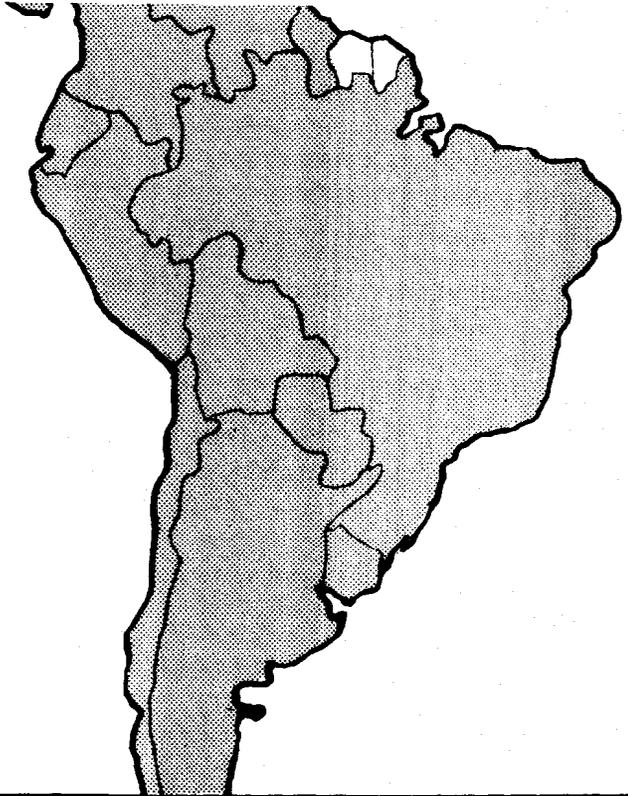
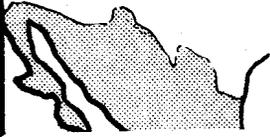


FY 1969



BEST AVAILABLE

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

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) 1969.

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 Freedom 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 1968 are actual commitments. FY 1968 figures are estimates made at the time this volume went to press in February 1968. FY 1969 figures are illustrative proposed programs based on the FY 1969 appropriation request and anticipated carryovers, receipts and recoveries.

Countries in Latin America where AID proposes programs for FY 1969 are shaded on the cover map.

U.S. FOREIGN AID AND THE ALLIANCE FOR PROGRESS

". . .if our rhetoric is not followed by action, we we shall fail not only the Americans of this generation, but hundreds of millions to come. . .I speak to you as a ready partner in that effort. I represent a nation committed by history, by national interest and by simple friendship to the cause of progress in Latin America. . ."

President Lyndon B. Johnson to the
Presidents of the American Republics
at Punta del Este, April 13, 1967

THE ALLIANCE TO DATE--

Accomplishments and Remaining Problems

Historians of the future will divide the Alliance into three main phases.

First was the organization and mobilization phase. The countries of the hemisphere had to agree on the nature of their problems and how the goals of the Alliance would be expressed in concrete actions. They had to mobilize their resources--in money, manpower and will--and, at the same time, deal with serious distortions which impeded economic and social growth: chronic hyperinflation, heavy debt burdens, balance-of-payments difficulties, and political opposition of established power groups who opposed change and reform as a threat to their interests. These problems are still with us to one degree or another, but Latin America now has a much better understanding of the measures necessary to attack them, and, in most instances, the problems now seem manageable.

Phase II of the Alliance began with the April 1967 Summit meeting of the Presidents of America in Punta del Este. This is the phase in which economic development begins to be equaled by intensity of effort in social and political development: reform and modernization of basic institutions. The Alliance in this period will move to achieve the newly-focused goals with specific programs for the modernization of rural life and agriculture, improvement in the substance of educational training, and the more effective utilization of science and technology. In Phase II, the ordinary man will begin to see, from his own experience, that the Alliance does give clear promise of making his own life and those of his children more assured of the benefits of modernization. Finally, in Phase II the essential preconditions will be met for the final phase--economic integration.

At Punta del Este in April 1967, the Presidents set a timetable for this Phase III, the integration of the market economies of the developing countries of the Western Hemisphere. The expectation is that of a fully-integrated Latin America (plus an English-speaking Caribbean America), which will bring the developing countries to the stage where concessional U.S. capital assistance will no longer be necessary to maintain the course of economic development and stability. Beyond that, the great issues of social justice and political democracy will be well on their way to solutions compatible with the national wills of the peoples of the countries themselves. Finally, in Phase III, the American states to the south of the United States, through their new unity and success, will have achieved an equal footing with the United States and other world units, thus reducing greatly a major socio-psychological problem in our neighbor relations in the Home Hemisphere: the overwhelming preponderance of the United States.

The first phase of the Alliance for Progress has drawn to a close on a note of rededication to the principles and objectives of the Charter of Punta del Este. It has closed, also, with a recognition that while progress over the past six years has been substantial, the next five or six years must see greater and faster progress, particularly in agriculture, education, science and economic integration.

Overall Economic Growth

During the past four years (1964-1967) per capita gross national product in Latin America has grown by an average of 2.2% per year. This compares favorably with a less than 1% average per capita growth for the first two years of the Alliance (1962-1963)--but it is still below the original target of 2.5% set at Punta del Este.

During 1967, it is estimated that Latin America's per capita GNP rose 1.9%--an increase from the 1.3% rise registered in 1966.

The critical interplay between population and income growth is reflected in the per capita GNP levels. With population growing at an average rate close to 3% the regional GNP must grow by 5½% to meet the original Alliance goal. The very creditable 30% increase in total GNP for the region since 1961 has produced a relatively modest growth rate; per capita growth would have met the Alliance target if the increase in population could have been held to 2% per year.

The regional average covers a variety of individual country trends for 1967. Four republics met or exceeded the target per capita growth rate: Panama with 6.1%; Bolivia, 3.8%; Mexico, 3.5%; and Ecuador, 2.5%. Three major countries--Brazil, Argentina, and Venezuela--improved over last year's performance. Reflecting a recovery in agricultural production, the 1967 Brazilian GNP rose by more than 5% for the first time since 1962. Conversely, the economies of the five Central American Common

Market countries slowed in 1967 after five years of highly satisfactory growth rates averaging 6% a year.

Gross Investment

Latin Republics in 1967 increased by \$1.2 billion their gross investment in the Alliance for Progress. This raised their annual level to \$18 billion, or 18% of their GNP. Cumulative investment from 1961-1967 was \$115 billion. At least 88 percent was financed by the Latin countries themselves. External financing and private foreign investment, including U.S. assistance, account for the remaining 12%.

From 1961 to 1967 the United States Government committed a total of \$7.9 billion, thus averaging more than \$1 billion a year. The inputs were through A.I.D. (\$3.6 billion), P. L. 480 (\$1.1 billion), EX-IM Bank (\$1.5 billion), and other programs, principally the Inter-American Development Bank (IDB) Social Progress Trust Fund and U.S. contributions to the IDB's Fund for Special Operations (\$1.7 billion).

Other sources of external financing for Latin America totaled about \$6 billion. This includes funds from the international agencies (exclusive of the Special Operations Fund), net foreign private investment, and aid from other developed countries, principally the member countries of the Development Assistance Committee.

Trade And Development

During 1967 export earnings by the Latin American countries failed to register any increase for the first time since 1961. This follows a slow-down in world trade, which is estimated to have increased only 3% in 1967--a decline from the 9.5% rate of growth in 1966. For Latin America, regional increases in exports have fluctuated from a high of 7.3% in 1964 to a low of minus 1.0% in 1967, yielding an average annual increase from 1961 to 1966 of 6.4%.

The lack of increase in Latin American exports in 1967 is due in large measure to declining prices of some major Latin American export commodities, and to adverse weather conditions which have limited growth in production of other commodities. A 7% decline in the price of coffee--a product which constitutes roughly 15% of the export value for the region--has cost the region export earnings amounting to over \$100 million. This has adversely affected both the growth rates and international reserve positions of Brazil, Colombia and Central America. Moreover, while cotton prices improved, drought conditions in Mexico caused substantial losses in export earnings.

There is some evidence that regional capital inflows, including the Alliance for Progress, may have enabled imports to continue at an acceptable level. Nevertheless, the stagnation of exports poses a serious obstacle to future growth and development prospects in Latin America. Some improvement is expected in

1968, but so long as the region is so heavily dependent on world price trends of a small group of export commodities, Latin American exports will remain vulnerable, and economies will be subject to fluctuations in exchange earnings which will lead to periodic trade and exchange restrictions detrimental to growth. The urgency becomes starkly apparent for programs to help diversify further the production and export of agricultural and industrial goods, and further, to facilitate economic integration to develop and expand markets.

Inflation and Stabilization

By the end of 1967, those Latin American countries plagued by inflation were according top priority to some form of stabilization program. The results of these efforts have been praiseworthy. In Chile the rate of price increase has been reduced from 39% in 1964 to 22% in 1967 as a result of monetary and fiscal reforms. In Brazil, where prices were increasing at an annual rate of 140% just prior to the 1964 revolution, the rise in cost of living was held to 25% in 1967. Efforts are continuing to eliminate Brazil's federal budget deficit, and to maintain non-inflationary credit and wage policies and a realistic exchange rate. In Colombia, where inflation reached 14-15% in the 1965-1966 period, the cost of living increase in 1967 was on the order of 7%. Uruguay is just now entering a belt-tightening stabilization program which seeks to reduce inflation from the recent annual rate of about 130% to about 50% during 1968.

Ahead lies the task of maintaining control over inflation, and at the same time, bringing about the needed growth and structural change that will prevent its resumption in the future. The ultimate success of these efforts will depend, not only on continued self-help, but on sufficient amounts of external assistance.

Tax Reform

Latin governments themselves must raise a large share of the funds to finance the services and facilities that more advanced economies require. This can sometimes be done partly through reducing non-essential expenditure. For the most part, however, revenues have to be raised by revising and increasing taxation and by improving collections through an overhaul of tax administrations.

Progress in this area, particularly in raising tax revenues, has been good. From 1961 through 1966, central government domestic revenues of 17 Latin American countries rose 37% in real terms. Domestic revenue gains in 6 countries reached 50% from 1961 through 1966, while 8 others had increases of 26% or more. Over the same period, current expenditures as a whole grew only 1% in real terms.

For Latin America as a whole, indications are that increased revenues already have contributed to development. Annual

central government capital outlay increased from 1961 to 1966 by about 29% for the region as a whole, and by 37% excluding Argentina. From 1963 to 1966, central government expenditure on agriculture increased 33%, and on education 31%. All these trends mark a steady improvement in the allocation of growing public resources.

The largest external contribution to tax administration reform in Latin America comes from the A.I.D.-sponsored Internal Revenue Service (IRS) programs. As of this date, there are 60 IRS specialists working on teams in 16 countries, including a regional group for the Central American Republics. By the end of FY 1968, about \$8 million will have been invested in this effort.

Chile's progress illustrates what better tax administration can do. Legislation, surveys, improvement of administrative procedures and a number of other new measures have meant greatly improved collections of new and delinquent taxes. Tax collections rose in real terms from the equivalent of \$500 million in 1961 to \$780 million in 1966--a 56% increase. A property tax survey, and follow-up adjustment in taxes, resulted in a 57% increase in urban assessments and a 145% increase in rural assessments. Reorganization of Chile's tax agency has helped boost the collections of delinquent taxes 88% from 1965 to 1966, and reduce the collection time on delinquent taxes from as much as three years to an average of 66 days.

Further Action Necessary

All these measures are important manifestations of the underlying structural change going on in Latin America.

Measures to increase taxation and curtail chronic inflation may sound far removed from the battlefield of social progress. Yet, too often in the past the demand for new programs and social services to benefit the great mass of Latin Americans have been resisted by the entrenched power groups when faced with increased taxes.

Thus, on occasion, governments have resorted to inflationary financing to support these programs. The cruel irony is that the resulting inflation hits hardest at the lower socio-economic levels. Conversely, when tax revenues are increased progressively to support larger programs in such areas, the benefits as well as the responsibilities of development become more equitably distributed.

The accelerated pace of change and development in Latin America, while of real benefit to more and more people each year, is not yet enough to set off a chain reaction of self-sustaining growth in most countries. Economic growth has been too slow to provide new jobs as fast as people enter the labor market. Unemployment promises to be more formidable in the future, as the 47% of Latin Americans now under the age of 15 begin to look for work.

The migration from rural areas to the cities, adding to the normal growth of population, is swamping urban abilities to provide housing, schools, health facilities, transportation and, above all, jobs. Techniques adequate to deal with the problems posed by the high rate of urban growth remain to be devised.

PROGRESS AND PROBLEMS IN KEY SECTORS

Agriculture and Rural Development

Over half the population of Latin America derives its livelihood from agriculture, yet agricultural production has been growing at only about 3% annually--barely enough to keep up with population growth. Latin America is a major exporter of agricultural commodities, yet food imports from outside the region have grown to a level of about \$600 million per year. This seeming paradox reflects the following complex of factors:

- Strong emphasis on agricultural export earnings;
- Rapid urbanization of the growing population;
- Increasing incomes; and
- Marketing, pricing, agricultural policy arrangements and institutional obstacles unfavorable to investment in the agricultural sector.

To put it briefly, the domestic demand for food is growing rapidly, but the production and market availability of food is not. In many cases, food prices have been kept low relative to the costs of production. As a result, many farmers have been reluctant to invest in the available technology and equipment which would greatly increase their food production. Other disincentives to higher production are insufficient agricultural credit, inefficient marketing systems with high spoilage losses, and lack of transportation between the producing and marketing centers.

A.I.D. lending in the agricultural sector is being focused sharply on these problems. Aside from loan requirements to improve the economic climate for the farmer, A.I.D. has worked toward providing incentives for increased food production. Policy changes to remove import duties and effect other changes in imported agricultural inputs are now being implemented. The use of fertilizers, insecticides and improved seed varieties is growing. Marketing and distribution improvements, as well as more rational agricultural pricing systems are being introduced in the borrowing countries.

Genuine agricultural modernization requires land reform, as well as vastly expanded programs to extend vital education and health services and to increase agro-industrial employment opportunities in the rural areas. Land reform legislation has been enacted in 16 countries since the start of the Alliance, with widely varying degrees of quality in implementation. Nevertheless, it is

estimated that in the past seven years, approximately 100,000 families per year (some 3,000,000 people) have received titles or have been settled or resettled in colonization programs. Comprehensive and fundamental land reform has been undertaken by Mexico, Bolivia and Venezuela. Major programs in land reform are in the early stages of implementation in Chile, Colombia and Peru.

Education

Educational modernization in Latin America is hampered both by lack of resources and by outdated curricula. Only one-fifth of those children who enter the first grade complete the sixth, and the subsequent loss through "dropouts" is almost as great.

During the first years of the Alliance, there has been concentration on meeting some of the most critical quantitative shortages in classrooms and teachers. As a result, 186,000 additional classrooms have been built and 800,000 new teachers trained since 1960; and the number of school graduates has doubled in more than half the Alliance countries.

Equally important beginnings have been made in changing the outmoded content of the Latin American educational systems. Textbooks for school children are, for the first time, reaching rural schools in Central America. Comprehensive high schools are being planned or introduced experimentally in a few countries, and modern mathematics and sciences are being introduced in some schools. In the universities, ancient and outmoded methods and curricula are giving way to patterns of full-time professorships, a combination of instruction, research and extension, expanded libraries, and laboratory work related to classroom studies.

These are good beginnings, but the vast bulk of the job still remains to be done. Investment in education, now averaging about 2.5% of the total GNP, must rise to at least 4% of the GNP if education programs are to catch up with the needs in this century. The financial resources needed to provide the classrooms, textbooks and trained teachers are truly staggering in amount, and will call not only for higher levels of tax revenues, but increased levels of external assistance as well.

Health and Population

Environmental sanitation, medical facilities and nutrition programs have had varying degrees of success. Primarily with the financing made available through the Social Progress Trust Fund, Latin countries have programs under way to provide potable water to over 70% of the urban population. However, the original Alliance goal for the rural areas remains to be met. U.S.-assisted malaria programs have helped stop locally-transmitted malaria in areas with a population of 11.5 million people, and active programs are under way to provide protection to an additional 46.8 million people living in malarious areas. In the first four years of the Alliance, reported cases of smallpox were reduced to one-third. Twenty-three new medical schools have opened in Latin America since 1960, and the number of

physicians has increased by 23%. Nevertheless a serious imbalance remains in the availability of professional medical personnel between urban and rural areas.

Better health is aided by accelerated food distribution, education, and dietary programs, and by the innovative projects launched in several countries to enhance the protein content of traditional foods.

Family planning in Latin America is progressing from the study and research phase into the action program stage. A.I.D.-supported programs, initiated three years ago, were designed to develop an awareness of the population issue among government officials, educators, the clergy and other community leaders, and to stimulate inclusion of family planning as an integral element of improved child care and maternal health. Today, access to family planning information is a recognized right of the individual in a steadily growing number of countries.

In 15 countries, demographic considerations have been introduced into national development planning. Population units or centers have been established within government health programs in at least 5 countries. Six private research study centers have been organized. Some Latin American universities have revised their curricula to include some aspect of population dynamics and to emphasize the relationship of demography to various professional disciplines. Private family planning associations have been established in all countries except Bolivia and Nicaragua--focusing on training, motivation and demonstration clinical projects.

A.I.D. is now actively encouraging governments to accept responsibility for incorporating family planning into the clinical services offered through the official government structures. Only these public organizations have the ability to provide such services on a national scale and on a continuing basis. Several countries have indicated their interest in gradually integrating family planning services with other health services.

Popular Participation

Development, to be meaningful, must take account of a variety of factors other than strict economic growth. Unless incomes, educational and vocational opportunities are more equitably distributed and the people are more involved in the development process, the promise of progress becomes an empty gesture.

Alliance efforts to develop projects responsive to the mandate of Title IX of the Foreign Assistance Act are making significant headway. Primary attention has been given to those programs already under way which show promise for an integrated economic-social-political approach to the problems of development. Substantial efforts in support of cooperatives, community development and labor leadership training will be continued. In addition, programs in legal training (Brazil), local government reform (Dominican Republic), Indian integration (Guatemala) and

community leadership training (Loyola University) will be expanded as opportunities permit. These pilot programs will be carefully evaluated to determine their effectiveness and applicability elsewhere in the region.

THE ALLIANCE ENTERS A NEW PHASE WITH A NEW ACTION PROGRAM

The Presidents of the American Republics met at the home site of the Charter-signing, Punta del Este, Uruguay, in April 1967--six years after President Kennedy's address proposing an Alliance for Progress. They reviewed their individual country progress, and designed the means needed to deal with those problems commonly held as most urgent. New assessments of the task were crystallized in the "Action Program". In this plan, the formation of a hemispheric common market was given prominence. Multinational infrastructure projects were emphasized to provide the physical base for regional economic integration. Finally, the bulk of the program was to accelerate progress in the priority sectors of agriculture, education and health by using all means possible, including the application of the latest advances in science and technology.

Action is beginning on each of these programs outlined by the Presidents--

"Latin America will create a
Common Market"

The Presidents envisaged creating a Latin American Common Market starting in 1970, which would be "substantially in operation" by 1985. It was expected that this would be a long and necessarily difficult task. But a good start has been made. The Central American Common Market (CACM) approved the membership of Panama, to link all countries in the region in a unified economic community. The Latin American Free Trade Association (LAFTA) and the CACM have met to begin the process of merging the two organizations, eventually to form a group embracing all of Latin America. A new six member sub-regional trading group consisting of Chile, Peru, Ecuador, Bolivia, Colombia and Venezuela has been established. This sub-regional group is an important step in the transition to the ultimate Latin American Common Market. Nevertheless, very painful decisions remain to be made by the Latin American countries. The United States cannot make these decisions, but it can provide the support which will ease the process.

"We will lay the physical foundations
for Latin American economic integration
through multinational projects."

A concomitant of economic integration is the development of a multinational infrastructure to serve as a base for expanded markets. Efficient telecommunications systems and inter-connecting power systems are necessary. Nations jointly must develop

international watersheds of frontier regions, and make better use of waterways serving, in some cases, as little more than boundary-lines at present. Argentina, Brazil, and Paraguay are jointly developing power facilities on the river which divides them, and roads connecting Bolivia with Peru and Argentina are being constructed.

Much of this multinational action will be through sponsorship of the Inter-American Development Bank (IDB). Pledges of an additional \$1.2 billion have been made to the IDB allowing substantial increases in its funding of such multinational projects over the next three years.

Multinational projects financed by the IDB include integration highways connecting roads in Argentina with roads in Chile and Bolivia, loans to the Central American Bank for Economic Integration (CABEI) for regional transport and industry projects (the Bank has also received A.I.D. support), and the first and second stages of the Acaray power project which will provide electricity to Argentina, Brazil and Paraguay where the project is located. In addition, the IDB has set up a program which extends export credits to promote intra-regional trade, and has established a Preinvestment Fund for Latin American Integration. The resources of the Fund are to be used to finance, through loans and grants, feasibility and pre-feasibility studies to develop multinational projects. The United States has made two contributions to the Fund.

"We will join in efforts to increase substantially Latin American foreign-trade earnings."

This is an area of great significance to Latin America, where all too often, nations are largely dependent for export earnings upon a single product, which, in turn, may be subject to serious price fluctuations in the world market. With the general trend showing lower prices for agricultural products exported by developing countries, plus higher prices for the finished goods they have to import, many Latin Americans are deeply concerned about their "terms of trade."

As directed by the Presidents last April, an Inter-American Export Promotion Center is being established through the Inter-American Committee for the Alliance for Progress (CIAP) to help diversify and expand export markets. An ad hoc committee of banana-producing countries is being convened to develop a joint approach to the European Economic Community (EEC) on eliminating the EEC trade restrictions on bananas. After years of difficult negotiation, agreement was reached in October among major cocoa producers and consumers towards international stabilization of cocoa prices.

World variations in coffee prices have created serious economic problems over the years, and the International Coffee Agreement has provided some much-needed stability since it went into effect in 1963. This agreement is being renegotiated to improve and

strengthen the provisions relating to surplus production controls and diversification into alternative crops.

"We will harness science and technology for the service of our people."

As a result of the "Summit," new multilateral programs to be supported by voluntary contributions of all the countries have been proposed and will be considered at the Inter-American Cultural Council Meeting scheduled in Venezuela for February 1968. These programs, which together total \$25 million, were formulated by two committees of experts on science and technology.

"Latin America will eliminate unnecessary military expenditures."

The above statement was signed by 19 American Chiefs of State in April 1967. Since that time A.I.D. has received new mandates in Section 620(s) of the Foreign Assistance Act and Section 119 of the Foreign Assistance Appropriation Act, designed to insure that aid-recipient countries do not divert their scarce resources for unnecessary military expenditures. A.I.D. is taking the steps necessary to implement these amendments and carry out the policy set forth by the Latin American presidents.

Latin America spent \$1,890 million on defense in 1967, an increase of 1.5% in real terms from 1966. However, with GNP growing at 4.9%, the economic burden of the region's defense expenditures declined from 2% of GNP in 1966, to 1.9% in 1967. The share of central government expenditures devoted to defense also declined to 12.4% in 1967, down from the 12.9% high for the Alliance period set in 1964.

The modest rise in the absolute level over the period reflects mostly increases in pay that inevitably accompany growth in per capita national income. The increases, therefore, are concentrated in the 90% or more of expenditure that goes to personnel, operating and maintenance costs, rather than in the 10% or less devoted to equipment purchase. Only about half the latter has been foreign exchange expenditure--approximately \$100 million a year, or less than 1% of the region's export earnings.

If we exclude security activities which are primarily civilian in nature (but which are included in "national defense" because they may revert to military administration in the event of war), we find that military expenditure in this narrower sense reaches only about 1.7% of GNP for the region. As a percent of central government expenditures, military outlays were 11.4% in 1967, down slightly from 11.6% in 1966.

Overall security force levels in Latin America do not appear excessive in view of internal security needs, especially in the more hard-pressed countries such as Bolivia, Colombia, Ecuador, Guatemala and Venezuela. Moreover, the high concentration of

expenditure on personnel moderates the real resource burden for underdeveloped countries with surplus supplies of unskilled labor, and permits the armed forces to serve a variety of useful non-military purposes. Manpower that might otherwise go unemployed can perform functions of value, such as literacy and vocational training and local public services in health and transportation, which are routinely performed by the armed forces in remote areas.

Nevertheless, it is known that many Latin American military organizations are facing a need to replace equipment which is obsolete or no longer maintainable. These replacement and modernization programs will inevitably involve increased allocations of local and foreign exchange resources over the next few years. During this period A.I.D. will be particularly alert to changes in the levels and composition of military expenditures in Latin American and their impact on economic and social development programs.

Agriculture, Education, and Health

"We will modernize the living conditions of our rural populations, raise agricultural productivity in general, and increase food production for the benefit of both Latin America and the rest of the world."

"We will vigorously promote education for development."

"We will expand programs for improving the health of the American peoples."

The above three sectoral objectives of the Presidents comprise 60% of the A.I.D. technical assistance and loan programs proposed under the Alliance during FY 1969.

FY 1969 PROGRAM

To help its Alliance partners work toward those goals, A.I.D. asks new obligational authority of \$625,165,000 for Alliance loans and grants, and \$22.5 million for Supporting Assistance, which, when anticipated recoveries, receipts and reimbursements are added, will finance a total program of \$707,665,000.

Alliance Loans

New appropriations of \$515,125,000 are requested for Alliance loans in FY 1969 to finance a program of \$567,125,000 of program, sector and project lending in 17 countries.

Approximately two-thirds of the proposed loan program is concentrated in Brazil, Chile and Colombia. It is in these countries where the response to A.I.D. self-help requirements has been most comprehensive. Their efforts have ranged from new monetary, fiscal and exchange policies to improved tax revenue performance,

trade liberalization, improved educational facilities and incentives to stimulate agricultural production.

Program loans totalling \$175 million are planned in Brazil, Chile and Colombia to continue the forward movement of past programs of economic stabilization, development and reform. The program loans enable the countries to import the U.S. goods necessary for the growth and expansion of their economies. Most of these goods are imported by the private sector, by private businessmen who require raw materials or capital goods for expansion of their production. Program loans are released in tranches, after reviews of host-country performance in implementing the agreed self-help measures.

The program loan has been the primary instrument of U.S. support to the major self-help programs undertaken by Brazil, Chile and Colombia in the past three years. In all three countries, inflation has been reduced significantly, tax revenues and investment programs have increased, and export diversification programs have been mounted. All these measures have served to stimulate the resumption of growth in these countries.

In FY 1967 and 1968, A.I.D. introduced a new lending device--the sector loan--designed to focus U.S. assistance more sharply on the difficult problems in the critical sectors of agriculture, education and health. The purpose of the sector loan is to promote and support reforms in government policies and rapid increases in the investment programs to provide higher levels of facilities and services in these sectors. For example, a sector loan for tractors, fertilizer, pesticides and breeding stock is providing vital support for Chile's program for expanding production and agrarian reform. A.I.D. is proposing \$131 million for sector loans in 5 countries for FY 1969.

In addition, an amount of \$261 million is planned for project lending. In FY 1969, loans are proposed for projects in 15 countries. These projects range from a major road system in Bolivia to a national agricultural research program in Brazil. Continuing the emphasis of past years, A.I.D. project loans will support the creation and strengthening of intermediate credit institutions to provide financing on reasonable terms for agricultural, industrial and housing projects. A.I.D. now has \$442 million invested in such projects in Latin America. Experience with these institutions suggest they are effective instruments not only to promote development but also to mobilize local capital for investment. In addition, a loan of \$5 million is programmed for the Coffee Diversification Fund being established by the member countries of the International Coffee Agreement. U.S. support of this Fund was offered by President Johnson in his April 1967 speech to the American Presidents at Punta del Este.

A loan of \$6 million is also planned in FY 1969 for a soft-loan fund of the soon-to-be born Caribbean Development Bank. The organization of this Bank has been undertaken largely at the initiative of the English-speaking countries of the Caribbean

area, who will provide 60% of its capitalization. Canada and the United Kingdom will provide the other 40%.

A major project loan of \$25 million is also planned for the Central American Integration Fund. This Fund, administered by the Central American Bank for Economic Integration, is the major source of financing for regional infrastructure and multinational projects--roads, communications, and agricultural storage--which will bind the economies of Central America together.

Technical Assistance

New appropriations of \$110 million are requested to support an Alliance technical assistance program level of \$118 million in FY 1969. This compares with an actual level of \$95.1 million in FY 1967 and a level of \$86.5 million estimated for FY 1968.

The technical assistance program supports the following activities:

- \$18.4 million for A.I.D.'s interregional programs, primarily the War on Hunger and research;
- \$19.1 million contributions to Inter-American organizations; and
- \$80.5 million for technical advisors and training in 21 Latin American countries.

Two-thirds of the proposed increase in technical assistance funds is to support the new multinational programs in science and technology, education and export promotion which were organized as a result of the April 1967 Summit meetings, plus increased population programs and support for the A.I.D. interregional program.

In FY 1969 A.I.D. proposes \$19.1 million for contributions to Inter-American organizations. Continuing support will be given the OAS' Special Development Assistance Fund (\$4 million) and the Pan American Health Organization's Special Malaria Eradication Fund (\$1 million). In addition, new Inter-American programs will be started during FY 1969: the Inter-American program in science and technology (\$7.9 million) which will aid basic science and natural resources technology through research grants to universities' scientific and technical publications; and the Inter-American program in education (\$5.4 million) which will concentrate on advanced training of specialized educators, educational television, and the upgrading of Latin American educational curricula.

The major share of the Alliance technical assistance program, \$80.5 million or 68%, will finance technical experts and training programs for approximately 21 countries. Assistance in agriculture, education and health will account for approximately 63% of these country technical assistance programs. The remaining 37% is devoted to providing technical experts and training in the following fields:

Public Safety-- to assist 16 countries in the building of competent civil police organizations capable of efficient and humane action to preserve public order, and to protect the lives and property of citizens from arbitrary terrorism as well as common crime.

Tax Administration--to assist 16 countries (using IRS special teams) to improve collection procedures of new and delinquent taxes, and to prepare the legislation necessary for an effective and fair tax collection organization.

Labor--to assist 16 countries in developing a responsible free trade union structure. This assistance is made available primarily through the AFL-CIO American Institute for Free Labor Development (AIFLD). Labor in Latin America continues to receive an increasing share of Alliance technical assistance resources through formal and informal channels. Allocations of local currency counterpart funds generated under A.I.D. program loans have been used in Brazil for scholarships, and in Colombia for labor housing. A.I.D. mission directors have used Special Development Activity Authorities for small projects to aid local unions, such as school desks and a fishing boat for labor syndicates in Nicaragua, a chain-saw for a labor cooperative in Colombia, and help with equipment purchases for a Peruvian transportation union.

ECONOMIC ASSISTANCE TO LATIN AMERICA AND THE U.S. BALANCE OF PAYMENTS

A.I.D. loan disbursements could have a negative impact on the U.S. balance of payments if our aid leaked away from the recipient to the surplus countries in Europe; or more specifically, if U.S. aid merely substituted for dollars which would normally be spent for U.S. exports and which are thus freed to pay for imports from third countries.

In the case of Latin America, a careful study of all available data indicates that:

- In recent years Latin America has not been using U.S. assistance and other earnings in the United States to finance net purchases or to service debt in other industrialized countries. In fact, Latin America has had a balance of payments surplus with Europe and Japan and a deficit with the United States.
- In spite of an increase in its total foreign exchange reserves, Latin America's gold holdings have declined by \$430 million since 1961.
- Since the beginning of the Alliance for Progress, the U.S. share of the Latin American market has not declined, even when that market is defined to exclude imports financed by U.S. assistance.

MULTILATERALISM

The trend toward multilateralism, in both the definition and administration of economic assistance programs to Latin America, is well established. The major organism for such multilateral definition and evaluation of problems and needs is the Inter-American Committee on the Alliance for Progress (CIAP). CIAP conducts annual reviews of country development and self-help performance. The conclusions and recommendations of these reviews serve as a guide both to external lenders and to the countries implementing development programs. These conclusions and recommendations provide the criteria and standards which the Foreign Assistance Act requires as a guide to A.I.D. lending. In addition to CIAP, the U.S. participates in several consultative groups, generally led by either the World Bank or the Inter-American Development Bank (IDB). The IDB has organized a consultative group for Ecuador and the World Bank has organized consultative groups for Colombia and Peru.

The IDB--the "Bank of the Alliance"--not only administers a significant portion of assistance available to the Alliance countries, but also is a major force in the attraction of capital into the hemisphere from other areas of the world. Several DAC countries have made funds available to IDB, for relending to its member Latin American countries. In addition, the IDB has been permitted to float bond issues in these sponsoring countries. Recently, the IDB announced a new policy of restricting the amount of procurement in non-member countries to the level of their contribution to the IDB.

New multilateral organizations have been created in the past year. The Inter-American Export Promotion Center is expected to start functioning July 1, 1968; also two new sub-organizations of the OAS are expected to begin new multinational programs in science and technology and in education. All three of the latter programs were given vital impetus at the April 1967 Summit Meeting and constitute growing evidence of a genuine trend toward multilateral decision-making and administration of the Alliance for Progress.

CONTRIBUTIONS TO INTER-AMERICAN ORGANIZATIONS

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Technical Assistance	5.8	9.0	19.1

The "Summit" meeting of the American Chiefs of State held at Punta del Este last April gave new impetus to multilateralization of the Alliance for Progress. Meeting for the second time in history, the American Chiefs of State issued a blueprint for what President Johnson termed the second difficult and demanding phase of the Alliance for Progress.

The Declaration of the Presidents and their more detailed Action Plan forecast a wider role by Inter-American organizations to augment the self-help efforts of each country. A.I.D. proposes increased contributions to these multilateral programs in FY 1969 conditioned upon contributions from the Latin American governments.

Proposed U.S. support in FY 1969 to the major economic and social developmental goals outlined in the Action Plan are as follows:

Special Development Assistance Fund (SDAF) of the Organization of American States. A.I.D. will continue to assist Latin American nations in carrying out technical assistance and training activities projects and will continue to support many of the activities recommended by the Inter-American Committee for the Alliance for Progress (CIAP).

The SDAF is a continuing program, established in 1965 to replace the previous multilateral technical assistance program funded from the Inter-American Program for Social Progress. It also replaces certain bilateral fellowship grants provided by the United States. SDAF funds currently are used to support such activities as natural resources work, including hydrological studies underway for the River Plate watershed; and assistance for ten regional Latin American training centers such as public administration in Buenos Aires, urban studies in Lima, and rural development in Bogota.

The United States provides 66% of the SDAF funds and the Latin members 34%. The proposed A.I.D. voluntary pledge for FY 1969 is \$4.0 million, and will be made at the next Inter-American Economic and Social Council meeting. The pledge is lower than that of previous years because of new mechanisms to fund Summit programs in science and education and the creation of the new Inter-American Export Promotion Center. In addition, the Inter-American Aftosa Center presently funded from the SDAF will be incorporated into the PAHO regular budget in CY 1969.

Special Malaria Eradication Fund (SMF) of PAHO. A.I.D. will continue to support the efforts of the Special Malaria Eradication Fund of PAHO which is working for the total eradication of malaria from the Western Hemisphere. With the resources of this Fund, PAHO is able to provide the Latin American countries with the required technical assistance to assure the success of their malaria eradication effort. The U.S. proposed contribution in FY 1969 of \$1.0 million contrasts with a higher contribution of \$1.3 million in FY 1968. Future requirements for U.S. voluntary contributions to the SMF are to decrease as the program is progressively absorbed into the PAHO regular budget. In addition to the U.S. and PAHO regular budget fundings, PAHO receives funds from the World Health Organization (WHO) regular and technical assistance budgets. Latin American countries contribute indirectly to this program through budget support in each country for the local costs of this region-wide effort.

Inter-American Export Promotion Center. At a special meeting of the Inter-American Economic and Social Council (IA-ECOSOC) in

January 1968, a constitution and budget were adopted for the new Inter-American Export Promotion Center. The new center will promote Latin American "non-traditional" exports, particularly manufactures and semi-manufactures. It will assist, or help establish national export promotion centers in countries where none exist. Most of the information and services provided by this new Inter-American Center will be channeled through these national centers.

The U.S. pledge is to contribute up to \$500,000 in FY 1968 toward the first year's operation of this program, with the provision that this amount must be matched at the 66% U.S. - 34% L.A. ratio by the Latin American member governments. The same proviso will be attached to a \$500,000 contribution from FY 1969 funds to be pledged at the IA-ECOSOC meeting scheduled for the Spring of 1969.

Regional Scientific and Technological Development Program. At their "Summit" meeting in April 1967, the Presidents recognized the priority of the fields of education and science and technology in reaching Alliance targets for expansion and modernization. The U.S. has participated in the planning of multilateral programs in these fields through membership on the two committees responsible for formulation of the proposals. Final decision on the proposed programs is expected at the 5th meeting of the Inter-American Cultural Council in February 1968.

The proposed Regional Scientific and Technological Development Program includes multinational projects in the basic sciences, natural resources and technology including support for certain basic studies in selected fields. Assistance will be provided for institutional development, research grants, the interchange of scientists and technicians, fellowships and the improvement of science teaching.

The new Inter-American Educational Development Program will include multinational projects in such areas as educational research, experimentation and innovation; training of educator-administrators, planners and other professionals; educational television through a training center for Latin American educators and technicians; and organization of volunteer teacher and teacher-exchange programs.

Budgets for the two programs are expected to total \$25 million through FY 1969 with contributions under the standard 66% U.S. - 34% Latin American formula. The U.S. total proposed contribution will be \$16.5 million and the Latin American contribution will be \$8.5 million. This will require a U.S. contribution of \$3.2 million in FY 1968 and an FY 1969 contribution of \$13.3 million.

REGIONAL PROGRAMS

Regional projects in Latin America serve one or both objectives of: (1) high priority development which otherwise could not be effectively administered or financed; (2) introduction of new and innovative approaches to problems of development.

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	-	1.3 ^{a/}	5.0
Technical Assistance	8.9	8.1	10.7
Total A.I.D. Assistance	8.9	9.5	15.7

^{a/} Represents \$1,344 thousand in grants for population programs, under Title X of the Foreign Assistance Act.

Individual projects are directly linked to Alliance goals, but also serve more specific objectives within the fields of education, population, labor and private business. A special project this year will be to help establish a Coffee Diversification Fund under a proposed new article of the International Coffee Agreement. Smaller projects are also conducted in fields such as agriculture, natural resources, public administration and tax reform.

Regional education programs proposed for FY 1969 total \$3.2 million. Two major projects are to receive over 90% of this amount. One is a scholarship program providing for education in the United States of superior but needy Latin university students, who will return to positions within Latin faculties. The other is the A.I.D.-operated Regional Technical Aids Center (RTAC) in Mexico City.

The academic training project is administered by the Latin American Scholarship Program of American Universities (LASPAU) under A.I.D. contract. A.I.D. finances approximately 65% of the project costs, paying for English-language training and subsistence allowances for students, and administration expenses of LASPAU. U.S. and Latin institutions absorb the remaining 35% of the costs. To date, more than 100 U.S. universities have provided full tuition grants for over 300 Latin students in a variety of study fields. Another 210 students are expected to enter academic training in the fall of 1968.

RTAC arranges for the translation, publication and distribution of low-cost Spanish-language texts and educational films. More than 4 million technical publications have been distributed in Latin America since 1957; from school primers, to technical "how-to" manuals, to the most up-to-date medical textbooks. Demand is so great that publishers are realizing commercial sales as great as four to five times the RTAC purchases.

Population programs are to receive the second largest segment of regional project funding, with \$2.8 million planned for FY 1969 (up from \$1.3 million in FY 1968). Latin America's birth rate

exceeds that of any other region of the underdeveloped world. Understanding of the problem of population growth is growing in Latin America, due largely to the efforts of five A.I.D.-supported organizations: the Pan American Health Organization (PAHO); the Western Hemisphere Region, Inc. of the International Planned Parenthood Federation (IPPF); the Population Council; and the two Chile-based organizations, the Latin American Center for Demographic Studies (CELADE) and the Center for the Study of Population and the Family (CELAP). PAHO and IPPF's Latin American branches have action programs to strengthen the capabilities of institutions involved in family planning and population activities. The Population Council provides selected grants for research. The centers in Chile also provide demographic and other institutional studies, plus training for Latin technicians.

All five help provide the information and analyses necessary to secure the support of private and government leaders for family planning and population programs. Their work helped bring about a recommendation by Latin economists, public health and medical professionals that Latin governments actively support such programs. This recommendation was the result of a September meeting in Caracas called by the OAS and PAHO.

Labor development programs in FY 1969 are scheduled to receive \$2 million in regional funding. This will support the headquarters cost of the contracted American Institute for Free Labor Development (AIFLD), plus two AIFLD sponsored training programs. AIFLD headquarters provides the expertise and guidance for A.I.D. missions conducting labor development projects in 19 countries. The training programs include one for labor leaders at AIFLD headquarters in Front Royal, Va., and one for labor economists at Georgetown University in the District of Columbia. About 150 Latin American labor professionals are expected to be trained by these institutions during FY 1969.

Regional-funded programs encourage private sectors of both Latin America and the United States to become involved in Latin development. In FY 1969, A.I.D. proposes \$1.4 million in assistance to a new investment center in the United States, and a market integration program and cooperatives development effort in Latin America. An estimated \$20 million worth of investment opportunities in Latin America will be offered U.S. private investors when the new Inter-American Investment Development Center (IIDC) in New York City becomes fully operational in FY 1969.

A unique private sector project, National Market Integration Studies, is conducted under A.I.D. contract by Michigan State University (MSU). Experts identify the causes of high prices to consumers and low returns to farmers on basic food commodities. A.I.D. and host governments then use the studies in planning development loans which help alleviate inequities in the market structure. For example, such a study in Peru resulted in a \$5.5 million bi-lateral loan (matched by \$2.5 million from Peru) to reduce food prices by \$35 million annually in the Lima area. In Colombia, where the Government is funding half the cost of the

basic studies, a local university is providing quarters and local staff support for the project; and local, regional and national agencies are providing professionals who learn market study techniques while assisting the MSU experts.

Latin American cooperatives and credit unions have almost doubled in number and in memberships during the past seven years. This growth has been largely due to the A.I.D. contracted assistance of the Cooperative League of the U.S.A. (CLUSA), the Credit Union National Association (CUNA) and the National Rural Electric Cooperative Association (NRECA). By the end of 1967 more than 21,000 Latin American cooperatives with over 8 million members were in operation.

The regional program supports the regional offices of CUNA, CLUSA, and NRECA and the activities of the Organization of Cooperatives of America (OCA). The latter is a confederation of cooperatives for Latin America.

Like AIFLD in the labor field, the regional offices of these organizations provide technical assistance backstopping for A.I.D. missions' work in the cooperative field and help organize, operate and improve the institutional structure for the cooperative movement.

Other regional projects (\$1.3 million proposed in FY 1969) are in the fields of agriculture, natural resources, public administration and tax reform. A graduate-level training program of the Inter-American Institute for Agricultural Sciences at Turrialba, Costa Rica, is one of these. Other projects include several conducted by U.S. federal agencies under agreements with A.I.D. such as the natural resources development program of the Inter-American Geodetic Survey of the Corps of Engineers; a tax administration training program by the Internal Revenue Service, and a new tax policy development project by the Treasury Department.

Coffee Diversification Fund. An FY 1969 loan of \$5 million is proposed for the world-wide Coffee Diversification Fund being established under a new article of the International Coffee Agreement (ICA). President Johnson at Punte del Este pledged a U.S. loan of \$15 million to the Fund as soon as it becomes operative, and to lend up to \$15 million additional to match assistance provided by the ICA-member producing countries.

Latin America has a particular interest in the establishment of this Fund, as the region produces two-thirds of the world's coffee, and many Latin countries are dependent on this product as their largest single foreign exchange earner. Coffee ranks second only to petroleum in Latin America's export trade. Six countries depend on it for more than 40% of their export income: Colombia, 67%; Haiti, 54%; Salvador, 47%; Guatemala, 46%; Brazil, 45%; and Costa Rica, 42%.

The International Coffee Agreement has helped to stabilize coffee prices, but prices are still depressed as a result of continuing

over-production in a number of countries. Surplus coffee not salable under the Agreement represents a real waste of agricultural resources as well as a threat to price stability.

The new Diversification Fund proposes a cooperative attack on this problem of surplus production. Coffee producing countries will contribute to the Fund a minimum of 60 cents equivalent per bag of coffee exported. This should provide about \$150 million for diversification projects during the five years for which the Agreement is to be extended. The Fund is scheduled to be in operation in early 1969. It is expected that the World Bank (IBRD) will accept broad responsibility for administering the Fund.

PARTNERS OF THE ALLIANCE

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Technical Assistance	0.3	0.3	0.5
Partners of Alliance ^{a/}	-	0.3	-
Total A.I.D. Assistance	<u>0.3</u>	<u>0.6</u>	<u>0.5</u>

^{a/} Special appropriation authorized by Section 252(b) of the Foreign Assistance Act of 1967.

The Partners of the Alliance was started in March 1964, largely to bring the spirit of the Alliance to the doorstep of the "little man" in Latin America by involving U.S. private citizens in small development activities.

By the end of 1967, the Partners Office had been the catalyst in establishing 33 U.S. state committees working with an equal number of local committees in 14 Latin American countries. Projects are now broader in scope, providing services as well as needed commodities or financing. Since its establishment late in 1966, the National Association of Partners of the Alliance (NAPA) has been active in coordinating the U.S. state committees' work and is now involved in identifying opportunities for U.S. private investment in Latin America. Major areas of Partners' activities are agriculture, education, preventative medicine and public health, and private investment.

To date, about \$10 million of U.S. volunteer technical assistance, scholarships, equipment and medical supplies have been provided by state Partners' committees. The identification of investment opportunities has led to such works as the establishment of a new private development bank in British Honduras, supported jointly by the Michigan Partners Committee and supporters of the counterpart committee in British Honduras.

The National Association, incorporated as a non-profit, tax exempt corporation, gives additional stimulus to the development of financial support for Partners' activities. NAPA's tax exempt status is expected to stimulate increased private donations which, in turn, will reduce future requirements for A.I.D. support. The Association also is working to establish committees in six to eight more states and expand memberships of existing groups.

In FY 1969, the proposed regional program includes \$500,000 for the Partners program. Of this amount, NAPA will receive \$200,000 to finance one-half of its operating costs. The remaining \$300,000 will finance travel costs for state committee members and technical experts, who are unable to finance their own travel, to work with counterpart Latin committees in common development activities.

Country: BRAZIL.

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	197.9	170.0	200.0
Technical Assistance	15.9	13.0	14.6
Total A.I.D. Assistance	213.8	183.0	214.6

U.S. Aid Objectives

Brazil's size (about 1/2 the area and population of South America), its strategic position, and its economic potential all underscore that it can become one of the world's great powers. Its political and economic progress are crucial to orderly development in the hemisphere, and to overall success for the Alliance for Progress.

The United States has three major development objectives in Brazil, all closely related to the achievement of a modern economy and political structure characterized by relative stability and balanced growth. These three objectives are: (a) economic stabilization, (b) increased economic growth, including the alleviation of regional disparities, and (c) modernization in critical development sectors (especially agriculture and education) which will form the basis for a steady improvement in social justice and equitable income distribution.

Economic Stabilization. We are assisting Brazil's fight against inflation to consolidate gains made in the fiscal, monetary and budget areas. The Government hopes to contain the rise in the cost of living below 25% during 1968.

Increased Economic Growth. The Brazilian Government has set a goal of 6% annual rate of overall economic growth by 1970. Such a rate will just permit maintaining unemployment at present levels, plus some growth in education, health, transportation, water facilities and other services to keep pace with population growth. It will not allow cutting into the large backlog in each of these areas. Achievement of even this modest growth rate will require disciplined self-help and a continued large flow of external resources.

Modernization of critical sectors. We are encouraging the Brazilians to reform and broaden their antiquated education system, particularly at the secondary level; to modernize agriculture which still employs about half of the population but accounts for only about 28% of the net domestic product; and to strengthen inadequate public health and public administration programs.

The three objectives are interrelated. They form integral parts of a sustained development and reform program backed by the President and other key Brazilian leaders. The amount and type of assistance the United States channels to each purpose depends upon the determination of the Brazilians to move forward in each area.

Country Performance and Self-Help

Economic stabilization. The principal obstacle to more rapid growth in recent years has been the rampant but steadily declining inflation. From a peak annual rate of 140% in March 1964, price increases have been brought down to 45% in 1965, 41% in 1966 and 25% in 1967.

When the newly-elected Costa e Silva Government took office in March 1967, it first sought to boost lagging business activity by cutting or postponing taxes, permitting credit to expand, and providing a substantial increase in the internal support price of coffee. These measures produced a marked recovery in the business sector but also caused a rapid rise in the Government's budget deficit, the main traditional cause of inflation. The Government responded effectively with fiscal and credit measures. Stricter banking reserve requirements were imposed in December 1967 to curb credit expansion and the cruzeiro was devalued by about 18% early in 1968. These steps have reversed an earlier foreign exchange drain, and price performance was better in 1967 than at any time since the late 1950's.

The outlook for 1968-69 is guardedly optimistic, but much remains to be done. The Government must take further steps to limit expenditures, increase revenues, rationalize its instruments for budget control, curtail the level of indirect subsidies of various government-owned enterprises, limit the rate of credit expansion, maintain a realistic exchange rate to encourage export expansion, and make further progress toward a more diversified agriculture sector less dependent on coffee.

A.I.D. program loans--\$150 million in 1965, \$150 million in 1966, \$100 million in 1967, and the proposed program loans of \$75 million in 1968 and \$75 million in 1969, have been conditioned upon expenditure-reducing and revenue-increasing measures critical to increased price stability. The imports financed under the program loans have also exerted a downward pressure on prices.

Economic Growth: In 1963, when spiraling inflation began seriously to disrupt economic activity in Brazil, GNP growth dropped sharply from the 6% rate of the late 1950's to 1.6%. The resulting economic dislocations continued to dampen growth in 1964 and 1965. As the Government's economic programs began to take hold, Brazil's growth performance steadily improved to 3% in 1964-1965, and 4.4% in 1966--setting the stage for 1967--Brazil's best year since 1962.

In 1967, agricultural production increased over 7%, and the GNP growth rate is estimated at over 5%, better than for any other year since 1962. Despite rising protectionist pressures, the Government maintained liberalized import policies to encourage development.

The resumption of Brazil's economic growth has been assisted not only by A.I.D. Program Loans to finance needed imports, but also by the Government's strong efforts to increase and diversify its export earnings. In addition, A.I.D. has provided technical assistance to Brazilian planning and financial agencies, and has helped to finance major new projects in steel, power, transportation and health.

Fundamental to Brazil's continued growth is the reduction of income disparities, particularly through the modernization of the Northeast where almost one-third of the country's population constitutes the largest aggregation of poverty in the hemisphere. Recognizing the important relationship between national integration and Brazilian growth, the Government adopted a set of incentive laws to stimulate private investment in the Northeast through movement of capital and managerial skills from the south-central industrial triangle and from foreign sources. As a result, an industrial boom is developing with investment increasing from \$15 million in 1962 to an estimated \$130 million in 1967. The United States has assisted Northeast development by investing \$260 million since 1962 in infrastructure, education, and health institutions, and by providing badly needed technical assistance.

Modernization of the Critical Sectors. Brazil, like other less-developed nations, is characterized by the familiar problems of an inefficient public sector, a general shortage of trained manpower, a tradition-bound educational system wholly inadequate for the needs of a modern society, and a neglected and antiquated agriculture system. The lagging rural sector, in addition to retarding overall growth rates, skews investment toward capital-intensive industry, accelerates the population movement to the cities, and retards the development of a natural, large domestic market. The Brazilian Government's response to these weaknesses,

particularly in the education sector, has not been as encouraging as its response in the fiscal and monetary areas.

1. Agriculture--Brazil's vast agricultural potential has yet to be 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 net domestic product.

Agricultural investment has suffered from inflation, from high costs of agricultural inputs, and from price and export controls intended to assure cheap food for the urban population and cheap industrial raw materials. Increases in agricultural output have come largely 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.

Since 1964, the Brazilian Government has given increasing emphasis to agriculture through price support policies, liberalized export policies, fertilizer subsidies, expansion and improvement of credit facilities and the re-orientation of research, extension and teaching efforts to correspond more closely to immediate production problems. Additional improvements are being made in food marketing and production technology, and further incentives are being provided for farmers to use modern inputs such as fertilizers and improved seed. At the same time, substantial administrative reforms are being made in the Ministry of Agriculture to facilitate implementation of the new program.

A.I.D. has vigorously supported this program of agricultural modernization with \$129 million equivalent of local currencies generated by P.L. 480 and the program loans. Dollar loans have been made 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.

2. Education--The educational system constitutes perhaps the single most vigorous development obstacle facing Brazil. Almost 40% of all Brazilians over nine years of age are illiterate; only half the primary school entrants complete the second grade and only 20% complete the fourth grade. Only 10% of primary school entrants ever get to the secondary school system which is recognized as a key educational bottleneck in Brazil. The education situation at the university level is equally bleak. Only 185,000 students (less than 2% of the university-age population) are enrolled in institutions of higher learning.

The Government is aware of these problems, but neither the educational picture as a whole nor the relative amount of national resources allotted to education (less than 3% of GNP) has improved significantly in recent years. Those limited resources allocated to education are used mainly to keep the existing system in

operation. Nevertheless, the Costa e Silva Government intends to institute substantial improvements in education by supporting rapid expansion of elementary, secondary, and higher education facilities and initiating new efforts in the field of adult literacy and vocational training. A.I.D. has helped by constructing schools, producing and distributing textbooks, and by providing technical assistance in education planning, teacher training, vocational education, and adult literacy.

3. Health--Brazil's health situation is not encouraging. Preventable infectious diseases enervate and kill Brazilians, especially children, at rates consistently higher than those of many other Latin American countries. 85% of the population suffers from gastro-enteric diseases, and the death rate among children under five years due to these infections is nearly 100 times that in the United States. Furthermore, of the many problems created by Brazil's urban growth explosion of over 5% per year, one of the most serious is the acute shortage of safe water supply systems and the general lack of sewerage disposal systems.

The National Health Program is heavily weighted toward disease prevention rather than rehabilitation. The federal government is stimulating communities to take the initiative in solving health problems by streamlining relationships among federal, state and local health services. The Government recently founded a National Water Supply and Sewerage Loan Fund for community water supply and sewerage projects. With this revolving fund in operation, 70% of the urban population can expect sanitary water service by the early 1970's.

A.I.D. has assisted the Brazilian health program through loans and grants for locally-initiated sanitary water and sewerage facilities, for malaria eradication, and by providing technical assistance to the Water Supply Fund and in health program planning.

FY 1969 Program

The proposed FY 1969 A.I.D. program for Brazil totals \$214.6 million, of which \$200 million will be for Development Loans and \$14.6 million for Technical Assistance. In addition to a program loan of \$75 million, there are proposed \$60 million for sector loans in agriculture and education and \$65 million in project lending. P.L. 480 assistance will total approximately \$33 million under Title I, and \$56 million of foodstuffs will be donated for development work through Title II programs.

New loan authorizations approximating \$100 million are expected from the IBRD, plus over \$100 million from the Inter-American Development Bank (IDB). An estimated additional \$40 million should flow in loans from other non-U.S. sources. New lending activity by the Export-Import Bank may reach \$70 million annually. International Monetary Fund (IMF) standby agreements are expected both in FY 1968 and FY 1969.

Economic Stabilization. The stabilization program in 1968 and 1969 will be an extension of that carried on in 1967. The Government's eventual goal of an annual 10% inflation rate is very optimistic, but real progress was made during 1967 when the rate declined to 25%.

The FY 1968 program will support Brazilian stabilization measures which include: (1) sharply limiting the federal deficit, a réduction of about 70% in real terms from the 1967 deficit level; (2) limiting Central Bank financing of the deficit; (3) curtailing the level of indirect subsidies to various government-owned enterprises; (4) preparing a satisfactory plan for the systematic reduction in government operating costs; and (5) developing effective measures to tighten control of budget expenditures. The program will also include limiting domestic credit expansion, and further rationalizing the coffee policy.

The conditions of our FY 1968 assistance program are addressed to problems which will require sustained Brazilian attention for some years to come. Exact conditions to be negotiated for the FY 1969 Program Loan to a large degree will depend upon results obtained during the current fiscal year. However, the self-help actions alone will not create conditions of financial good health. As has been the case in past years substantial program loan assistance is needed (\$75 million in 1969) to support Brazilian Government efforts to take necessary but unpopular economic reform measures and to help finance imports of essential capital goods.

U.S. program loan agreements with Brazil have been carefully monitored. Reviews of Brazilian performance have assessed compliance with loan conditions prior to each disbursement. This practice will continue under the 1968 and 1969 program loans.

Accelerating Economic Growth. The 5% growth rate for 1967 shows an encouraging increase over the 4.4% rate of 1966, but further progress is imperative. The present government continues to encourage domestic and foreign private investment. Comprehensive capital markets legislation has been enacted aimed at marshalling private capital for industrial enterprises. Minerals and petrochemicals have been opened to private development, regulations governing the remittance of profits on foreign private capital have been liberalized to encourage capital inflow, and an Investment Guaranty Agreement with the United States is being implemented. Income tax incentives are stimulating private industrial investment in the long-depressed Northeast region.

The program loan will continue to finance imports from the United States for essential industrial investment. Much of the local currency generated by program loans will continue to be used to finance intermediate credit institutions, seven of which have already made approximately 7,000 loans to Brazilian business firms.

In addition to a program loan, capital project loans are contemplated in agriculture, education and industries such as chemicals, and for supporting infrastructure to expand power, transportation, port and telecommunications facilities.

Modernization of Critical Sectors. (a) Agriculture--The A.I.D. strategy in agriculture in 1969 will continue to be to help (1) to develop a base of technical competence; and (2) to create a better policy climate which will assure adequate investment resources to modernize production, marketing, and distribution systems.

A sector loan of \$30 million will provide major leverage for encouraging consolidation and extension of the agricultural modernization program in 1969, particularly to achieve greater local planning and self-help. Priority will go to agro-business groups which take the initiative to develop projects as part of a local development plan. Local currencies from the program loan and from P.L. 480 sales proceeds will continue to be used for agricultural credit.

Technical assistance will continue to several agricultural programs: (1) developing applied research and extension capacity for food, livestock (including fish) and feed crops production; (2) developing national credit systems and agricultural credit agencies; (3) developing a strong private seed industry, and seed and soil testing facilities; (4) providing technical help to four leading agricultural universities and (5) developing planning and marketing service capabilities.

(b) Education--Brazil's education needs are almost limitless, and A.I.D.'s resources are restricted. Therefore U.S. assistance is concentrating on improving over-all long-range planning within the system and supporting a major effort at the secondary level which is now the critical bottleneck.

Sector loans are planned in both FY 1968 (\$30 million) and FY 1969 (\$30 million) to expand and modernize secondary education in selected key states. Under the program, those states assisted must increase the percentage of their resources devoted to education and emphasize development of free comprehensive secondary schools.

Possible project loans in 1968 and 1969 are for graduate scholarships in science and technology (\$10 million) and assistance to a university reform fund (\$10 million).

FY 1969 technical assistance will continue to stress improvement of educational planning at all three levels: elementary, secondary, and higher, with continued emphasis being given to the secondary level. U.S. planning teams will work directly with the individual states to develop and implement the expanded secondary education system envisioned in the sector loan. Local currency generations will continue to be used for an adult literacy and large-scale textbook program.

(c) Health--In FY 1968, A.I.D. is negotiating a sector loan to strengthen the National Water Supply and Sewerage Loan Fund as the major institutional mechanism for extending water and sewerage services to states ready to share financial responsibilities. Other U.S. efforts in FY 1969 will involve primarily technical assistance, focusing on institutional development of a nationwide health service manned with competent personnel, plus selective loans to complement Brazilian programs in malaria and smallpox eradication.

Northeast. Industrial growth rates in the Northeast have recently exceeded those for Brazil as a whole, but there has been less progress in the social development, education, rural modernization, and health services.

The FY 1968 and 1969 U.S. programs will concentrate on agriculture and education. Projects will include efforts to support Northeast rural modernization, a pilot project of comprehensive primary school reform in the States of Bahia and Pernambuco, and a large-scale agricultural feeder road and marketing program. Meanwhile, implementation will go forward on a number of important projects in highway construction and maintenance, school improvement, and other activities funded in prior years.

Administration. The assistance program to Brazil outlined above will provide an important catalyst to the over-all investment level necessary in Brazil if stability, growth, and modernization are to proceed. While of the same general magnitude as the program of past years, it will be implemented with fewer A.I.D. long-term personnel and at a lower dollar administrative cost. This will be accomplished through a greater use of short-term advisors, shared payment arrangements with the Brazilian Government, and through increased training in the United States.

Country: CHILE

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	12.5	40.1 ^{a/}	80.0
Technical Assistance	3.0	2.6	3.0
Total A.I.D. Assistance	15.5	42.7	83.0

^{a/} Includes \$56 thousand in grants for population programs under Title X of the Foreign Assistance Act.

U.S. Aid Objectives

Chile is a country of major U.S. assistance emphasis because of its important political role in the Hemisphere, its considerable potential for development, and its serious commitment, under the

Frei Administration, to social and economic development as envisaged by the Charter of Punta del Este. This vigorous and comprehensive effort, carried out within the traditional Chilean framework of respect for constitutional democracy, has had considerable success since it was launched in 1964, although there have been some setbacks and much remains to be accomplished.

Political opposition to the Frei program remains intense and will increase as the elections of 1969 and 1970 draw near. In 1964 the Christian Democrats turned back a strong effort from the Socialists and Communists. The 1969-1970 elections will again offer the Chilean voter the simple Marxist alternative to democratic development under the Christian Democrats. In these contests the achievements and failures of the development effort will be among the central issues. The remainder of the Frei Government's term will put considerable emphasis on consolidating the gains of the first four years and reinforcing some of the weak spots in overall performance.

In translating the general U.S. interest into specific objectives for the aid program, the following major economic objectives have been given priority:

- Increased price stability accompanied by a higher economic growth rate. Chile has been the victim of endemic price inflation for almost a century. Amelioration of this cycle is critical to establishment of an adequate, self-sustaining rate of growth.
- Savings, investment and distribution of income. Increased levels of domestic savings, historically low in Chile, are essential to permit higher levels of investment needed for development. At the same time the social and political objectives of the Frei Government and the Alliance require that the relative share of income going to lower income groups be increased.
- Expansion and diversification of exports. Chile is heavily dependent on the export of a single commodity--copper. Development of other export sectors, especially agriculture, in which Chile has a natural advantage, will contribute to long run stability.
- Agricultural development. Once a substantial agricultural exporter, Chile has failed to modernize its agricultural sector with the result that the country is now a large net importer of agricultural products. A broad range of measures, including agrarian reform and increased incentives for producers, are required to capitalize effectively on this key economic resource.
- Increase and improvement in educational opportunities. Although relatively good by Latin American standards, the Chilean educational system is inadequate to the requirements of a rapidly developing society. The Frei Government has

initiated a thoroughgoing reform and expansion of the system.

Country Performance and Self-Help

Chile's performance in the economic and social spheres has been impressive during the past three years. The economy has benefitted from high copper prices and from substantial levels of foreign assistance. However, it has also been faced with determined internal political opposition and many institutional and bureaucratic rigidities not easily amenable to change.

Overall economic growth rates have increased. During the 10 year period 1956-1965 GNP growth averaged 4.5% per year and per capita GNP advanced about 2% annually. In 1966 the rate of growth reached 5.9% overall and 3.9% per capita. In 1967 the rate of growth slackened to 1.2% per capita.

Chile's high and chronic inflation has been decelerated, although to a lesser extent than was targeted at the outset of the Frei Administration. In 1964 the cost of living index rose 39% (comparing December 1964 with December 1963). In 1965 this was reduced to 26% and in 1966 to 17%. In 1967, however, some ground was lost as the price level rose about 22%.

In 1965 and 1966 Chile ran balance of payments surpluses which were used to reduce short-term foreign borrowing. High copper prices in these years contributed to the surpluses. In 1967, however, in spite of continuing favorable prices for copper, Chile ran a substantial balance of payments deficit.

Over the past several years, Chilean exchange rate policy has been improved and the overvaluation of the Chilean escudo lessened. Confronted with continued increases in domestic price levels the Chilean Government has adopted the policy of gradual and continued movements in the exchange rate thus devaluing the currency by more than the increase in internal prices. This policy has reduced uncertainty confronting exporters and at the same time gradually reestablished a more realistic relationship between Chilean prices and world prices. Nevertheless, the escudo remains significantly overvalued.

Tax receipts have risen sharply as a result of both administrative and substantive reforms. In 1965 and 1966 central government tax revenues (in constant prices) increased by 25% and 32% respectively. It is estimated that the rise in 1967 was on the order of 8%. In 1964 tax revenues, not including social security, counted for about 15% of GNP; by 1966 this share had risen to about 20%. This is one of the best tax collection performances in the Hemisphere.

Total public sector investment has increased significantly in real terms, rising by 23% in 1965 and 15% in 1966. The increase in 1967 will be on the order of 15%. Gradual improvement is

being made in the allocation of these increased public sector investments into more broadly productive areas, with the proportion for agriculture, industry, mining and education rising.

New agreements between the U.S. copper companies and the Chilean Government have been reached and an expansion program is under way that will nearly double Chilean output by the early 1970s. The agreements, which were reached after intense political debate in Chile, established new norms for the production, manufacture and marketing of copper as well as a new and stable tax rate for the copper companies.

Since 1964, real wages have registered significant increases (15% in 1965, and 13% in 1966) and within the public sector the pattern has been altered to provide maximum increases for the lower income groups. However, wages in general have exceeded government guidelines and out-paced productivity increases. Wage policy remains the critical area in the entire stabilization program.

During the 1964 election campaign, President Frei promised a housing program which would involve 360,000 new starts during his six year term. While substantial progress has been made, with approximately 90,000 units being started during 1965 and 1966, financial and monetary considerations have made it necessary to revise the original goal downward.

On balance the successes have considerably outweighed the shortcomings in Chile during the past several years. Nevertheless, with the Frei Administration only slightly past the half-way mark, success in achieving some of its major goals is far from assured. The revitalization of agriculture and reasonable price stability remain key objectives to which the Chilean Government must devote greater efforts.

FY 1969 Program

Proposed A.I.D. assistance for Chile in FY 1969 is \$83 million; \$80 million in Development Loans and \$3 million for Technical Assistance. In addition it is expected that approximately \$15.0 million in P.L. 480 dollar repayable loans will be made for U.S. agricultural products.

The central element of the FY 1969 program is a program loan to support the Chilean Government's stabilization and development effort. Closely related will be sector loans for agriculture and education to continue intensive efforts initiated in FY 1967 and FY 1968. Technical assistance will provide experts in support of the two large sector loans in education and agriculture. Additional technical assistance will be provided in labor, public safety, public administration and health.

Chile receives assistance from other sources. It is estimated that for projects in both the public and private sectors. Chile received loan disbursements from sources other than A.I.D. of

about \$171 million in 1967. These include the World Bank, the Inter-American Development Bank (IDB), the Export-Import Bank and various foreign governments and institutions. It is estimated that on credits already contracted, Chile will receive disbursements in 1968 of about \$204 million and in 1969 of about \$122 million. In addition Chile has received standby credits from the International Monetary Fund (IMF) to assist with short-term balance of payments problems.

Program Loan. As in past years, the proposed program loan of \$35 million is directed at the key stabilization and development objectives. The loan will relieve Chile's difficult balance of payments situation by providing imports from the United States. Program loans provide the core of outside resources needed by the Chilean Government to implement this ambitious program while at the same time carrying out reform and self-help measures designed to eliminate the need for concessionary external assistance within a reasonable period of time. They are conditioned each year on agreed policy measures and on performance targets for important variables in the area of fiscal, monetary and exchange rate policy. For FY 1969 it is expected that self-help criteria will concern the rate of inflation, government borrowing, public sector savings, the composition and level of public investment, the monetary program, exchange rate policy, export promotion and related factors.

Requirements for additional program loan assistance in FY 1968 and in FY 1969 depend on Chilean budgetary and balance of payments developments, which in turn are greatly affected by fluctuations in copper prices. The estimated requirement of \$35 million for FY 1969 is based on the likelihood of a decline in copper prices, with corresponding pressures on the Chilean budget and balance of payments.

With the intensification of the political struggle as the 1969 and 1970 elections approach, the Frei Government will need to accelerate social projects, such as housing and land reform, which will put added strain on the balance of payments and the government and may result in additional requests for assistance.

Agriculture Sector Loan. The \$20 million proposed for a sector loan for Chilean agriculture in FY 1969 is the second element of a program begun with the \$23 million sector loan in FY 1968 and planned to extend over several years. This sector lending program is designed to achieve a number of objectives including: increased agricultural investment; improved prices for farm products; accelerated agrarian reform; lower prices for farm inputs; and expansion and diversification of agricultural exports.

For nearly fifteen years the rate of increase in agricultural production in Chile has lagged behind the rate of population increase. The results are that Chile, once a major net exporter of agricultural products, has been forced to import increasing quantities of foodstuffs and other agricultural products while the volume of agricultural exports has remained almost stationary. In the period 1963-1965 the country imported agricultural products

at an annual average value of more than \$150 million, about 25% of annual imports. The Government has stated that it foresees the possibility of food imports rising above \$200 million annually by 1970.

While the factors that have led to stagnation in this potentially rich farming nation are complex, they involve mainly policies and institutional arrangements that have tended to discourage investment and production. Technical problems are secondary to other factors. Among the main causes of stagnation are: a policy designed to keep urban food prices low by means of price controls which has resulted in reduced income and profits for farmers and a low level of investment in agriculture; an exchange rate policy that overvalues the escudo, thereby encouraging imports of agricultural products and making Chile's products less competitive in world markets; fragmentation of governmental institutions responsible for agriculture; a system of land tenure which has concentrated the best agricultural lands in a few hands; and a high degree of monopoly in the system of supplying things farmers need, in marketing facilities and in short-term credit.

Progress in eliminating these problems and establishing a comprehensive agricultural program was spotty during the early years of the Frei Administration, despite awareness of the need to take decisive action. One problem has been the extreme difficulty of improving agricultural prices while carrying out a stabilization program that relies heavily on limiting consumer price increases. Another difficulty has been the time required to secure passage of the revised agrarian reform law. This controversial law was finally passed by the Chilean Congress in mid-1967. In addition to establishing a new and more effective constitutional basis for land reform, it provides for important reforms in agricultural institutions.

In 1967 the Chilean Government undertook a program for agricultural development for the period 1967-1971. The plan calls for an average aggregate annual growth rate for crops and live-stock of 5.8% through 1971. The Government is preparing production programs by region and product, an overall farm credit plan, an agrarian reform plan for the period 1967-1972, a general export development policy for farm products, a national marketing plan, and general guidelines for the sale of farm inputs. A program for the reorganization of agricultural institutions is in progress. The Chilean efforts will place great emphasis on an accelerated land reform program since this has major social and political ramifications in Chile in addition to its key economic importance.

The FY 1968 agriculture sector loan contains a series of mutually agreed self-help conditions based on the Government's agricultural plans. Major emphasis for 1968 is on measures to increase incentives for agricultural producers by improving prices for agricultural output and reducing costs of agricultural inputs. Performance on these and other commitments are geared to periodic sector reviews and releases of funds. The loan will finance the

costs of imports of fertilizer, agricultural machinery, breeding cattle, seeds, pesticides and other agricultural requisites. Imports of agricultural inputs under the loan will be additional to the levels of such imports in prior years to assure a significant increase in total use of these items. Fertilizer and machinery prices will be substantially reduced.

As a condition to the loan the government agreed to increase the relative share of its own investment resources going to agriculture--thus, in 1967, agriculture's share of total public investment was 11% compared to 9.4% in 1966. The counterpart of the U.S. loan will provide an additional increment of investment in the sector.

Education Sector Loan. In FY 1969 A.I.D. will continue major emphasis on education that began with the \$10 million sector loan in FY 1967.

The Chilean educational system, though recognized as one of the best in Latin America, has not been an effective instrument for promoting economic and social development. It has been oriented towards producing university graduates from the upper classes. The quality of public primary and secondary education has been particularly deficient. Major problems were: outmoded curriculum and teaching methods, insufficient and poor quality teachers, lack of sufficient physical facilities and equipment, inaccessibility of schools in rural areas, and a rigid organizational structure which has deprived large segments of the population of educational opportunities.

The Frei Administration launched a comprehensive, two-fold, modernization plan including immediate measures aimed at substantial increases in primary and middle level enrollments, and longer-term measures, emphasizing changes in structure and improvement in quality.

The short run effort has rapidly improved educational opportunities. In 1965 some 175,000 new primary students were enrolled compared to a normal increase of about 40,000. In 1966 enrollment levels rose by 60,000. In 1966 a new seventh year was added to the six year primary school cycle and, in 1967, an eighth year was added.

Quality improvements were started at the primary and middle levels involving teacher upgrading, curriculum modernization and improvement of instructional materials. Education budgets have steadily increased in real terms since 1964, rising by 25% in 1965, 17% in 1966, and 15% in 1967.

The Chilean Ministry of Education prepared a five-year education plan covering the years 1966 to 1970 setting forth a program for permanent improvement. Restructuring of the primary and secondary systems will be complete by 1970 with the eight-year primary and four-year secondary system fully replacing the previous six-and-six structure. It is hoped that all primary school aged children will receive a minimum of six years of

general education by 1970, with this being increased to nine years by 1976. For secondary education, the aim is to increase the proportion of the 15 to 19 year age group in school from 28% in 1965 to 35% by 1970, and to 50% by 1976. By 1970 the aim is to have a thorough improvement in quality throughout the system, including a complete modernization of curriculum in basic and middle level education; a greatly expanded use of teaching materials and books; expansion of in-service teacher training; improvement of pre-service teacher preparation; and introduction of testing, guidance and evaluation systems. Concurrently with these substantive improvements, there are plans to stress regional and local participation in the system through reorganization of administration and financing.

The United States will continue support of education modernization effort in FY 1969 by providing a sector loan of \$10 million following up on a similar loan in FY 1967. This loan will be conditioned on continued provision of a high level of Chilean Government funds to the program and on a series of specific policy measures and performance targets to be agreed with the Chileans when the loan is negotiated. Releases of loan funds will be conditioned on periodic reviews of progress. We will provide technical assistance to support the education sector loan.

Other Sectors. Technical assistance projects will continue in other areas such as labor, small industry development, transportation planning, health and population. Development of the private industrial sector remains an important overall objective and lending of \$15 million is proposed for specific industrial projects.

Country: COLOMBIA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	100.0	75.1 ^{a/}	90.0
Technical Assistance	4.7	4.4	5.1
Total A.I.D. Assistance	104.7	79.4	95.1

a/ Includes \$70,000 in grants for population programs under Title X of the Foreign Assistance Act.

U.S. Objectives

U.S. aid objectives are to assist Colombia with: (1) overcoming the balance of payments constraint on growth by diversification

of agricultural and industrial exports, and improved monetary and fiscal policies, (2) diversifying and strengthening the agriculture sector, (3) modernizing the educational system, (4) mobilizing of public and private resources, through fiscal and institutional reforms, for programs which meet the growing pressures for a better standard of living.

The substantial A.I.D. program in Colombia reflects: (a) the commitment and growing ability of the Lleras government to mount a serious development effort; (b) the need to support a viable political alternative in preference to other less constructive approaches; and (c) the importance for the rest of the Hemisphere of demonstrating the effectiveness of Alliance principles in Colombia. The influence of Colombia's progressive leadership has been shown in its efforts in recent international meetings to help forge a workable agreement for coffee production control and diversification incentives and its role in fostering regional economic integration.

Country Performance and Self-Help

Economic Stabilization. The present government, through the application of sound monetary, exchange rate and fiscal reform policies, has made significant progress towards economic stabilization since the economic crisis of 1966 and is now moving to deal with longer term socio-economic problems. A.I.D., in coordination with the Consultative Group on Colombia (under World Bank leadership, it includes A.I.D. and other major Western sources of assistance) has directed its assistance primarily towards the overriding foreign exchange problem which has shackled economic growth.

A.I.D. assistance, mostly program lending, has supported Colombia's monetary and fiscal reforms required to overcome the root causes of Colombia's chronic balance of payments disequilibrium. With growing stabilization of the economy, fundamental and long overdue reforms for key sectors are now possible.

Since the November 1966 liquidity crisis, government economic policies have resulted in: (a) a flexible commodity exchange rate which has moved gradually from 13.50 pesos to the dollar in March of 1967 towards the fixed capital rate of 16.30 to one; (b) exceeding the International Monetary Fund (IMF) foreign exchange reserve target level -- net reserves increased by approximately \$78 million, although this still left the Central Bank in an overall negative reserve position; and (c) exceeding the IBRD commitment on current account cash surplus.

Capital outlay of the central government rose roughly 35% in 1966, (to \$209 million or 37% of the budget) and increased an estimated 44% in 1967. As development priorities became reflected in the budget, allocations to education and agriculture increased by almost 45% in 1967. This expansion of government investment was in large part the result of long overdue improvements in tax collections. The government initiated a withholding system for income taxes, imposed a new gasoline tax and closed numerous tax

loopholes. As a result, tax revenues in 1966 rose 52% over 1965 and increased an additional 17% in 1967. (However, Colombia's tax revenues still average slightly less than 10% of GNP -- too low to support a sustained development effort.)

The Colombian Government has taken steps to encourage expanded and diversified exports and some import liberalization. During 1967 the Government moved cautiously to liberalize imports.

Despite progress, major structural problems remain. Basic obstacles to development include: (1) inadequate foreign exchange resulting from overdependence on coffee production in a declining world market (coffee traditionally accounts for two-thirds of all export earnings); (2) food production which is barely keeping pace with population growth, and an agricultural sector which does not offer sufficient employment opportunities to the large rural population to slow migration to urban centers; (3) an education system which does not provide sufficient trained manpower to meet the needs of development; and (4) inadequate mobilization of local resources.

Exacerbating these problems is a 3.2% population growth rate. This growth rate, which doubles the population every 22 years, imposes severe strains on the economy just to maintain per capita GNP levels (since 1961 per capita growth has varied between zero and 2.8%; in 1967 it was a modest 1.4%). This growing, and increasingly urbanized, population accelerates demands for schools, housing, social services, and employment opportunities.

The fact that economic growth in recent years has brought only small improvement to the lower income strata of society demonstrates that economic growth alone will not be sufficient. It will require opportunities for employment and education within the country. The fiscal measures and investment programs associated with the proposed program loan are aimed at these kinds of structural reforms.

Colombian agriculture (except for coffee) has not effectively contributed to economic growth over the past 20 years. Total output has grown at about 3% per annum or approximately the same as the population increase. In addition to overdependence on coffee, Colombian agriculture is a classic case of a "dual economy" where relatively sophisticated large-scale commercial operations exist side by side with more numerous and traditional subsistence farms. The result is misallocation of income, and little incentive to modernize in response to changing conditions. Crop yields have been virtually stagnant since 1960, with production increases attributed almost exclusively to expanded acreage rather than improved techniques.

Pending the completion of a realistic agricultural development plan, the Colombians are focusing on existing projects addressed to problems already defined. For example, it has initiated a four-year plan (1967-1970) designed to increase production of eight

basic food items, including milk and meat. This effort will be reinforced by an Inter-American Development Bank (IDB) loan of \$10.7 million to the Colombian livestock bank as well as a major share of the local currency generated under A.I.D. program and Agricultural Sector loans.

In the area of rural development, Colombia has more than doubled its 1966 allocation to the Agrarian Reform Institute (INCORA) for agrarian reform and supervised agricultural credit activities. Through the latter program (which A.I.D. supported with two loans, \$10 million in 1963 and \$8.5 million in 1966), some 20,000 small farmers and cooperatives have received more than 30,000 subloans; the majority of participating farmers have tripled their income since the inception of the program five years ago.

Colombia's critical need for better education is demonstrated by the official estimate that more than one-third of those over the age of seven can neither write nor read simple instructions. In addition to the shortage of classrooms and adequately trained teachers, the dropout rate is extremely high. At the primary level (first five grades), the current attrition rate is 75%. Even this represents a considerable improvement over the 90% rate prevailing in 1953. The attrition among those going on to secondary school is only slightly less.

Using an extensive A.I.D./UNESCO study, the government has developed a plan for reform and modernization of its education system. A key element of the plan is establishment of 19 comprehensive high schools throughout the country. Colombia expects to receive an IBRD loan of \$14.0 million to help finance the first 10 such high schools. These schools will act as demonstration and training centers for improved teaching methods, curriculum and administration. The comprehensive high schools would also strengthen the vocational education training provided by private schools and the National Apprenticeship Service.

Colombia is building additional classrooms and giving priority to teaching and curriculum improvements. To meet immediate needs the Minister of Education has adopted an "Emergency Plan" to extend educational opportunity by shortening and intensifying instruction, establishing double sessions, and asking teachers to assume additional responsibilities without extra remuneration. His efforts to undertake the extensive reform and planning improvements needed have been complicated by split responsibility between national and local governments, inadequate financial resources, and lack of technical personnel.

FY 1969 Program

The proposed A.I.D. level of \$95.1 million is composed of a \$65 million program loan, \$15 million agricultural sector loan, \$10 million educational sector loan, and a Technical Assistance program of \$5.1 million. A P.L. 480, Title I agreement for up to \$13 million worth of wheat and tobacco is under consideration. This P.L. 480 assistance will be predicated upon agricultural

self-help measures. The FY 1969 program envisions increases in technical and financial assistance to the critical areas of agriculture, education and social infrastructure.

The proposed bilateral strategy will be carried out within the framework of the Consultative Group. Substantial assistance is expected in FY 1969 from other members of the Consultative Group.

Economic Stabilization. Colombian growth is dependent on the availability of a minimum level of imports. The proposed program loan of \$65 million for FY 1969, builds on the stabilization efforts of 1967 and is intended to provide a portion of the input crucial to Colombia's economic growth while strengthening structural reform measures.

By coordinating our assistance with multilateral efforts of the Consultative Group and the IMF, we are able to maximize reform influence multiply the mobilization of other resources and reinforce the effectiveness of individual inputs and sector strategy.

Colombia's improvement in planning and allocation of its resources has been facilitated by the procedures developed for the release of funds under program loans. The Colombian Government has committed itself to specific economic and social policy targets (with particular emphasis on fiscal, programming and private sector investment policies). The government has also coordinated the use of the pesos with other resources to support priority development projects. The availability of program loan generated pesos has afforded Colombia the incentive and resources to undertake development planning on a nation-wide scale.

Reforms sought under the program loan generally include self-help measures on: exchange rate flexibility, import liberalization, adequate incentives to achieve a 30% increase in minor exports, fiscal reforms aimed at increased revenues and improved budgeting of resources to support priority development needs and modernization of savings and credit institutions to increase private sector investments, particularly in the field of housing.

U.S. technical assistance projects in tax and customs administration projects will continue to emphasize improving administration and enforcement and achieving a rapid increase in public revenues.

Agriculture. The proposed FY 1969 loan would continue FY 1968 efforts to isolate those obstacles to improved agricultural performance where change can be fostered most effectively and quickly. The sector loan will:

- provide financing (in combination with the proposed program loan) for necessary agricultural investment goods such as fertilizers, machinery, insecticides, etc., from the United States to support and sustain Colombia's development program.
- allocate local currency generated by the loan for investment in priority agriculture projects (e.g., agrarian

reform, marketing, price stabilization and credit as well as production efforts aimed at diversification).

--encourage policy and institutional reforms needed to improve rural infrastructure (especially agrarian reform), accelerate programs which will attract sufficient new investment in commercial agriculture (agro-industries and marketing functions), induce changes in import procedures to assure an adequate and dependable flow of imports, distribute commodities to support necessary technical inputs and expand government support of social and economic programs for the small farmer.

Related to the \$15 million sector loan is the proposed P.L. 480 (dollar sales) agreement for up to \$14.5 million (including transportation). This agreement would provide local currency generation which would be programmed in coordination with the sector loan.

In support of the above loan financed activities, sizeable technical assistance will assist the Colombians to refine their agricultural sector plan and provide a broad range of substantive technical skills in order to rapidly implement the production and diversification goals.

Through an agreement with the United States Department of Agriculture a team of specialists will assist the Agricultural Ministry in refining the agricultural sector development plan and setting forth detailed projects for priority requirements in agriculture. Reinforcing this plan will be a regionally-funded A.I.D. project to identify and analyze barriers to efficient agricultural production and marketing in the Cali food-shed area. Local, national, and university officials as well as local private companies are involved in this project, which will also increase Colombia's institutional capability to analyze food-shed problems throughout the country.

A.I.D. will continue technical assistance to Colombia's Agricultural and Livestock Institute (ICA) in its effort to establish a nationwide system of agricultural education, extension, and research. The Inter-American Development Bank (IDB), UN Development Program (UNDP), and three private foundations are coordinating assistance to ICA. A.I.D.'s participation includes a project to expand and upgrade the agriculture and veterinary medicine faculties on three campuses of Colombia's National University through a contract with the University of Nebraska (acting as prime contractor for the Mid-America State Universities Association, to provide 32 full time university professors).

Education. The proposed \$10 million education sector loan would be used to support and encourage the preparation and implementation of concrete programs to modernize Colombia's education system. Pesos generated by the loan will be complemented by increased local financing and support for: (a) the National Comprehensive High School program and related efforts to modernize teaching

methods, curriculum and administration; (b) expansion of training of secondary school administrators, in conjunction with our technical assistance effort through a contract with the University of New Mexico; and (c) formulation of detailed regional programs. The dollar portion of the sector loan will be used in part to import U.S. instructional materials and equipment to support the revised curriculum efforts.

In addition, A.I.D. will render technical assistance to selected Colombian colleges of education with particular emphasis on improving curriculum and methodology in pre-service and in-service teacher training. A.I.D. assistance is being closely coordinated with UNESCO's plan for assisting teacher colleges. At the same time, the Peace Corps is redirecting its program of 85 Educational Volunteers to cooperate in this effort. Its program in secondary teacher training emphasizes new methods in teaching mathematics, science, and English.

Country: DOMINICAN REPUBLIC

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	17.1	15.3 ^{a/}	30.0
Technical Assistance	4.4	4.6	5.4
Supporting Assistance	25.0	16.1	20.0
Contingency Fund	7.2	-	-
Total A.I.D. Assistance	53.7	36.0	55.4

^{a/} Includes \$300 thousand in grants for population program under Title X of the Foreign Assistance Act.

U.S. Aid Objectives

The U.S. objective is to achieve sufficient progress toward resolution of urgent economic and social problems to contribute to the maintenance of constitutional stability in the Dominican Republic. A.I.D. help is needed to:

- Alleviate the chronic balance of payments problem by diversification and growth of exports, rationalization of sugar production (currently about 60% of Dominican exports), and implementation of fiscal and monetary policies to increase internal revenues and improve export incentives.
- Boost agricultural production to achieve self-sufficiency in staple food crops, and increase production of cash crops for export.

- Expand educational opportunities through broad-scale assistance aimed at secondary, higher and vocational education.
- Deal with mounting population pressures by an active family planning program.
- Build strong local institutions through a community development program, both at the rural and urban levels, to increase grass roots participation in the political system.

Over the long-run, our objective is to help lay the foundation for and stimulate sustained economic, social and political development, with broad exploitation of the ample agricultural and mineral resource base.

Country Performance and Self-Help

The Dominican Republic has made much progress since the bloody revolution of April 24, 1965. For the first time since the assassination of Trujillo in 1961, a Dominican government, constitutionally elected, has remained in office one full year and more. President Balaguer, who assumed office on July 1, 1966, is leading the country toward constitutional stability.

President Balaguer has pursued a policy of economic austerity to correct the fundamental disequilibrium which has characterized the Dominican economy since the early 1960s. The austerity policy has imposed new import controls, a tightening of credit to the private sector except for investment purposes, and a substantial reduction in public sector wages, employment, and non-personnel operating expenditures.

Some balance of payments and fiscal improvements have been achieved, but both the balance of payments and the budget remain major problems in 1968. With a continuation of rigorous import controls, no significant improvement in customs or total revenues can be expected. Lack of adequate tax revenues may produce a substantial reduction in the rate of public investment.

With the assistance of a \$40 million A.I.D. Supporting Assistance loan, President Balaguer has sustained a public investment program designed to stimulate economic recovery and reduce unemployment, estimated to be 22% of the labor force in the capital city, or about 36,000 persons. The program is aimed primarily at agriculture, but with substantial commitment as well to construction of schools, roads, and health facilities, rehabilitation or irrigation and potable water systems, and construction of a metallurgical complex.

A.I.D. Technical Assistance has supported the effectiveness of projects financed by the SA Loan. For example, A.I.D. agricultural technicians give training courses in the San Cristobal agricultural research station, established with the help of Supporting Assistance funds, and A.I.D. technicians are

building up the number and quality of high school teachers to staff newly constructed schools.

Significant progress has been made in the field of agriculture during the past three years. Through basic research and instruction of farmers, self-sufficiency was achieved in 1967 in some crops such as potatoes and onions despite severe drought. A new seed division in the Secretariat of Agriculture provides for supervision, inspection, research and multiplication of quality seed. Because of seed improvement and a supervised credit program, a 25% increase is expected in the 1968 rice crop.

Using improved peanut seeds, peanut oil production-- a Dominican staple--should increase by 35%-40% during 1968. By early 1968 the production of feed grains will eliminate deficits, so as to permit expansion of local poultry, swine and beef production.

In 1967 commercial poultry production totalled 7 million birds compared to 4.5 million in 1966, an increase of 55%; it is expected to increase an additional 14% in 1968. Commercial egg production increased 18% in 1967, and will increase another 20% by early 1969. Intensive technical assistance to the Dominican beef industry was begun in FY 1967 and will continue through FY 1969.

The Balaguer Government with A.I.D. assistance has begun to attack other basic obstacles to Dominican development. One has been the number of State-owned industrial enterprises inherited from the Trujillo era, many of them unprofitable. The largest of these, the sugar complex (CEA), operated during CY 1966 at a deficit of RD \$19 million. Under the new administration appointed by Balaguer, the CEA has announced a cash flow profit of RD \$1.5 million for the 1967 crop year (October 1, 1966 through September 30, 1967).

In December 1967, the Dominican Government received the report and recommendations of a group of American consulting firms hired to do a study of CEA, and further progress is expected in 1968.

Thus, with A.I.D. assistance, the various sectors of Dominican life are beginning to realize their potential growth and development. In agriculture, two years of research have revealed which varieties of crops will flourish and the seed has been grown. The next step, greatly increased production, will depend upon imaginative use of that knowledge and proper planting of that seed.

In industry, feasibility studies have been financed with A.I.D. loans and potential investors are being attracted to the possibilities. Now the building of enterprises will depend upon whether businessmen feel confident in the future stability of the country. In education the government has been persuaded

of the necessity to change its secondary school system, but it needs guidance and help in establishing and running comprehensive high schools, a brand new concept in the country.

The next few years will be decisive for the shaping of those national sectors to a pattern of orderly development.

FY 1969 Program

The proposed FY 1969 program includes \$30 million in Development Loans, \$5.4 million for Technical Assistance, and \$20 million in Supporting Assistance loans.

A Supporting Assistance loan for FY 1968 has been approved in the amount of \$16.1 million. This loan in conjunction with \$14 million of PL 480 commodities will support responsible self-help measures in balance of payments and fiscal policy as well as significant new fiscal reforms including: (1) more effective utilization of revenues for development purposes; (2) additional measures for increasing Government of Dominican Republic budgetary resources; and (3) such additional monetary and fiscal measures as may be necessary to restrict import demand sufficiently to avoid an exchange crisis.

During FY 1967, A.I.D. authorized a Supporting Assistance grant of \$375,000 for commodity assistance to the National Police forces. A similar grant may be necessary during FY 1968 and FY 1969.

P.L. 480 dollar repayable commodities are also likely to be required in FY 1969.

Anticipated Assistance from other Donors

In December 1967, the Export-Import Bank and the Inter-American Development Bank (IDB) each authorized loans to the Dominican Republic Government, both likely to be disbursed throughout FY 1969. The IDB loaned \$1,950,000 from their Fund for Special Operations for construction of 89 small-town water systems. The Ex-Im Bank loaned \$7 million for the purchase of U.S. equipment and services needed in expanding production of electric power. To date the Ex-Im Bank has authorized four credits totalling \$27.3 million to finance expansion of power facilities.

During FY 1969, it is expected that IDB will make a loan to the Dominican Government for the construction of the Tavera Dam complex, involving power and irrigation facilities affecting an extensive area, with considerable agricultural potential.

A.I.D. may also participate in the financing of this project.

Agricultural Development

Agricultural development continues to be the first priority of the A.I.D. program. In FY 1969, A.I.D. technicians and Texas A & M University contract technicians will continue working to

diversify the sources of agricultural wealth so as to lessen the country's dependence on sugar, coffee, and cacao. Accordingly, in FY 1969 as before, the joint A.I.D.-Dominican agricultural efforts will focus on (1) increasing efficiency and quantity of production of the traditional Dominican staple crops such as rice, beans, corn, oil crops, garlic, and plantanos; (2) producing high protein foods presently in short supply and which the Dominicans should consume more of, such as livestock, swine, poultry, milk, local feed grains, fruits, and vegetables; and (3) producing high-value export crops such as winter fruits and vegetables, and raw materials for industry such as tomatoes.

These objectives are being supported by A.I.D. through a number of programs. Of the \$30 million proposed Development Loan program for FY 1969, \$22 million is in agriculture. In line with our objectives of agricultural diversification and the rationalization of sugar production, a \$10 million loan is proposed to assist diversification of sugar lands. This program will convert marginal or high cost sugar land to other more productive purposes.

The successful government irrigation rehabilitation program is to receive a \$6 million loan in FY 1969 which will have a combined agricultural and rural community development impact. A \$6 million loan is proposed for the further expansion and improvement of cooperatives. Revolving funds for agricultural cooperatives involving about \$850,000 are to be used for agricultural production lending purposes. Without this money, cooperative activities would have to be reduced by 50%-60%. Technical assistance helped to increase the number of incorporated cooperatives from 136 in July 1966, to 252 in December 1967.

In March 1967 the Managed Agricultural Credit Program was initiated. By December 1967, over 802 credit applications were approved, totalling approximately \$2.8 million.

In addition, a revolving cattle loan fund totalling \$500,000 from the \$40 million Supporting Assistance loan was set up during FY 1967 and is being managed by the Chase Manhattan Bank.

Industrial Development, based on the produce of the agricultural sector, holds second priority in the development of the Dominican Republic. A Dominican industrial promotion agency has been working to encourage both foreign and domestic private investment, and a mutually profitable industrial relationship with Puerto Rico.

Ten foreign (including U.S.) companies are currently constructing a hotel, and vegetable and meat processing plants. A metallurgical complex which will fabricate light steel products (bars, plates, angles, hardware, etc.) is under construction.

Assistance will continue to be provided through the Private Investors' Fund which is capitalized jointly by A.I.D. and the IDB. Also an Artisans' Fund to help small owner operated businesses has been started with over 50 loans totalling \$100,000.

An additional \$300,000 was recently added to the Fund to expand its activities.

Community Development is A.I.D.'s third priority. This activity, called "democratic institution building" in Title IX of the Foreign Assistance Act, has a distinctive style in the Dominican Republic. The activity was begun by the Dominicans themselves with such determination that a permanent agency was created by the government in 1962, within the office of the Presidency. In 1964, the Office of Community Development (OCD) expanded from a regional project to an organization designed to serve country-wide.

In 1967 A.I.D. made an \$8.7 million loan to OCD to further training of campesino leaders, establish agricultural associations and to enlarge and refine the ongoing operations. OCD by the beginning of FY 1968 had 200 young Dominican "promoters" serving in 382 communities (almost half the rural area) and had completed 849 projects including irrigation ditches, land clearing, school construction, latrines, agricultural production and general local improvements. These projects, for which 52% of the cost and all of the labor were contributed by local people, have resulted in minor capital formation that is impressive in the rural Dominican context. They have provided the basis for continuing growth in local self-confidence and political development based on local initiatives.

Education

In education A.I.D. is encouraging the Dominican Republic to concentrate its efforts and financial resources on secondary education, higher education, and industrial training, since these have the greatest potential for immediate impact on social reform and economic development. In January 1967, the Dominican Government signed an agreement with A.I.D. to launch the country's first National Education Census, for which the field work was in its final phase in September 1967. The Government has increased the 1968 education budget by 5.5% over 1967, while decreasing the 1968 military budget by 7.4%. To date A.I.D. has worked with the Dominican Government to modernize its secondary education system by setting up six comprehensive high schools. Two of these high schools opened in the fall of 1967.

The vocational school for the Dominican Armed Forces and National Police at Bani, established with the help of A.I.D. funds in October 1966, has become a source of semi-skilled workers for industry and has created a more positive image of the armed forces. In its first year of operation the school has trained 594 students and has increased the number of students taught in one instructional cycle from 150 to more than 300.

Technical Assistance in education in FY 1969 will be based upon the implementation of a \$11 million education sector loan to be approved in FY 1968, which will first affect the FY 1969 school year.

Health and Sanitation

Health services in the Dominican Republic have long been entirely inadequate. A health sector loan of \$4 million will provide for expansion of rural health clinics and comprehensive maternal/child care services. The loan is planned for authorization in late FY 1968.

In addition, loans are proposed in FY 1969 for the Santo Domingo water (\$3 million) and sewerage (\$5 million) systems which will have employment-generating effects in the capital city, as well as the beneficial health aspects of greatly decreased disease.

Other Activities

The Public Safety program has assisted the National Police to improve their training, mobility, communications and ability to control civil disturbances.

In the field of public administration, assistance will be continued in tax and budget reform, and in strengthening local government administration. Technical assistance is also being provided in highway maintenance and worker education.

Country: PERU

(Excludes classified materials which have been made available to appropriate Committees of the Congress.)

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967	FY 1968	FY 1969
	Actual	Estimated	Proposed
Development Loans	17.4	37.7 ^{a/}	30.0
Technical Assistance	5.2	4.8	5.5
Total A.I.D. Assistance	22.6	42.5	35.5

^{a/} Includes \$241,000 in grants for population programs under Title X of the Foreign Assistance Act.

U.S. Aid Objectives

The election of Fernando Belaunde Terry as President of Peru in 1963 raised great hopes for the role that Peru might play in the Alliance for Progress. The value to the Alliance, and hence to U.S. interests, of accelerated economic and social progress in Peru was obvious because of the country's unmistakable importance

in Latin America. In addition, it had long been a major U.S. trading partner and a locus of much U.S. private investment.

Peru, in many ways, epitomizes the challenge facing the Alliance. It is characterized by extremes in wealth and opportunity. Half the population consists of Indians living in the mountains, not integrated socially with the rest of the country, and subsisting at or below the economic and cultural standards of the pre-Spanish era. The country has a tradition of military intervention in the political process. A fresh start for attacking these deep-seated problems seemed to be offered by the democratic election of Belaunde, who ran on a platform of development and social reform.

The Belaunde Government launched a program of greatly expanded investment in public works and community development. Large investments were made in roads, power projects, and other infrastructure, as well as programs in education, health, agrarian reform, and agriculture.

But the high hopes held out at the onset of the Belaunde Administration have been substantially frustrated by the Government's increasing difficulties in mobilizing internal resources. The opposition political parties, whose coalition controls the Congress, have thwarted Government efforts to secure new revenues.

U.S. objectives are to support a wide ranging program of self-help which will help Peru to regain the 6%-7% growth rate performance experienced up to 1967. These include:

- The adoption by Peru of new tax revenue measures to support the level of the government's development investment programs at the 1966-1967 level, without resort to inflationary measures.
- An increase in the proportion of the budget which is allocated to development rather than defense.
- The preservation of an attractive climate for private investment.
- Agreement with the IMF on a stabilization program.
- A more equitable distribution of income.
- An increase in agricultural production towards self-sufficiency in key food crops for domestic consumption.
- A greatly improved quality of primary, secondary, vocational, and university education and increased literacy.

Country Performance and Self-Help

Despite recent developments, Peru's economic growth (6%-7% a year) over the past decade and a half compares very favorably with other

Latin American countries. This growth has been due primarily to the outstanding performance of the private sector, which concentrated on the development of a well-diversified export trade. The dynamic export sector has grown during the 1960's at an average annual rate of about 10% with a favorable impact on overall economic growth.

Private enterprise has provided more than three-fourths of Peru's gross investment during this period as well as the vital foreign exchange necessary for imported capital equipment, raw materials, and foodstuffs or other consumer goods not locally available. This export growth has now slowed and is unlikely to increase at more than a 3-4% rate in future years due to factors such as the discouraging outlook for Peru's agricultural exports and limitations on additional mineral exports.

While Peru remains basically attractive as an opportunity for foreign investment, the events of recent months have led many private investors to defer planned investments until the Government displays the ability to cope with the overall situation. Similarly, the Consultative Group established in July 1966 under the leadership of the IBRD to coordinate public investment in Peru has not reconvened since its organizational meeting.

It is obvious that the Government of Peru will have to make a major effort in the future to improve its own fiscal performance.

Agriculture

Peru has taken many self-help measures to advance its social and economic development in the rural sector. An Agricultural Promotion Law was passed in mid-November 1967 and will go into effect April 1, 1968, which provides a variety of incentives for suppliers of farm machinery and chemicals, food processors and other companies engaged in agro-industry.

The credit channels for small and medium sized farm operators continued to be expanded. About 33,000 loans for the equivalent of \$20 million have been made over a period of 3½ years under a supervised agricultural credit program established with A.I.D. assistance. To reach the overall food production goals it is estimated that these credit programs will have to reach approximately 27,000 farmers each year hereafter.

Peru's food situation continues to be characterized by: (a) a long-run annual rate of growth of demand for food of 4.4% compared to a long-run rate of growth of food crop production of below 3%, which has led to rapidly increasing imports of such items as milk, meat, rice, wheat and oils (from \$70 million in 1960 to almost double that in 1966); (b) continued low levels of nutrition in the rural areas, especially in the Sierra; (c) discrimination against producers to maintain low consumer food prices relative to other costs of living; and (d) allocation by the Peruvian agencies concerned with agriculture of a disproportionate share of their budgets to social reform activities rather than production oriented programs.

The national agricultural university at La Molina has expanded its budget by 700% during 1960-1966. Enrollment has doubled and the university now is one of the outstanding land grant type institutions in Latin America. Both A.I.D. and IDB are assisting the school to expand its facilities. A.I.D.'s \$3.9 million equivalent and IDB's \$2 million are part of a \$7.1 million expansion program now underway.

Education

Peru is increasing its expenditures on education with the result that its school system has rapidly expanded, from primary to university levels. The literacy rate, now estimated at 61%, is expected to rise. Since 1960, the Peru Government has built 6,500 new schools. The number of children enrolled in primary and secondary schools has increased by about 1,100,000, or 70% in the same period. From 1960 to 1965, university enrollment more than doubled, increasing from 31,000 to over 64,000.

Public expenditures for education have increased (in real terms) by over 200%, from about \$66 million equivalent in 1960 to about \$190 million equivalent in 1966, and currently account for 30% of the central and local government budgets. In spite of this good performance, the need for accelerated educational programs remains great. Only about 65% of the children are enrolled in primary schools, and about two-thirds of these drop out before completing the educational cycle. Only 15% of the secondary school age group actually attend schools.

Peru's population is growing at an estimated 3.1% per year. This rate may be sustained or increased over the next five years--but the growth of per capita GNP may not exceed 3% per year. There is widespread and increasing conviction in Peru that the individual family has the right to decide for itself the question of family planning. This is leading to a growing public demand for maternal and child health programs which would include family planning services.

FY 1969 Program

Subject to the self-help requirements of the Inter-American commitments and U.S. law, A.I.D. is prepared to provide a \$35.5 million level of assistance in FY 1969. This is in support of Peruvian Government action to implement measures to devote increased resources to needed programs, particularly in the fields of agriculture and education. A.I.D. plans an FY 1969 loan program of \$30 million to finance possible sector loans and specific project proposals. In addition, \$5.5 million in technical assistance is proposed for agriculture, rural development, public administration and education. Finally, a \$10 million P.L. 480 dollar repayable sale is proposed during FY 1969 plus continued foodstuff grants of approximately \$6 million in commodities to support the successful child feeding, reforestation, civic action, and voluntary agency P.L. 480 programs.

The principal instrument to achieve A.I.D. objectives in the agricultural sector will be proposed loans (\$17.5 million) to open up or improve new and fertile agricultural areas and link them to markets in Lima, to assist the agricultural university at La Molina, to provide agricultural credit to farmers and for agro-industry.

An agricultural sector loan may be provided if Peru is able to mobilize its domestic resources in this field. It would provide funds to import necessary farm equipment, fertilizer, improved seed, livestock, pesticides and fungicides.

The local currency derived from such a loan or from the proposed P.L. 480 sale will be programmed to increase the level of investment in the agricultural sector, principally expanding credit facilities available to the medium and commercial type operators who give priority to foodstuff production. A major share of this local currency will go to "commodity-in-depth" programs for five key crops: potatoes, livestock and forages, beans, fruit, and rice. These programs will train and mobilize into a concentrated effort the scientists and agricultural technicians working in present Peruvian organizations. North Carolina State and Iowa State Universities under contract with A.I.D. are providing the technical expertise in the research phase of this program.

All A.I.D. loans in agriculture will contain a series of mutually agreed self-help actions subject to periodic reviews and releases of funds. These actions will include increases in the percentage of the government budget going to agriculture; measures to increase the efficiency of the public institutions in this sector such as better training for personnel, higher salaries and adequate operating funds; and policies to improve the incentives for the farmer to produce. The latter would include reduced marketing costs with higher prices for the farmers and the establishment of a market news service.

Project loans are proposed in 1969 including a \$2.5 million loan for additional construction of classrooms for the National Agricultural University at La Molina, and loans for specialized credit programs such as one to develop agro-industry in Southern Peru (\$4 million).

A.I.D. proposes a \$3.5 million loan to a private institute in FY 1969 in the education field to increase the output and quality of skills in short supply, in such fields as medicine and paramedical skills, the natural sciences, engineering, agriculture, administration and economics. A.I.D. also plans project assistance (\$7 million in FY 1969) to a few carefully selected universities which are willing to adopt academic and administrative reforms. A new contract with a major U.S. university will be negotiated to provide advisory services in this field and to supervise the U.S. funds which would be used for scholarships, construction, equipment and U.S. advisors.

Technical assistance in education is provided through a contract with Teachers College, Columbia University, to act as a catalyst

in improving the education sector through cooperation with the Ministry of Education and key universities.

CENTRAL AMERICAN ECONOMIC COMMUNITY

U.S. Aid Objectives

A major objective of U.S. assistance in Central America is acceleration of Central American economic integration. For this purpose the U.S. 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.

The legal and institutional structure for the Central American Common Market (CACM) has been largely completed. A second, and more difficult phase, faces the community. During this phase, U.S. objectives are to assist CACM countries to:

- a. Develop a single set of regional policies designed to promote the growth of a more efficient industrial structure;
- b. Coordinate country policies and establish mechanisms to deal with common fiscal, monetary and balance of payments problems;
- c. Develop measures to control coffee production within market quota limits and seek alternative crops for local consumption and for export;
- d. Substantially increase investment - public and private;
- e. Seek a more equitable distribution of income;
- f. Assist in further strengthening the regional institutions which have a major role in designing development policies.

These objectives require multilateral and bilateral efforts. Multilateral efforts are carried out through ROCAP, the Regional Office of Central America and Panama. ROCAP focuses on problems which are properly dealt with at the level of regional organizations, for example, industrial and tariff policy, road networks and communications. Bilaterally, our programs focus on getting individual governments to take steps to mobilize the revenues needed for public development investment in critical economic and social areas, for example, agriculture and education.

Country Performance and Self-Help

Since 1960, the five Central American countries - Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua - have moved

rapidly to establish a Central American Common Market. Inter-country trade restrictions have been removed, thereby freeing an estimated 95% of the region's internal commerce. Most manufacturing and processing plants operating in any of the Central American countries can sell freely in the other four. Growth in trade within Central America has been phenomenal - increasing four and one-half times (from \$30.9 million to \$172.0 million) over the six year period. Over this period intra-regional trade increased from 7% to more than 20% of total trade.

The separate tariff systems of the five countries have been replaced by a common external tariff on all but a few commodities. Over the period 1960-1966, when Central America enjoyed an unusually favorable market for traditional exports (coffee, bananas and cotton), total exports outside the community grew by 64%. As a result, the region achieved high rates of economic growth, averaging 6.5% per year during the period 1961-1966.

Industry has grown rapidly within the CACM since its inception in 1961. Its development has been spurred by generous fiscal incentives, the expanded market area, and a vigorous private sector. Manufactures and chemicals in 1966 represented more than 78% of total intra-regional (CACM) trade in contrast to 9% in 1960. Industrial growth has been principally in consumer and intermediate goods (flour, beer, cigarettes, cement, textiles, fertilizer, plastics and insecticides) and includes many business ventures with the United States and other external investment participation.

Industrial development has not been without problems. In the past, it has been pursued indiscriminately, resulting in some heavily protected and/or low value-added industrialization. An example of this is the automobile assembly industry in Costa Rica, where six plants have suddenly appeared in a country of 1.6 million people. The Central American countries are becoming aware of the cost of highly protected industries in loss of tax revenue, costs to the consumer and the problems these plants would have surviving in a future Latin American free trade association. A treaty now ratified by four of the five countries is a first step toward reducing incentives which have been liberal-ly granted to encourage new industry.

Growth of the private sector has been supported by the Central American Bank for Economic Integration (CABEI) which serves as the principal intermediate credit institution in Central America. CABEI was created in 1961 with capital subscribed by the five Central American countries and has received financial resources from A.I.D., the Inter-American Development Bank, several of the European Governments and Mexico. By the end of 1967, CABEI had approved 187 individual subloans totalling \$120.7 million.

The Central American governments have also utilized CABEI as a means of financing infrastructure projects which tie the region together. For this purpose the "Fund for Economic Integration" was created in 1965. The Fund has committed \$55.8 million of its

available resources (\$85 million) to 16 major regional highway projects in Central America.

The integration movement has provided an important dynamic element in Central American growth, but it will not be a source of dynamism indefinitely. The Common Market involves only some 14 million people, of whom perhaps half are outside the money economy, a relatively small market. This difficulty may be overcome in part by bringing more of the Central American population into the modern economy and, in part, by extending the Central American Common Market to new members, or associating it with the Latin American Free Trade Association or some other broader trading area.

Panama now is an active participant with the Central American countries in a series of regional activities (including higher education, labor and agriculture), and has expressed strong interest in full membership in the CACM. In 1967 the CACM regional organizations approved, in principle, admission of Panama on a progressive basis.

The population growth rate in Central America of 3.3% per annum is among the highest in the world. Fortunately, the Central American governments, after a long period in which the problem was officially ignored, are taking initial steps to provide assistance in family planning. Private groups have been active for several years. The Organization of Central American States (ODECA) has also been active in the promotion and encouragement of family planning throughout the region. But much more needs to be done if the growth rate is to be significantly lowered. Geographically small, El Salvador is bursting at the seams with a population of 3.1 million while Honduras, five times larger, has a population of only 2.4 million. The advances made in the free movement of capital and goods now must be followed by the free movement of people in search of employment. While the Central American countries agree in principle to this idea, the necessary substantive steps for its realization are slow in coming.

Conditions facing all the Central American countries have changed. The world market for coffee and cotton has deteriorated. No longer can large annual increases in trade within the community be expected. The forces driving economic development are weakening. To sustain the momentum of economic progress, the Central American countries need to increase total investment substantially, particularly in agriculture, industry, education, roads and ports. There are some hopeful signs. Large investments in nickel in Guatemala and in pulp and paper in Honduras are expected in the next year or so.

Mobilizing domestic resources is the major prerequisite to increasing public investment. Guatemala, El Salvador, and Costa Rica especially need to increase tax revenues to levels which can support needed public sector investments. All countries, particularly Honduras, face serious administrative problems which hinder efficient project preparation and implementation.

The economic and political problems caused by Central America's overproduction of coffee are also of primary importance. As the production of coffee continues to be profitable despite a weakening in price, efforts to diversify have had little effect, and the political power of the wealthy coffee growers denies the government badly needed tax revenues.

As a result of falling world prices for traditional exports, all of the countries of Central America will be facing balance-of-payments problems during the next several years. Costa Rica, El Salvador and Nicaragua have already experienced a drop in their net exchange reserves as export earnings since 1966 have not kept pace with import expenditures. Each of these countries has moved to introduce protective measures. Unless actions are taken on a joint basis to coordinate country policies, the very existence of the CACM might be jeopardized by protectionists actions. The Central Americans are considering, as one course of action, establishment of a Regional Stabilization Fund.

FY 1969 Program

The proposed FY 1969 program for the Central American Economic Community consists of \$68 million in Development Loans and \$15.3 million in Technical Assistance. These totals include, at the regional level, a Development Loan program of \$25 million and a Technical Assistance program of \$4.0 million to be administered by ROCAP. The balance - \$43 million in Development Loans and \$11.3 million in Technical Assistance - is for bilateral programs in the five countries. 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 International Bank for Reconstruction and Development (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 Estimated	FY 1969 Proposed
Development Loans	20.0	0.1 ^{a/}	25.0
Technical Assistance	4.2	3.3	4.0
Total A.I.D. Assistance	24.2	3.5	29.0

^{a/} Represents \$125 thousand in grants for population program under Title X of the Foreign Assistance Act.

The main thrust of ROCAP's Technical Assistance program is assisting the Central American regional institutions responsible for developing uniform regional agricultural and industrial

policies, a customs union, and common monetary policies and practices.

The Permanent Secretariat of the Common Market (SIECA) was established to provide administrative and statistical support to the Common Market. It is the primary regional organization for developing regional economic development programs and coordinating national programs. For this purpose, it maintains planning units on infrastructure, agriculture, industry, customs, and statistics. ROCAP assistance to SIECA helps this organization accomplish these tasks and will permit SIECA to meet its increased responsibilities in preparing the necessary studies so that the CACM can consider integration into a Latin American Common Market.

The Organization of Central American States (ODECA) has become the regional organization primarily responsible for overall political and social cooperation. To this end, ROCAP provides assistance to ODECA activities in the fields of educational planning, textbook development, statistics, tourism coordination, labor affairs, public health, and population planning.

The Superior Council of Central American Universities (CSUCA) is composed of the national universities of the five countries and Panama. It has two objectives: (a) to establish regional post-graduate and professional schools thereby eliminating duplication of facilities and increasing the efficient allocation of scarce financial and human resources; and (b) to strengthen each university and promote educational reform by developing programs of general studies and science teaching. ROCAP assistance is channeled through contracts with U.S. universities including Oklahoma State (veterinary medicine), North Carolina (sanitary engineering), Kansas (general studies), and Harvard Business School (business administration).

The Central American Bank for Economic Integration (CABEI) was chartered by the five Central American countries to provide financing of infrastructure and industrial projects of benefit to the region. A significant operation of CABEI is the Fund for Economic Integration which has resources of \$85.0 million, from U.S. sources and from Central American matching contributions. The countries contribute to the Fund on an equal basis, but receive resources for infrastructure building on the basis of need. Approximately 93% of the Fund's resources are committed to construction of a regional system of highways.

A loan is planned in FY 1969 to the Integration Fund; this will be a third tranche following FY 1965 and 1967 loans. This loan will require a larger Central American matching contribution than previously and will enable the Fund to finance port, telecommunications, and grain storage facilities.

In response to a Central American initiative to establish a stabilization fund which would make available foreign exchange to ease countries over temporary budget or balance of payments deficits, A.I.D. will consider a loan in FY 1969. Authorization

will be contingent upon final agreement on the actual mechanism of the fund by the Central Americans and by the other international lending agencies.

Funding is proposed to continue a small program of vocational and participant training in agriculture begun by ROCAP in FY 1968 in British Honduras. This territory, now a colony of the United Kingdom, is within the geographic area embraced by ROCAP.

British Honduras looks to the United States as a supplier of approximately 35% of its imports and as a market for about 30% of its exports.

COSTA RICA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	5.0	7.3 ^{a/}	5.0
Technical Assistance	1.9	1.3	1.7
 Total A.I.D. Assistance	 6.9	 8.6	 6.7

a/ Includes \$300 thousand in grants for population program under Title X of the Foreign Assistance Act.

Costa Rica has a standard of living and literacy substantially above other Central American countries. But the country has a history of fiscal problems which arise, in part, from the expensive progressive social policies of successive governments.

In FY 1968 A.I.D. loan assistance to Costa Rica is linked to improved fiscal performance by the Government which took legislative and administrative action to increase tax revenues. As a result, revenue in 1968 will be 25% above the level of 1966. Future assistance will be linked to continued improvement in the fiscal situation and facing the problem of coffee overproduction. Contingent on improvements in the fiscal situation in FY 1969, loans are proposed for agricultural diversification (\$3 million) and industrial relending (\$2 million).

The A.I.D. Technical Assistance program for FY 1969 is focused on the following areas: improvement of tax administration through the Internal Revenue Service; improvement of customs administration; and improvement in police forces.

A project to demonstrate the serious consequences of the country's population growth rate of 3.8% will be continued in FY 1969. This project combines demographic research and education, particularly in cooperation with the Costa Rican Demographic Society, the University of Costa Rica, the National Planning Office and the Ford Foundation.

EL SALVADOR

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967	FY 1968	FY 1969
	Actual	Estimated	Proposed
Development Loans	0.4	3.8 ^{a/}	8.0
Technical Assistance	1.8	1.7	2.4
Total A.I.D. Assistance	2.2	5.5	10.4

a/ Includes \$325 thousand in grants for population program under Title X of the Foreign Assistance Act.

El Salvador, smallest of the Central American countries, is characterized by a high rate of population growth in relation to limited land resources, a rapidly growing industrial sector and a history of progressive leadership with respect to the Central American integration movement.

The Government has recently taken action to increase tax revenue so that there will be more adequate domestic resources available for development. As a result of a net worth tax passed in December 1967, net public savings will increase by \$4 million. Moreover, the Government will press soon for a sales tax which, when effective, will add substantially to public savings and investment.

Overall A.I.D. objectives are the diversification of the agricultural sector out of coffee, stimulation of the growing private industry sector, upgrading of the education system and reduction of the population growth rate.

During FY 1968, A.I.D. and the Government will begin an educational television activity that will hopefully become a model for other Latin American countries. This activity will be part of a larger educational reform project and will receive both technical and capital assistance.

In education, the Government of El Salvador is working to have all seven-year old children in school by 1969. A.I.D. assists by producing elementary textbooks and by helping with primary school construction. Planning assistance is given at the primary and secondary level and for normal school and technical training.

Development loan assistance projected for FY 1969 includes \$5 million for supervised agricultural credit in support of agricultural diversification and \$3 million for school construction.

GUATEMALA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967	FY 1968	FY 1969
	Actual	Estimated	Proposed
Development Loans	8.0	0.7 ^{a/}	10.0
Technical Assistance	2.4	2.2	2.7
Contingency Fund	1.1	---	----
Total A.I.D. Assistance	11.5	2.9	12.7

^{a/} Includes \$159 thousand in grants for population program under Title X of the Foreign Assistance Act.

Guatemala has a third of Central America's population and a quarter of its area; it contains a substantial portion of the resources that make up the Central American economy. But Guatemala has not attained a rate of economic and social development commensurate with its size and its resources. It is plagued by internal security problems stemming from deep social ills and political divisions. The present Government of Guatemala, which came into office on July 1, 1966, has above and before all sought improvement in public order and safety, particularly in rural areas.

The most significant factors inhibiting Guatemala's economic development are: (a) the need for fiscal reform; (b) the internal security problem; (c) the need to lessen the country's dependence on coffee as its major foreign exchange earner and (d) a serious lack of skilled manpower and a large, disaffected population.

The FY 1969 program focuses on rural areas where social problems are greatest. A.I.D. plans to mount a concerted effort to raise food production and to increase the involvement of rural communities in the nation's economic and social life and thereby develop a meaningful alternative to communism. A loan under consideration would provide small farmers with reasonable credit and improved extension services. These activities will complement proposed activities of the Inter-American Development Bank.

A loan is also under consideration to assist the Government of Guatemala in a program of primary school construction and teacher training. This loan is part of a concerted attack on the ills of Guatemalan education by the World Bank, the Inter-American Development Bank and A.I.D.

A.I.D. will assist the Government improve its public administration with primary emphasis on tax and customs administration. A.I.D. will continue its efforts to help improve police forces so that they can better maintain--or establish in some areas--law and order. A.I.D. provided substantial assistance to the

police in FY 1967 and proposes to continue this assistance and expand it into rural insurgency areas.

HONDURAS

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	7.0	10.0 ^{a/}	8.0
Technical Assistance	2.1	2.0	2.3
Total A.I.D. Assistance	9.1	12.0	10.3

^{a/} Includes \$25 thousand in grants for population program under Title X of the Foreign Assistance Act.

Honduras is the least developed of the Central American countries and least benefitted by the development of the Common Market. Major increases are needed in public sector revenues to support expanded and urgent educational programs and infrastructure investment. The most intractable obstacles to implementation of these requirements in Honduras are the low levels of technical and administrative competence and of institutional development in that country.

The FY 1969 program will provide technical assistance in several weak areas of public administration including personnel administration, fiscal management, economic planning, police administration and urban development. Certain technical assistance projects are designed to develop "grass roots" democracy. They include assistance in the development of free labor organizations, cooperatives of all types and new industries.

A Development Loan of \$7 million is projected for forest access roads and port improvement to assist in providing the infrastructure for a major private investment in pulp and paper.

NICARAGUA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	9.2	8.1 ^{a/}	12.0
Technical Assistance	2.2	1.6	2.2
Total A.I.D. Assistance	11.4	9.7	14.2

^{a/} Includes \$60 thousand in grants for population program under Title X of the Foreign Assistance Act.

In the first half of the present decade, Nicaragua experienced the highest per capita growth in GNP in Latin America. While this development had little direct effect on income distribution, it was accompanied by significant progress in health, education and rural development. Nicaragua now leads Central America with health centers and similar medical facilities. There has been recent progress in education in terms of primary school enrollment, classroom construction and teacher training. A substantial effort has been made to incorporate subsistence farmers into the national economy (2,075 such families have received land titles; 1,050 in September and October of last year).

Domestic resources available for public investment expenditures have been substantially reduced when they should be increasing. Tax increases are required and they will be a prerequisite of A.I.D. loan programs.

The proposed A.I.D. program for FY 1969 will continue Technical Assistance for improvement in tax collection, municipal administration, and administration of the central government.

The effort on behalf of "grass roots" democracy will be continued through support of cooperatives and credit unions. In the past two years, two agricultural cooperatives have been organized, another large agricultural cooperative reorganized, and 59 new credit unions established to serve low income-groups.

Proposed FY 1969 activities in public health include assistance in establishing a family planning program and in extending rural health services to 94 rural areas.

Projected for FY 1969 are Development Loans of \$2 million for primary school construction, \$2 million for reforestation and \$8 million for agricultural development with emphasis upon land settlement and agricultural diversification.

OTHER LATIN AMERICA PROGRAMS

ARGENTINA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	-	1.0 ^{a/}	-
Technical Assistance	1.6	1.8	1.9
Total A.I.D. Assistance	1.6	2.8	1.9

^{a/} Includes \$20 thousand in grants for population programs under Title X of the Foreign Assistance Act.

The A.I.D. program in Argentina is limited to technical assistance to help the government carry out selected reforms in administrative procedures, national and provincial tax collections, customs, agricultural technology, free labor union practices, and educational planning. The broad goal of the A.I.D. program is to help Argentina in specific policy areas which are important to the achievement of her vast economic growth potential and her potential as a contributor to the needs of other Latin American countries under the Alliance for Progress.

The current government, which came to power in June 1966, faced an inflation rate of more than 40%, labor strife, and a severe business recession. It has characterized its immediate goal as an economic revolution to provide a period of stability and order during which a long-overdue modernization can take place. Consistent with this policy, the Government of Argentina, during the past year, has taken action in a wide range of areas overdue for reform.

These include: establishment of a single, free exchange rate, involving a 40% devaluation which has greatly increased exports; an International Monetary Fund (IMF) standby agreement which has helped bring about domestic stability and confidence to investors; voluntary price restrictions that have worked in conjunction with wage increase limitations; new tax laws which have substantially increased tax revenues and reached targeted levels; substantial tariff and quota reductions on items previously prohibitively taxed; administrative and technical reforms in state enterprises; improvement of Port of Buenos Aires; compulsory arbitration law to stem labor disputes; legislation to encourage the return of foreign petroleum companies; and a series of laws to promote domestic and foreign investment.

The current Argentine Government has staked its political future on a successful economic recovery, and has taken significant self-help measures to achieve a sound economic base upon which a return to full constitutional rule could be based.

Technical Assistance amounting to \$1.9 million for FY 1969 is designed to provide specialized help in selected and essential parts of the Argentine reform and development undertakings. This includes: (1) modernization of the national tax structure to improve and increase tax collections; improvements of the customs service and an increase in its revenues; reorganization of the taxation system in the province of Buenos Aires; (2) technical assistance to agricultural institutions in order to help increase and improve production; (3) continuing programs of worker education for selected members of the Argentine labor movement; (4) guidance and training for key officials and institutions responsible for development of a new educational plan for the country; (5) continuing university programs in agricultural education and economics.

As part of the current stabilization effort, Argentina has received assistance from the IMF and the U.S. Treasury during the

past year. Project loans from the Inter-American Development Bank (IDB) and IBRD have been authorized and limited technical assistance from UN Development Program (UNDP), Britain, West Germany, and France has been made available. Commercial credits from a number of the developed countries, including the United States, have been accorded. A.I.D. does not consider Argentina to be in need of A.I.D. concessional lending for capital development projects, although we may consider loans of special interest to Latin American economic integration. A.I.D. and the Government of Argentina are considering financing portions of the Technical Assistance program on a loan rather than a grant basis.

BOLIVIA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967	FY 1968	FY 1969
	Actual	Estimated	Proposed
Development Loans	11.0	14.1	29.0
Technical Assistance	4.1	3.3	4.1
Supporting Assistance	0.4	-	-
Total A.I.D. Assistance	15.5	17.4	33.1

U.S. A.I.D. Objective

The key A.I.D. objective in FY 1969 is to help improve Bolivia's ability to finance its own development needs through a program of increasing tax revenues, reducing public sector operating expenditures, and establishing in its budget a current account surplus for development purposes. The two principal development objectives are: (a) modernization of the mineral and mining sector to reduce production costs and increase private investment; and (b) greater integration of the rural sector with the national economy through increased grain and livestock production, a national transportation network to link rural areas with national marketing facilities, and improved educational opportunities.

Country Performance and Self-Help

During the years 1961-67, Bolivia's GNP growth rate averaged 5%-6% annually. Per capita GNP increased 23% from \$132 to \$162. Thus, Bolivia's per capita GNP has grown at twice the rate of the Latin American average--but still remains second lowest in the Hemisphere.

With A.I.D., Inter-American Development Bank (IDB), and German assistance, the Government of Bolivia continues to display political courage in attempting the reorganization and reform of COMIBOL--the state-owned tin mining corporation and largest single

employer in the country. Despite rising production costs, these reforms enabled COMIBOL to pay modest taxes to the central government in 1966.

Bolivia has launched a National Community Development Program to hasten the assimilation of the rural population into the national economic and social life, especially through the strengthening of local self government. This is assisted by the United Nations, Peace Corps, A.I.D., the German Voluntary Services and the IDB.

With both U.S. and Organization of American States (OAS) assistance, Bolivia has increased tax revenues by an average of 12.5% in real terms each year between 1961 and 1966. In 1967, however, revenue increases slowed to only 4%.

During 1967, the Government ran a large budget deficit. Budget expenditures increased, due in part to the financing of guerilla operations which resulted in the defeat of "Che" Guevara. At the same time, Government revenues from export taxes on tin were reduced because of a drop in world tin prices from the high 1965-66 level. Administrative problems in monitoring expenditures and revenues also contributed to the budget crisis.

FY 1969 Program

The proposed FY 1969 program level includes \$29 million for development project loans and \$4.1 million for technical assistance. A P.L. 480 dollar-repayable program of approximately \$8 million is anticipated.

The IDB, the UN Special Fund, the World Bank, the Federal Republic of Germany, and other external public sources may provide loan financing and technical assistance totalling an estimated \$40 million. The 1967 and 1968 budget crisis has required a closer scrutiny of our 1969 programs. To help the Bolivian Government meet the crisis, some additional A.I.D. loan assistance may be necessary during FY 1968. Our 1969 program will be carefully examined in light of the Bolivian implementation of the loan requirements and to insure that the program is consistent with continuing Bolivian measures to limit budget expenditures.

A.I.D. seeks greater private investment and diversification through the support of the Mining Code, the Investment Promotion Law and a more equitable mineral export tax structure. Under the joint U.S.-IDB-German rehabilitation program, "Operation Triangular," efforts will center on reduction of COMIBOL production costs.

Since Bolivia's mountainous terrain is a formidable obstacle to commerce, A.I.D. development loans have been directed towards building a basic road network and a National Road Service. FY 1969 development loan financing of \$29 million is planned for construction of the highway from Oruro to Cochabamba, completing the 1,249 kilometer, A.I.D.-financed roads linking Bolivia's major

cities with fertile agricultural lands. Technical assistance funds will provide engineering advisory services.

To improve rural living standards and to give the campesino an opportunity to participate in the national economy, A.I.D. will encourage production of wheat, barley, and wool for which profitable domestic or export markets exist and help to develop an efficient distribution chain to reduce consumer cost. FY 1969 technical assistance funds will provide advisory services for these programs. A Utah State University contract will provide advisory services to aid the production of sheep, llama, and alpaca.

An evaluation of Bolivia's human resources is being conducted by the Ohio State University Research Foundation Diagnostic Survey. A.I.D. will continue to support curriculum revision and textbook publication programs; teacher training and seminar programs; a university scholarship program; Family Formation Survey (population program); and advisory assistance to the Ministry of Public Health and to Trade Union Development.

A Public Safety program was reinitiated in FY 1968 in response to an internal insurgency problem and to the government's expressed intent to develop a civil police force capable of maintaining law and order. A.I.D. will continue to support U.S. police advisory and training personnel to work with the National Police during FY 1969.

ECUADOR

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	-	* a/	2.0
Technical Assistance	3.9	2.9	2.9
Total A.I.D. Assistance	3.9	2.9	4.9

* Under \$50,000.

a/ Includes \$40 thousand in grants for population program under Title X of the Foreign Assistance Act.

The principal objectives of the A.I.D. program in Ecuador are: (1) the formulation of a realistic agricultural development plan--the first step to be the completion of a rice production plan; (2) export diversification away from concentration on the traditional exports of bananas, coffee and cocoa, into rice, edible oils, and livestock; and (3) strengthening of local and regional development-oriented institutions; in order to mobilize local resources and build grass roots desire for reforms.

During 1966 Ecuador's development effort was hampered by balance of payments and fiscal problems. But a combination of monetary and fiscal restraints on imports and rising export earnings enabled Ecuador to increase net foreign exchange reserves 19% during 1967 to an all-time high of over \$57 million. Moreover, as a result of increased earnings from import surcharges and application of more efficient tax collection procedures, Central Government revenues for the first eight months of 1967 increased 23% over the same period in 1966. Government expenditures were at the same time kept under tight control.

While restoring fiscal balance, the Central Government's austerity program prolonged the stagnation in government investment which has characterized Ecuador in the Alliance period. Government investment declined from 4.8% of GNP in 1961 to 3.5% in 1966. Government expenditures in the critical areas of food production and agrarian reform were reduced 27% and 35% respectively in 1967.

Against the backdrop of this uneven development performance by the Government, President Arosemena in 1967 criticized the Alliance for Progress for not providing enough financial aid to Ecuador and for demanding too much from the Government in the way of financial contributions to projects. Following a public speech by our Ambassador to explain the rationale of Alliance for Progress self-help criteria, the Government of Ecuador declared the Ambassador persona non grata and gave him 48 hours to leave the country.

At U.S. initiative, a bilateral review was initiated with the Government of Ecuador on all active A.I.D. loans with the objective, either to confirm Ecuadorean willingness to continue implementation of each loan in accordance with the loan agreement, or to cancel the loan. The review did not surface any important Ecuadorean objections to A.I.D., and disbursement of all active loans continues, contingent upon the compliance of Ecuador with its obligations under the loan agreements.

FY 1969 Program

The proposed FY 1969 Technical Assistance program for Ecuador totals \$2.9 million. A \$2.0 million loan for supervised agricultural credit is being considered, and a \$2.0 million P.L. 480 program for maternal-child feeding and school lunch programs is anticipated. New A.I.D. lending will depend on Ecuador's willingness to accept the self-help obligations of the Alliance for Progress. Specifically the Agricultural Credit Loan will depend on the government's willingness to increase agricultural investment programs, including land reform, thereby reversing the trend of the past two years. A.I.D. will channel much of its technical assistance through autonomous public and private institutions (e.g. cooperatives, local development associations, Agricultural Development Bank, etc.), which demonstrate willingness and ability to support Alliance objectives. This approach will permit A.I.D.

to continue to help development institutions in Ecuador, and thus lay the basis for more successful economic and social investment in the future.

The Inter-American Development Bank (IDB) heads a Consultative Group of lenders (A.I.D., international agencies, and Organization for Economic Cooperation and Development (OECD) members) whose members have made available \$91.6 million to Ecuador since 1965 for transportation, education, power, health, and industry. Of the total, \$10.3 million was loaned by A.I.D. Through the Consultative Group, A.I.D. maintains close coordination with the other lenders to Ecuador.

Because of the importance of agricultural development to Ecuador--agriculture accounts for 34% of the country's gross domestic product and 92% of its exports--A.I.D.'s main emphasis is on increasing agricultural production. A.I.D.'s technical assistance efforts in agriculture (\$550,000 in FY 1968 and \$900,000 in FY 1969) are directed toward: (1) assisting the Ministry of Agriculture prepare the agricultural development plan and implement the rice development plan; (2) encouraging agricultural diversification in order to reduce Ecuador's dependence on banana exports, which account for 55% of total export earnings; and (3) developing rural credit unions and production-marketing cooperatives.

In 1967 the Ministry of Agriculture established an agricultural statistics division to develop the statistical base necessary for an agricultural development plan. A.I.D. will continue to support this effort in FY 1969 by providing the services of two U.S. Department of Agriculture (USDA) statistical technicians. A.I.D. will continue to provide six USDA advisors in FY 1969 to assist the Ministry of Agriculture implement the rice development plan. The rice program will not only contribute to agricultural diversification but also enable the Ministry to gain practical planning experience that can be drawn upon when the sector plan is implemented. Credit union and cooperative programs will continue to play an important role in mobilizing credit for small and medium-scale farmers, in improving marketing procedures within Ecuador, and in improving income distribution in the rural areas.

Through its community action programs (\$680,000 in FY 1968, \$930,000 in FY 1969), A.I.D. is assisting institutions outside the Central Government that are concerned with self-help economic development. In FY 1968, A.I.D. initiated a local planning and development project designed to expand the Peace Corps' pilot Campesino Leadership Training Program into several rural communities. This project is supported primarily by the interested local communities with support from the Ecuadorean Land Reform Agency, the Forestry Service, and the Agricultural Extension Service. In FY 1969 a similar leadership project will be initiated in low-income barrios of Guayaquil. Other activities with a Title IX thrust include: (a) the American Institute for Free Labor Development's organization and training of free labor unions under the auspices of the Ecuadorean

Confederation of Free Trade Unions; (b) support for efforts to initiate a nationwide family planning program being undertaken by private groups in Ecuador; and (c) maternal-child and school lunch feeding programs.

GUYANA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	8.1	13.0	7.0
Technical Assistance	1.3	1.1	1.5
Total A.I.D. Assistance	9.4	14.1	8.5

The A.I.D. program serves a dual purpose: fostering basic economic development, and continuing projects which will provide visible evidence of progress under the present moderate leadership. The major challenger to the present leadership in the next election, sometime before April 1969, is expected to be Cheddi Jagan, a communist and former head of government before Guyana gained her independence in 1966.

A.I.D. objectives are to:

- (a) strengthen foreign exchange earnings and the agricultural sector by a 4% annual expansion of rice export earnings through modernization of the entire industry, and
- (b) reduce the rate of unemployment by 50% during the next five years (to less than 10% of labor force by 1973) through general economic expansion, expanded vocational training, and promotion of new and expanded labor intensive enterprises.

Guyana achieved significant gains during 1967, following International Monetary Fund (IMF) recommendations made in conjunction with an IMF stand-by agreement in February. Foreign exchange reserves increased by nearly one-third to \$23 million. Gross Domestic Product in 1967 rose by 3.5% in real terms. The capital budget for development projects has nearly doubled during the present administration (1965-1968). Government investment incentives (including duty-free industrial imports, tax holidays, tariff concessions and subsidized land sites) have helped general employment and diversification of the economy away from its dependence on aluminum and sugar for export.

Unemployment continues at a barely tolerable level of 15%-20% as more unskilled youths enter the labor market. Industrialization is able to absorb only 16% of the labor force.

A.I.D.-assisted projects of major infrastructure rehabilitation and improvement such as road-building, airport and sea wall reconstruction, in the past have helped allay the employment problem. Involvement of a cross-section of recognized racial groupings in these projects also helped reduce social tensions created by racially-backed parties vying for national political leadership.

FY 1969 Program

In FY 1969, A.I.D. proposes a program of \$7 million for Development Loans and \$1.5 million for Technical Assistance. In addition, a \$500,000 P.L. 480 grant will be continued to help community development, school lunch programs and maternal and child health centers. Consideration also is being given to a P.L. 480 credit sales agreement.

Guyana also receives assistance from the United Kingdom and Canada, and technical assistance from the IBRD. The United States has provided an average of \$10-\$11 million annually, compared to about \$7 million from the United Kingdom and a current Canadian contribution of \$3 million.

Major loan funding is planned for development of rice production. In FY 1968 A.I.D. plans to authorize an \$11 million loan to finance construction of a rice research station and receiving, drying, storage and processing facilities in five key locations. In FY 1969 a \$5 million loan is planned for the second phase and will provide for facilities at four additional sites.

A \$275,000 technical assistance grant will finance special advisors to the rice industry and to assist Guyana's development of fruits and vegetable crop. Rice is Guyana's third most important export (after bauxite/alumina and sugar), accounting for 14% of export earnings, and providing a livelihood for 25% of the population, directly and indirectly. Rice yield is low and the quality is poor.

A.I.D. also will continue its activity in infrastructure development. A \$2 million loan in FY 1969 will finance the first stage of a potable water supply system for several rural coastal villages. Technical assistance funds will provide advisory services in road maintenance and repair to the government's Roads Division.

To aid with the labor problem, A.I.D. is continuing two contracts with the American Institute for Free Labor Development for the training of union leaders and the development of social projects and a vocational industrial training center. An additional contract with a U.S. consulting firm is planned to help the Guyana Development Corporation identify and promote investment activities.

An A.I.D. Public Safety advisory team will continue to provide training and guidance in the utilization of police manpower and

equipment resources, including advice on personnel selection, training and career development at both the operational and management levels.

HAITI

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Supporting Assistance	1.4	2.0	2.5
Contingency Fund	0.4	-	-
 Total A.I.D. Assistance	 1.8	 2.0	 2.5

The humanitarian objective of the small A.I.D. program in Haiti is to bring to a successful conclusion a country-wide malaria eradication program administered jointly by the Pan American Health Organization (PAHO), UN Children's Fund (UNICEF), and the Haitian Government. Elimination of malaria in Haiti also would serve to safeguard the Dominican Republic (on the same island) from reinfection.

A.I.D. has not maintained a mission in Haiti since 1963; its assistance since then has been channelled through and administered by private agencies and international organizations. The Haitian Government lacks both the commitment to economic development and the management capability necessary to utilize effectively foreign assistance in amounts significantly greater than those now programmed for FY 1969.

FY 1969 Program

The A.I.D. program proposed for FY 1969 consists entirely of \$2.5 million in Supporting Assistance.

The United Nations finances limited technical assistance projects in agriculture, especially animal husbandry. The Israeli, the German and the Chinese Nationalist Governments also have modest agriculture-related programs in Haiti.

\$1.6 million in A.I.D. assistance will continue the malaria eradication program at a level which should eradicate the disease by FY 1972. Annual contributions of PAHO and UNICEF to the malaria program have averaged \$300,000 a year since FY 1964 for drugs, DDT, scientific equipment and vehicles. The total PAHO/UNICEF contribution to the malaria program projected for FY 1969 is slightly less than \$400,000.

Since FY 1966, A.I.D. has provided grants to CARE Incorporated totalling \$266,000 to support CARE's community development/

family planning programs in rural areas of Haiti's northwest. An A.I.D. grant to CARE of \$296,000 is proposed for FY 1969 to continue this help with increased emphasis on family planning services.

An increase in Supporting Assistance funds for FY 1969 is required in order to support an OAS program of technical assistance begun in FY 1968. In FY 1969, the amount proposed for this program is \$577,000 to finance OAS technical experts.

MEXICO

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Technical Assistance	0.3	0.2	0.2

The limited U.S. technical assistance effort in FY 1969 is intended to encourage Mexico's role as a donor, both of technical and commodity assistance to her Alliance neighbors and to assist in a U.S.-financed third country training program.

The Mexican GNP is growing at an average rate of 7.0%-7.5% per year--and per capita GNP is growing at an average rate of 3.5%-4.0% per year. This encouraging rate of growth has been accompanied by only modest price increases--about 3% a year. The Government is concentrating its investment program in key areas--irrigation activities, small and medium size industry, agricultural credit facilities, and low cost housing. Mexico is an active member of the Latin American Free Trade Association and supports the establishment of a Latin American Common Market.

Despite this favorable development picture, Mexico still faces several serious obstacles to economic development. Jobs are needed for some 500,000 new workers each year. Great inequalities exist in income; the lower income population is concentrated in the rural sector, with an average per capita GNP of less than \$150, compared with the \$500 national average, and a large unemployment problem is emerging, mainly in the rural areas. The Government of Mexico is becoming increasingly aware of the gravity of this rural unemployment problem and has taken initial steps to cope with it. Its task is made more difficult because the supply of land for distribution to landless campesinos is becoming exhausted, so the traditional remedy is no longer available. We cannot disregard the possibility of a role for U.S. capital assistance as the Government of Mexico's programs evolve to meet this growing need.

Mexico provides technical assistance to other Latin American countries within the framework of the Alliance for Progress. Almost 5,000 technicians and students from other Latin American countries

are trained in Mexico each year--about 450 of whom receive financial assistance from A.I.D. Mexico also furnishes technical advisors to Latin American countries, especially those in Central America.

In FY 1969, the proposed A.I.D. technical assistance program of \$180,000 will (1) pay for the upkeep of a small staff which oversees on-going agricultural credit, low cost housing, and higher education projects, reflecting past A.I.D. loans totalling almost \$70 million; (2) provide for coordination of about 450 Latin American students to receive training under A.I.D. auspices in Mexico during FY 1969; and (3) finance a Special Development Fund project (\$50,000) in the field of community development and in pilot projects to alleviate rural unemployment and to increase agricultural productivity.

PANAMA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	22.9	15.1 ^{a/}	10.0
Technical Assistance	2.1	3.0	3.2
Contingency Fund	10.2	-	-
Total A.I.D. Assistance	35.2	18.1	13.2

^{a/} Includes \$100 thousand in grants for population program under Title X of the Foreign Assistance Act.

U.S. Aid Objectives

The A.I.D. program in Panama is designed to (a) assist the Panamanian Government alleviate economic and social conditions in depressed urban areas; (b) help achieve increased productivity and diversification in agriculture; and (c) promote long-term improvements in the country's educational and administrative structures. Progress toward these objectives is consistent with the desire of the United States to conclude and maintain mutually satisfactory treaty relationships with Panama in regard to the existing lock canal, military bases in the area, and the possible construction of a sea level canal.

Country Performance and Self-Help

Except for a temporary slowdown following the riots of 1964, Panama has experienced sustained economic growth since 1960. In 1967, the GNP increased 9.5% compared to the average annual rate of 8.5% for the previous five years. Agriculture remains the most important contributor to the GNP but the most dynamic growth has occurred in other sectors, particularly manufacturing.

A surge in private investment (stimulated by the A.I.D. program that was enlarged in FY 1967), accounts for much of the recent growth. In 1967, gross investment rose to 23% of the GNP, up from 18% in 1965. In its balance of payments, Panama has historically had a sizable trade deficit which has for the most part been compensated by growing net receipts (\$99.8 million in 1966) from the Canal Zone.

The Government's fiscal performance during the past few years has improved considerably, due not only to a high level of economic activity but also as a result of successful tax reforms in 1964 and continually improving tax administration. Ordinary revenue increased by about 15% in 1966 and by about the same amount in 1967. However, there was a small deficit in the operating budget in 1967 and a sizable increase in the floating debt to suppliers.

A number of hard-core problems persist. Among the most serious of these are chronic unemployment in urban areas, and underemployment with low productivity in the rural sector.

Much of the recent growth in agriculture is attributable to increased banana production. While the agriculture sector includes over half the working population, it produces only one-fifth of the value of domestic production.

In Panama's cities, urban blight and a shortage of housing have created a critical situation. Over half the population of Panama City lives in substandard housing. Some 40,000 people inhabit heavily congested squatter areas, many of them in the immediate vicinity of the Canal Zone. The Government has been devoting well over one-third of its annual operating budget to education and health activities (about 44% in 1967) but these sectors are lagging seriously behind rapidly growing needs.

Underlying many of Panama's problems is the need to upgrade the public administration system and middle-level staff. The number of employees under the career civil service is limited and rapid turnover is not unusual. Improvements in organization, management and overall coordination are needed.

FY 1969 Program

The proposed A.I.D. program for FY 1969 amounts to \$13.2 million, of which \$10 million will be in Development Loans and \$3.2 million in Technical Assistance. The World Bank may extend a loan of about \$30 million for hydro-power construction and the Inter-American Development Bank (IDB) expects to provide \$5.5 million in loans for vocational education and agricultural credit.

Urban Rehabilitation and Development. Depressed living conditions in Panama's urban areas represent a continuing threat to the political stability of the country. In August 1966, a high-level U.S. review team visited Panama and recommended a broad-gauged attack on urban poverty and decay. In accordance with the team's recommendations, A.I.D. in FY 1967 committed \$22 million in loans and \$2.6 million in grants for urgently needed streets and roads,

water and sewerage systems, housing, community facilities, manpower training, voluntary services and community action programs, primarily in Panama City.

During FY 1968 these urban programs are going into high gear. A.I.D. plans to continue supporting these programs with \$515,000 in technical assistance and may provide up to \$5 million in loans to expand them into other areas of Panama City. A.I.D. also expects to finance part of an urgently needed \$21 million water supply system for Panama City, and will finance preparation of urban master plans for the development of four key urban centers-- Panama City, Colon, David and Santiago--under an earlier feasibility studies loan.

In FY 1969 the urban improvement pattern will be applied on a concentrated scale to Panama's second city, Colon, on the Atlantic side of the Panama Canal. Under this program, A.I.D. will provide up to \$5 million in loan funds for urbanization, utilities, community facilities, schools, job training, small family industries and home improvement and construction. Several thousand families now living in tenements or squatter areas will benefit.

Agricultural Production and Reform. The great majority of the farms in the country remain outside the cash economy, but the Government's program of concentrating resources on six priority areas is beginning to have an impact. A.I.D. has supported the program with a \$2.4 million Development Loan extended in FY 1965 and technical assistance. A.I.D. has also provided \$2.4 million in loan funds for a Rural Cadastral and Natural Resources Survey, which has generated data needed to implement Panama's land reform program and improve tax collections.

During FY 1968 A.I.D. expects to make a \$4 million sector loan for agriculture, which will require the Government to make specific self-help commitments on a sector-wide basis. The loan includes supervised credit, extension support, small-scale irrigation projects, agricultural education and marketing facilities.

The proposed FY 1969 program in agriculture will be limited to the continuation of technical assistance and to a \$1 million loan for the establishment of Panama's first rural electrification cooperative. The latter project is important for the promotion of democratic institutions, and for its long-range modernizing effects. Other loan possibilities include a Cooperative Bank and a cadastral survey of the Darien region.

Education. Panama's educational facilities are inadequate for the needs of a rapidly increasing population, over half of which is under the age of nineteen. A.I.D. has provided both grant and self-help loan support for the construction of school facilities. In FY 1967 A.I.D. policy shifted to providing resources and guidance primarily for urgently needed improvements in planning and curriculum development. As a follow-up to these

activities, A.I.D. will provide \$1.5 million in loan funds during FY 1968 to support a \$4.4 million campus development program of a newly established private university. A.I.D. is also extending grant assistance of \$238,000 for advisory services in education, youth leadership development and the production of textbooks.

It is anticipated that with completion of the A.I.D.-funded National Education Plan in early FY 1969, there will be an urgent need as well as an opportunity to correct basic deficiencies in Panama's educational system. A \$6 million education sector loan was contemplated for this purpose, but limited funds will allow only a \$1 million project loan and continued technical assistance.

Development Administration. Panama has achieved notable successes in developing its Central Planning Office and in providing reasonably efficient tax administration. In the past, A.I.D. has provided concentrated technical assistance for selected government offices including the Planning Office, the Bureau of Internal Revenue, the Customs Bureau and the Central Procurement Office. In FY 1968 A.I.D. is providing \$373,000 in Technical Assistance for this purpose. A \$3 million loan by A.I.D. is proposed in FY 1969 to help promote a broad administrative reform program.

PARAGUAY

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	1.9	-	5.0
Technical Assistance	2.2	1.7	2.3
Total A.I.D. Assistance	4.1	1.7	7.3

U.S. Aid Objectives

The main objectives of the A.I.D. program are: to assist the Government to reverse the decline in per capita agricultural production; to stimulate the growth of agro-industrial enterprises; to modernize its systems of accounting and administrative management controls; to upgrade the quality of university education, especially agricultural education; and to encourage an increase in government tax revenues to support vitally needed programs in agriculture and education.

In office since 1954, the Government of President Stroessner has kept budget deficits to tolerable levels and employed strict credit controls. In this way, inflation has been slight. Prices between 1954 and 1960 increased 14% per year; since 1961, prices have increased less than 3% per year.

The Stroessner Government has been less successful in removing other roadblocks to economic development identified in the 1966 and 1967 Inter-American Committee for the Alliance for Progress (CIAP) Reports. Revenue collections, although up 11% in 1967, are still inadequate. Per capita agricultural production has continued to decline--down 4% from the 1957-59 base period.

A.I.D. has assisted in preparing the new accounting reform legislation enacted in 1967, and the proposed new budget control law to be submitted to the legislature in early 1968.

The highly centralized Stroessner administration has held national elections in 1963, 1965, 1967, and 1968, and permitted a progressive increase in political liberty. Three major opposition parties were given legal recognition in 1962, 1964, and 1967 respectively, and all are included on the 1968 Presidential election ballot. Campaigns are open, the press carries opposition views and public debates in Congress are increasing. Other evidences of progress are that opposition judges are included in the newly decentralized judicial system, and police powers over political opposition are under restriction.

Paraguay's National Development Plan includes emphasis on agricultural and livestock production. The National Development Bank has a technical as well as a credit assistance program for farmers, and has outlined a plan for a ten-fold increase in wheat production. A \$2.4 million P.L. 480 loan was signed in December incorporating important self-help measures in support of the Government's "Grow More Wheat" program. A.I.D. also is continuing technical assistance to various aspects of the agricultural sector including efforts to improve administrative practices, marketing and processing, research, education and extension plus formation of cooperatives.

FY 1969 Program

The proposed FY 1969 program totals \$7.3 million, of which \$2.3 million is for Technical Assistance and \$5 million is for Development Loans.

Paraguay has received capital assistance from the Inter-American Development Bank (IDB), the Organization of American States (OAS), and United Nations. An IDB loan of \$14.5 million in FY 1968 is for the second phase of the multinational power installation, the Acaray Hydroelectric project. A new International Monetary Fund (IMF) standby agreement for \$8 million was signed in December 1967. Potential loan programs of the IDB and IBRD could reach \$55 million in FY 1969.

More than half of the A.I.D. Technical Assistance and \$2 million of the Development Loan program is planned to help the Government carry out the expansion and diversification of agricultural production. Emphasis will be placed on increasing production of beef, lumber products and certain field crops. This is to be assisted by a \$2 million loan for agricultural credit programmed

for FY 1969. Technical assistance amounting to \$818,000 is proposed to continue those on-going programs mentioned above.

Private sector assistance will be concentrated on the development of agro-business enterprises. A \$3 million loan is being planned for FY 1969 in support of a private development financing corporation; and most of the \$388,000 planned for the FY 1969 Technical Assistance program in this sector will be given through the new Private Development and Productivity Center.

Technical assistance of \$151,000 is planned to finance U.S. Internal Revenue Service technicians working with the Ministry of Finance. Special emphasis will be placed on increasing collections of real estate taxes, presently accounting for only 6% of the total tax revenue.

A.I.D. is assisting the National University through contracts with U.S. universities (\$610,000 in FY 1969) and the IDB is also providing a \$1.5 million loan in support of the university.

URUGUAY

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	0.8	15.0	5.0
Technical Assistance	1.5	1.4	2.1
Contingency Fund	0.4	-	-
 Total A.I.D. Assistance	 <u>2.7</u>	 <u>16.4</u>	 <u>7.1</u>

A.I.D. objectives in Uruguay are to support policies and programs which will help Uruguay to resume its economic development. This will involve, at a minimum: (a) formulation and implementation with the cooperation of the International Monetary Fund (IMF) of a fiscal and monetary program to reduce inflation; (b) implementation of policies and new programs to stimulate the production and export of agricultural goods.

For the past 15 years, Uruguay has experienced protracted inflation and retarded economic growth. Within the economic cycle, there is a stagnant agricultural sector, a non-competitive and costly private sector, and inequitable tax structure, a serious balance of payments problem, and federal government deficit, all of which contributed to inflation. In addition, there is a lack of reliable data on public finance, banking, employment and income distribution necessary for informed policy decisions. These impediments have slowed economic activity, which is reflected in Uruguay's declining GNP.

The elections held in November 1966, returned the government to a single executive from the previous ineffective council-type government. The new government has pledged improved economic policies including a realistic exchange rate and cooperation with international financial institutions. To assist Uruguay to undertake the difficult economic measures its government proposed, the United States began negotiations in June 1967, for an agricultural sector loan. Negotiations stopped when President Gestido changed to an economic team that adopted dirigist policies which caused rapid deterioration of the economic situation during the following five months. Inflation in FY 1967 reached 130%. In November, the President of Uruguay brought into power a new group which favored rational economic policies. In February 1968 the IMF approved a standby agreement. As part of the stabilization program, the Government of Uruguay devalued the peso by 50%.

During the period of high inflation and government vacillations in economic policy, severe climatic conditions caused the loss of one-half of Uruguay's grain crop and 20% of its livestock. The United States negotiated and signed a P.L. 480 sales agreement for 200,000 tons of wheat and 100,000 tons of feed grains to relieve human and animal nutrition needs. The United States also furnished 5,000 tons of corn under the emergency provisions of Title II, P.L. 480.

The United States has resumed negotiations for the agricultural sector loan. This loan will be made contingent on the government undertaking the following self-help measures: (1) a coherent and operative fiscal stabilization program; (2) legislation establishing a tax on income from land to permit the gradual reduction and eventual abolition of the existing tax system; (3) provision in the 1968 budget (now completed) for increased public activities and investment in the agricultural and livestock sector.

FY 1969 Program

The proposed A.I.D. program for FY 1969 is \$7.1 million, of which \$2.1 million is for Technical Assistance and \$5 million is for a loan to construct grain storage facilities and install a system of bulk handling and warehouse receipts. A.I.D. will finance the training of Uruguayan agricultural and livestock specialists who will work with farmers to modernize practices, increase production and improve marketing opportunities.

In education, A.I.D. advisors in rural primary and secondary schools will help improve science teaching. Educational TV programs in Montevideo will be operating with equipment furnished by A.I.D. and technical assistance by the Peace Corps.

A.I.D. technicians will provide advisory services to the Ministry of Industries and Commerce and the Ministry of Finance to improve taxation, port management and social security. Assistance will also be given to the planning organization of the government to help develop more accurate economic and employment statistics.

A.I.D. will continue to help strengthen Uruguay's democratic labor unions and reduce Communist influence within the labor movement and in the university. A.I.D. advisors to the Uruguayan police forces will provide technical assistance to develop police patrol, investigation and intelligence capabilities and selected police staff will be trained in the United States.

The World Bank is assisting Uruguayan agriculture with a \$19.7 million loan for pasture improvement. The IDB has made a loan of \$1.5 million in FY 1967 for pre-investment studies, and two loans in FY 1968 for \$7 million and \$4.4 million, respectively, for the development of a cement and alcohol plant and for water and sewerage systems. In addition, the United Nations and its specialized agencies are providing 33 technicians, mostly for advisory assistance in agriculture.

VENEZUELA

PROGRAM SUMMARY

(In millions of dollars)			
	FY 1967	FY 1968	FY 1969
	Actual	Estimated	Proposed
Development Loans	-	0.1 ^{a/}	-
Technical Assistance	1.4	1.1	1.1
Total A.I.D. Assistance	1.4	1.2	1.1

a/ Represents \$140 thousand in grants for population program under Title X of the Foreign Assistance Act.

A.I.D.'s limited Technical Assistance program is aimed at relieving continuing bottlenecks to economic growth. It is focused on: (1) strengthening Venezuelan police capacity to combat rural and urban terrorism; (2) providing assistance in the modernization of the curriculum for secondary education; (3) expanding intermediate credit institutions to mobilize savings in order to meet the growing housing deficit; and (4) formulating public employment services and vocational training policies geared to Venezuela's manpower shortages. The Venezuelan Government will be encouraged to expand its technical assistance efforts to its Alliance neighbors. Due to Venezuela's ability to secure external financing from other sources, no A.I.D. concessional loans have been made since FY 1963.

Venezuela's growth rate for 1967 doubled over that of 1966 to approximately 6%, and its foreign exchange reserves rose to a new high of \$870 million. The dramatic increase in GNP during 1967 was a result of increased oil production to meet the world shortage created by the Mid-East crisis. Venezuela's petroleum income has been largely responsible for the 5.3% average GNP growth since 1961, as well as the increasing public investment for other

sectors. (Petroleum accounts for more than one-fourth of the GNP, two-thirds of central government revenues and 90% of foreign exchange earnings.) Thus, over-dependence on petroleum has made the Venezuelan economy susceptible to fluctuations in the world petroleum market and has contributed to uneven distribution of income and growth.

Since 1961, Venezuela has been subjected to a terrorist campaign organized by the Castro-Communist Armed Forces of National Liberation. These guerrilla activities are currently supported from Havana. While this threat has not been eliminated, it is being controlled through the improved capabilities of the Venezuelan internal security forces. Since 1962, an A.I.D. Public Safety Program has helped the Venezuelan Government establish a unified command among police agencies, improve logistical operations, purchase modern scientific equipment, and train some 12,000 Venezuelans in efficient and humane methods of maintaining law and order.

Major achievements by the Venezuelan Government, assisted by A.I.D. specialists, have been: (1) reorganization of the administration and investigatory procedures of the police and the establishment of a modern national police records system; (2) initiation of a national secondary and teacher education development plan; and (3) a major government public and private housing program (also supported by A.I.D. construction loans and housing guarantees). The latter resulted in more than 45,000 new dwelling units, establishment of a system of savings and loan institutions with a combined saving of \$31.2 million, and improved investment opportunities for the private sector.

FY 1969 Program

The proposed FY 1969 program consists of \$1.1 million in Technical Assistance. In addition, about \$1 million in P.L. 480 donations will be provided through voluntary agencies.

National manpower training and development funds (FY 1968--\$416,000, FY 1969--\$336,000) will provide consultant services and training to improve secondary and higher education curricula and methods, labor leader education, and manpower development and placement programs.

Housing and urban development funds (\$72,000 for FY 1968 and \$50,000 for FY 1969) will provide consultants to assist in the establishment of local housing and urban development institutions.

Population and demography funds (FY 1968--\$140,000; FY 1969--\$145,000) will finance one advisor plus contract services and participant training to develop demographic studies and family planning programs in conjunction with local private and governmental institutions.

Public safety funds (\$413,000 each for FY 1968 and FY 1969) will provide specialists to work with law enforcement agencies in

records management, investigative procedures, patrol, and training methods, plus, finance U.S. training for Venezuelan police officers.

JAMAICA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	-	0.1 ^{a/}	-
Technical Assistance	0.7	0.7	1.0
Total A.I.D. Assistance	<u>0.7</u>	<u>0.8</u>	<u>1.0</u>

a/ Represents \$120 thousand in grants for population program under Title X of the Foreign Assistance Act.

U.S. Aid Objectives

The A.I.D. program is designed to help Jamaica improve educational opportunities, preserve law and order, reduce population growth, and to provide limited advisory assistance in agriculture, and institutional reform. The limited A.I.D. program is significant when coupled with (1) increasing Jamaican determination to deal with development problems, and (2) other assistance from abroad.

Jamaican economic growth in recent years averaged over 6% per year, but slowed to about 5% in 1967. A new Five Year Plan is being developed with technical assistance from the United Nations.

FY 1969 Program

The proposed A.I.D. program for FY 1969 is \$1.0 million in technical assistance. About \$2.0 million in P.L. 480 food will be provided for maternal and child welfare and school lunch programs.

Assistance from other sources may exceed \$60-\$80 million in 1968, largely in loans from the United Kingdom, Canada, United Nations, IBRD, the Export-Import Bank and private foundations.

Education. San Diego State College Foundation, funded by an A.I.D. contract, will continue to assist the Jamaicans to increase teacher training, and to modernize the curriculum for 50 new junior secondary schools being financed by the World Bank.

An A.I.D. loan for several new vocational trade training centers, resulting from an A.I.D. loan-financed feasibility study, may be considered in FY 1969, if other sources of financing do not become available for this project.

Population. A.I.D. will provide advisory services (\$190,000) to train health educators, and equipment for new clinics, to support the Jamaican family planning program aimed at reducing the birth-rate from 39 to 25 per thousand by 1976. Forty clinics now offer family planning services; 85 more will be added during 1968.

Police Assistance. A.I.D. will continue assistance to the reorganization of the Jamaican police force. The Government has demonstrated its priority in this area by enlarging the police budget \$0.5 million in 1968 and will provide \$0.6 million more in FY 1969.

Agriculture. Agricultural production in 1967 grew at a rate far above the growth rate for the economy as a whole. But agricultural production for domestic needs (both local consumption and tourism) must continue to increase to supply growing needs and reduce costly food imports.

In FY 1969, A.I.D. will continue to provide consultant services (under a contract with the University of Florida) for dairy development efforts.

EAST CARIBBEAN

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	-	-	6.0
Technical Assistance	-	0.05	0.1
Total A.I.D. Assistance	-	0.05	6.1

The objectives of U.S. A.I.D. policy in the Eastern Caribbean are to encourage regional cooperation for economic development and to encourage the United Kingdom and Canada to continue, and if possible increase, their assistance programs in the area.

The proposed A.I.D. program for FY 1969 amounts to \$6.1 million of which \$100,000 is for technical assistance to the Regional Development Agency and \$6 million is for a development loan to the Caribbean Development Bank. It is likely that projects for infrastructure to service the tourist industry will have high priority for bank funding, since a U.S.-U.K.-Canadian-sponsored study has identified tourism as the leading growth factor in the economy of Barbados, the Windwards and the Leewards.

FISCAL YEAR 1969 PROPOSED PROGRAM

(Thousands of Dollars)

Country	Type of Assistance			
	Total	Alliance for Progress		Supporting Assistance
		Loans	Technical Assistance	
<u>LATIN AMERICA</u>				
<u>TOTAL</u>	<u>\$707,665</u>	<u>\$567,165</u>	<u>\$118,000</u>	<u>\$22,500</u>
Contribution to Inter-American Org.	19,100	---	19,100	---
Regional Programs	15,690	5,000	10,690	---
Partners of the Alliance	500	---	500	---
Argentina	1,900	---	1,900	---
Bolivia	33,100	29,000	4,100	---
Brazil	214,600	200,000	14,600	---
CENTRAL AMERICAN ECONOMIC COMMUNITY:				
ROCAP	29,000	25,000	4,000	---
Costa Rica	6,700	5,000	1,700	---
El Salvador	10,400	8,000	2,400	---
Guatemala	12,700	10,000	2,700	---
Honduras	10,300	8,000	2,300	---
Nicaragua	14,200	12,000	2,200	---
Chile	83,000	80,000	3,000	---
Colombia	95,100	90,000	5,100	---
Dominican Republic	55,400	30,000	5,400	20,000
Ecuador	4,900	2,000	2,900	---
Guyana	8,500	7,000	1,500	---
Haiti	2,500	---	---	2,500
Mexico	180	---	180	---
Panama	13,200	10,000	3,200	---
Paraguay	7,300	5,000	2,300	---
Peru	35,500	30,000	5,500	---
Uruguay	7,100	5,000	2,100	---
Venezuela	1,100	---	1,100	---
Jamaica	1,000	---	1,000	---
East Caribbean Regional Programs	6,100	6,000	100	---
Program Support, Inter-Regional Activities, Research, & Sec.211(d) -	18,595	165	18,430	---

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

OFFICIAL BUSINESS

POSTAGE AND FEES PAID
AGENCY FOR INTERNATIONAL DEVELOPMENT