

Page Denied

Next 1 Page(s) In Document Denied

A

Washington DC 20505

18 June 1985

The Honorable Patrick J. Buchanan
Assistant to the President and
Director of Communications
The White House

Dear Pat,

I received a copy of Bill Middendorf's letter of May 30 to you proposing White House backing for a conference to be sponsored by Georgetown University on some of the themes raised in the report of the President's Task Force on International Private Enterprise. This idea has my endorsement.

It is my belief that Third World governments are shifting away from comprehensive central planning and toward more pragmatic and market-oriented economic policies. This trend began in the 1970s when the LDCs encountered tough economic times (two oil price hikes, two recessions, high interest rates, and massive debt), and has accelerated in the 1980s, paralleling similar changes taking place in the industrial world and Eastern Europe. At the same time, the prospects for sizeable new amounts of Western foreign assistance have dimmed, with funds flows increasingly going for security assistance, humanitarian purposes and debt repayment.

This changing climate presents significant economic opportunities for the US:

- to increase the promotion of small-scale private sector economic activity with LCDs,
- to enlarge the flow of foreign direct investment,
- to help state enterprises to become more efficient and find ways to relinquish some functions to the private sector, and
- to strengthen trade, finance, and investment links with LCDs based upon a growing mutuality of economic interest.



CONFIDENTIAL

Q-339

These forces should strengthen the West's position relative to that of the Soviet Union in LDCs as well.

In order to implement the President's views on the role of private enterprise, much broader initiatives must be undertaken by the Administration, and this conference would help to define some of the mechanisms for improvement. If there are any ways in which we can be of support, please contact my National Intelligence Officer for Economics, David B. Low at 351-5908.

Sincerely,



William J. Casey

cc: Mr. Robert McParlane
Ambassador J. William Middendorf, II

25 July 1985

**INTERNATIONAL PRIVATE ENTERPRISE:
WHEN WILL THE REAGAN REVOLUTION BEGIN?**

Talking Points

THE SETTING

1. The President at Cancun in 1981 articulated a positive program of action for economic development which emphasized the need to encourage LDC growth through the private sector. The President's program, however, remains unfulfilled for the Administration's strategy and mechanisms for carrying out the goals are flawed.
2. Changing economic circumstances in the Third World have created a new context for political and economic relations and new opportunities to enhance US security interests. Many Third World leaders now recognize that rigid Marxist-socialist models will not yield economic and industrial growth. They are increasingly concerned with the "politics of economics" and not the "politics of socialism," and look to market-oriented approaches to rebuild shattered economies. Moreover, the Soviets are not able to offer much in the way of economic assistance, and Soviet economic and financial constraints over the next 10 years will make Moscow even less able to compete in non-military sectors.

THE CHALLENGE

3. The growing American economy and its private sector is an irresistible example impelling change in the economies of both the industrial and Third World countries. If we are able to take advantage of the economic forces for change in the Third World, then the West's position relative to the Soviet Union would be strengthened. In specific countries, US security interests will often coincide with opportunities for economic support of private sector enterprise and can be mutually reinforcing.

THE OBSTACLES

4. Our private enterprise, not government direction, created the economic system which provides the resources we transfer to LDCs. Yet our economic assistance generally ignores our own model of growth. Virtually all US aid moves from US bureaucracy to foreign bureaucracy before any of it has the opportunity to move to the private sector. Significant change in the private sector cannot be leveraged primarily on the back of governmental institutions.
5. AID, as currently structured, is not the solution. In fact, it is part of the problem. Present developmental assistance efforts show little positive correlation with private sector growth. AID's understanding of the private sector is limited, and its resource transfers to LDC governments may support short-term political stability but often they retard long-term growth of private enterprise.

THE PROPOSALS FOR CHANGE

6. The Peterson Commission in 1972, the Reagan Transition Team in 1980-81, the Carlucci Commission of 1982, a portion of the President's Task Force on International Private Enterprise in 1984, and others, have concluded that AID is the wrong institution to carry out the private sector mandate. These groups have proposed that resources be transferred from AID to an environment which understands the private sector (e.g., an expanded OPIC or a US International Development Bank). Unless the Administration is prepared to do this, the President's Cancun goals will not be fulfilled. (AID's legislation and institutional orientation reflect the dominance of the humanitarian aspect of development assistance, and it seems reasonable that AID should continue to be predominantly a humanitarian institution.)

THE OPTIONS

7. In order to implement an Administration commitment to change, the President can:
 - a. Appoint a new head of the International Development Corporation Agency (IDCA) which was established by Reorganization Plan No. 2 of 1979 to be a focal point for international issues affecting US relations with developing countries. This already established position would offer the opportunity to implement the President's Cancun goals, to develop strategies and modalities for stimulating private enterprise in the Third World, and to support more effectively US private sector investments in LDCs. (The AID Director is currently Acting Director of IDCA.)
 - b. Appoint a special assistant to the President for International Private Enterprise. This would be an alternative choice which would allow attainment of the goals expressed in Option 1.
 - c. Appoint a new director of AID who would blunt the current policy drift which is counter to many of the president's private sector objectives. The new director, however, would be confronted with a staff that does not understand the private sector and bureaucratic inertia or resistance to change would consume a great deal of time.

Page Denied

Next 1 Page(s) In Document Denied

FM AMBASSADOR ROBERT B. KEATING, ANIANANARIVO 12542 SECTION 1 OF 3
TO ROBERT C. MCFARLANE, THE WHITE HOUSE FOR
VADM JOHN M. POINDEXTER

TO: ROBERT C. MCFARLANE, THE WHITE HOUSE
VADM JOHN M. POINDEXTER

FROM: AMBASSADOR ROBERT B. KEATING

SUBJECT: THE REAGAN REVOLUTION IN DEVELOPMENT ASSISTANCE

(THE FOLLOWING EVALUATION IS THE RESULT OF OVER TWO DECADES OF CLOSE ENCOUNTERS OVERSEAS WITH AID PROGRAMS WHOSE LARGE OVERHEAD COSTS AND IMPRECISE RESULTS WITH RESPECT TO U.S. OBJECTIVES OFTEN PUZZLED AND CONCERNED ME. I HAVE OBSERVED AND INTERACTED WITH THESE PROGRAMS IN THE COURSE OF EXTENSIVE EXPERIENCE GRAPPLING WITH THIRD WORLD DEVELOPMENT PROBLEMS AS: STAFF ENGINEER WITH THE WORLD BANK; DIRECTOR OF THE CHILE-CALIFORNIA PROGRAM; SENIOR ADVISOR TO THE INTER-AMERICAN DEVELOPMENT BANK; DIRECTOR GENERAL OF THE MINISTRY OF PUBLIC WORKS IN ZAIRE; SENIOR CONSULTANT TO U.S. INDUSTRIES IN AFRICA, LATIN AMERICAN AND SOUTHEAST ASIA; U.S. AMBASSADOR TO MADAGASCAR AND THE COMOROS, AND CHAIRMAN OF THE NSC-DIRECTED THIRD WORLD HUNGER STUDY.)

IN THE PAST TEN YEARS, CHANGING CIRCUMSTANCES IN THE THIRD WORLD HAVE CREATED A NEW CONTEXT FOR ECONOMIC AND POLITICAL RELATIONS AND NEW OPPORTUNITIES FOR U.S. FOREIGN POLICY. WE HAVE SO FAR FAILED TO CAPITALIZE ON THE POTENTIAL OF THESE CHANGES. THEY CREATE AN UNPRECEDENTED OPPORTUNITY FOR THE UNITED STATES TO BUILD TIES TO THE THIRD WORLD BASED ON EMERGING MUTUALITY OF ECONOMIC INTERESTS. A REAGAN REVOLUTION IN DEVELOPMENT ASSISTANCE IS NEEDED IF WE ARE TO MEET THESE CHALLENGES.

THE CHANGING ECONOMIC CIRCUMSTANCES

SOCIALIST SYSTEMS WHICH HAVE DOMINATED THE ECONOMIES OF DEVELOPING COUNTRIES FOR SEVERAL DECADES HAVE FAILED TO ACHIEVE ECONOMIC GROWTH. THEY HAVE EMPHASIZED URBAN DEVELOPMENT AT THE EXPENSE OF THE COUNTRYSIDE AND ITS AGRICULTURE, DRIVING FARMERS INTO MERE SUBSISTENCE. CENTRAL PLANNERS SET UP INEFFICIENT STATE ENTERPRISES AT ENORMOUS COST, BANKRUPTING THEIR ECONOMIES. TIMES GOT TOUGHER IN THE SEVENTIES. TWO OIL HIKES, TWO RECESSIONS, ACCUMULATED DEBT AND HIGH INTEREST RATES ALL MADE DEVELOPMENT MORE DIFFICULT. WITH THE FAILURE OF PRODUCER CARTELS AND OPEC'S CURRENT PROBLEMS, DEVELOPING COUNTRIES NOW REALIZE THEY HAVE LESS COLLECTIVE POWER THAN EARLIER IMAGINED

LOOKING FOR WAYS OUT OF THEIR ECONOMIC DIFFICULTIES AND ASSISTANCE FOR THEIR NATION-BUILDING NEEDS, DEVELOPING COUNTRIES HAVE FINALLY PERCEIVED THAT THE SOVIET UNION AND ITS CLIENT STATES ARE DISMAL EXAMPLES OF AGRICULTURAL AND INDUSTRIAL PRODUCTIVITY. UNABLE TO SUPPLY MUCH ECONOMIC ASSISTANCE, THE SOVIET UNION HAS HAD TO BIND THEM TO ITS SIDE WITH SUPPLIES OF SURPLUS MILITARY EQUIPMENT. MEANWHILE, WESTERN DEVELOPMENT AGENCIES BUILT PONDEROUS BUREAUCRACIES AT HOME AND ABROAD TO ADMINISTER RURAL WELFARE TO THE POOREST OF THE POOR, WITHOUT CONTRIBUTING TO ECONOMIC GROWTH.

IN THIS DARK LANDSCAPE, THERE IS LIGHT AND IT COMES FROM AN EXPANDING AMERICAN ECONOMY WHICH STANDS AS A MODEL AND PULLING ENGINE FOR WORLD ECONOMIC GROWTH. AMONG DEVELOPING COUNTRIES, THOSE WITH THE MOST OPEN ECONOMIES AND CLOSEST TIES WITH THE UNITED STATES (E.G., THE ASEAN COUNTRIES) HAVE MOST EFFECTIVELY OVERCOME THE LAST DECADE'S ADVERSE ECONOMIC CIRCUMSTANCES. TECHNOLOGIES FROM U.S.-SPONSORED RESEARCH ARE OPENING A NEW ERA OF PRODUCTIVITY FOR THIRD WORLD FARMERS. BECAUSE OF OIL CONSERVATION, OPEC'S CARTEL IS BROKEN WITH THE PROSPECT THAT DEVELOPING COUNTRIES CAN NOW AFFORD PESTICIDES, FERTILIZERS AND FUEL FOR IRRIGATION AND MACHINERY. UNDERNEATH THE SURFACE OF STATE REGULATION, BURGEONING SECOND ECONOMIES ARE BREAKING OPEN OLD CONTROLS, CAUSING CENTRALLY-DIRECTED ECONOMIES TO CHANGE. THIRD WORLD LEADERS, ONCE ENAMORED OF SOCIALIST MODELS, ARE NOW BETTING ON MARKET-ORIENTED POLICY CHANGES IN FOUR CRITICAL AREAS:

- AGRICULTURAL PRICES
- MARKETING REFORM AND LIBERALIZATION
- INPUT SUPPLY AND DISTRIBUTION
- PRIVATE SECTOR INVOLVEMENT IN AGRICULTURE AND INDUSTRY

IMPLICATIONS FOR U.S. POLICY

THE GROWING AMERICAN ECONOMY IS AN IRRESISTABLE FORCE IMPELLING CHANGE IN THE ECONOMIES OF THE THIRD WORLD. IN A SYSTEM OF FREE TRADE, THE UNITED STATES AND DEVELOPING NATIONS ARE INEXTRICABLY TIED TOGETHER BY THE MUTUALITY OF ECONOMIC INTERESTS.

ALTHOUGH BUDGETARY CONSTRAINTS WILL REQUIRE CUTS IN OUR DEVELOPMENT ASSISTANCE, ECONOMIC GROWTH IN THE UNITED STATES AND THE FREE WORLD IS CREATING PRIVATE INVESTMENT CAPITAL THAT,

IF PROPERLY ENCOURAGED, COULD HELP TURN AROUND THE ECONOMIES OF DEVELOPING COUNTRIES. THIRD WORLD LEADERS ARE INCREASINGLY AWARE OF THIS AND RECOGNIZE THAT THEIR COUNTRIES' ECONOMIC SALVATION LIES IN THE WEST, WITH THE EAST PROVIDING LITTLE IN THE WAY OF CREDIBLE NATION-BUILDING ALTERNATIVES.

THE SOVIET BLOC HAS FEW REAL RESOURCES TO COUNTER THESE ECONOMIC AND POLITICAL TRENDS. IT IS NOT ABLE TO PROVIDE MUCH OF A GROWTH MARKET FOR THIRD WORLD EXPORTS. THE SUPPLY OF SOVIET OIL TO FAVORED DEVELOPING COUNTRIES WILL DIMINISH WITH FALTERING DOMESTIC PRODUCTION AND INCREASING NEEDS AT HOME. FOREIGN EXCHANGE STRINGENCIES WILL KEEP MOSCOW FROM PROVIDING HARD CURRENCY LOANS. DOMESTIC SHORTAGES OF GOODS AND SKILLED MANPOWER WILL LIMIT COMMODITY AND PROJECT AID. IN SUM, SOVIET DOMESTIC ECONOMIC AND FOREIGN FINANCIAL CONSTRAINTS WILL MAKE MOSCOW EVEN LESS INCLINED TO ACCEPT COSTLY NEW BURDENS LIKE CUBA AND VIETNAM. IN TRIMMING OUTLAYS THROUGHOUT THEIR EMPIRE, THEY ALSO MUST PARE ECONOMIC SUPPORT FOR CLIENT STATES.

AT THE SAME TIME, THIRD WORLD LEADERS ARE UNEASY ABOUT THEIR ABILITY TO STAY IN POWER DURING THE DIFFICULT PERIOD OF TRANSITION TO A HEALTHIER ECONOMY. THIS GIVES GREATER EMPHASIS TO SECURITY ISSUES IN EAST-WEST COMPETITION FOR THE THIRD WORLD. MOSCOW WILL HAVE TO RELY MORE HEAVILY ON SHIPMENTS OF ARMS TO SUSTAIN ITS INFLUENCE. THE UNITED STATES HAS A GREAT ADVANTAGE IN SECURITY ASSISTANCE BECAUSE IT CAN TAILOR SUCH PROGRAMS TO MEET REAL DEFENSE NEEDS. IF THE PRICE IS RIGHT, THE WEST IS PREFERRED FOR THIRD WORLD SECURITY ASSISTANCE.

THE CHALLENGE OF THE INTERIM PERIOD

THIRD WORLD GOVERNMENTS, ONCE DOMINATED BY SOCIALIST ECONOMIC SYSTEMS, ARE NOW ATTEMPTING TO LIBERALIZE THEIR ECONOMIES AND MAKE THEM MORE EFFICIENT. THEY HAVE AGREED TO THE POLICY REFORMS STIPULATED BY THE IMF, AND HAVE MADE PROGRESS TOWARDS BETTER ECONOMIC AND FINANCIAL MANAGEMENT. BUT RESTORING GROWTH TO STAGNANT ECONOMIES IS A DIFFICULT AND LENGTHY TASK. MOREOVER, THE ACTUAL IMPLEMENTATION OF CRITICAL POLICY MEASURES, LOANS AND PROJECTS HAS SLIPPED IN MANY OF THESE COUNTRIES. THIS MEANS THAT EVEN LONGER PERIODS OF ECONOMIC AUSTERITY MUST BE ENDURED BEFORE HEALTHIER ECONOMIES CAN EVOLVE, IN SOME INSTANCES UP TO FIVE YEARS.

WE MUST ALSO RECKON WITH THE POLITICAL VULNERABILITY OF THIRD WORLD LEADERS WHO HAVE TAKEN THE HARD POLICY DECISIONS. WHILE SETTING IN MOTION NEW REFORM MEASURES WHICH WILL YIELD POSITIVE RESULTS SEVERAL YEARS HENCE, THESE LEADERS MUST

SIMULTANEOUSLY CONTEND WITH URGENT POLITICAL AND SOCIAL PRESSURES EXERTED BY THE INTERIM PERIOD OF ECONOMIC HARDSHIP. IF NOT HANDLED CORRECTLY, SUCH PRESSURES COULD DERAIL EFFORTS TO RESTORE ECONOMIC GROWTH AND CREATE THE KIND OF INSTABILITY WHICH THE SOVIETS SO SKILLFULLY EXPLOIT.

THE CHALLENGE TO U.S. FOREIGN POLICY IS TO HAVE THESE LEADERS STAY ON COURSE AND NOT YIELD TO SHORT-TERM POLITICAL EXPEDIENCY AT THE EXPENSE OF THEIR COUNTRIES' FUTURE ECONOMIC INTERESTS. AT THIS POINT IN HISTORY, WE HAVE, IN MANY THIRD WORLD COUNTRIES, A MAJOR SUNK INVESTMENT IN THE FORM OF WORLD BANK LOANS, IMF STAND-BY ARRANGEMENTS AND COMMERCIAL FINANCING THAT WILL BE LOST IF POLICY CHANGES ARE NOT UPHELD AND ECONOMIC GROWTH RENEWED. IN THIS CONTEXT, THE NEW ECONOMIC POLICY INITIATIVE TO SUPPORT POLICY REFORM IN SEVERAL AFRICAN COUNTRIES OVER THE NEXT FIVE YEARS WILL HELP BRIDGE THE GAP BETWEEN ECONOMIC STAGNATION AND RECOVERY. PLACED ALONGSIDE THIS WILL BE THE KEATING-GROUP "FOOD FOR PROGRESS" PROPOSAL WHEREBY USG-OWNED FOOD STOCKS WILL BE USED FOR A FOUR-YEAR PERIOD TO REDUCE THE FOOD RISK TO THIRD WORLD GOVERNMENTS UNDERTAKING AGRICULTURAL PRICE AND POLICY REFORM.

WE NEED AS WELL EMERGENCY RECOVERY PROGRAMS DESIGNED TO INCREASE PRODUCTION ON SMALLHOLDER FARMS CLOSE TO URBAN CENTERS. RECORDS IN MANY COUNTRIES SHOW THAT SUCH AREAS HAVE, IN THE PAST, PRODUCED SIGNIFICANT QUANTITIES OF FOOD BY FARMERS CAPABLE OF QUICK PRODUCTION RESPONSE IF GIVEN A FAIR PRICE FOR THEIR PRODUCE. OUR AMBASSADORS IN THIRD WORLD COUNTRIES SHOULD HAVE THE AUTHORITY TO DEVELOP AND FUND, IN CONSULTATION WITH AID TEAMS, PRODUCTION IMPACT PROJECTS WHICH WOULD HELP UNLEASH THIS POTENTIAL BY PROVIDING INFRASTRUCTURE REPAIR AND FARMER SERVICES ACCORDING TO LOCALLY DETERMINED NEEDS. WHILE LONGER-TERM AGRICULTURAL DEVELOPMENT EFFORTS MUST CERTAINLY BE MADE, THE CRISIS OF THE INTERIM PERIOD DEMANDS EMERGENCY PROGRAMS WHICH WOULD BOOST PER CAPITA AGRICULTURAL OUTPUT AS QUICKLY AS POSSIBLE. UNFORTUNATELY, AID IS NOT ALLOCATING RESOURCES TO SUCH SHORT-TERM RECOVERY EFFORTS.

THE AFRICAN DILEMMA

THE LAND IS DYING IN MANY PARTS OF AFRICA. SOUTH OF THE STEADILY ENCROACHING SAHARA DESERT, 29 OF THE WORLD'S 36 POOREST NATIONS ARE APPEALING FOR EMERGENCY AID TO WARD OFF FAMINE. HUNGER AND EXTREME MALNUTRITION NOW THREATEN OVER 14 MILLION PEOPLE THROUGH THE END OF 1985. A DROUGHT FAR WORSE THAN ANYTHING HITHERTO EXPERIENCED IN THE REGION, PLUS THE INSTABILITY OF REGIMES AND THEIR ILL-ADVISED POLICIES,

HAVE BADLY DAMAGED AGRICULTURAL SECTORS, DRIVING MANY FARMERS INTO MERE SUBSISTENCE. DESPERATION HAS CAUSED OVERPLANTING AND OVERGRAZING OF MARGINAL LANDS. PEASANTS CUT DOWN TREES FOR MONEY TO BUY FOOD, DEPLETING FORESTS AT AN ALARMING RATE. RAIN IS NO LONGER RECYCLED, AND IRRIGATION IS DETERIORATING. MOREOVER, IN SPITE OF EPIDEMICS AND HIGH INFANT MORTALITY, POPULATION PRESSURES ARE AMONG THE GREATEST IN THE WORLD WITH NET ANNUAL GAINS OF THREE PERCENT OR MORE, OR ABOUT 20 MILLION PEOPLE A YEAR.

WHAT TO DO? WE SHALL CONTINUE, OF COURSE, TO SEND FOOD TO FEED THE STARVING. THE PRESIDENT LAST YEAR APPROVED THE KEATING GROUPS'S TEN RECOMMENDATIONS FOR ACHIEVING MORE RAPID RESPONSE TO THIRD WORLD FOOD CRISES, AND A TREMENDOUS OUTPOURING OF ASSISTANCE HAS TAKEN PLACE. BUT TODAY'S FOOD EMERGENCY REEMPHASIZES THE NEED TO TACKLE THE UNDERLYING STRUCTURAL PROBLEMS OF AGRICULTURAL STAGNATION. ARRESTING AND REVERSING DECLINING FOOD PRODUCTION CAN ONLY HAPPEN THROUGH FUNDAMENTAL CHANGES. IF THEY DO NOT TAKE PLACE, THEN WE MUST BE PREPARED TO UNDERWRITE INDEFINITELY SUBSAHARAN AFRICA'S SURVIVAL WITH EVER INCREASING FOOD AID PROGRAMS, KNOWING THAT MENDICANCY TENDS TO BECOME INSTITUTIONALIZED AND PERMANENT.

OBVIOUSLY, OUR BUDGET WILL NOT PERMIT US TO ADDRESS PROBLEMS OF THIS MAGNITUDE WITH BROADLY-BASED DEVELOPMENT FROM THE BOTTOM RUNG UP, IN THE MODE OF CURRENT AID POLICY. HELPING THE LANDLESS POOR WITH HEALTH, EDUCATION OR OTHER SOCIAL PROGRAMS, HOWEVER LAUDABLE, WILL NOT PRODUCE BADLY-NEEDED ECONOMIC GROWTH, PARTICULARLY DURING THE TRANSITIONAL PERIOD TO MORE MARKET-ORIENTED ECONOMIES. WE MUST CONCENTRATE OUR RESOURCES INTO THE AREAS WHICH MATTER MOST IF WE ARE TO "TURN-AROUND" THE ECONOMIES OF KEY AFRICAN STATES. THIS IS POSSIBLE IF WE REALLOCATE OUR AVAILABLE RESOURCES TO STRENGTHEN FOOD PRODUCING CAPACITY, IF WE PUSH RIGOROUSLY FOR AGRICULTURAL POLICY REFORM, AND IF WE HELP MOBILIZE THE PRIVATE SECTOR TO PROVIDE AGRICULTURAL INPUTS, FOOD PROCESSING, STORAGE AND MARKETING. AFRICA COLLECTIVELY HAS THE GREATEST UNTAPPED AGRICULTURAL POTENTIAL IN THE WORLD. SHARPLY FOCUSED AND SKILLFULLY DIRECTED U.S. ASSISTANCE CAN BRING THAT POTENTIAL TO FRUITION.

THE REAGAN REVOLUTION IN DEVELOPMENT ASSISTANCE

IN ITS FIRST TERM, THE REAGAN ADMINISTRATION MISSED AN OPPORTUNITY TO MAKE AID AN EFFECTIVE INSTRUMENT OF ADMINISTRATION FOREIGN ASSISTANCE GOALS. HOWEVER, THE SUCCESS OF THE ADMINISTRATION'S ECONOMIC POLICIES NOW ENHANCES ITS ABILITY TO GENERATE A FOREIGN ASSISTANCE PROGRAM WHICH AMERICAN PEOPLE

CAN UNDERSTAND AND THE AMERICAN CONGRESS CAN SUPPORT. AT THE SAME TIME, A COMPLEX OF FACTORS HAS GIVEN US ANOTHER CHANCE TO PROMOTE ECONOMIC GROWTH AND STRENGTHEN POLITICAL RELATIONS IN THE THIRD WORLD. WE CANNOT AFFORD TO LET THE OCCASION SLIP BY AGAIN. IN SUM, I CONCLUDE THAT:

1. CHANGING ECONOMIC CIRCUMSTANCES GIVE US NEW OPPORTUNITIES TO BUILD LASTING TIES TO THE DEVELOPING WORLD.

2. WE MUST MAKE A SPECIAL EFFORT TO SUPPORT THIRD WORLD COUNTRIES IN THEIR DIFFICULT TRANSITIONAL PERIODS TO MORE MARKET-ORIENTED ECONOMIES.

3. WE CANNOT CONTINUE TO PLACE OUR AVAILABLE RESOURCES ON UNPRODUCTIVE, ALBEIT WORTHY DEVELOPMENT PROJECTS. THEY MUST BE REGROUPED INTO THE AREAS WHICH MATTER MOST: AGRICULTURAL DEVELOPMENT, POLICY REFORM AND PRIVATE SECTOR INITIATIVES.

4. WE NEED A DISCIPLINED APPROACH TO DEVELOPMENT IMPLEMENTATION. LOOKING AT AID, AS IT IS NOW CONSTITUTED, I FIND IT EXCESSIVELY LAYERED WITH MINUTE SUBDIVISION OF LABOR WHICH DOES NOT RESULT IN INCREASED PRODUCTIVITY. I ASK THE FOLLOWING QUESTIONS:

- A) ARE THE "FOUR PILLARS" OF DEVELOPMENT, AS INTERPRETED BY AID, THE RIGHT ONES?
- B) ARE FINANCIAL RESOURCES TARGETED AT THE PRIORITY AREAS OF OPPORTUNITY?
- C) ARE PERSONNEL RESOURCES DEPLOYED IN A RATIONAL MANNER CONSISTENT WITH PRIORITY TASKS?
- D) DOES CURRENT AID POLICY FORMULATION EFFECTIVELY SUPPORT U.S. FOREIGN POLICY, NATIONAL SECURITY AND TRADE INTERESTS, WHETHER BY REGION OR COUNTRY?
- E) ARE AID PROGRAMS, OTHER THAN EMERGENCY RELIEF, COMPREHENSIBLE TO THE AMERICAN PUBLIC AND CONGRESS?
- F) IS AID DECISION-MAKING PLUGGED INTO AN ANALYTICAL FRAMEWORK WHICH EXAMINES ALL FOREIGN ASSISTANCE INSTRUMENTALITIES IN TERMS OF OBJECTIVES AND TRADE-OFFS?
- G) HAS AID SUCCEEDED IN PROMOTING PRIVATE ENTERPRISE IN THIRD WORLD NATIONS?

I CONCLUDE THAT THE ANSWER TO EACH OF THE ABOVE CRITICAL QUESTIONS IS IN LARGE PART "NO". AID MUST BE RESTRUCTURED IF NEW OPPORTUNITIES ARE TO BE SEIZED AND THE GOALS OF THE REAGAN

ADMINISTRATION REALIZED. TO TURN THE AGENCY AROUND, WE FIRST
NEED TO REMOVE THE ORGANIZATIONAL DISTANCE BETWEEN AID AND
STATE TO ENSURE THAT OUR FOREIGN POLICY, NATIONAL SECURITY
AND TRADE INTERESTS ARE PROPERLY MESHED. THEN WE MUST
STABILIZE AID AS AN ORGANIZATION BY FURTHER INTEGRATING IT
INTO THE FOREIGN SERVICE, CUTTING AWAY THE DEAD WOOD,
ATTRACTING NEW TALENT AND REWARDING PRODUCTIVE WORK WITH
CAREER INCENTIVES. FINALLY, AID PROGRAMS MUST BE DEvised
THAT ARE DEMONSTRABLY PRODUCTIVE AND MARKETABLE TO THE AMERICAN
PEOPLE AND CONGRESS.

KEATING

C O N F I D E N T I A L

BT

#2542

NNNN

c

CONFIDENTIAL

2 July 1987

THE WORLD BANK

The World Bank (the International Bank for Reconstruction and Development) is a specialized agency of the United Nations. Its primary goal is to foster broad-based growth in incomes and employment in member countries by facilitating investment of capital for productive purposes, promoting private capital investment, and when private capital is not available on reasonable terms, to provide supplemental lending from Bank resources. Almost all non-Communist countries are members of the Bank.

- The Bank makes long-term loans at market rates of interest to members using funds from member country subscriptions to the Bank's capital stock, by selling its own bonds in international capital markets, and by selling its own loan portfolios to private investors.
- IBRD loans must be guaranteed by the government of the borrowing country and repaid in hard currency.
- Most Bank loans finance infrastructure investment in transportation, electric power, agriculture, water supply and education.

Since the early 1980s the Bank also has provided some loans to promote stable financial conditions needed before long-term development programs can be undertaken. In this, Bank activities have come to somewhat overlap the work of the International Monetary Fund, its sister agency.

CONFIDENTIAL