system and less than 22 percent had showers or baths. A public garbage collection system served only 23 percent of the population.

Product Disequilibria.

In view of the large number of farmers at the subsistence level, considerable care must be taken in drawing conclusions from the statistics on regional gross domestic product. However, comparisons between the region and the continental average and amongst the islands in the archipelago can be used for trends and general magnitude comparative purposes.

In 1974, mainland Portugal's per capita gross domestic product (in 1974 prices) was about \$1,260; that in the Azores was only 45.2 percent of that level (\$570). Within the region itself, there are great per capita disequalities amongst the islands, ranging from a high of \$745 (on Faial) to a low of \$361 (on Santa Maria). The following table shows the percentage of gross domestic product and percentage variance from the regional per capital mean, by island.

<u>Island</u>	<u>Percentage of Region G.D.P.</u>	<u>Percentage Variance From Per Capita G.D.P.</u>
Corvo	0.2	- 21.8
Faial	7.7	+ 30.8
Flores	2.4	+ 20.5
Graciosa	2.2	- 14.7
Pico	6.0	- 10.3
Santa Maria	2.5	- 36.5
São Jorge	3.6	- 27.6
São Miguel	53.9	+ 5.1
Terceira	21.5	- 5.8

Azores Development Strategy.

Introduction. Over the next four years, the United States has committed itself to provide \$80 million in economic assistance to the Azores. It is not our intention to direct (or "projectize") these funds; the money made available is related to our use of an air force base in the Azores. We do, however, understand that the Regional Government intends to use these grant funds to support its development plan. As a result, in order to give some idea of the possible uses of the base proceeds, a capsulization of the Azores Development Plan, adopted in April of 1977, is given below. The ambitious plan, projecting investment flows to January 1, 1981, focusses on seven general socio-economic goals:

- the satisfaction of basic necessities and progressive improvement of the quality of life by increasing housing availability, reducing morbidity to tolerable levels, reducing illiteracy and maximizing access to education;
- the correction of intra-regional disequilibria by creating adequate transport systems, guaranteeing free movement of goods and persons, and revitalizing economically viable islands and areas;
- the reduction of under- and unemployment by professional retraining, promoting artisanal activities (to support female employment), and assuring manpower mobility;
- the increase and diversification of productive enterprises by providing technical assistance and credit to agriculture, exploiting marine resources for regional consumption and processing, creating industry which will transform regional natural resources, stabilizing prices of certain products on the local market, and ensuring quality production;
- a balanced distribution of income by defending the worker's purchasing power, restraining price increases, and encouraging savings;

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- the preservation of the environment by prohibiting the import of diseased vegetable or animal products, controlling pollution, and preserving natural resources; and
- the preparation of the Azorean economy for entry into the Common Market by defending regional interests in accession negotiations, progressively adjusting to European norms of productivity, quality, and competition, diversifying markets, and creating incentives for exportation.

The Regional Government emphasizes in its development plan that the private sector is the preferred catalyst of change. However, given the small dimension of the private sector and the desirability for Azoreans to adjust their own economy (rather than to allow foreign capital inflows to determine priorities), it is incumbent upon the public sector to provide the bulk of initial investment. Such public sector financing is being concentrated in eight areas; the success of policies in each will permit significant advance in the achievement of the Regional Government's goals. These eight concrete components include:

- development of agriculture, horticulture, forestry, livestock production, and related activities;
- development of fisheries and related activities;
- development of transforming industries;
- diversification of markets;
- adequate production and distribution of energy;
- extension of transportation;
- incentivization of construction (especially for infrastructure, housing, and public facilities); and
- development of tourism.

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Agriculture. In the key agricultural sector, the plan seeks to correct market distortions, promote increased production and productivity, and exploit unrealized potentialities. The development of the sector would improve basic food supplies in the region, increase personal and regional incomes, significantly reduce underemployment, substitute imported food stuffs, and produce excesses to maintain stable internal market prices and to supply an export trade.

To increase quality, quantity, and diversity of production, the Regional Government is providing technical assistance (through rural extension centers) to farmers, increasing adaptable technology through research (by the University Institute of the Azores), ensuring agricultural credit readily accessible to small farmers, and training the professional staff of the Regional Secretariat of Agriculture and Fisheries. It is also encouraging agrarian reform and cooperatives, so as to consolidate landholdings and introduce mechanization, thereby transforming farms into viable economic units. The creation of a cold storage network will stabilize prices and guarantee year-round internal market supply. Finally, the Government is reinforcing its highly successful livestock production and improvement program.

Fisheries. This sector is generally acknowledged as the most minimally worked. With the new 200-mile economic zone, practical means must be undertaken to exploit the immense wealth of some 385,000 square miles of sea. Fishing provides the greatest prospects for new employment creation (in both catching and processing), increased regional production, adequate supply of internal markets, and provision of exportable products.

In this sector, steeped in traditional and outmoded technology, development starts with a program of professional training for an introduction of modern techniques to fishermen. The progressive renovation of the fishing fleet will be undertaken, in part, via the establishment of cooperatives, including provision of adequate credit for fixed capital formation. To support the fishermen in their work, ports will be constructed and equipped and services created to assist the fishing fleet. In order to supply the market, maintain stable prices to consumers and

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fishermen, and provide a ready supply for the processing industry, the Regional Government is constructing an inter-island cold storage system. As exploitation of marine resources by the Azoreans themselves in the short-and medium-term will be limited, the region will negotiate agreements with foreign nations which will safeguard Azorean interests and benefits (especially in transference of fishing and processing technology).

Manufacturing. The industrial sector, currently of small consequence, must be transformed in order to ensure a dynamic economy. Instead of exporting raw materials (especially live cattle and fish), the Regional Government has decided to process those materials, adding as much value as possible within the region. The geographic position of the Azores (between the world's largest markets), the 200-mile economic zone, and integration into the Common Market are all incentives to industrial development. In addition to increasing production, new industry will be important in the creation of non-seasonal, full-time employment.

While manufacturing is reserved to the private sector, the creation of pre-requisites to such development rests with the Regional Government. Without certain concrete actions and policy determination, foreign and internal investment flows will not increase. As a result, the government will construct cold-storage system industrial slaughter-houses. Production of energy will be increased to ensure an uninterrupted supply to manufacturers. Ports will be constructed to provide the basic infrastructural needs for industry. In order to attract industry, a system of industrial incentives will be created, including the definition of a foreign investment code.

Market Diversification. Azorean commerce is characterized by imports emanating mostly from the mainland and inadequate marketing of exports mostly to the mainland. This results in the vulnerability of the Azorean economy to decisions made outside the archipelago. The Regional Government plans to correct this dependency situation by creating a foreign commerce office which will search out and reinforce alternative

import markets. In addition, initial efforts will be made to expand exports to the Azorean communities in the United States and Canada. For this creation and maintenance of foreign markets, the Azoreans believe a regionally-controlled foreign exchange account to be an absolute necessity.

Energy. No development in the Western world can be significant and continued without the regular availability of electricity to provide the basic consumption of people and industry. No major developments in the secondary sector can occur without planning for projected increased energy uses for industry. The satisfaction of energy demands requires that the systems of production, transmission, and distribution be reinforced. Given the high costs of petroleum and the problems of its supply during some months of the year, geothermal resources are being surveyed and transformed into energy. Other non-traditional sources of energy (water temperature, tidal action, sun, wind, etc.) will be studied and utilized, if appropriate.

Transportation. In the context of a nine-island archipelago, the transport sector is a prime constraint on economic improvement, integration, and balanced growth. With no ports of any consequence on five islands and no airports on four, this sector requires heavy investment to ensure adequate means of conveyance to guarantee free movement of persons and goods within and to the Azores. This would improve and equalize the quality of life, aid population redistribution amongst the islands, and regularize scheduling for internal markets supply and excess goods exports. The Regional Government is determined to maintain regional control over the transport sector, so as to be relatively independent of governments or pressure groups (unions) outside the archipelago.

As a result, the Regional Government has undertaken in-depth studies into the air and maritime transport sub-sectors. Based on these reports, it will construct and equip ports and airports which would be used by commercial transport enterprises. In addition, financial and technical assistance will be provided to regional air and sea transportation companies to ensure services to the public. In the longer term, financial support and vehicles will be provided to assure the functioning of land transport (buses and freight trucks).

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Construction. To progress from the current low level of economic and social development to one which provides for the basic needs of Azoreans, a large-scale construction effort must be mounted. Such construction must be tailored to balanced growth and rational utilization of urban and rural lands. The construction industry is seen as a creator of stable employment and a provider of living conditions (through wages and physical structures) which would dissuade emigration.

In this sector, public and private interests must collaborate closely. The Regional Government will plan, initiate, and supervise projects (especially in housing and public utilities) and will create heavy machinery pools on each island. While financing for housing will be made available through public or private investment, construction activities will remain with the private sector. Programs will be undertaken to guarantee the availability of skilled management in order to increase productivity.

Tourism. The region is interested in promoting a quality tourism, to increase regional product, create employment, and reinforce the social ambience. This implies the building of hotels (three to five stars) and subsidiary economic activities (restaurants, recreation, etc.)

In this light, the Regional Government has developed a tourism plan for the archipelago, orienting the flow of private and public investment. It is seeking to mobilize private initiative and investment in tourism, while limiting public financing to guarantees, loans, and partnership arrangements. Given the low levels of management expertise and service, public funds will be used to educate and train workers, technicians, and managers in the sector.

Budget Allocations. In its Plan, the Regional Government has disaggregated expenditures along functional sector lines: social (education, culture, health, social security and housing infrastructure), productive (agriculture, fishing, industry, energy, and tourism), and support (transports, marketing, circuits, research, and public administration). From 1978 to 1980, the Regional Government intends to expend

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almost 56 percent of its outlay for social sector to satisfy minimum needs in housing, infrastructure, education, and health service. In the productive sector of the economy, major public investments are slated for agriculture, energy and tourism. In the support component of the plan, transportation and communication absorbs 85 percent of proposed expenditures. Budget details are attached as Annex B to this chapter.

The following, in descending order of priority, represents the major line-items and thus, project priorities of the investments plan for 1978-80:

<u>Percentage of Plan Investment</u>	<u>Line-Item</u>
15.4	Ports (85 percent of which is for design, construction, and equipping new ports on five islands.
10.8	Basic Sanitation (Water, Sewerage, and Garbage Disposal Systems)
10.2	Health (Construction, Remodelling, Maintenance, terrain acquisition, Staffing, and related work for health centers.
10.0	National Highways and Rural Roads
6.9	Education (Construction, Remodelling, terrain acquisition and initial staffing of schools, 60 percent of which is on the primary level)
4.9	Housing and Urban Development
3.6	Energy: Geothermal Pilot Project
3.2	Urban and Rural Public Facilities, and
3.1	Livestock Development Program

ANNEX A

PORTUGUESE-UNITED STATES ECONOMIC COOPERATION PROGRAM

PORTUGUESE-UNITED STATES ECONOMIC COOPERATION PROGRAM

(excluding Refugee Assistance)

AZORES AUTONOMOUS REGION

<u>Project</u>	<u>Total Loan/Grant (US\$000)</u>	<u>Total Amount of Funds to Expend in the Azores (US\$000)</u>
1. Consulting Services Azores Agriculture Sector Study	1,000	360 (360)
2. Low-Income Housing I	33,250	-0-
3. School Construction I Lajes (Pico) Preparatory School São Roque (Pico) Preparatory School	11,000	243 (103) (140)
4. Basic Sanitation I Angra do Heroísmo (Terceira) Water System	8,000	1,245 (1,245)
5. Low-Income Housing II Ponta Delgada (São Miguel) Vila Franca do Campo (São Miguel)	30,000	1,030 (863) (167)
6. School Construction II Santa Cruz (Flores) Preparatory School Calheta (São Jorge) Preparatory School Velas (São Jorge) Preparatory School Nordeste (São Miguel) Preparatory School Ribeira Grande (São Miguel)	15,000	2,894 (166) (221) (221) (1,125) (1,161)
7. Basic Sanitation II Horta (Faial) Water System Nordeste (São Miguel) Water System Povoação (São Miguel) Water System (1st. phase) Povoação (São Miguel) Water System (2nd phase)	12,000	858 (48) (142) (442) (226)
8. Health Sector Support Ponta Delgada (São Miguel) Nursing School	17,000	1,561 (1,561)

ANNEX B

REGIONAL GOVERNMENT OF THE AZORES

INVESTMENT BY SECTOR, 1978-80

Regional Government of the AzoresInvestment By Sector, 1978-80

(in million escudos)

<u>Sector/Sub-Sector</u>	<u>Planned Amount</u>	<u>% of Total Plan</u>
<u>Social Sectors</u>	<u>8,031</u>	<u>55.8</u>
I. Education	<u>1,505</u>	<u>10.5</u>
A. Construction, remodeling and staffing of schools :	991	6.9
- primary level	599	4.1
- preparatory level	179	1.3
- secondary level	64	0.4
- university level	60	0.4
- teacher education	42	0.3
- artistic education	27	0.2
- televised instruction	20	0.2
B. Maintenance	225	1.6
C. Social Action	190	1.3
D. Sports	99	0.7
II. Culture	<u>207</u>	<u>1.4</u>
A. Subsidies to libraries, museums, schools, etc.	57	0.4
B. Restoration/Purchase of Buildings	90	0.6
C. Subsidies to Mass Media	60	0.4
III. Health (not disaggregated)	<u>1,467</u>	<u>10.2</u>
IV. Social Security	<u>255</u>	<u>1.7</u>
A. Health Insurance (Construction)	90	0.6
B. Infant and Elderly Welfare	150	1.0
C. Support to Emigrants	15	0.1
V. Housing and Infrastructure	<u>4,597</u>	<u>32.0</u>
A. Urban and Rural Public Facilities	462	3.2
B. Housing/Urban Development	701	4.9

C. Water/Sewerage Systems	1,558	10.8
D. National and rural roads	1,438	10.0
E. Environmental control/disaster relief	287	2.0
F. Maintenance (of miscellaneous)	151	1.1
<u>Productive Sectors</u>	<u>2,555</u>	<u>17.8</u>
I. Agriculture, Forestry, and Livestock	<u>902</u>	<u>6.3</u>
A. Crop Development Program	300	2.1
B. Livestock Development Program	450	3.1
C. Mapping of soils	18	0.1
D. Land Purchase/Consolidations	24	0.2
E. Rural Extension, Training, and Television Programs	60	0.4
F. Pest Control	50	0.4
II. Fishing	<u>250</u>	<u>1.7</u>
A. Study/Construction of fishing ports	100	0.7
B. Support to Fisheries	150	1.0
III. Industry	<u>174</u>	<u>1.2</u>
A. Plans/Construction of Industrial Parks	55	0.4
B. Industrial Studies	9	0.1
C. Manpower Mobility	75	0.5
D. Training	35	0.2
IV. Energy	<u>827</u>	<u>5.8</u>
A. Current Thermal and Hydro Resource	309	2.1
- Production Centers	134	0.9
- Transmission/Distribution	158	1.1
- Miscellaneous	17	0.1
B. Geothermal potential: Pilot Program	518	3.6
V. Tourism	<u>402</u>	<u>2.8</u>
A. Construction of Hotels and complementary facilities	366	2.5
B. Support to Tourism Sector	28	0.2
C. Tourist study/promotion	8	0.1

<u>Support Sectors</u>	<u>3,794</u>	<u>26.4</u>
I. Transportation	3,243	22.6
A. Ports	2,213	15.4
(1.) Studies/Construction of Five New Ports	1,878	13.1
(2.) Equipment for Existing Ports	125	0.9
(3.) Renovation of three Major Ports	210	1.5
B. Airports (construction of Four Airports)	370	2.6
C. Marine Transport (Study/Equipment)	205	1.4
D. Land Transport (Subsidies to Bus Lines and Construction of Marshalling Yards)		
E. Air Transport (Study/Equipment)	415	2.9
II. Marketing and Distribution Systems	<u>410</u>	<u>2.9</u>
A. Cold Storage (Plans/Construction)	350	2.5
B. Industrial Slaughterhouse (Plans/ Construction/Equipment)	60	0.4
III. Research	<u>58</u>	<u>0.3</u>
A. Natural Resource Study	20	0.1
B. Agricultural Laboratory Equipment	38	0.2
IV. Statistics (Equipment)	<u>10</u>	<u>0.1</u>
V. Public Administration Reform	<u>73</u>	<u>0.5</u>
A. Training	6	0.1
B. Data Retrieval	39	0.3
C. Purchase/Renovation of Buildings	28	0.1
 TOTAL PUBLIC INVESTMENT	 14,380	 100.0