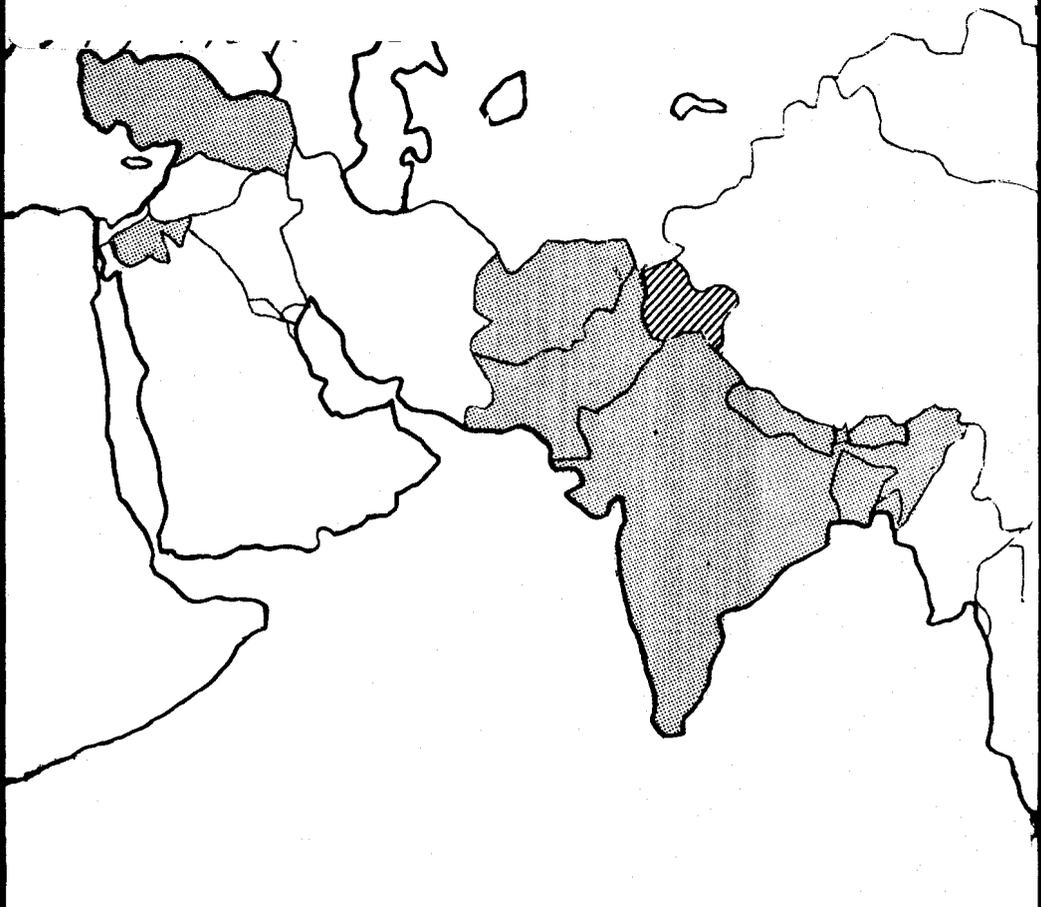


FY 1969



BEST AVAILABLE

**U. S. FOREIGN AID  
IN THE  
NEAR EAST AND SOUTH ASIA**

**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 the Near East and South Asia where AID proposes programs for FY 1969 are shaded on the cover map.

## US. FOREIGN AID IN THE NEAR EAST AND SOUTH ASIA

United States assistance helps Near East and South Asia countries maintain their independence and cooperate with each other and the free world. U.S. assistance supports strong and sound development efforts necessary to maintain democratic and stable governments able to bring a decent standard of living to their peoples.

The bulk of U.S. aid in NESAs is for India, Pakistan and Turkey. About 95% of the \$706 million proposed for FY 1969 is for these three countries, almost all of it development loans. We also propose to continue a relatively small program of capital project and technical assistance in Jordan and to continue technical assistance in Afghanistan and Nepal.

The NESAs countries themselves must--and do--make most of the effort necessary to build development. Domestic savings finance 92% of investment in Turkey, 78% of India's and 64% of Pakistan's investment, compelling evidence of the willingness and ability of these nations to commit their own resources to development.

To this substantial commitment A.I.D. assistance--with that of other donors--adds the critical margin of help needed to make development efforts effective. U.S. aid provides fertilizer and other agricultural inputs to increase crop production, raw materials, spare parts and machinery to increase output of industrial goods, and technical advice and training to create skilled manpower and effective institutions necessary to accelerate development progress.

India and Pakistan are making strong progress, but they still have much to do. They must have sustained outside help to succeed. Turkey is approaching the point of self-sustaining growth and has herself set 1973 as a target for termination of concessional aid.

U.S. assistance has helped other countries in the region attain self-sustaining growth. Israel, Greece and now Iran have reached the point where they no longer need A.I.D. concessional help. A.I.D. proposes programs for six countries in FY 1969 as compared to nine last year, twelve four years ago, and fifteen in FY 1962. The A.I.D. program in Iran was formally terminated in November 1967. Iran can now draw on its own revenues, trained manpower, industrial capacity, and agricultural production to generate a 6 or 7% annual growth rate. A.I.D. assistance helped make progress possible in each of these areas.

Two other programs--Yemen and UAR--terminated abruptly last year when these countries broke diplomatic relations with the United States. Jordan is now the only Arab country receiving U.S. assistance. The United States should be prepared to consider support of sound economic programs which could contribute to a broader Middle East political settlement and help accelerate the social and economic development of Arab countries prepared to

adopt moderate approaches to the area's complex problems. In the event of a settlement, we would encourage a multilateral effort with richer Arab states in a prominent role, and international lending institutions, other developed countries and international organizations taking part.

Progress towards development for India and Pakistan was curtailed by disastrous droughts in the past two years. This year, crop prospects are bright, because of good monsoons, heavy investment in fertilizer, pesticides, high yielding seeds and irrigation, and because of sound policies for agriculture which both countries have adopted with A.I.D. encouragement. Recovery is well under way in both India and Pakistan and we believe their economies can reach and sustain the annual pace of about 6% growth in GNP at which the Turkish economy has been expanding. They must do so.

It will take continuation of sustained development efforts--and outside aid--to achieve this goal. The countries must continue sound fiscal policies, promote export sales and give farmers and businessmen adequate incentives to invest and search out new opportunities and new markets. They must find practical policies and flexible approaches to increase food output, liberalize trade practices, and stimulate private sector growth. U.S. assistance proposed for India, Pakistan and Turkey in FY 1969 will complement, encourage and support each country's own substantial efforts.

<u>FY 1969 Program</u>	<u>FY 1966 Actual</u>	<u>FY 1967 Actual</u>	<u>FY 1968 Estimate</u>	<u>FY 1969 Proposed</u>
Development Loans	576.2	500.4	419.0	660.0
Technical Assistance	43.8	37.8	38.0	46.0
Supporting Assistance	34.9	32.0	10.0	-
Contingency Fund	8.3	2.2	-	-
Total	663.2	572.5	467.0	706.0

The A.I.D. assistance level for FY 1969 is \$239 million above the sharply cut FY 1968 estimated level--a year when both India and Pakistan had not yet fully emerged from the recession caused by the massive droughts and the uncertainties following hostilities over Kashmir. Most of the FY 1969 Development Loan request is for the three major countries: \$408 million for India, \$177 million for Pakistan and \$60 million for Turkey. The remainder of \$15 million Development Loan is to support a promising potash project in Jordan.

The current economic revival in South Asia is a fact. India's GNP in 1967/68 is expected to increase by 9% over 1966/67. In Pakistan, GNP growth is over 6% for the second year. The basis for India's recovery is the anticipated record crop which, by the time the Spring 1968 crop is harvested, should show a rise of 20 points over last year in the agricultural index. Pakistan's agricultural production is also up substantially. One result of this remarkable comeback in agricultural output is that industry, which for three years has felt the repercussions of the droughts--

in depressed demands for its products and by cutbacks in new investment--has been stimulated into recovery.

The forward surge of the economies of India and Pakistan cannot continue unless they can import the raw materials, equipment, spare parts, and agricultural inputs necessary to increase the pace of economic activity. They must be able to meet the demand for these goods in the framework of freer market systems--or face stultifying controls. Nearly all the increase in our proposed development loan program is to support this recovery in the pace of development.

The focus of our support of these favorable economic trends will be priority inputs for agriculture and industry. In FY 1967 we financed \$80 million of fertilizer imports from the United States for India's growing demand. In FY 1968, the current budget year, we are financing about \$100 million. In FY 1969 we propose to use \$200 million of the Development Loan request of \$408 million for India to meet fertilizer needs. India has allocated another \$200 million of her own scarce foreign exchange for fertilizer. We will also finance much smaller amounts of pesticides and other agricultural inputs. About \$165 million in program lending is proposed for support of the upswing in India's industrial production by financing raw materials, spare parts and equipment--all from the United States. In FY 1968, a year of Indian recession and large A.I.D. fund cuts, \$125 million was loaned for this purpose. Both agricultural and industrial expansion are needed if India is to gain sufficient development progress to feed herself.

Our support of economic upturn is the same in Pakistan. A.I.D. financed \$30 million worth of fertilizer and other agricultural inputs in FY 1967, \$50 million worth in the current fiscal year, and is proposing \$60 million of the \$177 million FY 1969 Development Loan program for Pakistan to finance fertilizer, pesticides and agricultural machinery imports. Another \$80 million in FY 1969 will finance commodity imports for industrial production to further support the liberalized trade policies announced in November 1967 and January 1968. This represents a \$15 million increase over FY 1968 in raw materials, spare parts and equipment for industry. The remaining \$37 million in the FY 1969 loan request for Pakistan is for priority agriculture and power projects.

To assist Turkey's progress, we are proposing \$60 million in development loans, of which \$40 million will finance raw materials and other inputs to spur Turkish industry and \$20 million will finance priority projects. This level is only \$5 million above last year's level but compares with \$135 million in Development Loans for Turkey in FY 1967. We believe it is the barest minimum to support Turkish imports without dampening the current lively pace of Turkey's economic growth.

Finally, a \$15 million project loan to Jordan will help generate foreign exchange from the country's potash deposits. With its

limited resources, Jordan's chances of eventual economic independence depend on this source of foreign exchange earnings.

The proposed increase for technical assistance in FY 1969 reflects stronger support for programs in key sectors. We have set aside \$2.6 million for a significant effort to support India's family planning program. Other elements in the India program will step up assistance to agricultural universities, promote improved soil and water management, and increase productivity of rice and other indigenous crops.

The aid proposed for the major aid recipients is not **high** in proportion to the size of their economies, in proportion to their own commitment to the development tasks they face, or to the objectives we seek for these countries. We believe these amounts are just adequate to give support to the most significant economic revival in the Asian subcontinent for some time.

Cooperative Aid Giving. In FY 1969, as in past years, U.S. assistance will be provided in close cooperation with other donors within the framework of consortia for India, Pakistan and Turkey. Other free world countries recognize the importance of supporting these nations' development efforts. More than half of the aid provided through consortia to these countries has come from Western Europe, Japan, Canada, and the IBRD. Regular consortium examination of country performance, implementation problems and plans for the future provides an invaluable basis for relating aid levels to self-help reform and needs.

The consortium has been used to press donors to assume or maintain aid programs proportionate to their financial capabilities and to extend aid on terms appropriate to the aid recipient's financial situation. This helps limit debt burdens which can slow progress toward self-sustaining growth. The United Kingdom, despite its own serious balance of payments problem, has extended interest free loans since 1965, Germany has improved its terms considerably and France and Italy have lengthened grace periods and reduced interest rates. Conversely, U.S. loan terms have hardened since 1964.

Hard terms on past assistance mean a growing debt burden, particularly for India and Turkey. A substantial part of Turkey's 1965-1967 debt payments were rescheduled in early 1965 and the European Consortium members plan some further rescheduling of payments falling due in 1968. India's debt service obligations this year exceed 25% of its export earnings--a serious encroachment on the foreign exchange needed to import vital needs for agriculture and industry. Some debt rescheduling or increased aid must therefore be provided, and should be on soft terms so that these countries can further strengthen their economies and develop the means of repayment. By maintaining net aid flows we shorten the time it will take the aid recipients to free themselves of the need for concessional assistance.

## Self-Help

Self-help is basic. Countries where A.I.D. has successfully terminated its program demonstrate what self-help means and what it can do. Those countries manage their own resources, conduct successful fiscal and monetary policies, provide adequate incentives for private sector investment, and generate adequate export earnings which, together with borrowing at commercial terms abroad, finance imports they need for further growth.

Countries in which we continue to provide assistance are also striving to help themselves; trade liberalization policies adopted at our urging in India, Pakistan and Turkey; Afghanistan's new liberal investment law; and priority programs in agricultural production, family planning and education all reveal a deep understanding and commitment to self-help.

Defense Spending. We believe it is essential for the countries of this region to avoid excessive allocation of their scarce resources for military expenditures. There has been good progress in this regard. In India and Pakistan, expenditures for defense as a percent of GNP are less than 4%; they are less than 5% in Turkey. India's budget expenditures for defense decreased from 23.7% to 21.5% from FY 1966 to FY 1967 and are about the same proportion of total FY 1968 budgeted expenditures. Defense expenditures in Pakistan declined from 33.8% of 1966 total budget expenditures to 24.9% in 1967 and are budgeted for 21.3% of total expenditures in 1968. In Turkey, defense expenditures as percent of total budget expenditures declined from 27.6% in FY 1966 to 25.9% in FY 1967 and are budgeted at 25.3% of total expenditures in FY 1968. We will continue to work with these countries to keep defense expenditures in check.

Agriculture. Self-help performance in agriculture is critical in the NESAs region. This is where the major battle in the War on Hunger is being fought. A number of NESAs countries have set priority targets for maintaining or achieving self-sufficiency in grains: Pakistan by the early 1970's, India by the mid-1970's, Afghanistan by 1972; Turkey is already self-sufficient, despite its 2.5% annual increase in population; Jordan is planning along these lines.

And progress is being made. A revealing indicator is the dramatic increase in the production and use of fertilizer by NESAs countries. India's production--less than 400,000 tons in 1966/67--is targeted for 1.8 million tons by 1971. This expansion will require foreign private investment as well as commitments of Indian resources. To encourage participation by private investors, India has given them the right to retain majority ownership when collaborating with Indian private firms. India now permits private firms to market fertilizer freely within India. A.I.D. has assisted by providing extended risk investment guarantees for the first U.S.-Indian fertilizer project.

India is also promoting private investment in several other fertilizer plants in order to reach the ambitious fertilizer production target set for 1971. In the meantime, India will need to import substantial quantities of fertilizer, pesticides, and other agricultural inputs. Over \$400 million will be allocated to fertilizer imports in FY 1969 of which A.I.D. will finance about half.

India's self-help commitment is also reflected in rising budget allocations to agriculture, improved incentives for increasing agricultural production through support prices paid the farmer, and in its plan to build buffer grain stocks of 3 million tons by October 1968, to which its own supplies will contribute 2 million tons. Moreover, the Indian Government is grappling with the continuing political and practical problems of internal zonal restrictions which have in the past impeded free domestic trade in food grains. Reform here would provide more flexible supplies to improve conditions for city dwellers and other food deficit areas, while reducing price differentials which generate hardship and friction.

The Indian Government has set a target of 15 million acres for cultivation of crops using new varieties of high yielding seed. Insecticide spraying is scheduled for 125 million acres as compared to a coverage of only 59 million acres in 1966/67. This performance in agriculture combined with normal weather conditions, can make the 1968/69 crop year even better than this year's all-time record.

The Government of Pakistan has moved vigorously to provide massive inputs of new seed, fertilizer, pesticides, and incentive prices for the farmer. It has set a target for growth in agriculture of 5% per year as compared to a 3% growth target in the past. This target and self-sufficiency by the early 1970's is achievable if sufficient fertilizer, irrigation, pesticides, and other inputs are available to satisfy the demand. Throughout the agricultural sector Pakistan is benefiting from:

- better marketing, distribution, storage, and transportation of crops;
- agricultural credit and public works programs which provide incentives for villagers to improve local roads, bridges, and irrigation drainage;
- improved training centers and agricultural universities;
- successful tube well investment programs in the Indus plains.

Considering the low priority given the agricultural sector of the countries in this region only a few years ago, the self-help commitment in resources, policies and energies to overcoming the serious food deficits constitutes a self-help performance of impressive proportions.

Progress in Family Planning. The present population growth rates of India, Pakistan and Turkey will double the population in a generation. Their governments realize the need to take action. They are moving to commit more of their resources to adequately staffed clinical centers, training of doctors, nurses, midwives and health educators, and to action programs designed to motivate and educate people.

The Pakistan program gets dynamic leadership at the highest government levels. It is soundly managed and has adequate budget support. The result is that a tenth of fertile couples already practice birth control, with over 1 million IUD's in use, about  $1\frac{1}{2}$  million couples using conventional contraceptives, and over 3,000 clinics carrying out clinical and educational family planning programs with the help of large numbers of para-medical personnel. Incentive payments have also been introduced to gain support of doctors.

India, which officially supported birth control as a national policy fifteen years ago, has begun to make real progress in the last two years. Conservative attitudes toward training and use of para-medical personnel in clinics and organizational and management problems are being overcome. Over 3 million sterilizations have been performed and over 2 million IUD's have been inserted. The FY 1967/68 budget for family planning was increased to \$41 million rupee equivalent from about \$8 million three years ago. The Government has undertaken an intensive educational program and is considering new legislation limiting the legal age for marriage.

Turkey was the last of the three major aid recipients in the region to establish a legal basis for sale of contraceptives and distribution of literature on family planning, and to provide budget support for family planning work in the national health program. In the past three years, however, 206 health centers have been staffed to provide family planning services and about 4,000 midwives have been trained to work in these centers and city hospitals. While the number of couples practicing birth control is not known, oral and conventional contraceptives are now readily available in the cities and towns, and private doctors as well as health centers and hospitals insert IUD's. This year the Turkish Government has increased the budget for family planning.

Despite this progress, more must be done in family planning. A large proportion of the people in these countries are not yet sure they want to practice family planning. Medical and para-medical personnel and training facilities remain scarce. Ongoing programs are frustrated by administrative and logistical bottlenecks. Pilot programs to build rural acceptance are badly needed.

A.I.D. has offered help in these problem areas. Advisory teams of U.S. experts have been recruited--ten in India and seven in Pakistan. These teams include demographers, nurses, health educators, doctors and administrators. Training in family planning is being arranged in the United States for participants from India, Pakistan, Turkey, and Nepal. \$3.6 million was loaned

to Turkey to finance the purchase of vehicles, maintenance services, and audiovisual equipment. A pilot program has been undertaken in India to test the response to oral contraceptives financed by A.I.D. A.I.D. also has agreed to supply over \$800,000 worth of condoms to India, to be distributed through commercial channels, as a test of market demand. A local currency (Cooley) loan has been made to Pakistan, and another is under consideration for India, to help local pharmaceutical companies expand their oral contraceptives production capacity. Over \$9 million worth of P.L. 480-generated local currency has been granted to India and Pakistan to expand family planning training and operational programs.

Assistance to the family planning programs in India and Pakistan will continue in FY 1969 at least on this year's scale. \$4.1 million of Technical Assistance funds are proposed to finance teams of advisors, training of participants, and purchase of pills, condoms, scientific and audiovisual equipment.

Additional pilot tests and educational projects will be carried out. The FY 1969 program also includes funds to finance work of American voluntary agencies to develop action programs jointly with local voluntary groups in India and other countries. We are also considering the possibility of helping the American University of Beirut introduce new family planning courses and research work in its faculties of Public Health and Medicine.

Education. Better performance by aid recipients requires more trained professionals and technicians in agriculture, engineering, public health, administration and management. The private industrial sector needs more accountants and industrial engineers. More agronomists, soil scientists, farm machinery specialists, and organizers of supervised credit programs are needed to carry out programs to build the agricultural revolution.

A.I.D. technical assistance finances advisory teams which help create new curricula, teach courses, introduce laboratory techniques, and organize and supervise applied research groups.

A.I.D. also finances training in the United States and at the American University of Beirut for school administrators, teachers of engineering, agronomy, accounting and technical schools, colleges of commerce, and the university faculties of agriculture, engineering, science, and public administration.

One-third of the FY 1969 NESAs technical assistance effort, about \$13.5 million, is in the field of education. Approximately 235 long-term advisors are now at universities, technical and commercial schools, teacher training institutions and ministries. In addition, there are about 200 short-term American experts teaching science and math summer institutes in India and Pakistan. A.I.D. also finances advanced training for about 150 specialists each year--most of whom return to teaching in the universities

and technical schools or take on positions of authority in government departments or in private industry.

We finance projects which are attuned to the particular needs of the country and to the help the country is receiving from others.

The program in the teaching of science and mathematics, begun in India in 1964, and in Pakistan a year ago, is an excellent example of A.I.D.'s effort. Modern technology and the organization of industrial plants on rational lines demand the services of engineers, industrial managers and a variety of personnel with a scientific cast of mind. In the past the higher technical schools of India and Pakistan tended to be pale copies of similar institutions in Western Europe and the United States. The middle schools failed to progress in their methods of teaching, the quality of students entering these higher schools declined and the technical institutions steadily fell behind. Thus, there was a growing gap between the demands on the economy and the supply of skilled people needed to carry out the job.

The Indian institutes' program is designed to bring quick progress in closing this gap. It has been conducted with growing effectiveness for four years. The summer institutes are attended by teachers from secondary schools, higher technical schools, and universities, and are taught by teams of Americans and Indians. The institutes have been effective in breaking the hold of old texts and outmoded and incorrect methods of presenting scientific and mathematical problems, and of convincing increasing numbers of teachers that modern science is both intellectually exciting and socially useful.

The National Science Foundation, which has been responsible for the project since 1967, has now introduced a new element into the program, consisting of continuing up-grading of teaching methods, the creation of new or revised texts in the various scientific fields, and the development of laboratory experiments using Indian materials and equipment. As the thousands of institute-trained teachers break from past methods of teaching, the curricula of India's secondary schools and colleges are being re-oriented. The students entering technical institutes and universities in the 1970's will have a firm grounding in mathematics and science, and an appreciation of the importance of scientific methods.

Private Sector. Efforts to promote private initiative and expand the role of private enterprise are succeeding in the countries of the NESAP region. Both India and Pakistan have eliminated strict government controls on imports needed for development. Both are introducing private enterprise into fertilizer production plans. In Turkey, a modern private sector has replaced traditional trading oriented business.

In India, American firms have invested in new fertilizer plants. Private distribution of fertilizer has been encouraged. Pakistan

has attracted private U.S. companies to invest in fertilizer operations, one of which is already under construction and two more are planned. These plants will generate a four-fold increase over current production capacity in Pakistan and bring the country close to self-sufficiency in fertilizer.

Also, as in India, the private sector in Pakistan has been encouraged by shifting the responsibility of fertilizer sales from a public agency to the private sector. In East Pakistan, differential concessions are being offered to encourage private investment. A new liberalized Investment Law in Afghanistan which was passed last year is designed to encourage and attract local and foreign private investors.

Most A.I.D. Development Loan financing of commodities, including fertilizer and other agricultural inputs, bring these goods to private farm or business operations. A.I.D. loans also provide infrastructure, roads, communications, and power, from which the private sector benefits immensely.

A.I.D. technical assistance provides improved manpower and training facilities used by the private sectors of these economies; our local currency loans have supported private enterprises in almost every field; investment guaranties and Cooley loans of about \$20 million in FY 1968 spurred private enterprise activity in fertilizers, high protein food concentrates, pharmaceuticals, cement, industrial materials and other production-oriented industries.

Finally, we know of no better way to promote private sector and free market activity than to support the self-help commitment the NESAs countries are making to their own economic growth. Support of the present recovery in agriculture in India and Pakistan is at the core of our continued urging of these countries to liberalize their trading regimes. This will allow free market enterprise to compete more effectively in industry and to expand their investments. The economic revival in South Asia is buttressed by the agricultural recovery which in turn stimulates demand for imports for all categories of production. If the free market does not provide them with the raw materials, fertilizers, spare parts, machinery, and other inputs they need to compete and stay ahead of the growth in markets, farmers and businessmen will be faced with rationing, government edict, and favoritism.

Country: INDIA

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967	FY 1968	FY 1969
	Actual	Estimated	Proposed
Development Loans	203.3	236.3	408.0
Technical Assistance	8.4	11.0	14.8
Total A.I.D. Assistance	<u>211.7</u>	<u>247.3</u>	<u>422.8</u>

U.S. Aid Objectives

India is the critical testing ground for the proposition that developing countries can solve their problems and improve the standard of living of their people within the framework of free and democratic institutions. A viable India with an expanding economy is the only possible independent counterweight on the Asian continent to an expansionist China. The fulfillment of India's role in Asia and the world depends on its ability to achieve more rapid economic growth than it has in recent years.

A.I.D. assistance through the IBRD-led Consortium helps India mobilize its skills and resources for more rapid development and to provide a critical margin of imports and technical aid needed to complement India's own effort. Our objectives are to:

- help India consolidate recent impressive gains in food production and sustain a continuing high growth rate of food crops;
- support and strengthen India's promising family planning programs;
- help India end the current industrial recession;
- encourage and support greater Indian efforts to expand exports; and
- encourage India's efforts to reduce cumbersome administrative controls over the economy.

Our FY 1969 objectives are keyed to encouraging economic recovery in India by financing imports of agricultural and industrial goods and equipment, without which the economic upswing would be dampened. India's continued economic progress and stability depend on priority allocation of resources for development and require strict limits on defense expenditures.

## Country Performance and Self-Help

1967 was a particularly difficult year for India. Two successive droughts of unprecedented severity sharply reduced agricultural production and deprived India of the gains from promising new policy departures. Because agriculture is the major source of income in India, exports and savings for investment were reduced, adversely affecting the performance of the whole economy. The record crop expected during FY 1968 will provide the stimulus needed to end the current recession and can help lay the foundation for better economic performance during the next few years.

These potential economic gains depend primarily on continued vigor in India's execution of ambitious economic reform programs urged by the World Bank and other Consortium members to increase investment in agriculture and to give greater scope to private initiative throughout the economy. But India must also have enough external assistance to finance the fertilizers, pesticides, raw materials and components needed by an expanding economy.

The only two successive droughts in India's history occurred in 1965 and 1966. The resulting drop in food production sharply curtailed domestic food supplies, agricultural exports and exports of industries using agricultural products such as jute. Reduced agricultural income--about half the country's total income--resulted in lower consumer demand, which in turn slowed consumer industry, transportation and trade. Higher food prices in the cities reduced urban income available for other purposes, further depriving consumer industries. The Government had to reduce investment expenditures to help rural dwellers who lost their incomes and to subsidize food for the urban areas--which cut industrial production still more. The export losses caused by the drought--export earnings dropped about 10% over the past two years--were particularly discouraging coming right after the devaluation designed to spur exports and limit imports, and caused a serious decline in foreign exchange reserves.

The political uncertainties caused by the results of the February 1967 elections--which greatly reduced the majority of the ruling Congress party at the federal level and created a new political element by the emergence of non-Congress parties in several states--may have slowed the Government's response to the emerging recession. But the Government considered that its ability to accelerate the economic recovery was limited by the danger that speedy recovery would require imports--which could not be paid for because of the sharp reduction (by about one-third from the Consortium over-all) in the availability of external capital during 1967/68.

Although 1967/68 was a year of crisis, important progress was made in a number of areas. India spent more for agriculture--14% as compared to 9% of total development outlays in 1964/65. Fertilizer consumption increased by 50% over the previous year, and the consumption of improved seeds quadrupled. Farmers, expecting higher grain prices, dug many private tubewells to increase productivity. Several Indian states produced all-time record wheat crops, despite

the drought. The Indian budget for family planning was raised by 60%, and successful efforts were undertaken to promote the export of railway equipment and other industrial equipment. The Indian Government maintained its flexible, market-oriented policies, including import liberalization, in the face of sharp reductions in the level of external aid and declining foreign exchange reserve levels.

But India's economic problems should not obscure the underlying trends that are creating a new basis for more rapid economic growth. The economic outlook is dramatically improved, largely as the result of the bumper grain crop of 95 million tons or more expected this year, compared with the previous record of 89 million tons in 1964/65, and with last year's 75 million tons. About two-thirds of this year's crop has already been harvested, and recent favorable rains make it likely that the 95 million ton estimate will be exceeded.

The excellent crop prospects reflect in part better weather, but, more significantly, they represent the first fruits of improved agricultural policies and of greater availability of production inputs such as fertilizer and improved seeds at reasonable prices. India's use of all types of fertilizer has risen sharply from about 600,000 nutrient tons in 1964/65 (the year of the previous record crop) to 1.3 million tons in 1966/67 and an estimated 2 million tons in 1967/68. In line with self-help targets established in connection with the negotiation of A.I.D. Development Loans and PL 480 agreements, the Indians plan to reach 4 million tons by 1970/71.

India is now in a position to capitalize on the significant policy changes adopted during the past three years to turn the bumper crop into economic recovery and into a steeper rate of long-term economic growth. The better than 20% increase in agricultural production in 1967/68 compared with the preceding year will sharply raise agricultural incomes. Lower food prices have made it possible for the government to eliminate most grain subsidies for consumers, thus making available more resources for investment. Industry expects to benefit from increased consumer spending--by the rural population, whose cash incomes are rising, and by the urban population, which will have to spend less on food. Industrial production is just beginning to be affected by the recent improvement of investment and consumer demand, so that industrial production in Indian fiscal year 1967/68 is expected to increase by only about 3% to 4%. But the increase in agricultural production will more than offset the slow industrial upturn. As a result, Indian GNP is expected to show a 9% increase.

The bumper harvest, coupled with improved technology, better management of resources, and more flexible and pragmatic policies in dealing with current economic problems and in adjusting long range development plans, promise a break-through to a higher economic growth rate than in the past. The Planning Commission has been reconstituted with a new membership and is designing programs more closely attuned to annual appraisals of available resources, new opportunities, and accomplishments, rather than to the achievement of rather inflexible long-term targets. This new approach has

already been put into effect. Thus the planning mechanism is beginning to reflect the more market-oriented approach being tested by the Indian government.

The Indian family planning program is being pursued with a new sense of urgency, reflecting recognition of the extent to which past economic gains have been offset by population growth. Budget resources allocated to family planning have risen from \$1.8 million equivalent in 1963/64 to a planned \$4.3 million in 1967/68.

Moreover, the Indian Government recognizes the need for utmost caution in the preparation of its defense budget. Indian authorities clearly see the dangers posed by an arms race with their neighbors to the political stability of South Asia and to India's own economic development programs. The strict limitations imposed by India on its defense expenditures are reflected by the budget for Indian fiscal year 1967/68. Although defense expenditures are almost 4% higher than in 1966/67, this is the result of inflation rather than greater effort. Defense spending was 3.4% of GNP in 1967/68, compared with 3.9% in 1966/67, another measure of India's restraint.

At the same time, development programs have been allotted the same share of resources in 1967/68 as in 1966/67, despite the great pressure on government budgets resulting from the drought, the industrial recession, the need for food and other subsidies, emergency programs to relieve disaster, and reductions in foreign aid. India's strong determination to give highest priority to economic development is also reflected in the continuous increase of investment as a share of GNP from 5% in the early 1950's to 15% in the middle 1960's. Except for the last two drought years well over 80% of the investment in India has been financed from domestic resources, with A.I.D. and other external sources providing the balance. New taxes and other measures have been adopted to mobilize additional savings, both by the Government and by the private sector, as the drought emergency ends and rising incomes are generated.

#### FY 1969 Program

For FY 1969, a Development Loan program of \$408 million and a Technical Assistance program of \$14.8 million is proposed. The United States will also provide about \$350 million of P.L. 480 food, cotton and other agricultural products. In addition, the Export-Import Bank is expected to lend India about \$50 million.

U.S. programs are coordinated through the World Bank-led Consortium of ten nations which relates India's capital requirements to self-help performance. Consortium members in FY 1969 are expected to provide a total of \$1.2 billion, and the U.S. share, including Export-Import Bank, is expected to be about 40%. India also expects about \$150 million in new commitments from communist countries, as well as food aid from Canada and Australia. In addition, several other industrial countries are expected to provide food aid for the first time, in accordance with the International Grains Agreement of 1967. This agreement, negotiated during the Kennedy Round, is part

of the continuing U.S. effort to induce other countries to help meet India's food needs.

The FY 1969 A.I.D. program is intended for India's fiscal year 1968/69 beginning on April 1, 1968. The FY 1969 Development Loan request of \$408 million includes \$385 million of non-project assistance and \$23 million of project aid. It will permit A.I.D. to provide about the same amount of assistance during India's fiscal year 1968/69 as during 1966/67, when A.I.D. provided \$382 million in program loans and \$21 million for projects. As a result of a sharp reduction in availabilities, A.I.D. will provide in India's fiscal year 1967/68 \$275 million in non-project assistance and an estimated \$11 million in project aid.

To help offset decreased aid availabilities and falling foreign exchange reserves in the current year, India has obtained temporary assistance from the International Monetary Fund (IMF) and has received short-term accommodations from several creditors, notably the IBRD, the United Kingdom, Japan and Canada. The reduction of U.S. aid coupled with the delay in International Development Association (IDA) replenishment may well have inhibited the Indian government from taking more vigorous action to end the current recession.

The World Bank, expecting an over-all economic upswing to begin following this year's bumper food crop, estimates India's requirement in 1968/69 for non-project aid to sustain economic recovery and the maintenance of the new Indian policies to be about \$900 million--the same as in 1966/67. We propose to provide \$385 million for this purpose for 1968/69. If we fail to provide our traditional share of aid two years in a row, India's economic prospects could be so seriously affected as to cause other members of the Consortium to reconsider their assistance levels--leaving India without the resources to carry out its development program.

Project requirements for FY 1969 are estimated at \$300 million from the Consortium, of which the United States plans to provide \$73 million--\$50 million from the Export-Import Bank and \$23 million from A.I.D. A.I.D. already has applications for several high priority projects which exceed available funds, especially to expand fertilizer production.

Assistance--particularly non-project loans--will be closely related to India's progress in pressing forward with urgent programs to expand agricultural production, limit population growth and improve export earnings. The United States, with the World Bank and other Consortium partners, has been stressing the need for further reduction of administrative controls encumbering the market mechanism and slowing the expansion of private enterprise. But these programs and policies cannot be carried through without external capital. The World Bank, in making recommendations to India in 1966 on self-help policies in these areas, particularly emphasized that India needs both agricultural and industrial production loans to finance imports in accordance with the demands of the market, if it is to pursue its forward-looking development policies.

Agriculture. From the inception of development planning in 1950 until 1965, India's agriculture grew at an average rate of about 2.5%--just about keeping pace with the rise in population. The increases in production resulted largely from the expansion of cultivated area. In the early 1960's, when there was no more new arable land, the growth rate flattened. This period of relatively low investment in agricultural expansion coincided with the U.S. desire to dispose of cumbersome surpluses of foodgrains.

Rising food shortages in India in the mid-sixties and the simultaneous reduction of U.S. food stocks caused a reappraisal of agricultural strategy by both India and the United States. With the help of the United States, the World Bank and other interested agencies and countries, India developed a new approach to its agricultural problems which is simple in concept, but difficult to carry out in a country short of skilled manpower and resources, including foreign exchange. The new strategy placed top priority on investment in agriculture and called for liberal use of market forces to direct inputs--such as fertilizer, improved seeds, pesticides and better tools--to the most efficient farmers, who are in a position to buy these inputs because of a system of government-supported incentive prices for producers of grains. The new strategy also called for improved basic and adaptive research and agricultural education, as well as the expansion of extension and irrigation services.

This strategy can work only if India's use of fertilizer increases sharply. Every dollar's worth of fertilizer used means \$4 worth of additional grain production.

Indian production of fertilizer--less than 400,000 nutrient tons in 1966/67--is to be boosted to about 1.8 million tons by 1971, when demand for fertilizer is expected to run at the annual rate of about 4 million tons. The Indian Government recognizes--as A.I.D. has urged--that an expansion of productive capacity of over a million tons in six years requires the active participation of foreign private investors who can provide needed capital as well as production, management, and marketing experience. A partly U.S.-owned plant with a capacity of 160,000 nutrient tons just started operations in December 1967. The plant, located in Visakputram on the East Coast of India, was constructed with the help of an Export-Import Bank loan of \$35 million and Cooley loans totalling \$23 million. The owners of this plant are sufficiently encouraged by prospects in India to have asked the Indian government for permission to expand the capacity of the plant by another 205,000 nutrient tons.

Another U.S.-Indian fertilizer project is now under construction. Arranged with the help of A.I.D. extended risk guaranties, it will have a capacity of 200,000 tons of nitrogen a year. Two other fertilizer plants with a combined capacity of 350,000 tons are also under construction on the basis of collaboration agreements with private interests in other Consortium countries. These projects, plus other plants still in the negotiation stage, will increase India's fertilizer capacity by 1.2 million tons a year.

A.I.D. is also considering helping India meet its domestic fertilizer production target by financing in FY 1968 up to \$35 million foreign exchange costs required to expand the capacity of the government-owned Trombay Fertilizer plant from 130 to 500 thousand nutrient tons a year.

\$15 million in Development Loans will be required in FY 1969 to help finance the foreign exchange costs, estimated at \$53 million, of a fertilizer plant sponsored jointly by U.S. and India cooperatives. The balance of \$34 million of foreign exchange needed for this plant will be raised by the participating U.S. fertilizer cooperatives through U.S. financial institutions, with the help of A.I.D. extended risk guaranties. Indian fertilizer cooperatives and the Indian Government will provide \$60 million equivalent in Indian currency to finance the domestic costs of constructing the plant.

We have encouraged the Indians to plan to use more fertilizer than they can produce themselves. According to self-help plans developed by the Indian Government and incorporated into P.L. 480 agreements, India plans to expand fertilizer use from 600,000 nutrient tons in 1964/65 and 1.3 million tons in 1966/67 to 4 million tons in 1970/71. To help meet these targets A.I.D. plans to make agricultural production loans to finance the import chiefly of fertilizer, but also of pesticides and other agricultural inputs of \$110 million in FY 1968 and \$220 million in FY 1969. A.I.D. will finance about 50% of India's fertilizer imports in these two years.

Another aspect of India's program calls for the improvement of financial incentives for increasing foodgrain production by raising the support prices for foodgrains paid to farmers. India plans to build a buffer grain stock as quickly as conditions allow, with the help of 1 million tons to be provided under P.L. 480. The Indian Government has announced its intention of eliminating zonal restrictions impeding the free domestic trade of foodgrains, as more foodgrains become available and market conditions improve. This would reduce price differentials between various parts of the country, help farmers in the high production areas and improve supply conditions for city dwellers as well as in rural food deficit areas. A.I.D. will provide expert assistance to help resolve administrative, financial and policy problems confronting the Food Corporation of India, the Indian Government agency charged with carrying out programs to stabilize domestic grain prices by facilitating the procurement, storage and distribution of foodgrains.

The A.I.D. program is also designed to help India deal with the most urgent problems limiting the continued expansion of agricultural production over the longer term. Technical Assistance of \$1.9 million in FY 1968 and \$2.7 million in FY 1969 will finance advisory teams from U.S. land grant colleges to improve the structure, administration, curricula, teaching methods and personnel of selected agricultural universities in India. The number of American teams is being expanded from 7 to 10--with one additional team composed of experts from the Department of Agriculture. This program also seeks (a) to establish effective relations between the state governments and the Indian universities and (b) to improve research and

extension, and generally meet farmers' requirements for technological improvements.

India is placing greater emphasis on the role of research in improving technology and in adapting foreign technology to domestic needs. A.I.D. will provide a total of almost \$2 million in Technical Assistance in FY 1968 and FY 1969 to accelerate and improve programs already under way, to test and adapt domestic and imported strains of rice and other crops, to develop means to protect the new strains from harmful pests and diseases, and to find the best combination of seed and other inputs suitable to Indian conditions.

Family Planning. India's national objective is to reduce the annual birth rate to 25 per thousand by 1975, thus reducing the population increase from about 2.4% a year now to about 1% a year in 1975. There is no significant moral, religious or political opposition to family planning in India. Field tests and reductions in birth rates already achieved in several Indian states demonstrate the interest of India's people in participating in the program.

The Indian Government has started an ambitious program to make conventional contraceptives more readily available, to increase medical facilities and personnel to permit expansion of the sterilization program and wider use of contraceptives requiring medical intervention (such as the intrauterine device), and to experiment with oral contraceptives. The Indian government is also considering legislation to raise the marriage age for women from 15 to 20 years and to liberalize abortion laws.

The great importance which the Indian Government attached to these programs is reflected in the sharp rise in its family planning budgets from the rupee equivalent of \$1.8 million in 1963/64 to \$41.3 million in 1967/68. The achievement of India's target will require the recruitment and training of large numbers of medical, paramedical and other personnel, the organization of an effective family planning service that can reach people in rural areas as well as in cities, enough contraceptives and continued research.

In cooperation with India's major private distribution firms--whose outlets reach into most Indian villages--the Indian government has organized a program for the distribution of conventional contraceptives at subsidized prices. A.I.D. had earlier agreed to provide about \$1.3 million in FY 1968 to procure contraceptives in the United States needed to supplement India's domestic production and other imports financed by India and other donors. A \$2 million loan will be provided in FY 1968 to finance the imported components required to manufacture 6,000 vehicles needed to enable family planning teams to reach remote villages over a 12-month period. The domestic costs of these vehicles estimated at about \$22 million equivalent is expected to be provided from local currencies generated by P.L. 480 programs. In addition, \$200,000 will be required to finance communications and laboratory equipment.

New plants now under construction in India are expected to start production in time to replace the need for large-scale imports of

traditional contraceptives after 1969. A.I.D. will also support efforts, particularly by private enterprise, to establish domestic Indian production facilities for oral contraceptives and is considering a Cooley loan for an American plant.

For FY 1969, about \$1.8 million is needed for expanded contraceptives supply programs, and \$800,000 will be used to help establish training programs and to support the organization of research activities.

#### Economic Recovery and Exports

During the past three years India has begun to deal constructively with the pervasive system of administrative economic controls impeding efficient allocation of resources based on market prices. Production loans provided by the United States and other Consortium members to finance raw materials, spare parts and components needed by industry have been the most flexible and effective tool in promoting this change and bringing about greater reliance on market forces in economic decision-making. The devaluation of 1966, by adjusting India's price levels more closely to world market prices, provides an opportunity for a more satisfactory expansion of India's exports, which are expected to increase at the rate of 7-8% per year. The Indian Government recognizes the importance of reaching this target, which we and our Consortium partners consider of high priority, preceded in importance only by India's efforts to expand agricultural production and to limit the growth of population.

In 1966/67 India's trade deficit was about \$1.2 billion. Even the most aggressive export policies would require a long period to close a gap of this magnitude. As a result of the drought and reduced domestic demand, both exports and imports are expected to show no significant increase in 1967/68, leaving the trade deficit almost unchanged. With agricultural raw materials for export commodities again available and as the result of greater Indian efforts, exports are expected to expand by 8% in 1968/69. However, Indian industry will continue to operate substantially below its plant capacities and will be unable to meet the growing domestic and export demand for its products, unless non-project assistance of at least \$900 million is provided by the Consortium for 1968/69 as recommended by the World Bank.

The A.I.D. share of non-project aid is \$385 million in FY 1969, of which \$220 million will finance agricultural needs and \$165 million will be needed for raw materials, spare parts and components, principally for the private sector. These funds will permit India's economy to expand more rapidly in response to the stimulus provided by the bumper harvest. For example, Indian plants manufacturing tractors need components which cannot yet be made in India. Lubricants supplied from the United States will help keep India's factories and transport network operating. The additional savings and income generated by this rapid expansion of industrial output, together with continued agricultural successes, can mean a sharply improved outlook for the entire Indian economy.

If these funds are not available, on the other hand, India's industrial production would slow down, existing plant investment constructed partly with U.S. help would be under-used, business profits and investment funds needed for future economic growth would be reduced. Under these circumstances, India could not create enough jobs for the burgeoning population, creating new social and political tensions. India's present chance to get back on the road to self-sustaining growth could be lost.

**Country:** PAKISTAN

PROGRAM SUMMARY

	FY 1967 Actual	FY 1968 Estimate	FY 1969 Proposed
Development Loans	130.4	127.0	177.0
Technical Assistance	6.2	6.8	8.5
Total A.I.D. Assistance	<u>136.6</u>	<u>133.8</u>	<u>185.5</u>

U.S. Aid Objectives

The A.I.D. objective is to encourage and support the priority which Pakistan gives to its strong and successful development effort. Specifically this means:

- Continued expansion of private sector industrial production, and a central role for the free market mechanism.
- Expanded agricultural production, through wide availability and use of fertilizer, improved seed, irrigation and other modern inputs.
- Reduced rates of population growth through support of Pakistan's effective family planning program.

A.I.D. furnishes assistance through a nine-nation Consortium led by the World Bank.

Continued development progress will support basic U.S. objectives of (1) strengthening Pakistan's ties with the free world; (2) building peace on the South Asian sub-continent; and (3) promoting national integration in Pakistan.

Country Performance and Self-Help

In the past ten years Pakistan has moved from virtual economic stagnation to an impressive record of economic growth. Effective development policies and a readiness to experiment helped bring

about this change. The new development strategy has given higher priority to agriculture and exports, to greater efficiency in the use of resources through reduction of administrative controls, and more recently to family planning. GNP growth rates barely kept pace with population increases in the 1955-1960 period, but agricultural output increased less than population.

During the Second Plan (1960-1965) the pace of development accelerated and Pakistan's economy grew by 30%. The Third Plan (1965-1970) was launched with high hopes of expanding the economy by 39% over the plan period and achieving an annual average growth rate of close to 7%.

Since the war with India, the economy has been under considerable strain. The tension resulting from the war led to an increase in defense expenditures, and deficit financing for defense contributed to a rapid rise in domestic prices. Lower foreign exchange availabilities reduced public investment sharply, and private sector investment declined.

Pakistan suffered two years of drought in the Western Province and floods in the East. In 1966 wheat production decreased 14% and rice 8% from the previous year. In FY 1967, Pakistan was compelled to import \$100 million of foodgrains through commercial channels, compared to an annual average of \$25-\$30 million over the previous five years. This expenditure placed considerable strain on Pakistan's official gold and foreign exchange reserves, which fell from \$200 million in December 1966 to \$140 million in December 1967. This dangerously low level has persisted and is only sufficient to cover about seven weeks of commodity imports.

Faced with these economic problems, the Pakistan Government took the kind of corrective action which demonstrated its clear dedication to economic development. Halfway through the Third Plan (1965-1970) development priorities were re-ordered to place more emphasis on food production with the hope of avoiding the prospect of large food imports in the future. Defense expenditures were cut. To abate rising prices, deficit financing was eliminated, and the State Bank introduced selective credit controls. Despite the disruptions experienced in 1966, the economy recovered most of its losses in FY 1967. Whereas the growth rate fell from 5.5% in FY 1965 to 4.2% in FY 1966, it climbed back to 6% in FY 1967. Industrial output in FY 1967 increased about 10%.

Pakistan's agricultural policy is beginning to pay off. In the late 1950s Pakistan, with U.S. advice, abandoned price controls on grain and the practice of mandatory sale to the government at artificially low prices. At the same time, imports of foodgrains were not permitted to affect adversely the prices for Pakistani farmers. The Pakistan Government relaxed bureaucratic controls on private sale of grain throughout Pakistan. The higher prices for farmers stimulated their willingness to adopt new methods of cultivation. One other

result was that over \$50 million of unpredicted investment by farmers in tubewells for irrigation spurred agricultural production.

Pakistan has pressed forward with rapid expansion of modern inputs to agriculture, particularly in fertilizer and high-yielding seeds. In the last 18 months Pakistan has bought over 42,000 tons of new wheat seed--a dramatic commitment to productivity in agriculture. At the same time fertilizer consumption has been climbing steeply, doubling since FY 1966. A.I.D. non-project loans have helped finance fertilizer and pesticides so that Pakistan can meet its target of self-sufficiency in food by the early 1970's.

Pakistan's policies on fertilizer and on encouragement of private foreign investment helped make American private investment in Pakistan fertilizer production attractive. Esso is investing over \$30 million in a West Pakistan plant now under construction. Other major American investors are actively considering deals with private Pakistani partners.

Pakistan is also intent on creating a more development-oriented trade policy. Exports must increase if Pakistan is to move in the direction of eventually paying its own way. Resources must be used more efficiently, if agricultural and industrial products are to compete in world markets.

During FY 1965 and FY 1966 Pakistan increased the level of exports over the previous year by 16% and 13% respectively. In FY 1967, however, the increase was only 2%, and for the first half of FY 1968 exports have fallen 8% below the same period last year. This decline stems in part from low raw material stocks and insufficient industrial imports and reflects the tight foreign exchange position that had begun to develop the previous year. Only 60% of one shift capacity of Pakistan's industrial sector is currently being used. This problem arises largely from the scarcity of imported resources. Consortium non-project assistance will help overcome this difficult problem and will contribute to the removal of the present major constraint on the pace of economic development.

In response to the slowdown in industrial development, at the June 1967 meeting of the World Bank Consortium, the Bank and donor countries urged Pakistan to reintroduce trade policy reforms begun in 1964, but suspended in 1965 because of the war. Because foreign exchange reserves were low and some officials believed reserves would come under additional pressure, administrative controls were reduced and market forces were given a greater role in import allocation. Nevertheless, in two policy reforms introduced in November 1967 and January 1968, the government has adopted impressive self-help measures to assure a better use of foreign exchange and encourage exports.

It is essential that Pakistan avoid allocating excessive amounts from its scarce resources to defense spending. Expenditures for defense as a percent of GNP are less than 4%, and despite

public emotions over the Kashmir crisis, such expenditures have declined from 33.8% of 1966 total budget outlays to 24.9% in 1967 and are budgeted for 21.3% of total expenditures in 1968. The FY 1968 defense estimate of budget outlays would reduce the level to about 3.5% of GNP--the level prevailing prior to the conflict with India. This effort reflects the importance with which Pakistan regards investment in development, in keeping with the emphasis A.I.D. wants and urges aid recipients to assume.

### FY 1969 Program

During FY 1969 Pakistan is expected to receive about \$350 million in non-project loans from the World Bank Consortium. A.I.D. proposes to contribute \$177 million in Development Loans, some \$13 million less than the \$190 million annual average level of Development Loans provided to Pakistan by the United States through the Consortium, from 1962-1965, i.e., prior to the war with India.

A.I.D.'s proposed FY 1969 program will consist of a non-project loan of \$140 million to finance agricultural and industrial raw material imports, \$37 million in project loans, primarily for agriculture and family planning, and \$8.5 million in Technical Assistance. In addition about \$157 million of P.L. 480 commodity sales are proposed for FY 1969.

Trade Policy Reform. Our non-project assistance, by financing fertilizer and industrial raw materials, has permitted Pakistan to take significant steps toward a more development-oriented trade policy. The new policy was announced in two parts: in November 1967, at the time of the U.K. devaluation, adjustments in effective foreign exchange rates were announced; in January 1968 private sector and administrative decontrol measures were introduced. The new reforms will help ease the principal constraints on balanced industrial growth in Pakistan. Pakistan's development has been held back by a serious under-use of existing industrial capacity because of insufficient imports and the uneconomic channelling of scarce imports to inefficient industries because of an artificially low rupee cost of foreign exchange.

Under the new trade policy, imports of industrial raw materials, spare parts and components will go to the more efficient businessmen who can pay the higher rupee prices. Financial incentives will encourage manufacturers to produce goods for exports, thereby reducing Pakistan's heavy reliance on the traditional exports of jute and cotton.

The trade reforms were undertaken in the face of strong opposition within the Government, and at a time when foreign exchange reserves were so low that they could provide very little support. But, backed with non-project loans from the Consortium, the Government of Pakistan will be able to implement measures that will move the country toward a freer market economy.

In view of Pakistan's very tight exchange reserve position and the decline in exports, the members of the Consortium must give Pakistan strong financial support to enable it to proceed along its current course of reform. The FY 1968 and FY 1969 A.I.D. non-project loans are an integral part of this reform and provide vital support which allows Pakistan to adopt the policies that will help her become independent of foreign assistance.

Agriculture. A.I.D. fully supports Pakistan's goal to obtain self-sufficiency in foodgrain production by the early 1970's. The Government's policy attacks the food deficit by making available to the farmers massive quantities of new seeds, pesticides and fertilizers, and by stimulating agricultural production with economic incentives for the farmer. Floor prices have been established for the major crops, and fertilizers and pesticides are being subsidized.

The critical component of the new strategy is the recent adoption of high yield wheat and rice seeds. A.I.D. has helped finance some of the new seeds. Research in the use of these varieties has been expanded with A.I.D. and Ford Foundation help and in cooperation with American private enterprise. The results thus far have been promising. With the recommended amount of fertilizer, water, and proper cultivation practices, farmers have been achieving average yields from the new varieties of wheat that are easily two to three times those of traditional native varieties.

The high yields achieved in Pakistan's other major crop, rice, have been equally dramatic, although the rice program is not as far advanced. With the new rice varieties in the limited areas thus far planted, farmers are growing 4,000-5,000 pounds per acre, with the lowest yields ranging around 2,500 pounds. This contrasts with average yields of only 1,000 pounds per acre with the local traditional varieties.

As part of the agricultural technical assistance program A.I.D. proposes to obligate \$1.5 million in FY 1969 for agricultural development. A.I.D. advisors are now helping government extension agents set up demonstration plots to show the farmers proper cultivating practices and to demonstrate the importance of using a package of inputs--the new seeds along with fertilizer, sufficient water and pesticides. The farmers, even the small intermediate farmers, have been rapidly adopting the new agricultural practices. In the fall of 1965, 12,000 acres were planted in the new high-yield wheat types; in the fall of 1966 the farmers had 300,000 acres under the improved wheat; and by the fall of 1967 over 2 million acres of the new wheat types were planted.

Achievement of self-sufficiency by the early 1970's will depend largely on the adequate availability and proper use of fertilizer, irrigation, and pesticides. Pakistan's agriculture strategy requires sharp increases in the use of fertilizer. Consumption has risen six-fold since 1960, from 30,000 nutrient tons in FY 1960--almost all of which was used on commercial non-foodgrain

crops such as tea--to an estimated 185,000 nutrient tons in FY 1967, most of which is being used on foodgrain crops. In FY 1968 fertilizer consumption is expected to rise to 270,000 nutrient tons, and in FY 1969 to 420,000. Over the past three years A.I.D. has provided over \$70 million in Development Loans for fertilizer imports.

In an effort to build up domestic production as quickly as possible and therefore save valuable foreign exchange, Pakistan has attracted private U.S. companies to invest in urea plants. One U.S. plant is already under construction and probably two more will soon get under way. The World Bank is prepared to finance some of the foreign exchange needed by these plants, and A.I.D. is planning "Cooley" loans for them. Output from three new plants would total 380,000 tons of nitrogen--almost a four-fold increase over a current production capacity of only 100,000 tons of nitrogen, which would make Pakistan nearly self-sufficient in fertilizer.

In an effort to step up and maintain the high rate of fertilizer consumption achieved thus far, the Government has recently taken the important step of shifting the responsibility for fertilizer sales from a public agency to the private sector.

To use fertilizer properly it is necessary to have enough water. Through a series of project loans, A.I.D. has provided extensive project and technical assistance for development of tubewells for irrigation, covering large areas of the Indus Plain.

Since 1958 A.I.D. has financed over 3,742 tubewells. These provide water for a gross area of 2,674,000 acres. In East Pakistan, however, much more work needs to be done to increase the acreage under irrigation. In many areas the introduction of a small pump can make it possible for a farmer to plant an additional crop during the winter season; by 1970 the Government plans to increase three-fold the area now under irrigation in East Pakistan. In order to reach this target, the Government will need substantial encouragement and additional project loan assistance, which will be considered in FY 1969. Some non-project Development Loan funds will be used for low lift irrigation pumps for the Eastern Province.

Effective crop protection is also needed if Pakistan is to achieve a significant increase in agricultural production. In a normal year Pakistan loses an estimated one-fifth of its potential agricultural output to various kinds of pests and diseases, and this problem may become more acute with the introduction of new seed varieties. During FY 1967 and FY 1968 A.I.D. is providing \$12 million in pesticides under program loans, and A.I.D. will continue to consider Pakistan's requests for future assistance. As part of the Technical Assistance program A.I.D. financed a pesticide study team that will make recommendations on how Pakistan can improve its crop protection program.

In addition to sending special study teams and to providing technical advisors to work with Government officials, A.I.D. has provided Technical Assistance to Pakistan's agriculture universities. These institutions have shown substantial growth and improvement, and by FY 1969 A.I.D. will be able to conclude its assistance to their basic establishment.

In the future, the success of Pakistan's agriculture program will become increasingly dependent on improved institutional arrangements for the marketing, distribution, storage, and transportation of grains and other crops. Adaptive research, particularly in seeds, and extension programs require strengthening. A.I.D. is currently discussing ways to help Pakistan develop its marketing system, and in the early spring of 1968 a joint U.S.-Pakistan study team will make recommendations for improving Pakistan's research capability.

Agricultural credit is another vitally important component in the institutional structure that requires careful attention, and A.I.D. is now assisting the government in conducting several pilot projects in this field. For example, one project under way provides for a storage facility at the market town where the farmer can deposit his grain and receive 70% of its price, thus providing him with ready cash and permitting him to sell when the price is high.

At the rural level, the agriculture program receives substantial support from the basic democracies development program. A.I.D. is encouraging the public works program by providing local currency support. Villagers organize themselves to choose development projects for their area. They work together on small-scale irrigation projects and drainage improvement programs, and build roads, bridges and training centers.

Family Planning. Pakistan's current efforts to attain early self-sufficiency in food production are closely keyed to the family planning program. The fertility level is very high in Pakistan. Without a successful family planning program, Pakistan's population would double in about 20 years. Such an increase would nullify all the efforts being made to develop the country. As a consequence of the high fertility level, the population in Pakistan is now proportionately much younger than in economically advanced countries: 44% of the population in Pakistan is under 15 years of age, whereas the percentage in more developed countries is only 25%. Because these children are primarily consumers, the fast growth in population has placed an immense burden on the available resources of Pakistan.

But Pakistan's targets and action program are impressive. From 1965 to 1970 the national objective is to reduce the birth rate by 20%. This will reduce the net rate of population increase, thus easing somewhat the increasing demands for food. In order to reach this target one-fourth of Pakistan's 20 million fertile couples must practice family planning. To date--mid-way in the current planning period--about 2.3 million couples are

already practicing family planning--almost half the number required to meet the projected goal for 1970.

The program owes its success to strong political support that reaches from the President down to the village level worker. The program is soundly administered and adequately financed. It is imaginative and dynamic. Monetary incentives are used to encourage doctors, rural organizers, and individuals to participate in the program--more than 94,000 persons are working for the program--and all available health facilities are being used to support family planning activities.

An assortment of contraceptive methods is available, but in the initial phases of the program Pakistan is giving most of its support to the I.U.D. By mid-1967, after the first two years of the program, 840,000 women were reported to be using an I.U.D.

By the end of CY 1967 this number increased to over a million. The I.U.D. insertion rate has risen from about 42,000 a month in January 1967 to 64,000 a month in August 1967. The program is rapidly approaching the target for 1970 of 80,000 insertions a month.

Pakistan's family planning program has adequate financial support. The \$1.5 million A.I.D. plans for FY 1969 will provide for an increase in technical advisors, transportation equipment for East Pakistan, contraceptive and demographic supplies, clinical and training equipment, and training of Pakistani personnel in the U.S. Pakistan is also receiving support from the Ford Foundation in research and training; transportation equipment from UNICEF; and contraceptive supplies, as well as technical assistance in communications and training, from Sweden.

**Country: TURKEY**

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	134.9	55.0	60.0
Technical Assistance	4.6	4.3	4.9
Total A.I.D. Assistance	<u>139.5</u>	<u>59.3</u>	<u>64.9</u>

U.S. Aid Objectives

The objective of U.S. aid is to support, in association with other free world lenders in the Organization for Economic Cooperation and Development (OECD)-led Turkey Consortium, Turkey's

efforts to become an economically self-sustaining nation by 1973. The assistance goals which are designed to realize our overall objective are to:

- maintain a high rate of industrial production while increasing the efficiency of Turkish industry and the worldwide competitiveness of Turkish products;
- increase agricultural output -- specifically, expanding agricultural exports and grain yields;
- increase foreign exchange earnings from exports, tourism and the remittances of Turkish workers employed overseas;
- maintain monetary stability through sound monetary and fiscal policies;
- reduce the population growth rate and thereby increase per capita GNP and the standard of living;
- continue the development of free, dynamic business, educational and labor institutions.

#### Country Performance and Self-Help

1967 was the last year of Turkey's First Five-Year Plan. Although not all the Plan targets were met, Turkish performance during this period was markedly superior to the record in the late 1950's. The following illustrate the success of the Turkish development effort:

- The average rate of increase in GNP during the Plan period (1963-67) was nearly  $6\frac{1}{2}\%$  a year. Industrial growth is estimated at almost 10% a year.
- Commodity exports rose from \$368 million in 1963 to an estimated \$500 million in 1967, an increase of 36%. Workers' remittances emerged as a new source of foreign exchange and are estimated at \$100 million in 1967, compared to \$9 million in 1964.
- Relative monetary stability was maintained as the average increase in wholesale prices was less than 4% a year.
- Between 1963-66 government revenues rose over 36%.

While the absolute requirement for foreign assistance remained high, the relative contribution of foreign assistance to the financing of investment fell. This resulted from a rapid increase in domestic savings made possible by the continued emphasis of the Turkish Government, the United States and other Consortium members on monetary stability and administrative and organizational reforms, supported in part by A.I.D. technical assistance projects. In 1963 domestic savings financed 73% of

Turkish investment, but by 1966 savings were financing 90% of investment. For 1967 this may have reached 92%.

Private enterprise and private investment are contributing more and more to Turkish progress. As late as the early 1960's private businesses were small, family-owned, trading-oriented and unwilling and unable to marshal risk capital to invest in new undeveloped industrial fields. Today, after several years of rapid growth, increasing numbers of businessmen are entering such sophisticated capital-intensive fields as paper, chemicals, automotive equipment and capital goods.

Agriculture supports 65% of the population but accounts for only 30% of GNP. With a large percentage of the agricultural population still engaged in subsistence farming, agriculture represents a significant drag on the overall performance of the economy.

However, an agricultural revolution in food grain production appears in the making. In the fall of 1967 the Turkish Government--supported by an A.I.D. Development Loan of \$3.45 million and a Technical Assistance contract with Oregon State University--embarked on a new program designed to increase wheat yields on irrigated and high rainfall lands and introduce new wheat varieties on the more arid Anatolian plateau.

This program involved 300 Government extension workers helping 20,000 farmers plant some 17,000 tons of new seed varieties. Teams of advisors, Turkish and American, carried out intensive educational programs through hundreds of village meetings throughout 20 provinces. Over 220,000 tons of fertilizer had to be delivered, farm credit programs had to be expanded and new seed drills had to be procured. The expectation is that this will result in doubled or tripled yields. If it does, overall wheat output may be increased by over 500,000 metric tons in 1968, the first year of these programs.

In higher education progress is being made not only in expanding enrollment but in providing educational opportunities more clearly related to the needs of a developing society. Equally important, a number of institutions are recognizing that their social responsibility extends beyond political commentary and that the universities must contribute their energies to the practical solution of social and economic problems. Illustrations of this progressive attitude are:

- efforts by the Academies of Economics and Commerce, supported by an A.I.D. contract with Michigan State University, to develop ties with the local business communities and tailor a curriculum to their needs;
- establishment of a research institute for population study at Hacettepe University;
- development with the assistance of a \$2 million A.I.D. Development Loan of a community-oriented medical school in Eastern Turkey;

--inclusion of actual work experience and field research in the curriculum of the Middle East Technical University.

In recognition of the serious problems that continued rapid population growth will create in the near future, the laws dating from the 1920's and 1930's prohibiting the import, sale and distribution of contraceptives were repealed in 1963. A number of contraceptives, including IUDs and several oral contraceptives, and other types of contraceptives, are now readily available. Support has been provided by a \$3.6 million A.I.D. Development Loan and technical aid from the Population Council.

By October 1967, over 64,000 IUD insertions had been reported by the Government-trained doctors, and an estimated 50,000 cycles of oral contraceptives were being sold monthly. The Ministry of Health had given 473 gynecologists and general practitioners training in family planning, and plans were being formulated to train more doctors. Turkey is also considering a special training program for midwives to expand further the number of personnel trained and authorized to do IUD insertions. The goal of the Turkish Government is to have two million families engaged in voluntary family planning by the end of 1972.

Despite this sustained economic growth and generally favorable overall development performance, Turkey still faces serious balance of payments problems. With increased industrialization the demand for imports is increasing. However, the economy is heavily oriented toward import substitution and, with a high wall of protection, industrial costs are high. This makes it difficult for Turkish industry to compete in world markets. Export earnings, therefore, are still heavily dependent on traditional agricultural crops -- cotton, hazelnuts, tobacco, and raisins account for 60% of Turkey's exports -- and have not kept pace with import requirements. As a result, foreign exchange reserves are low, and substantial foreign assistance is required to cover the balance of payments deficit.

#### FY 1969 Program

A Development Loan program of \$60 million is planned for FY 1969. This will consist of a \$40 million production loan to finance raw materials and spare parts for Turkish industries, and \$20 million in project lending. In view of the increasing investment requirements of the private sector it is the minimum required to avoid a significant slackening in the rate of economic progress.

Proposed Technical Assistance is estimated at \$4.9 million -- compared with \$4.3 million in FY 1968 -- to fund several new and expanding activities in agriculture and education. As in the past, U.S. assistance will be pledged through the OECD Consortium for Turkey.

The economic policy issues of greatest concern during FY 1969 will be maintenance of price stability, expansion of foreign exchange

earnings, and increased competitiveness of Turkish industry. Development Loans and Technical Assistance will depend, as in the past, on Turkish performance in these crucial areas and will concentrate on industry, agriculture and education.

Industry. Industry is the leading sector in the Turkish development plan. During the First Plan period, industrial production grew at an average rate of almost 10% a year, and during the Second Plan it is expected to grow at an average rate of 12% a year. In addition, over 50% of the increase in exports during the Second Plan period is planned to come from the industrial sector. Recently the Turkish Government has initiated a series of policy measures designed to stimulate industrial development, particularly the private sector:

- government budget funds will be available for lending to private and mixed enterprises;
- the allocation of investment goods imports for the private sector in 1968 has been increased from \$10 million to \$40 million;
- procedures for approval of foreign investment applications have been streamlined; and
- the Government has obtained authority to grant tax incentives and waive import duties to support private sector development.

The proposed A.I.D. production loan of \$40 million will support the above initiatives and will benefit primarily private industry by financing essential raw materials, spare parts, and capital goods such as rubber for the tire industry, motor vehicle components and parts for Turkey's rapidly growing trucking industry and industrial machinery for expanding existing industrial plant capacity. In addition, we intend to make project loans for (1) highway development to promote tourism and enable Turkey to realize the vast foreign exchange earnings potential of its tourist resources, (2) private sector development banks to stimulate new investment in exports and other priority fields and encourage the development of a capital market, and (3) feasibility studies to improve the planning of future investment decisions.

In FY 1968 \$800,000 in Technical Assistance is planned to support Turkey's industrial development. A similar amount proposed for FY 1969 will emphasize tax administration and trade union leadership as part of our effort to improve the effectiveness of Turkish development policies and the efficiency of Turkish industry.

Education. In its Second Five-Year Plan, the Turkish Government is giving increased emphasis to improving the quality of professional and technical training which is critical to continued growth of the economy and achievement of independence from concessional foreign aid. This Turkish strategy is strongly supported by A.I.D., with major efforts to improve higher education, education planning and technical training. Technical Assistance of

\$1.2 million is planned for FY 1968 and \$1.8 million for FY 1969 to support Turkish efforts in education.

The major effort will continue to be in higher education. In late FY 1967, \$11 million in Development Loans was authorized for three relatively new and progressive universities -- Ataturk Medical, Middle East Technical and Hacettepe. In FY 1968 and 1969, A.I.D. will follow up this assistance by providing U.S. professional services, including faculty to assist the universities' development programs. These universities are providing the most advanced training available in Turkey in the engineering and medical fields. A.I.D. also proposes to expand efforts to improve the staff and curricula of four university-level schools of business administration. These schools enroll nearly one-fifth of Turkish university students and are a prime source of skilled middle-management personnel.

A new activity to help the Ministry of Education develop its capacity for national planning, budgeting and research is getting under way in FY 1968 and will continue in FY 1969. This assistance, being provided by a team from Michigan State University, will help the Government to improve the quality of the educational system at all levels and to refine its education and manpower goals. The team will build on past A.I.D. efforts in primary and secondary education as well as current efforts in higher academic and technical education.

The other major area of A.I.D. assistance is to help Turkey meet the critical need for more and better trained teachers at the secondary level of technical and vocational training. The program emphasizes revision of the curriculum and teaching methods to strengthen teacher training.

Agriculture. Agriculture is dominant in the Turkish economy. It accounts for about two-thirds of the population, one-third of the GNP, and over 80% of the exports. Largely because of the sustained high growth of production in 1966 and 1967 when output increased 1 1/4%, Turkey is not a food deficit country. However, over the First Five-Year Plan period (1963-67), overall performance was uneven and too dependent upon weather conditions. If food production is to keep up with the growing population and increasing consumption demands, agricultural techniques will have to be improved and resources (skilled farmers, credit, irrigated land) increased.

In FY 1968 \$700,000 is planned for agriculture, and \$800,000 is requested for FY 1969. A.I.D. Technical Assistance has achieved its basic objectives in institutional development (extension service, forestry service, agricultural education). We will now focus on the growing need for increased food production, especially increased use of water resources and the introduction of new cereal crops and production techniques.

In FY 1968 A.I.D. began an On-Farm Water project to improve the management of water resources which could increase yields up to

100% on newly and properly irrigated land (up to one-fifth of Turkey's arable land). In FY 1969 A.I.D. will consider a Development Loan for \$15 million for equipment to expand efforts to increase irrigated land.

Another major initiative is the technical assistance being provided in connection with the introduction of the new wheat seeds to Turkey. These seed varieties, if developed properly, will provide yields two or three times greater than native varieties. Technical assistance is also going for research and production techniques required to assure long-range success of the wheat program. In addition, A.I.D. agricultural technicians are encouraging Turkish efforts to increase fertilizer supply, marketing and use. The increase in Turkish fertilizer imports from \$7 million in 1964 to an estimated \$67 million in 1968 is in part a result of A.I.D. advisors' continued emphasis on the importance of fertilizer.

#### OTHER NEAR EAST AND SOUTH ASIA PROGRAMS

##### AFGHANISTAN

##### PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Development Loans	17.0	0.7	-
Technical Assistance	8.3	7.5	8.5
Total A.I.D. Assistance	25.3	8.2	8.5

The goals of the A.I.D. program are to strengthen the Afghan economy by upgrading the caliber of government personnel responsible for economic planning, increasing agricultural productivity to attain self-sufficiency in wheat by 1972, and improving the quality of the educational system, in particular vocational education.

The A.I.D. program offers Afghanistan an alternative to exclusive reliance on the Soviet Union. With its long frontier with the USSR, Afghanistan has historically been strongly influenced by Russia. The Soviet aid program is currently about four times larger than the A.I.D. program and the United States does not try to compete in size of programs. Instead the United States applies its special competence in key areas where the Afghans are particularly weak, bolsters Afghanistan's freedom to act independently, and permits and encourages the country to make non-doctrinaire economic decisions.

Afghan democratic institutions are still fragile, and its Parliament has been in existence for only three years. Yet the

framework of representative government exists and functions, and institutions which in some measure respond to the desires of the people have been set up.

There has also been economic progress. The Third Five Year Plan (1967-1971) is for the first time more than a mere listing of projects. A.I.D. advice has been instrumental in bringing this improvement about. The plan is far from perfect--investment targets are overambitious, for example--but goals are related more closely to policies essential for their implementation than in the past. The plan recognizes the need to rely more heavily on local resources through more taxation; greater emphasis is placed on private initiative, and the need for increasing exports is stressed.

A liberalized investment law, which A.I.D. had been urging for some time, was adopted in February 1967. By September 1967, 43 applications totalling \$17 million had been filed by potential investors. Organization of an Industrial Development Bank is under way with U.S. and other foreign banking interests considering participation in its capitalization. The establishment of such a bank was also urged by A.I.D.

#### FY 1969 Program

The proposed FY 1969 program is \$8.5 million of Technical Assistance. Afghanistan is also expected to receive concessional sales of P.L. 480 commodities (mostly wheat) and rupees derived from the U.S.-Pakistan P.L. 480 program.

Economic Reform and Public Administration. In FY 1969, A.I.D. will provide about \$300,000 to finance advisers to the Afghans to help them strengthen their economic planning institutions and to improve their capacity to collect taxes and to allocate and disburse revenue. The Ministry of Planning is the particular focus both for A.I.D.'s long-term objective of rational resource allocation and for shorter-term A.I.D. efforts to induce the Afghans to (a) abandon discriminatory export taxes and the preferential exchange rate applied only to government account imports, (b) step-up revenue collection, and (c) encourage private enterprise by reducing financing for big public sector infrastructure projects. We will also devote about \$200,000 to send Afghan participants to the United States to help assure that the Afghans will continue to pursue effective economic policies after our advisers leave.

Agriculture. Low productivity and the slow rate of growth in this part of the economy, on which 85% of the population depends, is the most critical problem which must be solved before Afghanistan can achieve self-sustaining growth. The Third Five Year Plan demonstrates that the Government of Afghanistan is now more cognizant of the importance of agriculture.

In order to achieve self-sufficiency in wheat, the Government has doubled the budget allotment for agriculture (from 18% of the

Plan total in the Second Plan to 37% in the Third Plan). A more effective extension program is being developed using better seed varieties, improved cultural practices and more fertilizer to increase yields, particularly in wheat. An experimental project on agricultural credit is being undertaken with the aid of the UN Food and Agriculture Organization and the International Development Association. Work is proceeding with A.I.D. help in small-scale irrigation to make better use of available water.

Despite these changes, some major problems remain. Cereal consumption is likely to be larger than the Afghans estimate, and production targets may thus be set too low. Perhaps more serious is the need to raise agricultural prices further in order to improve the standard of living of farmers and to encourage increased production. The P.L. 480 program, in addition to help compensate for the wheat deficit which currently exists, has been and continues to be used to induce the Government to make needed changes in agricultural policy.

In FY 1969, \$2.5 million of Technical Assistance funds will be devoted to agriculture. These funds will be used primarily to pay for about 60 agricultural advisers whose efforts will be focused on the accelerated wheat production program with emphasis on agricultural extension, research, increasing agricultural inputs especially of higher-yielding seeds and fertilizer, and improving land and water use. Particular attention will continue to be devoted to the Helmand Valley, where water resources combined with other inputs may make it possible to double per acre yields within four years.

Education. Afghanistan's commitment to education is evident, and much has been done. Three times as many children of all ages are in school than a decade ago; almost a fifth of all primary-age children are in school; the Third Plan projects a doubling of secondary school enrollment by 1971.

The A.I.D. program has helped move Afghanistan's poor educational system of a decade ago to a functioning national system by means of projects in curricula development for primary schools, educational materials development, teacher training programs, the development of a middle level technical-vocational school, and the expansion and improvement of Kabul University. About \$2.5 million of the A.I.D. program in FY 1969 will be devoted to education to provide further needed assistance in the same activities, including the work of more than 60 A.I.D.-financed advisers. About \$500,000 of the \$2.5 million will finance participant training.

## JORDAN

### PROGRAM SUMMARY

(In millions of dollars)

	FY 1967	FY 1968	FY 1969
	Actual	Estimated	Proposed
Development Loans	1.8	-	15.0
Technical Assistance	3.9	2.1	1.8
Supporting Assistance	30.0	10.0	-
Contingency Fund	2.0	-	-
Total A.I.D. Assistance	<u>37.7</u>	<u>12.1</u>	<u>16.8</u>

#### U.S. Aid Objectives

U.S. objectives are to support the existence of a moderate Jordan, which is likely to take a constructive approach to Middle East problems, including those created by the June Arab-Israeli war. Jordan is heavily dependent on outside assistance for its very existence. The United States has in the past sought to support the Government's development objectives which would lead to significant economic progress and progressively reduced dependence on foreign aid. Although economic progress is now arrested as a result of the June 1967 war with Israel, we believe that effective programs for developing the economy can lead to economic independence for Jordan. The A.I.D. program--a concrete demonstration of support for a stable, moderate and independent Jordan--will concentrate during FY 1969 primarily on increasing foreign exchange earnings, through programs in agriculture and tourism and a \$15 million loan for minerals development, and will encourage Jordan to use its resources by supporting feasibility studies designed to identify priority areas for investment.

#### Country Performance and Self-Help

Prior to the Arab-Israeli war of 1967, agricultural production was strongly stimulated by the development of water resources. As a result, Jordan was beginning to develop markets for its agricultural products in neighboring countries. The Government adopted important reforms in tax collection, government administration and education, which had promise for creating an environment for very rapid development. GNP rose an average of 8% a year since 1960. Progress was such that U.S. budget support payments were phased down from about \$40 million in Jordan's fiscal year 1960 to a planned level of \$27 million in 1967.

The occupation of the West Bank of Jordan by Israel following the war of June 1967 cut government revenues almost in half, while leaving the Government with increased problems, including a population swollen with an additional 200,000 refugees on the East Bank. Despite drastically reduced government revenues, expenditures could not be cut appreciably. Suspension of development projects, slowdowns in industrial output and construction,

and the influx of displaced persons led to widespread unemployment. In addition, the occupation of the West Bank deprived Jordan of a large portion of its foreign exchange earnings, particularly tourist receipts and income from emigrants.

Paradoxically, Jordan's overall foreign exchange position has dramatically improved and made possible a suspension of U.S. budget support which made up the major portion of our assistance in the past. This situation is due to emergency grants from other Arab states of some \$70 million equivalent and promises of about \$80 million more during 1968. Also, Jordan has reduced its current external trade deficit, given temporarily decreased demand for imports at the same time that export markets were being maintained.

Wisely used, Jordan's very substantial foreign exchange reserves (over \$250 million or 18 months of the pre-war level of imports), together with continued aid from the United Kingdom, West Germany, Kuwait, Saudi Arabia and the UN agencies, could support a stepped-up development program which would help Jordan remedy structural problems underlying its budget and balance of trade deficits. The Government has also proceeded with plans for a pilot project to sell treasury bills, an important step to mobilize savings within the country for development.

The Government is still preoccupied with the prospects for political settlement and has been understandably slow to reactivate the development program. We are using our aid in a number of areas to help the Jordanians revive their economy and take advantage of their real opportunities for continued economic development. A \$3 million grant of Supporting Assistance will be made in FY 1968 to finance feasibility studies leading to renewed development efforts in such key areas as irrigated agriculture.

#### FY 1969 Program

The proposed FY 1969 program consists of \$15 million in Development Loans and \$1.8 million in Technical Assistance. In view of Jordan's currently favorable foreign exchange reserve position, no Supporting Assistance to Jordan's budget is proposed for FY 1969. Depending upon the crop situation, P.L. 480 sales programs may be considered.

Aid from others is expected to include \$12 million equivalent in loans by the United Kingdom made available from now to March 1971, West German loan drawdowns of over \$1 million a year, and the \$34 million of loans from Saudi Arabia and Kuwait already approved.

The A.I.D. program will continue to help Jordan address the longer range problems it faces in its budgetary situation and foreign exchange earnings. Should the evolving Middle East situation require, we would be prepared to modify the proposed program to meet needs which cannot be foreseen at this time.

Foreign Exchange Earnings. While the large amounts of foreign assistance received recently have resulted in an accumulation of surplus foreign exchange, over the longer run Jordan will remain dependent on outside assistance until it can close, with its own foreign exchange earnings, the very substantial gap in the trade balance which now exists. Continued efforts must be made to promote foreign exchange earnings wherever possible, thereby reducing the likelihood of a need for a resumption of Supporting Assistance from the United States at some future date. In addition to the increase in foreign exchange earnings from exports of fruits and vegetables, receipts from tourism and phosphate sales had tripled between 1960 and the outbreak of the June war. In FY 1968 and FY 1969, in addition to continuing our efforts in the East Ghor area and our assistance in improving wheat production, we plan to help Jordan develop its potentials in potash and tourism.

The proposed \$15 million Development Loan for A.I.D.'s contribution to a \$100 million potash project is a key in completing the financial arrangements in which the IBRD and Kuwait Fund are prepared to contribute and to assure the participation of local and foreign investors. The potash plant is expected to produce over one million tons of potash a year by 1975 and eventually contribute \$25 million a year to Jordan's foreign exchange earnings.

The tourism efforts will focus on three East Bank sites as part of Jordan's long range tourism development. The programs we propose to support will be of importance to Jordan's long-range economic development regardless of the eventual political settlement.

Agriculture. Jordan is normally a food deficit country, which must import about 22% of its food requirements. This is due primarily to inadequate and uncertain water resources. A.I.D. programs in irrigated agriculture have already increased net income per farm in the East Ghor area by more than three times since 1960, and exports of surplus fruits and vegetables have been steadily increasing.

During FY 1968 and FY 1969, A.I.D. will continue projects in land improvement, land and water use, cooperatives and agricultural credit to further enhance the productivity of the 30,000 acres previously brought under irrigation in the East Ghor Canal project. Feasibility studies to locate additional sources of water will be added to a study of the Zerka River already planned, and demonstrations will be conducted to improve wheat yields. By supporting a program of improved weed control, summer fallowing, better seed and better planting techniques, we hope to reduce the drastic fluctuations in this basic staple crop and to help Jordan towards its goal of self-sufficiency in wheat in the foreseeable future.

NEPAL

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Technical Assistance	3.4	2.5	3.7

The objective of the limited A.I.D. assistance in Nepal is to attack fundamental problems by training people to organize and carry out development programs and setting up institutions which can effect change throughout the country.

Nepalese efforts are beset by Nepal's extremely low level of development and basic physical and social problems (elevation from sea level to nearly 30,000 feet; 400 miles of paved or hard-surfaced road; 90% illiteracy).

Agriculture has been given top priority in Nepal's Development Plan. Private investment is being encouraged by means of attractive investment legislation. Efforts in education, which have benefitted greatly from A.I.D. assistance, have produced impressive results. Nepal now has a national education system where 15 years ago there were hardly any schools, but the quality of the educational system needs further continuing improvement as the Nepalese themselves realize.

FY 1969 Program

The proposed FY 1969 program totals \$3.7 million in Technical Assistance. About \$8 million equivalent of rupees generated by P.L. 480 programs for India will be made available together with Government of Nepal rupees for joint U.S.-Nepalese development projects. The combined dollar and local currency level is thus about \$11.7 million. Dollars are used primarily to pay for salaries of technicians (over \$2 million in FY 1969), commodities (about \$800,000)--mainly DDT for the malaria program--and the training of Nepalese participants in the United States (about \$400,000).

A.I.D. will urge the Nepalese to assume an increasing share of development efforts. As projects are completed, A.I.D. plans to support new activities which the Government of Nepal is not now financing but which need to be undertaken. A.I.D. plans only to undertake new projects when the Nepalese Government agrees to finance an annually increasing proportion of the total cost of each project.

The program is concentrated in FY 1969 primarily on the following priority goals:

- In agriculture, A.I.D. seeks to help the Nepalese to increase cereal production by 12% over the next

three years. Over \$3 million of the FY 1969 program (about \$800,000 of this in dollars, the rest in local currency) is devoted to agriculture. The main A.I.D. activity is a project which aims at foodgrain (principally rice) production increase by means of training, extension, inputs of fertilizer and high-yielding seed and ground water development.

- In education, the goal is now quality improvement. More than \$2 million will be required in FY 1969, about \$500,000 of this in dollars. Activities include establishing a textbook center in which textbooks using Nepalese themes are written and printed, and the further improvement of a teacher training school and certain vocational schools.
- The third major area of program concentration is in government administration, where A.I.D. activities include a project under which village and district elected officials are trained, as well as assistance in revenue and budget administration, collection and analysis of statistics, and the training of Nepalese Government officers and their supporting staff at the national level. More than \$1 million will be devoted to this activity, of which about \$400,000 is in dollars.
- In health, A.I.D. is continuing to support a program designed to eradicate malaria by 1973. A.I.D. also plans to carry out an experimental family planning project; we will provide advisors and train participants. About \$3 million is proposed for health activities, of which \$1.2 million is in dollars, primarily to finance DDP for the malaria program.

CENPO AND REGIONAL PROGRAMS

PROGRAM SUMMARY

(In millions of dollars)

	FY 1967 Actual	FY 1968 Estimated	FY 1969 Proposed
Technical Assistance	1.3	3.6	3.7
Contingency Fund	0.2	-	-
<b>Total A.I.D. Assistance</b>	<u>1.5</u>	<u>3.6</u>	<u>3.7</u>

The objective of the regional Technical Assistance programs is to encourage solutions to common problems through the development of training and joint action programs and through the exchange of information. The CENPO program supports the U.S. interest in regional cooperation among Iran, Turkey and Pakistan. A.I.D. emphasizes programs in agriculture, education and health.

Under the regional programs, A.I.D. provides assistance for four types of projects: advanced training, pilot studies, financial and technical support of joint action programs largely carried out by regional organizations, and conferences.

Advanced Training. The United States has financed training at the American University of Beirut (AUB) for 17 years. In recent years, A.I.D. has funded a scholarship program for 400-500 students which helps to fill the need for trained manpower and encourages the use of AUB as a regional institution of higher education. The scholarship program enables the potential leaders of the region to meet and work with each other. The courses of study offered at AUB are of higher quality than those available in most other universities in the region. The United States has encouraged AUB, with good results, to offer courses in fields of study that are critical for development such as agriculture, education, engineering and public administration.

Over the past few years, one-fifth of the training financed by A.I.D. for students from the region was for study at AUB. In the present school year, 1967-68, the NESR regional program is financing 425 students from Jordan, Pakistan, Afghanistan, Turkey, Nepal, Iran, Lebanon, and Cyprus. Over half the students are being trained as public school teachers and agricultural scientists. The remainder are studying engineering, public health and public administration. The bulk of those studying public administration work in government ministries.

A.I.D. is considering financing consultants to AUB under the regional family planning project to help expand the University's Medical and Public Health Faculties' course offerings related to family planning and population studies. If a population studies program is organized, A.I.D. will finance students under the AUB scholarship program.

Pilot Studies. The purpose of the pilot studies is to allow A.I.D. to test ideas for projects which might be worth doing in a number of countries. In FY 1968 A.I.D. is undertaking pilot studies in family planning and new educational technology. Since these activities will be experimental, they will be carried out at first in only one or two countries, but the results will be applicable to the whole region.

The experimental family planning activities will involve non-governmental organizations and will complement A.I.D.'s assistance to the Governments of India, Pakistan and Nepal.

A.I.D. is considering assistance for voluntary organizations working in family planning at the grass roots level. A.I.D. will also assist in experimentation with more effective ways of disseminating family planning information. In addition, A.I.D. may fund research in family planning and demography.

With respect to educational technology, A.I.D. will finance teams of consultants to study ways of improving the educational techni-

ques in Near Eastern and South Asian countries. The first team will consider programmed teaching using pre-planned lessons and simplified descriptive material as a means of up-grading the quality of teaching of teachers who are not adequately trained.

Joint Action Programs. This portion of the regional program involves both technical assistance to and financial support of joint action programs which are largely carried out within the CENITO framework. Beginning in FY 1968 A.I.D. will provide technical assistance to an action program in communicable disease control. A major cholera outbreak swept westward from Malaysia in the early 1960s and forced Near East and South Asia countries to cooperate in control measures. In an attempt to halt the outbreak, A.I.D. provided assistance for emergency cholera measures from the Contingency Fund in FY 1966 and FY 1967. The bulk of the Contingency Fund assistance was for vaccines and the services of a doctor.

This outbreak highlighted the need for cooperation throughout the region in communicable disease control. The countries of the region will explore the possibilities of further joint action and A.I.D. assistance in an A.I.D.-financed seminar in February 1968. The project will use the CENITO framework in Turkey, Iran and Pakistan, and assistance may at first be limited to those countries.

A.I.D. contributes to the CENITO Multilateral Technical Cooperation Fund and the Multilateral Science Fund. These funds are administered by the CENITO countries in the region, the United States and the United Kingdom. The CENITO Multilateral Technical Cooperation Fund finances the exchange of experts and provides scholarships to the nationals of the CENITO countries to study at universities in the region. The Multilateral Science Fund was established in the Spring of 1967. Some of the proposals under consideration for the region are: an inventory of scientific research and teaching facilities; exchange visits of scientists; studies on methods of coordination among national documentation centers; and a study on the manufacture of simple scientific equipment.

Conferences. A.I.D. finances the operating expenses and American participation in regional and CENITO conferences to facilitate the exchange of ideas and information on common development problems. The bulk of the Technical Assistance for CENITO finances a series of conferences for specialists on such topics as fertilizer use, food processing and agricultural marketing. Future CENITO conferences will be held on nutrition, preventive medicine and agricultural industries (e.g., pesticide and implements production, and food processing).

A.I.D. will continue to finance a series of conferences on irrigation because of the widespread need for irrigation in the region. In the past these conferences have proven quite valuable to the participants. A.I.D. plans to expand the regional program to include conferences on development policies in such areas as increasing tax revenues from agriculture and

strengthening local initiative through self-help. Conferences will also be held on family planning programs.

<u>FY 1969 Program</u>	(In thousands of dollars)
AUB scholarship program	2,250
Family Planning Projects	750
Communicable Disease Control Project	150
CENTO and Regional Conferences	325
CENTO Multilateral Technical Cooperation Fund	100
CENTO Multilateral Science Fund	25
CENTO Program Support	<u>100</u>
TOTAL	<u><u>3,700</u></u>

## FISCAL YEAR 1969 PROPOSED PROGRAM

(Thousands of Dollars)

Country	Type of Assistance			
	Total	Develop- ment Loans	Technical Assistance	Supporting Assistance
<b><u>NEAR EAST AND SOUTH ASIA</u></b>				
<b><u>TOTAL . . . . .</u></b>	<b><u>\$706,000</u></b>	<b><u>\$660,000</u></b>	<b><u>\$46,000</u></b>	<b><u>--</u></b>
Afghanistan . . . . .	8,500	—	8,500	—
India . . . . .	422,820	408,000	14,820	—
Jordan . . . . .	16,850	15,000	1,850	—
Nepal . . . . .	3,730	—	3,730	—
Pakistan . . . . .	185,500	177,000	8,500	—
Turkey . . . . .	64,900	60,000	4,900	—
CENTO <sup>a/</sup> . . . . .	500	—	500	—
Regional Programs . . . . .	3,200	—	3,200	—

<sup>a/</sup>Central Treaty Organization.

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