



BEST AVAILABLE

U. S. FOREIGN AID AND THE ALLIANCE FOR PROGRESS

PROPOSED FISCAL YEAR 1970 PROGRAM

AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL NOTE

This is an excerpt from the Agency for International Development's Program Presentation to the Congress outlining the President's foreign aid request for fiscal year (FY) 1970.

Unless otherwise stated, the terms "foreign assistance" or "economic assistance," as used in this volume, refer only to economic aid programs conducted under the Foreign Assistance Act and exclude other foreign assistance such as the Food for Peace Program under Public Law 480, the Peace Corps and the Military Assistance Program, as well as other economic programs such as those carried out by the Export-Import Bank.

Figures for fiscal years prior to 1969 are actual commitments. FY 1969 figures are estimates made at the time this volume went to press in May 1969. FY 1970 figures are illustrative proposed programs based on the FY 1970 appropriation request and anticipated carryovers, receipts and recoveries.

Countries in Latin America where AID proposes programs for FY 1970 are shaded on the cover map.

**U.S. FOREIGN AID
AND
THE ALLIANCE FOR PROGRESS**

Proposed Fiscal Year 1970 Program

Agency for International Development

U.S. FOREIGN AID AND THE ALLIANCE FOR PROGRESS

U.S. hemispheric policy is to collaborate as a reliable partner with Latin America in finding solutions to its profound economic and social problems. While many development gains have been registered by Latin America in the past decade and we have assisted significantly in those gains, candor and realism compel recognition of the great difficulties of the challenge ahead. Despite substantial progress, few countries in the hemisphere have yet achieved self-sustaining development within a democratic framework. While the progress to date amply demonstrates the validity and feasibility of the goals of the Alliance for Progress, experience also clearly indicates that the original target of ten years to achieve these objectives, set in 1961, was unrealistic. Vast and complex social and economic problems created over decades and centuries resist rapid solutions.

U.S. policy toward Latin America is at a crossroads. This country has committed itself to substantial support of Latin American self-help development efforts. However, we have not always assessed accurately the time required to resolve the difficulties and frustrations implicit in this task. As this dimension comes more clearly into focus, the United States must steadfastly reaffirm its determination to continue to cooperate with Latin America--both in our own interest and in the interest of the hemisphere. The program for which Congressional approval is sought this year reflects the conclusion that it is important to our national interest, and our national sense of what is right, to continue a substantial bilateral assistance program in the hemisphere.

U.S. policy of the past decade grew out of a consensus in the late 1950's among the leaders of the hemisphere that a dramatic and concerted economic and social development effort was needed. The Charter of Punta del Este called for sweeping social and economic change. It called for regional economic integration, tax, agrarian and education reform, more adequate health and sanitation facilities, and a high sustained level of economic growth. External assistance was to be conditioned upon adequate country self-help performance. Collaboration was to be within a multilateral framework. Except for a failure to address the problem of Latin America's burgeoning population growth--the confrontation of which may be the key to modernization and social reform--the basic concepts of the Alliance reflected an accurate diagnosis of the basic problems besetting the hemisphere.

The assumption that such sweeping change could be carried through in one short decade, however, was unsound. Latin America was and is a region dominated by archaic economic and social structures

and antiquated business, educational, industrial and agricultural practices. The problems of 400 years have not given way very quickly before the challenge of modernization.

Our evaluation of experience over the past eight years demonstrates that massive institutional, administrative and technological backwardness, the fragility of political structures, the thin veneer of democratic forms, and the sheer cost and complexity of bringing greater equity and productive efficiency to traditional agricultural sectors, or incorporating an essentially untutored, very poor, rapidly growing urban population into the mainstream of productive citizenship, are not the problems of a mere decade. Rather, they will be the challenge for many decades to come. However, the past eight years' experience has also demonstrated that genuine and tangible progress is indeed attainable, and that intensive self-help on the Latin American side, together with needed external assistance, can make the difference between progress and stagnation.

Acceptable progress in many countries will require sustained and vigorous U.S. financial and technical assistance in addition to the substantial self-help measures which these countries themselves undertake. At issue, quite simply, is whether we are prepared, as a reliable partner:

- to support Latin America's own efforts and the impressive development momentum already in motion,
- to continue to honor our prior commitments to the hemisphere, and,
- to continue our search for increasingly effective ways in which we can play a more constructive role in the hemisphere's difficult adjustments to its development needs.

As President Nixon recently said:

"...if the present rates of growth that we have in the United States and in the balance of the hemisphere are not changed, at the end of this century the per capita income in the United States of America will be 15 times as high as that of the per capita income of our friends, our neighbors, the members of our family, in the balance of the hemisphere."

It is essential to both our interests and those of Latin America that the estrangement inherent in this widening gap not occur.

RATIONALE FOR ASSISTANCE TO LATIN AMERICA

A comprehensive assessment of U.S. policies and relationships in Latin America is under way. The report and recommendations of the

special mission headed by Governor Nelson Rockefeller will be central to this effort. The results of these reviews obviously cannot be fully reflected yet in U.S. policies and programs.

In the interim, and in light of the reviews already under way, it is clear that the thrust and momentum of our assistance programs in Latin America must be maintained. This is particularly true of programs and projects designed to reach and assist the lowest income groups in both the rural and urban areas to which special emphasis is being given in FY 1970.

In shaping the assistance program presented to the Congress for FY 1970 the following considerations have emerged:

(1) There has been considerable development in the hemisphere in the past decade. Yet progress has been inadequate and, unless accelerated, threatens to be overwhelmed by rapid population increase.

(2) U.S. assistance, both bilateral and multilateral, has played a catalytic role in the progress already made and is essential to progress in the future. It is in our own national interest to sustain U.S. assistance. To do less would be shortsighted. The financial and technical resources we make available are essential, but they are small compared to the efforts, initiatives and purposes which Latin America itself must marshal if acceptable hemispheric advancement is to occur.

(3) Belief in the willingness of the United States to participate as a reliable partner with the Latin Americans has been eroded by diminishing appropriations and by frustrations in some U.S. quarters over the priority and efficacy of Latin American development efforts. This attitude is the product, in large part, of exaggerated initial expectations of the development pace. Our expectations must be more sober in the future and our credibility as a steadfast partner must be strengthened if the relationship of the United States to the hemisphere is to remain constructive in the years ahead.

(4) The vigor, pace and priorities with which any country addresses its development problems touch upon the most sensitive and vital processes of its national life and purpose. Even though the world is shrinking and international interdependence is great, how and when a country addresses these great issues of national life are for it alone to decide. Because of our great economic power and our commercial, cultural and technological activism, we must constantly avoid assuming full responsibility for matters which are properly for determination by our hemisphere partners. Where we find there is agreement and mutual interest, we must be ready to support our partners and to assist, where reasonably called upon.

Our reviews suggest that the future of the hemisphere will be a troubled one. Sweeping change is clearly occurring in Latin America. The hemisphere is urbanizing rapidly, population is growing at an alarming rate, traditional social structures are in transition with demands for new opportunities and a better life. Whether or not the United States or any other country wills it, even greater pressure for changes will occur in the decade ahead. These currents of change can be destructive and dangerous, or they can be constructively directed to change the face of the continent through accelerated development.

The question for the United States is whether we shall continue to support the forces for constructive change, or whether we shall leave the hemisphere increasingly on its own to solve its overdeveloped problems with its underdeveloped resources.

The question for Latin America is whether it will continue to meet the challenge of the complex and immense tasks of development. A sustained and energetic commitment on the Latin American side of the partnership should merit a corresponding and reliable commitment on the part of the United States.

(5) The ratio of bilateral to multilateral assistance is one which requires constant assessment. Slightly more than half of the external public assistance to Latin America in 1968 was on a multilateral basis.

We have concluded at this stage in the continuing process of evaluation that the already substantial multilateral effort and the important multilateral mechanisms for cooperation which are already in place must be maintained. Indeed, our reviews suggest that their weight might usefully be increased over time from present levels. Moreover, we have concluded that this multilateral effort must continue to be accompanied by a substantial and vigorous bilateral program.

U.S. policies of the future, whether based on bilateral or multilateral approaches, must be adapted to changing circumstances as Latin American countries take greater initiatives in addressing their development problems. The assistance program proposed for FY 1970 comprises activities and programs which, under present circumstances, require bilateral support from the United States. Should such support not materialize, most if not all of these programs would be substantially delayed or abandoned.

(6) The priorities which shape our bilateral efforts are important. The needs of the hemisphere are immense and diffuse; they cannot all be addressed at once. Experience shows that U.S. efforts can be most useful in agriculture and in education. We can also play a vital role in meeting the great technological and capital investment needs of the hemisphere through promoting increased private investment. For this purpose the foreign assistance legis-

lation submitted this year to the Congress includes provision for the creation of a new public corporation.

Underlying these priorities is the fundamental concept that the goal of development must be seen as encompassing far more than mere economic growth. As accompaniments to economic growth, there must be increasing justice and social equity for the Latin American citizen through widened access to opportunity for rewarding and productive activity. The citizen must be able to participate more fully in the civic and social institutions through which decisions are made. In addition to our concentration in agriculture, education, and private sector expansion, the proposed assistance program will experiment in attempting to find ways in which our national experience with dynamic civic and social participation may be adapted to the Latin American setting, in those cases where new and innovative efforts in these fields are sought and supported by the Latin Americans themselves. A.I.D. experience to date in supporting cooperative movements, credit unions, and improved municipal government organizations, suggest strongly that the United States' experience may be useful.

THE ACHIEVEMENT

Achievements to date show the efficacy of the hemispheric effort and that an impressive development thrust has been set in motion. In many respects, the advances registered in the past few years surpass the cumulative progress of centuries:

- Half the countries have increased central government revenues by more than 60%.
- Five countries have more than doubled gross investment, and four others have had increases of more than half; eight central governments increased their capital outlays by more than 60% and in five of these capital outlays were more than doubled.
- Central government expenditure on education increased by more than 60% in 11 countries (since 1961), helping to support a vast increase in school enrollment in Latin America. Enrollment in primary schools has increased by about 55% since 1960, and the percentage of primary school age children enrolled in school has grown from 46.7 in 1960 to 57.5 in 1968. Until 1968, despite increases in the percent of children of school age enrolled in school, the number not in school actually increased to levels above that of 1960 as a consequence of the rapid growth of the primary school age population. By 1968, however, the number not in school had fallen back to about what it had been in 1960. Continued expansion of primary education from now on should increasingly diminish the number not enrolled. At the secondary and

higher levels, enrollment has more than doubled since 1960.

--Increases in central government expenditures on agriculture have also been notable in many countries. Eight countries more than doubled their outlays in this sector; of these six more than tripled. Food production increased 35%, although drought losses and population growth have still kept per capita gains at 7%-10% over the period.

With a population increase of about 22% since 1961, Latin America has been hard pressed to make substantial per capita GNP gains. Even so, five countries managed to achieve a per capita GNP increase of 19% or more for the period, which corresponds with the Alliance goal of 2.5% annually. Finally, it should be noted that the most recent data show that Latin America as a whole met the Charter goal of 2.5% increase in per capita GNP in 1968.

Even in the countries where newly awakened development energies are not yet reflected in the statistical indicators of change, there is clear evidence of the new commitment of the Latin Americans to programs of modernization and development. Yet every advance only demonstrates anew how much more needs to be done. The story is the same in most sectors. While there are major improvements, reflected not only in the statistical indices, but more importantly in the institutional and political ability and determination to come to grips with basic problems, far more remains to be done than the resources, skills, institutions, and fragile political structures of the hemisphere can yet manage. What in essence has been accomplished is that ancient inertia is giving way and the momentum of constructive change is accelerating in numerous places.

Initially, U.S. assistance stressed priority projects that showed promise of being within the short-term financial, technical and administrative capacity of the borrowing country (e.g., power and road projects). Apart from their obvious high priority, mounting these "brick and mortar" infrastructure projects at the inception of the Alliance was more clearly within the planning and implementation competence of the Latin American countries and A.I.D. than were more difficult and sophisticated efforts intended to accelerate institutional and policy changes in such fields as educational reform. At the same time, strenuous efforts were made, particularly through technical assistance programs, to assist the Latin countries in strengthening their capacity to manage their economies, to combine effectively needed external investment with domestically marshalled resources, and to devise and implement better planned development programs and policies. When Brazil, Chile, and Colombia demonstrated such capacity, A.I.D. drew heavily upon Marshall Plan techniques and utilized program loans. By supplementing the borrower country's foreign exchange availabilities for essential imports, these loans supported private and public investment levels which

otherwise would have been lower because of the inability of the private sector to obtain dollar exchange to purchase the goods and equipment from the United States for critically needed economic activity. Equally essential, these loans supported sound economic policy changes by the borrower countries enabling them to come to grips with inflationary pressures. In each of the program loan countries, inflation not only threatened sensible development programs and policies but also served as an inequitable burden on lower and middle income groups. Typically, these groups are far less able to protect themselves from inflation's income-destroying impact than their wealthier fellow countrymen. The program loan has been a successful instrument for promoting those conditions of economic stability which are indispensable to growth and job creation, more equitable income distribution, and the rational allocation of public and private resources for development. Reliance upon the program loan technique will diminish as the country stabilization programs which these loans support become more firmly implanted, and country priorities and energies shift towards more effectively addressing the questions of agricultural and educational modernization.

As this shift occurs, A.I.D. lending will increasingly focus upon sectoral lending, a recent innovation, reflecting increased A.I.D. and recipient country sophistication in collaborative efforts. These loans provide a mechanism for attacking comprehensively the interrelated policy, financial and physical constraints on change in a given sector such as education or agriculture. For example, two education sector loans in Chile, totalling \$26.3 million, are providing U.S. dollars for school equipment not available in Chile, as well as supporting comprehensive and integrated Chilean efforts to address simultaneously the need for curriculum reforms, better teacher training, increased textbook distribution and physical plant construction, and improved education sector planning, budgeting, and management. While difficult to plan and execute, such integrated and comprehensive sectoral programs promise to yield far more significant results than efforts aimed at only segments of the education system.

Governments and private sector groups vary widely from country to country, and over time, in their willingness and technical, financial, and administrative ability to work meaningfully towards addressing their countries' numerous priority needs. As less developed countries, with long legacies of neglect of their accumulated and profound problems, the Latin American countries were, for the most part, ill-equipped a decade ago to take on adequately the many self-help development undertakings specified at Punta del Este. The most striking achievement of the past decade may well be that, whereas few governments or organized private sector groups were actively concerned with the key issues of development and modernization prior to that time, development and progress are today the essential bywords of national political life throughout

the hemisphere. Hard work, coupled with a growing sense of commitment to development, has resulted in the creation in many countries of a vastly strengthened and rapidly improving, administrative, technical, and policy competence to resolve the difficult questions of priorities and the complex tasks of raising productivity, improving and expanding education and health facilities, and eliminating the inequities of maldistribution of land and income.

FY 1970 PROGRAM

The proposed FY 1970 program has been carefully tailored to meet important development needs of the hemisphere, and further, to meet the following basic tests:

- Are the activities proposed responsive to self-help initiatives established by the Latin American countries themselves?

- Does the proposed program or project support improvements or changes in institutions or policies in a way that will have a lasting and widespread effect?

Consistent with these criteria, A.I.D. is requesting in FY 1970, \$553.5 million in new obligational authority for Alliance Development Loans, and Alliance Technical Assistance, and \$1.8 million for Supporting Assistance. Together with anticipated repayments and deobligations this appropriation would finance a total program of \$605.5 million. (The \$121 million Technical Assistance portion of the request is composed of \$100.9 million earmarked for support of the Alliance for Progress; and \$20.1 million for inter-regional programs, such as the War on Hunger and research). \$281 million or 58% of the total loan program is for program loans and for sector loans in agriculture and education. Also local currency of approximately \$83 million will be generated by P.L. 480 Title I sales. These currencies, owned by the borrower countries, will be earmarked to the agrarian sector programs, and coordinated with A.I.D. dollar inputs.

The proposed FY 1970 lending program will be distributed as follows:

(Dollars in millions)

Agriculture Sector Lending	\$ 102	
Agriculture Project Lending	\$ 19.7	
		25.2%
Education Sector Lending	\$ 84.0	
Education Project Lending	\$ 16.3	
		20.8%
Program and Production Loans	\$ 173.0	
		35.8%
Social and Civic Development	\$ 48.5	
		10.1%
Others	\$ 39.2	
		<u>8.1%</u>
	<u>\$ 482.7</u>	

The proposed FY 1970 Technical Assistance Program will be distributed as follows:

Sector	Amount (\$000)	%
Agriculture	15,234	15.1
Education	23,358	23.1
Population	9,670	9.6
Social & Civic Development	24,729	24.5
Public Finance & Administration	11,162	11.1
Other	16,747	16.6
	<u>100,900</u>	<u>100%</u>
Program		
Country Programs	57,378	
Regional Programs	24,606	
Support for Multilateral Programs	18,916	
	<u>100,900</u>	

INTER-AMERICAN AND REGIONAL PROGRAMS

CONTRIBUTIONS TO INTER-AMERICAN ORGANIZATIONS

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Technical Assistance . . .	5.8	9.3	9.0	15.1

Multilateral cooperation for development has expanded markedly since the American presidents, at Punta del Este in 1967, inaugurated the Organization of American States (OAS) Regional Educational, Scientific, and Technological programs. Conceived to encourage regional solutions to Latin American educational and scientific problems, the new programs will require increased contributions by all OAS members. In FY 1970, the United States plans to contribute \$9.6 million for these programs compared to \$3.7 million in FY 1969, and \$3.2 million in FY 1968, the first year they were funded. This increase, together with increased Latin American contributions will permit authorization of additional science and education projects and will complete funding of the initial \$25 million programs. Other grants to Inter-American organizations planned for FY 1970 are: \$4.5 million for the Special Development Assistance Fund; \$0.5 million for the Inter-American Export Promotion Center; and \$0.5 million for the Pan American Health Organization Special Malaria Fund.

Proposed U.S. support in FY 1970 to the Inter-American programs is as follows:

The Regional Educational, Scientific and Technological Programs. The Inter-American Cultural Council, meeting at Maracay, Venezuela in February 1968, agreed on a plan of action to give effect to the programs established by the American presidents at their Summit Meeting. In November 1968 the Cultural Council's Executive Committee, elected by OAS member states, approved a \$7.6 million budget to begin operations and finance the program through June 30, 1969. Vocational and technical training, application of new educational techniques, experimentation and research are being carried out through fourteen education projects. Highlights of the seventeen science projects are programs providing advanced training to scientists, and applying research techniques and new technologies to such fields as nuclear energy, soil research, metallurgy, pulp and paper and engineering.

The Cultural Council will meet again in June 1969 to review progress to date and make decisions on the FY 1970 program budget. The balance of the U.S. contribution--\$9.6 million requested in FY 1970--will complete the 66% U.S. share (\$16.5 million) of fund-

ing for the \$25 million program. This is based on anticipated Latin American payments totaling \$8.5 million (34%) by June 30, 1970.

The Special Development Assistance Fund. Established when the Inter-American Committee on the Alliance for Progress (CIAP) was created in 1963, the Fund supports a broad range of technical assistance and training activities. It also finances staff support for the annual CIAP reviews of country economic and social performance. In FY 1970 the Fund will continue support of training centers such as the Inter-American Center of Integral Development of Land and Water Resources, public administration and tax policy assistance to the governments, natural resource surveys, and studies of marketing techniques. A proposed U.S. voluntary contribution of \$4.5 million in FY 1970 would match, at the 66/34% ratio, Latin American pledges which are expected to increase to \$2.3 million. These pledges will be made at the June meeting of the Inter-American Economic and Social Council (IA-ECOSOC).

The Inter-American Export Promotion Center. As part of a drive to expand and diversify Latin American exports, the Center began operations in FY 1969. It provides specialized services and information needed to identify and promote new exports, facilitates the placing of Latin American products in international markets, and provides technical support to national and subregional export promotion agencies. The goal is to expand and diversify non-traditional exports, thereby helping to accelerate the economic integration and growth of Latin America. The Executive Director will present the second program budget at the June meeting of the Inter-American Economic and Social Council. The proposed U.S. contribution at the 66/34% ratio is \$500,000 for the second year of operations.

Pan American Health Organization (PAHO) Special Malaria Fund. PAHO provides technical support in the health fields within the Inter-American system. The United States has been contributing to the Special Malaria Fund, established in 1957 on the initiative of the United States, because of insufficient PAHO and World Health Organization resources. After FY 1970, requirements will be met from an increase in the PAHO regular budget for malaria. The U.S. contribution to this Fund provides advisory services, training, research, mass drug administration and assistance in developing and evaluating programs for maintenance of malaria eradication. The phase-out plan calls for a final U.S. contribution of \$500,000 in FY 1970.

REGIONAL PROGRAMS

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	-	2.4 a/	11.8 a/	25.0
Technical Assistance . . .	9.2	9.8	8.4	24.6
Total A.I.D. Assistance	9.2	12.1	20.3	49.6

a/ Includes grants of \$2,044,000 in FY 1968 and \$6,808,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

The Latin American Regional Program implements Alliance goals by means of projects and programs which require regional administration.

The criteria used to determine when a project should be administered regionally are (1) whether it can be managed on a regional basis more effectively and efficiently than through two or more A.I.D. field missions, e.g., the Regional Technical Aids Center which handles the publication and film needs of many countries, (2) whether it involves innovative approaches which are being tested for future adoption by A.I.D. field missions, e.g. projects now being formulated for social and civic development and (3) whether it concerns research which promises to yield benefits to more than one country, e.g., the Statistical Development Group of the Bureau of Census.

PROBLEMS AND PROGRESS

Regional activities were carried out in four major areas in FY 1969.

(1) Family Planning. As a first step, important strides have been made in enlisting the support of private organizations in Latin America to increase awareness of the adverse effects of unchecked population growth on a country's resources and, consequently, on its over-all development. Nonetheless, sociological, religious, and political factors continue to hamper progress in this area. A.I.D. funds totaling \$6.8 million in FY 1969 are being used for such activities as demographic research, information programs, and medical and nursing education. In view of the sensitive nature of family planning activities in Latin America, our assistance must be channelled to the greatest extent possible through multilateral organizations such as the Pan American Health Organization (PAHO).

(2) Education. Inadequate utilization of human resources continues to be a principal deterrent to development. The Latin American Scholarship Program of American Universities (LASPAU) helps strengthen universities and other higher educational institutions in Latin America by making possible undergraduate and graduate education for needy but capable young Latin Americans. Upon completion of training in the United States, these students are guaranteed full-time faculty posts in their sponsoring institutions. LASPAU is a non-profit organization with a membership of 181 U.S. and 101 Latin American universities. To date, 533 Latin Americans have studied in the United States under this project. Costs of the program are divided as follows: participating students 9%, U.S. universities 26% and A.I.D. 65%.

A program conducted by the Overseas Education Fund of the League of Women Voters is aimed at reducing the shortage of leaders in such areas as health, literacy, community development, and nutrition, and the Regional Technical Aids Center (RTAC) is addressing itself to educational publication and film needs. During the past two years, this Center translated and published more than 1.5 million books and pamphlets (valued at \$1.7 million) and added 1,760 new film titles to the only circulating film library in Latin America.

(3) Rural Development. A.I.D. is sponsoring integrated studies of the Latin American agricultural market to point the way to solving traditional problems, such as low farm income and high consumer prices. It is expected that the studies will assist local development planning. To date, studies have been undertaken in Puerto Rico, Bolivia, Panama, Colombia, and the Dominican Republic. For the market study in Colombia, the host government is providing \$300,000 of its own funds and five full-time professional counterparts.

(4) Private Institutions. In the area of labor, the American Institute for Free Labor Development (AIFLD) conducts programs designed to assist the Latin American labor movement in developing enlightened, effective, and responsible leadership and in mobilizing its forces to enable it to improve the social, political and economic standing of Latin American workers. A.I.D. will provide an estimated \$2 million for AIFLD activities in FY 1969.

The Regional Program provides funds for AIFLD headquarters in Washington. The Washington office assists AIFLD programs in countries throughout Latin America. It also funds a trade union training program at Front Royal, Virginia, and labor economics programs at Loyola and Georgetown Universities.

Cooperatives and credit unions grew during the year. Their activities remained closely related to A.I.D.'s objective of increasing popular involvement in development, especially through participa-

tion in democratic private and public institutions. Through the efforts of Credit Union International and the Cooperative League of the U.S.A., both A.I.D. contractors, 600 new credit unions and 60 new cooperatives were established during the year ending September 1968. Over the same period, savings of credit unions increased by nearly \$9 million.

The Partners of the Alliance project which also promotes popular participation in development has now enrolled 37 U.S. state Partners Committees with a similar number of counterpart committees in 16 Latin American countries.

FY 1970 PROGRAM

A total of \$49.6 million is proposed for the Regional Program, of which \$24.6 million would be for technical assistance projects. A \$20 million loan is proposed to assist in the formation of a regional Andean Development Corporation to spur the economic integration of the Andean countries. Another regional loan of \$5 million is proposed for the Coffee Diversification fund to help finance diversification efforts in the coffee producing countries.

The proposed FY 1970 regional Technical Assistance program is \$16.2 million larger than the FY 1969 program. \$5.8 million of the increase results from a shift in the funding of family planning activities from Alliance loans to Technical Assistance. Because of reduced appropriations for Technical Assistance in FY 1969, Alliance loans were used to fund population programs under the authority of Title X of the Foreign Assistance Act. \$7.2 million of the increase is attributable to a new and concentrated emphasis on social and civic development. Only the remaining \$3.2 million is for increases in on-going programs.

The proposed FY 1970 program will further Alliance objectives as follows:

(1) Family Planning. Due to the sensitive nature of this program, A.I.D. assistance will continue to be channelled through international agencies. The request of \$5.8 million in Technical Assistance will fund expanded activities of the International Planned Parenthood Foundation to assist local family planning organizations, the Latin American Center for the Study of Population and Family for research into the various factors influencing family size and population growth in Latin America, the Center for Latin American Demographic Studies for training and research in demography and the Pan American Health Organizations for augmenting the staff of the Office of Health and Population to permit greater assistance to new and existing family planning programs.

(2) Education. A total of \$4.6 million in development grants is requested. Of this, \$3.1 million will be for LASPAU and \$1.5

million for RTAC. Under the LASPAU program, 210 students will begin their studies in the United States in FY 1970. The program will be expanded to include Brazilian students for the first time. RTAC will continue its program of translating, publishing, and distributing scientific, technical, and professional textbooks. In FY 1970 a study will also be conducted of the publishing distribution network in Latin America to determine measures for improving the dissemination of RTAC publications and reducing U.S. subsidies.

(3) Rural Development. A loan of \$5 million is proposed for the Coffee Diversification Fund to alleviate the deep-rooted problem of surplus coffee production in Latin America. The Fund was established by an article in the 1968 International Coffee Agreement (ICA), and the United States has pledged \$15 million in loan funds and has offered an additional \$15 million to match assistance provided by other ICA-member countries. Both Denmark and Israel have indicated they will contribute to the Fund. The FY 1970 loan would represent the second tranche of the total sum pledged by the United States. Coffee producing countries will contribute to the Fund a minimum of 60¢ per bag of coffee exported. This will yield about \$150 million for agricultural diversification projects during the five year life of the Agreement. The World Bank will be involved in operation and administration of the Fund.

A total of \$500,000 is proposed to continue work on agricultural marketing studies in FY 1970. These funds will finance the completion of the study of the market process in Cali, Colombia and training programs which will give counterpart organizations the capability of eventually undertaking agricultural marketing studies on their own.

(4) Private Institutions. The Credit Union International will receive \$425,000 to provide advisory services in 12 countries, focusing on agricultural production credit and means to increase credit union lending activities.

A loan of \$20 million is proposed to the Andean Development Corporation to encourage economic integration of Venezuela, Colombia, Ecuador, Peru, Chile, and Bolivia. The Corporation will identify and underwrite industrial and commercial ventures involving two or more of these countries to develop the sub-regional industrial base.

A Partners of the Alliance program of \$500,000 is planned for FY 1970. This will permit the formation of eight new partnerships between U.S. and Latin American committees and intensification of educational and agricultural programs.

Assistance to the Latin American labor movement will be continued through the programs of AIFLD. Technical Assistance of \$2.5 million will be used to fund AIFLD activities in FY 1970, which will include five 10-week courses at AIFLD's Front Royal Institute for 150 participants and one 9-month labor economics program at Georgetown University for 20 students.

Regional programs during FY 1970 will also place new emphasis on identifying solutions to the hard-core problems of poverty and inadequate political and educational systems. A commitment of \$7.2 million is planned for social and civic development studies and projects, many of which will be experimental in nature. The resulting analyses will indicate ways to make major existing grant and loan programs more effective.

BRAZIL

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	199.0	180.9	30.0	174.0
Technical Assistance	15.9	13.0	12.4	13.0
Total A.I.D. Assistance	214.9	193.9	42.4	187.0

U.S. AID OBJECTIVES

Brazil is half of the South American continent. Its size, population, natural resources and large industrial base make it crucial to the orderly development of the hemisphere and to the success of our overall assistance efforts in Latin America. U.S. assistance programs in Brazil have three overriding objectives:

- Social development and reform: particularly in the critical sectors of agriculture and education, to insure more widespread participation in the process of development and in the benefits derived from economic growth;
- Stabilization: bringing inflation under control, which is essential to the rapid growth and sound development of Brazil's economy;
- Increased economic growth: a sine qua non for social justice and more equitable income distribution.

PROBLEMS AND PROGRESS

Brazil's sheer size and potential are matched by the scope of its problems--widespread poverty and illiteracy, rapid population

growth and urban migration, inadequate education, major regional disparities, a long-neglected agricultural sector and severe inflation. Important steps have been taken in the past five years in bringing the runaway inflation of the early 1960's under control and in reforming agriculture, health and, more recently, education. But additional measures--and a continued flow of external resources-- is needed for Brazil to achieve its potential.

Economic stabilization. Brazil's most pernicious economic problem since the early 1950's has been inflation, and the distortions in income, investment and economic structure which accompany a prolonged spiral of rampant price increase.

The revolutionary government of 1964 made stabilization to stem the price increase its primary economic goal. Simultaneously, that Government undertook a series of reforms--in banking, taxation, foreign exchange and import policies, housing and agriculture--to correct Brazil's major economic distortions.

These programs have been largely successful. Inflation was steadily reduced from the 80-90% level of 1963-64 to 45% in 1965, and 41% in 1966. The government of Costa e Silva, elected in March 1967, continued these programs, and inflation was further reduced to 25% in 1967 and 24% in 1968. A central bank was created and greater control exerted over monetary expansion. The huge budget deficits of the Federal Government were cut back. Brazil's precarious foreign exchange position was improved, and its international debt rescheduled. The growth of private foreign investment in Brazil since 1964 attests to the renewed confidence of the international business community in the success of these programs.

Other reforms included the establishment of a housing bank to facilitate low and middle income housing, an unemployment compensation fund protected against inflation (which the employee may borrow against for educational expenses, housing or in the event of illness), an increasingly effective minimum farm price support program, and a program to encourage diversification away from coffee production.

The stabilization program achieved significant results in 1968:

- The Government introduced a new foreign exchange policy, involving frequent small rate adjustments in place of the practice of devaluing about once a year. This should encourage exports and improve balance of payments prospects, discourage speculation, capital outflows, and the wild fluctuations in exchange availabilities under the previous system, and significantly improve the domestic credit picture.

--The federal budget deficit was held to the \$444.4 million target--1.1% of the estimated GNP.

--Although credit expanded more rapidly than anticipated, the expansion was offset somewhat by production increases. Moreover, much of the increase in credit was used by the agricultural sector, thus fulfilling a vital need.

--Within the context of good 1968 price performance, the stabilization burden was eased for wage earners, hard hit by earlier wage policy decisions, evidence points to a real increase in wages during 1968.

Economic Growth. In 1963, when spiraling inflation began to seriously disrupt economic activity in Brazil, GNP growth dropped sharply from the 6% rate of the late 1950's to 2% (a per capita decrease). The resulting economic dislocations--combined with the strains of the stabilization and reform program of the new government--continued to dampen growth in 1964 and 1965. As the new economic program began to take hold, Brazil's growth performance steadily improved--from 3% in 1964-65 to 4.5% in 1966, 5.5% in 1967 and 6% in 1968 (3% per capita). To promote efficiency, the Costa e Silva Government has attempted to shift resources increasingly into private hands.

A.I.D. Role in Meeting Stabilization and Growth Objectives. U.S. assistance programs, including P.L. 480, have channeled resources valued at over \$1.4 billion into Brazil in the past five years. Although this is a small percentage of Brazilian domestic investments during this period, it has been an important contribution to growth. U.S. investments have been made in key areas--initially economic infrastructure, such as dams and highways, and more recently in social infrastructure, such as education and health--where domestic and other available foreign resources were simply inadequate. The programs generated by this assistance have helped focus attention on, and draw other resources to, these crucial areas. For example, A.I.D. highway construction and maintenance programs have helped open new areas to the market economy--enabling farmers to ship food to urban areas more economically and enlarging the market for industrial products in rural areas. More importantly, U.S. assistance has permitted Brazil to gain badly needed capital equipment and technical skills, which its balance of payments position would not otherwise permit.

International Lending to Brazil. Major international lending institutions--IBRD, Inter-American Development Bank (IDB) and International Monetary Fund (IMF)--are deeply involved in Brazil. The World Bank has announced a willingness to commit as much as \$1 billion to new projects in Brazil within the next five years if a program can be agreed upon. The IDB is expected to raise its lending activity in Brazil to \$150 million per annum over the 1969-70 period.

Additionally, Brazil's position with the IMF is such as to readily permit new standby borrowing should further short-term financing be required. The U.S. Ex-Im Bank lending should continue at about \$70 million in 1969 and 1970, while Brazilian repayments of amortization and interest to the Ex-Im Bank are estimated at around \$100 million for each of these two years. Lending by other countries--Germany, France, Canada and others--may increase from the \$39 to \$50 million level of recent years.

Close coordination among lending institutions takes place in both Washington and Rio. The Inter-American Committee of the Alliance for Progress (CIAP), provides an important forum for annual reviews by these agencies and the Alliance countries of Brazil's stabilization and development program. A.I.D. program lending efforts, macro-economic analysis and policy recommendations are closely coordinated with CIAP, the IBRD and IMF. A.I.D.'s consultation with the IBRD and IDB assures that project loans of all agencies are complementary. Thus A.I.D. highway maintenance loans in certain states are closely related to IDB and IBRD highway construction loans. Projects in petro-chemicals and minerals have involved joint participation by such agencies, together with private U.S. and Brazilian investors.

Political Events. On December 13, 1968 President Costa e Silva signed "Institutional Act No. 5," which gave the government broad powers to govern by decree and suspended certain constitutional guarantees. The government subsequently recessed the Congress and seven of Brazil's state legislatures for an indefinite period, imposed restrictions on the press, arrested a number of opposition political leaders, and cancelled the political rights and/or the elective mandates of almost 300 Brazilians.

It is difficult to predict now when the country will be returned to a more normal political condition. However, it is hoped that sufficient progress will be made to enable a significant development assistance program to go forward in FY 1970.

FY 1970 PROGRAM

The proposed FY 1970 A.I.D. program for Brazil totals \$187 million--\$174 million for development loans and \$13 million in technical assistance compared to an estimated \$42.4 million for FY 1969. Sector lending will replace program lending as the major assistance instrument in Brazil. The loan program consists of six sector loans--education, agriculture, local government and urban development, capital markets, export promotion and maternal and child health. P.L. 480 Title I sales agreement valued at about \$33 million and P.L. 480 Title II foodstuff donation deliveries, valued at \$34.4 million against a multi-year agreement are also planned.

In FY 1970 A.I.D. plans to accelerate the shift of assistance which started in FY 1968 from economic to social and civic development fields. Programs directly benefiting the people generated by the sector loans in education and health will be intensified and expanded to include other areas. The sector loan technique will also be used in developing agricultural loans aimed at the important area of agrarian reform. A major program--built on previous activities--will be undertaken to accelerate the development of local government and popular participation.

The following table illustrates the shift in emphasis from economic to social development assistance in Brazil:

DEVELOPMENT LOANS - PROGRAM EMPHASIS
(In millions of dollars)

<u>Program</u>	<u>FY 1965</u>	<u>FY 1966</u>	<u>FY 1967</u>	<u>FY 1968</u>	<u>FY 1969</u>	<u>FY 1970</u>
Stabilization	150.0	150.0	100.0	75.0	-	-
Power	51.4	22.2	44.1	28.9	-	-
Transportation	15.9	20.4	31.7	-	-	-
Agriculture	-	20.0	14.8	13.4	15.0	50.0
Education	-	-	-	32.0	-	45.0
Health	-	5.1	-	25.7	-	5.0
Industry and Commerce	2.7	-	-	-	15.0	45.0
Local Gov't, Urban Dev'l., & Pub. Admin.	-	-	-	5.8	-	29.0
Natural Resources	-	11.0	8.4	-	-	-
	<u>220.0</u>	<u>228.7</u>	<u>199.0</u>	<u>180.9</u>	<u>30.0</u>	<u>174.0</u>

Sector Loans and Technical Assistance

The shift in emphasis from industry and basic economic infrastructure--roads, power, and dams--to social/economic infrastructure--education, agriculture, health and civic development--is both an indication of Brazil's vastly improved physical infrastructure network and growing industrial bases and our increasing attention to the social and civic aspects of the development process.

This shift also has led to the use of sectoral lending--a technique to achieve policy reforms in selected areas--and the elimination of project loans which were used to build physical infrastructure and program loans which were so essential to the stabilization efforts. The progress being made in stabilization and economic growth has permitted attention to be given to other development areas.

Education

Brazil's educational system is wholly inadequate for the needs of a modern society. Its failure to provide the manpower requirements for development or a wide circle of educated citizenry is one of the critical bottlenecks to rapid economic and social progress in Brazil.

Nearly 40% of the population over ten years of age is illiterate. At the elementary level, the greatest problem is grade repetition and drop-outs. Over 80% of those entering the first grade fail to complete the fourth. Textbooks and teaching supplies are in short supply and almost 40% of the teachers are not fully qualified to teach.

At the secondary level, less than 20% of the eligible age group is enrolled. Although most are engaged in academic courses, less than one-fourth will ever attend a university. Textbooks, materials and equipment are obsolete and no more than one-quarter of the teachers are adequately prepared.

The situation at the university level is equally serious. Only 258,000 students, about 2% of the eligible age group, are enrolled. Admission requirements are unrealistically difficult. Students and faculty operate part-time. Curriculum is rigid, often outmoded and almost totally unrelated to Brazil's manpower needs. Administration is weak.

Fortunately, the government is now well aware of the magnitude of Brazil's education problems and has recently announced plans for a series of institutional reforms designed to modernize the educational system. Legislation has been passed to enroll all children ages 7-14 in elementary schools by 1976. At the secondary level, a pilot program for modernizing curriculum is under way; a scholarship program for workers' children provided over 80,000 scholarships in 1968. Several bills to modernize higher education have been sent to the Brazilian Congress. These include the organization of an academic department and credit hour system, higher pay and better qualifications for professors, and an incentive system for relating course offerings to Brazil's manpower needs.

The government is also channeling greater resources into education. Education has been specifically exempted from the substantial 1969 federal budget cuts and this sector's share of the 1969 budget

should increase 15-20% in real terms. The government's short-term goal is to increase education's share of GNP from 3.2% in 1968 to 4.5% in 1970.

A.I.D. will place heavy emphasis on education in FY 1970. \$45 million, about a quarter of the loan program, will be used for education.

A loan of \$18 million will extend a program to re-orient the secondary education system begun with a \$32 million sector loan in FY 1968. The FY 1968 loan, to be matched by the Brazilian government, will establish 300 comprehensive high schools and improve curricula and teacher training in four of Brazil's twenty-two states. The FY 1970 loan will cover two additional states and in addition, provide funds for textbooks.

Another proposed education loan of \$17 million--which is to be matched by the Brazilian Government--will assist two states in resolving one of the most serious problems at the elementary level--grade repetition and dropouts. Pilot projects stressing curriculum revision, improved grouping and student promotion practices could lead to revision of national practices. An accompanying federal program will support the expansion and improvement of regional research and training centers. A.I.D. funds for construction would be limited to normal schools, supervisory centers, regional training facilities and expansion of the federal research center network. Textbooks would also be included in this program to support curriculum changes.

A \$10 million loan is contemplated for higher education to help establish regional centers of excellence for graduate study and research. The loan will also provide a scholarship program for graduate study and help promote the exchange of ideas between universities. Funds for laboratory, library and other equipment will also be provided.

Twenty-five percent of the technical assistance program will also go to education. In elementary education, emphasis will be placed on teacher training and curriculum development in the Northeast.

Special attention will go to educational planning assistance at the secondary level in conjunction with the sector loan in this area. Technical assistance to higher education will stress administrative reform and graduate education.

Agriculture

Brazil's vast agricultural potential has yet to be fully tapped. Less than 4% of the land is cropped and only 15% is in pasture. Furthermore, the agricultural economy is characterized by very low yields in terms of both land and labor. Employing 50% of the

population, agriculture accounts for only about 28% of the gross domestic product.

Agricultural investment traditionally has been impeded by inflation, high costs of inputs, and price and export controls intended to assure cheap food for the urban population and cheap industrial raw materials. Increases in agricultural output have come traditionally from bringing new areas of low fertility into cultivation (this accounts for 84% of the 1948-1962 increase in output) rather than increasing the use of fertilizers, at present among the lowest in the world. For the 20 years prior to 1964, agricultural production rose barely more than the rate of population growth. This picture has changed dramatically the past five years. To correct the imbalance between industry and agriculture, the government instituted various measures to stimulate agricultural production:

- Price and export controls on agricultural products were largely eliminated, providing incentive for farmers to plant basic food crops which had been previously uneconomic.
- The minimum support price system was strengthened and extended to most basic crops and areas of the country, providing farmers with some assurance of adequate return for their labor.
- A massive rural credit program was mounted--using public and private institutions--and aimed at medium and small farmers. The number of agricultural loans almost tripled between 1966 and 1968, increasing in value from \$433 million to \$1.1 billion.
- The use of fertilizer and other capital inputs has increased markedly. As a result, agricultural production (excluding coffee--the government has attempted to diversify away from coffee and into alternative crops) has increased substantially and the increase in retail food prices has been less than the increase in the general price index and general wage rates. Agricultural exports have increased sharply and this sector of the economy has provided a significantly expanded market for Brazilian industry and commerce.

Relatively little progress has been made so far in the area of land redistribution. Laws have been enacted but implementation is hampered by the inertia of a bureaucracy beset by the enormity of this task, by vested interests, and by insufficient popular political support for an effective program. Nevertheless, the reorganization of the Agrarian Reform Institute points to increased attention to this area.

A.I.D. has vigorously supported the Government's program of agricultural modernization. Loans for fertilizer imports, local fertilizer production, and for the construction and maintenance of farm-to-market roads. Technical assistance is being provided in agricultural planning, extension, research, marketing and education. A \$13.4 million agriculture research loan is now being negotiated. In addition, \$129 million in local currencies generated by P.L. 480 and program loans has also been used for agriculture.

\$35 million for agricultural sector loans is proposed for FY 1970. The first priority is an agrarian reform loan to continue work to make the production of sugar in the Northeast more efficient. Loan funds will be provided to assist in farm settlement, providing rural credit, vocational and agricultural training and the construction of necessary rural infrastructure. A second loan will be used to expand fertilizer use, particularly in the Northeast. Loan funds finance imports of fertilizer and related items such as pesticides and farm machinery. The counterpart would be allocated to intermediate credit institutions to stimulate fertilizer utilization. The Brazilian government would be required to establish a multi-year plan to project fertilizer needs and provide incentives such as price subsidies and fiscal policies to encourage the use of soil nutrients.

Grant funded technical assistance will be continued in agricultural planning and research, in agricultural education through university to university associations, and in marketing.

Local Government And Urban Development

A proposed \$29 million loan will seek to (1) stimulate greater popular participation in local government processes and (2) confront the serious problems of crowding, unemployment, unsanitary conditions, and the host of social dislocations created by an urban growth rate double that of Brazil's total population.

The migration from rural areas cannot be stemmed, but the improvement of "middle sized" towns might well be the answer to both the rural and urban difficulties. As a first step in this process the administrative structures of smaller cities need to be modernized and made more efficient and responsive to community needs. The proposed loan is designed to do this. Municipal authorities will be trained in modern management concepts and the techniques of participatory democracy introduced. Rehabilitation of some major slum areas together with resettlement of families in other locales would be included within the program.

Other

Three additional sector loans would be included within the FY 1970 program. A \$30 million loan for capital market development and industrial development will develop private capital markets. The loan will provide funds to the central bank to permit its participation with underwriters in financing new issues and thereby, providing encouragement to entrants in this new untried field. Another \$30 million loan would aim at increasing export incentives through such things as taxation policies and credit availabilities. A \$5 million loan is proposed to strengthen maternal and child health facilities through training of para-medical personnel and the provision of needed equipment. Emphasis will be placed on the Northeast where facilities are the poorest and health problems most serious.

Technical Assistance will be continued in FY 1970, although at a reduced level, in such fields as public safety, labor development, and public administration.

CHILE

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans,	12.5	55.3*	65.9*	75.0
Technical Assistance . . .	3.0	2.6	2.5	2.6
Total A.I.D. Assistance	15.5	57.9	68.3	77.6

* Includes grants of \$968,000 in FY 1968 and \$355,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

The United States continues to support the broad program of economic development and social reform undertaken by the Administration of President Frei. As in the past four years, the A.I.D. program focuses on: (1) controlling inflation while increasing the rate of economic growth; (2) encouraging higher levels of domestic savings; (3) promoting agrarian reform and more rapid agricultural development; (4) expanding and diversifying Chilean exports; (5) completing the highly successful five-year education program; and (6) encouraging redistribution of income.

PROBLEMS AND PROGRESS

The next Chilean Presidential elections will be held in September 1970. President Frei cannot succeed himself. The Congressional elections held in March 1969, indicated that the

party he heads, the moderate Christian Democratic Party, will encounter great difficulty in its bid for another six years in office. Despite the uncertain political outlook, the Frei Administration continues to implement the policies of economic and social reform developed over the past four and a half years.

Drought. For the past two years, Chile has experienced a searing drought, the most serious in its history. Chilean industry and agriculture are just beginning to feel the consequences of the drought. In the industrial area, the principal impact has been on Chile's hydroelectric power generating system. It has been necessary to establish emergency thermal power facilities, ration power consumption in homes, and to some extent in industry, and increase coal imports to permit expanded operation of existing thermal capacity.

In agriculture the full impact is not yet clear. The decline in production of some crops has been drastic; 1969 corn production, for example, is estimated to be 40% to 60% below that of 1968.

The effect on livestock has been particularly severe. Heavy forced slaughterings will have a serious impact on food supply in future years. Because of increased requirements for P.L. 480 foodstuffs, sales agreements of \$32.3 million were negotiated in FY 1969.

Economic Growth Rate. The Chilean economy grew at an average rate in excess of 5% from 1961 to 1966, considerably exceeding the average rate of 3.7% of the preceding 10 years. In 1967 the rate fell sharply to less than 2% and in 1968 it is estimated to have reached 3.2%. The outlook for 1969 and 1970 will depend greatly upon the duration of the drought. With normal rains, the rate of growth should increase to 5% or 6% by 1970.

Stabilization. A cornerstone of the Frei Administration's economic policy has been the struggle against Chile's chronic inflation, and stabilization has been a prime objective of A.I.D. program lending. The Government was successful in progressively reducing the rate of increase in the cost of living from 39% in 1964 to 26% in 1965 to 17% in 1966. However, in 1967 and 1968 prices again increased, with the cost of living increase reaching 27.9% in 1968. The prospects for 1969 and 1970 are for holding the rate of increase to about the 1968 level. A basic difficulty in containing inflation has been extremely strong political pressure for wage increases which the Government has been unable to turn aside.

Redistribution of Income. Half of the Chilean population received only 14% of the income in 1965. This disparity led the Frei Government to make income redistribution an important policy goal. From 1965 through 1968 the portion of the Chilean national income going to wages and salaries increased by 40% in real terms. This brought substantial improvement in the lot of the lower income

groups. Tax reform, improved tax administration (assisted by A.I.D. financed tax experts) and price and wage policy measures were responsible for the change. In addition, Chile enacted legislation permitting farm workers unions to organize for the first time, and establishing a minimum wage for agricultural workers (with significant benefits as a consequence for low income rural workers).

Copper. Chile is the world's third largest producer and the largest exporter of copper. Copper provides two-thirds to three-fourths of Chile's foreign exchange earnings and about 15% of the Government's budget revenues. The dominant role of copper in the economy can be regarded as a threat, since dependence on this one commodity puts Chilean finances at the mercy of world price swings. But it is also an opportunity, for Chile's vast copper ore reserves can produce substantial foreign earnings.

Control of this major national asset by foreign companies was and is a rallying point for nationalistic political elements. As an alternative to demands for full nationalization, the Frei Government and the copper companies reached agreement which redefined the structure of copper taxes, provided for Chilean Government participation with the companies in the ownership of the mines and processing facilities, and called for a massive investment program to double the output of Chilean copper by about 1970 or 1971.

The United States helped finance this "Chileanization" program with about \$225 million in Export-Import Bank loans and about \$440 million in A.I.D. guaranties for private investment. This investment program is on schedule, and the first substantial results in terms of increased output should be discernable in 1970.

FY 1970 PROGRAM

For FY 1970, A.I.D. proposes a \$77.6 million assistance package-- \$40 million for program loans, \$15 million for an agricultural sector loan, \$20 million for an education sector loan, and \$2.6 million for Technical Assistance. P.L. 480 Title I sales are estimated at \$30 million.

The Export-Import Bank, IBRD, and the Inter-American Development Bank (IDB) authorized new loans of \$69 million in CY 1968. Loans from these agencies in CY 1969 are expected to total \$125-\$150 million. In addition, Chile has negotiated an International Monetary Fund (IMF) standby credit of \$40 million for CY 1969. Chile also receives a substantial volume of credits from European and Japanese sources.

Stabilization

A proposed program loan of \$40 million will continue support of the stabilization efforts of the Chilean Government. As in 1969,

A.I.D. resources will be made available in the context of a stand-by agreement with the IMF, and major policy commitments made by the Chilean Government-- including a limitation on the growth of government expenditures to the approximate increase in the GMP, an agreement not to resort to Central Bank borrowing to finance the government budget, continuation of the flexible exchange rate policy, and further liberalization of imports. The counterpart funds generated under this program loan will be used to finance increased public sector investment in key areas of the economy, especially in agriculture and education.

Given the importance of copper revenues in Chile's balance of payments and budget financing, the specific amount and exact timing of FY 1970 program assistance will, as in past years, depend to a considerable extent on world copper prices. During 1967 and 1968, copper prices were extremely high, reducing the requirement for program loan resources. Since these high prices are not expected to continue, the requirement for program loans in FY 1970 is expected (as in FY 1969) to be larger than in FY 1967 or FY 1968.

Agriculture

Before World War II, Chile's fertile lands produced substantial exportable surpluses of agricultural products. Since then, stagnation of agricultural output, combined with a rapidly increasing demand, has turned Chile into a food-importing nation. Concentration of land ownership in a few hands, lack of adequate price incentives for producers, inadequate agricultural credit, and an inequitable agrarian labor system have been the principal causes of this stagnation. Agrarian reform and land redistribution have been key tenets of the Frei Administration. During 1965 and 1966, the Government initiated steps culminating in mid-1967 in the passage of a new Agrarian Reform Act. These measures provided broad new powers and authority for the Agrarian Reform Corporation in its efforts to redistribute the land and resettle working farm families. At the end of 1968, the Agrarian Reform Corporation had 4 million acres of agricultural land under its program. Between 1964 and the end of 1968, 9,000 farm families began the resettlement process; an estimated 100,000 families will be resettled by 1973.

More attractive price incentives and widened credit availability are also needed for increasing agricultural productivity, and promoting social equity. In 1967, A.I.D. provided an agricultural sector loan of \$23 million to Chile. This loan, which financed the purchase of large quantities of fertilizer, machinery, seeds, pesticides, and cattle breeding stock, supported a broad Chilean program of agricultural development. In conjunction with the loan, the Chilean Government undertook a series of policy reforms, including improvement in prices farmers receive for their products, and a decrease in the prices they pay for farm inputs. (For

example, phosphate fertilizer prices were reduced by 20%.) Substantial amounts of imported agricultural supplies were earmarked for the agrarian reform program.

The proposed agriculture sector loan of \$15 million will follow similar loans of \$23 million in FY 1968 and \$10 million in FY 1969. The FY 1968 loan conditions emphasized raising agricultural output prices and reducing prices of agricultural inputs, especially fertilizer and farm machinery. Improvement in the organization of agricultural institutions, and maintenance of a specified level of Chilean Government investment in agriculture were also required.

In FY 1969 the loan will continue the emphasis on agricultural prices, and will finance increased agricultural credit and additional fertilizer imports. The proposed conditions for the loan will maintain the emphasis on producer incentives through improved price relationships. As with past loans, much of the imported supplies will be used in the agrarian reform program. The IBRD and the IDB are also planning major lending to support agrarian reform programs and to construct irrigation projects.

Education. While Chile has traditionally had a relatively good school system by Latin American standards, it furnished primarily classical education to higher income and elite groups. A 5-year modernization program was set in motion in 1965 to make the educational system better suited to rapid economic and social modernization. Under this program students are given vocational training beginning with the sixth grade, and are encouraged to continue on to high school, either academic or vocational. Other changes included modernization of the primary and secondary curriculum; retraining and expansion of the teaching staff; substantial construction of primary and secondary schools in rural areas; and increasing availability of textbooks, teaching aides, and laboratory equipment.

Two A.I.D. sector loans, one of \$10 million in FY 1967 and one of \$16.3 million in FY 1968, together with the continued high level of Chilean budget resources (in 1968 21.3% of the public sector budget) allocated to education, have provided the Ministry of Education with the financial resources to move forward rapidly on this program.

In 1968, 2.1 million children of school age were attending school compared with 1.7 million in 1964. It is estimated that every working day since 1967, one new school has been completed in Chile, utilizing not only sector loan resources but also resources made available to the Government investment budget under the program loans. For 1968-1971, 300 schools per year are scheduled for construction.

In FY 1970 a \$20 million education sector loan is proposed to continue assistance to Chile's 5-year education plan. It will

provide additional resources to the Ministry of Education to continue its accelerated program of structural reform, teacher training, curriculum development, school construction, and improvement of books and teaching materials.

Technical Assistance

Technical Assistance grants projects will continue in labor, small industry development, health, population, public safety and water resources planning.

COLOMBIA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	100.0	73.1 ^{a/}	99.0 ^{a/}	91.0
Technical Assistance	4.7	4.4	3.5	3.7
Total A.I.D. Assistance	104.7	77.5	102.5	94.7

^{a/} Includes grants of \$116,000 in FY 1968 and \$50,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES.

A.I.D. assistance to Colombia is geared to support the effective development policies being undertaken by the Government. These policies focus on (a) bringing about fundamental reforms in agriculture, education and public administration; (b) accelerating economic growth and distributing its benefits more equitably; (c) expanding and diversifying exports in order to lessen the economy's vulnerability to fluctuations in world coffee prices; (d) increasing public revenues and investment in needed human and physical infrastructure; and (e) stabilizing prices.

PROBLEMS AND PROGRESS

The administration of President Carlos Lleras Restrepo took office in 1966 and will end its term in August 1970. President Lleras's program during the past two and one-half years has provided for transition from an era of emergency stabilization measures to one of long-term comprehensive efforts directed toward structural and institutional reforms. A.I.D. program and sector loans have reinforced Colombia's self-help efforts in making this transition. A contributing factor to the success of Lleras' efforts was the reduction of the level of bandit/guerrilla activities by the preceding Valencia administration and improvement in the political climate. In mid-December 1968, President Lleras ended the "State

of Siege" in effect during most of the past two decades because of security threats and recurring economic emergencies.

Also in December 1968, the Colombian Congress approved economic and social reforms of major importance to the development program. Earlier temporary decrees on taxation, a substantive labor code, and governmental financial support of education and welfare programs became laws. New constitutional reforms provide for increased presidential authority on economic policy matters and an increased local government role in the promotion of economic and social development. Of particular interest was a law concerning "responsible parenthood," directed towards curbing the country's high population growth rate of 3.2% a year.

Using special powers granted by Congress to streamline and modernize government administrative machinery, President Lleras undertook an extensive reorganization of major ministries and dependent agencies. A key reform was the reorganization of the Ministry of Agriculture. The reorganization greatly facilitates the formulation and implementation of nationally coordinated agricultural policies and programs. The former fragmentation of responsibility had hindered an effective agricultural program. For the first time, the government will be able to coordinate carefully programs such as the Land Reform Institute and extension services for the small farmer. Agricultural and investment planners, assisted by A.I.D. advisors, are now assured of effective coordination of the many specialized agencies active in the agrarian sector.

The Education Ministry reorganization upgraded policy and manpower planning functions and provided for more effective coordination with local education authorities.

Economic gains during 1968 reflected the continuation of sound fiscal and monetary policy and increased export development. Gains in 1968 over 1967 include in real terms: minor exports (those other than coffee and petroleum) up 31%, tax revenues up 10%, GNP up an estimated 6% or about 2.8% per capita (contrasted with the average 1% rate of annual per capita growth during 1961-1967), public investment up 19%. While these achievements are impressive, Colombia must sustain them at at least the same levels if it is to meet its pressing need for increasing public investment in education and agriculture and provide expanded employment opportunities. A reduction in these trends, or in proposed A.I.D. inputs, would require a dangerous scaling down of these goals.

FY 1970 PROGRAM

An A.I.D. program of \$94.7 million is needed to support Colombian efforts in agriculture, education, and stabilization. The program consists of a \$55.0 million program loan, a \$15 million

agricultural sector loan, a \$10 million educational sector loan, \$11 million in project loans and a Technical Assistance Program of \$3.7 million. A P.L. 480 credit sales program for wheat and tobacco for FY 1970 is also under consideration and would be closely tied to agriculture sector self-help measures.

A.I.D. will continue to coordinate U.S. assistance with the Consultative Group for Colombia (headed by the IBRD) which mobilized development loans totaling \$274.4 million during 1968, in addition to A.I.D. loans of \$73 million. The Group met in late January 1969 to hear Colombia's presentation of project proposals for CY 1969 totaling \$329.1 million and \$706.2 million for 1970-1973.

Agriculture

Agriculture, the lifeline of the Colombian economy, continues to lag behind other sectors. Agriculture accounts for 75% of foreign exchange earnings and 30% of gross domestic product. Half of the Colombian people live in rural areas, and half of these in extreme poverty. For these people, education and health facilities are at best rudimentary, and for many, non-existent.

Colombia and international donors give high priority to improving opportunity and living conditions for the rural poor and increasing agricultural production for export and domestic consumption.

Agriculture investment in 1968 was up 19% in real terms over 1967. Land distribution has been accelerated; access to supervised agricultural credit broadened; and livestock bank lending to increase herds and meat exports expanded. These activities have received A.I.D. loans totaling \$38.5 million since 1962 as well as continuing large counterpart allocations and technical assistance. During 1968 and 1969, the Agrarian Reform Institute (INCORA) will issue 60,000 land titles to tenants and sharecroppers, doubling the number issued since INCORA was organized in 1961. Further progress is expected to result from a study of agricultural sector development requirements which will provide the base for an overall agricultural sector plan.

The FY 1969 and FY 1970 programs call for sector loans of \$15 million each year, with \$1.1 million in each case reserved to fund technical assistance. A \$4 million project loan for slaughterhouse construction is also planned for FY 1969.

The loans will seek to encourage further improvement in agricultural planning and policy-formulation by the Agriculture Ministry, to assure continued increases in productivity-inducing investments and to expand agricultural exports other than coffee. Technical Assistance grants will fund USDA advisors for the Agricultural Ministry Planning Office, scholarships for agricultural education and contract advisors to help establish two centers for training INCORA personnel in land and rural community development.

Education

Colombia's national education plan, supported by A.I.D.-IBRD-UNESCO-financed studies, provides the basis for reform and expansion of the country's educational system.

Major constraints on reform are limited financial resources and the shortage of qualified personnel for teaching, administration and planning. Dropout rates are high--75% through the fifth grade and 85% through the eleventh (last) grade). More than one quarter of the population 10 years of age or older was listed as illiterate in the 1964 census. As a result of recent studies of the primary and secondary education levels, the government plans to increase financial support and improve administration of primary and secondary education at the local government level.

Comprehensive high schools will also be started throughout the country. An IBRD construction loan of \$7.6 million in July 1968 will finance the first ten of nineteen schools planned. A.I.D., UNESCO, and the Peace Corps have provided technical assistance to support the program since 1967. A.I.D. has financed training for secondary school administrators at the University of New Mexico. It has also assisted the Education Ministry Planning Office, which will later receive short-term specialists in such areas as planning, curriculum, textbooks, teacher training and statistics.

The FY 1969 and FY 1970 programs call for sector loans of \$10 million each year. Up to \$1.2 million may be used for special education commodities and technical assistance. The loans will seek to strengthen Colombian capabilities for policy-making, planning, and management, as well as provide financial resources for investment. In addition, A.I.D. assistance encourages a broad range of qualitative improvements in educational programs. Technical assistance in FY 1969 emphasizes pre-service and in-service teacher training programs at five selected faculties of education and advice to Departmental Secretaries of Education. In FY 1970, emphasis will be shifted to administration of the comprehensive high schools.

Economic Stabilization

Assistance Needs and Goals. Colombia must mobilize greater public and private resources to expand production and provide employment and education opportunities. Colombia's balance of payments gap is a critical limitation on sustained growth and development.

The country must increase exports, since limited foreign exchange earnings have been a major constraint on growth. A.I.D. program lending will help meet this need and support Colombia's efforts to maintain price stability.

Performance and Self-Help. Colombia restrained inflation with sound fiscal and monetary policies. In 1967 and 1968 the cost of living was held to 7% and 6.7% increases, respectively, in contrast to almost double that two years earlier.

Minor exports rose 20% in 1967 and 31% in 1968. Government incentives to exporters include a tax credit, customs duty rebates, a flexible exchange rate policy (since March 1967) and an Export Development Fund to assist exporters. To encourage foreign investment, the Government raised the standard profits remittance rate from 10% to 14% and will consider requests for higher rates.

In 1968 the Government of Colombia funded a tax reform commission, headed by Professor Richard Musgrave of Harvard, to formulate recommendations for a major reform of the tax system. The Government plans to present tax reform proposals to Congress in 1969 based on the Commission's studies.

Similar to a FY 1969 program loan of \$60 million, a program loan of \$55.0 million is proposed in FY 1970. (Imports are limited to U.S. products appearing on agreed lists of general and capital imports.)

The FY 1970 program loan is part of a package including an agricultural sector loan of \$15 million and an educational sector loan of \$10 million. The counterpart pesos generated by the last two loans will be allocated exclusively to those sectors to support programs in agricultural credit and school construction.

Counterpart funds generated from sale of commodities financed by the program loan will be allocated so as to reinforce sound development policies and programs. In 1967-1968, 72% of total counterpart was invested in agriculture, education, and health. These funds will also reinforce A.I.D. assistance to urban development, which has shifted emphasis from housing construction to improvement of services in slum areas. Private Construction efforts supported by the housing guaranty program, which now totals \$33 million, will continue.

CENTRAL AMERICAN ECONOMIC COMMUNITY

U.S. AID OBJECTIVES

The United States supports efforts of the five Central American countries to perfect their Common Market and establish a Central American Economic Community as the most effective means of assuring their continued growth. A.I.D. programs in each of the five countries further this regional objective on a national basis; and a Regional Office of Central America and Panama (ROCAP) complements their activities by working with various regional economic integration institutions.

U.S. regional and individual country objectives in Central America are mutually reinforcing. For example, through U.S. support to the Central American Bank for Economic Integration, highways and improved communications are being developed to link the five countries. This major regional activity in turn is complemented by programs in individual countries to build farm-to-market roads, provide agricultural credit and boost agricultural production to take advantage of the wider market opportunities inherent in a Common Market. A.I.D. programs at the national level to encourage agricultural diversification are coordinated with a regional system of pricing; storage, and distribution. Regional education activities directly support bilateral educational projects--at the elementary level through efficient production of a common set of textbooks; and at the university level through assistance in establishing a regionally coordinated university system.

PROBLEMS AND PROGRESS

Commitments by the five Central American countries to create the Central American Common Market (CACM) and establish a number of regional institutions are major measures of self-help.

Creation of the CACM was accomplished by completely removing trade restrictions on approximately 95% of the region's internal commerce. Most manufacturing and processing plants located in any of the Central American countries can sell freely in the other four. Measured by growth of trade within the CACM, progress has been rapid. Such trade increased more than six times (from \$31 million to \$206 million) over the period 1960-67. Over this period inter-country trade within the region increased 7% to 24% of the total exports of these countries.

Development in Central America is taking place against a background of traditional agriculture that has been oriented largely toward the production of a few export crops. In each country agriculture is still the major source of export earnings. The major change that has occurred with the development of the CACM has been the rapid growth of manufacturing and related industries. The nature of this growth has created a series of problems:

- The uneven development of industry among the countries has raised difficult problems of inter-country trade. The predominantly agricultural countries, Honduras and Nicaragua, are concerned that their purchases of industrial goods from their neighbors greatly exceed their sales.
- In promoting new industry the Central American governments have made extensive and competitive use of tax incentives. These have stimulated a substantial growth of heavily protected and inefficient industries and have also seriously reduced governmental tax revenue. The five countries

agree that a revised industrial policy is necessary, and have taken a first step by ratifying a common fiscal incentives treaty.

--Central American industrial policy up to now has emphasized production of goods to replace imports. Many existing plants would have difficulty producing for export outside the region or surviving in a future Latin American free trade association. Revision of industrial incentives to give adequate emphasis to production for export is urgently needed.

Over the period 1960-66, Central America enjoyed an unusually favorable market for its traditional exports--coffee, cotton and bananas. The stimulus of rapidly expanding exports led to a high rate of economic growth within the region, which averaged 6% during the period 1961-66.

But since 1966 world market conditions for Central American exports have deteriorated. To sustain a rate of economic growth that does more than keep pace with the average 3.4% population expansion, each of the Central American countries must increase total investment substantially. Because increased revenues are needed if public investment for development is to be expanded significantly, all five countries signed a protocol providing for establishment of a regional surtax on June 1, 1968. In each country the surtax will serve as a major revenue measure as well as a protective measure in the face of a difficult balance-of-payments situation.

FY 1970 PROGRAM

The proposed FY 1970 program for the Central American Economic Community consists of \$48.5 million in Development Loans and \$14.9 million in Technical Assistance. The specific projects are described in the ROCAP and country sections which follow. These totals include, at the regional level, a loan (\$10 million) to support establishment of a Regional Stabilization Fund and a Technical Assistance program of \$3.7 million to be administered by ROCAP. The balance--\$38.5 million in Development Loans and \$11.2 million in Technical Assistance--is for bilateral programs in the five countries. The proposed loan program is directed principally to rural development, with emphasis on agricultural diversification, and improved primary education. In carrying out its present and planned programs, A.I.D. is cooperating directly with the other external assistance agencies working in Central America. The IBRD and the Inter-American Development Bank (IDB) are of primary importance.

REGIONAL OFFICE OF CENTRAL AMERICA AND PANAMA (ROCAP)

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	20.0	.4 a/	30.4 a/	10.0
Technical Assistance	4.2	3.4	3.7	3.7
Total A.I.D. Assistance	24.2	3.8	34.1	13.7

a/ Includes grants of \$424,000 in FY 1968 and \$429,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

ROCAP seeks to help the regional organizations set up by the Central American nations become more effective instruments for furthering the economic integration of Central America.

The program of development assistance administered by ROCAP is directed to assisting economic integration with a view to accelerating progress toward full customs union, monetary union and free mobility of capital and labor throughout the region. In support of these general objectives, ROCAP is endeavoring to strengthen the principal integration institutions--particularly, the Common Market Secretariat (SIECA), the Organization of Central American States (ODECA) and the Central American Bank for Economic Integration (CABEI)--and provides financial and technical assistance for this purpose.

PROBLEMS AND PROGRESS

Creation of the Central America Common Market (CACM) was accomplished by completely removing trade restrictions on approximately 95% of the region's internal commerce. Thus, most manufacturing and processing plants located in any of the Central American countries can sell freely in the other four. Trade within the CACM increased more than six times (from \$31 million to \$206 million) over the period 1960-67 or from 7% to 24% of the total exports of these countries.

The Central American Governments have established a number of regional institutions around which the structure of a Central American Economic Community is emerging. The CABEI was created in 1961 with capital subscribed by the five Central American Governments. CABEI has received financial resources from A.I.D. (\$84.4 million), the Inter-American Development Bank (\$42.2 million), from several European Governments and Mexico (\$54.8 million)

and has equity capital of \$60 million of which \$30 million has been called.

The Central American Governments have utilized CABEI as a means of financing regional highways, telecommunications and other infrastructure that tie the region together. Through the "Fund for Economic Integration," created in 1965 to finance regional projects, external lender credits and matching country contributions that CABEI receives are allocated on the basis of regional priorities.

Other regional institutions which play a major role in the Central American Economic Community are the SIECA located in Guatemala City, and the secretariat of the ODECA in San Salvador. SIECA is the staff advisory and planning unit for the five Central American Ministers of Economy who, in periodic meetings, reach inter-governmental agreement setting the policy for the operation of the CACM. ODECA similarly serves as the advisory and administrative unit for regional activities and programs in the fields of education, health, labor and social security.

The Common Market has achieved a large measure of trade freedom, but lacks adequate development policies. ROCAP is working with SIECA to reform highly protective industrial policies. This should result in reductions in the generous fiscal incentives granted new industries that have led to the establishment of inefficient assembly-type operations.

ROCAP is also working with SIECA to create a regional market for agricultural commodities. As of March 1, 1968, all the Central American countries had ratified the Protocol of Limon that provides for the removal of trade barriers for basic food grains (corn, beans and rice). The countries must now work to coordinate pricing policies to establish an effective regional market for agricultural products. In this regard, ROCAP is assisting SIECA by providing technical assistance on the coordination of country pricing policies, and on price reporting and grain storage.

FY 1970 PROGRAM

Export Development. A major ROCAP activity is the assistance which has been given, since July 1968, in support of a region wide program of export development. Economic growth within the CACM was rapid during the first six years of its existence (1961-66) based in considerable part on the continued expansion of traditional exports (coffee, cotton and bananas). Deterioration in export prospects for these commodities since 1966 has made it necessary to seek alternatives to traditional exports. For this purpose ROCAP is working with a SIECA/CABEI export committee to coordinate the export development activities of the five Central American

countries and to identify and assist the development of products that can be sold competitively in the world market. In FY 1970, \$60,000 is proposed for this activity.

Exchange Stabilization Fund. Although full monetary union will not be attained for many years, the Central American countries have already taken steps in this direction. Recent pressures on balance of payments have demonstrated the value of monetary cooperation and led to serious interest in creation of an exchange stabilization fund. ROCAP is working with the Central American Monetary Council to coordinate the foreign exchange policies of the member countries and will encourage establishment of the stabilization fund.

A.I.D. will consider a \$10 million loan in FY 1970 in response to a Central American initiative to establish such a fund. The loan would supplement contributions by the five Central Banks of at least 10% of their gross foreign exchange reserves to a joint fund against which drawings could be made to meet balance of payments difficulties. Proposed in FY 1969, the loan was deferred pending agreement on the structure and operation of the fund by the Central American Governments.

Regional Infrastructure. The effective development of the free trade area established by formation of the CACM required a substantial investment in regional infrastructure (highways, ports, airports, telecommunications, etc.). In FY 1969 A.I.D. authorized loan assistance (\$30 million) to CABEI for relending to the national governments for regional projects. A.I.D. assistance for this purpose since 1965 has totaled \$85 million. As a result of this and other external assistance, financing has been arranged for 1300 miles of regional roads that connect the productive regions of the five countries, and for a regional telecommunications system linking the Central American capitals. In FY 1970 ROCAP will continue to assist SIECA in economic studies to define priorities among major infrastructure projects needed in the region.

Education Programs. The ODECA and, at the university level, the Superior Council of Central American Universities (CSUCA) have taken important steps to coordinate and strengthen education programs throughout the region. The Regional Textbook Institute, under ODECA sponsorship and with ROCAP financial assistance, has completed manuscripts for a uniform series of textbooks for elementary school children. Ten million textbooks have been produced under this program for which ROCAP assistance (\$402,000 in FY 1970) will terminate in FY 1970.

Through CSUCA, technical assistance has been given to regional programs for strengthening specialized university level schools and faculties. These include the regional schools of veterinary

medicine (using consultants from Oklahoma State University) and sanitary engineering (University of North Carolina). With technical guidance from Harvard Business School, ROCAP has also assisted in establishing the Central American School of Business Administration. These regional schools are now operational with a student body from all Central American countries.

In FY 1970, \$308,000 is proposed in support of university level education and \$248,000 for the Central American School of Business Administration.

Labor Programs. Although there are still major impediments to free labor mobility, limited progress is occurring. ODECA has succeeded in establishing a regional system of social security benefits so that workers who move from one country to another retain their benefits. ROCAP is assisting ODECA in harmonizing labor legislation and manpower services among the countries. Through a contract with the American Institute of Free Labor Development (AIFLD), an effort is now under way to orient the organized labor movement toward more active participation in Central American integration. In FY 1970 \$100,000 is proposed for this activity.

Other Technical Assistance activities include coordination of the Central American malaria eradication programs, support of SIECA's statistics and surveys activities, assistance to the regional civil aviation organization, and provision of industrial advisors to the Central American Institute of Science and Technology.

ROCAP also assists British Honduras by making available participant training grants for civil service employees in such fields as public administration, education and vocational training as well as assistance to the government in investment promotion.

COSTA RICA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	5.0	3.8 ^{a/}	9.3 ^{a/}	3.5
Technical Assistance	1.9	1.3	1.2	1.5
Total A.I.D. Assistance	6.9	5.1	10.5	5.0

^{a/} Includes grants of \$320,000 in FY 1968 and \$303,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

A.I.D. seeks to help Costa Rica diversify its agricultural sector, enhance popular participation in development, and broaden its industrial base.

PROBLEMS AND PROGRESS

As a result of its deeply-rooted democratic tradition, an ample endowment of natural and human resources (84% literacy), and the stimulation of the Central American Common Market (CACM), the Costa Rican economy has been growing vigorously: 6.9% in 1966, 5.7% in 1967, and 7.3% in 1968. Per capita GNP approximates \$436, by far the highest in Central America. Costa Rica has good prospects for sustained high levels of investment, particularly in banana production (exports increased 40% in 1968) and light manufacturing.

In the short run, the principal obstacle to sustained growth is a budgetary deficit which has threatened economic stability in the past and could do so again in the absence of effective government measures. The opposition-controlled legislature has yet to ratify the 30% import surcharge, the Common Market measure which would generate substantial tax revenue and dampen import demand, thereby improving the balance of payments.

In the longer run, special effort is needed to overcome the tendency toward unbalanced economic growth. The Costa Rican economy is characterized by the existence of a highly-developed and efficient agricultural export sector (e.g., coffee and bananas) side-by-side with traditionally inefficient agricultural production for local consumption, on the one hand, and a fledgling--and inefficient--industrial sector on the other. Both the budgetary problem and the unbalanced growth have contributed to and reflect another highly important longer run problem--the tendency for the fruits of growth to be shared unequally, with the rich improving their position more rapidly than the middle and lower classes.

FY 1970 PROGRAM

The proposed FY 1970 A.I.D. program consists of \$3.5 million in Development Loans and \$1.5 million in technical assistance. A.I.D. will attack the problem of lopsided growth with a \$3 million agricultural sector loan in FY 1970. The loan will be designed to modernize the "backward" agricultural economy, i.e., that subsector not involved in traditional exports. Through credit, stabilization programs, improved marketing, cooperatives, agrarian reform, and technical assistance, the sector loan will provide the resources which, when coupled with Costa Rican reforms in such areas as credit, tax and budget policy, should permit measurable improvements in overall production and in earnings for the campesino. This program will build on past efforts supported

by A.I.D. assistance to diversify agriculture, and especially to confront the problem of coffee over-production.

The FY 1969 loan to COFISA, a private development bank, along with technical assistance to the Costa Rican Export and Investment Promotion Center, are helping to broaden the promising industrialization which has started to emerge in the wake of the new opportunities afforded by the CACM.

A series of technical assistance programs designed to improve the prospects of the little man, including community development, co-operatives, assistance to labor unions, and improvements to the legal system, will be continued and strengthened. The population is growing at 3.5% per year; and A.I.D. will continue to assist the national family planning program, one of the most promising of its type in Latin America.

A.I.D. proposes to continue its tax and customs technical assistance programs as a practical and demonstrably useful means of contributing to the solution of the fiscal problem. A Public Safety Program aimed at improving the professionalism and efficiency of Costa Rica's police forces - there are no military - will also be continued. A \$500,000 malaria eradication loan is also proposed.

EL SALVADOR

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	0.4	6.3 ^{a/}	9.1 ^{a/}	8.0
Technical Assistance	1.8	2.0	1.9	2.5
Total A.I.D. Assistance	2.2	8.3	11.0	10.5

^{a/} Includes \$325,000 in FY 1968 and \$363,000 in FY 1969 in grants for population programs under Title X of the Foreign Assistance Act.

Joint Salvadoran-U.S. efforts include (1) diversification of the agricultural sector to reduce dependence on coffee; (2) improvement and reform of the educational system, including introduction of a pilot instructional television system (ITV); and (3) provision of family planning services.

El Salvador is characterized by an alarmingly rapid rate of population growth, has very limited land resources and a high population density. The economy is basically agricultural (dominated by coffee, cotton and sugar) but has a vigorous and growing private industrial sector spurred by the Central American Common Market.

FY 1970 PROGRAM

In FY 1970, A.I.D. plans to provide El Salvador with \$8 million in Development Loans and \$2.5 million in Technical Assistance.

Agriculture. A proposed rural sector loan of \$4 million will promote agricultural diversification and will attempt to reduce Salvador's dependence on outside markets for its food supply by promoting growing of basic food crops. This loan will reinforce current efforts to provide agricultural credit to some 12,000 small and medium scale farmers and to form and assist rural agricultural cooperatives which promote local initiative and mobilize local resources for self-help improvement. Originally proposed for FY 1969, this loan will now benefit from an overall agricultural sector plan which is currently being developed.

Education. In FY 1968, in an effort to make schooling available to as many children as possible and to provide education relevant to Salvadoran needs, the Government and A.I.D. began an educational television project which will initially provide televised instruction to the junior high school level. This activity is part of a larger educational reform involving reorganization of the Ministry of Education, curriculum reform and development, and improved teacher training. The regional primary school textbook program is also receiving government and A.I.D. support.

In FY 1970, A.I.D. plans a \$4 million loan for primary school expansion, which will help to make schooling to the sixth grade available to 600,000 children or 75% of the eligible age group. This loan is timed to take advantage of the Salvadoran decision to accord priority to educational reform and instructional television programs.

Beginning in 1968, the government joined with A.I.D. and a private demographic association in a rapidly growing family planning program which will, by 1972 have 169 clinics offering services to all. A.I.D. will provide \$374,000 for family planning activities in FY 1970.

GUATEMALA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	8.0	9.0 a/	1.0 a/	15.0
Technical Assistance . . .	2.4	2.3	2.5	3.1
Supporting Assistance . . .	-	-	0.3	-
Contingency Fund	1.1	-	-	-
Total A.I.D. Assistance	11.5	11.2	3.8	18.1

a/ Includes grants of \$396,000 in FY 1968 and \$400,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

A.I.D. is assisting the Government of Guatemala (a) to expand government programs in education and agriculture in the rural areas to improve the lot of the impoverished rural people, and (b) to strengthen the Government of Guatemala's ability to contain the security threat posed by insurgency.

PROBLEMS AND PROGRESS

Guatemala is a predominantly agricultural country, heavily dependent upon the export of a few commercial crops, notably coffee and cotton. The country's wealth is very unevenly distributed among a population of five million, almost half of whom are Indian subsistence farmers living largely outside the money economy. Per capita GNP has grown moderately during the 1960's, and kept slightly ahead of the high population growth rate of 3.2%.

The present moderate government of President Mendez Montenegro has been compelled to devote much of its attention and limited resources to maintaining security. Castroite insurgents, although driven from the countryside in the campaign of 1966-67, are still able to carry out daring acts of terrorism, the most spectacular of which was the assassination of the American Ambassador, John Gordon Mein, in August 1968.

A.I.D. supports the government view that forceful measures against the insurgents must be accompanied by programs of economic and social development. Toward this end the Guatemalan Government has begun programs to expand education, stimulate agricultural production and increase government services. To finance these programs taxes have been increased by an estimated \$13 million.

Guatemala's literacy rate is among the lowest in Latin America. Primary school attendance is only 17% in the rural areas and 45%

in urban communities. Few students complete the first six years. The Government has accordingly undertaken a program to expand education at the primary, secondary and university levels, with support from A.I.D., World Bank, and Inter-American Development Bank (IDB) loans.

The mass of rural people support themselves by primitive, small-scale and subsistence farming. Expanding population and static production have forced farmers off the land and into the towns, creating grave problems of social adjustment. With assistance from A.I.D. and international agencies the Guatemalan Government has undertaken agricultural education, marketing extension, credit and resettlement activities, laying the foundation for an expanded and integrated rural program.

FY 1970 PROGRAM

The A.I.D. program in Guatemala for FY 1970 includes a \$15 million agricultural sector loan and \$3.1 million in Technical Assistance.

Agriculture. The \$15 million sector loan will finance the importation of fertilizers, pesticides and agricultural machinery for increased production of corn, beans, rice, fruits, vegetables and livestock. The loan will also help finance six regional vocational agricultural schools, resettle 2,000 more families and carry out studies on agricultural marketing, tariff, price and credit policies. Loan funds will also be used to strengthen the Guatemalan land reform effort. \$450,000 in A.I.D. grants for Technical Assistance will be used for advice and training in marketing and food processing activities related to the sector loan, and in strengthening agricultural education institutions.

Education. An A.I.D. primary education loan for \$8.6 million, signed in 1968, will help finance construction of an additional 1,100 rural and 650 urban classrooms to provide for 120,000 additional students. The loan will add 4th, 5th and 6th grade facilities in many schools where these presently do not exist. This loan and the Guatemalan Government's own increasing contributions to education will enable 33% of Guatemalan children to attend primary school by 1972. Additionally all primary school children will receive textbooks whose printing costs are covered by the loan. In FY 1970, \$350,000 in Technical Assistance funds will finance advice and training to the Ministry of Education in connection with implementation of the loan.

Public Safety. In FY 1970, A.I.D. will continue to provide Technical Assistance to support Guatemala's Public Safety program, particularly in rural communities (\$289,000). A staff of six advisors will help improve the administration of the police forces through better training in patrolling, investigation, and equipment use and maintenance.

Health and Population. A.I.D. will continue to support the Guatemalan Family Welfare Association in FY 1970, and help expand the number of health clinics providing family planning information and services throughout the country from 38 to 67 (\$600,000).

Other Activities. Other continuing technical assistance activities include public administration and municipal government, development planning, rural community leadership and labor leadership.

HONDURAS

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	7.0	11.1 ^{a/}	0.6 ^{a/}	7.0
Technical Assistance . . .	2.1	2.0	2.0	2.45
Total A.I.D. Assistance	9.1	13.1	2.7	9.45

^{a/} Includes grants of \$100,000 in FY 1968 and \$169,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

Objectives of joint Honduras-U.S. efforts include the upgrading of the country's education system, the improvement of its public administration, the diversification of the agricultural sector, and development of public and private institutions at the "grass roots" level.

Honduras is the least advanced of the Central American countries, with few, short-term prospects for rapidly bringing significant development advantages to substantial segments of her population. Essentially a rural country, criss-crossed by mountain ranges which make communication and internal market and economic integration difficult, the country suffers from extraordinarily weak public institutions. Scarcity of trained professional and technical talent, and poor public administration normally impede effective program and project formulation and delay implementation. This serious barrier to development has limited the country's capacity to absorb external assistance. The government's present public investment program, a generally well conceived selection of priority infrastructure activities, is well behind schedule. With the increasing professionalization of key government agencies, however, the prospects for the future seem better than the performance of the past.

FY 1970 PROGRAM

The proposed FY 1970 program of Honduras consists of \$7 million in Development Loans and \$2.45 million in Technical Assistance. In

FY 1970, A.I.D.'s program will continue to provide technical assistance to help upgrade critical areas of public administration, including assistance in the implementation of a new Civil Service Law, and in fiscal management, organization and methods, tax administration, and police administration.

Building upon the discernible increase in political consciousness of groups which traditionally have been politically disenfranchised because of their low income or low social status levels, A.I.D. will continue to give special emphasis to encouraging greater civic participation. Training and advice will be provided to labor unions and agricultural, housing and savings cooperatives, and support continued for an expanding system of radio schools for adult education operated by the Government and the private groups in rural areas. A.I.D. also finances the training of community leaders at Loyola University.

The rational development of Honduras' extensive forest resources remains a key target of national agricultural planning. In FY 1970 a loan of \$7 million is proposed for construction of infrastructure related to major private investment in pulp and paper. This project, when fully operational, will add an estimated \$35 million per year to Honduras' export earnings. Proposed for FY 1969, this loan was deferred pending maturation of negotiations between the private investors and the Government of Honduras.

NICARAGUA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	9.2	23.8a/	0.1a/	5.0
Technical Assistance	2.2	1.6	1.5	1.7
Total A.I.D. Assistance	11.4	25.5	1.6	6.7

a/ Includes grants of \$175,000 in FY 1968 and \$112,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

A.I.D.'s objectives in Nicaragua are to assist the country to (a) diversify and increase agricultural production and exports, (b) achieve more equitable income distribution, and (c) encourage local popular participation by assisting cooperatives, labor unions and credit unions.

PROBLEMS AND PROGRESS

Nicaragua's growth rate has slackened in recent years, and its balance of payments problems have become acute, primarily because poor weather has reduced production of the country's major export --cotton. The annual growth rate dropped from an average of 8% during the early 1960's to only 4.2% in 1967 and is estimated at 5.6% for 1968. Gross international reserves dropped from \$65 million in December 1966 to \$45 million in November 1968. Despite these difficulties, Nicaragua is committed to an ambitious development effort and continues to progress. She was the first member of the Central American Economic Community to approve the San Jose Protocol which provides for a 30% increase in taxes on imports from non-member countries. The government has undertaken a major agricultural development program with A.I.D., Inter-American Development Bank (IDB) and IBRD assistance. In 1968, a 30% reduction in government general administrative expenditures was achieved, and improved tax administration, attributable in part to A.I.D. assistance, bore fruit in a tax collection increase of 17%.

In FY 1968 A.I.D. approved loans for Nicaragua totalling \$23 million. One for \$10.2 million is establishing three cooperatives to bring electric power to an additional 38,000 rural families. Another for \$9.4 million is being used to import fertilizers and pesticides, and to expand and diversify food and feed crops. Other loans were used for health centers (\$2.2 million) and malaria eradication (\$1.9 million). To allow time for Nicaragua to absorb these loans, A.I.D. made no new ones in FY 1969.

FY 1970 PROGRAM

The FY 1970 program consists of \$5 million in Development Loans and \$1.7 million in Technical Assistance.

For FY 1970, A.I.D. will continue its emphasis on the rural sector with a proposed \$5 million loan for basic crop production that includes supervised agricultural credit for small farmers. Technical Assistance for agriculture will focus on increasing agricultural production, and the application of agricultural technology through extension, fertilizer utilization, irrigation, and research on major food crops and livestock.

Technical assistance in education planning will emphasize the widening of vocational opportunities. Training and advice in public administration will stress reforms aiming for a more equitable sharing of the tax burden. Assistance to labor unions, credit unions and cooperatives will strengthen grass roots participation in civic affairs. A.I.D. will also help to expand facilities for health and family planning activities.

OTHER LATIN AMERICA PROGRAMS

ARGENTINA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	-	1.0	-	-
Technical Assistance	1.6	1.8	1.5	0.4
Total A.I.D. Assistance	1.6	2.8	1.5	0.4

The Argentine stabilization and development program, instituted in March 1967, has brought significant monetary stability. Inflation has been drastically curbed from 30% in 1966 to about 10% in 1968. Foreign exchange reserves have climbed from some \$200 million at the end of 1966 to nearly \$800 million in January 1969. Economic recovery is now a more real prospect than at any time in the last seven years.

Growing confidence in the Government's program has resulted in increased private investment, both foreign and domestic. Such investment, along with the loans provided by the Inter-American Development Bank (IDB) and the IBRD for public works projects (e.g. \$82 million from IBRD for the El Chocon hydroelectric project and \$426 million from IDB over the two year period, 1967-1968) have helped to ward off the economic stagnation which stringent stabilization measures could have caused.

The A.I.D. program during the past few years has been limited to Technical Assistance projects to help the Government meet its goals under the stabilization program, and to complete longer range activities in agriculture. Projects in tax and customs administration have been particularly useful in this respect. Projects in higher education, agriculture and agricultural economics through contracts with U.S. universities are phasing out in FY 1970, leaving a corps of better trained professionals in the country.

Prior-year loans for the construction of roads, animal disease and meat technology laboratories and regional grain storage facilities are in various stages of disbursement. No new loans are planned in FY 1970.

BOLIVIA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	11.0	0.2*	7.3*	11.4
Technical Assistance . . .	4.1	3.5	3.3	3.9
Supporting Assistance . . .	0.4	5.0	-	-
Total A.I.D. Assistance	14.3	8.6	10.6	15.3

*Includes \$194,000 and \$225,000 in FY 1968 and FY 1969 respectively, in grants for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

A.I.D. objectives in Bolivia fall into four main categories:

- Achieve internal financial stability and improvement in Government administration.
- Develop an effective transportation and communications network.
- Improve agricultural production and develop rural areas.
- Improve education and human resources.

PROBLEMS AND PROGRESS

Bolivia has large undeveloped mineral resources, yet its per capita GNP, (approximately \$171) remains the second lowest in the hemisphere. The country's development has been restricted by its isolated position without easy access to international trade and by rugged terrain which has impeded internal economic integration. Tin mining, the largest industrial employer, income producer, and foreign exchange earner, is plagued by inefficient techniques, inflated payrolls and unstable world prices. Agriculture, upon which nearly 70% of the population subsists, has only gradually returned to the pre-1952 levels of production, overcoming the market dislocations resulting from the sweeping social revolution of that year. Only an estimated 32% of the population is literate, and most of this group is in the urban areas; much of the rural population speaks only Aymara and Quechua dialects, further complicating the Government's efforts to increase literacy.

Government attempts to overcome Bolivia's difficult development problems have been limited by meagre resources. Heavy U.S. budget support, begun in the period after the 1952 revolution, has gradually been supplanted by development lending, mostly for infrastructure, as the Government's ability to mobilize and utilize

internal resources has improved. Foreign resources, including those from A.I.D., now go mostly into investment.

The principal exception has been a \$4.5 million U.S. Supporting Assistance loan resulting from the 1967-68 budget crisis brought on partly by declining tin prices, and partly by the extraordinary expenditures needed to defeat Che Guevara's guerrilla rebellion. The loan was conditional on a program of financial measures designed to further increase revenues and control expenditures, and was coordinated closely with the standby agreement in effect between The International Monetary Fund (IMF) and the Bolivian Government. The maintenance of financial stability will continue to be difficult in Bolivia as development programs generate demands for internal financing that put pressure on the limited capacity of the Government and the private sector to mobilize domestic savings. It is therefore basic to further development efforts that the principal development agencies work together in helping Bolivia to maintain a sound fiscal and monetary program that will continue to avert the threat of inflation.

Despite these problems, Bolivia has made some encouraging progress. The economy has continued to grow at an average 5% per annum--better than the Latin American average. Per capita income growth has surpassed the Alliance for Progress goal of 2.5%. Inflation has been controlled since 1958, and a fixed exchange rate and a liberalized trading system have been maintained. Rehabilitation of the nationalized tin mines, which account for about 52% of Bolivia's foreign exchange earnings, has progressed through a joint A.I.D.-IDB-German program, resulting in important reductions in mining costs. In an important new development, contracts were signed for construction of a \$50 million gas pipeline from Bolivia's rich new natural gas fields to Argentina. This project could produce major foreign exchange earnings for Bolivia, starting in 1970.

FY 1970 PROGRAM

The FY 1970 program will continue to emphasize the fiscal stabilization program, but will provide modest inputs of new funds including Development Loans of \$11.4 million, and Technical Assistance of \$3.9 million. In addition, it is expected that the Bolivians will request a P.L. 480 dollar repayable program of about \$10 million.

Financial Stabilization and Public Administration Improvement

During the coming year the top priority will be to assist the Government of Bolivia to maintain internal financial stability, through new tax measures and improved administration and controlled utilization of P.L. 480 Title I proceeds. As in 1968 and 1969, A.I.D. will seek to develop a program of financial measures in conjunction with those included in the IMF standby agreement. Two

Development Loan projects are also planned in support of this objective: (1) a \$500,000 loan to provide technical services and accounting equipment to improve the Government of Bolivia's financial administration, and (2) a \$900,000 loan to assist the Government in establishing a census and statistical capability badly needed to provide reliable basic economic data. Technical assistance will be furnished by the Internal Revenue Service team in the area of tax administration and by the U.S. Bureau of the Census in improving agricultural, population, and other statistics. Advisors will also be provided in public administration, customs, and economic planning.

Transportation

The rugged and inhospitable nature of Bolivia's terrain and the lack of transportation and communications have posed formidable problems in national development. Under the Alliance for Progress \$75 million have been loaned for roads and air transport development. In FY 1970 technical assistance activities will emphasize the completion and effective implementation of projects already in progress, the training of local counterparts and maintenance of completed facilities.

Agriculture

Agriculture is the sector of greatest direct importance to the Bolivian population as a whole, since it employs nearly 70% of the work force. But agricultural production is lagging. A study of the total agricultural sector is being started by the International Development Service, under A.I.D. financing; the conclusions will lay the foundation for a \$5 million Agricultural Sector Loan in FY 1970.

The Bolivian Government's land reform program, meanwhile, made good progress. More than 7,700 properties comprising 19 million acres have been distributed among 192,000 families, and more than 300,000 land titles have been issued. In 1970 approximately 100,000 new titles will be processed and issued through the U.S.-developed mobile agrarian reform teams.

The Utah State University program has achieved some success in introducing new varieties of seed which should make possible sharp increases in the production of wheat. Improved methods for marketing sheep's wool and meat were introduced into many rural areas. As a result of this activity numbers of peasants are being integrated into the economic life of the country for the first time.

Education

During FY 1968-69, Bolivia began to consolidate the separate administrative structures of the urban and rural educational systems, thereby eliminating costly duplication. An overall study of

Bolivia's educational needs by Ohio State University will provide the basis for a national educational development program. The United States will provide a \$5 million Education Sector loan, directed principally at the primary level, with emphasis on teacher training. The IDB and the IBRD are planning complementary programs totalling \$13 million in vocational and secondary education.

Other Programs

Small technical assistance programs will continue in Labor Training, Public Safety, and Industrial Development.

NOTE: President Rene Barrientos was killed in a helicopter crash on April 27, 1969. The Presidency has passed to Vice President Siles, his constitutional successor. Siles will head the government until the regularly scheduled Presidential election of 1970. The limited political disruption following the death of the President has not affected Bolivian development programs to date.

DOMINICAN REPUBLIC

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	17.1	22.3 a/	5.2 a/	16.0
Technical Assistance . . .	4.4	4.7	4.4	5.0
Supporting Assistance . . .	25.0	16.4	0.4	0.3
Contingency Fund	7.2	--	--	--
Total A.I.D. Assistance	53.7	43.5	10.0	21.3

a/ Includes \$570,000 in FY 1968 and \$210,000 in FY 1969 in grants for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

The goals of the A.I.D. program in the Dominican Republic are (1) to improve the government's capability to formulate and carry out effective development programs, particularly in agriculture, (2) to help the country attain a per capita growth rate of at least 2.5%--primarily by increasing agricultural productivity--and foster wider sharing of the benefits of growth and (3) to alleviate the chronic balance of payments problem by increasing and diversifying exports and developing import-substitution products. Progress toward these goals will demonstrate the government's responsiveness to the aspirations of the population and will enhance the prospects for constitutional stability in the Dominican Republic.

PROBLEMS AND PROGRESS

Agriculture is the mainstay of the economy of the Dominican Republic. Agriculture employs over 60% of the labor force and agricultural products constitute about 90% of the value of Dominican exports.

In the past, heavy emphasis was placed on the production of traditional export crops, particularly sugar which represents 55% of total export earnings. Food production has not kept pace with demand, even though there is sufficient arable land to produce most of the food needs of the country. Most of the tillable land had been inefficiently used due to the technical limitations of farmers, scarcity of credit and the lack of assured markets. Trujillo's neglect of education contributed to a low rate of literacy--estimated at 64% in 1961--and deprived the country of an adequate number of the agronomists, engineers, economists and other technicians needed for economic development. An indication of the inadequacy of the educational system is the fact that, of the 600,000 children enrolled in the primary schools, only 60,000 will reach the sixth grade and less than 3,000 will graduate from high school.

The elected government of President Balaguer has now been in office for more than two and a half years--an extraordinary achievement in view of the country's turbulent political history. Despite the chaotic situation which he inherited following the bloody revolution of April 1965, President Balaguer has provided his country with a greater measure of stability than any of his post-Trujillo predecessors. However, constitutional government in the Dominican Republic will remain a fragile institution during the next few years.

As a result of the economic dislocations following the fall of the Trujillo regime in 1961, the country has been plagued by a budgetary deficit, a high level of unemployment and a chronic balance of payments deficit for a number of years. President Balaguer, through a program of economic austerity, has sought to correct these problems. Major tools have included import controls, a tight monetary policy, and a reduction in government wages and operating expenditures.

Despite measures taken to reduce foreign exchange outflows, the balance of payments situation has not improved during the past year. One of the major problems was the need for unusually high food imports because of the drought in 1967 and 1968. However, a drawing from the International Monetary Fund (IMF) and P.L. 480 Title I assistance from the United States may prevent further deterioration in the country's balance of payments.

The Dominican Government has made considerable progress in improving the country's fiscal position. Revenues rose in 1968. By November they were approximately \$15 million higher than in 1967.

During the first half of 1968, over 16% of revenues were used for investment purposes compared with 9% in the same period in 1967.

Largely because of the drought, but also partly due to the austerity program, GNP grew only about 4% in 1968 over 1967. Economic prospects depend mainly on success in diversifying and increasing production both for export and domestic markets, and in attracting substantial capital inflows. The political stability of the Balaguer Government, the President's often-expressed favorable attitude toward private investment and A.I.D.'s technical assistance in investment promotion have all contributed to private capital inflows. A number of major foreign companies already have invested in the country or intend to. Principal among them is Falconbridge Dominicana which plans to invest about \$160 million in a ferronickel mine and processing plant over the next three years.

FY 1970 PROGRAM

The proposed FY 1970 program includes \$16 million in Development Loans and \$5 million for Technical Assistance. In addition, a P.L. 480 Title I sales program of approximately \$15 million is contemplated. It is hoped that P.L. 480 Title I assistance together with IMF drawings will be sufficient to eliminate the need for A.I.D. balance of payments Supporting Assistance loans in FY 1969 and FY 1970. However, there could be a requirement for such assistance if an economic-political crisis should occur. During FY 1969 A.I.D. authorized a Supporting Assistance grant of \$355,000 for commodity assistance to the National Police forces. A similar grant is planned for FY 1970.

Assistance From Other Donors

In April 1968 the Inter-American Development Bank (IDB) authorized a \$22.9 million loan to help finance the first stage of a long-range program to develop the hydroelectric and agricultural potential of the Yaque del Norte river valley. A.I.D. is supporting this loan with \$7 million equivalent generated under an FY 1968 Supporting Assistance loan. The World Bank is considering financial assistance for an irrigation project in the area. Since 1962 the Ex-Im Bank has authorized credits totaling \$34.1 million to finance power, transportation and communications facilities.

Agricultural Development

Accelerated agricultural production is the key to moving the Dominican economy toward self-sustaining growth. A dynamic agricultural sector will furnish employment, and supply local food needs, and improve the balance of payments situation by reducing imports and increasing export earnings. Accordingly, the Dominican Government and A.I.D. have given the highest priority to agriculture. The bulk of the FY 1970 program is devoted to it.

To achieve an overall annual growth rate of 2-1/2% per capita, agricultural production should reach an annual growth of 5-7%. With this target in mind A.I.D.-Dominican agricultural efforts are being focused on increasing the production of (1) traditional staple crops such as rice, beans, corn, and oil crops; (2) high protein foods, including beef, pork, poultry and milk, to improve the nutritional quality of the Dominican diet; and (3) high-value export crops such as winter fruits and vegetables. These production efforts were set back last year by drought which caused a 6% drop in production. However, the effects of the drought were mitigated by farmer acceptance and application of improved production practices introduced by A.I.D. and Dominican technicians. Diversification, aided by careful selection of production priorities, is progressing. The increased output of garlic, onions, potatoes, and tomatoes is particularly noteworthy.

Supported by financial and technical help small farmers have formed cooperatives; membership has doubled in the last two years. A \$2.65 million A.I.D. loan was recently signed which will provide additional financial resources for agricultural cooperative efforts. Small farmers are also being assisted through a major new supervised credit program.

There has been considerable success in unifying the planning, coordination and implementation of a national agricultural program. However, a number of structural and policy bottlenecks remain. A.I.D. is encouraging the following actions and measures which would contribute to the elimination of these barriers:

- provision of adequate operating budget support for Dominican agricultural agencies;
- establishment of offices in the Secretariat of Agriculture, including an agricultural export promotion office, to provide production and marketing information related to non-traditional export crops, and to develop systems of grades, standards and quality for raw and processed agricultural products;
- establishment of a national price stabilization program to maintain appropriate floor prices for designated commodities;
- implementation of a collection system for water-use fees in order to provide adequate funds for the operation and maintenance of irrigation canals.

Technical Assistance and the performance criteria established for Supporting Assistance, P.L. 480 Title I and Development Loans have been used to bring about these reforms. Following a thorough

evaluation of progress in these and other aspects of agricultural development, and an analysis of the requirements for further technical and financial assistance, a \$10 million agricultural sector loan is planned in FY 1970.

Another aspect of rural development--the community development program--has received significant support from A.I.D. including an \$8.7 million development loan in FY 1967. Since July 1964 the residents of over 775 rural communities have participated in the implementation of 1,975 projects benefiting one and a half million people. A \$3 million development loan is proposed for FY 1970 to assist the Dominicans in the continuation and expansion of this highly successful grass roots development effort.

Education

Technical assistance for teacher training, the development of comprehensive secondary schools and modernization of university education will be largely related to the implementation of the \$12 million education sector loan authorized in FY 1968. The major focus will be to equip secondary schools to train middle-level manpower to meet the immediate demand for trained personnel in a variety of fields including farming, agro-business, industrial skills, practical nursing, laboratory technicians and primary school teachers. Another loan of \$3.0 million is proposed in FY 1970 to expand the scholarship credit program of the Foundation for Educational Credit established in 1968 with A.I.D. loan assistance. The Foundation provides loans to university students for studies in areas related to development.

Industrial Development

The major emphasis of A.I.D. Technical Assistance in the industrial sector will continue to be the encouragement of policies designed to improve the investment climate, develop effective industrial and tourism promotion organizations, and establish complementary industrial plants in Puerto Rico and the Dominican Republic.

Health

Technical advisory services will be provided to the Secretariat of Health in connection with the implementation of a \$7.1 million development loan authorized in FY 1968 to assist in the financing of a nationwide maternal and infant care program. This program includes the construction and remodeling of health facilities, procurement of equipment for clinics and training of health personnel.

Other

Technical assistance will also be provided in carrying out a country-wide population and housing census in 1970. Public Safety

advisors will continue to assist the National Police in improving their ability to control civil disturbances. In the field of public administration, technical assistance will be continued in tax and budget reform and in strengthening local government administration.

ECUADOR

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	-	0.6 a/	3.5 a/	5.2
Technical Assistance . . .	3.9	3.0	2.6	3.1
Total A.I.D. Assistance	3.9	3.6	6.1	8.3

a/ Includes grants of \$597,000 in FY 1968 and \$509,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

In Ecuador A.I.D. plans to support such reforms as are undertaken by the government of President Velasco Ibarra. The objectives of the program are to (1) increase participation of lower income groups in the political, economic, and social life of the country, (2) promote more equitable and productive systems of land use and extend land ownership through development of selected crops and expansion of agricultural cooperatives and credit unions and (3) encourage Ecuador's participation in regional economic groups, such as the Latin American Free Trade Association and the Andean Sub-regional group.

PROBLEMS AND PROGRESS

During the last five years Ecuador has experienced political uncertainty and has had four different governments. The key event in 1968 was the return to popularly elected government on August 31. The new government has pledged itself to the development of Ecuador's resources and the solution of its grave social and economic problems. Improvements in administrative skills and increases in fiscal resources are necessary for significant accomplishments.

Ecuador's net international reserves stood at \$24.2 million in mid-March 1969, a 60% drop from the December 1967 level of \$53.9 million. Exports in 1968 were higher in value than in 1967 but declined toward the end of 1968. Meanwhile, imports continued at a high level. Given this situation, the need for fiscal restraint is urgent. On April 4, 1969, the International Monetary Fund approved an \$18 million stand-by agreement for Ecuador in support of a recently adopted stabilization program.

The ability of the Velasco Government to intensify economic and social development programs will depend in large part upon its success in increasing budgetary revenues. For the first time a special tax has been levied on the large sugar exporters. This tax could yield up to \$1.8 million. A commission has been appointed to study additional fiscal initiatives. The government has also expressed interest in obtaining U.S. advisers in tax administration.

Agriculture accounts for about 35% of the country's gross domestic product (GDP). In the 1950's, when the market outlook was good for Ecuador's three main agricultural export products--bananas, cacao, and coffee--A.I.D. supported increased production of these crops. A.I.D. assistance helped bring under control Sibatoka disease, which threatened the banana crop. A.I.D. also helped develop new varieties of higher yield cacao plants. However, there is now an uncertain market outlook for Ecuador's main crop, bananas, although the outlook for cacao and coffee remains good. By 1972 Ecuador hopes to become a petroleum exporter, but in the interim the balance of payments is likely to restrain economic growth.

Through both Technical Assistance and Development Loans, A.I.D. has made a major contribution to the industrial sector, and the country now possesses promising public and private industrial finance institutions. The A.I.D.-supported Industrial Development Center has promoted \$125 million in new private industrial investment since 1962. The national handicrafts marketing agency established with A.I.D. assistance is now self-supporting.

The United States encourages Ecuadorean participation in Latin American economic integration movements, especially the proposed Andean Common Market.

THE FY 1970 PROGRAM

Development Loans of \$5.2 million and Technical Assistance of \$3.1 million are planned for FY 1970. The Development Loan program consists of a loan for land drainage in the extensive Guayaquil slum area and one to guarantee sales of agricultural land to poor farmers. The Inter-American Development Bank and the World Bank are considering increased lending to Ecuador in power, agriculture and development finance, in effect complementing the A.I.D. emphasis on grass roots development. A P.L. 480 Title I sales agreement for approximately \$4 million is also proposed as well as continuation of the P.L. 480 Title II program of approximately \$2.2 million.

Grass Roots Activities. The distinctive characteristic of the A.I.D. program in Ecuador is the effort to achieve greater participation by the people in the development process. Much of the FY 1970 program will be used for this purpose.

A \$2.2 million loan will be used to promote wider land ownership. The loan will guarantee payments to land owners who sell their land to low-income farmers.

In addition, numerous technical assistance projects to achieve greater participation in development will continue in FY 1970:

- A.I.D. funds totalling \$356,000 will be used to accelerate the development of rural credit unions and production and marketing cooperatives, with emphasis on small and medium-size farmers. Eight rice cooperatives with over 300 members, 44 coffee marketing cooperatives with over 300 members and 237 credit unions with 36,500 members have already been formed.
- Assistance of \$237,000 will help rural community groups to identify development requirements. Over 200 campesinos were trained under this project in FY 1968.
- A project to involve youth in the development process will receive A.I.D. assistance of \$100,000. Three pilot community action projects were completed in the summer of 1968.
- A.I.D. will continue to support a nationwide family planning program being undertaken by private groups, university medical schools, and the Ministry of Health. Assistance of \$528,000 will be provided for this purpose.
- Technical Assistance of \$225,000 will support the American institute of Free Labor Development's organizational work and training among free trade unions. To date 226 unions have become affiliated with the Ecuadorean Confederation of Free Trade Unions.
- A.I.D. will provide \$196,000 to continue primary education curricula and textbook development and school construction activities.

Other Activities. Additional A.I.D. activities will (1) provide continued technical assistance and communications and transportation equipment to the Ecuadorean National Police, (2) continue support to the Industrial Center to improve its expertise in productivity, marketing and investment promotion, and (3) seek greater involvement in activities directed toward Ecuador's participation in regional economic and trade partnerships.

GUYANA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	8.1	4.7	14.1	6.4
Technical Assistance . . .	1.3	1.1	1.0	1.3
Supporting Assistance . . .	-	2.5	-	-
Total A.I.D. Assistance	9.4	8.3	15.1	7.7

U.S. AID OBJECTIVES

A.I.D. is attempting to assist the Government of Guyana in its efforts to promote the social and economic integration of its major racial groups and to lay the base of self-sustaining economic growth.

To accomplish this, A.I.D. is working to:

- modernize the rice industry, to expand rice export earnings 4% annually and increase agricultural incomes; and
- reduce the high rate of unemployment, through expanded vocational training, the promotion of new and expanded labor intensive enterprises and general economic growth.

PROBLEMS AND PROGRESS

Guyana has shown promising economic growth since the government of Prime Minister Burnham took office in December 1964. GNP has increased at an annual rate of about 8% at current prices since 1965. The return of business confidence and government incentives (including duty-free imports, tax holidays, tariff concessions and subsidized land sites) have stimulated both foreign and domestic private investment. A major expansion in the American and Canadian owned bauxite industry was the principal new investment. The completion of this expansion in 1968 led to a large statistical drop in private investment for that year, but local private investment has continued to rise. Private investment increased from 14% of GNP in 1966 to 17% in 1967, but dropped somewhat in 1968.

The problem of unemployment (15-20%) has been attacked in several ways with A.I.D. assistance but still remains a serious problem. A technical training school built with A.I.D. funds opened in August 1968, and over 100 students are attending six-month and one-year courses in a variety of technical skills in demand. A P.L. 480 sales agreement signed in FY 1969 will generate local currency to continue labor intensive agricultural works projects.

FY 1970 PROGRAM

The proposed FY 1970 program includes \$6.4 million for Development Loans and \$1.3 million for Technical Assistance. A \$500,000 P.L. 480 grant will be continued to assist community development, school lunch programs and maternal and child health centers. A new P.L. 480 credit sales agreement may be considered in the second half of FY 1970.

Guyana receives substantial assistance from the United Kingdom, Canada and the IBRD. The United States has provided an average of over \$10 million a year since 1965 compared to annual averages of \$7 million from the United Kingdom, \$3.3 million from Canada (increased to \$4 million in 1968). In addition, the IBRD provided a total of \$10.8 million in FY 1968 and FY 1969 for education and the protection of coastal lands from erosion by the sea.

Agriculture.

In the next few years, the A.I.D. program will concentrate on modernizing Guyana's rice industry, which accounts for 14% of export earnings and provides a livelihood for about a fourth of the population. In FY 1969, A.I.D. authorized a \$12.9 million Development Loan for construction of a rice research station and six rice processing plants. Guyana's contribution towards the rice modernization project will include \$4.5 million to cover local costs, the rehabilitation of two government-owned rice mills, a supervised agricultural credit program for small farmers to help them convert to improved varieties, and reorganization of the Rice Development Corporation.

Technical Assistance in agriculture, amounting to \$300,000 in FY 1970, will promote diversification, increased yields, and utilization of new lands in the interior of the country.

Other Assistance.

A.I.D. is planning a \$4 million Development Loan in FY 1970 to construct the Georgetown-by-pass road, a key link for the existing road system. A \$1 million loan is proposed to replenish the Private Investment Fund (PIF) which assists in financing the cost of U.S. equipment needed by Guayanese private enterprise. \$160,000 in Technical Assistance will pay for advisors to assist the Guyana Development Corporation in industrial promotion. The remaining Development Loan of \$1.4 million will be used for technical advisors to the government on taxation and other related programs. Other Technical Assistance projects include AIFLD industrial training and union leadership activities (\$200,000), professional training (\$90,000) and public safety (\$208,000).

HAITI

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	0.2*	0.1*	0.05*	-
Supporting Assistance . . .	1.4	2.0	1.8	1.5
Contingency Fund	0.4	-	-	-
Total A.I.D. Assistance	2.0	2.1	1.85	1.5

* Not new assistance. Represents only capitalization of interest on prior year loan.

A.I.D. assistance to Haiti is limited because administrative and institutional weaknesses hamper Haiti's ability to use assistance effectively. The A.I.D. Mission withdrew in 1963 because of inadequate Haitian cooperation.

A.I.D. has continued, however, to contribute funds to a malaria eradication project which has been proceeding satisfactorily under the auspices of the Haitian Government and the Pan American Health Organization (PAHO), with participation by UNICEF. It is believed that the malaria transmission cycle can be broken by FY 1970 and that the program which was begun in 1960, can be phased out by FY 1972.

FY 1970 PROGRAM

A.I.D. proposes to provide \$1.3 for malaria eradication in FY 1970; PAHO, UNICEF, and the Haitian Government are expected to contribute about \$400,000. The malaria eradication network might be used to provide family planning services in the future.

In FY 1968 a Special Development Activities Fund of \$25,000 was established to encourage small, local self-help projects throughout the country. Special Fund activities are continuing in FY 1969 and planned for FY 1970 at the level of \$40,000 each year.

Since 1966, CARE Incorporated has administered a small community development and family planning program in Haiti's rural northwest. The CARE program has been supported by grants from A.I.D. An additional grant of \$137 thousand is proposed in FY 1970.

Other international agency and third country efforts in Haiti include: (1) UN projects in agriculture, (2) Inter-American Committee on the Alliance for Progress (OAS/CIAP) technical assistance in education, natural resources, civil administration, tourism and fiscal reform, and (3) agriculture-related projects sponsored by Nationalist China, the German Federal Republic and Israel. A.I.D.

contributed to the OAS/CIAP technical assistance mission in FY 1968 and may provide additional support to OAS efforts.

JAMAICA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	-	0.3*	0.3*	-
Technical Assistance	0.7	0.7	0.8	0.5
Total A.I.D. Assistance	0.7	1.0	1.1	0.5

* Represents \$275,000 in FY 1968 and \$315,000 in FY 1969 in grants for population programs under Title X of the Foreign Assistance Act.

The A.I.D. program is designed to assist Jamaica to reduce the population growth, preserve law and order, and improve development policies and institutions. Although small, the program is significant when coupled with local efforts and other assistance from abroad.

Economic growth, spurred in part by sizeable U.S. investment has been impressive at over 5% a year (1962-67). Nevertheless, unemployment, rapid population growth and unequal distribution of income have tended to impede progress and contribute to social unrest.

FY 1970 PROGRAM

For FY 1970, A.I.D. proposes \$535,000 in Technical Assistance. In cases where other sources of loan financing are not available, A.I.D. would be prepared to consider loans which would have a significant influence upon Jamaican development policies and the rate of Jamaican development.

A.I.D. housing guaranties support a \$15 million housing construction program. Jamaica will also receive \$3 million in P.L. 480 Title II food donations for maternal/child welfare and school lunch feeding.

Assistance from the United Kingdom, Canada, the United Nations, the IBRD and private foundations together with Export-Import Bank Loans may exceed \$30 million in 1970.

Family Planning. A.I.D. will provide \$290,000 in Technical Assistance in FY 1970 for advisory services, training and clinical equipment for family planning to help Jamaica reach its goal of reducing the birthrate from 39 to 25 per thousand by

1976. The number of family planning clinics has increased from 50 in April 1968 to 120 in March 1969. There is some evidence that the birthrate has started to decline in 1968.

Agriculture. A.I.D. expects to provide \$40,000 in Technical Assistance in FY 1970 for consulting services to identify and analyze development policies and problems that are hampering production and creating an overdependence on food imports.

Police Assistance. \$50,000 in Technical Assistance is planned for FY 1970 to continue to assist the Constabulary Force to enable it to cope more effectively with the threat of growing violence and crime. The A.I.D. program has been designed to assist the Jamaican Government in carrying out a major reorganization of the police force. Funds budgeted by the Jamaican Government for the force increased from \$7.5 million in 1965 to over \$9 million in 1969.

PANAMA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 ^{a/} Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	22.9	16.3 ^{a/}	6.3 ^{a/}	13.0
Technical Assistance . . .	2.1	3.0	2.8	3.6
Supporting Assistance . . .	-	0.2	-	-
Contingency Fund	10.2	-	-	-
Total A.I.D. Assistance	35.2	19.6	9.1	16.6

a/ Includes grants of \$471,000 in FY 1968 and \$400,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

In Panama, A.I.D. is attempting to assist the country's efforts to cope more successfully with its deep-rooted problems of rapidly increasing urbanization, inadequate school systems and low agricultural productivity. A.I.D. is also helping to improve public administration, so that the government of Panama can effectively manage a development program.

PROBLEMS AND PROGRESS

Despite the electoral campaign disorders of April and the October coup d'etat which replaced President Arias with a military junta, the economy proved resilient in 1968. Although political instability probably reduced the rate of growth somewhat, key indicators nevertheless show the strength of the economy: GNP growth of

5.4% in 1968--down only slightly from 1967; gross investment 22% of Gross Domestic Product (GDP), same as in 1967. The balance on goods and services improved somewhat over 1966, from a deficit of \$39 million in 1966 to \$31 million in 1967.

The Government was able to secure loans in 1968 and early 1969 to counter the adverse economic and financial effects of the political turbulence. To this end, the Government negotiated two standby agreements with the IMF for \$3 million each, and obtained \$9.5 million in short and medium-term credits from private banks (mostly U.S.). Despite cut-backs in spending, the Government had a deficit of \$8 million in its 1968 ordinary budget of \$129 million.

While the standard of living in Panama has improved somewhat in recent years, the country's progress continues to be impeded by some pressing problems: population growth rate is a high 3.3%; distribution of income is inequitable; productivity is low; unemployment and under-employment in both urban and rural areas are widespread. More than half the population of Panama City lives in sub-standard housing. Some 40,000 people inhabit heavily congested squatter areas that starkly contrast with the nearby Canal Zone.

FY 1970 PROGRAM

The proposed FY 1970 A.I.D. program is \$16.6 million, composed of \$13 million in Development Loans and \$3.6 million in Technical Assistance. The World Bank is considering a \$30 million loan for a 150 megawatt hydropower facility on the Bayano River to serve the growing needs of Panama City and the Canal Zone. The Inter-American Development Bank (IDB) may provide \$5.5 million in loans for agricultural credit and vocational education.

Agricultural Development

Agriculture remains Panama's most neglected sector. Productivity and income are low. Although agriculture employs nearly 50% of the labor force, it accounts for only 22% of GDP. Poor agricultural incomes and living conditions are forcing a growing number of people into the cities. Since the rural poor are often unable to find employment and adequate housing in the cities, their presence adds little to the urban economy, represents a drain on already strained urban facilities and resources and adds to urban social tension.

A recently completed Rural Cadastral and Natural Resources Survey supported by an A.I.D. loan of \$2.7 million (\$2.4 million in FY 1965 and \$0.3 million in FY 1968), is providing the data necessary to accelerate agrarian reform and improve tax collections from rural properties.

As part of a nation-wide program for mobilizing the resources of local communities and bringing the rural dweller more effectively into the economy, A.I.D. expects to extend a \$1.5 million loan for Community Development in FY 1970. The rural segment of this loan will assist in the development of rural cooperatives and locally chosen community institutions or activities. Grant-funded technical assistance will finance advisory services in marketing, agro-business, and crop diversification.

Urban Rehabilitation and Development

Since FY 1967, the Government and A.I.D. have made major efforts to improve conditions and increase community participation in the urban areas. A.I.D. loans and grants of \$25 million have supported public works, manpower training, community development, and slum rehabilitation programs, principally in Panama City. In FY 1969, A.I.D.'s urban activities continue with a second urban development loan (\$4.6 million).

In FY 1970, A.I.D. plans to assist in extending urban improvement programs involving slum clearance, rehabilitation and re-settlement to the country's second city, Colon (\$2 million loan). Through this program and an intensified community development effort in low income urban and rural areas, A.I.D. hopes to encourage greater community participation and make improvements in the lot of Panama's poor. Grant funds will provide technical assistance to both public and private Panamanian institutions involved in community development, cooperative and self-help housing, and urban planning.

Human Resources Development

Although literacy in Panama is relatively high (78%), the country's development has been hampered by poorly trained managers and laborers as well as by poor planning and institutional deficiencies. A new National Educational Plan, formulated with A.I.D. assistance, will be implemented by the Government at a cost of \$28 million over 11 years, and is to be financed in part by an international consortium composed of A.I.D., IDB and IBRD. The Plan provides for balanced and orderly development of new school facilities at all levels, administrative reform, and better planning and use of educational resources, principally by improving curricula, teacher training, testing and materials. A.I.D. expects to support this program in FY 1970 with a sector loan of \$4 million. In FY 1969 a \$1.3 million loan is expected to help the Santa Maria University with technical assistance and construction of laboratories and other facilities.

Vocational manpower training and a National Employment Service, linking training to employment opportunities, were initiated in FY 1968 with A.I.D. assistance. Some 800 unemployed heads of

families have already been trained during the experimental phase of the project. An A.I.D. loan of \$2 million to the Institute for Development of Human Resources will provide part of the cost of expanding this program in FY 1970.

Administrative Reform

The Government's capacity to mobilize the nation's resources for development and manage its own machinery efficiently are impaired by deficiencies in public administration. The present Junta Government professes a strong desire for sweeping administrative improvements, particularly in the areas of tax, civil service, and procurement. Accordingly a loan for Public Administration Reform (\$3.5 million) is being considered for FY 1970. Grant-funded technical assistance will increase somewhat in order to continue successful earlier projects (e.g., tax administration assistance, which has been in part responsible for increases in revenue collections of about 15% annually since 1965).

PARAGUAY

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	1.9	1.0	7.7 ^{a/}	4.0
Technical Assistance	2.2	1.7	1.8	2.4
Total A.I.D. Assistance	4.1	2.7	9.5	6.4

^{a/} Includes \$145,000 in grants for population programs under Title X of the Foreign Assistance Act.

U.S. AID OBJECTIVES

The two principal development objectives of U.S. collaboration with Paraguay are: (a) to increase production of agricultural, livestock and forestry products, and (b) to upgrade the quality of secondary and university education. Concurrently, A.I.D. is working with the international agencies--Inter-American Development Bank (IDB), IBRD and International Monetary Fund (IMF)--through the Inter-American Committee on the Alliance for Progress (CIAP) in encouraging and assisting the Paraguayan Government to revise its tax system and improve collection methods.

PROBLEMS AND PROGRESS

The Paraguayan economy has advanced slowly in recent years. While Paraguay has maintained stability, its fiscal inadequacy is a major roadblock to growth and development. Tax yields are inadequate to meet development requirements, and budgetary deficits

are increasing. At the same time foreign debt servicing is posing an increasingly difficult problem and there are continuing balance of payments pressures.

A series of measures have been enacted over the past two years to increase revenue and improve the allocation of government expenditures. Nevertheless, a shortage of public savings for development continues to be a problem. The principal income-producing measures enacted have been a sales tax and increased stamp taxes. Measures to be taken are a revaluation of real estate for tax purposes and the introduction of a personal income tax. There is not yet enough experience to evaluate the effectiveness of these measures.

Through the efforts of the National Wheat Commission, production has increased from 5,000 metric tons in 1965 to 20,000 in 1968, the latter being 20% of current wheat consumption. A.I.D.-sponsored research led to the development of a seed variety adaptable to Paraguayan conditions. A.I.D. has also provided technical assistance, and loans totaling \$9 million (including a \$5 million loan in FY 1969) to the National Development Bank for credit to wheat farmers to import agricultural equipment, tractors and fertilizers. Local currency generated from sales of approximately \$2.5 million of P.L. 480 wheat has also been re-lent in support of the wheat program.

FY 1970 PROGRAM

The proposed program for FY 1970 totals \$6.35 million, of which \$2.35 million is for Technical Assistance and \$4 million for Development Loans. Activities to be undertaken are as follows:

Agriculture. A.I.D. agricultural assistance concentrates on lowering costs of production, marketing and transportation to make Paraguayan products more competitive in world markets. Only in this way will Paraguay earn the foreign exchange needed to finance development. A.I.D. will provide technical assistance (\$720,000) in agricultural planning, extension, marketing, cooperatives development, education and research. A road program backed by P.L. 480 counterpart funds has opened up previously inaccessible agricultural areas. A road financed by A.I.D. loans is spanning the country from west to east and will lower the transportation costs of both the inputs and products of agriculture. In FY 1970 we plan to finance commodity studies to promote agricultural production and the development of agro-industries, particularly non-traditional export products for which it appears that Paraguay may have a comparative advantage.

Education. Paraguay's educational system is marked by inadequate facilities, a paucity of trained personnel and a system of educational priorities which provides too little emphasis on practical

skills needed for development. Over 75% of the students entering the first grade never get past the third grade.

A.I.D. technical assistance (\$742,000) concentrates on improving secondary and vocational planning and curriculum through four regional education centers. A.I.D. also assists universities in administrative and curricular reform and plant improvement. A proposed \$2.0 million loan would improve the facilities of the existing regional centers, finance the construction of 4 additional centers, provide vocational agricultural equipment and train vocational education instructors. These moves would contribute to Paraguay's program to decentralize its education system.

Public Administration. A.I.D. will assist Paraguay to modernize and coordinate its system of budgeting, accounting, taxation and planning (\$136,000). The principal contribution will be made by a team from the Internal Revenue Service.

Private Enterprise. To expand the role of private enterprise, A.I.D. will continue to assist the Private Development and Productivity Center, with emphasis placed on cooperative efforts of the private sector and the Ministry of Industry and Commerce to foster export promotion (\$211,000).

A loan of \$2 million will furnish seed-capital for a savings and loan system.

Population. In support of Paraguayan efforts in research and action programs for population planning, A.I.D. will provide technical assistance (\$200,000) for family planning and demography.

PERU

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	17.5	0.7 ^{a/}	0.2 ^{a/}	-
Technical Assistance	5.2	4.8	4.4	3.5
Total A.I.D. Assistance	22.7	5.5	4.7	3.5

a/ Includes grants of \$595,000 in FY 1968 and \$250,000 in FY 1969 for population programs under Title X of the Foreign Assistance Act. Balance of \$57,000 in FY 1968 is not new assistance, but represents capitalization of interest on prior year loan.

U.S. AID OBJECTIVES

President Belaunde's election in 1963 brought into office a democratically chosen government in Peru committed to accelerated economic and social progress and raised great hopes for the role

that Peru might play in the Alliance for Progress. Once in power, the Belaunde Government concentrated on large investments in roads, power projects and other infrastructure projects. These programs, plus an extremely generous teachers' pay bill, resulted in public expenditures mounting far more rapidly than public revenues, creating a major fiscal problem. After several years of repeated frustration in trying to get the Peruvian Congress to pass needed revenue measures, Belaunde in the spring of 1968 received from the Congress special powers to adopt financial and economic measures by decree for a sixty-day period. After he had enacted a major fiscal reform program and had arranged a settlement of the long-standing dispute with the U.S.-owned International Petroleum Company (IPC), he was overthrown by the military on October 3, 1968. The military government in its first action on October 4 nullified the IPC settlement. On October 9 it expropriated major assets of the company.

The Peruvian Government has not yet discharged its obligation under international law to compensate IPC for the loss of its property, although the continuation of talks and an administrative process being used by IPC to challenge the \$690 million debt permitted deferral of suspensory action under Section 620(e) of the Foreign Assistance Act of 1961 (the Hickenlooper Amendment) and Section 408(c) of the Sugar Act. If this problem is solved and the Peruvian Government can demonstrate its eligibility on other grounds, new development lending may be recommended to reinforce the objectives of the other U.S. programs.

PROBLEMS AND PROGRESS

Peru's economic growth, averaging 6.5% a year in real terms during 1960-66, compared very favorably with other Latin American countries. The growth in per capita GNP was significantly less, however, because of a rapid population growth rate of 3.1% a year. Although data are not current or comprehensive, they clearly support a badly skewed distribution of income. Economic growth from 1960-66 was due primarily to the outstanding performance of the private sector, which expanded export value at an average annual rate of about 10%. This dynamic export growth slowed in 1967 and 1968 because of adverse trends in the foreign markets for Peru's principal agricultural products.

The military government originally indicated that it would carry on the policies President Belaunde began in June 1968 to reduce the fiscal deficit, improve the balance of payments, refinance outstanding foreign debts, and sharply limit new external borrowings to only high priority investments on appropriate financial terms. It has now shifted to an expansionary policy of extending domestic credit for specific purposes which may complicate its economic future.

FY 1970 PROGRAM

The FY 1969 A.I.D. program includes a Technical Assistance program, implementation of previously approved loans, a Title II P.L. 480 food donation program, and an on-going housing guaranty program.

Subject to the legislative requirements of the Foreign Assistance Act, in FY 1970 A.I.D. proposes a \$3.5 million Technical Assistance program concentrating on agriculture and rural or community development, with a secondary effort in housing. A.I.D. also will provide some foodstuff grants to continue on-going child feeding, reforestation and other humanitarian P.L. 480 programs. Peru's food situation is characterized by a growth in demand exceeding production growth, leading to rising imports estimated by the Government at \$154 million in 1969. The junta has outlined a sectoral program to increase food crop production by providing lower-cost fertilizers, guaranteed price supports for basic foodstuffs, timely credit, an improved marketing system, and expanded storage and processing facilities. A.I.D. has financed the activities of North Carolina State and Iowa State Universities in Peru and provided related loan funds to support "commodity-in-depth" programs for key crops such as potatoes, beans, rice and livestock. A.I.D. has supported Peru's attempts to integrate the rural masses into the political and economic decision-making processes.

URUGUAY

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	0.8	15.0	-	7.0
Technical Assistance	1.5	1.3	1.7	2.2
Contingency Fund	0.4	-	-	-
Total A.I.D. Assistance	2.7	16.3	1.7	9.2

U.S. AID OBJECTIVES

A.I.D. objectives in Uruguay are to: (1) assist Uruguay to implement an effective stabilization program; (2) help modernize agricultural production in order to increase exports; (3) promote development of non-traditional exports.

PROBLEMS AND PROGRESS

The economy of Uruguay steadily deteriorated during the last ten years. Per capita GNP decreased 14% since the mid-1950s. This deterioration took place in large measure because of the decline in world market prices of livestock products after the Korean War,

divided authority in the Central Government, and increases in social programs which the government could not afford.

This situation continued until mid-1968 when a new government, under a new constitution, legislated and applied a combination of tight monetary and fiscal controls and wage and price restraints which reduced the rate of increase in the cost of living to 1.6% in the second half of 1968, a decline from 63.7% in the first half, and from 136%, a record for the country, in 1967.

The exchange rate was kept at a realistic level by a devaluation to 250 from 199 to the dollar in April 1968. That level has been maintained by imposition of a ceiling on commercial bank lending and a freeze on wages.

The government's program was carried out with the support of a standby agreement with the International Monetary Fund (IMF). The agreement for \$25 million set targets on (a) improvement in net foreign reserves, (b) maximum allowable credit expansion, and (c) maximum allowable credit to the public sector. Performance under the standby was generally acceptable and \$20 million of the \$25 million was drawn.

Although the Government of Uruguay has taken the strenuous and difficult measures needed to break the inflationary spiral, it still faces the problem of restoring vigorous economic activity. A danger of the stabilization program is that expenditure restrictions required to maintain stability will restrict economic growth. Budgetary imbalances present a serious obstacle to stabilization. Uruguay's deficit reached 18% of expenditures in 1967; preliminary data indicate only a somewhat lower ratio for 1968.

In response to Uruguay's problems and efforts to meet them, A.I.D. has assisted in several sectors: with a loan of \$15 million in FY 1968 for imports of U.S. agricultural equipment and for support of the Ministry of Livestock and Agriculture's extension services, farm credit operations and research activities; with two P.L. 480 Title I sales agreements signed in FY 1968; with technical assistance and equipment in support of educational television; and with assistance in tax administration.

The IMF standby agreement which ended on February 28, 1969, probably will be followed soon by another. Nevertheless, Uruguay will require additional external resources for export promotion, for credit available to the private sector, and for other development programs related to agricultural modernization.

FY 1970 PROGRAM

The proposed A.I.D. program for FY 1970 is \$9.2 million, of which \$2.2 million is for Technical Assistance and \$7 million for project loans, mostly concentrated in agriculture.

Agriculture. The FY 1968 Agricultural Sector Loan of \$15.0 million was conditioned, in part, on general macroeconomic and agricultural sector performance and specifically on eligibility to draw under the IMF standby agreement. Performance under this loan was deemed acceptable and two tranches totaling \$11 million have been released.

In FY 1970, A.I.D. proposes to emphasize agricultural development and production with particular attention to the exporting of agricultural commodities such as fruits and vegetables, and frozen processed and pre-packaged meat to neighboring countries. Advice and training will be offered in research and production techniques, in the use of marketing and processing facilities, and in export promotion methods.

Project loans totaling \$7 million will promote growth, particularly in non-traditional exports. A \$4 million loan will support an Export Expansion Fund to be used by private enterprise for the import of equipment, materials and technical expertise needed for improvements in products for the export markets. Another loan of \$3 million would partially finance a private development corporation, which would help mobilize local savings and promote foreign investment in Uruguay's private sector. Emphasis of the latter loan would be on agro-industry.

Labor. In order to strengthen the capabilities of the free labor movement, A.I.D. will continue to support the American Institute for Free Labor Development in its grassroots efforts in Uruguay to improve worker's education and union leadership methods.

Public Administration. A.I.D. technicians will provide advisory services to: (1) the Ministry of Industries and Commerce to stimulate investment in the private sector; (2) to the Ministry of Finance to improve tax administration, and (3) to the Office of Budget and Planning to develop trained economic development planners.

Public Safety. A.I.D. advisors to police forces will continue to provide technical assistance in police patrol and investigation. Selected police staff will receive training in the United States.

VENEZUELA

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	-	0.4 ^{a/}	0.1 ^{a/}	-
Technical Assistance . . .	1.4	1.1	0.9	0.9
Total A.I.D. Assistance	1.4	1.4	1.1	0.9

^{a/} Represents grants for population program under Title X of the Foreign Assistance Act.

The small A.I.D. technical assistance program in Venezuela is not designed to assist in major economic change, but rather to provide U.S. technical knowledge where the need is critical and the multiplier effect will be greatest. The program concentrates on improving education and vocational training, increasing the availability of family planning assistance and low cost housing, and strengthening Venezuelan police capacity to maintain order. Because of Venezuela's ability to finance projects from other sources, no concessional A.I.D. loans have been made since FY 1963.

Because of oil, Venezuela is the wealthiest of the Latin American countries. Yet with a per capita personal income of only about \$600, it might be termed the least poor.

The rate of both growth and investment depend heavily on petroleum production, which accounts for one-fourth of the GNP, two-thirds of government revenues and 90% of foreign exchange earnings. This dependence on a single export makes the Venezuelan economy susceptible to fluctuations in the world petroleum market and has contributed to the uneven growth and distribution of income.

Another problem is the 3.5% rate of population increase -- one of the highest in the world. As a result, per capita GNP increased an average of only 1.7% a year in 1962-67 despite a 5.3% increase in GNP.

FY 1970 PROGRAM

The proposed FY 1970 program consists of \$900,000 in Technical Assistance primarily for public safety, housing, education, and family planning.

Public Safety

For seven years, the "Armed Forces of National Liberation", trained and financed by Cuba, have been engaging in terrorist activities in Venezuela. Since 1962, an A.I.D. public safety program has helped establish a unified command among police agencies, set up a

modern national police records system, purchased modern equipment and trained some 14,000 Venezuelans in methods of maintaining civil order. The improved capabilities of Venezuelan internal security forces have curbed but have not eliminated persistent terrorist activities. In FY 1970, A.I.D. plans to provide \$281,000 for advisors to law enforcement agencies and for the training of Venezuelan police officers in the United States.

Housing.

The Venezuelan Government, helped by A.I.D. loans has constructed 83,600 low-cost dwelling units. This program is supplemented by A.I.D. guaranties which are expected to cover U.S. housing investments of \$40 million by the end of FY 1969 and by a savings and loan system, established with an A.I.D. loan which is now used by 66,000 depositors having \$62 million in savings. In FY 1970, A.I.D. expects to continue the guaranty program and provide \$40,000 in Technical Assistance to provide a U.S. advisor and train Venezuelans on problems related to the guaranty and savings and loan program.

Education.

In FY 1969, the Venezuelan Government is distributing over 2,000,000 free elementary school textbooks, three-fourths of which were developed by A.I.D. consultants. Other consultants are developing Venezuela's first college-level curriculum designed to train secondary school teachers in industrial, commercial and agricultural skills and home economics. A.I.D. plans to provide \$300,000 in Technical Assistance in FY 1970, primarily to continue services of these consultants in vocational and secondary education.

Family Planning.

In FY 1970, A.I.D. plans to provide \$137,000 to sponsor demographic studies and family planning programs in conjunction with local groups.

EASTERN CARIBBEAN REGIONAL

PROGRAM SUMMARY (In millions of dollars)				
	FY 1967 Actual	FY 1968 Actual	FY 1969 Estimated	FY 1970 Proposed
Development Loans	-	-	-	6.0
Technical Assistance . . .	-	0.05	0.05	0.1
Total A.I.D. Assistance	-	0.05	0.05	6.1

The Eastern Caribbean encompasses Barbados, which became independent in 1966, and the English-speaking Windward and Leeward Islands. A.I.D. does not have, nor does it foresee, any bilateral programs in this area. However, the United States strongly favors the regional cooperation required for the economic viability of the islands of the Eastern Caribbean. Our role is small relative to other donors such as the United Kingdom, Canada and the United Nations, whom we encourage to increase their assistance programs.

Early in 1968, the Governments of the area established a Regional Development Agency and employed a Secretariat as first steps toward coordinated regional development planning. During FY 1969, A.I.D., through a Census Bureau PASA, is helping the Regional Development Agency to improve the collection of data on tourism and external trade, to initiate household sample surveys of population and manpower, and to train local personnel in statistics and survey techniques. The first phase of an A.I.D.-financed tourism planning study is nearing completion. Follow-on technical assistance activities in FY 1970 will also be centered upon tourism, which is the principal expected source of economic growth in this area. A.I.D. investment guaranties covering investments in tourism are in effect and applications have been received.

With United Nations Development Program (UNDP) assistance, the English-speaking areas of the Caribbean are expected to organize a Caribbean Development Bank in 1969. The members of the Bank will be the eight islands of the Eastern Caribbean, Trinidad and Tobago, Guyana, and possibly Jamaica and the Bahamas, plus Canada and the United Kingdom. The Bank will be capitalized at about \$50 million, with the countries of the area providing 60% of the capital and the United Kingdom and Canada together providing 40%.

In FY 1970, the United States proposes to lend the Bank approximately \$6 million to provide additional funding. While the United States will not have an equity participation in the Bank this loan will provide the United States with an opportunity to advise on policies and operations of the key financial institution in the area. Additional subsequent loans over several years are expected, again paralleling U.K. and Canadian participation, for a total U.S. assistance of about \$15 million.

PROPOSED FY 1970 PROGRAM

(Thousands of Dollars)

Country	Type of Assistance			
	Total	Alliance for Progress		Supporting Assistance
		Development Loans	Technical Assistance	
<u>LATIN AMERICA</u>				
<u>TOTAL.</u>	<u>\$605,465</u>	<u>\$482,665</u>	<u>\$121,000</u>	<u>\$1,800</u>
Contributions to Inter-American Organizations.	15,100	--	15,100	--
Regional Programs.	49,606	25,000	24,606	--
Argentina.	400	--	400	--
Bolivia.	15,300	11,400	3,900	--
Brazil	187,000	174,000	13,000	--
CENTRAL AMERICAN ECONOMIC COMMUNITY:				
Regional Office of Central America and Panama (ROCAP)	13,716	10,000	3,716	--
Costa Rica	5,015	3,500	1,515	--
El Salvador.	10,474	8,000	2,474	--
Guatemala.	18,100	15,000	3,100	--
Honduras	9,450	7,000	2,450	--
Nicaragua.	6,693	5,000	1,693	--
Chile.	77,633	75,000	2,633	--
Colombia	94,721	91,000	3,721	--
Dominican Republic	21,267	16,000	4,967	300
Ecuador.	8,328	5,200	3,128	--
Guyana	7,700	6,400	1,300	--
Haiti.	1,500	--	--	1,500
Jamaica.	535	--	535	--
Panama	16,625	13,000	3,625	--
Paraguay	6,350	4,000	2,350	--
Peru	3,500	--	3,500	--
Uruguay.	9,200	7,000	2,200	--
Venezuela.	887	--	887	--
East Caribbean Regional Programs.	6,100	6,000	100	--
Program Support, Inter-regional Activities, Research & Sec.211(d)	20,265	165	20,100	--

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