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# THE ACT FOR INTERNATIONAL DEVELOPMENT

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A PROGRAM FOR THE DECADE OF DEVELOPMENT

OBJECTIVES, CONCEPTS  
AND PROPOSED PROGRAM

*Handwritten notes:*  
1960-1970  
Development

A.I.D.  
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# PROGRAM FOR THE DECADE OF DEVELOPMENT

"For we are launching a Decade of Development  
on which will depend, substantially,  
the kind of world in which we  
and our children shall live"

*[Handwritten: Part Report]*

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Program for the Decade of Development

353.1 President's Task Force on Foreign Economic  
L124 Assistance.  
Program for the Decade of Development;  
submitted by the Task Force, headed by  
Henry R. Labouisse. May 1961.  
173 p. illus.

*[Handwritten: Part Report]*

PRESIDENT KENNEDY'S Special Message on Foreign Aid  
March 22, 1961

**BEST AVAILABLE DOCUMENT**

1. Economic assistance. 2. Technical assistance.  
I. Labouisse, Henry R. II. Title. III. Decade of  
Development.

The President's Task Force on  
Foreign Economic Assistance

On March 31, the President established a Task Force on Foreign Economic Assistance to work out the program, legislation and organization best adapted to the new concepts which were set forth in his Message to Congress of March 22, 1961. The President appointed Henry R. Labouisse as Director of the Task Force.

In order to bring fresh points of view to what the President described as an effort to shift the foreign aid program "to a sound economical basis," he invited the participation in the Task Force of several groups of distinguished private citizens with varied experience in relation to underdeveloped countries. These groups worked together with Government officials who have also given the major part of their time to the work of the Task Force, not as representatives of any Federal Agency, but as individuals with special knowledge and experience in foreign affairs and economic assistance programs.

The three major Task Force groups established by Mr. Labouisse are as follows:

The Group on Legislation and Congressional Presentation, of which Theodore Tannenwald, Jr., an attorney of New York City and formerly Assistant Director, Office of the Director for Mutual Security, is Chairman.

The Group on Organization and Administration, of which George Gant, Director, South & Southeast Asia Program, Ford Foundation, is Chairman.

The Group on Program Development, of which Frank M. Coffin, Managing Director of the Development Loan Fund, is Chairman.

Mr. John O. Bell, Deputy Coordinator for Foreign Assistance, State Department, is Deputy to Mr. Labouisse as Director of the Task Force.

Professor Max Millikan, Director of the Center of International Studies at the Massachusetts Institute of Technology, is Chairman of one panel of private consultants.

A second panel of private citizens composed of outstanding businessmen and members of the banking community is headed by Henry Alexander, Chairman of the Morgan Guaranty Trust Company of New York.

The new foreign aid program which is described in this volume, and the legislation which is being submitted to implement the new program, represents the work of the President's Task Force on Foreign Economic Assistance. In the preparation of the program, the Task Force has drawn heavily on the accumulated experience of this country in administering foreign economic aid over the past two decades.

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# A NEW PROGRAM WITH NEW CONCEPTS

- **A Unified Administration**

- Tying together existing aid units
- Centralizing programming
- Clarifying responsibility
- Attracting professional personnel of high quality

- **With a Flexible Set of Tools**

- LONG-TERM LOANS repayable in dollars
- SUPPORTING ASSISTANCE for strategic purposes
- DEVELOPMENT GRANTS chiefly for education and human resources
- FOOD FOR PEACE
- PEOPLE: Administrators, advisors, Peace Corps

- **And Long Term Availability**

- Through 5-year borrowing authority for loans
- Grants available beyond end of fiscal year
- Recognizing that the next few years can be critical for the Free World

- **To Stimulate and Respond to Sound Country Programs**

- By nations willing to budget their resources for growth and to take necessary measures of social, fiscal, and governmental reform.

- **Using Systematic Research**

- To improve the effectiveness of our assistance efforts

- **Drawing on the Financial and Management Assets of Private Enterprise, through**

- Broader guaranties and
- Investment surveys

- **Mobilizing Free World Aid Sources**

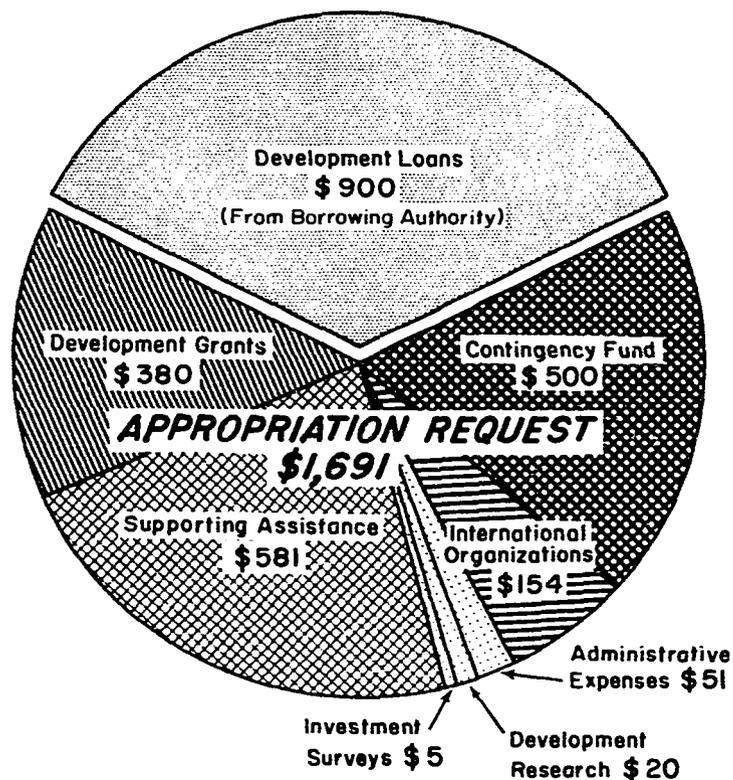
- Coordinating multilateral programs
- Increasing amounts of aid
- Lengthening commitments

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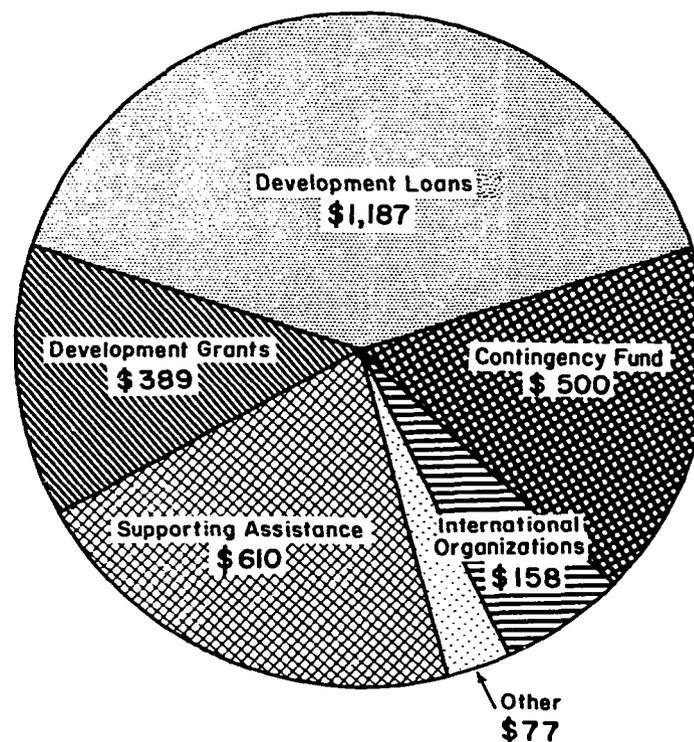
# FY 1962 REQUEST AND PROGRAM

FY 1962 REQUEST\*



\*Excludes Peace Corps, Refugee and Migration Programs, and State Administrative Expenses.

FY 1962 PROGRAM†



† Difference between FY 1962 Request and FY 1962 Program:

Loan Repayments	\$ 287 million
Unobligated Balances Carried Forward	\$ 43 million
<b>Total</b>	<b>\$ 330 million</b>

NOTE: An additional \$1.6 billion in borrowing authority is requested for each of the four succeeding fiscal years for Development Loans.

Proposed Program and Appropriation Request for FY 1962  
(In millions of dollars)

<u>Function</u>	<u>Program</u>	<u>Proposed Financing</u>	
		<u>New Obligational Authority</u>	<u>Unobligated Balances</u>
<u>Development Loans</u>	<u>1187.00</u>	<u>900.00</u> a/	<u>287.00</u> b/
<u>Development Grants</u>	<u>389.00</u>	<u>380.00</u>	<u>9.00</u>
Continuing Costs	259.00		
Illustrative New Projects	125.00		
Excess Property Pool	5.00		
<u>Research</u>	<u>20.00</u>	<u>20.00</u>	
<u>Investment Surveys</u>	<u>5.00</u>	<u>5.00</u>	
<u>Supporting Assistance</u>	<u>610.10</u>	<u>581.00</u>	<u>29.10</u>
<u>Voluntary Contributions to</u>			
<u>Multilateral Organizations</u>	<u>158.35</u>	<u>153.50</u>	<u>4.85</u>
<u>Contingency Fund</u>	<u>500.00</u>	<u>500.00</u>	
<u>Administrative Expenses</u>	<u>51.55</u>	<u>51.00</u>	<u>.55</u>
<b>TOTAL</b>	<b>2921.00</b>	<b>2590.50</b>	<b>330.50</b>
Development Loans	(1187.00)	(900.00)	(287.00)
Other Programs	(1734.00)	(1690.50) c/	(43.50)

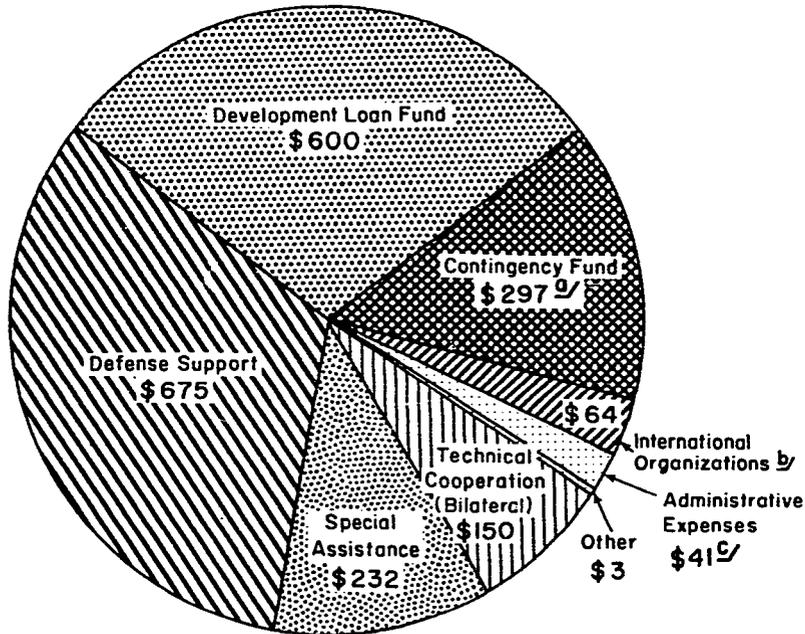
a/ Borrowing authority. An additional 1.6 billion dollars in borrowing authority is requested for each of the four succeeding fiscal years.

b/ Loan Repayments.

c/ Appropriation Request. Excludes following programs: Peace Corps - 40.00; ICEM - 6.00 plus 1.00 unobligated balance; Escapee Program - 3.30; UNHCR - 1.20; OECD - 1.20; Administrative Expense (State) - 7.80: Total \$59.50.

# ECONOMIC ASSISTANCE APPROPRIATIONS

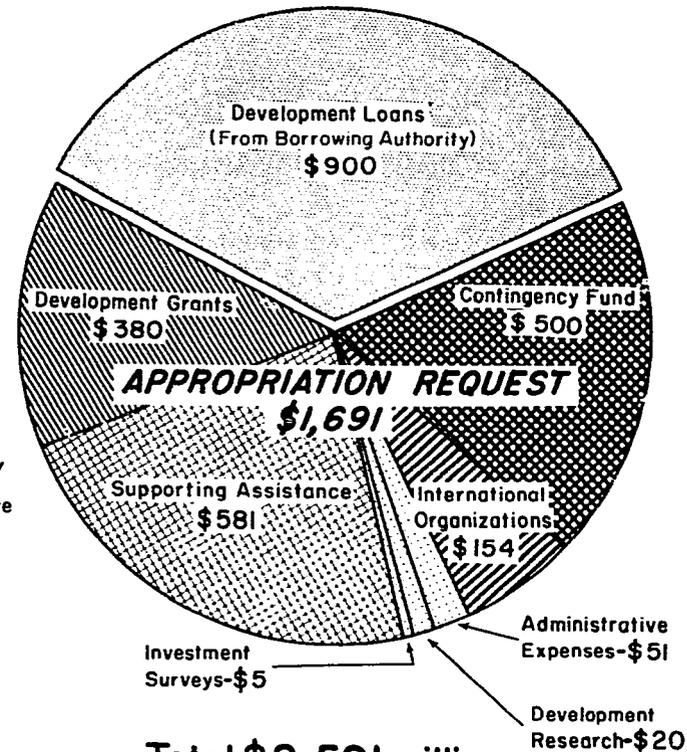
FY 1961 APPROPRIATION



Total \$2,063 million

- <sup>a/</sup> Includes \$50 million transfer from Military Assistance Funds. Some portion of this amount may not be used for economic programs but returned to the Dept. of Defense for priority needs. Excludes \$3 million transferred to Administrative Expenses.
- <sup>b/</sup> Excludes appropriations for migrants, refugees and escapees-\$11.4 million.
- <sup>c/</sup> Excludes State Dept. Administrative Expenses-\$7.4 million.

FY 1962 REQUEST\*



Total \$2,591 million

- \* In addition, it is requested that loan repayments (estimated at \$287 million) be made available for Development Loans.
- \*\*Excludes Peace Corps, Refugee and Migration Programs, and State Administrative Expenses.

**NOTE:** An additional \$1.6 billion in borrowing authority is requested for each of the four succeeding fiscal years for Development Loans.

# EVOLUTION OF U.S. ECONOMIC AID PROGRAMS

<u>PROGRAM</u>	<u>PERIOD</u>	<u>OBJECTIVE</u>
<b>THE WAR YEARS</b> Lend - Lease	1941 - 1945	Aid to our Allies in the Common Struggle
<b>POST-WAR RELIEF</b> UNRRA, Civilian Supplies British Loan, etc.	1946 - 1948	Emergency Food, Shelter, Clothing ; First Recovery Steps
<b>MARSHALL PLAN</b> European Recovery Program	1948 - 1951	Restoration of Industrial and Agricultural Production in Europe
<b>"POINT IV"</b> Technical Assistance	1950 - 1961	Transfer of Technical Skills and Knowledge to Underdeveloped Countries
<b>DEFENSE SUPPORT</b> Korean War, Indo-China, The Global Cold War	1952 - 1961	Assistance to Countries with Heavy Defense Burdens, or to those making Specific Contributions to the Common Defense
<b>START OF DEVELOPMENT LOANS</b> Development Loan Fund	1958 - 1961	Loans for Projects in the Less Developed Economies
<b>THE DECADE OF DEVELOPMENT</b>	1962 -	Support to Country Social and Economic Development Efforts

## I. THE DECADE OF DEVELOPMENT

The President has proposed that we embark on a new and vital creative effort in the field of international cooperation. He has designated this effort "A Program for the Decade of Development." The situation in the world today demands initiative and vision on our part, aimed at meeting needs and circumstances which have drastically changed over the years. This situation calls for a plan of action which differs significantly in approach and method from our assistance programs of the past.

### A. The Evolution of U.S. Foreign Aid Programs

We are entering a new phase in a process begun with Lend-Lease during the Second World War. Since 1941, the U.S. has consistently used its great economic power to maintain and to widen the areas of national independence and of political freedom in the world. While the war demanded great sacrifices from our nation, we were nevertheless fortunate enough to emerge from it with a more productive economic machine than we possessed at the time of Pearl Harbor. We soon began to use our increased economic strength to help nations which had been less fortunate - both our war-time allies and our former adversaries. At the time, a near economic collapse in Europe liberated from the Nazi domination threatened the fundamental purposes for which the war was fought and won; and the task of reconstruction had to be pursued under the new and menacing danger of Soviet Communist expansion.

Through the Greek-Turkish Aid Act and the European Recovery Program, the United States acted decisively to help seventeen free countries whose stability and capacity for recovery and progress were imperiled. Our massive economic assistance did attain its objectives. The Greek-Turkish Aid Program and the Marshall Plan were successes. American aid and the work and industry of the European nations have made the recovery of Europe a reality, and the North Atlantic Alliance became the instrument of our common defense.

With the Point IV Program, incorporated in the Act for International Development passed in 1950, the United States enunciated for the first time its intention to assist in the economic growth of the less developed countries of the free world. But in several sensitive areas, economic assistance alone was not enough. During and after the war in Korea, we brought our resources to bear in programs of defense support and military assistance to protect those friendly nations which were directly threatened by Communist aggression or infiltration.

Since the mid 1950's, we have been increasing our economic and technical assistance to the less developed areas. In 1957 the development Loan Fund was established to supplement technical assistance by financing development projects and programs on generous terms of repayment. During these years also, we have been learning to use our surplus food and fibers as a creative tool of foreign policy.

Our aid programs, based on these conceptions, have for the most part been of great value. It is a fact, however, that in several important instances they have not produced the hoped for effects. To discontinue them, as has been advocated from time to time, would without any doubt have provoked political and economic tragedies which would have cost our country many times more than the programs themselves. Yet, the implementation of the program has often resulted in waste. Our way of giving aid - some of the policies governing our programs, the increasingly heavy machinery of the responsible agencies, the complexities of our legislation - were certainly to blame. So was the way in which US aid was received and used. We have learned that granting aid to temporarily disabled industrial countries, and granting aid to nations which, in some cases, still have to acquire the very tools and the institutions which make a modern society, are very different problems which require different solutions. The time has come for the United States to face candidly the lessons of its failures and successes and to take full advantage of that experience.

### B. The Needs of Less Developed Countries

One of the most critical circumstances of today is that the underprivileged masses in less developed areas of the free world have a passionate aspiration toward economic, social and political change. The desire for modernization and industrialization is active and intense among the nations of Africa, Latin America, the Middle East and Asia, whether very old or very new. This irresistible trend toward a better life and toward progress is well understood in the Communist bloc: purposeful Communist programs are under way to exploit the instabilities of the transitional period and to bring the less developed countries into the Communist orbit.

We can expect, therefore, that the decade of the sixties will be a period of continuing crises, characterized by massive social and economic transformation and acute political instability in areas covering half of the globe. We can also expect that it will be a decade of decision, and that the course of events during this period will determine whether most of the peoples in the emerging areas will live in open or closed societies.



The controlling fact is that the need of the underdeveloped world for investment capital (and for other resources as well) can be met in only two ways: by extraordinary external aid or by forced savings. These alternatives are inescapable. The first alternative leaves the way open for the evolution of a free society. The second requires a totalitarian political system.

Faced with these alternatives, the only acceptable course for industrialized nations of the free world is to provide external aid to the underdeveloped world and thereby to help turn a decade of crisis into a decade of development — of growth within a free society, of parallel progress in economic, social and political life. Obviously, the U.S. cannot alone provide the resources for the job. The unavoidable challenge is that the U.S. can provide the margin between success and failure.

In his inaugural address, President Kennedy has stressed one more reason - the most honorable of all - why the less developed nations should receive the help of the United States:

"To those peoples in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required — not because the Communists may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich."

#### C. The Premises of the International Development Program

The International Development Program which is being submitted to the Congress this year is aimed at "helping peoples to help themselves" and is based on the following major premises:

By providing long-term support for development plans created by the less-developed nations themselves, the U.S. can, during the decade of the sixties, help decisively a large number of these nations on the road to economic growth. In order to accomplish this, we must shift as rapidly as possible from short-term aid designed to stave off sudden collapse to long-term assistance designed to produce basic and significant development. Collaboration on long-term development programs requires multi-year planning by the developing nations, and also requires a multi-year commitment of U.S. assistance. The new program calls for both.

We can expect that, during the decade of the sixties, the problem of development assistance will be recognized as a collective responsibility by the industrialized nations of the free world.

For a full generation, the U.S. has recognized its obligations to use its economic resources in the struggle for freedom and progress. This obligation is now being assumed by more and more countries. The Development Assistance Committee (DAC) was recently established to provide an instrument for the coordination of assistance programs and the sharing of the effort among a number of contributing countries.

The effectiveness of any country development program depends in the last analysis upon that country's acceptance and fulfillment of its own responsibilities. The fostering and growth of the public and private institutions necessary to carry out development programs, the mobilization of domestic resources, and the enlistment of the energy and devotion of the people themselves can only take place as a country recognizes the central importance of a desire and willingness to undertake the essential measures of self-help. Appropriate and feasible measures will vary from one country to another, but continued progress in any country will not be assured until it faces up to this underlying necessity. The new U.S. program is designed to encourage and to promote this realization and this effort.

If a program for economic and social development is to succeed, the government of the recipient country and the U.S. government must broaden their joint efforts to take into account all of the factors which contribute to growth, not limiting themselves, as has happened in the past, to an isolated few of these factors. External capital and technical assistance are indispensable, but so is the survey and mobilization of available resources in the developing countries and the formulation of long-term country plans. So is the establishment of sound public administrations; the creation and modernization of a wide range of private institutions; the establishment of skilled labor forces and managerial corps; the creation of necessary attitudes, motives and interests; and the creation in the entire population of a sense of participation in the benefits of growth.

We are dealing with an enormously complex process of transformation from static to dynamic economies, from traditional to progressive societies, from ancient to modern concepts. This is a process which we are only beginning to understand, but it manifestly requires a mixture of loans, grants, technical assistance, commodities, domestic reforms and other techniques, all applied on a flexible and sometimes experimental basis to meet the priority needs of different nations in different stages of development.

Our program of economic and social growth in the sixties should permit each nation to develop in its own image. Just as diversity

of individuals and institutions is the essence of an open society, so is diversity of societies the essence of an open world. There is room in a free world for a wide range of economic, social, political and institutional forms stemming from different cultural backgrounds. It is a matter for each nation to determine which forms it will choose.

By systematic research, we can, during the decade of the sixties, acquire valuable new skills in promoting the process of development. The International Development Program calls for a modest beginning on a research program to increase our knowledge about the techniques of development and about the reasons for successes and failures. It is a striking fact that, while the United States has engaged in assistance programs of various types for over two decades, no systematic analysis of this type has been made on such problems as, for example, the impact of certain technological developments on the economies of nations, or the transfer of technology from one society to another. Research can bring forth a wide range of new tools for promoting the process of development. It is conceivable that such a program will produce discoveries of great value; it is almost inconceivable that it will not quickly pay its way.

By perseverance in our long-range support program for countries requesting assistance, we can, during the decade of the sixties, expect to see a significant number of recipient nations become capable of continuing their growth out of their own resources and from normal commercial borrowing. The process of foreign aid should not be endless. In some cases its end can already be foreseen. By the close of the decade, a number of the major nations of Latin America should have achieved self-sustaining growth, and the massive requirements of India and Pakistan should have been greatly reduced. As nearly as can be calculated, the sixties will be the decade of peak requirements for external assistance to the less developed areas of the free world.

These are the ideas which underlie the program submitted by the Executive Branch to meet the central issue of the 1960s; whether the nations of the underdeveloped world will go forward with open or closed societies. The program is based on the profound belief that we have it within our power to help determine the course of events and that on the success of this great task, based on human justice, depend to a decisive extent the security of our country and the peace of the world.

## II. THE REQUIREMENTS OF DEVELOPMENT

### A. Recognizing the Range and Scope of Development Needs

That capital is indispensable to economic development is so basic that it sometimes leads to neglect of other factors. Modernization of agriculture and industry cannot get very far without investment in water, transport, communications and power. But capital is only one of the needs of an underdeveloped country. The experience of the past decade has shown that many other things are needed as well.

First, a country must acquire knowledge of its resources, if it is to exploit its minerals, raise the yield of its farms, increase the output of its workers and launch new industries.

Second, it must make a massive effort to improve the quality of its labor force and its managerial manpower, by basic education, vocational schools and professional training as well as by improvement in nutrition and health.

Third, new organizations and institutions are needed to promote production and trade. These include an educational system, a banking and financial system, markets for commodities and labor, modernized governmental institutions and organizations to manage and improve such sectors of the economy as agriculture, transport, power, irrigation, industry and services.

Finally, a large number of new ideas must be acquired and accepted — ideas about how to make things, how to grow food more efficiently, how to improve the quality of human resources and institutions, how to exploit physical, vocational, and climatic endowments.

In every case, the range of the developmental needs must be determined. In addition, the scope of the required transformation must be recognized. We must remember that in many parts of the underdeveloped world we are dealing with societies and economies which have remained unchanged for hundreds or even for thousands of years. If these societies and economies are suddenly to become dynamic and progressive, there must be radical changes in the attitudes, motives and interests, and in some cases in the innermost values, of great masses of people.

### B. Identifying the Priorities in Different Countries

While virtually all of the underdeveloped countries need help from outside in the form of things, people, and ideas, to produce all of these changes, the priorities as to what is most needed vary enormously from country to country and within a country from one period of time to the next.

Certain sequences of need through which countries are likely to go as they progress from the earlier to the later stages of development can be recognized. For countries in the early stages, with largely illiterate populations and primitive public services, the priority needs are likely to be education and human resource development and the provision of the basic facilities for transport, communication, water and health which are required to enable a country to absorb capital, industrial machinery, and complex technology. As countries move forward and as incomes rise the need for additional food is likely to be critical. As they reach the later stages of the growth process, top priority for external assistance is likely to shift, as in India, to capital goods, raw materials and the needs of an industrial economy.

Nevertheless, the pattern of priorities for any given country at any given time is probably unique. Since almost any kind of assistance can be used in any underdeveloped country, and since the resources of the developed world to supply such assistance are limited, it is extremely important that the country itself, as well as those assisting it, form at each stage of the process a clear judgment as to what are the most critical bottlenecks to economic and social development and therefore what kinds of assistance deserve priority.

### C. Promoting Development Budgeting and Programming

#### 1. The Need for Priority Thinking

Our attempts to stimulate economic development in the past have suffered from the piecemeal approach. While responsibility for this weakness has been primarily that of the receiving countries, this weakness has been condoned if not fostered by our own

project-by-project approach to foreign assistance. As a result of this approach, we have neither persuaded the recipient countries themselves to undertake development programming as a whole nor provided assistance to them in carrying out such programming.

The purpose of programming is to make realistic assessments of needs and capabilities, to establish priorities, and to insure a proper balance of the varying kinds of goods and services which are required at varying stages of development. Planning of this kind is a necessary and accepted function in every modern society. It is an every-day part of our lives in the United States. In the public sector such planning, in the sense of a systematic examination of the pattern of public expenditures, of their relative priorities, of their inter-relations, and of their impacts on the economy as a whole, is undertaken by the Bureau of the Budget. In the private sector, every large corporation has its planning unit which attempts to think imaginatively and systematically about the total problems facing the corporation over a future period.

#### 2. The Variations in Programming Quality

In most of the less developed countries, however, such programming is at best inadequate and at worst non-existent. Only a very few of the more advanced ones, such as India and Pakistan, have developed systematic techniques of programming.

Others have so-called development plans, but some of these are little more than lists of projects collected from various ministries while others are statements of goals without analysis of the actions required to attain them. Only rarely is attention given to accurate progress reports and evaluation.

#### 3. What the U.S. Can Do

Neither growth nor a development program can be imposed on a country; it must express the nation's own will and goal. Nevertheless, we can administer an aid program in such a manner as to promote the development of responsible programming.

Thus, we can encourage responsibility by establishing as conditions for assistance on a substantial and sustained scale the definition of objectives and the assessment of costs.

Second, we can make assistance for particular projects conditional on the consistency of such projects with the program.

Third, we can offer technical help in the formulation of programs for development which are adapted to the country's objectives and resources. This includes assistance in assembling the basic economic, financial, technological, and educational information on which programming depends; assistance in surveying the needs and requirements over time of broad sectors of the economy, such as transport, agriculture, communication, industry and power; assistance in designing the financial mechanisms of the economy in ways that will promote growth without inflation; and assistance in administrative practices which will make possible the more effective review and implementation of programs once established.

#### 4. The Need for Common Sense in Applying Conditions

The application of conditions in the allocation of aid funds cannot, of course, be mechanical. It must be recognized that countries at different stages of development have very different capabilities of meeting such conditions. To insist on a level of performance in programming and budgeting completely beyond the capabilities of the recipient country would result in the frustration of the basic objective of our development assistance—to encourage more rapid growth.

In the more primitive areas, where the capacity to absorb and utilize external assistance is limited, some activities may be of such obvious priority that we may decide to support them before a well worked out program is available. Thus, we might provide limited assistance in such fields as education, essential transport, communications, and agricultural improvement despite the absence of acceptable country programs. In such a case, however, we would encourage the recipient country to get on with its programming task, supply it with substantial technical assistance in performing that task and make it plain that an expansion or even a continuation of our assistance to the country's development was conditional upon programming progress being made.

At the other end of the spectrum, where the more advanced countries can be relied upon to make well thought through decisions as to project priorities within a consistent program, we should be prepared to depart substantially from detailed project approval as the basis for granting assistance and to move toward long-term support, in cooperation with other

developed countries, of the essential foreign exchange requirements of the country's development program.

D. Encouraging Self Help

1. The Reasons for Stressing Self Help

A systematic approach to development budgeting and programming is one important kind of self help. There are many others. It is vitally important that the new U.S. aid program should encourage all of them, since the main thrust for development must come from the less developed countries themselves. External aid can only be marginal, although the margin, as in the case of the Marshall Plan, can be decisive. External aid can be effective only if it is a complement to self help. U.S. aid therefore, should increasingly be designed to provide incentives for countries to take the steps that only they themselves can take.

In establishing conditions of self help, it is important that we not expect countries to remake themselves in our image. Open societies can take many forms, and within very broad limits recipients must be free to set their own goals and to devise their own institutions to achieve those goals. On the other hand, it is no interference with sovereignty to point out defects where they exist, such as that a plan calls for factories without power to run them, or for institutions without trained personnel to staff them. Once we have made clear that we are genuinely concerned with a country's development potential, we can be blunt in suggesting the technical conditions that must be met for development to occur.

2. The Range of Self Help

The major areas of self help are the following:

(a) The effective mobilizing of resources. This includes not only development programming, but also establishing tax policies designed to raise equitably resources for investment; fiscal and monetary policies designed to prevent serious inflation; and regulatory policies aimed to attract the financial and managerial resources of foreign investment and to prevent excessive luxury consumption by a few.

(b) The reduction of dependence on external sources. This includes foreseeing balance of payments crises, with adequate attention to reducing dependence on imports and adopting

realistic exchange rates to encourage infant industries and spur exports. It also includes providing for the training of nationals to operate projects after they are completed.

(c) Tapping the energies of the entire population. For both economic and political reasons all segments of the population must be able to share in the growth of a country. Otherwise, development will not lead to long run stability.

(d) Honesty in government. In many societies, what we regard as corruption, favoritism and personal influence are so accepted as consistent with the mores of officialdom and so integral a part of routine administrative practice that any attempt to force their elimination will be regarded by the local leadership as not only unwarranted but unfriendly. Yet an economy cannot get the most out of its resources if dishonesty, corruption and favoritism are widespread. Moreover, tolerance by us of such practices results in serious waste and diversion of aid resources and in the long run generates anti-American sentiment of a kind peculiarly damaging to our political interest. Some of the most dramatic successes of Communism in winning local support can be traced to identification, correctly or not, of communist regimes with personal honesty and pro-Western regimes with corruption. A requirement of reasonably honest administration may be politically uncomfortable in the short run, but it is politically essential in the long run.

3. U.S. Posture on Self Help

The United States can use its aid as an incentive to self help by responding with aid on a sustained basis, tailored to priority needs, to those countries making serious efforts in self help.

In many instances it can withhold, or limit, its aid to countries not yet willing to make such efforts.

There are other countries where, with skillful diplomacy, we may be able by our aid to give encouragement to those groups in government which would like to press forward with economic and social reform measures to promote growth. Governments are rarely monolithic.

But there will be still other countries where, despite the inadequacy of the level of self help, we shall deem it wise

for political or military reasons, to give substantial economic assistance. Even in these cases we should promote self help by making it clear that our supporting assistance is subject to reduction and ultimately to termination.

Because of the importance of self help in the International Development Program the foregoing considerations are developed in greater detail in the Annex, "What Does Self Help Mean?"

#### E. Encouraging a Long-Term Approach

##### 1. Development Requires a Long-Term Approach

The most fundamental concept of the new approach to economic aid is the focusing of our attention, our resources and our energies on the effort to promote the economic and social development of the less developed countries. This is not a short run goal. To have any success in this effort, we must ourselves view it as an enterprise stretching over a considerable number of years, and we must encourage the recipients of our aid to view it in the same fashion.

How long it will take to show substantial success in this effort will vary greatly from country to country. In several significant cases, such as India, a decade of concentrated effort can launch these countries into a stage in which they can carry forward their own economic and social progress with little or no government-to-government assistance. These cases in which light is already visible at the other end of the tunnel are ones which over the next few years will absorb the bulk of our capital assistance.

The number of countries thus favorably situated is small, but their peoples constitute over half of the population of the underdeveloped world. Meantime, over the decade of the sixties, we can hope that many other countries will ready themselves for the big push into self-sustaining growth. In still others which are barely on the threshold of the transition into modernity, the decade can bring significant progress in launching the slow process of developing their human resources and their basic services to the point where an expanded range of developmental activities is possible.

The whole program must be conceived of as an effort, stretching over a considerable number of years, to alter the basic social and economic conditions in the less developed world. It must be recognized as a slow-acting tool designed to prevent political

and military crises such as those recently confronted in Laos and Cuba. It is not a tool for dealing with these crises after they have erupted.

##### 2. The Specific Reasons for a Long-Term Approach

a. The need to budget a period of years. Many of the individual projects for which development assistance is required call for expenditures over lengthy periods. Dams, river development schemes, transportation networks, educational systems require years to construct. Moreover, on complex projects, design work must be completed and orders for machinery and equipment placed months or even years before construction can commence. Thus, as a development program is being launched, commitments and obligations must be entered into in a given year which may exceed by two or three fold the expenditures to be made in that year. The capital expansion programs of business firms involve multi-year budgeting and the same is true of country development programs.

b. The need to plan investment programs. More importantly, several of the more advanced of the less developed countries have found through experience that they must plan their own complex investment programs for at least five years forward and tentatively for considerably more than that if they are to be sure that the various interdependent activities involved are all to take place in the proper sequence. Without such forward planning, investment funds are wasted because manufacturing facilities are completed before there is power to operate them or before there is transport to service them; or a skilled labor force is trained before there are plants available in which they can be employed.

c. The need to allocate country resources. Most important of all, the less developed countries must be persuaded to take the necessary steps to allocate and commit their own resources. They must be induced to establish the necessary tax, fiscal, monetary and regulatory policies. They must be persuaded to adopt the other necessary self-help measures which are described in the preceding section. The taking of these steps involves tough internal policy decisions. Moreover, once these steps are taken, they may require years to make themselves felt. They must, therefore, be related to long range development plans.

##### 3. Providing an Incentive

If the less developed countries are to be persuaded to adopt a long-term approach, the United States, as the principal supplier of external aid, must be prepared to give long-term commitments.

In this, as in so many aspects of our development assistance activities, the incentive effects of the posture we take are their most important ones. The extent to which we can persuade the less developed countries to appraise their own resources, to set targets toward which they should be working, to establish in the light of this forward perspective the most urgent priorities for their immediate attention, and to do the other things which they must do to help themselves, all on a realistic long-term basis, will depend importantly on the incentives we place before them. If they feel that we are taking a long-term view of their problems and are prepared to enter into reasonably long-term association with them in their development activities, they will be much more likely to undertake the difficult tasks required. Perhaps the most important incentive for them will be clear evidence that where other countries have done this kind of home work we have responded with long-term commitments. To be successful in encouraging them to take self-help measures now so that they can qualify under our new criteria for aid later they must have some reason to believe that if they do so qualify, the aid will be forthcoming.

Moreover, since the problem of aid to the less developed world over the coming decade is not a problem for the United States alone but for all the developed countries, we have a great interest in persuading other potential suppliers of aid to make commitments extending into the future. We can hardly hope to do this if we cannot make such commitments ourselves.

In order that we can be in a position to make the necessary long-term commitments, we are requesting five-year borrowing authority for the Development Loan portion of the over-all aid program. This request is discussed at length under Section III.B.

#### F. Providing a Scale of Aid to Encourage Sound Development

One of the lessons of the past fifteen years is that there are ingredients to a successful aid program beyond our dollar input. Every effort has been made in preparing the present program to stress the non-monetary factors in aid. Emphasis has been placed on self help, long term planning, assistance in development, research, stimulation of other Free World sources, the involvement of private enterprise, and the use of food and non-agricultural surpluses.

The basic fact is, however, that the magnitude of funding bears a direct relation to our ability to induce countries to engage in sound developmental activities. If available funds are set at a scale which will enable us only to meet our short run political

requirements and to give assistance only to the countries where need is matched by advanced planning and administrative competence, we shall be unable to hold out the possibility of development assistance to many of the less developed countries. For the U.S. to be able to influence measurably the development of a number of these countries, its assistance program must be of a scale larger than that of a holding operation.

The present level of funding requests was not arrived at by estimating the amounts of capital input needed to make possible increases in per capita income of 1 or 2% a year over the next decade. Such estimates would call for a much larger program than is proposed here. But to proceed on the basis of such estimates would be to disregard a key assumption of the new approach. This is that capital from outside will be productive only to the extent that the less developed countries themselves undertake with vigor the measures they must take to mobilize their own resources. It is this factor of self-help which determines in most cases the absorptive capacity of the less developed countries for external capital. It is this absorptive capacity and not the theoretical need for capital which determines how much can be effectively used.

The measure of self help in turn depends, in considerable part, on the incentives we are able to offer. If there is little or no hope of capital and technical assistance being available in adequate quantities even to countries which organize fully to take advantage of it, the prospects of their taking the necessary steps are remote.

There is, therefore, a kind of chicken-and-egg problem in the determination of aid requirements. On the one hand, we must give some indication that we and the other developed countries are serious about development assistance, and that if the less developed countries meet the criteria we lay down for such assistance, we are in a position to match their efforts with the necessary outside resources. On the other hand, until the incentive of our aid has been held before them for long enough to have some effect, we cannot know to what extent they may succeed in meeting these criteria and, therefore, how much help will turn out to be justified and productive.

A further problem in estimating the required amount of U.S. aid is our present uncertainty as to how far the other developed countries and the international sources of aid like the United Nations and the World Bank are likely to be willing and able to go in carrying their share of support for the requirements of less developed countries. Again there is an interaction of cause

and effect since the commitments we can induce these other potential sources of help to make are dependent in large measure on what we, ourselves, are willing to do. Ideally, it would be helpful if we could say now to the developed countries that if they were prepared over the next five years to assume a reasonable share of the total problem, we would commit ourselves to our share. We could then assure the less developed countries that insofar as they were able over the next five years to meet the criteria for self help which all the suppliers regard as reasonable, the external resources necessary to meet realistic growth targets could be made available.

We are proposing for the current fiscal year something substantially short of this.

In Chapter III below, detailed discussions of each funding category are set forth. The amount requested for development lending allows very little margin over the major calls for loans in critical areas which can already be reasonably foreseen. The appropriation request for development grants allows only \$125 million over the estimate for continuing costs of existing programs. Thus this \$125 million will have to cover all the new starts in the vital field of education and human resources in four continents. Supporting assistance, reduced sharply from the current year, represents the minimum amount estimated to serve our interests in the immediately critical areas of the world. In a world explosive with Laos, the Congo, Cuba, and other tinder boxes, the contingency request for \$500 million is modest.

#### G. Stimulating a Coordinated Free World Effort

The proposed aid program has as a major objective a much closer coordination of U.S. development assistance with the assistance supplied by other nations and by international organizations than we have achieved in the past. There are five persuasive reasons why such coordination is needed.

In the first place, since the needs of the recipient countries for external assistance will be met only partly through U.S. efforts, it is important that country programming should involve a cooperative effort by all the sources of external assistance and by the recipient countries themselves to distribute the tasks to be done among the donors with due regard to the special capabilities and interests of each.

Secondly, the volume of assistance in terms of finances, goods and people required from all sources to promote the human and material development of the less developed countries will have

to be increased. This will require agreement among the advanced countries of the Free World on equitable principles for sharing the burden.

In the third place, there is a change in the character of the problem resulting from the transition from colonial status to sovereign independence of many of the new states. In the past, the metropolitan powers of Europe, especially England and France, have concentrated their very considerable development assistance in the regions for which they had direct political responsibility. As the colonial areas have achieved independence they have spread their requests for help among a number of sources in order to minimize their dependence on any one source and more particularly their dependence on their former colonial masters. At the same time, the European countries have begun to broaden their concepts of their responsibilities to the less developed world.

Fourthly, the newer countries as they achieve independence confront a bewildering variety of national and international agencies from which they can seek help, each with specialized capabilities, interests and procedures with which the new countries may be unfamiliar. The sources of capital include the IBRD, IDA, IFC, the agencies of a number of national governments, regional institutions like the IADB, and private investors throughout the world. Technical assistance can be secured from, among others, the United Nations Special Fund, the United Nations Technical Assistance Administration, the Pan American Union, the Colombo Plan, FAO, WHO, ILO, UNESCO, many national governments and private foundations and voluntary organizations. If we are to assist these countries in devising intelligent development programs, we must also help them to find their way through this confusing mass of potential sources of assistance.

Finally, the new approach makes much of the point that the terms and conditions on which assistance is offered can play an important role in encouraging the less developed countries to take those measures which they themselves must take if their own growth is to be promoted. Unless there is some consistency among the criteria applied by the various sources of aid, the incentives for self-help measures are likely to be ineffective.

The program presented here contemplates a variety of ways of achieving the various necessary kinds of coordination. On capital assistance, coordination between individual donor nations and the IBRD has been established on a reasonably satisfactory basis in the past. Now the IBRD is taking the initiative to establish consortia of the principal countries willing to provide support for development plans of India and Pakistan. Other efforts are under way for coordination among capital supplying

countries. An organization of all the principal developed countries, the so-called "Development Assistance Committee," has been established under the OECD and has already had initial meetings and reached general agreement on some of the principles to govern the coordination of activities.

In the technical assistance field, the amounts of money involved are much smaller but the number of agencies with specialized capabilities is much larger. Here coordination is particularly needed because of the world-wide shortage of qualified technicians. The Development Assistance Committee has already turned its attention to this problem. The problems of coordinating the American effort with that of the various international organizations are regarded as so important that it is proposed to establish in the Office of the Director of the new U.S. Aid Agency an International Development Organization Staff.

A more extended discussion of this problem is to be found in Chapter V below.

#### H. Research to Make Aid More Effective

The whole development assistance program in which we are engaged is in a sense experimental. The nature of the economic and social transformation through which the less developed countries are going is historically new. The industrialization of the United States and Western Europe stretched over more than a century, and involved different technologies, different problems and a different cultural background from those of the several parts of the presently underdeveloped world.

Our own substantial effort to assist in this process is likewise a new one, in which we have only a few years experience to guide us. We have learned much from the experience of the last decade. We will continue to learn as we apply the principles of the new approach in the decade to come. But in other areas of both governmental and private activity in the United States, experience has taught us that we can learn very much faster how to do things efficiently and well if we undertake systematic research on new problems.

We spend billions annually on research and development in the military field. We have large government-supported programs of research in agriculture, public health, and the exploitation of our natural resources. The more progressive corporations have found that it pays to put 5 to 10% of their total expenditures into research activities. And yet our development assistance programs have not, up to this point, supported any significant

amount of research to improve our knowledge of how to deal with development problems. This is surely an important enough tool of American foreign policy so that it would be well worthwhile to put a small percentage of our total aid expenditures into a program to enlist the country's best minds in the natural and social sciences to learn how to use this tool more effectively. The funding request for research in FY 1962 is for about seven-tenths of one percent of the proposed economic assistance program.

The President's Science Advisory Committee has recently made a thorough-going study of how research activities might be designed to further the purposes of the aid program. This group of scientists concluded that it would be both feasible and productive to mount a research program in this area.

Many kinds of research are called for. The problems of development call for the transformation of whole societies and involve technological, economic and human dimensions with which we, in American society, have had little experience.

#### 1. Research for Economic Development

On the technological side there are a number of problems requiring new knowledge which has not been important to our own advancement. We have had little experience in improving agricultural productivity in tropical climates or in dealing with the diseases which are endemic in other parts of the world. Some countries like Pakistan could prevent the loss of large areas of land to cultivation if they could find an inexpensive way of preventing the waterlogging and resulting salination of soil.

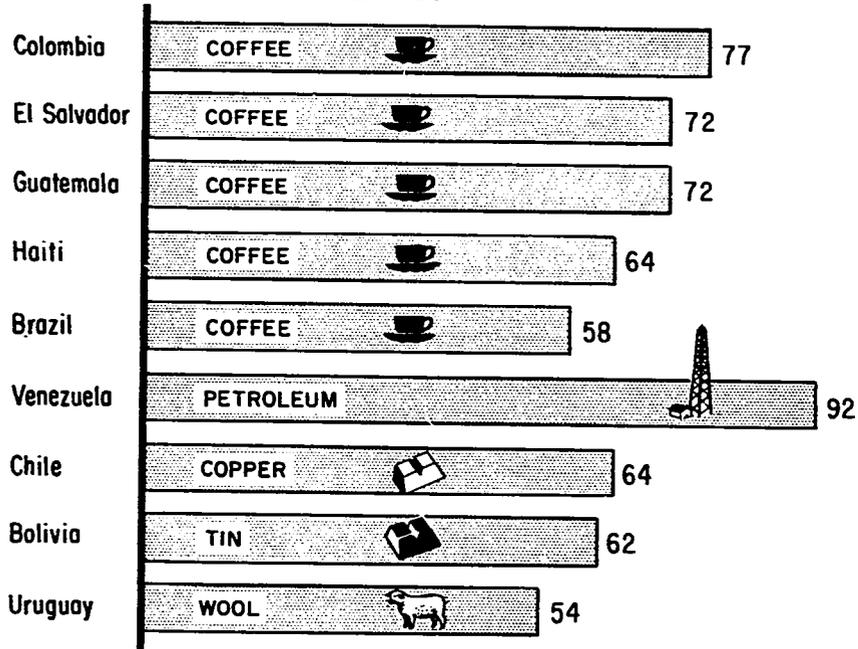
Moreover, we have had a tendency in the past to assume that the technology appropriate to our social and economic conditions could be transferred without serious modification to the less developed countries. In fact, the modifications required to make technology effective under different human and material conditions call for as much imagination and creativity as the discovery of new scientific truth. Nothing, for example, would do more to transform the rural economies of the less developed countries than the development of efficient, easily maintainable and inexpensive small sources of power which could utilize readily available local fuels.

The economic problems of the less developed countries are likewise different in many ways from those with which we have had experience. New techniques must be designed for mobilizing savings from populations on the margin of subsistence to permit them to focus their resources on their own growth, and thus to

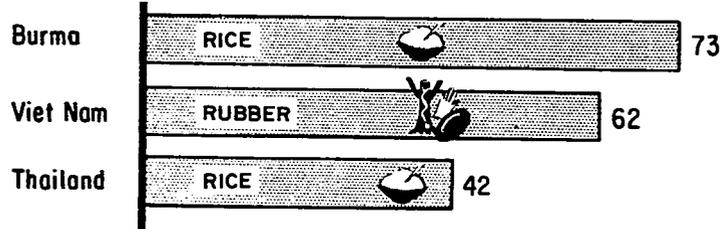
# MANY COUNTRIES ARE DEPENDENT ON A SINGLE EXPORT COMMODITY

Single Export Commodity as a Percent of Total Exports (1957-59 Average)

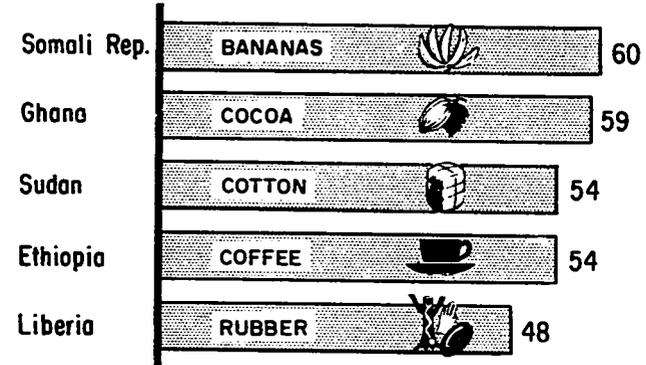
## LATIN AMERICA



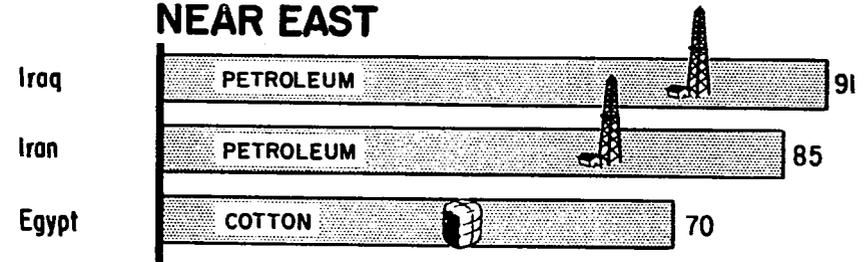
## FAR EAST



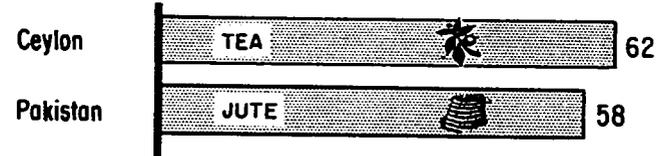
## AFRICA



## NEAR EAST



## SOUTH ASIA



make them independent of special foreign help in the shortest possible time. In the United States people have always been one of our scarcest assets, and accordingly we have concentrated on capital-intensive technology. In much of the less developed world, where the problem is to find productive employment for huge populations, imaginative research is needed on how to design economical processes which are labor intensive.

## 2. Research for Human Development

The human problems are equally challenging. In a continent like Africa, development rests not only on bringing literacy quickly to a people overwhelmingly illiterate but also on changing their conception of nature from one of mystical and irrational forces beyond the control of man to one of cause and effect. To attempt to inculcate literacy and a new view of nature in the minds of millions of people by the educational methods familiar in America or Europe would be both very expensive and very time consuming. Serious research by imaginative persons should be directed to exploring and testing methods of doing this quickly, cheaply, effectively, and in a manner suited to the peoples involved.

These are merely a few illustrative examples of the many problems to which we should be addressing ourselves if our aid efforts of the next decade are to produce the results we seek.

### I. Recognizing Trade Problems of the Less Developed Countries

The new approach to development assistance proposes to look at development problems as a whole, and to discontinue the piecemeal project-by-project approach. Among the crucial requirements of development is the maintenance at an adequate level of imports, especially imports of capital goods and raw materials that are not available locally. The size of the foreign exchange resources available for current use is thus a critical limitation on development possibilities. From one point of view foreign aid is merely a supplement to the capacity to import which countries would otherwise have.

Export capacities of most of the less developed countries are limited. In many cases, especially in Latin America and Africa, exports are heavily dependent on one or two primary products of either agricultural or mineral origin. For most of these products, world markets are expanding only slowly. The prices of these products are subject to volatile fluctuations which greatly affect the exchange available to producing countries. In some instances, there appears to be a long range trend for prices of

primary commodities to fall in comparison with the prices of the industrial goods for which they must be exchanged. Moreover, the advance of science and technology presents for some commodities the prospect of displacement by synthetics (as has happened in some measure for rubber) or competition from substitutes.

Thus, foreign economic assistance is closely and necessarily linked with trade problems. If the export potential of less developed countries is limited by market forces or by restrictive measures, the need for external resources through aid will increase. A part of the development process we must assist is the growth and diversification of export capacity as countries achieve sustained economic modernization. Moreover, we must try to afford the less developed countries with protection against rapid fluctuations in export earnings on products which comprise their main exports. The possible techniques for affording such protection are highly complex, and have been the subject of extended consideration both within our Government and within various international bodies.

The process envisaged is not accurately described by the well-worn phrase "Trade Not Aid." More appropriate to the needs of the time would be "From Aid to Trade."

### J. A Year of Transition

It will take time to give full effect to the new approach outlined above. Many projects approved under an earlier philosophy are in mid-stream and cannot be abruptly discontinued without serious waste of resources. Expectations have been created in the minds of some of the recipient countries as to the aid levels to which they can look forward, and these cannot be disappointed abruptly without potentially very serious political consequences for the United States.

Moreover, we have not yet had the opportunity to sit down with each of the recipient countries to review their programs in detail and determine which of the activities now going forward meet our new criteria and which are of less importance and should be discontinued in the light of a systematic joint review of priorities. Part of the new emphasis being suggested is that we ask the recipient governments themselves to take more responsibility for setting priorities within their own programs and justifying these priorities to us on grounds of their importance to development. This will take extensive negotiation and review with aid recipients which we cannot fully undertake until the new program has Congressional approval.

In some cases in the past, programs have been treated according to principles similar to those we propose for the future. In India, for example, the basic objective of our aid program has been to promote Indian economic development, and this objective has not been complicated by other considerations. The Indians themselves have developed an extensive and sophisticated procedure for establishing priorities. They have a well worked out development program. They know which parts of it they would like us to support, and they have submitted detailed justifications for a wide variety of projects to be included in their program. Beyond this the third five-year plan has had extensive review and criticism not only by our own Mission but by a mission sent by the International Bank and by a distinguished international committee of three bankers under the chairmanship of Sir Oliver Franks.

In many countries, however, especially in those where defense support has been important, it is uncertain how much of the activity in which we have been engaged will meet our new development criteria. In other countries, particularly in Africa, governments have only very recently taken over responsibility for their development activities from the colonial powers and have not yet had the time or the resources to examine their development problems with the care required to determine their priority needs.

We have made an effort to divide what we believe to be our continuing commitments into (1) those which we now

expect, subject to further review and negotiation, to meet our development criteria and (2) those which we must regard as being directed primarily at other objectives of American foreign policy. The latter group we have placed in the category of Supporting Assistance, which is defined as assistance which the United States finds is in its interest to supply despite the fact that it does not measure up fully to developmental criteria.

Because we have not had an opportunity to review all of our programs with the recipients and to recast them in terms of the new approach, we have confined our request for funds for FY 1962 to the minimum we think necessary, first, to complete enterprises on which we have already launched, second, to meet needs for assistance for other than development reasons, and third, to provide enough minimal financing for new projects during the coming year to offer recipients a real and positive incentive to review their programs carefully on the basis of our new criteria.

We look upon the coming year as a year of review and application of our new concepts. We should be able by this time next year to present a program much more fully reflecting the new approach.

### III. THE TOOLS FOR ACTION

#### A. The Program in Brief

##### 1. Introduction

The new approach to economic assistance calls for the coordinated use of a variety of complementary tools - public and private, U.S. and other free world. This chapter summarizes the tools which are being requested under the proposed Act for International Development. Some of them are already available, some are to be established under the new Act, and some are to be supported or activated by other legislative authorities or administrative action.

The proposed instruments include Development Loans, Development Grants, Supporting Assistance, Development Research, Contingency Fund, and Contributions to International Organizations. Each is described in full detail in a subsequent chapter.

Later chapters also outline the role in economic development and the relationship to the above tools of U.S. private investment, for which a variety of supporting powers are proposed in the Act for International Development; Food for Peace and the Peace Corps, for both of which new authority is being requested in separate legislation; and the priority being given to the task of coordinating and stimulating assistance from other Free World sources.

The problem of defining for legislative purposes a set of categories of assistance is complicated by the fact that there are at least three different ways of classifying types of assistance and that these three principles of classification overlap:

(a) By purpose of aid: Appropriations can be divided according to the objectives to be served by each type of assistance. As explained earlier, we are providing economic assistance to promote economic and social development, to enable the recipient countries to maintain armed forces of importance to the Free World, to help maintain immediate economic and political stability in strategically important countries, to help assure availability of U.S. military bases abroad, and

to help support international organizations. Within the first of these categories we provide aid to improve agriculture, establish transport, communication, power, and other facilities, establish industry, expand education and develop human resources, and build new organizations and institutions in the recipient country.

(b) By type of resources: To serve each of these purposes we supply a variety of different kinds of resources from outside. These include equipment and machinery, raw materials and other commodities, food, people (including technical advisers, trainers and actual operating personnel) and knowledge supplied either by sending local nationals abroad or by making available facilities for research or publications. Each of these kinds of resources may be used to promote any of the objectives being served.

(c) By method of financing: We can classify aid according to the terms of the financial arrangements made between the providers and the receivers. The United States can make loans on the relatively "hard" terms of the Export-Import Bank, loans with longer maturities and lower rates of interest, grants, sales of commodities for local currencies and guaranties of private investment and loans. Under each of these types of financing it will be appropriate in some circumstances to engage in activities serving most of the different objectives we are pursuing and to supply all the different kinds of resources needed.

For practical reasons the categories of assistance used in the proposed Act represent a compromise among these different principles of classification. Two categories of aid, to be provided by separate legislation, relate to the kind of resource being supplied. One is agricultural surpluses provided under the Food for Peace Program and the other is personnel provided by the Peace Corps. Food for Peace will be supplied under varying financial arrangements, and Peace Corps personnel essentially in the form of grants. Both may be used to serve many of the different purposes of this Act.

The principal funding categories in the Act for International Development are to be distinguished on the basis of four primary objectives: (1) support of relatively urgent strategic and political requirements (Supporting Assistance); (2) contribution to long-range economic and social development (Development Loans, Development Grants and Development Research); (3) support of

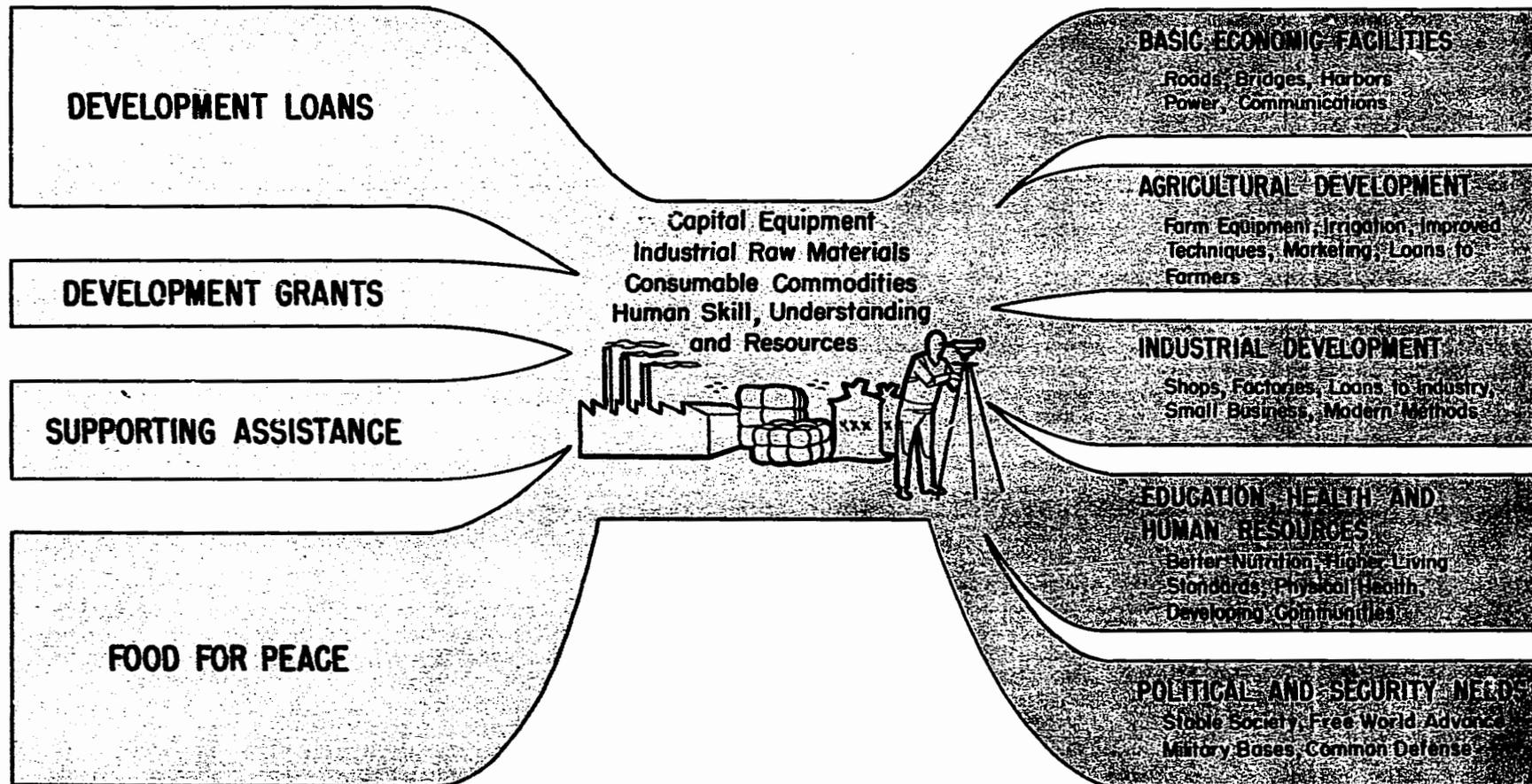
**THE  
FINANCIAL  
TOOLS**

*are translated into...*

**THINGS  
and  
PEOPLE**

*used...*

**TO MEET  
FREE WORLD  
NEEDS**



international organizations (Voluntary Contributions to Multilateral Organizations); and (4) meeting unforeseen events and emergencies (Contingency Fund), which may in any particular case fall under any of the first three headings.

Within the development category however, the key distinction relates to financing. Development Loans would be financed through long-range authority to borrow from the Treasury (supplemented by authority to use the proceeds of principal and interest repayments from loans made under various programs in prior years) and Development Grants through annual no-year appropriations. Guaranties would be financed through borrowing authority granted in prior years. Funds for investment surveys and Development Research have been treated separately because of the distinctiveness of the uses to which such funds would be put.

Three of the funding categories of prior years, Defense Support, Special Assistance, and Technical Cooperation, have been discarded in an effort to simplify the description of aid tools and to place a sharper focus on development. Defense Support, for example, has always been difficult to define. Moreover, both Defense Support and Special Assistance have included projects and programs in which development purposes and criteria were dominant. These are being shifted into either Development Loans or Development Grants.

## 2. Types of Resources to be Financed within Categories of Assistance

Each of the principal categories of assistance will tend to be used for particular types of resources. Nevertheless, these categories must be sufficiently flexible to finance whatever types of resources are required to fulfill their respective purposes.

Because of the nature of the problems to be dealt with, Supporting Assistance will be used primarily for financing commodity imports. Occasionally, however, it will be necessary for foreign policy reasons to continue or to initiate selected capital projects with financing under Supporting Assistance, if the circumstances are such that adherence to development criteria cannot be assured.

Within the development category, there is little reason for distinguishing between the types of resources which should be financed out of loan funds and those that should be financed

out of grants. The security for a loan of foreign exchange repayable in foreign exchange is the credit-worthiness of the country as a whole, based on its overall growth potential, not of any particular segment of it or installation in it. It happens, however, that those nations most in need of grants also require the kinds of assistance that are the foundations of economic growth. As a consequence, the development grant category will consist primarily of aid for education and social progress (the forms of assistance traditionally provided on a grant basis) and selected economic overhead projects (roads, harbors, and communications systems). However, the latter will be financed on a development grant basis only in those countries where the preconditions for the growth process are still absent. These countries cluster heavily in Africa.

Conversely, those countries that have already begun the growth process, and are therefore considered the prime candidates for loans, are likely to require the preponderant part of their aid for capital expansion, either in the form of specific capital projects or imports that permit a general investment program to be carried out.

## 3. Funding Proposals: Four Shifts in Emphasis

For Fiscal Year 1962, the new obligational authority to be provided by the Act for International Development would total \$2.6 billion. In addition, approximately \$300 million in dollar repayments and interest generated by loans made under prior programs would be available for new lending and an estimated \$1.4 billion of unobligated carryover from prior years would be available for program use. Beyond FY 1962, authority would be extended to create new obligations aggregating \$6.4 billion in development loans over a four year period, supplemented by authority to use principal and interest payments generated by prior loans estimated to aggregate \$1.2 billion over the same period.

The manner in which these funds would be used reflects certain shifts in emphasis which would mark the transition into the Decade of Development. These shifts include allocation of the largest part of the proposed funds to development purposes, an increase in the loan proportion of the total program, significant changes in programming techniques and modifications in the character of funding authority.

a. The bulk of FY 1962 funds will be directed toward economic and social development. Development Loans, Grants

and Research comprise more than \$1.7 billion of the approximate \$2.9 billion program total, and Supporting Assistance approximately \$600 million. In addition, a substantial part of the Contributions to International Organizations will contribute to development and every effort will be made to use Supporting Assistance for development purposes.

b. Loans as a proportion of the total program will increase significantly in FY 1962. They comprise less than 30% of total availabilities in Fiscal Year 1961; in FY 1962 loans would approximate 40% of the total. Under the multi-year loan authority proposed in the Act, the loan portion of the program would rise again in FY 1963.

c. The FY 1962 program also projects a decrease in the volume of funds programmed on a recurrent, annual aid level basis. The rigidities inherent in this programming technique inhibit adherence to the self help, priority and other development criteria outlined in the preceding chapter. Whereas a total of \$1,066 million of the total of Defense Support, Special Assistance, and Bilateral Technical Cooperation was programmed in FY 1961 to meet annual aid level requirements, less than \$870 million will be programmed in this manner in FY 1962. Supporting Assistance will need to continue on the prior basis. Many of the Supporting Assistance programs are expected to terminate, however, within one to three years.

Development Loans and a substantial portion of the Development Grants request are not programmed in advance. Projects and programs within these categories will be approved only as and when development criteria as described above in Chapter II and in the separate chapters below are met. Although the backlog of potential activity is substantial it has not yet been possible to undertake the review necessary to determine the conformity of specific projects and programs to the new approach. It is essential that both new grants and loans be programmed as carefully as possible to get maximum results from limited resources. This task cannot be carried out rapidly or easily. However, by taking whatever time and effort is necessary, available funds can be concentrated on the highest priority needs.

d. Authorization of no-year funding for all forms of assistance will enhance the effective use of aid dollars.

Under the present system of single-year appropriations, funds lapse if they are not obligated before the end of the fiscal year for which they have been appropriated. This fact tends to cause aid recipients, and U.S. aid administrators as well, to relax their standards in approving aid projects as the end of each fiscal year approaches in order that appropriated funds will not be lost.

For this reason, "no-year" appropriation have been requested for the financing of Development Grants. Such funds can be carried over to subsequent fiscal years even if they are not obligated at the end of the fiscal year for which appropriated. Thus the obligation deadline is eliminated, and a more uniform adherence to development and self-help criteria throughout the entire fiscal year is promoted. With respect to Development Loans, no-year authority is also requested in the section of the Act which provides for the carrying over, on a cumulative basis, of any unused portion of the borrowing authority requested for any year.

#### 4. Description of Tools

Against the foregoing background, the salient characteristics of each of the tools to be used in the program for a Decade of Development are summarized below. A separate chapter follows devoted to each instrument.

##### Development Loans

For development lending, the Act for International Development would make \$900 million available for new obligations beginning in FY 1962 and \$1.6 billion would become available for new obligations in each of the succeeding four years. Funding of the entire \$7.3 billion would be provided by an authorization in the Act to obtain such financing through borrowings from the Treasury.

In addition, the Act would authorize the use, for loans, of dollar principal repayments and interest payments becoming due under past Mutual Security loans and other credits. These resources are expected to approximate \$300 million annually over the five-year period.

Provision of Development Loans would be governed by specific criteria in the Act for International Development. These

would require that other sources of financing, economic and technical soundness, contribution to economic development, consistency with long-term development goals, possible adverse effects on the U.S. economy and prospects of repayment all be taken into account. The self-help criteria outlined in the preceding chapter and in a separate annex will have the effect of concentrating our aid resources in those countries able to make the most effective use of development capital. In FY 1962, only a few countries are expected to qualify for loans of substantial size. In time, as other nations increase their ability to use more capital and as they adopt further measures for self-help, more countries will become eligible for more significant amounts of loans.

All loans under the new authority will be repayable in dollars, will bear interest at low rates or will be interest-free, and will extend for terms of up to 50 years, with substantial grace periods where warranted. The shift to dollars from local currency repayment is being made because experience has shown that substantial, unusable local currency accumulations constitute a source of misunderstanding and friction between providing and receiving countries and do not make new economic resources available either to the United States or the receiving country. Moreover, aid-receiving countries are likely to husband their dollar resources more carefully if they are obligated to repay loans in dollars. In addition, the United States is entitled to be repaid in dollars if receiving countries achieve sufficient growth so that they are able to make such repayments.

Within certain established limits, loan terms will be devised with respect to each country in terms of its capacity to repay. In all cases, however, loans will be made on more favorable terms than the countries could obtain from other sources. The need for "soft" loans (provided in the past by the Development Loan Fund and projected for the future under the new Act) exists because of the inability of less developed countries to obtain from other sources the financing which they require for their development needs on reasonable terms.

#### Development Grants

Appropriation of \$380 million (plus authority to carry forward, from the FY 1961 appropriation, funds estimated at \$9 million) is requested for Development grants in FY 1962. These funds would be available on a no-year basis. Thus unobligated

balances at the end of the fiscal year would be available for use in the next. As in the case of Development Loans, Development Grants would be provided on the basis of well-defined criteria.

Development Grants would finance educational and other activities contributing to the development of human resources as well as selected economic overhead projects (roads, harbors, communication facilities) in economies at the earliest stages of growth. Included within this funding category are activities of a technical assistance nature as well as capital investment essential for social and institutional development (schools and hospitals).

Development research grants would also be available to permit selected countries to secure expert help in preparing long-range development programs, to survey natural resources or sectors of particular economies and to appraise the cost and feasibility of particular capital project possibilities.

In addition, \$5 million of the total would be used to establish a revolving fund to finance the warehousing, rehabilitation and transport of excess property owned by other government agencies for use in the economic assistance program. When stocks of property are transferred to recipient countries, the revolving fund would be reimbursed from other accounts for expenses incurred in handling such stocks. This device should help materially to expand the use of excess government property in the aid program.

As explained in detail in the Development Grant chapter below, a distinction has been made between continuing costs - the best current estimate of the minimum requirements for carrying forward in FY 1962 activities initiated in prior years - and requirements for new activities. The \$380 million request, less the revolving fund mentioned in the preceding paragraph, is comprised of \$250 million for continuing costs and \$125 million for new development grant activities.

The continuing activities are largely of a technical assistance nature, but some activities originating under the Defense Support and Special Assistance programs, such as malaria eradication, are also included.

The reason for distinguishing between these two components of the Development Grant category is to emphasize the transitional nature of the FY 1962 program and the turn around

in programming planned to take place during the year. All continuing activities will be subjected to extended review, both within the new aid agency and in consultations with the recipient governments, in order to determine whether they qualify under the new development criteria. As a result of such reappraisal, some projects undoubtedly will be terminated, others will be modified and still others will be expanded. The timing of the reappraisal will depend upon the speed with which the new agency can be created and staffed. To some extent, the ability of the new agency to terminate or modify continuing activities will be limited by existing project agreements with foreign governments.

The \$125 million for new development grant activities is substantially less than the amount required for projects already identified. However, all proposed new activities will be subjected to the same review in depth as is planned for continuing projects.

#### Supporting Assistance

Appropriation of \$581 million in Supporting Assistance is requested for FY 1962. In addition, authority is requested to carry forward, from the FY 1961 appropriation funds estimated at \$29 million.

Supporting Assistance is designed to meet requirements for U.S. economic assistance where urgent U.S. national security and foreign policy needs are the predominant determinants of the amounts and types of aid to be provided. To the degree consistent with these requirements, such assistance is being programmed so as to maximize its contribution to the development of the recipient countries. However, the programming of a particular type or amount of aid under Supporting Assistance is an indication that such assistance is required even though compliance with development criteria cannot be assured.

In the FY 1962 program, Supporting Assistance is now projected for 21 countries in all regions of the world. In each of these cases the funds are required to serve one or more of the following objectives:

1. A large annual input of resources is needed to help the host government support a substantial military burden;
2. Assistance is provided to maintain base rights;
3. An input of resources is required to prevent economic instability which would threaten vital U.S. political interests;

4. Capital projects must be provided as an alternative to exclusive economic dependence on Sino-Soviet aid.

#### Development Research

An appropriation of \$20 million is being requested for FY 1962 to begin a program of Development Research, including applied research on the application of research findings, within the economic assistance program. This will be the first concerted program of research designed to bring the results of scientific investigations to bear on the improvement of our economic assistance program.

The program follows recommendations made by the President's Science Advisory Committee to secure more efficient use of aid resources through intensive research directed at problems of the aid program.

In most instances, actual research would be carried on outside the government in private or university laboratories and research centers and by private individuals under grants or contracts. Illustrations of the problems which should be researched are contained in a subsequent chapter on the subject.

#### Voluntary Contributions to International Organizations

An appropriation of \$153.5 million plus authority to carry forward, from the FY 1961 appropriation, funds estimated at \$4.85 million is requested to finance voluntary contributions in FY 1962 to thirteen international organization programs specified in the chapter below on this subject. These contributions are over and above assessed contributions to international organizations for which financing is provided in separate legislation. The major elements to be financed include \$40 million for the U.S. Technical Assistance Administration and Special Fund, substantial amounts for military and economic assistance to the Congo, a substantial contribution for support of the U. S. Relief and Works Agency for Palestine Refugees, and contributions to the U.N. Children's Fund and the Indus Basin Development Fund.

#### Contingency Fund

An appropriation of \$500 million is being proposed for contingencies that might arise during FY 1962. These contingencies include events which cannot now be clearly foreseen, as well as events which can be foreseen but whose costs cannot now be estimated with any reasonable degree of accuracy.

#### Private Enterprise

A separate chapter below outlines the role envisioned for Private Enterprise both U. S. and foreign, under the new program. A variety of different authorities are provided in the Act to induce the participation of private enterprise in development activities, including Development Loans, the small business provision, investment guaranties and investment surveys.

#### Food for Peace

The \$2 billion of new commitment authority for surplus agricultural sales during the calendar year 1961 covered by separate

legislation has an intimate bearing on the purposes of the new economic assistance program and on its operations. The Agency for International Development will have a critical role in determining the sales agreements to be entered into under the new Food for Peace program and it will determine the uses of a substantial portion of the currencies thus generated. The manner in which food can be employed in economic development, the role envisioned for local currency programs, and certain policy changes in the operation of P.L. 480 are summarized in the chapter below on Food for Peace.

#### Peace Corps

Authority for a new Peace Corps is being requested in separate legislation. Peace Corps Volunteers will provide the skilled manpower needed in many junior and middle-level positions abroad, until nationals of the host country have been sufficiently trained to hold these positions. The Peace Corps will be assigned to projects selected for their contribution to economic and social development and to improved international understanding.

### III. THE TOOLS FOR ACTION (continued)

#### B. Development Loans

##### 1. Introduction

Development Loans will be the heart of the new program for the Decade of Development. The basic tone and character of the new approach will be set by the emphasis being placed on loans, by the long term character of the lending program and by the policies and practices which will govern Development Loans.

The Act for International Development would authorize a long term program of dollar lending on terms to be adapted to the limited repayment capabilities of the less developed countries. The aggregate amount to be available for such lending over the next five years would be approximately \$8.8 billion. Of this aggregate amount, \$900 million financed by borrowings from the Treasury would be available for new obligation beginning in FY 1962 and \$1.6 billion financed in the same manner would be available beginning in each of the next four years. In addition, approximately \$300 million would be available for lending in each of the five years out of the proceeds of principal and interest payments on loans made in prior years under the Mutual Security and other programs.

##### 2. Purpose of Development Loans

The purpose of Development Loans is to support economic growth in the developing countries of the free world. The authorities provided under the new Act, and the policies and the operating methods which will be followed in practice, will all focus on this objective.

What follows in this Chapter is a description of each element of the Development Loan program and its relationship to the requirements for development. The discussion covers the reasons for loans, long range funding authority through Treasury borrowing, the funding amounts proposed, contemplated lending policies, terms and conditions, and the manner in which projects and programs will be developed, appraised and carried out.

##### 3. Why Loans?

In his message of March 22, 1961 on the new foreign economic assistance program, President Kennedy stressed the need for special emphasis on Development Loans. In the statement of policy in the proposed Act, such loans are emphasized as a primary instrument for supporting economic growth. As the preceding chapter indicates, the projected loan component of the total economic assistance program will rise both absolutely and as a proportion of the total in FY 1962 and FY 1963.

Loans tend to minimize the sensitivities that are often experienced in a donor-donee relationship. The removal of such sensitivities is also helpful in creating a climate of discussion in which the requirements for development can be examined cooperatively.

Experience shows that the obligation to repay is desirable from the point of view both of effective execution of an assistance program and satisfactory relations between providing and receiving countries. A loan transaction establishes a businesslike atmosphere in which economic and technical standards are taken into consideration as a matter of course. By establishing an environment of discussions from which the immediate problems of international relations are minimized, the possibilities for adhering to the economic and technical standards for development are enhanced.

##### 4. Long Term Funding

The Act for International Development would make loan funds available for use over a period of five years. Firm assurance of adequate funding over a period of five years is a central feature of the entire program for the Decade of Development.

The primary reason why long term funding is needed is to permit us to make long term commitments in support of country development programs. As explained in Chapter II above, it is vitally important for us to make such commitments if we are to persuade the recipient countries to adopt the long term approach which is essential for them to succeed in their development efforts.

In addition, as suggested in Chapter II, long-term funding, and the ability which it provides to give long-term commitments, is a valuable tool for us to use in persuading other industrialized nations to move to a long-term basis in their own aid programs.

Finally, long-term funding promotes the efficient use of our own funds. As long as Development Loans are administered on an annual basis, there will be strong pressures to use available funds within the fiscal year without sufficient regard to the soundness of their use. Under such circumstances, aid dollars cannot accomplish as much as the American taxpayer has a right to expect of them.

Long-range authority would be used in different ways to deal with different situations:

#### Example 1

The sizable population, strategic location and history of this country give it an important position among the emerging nations of the Free World. Compared with most other less developed countries, it possesses relatively advanced business, governmental and intellectual communities. Its political processes are free. Against substantial domestic and external obstacles, it has **demonstrated a will and capacity to undertake the unusual effort required to move toward self-sustaining growth.** It has prepared its program of development with wide public and private participation. The reasonableness of the program has been confirmed by a variety of business, banking and academic leaders from the West.

If the new investment essential to achievement of the program's goals is to be made over the next five years, substantial financing is required from abroad on liberal terms which the nation can bear. Because the development program is a carefully balanced one, all parts should be carried out in the proper sequence. To undertake selected elements of the program now without assurances that subsequent parts will be undertaken in later years would be a waste of the donors' and of the host country resources.

In fiscal years 1961 and 1962 substantial expenditures will need to be financed and a large number of contracts for long lead-time capital goods and projects will need to be placed.

Thus, in this country, the development criteria set forth above are met as fully as can be reasonably expected and at the same time needs are substantial and urgent. It is proposed, therefore, that the U.S., using its new development loan authority, would join with other industrialized nations of the Free World in making a multi-year commitment of funds which would meet a substantial part of that nation's foreign exchange requirements during the period of its third plan.

#### Example 2

A country distinctive in its area for stability, conservatism and the pro-Western orientation of its leaders, and for a relatively high level of administrative competence, has decided to embark on a five-year program of development within our next fiscal year. It has sought assistance from the World Bank in preparing such a program. The prospects for a reasonable long-range development program, while good, are not yet fully assured.

The approach which would be taken here would first entail a technical study of the country's development progress and prospects and of its accomplishments and problems in developing the new program. Decisions would then be made regarding any expert assistance requested for preparing the program and with respect to any changes required in the country's policies and practices. The prospects for obtaining agreement to the latter will be improved by assurances that the United States would be prepared to make a long-range funding commitment for a development program if the program's framework proves to be reasonable and the prospects good for carrying it out. Only when there is a reasonable prospect that development criteria are met would such a commitment be made. However, this country's performance thus far is sufficiently encouraging to suggest that such a commitment in some form might well be appropriate before the end of FY 1962.

### Example 3

In this country the basis for a long range commitment is more remote than in either of the foregoing instances. However, the prospect of such a commitment could be of critical importance in inducing this nation to begin the slow process of establishing economic order and a basis for progress in its haphazard economy.

It has been a recipient of Defense Support and a variety of other forms of U.S. and European assistance over the years. The country's economic policies to date have not been conducive to the most effective use of such aid or indeed of its own resources. Periodic foreign exchange crises have led to recurrent operations in which the United States in recent years has joined with other countries to provide emergency financial help. The country has failed to deal with its investment and development programs in an orderly and consistent fashion.

Concurrently with the making of future U.S. aid commitments, this country should be informed that it must develop a reasonable and well considered approach to the stabilization of its economy, to its development, and to the establishment of an appropriate administrative and technical mechanism for such purposes. If these conditions were met, the United States would be prepared to offer a substantial long term financial commitment in support of a reasonable development program in conjunction with other industrialized countries. Technical assistance would be offered to support this effort. There are men in responsible positions in this recipient country who would agree with this approach, who have the capacity to respond to it, and whose position would be strengthened by such a policy on our part.

Here is an instance where an assured project of substantial financing three to five years hence, subject to basic internal measures, is essential to induce the beginnings of a necessary process of economic reorientation. Without the promise of a substantial long term commitment, political and military considerations are likely to continue to require annual support to this country of substantial dimensions for many years to come.

### Example 4

The foregoing examples illustrate the relation of long-range funding to long-term commitments. However, assured financing of development loans for a five year period has other uses. In the past, it has been difficult to adhere to sound economic and technical criteria in an annual funding environment. Example 4 is a country in which long-term funding will help inject economic reasonableness into a politically charged situation.

Annual levels of aid have been provided to this country for several years. While aid funds have financed investments of some value to the country's economy, they have done so in an environment in which

the country's own resources were not being effectively or even fully used and where a rational framework for undertaking new investment does not exist. The fact that funds were provided on an annual basis and that no assurance could be given that aid funds would be available beyond the immediate fiscal year created a situation in which it became politically necessary to obligate substantial funds to this country before each fiscal year's funds vanished. Under these circumstances it was not possible to assure investment in the soundest activities.

At the present time, certain outstanding commitments for specific projects still remain to be fulfilled. It is to meet these prior commitments that supporting assistance will be programmed for FY 1962. However, it would be expected to decrease grant assistance as rapidly as feasible and to communicate this fact to the Government. At the same time, the Government would be informed that funds will be available over the next five years to assure substantial financing for capital investments which ultimately meet the standards of reasonableness of the new loan instrument. It is hoped that these two announcements in combination will induce the country to focus greater attention on the hard problems of its own development. Under this arrangement the United States will not lack an alternative to the undesirable practice of providing a given amount of funds each fiscal year regardless of the economic requirements for such funds and the contribution they make to economic growth.

## 5. Borrowing Authority

The method which is proposed for making available on a long term basis the major part, aggregating \$7.3 billion, of the funds which are to be used for lending operations over the next five years is the provision to the new aid agency of borrowing authority. In addition, as set forth in the introductory section of this chapter, approximately \$300 million of funds for lending operations are expected to be obtained in each year during the five-year period from principal and interest payments on prior loans.

The proposed borrowing authority would give the President the right to issue notes for purchase by the Treasury in the aggregate amount indicated above over the five-year period beginning with FY 1962. The amount of notes to be issued within each year would be limited. Up to \$900 million could be issued in FY 1962, and an additional \$1.6 billion could be issued in each of the succeeding four years. To the extent that the issuing authority might not be used up in any year, the unused portion could be carried over to any succeeding year during the five-year period. The terms and conditions of the notes would be determined by the President.

Congressional control over the five-year lending program would be exercised throughout its life in several ways. First, provisions in the initial legislation would phase the annual availability of funds (as indicated in the preceding paragraph), establish the criteria for their use, require a submission to Congress of quarterly reports on lending operations, and require the establishment of an interagency loan committee to fix basic terms and conditions for lending operations.

Next, in accordance with procedures followed in presenting annual authorization programs, an annual presentation would be made to the authorizing committees of the Congress covering all development lending operations. This would include a report of the lending activities undertaken during the preceding year, on a country-by-country and transaction-by-transaction basis, and would indicate plans for prospective lending activities during the coming year. The authorizing committees would have the power to recommend to the Congress any changes in the lending criteria or other modifications in the enabling legislation which might seem appropriate. The Congress

would have the power to curtail or terminate the borrowing authority at any time.

Moreover, an annual presentation of the lending program would be made to the appropriations committees of the Congress. Since the proposed legislation would subject the lending operations to the provisions of the Government Corporations Control Act, the President would be required to present an annual budget for the lending operations to these committees. Pursuant to Section 104 of that Act, which provides in part:

"The budget programs transmitted by the President to the Congress shall be considered and legislation shall be enacted making necessary appropriations, as may be authorized by law, making available for expenditure for operating and administrative expenses such corporate funds or other financial resources or limiting the use thereof as the Congress may determine and providing for repayment of capital funds and the payment of dividends."

It would be necessary in each year for the appropriations committees to recommend, and for Congress to pass, legislation authorizing the President to make expenditures in accordance with the budget.

Accordingly the Congress would retain its control over the funds to be provided through borrowing authority. However, from the standpoint of the agency administering the program, there would be a vital difference between the procedure to be followed under the borrowing authority system and the procedure which is presently followed under an annual aid appropriation system.

Under the present system, the Executive Branch has no indication of the size of the funds which will be available to it in future years. On the other hand, if the aid agency is provided with five-year borrowing authority, it will have a firm indication of the amount of the funds which can be committed in future years. Although the amount of these future funds will be subject to being reduced by the Congress, the agency will nevertheless have a figure which it can use in its planning and in its

negotiations with recipient countries. From the administrative standpoint, this is a difference of the greatest importance.

In other words, the provision of the borrowing authority will constitute an expression of intent on the part of the Congress to make the specified amount of funds available over the five-year period. Congress will retain the right to change its mind. Nevertheless, the existence of this expression of intent will be of vital importance in helping the aid agency to administer a long-range development program.

The same purpose could be accomplished by the technique of a multi-year appropriation. However, the technique of borrowing authority is better adapted to an income-producing lending operation which will be used to finance increases in productivity, and in fact has been the technique most commonly used in the past for financing revolving loan funds.

The following are examples of legislative authorizations, currently in effect, for financing with the borrowing technique:

Commodity Credit Corporation  
Defense Production Act of 1950  
Export-Import Bank of Washington  
Federal Deposit Insurance Corporation  
Farmers Home Administration  
St. Lawrence Seaway Development Corporation  
Federal Home Loan Banks  
Federal National Mortgage Association  
Federal Savings and Loan Insurance Corporation  
Housing and Home Finance Administration  
Rural Electrification Administration  
Federal Ship Mortgage Insurance Fund  
Federal Civil Defense Act of 1950  
Small Business Administration  
Informational Media Guaranty Fund  
Veterans Direct Loan Program  
International Cooperation Administration  
Panama Canal  
Virgin Islands Corporation  
District of Columbia  
Helium Act, as amended  
Area Redevelopment Act of 1961  
Tennessee Valley Authority

This list includes, among others, programs which engage in domestic lending on terms more liberal than the cost of money to the U.S. Treasury, programs for international lending operations, and programs whose assets are not regularly maintained in the short term through operating income. There is ample precedent for applying the borrowing technique to the financing of development loans.

## 6. The Level of Loan Funds

### a. Needs are not precisely calculable at this time

The magnitude of the requirement for Development Loans is neither easily nor mechanically determinable. It would be neither accurate nor consistent with the purposes of the new program to suggest that the amounts requested represent precisely established needs. The proposed funding represents the best judgment of minimum needs that can be made at this time. It takes into consideration the impact that past levels of development financing have had on the growth of the less developed world and reflects the conclusion that substantially more is required if significant progress is to be made. It also takes into consideration the expectation that other capital-exporting countries will also make more funds available for development purposes.

Certainly the needs of the less developed countries are many times greater than the financing now available from the United States and the rest of the free world. But while the needs are vast, the capacity to use funds effectively is much less. The capacity of the emerging countries to put new capital to good use turns on factors which are difficult to predict. These factors include the many self help measures summarized in Chapter II and in the Annex.

At the same time, the likelihood that such self help measures will be undertaken is often dependent on expectations as to their outcome. Necessary actions are less likely to be undertaken if the prospects for obtaining additional capital are uncertain.

An approach such as that proposed for development loans is based on an estimate of that which can usefully be done. It does not mean that the proposed loan capital actually will be used over any particular period of time.

b. FY 1962 Funds

Some measure of the relation of the proposed funding requests to needs can be obtained by looking at FY 1962, the first year of the program and the one for which plans are most advanced.

It is clear that the most immediate and largest claimant in FY 1962 will be India. Subject to Congressional action a substantial commitment has been offered to support India's Third Five-Year Plan. The commitment would be made in conjunction with other Free World contributions. Appraisal of Pakistan's Second Five-Year Development Program suggests that a large commitment could be used effectively there as well. Contributions to this program will be considered at a second meeting of the consortium on Pakistan to be held in June 1961.

Brazil, under a new government dedicated to orderly financial management and to domestic measures directed toward a sound development program, is confronted with a degree of economic instability that can be overcome only by an extraordinary infusion of external assistance. In conjunction with the International Monetary Fund, the Export-Import Bank and Treasury Department funds, the U.S. Government has also committed, subject to Congressional approval, \$100 million to Brazil from the new development program.

The probable loan commitments to these three countries will account for a very large share of the financing sought through borrowing authority for FY 1962. In addition, there are at least ten countries, some in each of the four major geographic areas, where need, planning and over-all importance will result in significant loan requests. Finally, there will be project proposals from some 30 other countries, some of which will very probably fulfill the new conditions applying to development lending.

c. Needs beyond FY 1962

While the details of needs and country development capabilities beyond FY 1962 cannot be precisely presented, the wisdom of a commitment by the United States covering the four subsequent years in the magnitude

requested stems from several facts.

First, we know that the loan support for such countries as India and Pakistan must continue at high levels for the immediate future if their efforts are to be successful. In these cases, it is possible to foresee the general level of activity which it would be in our interest to maintain.

Second, at the time of the Act of Bogota, Latin American countries were promised that development capital would be available to them more freely than previously. As they firm up their plans and programs, significant amounts of development lending funds will be required to meet our fair share of their legitimate and proven needs.

Third, we know that there are several important countries which have previously received aid from us chiefly in the form of grants where we are proposing a shift to loans to the extent that planning and other self help measures are met. For this approach to be effective in these countries, we must have the capability to make substantial development loans. While the amounts of lending are impossible to forecast, any hope of achieving a significant permanent reduction in supporting assistance rests on being able to make substantial loans to these countries.

Fourth, it is already apparent that such countries as Nigeria and Tunisia are approaching the point where meaningful planning, social progress and a good quality of public administration entitle them to serious consideration for long term commitments. Unless we are in a position to be able to respond in the reasonably near future to this kind of country, we shall fail in our effort to use aid in the most constructive and economical manner. Again, it is not possible to predict the number of cases where such commitments can wisely be made over the next few years. But our capability to engage in a highly selective number of priority commitments means that we must have a substantial amount of loanable funds available to us in the next few years.

Fifth, and perhaps most important, even though we cannot foresee precise loans several years ahead, we know that as we are successful in making clear our determination to respond helpfully to those countries

who help themselves, we shall confront - along with other Free World nations - an increasing number of countries in Africa, the Far East and the Middle East which will have met our conditions.

With the types of situations facing us which have been outlined above, the requested increase in future lending capacity is conservative.

#### 7. Other Free World Contributions

The pending proposals recognize that external assistance needs of the less developed areas neither can nor should be met wholly from U.S. sources. The revitalization of Western Europe's industrialized economies has made it possible for them to provide substantially increased development financing on liberal terms. One of the additional difficulties in estimating precisely the requirements for U.S. aid is the fact that the funds which will be forthcoming from Western Europe and international institutions such as the IERD and the Inter-American Development Bank are an essential element in the equation and that this availability cannot be precisely estimated. But just as the inducement of greater self help and longer range perspectives in the less developed countries are essential elements of the new program, so is a concerted effort to induce the other industrialized nations to enlarge their development financing. The methods by which this effort is being and will be carried out are outlined in Chapter V below.

In many instances, U.S. contributions to particular countries will be contingent on increased contributions from other industrialized nations. In some cases, the United States may determine that its contribution should be a minor portion of the total package.

Mechanisms for coordinating assistance by the advanced nations and multilateral lending agencies are either in being or are being created. Already, consortia convened by the IERD for India and Pakistan are beginning to bear fruit. OECD is moving toward the day when its deliberations will pass beyond the stage of exchanging information.

#### 8. Role of the Export-Import Bank

The proposed program assumes that the Export-Import Bank will play a critical role in the total effort. A significant

portion of the Bank's total credit program will continue to consist of development loans. Roughly two-thirds of the total is likely to be available for Latin American countries, it being a region in which the Bank has found it possible through the years to focus a substantial part of its lending.

#### 9. Scope of Lending

Under the proposed provisions of the new legislation, the Agency for International Development will be authorized to make loans or extend credits to a variety of different types of borrowers, including foreign governments, other foreign public entities, foreign individuals or private firms, U.S. individuals and corporations intending to undertake productive investments abroad, and international organizations.

Loan funds will be used for whatever purposes and activities seem in particular instances to make the most effective contribution to economic growth. In those relatively few instances where it will appear that a national development program as a whole is worthy of support, the credits extended in support of such a program may be used for a range of purposes from the financing of general imports needed to maintain or expand economic activities to the financing of specific types of commodity imports intended for fabrication into capital items to the financing of capital projects. Where it does not seem appropriate to provide such broad support for a national program, loans will be made for selected capital projects or in support of selected sector programs, such as programs for the expansion of railway, irrigation, road or power distribution systems.

Thus, loan funds will usually find their way into industry, power, transport, agriculture and communications. It should be recognized, however, that a country's growth might in some instances be more broadly and perhaps even more immediately stimulated by an improvement in educational, training or other social institutions rather than by the provision of a new highway. The new loan program might occasionally find that its resources would be best

employed in connection with activities connected with social advancement. In those instances where broad support of a national development program is undertaken and general imports in line with such programs are

financed, many of these imports will find their way not just into manufacturing plants, roads, irrigation systems and the like, but also into schools, hospitals and other social institutions.

#### 10. Lending Policies and Criteria

The selection of countries to which financing will be provided and the activities for which financing will be provided will reflect priority judgments in accordance with the development criteria outlined above.

This is not to say that judgments related to more immediate foreign policy considerations would have no impact on the selection of countries or activities to be financed. On the contrary, it suggests that it might be appropriate, within limited funds, to accord some countries priority among those equally qualified in terms of development criteria. There may also be unusual cases where assistance to nations otherwise qualified would cause serious damage to our foreign policy.

In considering activities to be financed by loans, the Agency for International Development will be required by statute to take into account:

- "(1) whether financing could be obtained in whole or in part from other Free World sources on reasonable terms,
- "(2) the economic and technical soundness of the activity to be financed,
- "(3) whether the activity gives reasonable promise of contributing to the development of economic resources or to the increase of productive capacities in furtherance of the purposes of this title,
- "(4) the consistency of the activity with, and its relationship to, other development activities being undertaken or planned, and its contribution to realizable long-range objectives, and
- "(5) the extent to which the recipient country is showing a responsiveness to the vital economic, political, and social concerns of its people, and demonstrating a clear

willingness to take effective self-help measures. Loans shall be made under this title only upon a finding of reasonable prospects of repayment."

#### 11. Loan Terms and Conditions

The terms and conditions on which development loans would be extended differ markedly from prior practice under the Mutual Security Program in two major respects: all repayments will be required in dollars and the repayment terms for individual transactions will be based primarily on a judgment of the recipient country's overall capacity to repay rather than on the character of the activity financed.

##### a. Dollar Repayment

The shift to dollar repayment reflects the widespread view that the advantages of local currency repayment are outweighed by its disadvantages. In many countries the United States now has substantial holdings of foreign currencies which are far beyond any of its foreseeable needs, and it faces the prospect of further increases in these holdings. The accumulation of these holdings has already served to create tensions and misunderstandings with host governments. While foreign currency balances are legally the property of the United States, they can only be used, by and large, in the country of issue. When these currencies are spent, the budgeting procedures of the local government and its monetary policies must be adjusted to compensate for such action. But the use of these currencies does not bring new resources to assist the country's development.

##### b. Capacity to Repay

In proposing loans repayable in dollars, the new program recognizes that there are a variety of factors which bear on the debt service capacity of the developing countries. In some cases the size of a developing country's internal debt will bear on its foreign debt service capacity. One aim of the program will be to improve the ability of a country to service its debts overtime as it progresses in development. The type of activity financed cannot be used exclusively to determine a country's capacity to repay. While some of the projects and programs to be financed will contribute directly to the foreign exchange earnings of the recipient countries, others will have an indirect influence on their capacity

to service foreign debt by increasing the general level of economic activity. As the economies of the less developed countries expand, they may find themselves better able to mobilize domestic resources, and increase their exports and foreign exchange earnings and be in a better position to repay dollar loans in the future.

Accordingly, loans under the program would be made repayable in dollars, though repayment would be over a long term period, up to fifty years in some cases, with no repayment of principal in the early period of the loan. The deferment of principal payments might be for as long as ten years, so as to enable the country to get the benefit of increased production resulting from the loan before it begins amortization. Loans might be made at no interest at all, or at nominal interest rates, so as not to burden the balances of payments. Terms of this sort are contemplated by the IDA and the new aid program could be developed along similar lines. Conditions should be flexible so that terms appropriate to the particular programs and activities can be devised.

Terms of loans appropriate for assistance to governments may not generally be desirable when the Agency for International Development makes loans to private investors engaged in profit-making enterprises or to autonomous public agencies which operate on a profit basis. The highly favorable terms contemplated for loans to governments would make dollars available to private or public activities of this type at a rate of interest far lower than is normally available from lending agencies, while the maturity would be far too long in the case of a private business. Moreover, such enterprises may obtain part of their funds from local money markets in which the interest rates are greatly in excess of interest rates prevailing in the United States. Since it is one of the objectives of the program to promote private enterprise, some portion of the loans under the program should be made to private entities, but such loans should not give them unreasonable advantages in competition with other enterprises in the same country, or provide financing on the liberal terms appropriate in government-to-government transactions.

To deal with this situation A.I.D. should have flexibility to set appropriate terms. Various devices could be used, such as loans made repayable in dollars at rates comparable to the Export-Import Bank rates, or loans made to

governments on the usual terms of the A.I.D. program, with provisions for relending to private entities at local rates and with shorter maturities. The terms and conditions of particular loans should be worked out in the specific case.

## 12. Procedures

Two fundamental attitudes will govern the manner in which loan proposals are evaluated and carried out.

First, only those proposals will be considered to which local authorities attach a high priority in their own scheme of development and in which local interest is sufficient to warrant confidence in the success of the activity.

Second, the focus of responsibility for the origination, planning and conduct of an activity will be placed on the borrower.

These requirements do not mean that the new agency will be passive and act only on proposals presented to it. They mean that many proposals must be turned down and that preferable alternatives must frequently be suggested. It will often be necessary to provide technical assistance to the borrower for the planning and conduct of development activities. However, no activity will be undertaken unless local effort and interest is exhibited during the preparatory phases of the activity and unless there is evidence that the hard tasks involved in carrying it out will be approached seriously.

Proposals are expected to originate from a variety of public and private sources. In each case they will initially be judged in terms of the criteria already outlined.

Regional bureaus of the new Agency for International Development will, with the assistance of the Agency's country missions, determine whether or not self-help standards have been met and whether proposals have sufficiently high priorities in total country schemes for development to warrant serious consideration.

If favorable judgments are made on these matters, proposals will then be subjected, as appropriate, to the detailed economic, technical and financial analyses

required by law and amplified by administrative regulations. The regional bureaus will be assisted in these analyses by the Office of Development Financing, described in Chapter IV below. The further role of the Office of Development Planning in advising the Administrator of the Agency on the policies, standards and practices governing the provision of loan assistance is also described in Chapter IV.

In the case of each favorable evaluation involving substantial amounts (those in excess of a figure to be later established), the Assistant Administrator of the regional bureau will recommend appropriate action to the Development Loan Committee, as described in Chapter IV below. On the basis of a detailed analysis of each proposal, the Development Loan Committee will determine whether lending policies, criteria, and procedures have been met. In the case of loans below the threshold figure, authority for approval will be vested in the Administrator.

After a loan is approved, an individually tailored loan agreement will be prepared for negotiation. When such negotiations are concluded, the loan agreement will be signed and an entry simultaneously made on the books of the Agency constituting a formal obligation of funds.

Prior to this point, a plan for implementation will be evolved which will place upon the borrower a variety of responsibilities to be carried out in accordance with the loan agreement. These responsibilities may include the hiring of consulting engineers, the preparation of detailed specifications and drawings, the issuance of tenders to bid and the award of procurement and construction contracts. The implementation plan will also require the establishment of a work schedule and periodic reporting on progress. It will set forth the manner and purposes for which funds are to be disbursed and establish the procedures for disbursement. In the course of carrying out the activity, the borrower will be required to give notification to the United States Government of proposed procurement so that interested U.S. suppliers will have an opportunity to bid. The borrower will also be required to establish limitations on the ocean shipment of goods to conform to the 50/50 shipping requirement.

Throughout the term of each loan, the appropriate Regional Bureau of the Agency will police progress with respect to procurement, construction, operations and repayment.

### C. Development Grants

1. Introduction. Development Grants will assist the less-developed nations to: (a) improve the educational, technical and professional skills and abilities of their peoples; (b) undertake programs of social reform and development, including the control or eradication of major diseases; (c) improve and expand institutions and organizations which further economic and social development; (d) formulate effective plans to achieve feasible development goals; (e) identify the human and material resources which are available for development through general surveys and surveys of specific projects; and (f) in a limited number of extremely underdeveloped countries, establish or improve basic physical facilities required for economic growth. In addition, this category of assistance will meet other needs requiring grant assistance, including the payment of handling, transportation, and renovation costs on property which is excess to the needs of agencies of the U. S. Government and which can be used for economic assistance purposes, payment of overseas freight for commodities donated by American voluntary agencies, assistance to American schools abroad, and support of the bilateral Atoms-for-Peace program.

To finance programs under this Title, \$389 million of obligational authority (including \$380 million of new authority and \$9 million of unused authority from the current year), to remain available until expended, is requested. Of this amount, approximately \$259 million will be required to cover the continuing costs of projects within the Development Grant category which have been initiated or committed in FY 1961 or prior years. Another \$5 million is required to pay the handling, transportation, renovation and other costs of excess property acquired from agencies of the United States Government. The remaining \$125 million will be used to finance new programs and projects. The major share of this last amount will be required to support development programs in the newly independent nations of Tropical Africa.

The discussion which follows will cover the need for development grants, the criteria to be applied to requests of the recipient governments for assistance of this type, the importance of no-year funds, and the appropriation requirements for FY 1962. There is also a description of the major types of requirements,

including the major functional fields in which Development Grant programs will be proposed, with examples of specific projects and certain special requirements such as those for aid to American schools abroad.

2. The Needs of the Developing Nations. The problems confronting the less-developed nations as they seek to achieve progress within a framework of freedom defy solution by their own unaided efforts. In the countries in the earlier stages of growth which will be the principal recipients of grant aid, the critical bottlenecks - often of an importance greater than the lack of capital for productive facilities - are ordinarily (a) lack of sufficient numbers of people possessing technical, vocational and managerial skills and abilities; (b) lack of effective organizational and institutional forms in the fields of government, finance, commerce and education; (c) lack of knowledge of human and material resources and of how to plan effectively for their use; and (d) inadequacy of basic facilities - such as communications, transport, power and water - essential to the development of natural resources and the modernization of agriculture and industry.

Developing nations must also take steps affecting the attitudes and motivations of their peoples. If individuals believe that they will not share equitably in the benefits of progress, they will make no willing contribution to progress. If they have no sense of national identity or commitment to a national purpose, they will not work together in the national interest. A greater measure of social justice and of national commitment is required to stimulate development, to ensure political stability, and to meet legitimate social aspirations.

After the development of human resources and institutions has reached a certain stage, the demands for and the ability to absorb larger amounts of investment for increasing production increases sharply, and lack of capital, particularly of foreign exchange, becomes the most critical bottleneck. This does not mean that foreign technical assistance is no longer required. Countries, such as India, which have reached this stage obviously still require substantial technical assistance as well. But the "mix" of development assistance needs has shifted from emphasis upon social and economic

infrastructure to emphasis upon direct facilities for production.

3. Criteria for Development Grants. Development Grant activities are jointly supported by the United States and the cooperating government, with the latter bearing a substantial, and usually the major, share of the cost of the program. In order to assure effective programming and utilization of the resources provided by both countries, criteria have been established which must be taken into consideration in determining the specific programs and projects which will be carried out by Development Grants activities. These criteria are:

- a. Whether the activity gives reasonable promise of contributing to the development of educational or other institutions and programs directed toward social progress, governmental improvement or economic growth. The purpose of this criterion is to make certain that the activity contributes in a clear and specific manner to the over-all objectives of the U. S. development assistance program.
- b. Whether the activity is consistent with other developmental activities also being undertaken or planned. Application of this criterion will help insure that Development Grant activities clearly relate to development goals and are consistent with the priorities for achieving these goals. The review of a proposed program or project should consider not only its relationship to other host government development activities being undertaken or planned in the same sector but also its relationship to activities in other sectors. Experience has demonstrated that U. S. assistance and host country resources usually bring greater results when they are used for activities which are part of a well-developed long-term plan. The review should also consider whether the activity proposed requires priority attention at the time proposed. Assistance which is focused upon the critical bottlenecks to development is of greater benefit than that which is related to other important, though less urgent, requirements.
- c. Whether the activity to be financed is technically sound. The review of project proposals should take

into consideration the availability of trained personnel, raw materials, necessary supporting facilities, and the anticipated demand for the additional goods or services which are to be produced. In the case of water or related land resource construction projects or programs, it should consider whether the requirements of the proposed legislation as to a computation of benefits and costs (made insofar as practicable in accordance with procedures established by the Bureau of the Budget), have been met.

- d. Whether the cooperating nation or entity is taking or proposing to take adequate self-help measures. It is especially important that Development Grants encourage self-help measures by the less-developed countries, and that they be directed to assuring the success of these efforts. However, this criterion must be applied realistically and with judgment and tact. In some cases it may be impossible to insist on performance before U. S. assistance is forthcoming; instead we may accept expressions of intention where we believe them to be sincere. Moreover, judgments as to the adequacy of self-help measures should take into account the stage of development of the country.
- e. Assistance anticipated or available from Free World sources other than the United States. Other donors of assistance, such as the United Nations or other multilateral agencies, are sometimes able to provide aid of a kind not readily available in the U. S.; there are also occasions in which the recipient country prefers certain types of assistance to be provided by such agencies. This may also be true of bilateral assistance from other Free World sources. In reviewing proposals, we should consider these possibilities and, where appropriate, encourage recipient countries to seek assistance from these sources.
4. The Importance of No-Year Funds. An essential requirement for the most effective use of the criteria described above is the availability of new obligational authority beyond the end of the fiscal year in which the funds are appropriated. The system of single-year appropriations used for grant funds in past years has placed pressure on aid personnel to obligate funds prior to the end of

the fiscal year or face the loss of the funds, with future funding in the subsequent fiscal year being uncertain. Furthermore, since funds are usually not made available for obligation in the field before October or November, the four or five month hiatus in the availability of new funds makes obligation of prior year funds to cover this period both necessary and prudent. The availability of no-year funds would substantially lessen the variety of pressures which arise at the end of a fiscal year to accept lower standards than otherwise would be the case.

Equally important, the availability of no-year funds will help to minimize the troublesome problem of past years with respect to annual country aid levels. The amount a country received in prior years frequently was considered to be an indication of requirements in the current year and the prior pattern of funding encouraged many countries to argue that an increase or decrease in aid was an indication of U. S. favor or disfavor. Availability of no-year funding would reduce the significance of the aid level in any particular year and should assist, therefore, in securing more effective use of funds.

5. The Requirements for FY 1962. The FY 1962 Development Grant authorization and appropriation request is for \$389 million (including \$9 million of unused authority from FY 1961), to be used for the purposes and under the methods and criteria described in the preceding sections.

- a. Continuing Costs. Approximately \$259 million of the \$389 million will be required to cover the continuing costs in FY 1962 of projects which have been initiated or committed in FY 1961 or prior years. These requirements result from the fact that many of the technical assistance or other types of projects which are now included under Development Grants were not fully funded at the outset. For example, a joint malaria eradication program in a country may require six years to implement. Full obligation of all the U. S. contribution to the project at the outset would mean that the greater part of the funds would remain idle for many years. Accordingly, the requirements for shorter periods have been funded out of each annual appropriation. In addition, certain types of costs cannot be obligated at the time a project agreement is signed. Where a project agreement calls

for the provision of U. S. Government employed technicians over a period of years, funds required for the pay and related costs of these U. S. Government technicians are, in accordance with standard Government practice, appropriated in the year in which the payments are actually made.

The "continuing costs" component is the estimate of minimal requirements in FY 1962 for carrying forward existing projects for which further funding is required. This computation is based on commitments entered into in FY 1961 or prior years and excludes new projects or proposed expansions of existing projects which are not clearly incorporated in presently agreed project plans.

The requirement for continuing costs is stated as an estimate since all existing projects will be reviewed during the coming months for consistency with the criteria set forth above and the new emphases of the program. As a result of this review, some of these projects will be brought to a close, others will be modified and still others expanded. Since these activities involve prior U. S. commitments, and in order to avoid abrupt and wasteful terminations or changes, negotiations with the cooperating countries will be required. In addition, the early return of technicians, while it may result in some salary saving during the fiscal year, may actually increase technician costs during FY 1962 since the expense of returning a technician and his family to the U. S. frequently exceeds the salary saved.

The estimate of continuing costs of existing activities for FY 1962 by geographic regions is as follows:

	<u>(Millions of Dollars)</u>
Africa	71.35
Far East	60.00
Near East and South Asia	73.31
Latin America	17.30
Europe	3.84
Inter-Regional Programs	<u>33.20</u>
Total World-wide	259.00

For all regions except Africa, continuing costs are either significantly reduced or held to about the FY 1961 level of costs. The projection for Africa is

higher than the amount for FY 1961 because a high proportion of projects in Tropical Africa were initiated in FY 1961, and the first year costs of a project involving substantial technical assistance generally tend to be significantly lower than in subsequent years.

- b. New Programs and Projects. Of the \$389 million program for Development Grants, approximately \$125 million is projected to be available for new programs and projects, after deducting the requirements for continuing costs of present programs and the \$5 million required in connection with the use of non-agricultural excess property. The prospect of these new programs should provide an important incentive to the recipient countries to improve their planning and programming and to take other self-help measures.

Limitations on new programs. In view of the needs of the underdeveloped countries and of long-term U. S. foreign policy requirements, the amount requested might have been set at a higher level. The amount has been limited, however, in recognition of a number of factors. First, FY 1962 will be a transitional year during which all existing programs and projects will be scrutinized in the light of the purposes, priorities and criteria of the new Act. Second, the application of the new criteria frequently will require greater time initially for project development than heretofore. The emphasis on promoting comprehensive development planning and programming, and the insistence on increased self-help will all tend to limit the rate of expansion of the program in FY 1962. Third, the general unfamiliarity of the recipient countries, and to a lesser extent U. S. field personnel, with the new priorities and criteria will delay the identification of some firm requirements. Fourth, changes in magnitude and emphasis require recruitment of additional numbers or new types of personnel, some of whom are in relatively short supply, as well as changes in administrative procedures which take time to effect.

Immediate new requirements. There are many areas, however, where requirements are clearly defined, where criteria can be met, and where implementation ability is unquestioned.

First, assistance in development planning and resources management will be stressed. This includes assistance in establishing the institutions and training the manpower for national development planning; in establishing sources of statistics and information on which planning depends; in surveying the requirements of broad sectors of the economy such as transport, agriculture, communications, industry and power; in undertaking preliminary surveys as to the economic and technical feasibility of projects; in designing the financial mechanisms of the economy in ways that will promote growth without inflation; and in developing administrative practices which will make possible the more effective review and implementation of programs once established. To deny the less-developed countries this assistance could well delay significantly their reaching the point where accelerated development is possible.

Second, the major share of the funds available for new projects over and above those required for planning surveys and related services are likely to be utilized in Tropical Africa. In many of the independent Tropical African countries assistance programs were not initiated until late 1960 and are still in a stage of expansion as needs are identified and implementation capacity is augmented. Additional countries are expected to become independent in FY 1962. The importance of U. S. economic assistance to help the new African countries move in a democratic and economically sound direction has been discussed many times. Development Grant assistance will be the primary instrument for meeting the most urgent requirements of nascent nationhood - public administration, expansion of the educational base, supplementary trained manpower, basic economic facilities, disease eradication, and agricultural improvements. It is essential that we work with leaders in these countries from the very beginning.

Third, in the countries outside Tropical Africa, total amounts available, including continuing costs, will roughly approximate the amount available for comparable purposes in FY 1960 and FY 1961, and therefore will not result in a significant increase in assistance.

While major requirements have been identified, the \$125 million has not been programmed in advance. The general practice will be not to allocate it by country early in the fiscal year; allocations will be made as programs

and projects are developed which meet the criteria for Development Grants. When comprehensive criteria, such as those described above, are applied to assistance requests, firm advance programming of funds becomes not only unnecessary but also undesirable. The specific identification of activities and requirements twelve to eighteen months in advance is unrealistic when applied to less-developed countries in which government policies and budgets are undergoing continual change and modification. Furthermore, as new and improved information becomes available, the projects which seem of highest priority today may be replaced by others which will be developed during the next eighteen months.

It is essential that we retain flexibility to deal with eventualities as they arise if we are to have maximum impact upon the development of the recipient country. Our ability to respond to need when and in the form it arises is also of major importance to the success of our efforts to encourage better long-range planning and greater self-help efforts. If we are responsive to proposals which contribute to or are associated with self-help and effective planning, incentives to further action will be increased.

## 6. Major Types of Requirements

- a. Educational, Technical and Professional Training. The shortage of skilled manpower at all levels probably represents the single most critical bottleneck facing a majority of less-developed countries. Progress in all of the less-developed nations is held back in varying degrees by lack of technical, vocational, professional and managerial personnel, by widespread illiteracy, and by lack of adequate means for the dissemination and absorption of knowledge. These deficiencies must be attacked by expanding and improving basic education, vocational schools and professional training, by adult education through such means as adult literacy courses, in-service training and agricultural extension, and by far-reaching, effective communications media.

Increased education and training unquestionably raises present levels of living by opening up new worlds of thought, social mobility and enjoyment. Bringing

literacy to a peasant farmer is almost the equivalent of bringing sight to a blind man. Education therefore is in increasingly urgent demand by the peoples of the less-developed world as they seek social progress.

Of all the resources required for economic development, creation of skilled and high level manpower requires the longest "lead time." Modern dams, power stations and textile factories can be constructed within a few years if skills and capital are available. However, it takes a minimum of 10 years to develop the managers, the administrators, and the engineers required by the underdeveloped country. In some countries, the numbers of doctors, engineers and professionally trained agriculturists can be counted on the fingers of both hands.

### Examples

East Africa. In the four countries of British East Africa - Kenya, Tanganyika, Uganda and Zanzibar - with a total population of over 22 million, the annual output of senior secondary school graduates is only 1600. This relative handful must provide the recruits to replace departing British civil servants, the students for training as secondary teachers to expand the school system, and the clerks and junior managerial personnel for the business community. Equally important, these secondary school graduates make up the reservoir from which East Africa must draw its people for university and professional training in medicine, engineering, and science. Approximately one out of three children of primary school age are in school; less than one out of a hundred children of secondary school age are in school.

East Africa, although lacking a comprehensive development plan, has obvious priority requirements in education which will be included in any plan subsequently developed. The East Africans themselves are financing a large share of these requirements and the U. K. is also contributing significant financial and technical assistance. However, the problem is of such magnitude and of such urgency that further external assistance on a substantial scale is required

In 1960 the American Council on Education conducted

a survey of the educational requirements of East Africa. This survey culminated in a Conference on Education in East Africa, which, after a searching examination of the needs and priorities, concluded that external aid should concentrate on breaking the educational bottleneck at the secondary and immediate post-secondary levels.

Following this Conference, specific priority requirements for each territory were agreed upon. Among the "continuing" priority projects, begun in 1961 and requiring further support in 1962, are construction of secondary school facilities, assistance in teacher training, construction and partial staffing of a demonstration comprehensive high school for girls, and a project to supply 150 young American secondary school teachers and a team of senior educational experts to help develop new ways to speed up the training of African secondary school teachers. The East Africans are requesting further assistance in 1962 to help meet these and other mutually identified and agreed priority requirements.

Nigeria. If Nigeria, with its 35 million people, is to maintain over the next ten years even the modest rate of growth of the past several years, a rapid expansion and upgrading of its education system is needed. The educational requirements of Nigeria were the subject of an intensive study in 1959 and 1960 by a team of senior educators from the U. S., the U. K., and Nigeria under the leadership of Sir Eric Ashby of Cambridge University. Their study included a detailed examination of Nigeria's requirements for high level manpower if the country is to achieve a 4½ annual increase in per capita income during the decade. Their recommendations included, among others, a doubling of the number of primary school pupils, a quadrupling of the number of students in the secondary schools, a fivefold expansion in the number of university students in Nigerian institutions, and a major program of in-service training to upgrade employed manpower. They estimated that if Nigeria were to have an adequate number of its teachers to service its secondary and higher educational facilities by 1970, it would be necessary for 600 men and women each year for the next five years to be sent to overseas universities for training solely as

teachers, and that roughly 7,000 "imported teacher-years" would be required over the decade to serve in senior Nigerian schools. The Ashby Report was followed by another intensive study on the financial implications of the recommendations, which had been only roughly estimated in the first report.

Both reports were carefully reviewed by the Federal Government of Nigeria which issued a White Paper in early 1961 commenting on the Ashby Report and generally accepting it as the master plan for the educational development of Nigeria over the period 1961-1970. The three Regional Governments, which have the primary responsibility for education in their areas, as well as the Federal Government, have instituted a series of organizational changes and improvements for the purpose of implementing the program and for obtaining and coordinating the required external assistance.

Implementation of the program will require a total capital expenditure for the ten-year period of more than \$200 million and by 1970 the total annual recurring cost of servicing the educational structure will be of the same order of magnitude. These requirements are now being incorporated into an over-all Five-Year Plan due to be initiated in March, 1962. The financial problems facing Nigeria and a measure of its self-help are indicated by the fact that it already has a high rate of internal taxation with more than 20 percent of total receipts currently going to service the educational structure.

The U. S. initiated a significant program of assistance for education and training in Nigeria in FY 1961, but successful implementation of the program will require, to quote the White Paper, "a heavier share of the burden even than at present to be carried by the Nigerian taxpayer, and there will have to be a large increase in aid from outside Nigeria." The U. K. and the private foundations are expected to increase their contributions, but the U. S. will have to be a major partner if the well-developed self-help effort of the Nigerians is to succeed.

Nigeria offers a prime example of a systematic approach toward promoting both economic and educational development. The preparation of the Nigerian

Five-Year Plan will be completed during the course of FY 1962, and will relate the educational development program to the over-all plan for the development of the country. The U. S. should be prepared to contribute substantially to the multilateral financial arrangements that will be needed to launch the program successfully.

Cambodia. This country presents another case where creditable efforts are being made to correct acute educational deficiencies. 20% of its revenues and 4% of its GNP go into education, an unusually high proportion for a poor country. Although there is no long-term, comprehensive plan for development of the educational system, Cambodia has been trying to meet clearly demonstrated requirements, and U. S. assistance has been used in the attempt.

In the decade of the 1950's, emphasis was placed on primary education. With the help of effective U. S. assistance it has been possible to expand the system so that enrollment increased tenfold and today 60% of primary age children are in school. However, secondary school deficiencies have hardly been touched. In a country of 5 million, there are only 17,000 students enrolled and less than 400 graduates in the class of 1961.

At present the greatest needs for additional external assistance are for general and vocational secondary facilities, school books, training facilities to increase the number and improve the quality of primary and secondary teachers, and schools for under-graduate engineers and sub-engineering technicians. Requests under consideration for assistance in FY 1962 for these activities, mostly for professional services, which will alleviate the greatest bottlenecks to a balanced educational pyramid, total approximately \$6 million.

Tunisia. This important North African country also has a comprehensive program for expanding educational opportunities. The over-all economic development plan, in the process of formulation, encompasses plans already existing for particular sectors of the economy which, as it happens, are best articulated in

the fields of education and human resources. At the same time, an effort has been made to identify needs for specific skills in this process of growth through manpower planning, a technique which is being applied through a U. S. technical assistance project in Tunisia.

A major goal is to provide primary school facilities for the entire school age population by 1969 and to expand greatly the secondary school facilities over this period. This will involve extensive school construction, establishment of a system of normal schools for training primary teachers, and expansion of the university system to include a training college to provide teachers for the secondary level. The total capital cost of the program for the eight years, FY 1962-1969, is about \$150 million. The U. S. has been allocating approximately \$2 million annually over the past three years for support of earlier stages of this program, and future aid requirements will be substantially greater because of the heavy demands on Tunisian financial resources generated by the over-all development effort.

A second high priority is vocational and technical training facilities. The government has proposed to establish ten training centers throughout the country over the next two years, for which \$500,000 of U. S. assistance is under consideration in FY 1962.

Third, the Government has a 20-year plan to develop a national university. U. S. assistance is under consideration for the departments of economics, business and law.

Other Countries. In many other underdeveloped nations there are similar urgent requirements for assistance which are accompanied by the intense desires of the governments and their peoples to improve their educational levels. This field is expected to utilize a greater share of Development Grants than any other in view of the obvious priority of these needs in economic and social development, the greater willingness of many governments to exercise self-help in this field than in certain others, and planning already underway or completed in many countries.

- b. Institutional Development. Economic and social change requires not only modern men but also modern institutions. For example, major increases in agricultural and industrial production will be denied until medium term credit facilities are established -- institutions which do not exist at all in many underdeveloped countries or are available only to a small fraction of the population. Major improvements in the housing conditions of the middle and lower income groups will be delayed, as it was in the United States, until savings and loan associations and other mortgage credit facilities are established.

Many of the institutions developed for use in Western Europe and the United States are not suitable for use in underdeveloped countries or require adaptation before they can be effective in the social and cultural context of these countries. An effective health system in the United States or the United Kingdom cannot be transplanted without major change to the less developed countries, if for no other reason than the fact that ours is based on a per capita annual health expenditure of \$125 per year. India, for example, requires a system which will make the best possible contribution to the health of the average Indian for a per capita cost of \$2 to \$3 a year. Similarly, an extensive period of innovation and experimentation also may be required before suitable types of credit facilities for farmers and small entrepreneurs can be developed that will function satisfactorily in an underdeveloped country with its own particular environment.

Since most less developed countries are predominantly agricultural, and since the forces of traditionalism tend to be most resistant to change in the rural areas, it is in the agricultural sectors that the leaders of many less developed societies attempt to initiate the process of modernization. This often takes the form of agricultural extension and community development programs which make available to the peasant cultivator new techniques and new attitudes. By changing tenant-landlord relationships through land reform and land distribution programs, market relationships by the organization of rural cooperatives, and borrower-lender relationships by

providing agricultural credit. These programs make a significant impact upon the traditional institutions of rural societies and stimulate the forces of change and growth.

#### Examples

Agricultural Credit. An example of a Development Grant program for the development of rural institutions is a proposal to develop an agricultural credit system in Uganda. Estimated FY 1962 costs would be \$550,000. Although the amount is small, it would establish an institution which would provide the stimulus for the planting of cash crops by subsistence farmers. When the institution is fully established and operating techniques have been proven, it will contribute to the increased marketing of cash crops and broader services to farmers and will become self-sustaining and eligible for loan financing to meet its future requirements.

Regional Community Development. Another example of an institution building project is a request for up to \$650,000 to be made available for a Regional Community Development Training Center in Tanganyika in FY 1962. The center will eventually have a cooperative relationship to the University of East Africa. The proposed center is not only of regional utility, but is a major element in Tanganyika's three-year plan to expand its small but successful community development program. The proposal calls for a \$300,000 contract with an American university to provide U. S. faculty and advisors to train senior and middle level community development officers, faculty for field centers, and provincial and district officials generally to help in the development of a program suited to the needs of East Africa. The \$350,000 balance would be required to finance construction of an institute building, equipment and initial operating costs.

Trade Unions and Urban Groups. Change in the rural areas is usually accompanied by a process of urbanization and industrialization which significantly affects urban social and economic relationships. Labor unions come into existence as a class of urban workers is formed, and an urban middle class develops as the volume of trade and commerce increases.

The direction of these urban social changes into constructive rather than disruptive channels can be significantly affected by aid programs in the Development Grant category.

Several hundred working trade unionists will be brought to the United States and other countries in 1956, as in past years, for training and observation tours. This provides an opportunity for people who are most exposed and most susceptible to disruptive pressures to learn at first hand about means whereby the trade unions can improve conditions of their members and labor and management can work together more effectively.

Working with local labor ministries and trade unionists, activities in labor education and apprentice training also are being conducted successfully in many countries. In other cases, labor organizations have been assisted in development of self-help housing or other human improvement programs among their membership.

The Industrial Relations Institute of the University of Puerto Rico, operated under ICA contract financing, has become a focal point for training of non-communist trade unionists from all of Latin America. The Institute is also being called on to conduct seminars in other Latin American educational institutions. The Asian Labor Education Center, located at the University of The Philippines, performs a similar service for the Far East and South Asia.

Public Administration. Assistance which increases the effectiveness of government institutions is vitally required. Rapid and orderly economic and social development requires a machinery of government capable of performing a wide variety of difficult tasks such as collecting taxes, establishing a sound fiscal policy, operating a banking system and establishing sound monetary practices.

Development Grant programs will make substantial contributions to the improvement of governmental and private institutions in the less developed countries by providing expert advice, training and other assistance in the development and application of sound

management concepts and the modernization of administrative procedures and practices, including financial planning, taxation and revenue collection, budget formulation and fiscal control, and other activities which contribute to improved public administration.

- c. Development Planning. A crucial institutional development required in a modernizing society is the establishment of an effective programming and budgeting organization capable of deciding how large a total development program the country needs and can afford; weighing the feasibility and importance of proposed government programs and eliminating and choosing among them; evaluating the effect of governmental projects, laws, regulations, and taxes on private economic activities and framing them accordingly; and planning what changes in institutions and practices will accelerate the program and are feasible.

One of the major emphases of the new aid program will be assisting in the establishment and strengthening of planning organizations. A substantial part of this assistance will be provided in the form of grants to finance contracts with American universities or private research organizations. The need for improved development planning is realized more clearly by the underdeveloped countries now than a few years ago. The example of a few countries such as India and Puerto Rico which have successfully applied comprehensive planning processes has now convinced many developing countries of their need to do likewise. The United States is now receiving numerous requests for assistance in this field.

Development Grant assistance to the planning organization of a cooperating government includes assistance in determining priority goals and in interrelating them; assistance in establishing the organization and procedures for the collection of the basic economic, financial, technological and educational information; assistance in surveying requirements of broad sectors of the economy such as agriculture, industry, transport, communications and power; assistance in designing financial mechanisms which will promote growth without inflation; and assistance in the establishment of the administrative practices for effective review and implementation of programs.

### Examples

Afghanistan. Assistance of this type is projected for Afghanistan for initiation in late FY 1961 or early FY 1962. At the request of the Royal Government of Afghanistan, and subject to the findings of a survey team, it is proposed that the United States provide a team of three to five resident contract technicians, plus two short-term consultants, to assist the Ministry of Planning in appraising Afghanistan's future needs for planning and research. This team would help strengthen the Ministry of Planning institutionally by advising on planning techniques and by training Ministry personnel. In addition, five officials of the Ministry of Planning would be sent to the United States each year to study economic development planning methods and procedures.

East Africa. A second illustrative example is assistance to an Institute of Development Programming, located in Uganda but serving all of East Africa. The Institute, as a part of the University of East Africa, is to provide training in development planning, conduct research, exchange information and experience, and provide consultation services upon request to African governments and business concerns. Funds have been requested to finance a contract with an American academic institution for a teaching, research and consulting staff, teaching materials, twenty annual regional scholarships for Africans and three annual foreign study grants for potential African teaching staff. Costs would total approximately \$155,000 per year.

Thailand. The new Thailand six-year plan, and the organization of its planning institution, the National Economic Development Board, need further improvement. Substantial additional help is required beyond that which a single senior American economist has been able to provide over the past several years. A proposal is under consideration for assistance under a contract which would provide for both economists and engineers and for participant training. A U.S. study team will visit Thailand in the spring of 1961 and firm project plans will be developed during and after the team's visit.

Liberia. In Liberia the United States is assisting the planning process through two related projects totaling \$400,000 in FY 1962. One provides advice in the establishment of a top-level policy body for economic planning and assistance in budgeting, both government-wide and within individual departments. This project also assists Liberia in overall improvement of governmental organization and administration. The second project aims at strengthening the existing Liberian Bureau of Economic Research, which has responsibility for collection and analysis of data necessary to the development planning function.

Tunisia. In January 1961 the Government of Tunisia established an organization to prepare and implement a long-range development plan. The Ministry of Plan and Finance, under the leadership of a forceful and dedicated young Tunisian, has partially staffed a planning office and prepared preliminary three and ten-year overall programs. A U.S. survey team is to visit Tunisia in the late summer to review Tunisia's progress in its planning effort and to discuss future requirements in the light of these plans. The Government of Tunisia has expressed interest in working out arrangements for additional U.S. assistance in the planning process with the survey team.

- d. Resource Surveys and Feasibility Studies. The dearth of basic information concerning human and material resources is one of the greatest obstacles to realistic development planning in most of the less developed countries. Only a few countries have made population censuses or have adequate information concerning their land, mineral, water, forestry or human resources; yet the availability of such information is a prerequisite to intelligent development planning. Even when basic resource information is available, there is often a lack of knowledge concerning the feasibility of specific projects which are included in the development plan. Yet, without such feasibility surveys, it is difficult if not impossible to make rational decisions concerning the allocation of resources and investment risks. The need is particularly acute in those instances in which external development assistance is sought.

### Examples

Collection and Analysis of Basic Data. The United States, under an existing commitment, will provide technical assistance to the Government of Tunisia in FY 1962 to carry out a comprehensive survey of manpower resources and requirements in the 300 largest enterprises in the country.

Surveys of Major Natural Resources. A project is under way in Pakistan to investigate the mineral resources of Pakistan and prepare mineralogical maps for further intensive prospecting and development. The United States has been requested to provide a team of seventeen geologists with supporting supplies, at a cost of \$450,000 in FY 1962, to participate in exploratory work and to train Pakistan geologists.

Surveys of a Large Geographical Area. Since 1956, the United States Government has been conducting a multi-purpose project to assist the Ethiopian Government to determine the economic potential of the land, water and other resources of the Blue Nile River Basin. The project provides for aerial photography and mapping geodetic control, and reconnaissance of the hydrology, geology, and economic development potentials of the Basin. In FY 1962, it would involve a team of 47 technicians and the obligation of \$1,500,000 of Development Grant funds.

Project Feasibility Surveys. Tunisia has requested the United States to finance a study by an American engineering consulting firm regarding the economic and technical feasibility of a nitrogen fertilizer plant. If the requests were acted upon, the FY 1962 cost of this survey would be \$85,000.

- e. Internal Reform and Social Development, Including Control and Eradication of Major Diseases. The pre-conditions for economic growth include not only the human and institutional capacities of the society but also the motivations and incentives which operate within the society. If the ordinary individual does not share equitably in the fruits of growth, he will make no willing contribution to it. Furthermore,

lacking a stake in the process of evolutionary change, he may be attracted to more violent methods of change. Cuba is a striking example of a country where there was a significant annual growth rate in GNP, but where there was also a growing disparity between the rich and the poor and a widespread lack of social justice.

### Examples

Land Reform and Rural Development. Since most developing nations are predominantly agricultural and social injustice is most apparent in rural areas, demands for reform often focus upon land reform and associated rural development programs. These programs are designed to bring about a more equitable distribution of income through providing land to small owners and operators; reducing the exorbitant rents paid by tenant cultivators and protecting them from arbitrary dispossession; increasing the wages and improving the living and working conditions of farm laborers; and assisting small landowners to secure credit on reasonable terms, advice concerning farm management and practices, and assistance in marketing their crops. Comprehensive rural development programs also include measures to upgrade educational and health standards and improve community facilities, such as village water supply and sanitation.

Improvement of Living Conditions. Rapid urbanization in the developing nations has resulted, in many cases, in a deterioration of living standards and the growth of slum areas in the cities. Large numbers of workers crowd into inadequate housing, overtax municipal water and sanitary facilities, and compete for the relatively few jobs which are available in urban industries. These workers often represent one of the most volatile and dissatisfied elements in the political and social structure of the underdeveloped countries. Development Grant activities can make a contribution to social improvement by encouraging and assisting the governments of these countries to pass labor legislation which protects the worker from exploitation and improves his living and working conditions; to plan and construct low-cost housing and other necessary community facilities; and to improve social services in the field of health, child welfare and relief.

Disease Eradication. Perhaps the outstanding single social development need in many of the developing countries is the control or eradication of major endemic diseases and the general raising of health standards. Such programs have an understandably great psychological impact on the individual through improving his well being. In addition, they increase the effectiveness of the labor force, and they may also open up large land areas to productive use for the first time.

An outstanding example of such a campaign is the worldwide malaria eradication campaign initiated by the WHO in 1955, and supported by the United States since its initiation. Hundreds of millions of people have benefited from the campaign and geographic areas larger than many of the states of the United States have been opened up to cultivation for the first time as malaria has been brought under control.

Malaria eradication must be carried out with 100% coverage of dwellings during the whole multi-year attack phase, or eradication will fail. A program short of total spraying, or with interruptions, not only fails to interrupt the life cycle of the malaria parasite, but also risks the development of immunity on the part of the mosquitoes toward the insecticide.

All U.S. assistance to malaria eradication is coordinated with WHO and UNICEF programs. The United States for several years has made grant contributions to the special malaria eradication accounts of WHO and its regional arm in Latin America, the Pan American Health Organization. Our contributions to these organizations for malaria eradication proposed for FY 1962 financing are respectively \$2.5 million and \$2 million with the contribution to PAHO being funded from the Inter-American Program for Social Progress.

Currently twenty-four eradication programs are receiving U.S. bilateral assistance. On the average the host governments are financing about 60% of total costs -- primarily local costs. For U.S. support to these programs in FY 1962, \$22.6 million is required in Development Grant assistance and \$5.9 million is required for the Latin American programs from the Inter-American Program for Social Progress.

Since malaria eradication is really an indivisible process that can regress when it does not progress toward coverage of all countries in the world, support has been requested by foreign governments under the FY 1962 program to permit the start of eradication efforts in additional countries such as Pakistan and the United Arab Republic.

Smallpox and yaws are examples of major diseases in Tropical Africa which could be brought under control. On the basis of successful experience on a pilot scale, it appears that both of these serious diseases could cease to be a problem during the decade for a combined total cost of less than \$50 million.

- f. Assistance in the Improvement of Basic Economic Facilities. Economic and social growth in many of the less developed countries is being held back by the lack of basic transport, communication, water, power and other physical facilities of this type. Crops cannot be moved to markets because of lack of roads; mineral deposits and forest resources cannot be developed because of the absence of inland transportation and port facilities; effective administration of governmental and economic affairs suffers from the inadequacy of communication facilities; sanitary and health standards in the cities are low due to lack of water.

The construction of roads, dams, power stations and the like is costly, requiring substantial amounts of foreign exchange for machinery and materials which must be imported. Furthermore, these facilities, when completed, usually are not directed to immediate revenue production. The financing of these important projects, therefore, presents a difficult problem for the less developed countries. This is particularly true in countries with extremely primitive economies which have no capacity in the foreseeable future to service loans repayable in foreign exchange even on a long-term basis. On the other hand, there is no prospect of their ever becoming self-sustaining without adequate basic facilities. It is for this reason that Development Grants will be provided to that relatively limited number of extremely underdeveloped nations which are not capable of servicing foreign loans to finance the cost of these projects.

In Jordan, for example, Development Grants are needed for two basic facilities -- roads and irrigation. Approximately \$2.5 million will be required in FY 1962 to complete the second portion of the East Ghor irrigation project, as well as to initiate the third and final phase. This project will bring water to some 30,000 acres which can be cultivated intensively. Legislation has been passed to provide for distribution of land and to prevent windfall profits for the owners of formerly arid land.

Additionally, some \$700,000 is required in FY 1962 for grants to establish highway maintenance stations on the road system which has been constructed and improved by ICA programs which have cost approximately \$1.3 million since 1953.

- g. Inter-Regional Expenses. The Inter-Regional Program, now financed from Technical Cooperation funds, provides support on a worldwide basis for program, as distinguished from administrative, activities of the assistance agency. It covers expenses mainly in the United States, which it would be impracticable, from an accounting or other standpoint, to fund on a country or regional basis. Activities fall generally into five broad categories: Participant Support, Technical Consultation and Support, Overseas Personnel Program, Program Support (Department of State) and USRO Staff. The first two are carried out by ICA Washington personnel or the staffs of the participating agencies, or through special contractual or other arrangements. The Overseas Personnel Program is concerned principally with training designed to improve the performance of overseas technicians. Program Support pays for the medical, communications, custodial, fiscal and other services supplied to ICA program personnel by the Department of State. The USRO (United States Representative to Regional Organizations) Staff deals with matters concerning OECD (Organization for Economic Cooperation and Development). Two principal changes are proposed in FY 1962: (a) Development Research is to become a separate authorization and appropriation title; and (b) worldwide support services for the Malaria Eradication and the Community Water Supply Programs, exclusive of contributions to multilateral agencies, will be incorporated into the Inter-Regional Program. In FY 1962, a total of \$24.4 million will be required for continuing costs.

7. Use of Non-Agricultural Excess Property. U.S. Government-owned property, of types appropriate for civil use, has been declared excess each year in amounts averaging \$2 billion on the basis of original acquisition cost. Substantially all of this excess property, which is generated by the Department of Defense, is suitable for use by civilian agencies if in satisfactory condition. This annual average is expected to increase considerably over the next five years. The categories of greatest potential value to the foreign aid program include tractors, construction and road-building equipment, engines, machinery and machine tools, motor vehicles, small craft and marine equipment, and general purpose machine tools which have been assembled for issue as an integrated "package."

Under existing legislation, this excess property is available for use in the aid program without reimbursement to the federal agency declaring it excess. In prior years only a small fraction of this potential asset has been utilized. Acquisitions have increased in the past year, but during the period FY 1958-1960 the average of acquisition was only \$22 million annually.

One of the major obstacles to greater utilization has been the problem of matching availabilities with requirements during the short time period allowed under the disposal procedures. Lists of excess items are circulated by the General Services Administration regional offices to interested government agencies which have a maximum of 45 days, and frequently less, in which to submit a claim. At the end of the circularization period, unclaimed items are available for disposal through other channels or for sale to private bidders. It has been administratively difficult to circulate the lists to the field, match the availabilities against known requirements, and submit the claims back to the United States within the limited time. The problem is compounded by the difficulty of accurate identification from the nomenclature provided on the lists, particularly for personnel who are unfamiliar with the terminology and who are located in four parts of the world, and by the understandable reluctance to take a chance on items in a questionable state of repair which might result in seriously delaying the implementation of a project.

It is therefore proposed to establish centralized acquisition and marshalling units on the East Coast and West Coast which would be authorized to accept title to excess items which, in the aid agency's judgment and on the

basis of policies, procedures, and criteria established to govern activities in connection with the excess program, are suitable for assistance purposes, in advance of identification of firm requirements from the overseas missions and foreign governments. Five million dollars is requested in FY 1962 for funds to pay for packing, handling, inland transportation, renovation or rehabilitation and other related costs of property for which an aid program use is anticipated. This amount would be used to establish a revolving fund, to be replenished, in general, from country program funds as requirements are identified and deliveries made from marshalling points.

Although only a relatively small amount of aid funds is requested for this program, its importance lies in the fact that we shall be using property which is in excess of the needs of the federal government to help achieve our economic assistance objectives, without substantial expense to the American taxpayer.

8. Aid to American Sponsored Schools Abroad. American sponsored schools abroad have long made an effective contribution to the educational base in foreign countries and to the training of future leaders. They have also contributed to a better understanding of the United States.

American sponsored elementary, secondary and higher educational institutions in twenty-seven countries have received aid and assistance under the Mutual Security Act of 1954, as amended, under the Smith-Mundt Act (PL 402, 80th Congress), and under the Agricultural Trade Development and Assistance Act (PL 480).

For FY 1962, \$4 million is proposed to provide funds for construction and equipment for American sponsored higher educational institutions abroad. Priority is given to those schools which are most likely to make a direct and immediate contribution to economic development, such as the American University of Beirut, including its medical school, and its affiliate secondary school, the International College.

9. Overseas Freight - Voluntary Relief Supplies. The Overseas Freight Program, by subsidizing the movement overseas of supplies donated to American voluntary agencies, fa-

cilitates and encourages people-to-people gifts from private Americans to needy persons abroad. These agencies, which are operating in some seventy countries, obtain their major support from donations of cash and goods obtained in-kind from the American people.

Before expending funds appropriated for this purpose, firm assurances are obtained that the goods will be accorded duty-free entry and the costs of inland transportation from ports of entry to ultimate points of distribution will be borne by the host governments or other non-U.S. Government sources. The American agencies for their part bear the cost of solicitation, processing, warehousing, packaging for export, and transportation to United States ports, plus the salaries and other administrative costs in maintaining field representatives in the countries of reception to supervise distribution. The \$2.8 million requested to continue this support in FY 1962 for the first time includes shipments for Korea.

10. Atoms for Peace. The Atoms for Peace Program contributes to the development of programs in the peaceful use of atomic energy in less developed countries. Through the program the United States has demonstrated our policy of sharing the benefits possible from the peaceful use of atomic energy. Assistance has principally taken the form of grants for atomic reactors, with smaller amounts for equipment and consultant services. A total of twenty-three reactors have been approved through FY 1961 of which eight are presently in operation. The U.S. offer to provide atomic reactors expired on June 30, 1960, and the funds requested for continuing operations in FY 1962 are principally to meet commitments made prior to June 30, 1960.

New activities for FY 1962 consist of plans for the use of consultants in new areas and the provision of laboratory, field, and teaching equipment, such as radioisotopes, subcritical assemblies, and Cobalt 60 irradiators. These items are needed to improve training in basic and applied nuclear science and technology, enlarge nuclear therapy and research facilities in hospitals and medical centers, and encourage the agricultural applications of nuclear energy.

Total program requirements for FY 1962 are \$2.0 million.

DEVELOPMENT GRANTS

FY 1962 Continuing Costs by Area, Country and Activity Field

(In thousands of dollars)

	Total	Educa- tion	Agriculture, Forestry and Fisheries	Health and Sanita- tion	Community Develop., Soc. Welfare & Housing	Industry and Mining	Labor	Public Adminis- tration	Transpor- tation	General and Miscel- laneous
<b>WORLD-WIDE TOTAL</b>	<b>225,800</b>	<b>58,147</b>	<b>31,860</b>	<b>34,855</b>	<b>1,416</b>	<b>25,648</b>	<b>2,242</b>	<b>16,393</b>	<b>14,409</b>	<b>40,830</b>
<b>FAR EAST</b>	<b>60,000</b>	<b>9,150</b>	<b>7,180</b>	<b>16,330</b>	<b>530</b>	<b>7,115</b>	<b>335</b>	<b>6,280</b>	<b>2,375</b>	<b>10,705</b>
Burma	1,500	1,000								500
Cambodia	6,100	970	1,735	680		115		460	165	1,975
China	3,520	920	690	780		285		175	60	610
Indonesia	17,280	1,430	765	10,695		675	205	1,575	1,030	905
Korea	6,500	355	700	215	210	1,380		1,270	295	2,075
Philippines	3,200	1,355	370	400	155	220	60	250		390
Thailand	4,800	445	820	1,170	145	730		600	300	590
Vietnam	16,400	2,675	2,055	2,390	20	3,710	20	1,950	525	3,055
Other	700		45				50			605
<b>NEAR EAST &amp; SOUTH ASIA</b>	<b>73,310</b>	<b>16,413</b>	<b>11,917</b>	<b>13,719</b>	<b>524</b>	<b>8,491</b>	<b>1,257</b>	<b>3,755</b>	<b>6,305</b>	<b>10,929</b>
Cyprus	350						100	250		
Greece	350	59	22			56		69	105	39
Iran	3,810	410	530	680	190	200	130	465	145	1,060
Iraq	1,090	415	100	200	50	50		100	50	125
Israel	470		172			91			48	159
Jordan	7,270	745	3,446	337		780		116	732	1,114
Lebanon	500					84		48	208	160
Turkey	4,800	1,335	835			605	250	630	290	855
U.A.R.	2,280	315	347	233		50		50	865	420
Afghanistan	9,800	4,450	1,070	25		290		445	1,120	2,400
India	17,060	2,368	2,986	8,385		1,202	541	45		1,533
Pakistan	7,500	2,018	450	452		1,200	135	1,388	334	1,523
Nepal	12,630	1,535	724	3,122	284	3,802		117	2,178	868
Ceylon	1,710	98	695	285		81	61	32	205	253
Regional Projects	3,690	2,665	540				40		25	420

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DEVELOPMENT GRANTS

FY 1962 Continuing Costs by Area, Country and Activity Field

(In thousands of dollars)

	Total	Educa- tion	Agriculture, Forestry and Fisheries	Health and Sanita- tion	Community Develop., Soc. Welfare & Housing	Industry and Mining	Labor	Public Adminis- tration	Transpor- tation	General and Miscel- laneous
<b>AFRICA</b>	<b>71,350</b>	<b>32,422</b>	<b>12,058</b>	<b>4,570</b>	<b>362</b>	<b>5,538</b>	<b>650</b>	<b>4,211</b>	<b>2,964</b>	<b>8,575</b>
Regional Projects	4,500	4,075				125	250			50
Cameroon								400		120
Congo (Leopoldville)	1,500	980								130
Dahomey	130									
Ivory Coast	350	150								200
Niger	100									100
Upper Volta	120									120
Ethiopia	9,210	2,612	2,230	1,336	61	1,776			348	847
Ghana	2,190	612		1,112		86	30			350
Liberia	10,650	5,759	882	1,669		170		847	552	771
Libya	2,500	507	622	222	79	140		246		684
Morocco	1,340	141	295			233	73	100	5	493
Nigeria	14,200	7,648	2,181			2,450	6	379	8	1,528
Kenya	1,380	72	45		38		17	1,083		125
Tanganyika	1,810	446	1,300		12		4	25		23
Uganda	1,260	1,200	16				4	6		34
Fed. of Rhodesia & Nyasaland	360	80	90		90					100
Senegal	50									50
Sierra Leone	900	250	70	80	25		10	250	75	140
Somali Republic	4,400	510	1,855		40	90		450	975	480
Sudan	8,100	4,346	1,507	151		143			961	992
Togo	500									500
Tunisia	5,500	2,734	965		17	325	256	425	40	738
Equatorial States										
Congo (Brazzaville)										
Chad										
Gabon										
Guinea	300	300								
Malagasy										
Mali										
Mauritania										
Ruanda-Urundi										
<b>EUROPE</b>	<b>3,840</b>	<b>162</b>	<b>705</b>	<b>236</b>		<b>1,390</b>		<b>647</b>	<b>272</b>	<b>428</b>
Spain										
Yugoslavia	3,840	162	705	236		1,390		647	272	428

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Country:

DEVELOPMENT GRANTS

FY 1962 Continuing Costs by Area, Country and Activity Field

(In thousands of dollars)

	Total	Educa- tion	Agriculture, Forestry and Fis'eries	Health and Sanita- tion	Community Develop., Soc.Welfare & Housing	Industry and Mining	Labor	Public Adminis- tration	Transpor- tation	General and Miscel- laneous
<b>LATIN AMERICA</b>	17,300					3,114		1,500	2,493	10,193
Argentina	460					64			179	217
Bolivia	860					170		85	325	280
Brazil	2,850					700		900	300	950
Chile	1,220					382			366	472
Colombia	310					65		40	98	107
Costa Rica	200					102		1	18	79
Ecuador	630					220		130	70	210
El Salvador	250					85		94		71
Guatemala	320					144		55		121
Haiti	290									290
Honduras	680					58		85	440	97
Mexico	560					440			15	105
Nicaragua	160					75			35	50
Panama	350					173		60	37	80
Paraguay	460					100			120	240
Peru	390					92		50	69	179
Uruguay	10									10
Venezuela	70									70
British Guiana	150					22			54	74
British Honduras	50					20				30
Surinam	100					15				85
W. Indies and East Caribbean	3,100					187			167	2,746
Regional	3,830								200	3,630

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### III. THE TOOLS FOR ACTION (continued)

#### D. Supporting Assistance

1. Introduction. This category of U.S. economic aid is provided primarily to promote urgent U.S. national security and foreign policy objectives in selected countries. Supporting Assistance, to be provided largely on a grant basis, is proposed in those situations where development lending in adequate amounts would be inappropriate and where other forms of aid are insufficient to achieve our total objectives. As countries prepare and begin the execution of sound programs for economic growth, their programs will be assisted through development lending, and Supporting Assistance will be reduced or terminated. To provide Supporting Assistance to 21 countries, \$610 million of obligational authority is requested for FY 1962, including \$581 million of new authority and \$29 million of unused authority from the current year.

2. Objectives. Programs of Supporting Assistance are designed to serve the following objectives:

To enable countries to continue to make specific contributions to the common defense by maintaining military forces that can defend against external aggression, contribute to the defense of a region, or maintain adequate internal security.

To maintain access to U.S. bases and to assist the local government in dealing with economic or other problems arising out of the existence of such bases.

To maintain economic stability in countries whose pressing economic needs surpass their productive capabilities.

To provide an alternative to Sino-Soviet bloc aid where such aid threatens a country's independence.

The following discussion deals with each of these objectives in detail:

a. Assistance for the Common Defense. About two-thirds of the proposed program of \$610 million for supporting assistance is programmed for eight countries on the immediate periphery of the Sino-Soviet empire. In the light of renewed Communist interference in Laos and the possibility of Communist probes elsewhere, it is important that these countries continue to

maintain adequate military forces. These eight nations contribute to the Free World defense posture by:

- (1) Supporting forces capable of deterring external aggression.
- (2) Maintaining internal security and opposing insurrection and subversion by Communist bands.
- (3) Granting U.S. rights to use of bases of strategic importance and contributing to the local defense of such bases.
- (4) Contributing to organizations for collective security. Turkey and Greece are members of NATO; Turkey, Iran and Pakistan of CENTO; Pakistan and Thailand, of SEATO. Furthermore, the United States has signed a mutual defense treaty with Korea. The effectiveness of these security organizations requires adequate combined forces in the member states.

**Under the new approach, increased emphasis will be placed on working with these countries to achieve economic growth.** As their levels of economic activity rise, they should be able increasingly to finance the local costs of their defense budgets out of domestic revenues plus the local currency proceeds of our agricultural surplus programs. These countries will, therefore, be assisted with Development Loans as they demonstrate their capacity to use such loans to accelerate long-term development.

In varying degrees, the less developed countries with substantial military forces are pursuing economic policies which lead to increased production, a higher level of economic activity, and rising standards of living. This improvement is not, however, taking place at an equal pace in all such countries.

**Several of these countries which have received supporting grants in the past appear to have made sufficient progress to dispense with them completely beginning with FY 1962.** They will, however, receive Development Grants and agricultural commodities. Their further development will be fostered through loans. The total amount of resources thus provided should be at least equivalent to current levels of U.S. assistance.

However, less than a dozen countries remain which can make a contribution to the common defense but which cannot be expected to maintain acceptable economic levels, at least through FY 1962, and in some cases for a longer period, without continued grant aid. Their economies are beset by two interrelated problems - shortages of foreign exchange and budgetary deficits. With substantial portions of their manpower in the armed forces and with economies dependent on exports of raw materials for foreign exchange earnings, they are unable to pay with their own resources for the imported machinery and materials and consumer goods required to keep their economies functioning at acceptable levels. Large military forces produce substantial drains on the budgetary resources of these countries. When added to the needs for governmental outlays for education, health and public investment, the resulting requirements are beyond their financial capabilities.

The major part of their Supporting Assistance in FY 1962 will be programmed to finance the flow of essential imports. The local currency generated by the sales of these imports will in turn be used to meet budgetary needs. In some cases, the currency will be used for support of military budgets and military construction while in others they will be employed to finance development projects.

A few countries may be able to dispense completely with further Supporting Assistance after FY 1962. Their transition to exclusive reliance for further development on Food-for-Peace and development lending from both the United States and other Free World sources, will be financed through terminal grants of Supporting Assistance in FY 1962.

The remaining countries in this grouping will probably continue to require some Supporting Assistance beyond FY 1962. In one case only does it now seem reasonable to anticipate the introduction of a long-range development program that would permit the elimination of Supporting Assistance. In the other cases it should be possible to reduce Supporting Assistance progressively and encourage its use increasingly for development purposes.

b. Maintaining Access to U.S. Bases. In certain countries, U.S. air and naval forces presently are utilizing bases considered highly important, now and at least for the next several years, for our defense. The existence of such bases in these countries expose them to possible Soviet retaliation. In some cases, they profess to be neutral in the cold-war conflict and therefore feel entitled to special compensation for the risks brought about by the presence of U.S. bases.

To provide U.S. forces continued access to these bases, it has been necessary for the United States either to make specific commitments of assistance as part of the base-rights agreement or otherwise to make clear that assistance will be forthcoming.

The countries in this category, all of which are less developed countries, require a total of about \$60 million of Supporting Assistance for FY 1962 (approximately 10% of the total request).

Other forms of U.S. assistance, particularly sales of surplus agricultural commodities under the Food for Peace Program and Development Loans, are available to these countries to the extent they are able to meet the criteria for such assistance.

c. Maintaining Economic Stability. Supporting Assistance programs totalling \$82.5 million (14% of the total estimate) are proposed for five countries to help maintain their economic life with some semblance of order. Four of them would be faced with the distinct possibility of economic disintegration if such aid were not available. Their difficulties stem from recent ruptures of external political and financial relations, internal instability coupled in some instances with administrative incompetence and mal-administration, and adverse trends in world markets. For each of these states, the only likely alternative to continued U.S. support is increased unrest and political chaos, affecting not only the inhabitants of the state concerned, but the peace and stability of the states surrounding them.

Since the primary problem of these countries is the maintenance of minimum levels of economic activity and of essential government services, Supporting Assistance will be utilized largely to finance imports for consumption and for budget support.

Supporting Assistance for these countries is essentially a matter of dealing with critical situations and using the time thus gained to stimulate a serious address to basic problems. One of these countries should be ready for assistance exclusively through a development lending program by the end of FY 1962.

d. Alternative to Complete Dependence on the Sino-Soviet Bloc.

In another group of countries, the primary U.S. objective is to prevent the absorption of weak nations into the Communist bloc through growing economic dependence. Some \$68 million is needed for these countries for FY 1962.

The governments of certain of these countries have been attempting to pursue neutral or independent policies, eschewing close political association with either of the great power blocs. They aspire to

higher standards of living, but they have not yet undertaken sustained efforts to modernize their economic life at this time. They are receiving aid on attractive terms from the Soviet Union and Communist China. They have been offered advantageous trade agreements as well as substantial financing for projects such as roads, factories, and other highly visible enterprises. Acceptance of such offers leads to the introduction of Soviet technicians, widening contacts with the Sino-Soviet bloc, dependence on the bloc for foreign markets and ultimately, perhaps, to complete dependence.

The United States is not attempting to outbid the Communist offers. We are attempting, however, to provide aid for useful projects to which the countries are particularly attached. Our object is to demonstrate our interest in making a constructive contribution to their progress and to provide an alternative to exclusive reliance on Sino-Soviet aid. We should be prepared to help these countries develop sound long range programs for their economic and social growth and to offer substantial development loans for programs that we can reasonably expect to be successfully implemented.

### III. TOOLS FOR ACTION (Continued)

#### 3. Contingency Fund

1. General Purposes: This is a special fund designed to meet urgent requirements which can be expected to arise during the course of the fiscal year but which cannot be provided for in other aid categories because the nature or the magnitude of the needs cannot be predicted. The amount requested is \$500 million.

The most likely requirement for use of the Contingency Fund will be to provide additional aid to countries receiving Supporting Assistance. The level of Supporting Assistance has been held to an absolute minimum, for the purpose of persuading the countries receiving such assistance to prepare long-term development programs, to undertake necessary measures of self-help, and thus to qualify themselves to receive Development Loans. As a result these countries have been left with no margin to meet unexpected conditions which might arise during the fiscal year, whether of a natural, political or economic character. Most of them have limited foreign exchange resources and little or no capacity to finance increased budgetary requirements or increased imports.

The needs of these countries, or of other countries for which Supporting Assistance does not now seem required, may increase beyond our present calculations as the result of events beyond their control or ours. Military budgets may have to be expanded to meet threats of internal subversion or external aggression. Assistance which is anticipated from other governments or from international agencies may not be forthcoming. Exports may fall below expectations because of price declines. Internal political crises may interfere with tax collections or necessitate large governmental expenditures. Natural disasters may take unbearable tolls.

In brief, Contingency Funds will be needed to meet requirements which are either completely unforeseen or which are identified but without enough precision to warrant inclusion in one of the other categories.

#### 3821 VAVIVBTE DOCUMENT

2. Use of Contingency Fund in FY 1961. The original authorization bill for the Mutual Security Program for FY 1961 made provision for a Contingency Fund of \$150 million. However, as a result of the development of the Congo crisis, the heightening of unrest in Latin America, and the occurrence of a disastrous earthquake in Chile, Congress voted in mid-1960 to increase the Contingency Fund to \$250 million. Thereafter the Fund was further increased when the President decided to transfer to the Fund \$50 million of military assistance funds to meet any new contingencies. It is clear that the entire amount of the Fund will be exhausted by the end of the current fiscal year either for non-military or military assistance requirements.

In addition to being used in the Congo, Contingency Funds for FY 1961 were used for grants to fifteen newly independent African States where it was considered essential to inaugurate U.S. aid programs as soon as possible after independence. They were used to provide extraordinary assistance to Turkey and Korea where new governments wished to introduce economic reforms and stabilization programs. Other uses of these funds were to meet a portion of the costs of an international consortium which was organized to support a reform along liberal lines of the Yugoslav foreign exchange and trading system; to make an initial contribution in support of the Indus Basin Development Plan; to contribute to a multilateral effort to help Bolivia break out of a period of economic stagnation; and to finance an increase in our contribution to the United Nations Technical Assistance Program and Special Fund required as a result of increases in pledges by other governments. Particularly acute economic crises in Guatemala, Haiti, Honduras and Panama all led to unanticipated claims for U.S. assistance of a high order of urgency. A series of natural disasters ranging from the earthquake in Chile to floods in the Philippines and typhoons in East Pakistan called for extraordinary assistance to help meet the cost of relief and rehabilitation. A complete list of the programs authorized for funding from the Contingency Fund as of April 30, 1961 is shown in the accompanying table.

ALLOCATION OF THE CONTINGENCY FUND FOR FY 1961  
As of April 30, 1961  
(In Thousands of Dollars)

AFRICA

Cameroun	SA	2,000
Central African Fed.	SA	500
Gongo (Leopoldville)	SA	46,838
East Africa	SA	780
Entente States	SA	7,700
Ethiopia	SA	1,200
Ghana	SA	600
Guinea	TC	210
Liberia	TC	550
Libya	SA	21
Malagasy	SA	550
Mali	SA	2,475
Mauritania	SA	50
Morocco	TC	49
Nigeria	SA	3,042
Northern Rhodesia	SA	300
Senegal	SA	3,658
Sierra Leone	SA	252
Somalia	SA	550
Sudan	SA	500
Sudan	TC	284
Togo	SA	916
Tunisia	SA	5,000
Regional Technical Support	SA	165
Glassified Project	SA	<u>3,355</u>
<b>TOTAL</b>		<b>81,547</b>

NEAR EAST AND SOUTH ASIA

Cyprus	TC	75
Iraq	TC	400
Jordan	SA	5,000
Pakistan	DS	427
Pakistan	TC	400
Turkey	DS	22,900
UAR	TC	97

NEAR EAST AND SOUTH ASIA (Continued)

Yemen	SA	2,000
Indus Basin	SA	6,807
Regional	SA	15
Regional	TC	<u>150</u>
<b>TOTAL</b>		<b>38,271</b>

FAR EAST

Korea	DS	20,000
Philippines	DS	73
Classified projects	DS	<u>3,000</u>
<b>TOTAL</b>		<b>23,073</b>

LATIN AMERICA

Brazil	TC	490
Bolivia	SA	10,000
British Guinea	TC	300
Chile	SA	20,000
Colombia	SA	500
Colombia	TC	90
Costa Rica	TC	140
Ecuador	SA	295
Ecuador	TC	25
Guatemala	SA	10,025
Guatemala	TC	200
Haiti	SA	5,970
Honduras	SA	3,500
Panama	SA	6,000
Venezuela	TC	90
West Indies Fed.	SA	2,500
Central American Bank	SA	<u>2,000</u>
<b>TOTAL</b>		<b>62,125</b>

**BEST AVAILABLE DOCUMENT**

ALLOCATION OF THE CONTINGENCY FUND FOR FY 1961  
As of April 30, 1961  
(In Thousands of Dollars)

EUROPE

Iceland	SA	6,000
Yugoslavia	SA	25,000
NATO Science Program	SA	<u>128</u>
TOTAL		31,128

NON-REGIONAL

Aid to American Schools Abroad	SA	2,500
Cuban Refugees	OP	5,000
Disaster Relief (world-wide)	SA	180
Freight Differentials	DS	1,050
	SA	1,150
Ocean Freight, Volun- tary Relief Agencies	OP	250
Project Hope	SA	1,000
Peace Corps	SA	5,000
UNTA & Special Fund	TC	3,450
Other Programs	SA	<u>25,000</u>
TOTAL		44,580

TOTAL, ALL PROGRAMS		<u>280,722</u>
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3. Possible Requirements in FY 1962. The coming fiscal year unquestionably will bring continued international tension. By overt or covert aggression, the Soviet Union or Communist China may be expected to attempt to threaten one or another area of the Free World. Wherever crises may arise, the United States Government must have resources available with which to use American economic strength to buttress the desires of less fortunate nations to retain their freedom.

Some types of situations which may call for the application of Contingency Funds in FY 1962 are the following:

- (1) Newly independent states may find themselves with insufficient resources to establish and maintain minimum public services;
- (2) Countries may seek to lessen present dependence on the Sino-Soviet bloc for external aid;
- (3) In the face of stepped-up hostilities or threats, countries may need economic assistance, as well as military materiel, to help them increase their military capabilities;
- (4) Countries may find it possible to introduce long-term economic reform or major stabilization programs but may be unable to do so without extraordinary financial assistance;
- (5) Natural disasters - earthquakes, hurricanes, floods, fires - may warrant the provision of emergency funds to relieve suffering and to insure an orderly continuation of economic life;
- (6) In cases where minimum amounts of assistance have been programmed, the actual requirements for assistance may be much higher;
- (7) In cases where firm U.S. commitments have been made to finance specific projects, work may proceed at a more rapid pace than is now anticipated;
- (8) Actual negotiations of agreements to renew U.S. military base rights may reveal a need to increase U.S. aid above current estimates of requirements.

4. Increased Need for Contingency Funds. The President should be provided with greater latitude to meet unforeseen requirements for U.S. economic assistance than has been provided heretofore if he is to be in a position to deal with whatever threats to world peace and a stable international order may arise. Accordingly, it is proposed that an amount of \$500 million be made available, an increase of \$250 million above FY 1961 appropriation.

However, at least half of the Contingency Fund would be reserved by the President and subject to a specific determination by him prior to each commitment. An amount comparable to that appropriated for FY 1961 could be committed, as heretofore, on the basis of a finding by the Administrator that such use was required to serve the purposes authorized by the Act.

### III. THE TOOLS FOR ACTION (Continued)

#### F. Development Research

An appropriation of \$20 million is being requested for fiscal year 1962 to begin a program of development research, including the practical testing and application of its results. In concept, magnitude and approach, this will be an essentially new part of the development assistance program. Research and development are familiar elements in many other governmental and private activities, and have proved their worth in a wide variety of other fields. However, we have never had a concerted, continuing, purposeful program of research designed to contribute the results of scientific investigation to the improvement and the direction of our economic assistance programs.

In his Special Message on Foreign Aid of March 22, 1961, the President asked that there be initiated "a program of research, development and scientific evaluation to increase the effectiveness of our aid effort." Earlier the Development Assistance Panel of the President's Science Advisory Committee had prepared recommendations on the applicability of scientific research and development to the problems of development assistance. The Panel's report recommends the creation of a unit within the development assistance program to stimulate and finance intensive research intended specifically to assure the most effective use of development assistance resources. The proposal now being made follows in its major outlines the recommendations of the Panel.

Within the framework of the new development assistance program, research and its application occupy a position which is more significant than the monetary requirements might indicate. The intent is to forge development assistance into a new tool, knowledgeably and purposefully designed to assist "more than half the people of the less-developed nations into self-sustained economic growth, while the rest move substantially closer to the day when they, too, will no longer have to depend upon outside assistance." To do this requires the assembling of a body of knowledge which today is scattered and unevaluated. It is the role of research, here as in other undertakings, whether public or private, to assemble such a body of knowledge and to make possible its efficient and discriminating employment.

##### 1. The Role of Research

The role of research and development in assisting our armed forces to meet the challenges they are facing is well-known. Similarly, research in many fields is crucial

for the success of efforts to explore the mysteries of space. Our government has initiated and supported many research programs that have produced wide benefits for our population in agriculture, health and the uses of nuclear energy, to name only a few. Recently, it has become a matter of common conviction that the results of research, by both governmental and private organizations, play an important role in the rate of growth our economy enjoys. The most vigorous and rapidly growing industries are commonly those in which research and development plays a key role in making available new products and processes. Throughout the private sector, survival depends on the economies and new activities discovered by continuing research.

This large volume of research and development in government and private enterprise (costing billions of dollars) provides results that are sometimes useful in the development assistance program. But very little of it is tailored specifically to the problems and conditions encountered in the development assistance process or in the countries we are aiding. Hence, the spill-over of results from other research needs to be supplemented by research directed to the problems of assistance programs themselves. There is an enormous pool of knowledge and methods from which to draw in seeking to advance economic and social development in the newly emerging countries. The need is to use it in a systematic and purposeful way.

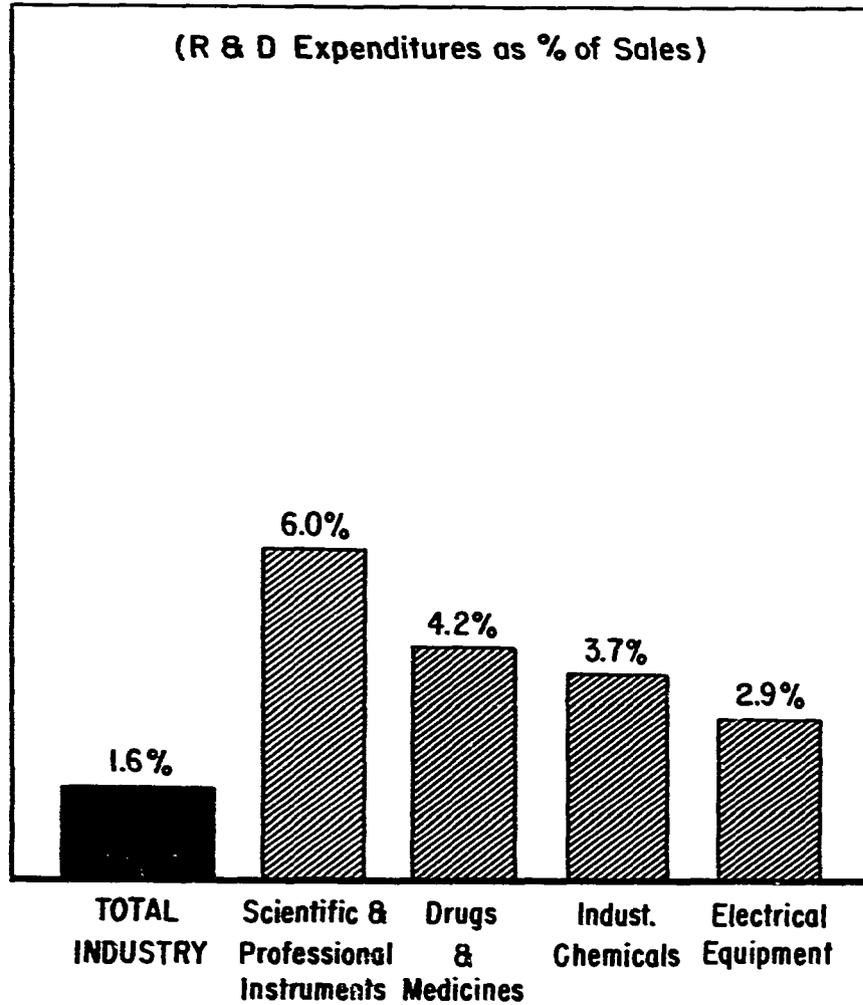
Not all problems can be solved by research. Military strategy and tactics are still essentially an art, despite the successful use of research and development for military purposes. The same can be said of managing a private company or establishing policy for the agricultural sector of the economy. What research can do is to enlarge the scope and diversity of the instruments available for accomplishing a given task, and to clarify and interpret the alternatives among which human judgment must be exercised. Thus, research enlarges the range of options open to decision-makers and increases the probability that any given decision will have the result intended.

##### 2. The Program of Development Research

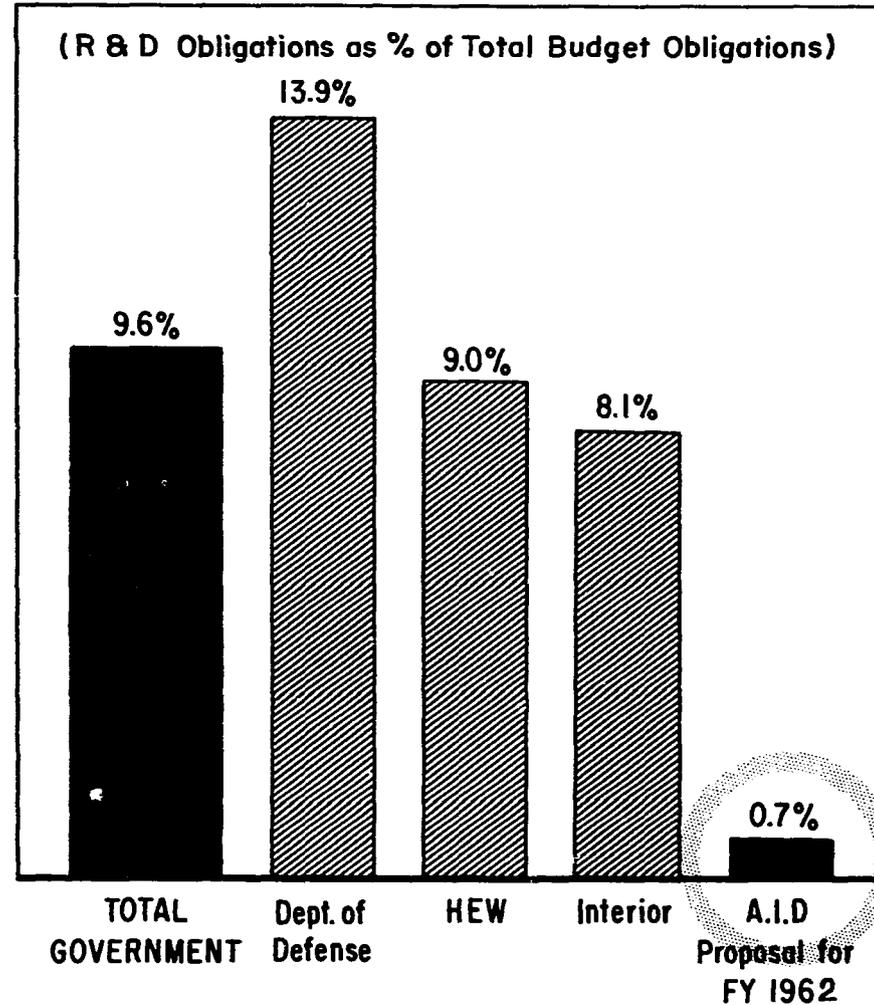
If the Development Assistance Program is to achieve its goals, it must purposefully set about the accumulation of new or greater knowledge in three broad areas: the human and natural resources of the less developed countries; the adaptation of available technology to unfamiliar needs and

# THE A. I. D. RESEARCH AND DEVELOPMENT REQUEST OF \$20 MILLION IN RELATION TO OTHER RESEARCH PROGRAMS

## INDUSTRY



## GOVERNMENT



circumstances; and the nature of the linkage between material change and social change.

More concretely, the role of the program being proposed can be described in terms of the nature of the research to be encouraged and the primary functions to be performed.

a. Nature of Research to be Supported

The Development Research Program will focus on scientific investigations of benefit to the U.S. program of development assistance. The test of relevance to be applied will be the degree to which a given research effort gives promise of providing results which can be usefully applied in the assistance program itself. The research program will, therefore, emphasize applied research. However desirable basic research on many issues or subjects may be, the program will not be prepared to sponsor such activity unless this test of usefulness is met. However, either basic or applied research may in some instances require a long period to produce fully mature results. Where the probable usefulness to development assistance is established, we must be prepared to support sustained research efforts.

The research to be undertaken must often cut across traditional classifications of scientific knowledge. This is one of the characteristic features of the development process and of the research that is needed to support it. It is more useful for this reason to categorize the research to be done in terms of the developmental problems and opportunities it is addressed to than by the areas of knowledge involved. Many different kinds of knowledge will need to be enlisted, and communication between the different areas will be highly important. Generally, the research will be in four broad categories:

- (1) The identification and modification of the factors in a society that determine the success or failure of economic, social or technological innovation;
- (2) The collection or development of scientific information that has been by-passed or fallen into disuse in our own society, but is needed to advance modernization elsewhere;

- (3) The simplification and adaptation of technologies to fit conditions in the less developed countries; and
- (4) The selective support of basic research.

b. Functions to be Performed

The Development Research Program will perform three main functions:

- (1) A liaison function, by which research being carried out through other governmental programs or under private auspices is reviewed and examined so that results useful for the aid program are uncovered and used to the maximum extent. This implies a clearing house activity which can be of help in guiding the growth of the community of research facilities as well as of benefit to the assistance program itself.
- (2) A support function, by which problems or requirements encountered in development assistance programs that can be usefully made the subject of research are identified and research on them is encouraged and supported. This implies a readiness to strengthen existing facilities where they are weak, and to establish new ones as needed.
- (3) An execution function, by which the results of relevant research application are made available to operating staffs and personnel in usable form and are placed in operation where feasible. This will involve serious attention to the large issue of training future generations of personnel qualified to work in development assistance. It will also mean a feedback of actual field experience to the people engaged in continuing research projects.

3. Examples of Development Research

A large number of problems have been identified where scientific investigation would promise potentially useful results for the development assistance program. Indeed, it is estimated that several times the amount of money now being requested could usefully be expended on valuable

research during a full year of the program. The modest amount of \$20 million is being requested for fiscal year 1962 in order to begin the effort on an experimental basis, to allow for the need to proceed deliberately and with great care at the beginning, and to enable better estimates and priorities to be prepared as the program moves forward. At the same time, this amount of funding is enough to establish the research effort as a serious and substantial program, a consideration which is vital to attracting the efforts of outstanding personnel and institutions.

Some of the research projects to be undertaken would be designed to save money in existing assistance projects; others would provide materials, equipment or techniques' more directly valuable in operations in less developed areas than anything presently available; still others would be aimed at discovering the most effective of several approaches for our operations in a number of activities abroad. All research results would, directly or indirectly, aim at raising the developmental yield from the funds expended as development assistance. If improved methods and techniques improved the developmental yield by only one percent, the proposed Development Research Appropriation would have paid for itself.

Many problems or needs suitable for research treatment suggest themselves. The following examples are illustrative:

a. Power:

Research should be undertaken to design and develop power supplies tailored to meet the peculiar needs and conditions of less developed countries. Western countries typically have huge and highly capitalized electric power plants with interconnecting grids. In the less developed areas such systems cannot be provided for many years. There small and inexpensive units to supply small amounts of power could play a useful and important role. A small, simple unit, able to run from locally available fuels rather than from petroleum, would be a boon in many areas.

b. Transport:

Many countries are only beginning to develop a transport network that will be needed to support development. The transport system to be provided

will require very large investment and will often be heavily taxed to move the goods needed for and produced by development. Decisions must be made on the intensity, modes and location of transport facilities to be provided. These decisions must reflect judgments about population growth and location, the amount and location of output, the character of good to be moved, costs and efficiency of transport, and a host of related issues. Designing a transport program to optimize the return from the resources put into it in the local conditions is a highly diverse undertaking in which research can be of great value.

c. Health:

It is established that spraying DDT in concentrations of two grams per square meter will control mosquito carriers of malaria. Experience indicates that half this concentration may be sufficient under certain conditions. If the lower concentration were proven enough, the potential savings in malaria eradication programs could mount to as much as \$50 million a year.

d. Medicine:

Education of sufficient medical personnel is one of the several difficult training problems in many less developed countries, especially those in Africa. The use, to the maximum extent consistent with safety and efficiency, of persons with low levels of medical training offers one source of relief. Research can assist in identifying the levels of training required, and the most effective deployment of medical personnel.

e. Education:

This is one of the most important, expensive and time-consuming tasks required of the less developed countries. For some educational levels, subjects and processes, new techniques of imparting education may offer opportunities to speed educational progress, to save money, or to reduce the requirements for teachers. Research can assist in defining more precisely the results to be anticipated and the new advances giving promise of still better results.

f. Land redistribution:

This is a social and political requirement in a number of countries, if their modernization is to go hand-in-hand with social and political progress. Yet, hasty programs of land redistribution may disrupt established patterns and methods of agricultural production, thus reducing output and causing economic difficulty. Research on successful and unsuccessful land redistribution experience in differing parts of the world can help highlight those approaches to the problem least likely to cause economic disruption.

g. Private investment:

In recent years, many countries have mounted programs to attract private foreign investment. Research can help determine the techniques which have been most successful in these efforts, at least cost.

h. Small private enterprises:

Many countries have adopted measures or created institutions to encourage or assist the growth of small private enterprises. The most effective measures, involving the least subsidy elements, can be evaluated through research.

i. Identification and training of personnel:

The identification and training of personnel who are effective in passing on approaches and techniques to citizens in aid-receiving countries is a most important task. Research can assist in this job.

4. Conduct of Research Activities

The research unit in the new economic aid agency will provide a connecting link, presently lacking, between development assistance operating units which encounter problems in their line functions and the academic and research community which can shed light on these problems. The connection is a crucial function in the effective definition, conduct and application of research. The researchers must be kept in touch with operating realities to be responsive to their requirements. On the other hand, the operating people must be kept in touch with research approaches and results, and must feed back to the researchers

the insights of practical experience.

Research in this country, is carried on in universities, in independent research institutes, in units associated directly with private industry and in agencies of the government. The university, to a large extent, is dependent upon research for its own health, since in the sciences the functions of research and teaching are inseparable. Private industry possesses unique appropriateness for certain forms of applied research, where an intimate knowledge of production processes may be central to the useful conduct of research.

The Agency for International Development would become involved only at the scientific liaison level with research fields that are the responsibility of other agencies of the Federal Government. For example, in the field of health there has recently been created, within the National Institutes of Health, a Division of International Medical Research. Once a particular health problem was identified as being a pressing matter for Development Assistance, it could be brought to this organization with a request for help. Other questions related to Development Assistance are suited to the activities of the National Science Foundation, the Atomic Energy Commission, and various divisions of the Departments of Defense, Agriculture, Interior and Commerce.

In many instances, the actual research and the studies of its application would be carried on by non-governmental bodies through grants or contracts. It is unlikely that internal research projects would be frequent, since there are many research centers already in being which are thoroughly capable of the research required. In such centers, there are expert research workers who are well acquainted with development assistance programs. There are ample indications in the numerous extra-curricular activities of the research community that many of its members are anxious to participate in the development effort. The role of research would be to serve as a central rallying point for these research workers, to provide the means whereby the highest priority research could be done, and to assure the effective use in the program of the research results. This role would include making grants for strengthening existing research facilities or establishing new ones, as needed.

An additional advantage of having the Agency work princi-

The extent of a research and application activity appropriate within a given situation is subject to a wide variety of considerations. Within industry, and in most major departments of the government, complexity of operations and the likelihood that they will be deeply affected by rapid change are common-ly reflected in large research expenditures, rising as high as eight percent or ten percent of total revenues as shown in the accompanying chart. On the national scale, investment in research and development is in the neighborhood of three percent of the Gross National Product. In contrast, the sum sought here comes to about three quarters of one percent of the total sum sought for the Development Assistance Program.

##### 5. Size of Activity

Research carried out for the Program would be supported by grants or contracts made by the A.I.D. In certain cases in which another governmental agency is involved, it might provide some or all of the support through its own grant or contract mechanism. Well-tested procedures exist for making such contracts or grants for research in our universities and other laboratories. A valuable procedure has been to use outside consultants to analyze the research proposals and make recommendations on them to the government agency. In this way, the agency is able to take full advantage of nationwide experience in the appropriate research fields as it exists in private foundations, in industry, in universities and in the other research agencies of the government.

ally through outside research groups is that universities, private foundations and private industry can frequently establish personal and institutional relations with similar establishments in the less developed countries in situations where a direct government body might be suspect or unwelcome. These relations can and should include joint research projects and the interchange of information on a continuing basis. Moreover, many of the scientists and engineers most urgently needed for the tasks will not leave their university or industrial posts for direct government service.

The Agency for International Development would, therefore, identify what research problems should receive the highest priority and ascertain where the research can best be carried out. For the most part this will place the activities within the United States.

Research activities conducted in or with the less developed countries will over the long term be even more significant. By encouraging such activities, the Agency will help to create within those countries a capacity to do their own research. Ultimately research for the countries of Asia, Latin America and Africa should be carried on in and by those countries. The establishment of research institutions in countries abroad or the conduct of research whose results are expected to be uniquely applicable for an aid receiving country will normally be funded from assistance funds. The research appropriation is to be used to support research whose results are expected to be useful in more than a single country.

### III. TOOLS FOR ACTION (continued)

#### G. The Role of American Private Enterprise

In the decentralized structure that characterizes the United States economic and social system, a large portion of the resources and skills available to us lies in the private sector. If we are to approach a truly national effort in assisting the economic and social modernization of the less developed nations, we must find and utilize more effective means of enlisting these private resources. Private resources and skills are not merely additional to those of the Federal Government; in some cases they are different in kind and are therefore obtainable only outside of the government.

In some countries, activities that assist economic development can be undertaken by American companies on a purely business basis. In other countries, there may be economic activities of importance to economic development goals which cannot be undertaken on a strictly business basis, even though U.S. private enterprise may be best qualified to undertake the task. In such cases, our government must be able to provide special incentives, protection, or financial assistance which will mobilize U.S. business in the effort.

##### 1. Planning and Private Enterprise

Private enterprise may gain distinct advantages or incentives from the new emphasis on careful national planning by underdeveloped countries. Thus,

- a. Competent development planning, by emphasizing statistical information and a quantitative framework for future targets and goals, creates a more dependable environment for evaluating business opportunities and risks than now exists in many less developed countries.
- b. Planning may define more exactly and more reliably the fields of activity in which government and private business, respectively, are expected to provide the main leadership and activity.
- c. Careful planning facilitates the timely provision of publicly-financed installations, such as roads, irrigation facilities or power plants, which are important to the growth of private investment. To the extent development planning improves the use of resources for development, the basic facilities to support a

vigorous private sector are provided more rapidly and effectively.

- d. The planning process forces the planners to recognize the size of the requirements for sustained economic growth, and the consequent necessity of enlisting the forces of private enterprise in helping to meet these requirements. There are several instances in which, as a well-administered planning process has moved forward, a progressively larger role has been allotted to private enterprise, both local and foreign.

##### 2. Potential Contributions of U.S. Private Enterprise

The contributions of U.S. private enterprise must be regarded as an important complement to publicly-funded economic assistance programs, but not as a substitute for them. These contributions are to be found in three main areas: capital resources, human resources and improvement of institutions.

###### a. Capital Resources

The volume of capital resources potentially available through U.S. private foreign investment is of course enormous - far larger, in all probability, than can ever be made available in the form of publicly provided assistance. Yet, large volumes of private capital resources will be transferred to the less developed countries only as they reach the stage where economic advancement, and particularly industrial growth, becomes well established. At that stage, private foreign investment, with little or no special government stimulation, can take on a progressively larger portion of the need for injections of external resources, while at the same time (along with local private enterprise) helping to provide through taxes the governmental resources needed to support continued and expanded public activities. At the early stage of growth, when the need is greatest for investment in education and public works, private foreign investment can fill only a portion of the requirement for additional capital.

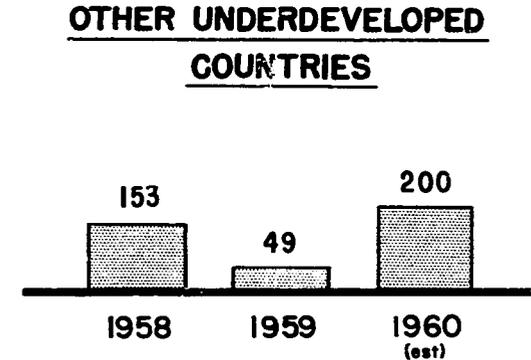
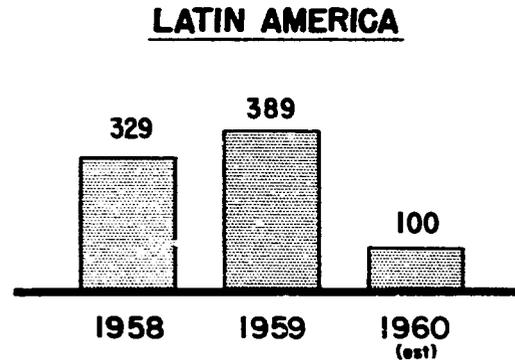
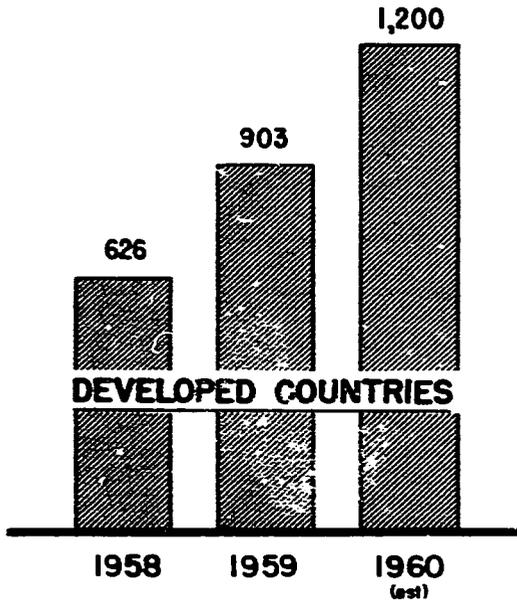
###### b. Human Resources

Embodied in a private investment is a transplanting of managerial, professional and technological skills

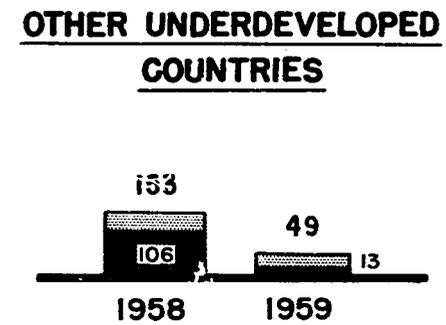
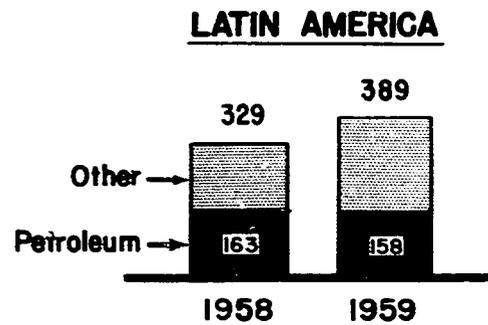
# NEW U. S. DIRECT PRIVATE INVESTMENT (Net Excl. Reinvested Earnings)

( Millions of Dollars )

## THE DIRECTION OF U.S. INVESTMENTS



**Much of New U.S. Investment in the Underdeveloped Countries is in Petroleum**



which are of great significance to the process of economic growth. Since a private investment abroad is usually a permanent undertaking, private enterprise is able to transfer these skills in an orderly fashion and in proper sequence without the annual decisions and changes in policy that sometimes characterize a government aid program. Even more important is that private enterprise is probably in the best position to transplant and nurture the entrepreneurial approach - the capacity and disposition to conceive, organize and set into operation new business ventures that will prosper and grow.

c. Institutional Changes

U.S. private foreign investment may also assist in the process of creating new institutional arrangements more hospitable to private growth. Legal concepts and administration may be improved or made clearer as a result. More standardized or regular procedures of commercial finance may be stimulated. Accounting and marketing practices may be improved. In some countries at a very early stage of economic development, private foreign investment may provide the first instance of organized modern productive activity. Such basic institutions as the regular and disciplined use of time schedules may be introduced.

3. Basic Policy on the Role of U.S. Private Enterprise

It must be a basic policy of administration of the development assistance program that actions aimed at providing incentives or protection to U.S. private enterprise shall be for the objective of enlisting private American business in the public purpose of assisting economic growth in less developed countries. To the degree that special governmental incentives or financing devices are employed to this end, the businesses that use them are engaging in a public service, not merely a private one.

The relationship thus established between governmental and private institutions is a delicate and difficult one. Because governmental measures, public funds and national purposes are involved, the private businesses affected take on a special trust and subject themselves to the imposition of conditions. At the same time, the Government must avoid imposing conditions that will stifle or

impede those very elements of private enterprise which are sought in providing special incentives.

In order to enlist U.S. private enterprise in the development assistance task, the Government must have a selection of instruments available for use in a variety of cases, ranging from those where the obstacles to private foreign investment are slight to those where substantial Government inducements are required. The degree of selectivity in the choice of companies, projects and locations must be consonant with the degree of Government credit committed.

4. Forms of Participation by Private Enterprise

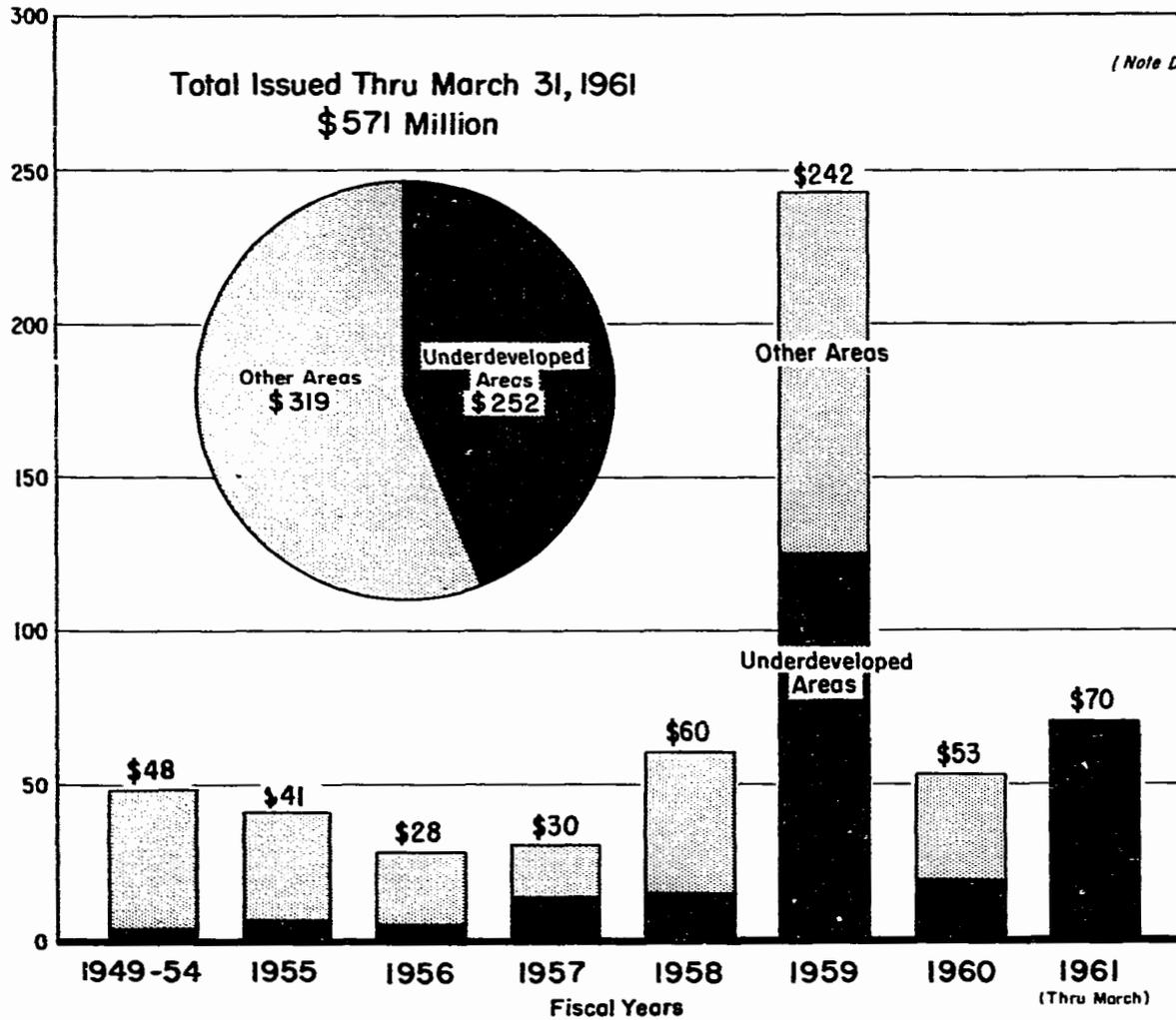
Four primary forms of participation by U.S. private enterprise are envisaged:

- a. Equity investment unaided by special Government provisions other than those normally used, such as existing treaties, diplomatic protection, or tax agreements;
- b. Equity investment aided by special governmental programs, including:
  - 1) Financial assistance in the feasibility study stage;
  - 2) Guaranties against political risks (and, under special and limited circumstances, against other risks);
  - 3) Lending on terms not available from private sources;
- c. Direct private lending to foreign enterprises under government guaranties against political risks (and, under special and limited circumstances, against other risks as well), in some cases accompanied by government lending to such foreign enterprise; and,
- d. Managerial, professional and organizational services under contract, sometimes pursuant to provisions that envisage later participation in the project either by investment or by contractual services paid for by foreign owners.

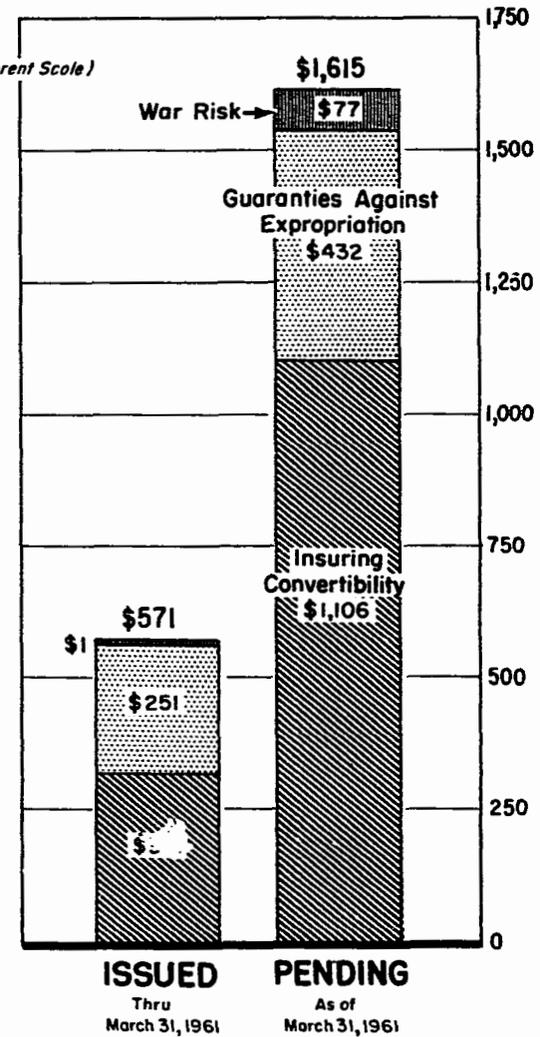
# INVESTMENT GUARANTY PROGRAM

(Millions of Dollars)

## GUARANTEES ISSUED BY YEARS



## TYPE OF RISK



5. Tools for Mobilizing the Participation of U.S. Private Enterprise

An important element in the program will be the effectiveness of relationships - the bond of confidence and respect - that is established between our business community and the persons responsible for administering the development assistance program.

The special instruments for mobilizing U.S. business contributions that are included in this presentation will operate in an environment that is shaped by other factors such as the quality and devotion of U.S. diplomatic representation; treaties of Friendship, Commerce and Navigation; and the tax treatment of U.S. business earnings. The President's Tax Message to the Congress of April 20, 1961, has recommended a series of changes in our tax laws which are aimed at eliminating tax deferral for U.S. business investment in the industrialized parts of the world while retaining tax deferral for investment in the less developed parts of the world, thus making investment in the latter relatively more attractive. The actions, programs and policies of countries receiving economic assistance are also of crucial importance to the ability and willingness of American business (and, indeed, of local private enterprise) to contribute effectively to the task.

Four specific instruments aimed at mobilizing U.S. business participation are proposed for inclusion in the development assistance program:

a. Guaranties

Guaranties have been a part of the foreign economic assistance program since the beginning of the Marshall Plan in Europe. The guaranty authorities which are now in effect are of two types: guaranties (through ICA) up to a face amount of \$1 billion of investments in less developed countries by U.S. persons or companies against certain specified risks (expropriation, inconvertibility of earnings or capital, and war damage); and guaranties (through DLF) up to a face amount of \$100 million which can be extended without limit as to risks covered or as to nationality of the benefactor, provided that ordinary business risks of equity investment cannot be covered. It is now proposed that these guaranty authorities be consolidated into a single statutory provision, and that a consolidated reserve (consisting primarily of funds available from borrowing authority of \$199.1 million provided by legislation of prior years and

\$7.1 million generated by the fees charged in respect of investment guaranties and in addition amounts to be transferred from DLF) be established for backing up guaranties issued under both authorities. Certain modifications are to be made in both authorities in accordance with the following:

(1) Guaranties against Specified Risks

Authority is requested to continue making guaranties of investments against specified risks up to a face amount of \$1 billion. The outstanding volume of existing guaranties issued both by ICA and by DLF is to be included under this ceiling. Provisions are to be included:

(a) Expanding the risks which can be covered (which are now limited to expropriation, inconvertibility of earnings and principal, and war damage) to include certain additional political risks, including acts of provincial and municipal governments as well as national governments in the country where the investment is located, sanctions imposed by other countries of the Free World (including the United States) which materially adversely affect an enterprise, and insurrection, revolution and civil strife. It should be noted that the authority to issue expropriation guaranties has been construed by ICA in the past to include authority to insure against losses due to breach of contract by the government of the country where the investment is located, as well as losses due to action of a regulatory or revenue-producing nature where such action is taken with expropriatory purpose. It is expected that the new aid agency will continue to insure against risks of this kind.

(b) Expanding eligibility for specified-risk guaranties to include U.S. citizen-owned foreign-chartered corporations.

(c) Providing greater flexibility in connection with the requirement that bilateral agreements be executed with host countries before investment guaranty programs can be executed, so that it will no longer be necessary to include in such agreements specific provisions regarding the subrogation rights of the U.S. Government.

(d) Granting authority to submit disputes with investors under guaranty contracts to arbitration.

(2) All-Risk Guaranties

Authority is also requested, for use in exceptional circumstances, to guaranty both equity and loan investments against risks of all kinds. This authority is to be limited to guaranties aggregating \$100 million in face amount.

The all-risk guaranty authority with respect to equity investments is to be used only to insure against losses of investment (as opposed to failures to realize profits), and is to be used only on an experimental basis in unusual situations where close collaboration between government and private capital is called for. In some cases, the regular guaranty program outlined above may be inadequate to cover an equity investment which is attended by serious political risks. This may be true, for example, because of the difficulty in a particular case of defining the specific risks to be covered by the guaranty contract. If these risks are not clearly defined, the possibility will exist that a claim by the investor for recovery under the guaranty will be resisted. Thus the potential investor cannot be provided with the required degree of certainty as to the extent of his risks and exposures to loss.

The authority to issue all-risk guaranties might be used to write a more reliable guaranty on an equity investment on a "share the loss" basis. The U.S. Government and the investor could negotiate at the outset a percentage split of any gross loss to be assumed by each of them. Compensation to the investor would then be paid by the Government regardless of the cause of loss, but such compensation would be limited to the agreed upon percentage assumed by the Government. This use of the authority would be made only in cases where, because of political or economic considerations, the project would have a priority which would qualify it for direct government lending. Consequently, the use of the guaranty authority in this manner would extend the assistance funds by adding to them unguaranteed private investment funds. At the same time, the use of the authority would bring out the managerial and the technological competence of private enterprise.

The all-risk guaranty authority with respect to loan investments, if used at all, is likewise to be used on an experimental basis in unusual situations where, because of political or economic considerations, the project would have a priority which would qualify it for direct government lending. In any case where such a guaranty was issued, the portion of the loan which not covered by the U.S. Government guaranty would be at least 25% of the principal amount thereof. In every case, the authority would be used in such a

way as to avoid the creation of debt management problems for U.S. Government securities.

b. U.S. Lending

There are many instances where, notwithstanding the availability of guaranties under the proposed changes in guaranty authority, private U.S. investment will not be made in places and in industries where its existence could contribute to the development process. In combination with guaranties, or separate from the, U.S. lending can, in some of these instances, make the vital difference between having a private investment or not. Loans to private enterprises established by U.S. investors abroad can reduce the amount of private funds exposed to risk and raise the potential profit anticipated on the equity portion of the investment. The terms on which lending occurs can be varied so as to provide the incentive effects required.

U.S. lending to encourage private investment in the less developed areas can be undertaken in dollars or, where local currencies are available for this purpose pursuant to previous assistance operations, in foreign currencies. Where local currency lending can be undertaken, one important effect is to remove from the U.S. investor establishing business operations abroad the risk of foreign currency devaluation.

In some cases of clear high priority, it may be necessary to depart substantially from commercial and banking practices in order to provide, through lending, the support needed for private investment. It may occasionally be necessary for government lending to provide what, by private standards, would be an inordinately high proportion of total capital requirements in order to succeed in arranging for a private business undertaking. Where such measures are required, the government must have protection against the possibility that the rate of return on the small proportion of equity investment may prove inordinately high, thus presenting a source of embarrassment. In these special conditions, means of participating in, or reducing, or distributing more widely, the initially high equity profit rates must be available. These will be sought through such devices as convertible debentures and profit sharing securities.

Such operations sometimes raise charges that the private character of the venture is being diluted; that the transaction is misleading. The justification for unusually large government financial participation in a private venture abroad is not to exhibit U.S. business abroad, but rather is to accomplish a given task as effectively as we can. Where

such unusual conditions are present, we should not delude ourselves or countries receiving our assistance that "private enterprise is doing the job;" we are merely creating the best combination we can devise of private and public resources to accomplish a task in the public interest. At the same time, where the task is in fact well done, there need be no hesitancy in asserting that private skills and management have been a crucial part of the effort.

c. Locating Investment Opportunities

Many sound and useful investment possibilities may exist in the less developed countries which are never brought to light due to lack of exploratory work. Governmental assistance to feasibility studies can be used to increase the volume and variety of U.S. private investment in the less developed areas we are seeking to assist. To increase the amount of exploratory work going on, there are already in process a number of professional studies in different countries, of varying degrees of specificity, designed to collect and make available useful information on investment possibilities. In some cases, feasibility studies of particular industries are being undertaken under contract. It is planned to increase the volume of this activity. However, the initiation of such a feasibility study by the government suffers from certain disabilities. When the study is completed, it must be put to effective use in forming the basis for a private investment decision. It is difficult, at best, for the government to do the essentially promotional work which is necessary to interest a particular private company in a particular project. Moreover, many companies follow the practice of critically reviewing, or redoing, the feasibility study which has already been performed, even when there is no question as to the professional competence of the work. Finally, even within a narrow segment of a given industrial field, different manufacturing processes or approaches may yield quite different results when tested for economic and technical feasibility at a given location. Thus, a feasibility study can be fully useful only when tailored specifically and in detail to the products, procedures and policies of a particular company considering an investment.

Previously, the procedure has been followed of contracting investment studies only to private organizations that would not benefit directly. In cases where the feasibility of an enterprise to be managed under contract is concerned, the organization investigating feasibility has been excluded from consideration for the later contract. Moreover, because, with few exceptions, public bidding procedures have been in force for feasibility study contracts, there has been no way to respond positively to the initiative of a private company that would like to explore the feasibility of a possible investment abroad, but does not feel itself justified, on a purely business basis, in providing the costs of the needed study.

To meet these needs, the following steps are proposed:

(1) A larger number and variety of feasibility studies of particular investment possibilities will be initiated. In executing these, preference will be given, where possible, to contractors which indicate a positive interest in undertaking the investment to be studied. Such contractors may, however, employ as subcontractors professional organizations in a manner consistent with their usual practice.

(2) In order to respond positively to the initiative of companies that have an interest in considering an investment, but cannot justify financing the needed investigation, a new experimental approach is proposed, to be called the Investment Survey Program.

Under the new program, authority would be granted to enter into contracts with prospective investors pursuant to which the U.S. Government would pay up to 50% of the costs of feasibility surveys to be undertaken by such prospective investors. Each contract would provide that if the project to be surveyed was not undertaken by the investor, within a specified period of time from the date of the initiation of the survey, all information, findings, samples and other materials developed in the course of the survey would become the property of the U.S.

Government. The Government would have the right to dispose of such information and other materials in any manner it considered appropriate, by sale or otherwise.

The new Investment Survey Program would be limited to surveys of projects in non-extractive industries.

Obligating authority of \$5 million is being requested for the Investment Survey Program.

d. Government Contracting

Where it is not possible or desirable to secure any private financial participation by American business in an aid-related activity abroad, the managerial, technological and professional skills of private enterprise can be secured through contracting. In the use of contracting techniques, several principles will, so far as possible, be observed:

(1) Preference will be given, where feasible and reasonable, to making assistance funds available to foreign governments for contracting with U.S. organizations. This will provide experience, for the foreign organizations and individuals concerned, in the techniques and procedures for identification of possible contractors, evaluation of their costs and competence against reasonable standards, and the actual mechanics of contract negotiation and administration. This procedure should also eliminate difficulty and confusion in contractual relationships.

(2) Where possible, services under contracts should provide for the later conversion of a public investment project into a privately-owned undertaking, with particular emphasis on a wide dispersion of local share ownership among the population.

### III. THE TOOLS FOR ACTION (Continued)

#### H. Contributions to International Organizations

A total of \$153.5 million is requested for U.S. voluntary contributions to thirteen assistance programs of multilateral organizations. All of these programs are presently being carried forward. Ten of them are undertaken within the framework of the United Nations System; two are undertaken by Regional Organizations; one -- the Indus Waters Program -- is undertaken by an ad hoc consortium. With the exception of the NATO Science Program, the Program for UN Military Operations in the Congo, the UN Emergency Force in Palestine, and the relief and refugee programs, these programs are in direct support of the social and economic development of the less developed countries. Our contributions to these programs, along with steadily increasing contributions from other governments, add to the funds which are available for projects designed to develop economic resources of the less-developed countries.

These programs as well as the multilateral organizations managing them were initiated under U.S. leadership. Three of them, namely, the programs of the UN Relief and Works Agency for Palestine Refugees, the UN Emergency Force in Palestine, and the UN Military Operations in the Congo were initiated in response to emergencies and are intended to terminate when circumstances permit. The U.S. contributions to WHO for the World-Wide Malaria Eradication and the World-Wide Waters Programs were initiated in conjunction with U.S. programs in these fields and will, of course, terminate when the specific problems are solved, if not before. The remaining Programs, with the exception of the UN Program for Economic Assistance to the Congo, are part of the continuing activities of the respective multilateral organizations.

In view of the universal need and demand for development assistance by the less developed countries on the one hand, and in view of the widespread willingness of the developed countries to participate in meeting this need on the other hand, it is natural that the total world-wide assistance effort has grown up as a mixture of bilateral and multilateral programs. Multilateral organizations have built the assistance objective into their overall structure in a clear response to the existing and growing challenge of development, thereby increasing and strengthening their own overall value and significance to member governments. This is the case

with the United Nations whose Charter gives an important place to the development objective, and it is also true for the Regional Organizations. In cases such as the consortium for the Indus Waters Program the development objective is, of course, absolutely central to the organizational arrangements, with other objectives entering as by-products.

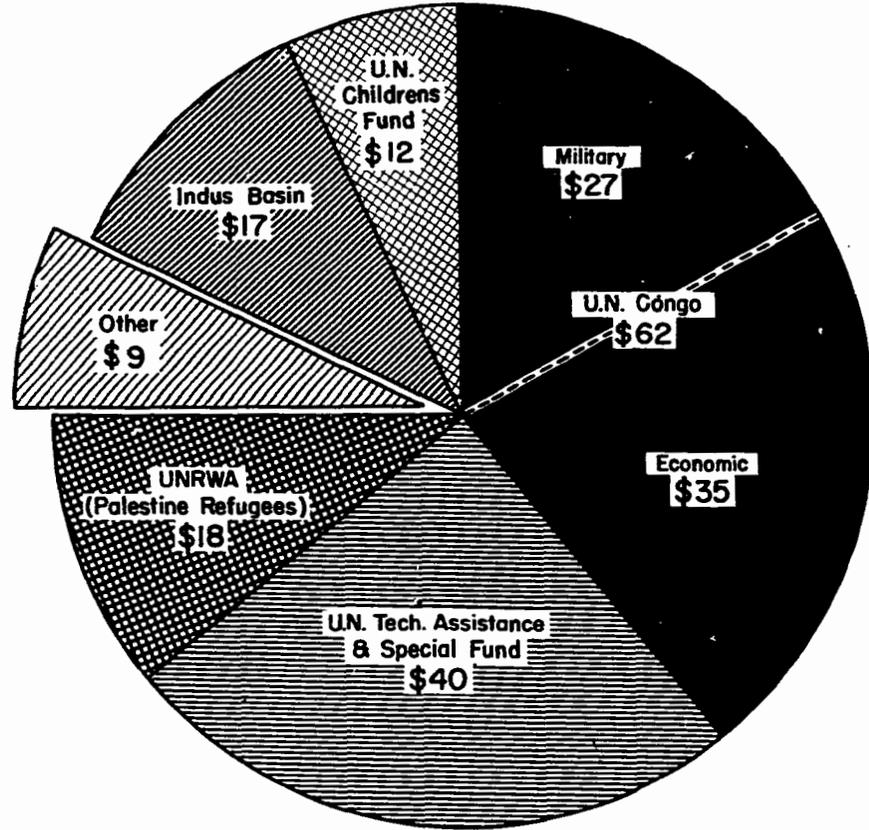
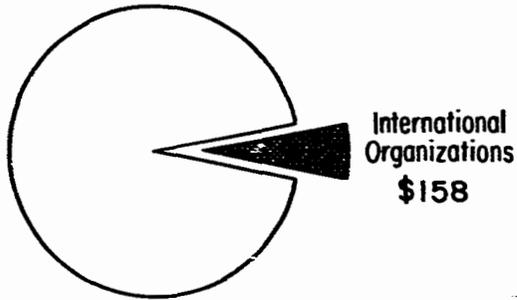
The U.S. interest in the multilateral programs is six-fold:

- (1) Strengthening the international organizations has value in itself, since their aims lie in the direct line of advance towards a stable international society of free and prospering nations;
- (2) Providing U.S. leadership in the development assistance programs of the international organizations strengthens overall U.S. leadership in these organizations;
- (3) Multilateral assistance programs represent one method suitable to enlist increased resources from other developed countries, both in terms of money, knowledge and scarce skills;
- (4) Certain elements of development assistance, e.g., those designed to lead to administrative reforms, will often be more readily accepted by the less developed countries and hence be more effective if given by multilateral organizations of which they are members;
- (5) Under certain circumstances, e.g., in the Congo, the U.S. may have an overriding political and security interest to reduce the risk of rivalry inherent in bilateral programs;
- (6) Some of the international organizations can be assigned significant functions in the broader planning of U.S. bilateral assistance. This will formally be the case with OAS and is, of course, true in a less formal way with regard to the UN where a process of mutual consultation tends to improve both bilateral and multilateral programs. As is indicated in Chapter V, increasing emphasis will be placed on stimulating Free World assistance efforts through the Development Assistance Committee of the OECD.

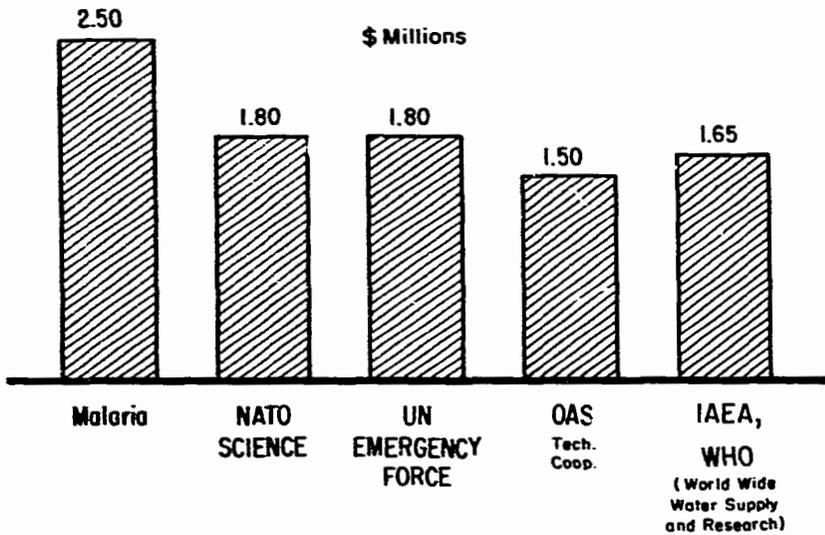
The balance of advantage between multilateral and bilateral programs is a dynamic one. The assignment of U.S. resources to the one or to the other group is a matter of changing objectives, effectiveness, and circumstances. The flexibility inherent in the mixture of voluntary contributions included

# CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS PROPOSED F. Y. 1962 PROGRAM

**Total A.I.D. Program**  
\$2,921 Million



**Total Contributions... \$158 Million**



Revised June 6, 1961.

in this program and the assessed contributions carried in the budget of the Department of State permits a wise and effective management of this moving balance.

A summary table of contributions proposed to be made to multilateral organizations for the coming fiscal year is set forth below. A detailed justification for all of the items shown in this table is contained in Appendix C.

Proposed FY 1962 Contributions to International Organizations  
(Figures in millions of dollars)

UNITED NATIONS:

1. UNCTAD and Special Fund	40.0
2. U.N. Congo - Military Operations	27.0
3. U.N. Congo - Economic Assistance	35.0
4. UNRWA	13.35 *
5. U.N. Emergency Force	1.8
6. U.N. Children's Fund	12.0
7. WHO Malaria Eradication	2.5
8. WHO World-Wide Water Supply	.4
9. WHO Medical Research	.5
10. IAEA	<u>.75</u>

Sub Total - 133.3

REGIONAL PROGRAMS:

11. OAS Technical Cooperation	1.5
12. NATO Science Program	1.8
13. Indus Waters	<u>16.9</u>

Sub Total - 20.2

\*Excludes \$4.85 million to be carried forward from FY 1961 appropriation.

GRAND TOTAL 153.5

### III. THE TOOLS FOR ACTION (continued)

#### I. Food for Peace

##### 1. Program Objectives

The recommendations for the Food for Peace Program have been separately transmitted to the Congress for consideration by the Agricultural rather than the Foreign Policy Committees. Nevertheless, Food for Peace is an integral part of the whole foreign aid program. Food is a major and necessary component of the resources which the less developed countries need from abroad, but Food for Peace cannot be fully effective except in conjunction with a broader program of foreign aid.

Surplus agricultural commodities have made a vital contribution to U. S. foreign assistance programs and should continue to do so. Even closer integration of Food for Peace programs under the various titles of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) with overall country aid programs is intended than has been done in the past. This will be greatly assisted by the long-term authority requested in the extension of P.L. 480 for foreign currency sales, commodity grants and dollar credits.

It is intended to use the authorities for special export programs in P.L. 480 to the full extent that surplus agricultural commodities can serve aid purposes without disrupting commercial markets. As a result, funds are requested under this act primarily for non-food requirements and will be needed only for those agricultural commodities which are not in surplus supply or eligible for shipment under P.L. 480.

The food needs of the less developed countries do not always match the availability of surplus crops. The Secretary of Agriculture is studying this problem and has already taken steps within existing farm support legislation to direct our great productive capabilities towards the production of the kinds of agricultural production most needed both at home and abroad.

The principal economic uses of United States food as part of the United States aid program to underdeveloped countries are:

To permit increases of employment to occur more rapidly than the capacity of the country to produce food for the newly employed;

to improve both the quantity and quality of diets so as to raise or increase human productivity;

to provide a reserve of food in the receiving countries, thus insuring against natural catastrophes;

to provide relief for the sick, for the aged;

to serve the political purposes of foreign aid in special cases.

##### a. Employment

In most countries, efforts are being made to expand agricultural production at the same time as industrial production. With increasing agricultural and industrial employment, food consumption necessarily increases; employed workers, if they are to be effective, eat much more than the unemployed. But the expansion of agriculture is likely to be longer and more difficult than that of industry. Consequently, a country which wants to develop must, in many cases, run a food deficit or else seriously curtail its development plans.

As one example, food grain consumption in India is expected to increase from 75 million tons to more than 95 million tons during the third five-year plan. The present level of production is 73 million tons. Despite the emphasis given to agriculture in the third plan, there is a large probability that Indian production will increase by substantially less than 20 million tons during the five years. Consequently, food from abroad is an essential ingredient of the

plan; not to recognize this is to jeopardize the prospects for economic growth in India. Recognizing this, India has already contracted under P.L. 480 for five million tons of grain to establish a buffer stock to protect her population from the dangers of an unfavorable monsoon, and plans to import an additional four million tons in each of the first three years of the plan.

With application of fertilizer, increased irrigation, better seeds, improved production techniques and adequate motivation, India expects to reduce its food deficit and perhaps eliminate it entirely, though there is no assurance that the deficit can be entirely eliminated during the third plan. India has been used here only as an example; other countries will incur food deficits as a result of industrialization and our food supplies can make an important contribution to expanding employment and incomes.

b. Productivity

The prospects of development are slight unless labor, which is a country's greatest production resource, can increase the effort it expends and the efficiency with which it works. Thus, even from the outset, consumption standards must increase. From the point of view of motivation, a worker must have the opportunity to improve the living standards of his family; and, from the point of view of his own effectiveness, his diet must increase and improve. The increased food requirements of a developing country, therefore, cannot be measured simply in the terms of increasing employment but also in terms of increasing real wages to make the most effective use of employed labor.

Furthermore, the Food for Peace Program can make important contributions to human productivity by providing school lunches and other supplementary meals for young people.

From the point of view of productivity, the quality as well as the quantity of diets must be improved, there being serious protein deficiencies in many of the less developed countries. Consequently, an important aspect of the Food for Peace Program should be not only to increase the human

consumption of grain but also to encourage the feeding of coarse grains to animals in order to increase the supply of milk and meat.

c. Reserves

Food for Peace can make an important contribution to economic development by permitting the countries to establish food reserves within their own territories. Such reserves have several functions:

- (1) They can help to avoid the disruptive effects of famine. Without reserves, a country afflicted with a famine has to face a choice of internal disruption and misery owing to the lack of food on the one hand or of using scarce foreign exchange in order to import food rather than the equipment and materials needed for its industrial development;
- (2) With adequate reserve stocks, a country can face the risks of dependence on imported food which are serious in a politically unstable world;
- (3) Reserve stocks can be used by the government as a buffer stock to counteract the price fluctuations that are likely to be particularly acute in many of the less developed countries;
- (4) Reserve stocks also permit a government to undertake land reform measures which may involve temporary dislocations of domestic production.
- (5) Reserve stocks can be used to further land settlement projects, either on new irrigation projects or for projects to resettle displaced persons or refugees, by providing food for the settlers during the seasonal period when food production is nil while the land is prepared, seeded and cultivated and before it is harvested and perhaps during the longer period of two years or more while the new settlers are learning how

to farm adequately under unfamiliar conditions.

d. Relief from Distress

Food for Peace cannot relieve the general state of poverty that afflicts many of the less developed countries. Nevertheless, it is being used by public and private organizations to alleviate conditions of extreme suffering among children and the sick and the aged. There are opportunities for the expansion of many of these programs.

e. Supporting Aid

United States food can be used to serve the political as well as the developmental objectives of the aid program; to relieve natural disasters or, as has been done in Tunisia and Morocco, to provide work relief for the unemployed. The availability of abundant supplies of grain, flour, milk and other foods for these programs has proved a major boon to the recipients, and has substantially contributed to good U. S. relations with the governments concerned.

2. Legislative Proposals

Legislative authority for the Food for Peace Program is contained in The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, as amended). The Agricultural Act of 1961, now under consideration by the Agriculture Committees, contains proposed amendments to strengthen P.L. 480, to authorize its operations on a longer term basis and to make the Act more effective in meeting world food deficits and in promoting economic development. Title I of the Act authorizes sales of U. S. surplus agricultural commodities for foreign currencies. Title II authorizes grants of commodities for famine relief and other extraordinary assistance, and, within certain limitations, grants to promote economic development in underdeveloped countries. Title III of the Act authorizes donations of foods from CCC stocks to U. S. non-profit voluntary agencies and intergovernmental organizations for free distribution to the needy abroad. Donations of food to the needy in the U. S. and barter transactions are also authorized under this Title. Title IV of the Act authorizes long-term supply contracts for repayment in dollars over a maximum period of

20 years. In undertaking these programs, reasonable precautions must be taken to safeguard the usual marketings of the United States as well as the commercial trade of friendly countries.

The proposed amendments to the Act include a five year extension of Titles I and II through December 31, 1966. Authority to make grants of surplus commodities under Title II to promote economic development would also be extended for this period. An additional authorization of \$7.5 billion is proposed for Title I, with an upper limit of \$2.5 billion on the amount of sales agreements to be concluded in any calendar year. The present authorization of \$300 million per calendar year for Title II grant programs would be continued -- a total of \$1.5 billion in new authority for this five year period. The law imposes no limits of time or amount on Title III and Title IV donation and credit programs.

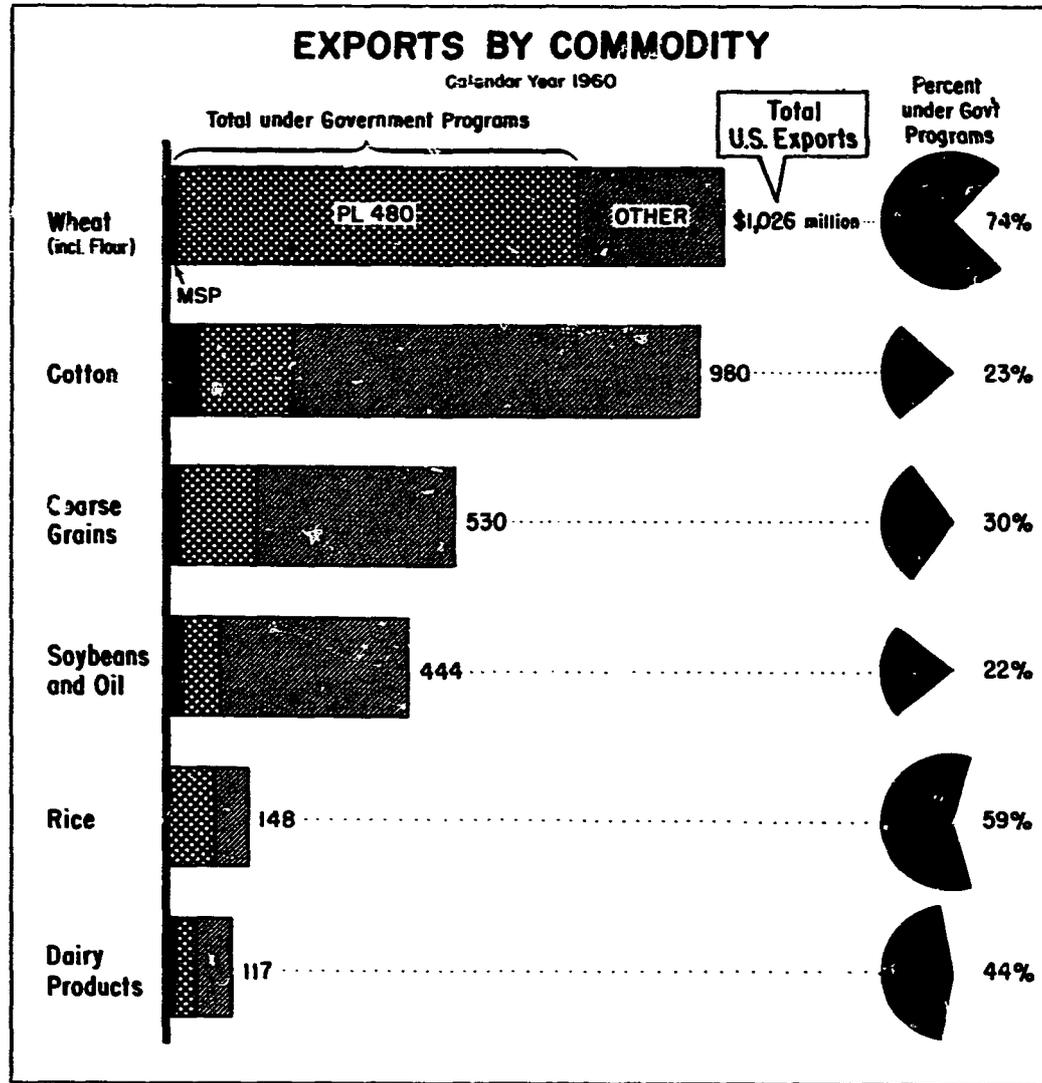
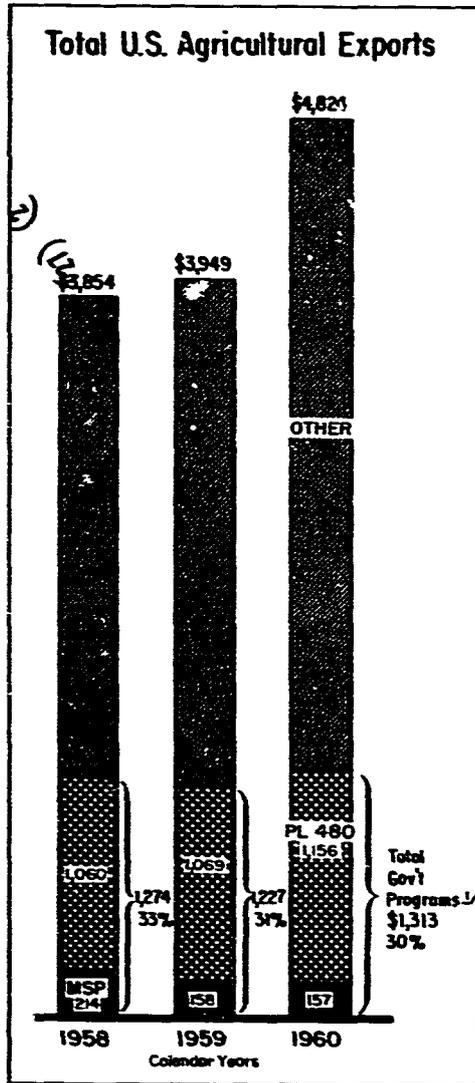
These dollar amounts refer to the cost of the commodities to the Commodity Credit Corporation and reflect domestic support prices, processing, storage, handling and transportation costs. However, the prices at which commodities are sold abroad for dollars or foreign currencies reflect generally lower world market prices. The market value of goods shipped has averaged about 70% of CCC cost.

Several substantive amendments are proposed to P.L. 480 which are of importance to the aid program:

1. Amendment of section 104 is proposed to authorize the use of foreign currency loan repayments for any of the purposes authorized by that section. They may now be used only for the payment of U.S. obligations, agricultural market development and educational exchange programs. In a small but increasing number of countries there is already an excess of currencies available for these purposes making it desirable to clear the way for these currencies to be used for the other special programs and purposes of mutual benefit already authorized.
2. Amendment of the last proviso of section 104 is proposed to remove the statutory barrier which now prevents the use for programs of educational

# THE FINANCING OF U. S. AGRICULTURAL EXPORTS

(Millions of Dollars)



✓ Excluding Ex-Im Bank loans and Commodity Corporation credits including barter transactions under PL 480, Title III

development, health, nutrition or sanitation of "country use" funds which are available for loans or grants for economic development. At present, these funds may be freely used for other programs which contribute to economic development which often have a lower priority in the country situation.

3. Amendment of section 106 is proposed to return to the President the selection of the countries with which there may be Title I or Title IV programs. The Secretary of Agriculture now has this authority as well as that over the kind and amount of commodities to be included in each agreement. No change in the latter control is proposed, but there is need for closer integration of Food for Peace programs with the development of overall assistance programs.
4. A new section 110 is proposed authorizing the transfer of surplus commodities to national food reserves in underdeveloped countries. These reserves would be held under an agreement providing that they could be used either to meet emergency relief needs or could be sold under conditions which would not disrupt world markets, in which case payment would be made to the U. S. in local currency.
5. Amendment of Title II is proposed to permit the use for programs under that authority of any commodities determined by the Secretary of Agriculture to be in surplus in accord with section 106, rather than the somewhat narrower range of commodities found in CCC stocks.
6. Changes in Title IV are proposed to permit slightly more flexible credit terms and to ensure that these credit sales are subject to the same policy guides and restrictions as the currency sales authorized by Title I.

These changes will permit a number of improvements in Food for Peace operations both from the point of view of expanding agricultural exports and from that of contributing to foreign assistance objectives.

### 3. The Scale of the Program.

The amount of food that can be effectively used in the Food for Peace program depends on the extent to which it interferes with domestic production in receiving countries and the extent to which it competes with commercial exports of the U. S. and of other countries with whom the United States hopes to maintain friendly relations. In fact, P.L. 480 provides that reasonable precautions be taken to prevent shipments under it from displacing usual U. S. marketings or interfering with exports of friendly countries.

This means that the size of Food for Peace programs which use commercial channels (Title I currency sales and Title IV long term credits) depends on the amount by which the increasing demand for food and fiber in developing countries outpaces their ability to produce or earn foreign exchange to meet the need. Food supplied to a country in a strong foreign exchange position and with liberalized imports will inevitably interfere with domestic production or with commercial exports or both. On the other hand, a country that is industrializing or is on the road to industrialization usually expands its demands for food in excess of domestic production. Consequently, there is room for Food for Peace in addition to both domestic production and normal commercial imports.

How much food a country can absorb cannot be estimated except in connection with the total development program of which it is a part. For food to be fully used to support development, it is desirable that the United States should make commitments for several years in advance. No country is likely to take the risk of adopting a development program which involves food requirements about which it is uncertain. Thus increased integration of Food for Peace programming with long-term foreign assistance planning should make possible substantially increased exports of surplus agricultural commodities in support of development.

For FY 1962, shipments under Title I of the Act are projected at about \$1.4 billion at U.S. export market prices, approximately \$1.9 billion at CCC cost. This compares with estimated shipments of \$1.2 billion in FY 1961 or about \$1.7 billion at CCC cost. Although several multi-year

P.L. 480 agreements have been concluded and more are under consideration, the projections include only the estimated value of shipments expected during each year. For example, a four-year sales agreement covering \$1,276 million of wheat and rice (at U. S. export market value) was signed with India late in FY 1960. The FY 1961 and FY 1962 projections for India include the amount of wheat and rice shipments expected during the first two years of the agreement.

These estimates are based on the assumption that all agricultural commodities which are eligible for sale under P.L. 480 will be provided under that Act, to the maximum extent compatible with the legislation, to meet the requirements of aid-receiving countries. In a number of cases this includes amounts which in 1961 and earlier years were programmed under the Mutual Security Program in accordance with Section 402. Section 402 of the Mutual Security Act requires that a minimum of \$175 million of funds otherwise appropriated for the Mutual Security Program for FY 1961 be used to finance the export and sale of U. S. surplus agricultural commodities for foreign currencies. Since this requirement overlaps almost completely with Title I of P.L. 480 and does not have a usual marketing requirement, it does not contribute significantly to the expansion of agricultural exports and serves only to hamper aid programming and administration. No parallel provision is proposed in the Act for International Development.

This shift to reliance on P.L. 480 for the provision of surplus commodities to aid recipient countries has caused a reduction in the estimates for Supporting Assistance. The funds sought under the supporting Assistance title will be needed entirely to finance imports of commodities not eligible for P. L. 480 financing. Should P.L. 480 be unable to finance the projected need of the Supporting Assistance countries for surplus U. S. agricultural commodities, the requested appropriation for Supporting Assistance will be inadequate to meet the foreign policy and national security purposes for which Supporting Assistance is requested.

The scale of non-commercial Food for Peace programs under Title II and Title III of P.L. 480 is related primarily to administrative factors and collateral program requirements. Extensive administrative arrangements are needed to distribute large amounts of food directly to people

throughout the world on a basis of need or work contribution. Such programs frequently also entail substantial non-food costs. As administrative capacity increases and programs can be developed using the Peace Corps, local currencies, and other resources to combine with available food, such programs should increase.

Title II of P.L. 480 authorizes grants of U. S. surplus commodities to underdeveloped countries to promote economic development in addition to that which can be accomplished under Title I of the Act. These grants support school lunch programs, payments in kind for road construction, irrigation, reforestation, and village improvement projects, and other non-commercial development programs. In FY 1962, it is expected that such development programs involving the use of about \$100 million worth of commodities (at U. S. export market value) can be undertaken under this authority. The CCC cost of these commodities approximates \$220 million.

Title III authorizes donations of surplus commodities to American voluntary agencies or to international organizations for distribution to needy people abroad. Millions of pounds of powdered milk, flour, corn meal and edible oil are shipped annually by UNICEF, CARE, Church World Service, Catholic Relief Service and a number of other agencies to school children, expectant mothers and infants, refugees, residents of hospitals, orphanages, and other institutions, and needy families in some 90 countries and areas. In FY 1962 it is expected that the CCC cost of commodities used in these programs will exceed \$200 million.

#### 4. Local Currency Sales

The bulk of the food provided will be sold for the currencies of the receiving countries. Part of these currencies will be available for various U. S. agency expenditures in the country. P. L. 480 provides at least 10% of sales receipts be made available under appropriations for such purposes. In some countries 25% or more of sales proceeds are so used. In others 10% results in accumulation of excess currencies. These excesses are available for special foreign currency programs, such as agricultural research, health research, and aid to American sponsored schools.

The remainder of the local currency proceeds is also the legal property of the United States and can be used in agreement with the purchasing government for purposes of mutual benefit, including loans to U. S. and certain other private enterprises in the country, the promotion of economic development and support of the common defense effort.

United States policy with respect to local currencies available for economic development or the common defense is to use them to promote in the receiving countries the objectives of the foreign aid program. In cases where a country has a well-conceived and well-budgeted development program, and is meeting its defense commitments, the United States could do no better than use the local currency proceeds to make a grant to the country for general budget support. In other cases, the United States may feel that it needs to promote particular development or defense activities which the country is unwilling to include in its budget. The United States may then decide to devote its local currency receipts to such specific screened projects.

Great care must be taken with the monetary impact of country use currencies. When the commodities are shipped and the sales proceeds collected, money is withdrawn from the economy of the purchasing country causing a deflationary effect. To the extent that the economy was already suffering from inflation this may be desirable. Quick expenditure of these funds puts back into circulation money withdrawn as a result of the sale of the commodities, thus neutralizing the monetary effect. The expenditure of past accumulations, however, means the re-introduction into the economy of money with no corresponding increase in goods available and resembles the expenditure of newly created money. Frequently inflationary conditions are such that past accumulations cannot safely be spent until new programs or increased production generate a corresponding increase in goods. In most countries the release of sales proceeds for mutually beneficial purposes is now keeping pace with the generation of currency by new programs.

### III. THE TOOLS FOR ACTION (Cont'd)

#### J. The Peace Corps

Recommendations for the Peace Corps are being separately transmitted to the Congress. Nevertheless, the Peace Corps is part of our whole national effort to aid economic and social development abroad. It has an important contribution to make in supplementing our other assistance programs. It will be coordinated with them to achieve the greatest possible results from the total U.S. assistance effort.

##### 1. Need

Most of the less developed nations face severe shortages of trained manpower. They are undertaking educational and training programs to meet these needs, but their programs take a long time to produce results. Right now, many development activities are held up for lack of trained personnel. This will continue to be the case for at least two decades.

The technical experts who have been sent abroad by the International Cooperation Administration have generally been assigned as advisors, so that their special competence could have the greatest "multiplier" effect. To some extent, "operational" personnel have also been provided by ICA, particularly in Latin America, where they have held positions in the bi-national "servicios" originally set up by the Institute of Inter-American Affairs.

The need for more operational personnel - especially at lower administrative levels - has become increasingly apparent. Projects initiated or expanded with American assistance have often had to slow down because trained, middle-level personnel were not available locally. Moreover, in the newly independent nations of Africa and Asia, even the normal educational and governmental functions cannot be continued - much less expanded - without finding replacements for the European teachers and civil servants who prefer or are encouraged to go back to Europe.

##### 2. Functions

The Peace Corps thus has a key role to play. Its members can be called upon by these developing nations to fill the immediate personnel gaps in development activities. They can fill

out the staff of projects which ICA personnel have helped design and may continue to advise, or which use equipment and supplies obtained through development grants and loans. They can help distribute food in connection with special Food-for-Peace projects. They can provide skilled assistance on construction projects financed with local currency loans, or they can be employed in development activities to which the United States provides no other development assistance.

The Peace Corps will be important not solely as a source of trained manpower. It will also be important as a means of international communication. By working abroad, in personal contact with people who, like themselves, are outside of political circles, the Peace Corps Volunteers will have an unparalleled opportunity to learn how other societies work and to explain how American society works. The very participation of young Americans in constructive, community-serving activities abroad, the standards of performance they set for themselves and the values and attitudes that they exemplify should have an important impact in helping to bring about the psychological and social changes which are necessary if the pace of economic growth in the underdeveloped countries is to be stepped up.

##### 3. Initiation of Activities

Peace Corps projects will only be undertaken at the invitation of the host government. A number of projects have already been started under the authority of the Mutual Security Act of 1954 and Executive Order No. 10924 of March, 1961. Additional projects are in various stages of discussion and negotiation.

The Peace Corps proposals for FY 1962 will be fully described in the Peace Corps presentation materials which are being separately submitted.

#### IV. ORGANIZATION AND ADMINISTRATION

The new approach to aid development will require the creation of a new foreign assistance agency. The Agency for International Development will combine under the direction of a single Administrator the present Washington and field operations of the International Cooperation Administration, the Development Loan Fund, the Food-for-Peace program in its relations with other countries, the local currency lending activities of the Export-Import Bank, the donation of non-agricultural surpluses from stockpiles of excess commodities and equipment, and the related staff and program services now provided by the Department of State and the International Cooperation Administration. These functions will be merged within a new organization which has been designed to express the new concepts of the program and to obtain the best use of the various foreign assistance tools described in the preceding sections. The proposals for organization and administration set forth below will no doubt require some changes in the light of experience but they indicate the framework necessary to accomplish the objectives of the aid program.

Two of the new concepts are basic to the structure and composition of the assistance agency. The first concerns program planning for U.S. assistance. The starting point of assistance efforts will be the formulation, by the recipient nation, of a national development plan or program of priorities. Wherever possible, the country programs developed by the assistance agency will stem from, and lend support to, established national development plans or programs of priorities and will represent that portion of the country's total assistance needs which the United States believes that it can and should support.

All U.S. assistance activities cannot be brought under this concept immediately. Outstanding commitments will extend many existing projects for two or three years. Furthermore, it will be months, and even years, before many developing nations acquire the institutional capability to formulate meaningful plans for their own development. We must anticipate a transitional period of two to three years. The organizational structure, while reflecting the changing concepts of assistance, will also accommodate the intermediate needs of the transition period.

The second concept underlying the organization is the importance of utilizing the tools of the aid program to facilitate the growth of strong and viable institutions at the country level. Provision has been made through the organization for directing assistance activities, including research efforts, toward this goal.

The new agency will be organized along geographical lines. Authority will be centered in strong regional bureaus in Washington, with appropriate delegations to competently staffed country missions, to assure that our aid will be effectively and efficiently geared to the priority needs of recipient nations. A clear demarcation between line authority, vested in geographically based bureaus, and the staff facilities required to shape policy and provide effective administrative support, will fix responsibility for all phases of program activity at one point in the structure - the Regional Bureaus - thereby reducing delays in program prosecution resulting from widely diffused responsibilities.

##### A. Organization

The Agency for International Development will be an agency within the Department of State. The head of A.I.D. will have the title of Administrator. He will have the status of Under Secretary of State and will report directly to the Secretary of State and the President.

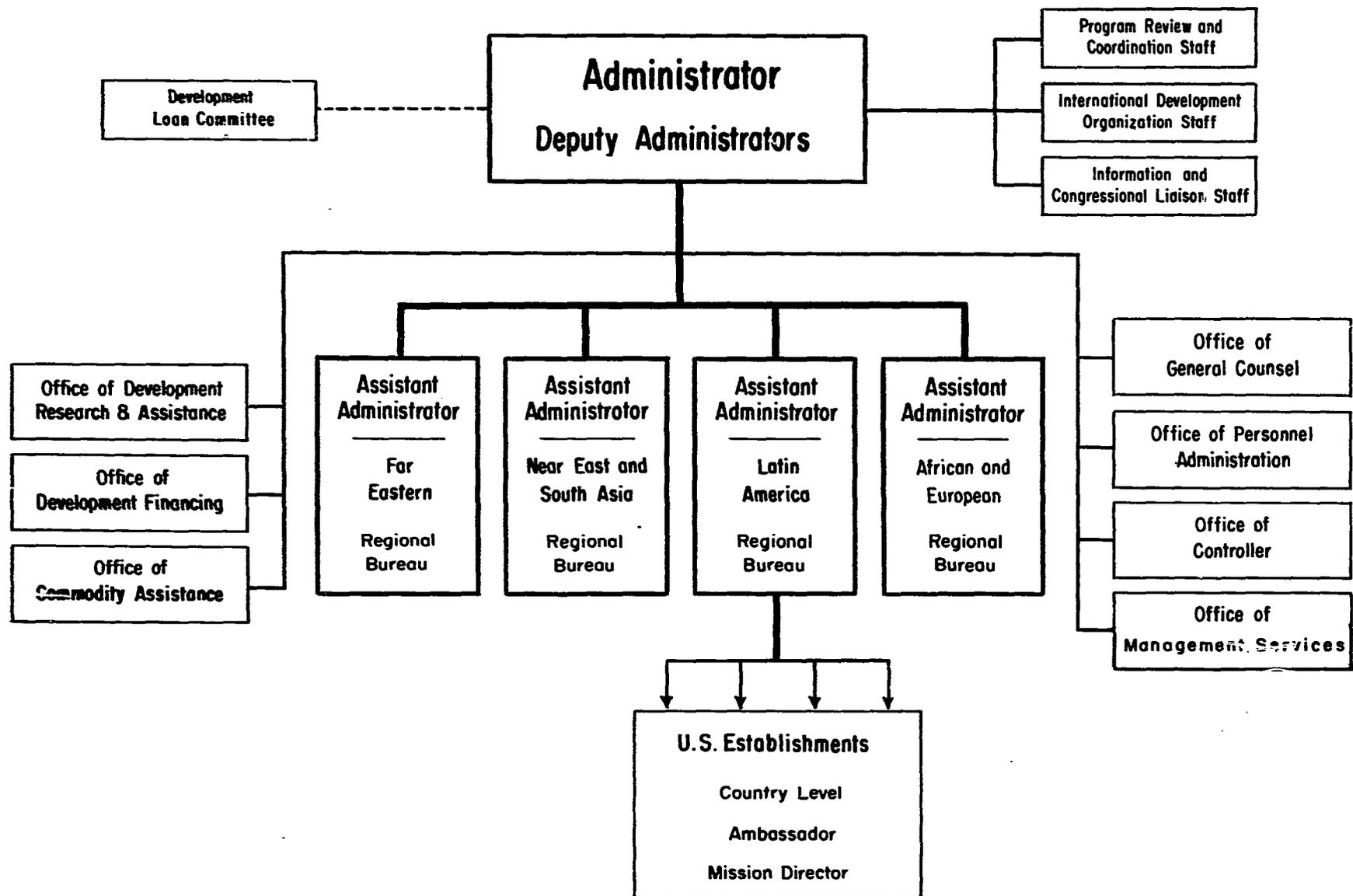
Central direction and responsibility for the economic assistance program will be fixed in the Administrator. He will be responsible for the formulation and execution of the program. He will establish procedures for maintaining continuing contact between the regional bureaus and country desks of A.I.D. and those of the Department of State, and between all elements of A.I.D. and other appropriate sections and bureaus of the Department.

The Agency for International Development will consist of:

- The Office of the Administrator
- Four regional bureaus to carry out the program
- Three program offices to assist the Administrator in dealing with broad functional areas and inter-regional programs
- Four management staff offices to assist the Administrator in managing the affairs of the Agency

The chain of command will run in a direct line from the Administrator to the Assistant Administrators in charge of the regional bureaus, and thence through the Ambassadors to the Chiefs of the Country Missions. Line authority, therefore will

# AGENCY FOR INTERNATIONAL DEVELOPMENT



be vested in the Regional Bureaus. The program and staff offices will provide guidance, assistance, and administrative support to the Administrator and the Assistant Administrators in the performance of the Agency's mission.

#### 1. The Office of the Administrator

The Administrator's immediate office will include two Deputy Administrators, the Program Review and Coordination Staff, the International Development Organization Staff, and the Information and Congressional Liaison Staff.

The Program Review and Coordination Staff will assist the Administrator in the formulation and presentation of the agency's program policies and budget and in the allocation of funds among the various parts of the organization. It will be responsible for establishing guidelines for the Regional Bureaus in developing programs, for reviewing program submissions, and for recommending to the Administrator an appropriate allocation of resources among the various regional and program units.

The International Development Organizations Staff will provide specialized assistance to the Administrator in connection with the Agency's relations with private and international development agencies.

As a general rule, primary responsibility for A.I.D. relationships with the work of the multilateral agencies will be assigned to the appropriate geographic or functional unit. Relationships with the Inter-American Development Bank, for example, will be assigned to the Regional Bureau for Latin America. The Office for Development Financing will be responsible for A.I.D. relationships with the international financial institutions including the World Bank and its affiliates.

The International Development Organizations Staff will monitor these arrangements and assist the Administrator in relationships with world-wide organizations on A.I.D. matters which are not assigned to a regional or functional unit. It will also provide a central point of contact within the Agency for private organizations engaged in international development and assistance work. It will supervise the work of the Agency's representative to USRO, and will provide liaison with other Departmental offices and bureaus concerned with multilateral

organizations including the Bureau of International Organizations.

The Information and Congressional Liaison Staff will be responsible for preparing and making available to the public information concerning the nature and purposes of international development activities performed by the Agency at home and abroad. It will serve as the primary channel for obtaining and transmitting replies to Congressional correspondence and inquiries, with two exceptions: program matters will be reserved to the Program Review and Coordination Staff, and legislative clearance matters will be reserved to the General Counsel. It will serve as the point of contact with USIA and the information offices of other federal agencies engaged in international activities, prepare the Agency's Annual Report, set the theme and tone of other publications or exhibits, and receive and distribute within the Agency reports and publications furnished by Congress.

The Administrator will also be Chairman of the Development Loan Committee. This Committee will have four additional members:

- The Chairman of the Export-Import Bank
- The Assistant Secretary of State for Economic Affairs
- An Assistant Secretary of the Treasury
- The Director of the Office of Development Financing

The Committee will establish under the direction of the President standards and criteria for the Agency's development loan operations in accordance with the foreign and financial policies of the United States.

#### 2. The Regional Bureaus

Regional Bureaus, each under an Assistant Administrator, will be established for the Far East, the Near East and South Asia, Latin America, and Africa and Europe.

The Assistant Administrators, through the Ambassadors and the Directors of A.I.D. Missions, will be responsible for planning, conducting, and reporting on the program of the Agency within their respective Regions. Regional programs will be

administered according to objectives, standards, and policies established by the Administrator with the assistance of the several program and staff offices. The internal organization of each of the Regional Bureaus will be adapted to the specific requirements of its respective program and workload. Each Bureau will, however, be equipped to carry out four functions:

The first, and perhaps the most important of these functions is formulating the pattern of U.S. assistance programs. This process will involve both the review and analysis of national development plans, of programs of priorities proposed by the governments of recipient countries, and the review and analysis of field recommendations for programs of U.S. assistance. Considering the contributions which other agencies and countries propose to make, and taking into account U.S. foreign policy objectives, each Bureau will prepare and transmit to the Administrator an annual program document covering all proposed Agency activities for each country in its region. Policies and standards for U.S. assistance programs will be established by the Administrator. The Assistant Administrators will work closely with the Assistant Secretaries of State in charge of Regional Bureaus and the appropriate A.I.D. program offices in formulating the annual program documents.

The second function is the direction and implementation of approved projects and programs. Staff competence in development financing and technical assistance, including such skills as those in the fields of engineering, education, public health, public administration, labor and agriculture, as well as specialists in lending and contracting operations, will be required to assist the Assistant Administrator in monitoring the conduct and performance of authorized projects and in evaluating the adequacy of institutional arrangements and procedures.

The third function is to provide expert advice on individual country and regional development, and to expedite, follow through, and report upon specific action items initiated by the Mission Director. This function includes relationships with appropriate regional multi-lateral organizations.

The fourth function of the Regional Bureau will be to provide the necessary administrative and support services that are not centralized in the headquarters service and support staffs. The Bureau will provide assistance to country Mission Directors in the establishment of new mission offices, the adjustment of mission administrative and service elements to trends in workload, and the closing of offices upon the cessation of country activity.

Concepts similar to those outlined above for the Regional Bureaus will be followed in organizing the country missions. The basic organization of each mission will consist of a small staff concerned with program planning, and accounting, administrative and logistical support. Additional personnel will be added only when needed for specific project or program activities. No attempt will be made to maintain "balanced" structures, but only such personnel as are required to support the particular portions of country development plans to be carried out by the Agency. This policy should result in a reduction in personnel at established missions once outstanding project commitments have been met and the Regional Bureaus have completed their reviews of current operations in the light of the revised concepts of assistance.

In the field, country missions will report to the Ambassadors. Operational responsibility will be vested in Mission Directors.

Country level administrative support will be integrated by assigning responsibility either to the Embassy or to the Mission. These assignments will be made on a basis of country-by-country review and will be funded by reimbursement to the administering agency.

### 3. The Program Offices

Program Offices, each under a Director, will be established for Development Financing, Development Research and Assistance, and Commodity Assistance.

The Office of Development Financing will be responsible for advising the Administrator on policies, standards and practices governing the provision of capital assistance through loans, guarantees, and grants in the prosecution of the Agency's development objectives. On the basis of delegations promulgated by the Administrator, it will review

capital assistance proposals prepared in the Regional Bureaus to assure conformance with standards and policies established by the Administrator and the Development Loan Committee.

The Office will assist the Assistant Administrators in choosing, from the various alternatives available, the most appropriate methods of financing proposed projects. In this connection it will seek to create a favorable environment for the attraction of private capital through the utilization of guaranties, intermediate credit institutions, and other techniques. It will also assist the Administrator and the Program Review and Coordination Staff in allocating funds available for capital financing and will also coordinate the loan programs of the Agency with those of other lending institutions and agencies.

The Office will provide, on request, highly specialized engineering and financial staff required by the Assistant Administrators for the purpose of assisting them in the development or appraisal of particular projects.

The Office of Development Research and Assistance will be responsible for identifying major barriers to development within the less developed nations, giving particular emphasis to the broad and general problems having to do with technological and educational factors, and the role of economic, social, and political institutions. It will evaluate the techniques of institutional development and of the development process, drawing upon the operational experience of agencies engaged in development activities.

The Office will formulate research requirements and specifications and arrange for the conduct of research projects aimed at breaking down the barriers of development. Research projects will be undertaken either directly or by contract with universities or other institutions and agencies. As research findings are tested and become available for field application, this Office will suggest the best ways of incorporating them into national development plans and country development programs to facilitate the achievement of Agency objectives. Particular attention will be given to the best ways of providing assistance to countries in formulating their own development plans.

Finally, the Office will provide professional and technical leadership and overall guidance to the Regional Bureaus in matters relating to the development and utilization of human resources; will maintain liaison with the academic and scientific community; and will lend specialized professional staff to the Regional Bureaus when needed to supplement Regional staffs at various stages of project planning, execution and evaluation.

The Office of Commodity Assistance will be responsible for recommending policies, standards and criteria, and improved practices governing the various types of commodity assistance, both project and non-project, agricultural and non-agricultural, available to the International Development Program. This includes responsibility for providing guidance on problems of commodity supply management. The Office will recommend systems for commodity program authorization and implementation documents. It will act as a clearing house to assure the optimum utilization in the program of excess U.S. Government personal property.

The Office of Commodity Assistance will assist in assuring that small business enterprises participate equitably in furnishing commodities and services financed by the Agency. It will advise the Administrator and Assistant Administrators on policies and practices as to overseas shipping and use of water transportation for commodity movements to comply with existing laws and regulations. The Office will also be responsible for setting up appropriate machinery to enable private importers and governments to finance commercial commodity procurement through commercial banking facilities.

The Office will serve as the focal point for the Agency's responsibilities under the Food-for-Peace program. It will together with the Department of Agriculture and in accordance with approved A.I.D. country programs,

- (a) formulate sales agreements under Title I (Foreign Currency Sales) and Title IV (Long-term Dollar Credit Sales) of Public Law 480; and
- (b) arrange grant aid for disaster relief and for feeding needy populations under Title II of PL 480.

The Office will provide A.I.D. representation on the Inter-Agency Committee on Food-for-Peace and maintain liaison with the Director of Food-for-Peace in the Executive Office of the President and register and maintain official contacts with private U.S. nonprofit voluntary agencies which receive U.S. Government assistance under PL 480.

#### 4. The Management Staff Offices

The management staff offices will include the Office of the General Counsel, the Office of the Controller, the Office of Personnel Administration, and the Office of Management Services.

The General Counsel will be the chief legal officer of the Agency. He will advise the Administrator concerning the interpretation and application of the basic statutes controlling the operations of the Agency and formulate the Agency's position on legislative proposals. The Office of the General Counsel will provide central legal services. It will also provide decentralized legal services through assignment of attorneys to other Agency offices as needed and participate in the development of standards governing the transaction of Agency business through contracts, agreements, and other instruments which commit Agency resources.

The Controller will be the Agency's principal fiscal officer. He will, by setting standards and controls, and conducting accounting, audit, budget, and investigative operations, provide the financial management tools designed to give maximum assistance to the execution of the Agency's mission, while assuring integrity of operations.

Accounting functions include maintenance of both general and budgetary accounts, asset custody, financial reporting, receipt and disbursement of both U.S. and foreign currencies, examination of disbursement documents, and development of accounting systems and procedures.

The audit functions will include selective internal auditing, selective audit of cost-type contracts, field audit of development financing operations, and audit review of project assistance. These activities will provide a constructive independent appraisal of internal operations and compliance with agency policies, including the performance of contractors, importers, and recipient country participants.

The Office will perform a variety of agency-wide service and support activities related to the budget, including the translation of program decisions into prescribed budgetary format.

Investigations will be conducted to verify or disprove alleged or suspected wrongdoing, improper, or unethical behavior, and conflicts of interest on the part of Agency personnel, contractors, and other firms or persons engaged in the development program.

The Office of Personnel Administration will be responsible for providing the Agency with adequate numbers of competent personnel. It will be responsible for personnel selection, placement, development and training, compensation and allowances, promotion, performance, and separation. It will develop and install personnel systems, procedures, and reports which facilitate effective personnel utilization and evaluation; establish practices for dealing with employee relations and grievances; and determine suitability for employment, conducting security investigations and issuing security clearances. The Office of Personnel Administration will provide decentralized personnel services through assignment of personnel staff to other agency offices as needed.

The Office will also conduct for the Administrator surveys and studies of Agency organization, structure, and relationships, so as to define patterns of responsibility and accountability, and will develop and maintain a system of organizational directives through which the Administrator controls Agency organization and administration patterns. As a part of its over-all responsibility for manpower and organization, the Office of Personnel Administration will provide the leadership and administrative support for the Agency's evaluation program.

The Office of Management Services will be responsible for providing supporting administrative and technical services in Washington and it will set standards and procedures for the provision of supporting services in the field. Administrative services to be provided include: systems and procedures analysis, office services and paperwork management, automatic data processing, statistical analysis and reporting, headquarters contracting (nonproject), procurement, supply and property management, space and utilities management,

communications and mail, travel and transportation, and printing and graphic arts.

In addition, the Office will provide the Regional Bureaus with support and service in two specialized technical areas. These include participant training, where the Office will perform the ministerial functions associated with the transportation and personal arrangements for foreign trainees; contract administration, where the Office will provide a focal point for the development of standardized contract processes.

#### B. Administration

Detailed administrative procedures for the conduct of the Agency's business will be established after the organization has been created. These procedures will be developed to implement the organizational concepts described in the preceding sections. Certain key aspects of administration are discussed in the following paragraphs.

##### 1. Personnel Administration

Success of United States efforts in assisting countries to obtain maximum growth will depend largely upon the Agency's ability to maintain a professional staff with high standards of motivation and performance. To this end, the personnel system will provide maximum flexibility in obtaining the best personnel available, whether within or without the Federal service. In addition to its own technical staff, A.I.D. will mobilize personnel resources by short-term employment, by arrangement with other government agencies, and by contracts with private institutions. The position of personnel administration is given greater status and weight in the new agency so that more emphasis and attention will be given to personnel selection, training and placement.

Section 527 of the Mutual Security Act of 1954, as amended, provides for the appointment and assignment in the assistance agency of personnel of other U.S. Government agencies, use of the provisions of the Foreign Service Act to appoint and assign Foreign Service Reserve Officers, Foreign Service Staff and alien clerks and employees, and compensation of a specified number of personnel employed in the United States without regard to the provisions of the Classification Act of 1949. These basic authorities should be

extended.

After a careful review of these and other features of the current personnel situation, it has been decided that the development of a separate career system for A.I.D. personnel is unnecessary and undesirable. Instead, it is proposed that the authorities in the Mutual Security Act be retained as an interim step in the development of an integrated foreign affairs system embracing both the assistance and nonassistance parts of the State Department. In the meantime, the personnel systems of the State Department and A.I.D. will be administered in such a way as to assure consistency of policies and standards, to facilitate interchange of personnel, and yet to provide the decentralized operations necessary to accommodate the requirements of each. Interchange of assignments among State Department and A.I.D. personnel will be increased to broaden the scope and perspective of each, add to the base of qualified personnel, and improve working relationships both in the field and in Washington.

In the past, when foreign assistance activities have undergone reorganization, new administrations have been given discretionary authority to select all of those employees who would be carried over. A.I.D. will rely primarily on established laws and regulations affecting transfers of governmental activity; existing authorities properly used are adequate for the selection and transfer of personnel who are well qualified for positions in the new agency, without the disruptive influences inherent in former reorganizations. However, discretion is being requested to fill up to 85 key positions in Washington. This authority together with the special authority to be provided for the selection of top mission personnel should give the Administrator sufficient flexibility in staffing key positions. Persons for these excepted positions will be selected on a merit basis. Employees of the agencies abolished or superseded by this proposed legislation may be selected to fill some of these new positions, depending on their relative qualifications. Those employees who are not so selected will be given their rights under existing laws and regulations to compete for any remaining positions for which they are qualified. Also, the proposed legislation provides a selection-out system for Foreign Service Reserve Officers similar to that now in effect for Foreign Service Officers.

The proposed legislation provides for twelve statutory positions. This is an increase of four over the number of such positions currently authorized. Although the situations are not directly comparable, the increase results primarily from the inclusion in this category of the Assistant Administrators in charge of the Regional Bureaus. The legislation authorizes sixty positions at rates higher than those provided for grade 15 of the general schedule established by the Classification Act of 1949 - 55 for A.I.D. and five to enable the Department of State to coordinate military and economic assistance programs. The 55 for A.I.D. represents an increase of nine over similar positions authorized in the Mutual Security Act allocated to the functions which will in the future be performed by A.I.D. These additional positions are required because of the need to staff the top positions in the new research and development program and to strengthen the personnel and financial management functions. It is also contemplated that an average of thirty-two positions will be within the regional offices filled in under the Foreign Service Act at rates higher than those provided for GS-15. The current average number so filled is 20 and these positions will be used to enable the Regional Bureaus to carry the additional responsibilities described above.

## 2. Program Formulation and Control

Achievement of the Agency's objectives requires a programming system which accommodates all of the Agency's activities so that the several units of the organization can work in effective relationship. The basis of the programming system will be the programs for each of the countries in which the Agency operates. As a general rule, all work undertaken or activities pursued by the Agency will be scheduled in advance and approved by the Administrator, either directly or by delegation.

In addition to providing the Administrator with the necessary control of Agency activities, the country programs will support the Agency's budget and thereby provide the necessary controls for the President and the Congress. The programming system will, through the integration of accounting procedures and definitions, also provide the basis for reporting progress and keeping top management informed of the status of current operations. The basic unit of measurement will be dollars of cost.

## 3. Financial Management

The integration of foreign assistance functions described in the foregoing sections will eliminate many of the problems associated with financial management in the past. Accountability for managing the fiscal aspects of the assistance program will, in the future, rest with a single Administrator. This will make it possible to consolidate the financial management functions under one roof and to simplify the cumbersome procedures of the past.

Within the Agency financial management activities will be centralized under a Controller. The Controller will report directly to the Administrator and will provide him with an independent judgment on efficiency, economy, and integrity of operations.

The Controller, among his other duties, will be responsible for developing, installing and when necessary revising an integrated system of accounts and procedures to assure proper control and utilization of the Agency's resources. This system together with the program control procedures described above will keep the Administrator fully informed with respect to the efficiency and effectiveness of the Agency's operation.

## 4. Program Evaluation

It is essential that the Administrator have the capability to assess periodically the substantive quality of progress made and results achieved under the various programs of the Agency. Several parts of the organization will participate in the evaluation process. The Assistant Administrators will be responsible for continuously reviewing, evaluating, and reporting upon the operations in their respective regions. The Office of Development Research and Assistance will be responsible for evaluating the degree to which the Agency is accomplishing its long-run objectives, particularly with respect to facilitating the growth of strong national institutions in recipient countries.

An important part of the assessment process involves measurement of managerial performance at all levels, down to and including the country and project levels. This activity will

be carried out by specially selected evaluation teams, designated for the Administrator by the Director of the Office of Personnel Administration on an ad hoc basis, and assigned to review the results obtained under specific projects, under specific country plans, and occasionally along specific, and cross-cutting, functional lines of activity. Whenever possible, the evaluation teams will apply objective tests and measurements to program achievements and deficiencies. They will advise the Administrator, through their reports, on opportunities for and methods of strengthening managerial performance and improving management systems and relationships. Evaluation teams will use data produced by the Agency's financial management, accounting, and statistical reporting systems. Such information will be augmented, by direct on-site observation, interview, and discussion with Agency staff, contractors, and country participants.

#### 5. Business Participation

The new program concepts call for a greater participation of the private sector in the Foreign assistance effort. The Office of Development Financing will provide a central point within the Agency for contacts with private investment interests and for encouraging the utilization of private capital in development projects.

The proposed legislation states the Congressional intent that American small business firms shall be given optimum opportunity to participate equitably in the furnishing of commodities and services financed with funds made available through the Act for International Development. Primary responsibility for implementation of this provision will rest with the Agency's line officers - the Assistant Administrators. In order to assist them in this effort, a central clearing house will be established within the Office of Commodity Assistance to provide a systematic flow of advance information to small business describing proposed purchases under the Agency's programs.

The Office of Commodity Assistance will also be responsible for providing prospective purchasers in nations and areas receiving assistance with information concerning commodities and services available from U.S. small business firms, and for maintaining appropriate collaboration with other Federal and private organizations interested in facilitating small business participation in the development effort.

#### C. Relationships with Other Agencies

The Agency for International Development will combine in one agency the major existing agencies and programs of foreign assistance and integrate in one operation the major tools of assistance - capital financing, development research and assistance, and food and other commodity supply. The Agency will be organized primarily along geographical lines to assure coordinated and responsive assistance to the developing countries in terms of their own needs and priorities. However, A.I.D. will, in its planning and programming, seek the advice of domestic departments and agencies which have competence in fields related to development and utilize the services of such departments and agencies and their experts and technicians on a reimbursable basis, just as it does the services of State governments and private agencies. These arrangements will continue to be based on agreements and contracts entered into by A.I.D. and the appropriate Federal agency. This combined and integrated approach to international development will bring the several aspects of assistance into focus at the points it is needed and can be used best and it will avoid the confusion and inefficiency of multiple planning, representation, and operations.

#### D. The Administrative Budget

The administrative budget proposed for fiscal year 1962 is keyed to the transitional nature of the operations of the A.I.D. during this period. This budget has been developed to cover only the annualization in fiscal year 1962 of the levels of administrative employment expected to be reached by the end of the fiscal year 1961 in functions of the predecessor agencies which will be carried on in some form by the A.I.D. As the specific manpower requirements are developed in line with the new operational concepts and the organizational structure of the A.I.D., and as the present distinctions between the administrative and program categories of expenses are re-examined, it is anticipated that there may be a change in the requirements for administrative funds. Furthermore, an expanded operational requirement in Africa and Latin America, the expanded development lending functions, and the administration of foreign currency programs formerly the responsibility of the Export-Import Bank may well lead to additional manpower requirements which cannot be met within the limits of this budget. Additional administrative funds and staff which may be required during the fiscal year 1962 for any of the foregoing reasons are proposed to be provided through the transfer authority contained in

Section 610 of the proposed Act for International Development of 1961. This authority will be used sparingly and only when it is determined by the Administrator to be essential to the carrying out of the functions and programs of the A.I.D.

The administrative functions of the predecessor agencies, which have been considered for purposes of this budget as corresponding to those of A.I.D., are: (1) the International Cooperation Administration (Section 411(b) of the Mutual Security Act, as amended); (2) the Development Loan Fund; (3) the related economic assistance functions of the Department of State (Section 411 (c) of the Mutual Security Act, amended); and (4) the Office of the Inspector General and Comptroller (Section 533 A of the Mutual Security Act, amended). Of the former Mutual Security functions of the Department of State the Public Information functions and some portions of the program coordination and presentation functions fall within the scope of A.I.D. Those which do not fall within the scope of A.I.D. and, accordingly, have been excluded from the comparative fiscal year 1960 and 1961 figures in the accompanying table are (1) program coordination and presentation of other assistance programs; (2) program policy and review; (3) United States representation -- NATO and European Regional Organizations; (4) Refugee and Migration Program; and (5) Mutual Defense Assistance Control. Henceforth, these functions will be budgeted as regular activities of the Department of State.

Amounts are shown for fiscal years 1960 and 1961 in the accompanying table of the funds of the predecessor agencies to the A.I.D. used for the comparable functions carried on by those agencies. During fiscal year 1961, the administrative expense funds appropriated for the predecessor agencies were increased through transfer from other Mutual Security funds under the authority of Section 501 and 551 of the Mutual Security Act of 1954, as amended. These transfers were necessary to provide for the costs of the increased compensation of Federal employees; additional expansion of African operations; acceleration of social and economic development activities in Latin America; more comprehensive administration of programs under Section 416 of the Agricultural Act of 1949, as amended; and other unbudgeted contingency needs, including the Peace Corps and the President's Task Force on Foreign Economic Assistance. Funds so transferred amounted to \$361,000 for the Mutual Security functions of the Department of State and \$5,650,000 for the International Cooperation Administration. Of this latter amount \$500,000 was transferred to the Peace Corps for its administrative expenses.

The budget proposed for the fiscal year 1962 administrative expenses of the A.I.D., under the authority of Section 636 of the proposed Act for International Development of 1961, is \$51,550,000, consisting of \$51,000,000 new obligational authority plus the unobligated prior year balances of the administrative funds of the predecessor agencies to the A.I.D., estimated at \$550,000. This budget covers the estimated cost of personnel compensation and benefits and supporting services and facilities for the staffing levels shown in the accompanying table.

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATIVE EXPENSES

COMPARATIVE SUMMARY OF PREDECESSOR COMPONENT AGENCIES

WORLD-WIDE POSITIONS AND OBLIGATIONS

	1960 Actual		1961 Estimate		1962 Estimate	
	U.S. Positions	Obligations (\$000)	U.S. Positions	Obligations (\$000)	U.S. Positions	Obligations (\$000)
<b>WASHINGTON:</b>						
International Cooperation Administration	1,575	\$16,599	1,668	\$18,148	-	-
Development Loan Fund	124	1,690	160	1,892	-	-
Department of State:						
Program Coordination and Public Information	47	483	49	582	-	-
Inspector General and Comptroller	93	527	56	915	-	-
Agency for International Development	-	-	-	-	1,933	\$23,008
<b>Total</b>	<b>1,839</b>	<b>19,299</b>	<b>1,933</b>	<b>21,537</b>	<b>1,933</b>	<b>23,008</b>
<b>OVERSEAS:</b>						
International Cooperation Administration	975	\$21,571	1,128	\$25,749	-	-
Development Loan Fund	-	-	-	-	-	-
Department of State:						
Program Coordination and Public Information	-	-	4	104	-	-
Inspector General and Comptroller	23	341	17	341	-	-
Agency for International Development	-	-	-	-	1,137	\$28,542
<b>Total</b>	<b>998</b>	<b>21,912</b>	<b>1,149</b>	<b>26,194</b>	<b>1,137</b>	<b>28,542</b>
<b>TOTAL:</b>						
International Cooperation Administration	2,550	\$38,170	2,796	\$43,897	-	-
Development Loan Fund	124	1,690	160	1,892	-	-
Department of State:						
Program Coordination and Public Information	47	483*	53	686*	-	-
Inspector General and Comptroller	116	868	73	1,256	-	-
Agency for International Development	-	-	-	-	3,070	\$51,550
<b>Total</b>	<b>2,837</b>	<b>41,211</b>	<b>3,082</b>	<b>47,731</b>	<b>3,070</b>	<b>51,550</b>

\* Excludes \$7,762,000 for fiscal year 1960 and \$7,726,000 for the fiscal year 1961 expenses of former Mutual Security functions being transferred to the Department of State in fiscal year 1962.

## V. Mobilizing Free World Contributions

### A. The Problem of Defining "Aid"

Although the United States, other industrialized countries, and a number of international organizations have been assisting underdeveloped countries for some years, there is no agreement as to what constitutes "aid". There is no doubt that export credits on commercial terms do result in the transfer of more real resources to a developing country than it could afford to pay for currently. An excessive reliance on short- and medium-term export credits may, however, delay rather than assist the development process, either by forcing premature repayment or by contributing to a balance-of-payments crisis. In the latter case, the extension of commercial or official debts falling due through new consolidation credits may permit the maintenance or resumption of a pace of development which would otherwise be drastically curtailed or terminated entirely. Any definition of "aid", however, should be limited to financing made available on terms more liberal than those available in the commercial market.

Recognizing that there is no international agreement on what to include in "aid", the following data and discussion are limited to the portion of total official capital flows from other free world industrialized countries which unquestionably must be included in the category of "aid" — net grants and gross loans of over five years original maturity.<sup>1/</sup>

Even five years ago, the total flows of grants and long-term loans from other free world industrialized countries directly to less developed countries amounted to \$0.9 billion. In recent years more donor countries have entered the scene, and some of the former colonial powers have extended bilateral assistance to additional countries. By 1959, the flow of grants and long-term loans from other free world industrialized countries to

<sup>1/</sup>We would prefer to limit "aid" to loans of over ten years original maturity, as being clearly better than what is obtainable on the market. At this time, however, no statistical data are available on this basis. Furthermore, it is impossible to show with any degree of accuracy long term loans net of amortization payments since, in the only available statistical data, all official amortization payments are lumped together. This is perhaps less of a problem than appears, since what is significant for economic development on the part of less developed countries is new development assistance.

less developed countries had increased more than 50% — to \$1.5 billion. During the same four year period, economic assistance to developing countries from international organizations rose from \$0.3 to \$0.4 billion.

### B. International Coordination of Sources of Aid: The Job for the Future.

Coordination is necessary to make the most effective use of aid.

International coordination of aid can be thought of on two levels. At the level of the recipient country, it is desirable accompaniment to a development plan or program of the recipient country. Coordination among various aid donors, and between them and the recipient country, is necessary if the most efficient use is to be made of the external resources involved.

At the more general level, there is a place for coordination among aid donors, in order to insure that the total volume of resources to be made available by the industrialized countries as aid to the less developed countries is sufficient, and that it is made available on appropriate terms.

#### 1. Coordination at the Country Level

a. The Central Role of Planning. For a country bent on economic development, appropriate steps must be taken to make the most effective use of its resources through conscious planning. This may be in greater or in lesser detail.

Whatever degree of detail the planning process of a particular country entails, an essential part of it will be decisions on how aid is to be used. There cannot be any real coordination of aid without conscious decision making on the part of the recipient government, whether or not this is embodied in something called a "five year development plan". Once the basic decisions have been reached as to the uses to be made of the country's own resources, external aid, whether from one or more donor countries or from international institutions, can be fitted in. Only rarely are the foreign resources more than a fraction of the total. Even where they form an important part of the resources devoted to development, much of the effectiveness of their use will depend on what happens in the rest of the economy. Hence, effective coordination must take place in and with the recipient country. (If the recipient is less developed administratively as well as economically, some direct coordination of its activities among aid donors may be appropriate, at least to the extent

of exchanging information in activities to prevent wasteful overlapping.)

The need for active coordination of aid has been increased by two developments--an increased number of aid donors, and a broader geographic distribution of countries aided by each.

b. Increased Number of Aid Donors. In many countries in the past, the U.S. was the only, or the only major, aid donor. The few other aid donors tended to limit most of their assistance to their colonies or associated areas where, generally speaking, the U.S. was not involved. In a number of recipient countries in the past the only other donor of significance was the International Bank for Reconstruction and Development (IBRD). With this institution, coordination has been good, in view of the presence on the IBRD of a U.S. Director, and of the internal U.S. coordinating machinery provided in the National Advisory Council (NAC), in which the U.S. position on all loans is determined. Now, in part as a result of the effort to secure an increase in the assistance to the less developed countries and a more equitable distribution of the aid burden, more donors are contributing more aid to more recipients. **Problems of coordination are thereby increased.**

c. Greater Dispersal of Aid Recipients. The problem of coordination has increased as more of the less developed areas achieved independence. On the one hand, the U.S. has been asked in many cases to provide help in achieving their development goals--or help in determining what reasonable development goals might be. In most cases the former metropole is continuing to aid the newly-independent country, and some degree of coordination of aid efforts is therefore essential.

A number of the other aid donors are now beginning to assist other less developed countries where they had not previously been involved. In part this may result from some decline in the amount of assistance granted to former colonial areas, with a consequent shift in the locus of aid to other less developed countries. In part it is the direct result of efforts in the Development Assistance Group (DAG) and elsewhere, with the U.S., the IBRD or another principal donor actively seeking the participation of other industrialized countries in assisting a particular developing country. Each of these trends, whether self-generated or the result of discussions bilaterally or in international forums, increases the need for coordination. Each makes it clear that the necessary degree of coordination can take place only in the recipient country.

#### d. Coordinating Technical Assistance Activities.

This problem is larger in scope and yet in some respects more manageable. Although the amounts of money involved are relatively small by comparison with capital assistance, more donor agencies are involved. Even within a single donor country, there may be a number of agencies providing some form of technical assistance to developing countries. In addition, there has tended to be inadequate coordination among the various UN and other international agencies providing technical assistance. As a result, the technical advice which a developing country has received has frequently borne little relationship to a rational assessment of its needs. Rather, the assistance extended to a developing country has often been the result of the availability at a particular time to a technical assistance agency of particular individuals with particular skills. A coordination of the various national and international technical assistance activities was undertaken at the third meeting of the DAG in Washington in October 1960. This was followed by a meeting in Washington in February of this year of experts from the principal national and international agencies offering technical assistance. The fourth meeting of DAG, in London in March 1961, adopted a resolution to establish a Working Group to serve as a forum for the exchange of information and to prepare studies of the technical assistance activities of members.

Obviously the exchange of information on technical assistance requests received by the various agencies can contribute to eliminating unnecessary conflict and overlapping. In some areas, the U.N. can play a useful coordinating role. A prerequisite to such a role would appear to be a greater degree of central direction and control of the various, often-competing Specialized Agencies of the U.N. which offer technical assistance to less developed countries. It is also anticipated that the discussions among technical assistance experts of the donor countries will continue in the Technical Assistance Working Group of the DAG. Once again, however, the only coordination which, in the last analysis, is meaningful is that which tailors the technical assistance employed to the needs of the individual developing countries. Ideally, a national development plan should specify the areas in which technical assistance is required. Failing this, steps should be taken within the developing country to seek to make the best use of total technical assistance availabilities by eliminating conflicts and overlapping.

As one element of the new approach, the U.S. will contribute to this process of simplification and coordination by incorporating

all sources of technical and capital assistance in the single aid agency. This should help to reduce the confusion on the part of the newly independent countries, which in the past have been faced with a variety of U.S. sources of assistance.

2. Coordination among Donors.

a. Increasing the Total Flow of Aid.

There are certain areas in which coordination directly among the aid donors is appropriate. The principal purpose for which the Development Assistance Group was established early last year was to insure that the resources made available by the industrialized countries as aid to the less developed countries are large enough, and that they are made available on the right terms.

Total aid from other industrialized countries to developing countries has been substantial. Details are given later in this section.

We do not know what the total needs of the less developed countries for outside assistance are. It is quite clear, however, that more can be used effectively. The volume of assistance that can be used effectively is increased if enough of it is made available on "soft" terms--that is, if the repayment burden is not too large in the early years.

This involves efforts on the part of aid-giving countries to learn from each other's experience. It involves decisions as to what types of new legislation or action may be necessary in order to effect institutional changes to make aid available in the form needed. It involves efforts to secure a more equitable distribution among aid donors of the burden of aid. (This does not mean "equitable sharing" of aid to any particular recipient country. It is likely that many recipients will continue to receive most of their aid from one or two donors. What is important is the equitable sharing of the total aid burden.)

b. Sharing the Burden of an Increased Aid Program. Progress was made on these efforts in the most recent meeting of the Development Assistance Group which was held in London. Members of the Group agreed to recommend to their governments that they should make it their common objective to secure an expansion of the aggregate volume of resources made available to less developed countries. There was agreement on the need for assistance provided on an assured and continuing basis; on the need for a larger proportion of total capital outflow in the form of grants

or of loans on favorable terms; on a periodic review of both the amount and nature of their contributions to aid program; and on a study of the principles which should govern an equitable sharing of contributions to the common aid effort.

In its proposals to the other members of the Group on the last point, the U.S. Delegation recognized that there was no simple formula to cover fair-sharing. The benefits of an effective aid program are joint and indivisible. They accrue to each member from the scale and quality of the total program--not in proportion to the member's own contribution. The principles which have come to be accepted in our own countries as fair and reasonable should be applied to sharing the total program. These principles can be briefly stated. The contribution of each should be in relation to his capacity to pay. The wealthier nations should contribute a larger fraction of their income than those less well off. The contribution of each country to economic aid must take full account of its contribution to other common endeavors such as the joint defense.

c. Improving the Terms of Aid. The developing countries can use more outside assistance effectively if more of it is made available on terms which do not impose an excessive repayment burden in the earlier years. A large volume of medium-term export credits, for example, may provide the external resources to accelerate development for a brief period. Soon, however, the sharply-increased debt service requirements are likely to lead to a slow-down of development, a foreign exchange crisis, or both.

Few of the capital-exporting countries have had the legislative or institutional framework to extend much real "aid", as it has been defined above. For a few of them the principal government financial activity in this field was to guarantee private export credits. Others have had small grant aid programs, and no other activities. Still others have extended most of their "aid" through international agencies (which does not show up in the bilateral aid data given earlier).

Thanks in large part to activities by the U.S. in DAG and by the IBRD in the various "consortia" discussed below, this problem is now more generally understood. Some donor countries which have been extending a considerable amount of official financing to less developed countries are taking the necessary administrative steps or seeking the legislation necessary to insure that a larger proportion of the total is made available as grants or long-term loans, and that appropriate portions of the loans have low interest rates.

### 3. Organizing for Future Action.

a. Development Assistance Committee. In seeking to give form and substance to these principles, steps are being taken in several areas. The Development Assistance Group, for example, agreed on the appointment of a permanent Chairman and Vice Chairman and to representation by senior officials, in order to strengthen the coordinating work of the Group. It is contemplated that the high level officials will be available to meet on call of the (American) Chairman to handle problems as they arise.

Future meetings of the DAG (and of the successor Development Assistance Committee of the OECD) will continue to address the problems of expanding the common aid effort and of insuring that a larger proportion of the total capital flow is made available on terms appropriate to the economic and financial position of the developing country. In addition, the DAG should prove to be an appropriate forum to seek an area of agreement on other matters directly related to development. For example, the countries in the inter-American system agreed last year at Bogota that a number of self help internal measures were necessary if development were to succeed. Aid can provide an invaluable incentive to a government in facing the perhaps unpleasant immediate political consequences of, say, the belt-tightening measures which may be necessary to stop an inflation. Such an incentive may be nullified if other capital-exporting countries, perhaps motivated by short-run commercial considerations, extend financing (perhaps on inappropriately short-terms) without regard to development requirements or to the wishes of the government of the country involved to put their house in order. Elsewhere in this presentation the importance of the incentive effects of aid are stressed, together with an explanation of the reasons why economic conditions attached to aid are necessary. The DAG should provide a forum in which agreement can be sought on criteria to govern such economic conditions. It is most important that any "conditions" attached to aid are those which will facilitate the development process, and not the political or commercial advantage of the "aid donor."

b. "Consortia" of Aid Donors. Leadership in another area at this level of coordination among donors has been taken by the IBRD. Under its auspices the major countries which have been assisting India in its development have been assembled on four occasions to discuss their contributions to the Indian Second and Third Plans. A similar "consortium" of aid donors to Pakistan is expected to convene in June for the second time. Although the consortium is an association of aid donors, it meets and acts with specific reference to a development plan

prepared and presented to the Bank by a developing country. The role of coordination is, therefore, still essentially performed by the developing country. At the same time, the discussions in the consortium meetings conform to the objectives set forth for the Development Assistance Group--that is, to seek agreement in more general terms on the total volume of aid and on the terms on which it is made available.

The Bank also took the lead in arranging for the international financing of the Indus Waters development program. This included agreements on plans and financing by India and Pakistan and long-term financing commitments totalling \$900 million by the IBRD, Australia, Canada, Germany, New Zealand and the United Kingdom as well as the U.S. The U.N. Economic Commission for Asia and the Far East (ECAFE) was instrumental in working up a program of continuing assistance to the development of the Mekong River Basin and the riparian countries--Laos, Thailand, Cambodia, and Vietnam--by eleven other countries (including four less developed countries) and eight UN agencies.

There have been other efforts on the part of capital-exporting countries to coordinate their efforts with respect to individual developing countries. Most frequently these have taken the form of concerted action to put together a "package" of aid to rescue a developing country from financial difficulties which might result in defaults on obligations due its creditors, and to support a financial stabilization program which will make possible future development. Frequently these have included the appropriate international organizations, which have sometimes taken the lead in seeking this agreement. For example, the United States is now engaging in discussions with the International Monetary Fund (IMF) and the principal European creditors of Brazil in order to work out a program which will permit a continued flow of trade and hence maintain the tempo of development. The OEEC and the IMF have been instrumental in putting together "aid packages" in support of stabilization programs in Spain, Turkey and Yugoslavia in the last three years. Other stabilization program aid commitments have been worked out by the IMF for Argentina and Iran, with participation by the U.S. and other countries. The United States has engaged in discussions with individual aid donors in a continuing effort to interest others in the problems of particular aid recipients where we have been carrying most of the burden. A partial list of coordinated efforts in providing assistance for development or stabilization programs follows.

Partial List of Coordinated Efforts in Providing  
Assistance for Development or Stabilization Programs

<u>Date</u>	<u>Country</u>	<u>Aegis</u>	<u>Participating Countries</u>	<u>Total "Package" Millions of Dollars</u>
<u>Development Programs</u>				
1961	Bolivia	IDB	IDB, U.S., Germany	10.5
1958-60	India (Second 5-year Plan)	IBRD	IBRD, U.S., U.K., Canada, Germany, Japan.	634
1961	India ( Third 5-Year Plan)	IBRD	IBRD, U.S., U.K., Germany, Japan, Canada and possibly other countries.	1/
1960	Indus Waters (India, Pakistan)	IBRD	IBRD, U.S., U.K., Australia, Canada, Germany, New Zealand, Pakistan, India.	900
1958	Mekong River (Laos, Cambodia, Viet Nam, Thailand)	ECAFE	U.S., Canada, France, New Zealand, U.K., Australia, Japan, India, Iran, Israel, Rep. of China; and 8 U.N. agencies, including U.N. Special Fund and UNTAB.	6.5
1960-61	Pakistan	IBRD	IBRD, U.S., U.K., Germany, Japan, Canada	1/
<u>Stabilization Programs</u>				
1959	Argentina	IMF	IMF, U.S., U.K., Germany, France, Italy, Switzerland, Belgium, Netherlands, Sweden.	300
1961	Brazil	--	U.S., U.K., Austria, Belgium, France, Germany, Italy, Netherlands, Sweden, Switzerland 1/.	1/
1960	Iran	IMF	U.S. and IMF.	76.2
1959	Spain	IMF & OEEC	IMF, European Fund, U.S.	376
1958	Turkey	IMF & OEEC	IMF, U.S., OEEC countries as individual countries.	359
1961	Turkey	IMF & OEEC	IMF, European Fund, U.S.	131
1960	Yugoslavia	IMF	IMF, U.S., Austria, Italy, Germany, France, Netherlands, Switzerland, U.K., Private German Banks.	275

1/ Under study and negotiation.

## C. A Report on the Past and Present

### 1. The International Capital Assistance Agencies

#### a. International Bank for Reconstruction and Development.

Up until the present time the only international organization which has extended really substantial amounts of capital assistance to less developed countries is the IBRD. In the last two years disbursements on IBRD loans to less developed countries have been over \$300 million per year. (New commitments were over \$500 million last year.) The proportion of a rising level of total loans going to less developed countries continues to rise, amounting to almost two-thirds in the past five years. Geographically, the bulk of commitments continued to be in Asia, but Africa accounted for almost one-third of the Bank's new loan commitments last year. There has also been increased lending in Latin America. The purposes for which Bank loans were made showed the usual concentration on basic facilities. Over the years approximately a third of its development loans have been for electric power; a third, for transport improvement -- railways, highways, air, waterways and pipelines; and a third, for general development purposes, including agriculture, especially irrigation, and industry, especially steel production.

#### b. International Finance Corporation (IBRD-Affiliate).

Since its establishment in 1956, the IFC has made 36 investments totalling \$45 million in 17 countries. Seventy-five percent of the investments have been in 9 member countries in Latin America. In 1960 the IFC made 13 investments, aggregating the equivalent of \$18.6 million or some \$8.4 million above 1959. Of the projects in which IFC invested during 1960, eight are owned and managed by residents of the country where the project is located, four are joint enterprises of local and foreign ownership and management; and one is a subsidiary of a foreign firm. Seven of these investments were made in countries where the IFC had not previously invested.

c. International Development Association. The IDA began operations on November 8, 1960, and had not made any loans by the end of the year. The initial subscription to the IDA is \$1 billion, with the economically stronger countries paying in \$763 million, all in gold or convertible currencies; and the less developed countries \$237 million, 90 percent of which would be in national currencies. As of April 27, 1961, there were 42 IDA members and IDA subscriptions amounted to \$862.84 million.

d. Inter-American Development Bank. The newly created IDB did not make any loans until early 1961. However, by the end of 1960 the Bank had received 194 applications for loans and 174 inquiries. Three-fourths of the applications came from private agencies or individuals and one-fourth from public agencies. At the end of the year, the Bank had 91 applications in an active status, involving about \$200 million in loan requests. Remaining applications were "on file", including some that may lend themselves to financing through the Inter-American Fund for Social Progress. (As of the end of April 1961, the IDB had made 10 loans totalling \$50.25 million, of which \$40.75 million was in dollars.)

e. EEC Overseas Development Fund. The Overseas Development Fund, established by the European Economic Community to provide grant economic assistance to overseas areas associated with the Common Market, made its first commitments in 1958. Through the end of 1960, some \$120 million had been committed to specific projects (over 1/5 of the total Fund of \$581.3 million over the five-year period to 1963), but only 3 million had been disbursed. The first two years were devoted to establishing the administrative machinery and developing projects. Assistance from this Fund is intended to be complementary to the direct contributions of the responsible member states. The types of projects which may be financed by the Fund include "infrastructure" projects, e.g., hospitals, teaching and technical establishments, and institutions for the promotion of professional activities among the population - and economic projects of general interest.

### 2. Technical Assistance Agencies.

a. The Banks. One of the important functions of the IBRD, and one of the prospective functions of the IDB, is to furnish technical assistance to member countries. The IBRD has, over the years, undertaken a series of basic economic surveys, resulting in a series of volumes which are an essential basis for development programs. The IDB despatched a special technical assistance mission to Bolivia in 1960, and plans have been completed to send other missions to Haiti, Honduras, Paraguay and El Salvador. Both institutions are expected to assist with development planning. The IBRD has for some years engaged in advanced training of economic development officials from member countries.

b. United Nations Technical Assistance Activities. The technical assistance activities of the United Nations are carried out through the U.N. Regular and Expanded Technical

Assistance Programs and the United Nations Special Fund. The former has been a source of funds for technical assistance, and is financed by voluntary contributions to a special assistance account maintained by the Secretary General of the United Nations. Funds are allocated from the central account to each of the specialized agencies which actually provide the technical assistance.

The Special Fund was established in 1959 to assist less developed countries in preliminary steps of development projects. Unlike the Expanded Technical Assistance Programs (ETAP), the Special Fund concentrates on relatively large projects. It provides assistance in the form of preinvestment surveys, aid to research or training institutions, and demonstration and pilot projects. The Special Fund is financed by voluntary contributions of governments, and may also receive donations from non-governmental sources. Its primary objective is to facilitate new capital investment in the less developed areas.

The activities in the field of technical assistance by the specialized agencies are financed both out of their regular budgets for which member countries are assessed and for special projects, from funds made available through ETAP. The specialized agencies provide technical assistance in their specialized areas of, e.g., agricultural production, vocational training, health and sanitation, and education.

c. Organization of American States. The Technical Cooperation Program of the Organization of American States is a cooperative technical aid program, on a multilateral, regional basis, supported by voluntary contributions from twenty-one member nations of the OAS. This program affords technicians and students from the member countries the opportunity to work together toward the solution of common problems. The principal technique is a program of regional training centers. The principal problems addressed have been agricultural production, public and business administration, teacher training, statistical techniques, and social welfare programs, etc.

The importance of these activities cannot be measured in terms of dollar volume. The cost of providing technical assistance is by no means a basis for comparison with the vastly greater cost of capital assistance. The expenditures of capital assistance and technical assistance agencies are not directly comparable. The tables which follow, however, give dollar value of technical assistance in order to illustrate the gross orders of magnitude involved.

Although the dollar amounts in technical assistance are relatively small, these finance a wide variety of individual activities. The problems of coordination of the technical assistance activities of international agencies and other free world donor countries with the similar activities of the United States may therefore be a more complex problem than that of coordinating capital assistance. This problem is discussed in greater detail below.

Capital and Technical Assistance to Less Developed Countries by International Agencies  
(Disbursements or Expenditures Basis)  
(Figures in millions of dollars)

	1956	1957	1958	1959	1960
<u>Capital Assistance</u>					
Intl. Bank for Recon. & Development	181	279	347	312	341
Intl. Finance Corp.	-	1	1	6	9
Intl. Development Assn.	-	-	-	-	-
Inter-American Devel. Bank	-	-	-	-	-
EEC Overseas Devel. Fund	-	-	-	*	3
<u>Technical Assistance</u>					
United Nations agencies <sup>1/</sup>	n.a.	104	99	92	n.a.
Organization of American States <sup>2/</sup>	7	8	9	11	13

\* Less than \$500,000

<sup>1/</sup> Includes relief agencies as well as regular and expanded Technical Assistance Program, specialized agencies, and UN Special Fund.

<sup>2/</sup> Data on several of the OAS agencies, comprising perhaps half of the total expenditures, are on a fiscal rather than a calendar year basis.

3. Other Free World Countries.

A considerable number of other free world countries have been extending economic assistance to less developed countries for several years. The largest amounts have been those from the European metropolises to their overseas territories or to states

with which they are, or previously had been, associated. Through agencies such as the Colombo Plan, additional countries have found that they could be of help to developing countries. In the Colombo Plan context, even some of the recipient countries have found that they were in a position to extend certain types of technical assistance, for example, to other less developed countries.

This section is limited to a brief survey of the existing programs of the other free world industrialized countries. In most cases, the grant figures include some financing of technical assistance or related activities. In view of the variety of such activities, little that is meaningful could be said in this brief survey. Attention is rather devoted to the nature of the capital export programs which the other donor countries have including, as appropriate, mention of institutions, types of assistance extended, or direction of aid. Since the description is of existing institutions and types of financing made available to less developed countries, it covers activities which do not constitute "aid" as defined above.

Official Bilateral Grants and Long-Term Loans  
to Less Developed Countries  
(Figures in millions of dollars)  
DISBURSEMENTS

	1956		1957		1958		1959	
	<u>Grants Loans</u>		<u>Grants Loans</u>		<u>Grants Loans</u>		<u>Grants Loans</u>	
	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Loans
Australia	--	1	--	--	40	--	38	--
Austria	--	--	--	--	--	2	--	1
Belgium	12	--	12	--	8	1	34	1
Canada	22	--	42	--	49	34	51	--
Denmark	--	--	--	--	1	--	--	--
France	450	223	580	257	783	116	852	73
Germany	1	--	2	21	6	36	21	51
Italy	9	--	9	--	10	2	9	2
Japan	--	5	--	10	178	23	4	55
Netherlands	21	4	20	3	21	4	24	4
New Zealand	6	--	5	--	5	--	6	--
Norway	--	--	--	--	1	--	1	--
Portugal	--	7	--	5	--	4	--	21
Sweden	--	--	2	--	1	--	1	--
Switzerland	--	--	--	--	--	2	--	--
United Kingdom	130	37	144	45	136	72	145	143
United States	1,742	322	1,871	414	1,581	782	1,641	739

Notes: Data cover only bilateral economic assistance grants (net) and gross new loans with an original maturity of more than five years. For the U.S. only, net grants include the net increase in U.S. holdings of local currencies resulting from PL 480 Title I sales, not yet allocated to country-use grants or loans or used for U.S. purposes. Excluded from this table are loans with an original maturity of five years or less, consolidation credits of whatever terms, and offsetting entries for amortization payments received. Also excluded are government subscriptions to, assessments by, and voluntary contributions by governments to international organizations. The data therefore understate the true total aid effort of some countries.

Conversion to dollars made at prevailing exchange rates.

Sources: OEEC, "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-1959," tables 2(a) to 2(d), pp. 11 - 17; except for Australia and New Zealand, from UN, "International Economic Assistance to the Less Developed Countries," New York, 1961. (E/3395/Rev.1, Sales No. 61. II. B.2), pp. 21, 26, and from information from those two governments. (For these two countries, the data are for fiscal years.)

## Country Programs

Australia. The principal beneficiaries of Australia's program for economic assistance to less developed areas are its overseas territories in Oceania and the participants in the Colombo Plan. Australian Assistance has included training in Australia of students from less developed areas, sending Australian experts to less developed areas, providing technical equipment and capital aid.

The bulk of Australian assistance has been in the form of grants for the administration and development of Papua and the Trust Territory of New Guinea. About one sixth has been capital and technical assistance extended through the Colombo Plan.

Austria. The Austrian aid program is still relatively small, although consideration is being given to its expansion. New long term loans of \$4 million over the past four years were more than balanced by amortization receipts on earlier loans of \$9 million. In addition, official consolidation credits were extended to Greece and Turkey. The Austrian Government has also sponsored the work of a number of experts in the less developed countries and has granted scholarships to students from these areas for study in Austria.

Belgium. Belgian aid funds are, in principle, fully convertible and not specifically reserved for expenditures for goods and services of Belgium origin. A substantial part of the assistance extended by Belgium in the past was in the form of grant budgetary support for the Congo and Ruanda-Urundi. A part of the proceeds of the "Loterie Coloniale", organized in Belgium, are transferred to these areas in the form of grants. The Belgium program also includes loans at favorable rates of interest of 2-3/4 and 3 percent. Loan guarantees have been an important form of assistance provided to these territories. A major form of assistance provided by Belgium is the guarantee by the Belgian Government of loans raised by African territories, mostly in Belgium itself. By the end of 1959, the total of guaranteed loans outstanding amounted to \$170 million.

Canada. The Canadian program for assistance to less developed areas - almost exclusively grant aid - has been channelled primarily through the Colombo Plan, Commonwealth Technical Assistance, and the West Indies Program. In addition Canada has made special grants for the purchase of food stuffs. The necessary funds are appropriated annually.

Denmark. Although there are no special institutional pro-

visions for the Danish aid program, the question of participation of Scandinavian countries in the economic development of the less developed countries is receiving consideration in the Nordic Council. Denmark, as its other Scandinavian neighbors, has emphasized technical assistance and contributions to multilateral agencies as the technique by which it can make a contribution. It has also made contributions through loans to stabilization programs and has participated in consolidation agreements by extending credits from four to seven years at rates of interest from 2-1/4 to 3-1/2 percent.

France. The French aid program is relatively large. It emphasizes grants for both current and development expenditures. It is concentrated almost entirely on Algeria, overseas territories and areas having special relationship to France. The main types of official financial flow between France and the rest of the franc area are (a) certain direct administrative expenditures met from the French metropolitan budget, (b) grants for specific purposes (in particular, advances to price stabilization funds for tropical products) and grants to cover current deficits in local budgets, (c) direct investment expenditures met out of the metropolitan budget, (d) grants to local authorities for investment purposes, (e) loans for investment purposes, and (f) cash advances from the metropolitan Treasury to local Treasury departments. The flow of public funds to less developed countries outside the franc area has been limited.

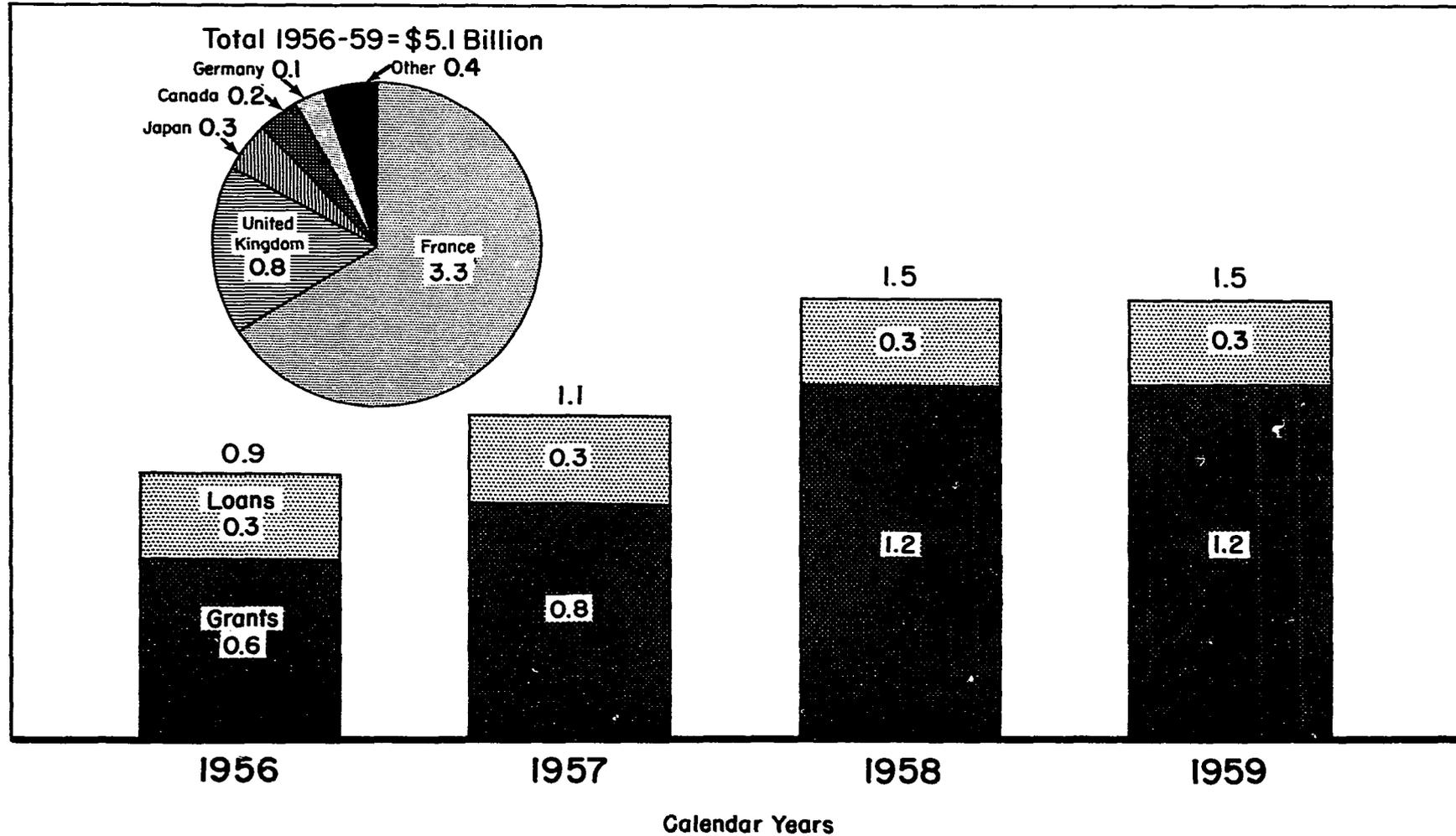
Germany. The German program for assisting the less developed countries was based primarily on government-guaranteed private export credits, some of which were refinanced as long-term official loans when they fell due. The sharply increased program proposed for 1961-1962 will stress in addition long-term loans (some very long-term) to be extended through the Kreditanstalt fuer Wiederaufbau (Reconstruction Finance Corporation). Some of these long-term loans are provided at very low rates of interest. "Finance credits", or non-project loans, are in principle provided to less developed countries with no condition other than a prohibition on procurement in the Soviet bloc.

Italy. Italy is now considering the establishment of an agency to be known as the "Italian National Community for International Technical Assistance". This will promote bilateral and multilateral technical cooperation with the less developed areas. In addition, the Italian Government has extended loans, consolidation credits, grants and other assistance to these areas. The interest rates on Government loans granted in 1958 and 1959 were 3 percent for the bulk of the loans and 5-3/4 percent for some loans. The greater part of Italian export credits is financed by a public institution, the Mediocredito.

# OTHER FREE WORLD BILATERAL ASSISTANCE TO UNDERDEVELOPED COUNTRIES\*

1956-1959

( Billions of Dollars )



\* Excludes loans under 5 years, consolidated credits of whatever term and contributions to International Organizations, IBRD, UNTA, etc.

Japan. The program developed by the Government of Japan for assisting less developed areas comprises grants and credits generally tied to the purchase of Japanese goods and services. Loans are made through the Japanese Export-Import Bank. In addition, an Overseas Economic Cooperation Fund is being established to provide supplementary financing for urgent projects in less developed countries which are not eligible for financing through the Japanese Export-Import Bank. Japan is also engaged in providing technical assistance to 27 countries and territories of Asia, Africa and Latin America.

The Netherlands. Most of the grants and loans extended by the Netherlands were directed to the overseas territories of the Kingdom of the Netherlands. Assistance has been extended in the form of grants to cover local budget deficits, and this has provided for general government activities directed toward the development of economic and social infrastructure and the encouragement of primary industry. The loans extended have been at rates of interest below current market rates and for periods of more than 25 years. In addition to aid extended to the overseas part of the Netherlands Kingdom, it has extended to other countries consolidation credits for periods of four to seven years.

New Zealand. New Zealand has been engaged for some time in providing capital aid and technical assistance to countries and territories of Southeast Asia participating in the Colombo Plan, and to the Pacific Island territories. The assistance to the Pacific Island territories has been in the form of grants to cover local budget deficits and to finance specific development projects. It also includes proceeds realized from government trading activities which are made available for economic development, and net expenditure on government operated inter-island shipping services.

Norway. Assistance extended by Norway has been channelled largely through the Norwegian Foundation of Assistance to Underdeveloped Countries which was established in 1952. In addition to a small loan to Turkey at 5-3/4 percent and a consolidation credit to Spain, the major part of the Norwegian aid program has been the establishment of a fishery community development project in the State of Kerala in India, and a contribution to the Scandinavian medical center in Korea.

Portugal. All aid extended by Portugal, with the exception of small bilateral loans to Turkey, has been provided to its overseas provinces. This has included grants and loans, some

of which are long-term, without specified terms of repayment and completely free of interest. The rest have generally been at rates below the market rates.

Sweden. Swedish assistance to less developed countries has been extended principally through multilateral agencies. Aside from three consolidation credits in 1959, its small bilateral aid program has been mainly in the form of grants. It has participated in the Scandinavian Medical Center in Korea, and engaged in various bilateral technical assistance activities.

Switzerland. The contribution of Switzerland to less developed countries has been in the form of contributions to multilateral agencies, loans, and consolidation credits. The latter have been repayable from four to seven years with interest rates varying between 2-3/4 to 3-1/2 percent. The Swiss are understood to be preparing a considerably expanded aid program.

United Kingdom. Official bilateral aid extended by the United Kingdom to less developed areas has been almost equally divided between grants and long-term loans. Expenditures are made either from sums allocated from particular Ministries or by specific legislation. With one exception, loans and grants are in fully convertible sterling and may be used for imports from any source or for local expenditure. The exception is loans under Section 3 of the Export Guarantee Act, which must be used for United Kingdom goods and services. The most important contribution to economic development in the colonial areas has been made under the authority of the Colonial Development and Welfare Act. This Act provides for grants and long term loans mainly for public development programs. Most of the assistance extended by the United Kingdom has been to colonies or members of the Commonwealth.

## VI. The Impact of Economic Assistance on the United States Economy

The effect of U.S. programs of economic assistance on the United States domestic economy are of several kinds, and may occur over varying periods of time. In the past years, the concern was often with the contribution of foreign aid transactions to inflationary pressures at home, the effects of foreign aid on the Federal budget position, and the impact of foreign assistance on levels of consumption and on the output and markets of particular domestic industries. During the years since the foreign economic aid programs have been in operation, a number of detailed and informative studies of these and related effects have been made, both inside and outside the Federal Government. <sup>1/</sup>

These evaluations of foreign aid from the viewpoint of their impact on the U.S. economy considered the aggregate effects of economic and military assistance to other nations. With the sharper distinction between these two forms and objectives of foreign assistance which is part of the new approach to aid, the present concern is limited to the impact of economic assistance only on the domestic economy. We are, therefore, considering a program which, measured by the total value of resources being transferred abroad, is much smaller than the combined economic and military assistance program of previous years.

The economic assistance program now being presented totals \$2.7 billion in appropriation and lending authority requests for obligation beginning in fiscal year 1962. This represents about one half of one percent of our gross national product, less than three percent of the total requested Federal Budget for

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<sup>1/</sup> See, in particular, The Foreign Aid Programs and the United States Economy, 1948-1957, a Staff Report by the National Planning Association, May 1958, and The United States Economy and the Mutual Security Program, Department of State, April 1959.

Fiscal Year 1962, and around \$15 per person on the average for each member of our population. Expressed in these terms, the amounts proposed for development assistance are seen to be modest compared to the promise of the program and the importance of the issues at stake. These resources are but a tiny fraction of the productive power of our economy.

At a time when the output of the U.S. economy is reduced by recession, and when domestic productive capacity -- even ignoring the current levels of unemployment -- is well below its potential, the resources devoted to development assistance will create no difficulties of supply or of inflationary pressures. There will be no adverse effects on either the overall level of employment or on employment in labor surplus areas. On the contrary, the proposed program can make a small but helpful contribution to the fuller development and utilization of domestic productive capabilities and to domestic employment. In fact, if the aid program were discontinued, at least several hundred thousand people would be thrown out of work.

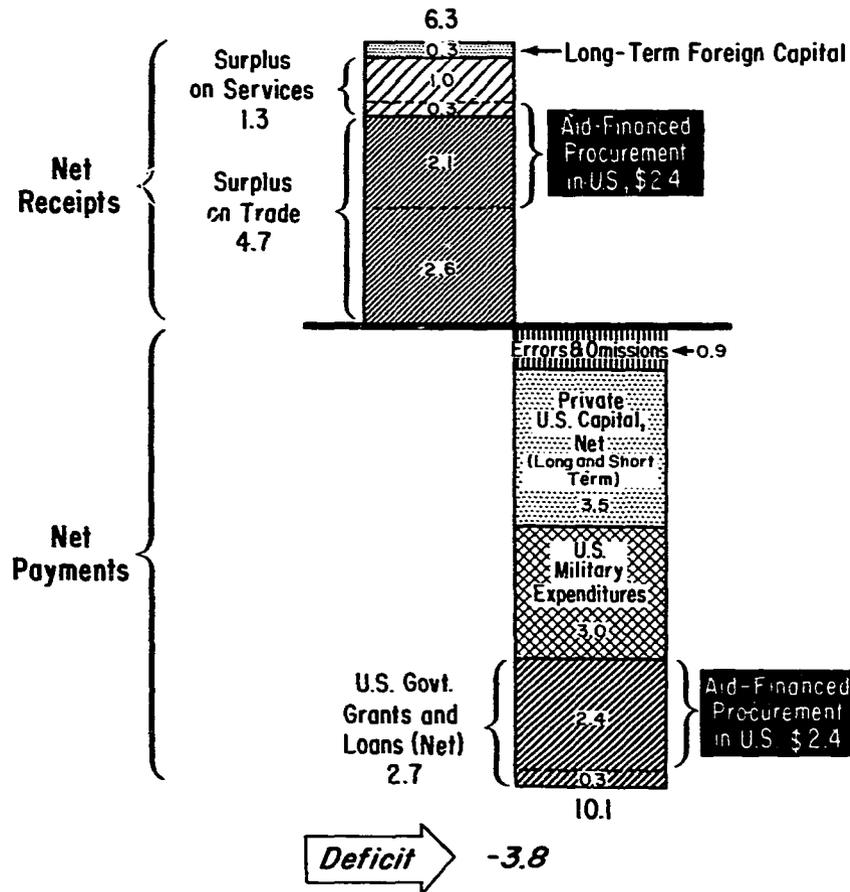
On the supply side, only one significant limitation is expected to be encountered. This will be the availability of trained and experienced men and women who have the ability to operate programs of development assistance with full effectiveness, particularly in advisory roles to help other nations mobilize their own resources to better advantage in seeking economic and social development. The diversion of such scarce human resources from present domestic occupations into the new program may entail some sacrifice to the domestic economy, but an intensive training program to increase the supply of these crucial people could be of significant longer-range benefit to our own economy.

The primary focus at present in evaluating the impact of the new program of development assistance on the U. S. economy relates to a relatively new problem for the United States -- our serious balance of payments and gold outflow.

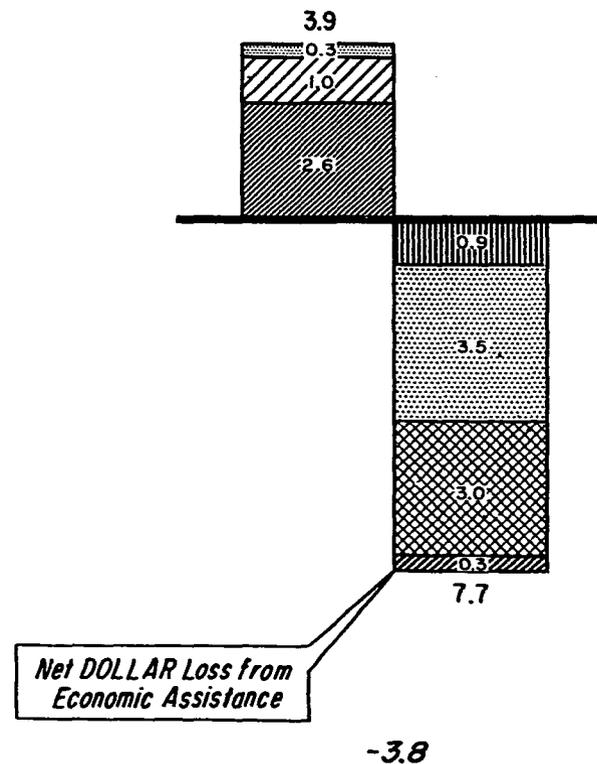
# ECONOMIC ASSISTANCE AND THE U.S. BALANCE OF PAYMENTS

(Billions of Dollars)

## CALENDAR YEAR 1960



## ADJUSTED TO EXCLUDE AID-FINANCED PROCUREMENT IN U.S.



NOTE: Aid-Financed Procurement in U.S. represents estimated exports of goods and services financed by ICA, D.L.F. Ex-Im Bank and P.L. 480

#### A. The Current U. S. Balance of Payments Problem.

Transfers of economic assistance to other nations is one of a large number of transactions which affect the U. S. balance of payments. The heavy and persistent deficit in the U. S. balance of payments during the past three years has focused public and governmental attention on this element of our economic position in a manner not experienced by this country for nearly a generation. The deficit was much too large to be sustained for a protracted period and effective actions to reduce its size and consequences have been initiated. The President's message to the Congress of February 6, 1961, outlined the principal measures now being pursued by the Federal Government unilaterally, through efforts to affect the actions of our own citizens, and in concert with other countries and international institutions.

##### 1. Present Policies.

Within the broad range of actions being taken to reduce our foreign deficit, and our outflow of gold, the executive branch has instituted vigorous measures to review the contributions of Federal Government programs to the deficit. Included in these measures are a continuation and strengthening of steps to insure that our economic assistance to newly developing countries does not create a major source of dollar transfers to countries which are in process of making regular additions to their international reserves. To this end, beginning December 5, 1960, commodity procurement, financed by economic assistance funds was excluded from 19 specified countries.<sup>1/</sup> This provision will be maintained until reasonable overall equilibrium in the U. S. balance of payments has

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<sup>1/</sup> Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Luxembourg, Monaco, Netherlands, New Zealand, Norway, South Africa, Sweden, Switzerland, the United Kingdom, and Hong Kong.

been achieved. Exceptions may be made to avoid impairing essential U. S. objectives under foreign assistance programs. It is anticipated that the general result of this policy will be as follows in the period immediately ahead:

- a. Procurement of manufactured goods from funds provided under economic assistance programs will be virtually confined to the United States, except to the extent manufactured goods are purchased abroad from countries other than the 19 listed above;
- b. Procurement or provision of agricultural commodities under these programs will, as in the past, be almost wholly from United States sources;
- c. Procurement of non-agricultural crude materials, which are provided abroad mainly from less developed countries, will be determined by price and supply conditions;
- d. Existing preferential provisions in favor of the use of U. S. shipping and other services will be continued.

In addition, it is expected that in the planning and design of specific programs of assistance in the field, U.S. representatives will as far as possible provide for procurement of types of commodities which are available on competitive terms from the United States. Moreover, a "borrow where you buy" policy is to be encouraged with respect to manufactured goods.

##### 2. Effects on the Balance of Payments

It is often not understood that the preponderance of U.S. economic assistance funds are, and always have been, used directly for the purchase of goods and services in the United States. For example, it is estimated that during the past five calendar years

the proportion of gross economic assistance funds (including surplus agricultural commodity programs) used directly for the purchase of U. S. goods and services has not, in any one year, fallen below two thirds of the gross foreign economic aid provided, even at times when more liberal policies were in effect governing sources of procurement. To the degree foreign aid funds are used directly for procurement of United States goods and services, the economic aid program exercises no direct influence on the U. S. balance of payments; the result is essentially the same as though the aid were provided directly in kind. Existing procurement procedures, used for many years under economic assistance programs, remain important in order to utilize commercial channels for providing goods and services to the maximum extent possible, but the net effect on the U. S. balance of payments is neutral.

The economic assistance not used directly for purchase of U.S. goods and services is disbursed in five situations.

- (a) Cash grants to individual recipient countries where the regular procurement provisions and policies are impractical if the objectives of the assistance are to be achieved;
- (b) Cash loans to development banks whose methods of operation make procedures aimed at restricting procurement to the U.S. very difficult;
- (c) Voluntary contributions to international organizations under economic assistance appropriations;
- (d) Cases in which for special reasons "offshore" procurement is indicated as necessary; and
- (e) Payments in dollars (where and to the extent US-use local currencies cannot be used or are not available) for administrative expenses, either through purchasing foreign currencies or by making direct dollar payments.

It is these transactions that form the principal initial source of contribution to the U.S. foreign deficit arising from disbursements out of economic assistance funds. For the first four transactions, the initial impact on the payments side of the ledger can be measured quite accurately. For administrative payments financed by dollars, the disposal of the dollars by their recipients - including Americans stationed abroad - is very difficult to know accurately.

Even for the initial transfers of dollars that can be measured exactly, however, problems of interpretation arise.

(a) Most of the less developed countries are chronically short of foreign exchange and use whatever availabilities they have to finance more imports. When they receive dollars by one of the transactions set out above, some of them may very quickly be used to pay for additional purchases of U.S. goods and services.

(b) Many U. S. goods contain an imported element, and the U. S. exports noted above thus are not all net gain. Moreover, foreign source goods procured under the program may also contain an element produced in the United States.

Still, the function of economic aid funds initially transferred in cash to recipients of our assistance may in part be merely to finance U. S. exports indirectly rather than directly.

### 3. A Different Perspective

Viewed in another perspective, U.S. economic assistance disbursements contribute to the U. S. foreign deficit only to the extent they result in, or lead to, a rise in dollar holdings (which may be converted into gold holdings) of those countries whose balance of payments surplus is the counterpart of the U. S. deficit. These countries are virtually confined to some of the major industrialized nations of Western Europe and Japan.

The economic assistance programs of the United States contribute in the first instance to the growth in dollar holdings of these countries in one of two ways:

1. by direct dollar transfers to residents of those countries in payment for offshore commodity purchases under economic assistance programs; and,
2. by transfers to those countries from other (less developed) foreign areas which have initially received foreign economic assistance dollars through cash grants or loans, or through "offshore" procurement transactions.

The contribution of economic assistance programs to the U.S. balance of payments deficit is thus smaller than the total direct and immediate transfers of dollars to all foreign holders. Under the policies and procedures now in force, and to be continued for the time being, the first of these two sources of dollar "leakage" will be greatly reduced, as payments under previous programs and commitments to European suppliers are liquidated. A tighter control over cash grants to individual countries under present procedures should also reduce somewhat the leakage under the second method outlined above.

One further factor must be mentioned, however — a consideration on which it is impossible to be precise. This is what is sometimes designated as the problem of "additionality." It is possible to imagine, for a given aid-receiving country, a situation in which the introduction of U.S. procurement restrictions results in all our economic aid funds being spent for U.S. goods. At the same time, however, a larger portion than before of the country's own resources might be used to buy goods elsewhere, so that the total structure of the country's imports would remain unchanged. In such a case, the shift in U.S. procurement policy would not have created any additional U.S. sales; it would merely have revised the pattern of financing. More U.S. exports would be financed through U.S. aid, but less would be financed by other means. On the other hand, there are cases in which it is believed the shift in procurement policy has resulted in net

added sales of U.S. goods — sometimes virtually to the full extent of the increase in U.S. purchases financed from aid funds.

On the whole, therefore, the conclusion is merited that (1) the initial transfers of dollars to foreign holders is larger than the net contribution of economic assistance to our balance of payments deficit, because some of the initial dollar transfers return directly and immediately to the United States, and (2) the effect of the tighter procurement policy now in operation can be overestimated, but it is serving significantly to increase U.S. sales abroad.

#### 4. The Over-All Impact

With these factors in mind, it is estimated that initial direct transfers of foreign aid dollars to all foreign holders (including those in the less developed countries) will not exceed 20 percent of gross disbursements under the program now being presented. The net contribution of aid dollar disbursements to the growth in dollar (or gold) holdings of countries which now have balance of payments surpluses will be lower than this percentage, and may be between 10 and 15 percent of gross disbursements. Consequently, disbursements of funds under the new program are expected to contribute in the range of \$300 million to \$400 million to the balance of payments deficit — a significantly lower level than has obtained in the past several years. It should be observed that these effects from moneys now being requested will occur during a period of several years as actual expenditures take place. Meanwhile, as disbursements occur against both new and previous obligations, the full improvement based on recent measures to protect our balance of payments will be progressively realized.

It is of interest also that dollar collections of interest and principal payments on old loans originating in economic assistance programs continue to flow in. These receipts are now quite large and come mainly from European countries aided by the Marshall Plan.

#### B. The Longer Range Effects

Insofar as the development assistance programs reach their objective, a major result will be the establishment of more viable, vigorous and productive economies in the less developed

areas of the world. Over an extended period of time, this result will bring about a major revision in the world economy. In both size and nature, markets and sources of supply for the free world's international trade will be altered in a fundamental way. The parallel challenge of larger markets and sharper competition will arise in the less developed world as the less developed countries successively reach the stage of sustained economic growth.

As this occurs, problems of adjustment will occur for some industrial sectors or geographic regions in our own economy. By the same token, opportunities for more vigorous growth and higher level activity will be presented to other domestic sectors and regions which can take advantage of the larger export markets made available. This latter factor is illustrated by the data in the first of the following tables, showing much higher U.S. exports to highly developed than to less developed countries. There will thus be presented the familiar problem of adjustment to changing economic conditions in a time of dynamic evolution which has been a characteristic of the U.S. economy, in response to domestic developments, through its recent history. Adjustment to shifts stemming from abroad is fundamentally no different from adjustment to the domestic changes that have become an integral part of our system. If our domestic economy is vigorous, healthy and adequately expanding, the problems of adjustment can be met with confidence and smoothly.

### C. Historical Information Concerning the Impact of Economic Assistance Programs on the United States Economy

This section presents historical information on the effects of economic assistance programs on the United States economy. The first portion includes six Tables bearing on the ICA program up to the end of December 1960. The second portion comprises relevant textual and tabular information on the impact of operations of the Development Loan Fund to the end of February 1961.

In both instances, it should be remembered that actual expenditures for economic assistance activities typically take place a considerable time after the corresponding obligations are incurred. Consequently, the new limitations designed to restrict procurement to the United States, which were placed in effect for the DLF in October 1959 and for ICA in December 1960, are not reflected in the ICA data through December 1960 and are only beginning to be reflected for DLF. These new policies will be reflected in expenditures that will occur during the coming two years.

1. Impact of ICA Program through December 1960

Table 1

INTENSITY OF U.S. TRADE RELATIONS IN 1960  
AS MEASURED BY  
U.S. EXPORTS PER CAPITA OF THE COUNTRY OF DESTINATION

	U.S. Exports 1960 (\$ Millions)	U.S. Exports Per Capita of Country of Destination (Dollars)
<u>HIGHLY DEVELOPED COUNTRIES</u>		
Canada	\$ 3,698.5	\$ 207.56
Netherlands	711.1	61.94
U.K.	1,406.9	26.86
Germany (incl. Saar)	1,067.0	19.99
Japan	1,328.4	14.19
Belgium-Luxembourg	435.4	45.88
<u>LESS DEVELOPED COUNTRIES</u>		
Iran	117.4	5.56
Egypt	150.4	5.76
Indonesia	83.2	0.90
Pakistan	168.6	1.82
India	639.7	1.49
Thailand	61.6	2.42
Burma	8.3	0.38
Ceylon	14.3	1.45
Ethiopia	7.3	0.39
Ghana	17.0	2.54

Table 2

TREND OF ICA COMMODITY PROCUREMENT  
APRIL 30, 1948 - DECEMBER 31, 1960

(Millions of Dollars)

Fiscal Years	Total all Programs		
	Total Commodity Expenditures	Expend. in U.S.	Percent in U.S.
1949	\$ 4,030	\$ 2,537	63.0
1950	3,215	2,241	69.7
1951	2,242	1,673	74.6
1952	1,617	1,175	72.7
1953	1,257	917	73.0
1954	1,123	836	74.4
1955	986	781	79.2
1956	1,043	707	67.8
1957	1,236	709	57.4
1958	1,013	524	51.7
1959	964	457	47.4
1960	867	361	41.6
1961 to Dec. 31, 1960	414	153	37.0
Cumulative to December 31, 1960	\$ 20,013	\$13,072	65.3

Note: The data are for ICA commodity procurement only, and do not include procurement from DLF or other funds

Table 3

ICA COMMODITY EXPENDITURES  
TOTAL AND PRINCIPAL COMMODITIES, BY FISCAL YEAR

	ICA Commodity Expenditures (Millions of Dollars)							Percent of Total Procured in U.S.						
	1949- 1955	1956	1957	1958	1959	1960	1961 (1st half)	1949- 1955	1956	1957	1958	1959	1960	1961 (1st half)
<b>TOTAL, ALL COMMODITIES</b>	\$14,476	\$1,043	\$1,236	\$1,013	\$964	\$867	\$414	70.2%	67.8%	57.4%	51.7%	47.4%	41.6%	37.0%
<b>Total, Principal Commodities</b>	<u>10,171</u>	<u>779</u>	<u>927</u>	<u>801</u>	<u>769</u>	<u>656</u>	<u>348</u>	<u>73.8</u>	<u>68.9</u>	<u>56.4</u>	<u>52.5</u>	<u>49.0</u>	<u>44.1</u>	<u>32.0</u>
Machinery & Equipment	1,805	151	168	142	138	134	63	95.1	66.2	57.8	51.4	45.7	67.9	34.0
Cotton	2,140	113	116	99	115	53	18	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Iron & Steel	549	71	81	99	92	82	49	76.0	36.2	28.3	32.0	16.3	11.0	15.0
Petroleum	1,630	38	80	71	92	83	42	25.6	65.1	44.3	39.1	35.9	43.4	45.0
Fabricated Basic Textiles	179	46	96	68	48	44	19	51.4	24.4	7.5	15.4	10.4	9.1	4.0
Bread Grains	2,084	109	113	65	43	23	7	76.4	100.0	100.0	100.0	100.0	100.0	100.0
Chemicals	384	54	73	64	69	62	46	90.4	51.2	42.3	44.4	40.6	29.0	35.0
Fertilizers	201	66	63	60	47	55	18	35.1	48.8	47.0	30.7	29.8	16.4	25.0
Motor Vehicles	300	45	41	45	55	62	28	98.1	65.8	66.5	64.7	58.2	43.5	43.0
Sugar	335	9	47	39	31	27	46	8.4	1.5	31.1	0.5	-	-	-
Coal	472	35	31	25	20	9	3	74.4	87.7	71.3	80.7	80.0	66.7	76.0
Air & Rail Transportation Equipment	193	42	18	23	18	22	9	94.5	75.3	38.6	72.2	72.2	63.6	47.0
<b>Total Principal Commodities Excl. Bread Grains &amp; Cotton</b>	<u>6,046</u>	<u>557</u>	<u>698</u>	<u>637</u>	<u>610</u>	<u>580</u>	<u>323</u>	<u>63.6</u>	<u>56.4</u>	<u>42.1</u>	<u>40.2</u>	<u>35.7</u>	<u>49.1</u>	<u>27.0</u>

Table 4

PRINCIPAL COMMODITIES PROCURED OFFSHORE  
UNDER ICA PROGRAMS

(Millions of Dollars)

	FY 1956	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961 (1st half)
Total All Offshore Procurement	<u>\$ 336</u>	<u>\$ 527</u>	<u>\$ 489</u>	<u>\$ 507</u>	<u>\$ 507</u>	<u>\$ 261</u>
Total, Principal Offshore Commodities	<u>282</u>	<u>437</u>	<u>429</u>	<u>437</u>	<u>443</u>	<u>225</u>
Iron and Steel Mill Products	46	58	67	77	73	42
Machinery and Equipment	51	71	69	75	84	42
Petroleum and Products	13	45	43	59	47	23
Fabricated Basic Textiles	35	89	58	43	40	18
Chemicals and Related Products	26	42	36	41	44	30
Fertilizer	34	33	42	34	46	14
Sugar and Related Products	9	32	39	31	27	18
Motor Vehicles, Engines and Parts	15	14	16	23	35	16
Non-Ferrous Metals	11	14	21	18	9	4
Cement and Other Non-Metallic Minerals	23	23	16	13	16	8
Pulp and Paper	11	7	12	12	13	4
Lumber and Manufactures	8	9	10	11	9	6

Table 5

PRINCIPAL PROGRAM COUNTRIES  
WITH  
SUBSTANTIAL OFFSHORE PROCUREMENT EXPENDITURES  
UNDER ICA PROGRAMS

(expenditures in millions of dollars)

	Fiscal Years											
	1956		1957		1958		1959		1960		1961 (1st half)	
	Total Commod- ities	Off- Shore										
Grand total — All Countries	<u>\$1,043</u>	<u>\$336</u>	<u>\$1,236</u>	<u>\$527</u>	<u>\$1,013</u>	<u>\$489</u>	<u>\$964</u>	<u>\$507</u>	<u>\$867</u>	<u>\$507</u>	<u>\$414</u>	<u>\$261</u>
Total — Principal Countries	<u>710</u>	<u>299</u>	<u>952</u>	<u>500</u>	<u>828</u>	<u>432</u>	<u>768</u>	<u>445</u>	<u>676</u>	<u>439</u>	<u>348</u>	<u>230</u>
Korea	184	67	313	135	264	122	207	106	196	111	85	45
Vietnam	103	77	199	148	182	129	147	101	167	129	71	55
Turkey	77	25	89	59	55	39	123	90	61	41	40	30
Pakistan	50	30	48	33	56	36	75	57	92	76	56	47
Thailand	20	12	37	25	17	12	27	23	25	20	10	9
India	76	26	51	24	81	29	33	18	16	10	9	-
Spain	80	21	65	10	68	22	57	16	32	11	10	2
China (Taiwan)	88	19	83	18	62	18	59	14	60	24	40	21
Cambodia	22	16	32	20	27	20	16	11	19	15	13	10
Iran	10	6	35	28	16	5	24	9	8	2	14	11

ICA Ocean Shipping Policy and Freight Costs

Legislation governing the programs of ICA and its predecessors has for many years required that at least 50 percent of the gross tonnage of goods financed by the aid program be shipped on U.S. flag vessels. In January 1961, this policy was further tightened by administrative action to implement instructions to reduce the effect of the aid program on the U.S. payments position. The new action provides that:

1. The ocean shipping costs of all items procured from Mutual Security funds will be eligible for ICA financing only if transported on U.S. flag vessels, except where foreign vessels are required to assure timely delivery of the goods and provided such exceptions have prior approval from Washington.
2. Under existing legislation, at least 50 percent of the tonnage of goods financed by ICA will still have to be shipped on U.S. flag vessels.
3. Thus, aid receiving countries can continue to ship up to 50 percent of the gross tonnage of aid-financed goods on non-U.S. ships, but (other than under the exception noted above) ICA no longer will provide financing for the non-U.S. flag shipping so used. Thus, aid receiving countries must now use their own resources to meet such costs of non-U.S. flag shipping.

The following table summarizes ocean shipping expenditures of ICA.

Table 6

Summary of ICA Freight Account  
April 1948 through June 1960  
(millions of dollars)

Freight FOB/FAS Basis	April 1948 through June 1959			Fiscal Year 1960		
	U.S. Flag Payments	Foreign Flag Payments	Total Payments	U.S. Flag Payments	Foreign Flag Payments	Total Payments
Europe/Africa	905	329	1,234	11	6	17
Far East & OTS	180	107	287	27	20	47
Near East & South Asia	59	49	108	6	12	18
Latin America	9	5	14	1	3	4
Inactive Closed Accounts	18	-	18	-	-	-
<b>Total Dollar Freight Cost</b>	<b>1,171</b>	<b>490</b>	<b>1,661</b>	<b>45</b>	<b>39</b>	<b>84</b>

Note: These figures represent payments from ocean freight in dollars by ICA. However, a large proportion of ICA-financed commodities shipped on foreign flag vessels were carried at no cost to the program since ICA Regulations prohibit the payment of freight for shipments on a foreign flag vessel going to its own country.

2. Impact of Development Loan Fund Operations through February 1961

a. Source of Procurement

In October of 1959, the DLF launched a new policy of placing primary emphasis on the procurement of United States goods and services under its loans. Prior to this date, solicitation of quotations throughout the free world was permitted for equipment being financed by DLF loans. An analysis of disbursements under these earlier loans, conducted in mid-1960, indicated that 42 percent of the goods and services were being procured in the U.S., despite the allowance of global procurement. Since placing primary emphasis on the purchase of U.S. goods and services, the Fund has made loans and commitments totaling \$1032.3 million through February, 1961. Of this amount, \$149.0 million will be used to finance local costs within the foreign countries, and \$70.4 million has been made available to development lending institutions for reloaning in much smaller amounts. Here, since only the larger sub-loans require U.S. procurement, the percentage of purchases that will be from the U.S. is indeterminable. Of the remaining \$812.9 million in loans and commitments which will be for foreign exchange costs, it is estimated that 86.2 percent will be used for procurement of U.S. goods and services as indicated in the following table:

DEVELOPMENT LOAN FUND

ESTIMATED PROCUREMENT IN UNITED STATES FROM LOANS AND COMMITMENTS

Oct. 20, 1959 to Feb. 28, 1961  
(in millions of U.S. dollars)

	<u>Total Amount</u>	<u>Estimated Amount For U.S. Procurement</u>	<u>Percent Estimated U.S. Procurement</u>
<b>A. <u>Loans and Commitments for Foreign Exchange Costs</u></b>			
1. Entirely for foreign exchange costs....	\$ 707.4	637.3	90.9
2. Foreign exchange costs in portions of other loans & allocations.....	<u>105.5</u>	<u>63.5</u>	<u>60.2</u>
Total.....	\$ 812.9	700.8	86.2
<b>B. <u>Other Loans and Commitments</u></b>			
1. For development banks	70.4		
2. For local costs	<u>149.0</u>		
Total Loans & Allocations	\$1,032.3		

Of the greatly reduced amount of offshore procurement to be undertaken under loans executed since the change of emphasis toward U.S. procurement, much was necessitated during the period of transition to the new policy because proprietary procurement from other countries was involved in many of the projects, costly planning was already well along based on third country equipment, and, in some cases, tenders were already issued on a global basis. These transitional factors have now largely disappeared.

b. Procurement Procedures

With large developmental projects, such as those financed by the DLF, a considerable period generally elapses between the time the project is approved and the time orders to be financed by the loan are actually placed. After the loan is approved the borrower normally must prepare detailed specifications and issue tenders for equipment and materials needed on the project. In many cases engineering services must also be procured. The DLF at this time takes steps to insure that U.S. business at large is provided with information and opportunity to make a quotation on any procurement financed by DLF. Prior to the placement of orders, DLF obtains a description of the goods to be purchased and the manner of submitting quotations to the purchaser, allowing sufficient time for potential U.S. suppliers to obtain additional information from the purchaser and offer a quotation. This information is then disseminated to American suppliers through Department of Commerce publications. The DLF requires that the price paid for goods and services "should normally approximate the lowest competitive price for the eligible items procured, quality, time and cost of delivery, and other factors considered."

c. Policies for Considering Effects on U.S. Economy

DLF policies are based on its legislation. Paragraph (b) of Section 202 of the Mutual Security Act, which sets forth the DLF's general authority, reads in part as follows:

"The Fund is hereby authorized to make loans, credits, or guarantees, ..... to or with such nations, organizations, persons or other entities, and on such terms and conditions, as it may determine, taking into account (1) whether financing could be obtained in whole

or in part from other free world sources on reasonable terms, (2) the economic and technical soundness of the activity to be financed, (3) whether the activity is reasonable promise of contributing to the development of economic resources of free economic institutions or to the increase of productive capacities in furtherance of the purposes of this title, and (4) the possible adverse effects upon the economy of the United States with special reference to areas of substantial labor surplus, of the activity and the financing operation or transaction involved....."

In implementing this last requirement, the DLF examines such factors as the types of equipment to be procured under the loan, and whether the anticipated output of the project will be exported in competition with U.S. exports. Where a possible adverse impact is foreseen, the DLF staff consults with other interested U.S. agencies such as Agriculture, Treasury, Commerce, State, ICA, and the Department of the Interior. Each recommendation presented to the Board of Directors of the DLF includes a section indicating the impact of the proposed loan on the U.S. economy. The Board itself considers this question, and if the loan is approved by the Board, it is then reviewed by the National Advisory Council in International Monetary and Financial Problems; where Treasury, State, Commerce, the Federal Reserve Board, and the Export-Import Bank, along with such non-voting participants as Agriculture, and the Bureau of the Budget, can also focus on possible adverse effects of the loan.

The experience of DLF indicates that projects most likely to have some possible adverse effect on the U.S. economy fall within certain categories of food and agriculture and certain industries such as textiles. In the field of food and agriculture, DLF loans have been made for such projects as land development in Ceylon, irrigation facilities in Morocco, ground water removal in Pakistan, a canning and freezing plant in the United Arab Republic, assistance for the fishing industry in Taiwan, and financing a bank that will provide agricultural credit in Jordan. Directly or indirectly, most such projects will assist the borrower in increasing output of agricultural products needed to meet rising internal demand which could not be met by imports because of foreign exchange stringencies. As such, they contribute to the growth of the country's economy without adversely affecting ours. Two examples of loans in which

the activity involved raised questions of possible "adverse effects" were a cotton textile mill in Sudan, and the Ingalls-Taiwan Ship Building loan in Taiwan.

In the case of the Sudan Textile Mill, the DLF, in evaluating the project, carefully examined whether it might lead to a loss of markets for U.S. products or create additional competition for U.S. business in third areas. It was found that this project (a) would not reduce imports from the United States since Sudan was not an importer of textiles from this country; and (b) would supply only the domestic market in Sudan and not lead to exports which might compete with U.S. exports. Only after arriving at these findings and full consideration by the DLF Board, were the loans made.

The Ingalls-Taiwan loan involved DLF financing and a DLF guarantee of private financing for expanding ship building facilities in Taiwan. The DLF proceeded with this project only after checking with interested parties and ascertaining that private U.S. ship building interests (Shipbuilders Council of America) had no objections.

d. Impact on the U.S. Economy and Balance of Payments

The Development Loan Fund has for sometime now in its operations paid close attention to the impact on the U.S. balance of payments. Since the change of policy to place primary emphasis on the procurement of U.S. goods and services, in October 1959, the DLF has been reducing the adverse impact of U.S. international payments by stipulating that the proceeds of a large part of its loans go directly to U.S. suppliers so that U.S. equipment and services are exported. Thus, besides avoiding an adverse impact on payments, DLF activity also provides a stimulant to the domestic economy in supporting the production of goods for export. Often, in the developing countries, where the U.S. faces competition for goods and services from other countries and where foreign exchange is so limited, the availability of DLF financing results in the placing of procurement orders in the United States. Each time this happens, the output of U.S. business and the opportunities for U.S. labor are increased.

The procurement generated by DLF activity effects many segments of the U.S. economy. A typical DLF transaction involved a credit of approximately \$1,700,000 to finance diesel electric locomotives for Taiwan. This contract was let to a major U.S. locomotive manufacturer who in turn spent approximately 50 percent of the dollars for goods supplied by over 1,250 production suppliers whose plants are located in 32 states. More than 65 percent of these supplying firms employ less than 500 workers, and 40 percent have less than 100 employees.

ANNEX - What Does Self Help Mean?

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The ultimate goal of our foreign aid program which is to assist recipient nations to reach the stage of self-sustaining growth, must be achieved by strengthening the incentives for those we help to mobilize their own resources and undertake essential measures for social and economic reform.

Judging measures of self-help is a delicate and difficult matter. Allowances must be made for the stage of governmental and economic capability of each country, for the degree of unity or disunity in that country's society, and for the presence or absence of cultural or historical factors that facilitate or block the measures of self-help that, objectively, would be desirable.

In viewing measures of self-help, we will sometimes look broadly at the whole scope of economic achievement, sometimes narrowly at performance in selected sectors. Some countries are ready to move ahead rapidly on the basis of a comprehensive program which is well coordinated highly articulated, capably executed; others have no overall program, but may be able to set some targets and move ahead with particular projects which can become "nodes" of economic modernization. Where the desire to advance cooperatively is present, we can support either type of approach.

A. The Danger of a Dogmatic Approach

Also, in evaluating measures taken by countries, we will avoid doctrinaire positions and views. One sensitive field will be that of the dividing line between public and private activity and on the equally sensitive issues of inflation and financial policies. In these two fields, as in many others, there is no uniquely "right" body of doctrine applicable to all countries. Our approach in these areas will be pragmatic, empirical and sympathetic rather than inflexible and dogmatic. We know that a government which avowedly aims to centralize all initiative and the ownership of all major productive activities can become prey to approaches inconsistent with free and open societies. But this does not mean we must discourage all governmental production in countries receiving our assistance, even in fields where in our own country it is agreed that private initiative works well. The question we must ask is whether, across the whole range of conditions present in a given country, the measures being taken are sensible from the viewpoint of economic growth and are consistent with, and an expression of, efforts to create a viable free political and social system.

Similarly, we know that a high rate of inflation will usually distort economic growth, reward unproductive activities, and create a balance of payments deficit which leads to crisis requirements for economic assistance. We must avoid conditions that reward the waste and mismanagement of serious inflation. Yet development at a rate adequate to the needs of the Decade of Development will not always be achieved without inflation; our own industrial advancement was marked by periods of financial difficulty and so was that of Europe. Preoccupation with financial balance and price stability can, in some conditions, lead to stagnation and frustrate the thrust toward growth. Again, the issue is to apply standards of judgment which are reasonable in a time when the demands for growth generate great political and economical pressures.

## B. Two Conditions for Self-Help

In judging the adequacy of a country's measures to move itself along the path of economic and social modernization, two main factors must be kept in mind:

First. We must decide whether our assistance is for the purposes of development or whether more immediate political or strategic objectives provide the justification for aid.

Where economic assistance is justified for short-run political or military reasons, the standards that can be set for self-help measures of an economic sort cannot be very high. The objectives may be to furnish aid in return for base rights, or to provide economic support for a friendly regime which it is judged might not survive without it or to inject resources to enable a friendly country to support a larger military establishment than it could provide on its own. In these circumstances, "supporting" assistance is to be used. It may take the form of general financing for imports or of financing particular projects. But it is possible that the net effect of the added resources provided will be merely to support consumption at a given level; there may be no larger use of resources for development, as contrasted to current, purposes than would have obtained in the absence of assistance. We should and will, even in these conditions, seek to help the recipient countries move toward mobilizing for development. In some such cases, our encouragement can be important, even decisive. In others a traditional ruling group may resist the changes needed to embark on a development course of truly national scope. But in all these instances, we must recognize that we cannot make development programs and performance the central criteria in determining our economic assistance.

In many other cases, the conditions requiring supporting assistance will be absent. Development criteria then will apply. And self-help toward development will be the major factors considered. When development is the objective, neither we nor the aid receiving country can wish mere support for an immediately higher standard of current consumption. That would be an endless and expensive course for us and would be counter-productive for the countries receiving our assistance. By raising standards of living beyond what the countries themselves can now provide, this course would promote dependence on outside aid and would be likely to generate difficulties in our relationships. Our approach must be the converse of this. The net result of the added resources we furnish must, as far as we can insure it, result

in an addition to the resources used for raising productive power in the context of a modernizing social and political structure.

Second. We must determine the stage at which the country stands economically, socially and politically, and evaluate the scale of assistance, and the time over which it is requested, in relation to the country's own resources.

Any country at any level of economic development has, or can quite rapidly arrange, a virtually inexhaustible capacity to absorb goods and services that go directly and immediately to raising levels of living. But the ability to create higher and more efficient productive capacity - and to absorb added resources to this end - is quite another matter and is much more limited. It is this capability that development assistance is aimed at expanding.

For countries at an early stage of development, whose ability to mobilize their own resources to development ends is very low and whose capacity to absorb outside aid for this purpose is also limited, no question of very large or long-range commitments of assistance arises, so long as development criteria are applied rigorously. In these cases, assistance must aim primarily to help in developing human resources and an institutional structure which will provide the basis for moving over the threshold into serious development measures. An occasional large project may be given assistance on its own merits as being clearly high priority and distinctly valuable even in the absence of a full-range of coordinated measures to achieve sustained growth.

For other countries the capacity to absorb outside resources is both large and sustained. In these cases, our ability to commit large sums of money over a period of years can play an important role in shaping programs, in making them possible, and in determining their pace and direction. When countries have reached a stage of sophistication where their planning, managerial and administrative capacities are high, our assistance goes directly or indirectly to support their whole program of development, not merely the project with which assistance is identified. Hence in these cases we must - as we have been and are in India - be concerned with the adequacy and direction of their development effort in the aggregate, as well as with the details of projects.

The standards set for development criteria will thus have a range of variation. For supporting assistance they will have minimum application. At the other extreme, they will be

highest for countries where substantial absorptive capacity for development has been built up and where there is reason for the United States to consider committing large resources over a period of years. Between these extremes lie a range of possibilities where development criteria will apply, but not as broadly or as rigorously.

### C. Mobilizing Human Resources

The countries which are economically the least developed are usually the ones with the greatest need to invest in human resources (in order to satisfy certain of the major pre-conditions for economic growth). At the same time, their projected capacity to make international repayments over the long run is low or obscure (and hence they need to receive as grants such development assistance as can now be obtained).

The important, non-economic pre-conditions for economic growth are of three general kinds:

### 1. Political Stability and a Reliable Apparatus of Government

Stable and peaceful conditions are a necessary pre-condition for a country to permit the setting of goals, development of plans and an orderly execution of private and public economic endeavor. Lacking a strong government with capacity to mobilize public support, a national economy will enjoy limited production from existing land or plant, from commerce, from speculative investment. There will be a tendency for both skills and capital to seek refuge in other lands. The mobilizing of manpower resources in the public interest, the constructive investment of capital, and the mobilizing of all elements of orderly economic development occur only in a context of rule under law where both people and property are relatively secure.

More than peace and internal security is required. A machinery of government must exist or be under construction. Even where the private sector plays the largest role in economic development, there are difficult tasks which only a central government can perform; namely, collection of taxes and management of a sound fiscal policy; establishment of a central banking system and sound monetary practices; planning financing (frequently with imported capital) the basic infrastructure needed by the country; secondary investment in education and health programs, agricultural extension

Industrial credit and promotion, etc.

Economic assistance to attain the necessary levels of civil order, political leadership and public administration may be modest in amount but highly productive in preparing the way for economic growth.

### 2. Adequate Manpower and Organizations

Another major pre-condition for national economic growth is having enough workers who are healthy enough, who are well enough clothed and housed, and who have enough education, training and managerial and entrepreneurial competence, to make optimal productive use of the nation's available technology and physical capital.

In few of the less developed countries is there a shortage of unskilled labor. In many, the progress of important development projects is held up because the manpower is in the wrong place, or because of disease or because of severe shortages of housing, food or other consumer goods and services. Although these are often classified as consumption expenditures, they must, in many situations, be classified as investment expenditures. They make possible through improved human capital, an expanding future flow of goods and services.

Education and communication are preeminent examples of combined consumption-with-investment activities. They unquestionably raise present levels of living, opening up whole new worlds of thought, social intercourse and enjoyment. They contribute very directly and importantly to economic growth. In many countries, economic and social development is seriously limited by the present low levels of education and communication. Progress is held back by widespread illiteracy, by a restricted flow of information, and by lack of technical, vocational, professional and managerial training. There is thus a major development task for the schools and other educational institutions. There is also a major task for the extension services and other kinds of adult education, for on-the-job training in industry, government and other employing organizations. Development assistance to education and communication thus has a high priority in our programs, especially those to the least advanced countries.

Related closely to investment in education and communication is investment in establishing and improving organizations.

A society must be organized to be fully productive. It must

for example have such organizations as markets, transportation and communication systems (not just facilities) entrepreneurial and labor organizations, financial institutions, cooperatives, schools and universities. Only after such organizations are operating effectively is economic growth likely to accelerate. Thus, building and improving organizations is also an important area for development assistance.

### 3. Opportunity and Social Justice

The pre-conditions for economic growth include not only how people are governed, their capacities for work, and how their activities are organized, but also what motivates them to economic action.

Some societies can only be energized to economic growth by making fundamental psychological, social and institutional changes. In others, the motive forces and opportunities for action are already adequate.

For example, it is important for economic growth that there be a general popular understanding of the physical world and one's own society and of deliberately bringing about needed changes in both. In some countries, this appreciation exists widely. In other countries the positive values of traditional outlooks and relationships, and the fear of the insecurities implicit in change, may combine to build deep-seated resistance to any modernization that is more than superficial. Development activities in education, communication, community development and other fields can bring about a wider understanding and appreciation of the engineering approach to solving economic and social problems, based on scientific research and application. They can open up opportunities for study in scientific research and technological change. They can help to establish traditions of evaluation of activities and people on the basis of objective measurements of the results of deliberate actions - a basis for evaluation that makes a strong appeal to those concerned about social justice.

Similarly, in some countries adequate incentives to agricultural progress may already exist, and all that lacks may be improved equipment and skills. But in others, the rewards for greater production are diverted to landlord and moneylender. Only if these social conditions change will the incentives to increase agricultural production be strong. This may well indicate the need for a wide range of rural

reform, from land redistribution and title registration to the establishment of credit cooperatives.

In some countries, occupational mobility is high, and society can have the benefit of wide choice among those most qualified to hold important positions. Employment and promotions can then go to those who perform best, with equality of opportunity providing strong motivation for maximum learning and performance. Elsewhere preference goes to relatives and friends, or to members of one's village or hereditary caste. Certain racial groups or social classes, or even women in general find advanced education and many occupations closed to them. Social legislation and certain types of development projects may help bring the reforms which are needed both to maximize production and to increase social justice.

In some countries, a sense of national unity, of agreed purposes and procedures, of loyalty to common values, has brought about a large measure of psychological, social and political cohesion. This is especially true where there is popular understanding of, participation in deciding and general agreement with, national development goals and activities. This, of course, relates to the stage of political development of the nation and to the extent and forms of governmental responsibility and responsiveness to the people.

Where society is fragmented along ethnic, linguistic, religious or tribal lines, cooperation in important development efforts is almost impossible to achieve.

Most of the measures that need to be taken, and most of the investment required, are basically the responsibility of the government and people of the newly developing country. Unless they accept ultimately the responsibility to take leadership and mobilize fully their own resources, development assistance from abroad may be largely sterile.

### D. Mobilizing Economic Resources

#### 1. Development Programming

Once successful steps are taken to improve and mobilize a country's human resources, the task of specifically organizing an intensive and continuing attack on the development problem can be mounted. Development

programming, in the sense intended here, is a process, not an event. Its end product is substantial improvement in the actual performance of achieving economic growth, and only incidentally the creation of documents called plans.

Effective development planning requires four functions:

First - The collection of as accurate and reliable factual information as can be obtained on the past and present operation of the economy;

Second - The imaginative analysis, and evaluation of these data, in order to draw conclusions and establish alternative courses of action for the future;

Third - A forum for consideration of alternative courses of action, and a procedure by which explicit decisions are reached;

Fourth - A mechanism for executing these decisions, for monitoring their execution, and for feeding back into the collection, analysis, and evaluation of the data the actual results, as contrasted to the anticipated results.

These functions must be carried out at many levels of government and in a number of fields - at the national, provincial and local levels; for aggregate programs and for programs in education, in particular industrial sectors, in services such as transportation.

The statement by national leaders of the country's goals, four or five or eight years hence, in each of the fields - the government programs that will be necessary, the expansion of private activity that is anticipated, and the results that will be obtained - is a necessary framework for year-to-year budgeting of specific government programs, but it may also serve a broader purpose. The nation's leaders should combine these sector goals into a statement of the nation's purposes and philosophy aimed at capturing the public's imagination. In a new and not very united country, the announcement and prosecution of a development program may help to create the feeling that the country is going somewhere. It may draw the people of the towns and villages toward national unity and into the national effort.

## 2. A Budgeting Process

A government cannot decide upon its total public program of expenditures and activities without considering

the necessity and desirability of specific projects of expenditures and activities. On the other hand, it cannot decide on the desirability of specific proposals without considering how great the cost of all the proposal is, and whether the total program can be afforded. This is the budgeting process, which the United States Executive Branch and the Congress, as well as our state and local units of government, face every year. It is even more complex and demanding in newly developing countries than in a country like the United States.

In a country where change has in the past been little and slow, where resources are scarce, and where an effort is now being made to secure rapid change, one part of the change may not jibe with another. Transportation or power may be inadequate; teachers may not be available to staff the new schools; inadequate allowance may have been made for the increased demand for imports. If a country has not yet developed a flexible industrial system and a large reserve of human skills, the need to fit together the measures for change is urgent and complex.

If development programming is to be carried out effectively, there must be machinery and procedure that make possible many evaluations and comparisons.

a. It must be determined whether each proposed governmental project is capable of being operated after it is constructed. There must be a reasonable expectation that the physical resources will be available and that the manpower can be obtained or trained. Allowance must be made for the fact that many other governmental projects are undoubtedly going to be attempted at the same time and that private activity will compete for the same skills and resources needed for the public sector.

b. Each part of the program must take account of the complementary projects it will require. If a factory is built, the need for new roads or expansion of existing roads and an adequate supply of raw materials is obvious. It is more difficult to ensure that facilities are started in time, and that long lasting facilities, such as power, and water are developed in the light of conditions far enough in advance so that it will not be necessary to rebuild or expand them at unnecessary cost soon after they are completed.

c. The separate parts of the development program must, together, embody the best use of the resources available for development purposes. Less important projects should not be

included while more important ones are omitted for lack of funds, or lack of foreign exchange, or lack of a sufficient number of trained men to do them all.

These three considerations require efficient government-wide budgeting. Comparisons must be made for both development expenditures and current expenditures, so that, for example, road projects are appraised relative to dams or agricultural development projects, and one ministry's total budget is revised relative to another ministry's.

### 3. A Balancing Process

Total development expenditures (public and private) should be as great as the country can carry out and can afford. Governmental developmental expenditures should not be so great that more useful and desirable private investment expenditures are excluded for lack of finances or foreign exchange or of physical resources or manpower. On the other hand, the desire to leave room for private investment should not be carried to the point where more important public developmental expenditures are neglected.

### 4. A Continuing Process

No development program can be planned in its details for five years in advance. Foreign exchange receipts may lag, requiring adjustment of foreign purchases. New foreign aid may become available. Even if such changes do not occur, difficulties in the physical execution of the program will arise.

The heart of development planning is the annual preparation of a governmental budget and accompanying measures which take into account what was accomplished last year, what failed of completion and what can or must be done this year in order that something else shall not be delayed next year or three years hence; what were the reasons for inadequate performance in some areas last year and how they may be remedied.

This entire set of procedures is what is meant by development programming.

Whether or not a comprehensive national development program is in force or in process of establishment, a

wide range of governmental actions and policies affect the use of national resources for development purposes. The effectiveness with which decisions on these matters are made is an important factor in self-help.

Some order of priorities will be needed to insure that first things are done first. It is not unusual to find that the supply of electric power has not kept pace with the growth of industrial requirements or that plants are working below capacity because the country cannot afford to import raw materials. In a period of dynamic growth, such bottlenecks can be avoided only by looking several years ahead. This may be illustrated by the failure to start a new steel plant during India's First Five-Year Plan. Although total output rose a respectable 18% (owing largely to good crops from favorable monsoons), the failure to start a new steel mill during the First Plan has held back the rate of growth during the Second Plan, because so much steel had to be imported. The resulting acute shortage of foreign exchange has meant that some industries had to operate below capacity for want of raw materials.

### E. Obstacles to Effective Development Programming and Execution

Among the principal obstacles are the following:

a. Inertia. For example, a Finance Ministry whose central function during a colonial period was to prevent wasteful detail - to insure that three desks were not purchased, when two would do - will not rapidly shift its focus to complex dynamic problems of use of the nation's human and economic resources.

b. Clinging to old prerogatives. A Finance Ministry which itself is not adapted to long-range development will nevertheless resent and hinder the interference of any other agency in the budgeting process. So also will other ministries, which have become accustomed to deciding on the projects they will advocate, and carrying their request directly to the parliament or the prime minister, just as the various departments of the United States Government carried them directly to the Congress until the 1920's.

c. Extreme reluctance to yield or share authority. Authority has a significance in underdeveloped countries quite different from that which it has in the United States.

For a minister to share his authority with a central budgeting agency may constitute a reflection on his personal integrity. For someone else to check on whether a project for which an agency head is responsible is being carried out on schedule maybe an equally great reflection on him. Even for an official to admit that he is not competent to decide on a question without obtaining analysis and advice from his subordinates is often difficult. Consequently the establishment of the most effective development machinery meets with emotional resistances that we do not fully realize.

We should be mindful of our difficulties when our Federal government operated from 1789 until the 1920's without a central budgeting procedure. We need not be surprised if the economically underdeveloped countries have not devised the necessary machinery in a decade or so, in view of our inertia which persisted for a century and a third.

#### F. From Aid to Trade in Economic Development

Beyond the fact that underdeveloped countries do not save enough to finance the first steps of their development, they do not export enough to pay for the imports of equipment and materials that are required for growth. And since these imports cannot be produced at home, the initial expansion of output is almost certain to increase imports more rapidly than output. Unless this is anticipated the result is all too familiar - a balance of payments crisis.

The foreign exchange problem will be more tractable, if a country can enlarge the world market for the products it already produces, for it is usually quicker and cheaper to expand old industries than to create new ones. But the problem of supporting internal growth by means of external trade is a critical one for underdeveloped countries. Even after the growth process is well begun so that extra output can be spared from consumption, world markets will simply not absorb a very much larger volume of the traditional exports which underdeveloped countries already produce.

In trying to export more of the same things underdeveloped countries face two major obstacles which are largely beyond their control:

a. Expansion of such trade depends on the willingness of the developed countries to accept a greater volume of the type of imports (for example, textiles and non-ferrous metal) that underdeveloped countries already supply.

b. A second constraint is imposed by the fact that, even with no new restriction on trade, world demand for agricultural products and other primary commodities grows much less rapidly than the import requirements of the developing country.

Except for a few items, like petroleum and some non-ferrous metals, the developing countries cannot possibly earn enough to finance their imports of equipment and materials by offering a larger supply of their traditional exports on the world market. This is because the world price is depressed rather quickly when much larger supplies of tea, jute, rubber and tin for example, are pressed on the market. If extra supplies are thrown on the market for what they bring, the additional earnings may not justify the cost. While a single country may capture a larger share of existing markets, the total world market for the traditional exports of developing countries is too narrow to allow them to support internal growth by external trade.

Unless a country plans its investment program with an eye on its future import requirements, it is very likely to face a mounting foreign trade deficit. New projects requiring imported materials only make a bad situation worse. Diversification into new industries is usually the key to both export expansion and the reduction of import requirements. While this is no excuse for allowing traditional exports to stagnate, the strategy of economic development must often embrace infant industries. Since the object is not self-sufficiency, new export-producing industries serve the same purpose as those which save imports.

The venture into diversification will have its own burden, -- the production costs of new industries will generally be higher than the price of imports for at least a few years. This comparison between estimated domestic costs and the price of imports may be of some help in deciding which new industries should be given priority. The country's endowment in natural and human resources, its readiness for new technique and innovation and the size of its domestic markets, will help determine which industries should be undertaken first.

The consequences of tariff protection can be moderated by recognizing the implication of high cost industries for export policy. If a country uses its resources for

high-cost production to save imports, it can afford to take lower prices for exports in exchange for imports. Once a country is protecting high-cost infant industries, the test of how much it should export is not the price of imports, but the domestic cost of import substitutes. Economic development policy, therefore, should not sanction high-cost industries to save imports without promoting exports at the same time.

#### G. Exchange Rate Policy

While it is recognized that underdeveloped countries need outside assistance, persistent balance of payments problems can usually be relieved by adjusting the exchange rate and controlling inflation. Unrealistic exchange rates have three costly consequences: exports are neglected; imports are underpriced; and favoritism flourishes because private traders receive windfall gains.

a. However efficient its own production may be, a country cannot sell its exports if they are overpriced because of an unrealistic exchange rate. Adjusting the rate provides the same spur to exports as a subsidy, but on a broader and more permanent basis.

b. An unrealistic exchange rate underprices imports compared with domestic costs. This discourages infant industries because of low import costs with the result that import demand greatly exceeds export supply. To cope with the shortage of foreign exchange, imports are licensed and government officials are in the position of handing out favors to the lucky few who are privileged to buy in the cheap foreign market. Picking and choosing among traders, denying a license to one and granting a valuable favor to another is one of the most difficult administrative tasks in the world.

c. Those who obtain a license receive a windfall profit which should go to the government. Almost inevitably the system discriminates against small enterprise which is forced to the black market for imports of raw materials and spare parts.

#### H. Regional Trade

A large country (India, for example) can justify diversification for home market use that small countries cannot afford. A single plant of the scale required to produce competitively in many branches of metallurgy, engineering

and chemicals is beyond the needs of a small country, and it is unlikely to be able to export at competitive prices. It is possible that the problem can be resolved if a group of countries organize a Free Trade Area or Customs Union. Diversification to serve a wider market can overcome the excessive cost of small plants while avoiding a threat of disastrous price reductions from pushing traditional exports too far in inelastic world markets.

The problem of regionalism is that the importing country will often have to pay prices for partner exports that are higher than competitive world prices. It is worthwhile to buy imports on less favorable terms only if a country can, also, export to the regional market on more favorable terms. But this is a provisional answer which justifies the venture only if, as experience is gained, the costs of infant industries can be brought down. If regional trade blocs become a monopolistic device for protecting each country's high cost industry, the economic development of the region will suffer.

#### I. The Rate of Savings

A country receiving aid must be prepared to take steps which will insure not only that its own resources are used fully, but also that the process of growth becomes self-sustaining without continued dependence on assistance. A small increase in per capita consumption serves to enlist the mass of people in the task of modernization both by providing incentives and improving the physical strength of those who formerly lived on the margin of starvation. But the extra incomes generated by new investments of all types also provide an opportunity to increase the nation's savings. Price policies and tax measures to secure extra savings from higher incomes are one major test of a successful development effort.

Modernization of an underdeveloped country is scarcely possible without finding new sources of revenue and providing effective means to collect taxes. The will to tax is not only an indication that the country is ready for economic development, it is essential to avoid inflation and is a measure of the self-help required to make effective use of foreign assistance.

Since foreign capital will provide only a minor part of the total investment that is required for successful development, growth can become self-sustaining only as the

developing country devotes a larger proportion of its own income to investment.

### 1. Sources of National Savings

There are several sources of funds for investment:

- 1) Savings from personal income.
- 2) Revenue from taxes.
- 3) Undistributed profits of private enterprise
- 4) Earnings from public sector investments.

The greater the volume of voluntary savings, the less will be the need for taxes. Small savings need to be encouraged and mobilized for development purposes. In poor countries the income tax rarely yields enough revenue. Consequently, excise taxes are often a useful means of restraining consumption and achieving a more productive use of limited capital.

### 2. Profits as Savings

There are many pitfalls in the way of providing savings which are adequate to sustain development without continued dependence on foreign assistance. One of the most common is the temptation for governments to control prices. Price control often suppresses profits and has a perverse effect on both revenue and business savings.

Financing economic development will be a good deal easier if it is recognized that profits are an important source of the surpluses needed to sustain development - and this applies equally to the public and private sectors.

Higher corporate profits increase revenue in three ways: first, from the direct tax on corporate profits; second, from the direct tax on dividends distributed to shareholders; and, third, from the excise on consumer expenditures. In addition, profits are a source of personal savings by shareholders and business savings that are plowed back into investment. When the public revenue and private savings out of profits are summed up, it will be found that the consumption component of profits can be held to quite

minor proportions.

### 3. Operating Public Enterprises

If private investors can be attracted to the priority industries, the great bulk of profits can be saved either in the form of government revenue or private savings. By comparison, large public sector investments that do not produce comparable surpluses clearly cannot provide the same kind of help for sustained development.

Public sector investment may be undertaken for a variety of reasons. For example, private capital may be unwilling to invest its limited savings in projects requiring several years to complete, and sometimes offering uncertain business prospects after that. It has been found that public sector investment often stimulates a private investment boom. Within limits, the one complements the other. But public investments in productive enterprises will serve the economy less satisfactorily than private enterprise unless prices are set to cover full costs and produce comparable surpluses. Public enterprise, for example, should repay the capital (in local currency) it uses at the business rate of interest rather than the subsidized rate on government loans.

It is also indispensable that public corporations should set up proper accounting procedures and publish current reports which show their costs and earnings in a form that can be understood. And they can scarcely be expected to follow price policies consistent with the dictates of economic development, unless they are given clear and complete instruction on price policy.

### J. Price Policy and Misuse of Resources

Prices affect not only the rate of savings, but also the use of resources. Underpricing of essential items, such as coal, steel and electric power, either by public enterprise or by price controls, leads to the misuse of resources. By making production of essentials less profitable than production of non-essentials, resources are diverted away from those sectors of the economy where extra production is most needed. As a result of its own policy, the government may be pushed into allocations and direct control of supplies which are difficult to manage as well as they would be regulated by the market.

Moreover, it should not be supposed that a

government can determine what the allocations should be unless it has a realistic set of prices. In such basic issues as the choice of techniques, alternative sources of power and substitute materials, there is simply no basis for knowing which alternative is cheaper, unless prices measure the cost of scarce resources.

#### K. Small Enterprise

Encouragement of small enterprise is worthwhile first, because it is one important way to develop a country's resources more effectively; second, because it is essential to develop an entrepreneurial middle class in some countries; and, third, because it can help to restrain the monopoly power of a family or political dynasties.

Small enterprise serves as a seedbed for larger and more efficient firms and a source of future business leaders.

A country can raise its consumption by cottage-type industries that specialize and increase trade within local regions. This can be a force in breaking down ancient traditions which discourage work and maintain status. Local industries help to modernize the rural sector by substituting monetary transactions for barter.

Local industry elicits savings that would not be available to the organized sectors of modern industry in more distant centers and by making greater use of local materials and facilities. It helps to avoid overcrowding of large urban centers, and thus can save investment in transport and other facilities.

Some types of modern industry require large-scale operations to avoid excessively high costs. But even in these cases, a policy of sub-contracting to small enterprise may often save time and money.

One useful step to encourage small enterprise is to make raw materials, including imports, available at market prices. Small enterprise is likely to suffer unfairly from allocations and import licensing either because it is crowded away by big producers or cannot afford the "contacts" with the Ministry in charge.

An underdeveloped country can scarcely afford, however, to subsidize small firms, if they use more capital

than large-scale industry to produce the same volume of output. Confusion on this score has arisen because it is usually true that small firms employ more labor than large firms to accomplish the same objective. The serious error lies in the inference that a firm must use less capital because it uses more labor. It has been established for a number of modern industries that, by comparison with large enterprise, small firms use more capital as well as more labor per unit of output.

#### L. The Broader Problem of Elastic Supplies

Underdeveloped countries need a great many things besides capital. These include all the things which cause change to spread throughout the economy. More foreign aid, by itself, does not suffice. It can be counter-productive. In a developed country, expansion of one industry, automatically stimulates expansion of others to supply raw materials and spare parts. A new demand for machinery brings forth extra supplies of coal, steel, electric power and transport. Demand for automobiles stimulates production of textiles, rubber, carbon black and gasoline. In a less-developed country there is a pronounced tendency for imports to rise rather than for the process of industrial diversification to feed on indigenous supplies. Establishment of new industries has still broader objectives - namely, to create an environment favorable to still wider and deeper modernization. This requires entrepreneurs, savings, skilled workers and, above all, government policies which foster savings, innovation and enterprise.

While foreign assistance will never provide more than a minor part of the investment required to modernize an undeveloped country, its contribution during the next decade will vary widely from country to country.

#### M. Import Requirements

If a country is already growing at a respectable rate, except for interruptions caused by its foreign deficits, it will do well to have a hard look at its import requirements several years ahead. Even establishment of new consumer goods industries to save imports is likely to cause balance of payments disorder if the new industries require imports of raw materials. Although balance of payments projections can never be very accurate, they do provide some basis for a more realistic evaluation of new import requirements. The United States will have

difficulty supporting consistent economic development by loans to a country that has not seriously considered the implication in depth of its future import needs and export prospects.

For some countries where external financing is only marginal to the country's total savings, our concern with its "plans" for development may be largely with the balance of payments implications of its new investments.

At the other extreme, where foreign assistance bulks larger in relation to the country's own savings, we are necessarily concerned that the country's plans and policies should insure the self-help required to increase output and put expansion on a self-sustaining basis. In addition to export expansion and investment to save imports, this means that the country can become economically independent and sustain its development only as it devotes a larger proportion of its own income to new investment.

## APPENDIX A

### AID FROM THE COMMUNIST BLOC

Unlike the situation several years ago, the countries of the Sino-Soviet bloc are now making a considerable effort to extend their influence in the less developed countries by giving large amounts of economic and technical assistance. Beginning in 1954 with a credit of \$11 million to Afghanistan, the annual total of bloc aid commitments to the less developed countries reached \$1.165 billion in 1960 with a cumulative total since 1954 of \$3.6 billion. Of this total 20 percent had been actually drawn down by the end of 1960 and an additional 40 percent obligated by earmarking for specific projects. These amounts are for economic and technical assistance alone and do not include military aid, nor aid to other Communist countries. The total number of countries that were recipients of bloc aid was 24 by the end of 1960 and of this total three, the United Arab Republic, India, and Indonesia accounted for almost two thirds of all grants and credits. Also by the end of 1960, a total of 6,510 economic technicians from the bloc countries were in the less developed countries of the non-Communist world working as advisors, engineers, technicians and construction and agricultural workers.

This large effort represents a very significant extension of Communist influence to the less developed countries. It is obvious that the Soviet Union, Communist China and the Soviet satellites in Eastern Europe recognize in this program an opportunity to tie the less developed countries more closely to them and extend their own influence in these countries through trade agreements, aid to projects desired by the recipient countries and the presence of Communist bloc technicians. On the whole, it would appear that the aid of the Communist bloc countries has been negotiated and administered with skill, speed and sensitivity. There seems to be a growing receptivity to aid from the Communist bloc even among countries close to the United States which desire the benefits of aid and at the same time wish to reduce what they regard as drawbacks of an exclusive tie with the United States. The increasing influence of Communist bloc aid is felt in key economic sectors of some countries, in the close trade ties established with the bloc under the aid agreements, in the presence of Communist advisors in important ministries and in a tendency in some quarters to look to the Communist

experience as a model for economic development.

Assistance from the bloc countries has consisted mostly of long-term advance commitments of specific amounts of aid with actual projects and terms of repayment negotiated later. There have been some outright grants but these have been far less prominent than credits for which partial repayment at least is made in commodities. These credits usually call for repayment in 12 annual installments with 2.5 percent interest and in some cases provision for deferment of the start of repayment until the project has been completed. There is normally annual negotiation regarding the nature and price of the goods to be shipped in repayment and generally these have been priced at about world market prices. The ability of the bloc countries to enter into long-term commitments has been an important advantage to them.

The aid projects themselves have usually been addressed to important sectors of the economy and often executed in full by bloc personnel with provision for training of local personnel to replace them. Usually there have been no detailed requirements for the economic justification of individual projects. These have been selected because of their politico-economic impact and the high priority given to them by the recipient country.

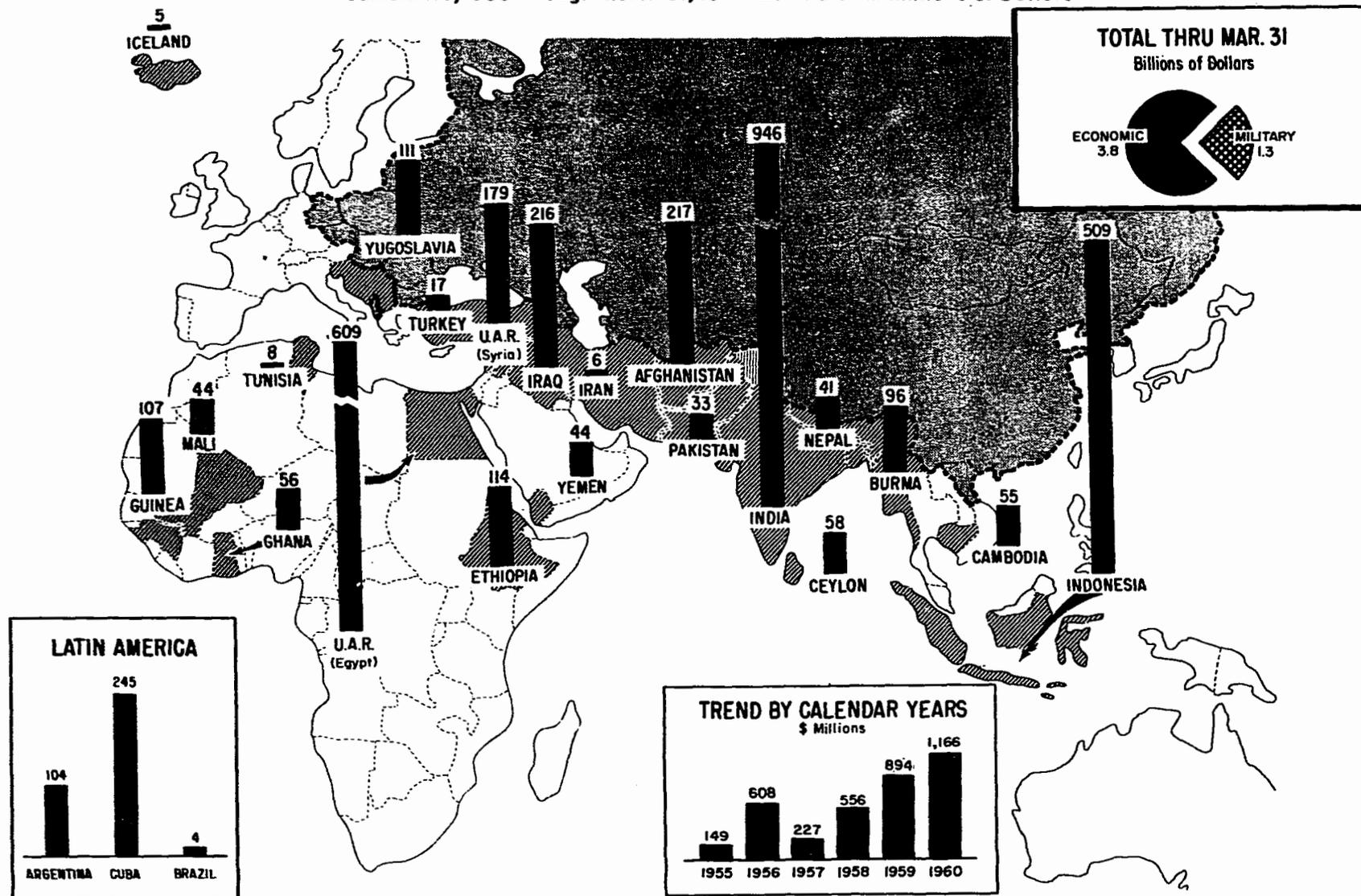
Although there have been some instances of difficulty in the negotiation and execution of the bloc aid agreements, there is no general evidence that they have run into serious delays and it would seem that speed in concluding agreements and putting them into effect has been a principal objective of the bloc countries. It can be assumed, however, that the bloc countries will encounter some of the same nationalistic, neutralist and bureaucratic sentiments and difficulties the United States has met, but so far these have not been a major problem.

This large Communist economic and technical effort in the less developed countries is obviously a development of major importance that the United States cannot ignore. It reinforces the need for a major United States effort in these countries, bearing in mind, however, that the United States is not merely responding to Communist initiatives but carrying forward a program that has its own importance. In fact, the efforts of the Communist bloc nations have followed those of the United States and reflect to that extent a recognition that the United States has used good political

# SINO-SOVIET ECONOMIC OFFENSIVE

## ECONOMIC GRANTS AND CREDITS TO UNDERDEVELOPED COUNTRIES

Cumulative, 1955 through March 31, 1961—Estimated in Millions of Dollars



judgment in attaching such importance over the past decade and more to economic and technical aid to the less developed countries.

Growing communist bloc aid to the less developed countries of the non-Communist world offers several dangers to the United States. If any of these countries were to be dependent only on the Communist bloc for its foreign aid this would give cause for concern as it could set the stage for a political take-over. The large numbers of bloc aid personnel are an obvious means of extending Communist influence to other countries, even though most bloc personnel have confined themselves to their proper fields of activity. The total effect of the bloc aid effort, together with evidences of achievement by the bloc countries at home, is to enhance the image presented by the Communist bloc and increase the attractiveness of the Communist model to countries groping for a method of rapid economic and social improvement.

It is important that the United States, in its desire to offset these dangers, not engage in a frantic competition to outbid the bloc's offers of aid or seek to prevent countries from accepting aid that will help them. To react this way would involve us in waste, draw us into an undignified posture and open us to the charge of not being sympathetic to the economic development of other countries except on our own political terms. The size and effectiveness of the communist effort are reasons for concern and self-examination but not alarm. They emphasize the need for the United States to make its aid as effective as possible, timely, vigorous and responsive to short-term as well as long-term considerations. If we do these things and our actions are constructive and politically wise the aid coming from the communist bloc should not worry us. The increasingly effective bloc effort is a challenge and a reminder to the United States that it cannot afford to make anything less than a major effort, designed and administered in such a way as to achieve maximum results of the right kind.

## APPENDIX B

### THE STATUS AND USE OF LOCAL CURRENCIES

#### 1. Introduction

Assets in the currencies of countries receiving U.S. economic aid arise from several different kinds of aid transactions. Sometimes these assets are technically owned by the United States; in other cases they are owned by the aided government. In all cases, the use of such currencies to support economic programs in the aid receiving countries is subject to the approval of the U.S. Government. A smaller portion of the local currencies arising from aid transactions are reserved for U.S. Government needs in the countries concerned.

The use and importance of local currencies in the assistance programs is subject to very wide misunderstanding. The programs which generate these local currencies take the form of supplying commodities to the aid recipient countries. Local currencies are generated from sale of the commodities in the local market. The original supply of commodities, under terms that avoid dollar payment immediately or later, adds to the total available resources of the receiving country. The local currencies generated do not add to the country's wealth - they are rather a potential claim on that wealth. Aid - meaning a transfer of real resources - is provided through the initial provision of commodities. The later use of local currency for a given purpose may change the pattern or direction of the country's spending and selfhelp, but it is not assistance.

There is sometimes a tendency to count U.S. aid twice when it results in local currency accumulations: Once when commodities are supplied and a second time when the resulting local currency is released. This often causes misunderstanding and occasionally leads to friction.

A more serious problem, however, arises in relation to the size and geographic distribution of local currencies generated by aid transactions, especially those actually owned by the United States. These currencies, primarily those generated by sale of surplus agricultural commodities for foreign currencies, are heavily concentrated in a few countries. This concentration is likely to continue and increase. Moreover, most of the releases of these currencies under present provisions are for loans to foreign borrowers

in the local economy. These conditions create a double source of friction and difficulty in U.S. relations with the countries where such holdings are large:

- (1) As the total volume of U.S.-owned local assets increases with the provision of added assistance, the U.S. Government comes into ownership of an embarrassingly large amount of the foreign government's currency. The question arises whether any foreign power should have as large command over local resources as this situation implies.
- (2) Large loans, made and payable in local currency, to local borrowers (including the government) place the U.S. Government in the position of one of the largest lenders of the country's currency. This in itself can create political difficulties. Moreover, the later payment of principal and interest to the U.S. exacerbates the problem by raising U.S. Government holdings still further.

A year ago a group of distinguished consultants submitted a report <sup>1/</sup> on this matter to the Under Secretary of State. A series of recommendations were made to cope with this problem, including a greater effort to generate wider understanding of the subject and several steps to reduce the embarrassing accumulations. The new program proposes to implement these recommendations to the maximum extent feasible.

#### 2. Authorizing Statutes

Foreign currency proceeds owned or controlled by the U.S. have been acquired, in major part, pursuant to provisions contained in two statutes: (1) The Mutual Security Act of 1954, as amended, and (2) the Agricultural Trade Development and Assistance Act of 1954; as amended (P.L. 480). The Mutual Security Act which authorizes foreign aid operations in FY 1961, contains provisions covering: (1) Counterpart deposits by countries receiving commodity grants and (2) proceeds from sales of surplus agricultural commodities pursuant to Section 402 of the Act. Title I of the Agricultural Trade Development and Assistance Act authorizing operations in FY 1961 provides for the sale of surplus

<sup>1/</sup> The Problem of Excess Accumulation of U.S.-Owned Local Currencies, Findings and Recommendations Submitted to the Under Secretary of State by Consultants on International Finance and Economic Problems, April 4, 1960.

agricultural commodities for foreign currency. Title II of the Act provides for the grant of surplus agricultural commodities which in some instances generate local currencies. Moreover, under the terms of FY 1961 legislation, foreign currency repayments of DLF loans are available for reprogramming by that agency and local currencies accruing from the sales of surplus Government property and repayments of other loans are available for U.S. uses. The legislative proposals for FY 1962 contemplate that foreign currencies will be generated by some of the foreign aid activities, including the Food for Peace program.

### 3. Usefulness of Foreign Currencies

Foreign currency is used to advantage in the aid program to influence the direction of the participating country's self-help efforts.

The usage of foreign currency is restricted in many cases by international agreements and by the status and nature of the economies on which it is a claim.

The major portion of U.S.-owned local currency is generated by sales of surplus agricultural commodities that are largely concessional. These sales become concessional because (a) the commodities represent amounts in excess of normal exports which the U.S. can sell on commercial terms (i.e., against dollar payments), and (b) the sales are made to countries which the foreign aid program is seeking to assist in economic development or where important U.S. political objectives are involved. Under these circumstances the country purchasing the commodities seeks to minimize the real cost of their purchases in the form of export of its resources. As a result substantial amounts of foreign currencies are restricted by the sales agreements so that they can only be loaned or granted to the purchasing country for economic development.

Virtually all of the currencies are inconvertible under the laws and regulations of the purchasing countries. This means they cannot be freely used to buy goods in third countries. Neither can they be exchanged for another currency which we may be able to use. Similarly, a country which limits convertibility of its currency is usually unwilling to accept its own currency in payment, in any large amount, for exports, which represent a net

drain on the country. Indeed the largest amounts of currency accrue in less developed countries where the use of large amounts of local currency for programs which are not of mutual interest might significantly drain scarce resources and result in pressure for increased U.S. aid.

In this regard, it should be pointed out that granting or lending a country its own currency under Public Law 480 and the Mutual Security Act does not provide it with additional external resources as dollar payments do. No labor, capital equipment, or materials are provided which the country did not have before, unless productive capacity is underemployed, which is unusual in these countries. Additional economic resources from outside a country's borders can only be furnished in the form of goods or dollars or other convertible currencies to be used for the purchase of goods. Thus, a country's own currencies are not a substitute for dollars in the U.S. assistance programs for that country. In some countries, this local currency is of marginal value to aid agency objectives, although there is a need for the dollar commodities which generate such local currency.

The usefulness of local currencies is closely related to the country's monetary situation and to other economic considerations. Where inflation threatens or already exists, unrestrained use of large balances of such funds would be contrary to the objectives of helping in maintaining or building up the economy of the aid recipient country. In some instances the country may prefer to expand its currency through its own internal methods rather than to borrow U.S.-owned local currency with the obligation to repay both principal and interest. To the extent that countries follow this practice, the usefulness of currency available only for loans is inhibited.

Despite the restrictions and limitations related to the use of foreign currencies, the device of generating local currencies by means of commodity imports and the mutual determination of usage generally helps in assuring cooperation of the host country in the aid program and in influencing the use of the physical resources available in the country. In many of the less developed countries, it is the most effective and practical method of obtaining revenues to finance government operations.

#### 4. Ownership and Uses of Foreign Currencies

From the standpoint of their custody and management, local currencies are classified in two categories: U.S.-owned and U.S. controlled. U.S.-owned currencies belong to this government and are deposited in Treasury Department accounts. The general purposes for which they may be used are agreed to in sales agreements and grant agreements. U.S.-controlled currencies are deposited in the accounts of and owned by the aid recipient countries and, although their use is subject to agreement of the U.S., such currencies are not available for direct use by the U.S. U.S.-owned currencies include those generated under Title I of P.L. 480, those generated under Section 402 of the Mutual Security Act, and that part (up to 10%) of counterpart reserved for U.S. uses. U.S.-controlled currencies include all counterpart deposits other than the small portion reserved for U.S. uses and the limited amount of currency generated under Title II of P.L. 480.

U.S.-owned currencies are divided between those available for U.S. uses and those available for country uses. The country-use currencies are committed by the terms of the international agreements under which they are generated to be used on a loan or grant basis for mutually beneficial purposes within the country by agreement with its government. Approximately 75 percent of the total U.S.-owned currency availabilities are earmarked for country uses.

U.S.-use currencies, on the other hand, are available for purposes of U.S. agencies without further approval of the other government. They are used to pay for overseas activities of many agencies of the U.S. Government. These activities include diplomatic representation, the construction, maintenance and operation of defense establishment, administration of assistance and informational activities and many other programs. U.S. Government agencies normally purchase these currencies from the U.S. Treasury to meet their requirements. In some instances, the Congress appropriates funds which can only be used for the purchase of such currencies.

#### 5. Country Uses of Foreign Currencies

##### a. U.S.-Controlled Currencies

#### (1) Counterpart

"Counterpart" is that local currency deposited in a special account by the government receiving grant aid. The amount of counterpart deposited in most cases is the equivalent of the proceeds received by the aid-recipient government from import and local sale in the country. In other cases, it is the commensurate value in local currency of commodity assistance or cash grants.

That portion of counterpart which is not transferred to U.S. Treasury accounts for U.S. uses is owned by the aid-recipient country and remains in its custody. It is available only for uses agreed to by the U.S. and the other country. The U.S. may agree to the use of such counterpart to carry out any purposes of the aid program

While counterpart is available for a broad range of purposes, there are some legislative and policy restrictions on its use. It cannot be used for retirement of debts of foreign governments. It has almost invariably been used for the direct benefit of the country in which generated rather than for triangular transactions. (Upon the termination of the U.S. aid program in a country, the unencumbered balances may not be used without the approval of Congress.)

#### (2) P.L. 480, Title II

U.S.-controlled foreign currency may be generated by operations authorized by Title II of P.L. 480. Although transactions under this Title have normally been gifts to disaster areas, on occasion the recipient countries may distribute such commodities by sale at reduced prices to the consumers. In these cases, the foreign currency is deposited in a special country-owned account and is used for purposes which must be agreed to by the U.S. The programming and usage of these funds normally follow the procedures which govern counterpart operations.

b. U.S.-Owned Currencies

(1) P.L. 480 - Title I

P.L. 480, Title I currencies are the proceeds of sales of U.S. surplus agricultural commodities in foreign countries under the authority of P.L. 480, the Agricultural Trade Development and Assistance Act.

Section 104 of P.L. 480 lists a variety of purposes for which these Title I currencies may be used. Broadly speaking, the various uses of these currencies may be divided into those for U.S. benefit and those for foreign country benefit. The purposes specifically related to the aid program (country uses) are: subsection 104(c) for purposes related to the common defense, subsection 104(e) for grants and loans to governments for economic development, subsection 104(g) for loans to private enterprise for economic development, and subsection 104(d) for procurement of goods and services for export to other friendly countries. Subsection 104(d) has been used only to a limited extent.

Title I currencies are generally available for these country-use purposes without resort to the requirement that they be purchased with **appropriated dollars. The largest portion of such currencies is available only on a loan basis and may not ordinarily be used for grants without dollar reimbursement.** However, in some cases - grants under 104(e) to promote economic development - the Budget Bureau may waive the requirement for dollar reimbursement when it determines that such reimbursement would be inappropriate or inconsistent with the purposes of Title I of P.L. 480.

In addition to the restriction against use of such currencies for grants to foreign countries without dollar reimbursement, there are other limitations on the use of these currencies:

(1) The Cooley Amendment requires that a substantial portion of the currencies be allocated for loans to U.S. and foreign business firms. Such loans may be made to foreign firms

**only where they will aid in increasing markets for U.S. agricultural products. Cooley Amendment loans to American or foreign borrowers may not be made for the manufacture of any products to be exported to the U.S. in competition with U.S. produced goods or for the production of any commodity to be marketed in competition with U.S. agricultural commodities or their production; (2) Certain of the authorized uses may be carried out only in amounts specified in appropriation acts; (3) Since these currencies are not generated by Mutual Security activities, they may or may not be available in countries receiving Mutual Security assistance; (4) Present legislation precludes use of the currencies for programs in the fields of health or education unless such amounts are specified in appropriation acts.**

During the fiscal year 1961, all of the local currency available for foreign benefit was administered by Mutual Security Program agencies and by the Export-Import Bank. Mutual Security agencies (ICA and the Defense Department) administered funds used for 104(g), 104(d) and 104(c) purposes as well as the grant segment of 104(e) funds; the Export-Import Bank was responsible for the loan segment of 104(e) funds. The budget for FY 1962 purposes that the new foreign aid agency administer all of the local currencies available for country use -- 104(g), 104(e), 104(d) -- and that the Department of Defense administer local currency available for country military uses -- 104(c). The foreign aid agency will also exercise a coordination function with respect to the usage of P.L. 480 currencies by other agencies when such usage has a direct or supplementary effect on economic development plans. The agency will discharge this economic coordinating responsibility when sales agreements are negotiated.

(2) Section 402, Mutual Security Act

**Local currencies have been generated from sales of surplus agricultural commodities under authority**

of Section 402 of the Mutual Security Act of 1954 and its predecessor, Section 550 of the Mutual Security Act of 1951. Section 402 has required that a minimum amount of funds appropriated for Mutual Security each year be used for such sales (\$175 million in FY 1961). These foreign currencies are owned by the U.S. and under terms of the law, they are available only for the purposes of the Mutual Security Act, with particular emphasis on those purposes of Title I, P.L. 480, which are in harmony with the purposes of the MS Act. The general purposes for which Section 402 currencies will be used are normally agreed upon at the time of the sale of commodities, and under terms of the sales agreements are normally available only for use in the country in which generated.

Since it has not been possible to meet the requirements of Section 402 through direct sales of surplus agricultural commodities to aid recipients, it has been necessary to resort to "triangular" trade transactions. Under this procedure, surplus agricultural commodities have been sold to industrial nations which do not receive foreign aid, e.g., Great Britain, France, Italy, Germany; the proceeds of such sales have then been made available to aid receiving countries for the purpose of purchasing industrial commodities.

#### 6. U.S.-Owned Foreign Currencies for U.S. Uses

The U.S. use currencies are included in this presentation in order to give a more comprehensive view of the status of all U.S.-owned and U.S.-controlled foreign currencies arising out of economic assistance programs. Although policy with respect to use of these currencies does not rest with the foreign aid agency and such funds are not under the agency's control, a large share of them are generated through the aid program. In addition, the agency will exercise a coordinating responsibility on the uses of these currencies which may have an effect on the countries' economic development programs.

Currencies available for U.S.-use accrue from many sources, including chiefly the sales proceeds under Title I of P.L. 480 which are not reserved for foreign country benefit as part of the aid program. Other sources include contributions of foreign governments to the

administrative expenses of military advisory assistance groups, the receipts of the informational media guarantee fund derived from the sale of U.S. publications abroad, interest on deposits of currency funds, the disposal of surplus property, and similar operations.

As is indicated in the table below, estimated availabilities for U.S. uses will remain approximately level during FY 1961 and FY 1962 at about \$1.1 billion. While this gross amount is available, a considerable part of it cannot be used to meet regular U.S. Government needs since much of it is in "excess" currencies. An "excess" currency situation exists when the availability of a country's currency is in excess of U.S. requirements for this currency.

A projection of availabilities and requirements indicates that a prospective excess condition will exist in seven countries in FY 1962. They are: Burma, India, Israel, Pakistan, Poland, United Arab Republic, and Yugoslavia. These currencies, which are not available to meet our needs in other countries, are estimated at \$750,000,000 for FY 1962.

A further limitation on the use of this \$1.1 billion equivalent availability is the existing restriction on the use of some of these currencies. "Restricted" currencies have had conditions placed on their use by international agreement or by informal understanding in connection with such agreements, which require their use for particular U.S. purposes. Such currencies are not, therefore, available to finance other or general U.S. activities. Currencies which are not in "excess" but which are "restricted" amount to approximately \$43,000,000 in FY 1962. The amount of such restricted currencies has declined substantially since agreements with restrictions on U.S. uses are no longer negotiated.

These U.S.-use currencies are available for general sale by the Treasury to Federal agencies for meeting foreign currency costs of agency programs. Normally, when an agency requires foreign currencies to carry out its activities, it must, under existing regulations, seek to buy such currencies from the Treasury Department. If that Department has the specifically requested currencies available, it sells them to the agency by charging the agency's appropriations accordingly. If the particular foreign currencies required are not available, they must

be purchased through regular commercial channels.

All currencies purchased by agencies from the Treasury with their regular dollar appropriations or with special appropriations provided to purchase these currencies are reflected in the budget as dollar receipts and expenditures. The dollar proceeds from Treasury sales are either credited to the miscellaneous receipts of the Treasury or to various revolving funds or appropriations as authorized by law. Public Law 480 requires the dollar proceeds from sale of Public Law 480 currencies to be credited to the Commodity Credit Corporation. Sales of currencies received from the operations of the informational media guarantee fund are credited to that fund, and currencies obtained through the sale of military equipment under the Mutual Security Act are credited to the military assistance appropriation.

As indicated above, the supply of currencies available in the Treasury for sale to agencies to meet their regular needs and special program needs is estimated to be approximately \$1.1 billion. However, because of "excess" and "restricted" currencies, only about \$300 million can be used to meet regular operating needs.

#### 7. Measuring the Value of Local Currencies

Great difficulty is encountered in producing global tables which provide at the same time a realistic statement in dollar equivalents of the cost of past programs, the value of current commitments, and the future usefulness of balances on hand of a variety of currencies from countries which range from primitive quasi-barter economies to relatively advanced types of

economies involved in complex international credit arrangements.

Regardless of the rates used -- the current market trading rate, the official exchange rate recognized by the government, or an average of the rates at which the transactions have taken place -- the conversion of other currencies to dollar equivalents tends to be misleading especially when such conversions are used to evaluate total availabilities or cumulative transactions. The deceptive nature of such conversions is due to a number of factors -- the difference between true purchasing power and quoted or derived rates, the rapid changes in exchange rates when inflationary pressures exist or when a small volume of export-import transactions establish the rates, the differences in price levels between countries, and so forth.

The dollar equivalent values of U.S.-owned currencies other than Section 402 currency conform to U.S. Treasury accounts and reports on these currencies. The dollar equivalents of these currencies are obtained by using monthly average transaction rates. The dollar equivalents of country owned currencies and Section 402 currency have been calculated by using a weighted average of the rates appearing in various agreements under which the currencies were generated. Although the tables thus represent the cost or price of the commodities received by participating countries, the dollar equivalents may or may not be a good measure of the dollar value of foreign currencies to the aid program at the time such currencies are being used, since price levels and exchange rates are frequently subject to rapid changes. The value of inconvertible local currency is elusive and difficult to measure and can only be established at the time of actual usage.

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SUMMARY - UNITED STATES-OWNED OR CONTROLLED FOREIGN CURRENCIES FOR COUNTRY USE

Deposits, Obligations, and Unobligated Deposits by Region

(In millions of dollars equivalent)

Region and Type of Foreign Currency	Deposits FY 1960	Obligations or Commitments FY 1960	Unobligated Deposits 6/30/60	Estimated Deposits FY 1961	Estimated Obligations or Commitments FY 1961	Estimated Unobligated Deposits 6/30/61	Estimated Deposits FY 1962	Estimated Obligations or Commitments FY 1962	Estimated Unobligated Deposits 6/30/62
<b>Europe - Total</b>	361.3	212.9	252.7	238.0	429.0	61.7	176.8	210.9	27.6
Country-Owned	75.5	96.5	20.1	55.1	67.7	7.5	47.7	46.0	9.2
U.S.-Owned	285.8	116.4	232.6	182.9	361.3	54.2	129.1	164.9	18.4
<b>Africa - Total</b>	32.7	26.7	11.1	39.7	49.3	1.5	94.6	95.5	0.6
Country-Owned	22.2	24.9	1.6	32.4	33.8	0.2	53.9	54.1	
U.S.-Owned	10.5	1.8	9.5	7.3	15.5	1.3	40.7	41.4	0.6
<b>Near East - Total</b>	311.6	265.6	207.2	321.5	259.2	269.5	267.4	301.8	235.1
Country-Owned	160.8	177.4	130.6	138.9	137.0	132.5	128.0	137.0	123.5
U.S.-Owned	150.8	88.2	76.6	182.6	122.2	137.0	139.4	164.8	111.6
<b>South Asia - Total</b>	647.7	192.3	290.1	725.8	476.5	539.4	579.6	606.4	512.6
Country-Owned	110.4	94.6	23.0	104.8	97.0	30.8	116.1	135.0	11.9
U.S.-Owned	537.3	97.7	267.1	621.0	379.5	508.6	463.5	471.4	500.7
<b>Far East - Total</b>	778.1	662.4	165.0	574.5	616.4	123.1	511.4	549.6	84.9
Country-Owned	551.5	539.4	32.1	422.4	428.5	26.0	356.2	357.5	24.7
U.S.-Owned	226.6	123.0	132.9	152.1	187.9	97.1	155.2	192.1	60.2
<b>Latin America - Total</b>	125.3	45.5	70.2	112.2	118.5	63.9	157.8	153.2	68.5
Country-Owned	22.2	21.5	10.4	28.0	24.2	14.2	32.4	30.3	16.3
U.S.-Owned	103.1	24.0	59.8	84.2	94.3	49.7	125.4	122.9	52.2
<b>GRAND TOTAL</b>	2,256.7	1,405.4	996.3	2,011.7	1,948.9	1,059.1	1,787.6	1,917.4	929.3
Country-Owned	942.6	954.3	217.8	781.6	788.2	211.2	734.3	759.9	185.6
U.S.-Owned	1,314.1	451.1	778.5	1,230.1	1,160.7	847.9	1,053.3	1,157.5	743.7

BEST AVAILABLE DOCUMENT

SUMMARY - UNITED STATES-OWNED FOREIGN CURRENCIES AVAILABLE FOR U.S. USES

Supply, Purchases or Uses by U.S. Agencies and Cash Balance by Region

BEST AVAILABLE DOCUMENT

(In millions of U.S. dollars equivalent)

Region	FY 1960 Actual			FY 1961 Estimate			FY 1962 Estimate		
	Supply	Purchases or Uses by U.S. Agencies	Cash Balance 6/30/60	Supply	Purchases or Uses by U.S. Agencies	Cash Balance 6/30/61	Supply	Purchases or Uses by U.S. Agencies	Cash Balance 6/30/62
Far East	75.5	50.4	25.1	89.4	63.4	26.0	103.8	67.4	36.4
Near East	84.0	27.6	56.4	144.0	45.4	98.6	151.6	45.5	106.1
South Asia	135.6	21.3	114.3	395.2	22.5	372.7	452.5	27.6	424.9
Europe	323.6	161.8	161.8	402.7	164.1	238.6	337.4	99.2	238.2
Africa	0.8	0.1	0.7	3.5	3.5		4.2	4.0	0.2
Latin America	22.9	13.9	9.0	44.4	25.0	19.4	60.1	21.2	38.9
Other	10.5	10.5		4.7	1.6	0.7	2.3	0.9	1.4
<b>GRAND TOTAL</b>	<b>652.9</b>	<b>285.6</b>	<b>307.5</b>	<b>1081.9</b>	<b>325.9</b>	<b>756.0</b>	<b>1111.9</b>	<b>265.8</b>	<b>846.1</b>

Source: U.S. Treasury Department, Bureau of Accounts.

APPENDIX C

Contributions to International Organizations

Summary Table

	<u>FY 1962</u> Proposed (millions of dollars)
<u>UNITED NATIONS:</u>	
1. UNTA and Special Fund	40.0
2. U.N. Congo - Military Operations	27.0
3. U.N. Congo - Economic Assistance	35.0
4. UNRWA	13.35*
5. U. N. Emergency Force	1.8
6. U.N. Children's Fund	12.0
7. WHO - Malaria Eradication	2.5
8. WHO - Worldwide Water Supply	.4
9. WHO - Medical Research	.5
10. IAEA	<u>.75</u>
Sub Total -	(133.3)
 <u>REGIONAL PROGRAMS:</u>	
11. OAS Technical Cooperation	1.5
12. NATO Science Program	1.8
13. Indus Waters	<u>16.9</u>
Sub Total -	(20.2)
GRAND TOTAL	153.50

\*Does not include \$4.85 million requested to be reappropriated.

1. UNITED NATIONS EXPANDED TECHNICAL ASSISTANCE PROGRAM AND SPECIAL FUND

FY 1960 Contribution	\$30.00 million
FY 1961 Contribution	\$36.45 million
FY 1962 Request	\$40.00 million

Description

The United Nations Expanded Technical Assistance Program was created by a General Assembly resolution in 1950 to provide technical assistance for the economic development of underdeveloped countries. The Program provides experts, fellowships, and demonstration supplies and equipment to countries at their request through the Specialized Agencies of the United Nations, the International Atomic Energy Agency, and, in certain fields, through the United Nations itself. The basic philosophy is to help countries to help themselves.

Assistance is provided in the fields of agriculture, public health, education, community development, industrial production, public administration, labor productivity and civil aviation.

The program is financed by voluntary contributions from some 80 governments to a central fund. These funds are allocated to the participating Agencies to carry out projects requested by the underdeveloped countries. The Program assists over 100 countries and territories by providing approximately 1,500 experts and 2,000 fellowships. The Program has been operating at a level of about \$30 to \$35 million annually.

The Special Fund was created by the Twelfth General Assembly as a result of United States initiative and began operations in January of 1959.

The Special Fund undertakes basic surveys, research and training projects necessary for economic development. The Fund is not an international capital development fund, but rather finances preinvestment projects. Surveys of water, mineral, soil and power resources and the setting up of technological training centers are typical projects the Fund will make possible. It is contemplated that, wherever possible, projects will be carried out on a regional rather than a country basis. A combined annual goal of \$150,000,000 has been set for the Technical Assistance and Special Fund

Programs.

United States Interest

Among the basic foreign policy objectives of the United States are:

- a) Assisting the economic development of less-developed countries.
- b) Strengthening the United Nations. These programs further both objectives. As a part of its leadership in the United Nations, the United States has strongly supported the technical assistance activities of the United Nations. The concrete value of cooperation through international organizations becomes clearly apparent to the peoples of underdeveloped countries in technical assistance activities. A by-product of this is to attract them to the Free World.

The United States has found many advantages in supporting multilateral assistance in addition to its own bilateral programs. Sharing costs of the programs with over 80 other countries is more economical than bearing the cost alone. Utilization of the United Nations pool of manpower and training resources helps speed peaceful economic development. Experts from international agencies in fields which may be domestically sensitive sometimes have easier entree than experts under bilateral arrangements.

Coordination with Bilateral Program

Assistance is provided by the United Nations agencies on the basis of requests from countries. The program proposals are discussed by the Technical Assistance Board Resident Representative with the U.S. Operations Mission to insure that there is no duplication between the two programs. As projects are carried out, there is an exchange of information both in the field and at headquarters to assure active cooperation between the two programs. A similar procedure also applies to the Special Fund.

Proposed U.S. Contribution

It is proposed that the United States Delegation to the Pledging Conference, which will be held during the 16th General Assembly, be authorized to offer a United States contribution for 1962 of 40% of total contributions toward the goal of \$150 million. It is estimated that pledges

from other governments will amount to approximately \$60 million, calling for a U.S. contribution of \$40 million in fulfillment of this pledge. If pledges from other governments exceed this amount, so that a larger U.S. contribution is called for, additional funds would be secured from other Foreign Aid funds.

For calendar year 1961, the U.S. contribution, at 40% of total government contributions to the two programs, including assessed and audited local cost contributions to the central fund, is estimated at \$36.45 million. Government contributions have increased sharply during the last two years and indications are that they will continue to increase, calling for a U.S. contribution of \$40 million in 1962.

In view of the U.S. initiative in the establishment of the Special Fund and continuing interest in the Expanded Program, it is considered essential that this Government be in a position to contribute toward the total goal of \$150 million for the combined programs.

UNITED NATIONS EXPANDED TECHNICAL ASSISTANCE PROGRAM  
AND SPECIAL FUND  
Contribution by Calendar Year  
(In dollars)

Country	1959		1960		Estimated 1961	
	UNTA	Special Fund	UNTA	Special Fund	UNTA	Special Fund
Australia	\$ 625,000	-	\$ 625,000	-	\$ 660,000	-
Brazil	832,432	\$ 208,108	832,432	\$ 208,108	832,432	\$ 208,108
Canada	2,000,000	2,000,000	2,000,000	2,000,000	2,150,000	2,350,000
Denmark	651,513	332,996	651,513	332,996	1,158,245	579,123
France	1,555,288	1,072,068	1,543,780	1,072,067	1,852,532	1,072,066
Germany	1,190,476	476,190	1,428,571	1,904,762	2,120,000	3,449,750
India	525,000	500,000	750,000	1,750,000	750,000	1,750,000
Italy	400,000	600,000	500,000	600,000	900,000	1,350,000
Japan	135,000	480,000	135,000	480,000	400,000	1,422,483
Netherlands	1,202,000	2,440,105	1,323,052	2,440,105	1,565,083	2,561,436
Norway	450,791	377,992	548,789	419,992	604,788	597,088
Sweden	902,764	2,103,228	902,764	2,103,228	900,000	2,100,000
Switzerland	348,837	465,116	465,116	465,116	465,116	465,116
USSR	1,000,000	1,000,000	1,000,000	1,000,000	2,000,000	1,000,000
United Kingdom	2,240,000	1,000,000	3,000,000	5,000,000	3,000,000	5,000,000
Venezuela	350,000	40,000	350,000	40,000	550,000	100,000
Subtotal	14,409,101	13,095,803	16,056,017	19,816,374	19,908,196	24,005,170
Other Governments	3,385,704	2,391,528	3,453,954	2,906,585	3,591,020	3,255,908
Subtotal	17,794,805	15,487,331	19,509,971	22,722,959	23,499,216	27,261,078
United States <sup>1/</sup>	11,863,203	10,324,887	14,655,445	15,824,770	17,766,145	18,623,837
TOTAL	\$29,658,008	\$25,812,218	\$34,165,416	\$38,547,729	\$41,265,361	\$45,884,915

<sup>1/</sup> Amount includes U.S. matching of assessed and audited local costs for 1960 and 1961.

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UNITED NATIONS SPECIAL FUND  
 Allocations by Region and Agency  
 approved as of April 30, 1961

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	Africa	Asia and Far East	Latin America	Europe	Middle East	Inter-Regional	Total
UN	\$ 1,262,200	\$10,872,550	\$ 4,796,000	-	\$ 2,678,800	-	\$19,609,550
FAO	11,393,660	6,628,565	18,176,831	\$ 2,625,650	7,870,708	\$ 3,865,800	50,561,214
IGAD	1,264,700	2,779,300	844,600	-	1,063,400	-	5,952,000
IIA	1,489,200	5,904,590	3,347,600	1,860,675	3,071,000	-	15,673,065
ITU	523,600	2,160,800	-	-	-	-	2,684,400
UNESCO	6,187,905	8,218,800	5,950,100	601,200	6,683,440	-	27,641,445
WHO	-	849,100	-	-	-	-	849,100
WHO	-	-	1,844,650	-	319,300	-	2,163,950
Subtotal	22,121,265	37,413,705	34,959,781	5,087,525	21,686,648	3,865,800	125,134,724
IBRD	735,000	1,015,000	3,763,000	-	-	-	5,513,000
TOTAL	\$22,856,265	\$38,428,705	\$38,722,781	\$5,087,525	\$21,686,648	\$3,865,800	\$130,617,724

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UNITED NATIONS EXPANDED TECHNICAL ASSISTANCE PROGRAM  
 Calendar Years 1961-1962  
 Summary by Agency and Geographic Region  
 (Dollars in Thousands)

<u>By Region</u>		<u>By Agency</u>			
			<u>Program</u>	<u>Administrative and Operational Costs</u>	<u>TOTAL</u>
Africa	20,088	UN	15,188	1,711	16,899
Asia and the Far East	19,371	FAO	17,930	2,197	20,127
Latin America	15,599	ICAO	2,576	400	2,976
Europe	3,688	ILO	7,396	825	8,221
Middle East	10,760	ITU	1,397	168	1,565
Inter-Regional	<u>1,477</u>	UNESCO	11,871	884	12,755
Total	70,983	WHO	12,022	1,325	13,347
		WMO	<u>1,119</u>	<u>113</u>	<u>1,232</u>
		Subtotal	69,499	7,623	77,122
		IAEA	<u>1,484</u>	<u>17</u>	<u>1,501</u>
		Total	70,983	7,640	78,623

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2. and 3. UNITED NATIONS - Congo

FY 1961 Contribution	\$64.96 million
FY 1962 Request	\$62.00 million

- (a) U.N. Military Operations \$27.00 million
- (b) U.N. Economic Assistance \$35.00 million

For details, see the Congo section in the classified volume on Africa.

4. UNITED NATIONS RELIEF AND WORKS AGENCY  
FOR PALESTINE REFUGEES (UNRWA)

FY 1960 Contribution	\$23.00 million
FY 1961 Contribution	\$16.50 million
FY 1962 Request (new appropriation)	\$13.35 million

Description of Program

During 1960 the situation with respect to the Palestine Arab refugees remained substantially unchanged. Neither Israel nor the Arab States showed a disposition to arrive at a mutually acceptable settlement of the problem in accordance with pertinent United Nations resolutions. The United States, and other members of the United Nations, have supported paragraph 11 of UN Resolution 194 (III) giving the refugees the option of repatriation to their homes or compensation precedent to resettlement elsewhere. Meantime, UNRWA's staggering responsibility for the continued care of the now over one million Palestine Arab refugees has continued.

UNRWA's mandate was extended by UN Resolution 1456 (XIV) of December, 1958, to June 30, 1963, with the proviso that the Agency's future beyond that date be considered at the 16th General Assembly which meets in the Autumn of 1961. In an effort to enhance the employment potential of at least the younger refugees, UNRWA has embarked upon a bold and constructive expanded vocational training program. It has also begun a vigorous effort to rectify refugee relief rolls in order to insure that those refugees legitimately entitled to relief assistance receive their due.

Though kept quiescent as a result of UNRWA's effective discharge of its assigned responsibility to look after the welfare of the Palestine Arab refugee community, the refugee problem remains one of the most volatile and potentially disruptive factors affecting the political stability of the Near East region.

Specific Considerations

Section 407 of the Mutual Security Act, as amended in 1960, provides inter alia:

"...In determining whether or not to continue furnishing assistance for Palestine refugees in the Near East, the President shall take into account whether Israel and the Arab host governments are taking steps toward the

resettlement and repatriation of such refugees. It is the sense of the Congress that the earliest possible rectification should be made of the Palestine refugee rolls in order to assure that only bona fide refugees whose need and eligibility for relief have been certified shall receive aid from the Agency and the President in determining whether or not to make United States contributions to the Agency should take into consideration the extent and success of efforts by the Agency and the host governments to rectify such relief rolls..."

Additionally, the House of Representatives Appropriations Committee, in its report on the Mutual Security Appropriations Act for FY 1961, urged the Department of State to make a contribution of Title II Public Law 480 food commodities to UNRWA directing that if this were done, a corresponding dollar amount of the total UNRWA appropriation should be placed in reserve.

The Secretary of State, under delegation of the President, had determined that it was in the best interests of the United States to continue to furnish assistance to UNRWA in FY 1961 despite the regrettable fact that neither Israel nor the Arab host countries had yet taken effective steps toward the repatriation or resettlement of Palestine Arab refugees. The Secretary of State's pertinent determination also took into account the gratifying progress that had been made during the past year in rectifying UNRWA relief rolls and the arrangements worked out with UNRWA to allow a portion of the United States contribution to be made in Title II Public Law 480 food commodities.

#### Refugee Statistics

It has been estimated that in 1948, at the time the refugees fled from their homes, the population of Palestine was about 30% urban and 70% rural. Over 2/3 of the urban refugee population, i. e. 20% of the total population, became self-supporting in other Arab countries almost immediately, possessing as they did skills of use to those countries. The remaining 75-80% were farmers, unskilled workers, children, the aged and the sick. It is these groups that now form the bulk of the older refugees dependent on UNRWA.

As of June 30, 1960, there were 1,120,889 Arab refugees registered with UNRWA. Of this number, 849,634 received full rations. Geographically, the refugees were distributed

as follows:

<u>Name of Country</u>	<u>Refugees Receiving Rations</u>	<u>No Rations</u>	<u>Total Number of Refugees</u>
Jordan	576,156	37,587	613,743
Gaza	242,756	12,786	255,542
Lebanon	114,079	14,115	128,194
Syria	105,654	8,864	114,518

About 38% of the refugees currently live in UNRWA-administered refugee centers, although the average varies from country to country. Thus, in the Syrian or northern region of the United Arab Republic only 17% live in such UNRWA centers; in Gaza an estimated 60% live in such centers. At present, UNRWA operates 58 refugee centers, viz., 25 in Jordan, 16 in Lebanon, 9 in Syria, and 8 in Gaza. There is an estimated annual increase of between 30-35,000 refugee children per year, and some 457,000 of the total number of refugees are 15 years of age or younger.

#### Relief Assistance

UNRWA's principal activity continues to be relief assistance to the refugee population in the form of subsistence, shelter, welfare and health care. Percentage-wise, the UNRWA budgets have in recent years allocated approximately 43% for rations, 8% for shelter and camps, 2% for welfare services, and 8% for health services. The basic monthly dry ration per person remains 1,500 calories in summer and 1,600 calories in winter. 79% of the total calorie content consists of flour, 5% of pulses, 5% of sugar, 4% of rice and/or burghool, and 7% of oil and fats. Special rations, over and above basic rations, are issued to non-hospitalized pulmonary tuberculosis patients, while supplementary milk rations are issued to babies under one year of age, to children 1 to 15 years old, to pregnant women, and to nursing mothers and sick persons on medical recommendation. Blankets, kerosene and soap are also included in the ration distribution. The total average cost per refugee for all services rendered by UNRWA has been no more than \$34 per year, or about 9¢ a day.

The basic ration currently being distributed includes U.S.-provided Title II P.L. 430 flour and rice.

#### Rehabilitation Program

UNRWA rehabilitation programs to date have consisted largely of small-scale economic assistance extended to families and individuals, and subsidization of self-support opportunities. 6% of the UNRWA budget has customarily been allocated for such self-support assistance, although failure to meet UNRWA total budgets in recent years has compelled the Agency to reduce its self-support programs.

#### Vocational Training

In his Report to the 15th Session of the General Assembly, presented in the Fall of 1960, the UNRWA Director proposed a bold new program to expand approximately six-fold UNRWA's present vocational training capability over a period of three years. UNRWA presently operates 7 vocational training centers, with an annual graduating capacity of about 400. The UNRWA Director proposes that by the end of the three-year period, UNRWA's graduate vocational training capacity be increased to 2500. This is to be done in two phases, viz., Phase 1, to be carried out in 1961 and 1962, consisting of building 5 new vocational training centers; and Phase 2, to be carried out in 1963, consisting of doubling the existing vocational training capacity at 6 of the schools. Cost estimates for the specific vocational training program presented by the UNRWA Training Director are as follows:

	<u>1961</u>	<u>1962</u>	<u>1963</u>
Total UNRWA Budget	\$40,600,000	\$39,334,000	\$41,240,000
Vocational Training Component	4,000,000	2,366,000	2,839,000

The UNRWA Director is well on his way to obtaining the funds needed for this purpose in 1961, and has already received contributions from World Refugee Year sources amounting to approximately \$3- $\frac{1}{2}$  million.

The Director's proposed expanded vocational training program represents an imaginative, positive and constructive step. The specialized skills which will be taught to the refugees remain at a premium in the less-developed Near East economy, as evidenced by the fact that 95% of UNRWA's recent

vocational training school graduates had already been offered employment by the time they were ready to graduate. These skills should facilitate greatly the refugees' ability to make a positive contribution to the growth of the economies of the Near Eastern countries. The training facilities which will be built under the program represent infrastructure of permanent value to the Near East area, irrespective of whether or not UNRWA is continued after 1963.

The percentage ratio of refugees which will be handled by the proposed expanded program is admittedly not as high as some might wish relative to the size of the refugee community. Clearly, however, it is realistic in terms of an attainable goal in the three-year span for which it was developed and which corresponds to UNRWA's approved mandate. Further expansion of vocational training in the future is certainly possible if present goals are achieved, if UNRWA continues after 1963, and if the absorptive capacity of the Near East area for such trained persons continues to warrant an increase.

#### Rectification of UNRWA Relief Rolls

In past years there has been some criticism that UNRWA refugee relief rolls included names of deceased persons and that many ration cards were improperly held. During 1960 UNRWA has undertaken a vigorous program to rectify these relief rolls. Its initial effort has centered in Jordan, where over 1/3 of the refugees are located and where the problem has been most acute. In this endeavor, UNRWA has enjoyed the active cooperation of the Jordanian Government. UNRWA has steadily and patiently sought to educate the refugee community to an appreciation of the fact that the basic purpose of rectification is to insure that all deserving and eligible refugees receive their just rations. Slow but gratifying progress is being made. UNRWA has adopted a procedure in Jordan whereby one eligible refugee child is inscribed on the ration lists for every deceased refugee reported. It has to date been possible to delete 4,000 names from the ration lists in Jordan, although it should be recognized that complete rectification may be expected to increase the over-all size of the lists in view of the excess of births over deaths.

In addition, the UNRWA means test is in effect whereby refugees earning L15 or its equivalent are removed from ration rolls. Despite the steady increase in the number of

refugees registered with UNRWA, UNRWA has during the past ten years been able to delete over 188,000 names from its rolls. UNRWA's ration list when it assumed responsibility for the refugees in 1950 included 957,000 refugees, the total number now receiving rations is 867,505, a net decrease of about 90,000.

Inclusion of Title II P.L. 480 Food Commodities in United States Contribution to UNRWA

In accordance with the House Committee on Appropriations' request, arrangements were worked out with UNRWA whereby a Title II P.L. 480 food commodity component was included in the United States Fiscal Year 1961 contribution to UNRWA. This consisted of 85,000 tons of flour and 4,000 tons of rice with an estimated world market value of \$6- $\frac{1}{2}$  million. Accordingly, \$6- $\frac{1}{2}$  million of the Fiscal Year 1961 UNRWA contribution appropriation was not used and was placed in reserve. Of this amount \$4,850,000 remains, the balance having been transferred for other uses to meet increased Department of State and ICA administrative expenses due to Congressional action on the Pay Act. It is requested that the unobligated balance be reappropriated as part of the United States Fiscal Year 1962 contribution to UNRWA.

It is presently contemplated to again include \$6- $\frac{1}{2}$  million worth of Title II P.L. 480 food commodities in the U.S. aid to UNRWA. A comparative table of the United States Fiscal Year 1961 and proposed 1962 contributions to UNRWA follows:

Proposed United States Contribution to UNRWA

	<u>FY 1961</u>	<u>FY 1962</u>
Program level	\$23 million	\$24.7 million
Appropriation	(\$16.5 million)	\$13.35 million
Reappropriation	-	(\$4.85 million)
FL-480	(\$6.5 million)	(\$6.5 million)
<hr/>		
Unobligated balance	\$6.5 million	
Transfer to ICA and Department of State administrative expenses	\$1.6 million	
Balance	<u>\$4.9 million,</u>	reappropriation of which is requested for FY 1962 (see above).

As in previous years, the United States contribution will be subject to the 70%-30% matching formula. Additionally, the \$1,652,000 of the proposed cash contribution for the UNRWA vocational training program will be specifically earmarked for this purpose. Finally, in accordance with the precedent which the United States was able to set in Fiscal Year 1961 of paying a portion of its cash contribution to UNRWA in local currency, it is hoped that \$3 million of the appropriation request for Fiscal Year 1962 can be paid to UNRWA in "U.S. uses" Egyptian pounds.

Should basic agreement be reached in the coming year on repatriation or resettlement, funding requirements for the immediate future would necessarily rise sharply. Whether or not the present political climate in the Near East area is likely to make such agreement possible cannot now be forecast with any certainty.

## 5. UNITED NATIONS EMERGENCY FORCE (UNEF)

FY 1960 Contribution	\$3.50 million
FY 1961 Contribution	\$3.20 million
FY 1962 Request	\$1.80 million

### Description

UNEF is an international force drawn from seven member states of the United Nations, none of which is a permanent member of the Security Council. Its current strength remains at about 5,300 officers and men. It was established by the General Assembly in November 1956 to maintain the armistice agreement between the United Arab Republic and Israel after the Suez crisis.

Units of the Force are stationed in the Gaza strip, along the Israeli-Egyptian border and at the entrance to the Gulf of Aqaba. These areas are patrolled by the Force on a 24 hour basis by foot, motor vehicle and reconnaissance aircraft to prevent or investigate incidents in this region.

### U.S. Interest

The maintenance of international peace and security everywhere is a basic foreign policy objective of the United States. This objective is of paramount importance in the Near East because of the vital nature of that area's resources to the defense needs of our NATO allies and because of Soviet pressures in this area.

UNEF is a collective responsibility of all UN members, who are assessed for its cost on the UN budget scale of assessment. In view of United States interests in maintaining a successful UNEF and in maintaining stability in the area, we have in the past offered voluntary assistance beyond our regular assessed share. The effect of this voluntary assistance has been to reduce the assessment of the U.N. member states least able to pay and is essential to keep the Force in operation.

### Accomplishments

In large measure the peace and relative order this disputed and troubled region has enjoyed since 1956 are due to the presence of UNEF. During its period of operation the danger of hostilities has been measurably reduced. There has been only one serious incident in the area of operation since its presence. This occurred in July, 1957, when a raiding party, illegally attempting to cross the border, was intercepted by a UNEF patrol.

### Proposed U.S. Contribution

For calendar year 1961, the General Assembly approved a budget of \$19 million for UNEF. The United States offered a voluntary contribution of \$1.8 million toward this cost, subject to the appropriation of funds by the Congress. This voluntary contribution, plus a voluntary contribution of \$135,000 from the United Kingdom, will be applied to reduce by 50% the assessments of member states least able to pay.

The voluntary U.S. contribution of \$1.8 million, when added to our assessment of \$6,115,518 for the 1961 UNEF budget would mean U.S. support of the authorized expenditures at a level of 41.66 percent. The assessment has been requested as a part of the appropriation "Contributions to International Organizations" which is a part of the State Department budget.

## 6. UNITED NATIONS CHILDREN'S FUND (UNICEF)

FY 1960 Contribution	\$12.00 million
FY 1961 Contribution	\$12.00 million
FY 1962 Request	\$12.00 million

### Description

The United Nations Children's Fund (UNICEF) was established by the General Assembly in 1946 to provide emergency relief for children in Europe following World War II. With recovery in Europe, the General Assembly in 1950 directed a shift in emphasis from emergency aid to programs of long term benefit for children in economically underdeveloped areas. Of the estimated one billion children in the world, 750 million live in these underdeveloped areas.

UNICEF is governed by a 30 nation Executive Board which meets twice a year to set policy, consider requests, allocate aid, evaluate results, and establish the annual administrative budget. The U.S. has always been a member of the Executive Board. The actual day to day operation of UNICEF is the responsibility of the Executive Director who is appointed by the Secretary General of the UN.

Aid provided by UNICEF has been given mainly in the fields of health, nutrition and social welfare. Other agencies within the UN family have responsibilities in these fields and close cooperative relationships have been developed between UNICEF and the World Health Organization (WHO), the Food and Agriculture Organization (FAO), and the UN Bureau of Social Affairs. This cooperation not only avoids duplication but assures that available international resources are used in the most effective ways to assist governments applying for aid. UNICEF's principal function is to provide essential supplies and technical equipment not available within assisted countries. The other agencies, each within its field of competence, provide technical advice required by governments in planning the projects, and also in many instances provide experts to the governments for limited periods of time to help carry them out. UNICEF does not approve aid for a project until it has the technical advice and approval of the other U.N. agency or agencies involved. This assures UNICEF that the project is technically sound and at the same time is helpful to the other agencies in advancing their work.

UNICEF and the other UN agencies also coordinate their activities with bilateral aid given by various governments for programs directly or indirectly affecting children.

All projects are the primary responsibility of assisted governments. UNICEF's resources cannot meet all needs but by careful selection it has been able to help many governments willing and able to accept the main responsibility for action to improve the conditions of children. UNICEF projects are geared to the special requirements of a country and its people and are designed to prepare governments to continue the projects after UNICEF aid is terminated.

### U.S. Interest

UNICEF is principally engaged in assisting governments in underdeveloped areas to improve health, welfare and nutritional standards. It also influences governments to establish sound administrative and operational processes which will enable them to expand, perfect, and carry out sound programs of permanent services. These activities contribute to U.S. interests in stimulating economic and social progress in developing areas. Our interest is also served by the fact that assisted governments appreciate the leadership which the U.S. exercises in its support of UNICEF's humanitarian program.

### Accomplishments

In 1960 about 55 million children and mothers benefitted from UNICEF aided projects including: 33 million children and mothers protected against malaria, 15 million children vaccinated against tuberculosis, over 2 million children and mothers treated for yaws, almost 2 million children treated for trachoma and related eye diseases, 500,000 children and mothers treated for leprosy, and 3.5 million children and mothers received daily milk rations. The total of these items exceeds 55 million persons since some children benefitted from more than one type of project. Additional millions of persons gained from services provided at maternal and child welfare centers and hospitals equipped with UNICEF supplied materials.

The 416 projects currently being assisted by UNICEF in 104 countries or territories are as follows:

<u>Area</u>	<u>Health Services</u>	<u>Family and child Welfare Services</u>	<u>Disease Control</u>	<u>Nutrition</u>	<u>Health and Nutrition Education &amp; Surveys</u>	<u>Emergency</u>	<u>Total</u>
Africa - 33 countries or territories	25	6	49	19	1	5	105
Asia - 20 countries or territories	30	4	49	21	1	2	107
Eastern Mediterranean 12 countries or territories	13	3	25	17	-	1	59
Europe - 6 countries or territories	11	-	4	7	-	-	22
The Americas 33 countries or territories	41	2	35	40	-	1	119
Interregional	<u>2</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>4</u>
Totals - 104	122	15	162	105	3	9	416

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#### Interest of Other Participants

All contributions to UNICEF are made on a voluntary basis and have increased regularly over the years. In 1954, \$13.6 million was contributed by 60 governments. In 1960, contributions and pledges from 98 governments amounted to \$25 million. The U.S. has gradually been decreasing the percentage of its contribution from 72% in 1952 to 46% in 1961. A further decrease to 44% is being proposed for 1962.

In 1960 assisted governments made commitments totaling \$78.4 million in the form of local facilities, services, and supplies for carrying out UNICEF programs. These so-called local contributions are not "matched" by the United States but they represent a vital element in the UNICEF program. They enable UNICEF resources to go farther and assure that each project is firmly rooted in the country as a basic responsibility of the local government. This is important in connection with the commitments to continue programs after UNICEF aid has ceased.

In addition to government contributions, UNICEF receives support from private sources. Income from these sources amounted to approximately \$1.9 million in 1960.

#### Proposed U.S. Contribution

It is proposed that \$12 million be appropriated for contribution to UNICEF's CY 1962 program. This is the same amount that was appropriated in FY 1960 and FY 1961. Because of increased contributions from other governments and UNICEF's new procedures whereby resources are put into more rapid use, the UNICEF program will be able to expand in 1962 without an increased contribution from the U.S.

The U.S. Department of Agriculture has been making dried skim milk available to UNICEF on a grant basis since 1955 under the authority of Title III, P.L. 480. In FY 1960 such donation to UNICEF amounted to 40,255,732 pounds. This was far below donations in previous years due to a shortage of surplus milk. In FY 1961 it is expected that donations will exceed 90 million pounds. Donations of dried skim milk have been in addition to cash contributions to UNICEF and have not been included in arriving at the ratio of U.S. contributions to contributions from other governments. Canada and Switzerland have also been making substantial contributions of dried milk to UNICEF in addition to their cash contributions.

The 1962 UNICEF forecast calls for a \$2 million increase in program allocations to a \$28.5 million total of which 76% is earmarked for disease control and nutrition projects. In addition to program allocations, the Executive Board makes allocations for the operational services and the administrative budgets. The operational services expenditure for 1961 is estimated at \$2.2 million and the administrative expenditure for 1961 is estimated at \$1.8 million. These expenditures are expected to show but a slight increase for 1962.

UNITED NATIONS CHILDREN'S FUND

Program Allocations by Area and Type of Activity

(in thousands of US dollars)

Area	Actual Allocations Calendar Year 1960		Target Program Calendar Year 1961		Program Forecast Calendar Year 1962	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa	2,981	11.5	4,100	15.5	5,200	18.2
Asia	6,692	25.9	8,000	30.2	8,300	29.1
Eastern Mediterranean	4,007	15.5	3,800	14.3	4,100	14.4
Europe	1,385	5.4	1,000	3.8	900	3.2
The Americas	7,674	29.7	7,700	29.0	8,100	28.4
Interregional	3,115 <sup>a/</sup>	12.0	900	3.4	900	3.2
Undefined (Emergencies)	-	-	1,000	3.8	1,000	3.5
TOTALS	<u>25,854</u>	<u>100.0</u>	<u>26,500</u>	<u>100.0</u>	<u>28,500</u>	<u>100.0</u>

<sup>a/</sup> Includes allocation for Fish Oil Capsules and Freight on powdered milk in an amount of \$2,220,000 which on implementation will be charged to the respective countries.

Activity	Actual Allocations Calendar Year 1960		Target Program Calendar Year 1961		Program Forecast Calendar Year 1962	
	Amount	Percent	Amount	Percent	Amount	Percent
Health Services	4,684	18.1	5,400	20.4	4,400	15.4
Family and Child Welfare Services	411	1.6	600	2.3	800	2.8
Disease Control	12,195	47.2	11,500	43.4	12,200	42.8
Nutrition	6,826	26.4	7,500	28.3	9,400	33.0
Health and Nutrition aspects of Primary Education	157	0.6	500	1.9	700	2.5
Aid for Project Preparation and Training Survey	43	0.2	-	-	-	-
Emergency Aid	<u>1,538</u>	<u>5.9</u>	<u>1,000</u>	<u>3.7</u>	<u>1,000</u>	<u>3.5</u>
TOTALS	<u>25,854</u>	<u>100.0</u>	<u>26,500</u>	<u>100.0</u>	<u>28,500</u>	<u>100.0</u>

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UNITED NATIONS CHILDRENS FUND  
CASH CONTRIBUTIONS BY GOVERNMENTS  
(in Dollars)

Country	1957	1958	1959	1960 a/
Australia	501,760	501,760	501,760	537,600
Brazil	505,415	982,364	1,544,017	2,448,496
Canada	668,615	669,063	679,073	670,751
Colombia	256,446	255,587	255,298	504,906
France	1,071,428	738,095	740,000	748,240
Germany, Fed. Rep.	380,952	476,190	523,810	595,238
India	335,781	377,708	595,281	714,867
Iran	200,000	200,000	425,635	469,224
Italy	96,000	96,000	288,800	480,000
Mexico	300,000	300,000	532,319	521,353
New Zealand	182,000	210,000	210,000	210,000
Philippines	90,000	95,500	134,762	175,775
Sweden	212,355	212,355	260,618	260,618
Switzerland	234,000	269,100	269,100	269,100
Turkey	107,143	160,714	186,071	241,666
USSR	500,000	500,000	500,000	500,000
United Kingdom	616,000	658,000	658,000	938,000
Yugoslavia	200,000	200,000	200,000	200,000
Subtotal	6,457,895	6,902,436	8,504,544	10,485,834
Other Governments	1,729,204	2,998,065	2,545,122	2,626,717
Subtotal	8,187,099	9,900,501	11,049,666	13,112,551
United States	10,000,000	11,000,000	11,000,000	12,000,000
<b>TOTAL</b>	<b>18,187,099</b>	<b>20,900,501</b>	<b>22,049,666</b>	<b>25,112,551</b>
Contributing Governments	80	80	87	98

a/ Provisional, including contributions receivable.

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PROGRAM SUMMARY (\$ in Thousands)

FY 1960  
12,000

Estimate FY 1961  
12,000

Proposed FY 1962  
12,000

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Government Contributions to UNICEF

<u>Calendar Year</u>	<u>United States</u>	<u>Other</u>	<u>U.S. Percentage</u>
1954	8.3	5.3	61
1955	9.0	6.6	60
1956	9.7	7.8	55.5
1957	10.0	8.2	55
1958	11.0	9.9	52.5
1959	11.0	11.0	50
1960	12.0	13.0	48
1961 <u>a/</u>	12.0	14.1	46
1962 <u>a/</u>	12.0	15.3	44

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a/ Estimates.

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## 7. MALARIA ERADICATION PROGRAM OF THE WORLD HEALTH ORGANIZATION

FY 1960 Contribution	\$5.00 million
FY 1961 Contribution	5.50 million
FY 1962 Request	2.50 million

### Description of Program

The Worldwide Malaria Eradication program is a cooperative campaign being undertaken by almost 100 countries and territories in conjunction with the World Health Organization, the Pan American Health Organization, the United Nations Children's Fund and the International Cooperation Administration. The ultimate goal of the campaign is to eradicate malaria from areas in which 1.25 billion people are or have until recently been exposed to malaria infection. There is cumulative evidence that malaria eradication programs in malarious areas are an essential factor in preparing the way for social and economic development.

### Types of Assistance Provided by WHO:

The WHO mainly provides or trains technical personnel and engages in research and standardization activities. (Supplies and equipment are for the most part provided multilaterally by UNICEF and bilaterally by ICA). WHO assigns professional malaria staff to country or regional programs to work with national counterpart personnel. It promotes training of required national personnel through fellowships, travel grants, seminars, and assistance to international training centers. Standards are set for malaria eradication which are applied by national programs including techniques for spraying, epidemiology, entomology and parasitology. The WHO also sponsors or assists research needed to support field programs, sometimes in cooperation with the U. S. Public Health Service, including research on antimalarial drugs, resistance to insecticides in mosquitoes, and field trials of insecticides.

### U. S. Interest

In view of its multilateral nature, the WHO is able to play the key role in coordinating the efforts of the many member nations undertaking malaria eradication programs. This coordination takes many forms, such as sponsoring meetings of directors of national malaria eradication campaigns; stimulating establishment of inter-country

malaria coordination boards; setting of standards; facilitating exchange of information; and encouraging neighboring areas to undertake eradication campaigns simultaneously.

The multilateral agencies are able to call on the technical personnel and skills of many countries in the international campaign. In 1960, WHO employed about 425 professional anti-malaria staff in the field and at headquarters. WHO has assigned technical personnel to assist malaria eradication programs in 75 countries and territories.

Some countries prefer to receive assistance from a multilateral agency. It is a shared effort and a genuine form of international cooperation, since all countries make some contribution and participate in the overall agency direction. This is the single largest program in which WHO, including its regional office, the Pan American Sanitary Bureau, is engaging - far reaching in conception, scope and effect. Supporting the WHO contributes to our foreign policy objectives of strengthening the UN and its specialized agencies.

### Accomplishments

One of the most recent reports on the progress of malaria eradication is from Mexico. This country, which is receiving assistance from WHO/PAHO and UNICEF, in 1956 had 2.5 million malaria cases and 250,000 deaths; by 1960 it had only 1,400 cases and no deaths. Reports at the 14th World Health Assembly during February 1961 were similarly encouraging. As a result mainly of training activities, the number of professional malaria staff in the worldwide campaign increased from 1,400 in 1959 to 2,400 in 1960.

In terms of trends in programs, WHO and also ICA are now emphasizing assistance in developing efficient administration of country programs and in evaluating the results achieved. WHO has several evaluation teams to assist countries in doing this. WHO and ICA have agreed on the concept of undertaking "pre-eradication" programs in parts of Africa where eradication is becoming a technically feasible long term goal.

### Cooperation of Multilateral and Bilateral Agencies

The WHO (including its PAHO branch), ICA, and UNICEF have developed close liaison and working relationships in order to ensure that multilateral and bilateral assistance efforts are really complementary with best use of funds and personnel. The malaria campaign is genuinely a cooperative one in which all participating agencies are making essential contributions.

#### Proposed U. S. Contribution

At the request of the U.S., the 14th World Health Assembly put the financing of the WHO malaria eradication program on a more stable and orderly basis by providing that the field costs of the program should be progressively integrated into the regular assessment budget over a three-year period, 1962-1964. In addition, the Health Assembly accepted another U.S. proposal that henceforth administrative costs of the program should be paid from the regular WHO budget. The estimated 1962 expenditures of WHO are about \$5.6 million, of which \$2.8 million will be paid from the regular WHO assessment budget. In view of these provisions for systematically broadening the support for the WHO program from other member nations, it seems reasonable for the U. S. to make a somewhat reduced voluntary contribution of \$2.5 million in 1962.

The related malaria eradication program of the PAHO, for which \$2 million is proposed for FY 1962, will be funded from the Inter-American Program for Social Progress.

### 8. COMMUNITY WATER SUPPLY PROGRAM OF THE WORLD HEALTH ORGANIZATION

FY 1960 Contribution	\$ .30 million
FY 1961 Contribution	.18 million
FY 1962 Request	.40 million

#### Description of Program

**There is evidence of growing interest in underdeveloped countries and in international lending agencies in putting substantial sums into community water supply programs.** Reports of delegates to the World Health Assemblies, most recently the 14th Health Assembly, 1961, indicate that an increasing number of underdeveloped countries, including India, are beginning to accord a high priority to their community water supply programs. The WHO is now acting as Executive Agency for two Special Fund projects in India, one relating to the Calcutta water supply system and the other to developing a school for sanitary engineers.

#### U. S. Interest

Since 1958, the United States, in cooperation with certain other countries, has taken a leading part in WHO meetings in stimulating and encouraging increased activities by the WHO and by less developed nations in water supply development. In order to assist in this process, the U.S. in 1960 and 1961 has made small voluntary contributions to WHO for this purpose. As national and international funds become increasingly available for water supply construction, a necessary complement is that technical assistance be available before, during, and following the construction stage. This technical assistance relates both to technological aspects, and also to the organizational, administrative, legal, fiscal and management aspects of water supply development, and is necessary to ensure that projects are soundly conceived and implemented.

### Accomplishments

Both the WHO and ICA have concluded that technical assistance can generally be most effective in this field if it concentrates on helping countries to build strong indigenous national organizations which can promote water supply development on a well-administered, technically and financially sound basis, eventually self-supporting. Major emphasis is therefore being placed on encouraging countries to develop such national institutions. Six national legislatures are currently considering legislation to establish national water supply authorities or programs and WHO reports additional countries recognizing the value and may be expected to take action.

Major emphasis is also placed on training in all phases of community water supply programs. The WHO, in some cases in conjunction with ICA and the U. S. Public Health Service, has sponsored several inter-regional or inter-country courses which have covered such subjects as administrative and legal aspects, water rate structures, and technological subjects.

WHO assigns consultants to countries; in particular, it has made a start in appointing Sanitary Engineers to its regional offices. WHO has recently become active in the drafting of technical regulations and specifications for design and construction, including the preparation of manuals on such subjects.

The multilateral nature of WHO adds strength to some of these forms of assistance -- e.g., in training in regional or inter-regional schools and seminars, in setting of recommended standards, in comparing experience and knowledge of technical, administrative and fiscal aspects of water supplies from many parts of the world.

Community water supply development is a field in which coordination with other aspects of water development is essential. WHO has established collaboration with other international agencies, including the U.N. Water Resources Development Center, UNICEF, UN Regional Economic Commissions, the World Bank, and also with ICA.

### Proposed U. S. Contribution

A contribution of \$400,000 to WHO is proposed to support the growing needs for technical assistance to accompany development

of national institutions and the actual construction of systems.

The related program in Latin America, administered by the Pan American Health Organization, the WHO Regional Branch, will require a FY 1962 U. S. contribution of \$300,000, to be funded from the Inter-American Program for Social Progress.

9. MEDICAL RESEARCH PROGRAM OF THE  
WORLD HEALTH ORGANIZATION

FY 1960 Contribution	\$ .50 million
FY 1961 Contribution	.50 million
FY 1962 Request	.50 million

Description of Program

Many countries are reaching a stage where they are competent to undertake medical research. Under its expanded medical research program, WHO helps medical scientists and institutions to evaluate research needs, to exchange information and findings, and to plan and undertake reasonably coordinated research programs to meet specific needs. In this program, WHO makes extensive use of its well-developed system of expert advisory panels. For general advice and guidance on the program, it has appointed a Medical Research Advisory Committee composed of some of the world's leading medical scientists and administrators, including the Director of the National Institute of Health. WHO makes modest financial grants where these will have a catalytic or stimulating effect in an area of needed research, and also provides research training fellowships.

U. S. Interest

Medical science and technology has reached a stage where further progress against disease and for health is increasingly dependent on research to close gaps in present medical knowledge. Because of this, through the Public Health Service (NIH) the U. S. has for several years been expanding its cooperation with, and support and stimulation of, medical research in other countries. As a complementary activity, the U. S. secured approval by the 11th World Health Assembly, 1958, of a program to expand the medical research role of WHO, and has since contributed both technical advice and financial support to this program. The WHO, by virtue of its multilateral character, is peculiarly well suited to undertake certain activities (indicated in preceding section) needed for fully effective international cooperation in medical research.

From the first, it has been understood that the WHO would increasingly provide for the expanded medical research program out of its regular budget; and it was previously planned to end voluntary support in 1961. Successive World Health Assemblies

have therefore approved progressively larger amounts from the regular budget--\$500,000 in 1960, \$750,000 in 1961, and \$1 million for 1962. However, special circumstances have now arisen in that at U. S. request the WHO is absorbing the costs of its malaria eradication program into the regular budget over a three-year period (starting in 1962). This temporary strain on the budget bars normal provision for program development in other areas. Continuation of the U. S. voluntary contribution is requested to avoid partial nullification of the U. S.-WHO effort and to maintain the needed international medical research program.

Accomplishments

The WHO medical research program is concentrating on promoting the attack on communicable and chronic diseases, and is contributing to raising health levels in less developed areas.

In the field of cardiovascular disease, for example, WHO has promoted the establishment of a cardiovascular research center at Kampala, Uganda, which will investigate cardiovascular conditions in African areas. The comparative data obtained is expected to add also to knowledge of the causes, prevention and treatment of cardiovascular conditions elsewhere, including the U. S. In 1961, WHO is providing 10 one or two-year advanced medical research training fellowships, and is also sponsoring an exchange program for scientific personnel. Where necessary WHO is assisting in financing of research projects over several years until significant results are achieved.

Proposed Contribution

WHO is budgeting \$1 million for the program from its regular budget in 1962. The U. S. contribution of \$500,000 would raise the budget for the program to \$1,500,000. In view of the long-term nature of research, WHO has stated that this budget level will provide essentially for continuation of projects already started, although it will not allow initiation of new research. It is believed that adequate maintenance of existing projects should be the minimum U. S. objective, and \$500,000 is therefore requested for the U. S. contribution for 1962.

10. INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)

FY 1960 Contribution	\$ .75 million
FY 1961 Estimated Contribution	.58 million
FY 1962 Request	.75 million

In each of the past three years the U. S. has offered to the IAEA operations budget \$500,000 as a principal sum and \$250,000 on a 50% matching basis after other members have paid \$500,000. Our Government has offered this level of support with the thought that it would assist the agency in launching a number of programs which would prove beneficial to the member governments of the Agency. At present the operational programs include fellowships, assistance to research, technical assistance, training and the establishment of a laboratory which will be in operation in 1962.

The U. S. hopes to bring its percentage support to IAEA down to the assessed budget share which presently is 32.43%. This will need to be approached in stages and will require agreement by all member governments and an amendment of the Agency statute. In the meantime, the U. S. Government wishes to provide for the same dollar amount contribution to the Agency to show U. S. support of its operations and the Atoms for Peace Program.

11. TECHNICAL COOPERATION PROGRAM OF THE ORGANIZATION OF AMERICAN STATES

FY 1960 Contribution	\$1.30 million
FY 1961 Contribution	1.50 million
FY 1962 Request	1.50 million

Description of Program

Technical Cooperation Program of the Organization of American States for CY 1961 consists of eight training centers, one institute for hoof-and-mouth disease research (Brazil), and three seminar projects. The training centers are for economic and financial statistics (Chile), rural education (Venezuela), evaluation of natural resources (Brazil), improvement of agriculture and rural life (three regional centers), agricultural credit (Mexico) and urban and regional planning (Peru). Seminars are conducted in planning and administration of welfare programs (Argentina), advanced training in applied social sciences (Mexico), and training for business administration (Brazil).

United States Interest

It is in the United States' interest to encourage support on a voluntary basis by all the Latin American countries of a multi-lateral technical cooperation program devoted to the strengthening of their economic and social frameworks. This is a cooperative undertaking to which all contribute within their capabilities and which is staffed by nationals of many of the countries of the hemisphere. It provides, through seminars and permanent training centers, study and training opportunities in a variety of economic and social fields through facilities which are available to selected students from all member countries of the OAS. The program attacks those very problems which are basic to Latin America such as deficient agricultural production, lack of trained personnel for public and business administration, insufficient and poorly trained teachers, inadequate statistical techniques, lack of social welfare programs, etc.

It works toward the achievement of many of the objectives inherent in our bilateral programs but complements rather than duplicates the latter.

Proposed contribution

The amount of \$1.5 million is requested for the CY 1962 contribution to the Technical Cooperation Program of the Organization of American States. This program level represents no change from the previous two years. The appropriation request for Fiscal Year 1962 shows as an increase because it is expected that no carry-over funds will be available.

12. NATO SCIENCE PROGRAM

FY 1960 Contribution	\$1.19 million
FY 1961 Contribution	1.33 million
FY 1962 Request	1.80 million

Description

The NATO Science Program began as a response to the Soviet challenge in the field of science. It is a program to increase the effectiveness of Western science and to expose scientists of the Western Countries to the best and most advanced work now being done in the various fields of science.

The NATO Science Fellowship project enables individual scientists from NATO countries, including the United States, to receive up to a year of specialized training. It is expected that the 1962 program will total \$3.25 million, with a U. S. share of 40%, or \$1.3 million.

The NATO Advanced Study Institutes project encourages the holding in various NATO countries of short-term special seminar-institutes, typically of two-three weeks duration, to study scientific problems of special concern to the Alliance. The program is proposed at \$500,000 in 1962, with a U. S. share of 40%, or \$200,000.

The NATO Research Grants Fund finances research projects particularly suited to international collaboration. The initial \$1 million which was agreed to by the NATO Countries for these projects will be exhausted during 1961; a second \$1 million was approved by the North Atlantic Council in October 1960, of which \$300,000 (U.S. share \$72,600) was called up from member governments in January 1961. This year's request for funds for this program is based on the assumption that the remaining \$700,000 of the second million-dollar authorization plus an additional \$300,000 will be called up by NATO during 1962. The U.S. share of this program is 24.2%.

In addition to the established projects listed above, it is likely that other costs will be incurred in the coming year as a result of a thorough study recently made under the auspices of NATO and the Ford Foundation on "Increasing the Effectiveness of Western Science." Perhaps the most important of the recommendations resulting from this study is for the establishment of an International Science Institute.

A group of senior scientists from NATO countries under the chairmanship of Dr. Killian of MIT is now at work drawing up a blueprint for such an institute. It is requested that \$58,000 be budgeted to cover possible further costs involved in these feasibility studies.

#### U. S. Interest

Under U. S. leadership the NATO Heads of Government adopted decisions in December 1957 which led to the establishment of the NATO Science Program. Its purpose is to promote scientific cooperation and thereby to obtain for the United States, and for all other members, the maximum benefit from the great scientific resources of the NATO countries.

#### Accomplishments

NATO countries are cooperatively conducting oceanographic surveys, weather research, and studies of cosmic rays. Through NATO fellowships, the Western scientists who have participated in this exchange program have returned home with an increased understanding of the state of science in other countries. This has proven to be of great value to the individuals themselves, to the United States, and to the other Western countries.

Scientists find it difficult to keep abreast of the most recent advances in the various fields of research. The NATO advanced study institutes program enables scientists to attend meetings at which specific topics are discussed at very advanced levels. These meetings, which vary in length from one to eight weeks, permit exhaustive treatment of a given scientific topic. For example, seminars on elementary particles were held in France in the summers of 1959 and 1960 under the direction of a professor from the University of North Carolina. The latter seminar was attended by forty-one persons from fifteen countries. Seminars of similar nature have been held in other countries on such subjects as plasma physics, protein analysis, radiation damage to metals, theoretical chemistry, etc.

#### Proposed U. S. Contribution

	(Thousands of Dollars)		
	FY 1960	FY 1961	FY 1962
	actual	est.	est.
Science Fellowships	875	1,125	1,300
Advanced Study Institutes	75	135	200
Research Grants	242	72.6	242
Further feasibility studies on			
International Science Institute, etc.	none	none	58
	<u>1,192</u>	<u>1,332.6</u>	<u>1,800</u>

The total cost to the United States of these four general categories of projects is therefore \$1,800,000 which will be applied to the NATO CY 1962 program. This compares with an FY 1961 request of \$1.8 million, of which Congress allowed \$1.2 million. (The shortfall, representing the difference between the amount appropriated and the actual U. S. cash contribution due toward the CY 1961 program, is being paid from mutual security contingency funds.)

The United States contribution to the Research Grants Fund is on the basis of the NATO regular cost-sharing formula, i.e. 24.2%.

The United States originally contributed to the Science Fellowship Program and to the Advanced Study Institutes at 50%, to encourage the participation of other member governments. The United States contribution to these two programs for CY 1961 is being made at 45%. The United States cash contribution to these two programs in CY 1962 is based on a proposed percentage contribution of 40 percent. The United States proposes to continue these gradual percentage decreases with the goal of bringing the U. S. percentage contribution into line with the NATO regular cost-sharing formula. When that point is reached, it is proposed to fund these programs, together with the Research Grants program, from the Department's Contributions appropriation.

### 13. INDUS WATERS

FY 1961 Program	\$6.81 million
FY 1962 Request	\$16.90 million

#### Description of Program

In September 1960, India and Pakistan signed a treaty marking the formal settlement of the long-standing dispute between Pakistan and India on the sharing of the available water in the Indus River Basin. These water problems arose after the 1947 demarcation of the border between India and Pakistan, which cut across the major rivers of the Indus system, leaving control of upstream waters entirely in India. The required system of works to provide for Indian needs from the three Eastern Rivers and for Pakistan's needs from the three Western Rivers would maintain and extend the largest irrigation system in the world. It is estimated that costs will exceed a billion dollars.

The cost of the necessary scheme of works could not be undertaken by India and Pakistan alone. The IBRD, which assisted the negotiation of the settlement, proposed that the United States and five other countries join with it in establishing a fund to assure the main part of the financial assistance needed for the construction recommended by the Bank to effect the settlement. Simultaneous with the signature of the 1960 Indus Waters Treaty, a financial agreement to establish the Indus Basin Development Fund was signed by Pakistan, by the IBRD, and by the United States, Australia, Canada, Germany, New Zealand and the United Kingdom, all of which contribute to the Fund. Under the Indus Waters Treaty, India agreed to contribute funds to be administered by the Fund.

The financial plan for the Indus construction now includes a total free world commitment of \$1,070,000,000 in contributions, of which the agreed U.S. contribution is \$515 million. The U.S. will provide aid to meet both foreign exchange and local costs. Contributions to the Indus Basin Development Fund to be administered by the IBRD will take up almost \$900 million of the total commitment. In addition to contributions administered under the Indus Basin Fund, the United States has given assurances to IBRD and the Government of India that a loan of \$33 million would be available as a contribution to meeting the cost of works in India which are not to be covered from the IBRD administered Fund. The Development

Loan Fund made an allocation for this purpose from its available funds in FY 1960. Details remain to be worked out on the receipt of a loan application. IBRD will also lend India \$23 million for this project. Indian budgetary provision for the local costs of works in India will also remain outside the Fund.

The administration of the Indus Basin Development Fund contributions of foreign exchange and Pakistan rupees under the financial agreement is the responsibility of the IBRD, which is also a contributor of \$80,000,000 to the Fund financing. As administrator, IBRD will be responsible for calling up contributions to the Fund and for regulating disbursements to meet approved expenditures as the construction program progresses. Work in Pakistan is under the supervision of the West Pakistan Water and Power Development Authority, an agency of the Government of Pakistan, which employs free-world management and engineering advisors to assist it. Preparatory work has reached the late design stage on some major elements of the proposed construction; bids are expected to be let shortly which will provide more exact experience for judging future costs. Reimbursements for initial site work covering activity already underway are being made by IBRD under the agreement from the contributions already available.

Against the financial commitment undertaken, the U.S. has already made a DIF loan of \$70 million to Pakistan, which accrues to the Indus Basin Fund for administration with its other funds. Under the Indus Basin Fund agreement the IBRD schedules calls for contributions to be made semi-annually. In FY 1961, including through the April 1961 call for funds, the U.S. obligated \$6.8 million of special assistance grants for transfer to the Fund. The DIF loan is available to be drawn as required. To date the Fund Administrator has also called for 100 million Pakistan rupees.

#### United States Interest

Since the Partition of India in 1947 one of the two major disputes which have embittered relations between India and Pakistan has concerned the use of the waters of the Indus River system. This dispute and the Kashmir problem have posed a continuing threat to the political stability of this vital area in South Asia and have prevented the two countries from concentrating fully on programs of economic and social

development. Settlement of this issue would constitute a major step toward closer relations between the two countries, which is a major policy objective of the United States. Such an improvement in relations between India and Pakistan would lessen the danger of any possible military conflict between the two countries and would also encourage them to concentrate their energies more fully on development activities. It was in support of these policy objectives that the United States decided to contribute substantially to the plan for solution of the Indus Waters dispute formulated by the International Bank for Reconstruction and Development.

#### Proposed FY 1962 Assistance

It is estimated that \$16.9 million of FY 1962 appropriated funds will be required to meet Indus Basin Fund calls on the U.S. for further contributions against the commitment to provide grant aid. Local currency for the Indus Basin Fund requirements will be provided as called for from Pakistan rupee balances available as a result of earlier agreements for the sale of agricultural commodities under P.L. 480 and through provision for allocations from future Food for Peace programs for Pakistan.