

Agency for International Development

Near East Bureau Strategy

1983 - 1988

Revised
December 1983

**Agency for International Development
Near East Bureau Strategy
1983-1988**

TABLE OF CONTENTS

1.0	EXECUTIVE SUMMARY	1
2.0	INTRODUCTION	6
3.0	THE REGION	8
4.0	U.S. FOREIGN POLICY OBJECTIVES	9
5.0	THE MIDDLE EAST DEVELOPMENT SETTING	11
	5.1 Macroeconomic and Growth Trends	11
	5.2 Major Development Problems	14
	5.3 Oil Revenues, Remittances, and Aid	27
	5.4 Summary Conclusions	35
6.0	THE DEVELOPMENT GOAL	35
7.0	BUREAU STRATEGY AND SECTORAL PRIORITIES	36
	7.1 A.I.D.'s Strategy	36
	7.2 Allocations, 1980-82	37
	7.3 Looking Ahead to the End of the 1980s	38
	7.4 Major development problems	41
	7.4.1 Population growth as the engine behind urbanization	41
	7.4.16 The urbanization process	44
	7.4.19 Water scarcity and utilization	46
	7.4.25 Employment generation	47
	7.4.30 Basic education and technical training	48
	7.4.34 Agricultural productivity	49
	7.4.40 Energy	50
8.0	SECTORAL INTERVENTIONS	51
	8.1 Introduction	51
	8.2 Population and Complementary Health Activities	51
	8.3 Urbanization	54
	8.4 Water scarcity and utilization	57
	8.5 Employment generation	59
	8.6 Basic education and technical training	60
	8.7 Agricultural productivity	61
	8.8 Energy	63
	8.9 Implications of a Middle East Peace	64
9.0	RESOURCE ALLOCATION BY COUNTRY AND BUREAU	65
	9.1 Mission proposed resource allocations	65
	9.2 Future impact of Bureau Strategy on Mission resource allocations	69

10.0	IMPLEMENTING THE STRATEGY	72
	10.1 Recapitulation of the Strategy	72
	10.2 Implementation will Evolve	72
	10.3 Sectoral Concentration	72
	10.4 Mission Flexibility within the Concentration effort	73
	10.5 Sectors to be De-emphasized	73
	10.6 A.I.D. Capacity Shifts	74
	10.7 The Administrator's Initiatives	74
	10.8 Parallel Financing with Arab Donor Funds	75
	10.9 Graduation	75
	APPENDICES	76
	A. Management Guide	
	B. Sectoral Survey Priority Tables	
	C. Population Growth-Illustrative Figures	
	D. Urbanization Tables	
	E. Country Data Tables	
	F. Economic Data Tables	
	G. Bibliography	

List of Tables

		Page No.
Table 1	Per Capita Income and U.S. Assistance	10
Table 2	GNP and Per Capita GNP	12
Table 3	PQLI Indicators	13
Table 4	Selected Social Indicators	14
Table 5	Population, Total and Urban	16
Table 6	Urban Population as Percentage of Total Population	17
Table 7	Middle East Agriculture	19
Table 8	Middle East Cereals Production/Mechanization	21
Table 9	Sectoral Composition of GDP	23
Table 10	Composition of Labor Force	24
Table 11	Ratios of Labor Productivity	25
Table 12	Oil Revenue and Absorption	28
Table 13	Worker Remittances	30
Table 14	Arab/OPEC Aid Flows (by source)	31
Table 15	Arab/OPEC Aid Flows (by recipient)	32
Table 16	Official Development Assistance in AID Middle East Countries	33
Table 17	U.S. Aid and Development Effort	34
Table 18	Allocation of Resources by Sectors	38
Table 19	Priority Development Problems	40
Table 20	Priority Development Problems for the 1980's	41
Table 21	Total and Urban Population Growth Projections to 2000	45

Table 22	Percentage Distribution of Project Assistance-Egypt	66
Table 23	Percentage Distribution of Project Assistance-Non Egypt	67
Figure 1	Urbanization -- Mission Allocations	70
Figure 2	Urbanization -- Bureau's Hypothetical Allocation	71

DECEMBER 1983

Near East Bureau
Strategy, 1983-1988

1.0

EXECUTIVE SUMMARY

1.1 Introduction. The Near East Bureau's strategy for the decade of the 1980s delimits the geographic area and articulates the U.S. foreign policy goals which define the purposes and limits of A.I.D. economic assistance programs in the region. The Strategy also describes the development milieu, elucidates the development goals, and sets forth a strategy to assist our bilateral partners to achieve these goals. Finally, it identifies the likely shifts in sectoral priorities between the 1970s and the 1980s.

1.2 This is the first bureau-wide effort in several years to draw out the common development problems of the region. The underlying premise of the exercise is that by broadening the intellectual and experience base, the Bureau will either perceive new development problems or see familiar ones in a different light. The hypothesized outcome is a set of country programs in which there will be a smaller set of key development problems addressed by A.I.D. and a consequent husbanding of scarce technical and financial resources. Furthermore, it is hypothesized that there will be stronger conceptual linkages between A.I.D. country programs and projects across country lines. In this respect the regional strategy is seen as a framework in which country programs will gradually shift emphases and resources, both staff and financial, over the 1983-1988 planning period and within which the Bureau will adjust its technical backstopping capability.

1.3 The Near East Bureau's planning has been extremely broad based: it has heavily engaged the A.I.D. professional staff both in Washington and its overseas posts; and it has relied to a very large extent upon the informed opinion of experts outside of A.I.D.

1.4 The Region. For purposes of the strategy, the geographic area will be characterized as the "Middle East." This includes the Gulf, the peninsula, the Middle East proper (including historic Palestine) and North Africa. We will use the term to describe both the enlarged geographic area as a whole and thereby include countries with which A.I.D. has no bilateral assistance relationship (e.g. Saudi Arabia, Kuwait, Iran, Iraq, Libya, and Algeria), and as an organizing concept to discuss development problems in A.I.D.-assisted countries. Presently, the latter are Oman on the Gulf; Syria, Lebanon, Jordan, Israel, and occupied West Bank and Gaza in the historic Middle East; the Yemen Arab Republic on the Arabian Peninsula; and Egypt, Tunisia and Morocco, across North Africa.

1.5 Foreign Policy Objectives. United States political, strategic and economic objectives establish the framework and rationale for A.I.D. programs in the Middle East. They present both opportunities for A.I.D. to express an American concern for the well being of the people in the region and a set of limits or constraints within which A.I.D. must operate. U.S. objectives combine in the continuing search for a lasting peace among all nations in the area and, until that objective is achieved, to provide the means to enhance the security and stability of our allies who are engaged in, or who may join, the peace process. Credible movement towards the goal of peace also relates importantly to U.S. access to the region and to the assured protection of vital petroleum supplies for the United States' partners in Europe and Asia. Within this foreign policy framework, A.I.D. is directed to work in certain countries and with a given level of resources designed to underwrite and promote U.S. objectives.

1.6 The Development Setting. The discussion in Section 5., the Middle East development setting, strongly suggests that there are certain fundamental development problems which are common throughout the region, particularly among the A.I.D.-assisted countries. However, it is very important to bear in mind that the political and cultural context is surprisingly heterogeneous. The Middle East is not the "Arab World" envisaged in modern rhetoric. The states of the Middle East are riven by internal and external factionalism of many kinds. National identity is stronger in some states than in others. It is important to understand that development problems are always viewed through political and cultural prisms.

1.7 The A.I.D.-assisted countries in the Middle East Region, with the exception of Yemen, are approaching or already within the per capita income range defined as middle income. However, based on other socio-economic indicators of poverty there are still severe development problems as well as distinct heterogeneity among these countries. The differences in the socio-economic indicators presented in Section 5 suggest, in turn, the vast differences among countries with respect to basic physical infrastructure -- roads, communications, energy, water resources, arable land, etc. -- as well as institutional development, the degree to which the socio-economic policy framework is conducive to development, and the commitment of governments to the development enterprise.

1.8 The analysis of the development setting confirmed the commonality of several major development problems which highlight the development challenges for the A.I.D.-assisted Middle East countries: these countries have relatively small (except Egypt), fast growing populations that have roughly doubled in size since 1960 and will double again in 25 years; only about eleven percent of the land area is suitable for agricultural purposes; the proportion of the labor force in agriculture and the agricultural sector share of national income have been declining fairly dramatically; the unabating trend of rural to urban migration, combined with population growth will probably result in a doubling of the urban population by the year 2000 and an increase from 45 percent to almost 60 percent of the share of the population in urban areas during this period; the labor force growth will also be predominately urban with roughly 80% of the projected 14 million increase by the year 2000, concentrated in urban areas; the rapidly changing role of women

in the Region; and water scarcity, the problem with the greatest commonality in the region, will become increasingly important as new demands are imposed on the existing scarcity.

1.9 The goal of development is to improve the quality of life. Very broadly, development is a dynamic process which enhances and broadens the capacity of a country, its leaders and the society to change and to grow to meet the aspirations of people for increasing income and improved well being. Improving the quality of life in the Middle East is a necessary but not sufficient condition for achieving peace. Few modern governments can fail to attend to the aspirations and needs of their poor people without grave risk to internal stability.

1.10 A.I.D.'s strategy for improving the quality of life (the goal), is to achieve real economic growth with greater equity in the distribution of benefits and economic opportunities. However, it must be stressed that A.I.D. is neither in charge of this process nor primarily responsible for the outcome, whether positive or negative. Development plans and implementation strategies are powerfully affected by forces beyond the control of any aid recipient or of A.I.D. as a donor agency, e.g. from the health of the global economy as the broadest influence to the well being of Middle East oil economies on a regional plane. Given the understanding that the pace of development is partly a function of these exogeneous factors, growth with equity can be pursued on three tiers with A.I.D. assistance.

1.11 The country economic environment heavily influences the direction and pace of growth. Here, there are preconditions necessary to permit and facilitate growth by the private sector and the creation of the sound institutions and physical infrastructure which can be developed only by the public sector. This strategy tier -- the economic environment -- presents A.I.D. with many opportunities with respect to engaging recipient governments in economic policy dialogue, proffering technical advice and making sound investments in infrastructure. Donor coordination and improvements in assistance modalities are also included within this tier of the strategy.

1.12 The second tier of strategy requires direct investments in productive activities which will yield new increments of GDP -- economic growth. Investments to improve efficiency, or to conserve resources, particularly in energy and water, will also yield real growth in GDP. A.I.D. can assist recipient governments with productive investments by advancing the role of the private sector in mobilizing investment resources, helping to transfer appropriate technology, and joining with other donors and recipient governments to design programs which will increase productivity.

1.13 The third tier of the strategy is to address social equity and the causes of poverty. It should be noted here that experience from around the world has shown that economic growth has improved the well being of the poor and resulted in improved distribution of income and economic opportunity.

1.14 The Major Findings of the Near East Bureau's Strategic Planning process:

- Regional strategic planning provides an opportunity to take a fresh look at the emerging critical development problems across the region and to identify broad goals for the planning period, 1983-88.
- There are limitations to regional planning. The regional strategy is not a detailed blue print for action, but rather, a conceptual framework that will help shape country development programs, which will continue to be formulated from the bottom-up, in the country specific setting.
- The volatile and often violent nature of the Middle East dictates a Bureau strategy capable of rapid shifts in country emphasis and the quick mobilization of new country programs.
- Peace is a major unknown and contingent responsibility for A.I.D. While peace would not change the major priorities of the regional strategy, capital investments in transportation and communications might be new elements to advance regional economic integration.
- The usual close statistical relationship between per capita income and the Physical Quality of Life Index (PQLI) does not hold in the Middle East. In terms of the PQLI there are roughly three groups of countries: Israel and Lebanon at the top; Syria, Jordan, Tunisia and Egypt in the mid range; and Morocco, Oman and Yemen in the lower range.
- The economic policy framework and policy reform are crosscutting concerns in all sectors and in all countries.
- Privatizing development strategies in nearly all sectors by fostering open competitive markets is a high priority.
- Seven priority development problems have been identified for A.I.D. program concentration: Population and Complementary Health Activities, Urbanization, Water Scarcity and Utilization, Employment Generation, Basic Education and Technical Training, Agricultural Productivity, and Energy.
- Population size will double by the year 2010.
- The urban population will double by the year 2000 and 11 million of the 14 million increase in the labor force will occur in urban areas. The structure of economic activity in the Middle East Region must shift to accommodate the fast-growing urban labor force.

- The cities of the Middle East are not prepared for the urban growth and urban poverty that are occurring. Productive employment, housing and public utilities have not kept pace with the recent population growth.
- Water will continue to be the most critical resource constraint and there are limited opportunities for relief without a wider Middle East peace.
- Industry and services will be the major sources of employment for the exploding urban labor force.
- While the strategy suggests a very significant shift in emphasis towards urbanization on a sectoral basis, A.I.D. programs will continue to promote growth with equity. The planned shift in emphasis is an explicit recognition that the major growth in population, labor force and economic opportunities, as well as poverty, will be in urban areas. For most A.I.D. programs this will mean technical assistance and non-capital intensive approaches, due to resource limitations.
- Of necessity, the Bureau intends to de-emphasize or withdraw from those sectors in which the relative need is less than exists in the priority sectors. "Free-standing," Bureau-financed projects in environment, women in development, nutrition, afforestation, and human rights, will be phased out along with most physical infrastructure including irrigation (unless the size of the program warrants such investments) and integrated rural development activities.
- The Bureau must measure the technical and professional capabilities of its staff against the new development priorities. Changes in program emphases may necessitate changes in staff specialization and training.
- In moving to concentrate the A.I.D. programs in a smaller number of sectoral priorities, the Bureau will emphasize the Administrator's four initiatives: enhancing the macroeconomic policy environment, the transfer of appropriate technology and research capacity, institutional development, and private sector support and encouragement.

2.0

INTRODUCTION

2.1 In October 1982 the Administrator of the Agency for International Development, M. Peter McPherson, directed the four regional bureaus to undertake a strategic planning exercise for the major purpose of identifying the regional development problems for the 1980's. Flowing from the analysis would be an identification of those development problems which would either require more attention by host governments and A.I.D. assistance or relatively less emphasis than currently. The regional bureaus were challenged to call upon both Agency technical knowledge and as wide a span as possible of expert opinion outside of A.I.D. including members of Congress, legislative staff, academia, the business community, private voluntary organizations, foundations, and the media. The regional strategies were seen as the link between an Agency-wide effort to concentrate U.S. economic assistance resources on a core set of priority development problems and the planning and implementation of discrete projects by A.I.D. country Missions.

2.2 The Near East Bureau's planning has been extremely broad based: it has heavily engaged the A.I.D. professional staff both in Washington and its overseas posts; and it has relied to a very large extent upon the informed opinion of experts outside of A.I.D. as well as congressional consultations. The process began in November 1982 at the annual Near East Bureau Mission Directors' conference wherein the topic was discussed extensively. This discussion, particularly relating to the identification of the priority development problems for the 1980s and A.I.D.'s capacity to respond to the emerging priorities, led to the Bureau's preliminary strategy published in December 1982. To extend the Bureau's reach, a contract was executed with Development Associates, Inc. in January 1983 for the purpose of administering a fairly detailed survey instrument designed to elicit informed answers to the following general questions by experts outside of A.I.D.:

- What non-developmental concerns and objectives (e.g. political, economic, U.S. domestic) should A.I.D. take into account in its planning for the 1980's?
- What will be the most important development problems on a region-wide basis in the Middle East in the 1980's?
- What will be the most important development problems for A.I.D.-assisted countries in the Middle East in the 1980's?
- What are the most feasible approaches to the solution of these development problems?
- Of the identified development problems, which ones are particularly suited to intervention by A.I.D. on the basis of either current A.I.D. capacity or by building-up A.I.D. capacity?
- Given the identification of development problems in the 1980's, in what areas or sectors should A.I.D. reduce or eliminate its responsive capability?

2.3 Simultaneously, the Bureau also tasked each of its overseas Missions to address the topic of strategic planning from both regional and country perspectives in the annual up-date of their Country Development Strategy Statements (CDSS). This effort largely failed, however, due to uncertainties about the importance, scope and relevance of the planning exercise. Accordingly, the Bureau followed up with detailed inquiries to its overseas Missions to obtain responses to the questions posed above as well as to collect relevant economic and financial data, forecasts of the allocation of U.S. assistance against host country development plans and to catalog the role and magnitude of assistance from other donors.

2.4 Within A.I.D. the Near East Bureau has consulted with the leadership of the Science and Technology Bureau and has received outstanding help from the Office of Housing and Urban Programs in the Private Enterprise Bureau in developing the urbanization theme which figures so prominently in the strategy.

2.5 Proceeding from the survey of experts conducted by Development Associates Inc. (a total of 62 interviews) a seminar was held on April 25, 1983. Participants were drawn from the experts who had responded to the survey and the senior staff of the Near East Bureau. The Bureau's findings from this multi-faceted planning effort are reflected in this final strategy and, where appropriate, sources are identified.

2.6 This strategy is the first bureau-wide effort in several years to draw out the common development problems of the region. The underlying premise of the exercise is that by broadening the intellectual and experience base, the Bureau will either perceive new development problems or see familiar ones in a different light. The hypothesized outcome is a set of country programs in which there will be a smaller set of key development problems addressed by A.I.D. and a consequent husbanding of scarce technical and financial resources. Furthermore, it is hypothesized that there will be stronger conceptual linkages between A.I.D. country programs and projects across country lines. In this respect the regional strategy is seen as a framework in which country programs will gradually shift emphases and resources, both staff and financial, over the 1983-1988 planning period and within which the Bureau will adjust its technical backstopping capability to support field operations.

2.7 However, regional planning runs the very grave risk of obscuring very important differences among countries. A significant limitation in the regional approach is that the level of discussion is quickly elevated to a point where the very different causes of seemingly similar development problems are concealed. As important, while problems may appear to be similar, it is rare to find two countries attempting to solve them in precisely the same way. Differences rather than similarities among countries lead to the widely acknowledged strength of the A.I.D. program planning process.

2.8 A resident A.I.D. mission undertakes in-depth analyses of the location and causes of poverty among the poor majority, analyzes the formal host country development plan, e.g. the typical "five year plan", devises an A.I.D.

strategy to make best the fit between U.S. assistance and the country's plans and capabilities, and implements specific projects to accomplish same. A.I.D. country programming is "bottom-up"; it is also dynamic and iterative as the A.I.D. mission reacts to changing economic conditions, adjusts implementation to address new or changing circumstances and interacts with host governments and other donors to maximize the impact of external technical and capital flows. Thus, the Near East Bureau believes that a regional strategy will serve the useful purpose of sharpening our understanding of the emerging development problems in the region and help to concentrate U.S. economic and technical resources on those problems provided that our understanding of, and adjustment to, the development milieu proceeds from the bottom-up on the basis of Mission analysis and project design. Given the inherent complexity of the development enterprise, sustaining A.I.D.'s comparative advantage in country programming -- as distinct from regional strategizing -- and reinforcing the flexibility of the A.I.D. mission on-the-ground to adjust to unforeseen circumstances, constitute the pre-eminent concerns of the Near East Bureau.

2.9 The Near East Bureau's strategy for the decade of the 1980s delimits the geographic area, articulates the U.S. foreign policy goals which define the purposes and limits of A.I.D. economic assistance programs in the region, describes the development milieu, elucidates the development goals, sets forth a strategy to assist our bilateral partners to achieve these goals, and identifies the likely shifts in sectoral priorities between the 1970s and the 1980s.

3.0

THE REGION

3.1 The A.I.D. programs within the purview of the Near East Bureau serve a heterogeneous mix of selected countries on the Arabian peninsula, across North Africa, in the Mediterranean and in Southern and Eastern Europe. All of Europe and the Mediterranean are excluded from the Bureau's strategy because the forms of economic assistance are of a kind that either requires limited A.I.D. programmatic contributions (i.e. Portugal, Poland, Spain, Cyprus and Turkey) or represents a unique response to a particular situation, e.g. earthquake recovery in Italy.

3.2 For purposes of the strategy, the geographic area will be characterized as the "Middle East." This stretches the conventional understanding of the term to include the Gulf, the peninsula, the Middle East proper (including historic Palestine) and North Africa. This term will be used to describe both the enlarged geographic area as a whole and thereby include countries with which A.I.D. has no bilateral assistance relationship (e.g. Saudi Arabia, Kuwait, Iran, Iraq, Libya, and Algeria), and as an organizing concept to discuss development problems in A.I.D.-assisted countries. Presently, these latter are Oman on the Gulf; Syria, Lebanon, Jordan, Israel, and occupied West Bank and Gaza in the historic Middle East; the Yemen Arab Republic on the Arabian Peninsula; and Egypt, Tunisia and Morocco, across North Africa.

4.0

U.S. FOREIGN POLICY OBJECTIVES

4.1 United States political, strategic and economic objectives establish the framework and rationale for A.I.D. programs in the Middle East. They present both opportunities for A.I.D. to express an American concern for the well being of the people in the region and a set of limits or constraints within which A.I.D. must operate.

4.2 U.S. political, strategic and economic objectives combine in the continuing search for a lasting peace among all nations in the area and, until that objective is achieved, to provide the means to enhance the security and stability of our allies who are engaged in, or who may join, the peace process. Credible movement towards the goal of peace also relates importantly to U.S. access to the region and to the assured protection of vital petroleum supplies for the United States' partners in Europe and Asia (refer to Appendix E). The United States maintains close relations with those countries that have been engaged directly in the "peace process", e.g. Israel and Egypt. On September 1, 1982 President Reagan offered to the world an American proposal which addressed the need for a Palestinian homeland in association with Jordan and called again upon Israel's neighbors to recognize her existence. This Presidential initiative will bear importantly on the nature and scope of U.S. relations with several Arab countries in the Middle East. Finally, the U.S. has nurtured relations with countries of the region who are moderate voices in Middle East political circles and who perceive that their own interests are advanced by an enhanced U.S. capability to deploy military force in the area, should the need arise. Two such countries are Oman and Morocco.

4.3 The United States government, in both the Executive and Legislative branches, sees American foreign assistance as a major tool for promoting political and economic stability in the Middle East and for supporting U.S. resolve to achieve a permanent peace plan to the world.

4.4 Within this foreign policy framework with a given level of resources, A.I.D. is directed to work in certain countries to underwrite and promote U.S. objectives. Unlike other regions where humanitarian concerns may figure more prominently, the country economic assistance levels in the Middle East are not always strongly associated with economic or development need. There are important needs to be sure, but the primary determinants of U.S. assistance levels are found in U.S. foreign policy objectives, as suggested by Table 1 which ranks the Middle East countries by per capita income and compares these figures with U.S. economic assistance.

Table 1
Per Capita Income and U.S. Assistance

<u>Country</u>	<u>GNP per capita (1981)</u>	<u>U.S. economic commitments per capita* (Fiscal Year 1982)</u>
Oman	\$5,920	\$ 15.80
Israel	4,500 (1980)	200.30
Jordan	1,620	4.80
Syria	1,570	none
Tunisia	1,420	2.60
Lebanon	1,070 (1975)	1.90**
Morocco	870	2.60
Egypt	650	23.80
Yemen	460	3.50

*Economic Support Fund, Development Assistance, PL 480

**Excludes \$50 million authorized by the Congress for relief, rehabilitation and reconstruction in FY 1982

Source: World Bank Atlas and A.I.D. 1984 Congressional Presentation, Annex II.

4.5 Some implications for A.I.D. are reasonably clear. In the volatile and often violent Middle East, events and the U.S. foreign policy response may require rapid A.I.D. shifts in emphasis among countries, and the quick mobilization of new country programs, e.g. the Lebanon reconstruction program mounted in FY 1983. This kind of emergency response may be required at any time. Furthermore, A.I.D. works in an environment in which recipient nations either do not believe or do not understand that maximizing the developmental impact of U.S. economic assistance is also a legislative-mandate. Even within the U.S. government, the need to maintain the immediate status quo particularly in the crisis atmosphere of the Middle East, sometimes assumes a higher order value than the methodical pursuit of development goals which will help recipient nations to secure their own economic futures. Conversely, within A.I.D. it is sometimes forgotten that the principal purpose for economic assistance programs in the Middle East is not just to maximize developmental impact; but rather, to secure U.S. foreign policy objectives.

4.6 The "peace process" in the Middle East is not a clearly delineated continuum marked by the progressive realization of U.S. objectives. Still, with all of the starts and stops, the U.S. perseveres as measured by, among other things, the level and constancy of financial assistance the U.S. provides to the parties who are directly engaged. Clearly, U.S. economic and military assistance to both Israel and Egypt were significant factors underpinning the U.S.-led negotiations which culminated in the Camp David Frameworks for Peace of September 17, 1978 and the Egyptian-Israeli Peace Treaty of March 26, 1979. This framework also provides an agreed process by which the Palestinian problem and the future of the West Bank and Gaza will be resolved. While this part of the process has been stalled by the war in Lebanon and the complicated negotiations related to the withdrawal of all foreign forces, a political future and homeland for the Palestinians remains the major peace-making task in the region. When negotiations are resumed and successfully concluded it can be reasonably expected that U.S. economic assistance will be a part of the final settlement equation. More distantly, at least in terms of immediate A.I.D. concerns, the cessation of hostilities between Iran and Iraq could bear importantly on relationships among the states both in the Gulf and between Syria, which supports Iran, and Jordan, which supports, Iraq. As peace unfolds in the political realm, opportunities may present themselves to underwrite fledgling relationships through development activities which will strengthen the economic bonds among the states in the region. In this regard, the point the Bureau would emphasize is that the "peace process" carries with it a responsibility on A.I.D.'s part to be able to mount significant development programs in very short order. Lebanon is a case in point: until the Israeli invasion of June 1982, Lebanon was the recipient of a very modest assistance program (about \$6 to 7 million per year), administered primarily by private voluntary organizations; today, A.I.D. is directly engaged in a major relief and reconstruction effort to rebuild the war-shattered economy. A.I.D. contingency planning is discussed in Section 8.9 below.

5.0 THE MIDDLE EAST DEVELOPMENT SETTING

5.1 Macroeconomic and Growth Trends

5.1.1 In the A.I.D. assisted countries of the Middle East, gross domestic products grew at annual rates of four to nine percent for the 20 years between 1960 and 1980, and in the decade of the 1970's (except for Israel) spurted ahead at between 5.6 and 10 percent each year. Even given the rapid population growth, real standards of living in the Middle East countries improved dramatically in the 1960's and 1970's. Over this period average real per capita income in the region increased by 140 percent and by 1981 it was estimated at \$1030. This estimate compares with \$1400 for all middle income countries (1980), \$224 for Asia, \$278 for Africa and \$769 for Latin America. (Table 2 contains comparative statistics on GNP and GDP). The average per capita income estimate for the region is somewhat misleading as it combines countries over a wide range of development from per capita income levels of \$5920 for Oman, \$4500 for Israel, to \$460 for Yemen and \$650 for Egypt. The real rates of annual growth of per capita income over the past two decades ranged from a low of 2.5 percent for Morocco to a high of 6.0 percent for Oman, and averaged 4 to 4.5 percent across the region. With the exceptions of

Jordan and Israel the rate of growth in per capita GNP accelerated by about a percentage point in the 1970's over the 1960's. This trend in the 1970's can be attributed to the rapid rise in oil prices in 1973, the direct impact of increasing oil revenues and the indirect impact of labor remittances. Although Yemen stands out as the country at the lowest level of development in the region, Morocco is of particular concern because of the relatively low rate of economic growth in comparison to other countries in the region, throughout this two decade period.

Table 2
GNP and Per Capita GNP

Country	Per Capita GNP 1981 (U.S. \$)	Growth in per capita GNP 1960-1980*	Growth in per Capita GNP 1970-1981*	Growth in GDP** 1960-1970*	Growth in GDP** 1970-1980*
Egypt	\$ 650	3.5%	5.0	4.3	7.4
Israel	4,500	3.8%	2.4	8.1	4.1
Jordan	1,620	5.7%	4.5	N.A.	N.A.
Lebanon	1,070	N.A.	N.A.	4.9	N.A.
Morocco	870	2.5	2.8	4.4	5.6
Oman	5,920	6.0	4.0	N.A.	N.A.
Syria	1,570	3.7	5.0	4.6	10.0
Tunisia	1,420	4.8	5.8	4.7	7.5
Yemen	460	4.5	6.0	N.A.	9.2
Regional Avg	1,032	--	--	--	--
Middle Income Avg	1,400	3.8	--	--	--

* Real Growth Rate

** GDP is different from GNP in that it excludes investment income from abroad accruing to domestic residents or income earned in the domestic market which accrues to foreigners abroad.

Source: IBRD, World Development Report 1982 and IBRD, Atlas 1981

5.1.2 In terms of per capita income the AID assisted countries, with the exception of Yemen, are approaching or already within the range defined as middle income. However, basic indicators of poverty and socio-economic indicators point out both the heterogeneity within the region as well as the severe developmental problems that remain in the A.I.D. assisted countries.

5.1.3 The Physical Quality of Life Index (PQLI), and the underlying indicators, life expectancy, infant mortality and adult literacy, are presented in Table 3 by the descending order of per capita income. There is usually a close statistical relationship between the individual indicators, the PQLI and per capita income. However, in the case of the A.I.D. assisted countries there is an unusual lack of correlation. Oman with the highest per capita income, ranks second from the bottom in terms of PQLI. On the other hand, Lebanon which ranks sixth in terms of per capita income is second in terms of PQLI. In terms of the PQLI indicators there are roughly three groups of countries: Israel and Lebanon at the top; Syria, Jordan, Tunisia and Egypt in a mid range; and Morocco, Oman and Yemen with the lowest quality of life statistics.

Table 3
Physical Quality of Life Indicators (PQLI)
(Countries Listed in Descending Order of Per Capita Income)

<u>Country</u>	<u>PQLI</u>	<u>PQLI Rank</u>	<u>Life Expect (1981)</u>	<u>Infant Death (per 1000) (1980)</u>	<u>Adult Literacy</u>
Oman	33	8	48 years	135 deaths	20%
Israel	92	1	72.6	14	88%
Jordan	63	4	61.7	69	70%
Syria	64	3	65.3	62	58%
Tunisia	59	5	60.6	90	62%
Lebanon	75	2	66.4	44	68%
Morocco	45	7	56.9	107	28%
Egypt	54	6	56.9	107	44%
Yemen	22	9	42.6	170	18%

Source: OECD, "U.S. Foreign Policy and the Third World Agenda 1982", Praeger, 1982.

5.1.4 Table 4 presents comparative statistics on selected social indicators for the A.I.D. assisted countries in the Middle East Region. These statistics tend to support the basic patterns described in the PQLI indicator, and point out the heterogeneity in the region, nevertheless there are deviations from the basic patterns. Yemen, Oman and Morocco are the least developed in terms of an average of these statistics and Israel is the most advanced. In the remaining countries there are a number of interesting contrasts. For example Egypt with relatively low ratios of population to physicians and nurses, has a relatively high infant mortality rate at 102. Egypt with the greatest relative abundance of water in the region has only 30% of its population with access to relatively safe water, second, only in this regard to Yemen with 4% of its population having access to safe water. Jordan is deficient in food production supplying only 86% of its requirements in 1977. These discontinuities reflect relatively rapid but not uniform patterns of growth in the region which has left each of the A.I.D. assisted countries in the region with different relative priorities for the coming decades. Consideration of some of these issues will be expanded in latter sections of this paper.

Table 4
Selected Social Indicators

Country	Crude Death Rate Per 1000	Infant Mortality Per 1000 Live Births	Population per		Access to Safe Water %	Caloric Supply as % of Rqmt (1977)
			Physician	Nurse		
Egypt	12	102	1,050	1,150	30%	118%
Israel	7	15	310	N.A.	97%	123%
Jordan	11	69.5*	1,960	820	61%	86%
Lebanon	9	41	N.A.	N.A.	92%	112%
Morocco	13	106	11,040	1,830	51%	107%
Oman	17	127	N.A.	N.A.	52%	N.A.
Syria	8	61	2,570	3,900	40%	104%
Tunisia	10	98	3,580	1,070	49%	115%
Yemen	21	160	11,670	4,580	4%	82%
Middle Income Country Average	--	80	5,840	2,510	--	--

Source: I.B.R.D., World Development Report, 1982.
* Near East Bureau, Mission Reporting

5.2 Major Development Problems

5.2.1 Demographic Trends. A.I.D.-assisted countries have relatively small (except Egypt), fast-growing populations which are supported on an extremely limited land base. As Table 5 indicates, many of the countries have nearly doubled in population since 1960, although only a small fraction of their land base -- about eleven percent -- is suitable for agricultural purposes. The demographic data suggest that these countries have not established long-term downward trends in fertility. Indeed, the most recent data (post-1980) indicate a substantial increase in population growth rates in Egypt, Lebanon and Tunisia.

5.2.2 A second demographic trend evident in Table 5 is the change in the distribution of the population between rural and urban areas. The urban population growth rate exceeds the total population growth rate in every country in both ten year periods. Differences in rural and urban fertility alone cannot explain the high rates of urban growth. Rural to urban migration is a pervasive phenomenon throughout the region, and the source of much of the past urban growth. A study in Cairo in the 1950s showed that more than one-third of the residents of Cairo were born outside the city. In Baghdad, the proportion was one-half.

5.2.3 Migration is often a multi-step process involving a move from the village to a provincial city and then a move onward to the major metropolitan area, usually the capital. The data in Table 5 can illustrate this pattern.

Between 1960 and 1980 the Egyptian population increased by 13.8 million, the urban population increased by 8 million and Cairo's population increased by 3.2 million. The corresponding growth rates were 2.15%, 3% and 3.2%. The pattern is more pronounced in Morocco where the total population growth rate was 2.7%, urban growth was 4.3% and Casablanca grew at 5.5%. In Egypt a 1979 survey showed that 27% of recent migration was between urban areas.

5.2.4 More than half of the population growth in each country is accounted for by urban areas in all countries except Yemen which has only ten percent of its population in urban areas. Without exception, the proportion of the population that resides in urban areas in these countries has increased between 1960 and 1980 (see Table 6).

Table 5
Population, Total and Urban
1960-1980

	Total Population (millions)		Population Growth Rate %		Urban Population (millions)		Urban Growth Rate %		Urban Growth as % of Total Population Growth	Primate City % of Urban Population	
	1960	1980	1960-1970	1970-1980	1960	1980	1960-1970	1970-1980	1960-1980	1960	1980
Egypt	26.0	39.8	2.2	2.1	9.9	17.9	3.3	2.8	60	38	39
Israel	2.2	3.9	3.4	2.6	1.7	3.5	4.3	3.2	106	46	35
Jordan	1.7	3.2	3.0	3.4	.7	1.8	4.5	4.7	73	31	37
Lebanon	1.9	2.7	2.8	0.7	.8	2.1	6.2	2.8	163	64	79
Morocco	11.7	20.0	2.5	2.9	3.5	8.2	4.2	4.6	51	16	26
Oman	.5	.9	2.3	3.1	(.0)	0.2	6.0	16.5	110	N/A	N/A
Syria	4.6	9.0	3.2	3.6	1.7	4.5	4.8	5.1	64	35	33
Tunisia	4.3	6.4	1.9	2.1	1.5	3.3	3.8	3.9	86	40	30
Yemen	4.2	7.0	2.3	2.9	.1	.7	8.0	8.3	21	--	25
Middle Income Countries		2.5		2.4		4.3		4.0	28		29

Source: PADCO, Near East Countries Current and Projected Urbanization and Associated Indicators, 1983; and NE/DP/PL estimates.

Table 6
Urban Population as a Percentage of Total Population

	<u>1960</u>	<u>1980</u>
Egypt	38	45
Israel	77	89
Jordan	43	56
Lebanon	44	76
Morocco	29	41
Oman	3.5	20
Syria	37	50
Tunisia	36	52
Yemen	3	10

Source: Same as Table 5.

5.2.5 Behind these statistics are cities unprepared for the growth they have already experienced. Productive employment, housing and public utilities have not kept pace with the population growth. The cities are overcrowded and poorly serviced by municipal authorities; their employment structure is skewed toward low-productivity service jobs, often in the public sector. Despite these drawbacks, the increase in urbanization is inevitable. Attempts to hold the populations in rural areas have largely failed around the world except where governments have used coercive measures. Similarly, attempts to relocate the urban population to new desert communities will prove too limited and expensive to have an impact on the urban problem. For the remainder of this century only the cities can absorb the expected population increase and it is from this context that the urbanization priority emerges.

5.2.6 Agricultural Production and Employment. The role of the agriculture sector in the A.I.D. assisted Middle East countries has been undergoing a significant and perhaps accelerating transformation. This transformation is being driven by several major factors including a limited arable land base which constrains the scope for expansion into new lands, (including Egypt which has only 3 to 4% of its land defined as arable), water scarcity throughout the region and rapid economic growth which is derived in large part from the oil price increases of 1973-74. The oil revenue growth in the region has produced major migrant labor opportunities, an opening of borders and flows of assistance from Arab donors and other sources.

5.2.7 The agricultural statistics in Table 7, summarize some of the important factors and trends. Of the total land area for the AID-assisted countries the arable land area averages only 11 percent of the total. The arable land area for each country ranges from a high of 30 percent in Tunisia and Syria to a low of less than one percent in Oman and three percent in Egypt. In addition, due largely to water scarcity, the proportion of arable land that is irrigated is only 18 percent including Egypt. However since Egypt's arable land is virtually 100% irrigated this distorts that average which is 12 percent excluding Egypt. In the ten year period beginning in 1970 there was only about a seven percent total expansion of the irrigated land area.

Table 7
Middle East Agriculture

	Yemen	Egypt	Morocco	Tunisia	Syria	Jordan	Lebanon	Israel	Oman
Land Area (1000ha)	19,500	99,545	44,630	15,536	18,405	9,718	1,023	2,033	21,246
*Arable area (1000ha)	2,790	2,855	7,719	4,700	5,664	1,380	348	413	41
Irrigated area (1000ha)	245	2,855	510	145	539	85	85	203	38
Density (Pop/sq.mi. of Arable Land 1980)	1,046	3,750	261	225	120	562	1,999	1,995	5,805
Labor Force in Agr. %									
1960	86	58	62	56	54	44	38	14	64
1981	75	50	51	40	33	20	9	7	33
Indices of Ag. Production (1969-71 = 100)									
**Total Ag. Production (81)	114	116	103	170	257	102	109	130	95
Per Capita Ag. Production (81)	93	89	75	134	172	70	100	98	--
Agr. Share of GDP%									
1970	--	30	23	24	--	--	12	11	--
1980	29	23	18	17	20	8	--	5	1.7
Agr. Ave. Growth Rate %/Year									
1960-70	--	2.9	4.7	2.0	--	--	6.3	--	--
1970-80	3.7	2.7	0.8	4.9	8.2	4.5	--	--	--
Average Per Capita Agr. Sector Growth (%/year)									
1970-80	N/A	-0.5	2.3	2.3	4.3	3.7	2.9	--	--

* Arable Land and permanent crops

** World Average 1.29

*** World average 1.06

Source: F.A.O. Statistical Yearbook and I.B.R.D. World Development Report, 1982.

5.2.8 There is also a distinct trend for the share of agriculture in GDP to decline as well as the share of the labor force employed in this sector. While statistics are not available for all AID-assisted countries, without exception where comparative statistics are available, the agricultural share of GDP declined between 1970 and 1980. It now ranges from a high of 29 percent in Yemen to only 1.7 percent in Oman with an average of less than 20% for the region. Statistics on the proportion of labor force in agriculture between 1960 and 1981 indicate that without exception the proportion of the labor force in agriculture has declined significantly for each AID assisted country and only in Yemen, Morocco and Egypt is it 50 percent or more. Taking a simple average for the two time periods 1960 and 1981, the share of the labor force employed in agriculture declined from 51 percent in 1960 to 35 percent in 1981.

5.2.9 The indices of agricultural production for the period 1970 to 1981, show total increases for the AID-assisted countries ranging from two percent in Jordan and three percent in Morocco to 157 percent in Syria and 170 percent in Tunisia, which compares to a world average of 29 percent during this period. However due to population growth during this period, per capita agricultural production declined in each AID-assisted country except for Syria, Tunisia and Lebanon. Coupled with the growth in incomes in the region this has led to an increased dependence on imported foods during the past two decades.

5.2.10 The cereals production statistics (Table 8) for the AID assisted countries in the region illuminate some of the trends for the 10 year period 1970-80, and some important differences among the various countries in the region. First, this cautionary note is needed: that diversification in agriculture is also occurring. The land area devoted to cereals production has declined in Yemen, Morocco, Jordan, Lebanon, Israel and Oman. Cereals production area in Syria, Tunisia and to a lesser extent Egypt, expanded however, resulting in a net decline for the region of about one percent. Average cereals production yields have increased for all the AID-assisted countries in the region except for Jordan where the decline was about 25 percent. The greatest yield increases occurred in Syria-130 percent, Lebanon-146 percent, Israel-75 percent and Tunisia-53 percent. In terms of total production both Syria and Tunisia have experienced major production increases of 200 percent and 75 percent respectively since 1970.

Table 8
Middle East Cereals Production/Mechanization

	<u>Area</u> (100 ha)	<u>Yield</u> (kg/ha)	<u>Total</u> <u>Production</u> (100 MT)	<u>Tractors</u> <u>No.</u>
<u>Yemen</u>				
1970	1,418	758	1,075	500
1981	849	951	808	2,000
<u>Egypt</u>				
1970	1,920	3,847	7,385	17,276
1981	1,967	3,963	7,795	25,000
<u>Morocco</u>				
1970	4,629	985	4,558	12,279
1980*	4,412	1,012	4,464	24,500
<u>Tunisia</u>				
1970	1,133	634	718	21,000
1981	1,299	972	1,262	34,000
<u>Syria</u>				
1970	2,090	588	1,229	9,131
1981	2,658	1,356	3,606	27,544
<u>Jordan</u>				
1970	219	696	152	2,759
1981	187	513	96	4,520
<u>Lebanon</u>				
1970	58	870	50	2,517
1981	20	2,146	42	3,000
<u>Israel</u>				
1970	138	1,445	200	15,982
1981	101	2,535	256	27,000
<u>Oman</u>				
1970	3	1,210	4	30
1981	2	1,330	3	93

* 1981 was not a representative year.

Source: F.A.O. Statistical Yearbook.

5.2.11 Mechanization has also been occurring at a fairly rapid rate as indicated by growth in the number of tractors in the region (Table 8). Undoubtedly increasing scarcity of labor in rural areas as a result of urban migration and temporary migration to the Gulf has exacerbated this trend. The increase in the number of tractors for the AID assisted countries ranges from 20 percent in Lebanon, and 200 percent in Syria, to 300 percent in Yemen. While these countries are obviously starting from a relatively low base the trend is nevertheless important and depicts the rapid technological change that is taking place.

5.2.12 Nonagricultural Production and Employment. The mirror image of the downtrend in agriculture as measured by the composition of GDP and the distribution of labor force (See Table 9 and 10) is an increase in these indicators for the urban-based sector aggregate of industry plus services. In the countries of the Region for which comparative data are available for 1960 and 1980, industry plus services as a percent of GDP increases in each case:

Egypt	-	70% to 77%
Israel	-	89% to 95%
Morocco	-	77% to 82%
Tunisia	-	76% to 83%

5.2.13 Furthermore, the share of the labor force in the aggregate industry plus services systematically increases over the period 1960-80, for all countries identified in Table 10.

Egypt	42% to 50%
Israel	86% to 93%
Jordan	56% to 80%
Lebanon	62% to 89%
Morocco	38% to 48%
Syria	46% to 67%
Tunisia	44% to 66%
Yemen	17% to 25%

Table 5
Sectoral Composition of GDP

<u>Country</u>	<u>(\$Mil)</u> 1980	GDP		Agriculture		Industry		Services	
		<u>Growth</u> 1960-70	<u>Rate (%)</u> 1970-80	<u>as a % of GDP</u> 1960	<u>1980</u>	<u>as a % of GDP</u> 1960	<u>1980</u>	<u>as a % of GDP</u> 1960	<u>1980</u>
Egypt	22,970	4.3	7.4	30	23	24	35	46	42
Israel	15,340	8.1	4.1	11	5	32	36	57	59
Jordan	2,190	--	--	--	8	--	32	--	60
Lebanon	--	4.9	--	12	--	20	--	68	--
Morocco	17,940	4.4	5.6	23	18	23	32	50	50
Syria	12,900	4.6	10.6	--	20	--	27	--	53
Tunisia	7,300	4.7	7.5	24	17	18	35	58	48
Yemen	2,610	--	9.2	--	29	--	16	--	55
Oman (81)*	811	--	3.5	--	1.7	--	10	--	25
Middle Income Countries	--	5.9	5.6	24	15	30	40	46	45
Oil Exporters	--	6.2	5.5	28	14	24	43	48	43
Oil Importers	--	5.8	5.6	23	15	32	37	45	48

Source: I.B.R.D. World Development Report, 1982, and Near East Bureau
* Petroleum Sector accounts for 63% of GDP

Table 10
Composition of Labor Force

(Percent)

	Agriculture		Industry		Services	
	<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>	<u>1960</u>	<u>1980</u>
Egypt	58	50	12	30	30	20
Israel	14	7	35	36	51	57
Jordan	44	20	26	20	30	60
Lebanon	38	11	23	27	39	62
Morocco	62	52	14	21	24	27
Syria	54	33	19	31	27	36
Tunisia	56	34	18	33	26	33
Yemen	63	75	7	11	10	14

Source: I.B.R.D. World Development Report, 1982.

5.2.14 Average labor productivity in the industry plus services aggregate has remained above average labor productivity in agriculture over the period, but the gap in average labor productivity for industry plus services compared to agriculture has slightly narrowed in Morocco and significantly narrowed in Tunisia with increasing concentration of economic activity in the urban-based sector aggregate. In Egypt the relative difference in labor productivity between agriculture and industry plus services has remained constant. For Israel average labor productivity has changed slightly in favor of the urban-based sector aggregate, although labor productivity in agriculture and in the urban-based sector aggregate vary by 3% or less in 1960 and 1980 (Table 11).

5.2.15 Economic theory suggests a narrowing of the productivity differential between agriculture and industry plus services as labor moves out of less productive rural agriculture and towards the more productive urban economic base. As more redundant labor leaves the agriculture sector its labor productivity begins to approach that of the urban industrial and service sectors. At very low levels of labor force share in agriculture, such as in Israel, there is an approximate equality of relative labor productivity between the rural and urban sectors. But until that equilibrium is reached (once a relatively small-portion of total labor force is devoted to agriculture) the productivity differentials will be sufficient to attract

labor from the farm to the city. This "pull" factor in determining the flow of rural-urban migration compliments the "push" factors that result from rapid increase in rural population on a small and fairly static arable land base.

Table 11

Ratio of Labor Productivity in the
Industrial and Service Sectors to
Labor Productivity in Agriculture

	Industry		Services		Industry plus Services	
	1960	1980	1960	1980	1960	1980
Egypt	3.8	2.6	2.9	4.6	3.3	3.3
Israel	1.2	1.4	1.4	1.4	1.3	1.4
Morocco	5.1	4.3	5.7	5.4	5.4	4.9
Tunisia	2.3	2.2	5.1	2.6	4.0	2.4

Source: A.I.D. Near East Bureau, based on World Bank data.

5.2.16 Except for Israel (plus Jordan and Tunisia to some extent) exports of manufactured goods as a percent of total exports is less than the share of GDP produced by the industrial sector. Manufactured exports have lagged behind agricultural and/or mineral exports in the Near East, as is typical of LDCs throughout the world.

5.2.17 Water Scarcity and Utilization. In terms of water availability, the countries in the Middle East can be broadly classified into two categories: adequate and scarce water supply. Egypt is the only country in which scarcity of water supply or substantially increasing real costs for incremental water supplies are not currently major factors inhibiting the growth of the potable water sector. Egypt does have significant water logging problems and inefficient irrigation systems. Its potable water sector faces almost every imaginable obstacle to efficient operation and development. Difficult decisions on rates and tariffs, upgrading of management capability, training of personnel and institutional development, are all constraints that must be overcome.

5.2.18 The other countries in the region can be classified into several sub-categories suffering from varying degrees of water scarcity. The urban populations of Tunisia and Morocco are concentrated in northern coastal communities, while the known additional surface water supplies are located about 100km from the users. Transmission pipelines, pumping stations, water treatment plants and storage dams, are required to increase the efficient distribution and allocation of these known water resources. The real costs of these new water supplies will be substantially greater than the cost of current water supplies. Jordan faces a similar problem since the utilization

of its last major source of water, the Yarmouk River, necessitates a transmission pipeline pumping station, a water treatment plant and high operating costs resulting from the requirement to pump water from near sea level to approximately 3,000 feet above sea level. In Yemen, although no comprehensive water survey has been undertaken, it is clear that additions to the current water supply, primarily from groundwater, are unlikely and that reuse of sewage water or water desalination may provide the only real alternative. In Israel, the most advanced in the region in terms of water conservation and sector development, additions to the water supply will require greater use of increased sewage effluent and water desalination. The status of the West Bank's water supply situation would be affected by the final political status of the area; but, whatever that may be, water will be a scarce commodity with future supplies limited and more expensive.

5.2.19 The last two decades have seen increasing attention by most countries to the requirements for accessible and safe water supplies. With that process well underway, many of these countries have begun the planning and implementation of programs in waste water collection, treatment and disposal and in expanding water supply sources. The limited available data by country are presented below.

5.2.20 The initial efforts to upgrade and improve the delivery of potable water have been primarily in urban areas. By 1979, for example, two-thirds of Jordan's urban population obtained potable water through household connections. The rural sector obtained its water from public taps or private wells. In Morocco in 1979, about 45% of the urban population had access to piped water, and 5% of the rural population had house connections, 10% public standpipes and 10% drew water from public wells. In Egypt about 85% of the population in metropolises (Cairo, Alexandria) and 48% in urban areas have access to water via house connections. In rural Egypt only 4% of the population have house water connections. In Yemen about 50% of the population of the three urban centers (Taiz, Sanaa and Hodeida) totalling 400,000 persons have household connections. The information on rural Yemen is too sparse to provide any estimates of population coverage. It can be assumed that all communities have access to a water source but data as to the ease of access, safety and reliability is unknown. In 1981, Tunisia's water supply and distribution system serviced 40% of the population through household connections and 62% of the population with some form of water supply. Most (over 90%) of the connections were in the urban sector.

5.2.21 The percentages of population connected to sewerage systems are far less than for water supply systems. Only in the past decade have they begun to receive attention as continued urbanization and population densities have combined to accentuate health and environmental problems. In Jordan, only Amman, and Salt have sewerage systems in operation with new systems planned or under construction in Aqaba, Zarqa, Irbid, Jerash and several smaller communities. Estimates of population served are not available. In Morocco sewerage systems do exist in all medium-sized and large cities but they require significant expansion to meet the growing urban population and to improve operations. In the Moroccan coastal cities, most of the waste water collection discharges at the shoreline, causing serious bacteriological contamination of the coastal waters. In the rural areas, communal sewerage

systems are practically non-existent. In Egypt about 70% of the urban population has access to public wastewater disposal systems or septic tanks or soakways. The remainder of the urban population relies on dry disposal methods. There are no piped sewerage facilities in rural communities. In Yemen no piped sewerage exists, the majority of urban properties rely on septic tanks, cess pits or latrines. Two urban sewerage projects are, however, nearing completion in Hodeidah and Taiz. Rural sanitation is inadequate due to low priority by the people. It does not figure prominently as a development objective in government programs. In Tunisia, achievements in the sewerage sector have been much more modest than in water supply in terms of population served. Only about 40% of the urban population provided with a house water connection also have sewer connections. Rural sewerage systems are almost non-existent.

5.2.22 Significant progress has been achieved in the past 10 years. The basis for further growth has been established. Numerous studies have been completed, old systems are being rehabilitated, new systems are being constructed and are operating, personnel have been trained and a greater awareness about the problems of the sector has been created. For most countries in the region, much more work remains to be done to meet the minimum requirements in this sector.

5.3 Oil Revenues, Remittances, and Aid

5.3.1 Oil Revenues and the Capital Surplus. The economics of the 'Middle East has become synonymous with oil. Beginning with the oil price rise of 1973, and again with the large 1979 price increase, enormous wealth has flowed into the Arabian peninsula. This shifted world purchasing power from developed and non-oil developing countries to oil surplus countries. In this section the economic consequences of the oil wealth on the oil-surplus countries and their less-endowed neighbors in the Middle East are reviewed. Two resource flows are of particular interest here: the movement of migrant labor from A.I.D.-assisted Middle East countries to oil-surplus countries, and the concomitant flow of workers' remittances; and unilateral transfers (foreign aid) from oil-surplus countries to AID-assisted countries.

5.3.2 Oil-surplus countries recognize that their oil is a non-renewable resource. In general terms, their intention is to use the capital surplus generated by oil exports to raise current living standards and to continue to raise living standards after the oil flow stops. Current living standards have been raised by providing consumer goods at subsidized prices and by increasing social welfare programs. The strategy to enhance the long-term economic status of the citizens is to develop the non-oil economy. Prior to 1973 the non-oil economy consisted of limited agricultural activities and an active service sector, especially trading companies. The transformation envisioned by the economic planners will be led by capital-intensive, petroleum-derivative industries; an industrial strategy suited to their current relative resource availabilities--large amounts of petroleum and a small indigenous labor force.

5.3.3 The oil-surplus countries have been unable to absorb all of their foreign exchange receipts on either the short- or long-term goals, leading to the well known recycling problem. The amount of money that needs to be recycled each year is the difference between oil revenues and the value of imports of the oil surplus countries. Since investments in infrastructure and industry of oil-surplus countries have high import content, the import requirements increase in step with project construction. The time lag between receipt of the revenues and project disbursements has an effect on the use of the foreign exchange. Table 12 shows the uses to which oil revenues have been put since 1973. In 1973 80 % of the oil revenue was absorbed in either domestic consumption or investment. Following the price increase, the absorption ratio fell to 37% and the capital surplus for that year was \$41 billion. In subsequent years consumption and investment increased at a faster rate than oil revenues causing the absorption ratio to rise through 1978. The 1979 price rise generated revenue increases in 1979 and 1980 large enough to lower the absorption ratio.

Table 12
Oil Revenue and Absorption
(\$ billion)

<u>Year</u>	<u>Oil Revenue</u> (1)	<u>Consumption</u> (2)	<u>Investment</u> (3)	<u>Surplus</u> (4)	<u>Percent of Revenue Absorbed Domestically</u> (5)=(2+3)-1
1973	18.7	8.6	6.3	3.8	.80
1974	65.0	12.6	11.6	40.8	.37
1975	61.0	14.2	21.2	25.6	.58
1976	75.8	17.6	27.5	30.7	.59
1977	84.5	21.9	36.2	26.5	.69
1978	84.8	31.0	39.3	14.5	.83
1979	137.9	39.6	46.7	51.6	.62
1980	202.5	44.4	60.4	97.7	.52

Source: Development Prospects of the Capital-Surplus Oil-Exporting Countries, World Bank Staff Working Paper No. 483, 1981.

5.3.5 Many of the oil-surplus countries now find themselves in a budget squeeze. On the one hand, oil revenues are falling as prices and production levels drop, and on the other hand, they are reluctant, for domestic political reasons, to reduce government expenditure levels. Households have come to expect subsidized prices for consumer goods and private sector businessmen

often rely on government as their sole customer. The general trend observed in Gulf Governments' budgets is to maintain social welfare programs, stretch out the work on current investment projects, and allow for fewer new project starts. It is notable that these budget adjustments will reduce the rate of growth of investment spending; not the level of investment spending.

5.3.6 The large accumulated capital surpluses of these countries provides an adjustment fund. The difficulty for their economic planners is in knowing what to adjust to. If oil prices stabilize at their current levels and the demand of the industrial countries increases over the next few years, then reserve drawdowns can accommodate either temporary government budget or balance of payment deficits. A substantial fall in oil prices would likely be followed by project cancellations as reserves will not bear the burden indefinitely.

5.3.7 Remittances and Aid. Economic relations between the oil-surplus countries and the A.I.D.-assisted countries reflect the peculiar resource endowments and the political alignments of the region. Merchandise trade (excluding oil) between these groups is of secondary importance in the trade balances of the A.I.D. assisted countries. What is important is the temporary migration of workers from the A.I.D. assisted countries to the oil-surplus countries. A sizable portion of these workers' earnings are repatriated and add to the foreign exchange of the labor-exporting countries. Unilateral public transfers (foreign aid) from Arab OPEC countries are a second source of foreign exchange for A.I.D.-assisted countries. In this section the magnitude of these flows and their trends are described.

5.3.8 The oil-surplus countries have long-term investment programs that generate demands for labor far in excess of their domestic labor supply. The labor shortage has been eliminated by accepting temporary workers from Arab and Asian countries. The connection between Arab OPEC investment spending and the repatriation of foreign workers' earnings is shown in Table 13. The investment projects undertaken in the latter part of the 1970s were mainly infrastructure construction projects which have a high labor component. It is widely accepted that the expatriate labor demand in oil-surplus countries (especially for unskilled and semi-skilled labor) is a temporary phenomenon associated with the construction phase. As the infrastructure projects are completed, development plans will favor capital-intensive industrial investments that obviate the need for large numbers of unskilled expatriate workers. The effect of stretching out the investment plan over a longer period of time will be to extend the time over which expatriate labor will be required since it is unlikely that local workers will move into the unskilled or semi-skilled occupations. Barring a further oil price decline, workers' remittances will probably fall modestly in the next year or two but continue to provide significant foreign exchange earnings for the remainder of the decade. Remittance income has previously accounted for as much as 60 percent of GNP in Yemen in 1978, and has since fallen to about 30 percent or less today. This oil-based wealth led to a binge in private consumption and hence improved living standards which showed no sign of abating until the global recession of 1981-1982 and the resulting absolute decline in petroleum prices in 1982.

Table 13
Worker Remittances
(\$ Millions)

<u>Country</u>	<u>1977</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> (projected)
Tunisia	NA	303	357	380	350
Morocco	574	1069	1013	1000	902
Egypt	897	2750	1741	2799	2800
Jordan	425	638	1030	1100	1000
Yemen	1312	1341	972	1200	1100
Syria	84	148	NA	NA	NA
Oman	-222	-362	-449	-683	-814

Source: A.I.D., I.M.F., and I.B.R.D. country reports.

5.3.9 Arab Aid Flows. A second means by which the AID-assisted countries obtain some of the oil revenue is through foreign aid provided by the oil-surplus countries. Tables 14 and 15 show the levels of Arab OPEC aid to all recipients and to A.I.D. - assisted countries respectively. The countries comprising the Organization of Arab Petroleum Exporting Countries provided foreign aid equal to 2.8% of their GNP and approximately 20% of all Official Development Assistance in 1980 as recorded by the OECD. Table 16 shows the level of economic assistance to AID-assisted countries and the relative contribution of the United States and arab OPEC members. In five of the ten countries for which data is available arab OPEC members provide, a majority of the ODA, and over 80% for Jordan, Lebanon and Syria. (The figures are understated for some countries since Kuwait does not classify payments under the Baghdad Pact as ODA.)

Table 14
Concessional and Non-Concessional Flows
from Arab OPEC Bilateral and Multilateral Institutions 1977-1981
Net Disbursements
(\$ Million)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Bilateral Aid	4279.5	6895.9	6489.9	8170.6	6822.1
Concessional loans	(1709.9)	(3785.1)	(2970.3)	(4076.8)	(3652.0)
Grants	(2569.6)	(3110.8)	(3519.6)	(4093.8)	(3170.1)
Multilateral Aid					
Concessional loans	1108.4	972.4	265.5	292.9	414.4
Total Concessional	5387.9	7868.3	6755.4	8463.5	7236.5
Multilateral Non-Concession- al loans	20.4	156.7	218.5	127.9	212.5
Total	5408.3	8025.0	6973.9	8591.4	7449.0

Source: O.E.C.D., Economic Assistance by OPEC Countries and Institutions, Statistical Annex, 1982.

Table 15

Geographical Distribution of Arab OPEC Bilateral
and Multilateral Assistance to AID
Assisted Countries
(Net Disbursements)
(\$ millions)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Egypt	1605.4	1319.7	208.5	12.7	-18.5
bilateral concessional	123.0	80.4	49.6	2.9	-22.8
bilateral grant	621.5	528.4	116.8	1.9	4.6
multilateral	860.9	710.9	42.1	7.9	-0.3
Morocco	137.4	42.3	397.2	409.3	278.2
bilateral concessional	40.0	23.8	315.5	345.5	6.3
bilateral grant	87.1	8.8	76.9	60.2	267.3
multilateral	10.3	9.7	4.8	3.6	4.6
Tunisia	21.1	27.5	47.8	56.9	44.3
bilateral concessional	18.4	24.7	40.1	50.0	44.4
bilateral grant	-	-	7.0	-	-
multilateral	2.7	2.8	0.7	6.9	-0.1
Jordan	250.0	245.6	917.0	945.5	698.2
bilateral concessional	30.0	21.0	35.7	50.0	40.8
bilateral grant	213.7	209.5	872.0	881.8	646.7
multilateral	6.3	15.1	9.3	13.7	10.7
Lebanon	56.5	155.3	65.2	198.6	371.6
bilateral concessional	-1.4	-0.9	4.4	3.2	2.6
bilateral grant	57.9	149.1	52.8	190.0	362.8
multilateral	-	7.1	8.0	5.4	6.2
Oman	188.8	43.1	168.3	170.1	230.9
bilateral concessional	12.9	13.6	3.2	7.7	49.5
bilateral grant	169.4	23.5	164.9	157.0	180.8
multilateral	6.5	6.0	0.2	5.4	0.6
Yemen	197.6	196.1	148.5	304.4	246.9
bilateral concessional	19.3	50.8	30.4	79.0	81.5
bilateral grant	167.7	138.4	105.9	213.5	134.3
multilateral	10.6	6.9	12.2	11.9	31.1
TOTAL	2460.5	2029.6	1952.5	2097.5	1851.6
Total as percent of all Arab OPEC Aid Flows	45	26	28	24	25

Source: Same as Table 14

- 33 -
Table 16

Official Development Assistance
to AID Assisted Near East Countries
Net Disbursements
\$ million

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Israel ODA	899.7	1184.7	892.2	772.4
% US	93	97	87	99.9
% Arab OPEC	-	-	-	-
% other	7	3	13	.1
Egypt ODA	2372.6	1450.6	1387.5	1293.3
% US	26	43	60	67
% Arab OPEC	56	14	1	-
% other	18	43	39	33
Morocco ODA	276.5	621.3	667.2	548.2
% US	8	3	3	7
% OPEC	15	64	61	51
% other	77	33	36	42
Tunisia ODA	291.2	214.8	233.2	241.3
% US	3	2	4	2
% Arab OPEC	9	22	24	18
% other	88	76	72	80
Jordan ODA	385.2	1046.4	1074.5	832.7
% US	22	4	5	5
% Arab OPEC	64	88	88	84
% other	14	8	7	11
Lebanon ODA	206.3	100.5	237.2	450.6
% US	6	12	1	1
% Arab OPEC	75	65	84	82
% other	19	23	15	17
Oman ODA				
% US				
% Arab OPEC				
% other				
		not available		
Yemen ODA	269.0	230.1	425.5	362.6
% US	3	4	4	7
% Arab OPEC	73	65	72	68
% other	24	31	24	25
Syria ODA	520.8	1470.3	1354.0	562.8
% US	3	5	1	3
% Arab OPEC	88	92	94	83
% other	9	3	5	14

Source: O.E.C.D., Geographical Distribution of Financial Flows to Developing Countries, 1982

5.3.10 The levels and trends of these aid flows may be more a function of political objectives than of economic development objectives. As a consequence, anticipating the impact of the lower oil revenues on aid flows is problematic. As is the case with investment plans, oil-surplus countries enjoy a degree of latitude regarding the adjustment of aid flows. If they are committed to maintaining current levels, they can draw down reserves. Alternatively, if they consider the aid requests a burden, the reduced revenues provides a diplomatic excuse for lowering aid levels. The last line of Table 15 shows that the A.I.D.-assisted Middle East countries receive a quarter of total Arab OPEC aid. If strategic objectives dictate aid levels it is reasonable to assume that countries located further from the Arabian peninsula are more likely to lose Arab OPEC aid than are the A.I.D.-assisted Middle East countries. This discussion in no way implies that they are immune from disruptions in their Arab OPEC aid flows, but rather that reductions (or increases) will follow more from strategic than budgetary decisions.

5.3.11 Even in those few countries where the U.S. is a major donor, A.I.D. financial resources and technical advice operate at the margin in relation to the total human and financial resources, which are brought into play in the development process. Using gross fixed capital formation as a proxy for the development effort, Table 17 shows the resource contribution of the U.S. in relation to the development effort. Even in the largest programs, the pace of development will be determined by the overall success of the investments: for example, \$624 million well spent in Egypt will have little impact if the \$4.8 billion of investment is squandered.

Table 17
U.S. Aid and the Development Effort
(\$ Million)

<u>Country</u>	<u>Gross Fixed Capital Formation</u>	<u>U.S. Bilateral Aid Net Disbursements</u>	<u>Ratio of U.S. Aid to Capital Formation %</u>
Egypt 1979	4780	624	13
Israel 1980	4889	776	16
Jordan 1980	1134	54	5
Morocco 1980	3752	20	(.)
Syria 1980	3240	13	(.)
Tunisia 1981	2157	5	(.)
Yemen 1980	1070	17	1.5

Source: I.M.F., International Financial Statistics, April 1983, and Table 16.

5.4 Summary Conclusions

5.4.1 The discussion in section 5, the Middle East Development setting, strongly suggests that there are certain fundamental development problems which are common throughout the region, particularly among the A.I.D. - assisted countries. Still, within these broad characterizations of problems there is considerable diversity on a country basis. Furthermore, it is very important to bear in mind that the political and cultural context is surprisingly heterogeneous. The Middle East is not the "Arab World" envisaged in modern rhetoric both because Israel exists in near complete isolation at its epicenter and because the Pan-Arabism of the 1960's is no longer a driving force. The states of the Middle East are riven by internal and external factionalism of many kinds. National identity is stronger in some states, e.g., Egypt, than in others. Among the latter, loyalty to tribe, geographic place, religious affiliation or even to an ideological cast, e.g., secular Ba'athism, may be stronger than to a widely shared sense of national identity. While there are scores of Arab groupings and associations to pursue political and economic interests, the motive force is often conflict rather than broad cooperation. If it is understood that development problems are always viewed through political and cultural prisms which shape and often distort an objective understanding of them, then there will be fewer surprises when solutions which seem readily apparent are not easily forthcoming in the Middle East milieu.

5.4.2 The differences in the statistics presented in this section suggest, in turn, the vast differences among countries with respect to basic physical infrastructure -- roads, communications, energy, water resources, arable land, etc. -- as well as institutional development, the degree to which the socio-economic policy framework is conducive to development, and the commitment of governments to development. The differences in the structure and reach of governments is a story in itself, e.g. ranging from the highly centralized, bloated bureaucracy in Egypt which attempts to direct and control nearly every aspect of economic life to the fledgling institutions in Yemen which have only very limited impact on a wide-open economy.

5.4.3 Regional and global interdependence is another theme which may be drawn from the discussion. National development plans and implementation strategies are powerfully affected by forces beyond the control of any developing country or of A.I.D. as a donor agency, e.g. from the health of the global economy expressed in terms of the growth of trade, world inflation or the cost of capital as the broadest influences to the well being of Middle East oil economies on a regional plane.

6.

THE DEVELOPMENT GOAL

6.1 The goal of development is to improve the quality of life. Improving the quality of life (or satisfying basic human needs, in the parlance of the foreign assistance legislation) in the Middle East is a necessary but not sufficient condition for achieving peace. Few governments can ignore the aspirations and needs of their poor people without grave risk to internal

stability. Very broadly, development is a dynamic process which enhances and broadens the capacity of a country, its leaders and the society to change and to grow to meet the aspirations of people for better economic opportunities and improved well being. Improvements in education, health, food availability and human productivity ameliorate the worst aspects of poverty and also create the future basis for more growth in productivity and income. Governments which have invested heavily in improving the quality of life and which in particular have paid attention to the policies which affect the distribution of income and services have not sacrificed long-run growth. On the contrary, they have created the basis for the acceleration of growth in the future.

6.2 A.I.D.'s development concerns are not narrowly focused on just the usual indicators of economic progress, e.g. growth of GDP, investment, savings, and raw statistical indicators of human well being. Rather, A.I.D. assists in developing economic and social systems which are open, competitive and equitable and which are capable of absorbing and channeling the energy of change.

7.0

BUREAU STRATEGY AND SECTORAL PRIORITIES

7.1 A.I.D.'s strategy for improving the quality of life (the goal), is to achieve real economic growth with greater equity in the distribution of benefits and economic opportunities. However, it must be stressed again that A.I.D. is neither in charge of this process nor primarily responsible for the outcome, whether positive or negative. (Refer to Table 17 above)

7.1.1 In an increasingly interdependent world, development plans and implementation strategies are powerfully affected by forces beyond the control of any aid recipient or of A.I.D. as a donor agency, e.g. from the health of the global economy as the broadest influence to the well being of Middle East oil economies on a regional plane. Given the understanding that the pace of development is partly a function of these exogeneous factors, growth with equity can be pursued on three levels with A.I.D. assistance.

7.1.2 The country economic environment is the first level which heavily influences the direction and pace of growth. Here, there are preconditions necessary to permit and facilitate growth by the private sector and the creation of the sound institutions and physical infrastructure which can be developed only by the public sector. To maximize the productive returns on development investments, and to assure that the returns will be equitably distributed, the set of macro-economic policies which shape the economy must be right -- exchange and interest rates, and freedom for the market to determine prices, for example. The economic environment also includes basic physical infrastructure -- roads, telecommunications, power, water -- without which productive investment cannot be made. Finally, the environment includes the institutional, managerial and technical capacity to facilitate productive investment. None of these aspects of the economic environment creates growth per se, but without a healthy environment, investment capital will be squandered and growth will not be maximized. This strategy level -- the

economic environment -- presents A.I.D. with many opportunities with respect to engaging recipient governments in economic policy dialogue, proffering technical advice and making sound investments in infrastructure. Donor coordination and improvements in assistance modalities are also included within this level of the strategy.

7.1.3 The second level of strategy requires direct investments in productive activities which will yield new increments of GDP -- economic growth. Investments to improve efficiency, or to conserve resources, particularly in energy and water, will also yield real growth in GDP. A.I.D. can assist recipient governments with productive investments by advancing the role of the private sector in mobilizing investment resources, helping to transfer appropriate technology, and joining with other donors and recipient governments to design programs which will increase productivity.

7.1.4 The third level of the strategy is to address social equity. It should be noted here that experience from around the world has shown that economic growth has improved the well being of the poor and resulted in improved distribution of income and economic opportunity. More specifically, reducing the rate of population growth is vital not only to improve the health and well being of mothers and children but because such growth increases the human pressure on scarce agricultural land, increases consumption at the expense of investment, and increases the investment and maintenance costs of public services. Reducing the rate of population growth is strongly associated with the expansion of primary education, especially among females. Primary education also strongly correlates with productivity gains in agriculture and industry and are, therefore, investments in future productivity. Mass education as well as productivity gains in agriculture relate to improving nutritional status and health and, thus, loop back into agriculture and industry through a more productive labor force.

7.1.5 Given the strategy of maximizing growth with equity and the three tiered hierarchy within the strategy -- addressing the economic environment, direct investments in productivity, and improving social equity -- there remain serious questions about the allocation of resources among sectors. While the goal of improving human well being is immutable, over time there will be changes in the emphasis given to the three parts of the strategy and, within this hierarchy, to the allocation of resources among sectors.

7.2 Allocations, 1980-82. In Table 18 below, two sets of figures are presented against a list of broadly defined development problems, or sectors, in the Middle East region. The first column presents the absolute percentage of actual A.I.D. project financing for the three years FY 1980 through FY 1982. Since a large portion of Near East Bureau resources is devoted to Egypt, this column is heavily biased by the Egypt resource distribution. In order to eliminate the bias, a second column was prepared showing the relative percentage of A.I.D. project financing. The calculations in this column weight each country program in the Middle East equally, regardless of the resource allocation to each country program. In column 2 the average is taken over the percentage allocations by development problem for each country program (not dollar allocations). While the first column mirrors the real workload of the Bureau, especially in terms of allocating staff time, the second column presents, perhaps, a more accurate picture of the development problems in the region across country boundaries.

Table 18
A.I.D.-Assisted Countries in the Middle East
Allocation of Resources by Sectors, Absolute and Relative
Fiscal Years 1980-1982
(in percent)

<u>Development Problem</u>	<u>Absolute Allocation of A.I.D. Middle East Project Resources</u>	<u>Relative Allocation of A.I.D. resources for Middle East Count.</u>
Water	13.7%	18.3%
Energy	11.3	4.9
Industry	11.3	2.2
Agriculture	10.7	27.9
Urbanization	10.2	4.3
Local Govt. Capacity	9.4	2.4
Education	6.5	9.9
Population	3.6	6.0
Health	3.5	3.9
Fisheries	1.4	.3
Rural Development	1.3	5.3
Regional Integration	1.1	1.1
All other	16.0	13.5

Source: A.I.D. Near East Bureau

7.3 Looking Ahead to the End of the 1980s, the Near East Bureau is mindful that the ordering of development problems and priorities will change. Anticipating just where and for what reasons these shifts will occur is one of the important purposes of the strategy.

7.3.1 The Bureau's understanding of what the future priorities should be is conditioned by an analysis of the Middle East development setting, but the results of three separate surveys, conducted over the past several months, provided some helpful insights. The first survey took place during the November 1982 annual meeting of Near East Mission Directors and Washington based senior staff, where the Bureau's strategy was discussed at some length.

In the course of these discussions, a quick survey was mounted to identify the priority development problems for the decade of the 1980s. The second purpose of the survey was to assess A.I.D.'s current capacity (meaning present professional skill and access to state-of-the-art knowledge) to address the priority development problems of the 1980s. Column 1 of Table 19 presents the ranking of development problems arising from this initial survey and presented in the Preliminary Strategy of December, 1982.

7.3.2 Following one of the suggestions made in the Administrator's original guidance for the strategy planning exercise, during February and March the Near East Bureau also surveyed a large number of outside experts in an attempt to check Bureau ideas with those of thoughtful observers from without.* The question of priority development problems was approached in three different ways: first, each expert was asked to identify the five most important development problems in the Middle East Region; second, the expert was asked to consider only the top two priority development problems; and third, the expert was asked to focus on the country about which he/she was the most knowledgeable and identify the two highest priority development problems specific to that country. Results of the experts' responses to the first two questions contained in this second survey are presented in Columns 2 and 3 of Table 19. In large measure, they are consistent with the conclusions of the November Mission Directors' meeting.

7.3.3 Since the Bureau felt it was extremely important to incorporate the Missions fully into the strategy planning process, they were asked to respond to a series of nine questions relating to the Preliminary Strategy and to financial flows into the Region. This third survey was needed to supplement the material on Bureau Strategy included in the FY 85 CDSS submissions. A compilation of the results of Mission responses to the five questions specifically related to the December, 1982 Preliminary Strategy are contained in Appendix A. The Missions provided useful information on their perception of region-wide as well as their own country-specific priorities, and assessed A.I.D.'s current capacity to address each of these priority development problems. Column 4 of Table 19 presents the composite result of the Missions' identification of priority development problems, while column 5 indicates the Near East Bureau's assessment of A.I.D. capacity (in terms of relevant staff resources) to address each of these development problems.

The results of the three separate surveys of priority development problems in Table 19 illustrate the high degree of uniformity in the rankings of the development problems.

* See Development Associates, Inc., Strategy Development for the Middle East, prepared for USAID under contract No. AID/SOD/PDC-C-0394, April 1983

Table 19
Near East Bureau Ranking of
Priority Development Problems

Three Alternative Survey Rankings

Priority Development Problems	Dev. Assoc. Survey			Assessment Mission Survey April 1982	Bureau Assessment of A.I.D. Capacity
	Preliminary Strategy Dec. 1982	Top five Priorities	Top two Priorities		
Population	1	3,4	2	1	H
Agricultural Productivity	2	1	1	2	H
Water Scarcity/Utilization	3	2	6,7	3	M-H
Urbanization	4	5	3,4	6	L-M
Education	6	3,4	3,4	4	H
Labor Productivity	5	8	8,9	5	L
Industrial Productivity	11	7	5	9	L
Energy	7	11	--	7	L-M
Health	10	6	8,9	8	H
Resource Mobilization (or Financial Development)	8	9	6,7	11	L
Rural Development	9	10	--	10	M

Note:

H = high, M = moderate and L = low AID capacity.

Source: A.I.D. Near East Bureau

7.3.4 Several words of caution about the table are in order. First, the identification of development problems for the 1980s ought not be confused with the current pattern of resource allocation from Table 18, since the solution to some development problems is much less resource intensive than others, e.g. population as compared to urbanization. Second, the categories of development problems are not mutually exclusive, leading to some overlap in the results. Nevertheless, the table does suggest shifts in priorities and the need for A.I.D. to adjust or augment its capacity to deal with these priorities over time.

7.3.5 In Table 20 the final list of priority development problems are presented in order of Bureau priority ranking. The Bureau ranking is derived from the three surveys and from our statistically-based socioeconomic analysis of the Region. Section 5, The Middle East Development Setting, identified the emerging trend toward urbanization as a major development theme for the 1980s.

Table 20
Priority Development Problems for the 1980's in the Middle East

<u>Identified Development Problem</u>	<u>Final Bureau Priority Ranking</u>
Population	1
Urbanization	2
Water Scarcity/Utilization	3
Employment Generation	4
Basic Education & Technical Training	5
Agricultural Productivity	6
Energy	7

7.3.6 Looking ahead to the year 2000, there are established trends which demand a change in focus for future A.I.D. financed activities. The three survey results summarized in Table 19 indicate a reasonable consensus among Missions and outside experts on the priority ranking of most development problems for the region. However, the inevitable urbanization trend in the Region, strongly suggests that Bureau attention must begin to shift toward the urban sector over the planning period 1983 - 1988; and that the urbanization process provides an organizing theme for a wide variety of future Bureau activities in the Region. More Bureau resources should be devoted to urban employment generation, provision of urban services, promotion of policy changes designed to improve efficiency and equality in the urban economy, strengthening of urban planning institutions, and supply of technical assistance to urban - related planning, management and productive activities.

7.4 Major development problems

7.4.1 Population growth as the engine behind urbanization. Projected rapid growth in total population, given generally limited arable land resources combined with a trend towards greater farm mechanization (especially on larger farms), provides an engine for continued migration of rural dwellers toward the cities (the "push" motive behind rural - urban migration). Over the next 25 years the total population in the nine countries that comprise the A.I.D. - assisted Middle East Region is projected to double regardless of whatever success there might be with family planning programs over the planning period (1983 - 1988).

7.4.2 Just what are the main parameters of the demographic dimension? The population profile for the Middle East Region (See Appendix figure B-1) highlights an overall population with a very young age structure, where 40-45% of the population is less than 15 years old. Although the left-hand pyramid in Figure B-1 is based on Egypt, it is a good approximation for the Near East Region. This young population has strong medium and long term growth implications for total population, number of dependent children and size of the labor force.

7.4.3 For total population this means that even if new marriages were to have only two children, population size would still eventually double. Population growth would slow significantly only after about twenty years, once the first generation of young women born after the abrupt decline in family size enters reproductive ages. (See Appendix figure B-2 which illustrates how population continues to grow even after such an abrupt decline in family size.)

7.4.4 Following incontrovertibly from the fact that 40-45% of the current population is less than 15 years old, the size of the labor force will continue to balloon throughout the remainder of the century, no matter what A.I.D. or any other organization working in the population arena does.

7.4.5 Likewise, with the large number of young women soon to enter the reproductive ages from this same mass of under-15-year-olds, the number of dependent children will continue to grow through the rest of the century. Only a reduction in average family size to two, an utter impossibility over the next 20-30 years, could begin to reduce the numbers of dependent children before 2000. (See Appendix figure B-3 for a projection of growth in the number of dependent children and in the size of the labor force, for three alternative rates of decline in average family size.)

7.4.6 To summarize, with relatively optimistic estimates of reduced family size a significant reduction in the child dependency ratio is attainable by the year 2000. But the increasing demand for new jobs will only begin to significantly abate after the year 2000. (See Appendix figure B-4.)

7.4.7 What does this mean for future economic development in the Region, particularly in terms of the Regional food deficit, generation of savings for public and private investment, investment requirements and demand for government services?

7.4.8 All countries in the Region are currently net food importers. Egypt already imports over 50% of its food and Morocco imports a large portion as well. With limited arable land and water resources throughout the Region, if population fertility remains close to present rates, the prospect is that even good agricultural policies will not be able to generate a sufficiently large increase in food production to avoid much greater food imports than exist today.

7.4.9 A high dependency ratio places considerable pressure on an economy's ability to invest because children consume but do not produce. Family budgets are strained to provide the additional consumption required by a large number of dependents, and government budgets are strained to provide public services, oriented to the younger age groups.

7.4.10 The investment levels necessary to attain targetted GNP growth rates will require substantially greater future investments in productive capacity, and correspondingly higher investment/GNP ratios. (See Appendix figure B-5.) Of course, if investment per new job created increases above current levels, as is likely with urbanization, the growth in capital requirements will be even more dramatic. Demand for housing the largest investment ever made by most households, will soar as new household formation continues to rise rapidly.

7.4.11 Without reductions in fertility, human resource improvement threatens to stagnate as education systems cannot cope with enrollment loads; or if enrollment rates are to continue to improve, even larger portions of government expenditures will have to be devoted to education. A similar story applies to future government expenditures on health, water and sewerage, public transportation, etc.

7.4.12 Then there is the question of whether rapid economic development will bring down fertility rates "naturally" in the Middle East, and whether it can do so soon enough. There is evidence from other regions of the world -- Asia and Latin America -- where such indicators of socio-economic development as per capita income levels, adult literacy rates, female participation in the labor force, among others, are correlated with reduced fertility rates provided, of course, that married couples have access to contraceptive technology.

7.4.13 But some evidence seems to indicate that this might not be the case for countries in the Middle East Region. (See Appendix figures B-6 and B-7.) Although there is a moderate statistical relationship between adult literacy and birth rates, there is a marked lack of correlation between birth rates and per capita GNP, at least for Arab countries that predominate in the Region. What is more, in these male-dominated Muslim societies, female labor force participation rates are not likely to rise rapidly from their comparatively very low current levels in the near future.

7.4.14 An interesting vignette on this point is that Egypt's birth rate declined steadily from 1952 to 1970 (from 45 to 35 per 1000), but has risen to over 40 during the decade of the 1970's (really since 1973), although birth rates for the past year or two seem to be turning down again. What is interesting to note is that the rise in birth rates since 1973 coincides with a period of rapid Egyptian economic growth.

7.4.15 The conclusion may be drawn that, at least for countries in the Middle East Region, an economic-growth-induced natural decline in fertility is not likely in the near future. Which brings the discussion back to the long-run nature of demographic change, with at least a generation of built-in momentum for growth no matter what is done now. But perhaps significant reductions in the size of the subsequent generations can be achieved with decisive action now.

7.4.16 The urbanization process. This rapid growth in total population has strong implications for the urbanization process, both because of the limited capacity of the rural economy to create new jobs to absorb the natural increase in rural population and because the escape valve of intra-regional migration to neighboring oil producing areas will probably close as labor targets are met. If oil prices continue to decline, emigration from such countries as Egypt, Jordan and Yemen will very likely stagnate or decline. Table 21 presents total and urban population growth projections to the year 2000 for each of the nine A.I.D. - assisted countries in the Middle East Region. The most significant information validating the Bureau observation that urban areas will be the locus of most new population growth over the next 17 years, and consequently also the locus of labor force growth, demand for public services, private productive investment requirements, housing demand, etc., is contained in the last column of table 21 representing the portion of total population growth that will accrue to urban areas. At the Regional level, of every 5 new additions to total population 4 will be urban dwellers, whereas only 1 will be added to the rural population. For Egypt, the urban portion will be 9 out of 10, for Morocco 3 out of 4 and for Jordan and Syria over 80% will be urban dwellers.

7.4.17 There is also the question of which urban areas are growing most rapidly. Recalling the past trends in population growth from 1960 - 1980 (see Table 5,) there seems to be no reason to assume that the primate cities in Egypt and Morocco will be growing relatively more rapidly over the next 17 years. In fact, census figures for Morocco (see Appendix table C-1) indicate an average annual growth rate for Casablanca identical to that for the aggregate population of the next five largest towns (Rabat, Fes, Marrakech, Meknes and Sale). Furthermore, the five largest of these are all growing slower than the urban sector in the aggregate. Therefore, the fairly decentralized urban growth occurring in these two countries will have to be accompanied by similarly decentralized urban-based interventions. For the smaller countries such as Oman, Yemen, Jordan and Lebanon the urban growth may tend to be more concentrated, which seems more appropriate for these countries given the relative size of the major urban areas now and the economies of agglomeration that exist up to city sizes of at least a few million.

Table 21
Projected Population and Urban Growth
(millions)

Country	Total Annual (%) Growth Rate	Population			Urban Population					
		1983	2000	Net Growth 1983-2000	1983		2000		Urban Growth 1983-2000	
					Number	% of total	Number	% of total	Number	% of net growth
Egypt	3.0%	45.9	65.5	19.6	20.2	44%	37.6	57%	17.4	89%
Israel	1.7%	4.1	5.4	1.3	3.6	89%	5.0	93%	1.5	108%
Jordan	3.6%	3.6	6.5	2.9	2.0	56%	4.5	69%	2.5	86%
Lebanon	2.1%	2.6	3.7	1.1	2.0	76%	3.2	87%	1.2	109%
Morocco	2.9%	21.0 ¹	35.0	14.0	8.7	41%	19.2	55%	10.5	75%
Oman ²	3.1%	1.0	1.7	0.7	0.2	20%	0.6	35%	0.4	57%
Syria	3.8%	9.7	18.0	8.3	4.8	50%	11.5	64%	6.7	81%
Tunisia	2.5%	6.8	9.6	2.8	3.5	52%	6.3	66%	2.8	100%
Yemen	2.7%	5.7	9.1	3.4	0.6	10%	2.0	22%	1.4	41%
TOTAL:		100.4	154.5	54.1	45.6	45	89.9	58%	44.3	82%

Source: Population Reference Bureau, April 1983.

Notes:

¹ Newly updated census figures for Morocco, as of 1982, indicate a total population of 20.4 millions. A 3% annual growth rate would yield 21.0 millions in 1983.

² Estimates for Oman are based on Bureau "guesstimates" in light of conflicting United Nations and Population Reference Bureau figures.

7.4.18 Urbanization provides an organizing principle for undertaking development activities in the Middle East Region. Demand for AID programs in education and training, in maternal - child health care related to population programs, in infrastructure and in technical support of productive investment in industry (and perhaps for investment in the service sector as well), will all increasingly concentrate in urban areas. The need for improved administrative and management capacity, including support for the decentralization of urban administration in countries like Egypt and Morocco, will also intensify over the coming years. Urban housing demand will increase more rapidly throughout the remainder of the century, as will the requirements for potable water and sewerage services. Urban expansion will also continue to infringe on the limited arable land.

7.4.19 Water scarcity and utilization. The distribution of available water supplies within countries in the region takes on high political importance. Given the scarcity of supplies, the increasing real cost of incremental water supplies and the need for more costly and complex solutions to water related issues, this fact is not surprising. Allocating available water between agriculture and residential-industrial uses is a critical issue for the coming decades. Equally so, pricing of water in alternative uses is undoubtedly one of the most sensitive issues in the allocation framework.

7.4.20 With increasing urbanization, the water/wastewater sector will become more vital to economic development and political stability. Urban populations will expect higher quality water service. Population growth necessitates additional water supplies. Higher density population grouping emphasize the health aspects of an efficient water sanitation operation.

7.4.21 By and large the countries (excluding Israel) have only begun to face and resolve major problems in the sector. In Egypt, for example, there has been major progress in water supply availability with the construction of the Aswan Dam. Rehabilitation of rundown urban water delivery and sewerage systems is progressing. Because of the rapid growth in urban population, the current systems, even when completely rehabilitated and operated efficiently, currently planned systems will be inadequate. The deficiencies in the Egyptian situation are manifold. Institutional development, pricing, training of personnel and operation and maintenance practices require substantial revision and upgrading. In addition, the technological solutions to Egypt's water use and disposal problems are going to be expensive and complex. Even if sufficient financial resources were available to implement this type of investment program, it will easily take a decade or longer (under the best circumstances) before this Egyptian sector can attain a satisfactory level of efficiency and competence.

7.4.22 Other countries in the region will also be facing similar problems. Jordan has under construction several sewerage systems, as well as, major construction of a transmission pipeline, pumping station and water treatment plant, pumping water directly from the Yarmouk River to Amman and environs. The sewage plants under construction are complex and expensive to operate. The Yarmouk River direct pumping is a sophisticated, high technology operation that will double or triple the real cost of water delivered to Amman. Costs

will go up rapidly throughout the sector. Yemen's problems revolve around the need to seriously consider methods of recycling sewage effluent or water resources development. Additional large-scale groundwater supplies have not been identified and substantial surface water sources do not exist. Current groundwater sources have been over-exploited or mined. In Tunisia and Morocco, the water supply problem as previously noted in Section 5 is compounded by environmental contamination of the coastal areas by direct pumping of sewage (without treatment) on to the shoreline. Sewage treatment plants, pumping facilities and an outfall are required to correct this situation. These are expensive and complex to operate.

7.4.23 In each of the countries discussed above, deficiencies do exist in various aspects of the sector's current activities and planned expansions. Technical solutions are available to meet the physical requirements in obtaining additional water supplies and in solving environmental issues. Management skills, training of personnel, institutional development, etc. are problems that can also be satisfactorily resolved.

7.4.24 Peace in the Middle East would have a significant impact on the availability of water in the Jordan Valley. Riparian rights issues are a major obstacle to the construction of a dam on the Yarmouk River. The reservoir plus a portion of the dam structure would be in Syria. Agreement with Israel on downstream withdrawal rights would also be necessary and West Bank allocations would need to be negotiated. The additional water provided by this dam (Maqarin Dam) would not be less costly than the current plan (under construction) to pump water directly from the Yarmouk but the additional supplies (about 100 Million cubic meters per annum) would be a significant addition to Jordan's controlled water resources. Agriculture irrigation water availabilities would also be increased. Without peace, Jordan will be faced in the five to ten years with making difficult allocation decisions between water uses for agriculture or for urban consumption.

7.4.25 Employment generation. At the heart of the problems that will result from rapid urbanization rates, is whether the Middle East economies will be able to generate sufficiently rapid increases in non-farm employment opportunities for the rapidly growing labor force. It is important to realize that every member of the year 2000 labor force is already alive today, a future labor force much larger than today's because of the young age structure of the Regional population. Even significant reductions in fertility over the planning period 1983-88 would not begin to have an impact on reduced labor force growth until 2010. Equally significant is that upwards of 80% of the net increase in labor force will locate in urban areas, and not just in the metropolises but in cities of all sizes. Only in Lebanon is the urban population strongly concentrated and growing in concentration. Although Casablanca grew from one-sixth to one-fourth of urban population over the period 1960-80, data from the recent census (See Appendix C for tables on urbanization) indicate that Casablanca may not have grown as fast with respect to the rest of the urban sector since 1971. Relating Casablanca's population to that of the next five largest cities shows no change in the ratio between 1971 and 1982. Egypt also demonstrates generalized growth among all city sizes, indicating that decentralized urban job creation will be necessary.

7.4.26 Consequently the industrial and service sectors must absorb a doubling of the urban labor force over the next 17 years. It will be no easy task for the industrial sector to expand rapidly enough because domestic markets for industrial production are limited in most Middle East countries (except perhaps for Egypt and Morocco), and industrial exports run up against quality control constraints that tend to require capital intensive techniques for their resolution. In spite of the inherent problem of trying to increase industrial exports, there seems to be no alternative but to search out those opportunities where Middle East countries are likely to possess some degree of comparative advantage with respect to traditional markets in Europe and growing markets in the oil-rich, Middle East.

7.4.27 It will, nevertheless, certainly fall to the service sector to absorb a large share of the expanding urban labor force. The Region as a whole has a high potential comparative advantage for tourism, particularly with greater political stability that would accompany a peace breakthrough. Lebanon may be able to regain some portion of its former role as a Regional financial center, although it will probably never fully regain that role. Jordan and Lebanon may also be able to develop some degree of export capacity in sophisticated service activities such as engineering services because of relatively highly trained labor forces.

7.4.28 Industrial support services will also have to play a major role in the expansion of the urban economy. In fact, one of the criteria for industrial selection and emphasis, in addition to relative labor intensity and international comparative advantage, should be the multiplier effects on industrial support services and the linkages to other industrial categories.

7.4.29 Furthermore, given the highly centralized government involvement in the industrial sector of many Middle East countries, save Oman and Yemen where private enterprise predominates, the question of public versus private enterprise will have to be addressed. A more rapid growth of the industrial sector would be made possible by greater reliance on private markets and the use of incentives for greater entrepreneurial activity.

7.4.30 Basic education and technical training. The countries of the Middle East region exhibit major differences in their degree of educational development and in the types of major educational issues they will face in the coming decades.

7.4.31 Yemen, Morocco, Egypt and Oman will continue to require major investments in basic education and they (with the possible exception of Egypt) are unlikely to achieve the 60% - 70% threshold literacy level required for major social, economic and political transformation before the mid to late 1990s. Literacy rates are unusually low (Yemen 21%, Morocco 28%, Egypt 44%), especially for females and in rural areas. These low levels of literacy will continue to impact negatively on various developmental indicators, especially agricultural productivity and population reduction. Investments will be required not only to expand basic education systems but also to improve their efficiency and quality. As Yemen, Morocco and Egypt become more urban and with potentially sizeable urban illiterate populations, they face the possibility of increased risk of political instability and urban unrest. Oman

is demonstrating how rapidly basic literacy and numeracy can be extended throughout a society. In the short span of eleven years (1969-1980), the Omanis were able to increase the number of students enrolled in primary education from less than 1,000 to nearly 84,000.

7.4.32 The major problem to be faced in the coming years by the remaining countries (Jordan, Lebanon, and Tunisia) is the provision of technically trained manpower for existing and future jobs requiring secondary and post secondary education. The expansion of secondary and post secondary education, with a strong emphasis on technical training will require major investments throughout the region. The expansion of higher education in Tunisia and Morocco will be particularly crucial for meeting the need for highly skilled manpower. The shortage of competent managers (administrators in both the private and public sectors) appear in nearly every country. An additional problem that most countries will face is building adequate mechanisms to access U.S. and other western science and technology. In Egypt, of primary importance will be the need to strengthen and rejuvenate institutions of higher education which have declined in quality and status in recent years.

7.4.33 This lack of skilled manpower is also likely to occur region-wide unless there are cost effective skills training programs which are closely linked to the requirements of industry, small enterprises and the services sectors of the economies. Jordan appears to have made a relatively good start in the development of a sound skills training system through the Vocational Training Corporation.

7.4.34 Agricultural productivity. The discussion of the development setting for the agriculture sector in the AID assisted countries of the Middle East Region painted a picture of the declining importance of this sector in terms of its contribution to the GDP and its absorption of the increasing labor force. The stark reality is that because of the limited agricultural base -- arable land and water scarcities -- there cannot be a major expansion of this sector on the basis of increases in cultivated land. Therefore the major potential for advances in this sector will derive from increased efficiencies and a shift from lower value crops toward higher value crops. The emphasis will be on shifting toward crops in which the countries have a comparative advantage and export potential rather than on self-sufficiency in basic food crops.

7.4.35 While forecasting trends is a necessarily risky exercise, it is fairly certain that the continuation of trends in population growth and migration will continue in a fashion similar to the trends of the last 10 to 20 years and will accordingly continue to shape the pattern of development. With respect to the arable land base there are no significant areas left for expansion and expanding urban areas have absorbed arable lands. The available water resources are already being tapped, with few exceptions. Agricultural uses now account for an estimated 80 to 90% of water use in the region. These factors combined with the projected population increases will place increasing demands on limited resources available for agriculture.

7.4.36 By the year 2000 population will increase by 55 percent and will double in approximately 25 years. This growth will be skewed toward urban areas; of the 55 million increase in population by 2000 the net increase in rural areas will be in the order of 18.7 million. Of the projected 14.2 million labor force increase by 2000, about 3 million will be in rural areas, mostly in agriculture, in contrast to 11 million in urban areas. This would mean that the proportion of the region's labor force in the agriculture sector would decline from about 35 percent in 1981 to about 22 percent, by the year 2000, assuming no major shifts in the trends.

7.4.37 Agricultural production has been increasing for all the AID assisted countries in the region during the past ten years. However, only in Tunisia and Syria has production exceeded population growth. While there is still considerable potential for increased efficiency and production, the dependence on imported foods in the region will continue to increase as the technological limits of the agricultural base are approached.

7.4.38 The trend toward increased mechanization will also continue and if experience in other middle income countries repeats itself, the trend will accelerate. In combination with improved technologies, mechanization will have major implications for the technical skills needed in the agriculture sector.

7.4.39 With the increasing population pressures on the entire economy there will be a need for the agriculture sector to focus on greater efficiency in production and on diversification into crops where there is a comparative advantage and potential for export growth. The irrigated areas, notably all of Egypt and the Jordan Valley, will need to focus more carefully on the economic value of the available water and consider alternatives which capitalize on this resource. The rainfed areas will still need the greatest emphasis on increasing the efficiency of their production via increased yields from existing crops; this includes significant areas of Morocco, Yemen, Jordan, Lebanon, Syria and Tunisia.

7.4.40 Energy. Section 5.3 described the ways in which A.I.D.-assisted countries benefitted from the oil price increases of the 1970s' as foreign exchange, earned by workers abroad and Arab/OPEC aid, flowed into those countries. The adverse impact was the need to continue importing what had become a very expensive commodity. Table E-5 in the Appendix compares the balance of payment current account summaries for 1972 and 1981. There was more to the deterioration apparent in the table than just rising world oil prices, but the price rise was a major contributor to the fact that five of the nine countries went from a surplus to a deficit in the current account.

7.4.41 The impact that the price shocks have had differs across countries depending on the governments' policies. Where the government has allowed domestic prices to follow world prices the productive sectors, agriculture and industry, have suffered through cost increases, reduced demand for their output and disappearing profits much the same as producers in the industrial countries. Where the government has attempted to protect the economy with price controls, energy demand growth has increased the fiscal pressure on the expenditure side of public budgets and distorted consumption and production patterns.

7.4.42 Adjusting to high energy prices will require structural, institutional and policy changes in A.I.D.-assisted countries. Changes required over the planning period include:

- The need to strengthen integrated national energy planning and policy analysis.
- The need to increase the efficiency and economy of energy use and to manage energy demand through regulatory and pricing mechanisms and technologies which encourage efficient energy use practices yet assure adequate supplies to agriculture, industry, transport and residential, commercial and, institutional consumers.
- The need to keep pace with the state-of-the-art energy technology in conventional, renewable and conservation fields so as to be able to judge when to apply or adapt the technology to their own country.
- The need to develop indigenous supplies of energy or import supplies of energy on a "least-cost" basis, cognizant of life-cycle costing, shadow pricing, and impact on other sectors and priorities of the country.

8.0

SECTORAL INTERVENTIONS

8.1 Ameliorating the major development problems described in section 7.4 provides for a focus and direction to each mission's country strategy. The forms of the sectoral interventions addressing the problems must find the right balance among Agency policy, Bureau strategy and country-specific characteristics. This section uses the three tiers of the Bureau strategy to organize the discussion on sectoral intervention.

8.2 Population and Complementary Health Activities. All A.I.D.-assisted countries in the Middle East (except Israel) will double their population size over the next 25 years. This doubling of population size within that time frame assumes a modest decline in fertility and limited gains in reducing mortality rates further. (In the event of severe economic dislocation, it is conceivable that mortality rates would increase, which would slow growth rates somewhat and extend the doubling time.)

8.2.1 With 40 to 45% of their population younger than 15 years of age, the demographic "blueprint" for the next 15 to 20 years is essentially locked in place. Indeed, population growth-generated projections for labor force, school age children, food requirements and to a greater or lesser extent, urbanization are among the most predictable parameters available to planners.

8.2.2 But what is accomplished during the decade of the 1980's in terms of institutionalizing policies and service programs aimed at reducing fertility will affect, in a major way, the composition of the region's population, economy and social structure 20 years hence. Each year of delay in seriously and vigorously addressing the need for fertility control will compound the difficulties Middle East economies will confront 15 years from now and the economic costs of such delay will be magnified.

8.2.3 High growth rates are due to significantly reduced mortality since 1945 and to the general failure of Middle East countries to adopt effective fertility control programs during the past 15 years. Persistent fatalism, traditionalism, illiteracy and restricted opportunities for women combine to give added impetus to high fertility and frustrate efforts toward social change.

8.2.4 If projected economic development occurs and reinforces expected behavioral changes favoring smaller family sizes, a three child family norm could be achieved in the more rapidly modernizing countries by the turn of the century, e.g. Tunisia and Lebanon. If, on the other hand, economic and social development lags, or stagnates, and fertility control is not energetically pursued (a more realistic assumption) the prospect is bleak for preserving, much less improving, the standard of living of the average family.

8.2.5 The primary objective of A.I.D. population assistance is to improve the health and well being of all the region's people by bringing population growth into balance with present and future country resources. A.I.D. population and family planning efforts remain symbiotically related to maternal-child health care through the health ministries of host country governments. The countries of the region vary widely in their political will and administrative capacity to deal with their population growth problems, as categorized below.

- Countries with a successful program where A.I.D. assistance can probably be reduced in three to four years: Tunisia.
- Countries with somewhat mature but not yet fully effective programs into which continuing A.I.D. assistance should be channeled: Egypt and Morocco.
- Countries with embryonic programs or emerging government policies where A.I.D. bilateral or indirect assistance should be more thoroughly employed: Jordan, Turkey, Yemen and Lebanon.
- Countries of the region which have generally pronatalist policies or conditions which for a variety of reasons do not make U.S. family planning assistance appropriate: Algeria, Iraq, Kuwait, Oman, Saudi Arabia, Syria, and United Arab Emirates.

8.2.6 In terms of the three tiered strategic approach, population programs are preeminently linked to social equity considerations, through program impacts on a government's ability to provide adequate public services, its impact on GDP per capita and on food availabilities. Furthermore, family planning requires that policy decisions be taken at the highest levels of government. As mentioned earlier, one of the principal constraints to be overcome in many Muslim countries is the lack of political will to address the population problems. RAPID - type presentations comprise one effective tool in the arsenal of communications/policy dialogue techniques necessary to encourage host governments toward a sustained commitment to family planning.

8.2.7 The population priority has been identified with the understanding that there is a high degree of complementarity between the health activities which are of a high priority and population/family planning activities. Thus this sector is expected to include complementary health projects such as oral rehydration therapy (ORT) and mother-child health care. By concentrating on population and complementary health activities there will be a marshaling of resources which will allow AID to concentrate its efforts on the population and health issues which are the highest priority and also achieve some efficiencies in terms of financial and staff resources.

8.2.8 Policy Dialogue. The momentum of built-in growth is still inadequately understood and acted upon by leaders and citizens alike in the Middle East. At the same time, official actions supporting family planning are slowly increasing and population programs receiving bilateral and international support are now beginning to show promise. Nevertheless, local political commitment often remains weak and health service systems do not give fertility control the priority it deserves.

8.2.9 Unlike Asia, political leaders and economic planners in the Middle East have for the most part failed to understand the economic and health benefits of reduced fertility. On the political side, there is an aversion toward lending open support to what may be controversial and which might be perceived to be contrary to basic tenets of Islam. In the economic community, planners confronted with short-term and pressing issues like energy costs, balance of payments and food deficits tend to accord low priority to activities whose economic returns are 15 or more years distant.

8.2.10 Institution Building. Three kinds of activities merit special support: First, economic planning and training institutions need to be convincingly persuaded that rapid population growth obstructs economic growth. Secondly, support should continue to census and survey organizations responsible for basic data collection and analysis and particularly for their work in fertility related surveys including those which demonstrate public acceptance of family planning and reduced fertility. Thirdly, those institutions, primarily Ministries of Health, responsible for providing effective maternal and child-health services and family planning should be strengthened so that a critical mass of technical talent is in place to provide family planning efficiently, safely, and completely.

8.2.11 Technology Transfer. Activities within the technology transfer area sensibly should include the following: training and exposure to new contraceptive technologies so that when available, their introduction and use will quickly spread; and continued support for improving measurement and analysis activities related to understanding attitudes, knowledge and behavior about reproduction, and; operations research that leads to improvements in service delivery programs.

8.2.12 Private Sector. Opportunities exist to engage untapped private sector resources such as pharmacy networks, drug marketing firms and advertising/marketing agencies furthering family planning and contraceptive use. Some of these enterprises have regional coverage and lend themselves to regional project development and support. Private sector activities,

particularly by pharmacies, can often be stimulated and supported in the absence of a comprehensive official policy about family planning. In Jordan, for example, nearly all contraceptive services are obtained from private pharmacy or physician sources; in Egypt, over half of contraceptive users obtain supplies from the private sector. Where markets are large enough, promoting the expansion of contraceptive production by domestic industry will lead to greater future self-reliance in family planning and will enhance the influence of host country interest groups supporting family planning -- in this case the pharmaceutical sector within the domestic industrial base.

8.3 Urbanization describes a demographic phenomenon by which an increasing percentage of a country population resides in urban areas. The transformation of a country from predominantly rural to predominantly urban comes about by (1) differing fertility and mortality rates for rural and urban populations (2) migration from rural to urban areas and (3) administrative reclassification of rural places as urban places. Based on the experiences of developed countries, it is assumed that the change from predominantly rural to predominantly urban is one of the characteristics or attributes of the development process. Confusion arises when urbanization is discussed as if it were a sector. Urban and rural are the two types of location in which economic and social activities, i.e., the sector of economic activity, occur. Urbanization is a unifying concept because it provides a spatial context to the traditional sectors of economic activity: industry services, infrastructure, etc., and the "sectors" of social policy; education, population, etc.

8.3.1 Urbanization highlights the process of spatial integration within a country. It is a recognition that space matters in economic development. Spatial integration means the spread of markets and commerce, regional production specialization based on comparative advantage, mobility of the factors of production in search of higher returns, and well articulated networks facilitating the flow of goods, services, ideas, and technology through out the country. A spatially integrated country has a hierarchy of cities ranging from one or more metropolitan cities to market towns, with each city or town servicing its immediate hinterland and larger cities providing "higher-order" goods and services to the town around it. This characterization suggests three components of spatial integration: (1) interregional development -- the economic interaction among cities, the hierarchy and network of cities, (2) urban development -- the economic efficiency, interaction, and integration of economic and social units within a city, and (3) rural development -- the economic interactions and integration of a city or town and its hinterland.

8.3.2 The Bureau urbanization strategy for the 1980's must take account of these three components, as they are links in the chain of spatial integration. A city cannot be developed in isolation from the rest of the economy, nor can a rural development program succeed if its urban connection is a stagnant city. The three - tiered approach to strategic planning described above applies to each of the components of spatial integration and it is useful to organize the discussion around the three tiers.

8.3.3 Because the concern with urbanization is new for both the Agency and the Bureau, what follows is not a strategy "per se". It is a conceptual framework that can be applied to country-specific situations to identify types and locations of interventions as A.I.D. has done in traditional sectors in the past.

8.3.4 The Macro-Environment: Interregional Development. Spatial integration and rationalization of the urbanization process is the locational aspect of national economic development. Thus, the necessary macro-environment includes those elements necessary for economic development in addition to the elements that diffuse development. Exchange rates, bank credit, urban wages and agricultural output prices should reflect opportunity costs and not be kept artificially high or low by government policy. Banking and industrial regulations need to encourage or at a minimum not inhibit private sector industrialization and employment growth. Centralized governmental administration should be devolved so that regional and local government organizations act on local needs and opportunities. A willingness to decentralize on the part of the central government is a key element that appears repeatedly in spatial development policies.

8.3.5 Urban and Rural Development. Local governments must have the institutional capability to apply effectively the authority devolved from the central government. Local regulations should be written with urban growth and development in mind. Regulations enacted to enhance social equity should be examined to ascertain if they introduce distortions that vitiate the intent of the regulations. For example, rent control laws are intended to keep housing affordable to urban residents. Yet, they reduce the growth in the housing stock by discouraging the private sector -- making housing affordable but unavailable. Public transit authorities receive a monopoly on urban transit along with a fare structure that does not provide for maintenance. In the end, the city finds itself with illegal shanty towns surrounding the city full of people with constrained employment opportunities because the area has no reliable transit system.

8.3.6 Policy dialogue with city officials, subsequent to analysis of the economic and social costs of local regulations, is an essential part of the Bureau's urbanization strategy. Missions should determine the need to strengthen local institutions that create the macro-environment and the need to support particular aspects of urban and rural administration, such as land use laws in urban areas, land tenure laws in rural areas, tax administration, etc.

8.3.7 Investment in Productivity. Industry, and in particular manufacturing, is the key to employment and income growth in the countries of the region. The agricultural base has potential for only marginal increases in employment through land reclamation and more intensive use of rainfed areas. With the exception of Egypt, the economies in the region are too small to succeed with an import substitution strategy and too large to succeed with an export promotion strategy having services as the key sector. By the process of elimination one moves to the consideration of an export based industrial strategy of economic development. The spatial distribution of industry and industrial employment influences the migration and settlement pattern and in

turn is influenced by the settlement pattern. The primate city usually obtains a major share of total investment, naturally enough, since it is the main domestic market and usually has a more extensive and reliable infrastructure network than provincial cities. Industry will deconcentrate when there exist alternative sites that offer adequate utility service levels (transport, communication and power) and lower input prices than the primate city. Surprisingly, countries with public dominance of the industrial sector exhibit the same tendency to concentrate as private firms despite a presumed government desire for interregional equity and development.

8.3.8 In any case, given the above -- that labor force absorption will occur predominantly in the industrial sector in urban areas -- and the implications for labor force increases, the Bureau strategy for urbanization must have as its central theme increasing employment and income. Employment generation as a development problem is discussed in Section 8.5 below. In these paragraphs the focus is on the spatial dimensions of an industrial strategy and investments in productivity growth that affect the economic efficiency of urban and rural places.

8.3.9 Local and regional governments are responsible for more than the macro-environment described above. They are also responsible for the supply of public goods and private goods that are traditionally provided by the public sector. The efficient provision of these goods and services is a part of the Bureau strategy. This "social overhead capital" increases the productivity and profitability of firms operating in the area and, in conjunction with good urban planning, can bring about an expansion of private industrial firms.

8.3.10 Techniques to increase efficiency in the provision of urban and rural services depend on the local situation. One technique that should not be overlooked is privatizing some public sector systems. Competitive bidding by private sector firms for contracts to maintain transit equipment, remove trash, repair roads, etc. offers a double dividend in that they improve the functioning of the city and strengthen the local private sector.

8.3.11 Municipal and regional governments manage a group of institutions that provide goods and services necessary for the functioning of private industrial and service enterprises. In analyzing the development constraints of an area, one must keep in mind the interaction and interdependence of local government and the local private sector so that urban and rural development projects concentrate on the constraint that is binding.

8.3.12 Social equity is the third tier in an urbanization strategy. The Bureau distinguishes between social equity as a concern in the design of an urbanization strategy and a social equity commitment. It has been Agency policy to concentrate its programs on the poor majority in A.I.D. - assisted countries. As the locus of poverty shifts from rural to urban areas, the Agency and the Bureau will emphasize the importance of urban-located programs. This change in locational emphasis is dictated by an unchanging commitment to social equity.

8.3.13 Reaching the basic human needs of poor urban and rural residents requires investments in housing, food-marketing systems, health delivery systems, etc. These types of investments are distinct from an urbanization strategy, but may have feedback effects on settlement patterns and thus need to be consistent with the objectives of comprehensive urban development.

8.3.14 Social equity as a concern in an urbanization strategy is expressed through the attempt to integrate poor neighborhoods and regions into the more developed portions of the economy, increasing market access, employment opportunities, and access to public goods and services.

8.3.15 Labor intensive investments, a legal and regulatory environment that does not stifle private initiative, decentralization of government authority, and equitable distribution of public services all have an effect on the spread of economic development. Harmonizing these elements can accelerate the diffusion of economic development.

8.4 Water scarcity and utilization. The urban water/wastewater sector is highly capital intensive. For example, estimates of capital costs (in 1982 prices) to improve the water/wastewater sector in Egypt vary, depending on service level, from \$9.2 billion to \$12.0 billion for 1983-2000 time period. The total cost of the Maqarin Dam and ancillary facilities in Jordan was estimated at \$646 million by the World Bank in a 1980 preliminary staff appraisal report (base cost in October 1979 estimated at \$351.4 million, the balance physical and price contingencies). A World Bank staff appraisal report recently completed for Morocco estimated costs for the improvement and expansion of an urban wastewater disposal system (including an ocean outfall) at over \$300 million.

8.4.1 Except for Egypt, where A.I.D. has agreed to obligate \$1 billion over a five-year period, subject to successful negotiation in several critical areas, this Agency is unlikely to have the resources to make major capital contributions in other countries in the region. However, A.I.D. does possess expertise that can have an impact in a positive fashion on sector policies.

8.4.2 For example, the Bureau currently has arranged for a technical training/advisory services relationship between water utilities in Jordan and Yemen and a U.S. operating utility. The Bureau will continue to finance studies in selected aspects of the water sector in Jordan and Egypt, as well as, special short- and long-term advisory services. The forthcoming FY 1983 project in Jordan will emphasize water utility operation training needs and the development of private sector construction capacity to implement these types of projects. The Bureau, with Science and Technology (S&T) Bureau support, will be able to encourage the utilization of technology appropriate to arid regions with scarce water supplies.

8.4.3 The Bureau established in March 1983, an inter-disciplinary Water Resources Committee. Representatives from S&T, PPC and Office of Housing are invited to participate in the discussions of this group. The Committee will deal primarily with generic regional water sector issues, recommend and monitor research studies and prepare guidance and analyses that could contribute to the decision making process in the Bureau and guide the future activities in this sector.

8.4.4 The range of critical development issues facing the water/wastewater sector in this region is comprehensive. It reflects not only special water resource problems but also the relative immaturity of sector institutions and the rapid escalation and compounding of problems facing the sector. A.I.D. is in a good position to provide a complete range of technical assistance whether in institution building, technical training, or advisory services.

8.4.5 The Bureau is particularly cognizant of the need to encourage financial soundness, autonomy and prices that reflect scarcity values for the output of this sector. Without financial soundness of the operating entities, additional capital investments will be inefficiently operated. Scarce capital resources will be wasted. Financial soundness goals should be defined to mean the generation of sufficient revenues to meet operation and maintenance expenditures at appropriate levels of service, debt service payments (principal plus interest) to the public (or private) lenders and a modest contribution to improvement and/or expansion of the existing system. The design and implementation of any tariff structure must contain proper concern for equity aspects related to lower income groups in urban areas and the special problems that may exist in rural areas (low density, high cost of water delivered).

8.4.6 Sector dialogues should emphasize that efficiency in operations requires that utility management must possess a reasonable degree of freedom from interference by government. The definition of the concept would be controlled by the actual situation and the major constraints that should be ameliorated.

8.4.7 Over the longer-run, scarcity value pricing reflected in some variant of marginal cost pricing, should be an A.I.D. objective. Real costs appear to be increasing in this sector. The issues facing the sector are multi-faceted (institutional development, training, etc.) but the scarcity of resources to implement sector expansion programs certainly ranks high on that list. Substantial resources would be added to available investment funds for the sector if tariffs schedules were designed so that revenues fully covered the costs of providing the service. In this social infrastructure sector prices do have the ability to affect demand at the margin. Proper pricing would both generate additional resources needed for system expansion but also impact on the demand for the output of the system, thereby, stretching out investment requirements over a longer timeframe. Equity considerations for lower income groups could be readily built into the pricing system. The additional resources generated by this pricing scheme could accelerate expansion of services to the population, including the lower income group.

8.4.8 The above scenario would be considerably enhanced if the Administration's peace efforts are successful. In that event, additional U.S. resources might be available for an accelerated economic development program. The water/wastewater sector could readily utilize additional resources. It's needs are great. The Maqarin Dam in Jordan would be a prime candidate for financing once riparian rights issues were resolved.

8.5 Employment generation. The A.I.D. strategy to promote industrial development will focus on relatively labor intensive industries, which will tend to involve small to medium sized firms. But industries where the direct employment effects are not relatively labor intensive could still be considered if the employment multiplier effect on the service sector (or linkages to other industries) leads to a relatively labor intensive aggregate impact on the economy. Of equal importance, however, is the need to identify and promote industrial activities that embody some form of international comparative advantage. The result would not only be to increase economic efficiency but to gradually enhance export opportunities as well, in preparation for the day when the world economy begins to expand again. Research would be helpful in identifying appropriate industrial categories and the appropriate range of firm size that are most efficient in the use of relative factor availabilities, particularly abundant labor, and most likely to lead to successful competition in international markets, either as a complement to or as a replacement for its domestic markets.

8.5.1 A.I.D. interventions to promote industrial development will be limited in scope during the initial few years of the planning period because industrial development has so far been a relatively low priority and since the Bureau's program planning process will be completed shortly through FY 85. Toward the end of the planning period, however, the level of effort should accelerate as new project ideas are developed and Bureau expertise in the industrial field is upgraded. One of the first actions the Bureau should take in this initial phase is to formulate a policy dialogue agenda for the urban industrial sector that focuses on removing existing bureaucratic and pricing policy constraints to rapid industrial growth with an eye to creating freer markets for industrial goods. The Bureau should also identify the pivotal industrial support services and institutions, which could serve as focal points for assistance. Development banks could be strengthened with technical assistance as an alternative to a major expansion of A.I.D. technical capacity in this area.

8.5.2 Technical assistance to upgrade industrial management skills, particularly in the areas of marketing and finance, can be promoted through participant training in the near term and through an industrial management training program by the end of the planning period.

8.5.3 Going beyond management-related technical assistance, the Bureau should also promote direct transfer of industrial technologies. This form of assistance would be particularly appropriate for medium-sized as opposed to the smaller firms. One interesting and relatively underutilized resource for such technology transfer is the network of national research laboratories, including Brookhaven and Argonne Labs.

8.5.4 Perhaps tourism is one potential area for involvement in the service sector. It is an activity which is both labor-intensive and one in which the Near East countries have a real comparative advantage, expressed in terms of climate and a location relatively close to the European market as well as the oil rich nations.

8.5.5 Finally, as a general rule, in order to maximize employment generation through industrial development all Bureau efforts to promote the urban industrial sector must focus attention on the linkages among industries, in addition to the direct production and employment effects, and particularly on the strength (or weakness) of the multiplier effect on the service sector. In fact, it is most likely that the service sector will have to employ a large share of the urban labor force. The urban employment solutions will need to consider the service sector as an important direct source for employment as well as a secondary source as an outgrowth of industrial expansion. The equity tier of the overall strategy, as it relates to the urban industrial sector, will largely depend on the degree to which A.I.D. and host country efforts are successful in generating large numbers of new jobs. While these urban industrial and service sector jobs will probably imply productivity levels significantly higher than exist in the rural agricultural sector they should not involve such high productivity levels as are associated with large investment-to-new-job-created ratios. If this latter case obtains, industrial development will become self-limiting in its potential to create large numbers of new jobs, given the limited domestic savings and similarly limited international financial flows available for industrial investment.

8.6 Basic education and technical training. AID should continue throughout the planning period its support to bilateral basic education programs in Yemen, Egypt and Oman. Support for basic education will contribute to the social equity objective and will create one of the preconditions for productive investments, i.e. a labor force with basic literacy and numeracy skills.

8.6.1 In Yemen, the Bureau should continue its long-term, institution-building process of transferring educational technologies and philosophy which are radically altering the character of Yemeni education. The Bureau should continue to build on the policy changes that have been made and achieve, in the long term, a transformation of Yemeni education, comparable to prior A.I.D. successes in such countries as Korea, Nepal, Brazil and Jordan.

8.6.2 Building on earlier successes in altering the methods the Egyptians use in locating schools, A.I.D. should work on improving the efficiency and quality of the school system. Support to educational planning, administration and finance should become integral parts of A.I.D.'s support for basic education. Egypt, however is one country where because of the overall program dollar level, limited additional resource transfers for commodities and construction may be contemplated.

8.6.3 Requests for A.I.D. support to literacy campaigns as a way of accelerating the acquisition of basic education skills should be approached cautiously. Based on evidence to date, very few of these campaigns have been successful. However, existing technology (particularly educational radio and, to a greater extent, television) may afford the opportunity to accelerate very rapidly the extension of basic education in some cases even bypassing the formal school system. Several countries, particularly Yemen and Egypt, are in a unique position because television coverage is high even in rural areas. U.S. educational television has been a very successful medium for teaching

basic literacy, numeracy and other life skills to children and adults. Similar opportunities exist for Middle East countries through the development of educational programming in Arabic. Some work has already been done in this area with an existing Arab organization in the Gulf area. The launching in 1984 of Arabsat, which is designed for development applications, may provide a particularly cost-effective way of transferring knowledge and technology in several content areas (health, agriculture and education) and of reaching rural illiterate populations, especially women.

8.6.4 In the skills training area, there will be an increased focus on training programs which address critical shortages of trained manpower and help prepare people for productive employment. As the countries of the region become more urban and their economies evolve, A.I.D. may need to support the development of skills training programs which will provide training in the growing service sectors.

8.6.5 A.I.D. support for skills training programs will be particularly effective for transferring technology and institution-building. There may be also, in fact, some cases in which we can assist in strengthening the private sector's capacity (both PVOs and commercial enterprises) to develop training programs more closely linked to the demand for skilled labor.

8.6.6 With regard to higher level manpower, one of AID's most successful ways of transferring U.S. technology is via bilateral participant training programs. In those countries in which we have a more mature relationship, e.g. Jordan, the use of the fixed amount reimbursement method for managing participant training as in Oman has particular applicability and attractiveness as well as the creation of binational foundations which could continue to function if A.I.D. assistance phases down.

8.6.7 Given some of the well-known and competent institutions of higher education in the region, A.I.D. should consider providing some support for developing them as regional training centers. This support could largely consist of faculty training and could be done on a cost-sharing basis with the recipient institution. In Egypt, one of AID's major foci in education should be on rebuilding the capabilities of higher education institutions, particularly those areas related to science and technology.

8.7 Agricultural productivity. During the planning period, the Bureau will address the following:

- The development or refinement of host country agricultural sector strategies. These strategies will serve as the framework for AID investment in each country;
- The identification and analysis of policies which affect growth of the agriculture sector. The objective will be to better understand the policy environment and to engage host country officials in discussions of policies which are relevant to the success of development programs;

- The strengthening of public and private institutions involved in agricultural research and the diffusion of appropriate technical inputs and agronomic practices;
- The development and adoption of technologies to increase agricultural production per unit of land and water; and
- Egypt and the Jordan Valley excepted, focus on the rainfed areas where the potential exists for substantial increases in cereal grain, legume, and forage production.

8.7.1 Within this overall context, five specific elements will be emphasized in carrying out the sector strategy.

8.7.2 Self Reliance. In the design of new programs and in evaluating current activities, countries in the region will be encouraged to consider crop and livestock systems consistent with comparative advantage and self reliance rather than self-sufficiency in domestic food production. This effort will entail research on the appropriate allocation of resources, crop mixes, and domestic and international market opportunities and limitations. The implications for intra-regional trade and regional food consumption patterns, particularly for high value fruits and vegetables, along with an assessment of competing supplies of these commodities will have to be addressed. On the domestic side, the economic and financial motives which guide farmers in the use of their resources, their selection of crop and livestock combinations, and their choice of markets will have to be better analyzed.

8.7.3 Increased output per unit of land and water. The dissemination and adoption of technologies to increase agricultural production will receive increased emphasis. The focus will be on applied research and the development of diffusion methodologies. Additional analysis of the farming systems practiced in each country will be needed to understand ways in which existing land use can be intensified and resources applied more efficiently. In Egypt and in the Jordan Valley, particular emphasis will be put on more efficient use of water and lower cost drainage and irrigation maintenance techniques. Problems of rising water tables and salinity in Egypt will have to be addressed. The role and economic viability of mechanization and more capital intensive investment in agriculture will have to be analyzed.

8.7.4 Assistance to rainfed areas. Over the next decade increased attention will be given to less productive rainfed areas. In many countries of the Middle East, the bulk of the rural population and a substantial share of the domestic food is produced in the rainfed zones. The agricultural practices employed on these areas are more traditional and input use substantially lower than in the irrigated areas. Rainfed lands are characterized by poor soil fertility, yield lower output and have lower production potential. However, there are both equity and soil and water conservation objectives to be achieved through investments in the rainfed zones. Rural incomes and living standards are generally lower in these zones and the rate of environmental degradation is usually more rapid. In the rainfed zones, applied research will be emphasized to develop crop varieties and production techniques suitable to the environment. Particular emphasis will be given to crops and management practices which retain and conserve water.

8.7.5 Policy Intervention. The analysis of food and agricultural policies will remain central to strategies for economic development. The Bureau intends to maintain an emphasis on strengthening policy analysis within host government institutions so that the host countries themselves are better able to evaluate alternative policy decisions. Our principle concerns are:

- Creating an economic policy environment that will stimulate farmers to select crops and inputs on an economic basis. Pricing and subsidy issues will be major concerns;
- Introducing or reinforcing appropriate credit policies that will increase farmers' access to farm inputs and technological change; and
- Understanding the implications of policies related to the scope and types of public investment in research, technology transfer and basic services to farmers.

8.7.6 Strengthening of institutions. Successful accomplishment of the agricultural strategy hinges on the ability of host country institutions to manage resources. The Bureau will continue its emphasis in this sector on training and educational programs that will lead to building a cadre of technical managers and scientists. New programs will look carefully at institutional constraints related to planning, coordination and administration of agricultural programs and projects. We will continue to provide technical assistance to supplement the limited expertise available in many countries in which we work.

8.8. Energy. During the planning period the Bureau strategy in energy will be to improve the abilities of A.I.D.-assisted countries to adjust to the previous energy price and supply shocks, by adapting the available technology and investment resources of energy firms and institutions. Such a strategy would complement the activities of other major actors in energy development assistance--primarily the World Bank-- and maximize the sharing of "lessons learned" in energy among the Middle East countries themselves. It would include projects in technical assistance and training in energy planning, policy analysis and investment analysis, and pricing analysis; energy conservation and efficiency analysis; energy resource assessment and technology assessment; and energy project feasibility studies. Projects to improve energy efficiency are appropriate in all countries, as such activity saves foreign exchange and allows for the conservation of scarce investment resources.

8.8.1 These energy planning projects are intended to improve the abilities of Near East country governments to manage the inter-related aspects of their energy sectors and to link the energy sectors with other productive and service sectors of the economy. The renewable energy projects are intended to improve the abilities of these governments and the countries' private sectors to develop marketable technologies using indigenous supplies of renewable energy. The electric power, distribution, control and electrification activities are aimed at increasing the supply of electricity to urban and rural populations and the industrial and agricultural sectors, the efficient production and management of electricity, and the financial management of the

utilities. The petroleum resource/technology assessment activities are intended to assist these governments and country petroleum agencies in better identifying their potential resources and analyzing the exploration data and technologies needed to develop the resources.

8.9 Implications of a Middle East Peace. Looking through the 1980s', the fulfillment of the U.S. goal of bringing peace to the region presents a major contingent responsibility for A.I.D. -- in the sense that country priorities could be altered, additional financial resources might become available for development uses and technical staff resources might have to be redeployed. Obviously, and as suggested in Section 4, no one can predict the actual outcome of the large number of peace permutations. However, the Bureau has posed the question whether significant new accomplishments in the quest for peace would significantly alter the composition and ordering of development problems which A.I.D. should address in the 1980s. The general answer is no. While emphases on countries and levels of economic assistance might shift, the development problems -- with one possible exception -- will remain the same. This point is drawn out in the discussion below of two hypothetical cases: first, a settlement between Israel and Jordan which leads to a self governing authority on the West Bank of the Jordan River and the Gaza Strip; and a more general peace among some or all of the Arab states and Israel.

8.9.1 At the outset it should be stressed that the purely economic benefits of peace are likely to be neither as large nor come as quickly as observers have predicted. Economic benefits would probably increase gradually as the involved states gain confidence that a political peace will hold. As this occurs, the most immediate impact would be registered as restraints on trade are lifted between Israel and its neighbors. In 1980 the Arab states in the region imported goods and services estimated at \$100 billion and by 1985 the regional import bill could rise to as high as \$200 billion. However, Israel may not enjoy much trade with its neighbors, e.g. Lebanon and Jordan with whom its economy is largely competitive rather than complementary. Israel would have to compete with cheaper foreign products. Other benefits could include the stimulation of joint ventures to produce some of the goods which are now imported and, more likely, the rapid expansion of tourism in this historic area. Finally, peace could lead to cooperative efforts to exploit and conserve the region's scarcest resource, water.

8.9.2 In 1978, the State Department commissioned a study (CACI, Inc. December 1978) of the investment requirements associated with the future of a self-governing entity in the West Bank and Gaza Strip. Based upon fragmentary data, and a hypothetical projection of the flow of Palestinian immigrants to the area (the parameters were between 107,000 and 217,000 over seven years' time), the estimated investment requirement, in 1978 dollars, was \$2 billion. This amount, of which about half, or \$1 billion, would be required from external capital flows, was estimated to be sufficient to sustain a moderate real growth in per capita income of around five percent per annum. The sectoral allocations were projected to be heavily weighted toward urban infrastructure and public services (housing, water, sewerage, electricity, roads, education and health) which accounted for 90 percent of the investment requirement. In the case of agriculture, even though it provides about one third of employment in the West Bank and Gaza and 30 to 40 percent of domestic

product, only 9 percent was allocated for investment due to the binding constraints on arable land and water supplies. The viability of a self governing entity was seen as dependent upon open borders, the demand for, and free movement of labor and capital among the neighboring states of the area. Using the West Bank and Gaza as a microcosm for the area strongly suggests that the Bureau's sense of the priority development problems -- with an emphasis on the urbanization and non-agricultural employment themes -- is on target.

8.9.3 Looking to a larger, more general peace between Israel and its Arab neighbors brings forth a list of projects which could potentially advance the economic integration of the region. One of the more important would be the proposed Maqarin Dam on the Yarmouk River, at a total cost above \$1 billion. It would require the agreement of the riparians -- Syria, Jordan, Israel -- to construct the project and utilize the water resource. Other potential water projects might include the sale of Lebanon's Litani River water to Israel, the construction of water courses to share the waters from Lake Tiberius and, more distantly, water sharing between Syria and Jordan which would also involve Iraq's riparian interests in the Euphrates River. Desalination of brackish or salt water also offers the promise of developing and sharing technology among the water short states. There are also potentially viable projects in the power, telecommunications and transportation sectors which would serve to integrate the region. Seemingly, promising prospects would be upgrading or constructing new rail and road linkages between Israel and Egypt; Israel - West Bank - Jordan; and Israel - Jordan, several of which would not be economically viable unless the concerned parties pooled their investment resources for the common goal of increasing commerce. The only inconsistency between this illustrative pattern of development investments resulting from break throughs in the peace process and the Bureau's sectoral priorities in this strategy would be the relative emphasis on transportation networks, following the water priority.

9.0

RESOURCE ALLOCATION BY COUNTRY AND BUREAU

9.1 Mission proposed resource allocations. The Agency's program planning process is designed to allocate resources five fiscal years into the future. The FY 1985 Country Development Strategy Statements' (dated January, 1983) estimates of future sectoral resource allocations were updated in April 1983 in the form of Mission responses to questions in a Bureau survey. In addition, actual sectoral allocations for the years 1980 - 1982 were compiled. The actuals for 1980 - 1982 are combined with the projected allocations over the period 1983 - 1988 in the following Tables.

9.1.1 For the purpose of Bureau strategic planning, the actual and projected resource allocations represent Mission-determined baseline trends of their ranking of development problems, as measured by relative resource allocations. The relative allocation does not equate with the true priority ranking of those development problems. Some development problems require greater financial resources to reach a solution than others do.

9.1.2 A caveat arises because the resource allocations were calculated before and during the Bureau-wide strategic planning process; and before the conclusions contained in Section 8 had been reached. Specifically, these were

Table 22
Percentage Distribution of Actual, Planned and Projected
Project Assistance by Sector for Egypt
(Percent)

	<u>FY 80</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Project Budget Total (\$000)	500,000	530,125	421,000	450,000	450,000	450,000	450,000	450,000	450,000
<u>Sector Allocations</u>									
1. Agric. Productivity	16	11	19	7	11	11	11	11	11
2. Water	--	21	27	44	44	44	44	44	44
3. Urban Development	22	8	10	9	7	7	7	6	7
4. Health	5	5	1	1	1	1	-	-	-
5. Education	15	10	1	5	4	3	-	-	-
6. Rural Comm Dev.	15	3	-	13	4	4	4	5	4
7. Population	2	3	5	4	6	8	4	-	-
8. Energy	3	17	2	22	3	1	5	-	-
9. Industry	16	15	32	28	24	22	17	17	17
10. Unprogrammed	-	-	-	-	-	-	6	13	16
Urbanization (Non-additive)	28	30	18	75	52	52	51	51	51

Table 23
Percentage Distribution of Actual, Planned and Estimated Project Assistance by Sector for
Jordan, Morocco, Oman, Yemen, Regional, and Tunisia Taken Together
(Percent)

	<u>FY 80</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Project Budget Total (\$000)	111,751	78,012	85,4590	99,950	114,000	109,000	114,000	120,500	123,000
<u>Sector Allocations</u>									
1. Agric. Productivity	13	45	25	17	19	25	26	24	33
2. Water	34	12	28	20	8	7	10	9	9
3. Urban Development	2	*	*	2	*	*	*	*	*
4. Health	3	9	5	8	5	2	1	1	1
5. Education	15	24	24	41	37	29	29	29	29
6. Rural Comm. Dev.	2	2	6	6	10	5	3	2	2
7. Population	4	6	2	2	3	5	5	6	4
8. Energy	1	4	3	1	3	6	4	4	2
9. Special Interests	-	2	1	4	-	-	-	-	-
10. Unprogrammed	-	-	-	-	1	10	11	10	10
Urbanization (Non-additive)	23	7	22	21	6	6	10	9	8

* Means item comprises less than 0.5%

done prior to the Bureau's recognition of the increasingly urban nature of future Middle East development problems. Consequently, as the Bureau strategy evolves from the traditional emphasis on agriculture to a greater emphasis on urban-related problems, implementation of the strategy would alter resource allocations beyond 1985.

9.1.3 Having mentioned these two caveats, it is instructive to analyze the resource allocation projections contained in Tables 22 and 23. Table 22 presents the sectoral resource allocation for the Egypt program alone. Table 23 aggregates the Bureau programs in Morocco, Tunisia, Jordan, Oman and Yemen, and the Region-wide programs. The two tables were calculated in an attempt to allocate each actual or proposed project to mutually exclusive priority development problems. This methodology was followed, with one exception; the line item titled "Urbanization" includes all projects related to development in urban areas, some of which are also allocated to other specific sectors.

9.1.4 The distinction between "Urbanization" and "Urban Development" is meaningful for this discussion. Urban Development is limited to Bureau activities in urban and community development; low cost housing, decentralization; and telecommunications. "Urbanization," on the other hand, aggregates all Bureau activities which address urban problems, including projects for urban water and sewerage (also included under Water), plus urban and community health and electric power generation. There is no double counting of financial resources included under "Urban Development" whereas "Urbanization" includes double counting and is non-additive. But the latter is a more encompassing concept, and more useful when discussing the overall importance of the urbanization problem.

9.1.5 For Egypt (Table 22), water including sewerage remains predominant over the entire planning period; industry declines but remains in second position; agriculture increases its share from 1983 to 1985, thereafter in the third position; urban development and population switch rank temporarily in 1985, but after 1986 there is no resource allocation for population programs in Egypt. This latter is an unlikely outcome, however, because it is probable that follow-on population projects will be developed for Egypt for 1987 and beyond. This is also true in health, education and energy.

9.1.6 For the aggregate of all other countries (Table 23), education begins the planning period at 40%, falls off slightly by 1985 and is projected to maintain almost a 30% share of the annual allocation until the end of the planning period. Agriculture climbs steadily in importance from 17% in 1983 to one third of the annual resource allocation by 1988, taking over first place from education that year. Water accounts for 20% in 1983, second only to education, but falls off the next year and maintains approximately a 10% share of the annual allocation through the end of the period. Population and energy begin the planning period low (2% and 1% respectively), climb to around 5% by mid-period and then fall off slightly by 1988. Urban development is essentially zero throughout the planning period, except for 1983, while rural development maintains a steady phase-down over the period, as does health.

9.1.7 Since the Bureau Strategy highlights the importance of urbanization, it is also instructive to take a more careful look at the resource allocation trends for the line item Urbanization, mentioned at the outset of this section. A graph (see Figure 1) representing the resources allocated to this more encompassing concept of urban development-related programs indicates that the Egypt program is already devoting over 50% of its resources to Urbanization activities. According to the Mission's own assessment, they will maintain this high proportion throughout the planning period, largely concentrated in the capital intensive water and sewerage projects for Egypt's principal cities.

9.1.8 For the other countries of the Middle East, however, the Missions have indicated they think urbanization, as an ongoing theme, will diminish in importance over the planning period. Urbanization begins in 1983 at 21 percent of the annual resource allocation but falls to 8 percent by the period's end. With the relatively large amounts of unprogrammed resources from 1985 on (over 10% of annual allocations) many activities will not experience the downward trends indicated above. This will be particularly true of the urban-related activities grouped under Urbanization, at the heart of the Bureau strategy. Prior to future planning and budget submissions, the Missions will be provided guidance on how to progressively give greater emphasis to the Bureau's priority development problems, particularly urbanization.

9.2. Future impact of Bureau Strategy on Mission resource allocations. The relationship between the Mission priorities as expressed in their resource allocations (arrived at essentially from the bottom-up), and the Bureau's priority ranking of development problems, may be characterized as a dynamic tension which from 1985 onward will yield a closer and closer congruence. By 1988 water, employment generation and urban development, along with urban based vocational/technical training, should be overtaking agriculture for the number one position in resource allocations. But even while projecting this future trend, the intention is not to constrain Missions when the country-specific conditions provide a strong justification for other investments, as is the case of rainfed agriculture in Morocco or education programs in Yemen and Oman. But, the Bureau fully expects that the projected trend in resources allocated to Urbanization by Missions other than Egypt will, in fact, increase in the years after 1985 as suggested by the hypothetical projection in Figure 2.

9.2.1 Even though population will never challenge most of the other priority development problems in sheer volume of resources, population programs attain such a large impact in relation to the resources spent that the relatively small allocation they receive belies their importance in the Bureau's strategy. Integrated rural development activities will phase out. Maternal/child health care will more often complement population programs, and potable water and sanitation will be dealt with under the water sector. Bureau priorities also imply that energy will hold a significant level of resources throughout the planning period.

Figure 1
THE URBAN THEME IN PROJECT ASSISTANCE
AS A % OF TOTAL PROGRAM OUTLAYS

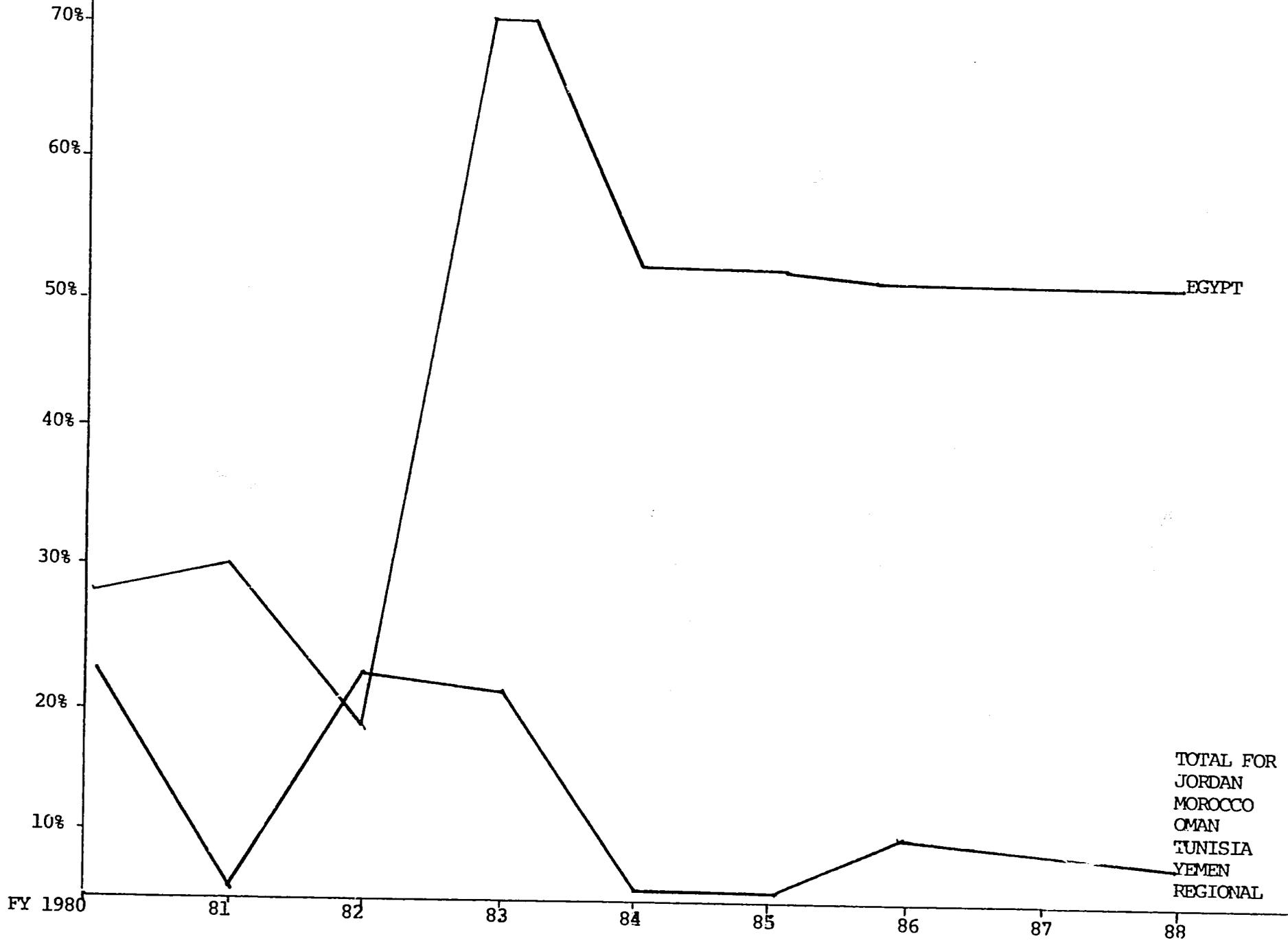
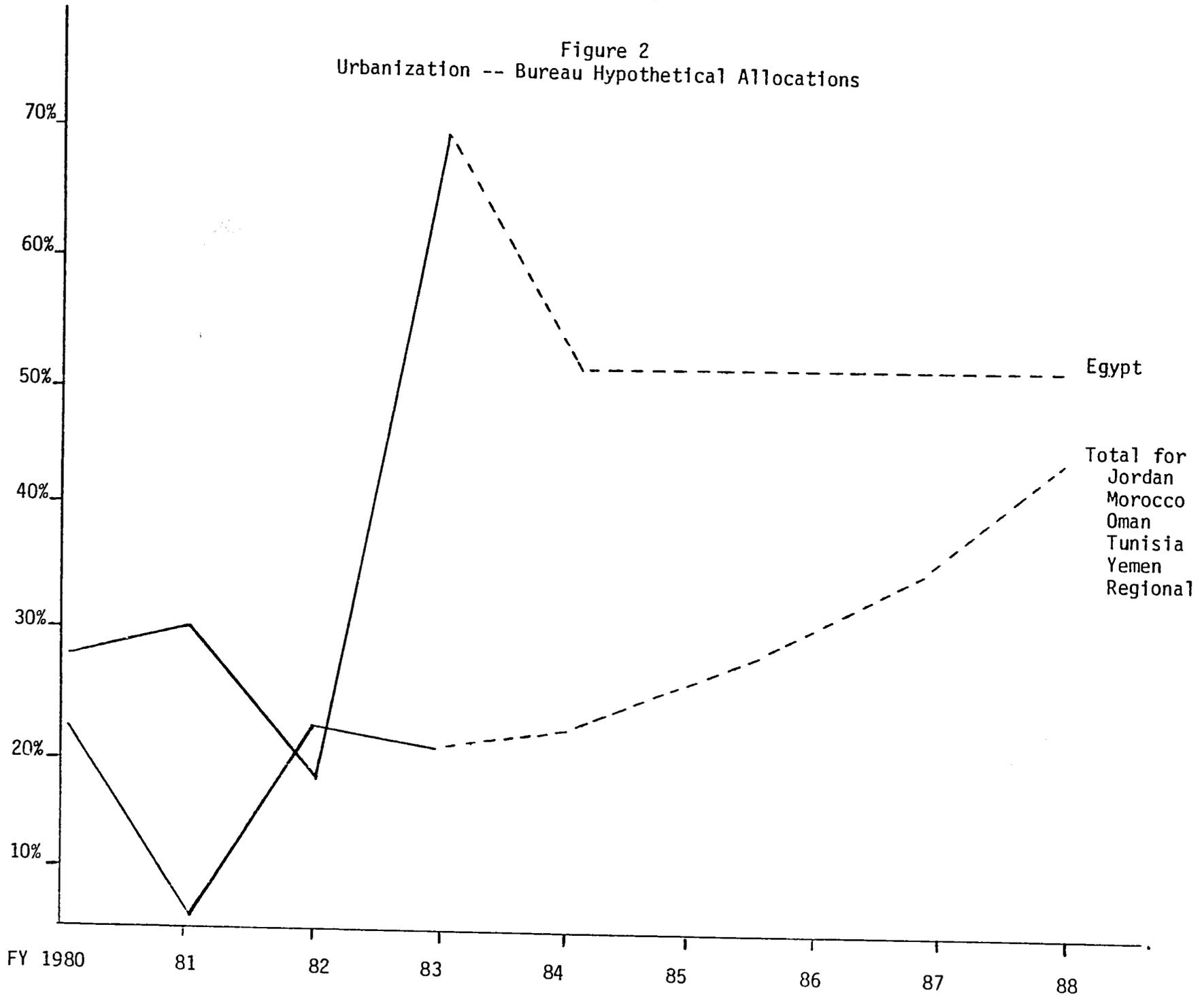


Figure 2
Urbanization -- Bureau Hypothetical Allocations



10.0

IMPLEMENTING THE STRATEGY

10.1 Recapitulation of the Strategy. To review briefly, the Bureau has defined the development goal as improving the quality of life of the people in the Middle East region. In the broadest terms, the goal will be achieved by implementing a strategy which seeks to maximize economic growth with equity. The strategy has been divided into three levels or tiers: first, to address the individual country macro-economic environments; second, to make direct A.I.D. investments in activities which will increase productivity (and hence, increments to countries' GDP); and, third, to undertake A.I.D. activities which will improve social equity.

10.2 Implementation will Evolve. The Bureau's strategy suggests several discrete tasks to transform the planning exercise into programmatic change over the period 1983-1988, particularly in the later years. Implementation of the strategy will not require abrupt change; rather, the Bureau envisages program transformation as an evolutionary process. Preparing the strategy required coordination with the Bureau's field Missions which have already reflected some shifts in emphasis, by sectors, in the later years of the planning period. Proceeding to the next round of Country Development Strategy Statements (due January 1984) the Bureau would expect to see additional shifts in emphases which conform to the regional strategy. Specific tasks to implement the strategy are discussed below.

10.3 Sectoral Concentration. As discussed in the introduction to this paper, sectoral concentration is a major underlying theme of the planning exercise. Sectoral concentration offers the promise of greater development impact on country GDP, greater focus for bilateral dialogue between A.I.D. and host country planners, economies of scale with respect to project design and implementation at the country level, and a means by which the Bureau can reduce or streamline support operations and staff -- as it is required to do under current Agency guidance. A few words of caution about "sectoral concentration" are important. The typology of development problems, i.e. "sectors", used in this paper is only one of an infinite set of possibilities. It is commonplace to observe, and important to remember, that the development process involves a synergy of change among sectors, e.g. population goals are unlikely to be achieved in isolation from improved maternal and child health, advances in basic education for women and, more generally, increasing incomes. Accordingly it is understood that the delivery of population services will often include a significant level of health service delivery as well. The typology employed in the paper is not a division of the economy into mutually exclusive sectors because, for example, the boundary between urbanization -- a major organizing concept rather than a discrete sector per se -- and the water scarcity and utilization sector, for example, is not clear. The Bureau sees very little to be gained by agonizing about such demarcations; rather, it is sufficient to acknowledge the definitional problems. To take yet another example, environmental degradation doesn't appear among the top seven sectors in the Bureau's strategy; yet, the Bureau would reasonably expect that some A.I.D. financed projects in urban areas would directly address, if relevant, pollution control.

10.4 Mission Flexibility within the Concentration Effort. The Bureau intends to approach the matter of sectoral concentration in this manner: the top seven development problems analyzed and discussed in this strategy will constitute the regional framework within which country A.I.D. Missions will draw the major sectoral emphases for their individual portfolio of project interventions. In a typical Mission, excluding Egypt, the Bureau would expect that no more than, say, four development problems will constitute the program portfolio. However, the Bureau would have no expectation that the same four development problems would prevail for every country. The top seven priorities ranked by region-wide priority (but not necessarily as priorities for any given country) are as follows:

- Population
- Urbanization
- Water Scarcity and Utilization
- Employment Generation
- Basic Education and Technical Training
- Agricultural Productivity
- Energy

10.5 Sectors to be De-emphasized. The Administrator's original guidance on strategic planning stressed that a bureau's plan would not be regarded as a serious effort unless those sectors or activities are specified from which the Bureau intends to withdraw. Interestingly, most of the critical reactions to the Bureau's December 1982 Preliminary Strategy focussed on the indications of sectors which would be de-emphasized or abandoned. The Bureau's strategy is not meant to be interpreted as a case that the sectors which will be de-emphasized are unimportant; rather, they are less important than the priority development problems listed above. However, host countries and other donors will continue to address them. On the basis of the need to conserve and focus financial and technical resources and the empirical evidence relating to relative need in the region, the Bureau intends to de-emphasize in forward planning the following:

- integrated rural development activities;
- environmental degradation as "free-standing" projects;
- nutrition, (except in conjunction with increasing the developmental impact of PL 480 Title II programs and population activities on a highly selective basis);
- conventional energy generation (with Egypt as a possible near-term exception);
- "women in development" as free-standing projects (though the Bureau would expect WID elements to be built into projects to increase industrial productivity, for example);

- "human rights" as free-standing projects though elements could be built into other projects which address the seven priority development problems;
- new irrigation infrastructure projects;
- afforestation; and
- capital infrastructure such as roads, dams, airports with the exception of Egypt, as appropriate, and in the event that major infrastructure is justified on a regional scale as the result of positive developments in the peace process.

10.6 A.I.D. Capacity Shifts. The ability of A.I.D. to respond to evolving development priorities in the 1980s is largely a function of its professional, technical capacity and is, therefore, linked to the sectoral concentration task. The Bureau review suggests that A.I.D. has outstanding capacity -- some would say an absolute advantage among donors -- in the population and agriculture sectors and very good capacity with respect to water and education, but only average or poor capacity in dealing with the urbanization phenomenon. If these characterizations are apt, they suggest that the Bureau will have to give up, or trade away, capacity in some sectors in order to augment its strength in the priority sectors. For example, A.I.D. capacity to implement integrated rural development programs is seen as a low priority for the Middle East in the 1980s, but it may be that other regions have a great need for more expertise in this sector. While on the surface trading off rural development expertise, for example, to gain competence in some other area is straight forward, for as long as such internal A.I.D. shifts are not made, there will be a continuing --self fulfilling -- demand for more work in the rural development sector. More perplexing for the Bureau is the problem of how to build-up capacity on urban problems when it is not obviously the case that the urbanization phenomenon will be a high priority in other regions and for the Agency as a whole.

10.7 The Administrator's Initiatives. The Bureau has emphasized the Administrator's four initiatives in this strategy -- particularly with respect to enhancing the macro economic policy environment, the transfer of appropriate technology and building applied research capacity, institutional development and trying to open recipient country economies and our A.I.D. activities to the private sector -- in moving to concentrate country A.I.D. programs into a smaller number of sectoral priorities. Among these, Middle East country programs already have strong institution building and technology transfer elements and these will be further strengthened. Private enterprise plays a key role in nearly every Middle East country except Egypt where central planning and public sector enterprise are overbearing. In Egypt, the Bureau is evolving a dual approach wherein efforts to expand the role of the private sector continue while, simultaneously, parallel efforts are made to make public sector enterprises more efficient and responsive to market forces. The connection between the two is that unless the public sector becomes more responsive the Government will be reluctant to open the economy to competition from the private sector. In this respect, the Administrator's emphasis on the fourth initiative, i.e. economic reform through bilateral

policy dialogue, is particularly appropriate. As suggested in our discussion of strategy, a bilateral policy dialogue is crucial to the improvement of the macro-economic environment in A.I.D. recipient countries. The Administrator's initiatives are by this time well understood and widely accepted and, therefore, do not present conceptual problems which must be addressed in the course of implementing a regional strategy.

10.8 Parallel Financing with Arab Donor Funds. The Bureau's efforts over the past year to engage the Arab donor funds in the parallel financing of development projects ought to be sustained and given more emphasis during the planning period. There are several advantages: first, relatively small amounts of U.S. funds can be used to finance the technology transfer which will ensure that Arab capital is productively employed; second, when this happens, A.I.D. is effectively leveraging outside resources for the benefit of bilateral partners; and third, such arrangements build and strengthen U.S. relations with the Arab funds which are headquartered in the Middle East but with which we do not have strong financial links. The private sector, where there is already Arab donor interest, is one of the more interesting areas for consideration.

10.9 Graduation. Within the Middle East region six countries are candidates for graduation from concessional economic assistance programs, provided that graduation would not imperil the achievement of U.S. foreign policy objectives. Within the strategy planning period, the Syria program will be completed and three other graduations are conceivable, i.e. Tunisia, Lebanon and Jordan. However, graduating Israel and Oman probably presents insurmountable foreign policy problems and is not used as either an assumption or as a task in the plan period. (In the European area, it seems quite sensible to contemplate the orderly completion of A.I.D. programs in Cyprus, Portugal, Turkey and the earthquake recovery program in Italy.) For all graduations except Italy and Cyprus which are special cases, what A.I.D. needs is a model and strategy for moving to a more mature relationship wherein the countries have ready access to U.S. technical expertise and working linkages to American institutions, both at little cost to the U.S. government. A.I.D. has some prior experience in Taiwan, Korea, Iran and elsewhere which ought to be synthesized by the Agency for the benefit of those regional bureaus which are trying to come to grips with the problem.

Office of Development Planning
Near East Bureau
Agency for International Development

December 1983

APPENDICES

- A. Management Guide
- B. Sectoral Survey Priority Tables
- C. Population Growth-Illustrative Figures
- D. Urbanization Tables
- E. Country Data Tables
- F. Economic Data Tables
- G. Bibliography

APPENDIX A
MANAGEMENT GUIDE
NEAR EAST BUREAU STRATEGY
1983 - 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

DECEMBER 1983

11

CONTENTS OF MANAGEMENT GUIDE

- Section 1. Priority Development Problems for the 1980's in the Middle East
 - Population and Complementary Health Activities
 - Urbanization
 - Water Scarcity/Utilization
 - Employment Generation
 - Basic Education and Technical Training
 - Agricultural Productivity
 - Energy
- Section 2. Role of the Administrator's Four Initiatives
- Section 3. Summary of Staffing and Resource Implications
- Section 4. Listing of Areas to be De-emphasized

Section 1

PRIORITY DEVELOPMENT PROBLEMS FOR THE 1980's
IN THE MIDDLE EAST

11

POPULATION AND COMPLEMENTARY HEALTH ACTIVITIES

Description of Development Problem

Continued rapid population growth, through the end of the century and beyond, at an average rate of growth of 2.6%, would result in a doubling of current population by the year 2010. A wide range of problems will arise from such rapid population growth, such as:

- each productive worker will have to support larger numbers of young dependents;
- vast numbers of school age children will make it impossible, or extremely expensive, to improve human resource development as education systems are overwhelmed by increased enrollments;
- as large numbers of young move up the population pyramid the Regional economies will be unable to generate productive employment opportunities apace, causing even higher unemployment and underemployment rates than at present; and
- in combination with limited arable land and water resources, rural-to-urban migration will continue (and may even accelerate) thereby increasing food import requirements, even with good agricultural policies.

Category A -- Countries with embryonic population programs, where AID assistance should be more thoroughly employed.
Includes: Jordan, Lebanon, Yemen and Turkey.

Category B -- Countries with successful or maturing population programs that will receive continued AID assistance.
Includes: Egypt, Morocco and Tunisia.

A Long-term Development Goal year 2000	B AID Strategic Objectives 1988	C Verifiable Strategic Indicators 1988	D Means 5 years	E Benchmarks 1985
Improve well-being of Region's people by bringing population into balance with country resources, which involves reduction in the currently very high population growth rates.	(1) Increase acceptability of family planning concepts and practices to host country governments and people. (2) Improve maternal/child health as a complement to expanded family planning activities. (3) Provide families throughout the Region, who so desire, with an effective choice of their family size.	(1) Host country policy commitment to family planning in Category A and to a further need to improve knowledge, attitudes and practices in Category B. (2) Reduced child mortality rates. (3) Implementation of family planning programs in Category A, at least involving MOH, and expanded programs in Category B. (4) Attain contraceptive prevalence rates of 30-50% in Category B. (5) Reduced birth rates. (6) Access of a majority of all families to family planning info. and commodities in Category B (at least 40% in Category A). (7) Reduce the gap between rural and urban dwellers and between low and middle income families in terms of contraceptive prevalence.	(1) Engage in policy dialogue at highest levels of host and donor country governments. (2) Develop programs to disseminate information on family planning-related knowledge, attitudes and practices. (3) Incorporate public health concerns in water/sewerage programs (See Water Scarcity for Means and Benchmarks). (4) Design and implement family planning delivery systems that integrate maternal/child health services and targeted nutrition programs. (5) Provide and distribute contraceptives in order to establish future market for private sector. (6) Increase involvement of private sector in provision of family planning services, including contraceptive sales and domestic production, utilizing social marketing techniques where appropriate. (7) Balance urban/rural focus of family planning programs: - initial focus on cost-effective urban areas (except where vast majority of populace is rural); - focus on urban poor; and - evolve rural focus as program matures, particularly where other urban donors exist.	(1) Establish effective policy dialogue on family planning with Category A; develop further with Category B. (2) All bilateral family planning projects integrate complementary health and nutrition components, such as oral rehydration, immunization and Title II food aid. (3) Increase number of contraceptive acceptors at MOH clinics dispensing family planning information and services. (4) Increased number of practitioners with a multi-disciplinary approach integrating family planning and health service delivery (5) Programs to involve private sector organizations in marketing, distribution (and production in Egypt) of contraceptives are in place. (6) Significant progress in attaining a balance between urban and rural components of family planning country programs.

80

URBANIZATION

Description of Development Problem

Proverty is increasingly becoming an urban phenomenon because the rapid growth of total population increasingly manifests itself in the dramatic growth of urban areas. Urban population in the region is expected to double by the year 2000, comprising 58% of the region's total population compared to 45% in 1983. Cities in the region are unprepared for the growth they are currently experiencing (well over half of total population growth over the period 1960-83 occurred in urban areas) while estimates are that four out of every five new additions to total population over the remainder of the decade will live in urban areas.

A Long-term Development Goal year 2000	B AID Strategic Objectives 1988	C Verifiable Strategic Indicators 1988	D Means 5 years	E Benchmarks 1985
Management of the urbanization process so that it contributes to the achievement of national economic development objectives of the countries in the region, through development of efficient national urban settlement systems.	<p>(1) Increased awareness by host governments of the need for explicit policies to utilize urban development to attain overall economic development objectives.</p> <p>(2) Improved performance and efficiency of urban institutions in the region.</p> <p>(3) Improved social equity for the urban poor.</p>	<p>(1) Urban development is an integral part of program analysis in all Missions.</p> <p>(2) Implementation of urban projects that address identified constraints to progress.</p> <p>(3) Implementation of HGs for low-cost sites-and-services and/or slum upgrading.</p>	<p>(1) The role of AID in urban development is currently being reassessed by the Agency. PPC is preparing an Urban Development Policy Paper. The Office of Housing and Urban Development has developed assessment packages that can assist Missions in urban analysis. The 1983 Near East Bureau Mission Directors Meeting will reach conclusions on how to integrate urbanization into country programs. A NE Urban Working Group will identify specific urban intervention modes.</p> <p>(2) Finance urban/economic infrastructure facilities.</p> <p>(3) Develop methods to mobilize adequate domestic financial resources to expand the scale of already developed low-cost housing and urban services. (In the case of urban water/waste-water services see Water Scarcity/Utilization.)</p>	<p>(1) Increase the level of awareness of Mission staff regarding the importance of the urbanization process in economic development</p> <p>(2) The NE Bureau will have prepared, in consultation with its Missions and the relevant central bureaus, an urbanization strategy applicable to AID-assisted countries in the region.</p> <p>(3) NE Bureau will make use of newly approved centrally-funded UDSS Project for assistance in an urban assessment or the urban component of a CDSS, and in the development of an urban PID.</p>

18

WATER SCARCITY/UTILIZATION

Description of Development Problem

The countries of the Near East Region, excepting Egypt, are faced with severe to very severe water scarcity, with consequent rapidly increasing real costs for incremental supplies. Inefficient water utilization is compounded by inadequate water management policies largely related to inappropriate pricing of both water and wastewater services (in Egypt water user charges tend to cover less than half of O & M costs while there are no charges at all for wastewater services). Difficult choices will have to be made between irrigation versus municipal uses of scarce supplies in Jordan within ten years (without Yarmouk River water, that can only be made available if peace breaks out), while high cost desalination and wastewater reuse may be necessary in Oman and Yemen. Only 1/2 and 2/3 of the current urban population of the region has access to piped water while availability of wastewater services in urban areas is even more scarce (with essentially no communal sewerage systems in rural areas). As rapid urbanization continues, the capital requirements for new systems will be staggering.

A Long-term Development Goal year 2000	B AID Strategic Objectives 1988	C Verifiable Strategic Indicators 1988	D Means 5 years	E Benchmarks 1985
Optimize the use of scarce water resources among agricultural, industrial and municipal uses.	(1) Make available additional water supplies.	(1) Construction of additional water supply and aquifer recharge systems.	(1) Finance construction of urban or rural water supply systems.	(1) Yemen: remaining rural water systems constructed and 50 earthquake damaged systems rehabilitated.
	(2) Increase the number and effectiveness of wastewater services in Egypt, Yemen and Jordan.	(2) Construction complete of wastewater systems in three Egyptian cities.	(2) Finance construction of urban wastewater systems where AID resources are adequate.	(2) Oman: Engineering design of aquifer recharge project finalized.
	(3) Improve water/wastewater management and planning at all levels of govt. and within private sector: - rate structure based on real operating and capital costs, - conservation and reuse of water.	(3) Implementation of water/wastewater user charges that cover 100% of O & M costs, plus debt service/depreciation at least for portion of capital costs provided by U.S.	(3) Policy dialogue on: - establishment of water/wastewater pricing policy; - advantages of autonomous water and sewer organizations; and - formation of national water planning authorities.	(3) Tunisia: Five ongoing water projects completed.
		(4) Water resource inventory completed for Yemen (and updated for other countries where needed).	(4) Provide technical assistance in assessing extent of water resource availability (eg. Yemen) and water management planning.	(4) Jordan: Three water supply projects complete and nine water/wastewater systems designed, of which two under const.
		(5) Program(s) begun in wastewater reuse (e.g. Yemen).	(5) Provide technical training/advisory services to water and wastewater authorities: - design, operation and maintenance of village systems, - training water utility operators, - private sector construction contractors, and - host country project preparation for other donors.	(5) Egypt: Design of Cairo and Alexandria wastewater projects 75% complete. Construction nearing completion on pre-FY83 projects.
		(6) Water intensity of irrigated agriculture reduced below 1983 levels (See Agric).	(6) Finance irrigation and drainage systems to improve agricultural water use efficiency.	(6) Agreement reached with Egypt on water/wastewater: - tariff levels; - GOE relending of U.S. grant; and - administrative independence for operating entities.
				(7) Assessment of groundwater availability for Jordan (and Yemen?).
				(8) Improved efficiency of industrial and agricultural uses of scarce water resources.

26

EMPLOYMENT GENERATION

Description of Development Problem

Projected rapid growth in urban population will lead to equally rapid growth in the supply of urban labor. Upwards of 80% of the net increase in the labor force will locate in urban areas (11 million of the total 14 million increase in the labor force). The industrial and service sectors will have to absorb a doubling of the urban labor force by the year 2000. The failure of the economies of the region to generate adequate productive employment could lead to politically destabilized cities that would in turn inhibit private sector investment necessary for economic growth.

A Long-term Development Goal year 2000	B AID Strategic Objective 1988	C Verifiable Strategic Indicators 1988	D Means 5 years	E Benchmarks 1985
Growth rates of productive urban employment in all countries in the region sufficient to eliminate both involuntary unemployment and widespread underemployment.	Encourage and assist in developing macro-economic and labor policies that facilitate employment growth and reduce the rate of unemployment in A.I.D.-assisted countries in the region.	<p>(1) A.I.D.-assisted countries in the region engaged in an open examination and discussion of employment policies.</p> <p>(2) Annual increase in urban employment that exceeds the increase in urban labor force.</p> <p>(3) Equality of access to labor, capital and materials for private and public sector firms.</p> <p>(4) Reduction in the capital cost of job creation (i.e., the incremental capital-labor ratio).</p> <p>(5) Expansion of labor-intensive export industries and services.</p>	<p>(1) Engage in a policy dialogue agenda for the urban industrial sector that focuses on removing existing bureaucratic and pricing policy constraints to rapid industrial growth.</p> <p>(2) Provide technical assistance to upgrade industrial management skills, particularly in the areas of marketing and finance, through participant training in the near term and industrial management training programs in the longer term.</p> <p>(3) Promote transfer of industrial technologies, especially for medium-sized private sector firms.</p> <p>(4) Assist countries in the region to identify and promote export-oriented industries.</p>	<p>(1) Missions will have formulated the policy dialogue agenda.</p> <p>(2) The Bureau will have the technical capability to design and implement projects with an urban employment focus.</p> <p>(3) Identification of potential export industries/commodities with large employment multipliers.</p>

BASIC EDUCATION & TECHNICAL TRAINING

Description of Development Problem

There is a lack of access to basic education, especially for females and particularly in rural areas, in Egypt, Morocco, Oman and Yemen. In these countries adult literacy rates range between 10% for Yemen and 44% for Egypt, and where primary school enrollment ratios for girls are about half that for boys. The gap between the demand for low-to-mid-level technical skills necessary for a modernizing economy and an inadequately trained labor force is large and growing. Furthermore, there are insufficient numbers of highly trained professionals necessary to occupy the higher-level management and analytical positions in private industry and government. An inadequately trained labor force is manifest not only in insufficient numbers of well trained personnel, but also in the inappropriate skills fostered by existing training facilities.

A Long-term Development Goals year 2000	B AID Strategic Objectives 1988	C Verifiable Strategic Indicators 1988	D Means 5 years	E Benchmarks 1985
(1) Increase basic education enrollments.	(1) Increase access to basic education, particularly for rural and female children.	(1) Increased primary school enrollment as % of school age population. (2) increased enrollment ratios of rural and female children.	(1) Make use of modern communications technology to provide basic education and tech. training. - Arabsat; and - radio, TV, videocassette. (2) Finance school construction (where AID resources are sufficient). (3) Implement teacher training programs, including instructional materials and curriculum develop. (4) Introduce appropriate new curricula for basic education programs.	(1) Policy dialogue agreement to increase female and rural access to basic education. (2) Oman, Egypt & Jordan: School construction well advanced, with focus on schools for females. (3) Yemen: Train over 100 primary school teacher-trainers.
(2) Increase the numbers of well-trained individuals in technical/vocational skills appropriate to a country's specific development needs.	(2) Focus skills training programs in those areas of greatest development need; generically in commerce, teacher training, and broadly defined industrial skills.	(3) More technical/vocational trainees. (4) High placement ratio of trainees in productive public or private sector activities (See Urban Labor Productivity).	(5) Undertake studies to determine private sector demand for specific types of skilled labor. (6) Provide technical assistance and upgrade facilities for technical/vocational training in skills-shortage fields. (7) Enlist cooperation of host country private sector in skills training.	(4) Potential for private sector cooperation addressed in each PP for training programs.
(3) Increase the numbers and quality of highly trained technicians, analysts, managers, and administrators.	(3) Train a critical mass of post-graduate level professionals for selected ministries in science, engineering, teaching, and management.	(5) Participant training program in every NE country, focused on scientific, engineering, analytical and management fields. (6) Support to at least one technical institution of higher learning in each country (with regional centers of specialized expertise).	(8) Implement Participant training programs in high-level technical and management skills. (9) Provide technical assistance and upgrade facilities for in-country institutions of higher learning, vocational and technical education	(5) Participant training projects clearly specify fields in which graduate and undergraduate training will be provided. (6) Technical assistance to Agriculture Faculty in Yemen underway (also possible in Oman).

126

AGRICULTURAL PRODUCTIVITY

Description of Development Problem

The region's agricultural trade balance has shifted from a surplus to a substantial deficit. While the region's exports of agricultural products doubled from \$1.0 billion in 1970 to \$1.9 billion in 1980, agricultural imports by the region increased six-fold from \$0.8 billion in 1970 to \$5.6 billion in 1980. Overall population growth, increased urbanization, and rising incomes will cause a continued marked rise in total food consumption. The region's paucity of water resources and the limits on the extent of additional land that can be brought under cultivation constrain the potential for future growth in domestic production of basic foodstuffs. Thus, increased expenditures of foreign exchange for food imports will be required to meet food consumption requirements. The countries of the region will need to maximize the utilization of scarce agricultural resources by focusing on comparative advantage rather than food self-sufficiency.

A Long-term Development Goal year 2000	B AID Strategic Objectives 1988	C Verifiable Strategic Indicators 1988	D Means 5 years	E Benchmarks 1985
Attain greater self-reliance in agriculture, emphasizing comparative advantage and both dryland and irrigated area resource capabilities rather than food self-sufficiency.	(1) Improve the product mix of agricultural production to coincide with relative costs of factor endowments and potential market opportunities.	(1) Movement toward congruence between domestic and international prices for agricultural products. (2) Export and domestic market opportunities identified for vegetables, fruits and other high value-added crops and corresponding marketing channels developed. (3) Post-harvest losses reduced. (4) Research and extension activities focused on applied research and improved efficiency in use of agricultural inputs, including water and agricultural machinery.	(1) Engage in policy dialogue on agricultural prices and subsidies and on goals for the agricultural sector. (2) Provide technical assistance, training, and institution building in market research and market development for higher value-added crops. (3) Provide assistance for marketing infrastructure, e.g. cold storage, grading, packing, processing facilities.	(1) Policy dialogue underway on agricultural subsidies, prices, and sector goals. (2) Export market feasibility studies completed for 10 crop/country combinations. (3) Egypt: Loan program established for marketing and agribusiness concerns.
	(2) Increase productivity and reduce risk in dryland farming areas.	(5) New dryland and rainfed farming systems being adopted by both large and small farmers.	(4) Provide institution building and technical assistance and training to agricultural education institutions, research, extension, credit, and planning agencies. (5) Provide technical assistance, training, and institution building to develop, test, and promote viable dryland and rainfed crop-livestock systems and technologies.	(4) Yemen: Training begun on Faculty of Agriculture teaching farm and two horticultural development stations completed. (5) Morocco & Jordan: AID-assisted dryland and rainfed agricultural research institutions operating in former and design for similar project completed in latter.
	(3) Increase small farmer incomes.			

ENERGY

Description of Development Problem

Energy consumption is subsidized in much of the region. As a result, demand is higher than warranted and energy resources are misallocated. Expenditures for petroleum imports by the region's non-oil producers now total over \$2 billion and comprise some 17% of imports compared to 5% in 1970. At present rates of use petroleum consumption in the region will more than double every decade, reaching some 800 million barrels annually by the year 2000. In the large AID assisted oil producers in the region, exportable oil surpluses will be eliminated if crude production levels are not raised substantially. Projected urbanization and industrialization will cause energy demand to accelerate, and structural changes will be required to dampen growth in energy demand. In addition, the inability of the economies of the region to sustain higher levels of consumption, and of oil producers to forego oil export earnings, may constrain economic growth.

A Long-term Development Goal year 2000	B AID Strategic Objectives 1988	C Verifiable Strategic Indicators 1988	D Means 5 years	E Benchmarks 1985
Raise the efficiencies of energy use and allocation in the region's economic development.	(1) Conserve usage of scarce energy resources. (2) Promote exploitation of new energy sources, particularly renewable energy resources, when economically viable.	(1) Movement toward congruence between domestic and international energy prices. (2) Energy consumption per dollar of GNP reduced. (3) Capability established in renewable energy technology applications.	(1) Engage in extensive policy dialogue on energy pricing in conjunction with any AID interventions in energy sector. (2) Support conventional energy development, including power generation and transmission, where AID resources and energy price reforms warrant. (3) Develop capabilities in energy planning and policy analysis as well as regional cooperation to improve communication on energy issues. (4) Provide technical assistance in development and exploitation of new energy sources (particularly renewables).	(1) Plan for closing gap between domestic and international energy prices in formulation in Egypt. (2) Energy planning staffs in Egypt, Tunisia, Jordan, and Morocco engaged in energy demand and pricing analyses. (3) Demonstration projects in renewable energy functioning in Jordan, Tunisia, Egypt, and Morocco. Design for renewable energy project in Yemen completed. (4) Framework established for commercial exploitation of Morocco's oil and gas resources.

Section 2

ROLE OF THE ADMINISTRATOR'S FOUR INITIATIVES IN
ADDRESSING NEAR EAST BUREAU PRIORITY DEVELOPMENT PROBLEMS

A D M I N I S T R A T O R ' S F O U R I N I T I A T I V E S

<u>PRIORITY DEVELOPMENT PROBLEMS</u>	<u>POLICY DIALOGUE OBJECTIVES</u>	<u>INSTITUTION BUILDING</u>	<u>TECHNOLOGY TRANSFER</u>	<u>PRIVATE SECTOR</u>
Population and Complementary Health Activities	Convince Governments of Need to reduce population growth. Host-country commitment to broad-based population programs, including private sector.	Medical Schools Ministry of Planning Family planning councils Ministry of Health Pharmacies Pharmaceutical industry	Dissemination of knowledge, attitudes and practices Demographic Studies Contraceptive delivery system Integrated maternal/child health care system	Contraceptive sales and family planning services through market-based means Production of contraceptives by host-country manufacturers
Urbanization	Realistic urban strategies Incorporate spatial concept into economic planning. Affordable housing for low-income groups.	Municipal governments Public utilities National Planning Ministry Ministry of Transportation Regional planning councils	Public administration skills Analytical skills for urban studies.	Privatization of public services: -refuse collection -transport -road maintenance, etc.
Water Scarcity/ Utilization	Efficient use of water resources, including pricing policies. Adequate revenue generation for O&M and debt service. Fiscal autonomy of water authorities	Water resource authorities Department of Irrigation Public Utilities Local engineering firms Associations of Industrialists	Water resource planning Water/wastewater system management Efficient agronomic/water practices Water resource inventory	Private farmer water management Local A&E and construction firms Industrial water use management
Employment Generation	End bureaucratic and pricing policy-induced distortions in the labor market. Promotion of Exports	Ministries of Industry, Finance, Trade and Labor Business and Labor Associations	Capital goods Management and industrial skills Quality control methods	Labor unions Trade associations Credit institutions
Basic Education/ Technical Training	Increase emphasis on rural and female basic education. Improve alignment of skills training and host-country labor requirements.	Ministry of Education Vocational and technical training centers Local primary education systems	Communication Systems Curriculum development for: -basic education -higher education -teacher training -skills training	Employer-supported training centers On the job training
Agricultural Productivity	End input and output subsidies. Self-reliance instead of self-sufficiency Reduce controls and taxes on exports.	Ministry of Agriculture Agriculture research and training centers Faculties of Agriculture	High yield seed varieties Crop/Livestock system for dryland farming Agric. policy analysis	Marketing and input cooperatives Private extension service Pesticide/fertilizer producers
Energy	End energy subsidies. Improve allocation of energy supplies.	Ministries of Electricity, Petroleum, Energy, Transportation, and Industry. Public utilities	Energy planning and management systems Renewable energy systems Association with U.S. national laboratories	Energy conservation and production for: -industry -agriculture -residential

Section 3

SUMMARY OF STAFFING AND RESOURCE IMPLICATIONS

Strategic Planning a Case of Incomplete Negotiations. The Near East Bureau strategy reflects extensive empirical work and consultations with Near East A.I.D. Missions as well as outside experts. The seven priority development problems identified for A.I.D.'s attention as well as the areas to be de-emphasized during the strategy period will need to be accommodated by shifts in program resources and technical capabilities. The urbanization and labor productivity priorities will present the greatest challenge, as A.I.D. technical capacities in these areas are quite limited. Resource allocation and staffing requirements will not be clear until A.I.D. Missions adopt the development priorities identified in the strategy, and translate these priorities into country programs and project portfolios. While it is still early in this evolving process there are already program indications that the strategy priorities, and urbanization in particular, are receiving greater attention.

The Bureau strategy has yet to be fully incorporated into the country programs. While the strategy process has been under way within A.I.D. the country mission based program planning process has been proceeding along its established course. The Agency's program planning process is designed to allocate resources five fiscal years into the future. Consequently, the FY 1985 Country Development Strategy Statement (dated January 1983) contained mission estimates of resource allocations by sector, through the end of the strategy planning period 1982 - 1987. These projected allocations were estimated prior to the Bureau Strategy (dated May 1983), and to the extent possible were based on specific projects, both current and planned. Consequently, the Bureau Strategy will only begin to impact on mission thinking in the FY 1986 CDSS submissions and will be a major agenda item at the November 1983 Near East Bureau Mission Directors' Conference.

As we move through the program planning cycles for FY 1986 and FY 1987 and subsequent CDSS and ABS submissions, the large sums of unprogrammed funds in previous submissions will be programmed. Presumably, funds will be allocated primarily to the top Bureau development problems of population, urbanization, urban labor productivity, water scarcity, education and training, agriculture, and energy.

AID Capacity Shifts. The ability of A.I.D. to respond to evolving development priorities in the 1980s is largely a function of its professional and technical capacity, and is therefore linked to the sectoral concentration task. A.I.D. has outstanding capacity -- some would say an absolute advantage among donors -- in the population and agriculture sectors and very good capacity with respect to water and education, but only average or poor capacity in dealing with the urbanization phenomenon. These characterizations suggest that the Bureau will have to give up, or trade away, capacity in some sectors in order to augment its strength in the priority sectors. For example, A.I.D. capacity to implement integrated rural development programs is seen as a low priority for the Middle East in the 1980s, but it may be that other regions have a great need for more expertise in this sector. While on the surface trading off rural development expertise, for example, to gain competence in some other area is straight forward, as long as such internal A.I.D. shifts are not made there will be a continuing, self-fulfilling demand for more work in the rural development sector. More perplexing for the Bureau is the problem of how to build-up capacity on urban problems when it is not obviously the case that the urbanization phenomenon will be a high priority in other regions or for the Agency as a whole.

Sectoral Concentration is a major underlying theme of the planning exercise. Sectoral concentration offers the promise of greater impact on country development, greater focus for bilateral dialogue between A.I.D. and host country planners, economies of scale with respect to project design and implementation at the country level, and a means by which the Bureau can reduce or streamline support operations and staff -- as it is required to do under current Agency guidance. The Bureau intends to approach the matter of sectoral concentration in the following manner: the seven priority development problems (or "sectors") analyzed and discussed in this strategy will constitute the regional framework within which country A.I.D. Missions will draw the major sectoral emphases for their individual portfolio of project interventions. In a typical Mission, excluding Egypt, the Bureau would expect that no more than, say, four sectors will constitute the program portfolio. However, the Bureau would have no expectation that the same four sectors would prevail for every country.

Additional Considerations

Graduation. Within the Near East region six countries are candidates for graduation from concessional economic assistance programs, provided that graduation would not imperil the achievement of U.S. foreign policy objectives. Within the strategy planning period the Syria program will be completed and three other graduations are conceivable, i.e. Tunisia, Lebanon, and Jordan. However, graduating Israel and Oman probably presents insurmountable foreign policy problems and is not used as either an assumption or as a task in the plan period. For all graduations except Italy and Cyprus which are special cases, what A.I.D. needs is a model and strategy for moving to a more mature relationship wherein the countries have ready access to U.S. technical expertise and working linkages to American institutions, both at little cost to the U.S. government. A.I.D. has some prior experience which ought to be synthesized by the Agency for the benefit of those regional bureaus which are trying to come to grips with the problem.

Implications of a Middle East Peace. Looking to the end of the 1980's, the fulfillment of the U.S. goal of bringing peace to the region presents a major contingent responsibility for A.I.D. -- in the sense that country priorities could be altered, additional financial resources might become available for development uses and technical staff resources might have to be redeployed. Obviously, no one can predict the actual outcome of the large number of peace permutations. However, the Bureau has posed the question whether significant new accomplishments in the quest for peace would significantly alter the composition and ordering of development problems which A.I.D. should address in the 1980s. The general answer is no. While emphases on countries and levels of economic assistance might shift, (with the possible exception of inadequate regional transportation networks) the development problems of major concern to A.I.D. will remain the same.

Section 4

AREAS TO BE DE-EMPHASIZED

The Bureau's strategy is not meant to be interpreted as implying that the sectors which will be de-emphasized are unimportant; rather, that they are less important than the priority sectors identified. On the basis of the need to conserve and focus financial and technical resources and the empirical evidence relating to relative need in the region, the Bureau intends to de-emphasize in forward planning the following sectors or sub-sectors:

- integrated rural development activities;
- environmental degradation as "free standing" projects;
- nutrition (except in conjunction with increasing the developmental impact of PL 480, Title II programs and population activities on a highly selective basis);
- conventional energy generation (with Egypt as a possible near-term exception);
- "women in development" as "free standing" projects (though the Bureau would expect WID elements to be built into projects to increase industrial productivity, for example);
- new irrigation infrastructure projects;
- afforestation; and
- capital infrastructure such as roads, dams, and airports (with the exception of Egypt, as appropriate, and in the event that major infrastructure is justified on a regional scale as a result of positive developments in the peace process).

Appendix B

Sectoral Survey Priority Tables

This Annex contains a summary of the Mission responses to a set of questions relating to the Preliminary Bureau Regional Strategy.

The Missions were asked to provide their opinion on what the priority development problems are in the Middle East looking toward the latter part of the 1980s, both in terms of region-wide priorities and the priority development problems specific to their own country. A summary of these Mission responses is presented in Tables B-1 and B-2.

In addition to the questions on ranking of priority development problems, the Missions were also requested to assess A.I.D. capacity to address each of the development problems they identified. A summary of the Mission responses to this question is contained in Table B-3.

A summary of the Mission responses to two further questions is presented in Table B-4. The Missions were asked to identify which of the Administrator's four initiatives were most appropriate in addressing each of the priority development problems, and similarly for the three strategic approaches outlined in the introduction to Section 5 on the Middle East Development Setting.

MISSION RANKINGS OF
PRIORITY DEVELOPMENT PROBLEMS;
REGION-WIDE

<u>Priority Development Problems</u>	<u>Egypt</u>	<u>Jordan</u>	<u>Morocco</u>	<u>Oman</u>	<u>Yemen</u>	<u>Syria</u>	<u>Score</u>	<u>Composite</u>
Population	1	1	2	2	1	3	56	1
Agricultural Productivity	3,4	3	1	3	2	1	52	2
Water Scarcity/Utilization	5,6	2	6	1	3	2	47	3
Education	8	4	5	4	6	6	33	4
Labor Productivity	8	--	3	5	5	5	29	5
Urbanization	3*	--	--	--	4	4	22	6 [@]
Urban Infrastructure	(5,6)					(7)	10	(11)
Energy	--	5	7	--	7	8	17	7
Health	8	6	4	--	--	--	15	8
Industrial Productivity	2	--	--	--	--	7	13	9
Rural Development	3,4	7	--	--	--	--	11	10
Resource Mobilization (or Financial Development)	--	--	--	6	--	--	5	12

Notes

* Egypt does not rank urbanization per se as a priority development problem, but ranks the two development problems grouped under urbanization very high (#3 and tied for #5). Consequently, urbanization is assumed to rank behind only population growth and industrial productivity for the Egypt country program.

[@] In the composite ranking, urbanization is considered to hold (at least) the #6 spot, due to the importance given to the two elements of the urbanization problem by the Egypt mission.

MISSION RANKINGS OF
PRIORITY DEVELOPMENT PROBLEMS:
COUNTRY-SPECIFIC

<u>Priority Development Problems</u>	<u>Egypt</u>	<u>Jordan</u>	<u>Morocco</u>	<u>Oman</u>	<u>Yemen</u>	<u>Tunisia</u>	<u>Syria</u>	<u>Composite</u>
Population	1	2	2	--	1	1	2	1
Agricultural Productivity	4	3	1	2	4	2	1	2
Water Scarcity/Utilization	5,6	1	--	1	3	3	5	3
Education	7,8	--	--	3	2	--	9,10	4
Labor Productivity	--	5	--	--	6	--	4	5
Urbanization	3*	--	--	--	--	--	3	6 [ⓐ]
Urban Infrastructure	(5,6)						(7)	(11)
Decentralization	(3)							(12)
Industrial Productivity	2	--	--	--	--	5,6	6	7
Health	7,8	--	--	--	5	--	9,10	8
Energy	--	4	--	--	7	--	--	9
Resource Mobilization (or Financial Development)	--	--	--	4	--	5,6	--	10

B-2

Notes:
 * Egypt does not rank urbanization per se as a priority development problem, but ranks the two development problems grouped under urbanization very high (#3 and tied for #5). Consequently, urbanization is assumed to rank behind only population growth and industrial productivity for the Egypt country program.
 ⓐ In the composite ranking, urbanization is considered to hold (at least) the #6 spot, due to the importance given to the two elements of the urbanization problem by the Egypt mission.

12

Table B-3

ASSESSMENT OF AID CAPACITY TO
ADDRESS PRIORITY DEVELOPMENT PROBLEMS
AGENCY-WIDE

<u>Priority Development Problem</u>	<u>Preliminary Strategy</u>	<u>Mission Survey</u>	<u>Composite Assessment</u>
Population	H+	H	H
Agricultural Productivity	H+	H	H
Water Scarcity/Utilization	H	M	H,M
Urbanization	M	L	M,L
Urban Infrastructure	--	L	L
Decentralization	--	L	L
Labor Productivity	L	L	L
Education	H	H	H
Industrial Productivity	L	L	L
Energy	M	L	M,L
Resource Mobilization (or Financial Development)	L	--	L
Rural Development	M	M	M
Health	H+	M	H

Key: H indicates high capacity
M indicates moderate capacity
L indicates low capacity

MISSION ASSESSMENT OF THE APPROPRIATE APPLICATION
OF THE THREE STRATEGIC APPROACHES
AND THE ADMINISTRATOR'S FOUR INITIATIVES
AS MEANS IN ADDRESSING EACH PRIORITY DEVELOPMENT PROBLEM

Priority Development Problems	Strategic Approaches			Administrator's Initiatives			
	Economic Environ.	Product. Invest.	Social Equity	Policy Dialogue	Tech. Transfer	Instit. Building	Private Sector
Population	x		x	x		x	x
Agricultural Productivity	x	x	x	x	x	x	x
Water Scarcity/Utilization	X	x	x	x	X	x	
Urbanization	--	--	--	--	--	--	--
Urban Infrastructure			x	--	--	--	--
Decentralization	x			--	--	--	--
Labor Productivity	x	X	x	x	x		x
Education	x		x	x	x	x	
Industrial Productivity		x		--	--	--	--
Energy	x	x			x	x	x
Health	x		X		x	x	
Resource Mobilization (or Financial Development)	--	--	--			x	x
Rural Development	--	--	--	--	--	--	--

Key: An uppercase X indicates the most recommended strategic approach or initiative.

*These are the three strategic developmental approaches identified in the Preliminary Strategy, Section 5: The Goal and Strategy.

94

APPENDIX C

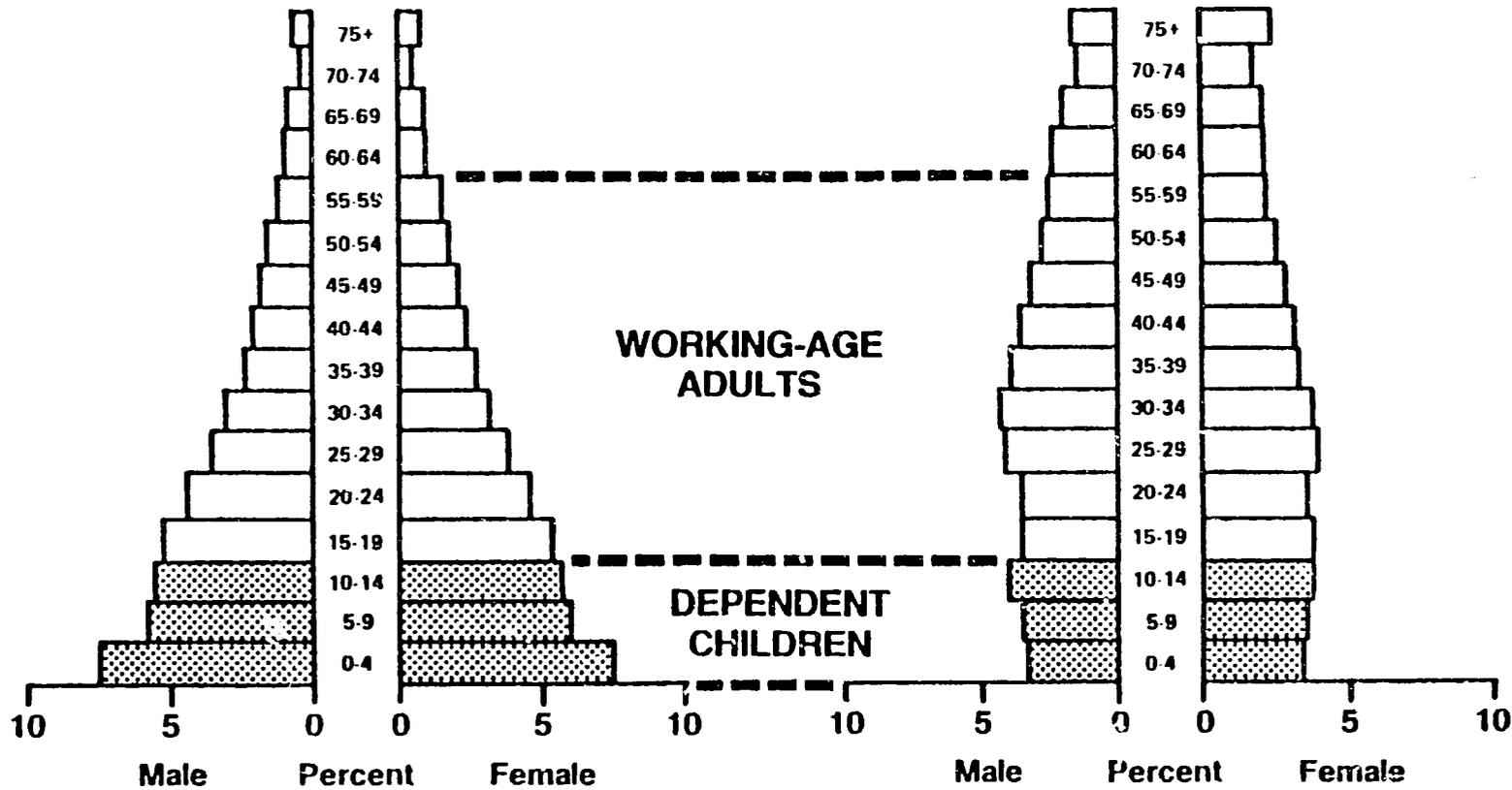
POPULATION GROWTH FIGURES

EGYPT

Age Distribution and Child Dependency

**Age-Sex Distribution
Egypt
1980**

**Age-Sex Distribution
Industrialized Country
1980**



**For each dependent child in Egypt there are only 1.5 working-age adults.
For each dependent child in most industrialized countries, there are 2 to 3 working-age adults.**

21

Population Characteristics

Affect National Objectives For:

EMPLOYMENT

GDP AND GDP PER CAPITA

INVESTMENT

SELF-SUFFICIENCY IN CEREALS

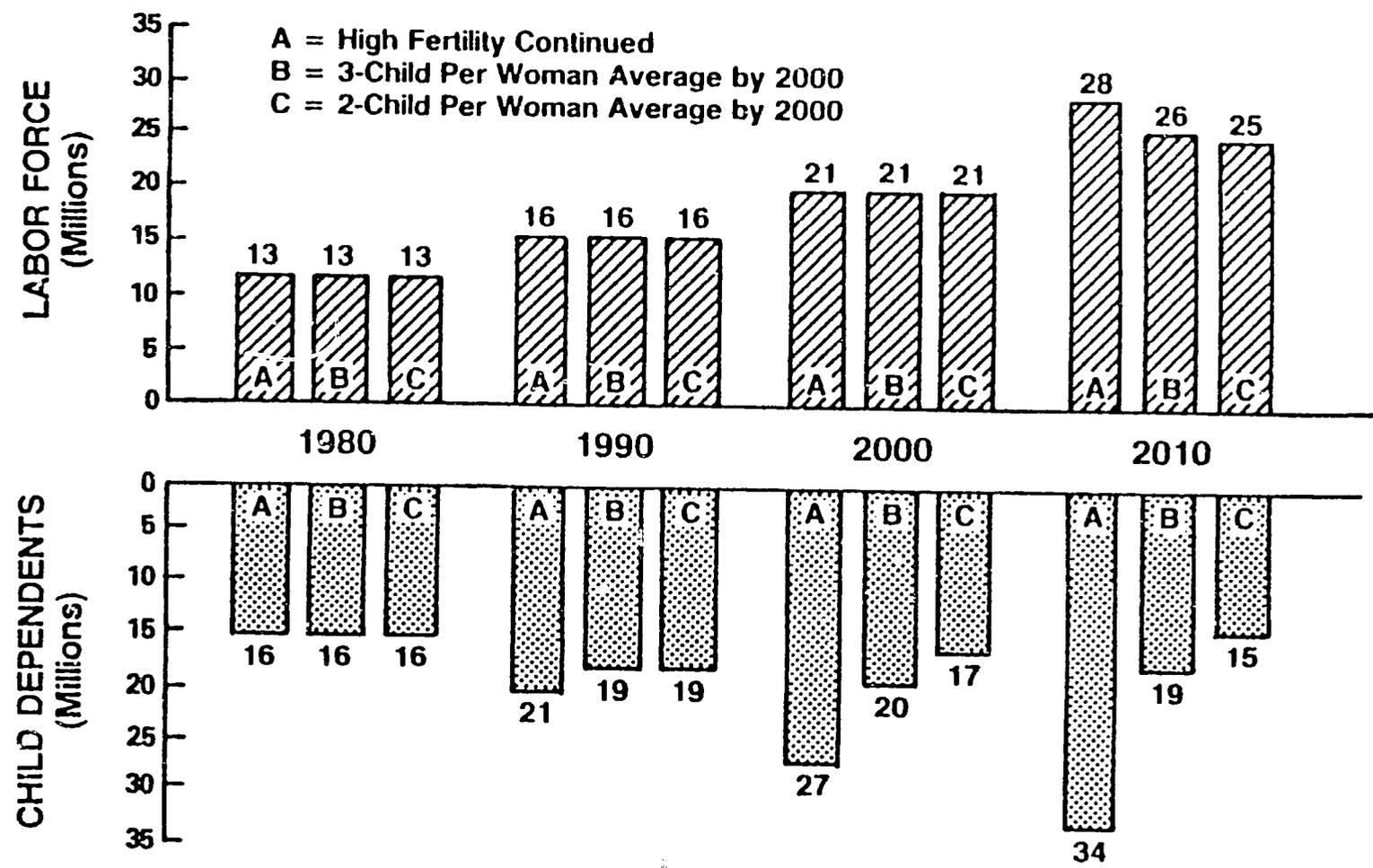
HEALTH AND QUALITY OF LIFE

EDUCATION

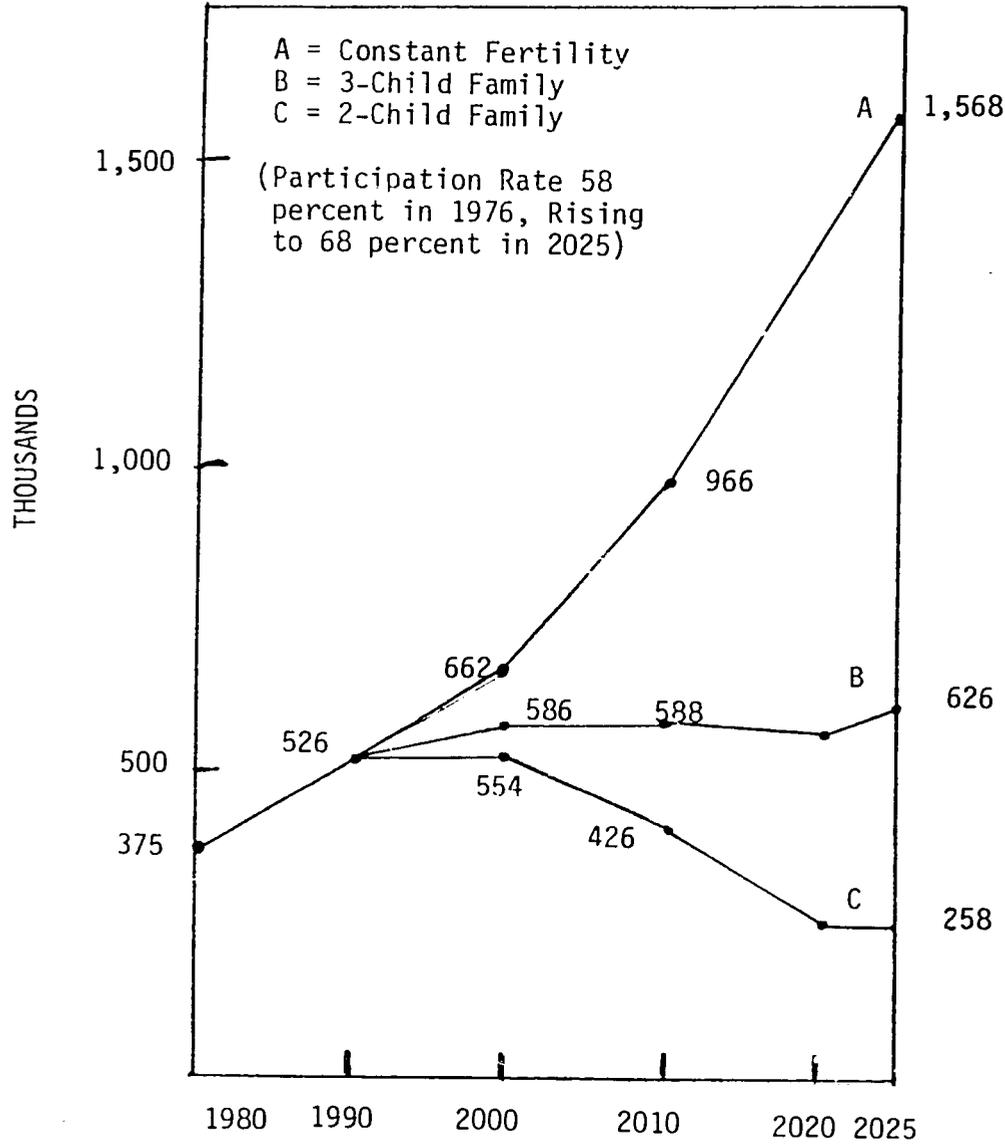
HOUSING

C-3

EGYPT Labor Force and Child Dependents



EGYPT
 NEW JOB REQUIREMENTS PER YEAR
 1980 - 2025
 Under Three Fertility Assumptions



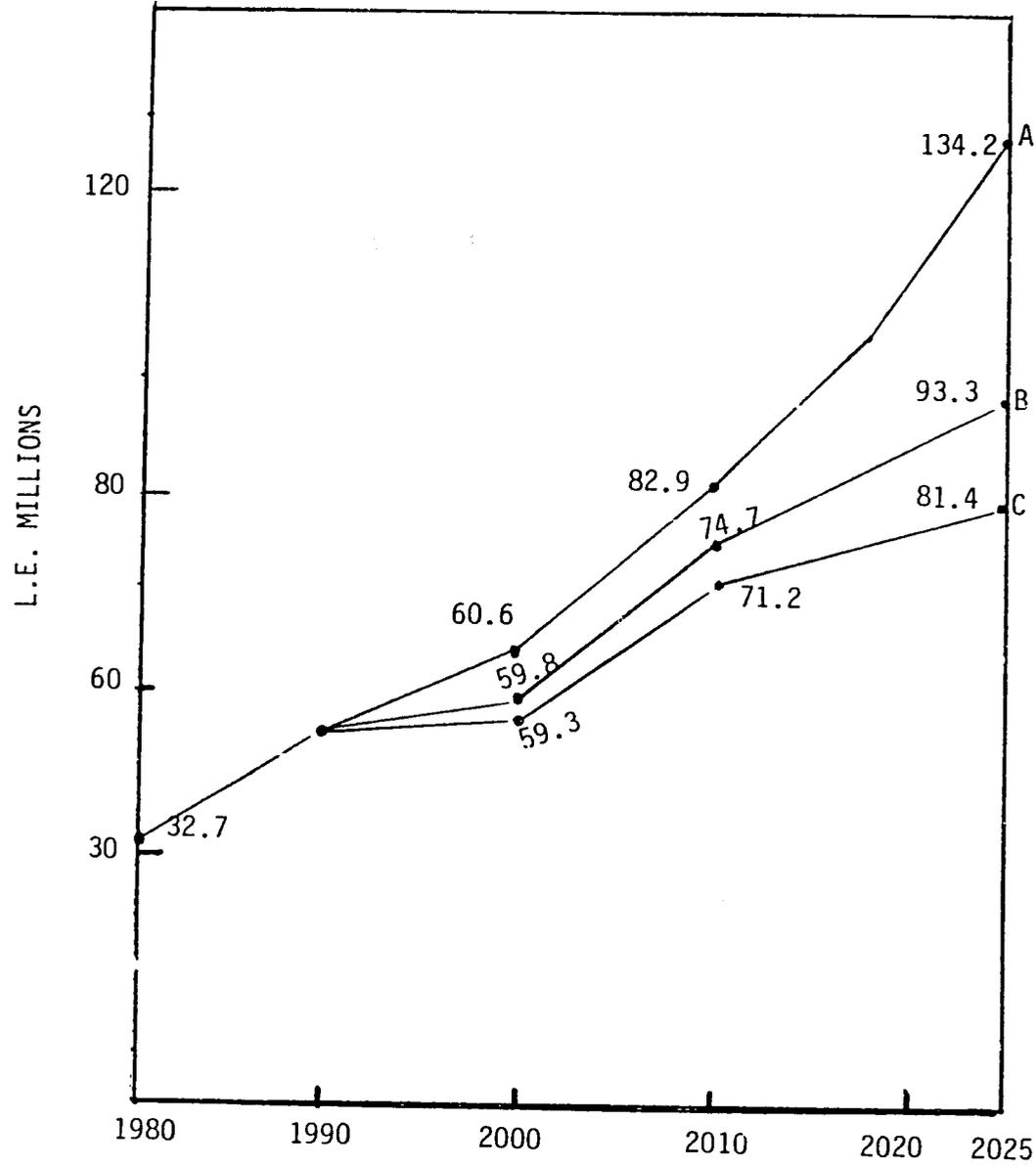
C-4

99

EGYPT

Capital Needed to Maintain Present Capital/Labor Ratio
(LE 2520 Per Worker)

1980 - 2025

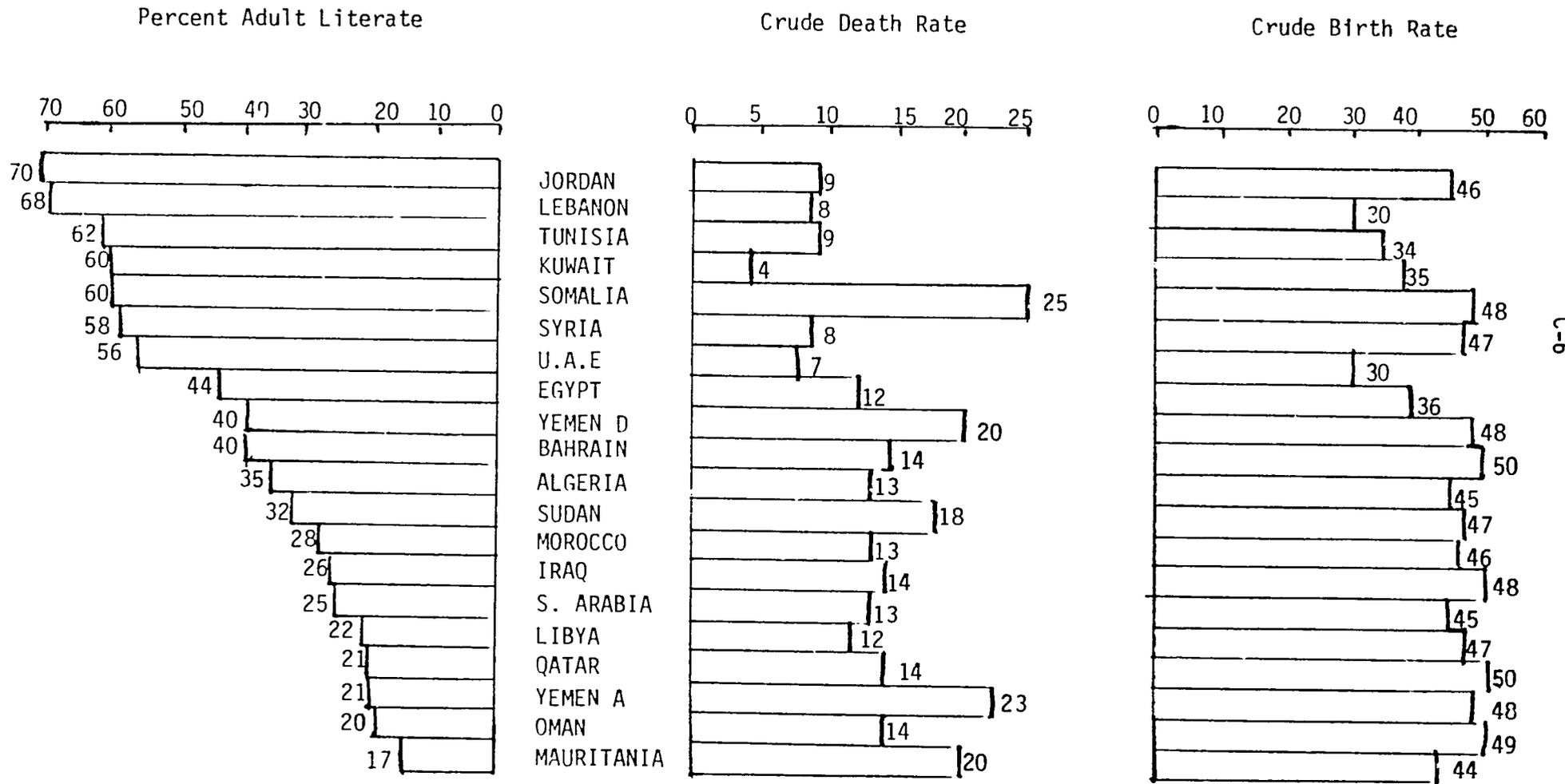


C-5

103

ARAB COUNTRIES 1980/81

PERCENT ADULT LITERATE, CRUDE DEATH RATE, CRUDE BIRTH RATE



Sources: Data for 1980/81, World Bank, World Development Report

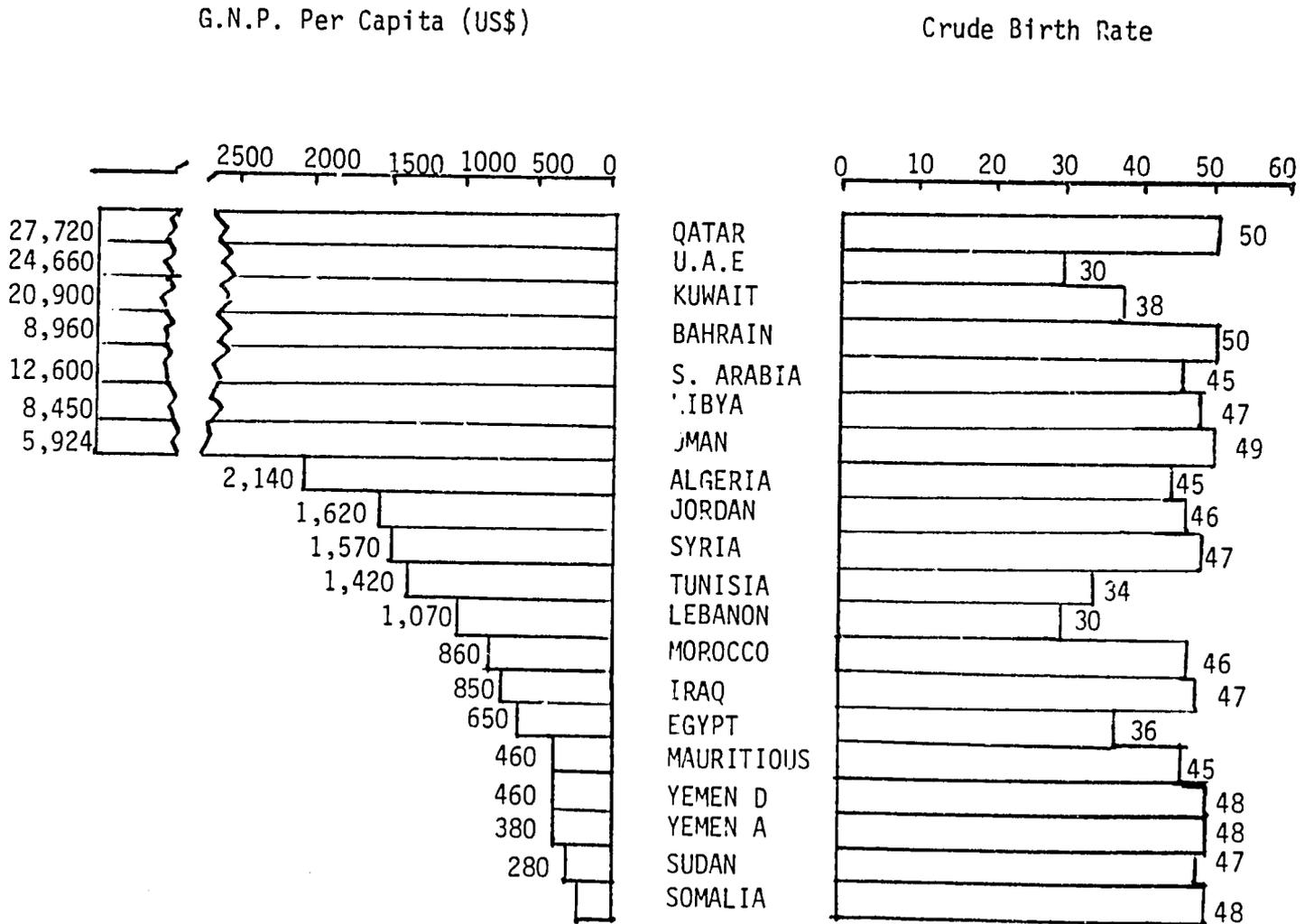
C-16

101

ARAB COUNTRIES

GROSS NATIONAL PRODUCT PER CAPITA AND CRUDE BIRTH RATES

1981



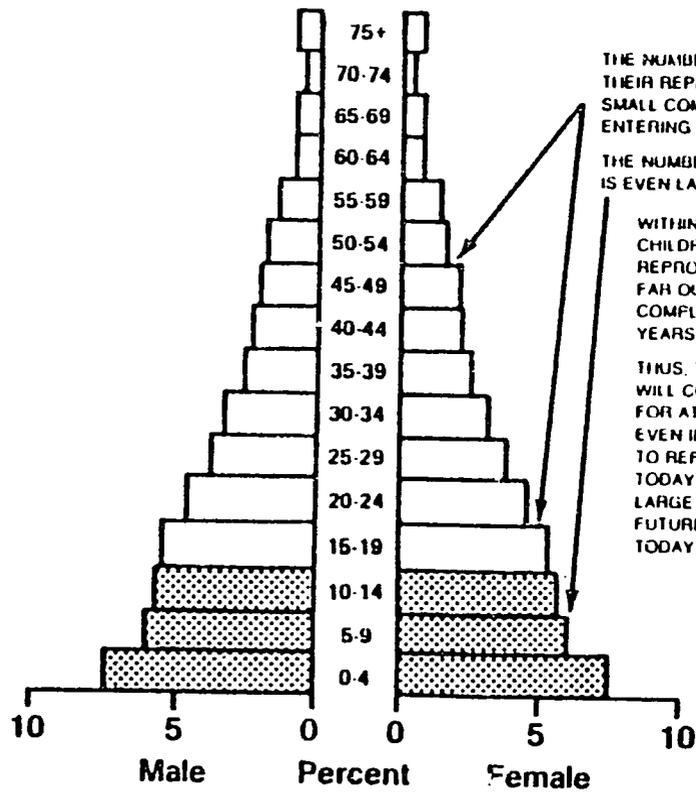
Sources: Data for 1981, U.N. Demographic Yearbook; World Bank, World Development Report 1983.

102

EGYPT

Momentum of Population Growth

Population Profile 1980



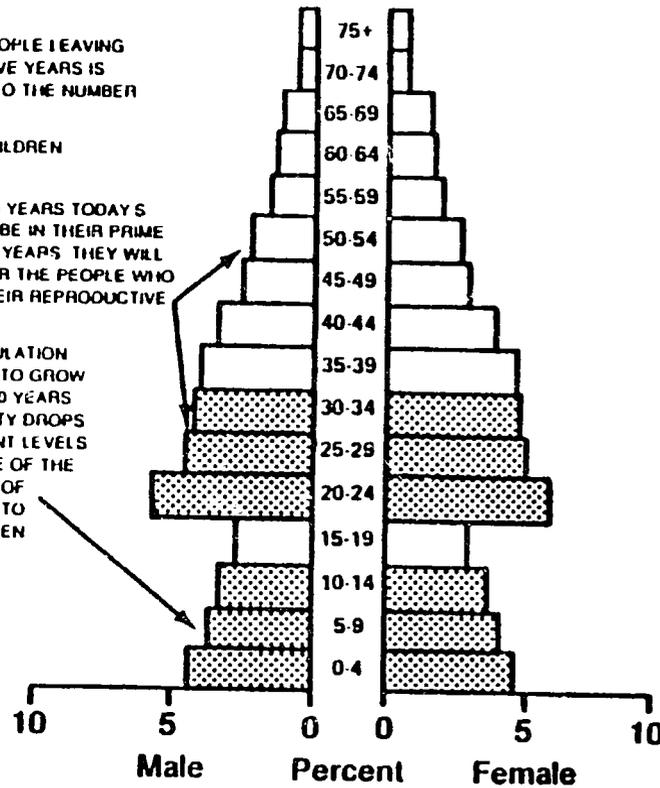
THE NUMBER OF PEOPLE LEAVING THEIR REPRODUCTIVE YEARS IS SMALL COMPARED TO THE NUMBER ENTERING THEM

THE NUMBER OF CHILDREN IS EVEN LARGER

WITHIN 10 TO 20 YEARS TODAY'S CHILDREN WILL BE IN THEIR PRIME REPRODUCTIVE YEARS. THEY WILL FAR OUTNUMBER THE PEOPLE WHO COMPLETED THEIR REPRODUCTIVE YEARS

THUS, THE POPULATION WILL CONTINUE TO GROW FOR AT LEAST 40 YEARS EVEN IF FERTILITY DROPS TO REPLACEMENT LEVELS TODAY BECAUSE OF THE LARGE NUMBER OF FUTURE BIRTHS TO TODAY'S CHILDREN

Population Profile 2000
if fertility dropped to replacement level in 1980



10/17

Appendix D

Urbanization Tables

NEB COUNTRIES
URBANIZATION INDICATORS

<u>Country</u>	<u>Average Annual Growth Population 1970-80</u>	<u>Urban Population Percent of Total 1980</u>	<u>Average Annual Growth of Urban Population 1970-8-</u>	<u>Percent of Urban Population in Largest City</u>	<u>GNP Per Capital Dollars 1980</u>
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	
Yemen AR	2.9	10	8.3	25	480
Egypt	2.1	45	2.8	39	580
Morocco	3.0	41	4.6	26	900
Tunisia	2.1	52	3.9	30	1310
Jordan	3.4	56	4.7	37	1420
Lebanon	0.7	76	2.8	79	N/A
Turkey	2.4	47	4.5	24	1470
Portugal	1.3	31	2.9	44	2370
Israel	2.6	89	3.2	36	4500
Oman	3.3	20	36.0	--	5924

Source: I.B.R.D. World Development Report 1982, AID, Near East Bureau

105

URBANIZATION INDICATORS IN NEB COUNTRIES

Country	Total Population		as Urban Population					Largest City Population		
	1980 Population (millions)	1970-80 Average Annual Growth of Population (percent)	As Percentage of Total Population		1980 Urban Population (Millions)	Average Annual Growth Rate (Percent)		Percentage of Urban Population In Largest City		1980 Primary City Population (Millions)
			1960	1980		1960-70	1970-80	1960	1980	
Yemen AR	7.0	2.9	3	10	0.7	8.0	8.3	N/A	25	0.175
Egypt	39.8	2.1	38	45	17.9	3.3	2.8	38	39	5.98
Morocco	20.2	3.0	29	41	8.3	4.2	4.6	16	26	2.15
Tunisia	6.4	2.1	36	52	3.3	3.8	3.9	40	30	1.00
Jordan	3.2	3.0	43	56	1.8	4.5	4.7	31	37	0.47
Lebanon	2.7	0.	44	76	2.0	6.2	2.8	64	79	1.62
Turkey	44.9	2.4	30	47	21.1	5.1	4.5	18	24	5.06
Portugal	9.8	1.3	23	31	3.0	1.3	2.9	47	44	1.34
Israel	3.9	2.6	77	89	3.5	4.3	3.2	46	35	1.21
Oman	.2	3.3	5	20	.2	--	--	--	--	--
Totals	138.1		32%	45%	61.2					19.83

Source: I.B.R.D. World Development Report. 1982.

10/10

**URBAN POPULATION GROWTH
AND RURAL TO URBAN MIGRATION**

Country	Urban Population 1980	2000 Urban Population World Bank Estimate	2000 Urban Population At National Population Growth Rate ¹	Implied Migration Rural to Urban ² 1980-2000	Migrants as Percent of 2000 Urban Population	Migrants as Percent of the Change in Urban Population	2000 Urban Population at 1970-80 Rates	Implied Migration Rural to Urban ² 1980-2000	Migrants as Percent of 2000 Urban Population	Migrants as Percent of the Change in Urban Population
Yemen AR	0.7	2.0	1.1	0.9	45.0	69.2	3.4	2.3	67.6	85.2
Egypt	17.9	35.4	27.0	8.4	23.8	48.1	31.1	4.1	13.2	31.2
Morocco	8.3	18.7	14.8	3.9	20.9	37.6	20.4	5.6	27.5	46.3
Tunisia	3.3	5.9	5.2	0.7	12.6	28.6	7.2	2.0	28.4	52.4
Jordan	1.8	3.8	3.4	0.4	11.2	11.2	4.5	1.1	25.0	41.7
Lebanon	2.0	4.2	3.0	1.2	29.4	56.2	3.6	0.6	17.7	39.8
Turkey	21.1	41.0	31.5	9.5	23.2	47.8	50.9	19.4	38.1	65.1
Portugal	3.0	5.2	3.4	1.8	35.2	83.3	5.4	2.0	37.6	84.7
Israel	3.5	N/A	4.5	N/A	N/A	N/A	5.0	0.5	10.3	34.2
\bar{x}					24.4	48.99				

¹The figures in this column are calculated to show how much increase in urban population there would be if there were no migration from rural to urban areas. The difference between projected population and the figures in this column, therefore, are an estimate of the amount of rural to urban migration.

²The implied migration is shown for two different estimates of 2000 urban population--a World Bank estimate and an estimate based upon continuation of 1970-80 rates of urban population growth.

Source: PADCO, Near East Bureau Countries Current and Projected Urbanization and Associated Indicators, 1983.

Appendix E

Country Data Tables

Data from World Development Report, 1982

**Basic Indicators
Egypt**

Land Area: 1,001,000 square kilometers

Population: 39.8 million (1980)

Average annual growth of population: 2.1% (1970-80)

Urban Population: 17.9 million (1980)

Average annual growth of urban population: 2.8% (1970-80)

GNP per capita: \$580 (1980)

Average annual growth of GNP per capita: 3.4% (1960-80)

Gross Domestic Product: \$22,970 million (1980)

Average annual growth of GDP: 7.4% (1970-80)

Agricultural Share of GDP: 23% (1980)

Average annual growth of Agricultural GDP: 2.7% (1970-80)

Industrial Share of GDP: 35% (1980)

Average annual growth of Industrial GDP: 6.8% (1970-80)

Service Sector Share of GDP: 42% (1980)

Average annual growth of Service GDP: 11.0% (1970-80)

Gross Domestic Investment: 31% of GDP (1980)

Gross Domestic Saving: 16% of GDP (1980)

Adult Literacy: 44% (1977)

Number enrolled in secondary school as percentage of age group: 48% (1979)

Life expectancy at birth: 57 years (1980)

Infant mortality rate: 103 (1980)

Population per physician: 1,050 (1977)

Percent of population with access to safe water: 66% (1975)

**Basic Indicators
Israel**

Land Area: 21,000 square kilometers

Population: 3.9 million (1980)

Average annual growth of population: 2.6% (1970-80)

Urban Population: 3.5 million (1980)

Average annual growth of urban population: 3.2% (1970-80)

GNP per capita: \$4,500 (1980)

Average annual growth of GNP per capita: 3.8% (1960-80)

Gross Domestic Product: \$15,340 million (1980)

Average annual growth of GDP: 4.1% (1970-80)

Agricultural Share of GDP: 5% (1980)

Average annual growth of Agricultural GDP: N/A

Industrial Share of GDP: 36% (1980)

Average annual growth of Industrial GDP: N/A

Service Sector Share of GDP: 59% (1980)

Average annual growth of Service GDP: N/A

Gross Domestic Investment: 22% of GDP (1980)

Gross Domestic Saving: 8% of GDP (1980)

Adult Literacy: N/A

Number enrolled in secondary school as percentage of age group: 68% (1979)

Life expectancy at birth: 72 years (1980)

Infant mortality rate: 14 (1980)

Population per physician: 400 (1977)

Percent of population with access to safe water: N/A

**Basic Indicators
Jordan**

Land Area: 98,000 square kilometers

Population: 3.2 million (1980)

Average annual growth of population: 3.4% (1970-80)

Urban Population: 1.8 million (1980)

Average annual growth of urban population: 4.7% (1970-80)

GNP per capita: \$1,420 (1980)

Average annual growth of GNP per capita: 5.7% (1970-80)

Gross Domestic Product: \$2,190 million (1980)

Average annual growth of GDP: N/A

Agricultural Share of GDP: 8% (1980)

Average annual growth of Agricultural GDP: N/A

Industrial Share of GDP: 32% (1980)

Average annual growth of Industrial GDP: N/A

Service Sector Share of GDP: 60% (1980)

Average annual growth of Service GDP: N/A

Gross Domestic Investment: 48% of GDP (1980)

Gross Domestic Saving: -27% of GDP (1980)

Adult Literacy: 70% (1977)

Number enrolled in secondary school as percentage of age group: 74% (1979)

Life expectancy at birth: 61 years (1980)

Infant mortality rate: 69 (1980)

Population per physician: 1,960 (1977)

Percent of population with access to safe water: 61% (1975)

**Basic Indicators
Lebanon**

Land Area: 10,000 square kilometers

Population: 2.7 million (1980)

Average annual growth of population: 0.7% (1970-80)

Urban Population: 2.1 million (1980)

Average annual growth of urban population: 2.8% (1970-80)

GNP per capita: N/A

Average annual growth of GNP per capita: N/A

Gross Domestic Product: N/A

Average annual growth of GDP: N/A

Agricultural Share of GDP: N/A

Average annual growth of Agricultural GDP: N/A

Industrial Share of GDP: N/A

Average annual growth of Industrial GDP: N/A

Service Sector Share of GDP: N/A

Average annual growth of Service GDP: N/A

Gross Domestic Investment: N/A

Gross Domestic Saving: N/A

Adult Literacy: N/A

Number enrolled in secondary school as percentage of age group: 50% (1979)

Life expectancy at birth: 66 years (1980)

Infant mortality rate: 41 (1980)

Population per physician: 1,210 (1977)

Percent of population with access to safe water: N/A

112

**Basic Indicators
Morocco**

Land Area: 447,000 square kilometers

Population: 20.2 million (1980)

Average annual growth of population: 3.0% (1970-80)

Urban Population: 8.3 million (1980)

Average annual growth of urban population: 4.6% (1970-80)

GNP per capita: \$900 (1980)

Average annual growth of GNP per capita: 2.5% (1960-80)

Gross Domestic Product: \$17,940 million (1980)

Average annual growth of GDP: 5.6% (1970-80)

Agricultural Share of GDP: 18% (1980)

Average annual growth of Agricultural GDP: 0.8% (1970-80)

Industrial Share of GDP: 32% (1980)

Average annual growth of Industrial GDP: 6.6% (1970-80)

Service Sector Share of GDP: 50% (1980)

Average annual growth of Service GDP: 6.6% (1970-80)

Gross Domestic Investment: 21% of GDP (1980)

Gross Domestic Saving: 11% of GDP (1980)

Adult Literacy: 28% (1977)

Number enrolled in secondary school as percentage of age group: 22% (1979)

Life expectancy at birth: 56 years (1980)

Infant mortality rate: 107 (1980)

Population per physician: 11,040 (1977)

Percent of population with access to safe water: N/A

E-6
Basic Indicators
Syria

Land Area: 185,000 square kilometers

Population: 9.0 million (1980)

Average annual growth of population: 3.6% (1970-80)

Urban Population: 4.5 million (1980)

Average annual growth of urban population: 5.1% (1970-80)

GNP per capita: \$1,340 (1980)

Average annual growth of GNP per capita: 3.7% (1960-80)

Gross Domestic Product: \$12,900 million (1980)

Average annual growth of GDP: 10.0% (1970-80)

Agricultural Share of GDP: 20% (1980)

Average annual growth of Agricultural GDP: 8.2% (1970-80)

Industrial Share of GDP: 27% (1980)

Average annual growth of Industrial GDP: 9.6% (1970-80)

Service Sector Share of GDP: 53% (1980)

Average annual growth of Service GDP: 10.8% (1970-80)

Gross Domestic Investment: 25% of GDP (1980)

Gross Domestic Saving: 10% of GDP (1980)

Adult Literacy: 58% (1977)

Number enrolled in secondary school as percentage of age group: 47% (1979)

Life expectancy at birth: 65 years (1980)

Infant mortality rate: 62 (1980)

Population per physician: 2,570 (1977)

Percent of population with access to safe water: 75% (1975)

104

**Basic Indicators
Tunisia**

Land Area: 164,000 square kilometers

Population: 6.4 million (1980)

Average annual growth of population: 2.1% (1970-80)

Urban Population: 3.3 million (date) (1980)

Average annual growth of urban population: 3.9% (1970-80)

GNP per capita: \$1,310 (1980)

Average annual growth of GNP per capita: 4.8% (1960-80)

Gross Domestic Product: \$7,300 million (1980)

Average annual growth of GDP: 7.5% (1970-80)

Agricultural Share of GDP: 17% (1980)

Average annual growth of Agricultural GDP: 4.9% (1970-80)

Industrial Share of GDP: 35% (1980)

Average annual growth of Industrial GDP: 9.0% (1970-80)

Service Sector Share of GDP: 48% (1980)

Average annual growth of Service GDP: 7.8% (1970-80)

Gross Domestic Investment: 28% of GDP (1980)

Gross Domestic Saving: 25% of GDP (1980)

Adult Literacy: 62% (1977)

Number enrolled in secondary school as percentage of age group: 25% (1979)

Life expectancy at birth: 60 years (1980)

Infant mortality rate: 90 (1980)

Population per physician: 3,580 (1977)

Percent of population with access to safe water: 70% (1975)

Basic Indicators
Yemen AR

Land Area: 195,000 square kilometers

Population: 7.0 million (1980)

Average Annual Growth of Population: 2.9% (1970-80)

Urban Population: 0.7 million (1980)

Average Annual Growth of Urban Population: 8.3% (1970-80)

GNP per capita: \$430 (1980)

Average annual growth of GNP per capita: 4.5% (1960-80)

Gross Domestic Product: \$2,610 million (1980)

Average annual growth of GDP: 9.2% (1970-80)

Agricultural Share of GDP: 29% (1980)

Average annual growth of Agricultural GDP: 3.7% (1970-80)

Industrial Share of GDP: 16% (1980)

Average annual growth of Industrial GDP: 14.7% (1970-80)

Service Sector Share of GDP: 55% (1980)

Average annual growth of Service GDP: 12.5% (1970-80)

Gross Domestic Investment: 44% of GDP (1980)

Gross Domestic Saving: -20% of GDP (1980)

Adult literacy: 21% (1977)

Number enrolled in secondary school as percent of age group: 4% (1979)

Life expectancy at birth: 42 years (1980)

Infant mortality rate: 190 (1980)

Population per physician: 11,670 (1977)

Percent of population with access to safe water: 4% (1975)

BASIC INDICATORS

OMAN

Land Area: 300,000 square kilometers

Population: 978 Thousand (1981)

Average annual growth of population: 3.3% (1976-81)

Urban Population: 159.6 Thousand (1981)

Average Annual growth of urban population: 36.0% (1976-81)

GNP per capita: \$5,924 (1981)

Average annual growth of GNP per capita: 3.5% (1970-81)

Gross Domestic Product: \$511 million (1981)

Average annual growth of GDP: N.A.

Agricultural Share of GDP: 2% (1981)

Average annual growth of Agricultural GDP: N.A.

Industrial Share of GDP: 10% (1981)

Average annual growth of Industrial GDP: N.A.

Service Sector Share of GDP: 25% (1981)

Petroleum share of GDP: 63% (1981)

Gross Domestic Investment: 26.1% of GNP (1981)

Gross National Saving: 44.8% of GNP (1981)

Adult Literacy: 20% (EST)

Number enrolled in secondary school as percentage of age group: 8% (1980)

Life expectancy at birth: 49 years (1982)

Infant mortality rate: 120 (1983)

Population per physician: 1,908 (1980)

Percent of population with access to safe water: 32% (1980)

Appendix F

Economic Data Tables

Appendix Table F-1

The Middle East Share of
World Crude Oil Production^{a/}

	<u>1977</u>	<u>1979</u>	<u>1981</u>	<u>1982</u>	<u>1983^{b/}</u>
Production (millions b/d)					
World	59.7	62.6	55.8	53.1	53.0
Middle East	<u>25.8</u>	<u>25.5</u>	<u>18.3</u>	<u>13.7</u>	<u>13.2</u>
A. Members of OPEC ^{c/}	(24.8)	(24.4)	(17.1)	(14.0)	(11.6)
B. Non OPEC and AID assisted ^{d/}	(1.0)	(1.1)	(1.2)	(1.2)	(1.4)
Shares (in percent)					
A. M.E. of World	43.2	40.7	32.8	28.6	25.0
B. Non OPEC and AID Assisted (b) of M.E. (A)	3.9	4.3	6.6	7.9	10.8

^{a/} excluding natural gas liquids

^{b/} preliminary for July 1983

^{c/} Algeria, Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia and the UAE
are Middle Eastern members of OPEC.

^{d/} Egypt, Sriael, Oman, Syria, Tunisia

No significant oil production in Lebanon, Yemen, or Morocco

Source: A.I.D. Near East Bureau

Appendix Table F-2

Selected Developed Country Dependence
on Crude Oil Imports from the Middle East

	<u>Middle East Imports</u> <u>1973</u>	<u>1979</u>	<u>Imports</u> <u>1981</u>	<u>as % Total</u> <u>Imports</u> <u>1983</u>	<u>1983*</u>
United States	36.6	51.6	41.0	23.2	13.9
Canada	38.2	46.1	40.3	23.4	41.3
United Kingdom	78.2	72.3	74.3	59.6	48.4
Germany	85.6	65.9	61.7	54.3	41.9
France	81.3	82.3	74.7	59.0	53.1
Japan	76.5	72.5	66.3	62.1	62.9

* Latest daily rate, July 1983

Source: A.I.D. Near East Bureau

Appendix Table F-3

A Rough Estimate of Annual Gross
Oil Revenues for Middle East Countries^{a/}

	<u>Billions of Dollars</u>				
	<u>1977</u>	<u>1979</u>	<u>1981</u>	<u>1982</u>	<u>1983^{b/}</u>
Middle East	<u>121.3</u>	<u>173.8</u>	<u>230.4</u>	<u>186.5</u>	<u>136.4</u>
A. Members of OPEC	116.6	166.3	215.3	171.8	121.6
B. Non OPEC, A.I.D. Assisted	4.7	7.5	15.1	14.7	14.7

^{a/} Millions b/d x 365 days x prevailing OPEC average official sales prices, i.e. 1977 = \$12.85, 1979 = \$18.67, 1981 = \$34.50, 1982 = \$33.63 and, June 1983 = \$28.75. In 1981 spot prices were often higher than the OPEC marker and in 1982 spot prices presented substantial discounts from the OPEC marker.

^{b/} June 1983

Source: A.I.D. Near East Bureau

Appendix Table F-4

Worker Remittances in Selected Middle East Countries
(all data 1982 or FY 1982/83)

<u>Country</u>	<u>Remittances (\$ Millions)</u>	<u>Remittances as a Percentage of: GNP</u>	<u>FX Earnings*</u>
Egypt	\$2,799	11%	40%
Yemen	1,200	26	60
Morocco	1,000	7	26
Jordan	1,100	23	59
Tunisia	380	5	11
Syria**	148	1	5
Oman	-362	N/A	N/A

*foreign exchange earnings defined as the sum of merchandise exports; other goods, services and income flows and private transfers.

** 1980, most current year available

Source: A.I.D. Near East Bureau

122

Balance of Payments, 1972, 1981

	Egypt		Israel		Jordan		Morocco		Tunisia		Yemen		Syria		Oman	
	1972	1981	1972	1981	1972	1981	1972	1981	1972	1981	1974	1981	1972	1981	1974	1981
	SDR million															
Exports of Goods & Services	1033	5882	2047	9202	134	1802	871	2615	520	2796	40	309	434	1973	1024	4215
Imports of Goods & Services	-1270	-9586	-3010	-12969	-307	-3708	-954	-5100	-603	-3502	-201	-1504	-485	-3738	-803	-2918
Transfers	272	1892	975	2439	176	1873	127	925	79	324	157	945	77	1273	-72	-295
Current Account Balance	35	-1811	12	-1328	3	-32	44	-1560	-4	-382	-4	-559	26	-492	149	1002
	\$ million															
Total Reserves minus gold	47	716	1179	3497	241	1088	214	230	218	536	195	962	105	337	189	1130
Total Disbursed Foreign Debt	1982	13887	3585	13868	171	1419	919	7879	694	3182	230	1094	337	2337	166	556
Debt Service Ratio (%)	31	23	17	19	7	6	10	30	15	17	5	5	8	15	-	2

Source: I.M.F. International Financial Statistics, various issues and I.B.R.D. World Debt Tables, 1982.

12/17

Appendix G

Bibliography

- A.I.D., Congressional Presentation Fiscal Year 1984.
- C.I.A., Economic Energy Indicators, various issues.
- F.A.O., Trade Yearbook, various issues.
- F.A.O., Production Yearbook, various issues.
- I.B.R.D., Development Prospects of the Capital Surplus Oil-Exporting Countries, Working Paper No. 483, 1981.
- I.B.R.D., Country Economic Reports, various issues.
- I.B.R.D., 1981 World Bank Atlas.
- I.B.R.D., World Debt Tables, February, 1983.
- I.L.O., Labour Force Estimates and Projections, 1950-2000, 1977.
- I.M.F., International Financial Statistics, various issues.
- Middle East Economic Digest, various issues.
- O.D.C., U.S. Foreign Policy and the Third World-Agenda 1982, 1982.
- O.E.C.D., Development Co-operation, 1982.
- O.E.C.D., Economic Assistance by OPEC Countries and Institutions, Statistical Annex, 1982.
- O.E.C.D., Geographical Distribution of Financial Flows to Developing Countries, 1982.
- Oil and Gas Journal, various issues.
- PADCO, National Urban Policy Study - Final Report, 1982.
- PADCO, Near East Countries Current and Projected Urbanization and Associated Indicators, 1983.
- Population Reference Bureau, 1983 World Population Data Sheet, 1983.
- Futures Group Rapid, The Effects of Population Factors on Social and Economic Development, various countries.
- U.N., Demographic Yearbooks, various issues.
- U.N., Yearbook of International Trade Statistics, Selected Issues.
- UNESCO, Yearbooks, various issues.