

1965

U.S. FOREIGN AID IN THE ALLIANCE FOR PROGRESS

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AGENCY FOR INTERNATIONAL DEVELOPMENT

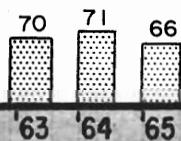


LATIN AMERICA

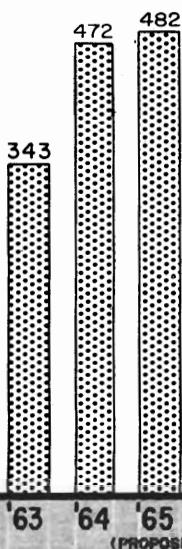
Program by Function*

(Millions of Dollars)

Military Assistance



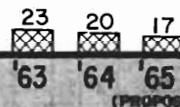
Alliance for Progress Loans



Alliance for Progress Technical Coop.



Supporting Assist.



* \$82 Million was programmed for Economic Assistance from Contingency Funds in FY 1963 and \$3 million in FY 1964.

THE ALLIANCE FOR PROGRESS

The Alliance for Progress will move into fiscal year 1965 with new organizational strength, greater concentration of assistance activity, a new and stronger coordinating mechanism, sharper demands for self-help and social progress, and a clear appreciation of the profound threats to cooperative and peaceful development in the hemisphere.

The cooperation initiated under the Alliance can be intensified as Alliance partners fulfill their pledges. To diminish the United States initiative at this time would risk the ending of the new era of cooperation initiated by President Eisenhower at the time of the Bogota Conference, carried forward by President Kennedy in the Alliance for Progress, and rededicated forcefully by President Johnson during his first week in office.

Alliance experience since August 1961 has led to re-emphasis on certain basic principles of hemispheric cooperation. Now stressing trade as well as aid as essential to development, the Latin Americans are beginning to realize that they must revise their own domestic policies to increase exports. Further, there is greater understanding in Latin America that internal markets must be built. All citizens, even in the most remote rural areas, must be brought into the national economy. National economies must cooperate, through such instruments as an outward-looking Latin American Free Trade Association (LAFTA) and the Central American Common Market. Responsible private enterprise, both domestic and foreign, must be promoted. Specific actions are required to encourage private initiative.

Problems of Growth

The aggregate growth rate in the hemisphere has been slow, falling behind the Alliance target of 2.5 percent per capita each year. Growth rates must be increased to keep up with a rapidly expanding population and raise living standards above mere subsistence.

Political problems often interrupt or limit growth. They re-emphasize the fact that the Alliance is a long-range endeavor and that the Alliance is all the more necessary as a tool for peaceful social change. There is abundant evidence that the threat of violent revolution, based on the Cuban model, is still active. This threat will remain for some time to come.

The Charter of Punta del Este in mid-1961 accepted President Kennedy's call for an Alliance for Progress and formulated a 10-year program for economic and social development. This spirit was born in 1960 when

the American republics signed the Act of Bogota, which began an attack on the social problems of the hemisphere: Illiteracy, poor housing and health, outdated tax and land tenure systems. The Alliance Charter emphasized that responsibility for basic internal reforms and for 80 percent of the required investment funds lies with the Latin American countries themselves. United States sources—both public and private—would provide the major part of the critical 20 percent margin of external capital and technical assistance.

In 1962, at Mexico City, frank mutual evaluation of progress under the Alliance by the Latin Americans themselves showed that the momentum for progress was growing.

The 1963 Sao Paulo meeting found the Latin American nations eager to accept greater responsibility for doing their part together for development under the Alliance. From this greater spirit of cooperation was born the idea for the Inter-American Committee for the Alliance for Progress (called CIAP—the initials of its name in Spanish), which is expected to be a strong coordinating mechanism for the development of Latin America.

Trade and Development

Latin America's sales of basic commodities during the high-price periods, World War II and the Korean War, permitted these nations to respond to development needs while building up exchange reserves. This situation permitted Latin America to postpone meeting the key problem of diversified development. During the fifties, lower prices for such commodities as coffee, tin, and sugar, plus higher prices for the industrial imports they needed, caused depletion of reserves and a large increase in foreign debt.

Thus, the Latin American countries find themselves in a difficult period of transition with a sharply limited capacity to service additional external debt on conventional terms. Their external debt doubled between 1955 and 1961. They can no longer postpone meeting the challenge of development. The challenge to grow more rapidly calls for a higher investment level which is accompanied by a higher level of import requirements. External aid is essential during this transition period.

Although both total gross national product (GNP) and per capita GNP have grown since 1958, external factors such as declining terms of trade and internal problems such as price and wage instability have hampered attempts to increase the rate of growth and maintain monetary and external payments balance.

Country Progress and United States Policy Directions

A new sense of appreciation for self-help and reform is developing. Each year this trend is evidenced in more countries and in a greater number and variety of policy decisions than before. As the Latin Americans themselves agreed at the Sao Paulo meeting, however, only a cautious optimism

is in order. Institutional change is proceeding slowly. Too often laws are passed but not implemented; plans are developed but not followed.

Continued United States support of the rising movement for reform—which the United States has stimulated and helped to develop through the Alliance—is crucial to American interests.

There is progress on reforms. Eleven countries have instituted major tax reform programs or comprehensive administrative improvements. Improvements of a less comprehensive character have been undertaken in all of the remaining countries, and in some of them broad legislation on administrative reforms is planned for the immediate future. Much more remains to be done in this area.

Land reform efforts have begun in Venezuela, Colombia, Chile, Central America, Panama, Uruguay, and several states in Brazil. The focus of land reform in Mexico and Bolivia is shifting from land distribution to farm productivity. Peru and Ecuador will soon be making far-reaching changes in their depressed rural areas.

National development plans have been submitted by eight countries to the Organization of American States' (OAS) Panel of Experts and an equal number are expected to submit their plans by the end of 1964. The Panel's review has been useful in stimulating new development planning decisions in several of the eight countries.

Large-scale self-help housing programs have been inaugurated in 15 countries. Especially significant programs are moving forward in Chile, Colombia, and Venezuela. Savings and loan systems have been adopted in nine countries.

Self-help efforts—supported by external assistance, primarily from the United States—also mean physical progress in vital social areas. Alliance programs already approved will result in over 220,000 new homes for a million and a half people. They will provide potable water and sewerage systems for 18 million people. Twelve million children are now being fed under various Food for Peace programs.

Criteria for Aid

The fiscal year 1963 and fiscal year 1964 record shows that United States assistance and Latin American performance have been closely related by insistence on mutual fulfillment of Alliance pledges. In order to accomplish this, AID has had to adapt its programs to the specific problems, to the stage of development, to the capabilities, and to the performance of Alliance partners. There is no one pattern, but a number of categories can be discerned for the future.

Chile and Colombia have made clear responses under Alliance criteria. They have undertaken reforms and formulated development plans. This organized approach to development has attracted broad international participation. Both countries face a difficult year in fiscal year 1965. Chile has a national election this year. A left-wing coalition, with Communist

support, constitutes a real threat. Colombia's development program has had to cope with the serious problems of rural violence and unsettled business confidence. While the program is attracting foreign investment, stern measures must be taken by the government to stem inflation and deterioration of its foreign exchange position.

Other promising areas include Central America, Peru, and Ecuador. Peru particularly has been successful in attracting free world capital. The Central American Common Market is moving ahead and becoming a model of economic integration, not only for Latin America but for other developing areas as well. In these areas, reforms are being supported primarily by AID project loans and technical cooperation.

In Brazil and Argentina, while the development base is strong and reforms have been undertaken, basic problems of political and economic stability have yet to be solved. International lending agencies and private investors are taking a wait-and-see attitude toward both countries. These two countries contain nearly half of Latin America's population and are key nations in the Alliance for Progress.

In Bolivia, the United States is attempting to help the Bolivian Government to consolidate the social gains of its national revolution and to build the institutional and physical bases for growth. Progress to date holds forth encouragement for the ultimate solution of these problems.

Private Enterprise

More and more the key to self-sustaining growth is the interaction of Latin American, United States, and other free world private capital. United States programs stress both the promotion of United States investment in Latin America and the encouragement of Latin American entrepreneurs.

The Investment Guaranty program has expanded its Latin American activity by 60 percent in the past six months. There is now \$400 million in Guaranties outstanding for United States private investment in Latin America. The special Housing Guaranty program is also picking up momentum in Latin America.

To spur local investment, AID has invested over \$280 million in development banks in Latin America providing capital for farm credit, for development of small business and industries, and for home building.

Investment surveys are underway which, with minimal AID support, may result in some \$80 million worth of new private investment in Latin America. A total of 59 "Cooley" local currency loans has been made for United States private investment in Central America.

The local currency proceeds of program loans in Colombia are being used for a private investment fund which has had a strong multiplier effect on private investment in Colombia.

Latin American leaders increasingly understand that if they are to improve their investment climate, reduce capital flight, and induce external

investment, they must take a number of forward steps in the field of monetary and fiscal stability and incentives for investment. Here, the strong internal pressures for reform and development—which in some instances discourage foreign investment—are providing governments with the strength to make the monetary and fiscal reforms requisite for growth. They are being assisted in these difficult policies by new interest from private sources, particularly in the manufacturing sector in the United States by the Atlantic Community Development Group for Latin America (ADELA), and an increased trading activity with Japan and Western European nations.

Trade Prospects

Latin America's attempts to reduce dependence on primary products and to widen its markets have had little practical success so far although the signs are encouraging. The 1963 Coffee Agreement, designed to stabilize production and prices of this most basic of all Latin American commodities, is a hopeful development. Although price increases this year are not the result of the Agreement, earnings from coffee are expected to be higher than in the past several years. Such earnings should have a favorable impact on development efforts within coffee exporting countries—ending the pattern of boom and bust.

Intraregional trade, stimulated by LAFTA and the Central American Common Market, has already progressed through lowering tariffs and widening markets. Latin America as a whole is trading more with Europe. Greater European involvement in Latin American affairs should be forthcoming. This year, France extended a \$150 million credit to Mexico, and Germany lent \$50 million to Brazil.

United States Role in Alliance—Fiscal Year 1965

The request for new Alliance funds for fiscal year 1965 is \$550 million. With carryover and recoveries, this will make possible a proposed fiscal year 1965 AID program as follows:

Alliance for Progress Programs

[In millions of dollars]

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 proposed
Development loans	\$341.6	\$420.0-472.0	\$482.3-622.3
Technical cooperation	119.3	88.0	88.0
Supporting assistance	¹ 104.4	² 22.7	17.4

¹ Of which Contingency Fund is \$81.7.

² Of which Contingency Fund is \$3.2.

Once again the emphasis is on development loans—84 percent of the total—with a lesser amount for Technical Cooperation grants. AID will continue its role as a development banker, lending at concessional terms. Its lending will serve as a persuasive tool to achieve the goals of the Alliance. While the effectiveness of the \$482 million program for loans has definite limits, given the immense needs for improvements in Latin America, these loans often provide a strategic margin for furthering joint objectives.

Capital loans will build institutions as well as infrastructure and public facilities. They help a small private entrepreneur as well as the child seeking a secondary education.

The Technical Cooperation program is designed to develop the essential know-how, the trained manpower, and the institutions lacking in the southern half of the hemisphere. The proposed program for fiscal year 1965 is \$88 million, down \$31 million from the \$119 million used in fiscal year 1963. Grants for capital items have been eliminated. The trend has been to reduce the reliance on direct-hire AID employees and direct provision of commodities and services.

This policy is increasingly involving the utilization by AID of the great fund of talent available in the United States to accomplish specific developmental tasks in specific time periods. Leading universities, State land-grant colleges, the State of California itself, the National Farmers' Union, the American Institute for Free Labor Development, the Cooperative League of the U.S.A.—all these and many other private American institutions are being utilized effectively in the Alliance technical cooperation program.

In addition, Federal agencies other than AID are providing valuable services. These include the Internal Revenue Service, for tax administration reform, and the Department of Agriculture, for agricultural advisory services.

Supporting Assistance is requested for three specific problem areas, in which U.S. interests are involved but for which development finance would be inappropriate.

Other Aid Sources and Coordination

The establishment of the Inter-American Committee for the Alliance for Progress (CIAP) is a major step in the development of the Alliance. As a significant coordinating mechanism encouraging wholehearted participation by Latin America in Alliance self-help and reform efforts, CIAP's efforts should help qualify more Latin American countries for international financial assistance.

CIAP provides a focus for further coordinated efforts with the multi-lateral agencies. Recommendations of the OAS Panel of Nine, who are charged with evaluating the development plans of Alliance nations, will take on even more significance. Efforts of the World Bank family, the Inter-American Development Bank, the UN technical agencies, and OAS will be better linked and should contribute more to development than ever

before. The international agencies invested nearly \$400 million in Latin America in 1963. Perhaps more importantly, CIAP will test performance, to determine how much each country can use effectively in support of its own development efforts.

The U.S. contribution is now coordinated at a single point, with the U.S. Coordinator of the Alliance for Progress being both Assistant Secretary of State and a Special Assistant to the President. The U.S. contribution involves not only AID but also the resources of Food for Peace, the Export-Import Bank, the Peace Corps, and the Social Progress Trust Fund of the Inter-American Development Bank. The new organizational simplification should make for quicker response to fast-moving situations in Latin America. It has already made clear that there is one voice in Alliance matters in the United States. In addition, the continuing efforts to improve the efficiency of AID machinery, both for program formulation and implementation, are moving the program forward.

Outlook for the Future

The real problems in Latin America—poverty, hunger, disease, illiteracy, and the degradation of slum life—will not be solved simply by condemning Castro Communists or nationalist extremists. They must be met with an active program of help and self-help.

The Alliance road to development is a long one. There have been many setbacks. More are to come. There are many who, fearing the immensity of the obstacles, the evidence of resistance to progress, and the pace of achievement, despair of the Alliance. The note of despair has often been sounded in the cold war period, from the Marshall Plan through the race to the moon. Once again, the antidote to despair is action. The United States cannot pull out; it must move ahead. The Soviet Union is increasing its contribution to Cuba, which already receives nearly as much assistance as AID provides for the rest of Latin America combined. Our chances of ultimate success are much greater. And the initiative is ours.

Democratic leaders in Latin America took seriously President Kennedy's wholehearted commitment to this program, his constant interest in it, his impatience with them. The United States became a friend, partner in a great Alliance against poverty. The benefits to the United States were great in the first two years of the Alliance for Progress. As President Johnson said, it is up to all citizens of the hemisphere to convert the Alliance for Progress into a living memorial to President Kennedy—and to make it work.

ARGENTINA

The 1963 presidential elections resulted in the reinstatement of a democratic government in Argentina. Emergency assistance granted the provisional government in 1963 contributed to the creation of an economic environment conducive to the elections which were held in July. The

government of this resource-rich and relatively modern Latin American nation is faced with severe economic problems. One of the more complex and troublesome of these is a heavy foreign debt, repayments on which will equal 33 percent of its annual exports in 1964 and possibly 40 percent in 1965. Repayment on private debt puts an additional drain on total foreign exchange requirements.

Self-Help

The new administration, however, is engaged in a number of significant self-help measures which would correspond to Alliance for Progress criteria.

(1) The government has proposed comprehensive policies to improve agricultural production, including measures which penalize nonproductive land use, and give tax incentives for more intensive use.

(2) Development planning has been given increased emphasis through the strengthening of the National Development Council and contracts with Harvard University and Stanford Research Institute. It is expected that with this assistance a national development plan will be completed by the end of 1964.

(3) The Internal Revenue Service has been reorganized and has made significant progress in reducing tax evasion. In 1962-63 it identified some 200 billion pesos of previously unreported income by some 450,000 taxpayers, of which more than half were added to the tax rolls for the first time. Numerous emergency taxes of 1962 and 1963 were also responsible, in large part, for a 40 percent increase in sales and consumption tax revenue in 1963, from 57.5 to 81.1 billion pesos. The government continues to modernize the tax collection system and is introducing the use of data processing equipment.

Problems

Government enterprises, however, are still contributing heavily to mounting central budget deficits. The deficit for fiscal year 1963 was a record high, resulting principally from payment of an accumulated backlog of overdue salaries and pensions, payment of debts to suppliers, substantial increases in public debt service, and higher salary rates for government employees. The single largest item involved the subsidy to the State Railways, amounting to nearly \$250 million.

Protection extended to U.S. firms under AID Investment Guaranties totals \$313,400,000, in fields ranging from petrochemicals and automotive parts production to housing developments and poultry production. Argentina continues to be attractive to foreign private investment, and with proper governmental encouragement, could expect an inflow of \$200 to \$300 million per year.

Export prospects for 1964 are exceptionally good, and follow on a favorable trade balance of over \$300 million in 1963. The problem of foreign

debt nevertheless remains and improvement in exports will not totally relieve the repayment demands.

To meet the challenge of the Alliance for rapid social and economic development, the Government of Argentina needs to concentrate on:

1. Continued major improvements in public administration and the tax system, and more efficient operation of State enterprises;
2. Further improvements of public policies in the agricultural sector;
3. A tighter budgetary program to achieve fiscal self-discipline and;
4. An accelerated national planning effort to improve resource allocation.

Other Aid

Since 1960 Argentina has received external assistance from all sources of \$700 to \$800 million a year—about one-third of this as private investment.

The Argentine private and public sectors have received loans for a variety of development projects from the World Bank, the Inter-American Development Bank (IDB) and the International Finance Corporation. The World Bank has made two loans for electrical production and road construction. The IDB loans from ordinary capital and fund for special operations have been used for a variety of development projects including financing of farm machinery, colonization, housing, and irrigation. In addition, Argentina receives technical assistance from many sources including European countries, Japan, the United Nations, and the Ford and Rockefeller Foundations.

Fiscal Year 1965 Program

The primary U.S. objective in Argentina is to encourage the growth of democracy in an independent Argentina and promote the adoption by the Argentines of measures for rapid economic development of benefit to all sectors of the population.

The U.S. program will be directed toward specific targets to supplement Argentina's actions. Expansion of agricultural exports is a priority long-term goal which will contribute significantly to relieving the foreign debt problem. To improve agricultural marketing, and to expand the base for general economic development, AID is already assisting in the construction or improvement of 2,315 kilometers of national highways. A farm grain bin and country grain storage elevator program is also being assisted by AID and will change Argentina's system of handling grain from the slow and high-cost sack method to a modern bulk system. Farm bin capacity will be increased by more than 700,000 tons and country elevator capacity by almost 500,000 tons.

AID will help the northern regional provinces establish agricultural credit institutions and will assist in the development of transportation to link the area to potential market centers. This area has great marginal productivity potential, but the lack of long term credit is inhibiting the capital investment in agricultural operations needed to realize this potential. Agricultural processing and marketing facilities, particularly those developed by cooperatives and farmers associations, will be assisted.

Privately financed low-cost housing will be stimulated through housing Guaranties and assistance to labor unions and cooperatives for self-help housing construction. A \$7.5 million Guaranty has been issued for a housing project of 1,133 middle income homes soon to be constructed in Rosario.

A \$30 million Social Progress Trust Fund loan, authorized by the Inter-American Development Bank, will assist in construction of more than 15,000 middle- and low-income housing units. In addition, AID has loaned \$2 million to the Province of Buenos Aires to help finance materials, equipment, tools, and technical supervision for a self-help housing project in which 1,200 families will provide the labor to construct their own homes.

Technical assistance will focus on labor and education, with particular emphasis on the organization of an Argentine labor union training center.

The United States will encourage the development of the Argentine trade unions along democratic lines by demonstrating concrete benefits to be gained by cooperation within the Alliance for Progress framework. Fourteen Argentine labor leaders will be brought to the United States for training in 1965-66.

Argentina lacks a sufficient number of trained economists. To help alleviate this situation the United States will continue assistance to the graduate economics project at the University of Cuyo. AID will extend its present contract with the University of Chicago for another two years, from March 1965 to August 1967. The project started in August 1962, with the arrival at Cuyo of four professors from Chicago. The University of Chicago will continue to improve Cuyo's teaching and curriculum in economics, and the development of a center for advanced economic training and research.

BOLIVIA

Bolivia increasingly is orienting its policies to its development needs, and has begun to reverse the decline in its economic output which followed the 1952 revolution. Despite the need for development, external aid has to a considerable degree in the past been devoted to emergency assistance needed to bolster political and economic stability. The United States, beginning in 1954, supplemented its technical cooperation effort with a large food and commodity import program and budgetary support.

Three results of Bolivia's 1952 revolution have retarded the country's development: The nationalization of the major tin mines caused tin production to decline about 50 percent because of inefficient management and

poor labor practices; large estates were broken up into small and frequently unproductive lots, causing a cutback in food production and an increase in imports; skilled managerial manpower was depleted by the flight of members of the middle and upper classes.

Self-Help

The government has shown a growing ability to deal with anarchic forces, to foster economic stability, and to marshal resources for development. In 1961, for example, the price of gasoline was increased 50 percent in order to put petroleum production on a break-even basis. Despite ensuing protest riots and outbreaks of violence, the government stuck to its policy of economic realism and the price boost was maintained. The government also backed up its program of austerity in the face of illegal strikes in the mines, railroads, schools, and factories. Other actions to bring the economy under control have included a curb on inflation, the prevention of price and wage increases, improved tax and customs collections, acceleration of the issuance of land titles (50 percent of the 235,000 individual titles have been issued since 1961), and increased duties on luxury imports. Domestic revenues increased 19 percent in 1962 and 12 percent in 1963.

Action also has been taken to reorganize rundown and deficit-producing nationalized major industries. Nationalized mining, petroleum, air transport, and railroad entities account for 65 percent of Bolivia's budget deficit. Railway equipment is being improved, with U.S. and U.K. help and the airline is being reorganized with the aid of a private U.S. firm. Profitable operations are forecast for 1965.

The rehabilitation of the government tin mining corporation (COMIBOL) is the single most important rehabilitation project. A confrontation last summer between the government and miners who were rebelling against job reductions focused public attention on the difficulty of this effort.

Other Sources of Aid

Aid from international lending institutions and foreign governments has increased notably during the past two years.

1. The Inter-American Development Bank (IDB) has provided credits of \$34 million as well as technical assistance. Three additional loans now are under consideration.
2. West Germany, under the national mining rehabilitation program, has provided \$6.6 million and about \$1 million in technical assistance.
3. The United Kingdom is currently financing 15 technicians to assist Bolivia in its tropical agricultural programs.
4. The Japanese have provided funds for a sugar mill and are developing one of Bolivia's largest zinc mines.

5. The United Nations is presently providing 25 technicians in the fields of government, management, agriculture, health, and mining.

6. The International Monetary Fund provides a \$10 million standby credit.

7. The World Bank is considering assisting Bolivia with credits for electrical energy production and railroad rehabilitation.

The long-run U.S. policy in Bolivia is to work for stability by aiding the government in pressing its development program. Application of this policy calls for continued budget support, but in decreasing amounts. The semiautonomous agencies and State enterprises will have their accounts consolidated into the public sector budget, and as a consequence greater financial discipline should be applied to their operations. The ensuing review of public sector financial needs should result in an increasingly intensive application of economic development priorities.

Fiscal Year 1965 Program

A new Bolivian Government is scheduled to take office in August 1964. AID's proposed 1965 program is designed to encourage and assist that government in seeking stability, self-sufficiency, and development. A major portion of the funds will be devoted to a road program developed by a U.S. firm designed to better integrate the country, opening up new areas for settlement and farming.

New emphasis is being given to a comprehensive program for resettling Indians from the unproductive "altiplano" to the fertile lowlands. The program will provide them with agricultural extension services, limited social services, and loans. It is aimed at diversification of Bolivian agriculture. During the past several years, AID and the Bolivian Government, using local currency, built a penetration road into the Alto Beni Valley on the east slope of the Andes. To date 10,000 persons have settled along this road. They came principally from the high unproductive altiplano region.

In order to assist the new colonization areas, AID has trained 300 health technicians, 12 sanitary engineers, and financed the construction of small health centers and potable water projects. AID has also provided funds and technicians to combat yaws and small pox. Today these two killers have been practically eliminated. AID is also providing funds to combat the deadly hemorrhagic fever that first broke out about a year ago in the San Joaquin area (upper Beni).

The COMIBOL rehabilitation program, financed by AID, the West German Government, and the Inter-American Development Bank, should be on a break-even basis by late 1964 or 1965, if the price of minerals remains fairly high and stable and if COMIBOL continues to fulfill its commitments on management and labor reforms. In order to increase labor productivity in the mines and to meet a serious health problem which

reduces miners' life expectancy, AID is financing a program to combat silicosis and tuberculosis in the mining area.

The World Bank (through the International Development Association), the Inter-American Development Bank, and AID are expected to assist Bolivia in increasing its electrical energy output. Studies have been completed on a hydroelectric project in Central Bolivia and construction is scheduled to begin soon. Modest loans to small and medium industries will continue under an AID loan made in 1963.

The Supporting Assistance level projected for 1965 reflects elimination of commodity import programs and the reduction of direct budget assistance to the central government and autonomous agencies.

Technical assistance will be continued to the institutions responsible for program planning, developing human resources, and attracting domestic and foreign private investment.

BRAZIL

Brazil, the largest Latin American country, is now beset by serious political and economic problems. Its rate of economic growth, which averaged six percent annually during the fifties, has come to a virtual standstill. The Federal Government has not yet succeeded in formulating and effecting self-help measures which will enable it to push forward on economic growth and at the same time check inflation.

The individual States, nevertheless, have initiated important reforms in the following areas:

Tax Reform. Five states—Bahia, Parana, Guanabara, Ceara, and Goias—have launched programs of improved tax collection which appear significant. The State of Bahia, in the northeast, was able to reduce its budget deficit by 60 percent in 1963.

Land Reform. Individual state programs have registered many important successes. Thousands of land titles have been issued to landless farmers in states in the south and northeast of Brazil since 1961. For example, in the southern states of Parana and Santa Catarina, 6,000 land titles were issued between 1961 and 1963. Complementary to these measures, programs of agricultural credit, development of cooperatives and agricultural extension have been organized. Although the availability of agricultural credit is still extremely limited, 226,000 loans were made during 1961 averaging 442,000 cruzeiros each.

Economic Planning. State development agencies, planning boards, or private development committees have been organized in many states. These agencies are formulating state development programs centered on increasing electric power production, educational facilities, agricultural production, highway construction, and on encouraging private investment.

In the Northeast state of Ceara, for example, economic planning and research is centered in a newly created Superintendency for the Develop-

ment of Ceara (SUDEC). Ceara's state development plan, now being refined by SUDEC, calls for the expenditure of Cr\$68 billion over a four-year period (1963-66), 31 percent to be derived from State funds, 65 percent from Federal sources, 2.4 percent from other internal sources, and 1.6 percent from external sources. The plan emphasizes investments in water supply and sanitation (22.7 percent), education (19 percent), electric power (14.2 percent), transportation (14 percent), and agriculture (11.1 percent).

Other Aid

External assistance other than from the United States is now largely marginal. Recently, neither the Export-Import Bank, the World Bank, nor the International Monetary Fund have been extending new assistance to Brazil. Brazil's repayments to the Export-Import Bank have been quite substantial, cumulatively amounting to over \$332 million as of November 30, 1963. In addition, over \$214 million in interest payments have been collected. Total Brazilian indebtedness to the Export-Import Bank as of November 30, 1963, was approximately \$728 million.

The Inter-American Development Bank has been financing Brazilian social development projects. The West German Government is reported to have completed arrangements for a credit of 200 million marks (\$50 million). England, Israel, Japan, and France have modest programs of technical assistance. The United Nations agencies are sponsoring an extremely diversified program of technical assistance. Private U.S. foundations are also conducting technical assistance programs.

U.S. Assistance Policy

An exchange of letters between the Finance Minister of Brazil and the AID Administrator in March 1963, envisaged assistance of \$184 million during the period ending in May 1964, in support of the Brazilian program for stabilization and development, and \$100 million in project loans. The United States made available in April 1963, a total of \$54 million in new funds for stabilization and development, and further disbursements were to be phased to the successful implementation of Brazilian stabilization efforts. The failure of Brazil to carry through with these efforts has resulted in the deferral of further program support loans from the United States.

Since April 1963, U.S. assistance has consisted of limited project financing, Food for Peace shipments, and fulfillment of the two-year agreement for aiding Brazil's poverty stricken northeast area.

Brazil has heavy external debt payments falling due in the next few years. President Johnson recently indicated the readiness of the United States to participate in general negotiations for debt rescheduling which Brazil has since initiated. These are multilateral negotiations involving all foreign creditors. The U.S. Treasury and the Export-Import Bank

have postponed until 1964 a portion of payments which fell due in the latter part of 1963.

For the current fiscal year, local currency and dollar loans are under consideration to help finance the development of electric generating and transmission facilities, and thereby meet critical power shortages which seriously impede economic growth. Also proposed are loans for development banks and for direct financing of such industries as pulp and paper, lumber, cement, and fertilizer. Loans have been programed for states in the northeast for highway construction and for the procurement in the United States of equipment required for highway maintenance.

Technical Assistance

Technical Cooperation is programed at \$16 million, and is aimed at assisting the Brazilians in developing institutions capable of spearheading their country's social and economic development. Principal emphasis has been placed on developing the human resources base, with extensive programs in elementary, vocational, and university level education. Other major technical cooperation activities relate to Brazilian efforts to improve livestock and other agricultural production, to develop and maintain adequate water and sewerage facilities, and to improve economic development planning.

Several U.S. universities and Government agencies are helping AID provide technical assistance to Brazil. The university contracts, all in the field of higher education, are as follows: (a) Engineering Education—Universities of Michigan and Houston; (b) Agricultural Education—Universities of Arizona, Purdue, Wisconsin, and Ohio; (c) Public and Business Administration Education—Universities of California and Michigan State; and (d) Social Science Training and Research—University of Southern California. In addition, several other U.S. Federal agencies will carry out AID projects in Brazil through interagency agreements with AID. These include the Bureau of Public Roads, the Bureau of Reclamation, the Department of Agriculture, and the Bureau of Commercial Fisheries.

Food for Peace

Other AID assistance to Brazil includes a large Food for Peace program under which surplus U.S. agricultural commodities are sold to Brazil, and the local currency proceeds are loaned or granted to Brazil for economic or social development purposes. With the cooperation of the Brazilian Ministries of Health and Education and of U.S. voluntary agencies and their Brazilian counterparts, additional Food for Peace commodities are donated to Brazil for child feeding, school lunch programs, assistance to expectant and nursing mothers, and to indigents, especially in the depressed northeast. Some 9.3 million people will benefit from the donated food shipments in fiscal year 1964 as recipients of 120,000 metric tons of commodities valued at over \$55 million.

Northeast Brazil

In a two-year agreement, signed in April 1962, both the United States and Brazilian Governments pledged special efforts to alleviate the human misery which has plagued the northeast area of Brazil. The United States agreed to commit an amount equivalent to \$131 million in both dollars and Public Law 480 local currency, and the Brazilians pledged the local currency equivalent of \$143 million. Effective programs are now underway in public health, elementary and higher education, potable water and sewerage, highways, and power facilities. By April 1964, it is expected that the amounts pledged by both countries will have been firmly committed to projects bringing to the people of the northeast real benefits under the Alliance for Progress.

Accomplishments to date in the northeast include the following: 950 classrooms have been completed, with several hundred more under construction; 850 homes have been constructed or renovated, and 2,000 additional dwellings are being rebuilt; potable water and sewage disposal projects are under construction in 68 cities and towns; electrification is being brought to a total of 432 rural areas; 128 health units have been completed and 333 additional health units are under construction; more than 2,000 elementary teachers and 300 health technicians have received training; and 68,000 educational books and pamphlets have been produced and distributed. In addition loans have been authorized for the construction of 244 miles of priority highways, and surveys are underway of the potential of some of the more important river basins.

CENTRAL AMERICAN ECONOMIC COMMUNITY

The five Central American Republics—Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica—are undertaking a significant program of integration and unification of their economies. They have recognized that this can help to overcome the inherent weaknesses of their small economies taken individually.

The process of economic unification was formally begun in 1958 when Guatemala, El Salvador, Honduras, and Nicaragua ratified a treaty which called for the gradual establishment of a Common Market over a 10-year period. It was greatly accelerated in 1960 by a second treaty which went far beyond that of 1958 and called for immediate elimination of intraregional tariff barriers affecting 95 percent of the area's agricultural and industrial production, and phasing out by 1966 tariffs on the remaining five percent. In September 1963, Costa Rica adhered to both treaties.

While political unity is not now under discussion, there is historical precedent for cooperation. All five republics were federated under the Captaincy General of Guatemala for almost 300 years prior to independence

(1527–1821). During the 125 years since then, there have been at least 25 attempts at political unity.

To accomplish economic integration, the Central Americans have established a number of regional institutions. The most important are the Permanent Secretariat for Economic Integration (SIECA), located in Guatemala City, and the Central American Bank for Economic Integration (CABEI), in Tegucigalpa.

AID established a Regional Office (Mission) in July 1962, to work with Central American regional organizations. There are also AID Missions in each country.

Aiding Economic Unity

The fiscal year 1965 program in Central America gives the United States an opportunity to provide further assistance to the economic unification now taking place. Regional organizations are gaining in strength. The five countries now are making more decisions on a regional basis than on a national basis. They are working toward the goal of a Central American Economic Community, as pledged by the presidents of the five republics in their meeting with President Kennedy in March 1963.

The first steps have been taken toward the establishment of a regional system for the supervision of home mortgage financing, a regional transportation system, and a regional telecommunications network. A regional university system is already functioning. Other plans call for projects to bring about substantial increases in land tax revenues with regional support and the establishment of uniform agricultural policies to facilitate agricultural trade within the region. A consolidated Central American Airline for international traffic is under discussion.

Trade Increases

The rate of Central American economic integration has surpassed previous expectations. Trade among the five countries, resulting from the lowering of trade barriers under the Common Market, has increased significantly, growing from \$33 million in 1960 to \$50 million in 1962. The existence of regional institutions also facilitates contributions by external sources of assistance. One example is a loan for \$2.9 million which the Inter-American Development Bank (IDB) completed to the Central American universities through the Central American Council of University Rectors. Another is a \$6 million loan by IDB to the Central American Bank, for loans to industries having regional significance.

The movement for economic integration provides a framework within which the five Central American countries can grow and develop. The United States intends to provide encouragement whenever possible to accelerate growth.

Problems in Development

Progress in regional integration does not assure that economic development will take place. Indeed, the process of regional integration involves substantial investment costs, which must be borne increasingly by the five member nations. Uneven growth diminishes their ability to share these regional burdens.

Moreover, each of the five countries faces substantial economic and social problems. These problems are aggravated by the fact that the Central American area is faced with an exploding population (3.3 percent per year) and a declining per capita gross national product. Inadequate government revenue, serious shortages of skilled personnel in the public and private sectors, and a lack of continuity in the planning and execution of government programs are major problems throughout the region. Failure to meet national social and economic needs with sufficient speed may give rise to political stress and strains which could delay or prevent the achievement of overall goals.

Thus, support of programs at both the regional and the national level will be necessary for several years, until the Central American countries can act as a unit in the achievement of self-sustaining growth.

Central American Regional Programs (ROCAP)

In fiscal year 1964, contemplated Development Loans for regional projects include: A centralized home mortgage bank, for which an agreement has already been signed; two sections of the regional road network, and further support to CABEI for loans to regionally significant industries.

Central American regional progress in fiscal year 1965 will require further AID loan support. Loans are planned for: A continuation of the regional road program; a regional system of grain storage facilities to facilitate commercial movement of grain; improvement of navigation and communication; and further encouragement of industry through the establishment of industrial parks in key areas. El Salvador already has established a trade office, and is actively promoting investment. Also under study is a regional scholarship institution which would make loans on easy terms to enable young Central Americans to complete their training at United States or Central American institutions.

A technical cooperation program of \$4 million is projected for fiscal year 1965 for training and technical assistance to regional institutions. The following projects would be included:

1. Development of a common agricultural policy;
2. Conduct of a regional census of manufacturing and the securing of data needed for regional development planning;
3. Preparation of tax maps to be used in connection with levies on property (a private United States firm has contracted to pro-

vide the aerial photography required for some portions of this activity);

4. Completion of a regional integrated university system to train personnel needed for the Economic Community's development;

5. Stimulation of trade and investment throughout the region.

Costa Rica

Costa Rica, while maintaining a strong democratic tradition and social and political stability, has stepped up its efforts toward a higher rate of economic growth. The government has established a national planning office, accelerated distribution of small farms to the landless, and adopted an industrial encouragement law.

As of December 31, 1963, 20 Investment Guaranty applications were in process for Costa Rica, totalling over \$55 million under the convertibility section and over \$65 million under the expropriation clause. AID Investment Guaranties have been issued for United States firms such as Johns Manville Corp., Standard Fruit Co., and American Broadcasting-Paramount Theaters.

Nonetheless, Costa Rica has been unable to maintain a satisfactory rate of growth, due to a long decline in coffee prices and one of the highest rates of population growth in the world. Exports have not been diversified and government expenditures remain high. While government investment has emphasized social welfare, it has tended to neglect industrial and private sector development. As if these problems were not enough, continuing volcanic eruption has caused heavy damage to coffee crops and pasture lands in the very center of the most productive area of Costa Rica. This has necessitated emergency measures by the United States to provide cattle feed under Title II of Public Law 480. The smothering fall of ash has already caused such damage to crops and pastures as to threaten national disaster. Further emergency United States assistance is presently being studied.

AID's program for fiscal year 1965 proposes loans to continue diversification of agriculture and for feasibility studies to help private sector industrial development. Technical cooperation programs are planned in the areas of public administration, tax reform, and rural development. The U.S. Internal Revenue Service and the National Rural Electric Cooperative Association, respectively, are carrying out the last two projects for AID. International lending agencies have made substantial loans to Costa Rica: \$16 million by IDB; \$14.3 million by the World Bank, and \$22 million from the Export-Import Bank.

El Salvador

Industrially the most advanced country in Central America, El Salvador has been pushing social reform and economic development on a broad

front. It is one of the brightest spots in the Alliance for Progress. Major steps forward have been taken in planning, taxation, monetary policy, agricultural development, housing, labor legislation, industrial development, health, and education. El Salvador has taken a leading role in the Central American Common Market and has fostered a good climate for foreign investment.

Yet this republic suffers from extreme population pressure, concentration of land ownership, and unequal distribution of income. Continued industrialization is necessary to create additional employment opportunities.

To date AID has issued two Investment Guaranties, each for \$1.2 million, to the Phelps Dodge Corp. under the expropriation and convertibility clauses. AID has 16 additional applications: Convertibility—\$23 million and expropriation—\$16.7 million. The Government of El Salvador has approved four applications for molasses storage, office building construction, diesel locomotives for the International Railways, and electric cable and wire manufacture.

AID plans call for extensive assistance to Salvadorean development. Technical cooperation programs will emphasize:

1. Improved governmental policies and institutions for taxation, based on tax structure revisions proposed by United States tax specialists;
2. Planning and administrative reforms based on advice being provided since fiscal year 1962 under an AID contract with a United States firm;
3. Rural development activities (with USDA advice);
4. Mobile health and education;
5. Technical advice to industrial and housing financial institutions.

Loans are proposed for agricultural resettlement, rural electrification, rural roads, a private industrial development corporation, a savings and loan institution, and a loan to improve the facilities of the University of El Salvador. The United States will urge the World Bank, the International Development Association, the Export-Import Bank, and CABELI to provide loans for development of El Salvador's infrastructure and for agricultural and industrial development. In addition, the United States will encourage the IDB to make further loans for housing and health.

Guatemala

A major United States assistance objective is to enable the Government of Guatemala to sustain projected programs and institute self-help measures which would pave the way for an orderly return to constitutionality.

Guatemala's program "Operation Honesty" has made a good start towards eliminating endemic corruption. Delinquent debts are being paid

and government payrolls are met on schedule. In July 1963, Guatemala enacted the first income tax law in its history. When combined with other new and revised tax measures, the new law is expected to increase annual revenues by \$8 to \$10 million. Foreign exchange reserves stood at \$43.3 million in October 1963 as compared with an all-time low of \$28.5 million for the same period in 1962.

On the other hand, Guatemala has a high illiteracy rate (70 percent), a low ratio of investment, a low level of administrative capacity (particularly in the government), and a continuing internal security problem. All these factors act as deterrents to economic development.

United States aid will help Guatemala map property for updating real property tax assessments. A loan is planned for the improvement of customs services and facilities. Non-United States external technical assistance averaged about \$2 to \$3 million annually for 1963 and 1964, while loan assistance to the public and private sectors from non-United States sources amounted to \$2.1 million in fiscal year 1963 and \$3.4 million in fiscal year 1964.

Honduras

Honduras is one of the poorest countries in Latin America. Lawlessness and a lack of roads and communications slow economic progress. Approximately 80 percent of the population derives its support from agriculture and 40 percent are subsistence farmers.

Prior to the coup of October 3, 1963, Honduras made significant progress in self-help under the Alliance for Progress. Following four years of stagnation, the gross national product increased faster than population growth in 1962 and 1963. The Congress passed a new income tax law and enacted legislation in agrarian reform, forestation, and taxation.

The fiscal year 1965 program will place emphasis on assistance and training in agriculture, industry, education, and public administration. It is expected that some projects to build the foundations for economic development may be funded by the international lending agencies.

Nicaragua

Since the advent of the Schick Administration in 1962, the Government of Nicaragua has been moving forward on a broad front to aid the country's development. There is recognition of the need for tax and administrative reforms at both the national and municipal levels.

Income tax collections have risen. An agrarian reform institute has been created to carry out a program of colonization and land settlement. Gross national product increased more than 11 percent in 1962, or a per capita increase of approximately seven percent. AID has thus far received 21 applications for Investment Guaranties in Nicaragua totalling \$71.8 million (convertibility, \$28.0 million; expropriation, \$29.1 million; and war risk, \$14.6 million). The Government of Nicaragua has approved

applications for ventures in seafood processing, animal feeds, hotel construction, vegetable oil and shortening, and lumber.

United States assistance in fiscal year 1965 will emphasize:

1. Technical assistance to key institutions for planning, administrative reform, and rural development. Under an agreement with AID, the U.S. Department of Agriculture will help the Government of Nicaragua establish a rural development plan;
2. Selective loans directed toward expanding industrial and agricultural production. A private U.S. firm on contract with AID has completed a study recommending several kinds of loans which could be made through the Nicaraguan Industrial Development Institute (INFONAC);
3. Providing needed basic facilities for development: transport, power and training.

International agencies are complementing U.S. assistance through loans for hydroelectric projects, housing, water systems, and electrification.

CHILE

Chile's long trend of economic stagnation is being reversed through governmental reforms in economic policy adopted in January 1963 and by external assistance, from the United States and other countries.

Continued economic progress will call for the adoption of appropriate fiscal measures, monetary policies, and selected reforms.

Self-Help and Reform

Important reforms and self-help measures already taken which relate to the Alliance for Progress include:

During 1963, public revenues for investment were increased substantially in fulfillment of government commitments to the International Monetary Fund and the United States.

A fundamental exchange reform begun in 1962 has given the currency a more realistic value.

In September 1963, a constitutional amendment was passed permitting deferred payment for expropriated agricultural land. In 1964, 5,000 to 6,000 farmers will receive land under the agrarian reform program; another 7,000 will benefit in 1965.

Congress has increased income and inheritance taxes significantly, with new income tax rates as high as 60 percent. Measures were adopted to tighten tax collection procedures by reforming the Internal Revenue Service and reassessing all urban and rural real estate. This package of tax measures is expected to increase revenues by about \$50 million in 1964 and more in 1965.

The savings and loan system initiated with AID technical assistance continues substantial growth, aided by increased Chilean individual saving and AID loans. By the end of 1963, the system included 22 associations with 80,000 members and deposits of \$24 million. During 1963, the system financed 10,000 new homes or a total of \$26 million in loans and is expected to finance at least 10,000 homes in 1964. AID contributions have included a \$5 million grant and a \$5 million loan, and a further loan is now under negotiation.

Reform of the customs administration is being spurred in the face of evidence of past corruption in the system. AID technicians are helping the government institute corrective measures which are expected to increase customs revenues 20 percent by the end of 1965.

Despite these gains, a number of economic problems remain. A high rate of price inflation occurred in 1963, despite the government's tight money policy. Lagging performance in several sectors of the economy also requires policy attention, particularly in the agricultural and private investment fields. Tighter government procedures are needed for reviewing public sector investments to see that they reflect the priorities of Chile's 10-Year Development Plan.

Other External Aid

In addition to the AID contribution, the Social Progress Trust Fund, international institutions, foreign governments, and private banks have participated actively in the financing of the Development Plan.

Since 1961, \$28.1 million has been loaned Chile by the Social Progress Trust Fund administered for the United States by the Inter-American Development Bank. These loans have helped to construct low income urban housing, extend urban and rural water systems, increase agricultural colonization, strengthen the agricultural credit system, and build a series of regional colleges.

The International Monetary Fund, the World Bank, and the Organization of American States' Panel of Nine have reviewed the Chilean Development Plan and have helped the Chilean Government design basic economic measures to achieve the Plan's goals.

The World Bank recently committed \$24 million for agricultural and livestock development in Chile, while the United Kingdom made a loan of \$4.2 million. The West German Government is soon expected to lend Chile \$17.5 million.

Chile has received important technical assistance support from international agencies including the United Nations and UNESCO, private organizations, such as the Ford and Rockefeller Foundations, and foreign governments. Total annual expenditures for technical assistance from these other sources are estimated at about \$8 million per year.

U.S. Objectives and Assistance Policy

U.S. aid levels will be reviewed periodically and related to the government's ability to use assistance effectively, as shown by:

1. Effective monetary and fiscal policies to restrain inflation;
2. A substantial increase in operating surpluses from the central government and its decentralized agencies;
3. Efforts to increase private sector activity, including legislative and administrative action to stimulate Chilean private investment, and improvement of the investment climate for foreign capital; and
4. Strengthened planning and coordination of the Ten-Year Plan.

Based on the assumptions and strategy outlined above, AID's assistance program for 1965 is designed to help:

1. Maintain and, if possible, increase the real per capita growth rate in fiscal year 1965.
2. Encourage the government to adopt monetary policies which will significantly reduce the level of price inflation.
3. Provide an investment climate which will vitalize the private sector and increase project planning and development. An important element will be implementation of an Investment Guaranty program with the United States on which preliminary agreement has been reached. AID has pending 47 Investment Guaranty applications from U.S. private investors involving \$200 million in projects such as electric power, timber and reforestation, mining, fishmeal production, housing, and banking.

Technical assistance will be supplied Chile to maximize the impact of other economic assistance, with particular emphasis on improving management techniques and increasing capabilities for development planning and execution.

AID's contract with the State of California is of major importance in the technical assistance effort. Initially, a group of California planners, economists, and water resource specialists will work with Chile to plan development of the Maule River Valley, a rich agricultural area 120 miles south of Santiago.

Another California team, working with Chile's Educational Planning Commission, will evaluate current manpower planning activities and make recommendations on better correlating manpower and educational planning within the goals of the Ten-Year Development Plan.

A major California effort, drawing on the talents of State budget and fiscal experts, is to create within the Chilean Government a special staff to prepare and coordinate development programs.

U.S. universities will continue technical programs to spur Chile's development. Consultants from the University of Pittsburgh are working to strengthen the engineering faculties at Federico Santa Maria University at Valparaiso and Cornell University is helping the University of Chile establish a department of labor relations.

COLOMBIA

Colombia has a tradition of sound financial policies and free enterprise in addition to the natural advantage of rich and varied resources. It has recorded an average annual increase in gross national product of approximately five percent over the past 17 years, has a democratic two-party system, and political leadership committed to progress.

Self-Help

In line with the Charter of Punta del Este, Colombia has:

Modernized its progressive income tax; a 1963 surcharge of 20 percent on income taxes is expected to raise \$60 million during 1963-64; a 30 percent surcharge has been levied on gift and inheritance taxes and a 10 percent increase on property valuations; and a monetary commission has been established to deal with fiscal problems.

Established a private investment fund to make loans to small and medium size industry.

Adopted a civil service law and reorganized its planning board.

With help from AID and the Inter-American Development Bank, constructed 31,000 low cost housing units in 1963. In Cali alone, 3,400 units have been built or are in process. Average loans have been for \$700 with 20-year terms. With Public Law 480 (Food for Peace) assistance, slum eradication benefiting 7,200 families is underway.

Completed plans to settle the first 15,000 families under its Land Reform law.

Trained 17,300 workers since 1961 under an apprenticeship training program supported by a two percent payroll tax.

Reduced rural violence which had been retarding agrarian development as well as accentuating urban migration.

Built in less than two years the community "La Fortaleza," enabling some 1,000 low-income families to own their own homes through Alliance loans. Through self-help, assistance by private firms and charities, and from soldiers in the area, the community now has a small health clinic, workshops, and a school and playground for 500 children.

Problems

Notwithstanding such progress, Colombia is still an underdeveloped country, with all the problems normally attendant on this stage of growth. The middle class is growing fast but is still relatively small. The gap between the comparatively wealthy few and the extremely poor remains large. To permit economic growth and correct these social imbalances, without aggravating its balance of payments deficit, Colombia must take effective measures to stimulate export diversification and end its overdependence on coffee. Colombia should be able to achieve fiscal balance within two to three years, but balance of payments equilibrium may still be seven to 10 years away. A greater Colombian effort to stimulate and diversify export industries must be mounted.

Other problems include those of (1) agricultural production, which is not keeping up with population growth; and (2) the lagging investment of resources in education and training for development. There are also serious weaknesses in various governmental institutions.

External Help

Colombia's potential has been recognized by other assistance donors who have joined to provide development financing on suitable terms. A Consultative Group has been organized under World Bank auspices which includes the Inter-American Development Bank, AID, Export-Import Bank, Japan, Canada and nine European countries. At the end of the first year of operation, group members had made loans totaling \$180 million and were actively considering a substantial number of additional projects. U.S. development financing has constituted about 45 percent of the external assistance to Colombia, with the World Bank providing an equal percentage. A recent World Bank loan for \$45 million at 5½ percent for 35 years will finance foreign exchange costs of the Nare Hydroelectric Power Project. Further assistance has come from the Inter-American Development Bank and other developed countries.

In addition, the United Nations and the OAS provide technical assistance. Private U.S. foundations are particularly active in Colombia, especially in the fields of agriculture, medicine, and higher education.

U.S. Objectives and Assistance Policy

The major U.S. assistance objective is the achievement of an accelerated rate of economic and social progress within the framework of a private enterprise system. To achieve these goals, Colombia must:

1. Attain within two or three years, a level of public revenue which will finance basic minimum public sector operating expenditures and adequate investment without recourse to inflationary financing, and;

2. Achieve within seven or eight years a level of exports high enough to cover the import needs of the growing economy and at least service its accumulated foreign debt.

There must be also a marked improvement in the fields of development planning, agriculture, and education.

Technical assistance will concentrate on tax administration and collection, and in improving and updating the land appraisal system, thus producing more realistic land values, more land units on the tax rolls, and greater tax revenues. AID will also help to improve the country's planning capacity, complete a basic resources survey, identify specific opportunities for diversification, and stimulate rural participation in the national economy. AID efforts will continue to place major emphasis upon development lending within the framework of the World Bank Consultative Group. A large part of the local currency generated by AID loans will be used to help finance a Private Investment Fund (PIF), which is concentrating its relending on industries producing goods for export or for import substitution. In the first six months of operation, the PIF made 50 loans in these fields. More than \$1 million of Investment Guaranties covering inconvertibility and expropriation risks have been issued to U.S. investors in Colombia. Approximately 88 Guaranties are in process for inconvertibility, expropriation, and war risk totaling over \$543 million, and including activities such as oil and gas exploitation, pencil manufacturing, developing synthetic resin, and sawmill and lumber operations. In addition, under the AID Housing Investment Guaranty program, a Guaranty has been issued for an \$8.2 million private housing project now under construction.

A joint AID/UNESCO/World Bank team of consultants will be working in Colombia for the next 18 months to strengthen the planning office in the Ministry of Education and take part in developing an education plan. An AID survey of higher education is also underway. An AID contract with Syracuse University is providing assistance to the Business Administration School at Medellin, while another with Catholic University is directed at nursing education. Additional U.S. activity includes the provision of surplus farm commodities under the Food for Peace program, which is presently reaching 1,500,000 Colombian children through programs under the administration of CARE and Catholic Relief Services, and the training of labor leaders to bring labor into development activities and make trade unionism a more responsible element in national life.

Police assistance in the improvement of rural and urban public order, civic action projects which use Colombian military personnel on community improvement activities, and further assistance in housing are other programs which AID plans to support.

With the cooperation of AID, Oakland County, Mich., and Cali, Colombia, have entered a mutual arrangement under which Oakland County (which has experienced some of the same problems of rapid growth as Cali)

will send local experts to Cali to help in the development of that city in the Cauca Valley. Colombian students from Cali will also be trained at higher educational institutions in the Oakland County area.

ECUADOR

The primary obstacles to Ecuador's development are a fragmented public administration, poor government organization and procedures, and a shortage of trained leadership.

The military junta which assumed control of the country in July 1963 is aware of these drawbacks and has initiated a program of development and reform. The government has improved its customs administration and contraband control programs, has reorganized three universities, and has strengthened several governmental departments.

The fragmentation of public administration arises from the fact that municipal and provincial governments and autonomous agencies, of which there are more than 700, receive almost two-thirds of the total revenue while the central government receives only one-third. As a result, the central government cannot effectively direct a development program, nor finance local costs of projects financed by external agencies. The central government is working to make its own operations more effective and to tighten budgetary controls, but is hampered by a shortage of trained administrators.

Aid From the United States

In this work, Ecuador is being helped with a \$1.6 million loan from the United States to improve administration of the central government and the two principal cities, Quito and Guayaquil. Other U.S. assistance goes to improve the capability of selected universities to produce the specialized manpower required by the public and private sectors in Ecuador. Following surveys to determine Ecuador's priority needs in the field of higher education, contracts were negotiated with three U.S. universities. Under the first contract, the University of Houston assisted the University of Guayaquil in strengthening its School of Chemical Engineering. Houston provided the services of five professors and instructors, trained teachers and students of the University of Guayaquil, and furnished equipment and books needed to improve the school's educational facilities. Under an extension of that contract, assistance is being provided to the University's Schools of Business Administration and Economics. The development of a School of Engineering and the construction of a basic sciences building will be completed in 1965.

The University of Pittsburgh furnishes a staff of 12 to 18 visiting professors to the Central University of Quito. The approach is university-wide rather than being concentrated on individual faculties. Under this contract, faculty competence is upgraded, teaching and laboratory method-

ology are modernized, and inservice training provided to selected employes in key areas of the Government of Ecuador.

St. Louis University is helping Catholic University of Quito improve its capabilities in the fields of basic sciences, education, English language training, nursing, social service, and general university administration. A basic sciences program, developed in December 1963, will be expanded to a four-year science program in 1965.

Self-Help Measures

Among the significant self-help measures Ecuador has taken are small projects in selected communities under a "Town Plan" or cost-sharing program. The "Town Plan" project in which AID assists, is conceived as a new method of bringing international and local resources to bear in a coordinated effort to solve community development problems. U.S. technicians meet with a town's leaders, identify community problems, and develop plans to use their combined resources to solve those problems.

A Town Plan for Esmeraldas, a seaport town of 40,000, provides for the completion of 18 miles of feeder roads in one year; a refrigerated storage plant for fish; street repair; hospital equipment; and limited equipment for a vocational school. The local community is contributing an estimated 70 percent of the cost of these activities, with the remaining 30 percent coming from the United States in the form of excess commodities and local purchases. Town Plans have also been organized for Guaranda and Ambato and are being developed for the towns of Loja and Cayambe.

A regional development center in Cuenca is sponsoring self-help projects to improve economic conditions in this depressed area. AID is providing modest assistance to help revitalize the Panama hat industry in the Cuenca area. In a pilot school construction program, Ecuadorean communities pledged one-third of the cost of each school in land, labor, materials, or cash. To date, 410 classrooms and 16 teacher lodgings have been constructed. Community participation in this program has exceeded the initial pledge and has averaged 42 percent.

Private Enterprise

Ecuador has an Investment Guaranty treaty with the United States. To date, 21 investment Guaranty applications totaling \$35.1 million for war risk, convertibility, and expropriation are in process and eight specific risk Investment Guarantees totaling \$7.7 million for convertibility and expropriation have been issued to companies engaged in food processing, and in the manufacturing of rubber products, chemicals, paints, insecticides, and truck bodies. "Cooley" local currency loans totaling \$688,000 have been approved for telephone communications systems and paper box manufacturing. Three preinvestment surveys in housing, food production, and fish processing have been carried out under the AID Investment Survey

program. These surveys, in which the potential U.S. participation is limited to \$16,000, may lead to investments totaling \$2.8 million. Incentives for foreign and domestic investment in the form of depreciation allowances and tax and customs exemptions are provided under an amendment to the industrial development law.

Besides the Export-Import Bank, Food for Peace, and the Social Progress Trust Fund, other free world agencies—particularly the World Bank—are also helping Ecuador in fiscal year 1964. Total external assistance may exceed \$50 million.

Fiscal Year 1965 Program

The AID program will place heavy emphasis on responding to the Ecuadorian Government's desire to adopt administrative and fiscal reform measures. A loan signed in September 1963 will provide U.S. tax experts of the Internal Revenue Service and experts in fiscal management. With this assistance, Ecuador should improve its budgetary and fiscal processes, increase its collections of customs duties and income taxes, and channel public revenue into priority development activities.

Aid loans proposed for fiscal year 1965 would permit the installation of five power plants in coastal cities. A large consortium loan in fiscal year 1964, in which the United States will participate; will provide for the construction and improvement of 700 miles of highways and roads. Existing Alliance loans will be used to encourage limited agrarian reform.

Substantial technical cooperation including assistance to five vocational schools and a program to increase the capability of army conscripts for productive employment will be continued for projects to improve and expand the educational system. A loan for construction of 3,000 primary school classrooms over a three-year period also will be made if satisfactory arrangements for textbook production, teacher training, and continued maintenance are drawn up. Public Law 480 Title III commodities are used in school lunch programs benefiting 500,000 children.

PERU

Peru's new reform-minded constitutional government—publicly committed to the Alliance for Progress—presents an opportunity for significant progress and development.

It is being challenged by substandard living conditions in the highlands and urban slums, and a rising wave of social unrest featured by demands for land. While overall growth rates have been very satisfactory during the past four years, the expanding coastal economy contrasts sharply with the stagnant highlands which contain half the population. Per capita income in the highlands is less than one-fourth of that on the coast, and results in an ever-increasing migration into the lowlands.

As a result of widespread violence and unrest in the highlands, the administration is urgently requesting legal authority to settle small farmers on selected highland estates and is proceeding rapidly with plans to provide them with agricultural extension services, supervised credit, equipment pools, and social services. To reduce population pressure, it is also moving ahead with colonization efforts in the underpopulated eastern sector.

Self-Help

Steps have been taken to achieve Alliance for Progress reforms and self-help measures:

1. Land redistribution has begun on a limited scale in the highlands. The agrarian reform agency has been expanded and given greater authority.

2. The proposed 1964 investment budget is up nearly 2.5 times over 1962 levels, with further increases projected for 1965. Total tax revenues amounted to nearly 16 percent of the gross national product in 1963. Recommendations of an AID-financed tax enforcement team have been adopted, and direct government collection has replaced a costly private tax collection agency.

3. The traditionally strong private sector has grown rapidly since 1959. Private investment accounts for about 20 percent of the gross national product. Export earnings have risen dramatically in recent years due largely to new private investment in copper, fish meal, and iron ore.

4. An improved national planning institute expects to complete a short-range investment program in mid-1964 and a long-range development plan in 1965.

The Export-Import Bank, Inter-American Development Bank, International Bank for Reconstruction and Development, and International Finance Corporation have all been active in Peru, and have made loans totaling more than \$110 million since 1960. French, English, Swiss, German, Italian, and Japanese loans for public projects since 1960 are estimated to exceed \$260 million, but many are short-term supplier credits at high interest rates.

U.S. Objectives

A major U.S. aid objective is to support the administration in its efforts to raise living standards for the five million people who live in the Andean highlands or who have recently migrated to the coast.

The administration has embarked on a three-pronged development effort which U.S. assistance programs are prepared to support:

1. Intensive development of agriculture and human resources in the overpopulated Andean region.

2. Opening new lands in the high rain-forest areas of eastern Peru.

3. Increased industrialization outside Lima, to provide more job opportunities.

Success of this development effort depends on rapid implementation of many social and structural changes and the application of external resources. The Peruvian Government can accelerate the rate of progress by increasing its own investment in development and providing further opportunities for private investors.

U.S. aid will be in relationship to progress on the more important reforms and domestic improvements such as:

1. Selective redistribution of land to small farmers and overcrowded communities, accompanied by expanded extension services and credit programs.

2. A rapid increase in local funds available for public sector investment, supported by new taxes, better tax administration, and perhaps by increased internal borrowing.

3. Improvement of the investment climate for foreign and domestic private resources through tax credits, and other incentives, as well as fair treatment of all investors.

4. Rapid completion of an investment program and long-range development plan, accompanied by improved administration of development projects.

Fiscal Year 1965 Program

U.S. technical cooperation is being provided in the key areas of colonization and land reform, agricultural education, extension services, and community development through contracts with Iowa State and North Carolina State Universities. It is expected that AID loans will be made in the fields of agricultural credit, irrigation, community development, and resettlement. The development of an adequate transportation system is one of the prime needs of the rural areas. Much of the population is isolated in difficult mountainous terrain which separate the farmers from urban markets. Technical assistance from the U.S. Bureau of Public Roads and the Federal Aviation Agency will be continued, along with Development Loans for road construction, road improvement, and resettlement. Improvement of small airports in remote areas may also be supported, as well as necessary improvements in port facilities for Peru's international trade.

While growing rapidly, Peru's industries have been unable to cope with the heavy immigration to urban areas. If Peru is to absorb these migrants and keep abreast of its growing population it must provide 20,000 new jobs each year. This highlights the importance of AID's program to create new industry outside Lima and small industry/handicraft operations in the highlands. This will be accomplished by setting up cooperatives,

providing management assistance, identifying opportunities for private investment, and making loans to intermediate credit institutions.

AID will continue to provide advisors from Columbia University to the Ministry of Education and may consider loans for educational facilities. Special emphasis will be given to better educational opportunities in the highlands. Advisory services will be continued for economic planning and tax and customs collections. Loans may be considered for feasibility studies and natural resource surveys.

OTHER LATIN AMERICAN PROGRAMS

U.S. support to other countries in Latin America varies according to each country's particular need and its own self-help activities.

Both Mexico and Venezuela, with high rates of economic growth and ambitious development programs, have mobilized their own resources well and can now attract a substantial portion of their requirements for external assistance from sources other than AID.

Mexico, a leader in reform measures, continues to pursue improvements in its social structure. For example, since 1958 Mexico has distributed more than 20 million acres of land, and more than 20 percent of its budget now is devoted to education. A number of new reform measures have been undertaken under the Alliance. Tax reform was a major factor in increasing tax revenues 25 percent between 1961 and 1962. A national planning commission has been set up. Mexico's housing program is being assisted by a \$20 million U.S. loan and an Inter-American Development Bank loan for \$10 million—which will form the nucleus of a revolving fund for mortgages. In addition, AID has issued several Guaranties of U.S. investments in Mexican housing projects, thus strengthening the availability of credit for housing.

In a cooperative effort with AID, the Rockefeller and Ford Foundations, and the United Nations, Mexico is seeking to expand and strengthen its national agricultural school at Chapingo—both to support agricultural credit programs now underway, and to strengthen agricultural research facilities in Mexico.

AID seeks to encourage Mexico to assume an expanding role in the Alliance for Progress, emphasizing Mexico's growing ability to provide assistance to other Latin American countries. Mexico now has training programs for Latin Americans in such areas as economic planning, through the Center for Latin American Economic and Monetary Studies (CEMLA); developing banking, through the Bank of Mexico; rural school construction; and malaria eradication.

To assist Mexico in expanding its role in the Alliance, AID will have financed three important Alliance loans by the start of fiscal year 1965 for supervised agricultural credit for small farmers, low-cost housing, and agricultural education.

In *Venezuela*, the government is making significant strides in mobilizing forces for development. It is estimated that, between 1958 and 1963, illiteracy has been reduced from 60 percent of the population to 26 percent. During this same period, under the land reform program, 60,000 farm families have been resettled on four million acres of land. The U.S. objective is to assure the country's continued social progress and self-sustained economic growth.

The thrust of U.S. activity in *Venezuela* in fiscal year 1965 will aim at monitoring existing loans, as well as training in government management and public safety, technical cooperation in rural development program, and housing and urban renewal.

Uruguay, with considerable potential for development, has yet to take a number of basic structural and long-range reforms essential to economic development. Activities involving the cooperative movement and the University of Uruguay offer an opportunity for effective joint action by AID and the Uruguayans.

In *Uruguay*, AID seeks to provide investment, help bring about reforms, in the fields of tax policy, bank credit, and public administration. Feasibility studies and surveys will be financed. AID programs seek to stimulate increases in industrial and agricultural activity. For example, Iowa State University, under contract with AID, is working to strengthen University level training for agricultural specialists and agricultural vocational training at specialized schools throughout Uruguay. Iowa State also is working to improve farm production by developing feed grain and pasture varieties and applying improved production practices. Other AID programs supplement this activity in agriculture.

All the Caribbean nations, by their location, are of strategic importance to the United States.

Newly independent *Jamaica*, though technically not a member of the Alliance, wants to create opportunity for private enterprise and for general economic growth. But the island nation suffers from severe unemployment and limited resources compounded by heavy population pressure.

AID assists *Jamaica* through a modest technical assistance program and is willing to consider sound loan applications if funds from other sources are not available. Other AID programs are being carried out by the United Nations, Canada, and the United Kingdom.

In *Jamaica*, the AID program will continue to provide a modest technical cooperation program, including U.S. technicians, consultant services, and the training of Jamaicans in the United States. Much of the technical cooperation effort will be directed toward housing and water supply.

AID involvement in *Trinidad-Tobago* stems from the agreement between the United States and the island government regarding base rights. Funds committed in the agreement concerning these rights are being used for economic and social development programs.

An agreement was reached in November 1962 granting \$30 million over a five-year period to the Government of **Trinidad-Tobago** in exchange for the right to maintain U.S. military bases there. Future payments in fiscal years 1966 and 1967 will complete the commitment.

The strained working relationship between the *Haitian* Government and the United States, and the existing political climate within *British Guiana* preclude the undertaking of significant cooperative programs with AID funding at this time. It remains in the U.S. interest, for humanitarian reasons, to support limited activities in these two nations.

AID suspended its program in **Haiti**, with the exception of the malaria eradication program, early in fiscal year 1963. Fiscal year 1965 AID funds will finance the last year of the "attack phase" of the malaria eradication program, which also is supported by the Pan-American Health Organization, the United Nations Children's Fund, and the Haitian Government.

Funds requested for fiscal year 1965 in **British Guiana** will be used to continue small-scale advisory activities in health and transportation.

Prior to the September 1963 coup in the *Dominican Republic*, substantial U.S. assistance was being provided. After a break of four months in U.S.-Dominican relations, aid programs are being resumed.

AID is reinitiating its assistance program in the **Dominican Republic** to meet continuing economic development problems. Proposed funds for fiscal year 1965 are to support activities in regional development, agriculture, public administration, and education.

Paraguay has made progress toward reforms. The Paraguayan Government has been staunchly pro-United States in international forums and anti-Communist in its political orientation. AID's limited assistance to this country is aimed at promoting greater economic and social progress through programs which directly benefit the Paraguayan people, particularly in the rural areas.

U.S. aid in **Paraguay** will continue to support the development and improvement of basic economic, planning, and fiscal institutions.

In *Panama*, the political crisis has helped direct attention to underlying social and economic tensions which in part result from a low level of development and wide disparity in income distribution.

Prior to the recent disorders in **Panama** and following up a roughly similar program for fiscal year 1964, AID's proposed program for fiscal year 1965 suggested technical cooperation and financial assistance for developing Panama's rural economy, improving its fiscal system and governmental machinery in general, promoting private investment and private enterprise, and insuring the manpower resources for backstopping this needed development. Obviously, this program was based upon information available prior to the current crisis, and is subject to reconsideration as circumstances require.