

*PROPOSED*

MUTUAL DEFENSE  
AND ASSISTANCE  
PROGRAMS—FY 1964

ECONOMIC: AGENCY FOR INTERNATIONAL DEVELOPMENT

MILITARY: DEPARTMENT OF DEFENSE

SUMMARY PRESENTATION TO THE CONGRESS—PRELIMINARY





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Mutual Defense  
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Economic: Agency for International Development

Military: Department of Defense

Summary Presentation to the Congress—Preliminary

T A B L E O F C O N T E N T S

	Page No.		Page No.
FOREWORD . . . . .	1	OTHER AGENCY PROGRAMS	
INTRODUCTION - GOALS AND STRATEGY . . . . .	2	The Role of Private Enterprise in International Development . . . . .	44
The Evolution of Assistance . . . . .	2	Contributions to International Organizations . . . . .	50
Regional Characteristics . . . . .	5	Support for Schools and Hospitals Abroad . . . . .	53
Principles of Allocation . . . . .	6	Voluntary Agencies . . . . .	54
PROPOSED FY 1964 PROGRAM . . . . .	8	Excess Property . . . . .	55
DEVELOPMENT ASSISTANCE . . . . .	14	Administration . . . . .	56
Development Loans . . . . .	15	Administrative and Other Expenses, Department of State . . . . .	59
Development Grants and Technical Cooperation . . . . .	22	RELATED PROGRAMS	
Alliance for Progress . . . . .	28	Food for Peace . . . . .	60
Inter-American Program for Social Progress . . . . .	32	The Export-Import Bank . . . . .	64
STRATEGIC ASSISTANCE . . . . .	34	AID and the Peace Corps . . . . .	65
Military Assistance Program . . . . .	36	PROGRAMS OF OTHER COUNTRIES	
Supporting Assistance . . . . .	40	Free World Assistance . . . . .	66
Contingency Fund . . . . .	42	Sino-Soviet Bloc Assistance . . . . .	72

April 2, 1963

F O R E W O R D

This volume is intended to provide Members of the Congress with a general summary of the foreign assistance programs proposed for Fiscal Year 1964.

The proposals for 1964 include no major innovations. The intention is through a series of improvements in policy and administration to put into more effective practice the concepts established by the Congress in 1961. We have been greatly helped in this effort by the intensive review conducted by the Committee to Strengthen the Security of the Free World, under General Clay's chairmanship.

In this volume we report these key features of the program: a clearer view of the basic United States objectives; a more rational basis for selectivity in aid programs among and within different countries; an increasing stimulation of - and insistence upon - internal discipline and self-help by countries receiving assistance; an attempt to begin applying a general pattern under which major aid-receiving countries move first from grants to loans, then increasingly to "harder" loans, and finally to a condition of economic self-support; a sustained effort to increase the amounts of assistance available from other advanced nations on reasonable terms; and a stronger drive to mobilize and support private resources in helping to achieve the national objective.

After a searching review of the foreign aid program for 1964 in the light of these principles, the President now finds it possible to reduce his original budget request by more than \$400 million. This reduction gives effect to the tightened standards being applied to the program.

Many questions relating to the United States mutual defense and assistance programs cannot be answered in a summary volume of this type. I and my staff stand ready to respond to requests for further information.



David E. Bell

## GOALS AND STRATEGY

The several economic and military programs authorized by the Foreign Assistance Act are directed toward a single goal: To assist other countries that seek to maintain their independence and to develop into self-supporting nations.

This Act reflects the conviction of the President and the Congress that it is in the national interest of the United States to help these countries achieve economic progress and political stability under increasingly free and democratic institutions.

This objective is jeopardized not only by the direct threats and pressure directed against underdeveloped nations on the periphery of the Communist bloc but equally by intensive Communist efforts to exploit conditions of economic and social misery in Latin America, Africa, the Middle East, and Asia.

The security of the United States is clearly diminished when other countries fall under Communist domination, as did China in 1949, North Vietnam and the northern provinces of Laos in 1954, or Cuba in 1960. The programs of economic and military assistance conducted by the United States, in cooperation with other free nations, are intended to make less likely the occurrence of such events in other countries. The greater part of foreign assistance has gone and goes today to countries directly menaced by Communist aggression, external or internal.

Foreign assistance, where it operates in the areas menaced by direct Communist aggression, is a straightforward extension of the national defense program.

### Methods Differ, Goal Is Constant

Even where there is no immediate danger of Communist aggression, it is clearly in the interest of the United States to assist, within our means, other countries that are seeking to achieve economic progress and political independence. The continued survival of our own free institutions depends upon the gradual development of a world community of stable, self-supporting, free nations.

United States efforts to achieve a free and secure world flow not merely from the national interest but from a proud humanitarian tradition. A willingness to share the abundance of the United States and the talents of the American people, combined with a

sense of national self-interest, has led to bipartisan support for these programs through three administrations.

Measures employed under the Foreign Assistance Act range from providing modern military equipment to countries joined in mutual defense arrangements, to supplying doctors and teachers to countries striving to improve the health and education of their people. Whether the tools are weapons or humanitarian services -- or any of the other technical and capital resources provided through foreign aid -- the intent is the same: To help countries that are striving for freedom, security and economic and social progress.

Great changes have occurred in United States programs of foreign assistance during the past fifteen years. A number of countries -- those in Western Europe and Japan -- have, with the help of substantial resources from the United States achieved economic self-support. Others, such as Greece, Israel and Free China, are rapidly approaching the end of their need for economic assistance. Substantial progress has been made in a number of other countries.

It would be a mistake, however, to think that the problems remaining can be solved easily or rapidly. There are formidable barriers to the achievement of economic progress and political stability in many of the less developed countries. There are obstacles of hunger, ignorance, and disease, obstacles of archaic and restrictive political and social institutions, obstacles of ancient tribal or national rivalries. These can be overcome only slowly. Outside help from the United States or other free world sources can assist in overcoming them, but local leadership, energy and resources must play the major role. In many cases definite progress can and will be made. But it is certain that for the foreseeable future, the international Communist movement will continue to oppose the progress of these countries in freedom -- will continue to strive to subvert the forces of change in Asia, Africa and Latin America, and to turn the countries of those continents into satellites of Moscow or Peking.

It is against this background that United States foreign aid programs should be seen -- as a principal way in which the United States joins with others in the defense and the advancement of the interests of freedom.

## THE EVOLUTION OF ASSISTANCE

Economic disaster and communism menaced Western Europe and Japan after World War II. The United States responded to this dual threat with programs of direct military assistance to Greece and Turkey and a massive economic aid program, the Marshall Plan.

GOALS AND STRATEGY (Continued)

This bold approach was successful. Western Europe and Japan regained freedom and independence; the influence of communism in these areas dwindled, and in what now seems a remarkably short time, these countries regained economic strength.

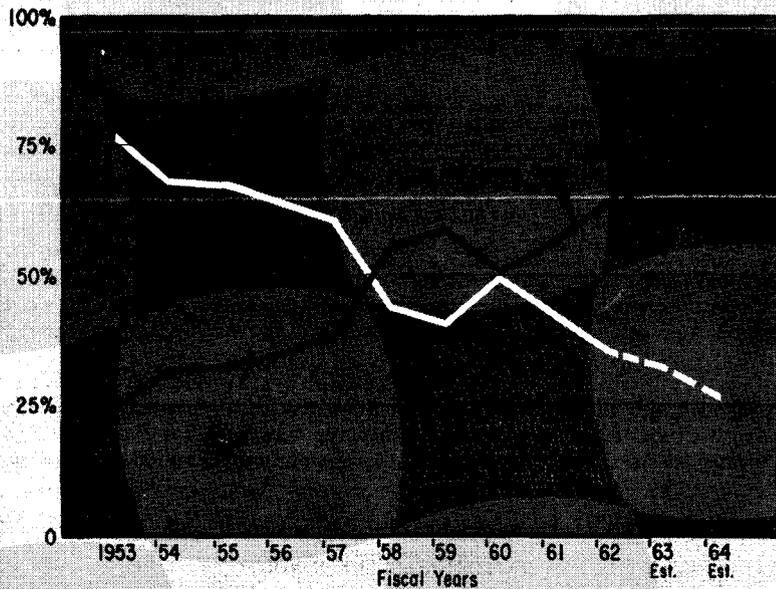
Geographical Changes

The challenge to the security of the free world shifted. All over the world, the oppressed, the hungry and the ignorant awakened to aspirations for a better way of life; colonial empires gave way to new demands for independence and revolutions became commonplace.

United States assistance programs changed to meet this swiftly changing pattern of history, turning to the Far East and South Asia and then to Africa and Latin America, the newest targets of Communist aggression and subversion.

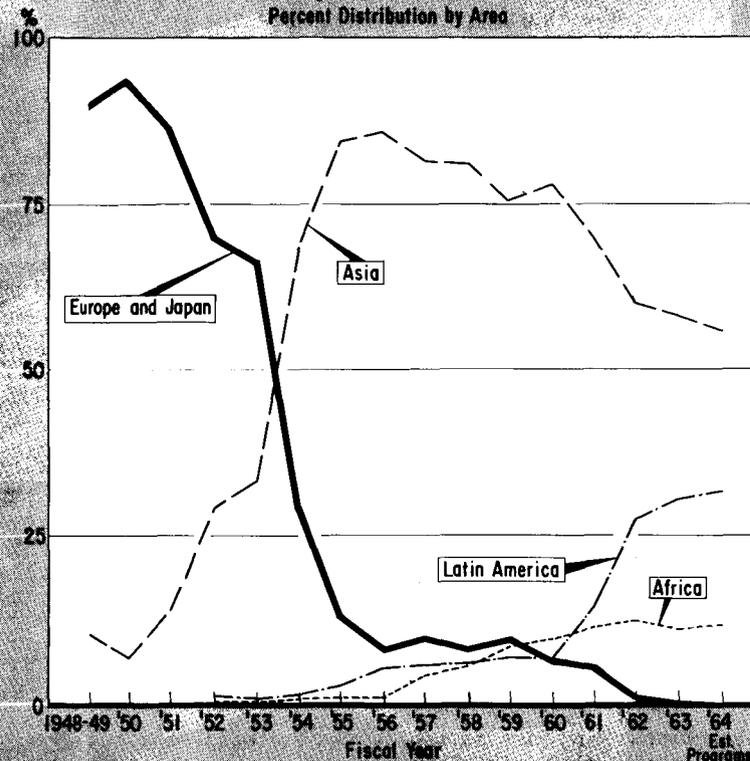
**MILITARY ASSISTANCE PROGRAM**

Percent of Total Deliveries



**ECONOMIC ASSISTANCE  
(A.I.D. and Predecessor Agencies)**

Percent Distribution by Area

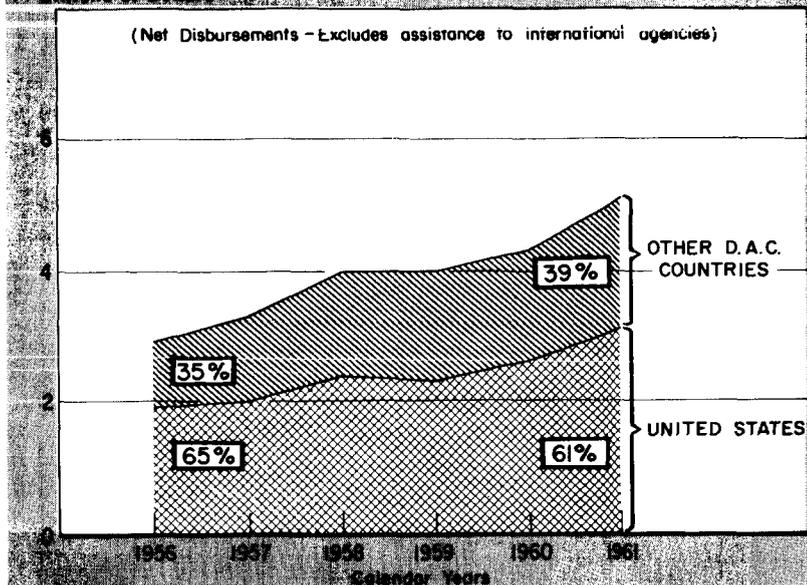


Recipients Turn Into Donors

As a result of the success of the European Recovery Program, nations which received United States assistance a decade ago are now furnishing substantial amounts of aid to underdeveloped countries. Most of the countries of Western Europe, as well as Japan, Canada, Australia and New Zealand, carry on foreign aid programs. Some have military assistance programs as well.

Although the United States believes that the aid programs of these allied nations can be increased, several of the principal European donors are devoting a comparable portion of national income for this purpose. The terms of United States loans, however, are for the most part more liberal, although this gap has narrowed in the past two years.

## OFFICIAL BILATERAL ASSISTANCE EXPENDITURES



### Shift to Development Assistance

For a time, in the threatening period of the Korean conflict, the principal goal of foreign assistance was to develop military strength and to shore up unstable economies on the periphery of the Communist world. Some serious trouble spots remain, but the United States is required to spend only half as much for this kind of assistance today. Two-thirds of all assistance now is devoted to the more hopeful objective of promoting economic and social progress in underdeveloped countries.

### Concentration of Assistance

Military assistance today is highly concentrated in countries on the Sino-Soviet bloc periphery. Economic assistance, too, is concentrated; although there are United States assistance programs to more than 80 countries, four-fifths of all aid goes to 20 nations.

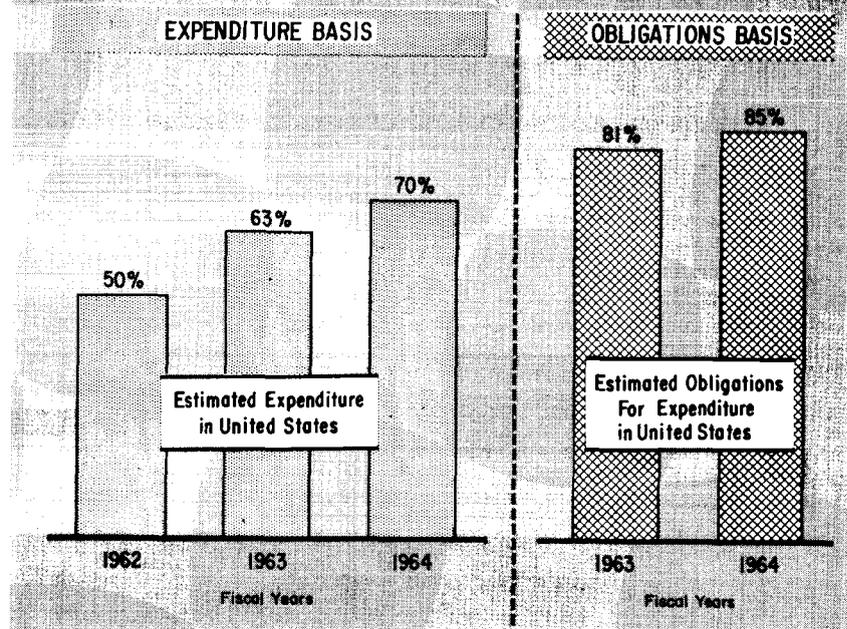
### The Shift From Grants To Loans

Another important trend in foreign assistance is the shift from grants to loans. Under the Marshall Plan, almost 90 percent of aid to Europe was in the forms of grants. The technical assistance and supporting assistance that followed also employed grants as the major instrument of aid. But as the concept of long-term development and concentration of resources grew, loans became the principal form of assistance. The upward trend has been steady, and the Fiscal Year 1964 economic assistance request of the Agency for International Development calls for 60 percent of its program in the form of loans.

### Procurement in the United States

The negative effect of the foreign aid program on the United States balance of payments is a matter of serious concern, although it has often been exaggerated. Steps taken to restrict procurement sources have had important results, and 80 percent of current economic aid funds will be spent in the United States. The percentage is rising.

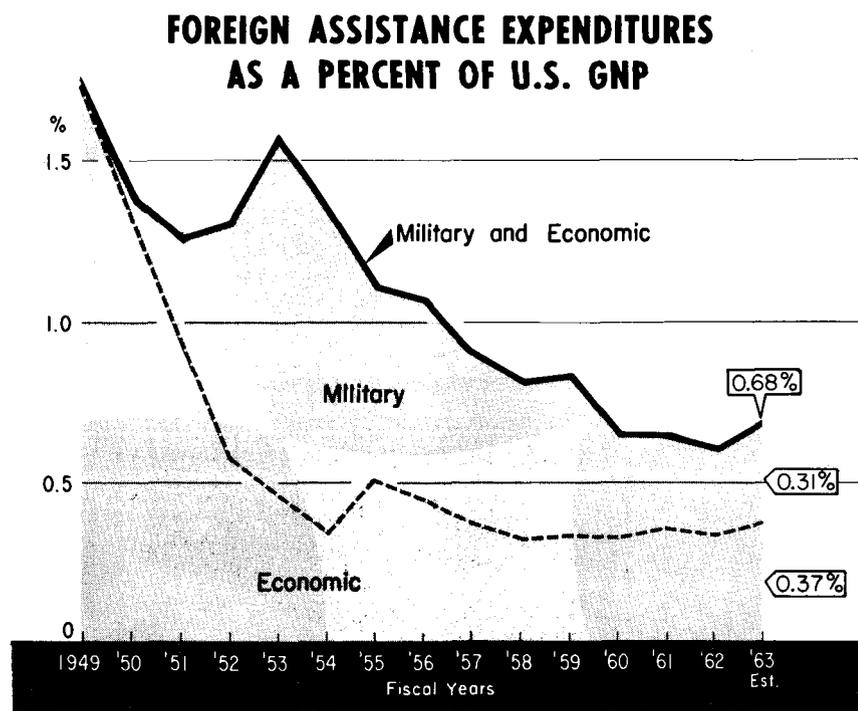
## U. S. SHARE OF TOTAL A.I.D. PROGRAMS



## GOALS AND STRATEGY (Continued)

### Burden Declines

The burden of foreign assistance to the United States has declined over the past 15 years. As a share of the gross national product, direct economic and military assistance has declined from two percent -- at the start of the Marshall Plan -- to six-tenths of one percent. As a share of the Federal budget, foreign aid declined from 11.5 percent in 1949 to 3.7 percent in 1962.



The decline also is apparent when United States foreign assistance programs are defined more broadly -- adding to the economic and military expenditures of AID and the Department of Defense the contributions to the five international financial institutions and the shipment abroad of agricultural products under the Food for Peace program. Even under this broader definition, both absolute and relative costs have diminished, dropping from a peak of 28 percent of Federal expenditures in 1947 to five percent in Fiscal Year 1962.

### REGIONAL CHARACTERISTICS

Foreign policy today, as never before, calls for the use of the instruments of diplomacy, both conventional and unconventional, defense, information, trade policies, cultural exchange, and, not the least, suitable aid programs for the regions and countries assisted.

The suitability of aid programs is determined to some extent by the characteristic problems, hazards, and opportunities of the various areas of the world. In Latin America, while there are great differences among the 20 countries, the overwhelming objective is to help bring about more rapid and better economic and social growth in the American Republics. In Africa, recognizing the newness of many of the nations and the major role generally played by European nations, the major objective is to contribute to the development of the most necessary human skills and institutions. In the Far East, programs are deeply influenced by the presence of external and subversive threats.

In much of Asia, security and development are twin objectives of the assistance programs. Greece and Turkey, both vital North Atlantic Treaty Organization allies, carry major military responsibilities along with their development efforts. In the adjacent area of Israel and the Arab countries of the Near East, however, the objectives are to help create conditions of stability and focus the energies of the several nations on the task of national development. The subcontinent of South Asia has the greatest concentration of population in the world other than Communist China. Development prospects hold reasonable promise and there is a major concentration of aid in its support. In most major programs in the Far East, security against internal subversion, or even overt aggression, must for the time remain a dominant theme.

It is within this broad framework of differing regional characteristics and resulting policy objectives that the United States seeks to carry out assistance programs based on consistent principles.

## GOALS AND STRATEGY (Continued)

### PRINCIPLES OF ALLOCATION

In order to make the most effective use of its foreign assistance funds, the United States bases its determinations of countries to be aided and the amounts to be allocated upon the following factors:

1. The effectiveness with which the country is using its own resources to promote economic and social development.
2. The importance to the United States of strengthening the country, its economy, its political structure and its social institutions.
3. The availability of assistance from other sources.

Foreign assistance must be adapted to many variations of circumstance. A country may or may not be struggling for survival, faced by internal or external threats. It may or may not have reasonably stable political institutions, which provide a framework for maintaining its independence and strengthening its economy. Basic economic resources may be plentiful or scarce, and the society may be well or badly organized to exploit them.

#### Three Country Groupings

Recognizing the wide variation among countries, there is nevertheless a need for standards by which the United States can judge competing demands for the limited funds available for foreign assistance, and by which countries seeking aid can measure their own policies. Many different sets of criteria have been suggested by students of international development, and many of these suggestions have influenced current AID thinking in this area. It is useful, without being arbitrary, to divide country assistance programs into three major groups which affect the nature and extent of United States participation in their development.

1. Countries in which the United States effort is principally directed to solid and lasting social and economic development.

These are countries, numbering about 30, in which there are good prospects for self-sustaining growth, and in which the United

States is furnishing substantial assistance in the expectation of achieving substantial economic and social progress in the next few years. Almost 90 percent of all development lending is in this group. Even in this group of greatest involvement, United States economic assistance averages only three to four percent of the countries' national incomes, although this amount is typically 20 percent of their own expenditures for development.

United States assistance to these countries, combined with that from other external sources, can make the difference between progress and stagnation, and it is reasonable to hope that as many as half of these, in the next decade, will have reached a stage at which assistance on "soft" terms is no longer necessary.

Within this first group there are variations which affect the nature of and the level of assistance. These variations lead to the following subcategories:

Countries such as Venezuela, Mexico, Jamaica, Israel, Greece and Free China, which are approaching a condition of self-sustaining growth.

Countries such as India, Pakistan, Colombia and Nigeria, which are further from a state of self-sufficiency but which are following relatively effective development policies and making substantial progress.

Countries with potential for development but in which adequate self-help measures have not yet been demonstrated.

In the first two of these subcategories, the United States is in general agreement with the countries' development objectives and their approaches to achievement. In most cases governments have established relatively effective policies and have generated substantial increases in investment, taxation and savings.

In the third subcategory, where potential for development exists but where the country's own efforts are deficient, the United States response is related to self-help. Increasingly, the procedure is to agree with the other government on a set of key policies, and to provide assistance -- or to vary its level -- only as these are carried out. The United States seeks to increase the domestic level of financing for development, to encourage policies that will alleviate balance-of-payments deficits, to utilize private sources of investment and to make best use of local resources.

## GOALS AND STRATEGY (Continued)

2. Countries in which economic development is a long-range goal, but in which assistance, in the short run, is motivated by the need to maintain external or internal security.

This is a relatively small group, whose number is steadily decreasing. These are countries in which, because of external aggression, domestic revolution or internal subversion, it is necessary to establish security before turning to development as the primary effort. For those located on the periphery of the Sino-Soviet bloc, military assistance often is a major part of the aid contribution.

Over the past decade, several countries receiving this kind of aid have, with external help, recovered from political or military upheavals or the burden of excessive military expenditures to higher stages of development. In the first phase of this kind of recovery, external security and a minimum of internal law and order are established. In the second phase, political and economic institutions are strengthened and the economy is stabilized. In the third, the economy begins to grow and dependence upon external sources for budget support and import needs is reduced and then eliminated.

Some countries have moved through these three phases in eight to ten years. Others seem likely to complete the cycle in even less time. The United States objective is to reduce their reliance upon any form of external support through further development of economic strength.

3. Countries in which United States participation is limited or secondary.

In this group which includes more than half of the countries receiving aid, United States assistance proposed for Fiscal Year 1964 would amount to less than 12 percent of economic aid funds and eight percent of military assistance funds. With a very few exceptions, programs of substantial United States assistance are not contemplated in the future. In a few cases, development loans are made in selected economic sectors, but the usual program is one of limited technical assistance.

For most of these recipients, the United States is a minor contributor in a program in which Western Europe or international institutions play the dominant role. In Africa, for example, the United States contributes less than half as much as do European countries.

In dealing with some countries in this group, it is to the advantage of the United States to offer an alternative to Communist bloc

aid, and there are notable examples of governments which have become disillusioned with heavy dependence upon bloc aid and have turned to the West for assistance.

While it is rarely the only reason for an aid program, there are a few countries where a limited assistance program of this kind enables the United States to maintain access to strategic facilities.

These limited programs often constitute the best "bargain" in foreign assistance. For a relatively small amount, the United States is able to exert an influence that helps move emerging countries toward the development of free institutions and eventual economic progress.

**PROPOSED  
FY 1964  
PROGRAM**

PROPOSED  
FY 1964  
PROGRAM

THE FISCAL YEAR 1964 PROGRAM

To carry out the Fiscal Year 1964 economic and military assistance programs, the President has requested more than \$4.5 billion in new appropriations. This compares with the request for \$4.9 billion a year ago and the \$3.9 billion appropriated by the Congress for Fiscal Year 1963.

Request for Appropriations for Fiscal Year 1964 Foreign Assistance Program

Development Loans	\$1,060,000,000	
Development Grants and Technical Cooperation	257,000,000	2/
The Alliance for Progress	650,000,000	
Loans	(550,000,000)	
Grants	(100,000,000)	
Social Progress Trust Fund	200,000,000	
Supporting Assistance	435,000,000	3/0
Contingency Fund	300,000,000	
Contributions to Internat'l Organizations	136,050,000	✓
Administrative Expenses, AID	57,250,000	
Administrative and Other Expenses,		
Dept. of State	3,025,000	
American Schools & Hospitals Abroad	20,000,000	
American Hospitals Abroad - Local Currency	2,000,000	
Total Economic Assistance	3,120,325,000	
Military Assistance	1,405,000,000	1225
Total Military & Economic Assistance	\$4,525,325,000	1225

It is estimated that unobligated Fiscal Year 1963 carryover funds and prior year obligation recoveries will make available an additional \$334 million.

The major funding categories listed above may be divided into two general groupings--those which generally provide development assistance, and those used primarily to provide strategic or security assistance. It is helpful, in understanding the program, to draw this general distinction, even though there is an overlap of the two groupings. Development Assistance, for example, contributes to long-run security, and Strategic Assistance makes both an immediate and a long-term contribution to development.

Development Assistance

Development Loans, which comprise the larger part of Development Assistance, are repayable in dollars and usually offer long terms at low interest. They are of two general types: Project loans to finance capital projects agreed upon as important for development, and program loans to finance imports of commodities as an economic stimulant.

Development Grants provide technical assistance and related material support to develop social, political or economic resources of the aided country. The Alliance for Progress, which provides loans and grants for Latin America, is funded under a separate title to reflect a regional priority and because the Alliance provides a special framework of agreement on the need for self-help, reforms and hemispheric cooperation.

Appropriations for Development Assistance

	FY 1962	FY 1963		FY 1964
	Appropriation	Request	Appropriation	Request
(In Millions of Dollars)				
<u>Loans for Development Assistance</u>	<u>1,113</u>	<u>1,750</u>	<u>1,400</u>	<u>1,806</u>
Development Loans	1,113	1,250	975	1,060
Alliance for Progress				
Direct Loans	-	500	425	550
Social Progress Trust				
Fund Loans <sup>1/</sup>	-	-	-	196 <sup>2/</sup>
<u>Grants for Development Assistance</u>	<u>297</u>	<u>435</u>	<u>325</u>	<u>357</u>
Development Grants & Technical Cooperation	297	335	225	257
Alliance for Progress				
Direct Grants	-	100	100	100
<u>Total Appropriations</u>	<u>1,410</u>	<u>2,185</u>	<u>1,725</u>	<u>2,163</u>

<sup>1/</sup> Excl. IDB commitments of \$224 mil. in FY 1962 and \$170 mil. in FY 1963 of supplemental FY 1961 appropriation of \$394 mil.

<sup>2/</sup> Excl. \$4.5 mil. to be granted to the Organ. of Amer. States.

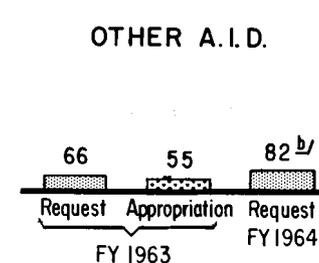
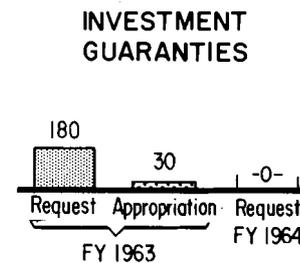
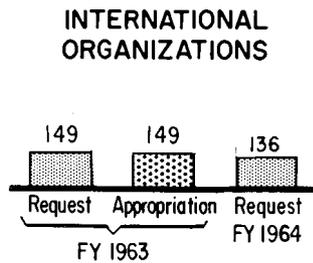
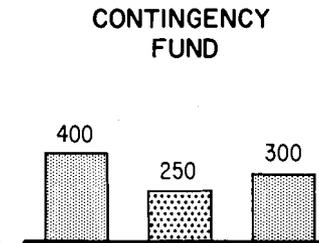
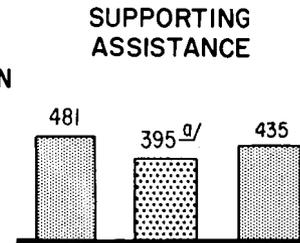
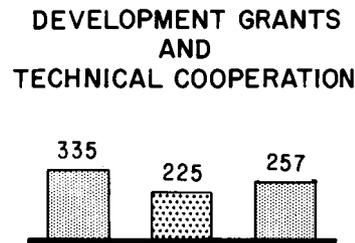
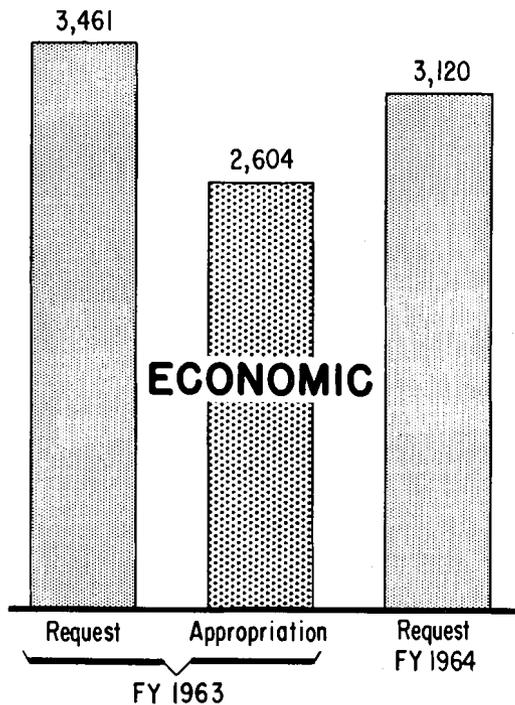
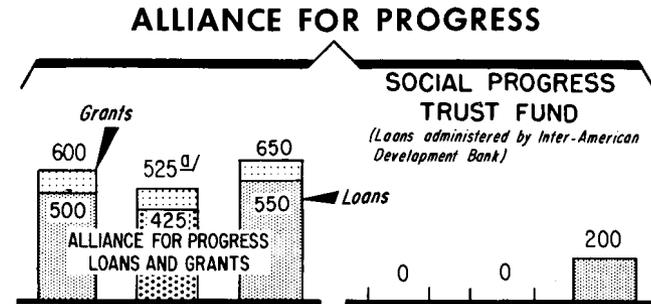
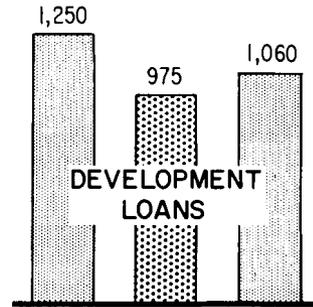
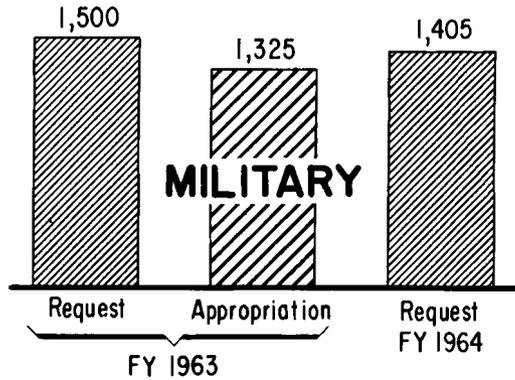
Strategic Assistance

Military assistance provides training, equipment or services to help free world nations strengthen defenses against Communist aggression, external or internal.

Supporting Assistance is used to meet urgent political or military requirements. It can provide economic assistance to a nation engaged in a major defense effort. It can be used to avert economic crisis in a country of strategic importance to the United States. It can provide an alternative to Communist bloc dependence or assure access to strategic United States overseas facilities.

# FOREIGN ASSISTANCE APPROPRIATIONS - FY 1963 Request and Appropriations and FY 1964 Request (\$ Millions)

## ECONOMIC ASSISTANCE



<sup>a/</sup> Transfer of \$10 million from Alliance for Progress Grants to Supporting Assistance is planned.

<sup>b/</sup> Includes American Schools and Hospitals Abroad \$20.0 million in dollars, American Hospitals Abroad \$2.0 million in local currency; A.I.D. Administrative Expenses \$57.3 million; and State Administrative Expenses \$3.0 million.

THE FISCAL YEAR 1964 PROGRAM (Continued)

The Contingency Fund is reserved for unforeseen emergency or unascertained needs resulting from economic and political crises or from natural disasters. This fund provides the United States with the flexibility to act swiftly in volatile situations.

The amounts requested primarily for Strategic Assistance in Fiscal Year 1964 are compared with previous appropriations in the following table.

Appropriations for Strategic Assistance

	FY 1962	FY 1963		FY 1964
	Appropriation	Request	Appropriation	Request
		(In millions of dollars)		
Military Assistance	1,577	1,500	1,325	1,405
Supporting Assistance	425	482	395	435
Contingency Fund	275	400	250	300
Total Appropriations	2,277	2,382	1,970	2,140

The Supporting Assistance request is only slightly increased over Fiscal Year 1963 despite the transfer of the program for commodity support for the Congo from the Contributions to International Organization appropriations category to bilateral assistance. It is presently estimated that the \$1,405 million requested for the Military Assistance Program will be supplemented by approximately \$150 million of recoveries from previous programs to finance a total program of \$1,555 million. Ten million dollars of Supporting Assistance will be similarly financed.

Other AID Requests

Of the three principal remaining funding requests, more than \$136 million is proposed for Contributions to International Organizations, including agencies under United Nations auspices, in which the United States participates with other countries to assist the economic and social progress of underdeveloped nations. Contributions are planned, in addition, for regional organizations such as the Indus Water Fund.

An additional \$60 million is requested to cover the costs of administering the programs outlined above. Finally, \$20 million is proposed for the development of American-sponsored schools, especially in the Near East, and an American-sponsored hospital in Poland. In addition, \$2 million of Polish currency is needed for this children's hospital in Krakow, Poland.

Comparison of Present Request with the Fiscal Year 1964 Budget

New funds requested for economic and military assistance in FY 1964 are \$420 million less than originally in the President's budget. An application of more rigorous criteria both in carrying out current programs and for next year cause the reduction. One consequence is a larger carryover of funds from FY 1963 than was previously anticipated.

Four major elements mainly account for the reduction:

- Carryover and recoveries of \$147 million of Development Loan and Alliance for Progress loan funds from 1963 for use in 1964.
- A \$91 million reduction in Development Loan programs for 1964, due to tighter criteria.
- A \$75 million reduction in the Military Assistance Program, resulting from a gradual phasedown of MAP programs in several countries.
- A \$100 million reduction in the Contingency Fund request. In part this reduction is due to the application of more restrictive criteria upon permissible contingency claims; this has been an element in the reduced use of these funds in the current year.

The changes from the Budget request are in the following table. The Supporting Assistance increase and the reduction in Contributions to International Organizations are due primarily to the transfer of the Congo program from the CIO account to Supporting Assistance to reflect its prospective bilateral nature.

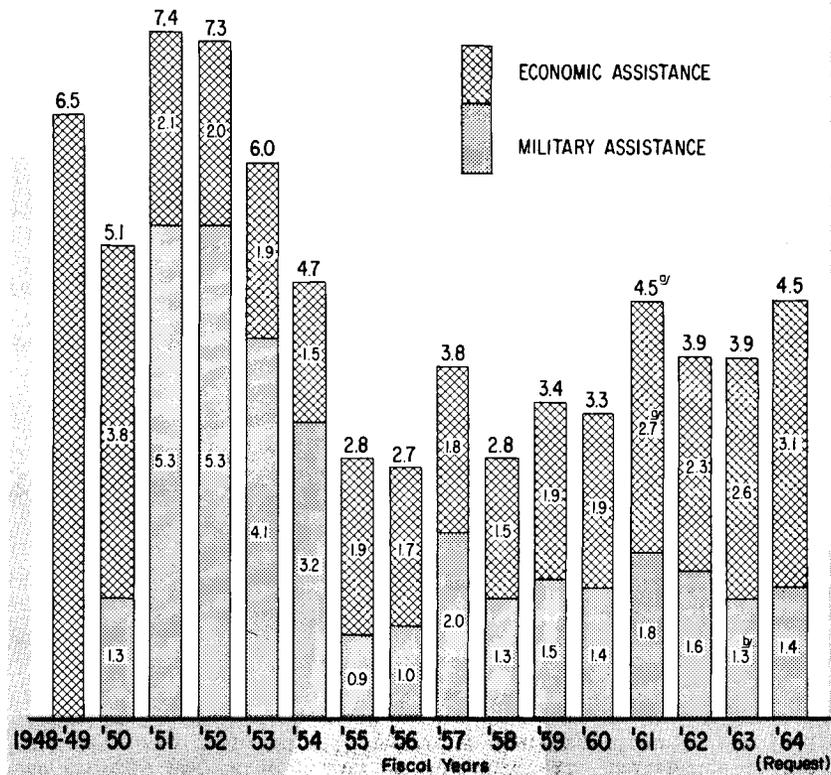
Comparison of New Request with President's Budget

(In millions of dollars)

	Budget Request	Present Request	Difference
<u>Development Assistance</u>	<u>2,423</u>	<u>2,167</u>	<u>-256</u>
Development Loans	1,248	1,060	-188
Devel.Grants & T.C.	275	257	-18
Alliance for Progress	900	850	-50
Loans	(600)	(550)	(-50)
Grants	(100)	(100)	-
Social Progress Trust Fund	(200)	(200)	-
<u>Strategic Assistance</u>	<u>2,277</u>	<u>2,140</u>	<u>-137</u>
Military Assistance	1,480	1,405	-75
Supporting Assistance	397	435	+38
Contingency Fund	400	300	-100
<u>Other AID Requests</u>	<u>245</u>	<u>218</u>	<u>-27</u>
Contributions to Int'l.Orgs.	181	136	-45
Administrative	60	60	-
Other	4	22	+18
Total Request	4,945	4,525	-420

## TREND OF APPROPRIATIONS

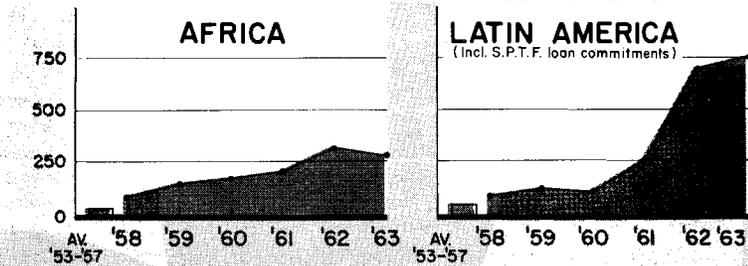
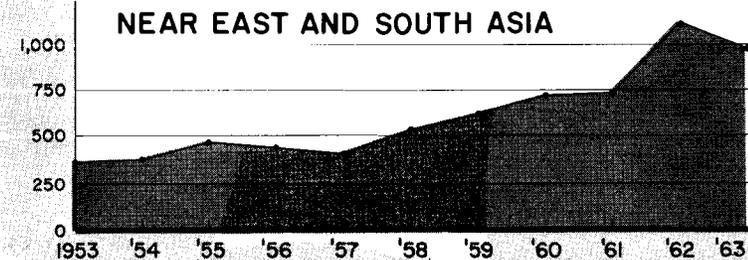
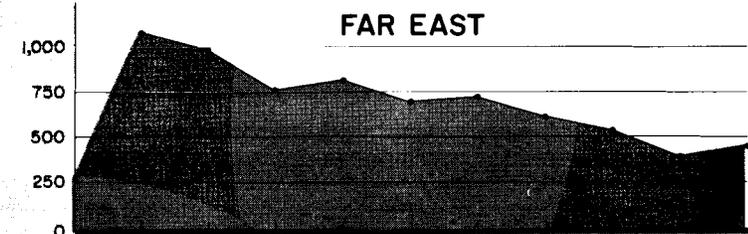
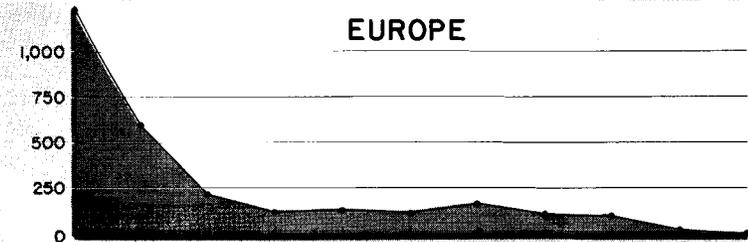
Adjusted for Transfers and Other Receipts  
(Excludes Reappropriations - \$ Millions)



<sup>u</sup> Includes supplemental appropriations of \$600 million for Alliance for Progress, effectively available in FY1962 and subsequently.  
<sup>u</sup> Does not include credits from military sales.

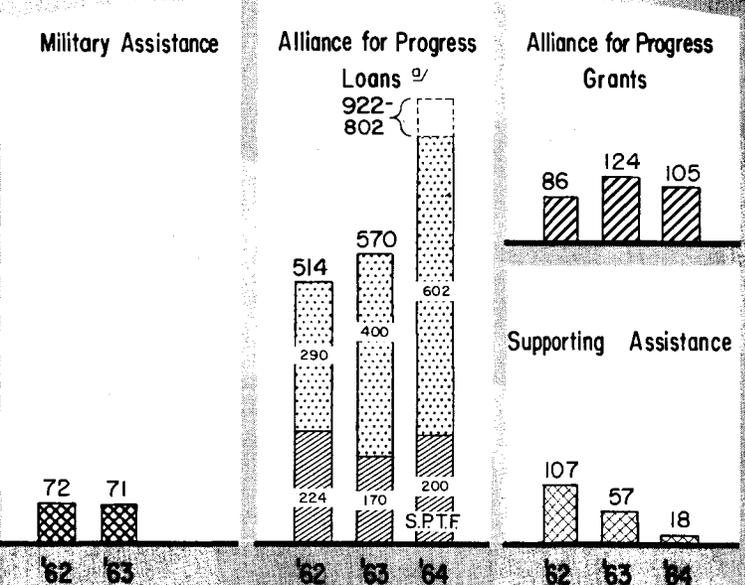
## TREND OF ECONOMIC ASSISTANCE

A.I.D. and Predecessor Agencies - Millions of Dollars





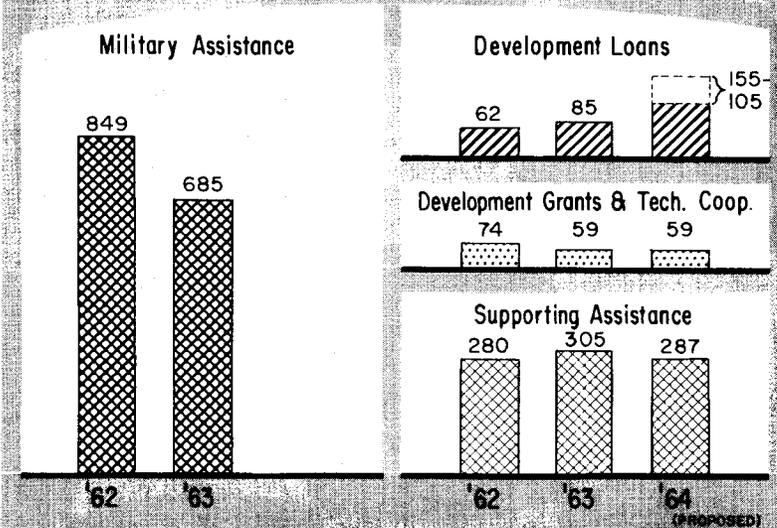
**LATIN AMERICA** Program by Function\* (Millions of Dollars)



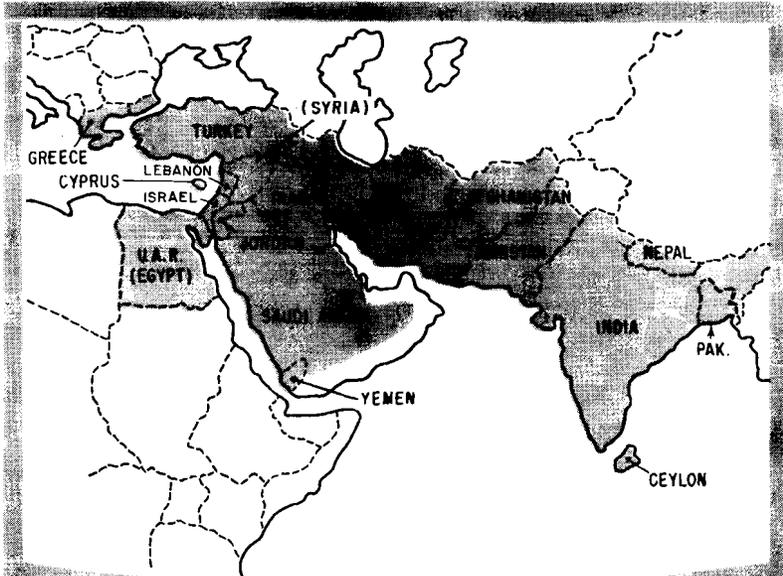
\* INCLUDES SOCIAL PROGRESS TRUST FUND LOAN COMMITMENTS OF \$224 MILLION FOR FY 1962 AND \$170 FOR FY 1963.  
 • Program does not reflect deobligations of prior year funds.



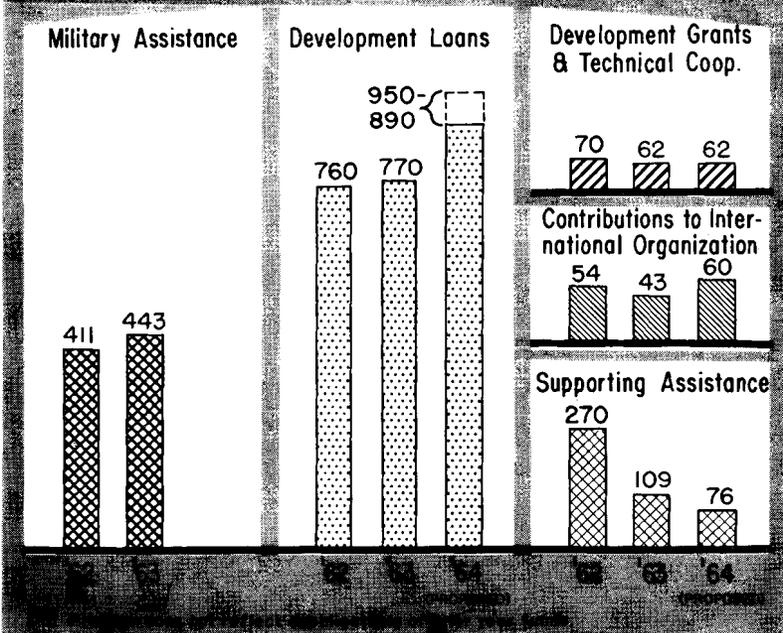
**FAR EAST** Program by Function\* (Millions of Dollars)



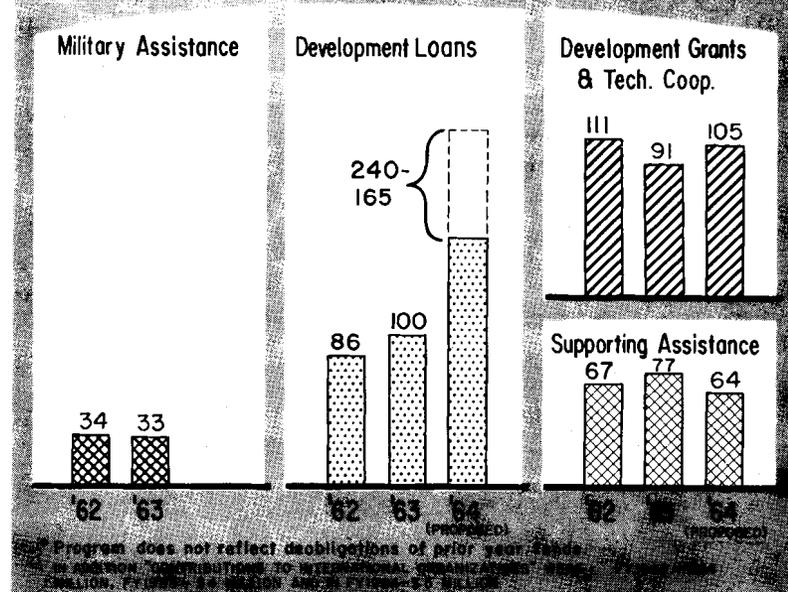
\* Program does not reflect deobligations of prior year funds.



**NEAR EAST AND SOUTH ASIA Program by Function\***  
(Millions of Dollars)



**AFRICA Program by Function\*** (Millions of Dollars)



\* Program does not reflect obligations of prior year funds or certain contributions to international organizations.



**DEVELOPMENT  
ASSISTANCE**

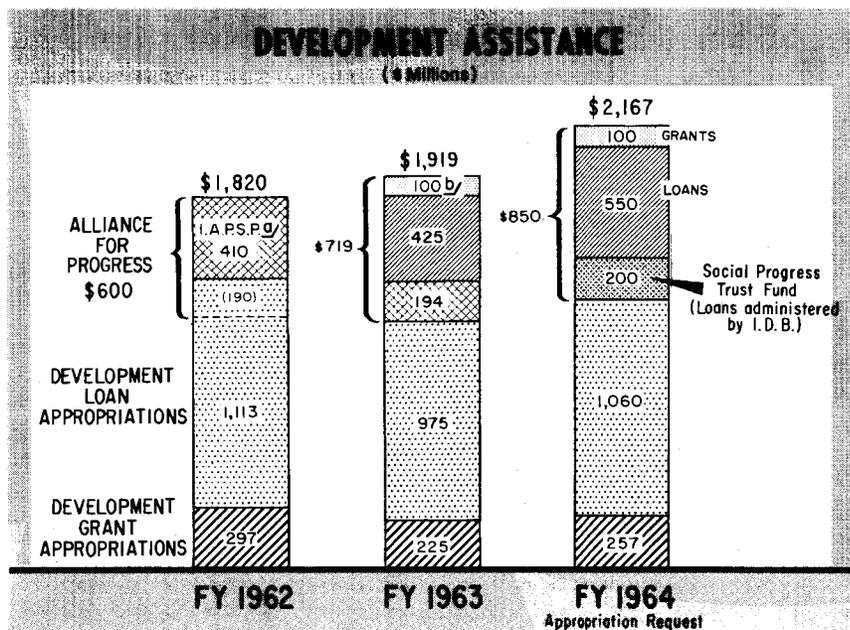
DEVELOPMENT ASSISTANCE

Development Assistance includes three principal funding categories: Development Loans, Development Grants and Technical Cooperation, and Alliance for Progress.

Development Loan and Development Grant and Technical Cooperation activities are closely related in objectives. In Latin America both of these activities are funded under the Alliance for Progress.

Development lending provides needed capital for investment or supplying imports essential for economic growth. Development Grants for the most part finance technical assistance activities designed to break development bottlenecks and to stimulate the development of human resources and institutions needed for sustaining and increasing development momentum. Development Loans and Development Grants sometimes are used jointly in the same project. For example, technical assistance in education is normally on a grant basis while a major school construction program may, if repayment capacity is adequate, appropriately be financed on a loan basis.

The similarity in the objective of contributing to economic and social growth does not hold true in the programming and administration of the two types of development assistance. Development lending is concentrated in a limited number of major country programs. Technical assistance, on the other hand, is needed by all of the developing countries except the most advanced.



<sup>a</sup> Inter-American Program for Social Progress Supplemental FY 1961 Appropriation (P.L. 87-41, May 27, 1961, effectively available in FY 1962 and subsequently), shown on a commitment basis.

<sup>b</sup> Transfer of \$10 million from Alliance for Progress Grants to Supporting Assistance is planned.

DEVELOPMENT LOANS

In the year and a half since the passage of the Foreign Assistance Act, Development Loans have become the major instrument of United States economic assistance.

Nearly 60 percent of the total economic assistance program funds requested by AID for Fiscal Year 1964 is earmarked for lending. This share compares with about 54 percent estimated for Fiscal Year 1963 and about 30 percent in 1961, the last year of the Development Loan Fund. AID and the Development Loan Fund together have committed more than 300 loans, totaling \$3.5 billion, over the past five years.

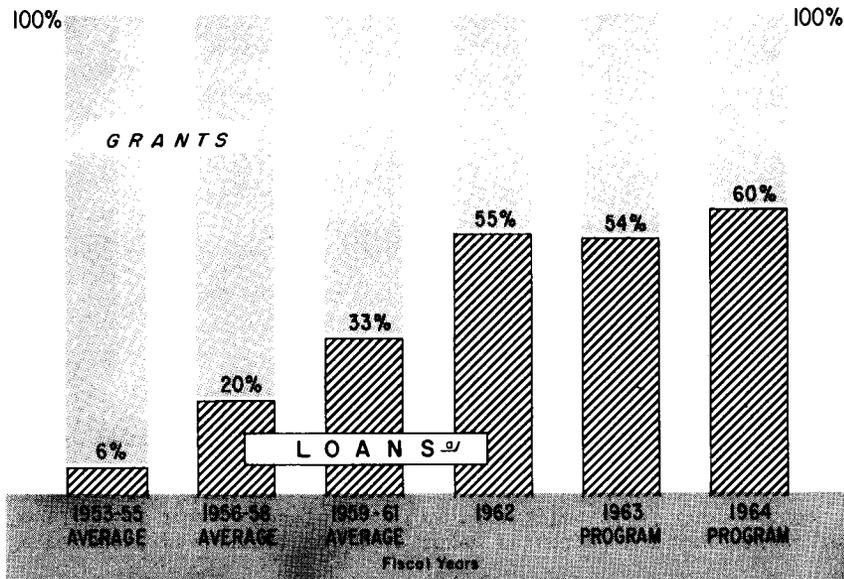
In meeting the development objectives of the United States, loans are proving to have several advantages over large-scale grants.

Most important is the healthy stimulus that an obligation to repay gives to a country's self-help effort. The use of loans for major investment on terms appropriate to individual situations, including the hardening of terms as the country approaches self-sustaining growth, encourages self-reliance and initiative.

The procedures for application and approval of a loan, requiring considerable data and justification, help AID and the borrower judge a project's place in the overall program and economy of the requesting country.

Repayments which will accrue to the United States in the decades to come also are of significance. Important, too, is the fact that all loan funds must be spent in the United States for American goods and services.

**LOANS AS A PERCENT OF TOTAL AID PROGRAM**



For Fiscal Year 1964, AID is requesting \$1,060 million for Development Loans, plus \$550 million for the AID portion of the Alliance for Progress, a total of \$1,610 million. This request is \$238 million less than the \$1,848 million in the original budget request for Fiscal Year 1964. This reduction comes from a careful reassessment of the Fiscal Year 1963 and Fiscal Year 1964 lending programs, and expectations of deobligated funds from prior years. The estimated reduction of \$83 million in the Fiscal Year 1963 lending program and the reduction of \$91 million in the proposed Fiscal Year 1964 program come from the application of tightening criteria.

The deobligations are estimated at \$64 million between now and the end of Fiscal Year 1964, with \$34 million estimated for the current year and \$30 million for Fiscal Year 1964. A small portion of these recoveries will be from completed projects that did not require the full amounts of the loans. The bulk, however, will come from projects in which the borrowers did not perform as agreed, with the result that the remaining portion of the loan will be canceled.

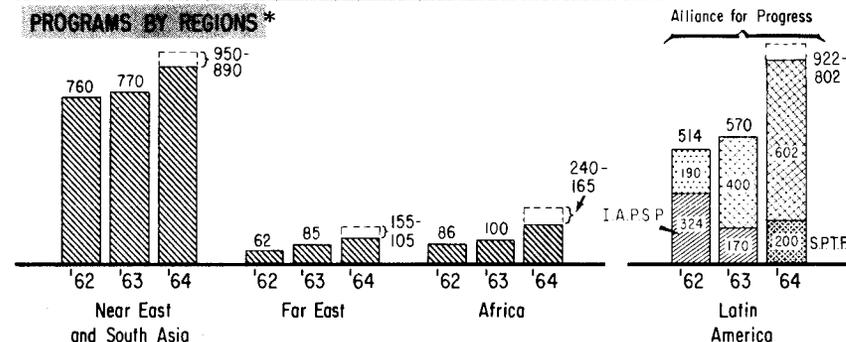
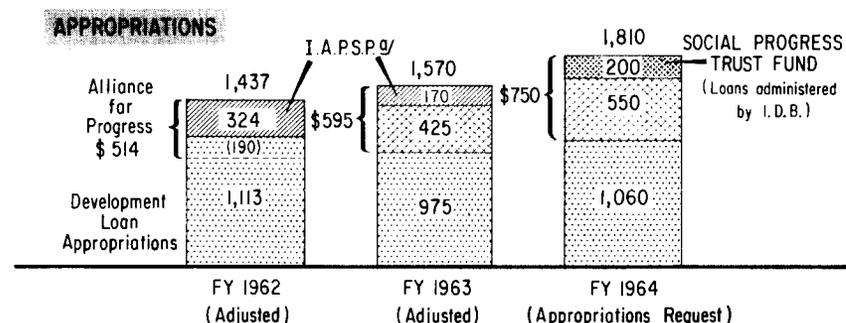
<sup>2/</sup> Includes Development Loans, Alliance for Progress Loans, Other A.I.D. Loans and commitments from Social Progress Trust Fund.

DEVELOPMENT LOANS (Continued)

The relation among these amounts is summarized in the following table:

	Development Lending		Total
	Development Loans	Alliance for Progress Loans	
(Millions of dollars)			
FY 1963 appropriation and carryover from prior years	1,002	436	1,438
FY 1963 commitments (est.)	<u>-955</u>	<u>-400</u>	<u>-1,355</u>
Uncommitted FY 1963 (est.)	47	36	83
Deobligations FY 1963 (est.)	<u>24</u>	<u>10</u>	<u>34</u>
Estimated carryover to FY 1964	<u>71</u>	<u>46</u>	<u>117</u>
Planned reduction in FY 1964 program	91	-	91
Deobligations FY 1964 (est.)	<u>26</u>	<u>4</u>	<u>30</u>
Savings from original FY 1964 program	<u>117</u>	<u>4</u>	<u>121</u>
Original FY 1964 budget request	1,248	600	1,848
Estimated carryover from FY 1963	-71	-46	-117
Estimated savings in FY 1964	<u>-117</u>	<u>-4</u>	<u>-121</u>
FY 1964 new obligational authority requirement	<u>1,060</u>	<u>550</u>	<u>1,610</u>

## DEVELOPMENT LOANS



<sup>2/</sup> Inter-American Program for Social Progress, Supplemental FY 1961 Appropriation (P.L. 87-41, May 27, 1961, effectively available in FY 1962 and subsequently), shown on a commitment basis.  
 \* Program does not reflect deobligations of prior year funds.

The table below shows the proposed Fiscal Year 1964 program for each region as compared with the Fiscal Year 1962 program and the estimated program for Fiscal Year 1963. The lower figure in the range for each region is based on conservative assumptions. The higher figure reflects more favorable expectations of self-help activities and project planning. For a number of countries there is reason to hope that actual performance will be better, and the aid requirements correspondingly higher, than the amount shown in the lower figure. There also may be exceptional self-help measures, particularly in connection with major stabilization programs, which would require significant shifts within regions.

DEVELOPMENT LOANS (Continued)

Development Lending Programs

(Millions of dollars)

	<u>FY 1962</u>	(est.) <u>FY 1963</u>	<u>Planned Program 1964</u>
Near East, South Asia	759	770	890-950
Africa and Europe	86	100	165-240
Far East	<u>62</u>	<u>85</u>	<u>105-155</u>
Subtotal	907	955	1,160
Latin America <sup>1/</sup> (Alliance for Progress)	<u>290</u>	<u>400</u>	<u>602-722</u>
TOTAL	1,197	1,355	1,762

<sup>1/</sup> Exclusive of Social Progress Trust Fund discussed in a separate section.

A major portion of the funds outside of Latin America, as well as most of the increase for Fiscal Year 1964, is allotted to India, Pakistan, Turkey and Nigeria, all of which are demonstrating an increased capacity to utilize development assistance effectively. The following statements sketch the major programs and major trends for each region:

Near East - South Asia:

This region, extending from the Eastern Mediterranean to the Bay of Bengal, includes 17 countries with a combined population of nearly 700 million, as much as Latin America, Africa and the rest of free Asia combined. A range of development lending of \$890-950 million is proposed for Fiscal Year 1964, a sharp increase from \$378 million in Fiscal Year 1961. This represents more than 50 percent of AID's total planned development lending. Of this amount, nearly 90 percent will be concentrated in India, Pakistan and Turkey, which have about 80 percent of the population of the region.

In this area's main countries, the gross national product is estimated to have increased by nearly 50 percent, well above the rate of population increase, during the decade of the 1950's. Even more encouraging, the rate of domestic savings is estimated to have risen from about eight percent of the gross national product in 1950 to about 12 percent in 1960-61.

A major part of this improvement is attributable to reasonably satisfactory development plans and capacity to use development assistance effectively. This is augmented by substantial increases in aid from other free world sources. A critical problem is the balance of payments gap, including the build-up of exports. This is even more difficult, and generally takes longer, than increasing domestic savings.

Supporting Assistance grants in this region have declined from \$284 million in Fiscal Year 1961 to \$109 million in Fiscal Year 1963 and have been ended altogether in Greece, Iran and Pakistan. Further reductions are planned for Fiscal Year 1964.

A major feature of development assistance in this region is the use of consortia. These groups of donor countries under the sponsorship of the International Bank for Reconstruction and Development (World Bank) have been formed to assist India and Pakistan. Two-year commitments were initially made to these countries. A consortium was also formed to finance the Indus Basin development. Consortia sponsored by the Organization for Economic Cooperation and Development are now considering development needs of Greece and Turkey. As a result of these efforts about 12 free world countries are supporting development programs in the region.

India, the largest country in the region, made substantial progress between 1951-61 with effective development programs, major self-help efforts and relatively efficient long-term planning. During its Third Five-Year Plan (1961-66) India expects to invest about \$25 billion on development. It estimated originally at least \$6.7 billion in foreign assistance would be needed. This estimate included \$1.2 billion in Public Law 480 food. The India consortium under World Bank sponsorship has made available \$2.4 billion for the first two years of the Plan of which \$980 million in foreign exchange commitments came from the United States. The United States, under its Food-for-Peace Program, also has agreed to make available \$1.2 billion in grains. A meeting of the consortium during the spring of 1963 will consider new commitments for the third year of the Plan.

Past AID project loans have been directed toward the key priorities of power, railroads, road transport and fertilizer. Program loans provided critical raw materials, components and capital goods. Program loans to development banks, and loans directly to business firms together have amounted to well over half a billion dollars and have made a major contribution to the burgeoning private sector in India. Thus far this assistance has enabled India to maintain a rate of growth approaching the planned targets, and some acceleration is expected as new facilities, including those

## DEVELOPMENT LOANS (Continued)

financed with assistance, come into production. A disturbing burden is the need to provide resources for defense, the impact of which is not yet clear.

Pakistan has also progressed in mobilizing its resources for development and in carrying out effective land, tax, and administrative reforms. The rate of growth has improved materially in recent years. Under its First Five-Year Plan (1955-60) about \$2.8 billion was expended, with priority given to projects in power, irrigation and industry. Development expenditures called for during the Second Plan (1960-65) amount to \$4.8 billion. This is based on \$3 billion in external assistance, including more than \$700 million in food. A World Bank consortium has already made available \$945 million for the second and third years of the Second Plan. The United States pledged \$500 million of this amount. Another meeting of the consortium is scheduled this spring to consider Pakistan's needs for the fourth year of its Plan.

In Turkey, increasing reliance on loans is being facilitated by a development plan and self-help measures, including tax and budgetary reforms. An Organization for Economic Cooperation and Development consortium, including the United States, and the World Bank, is considering aid. If these measures work out as effectively as now hoped, they will permit a more rapid rate of development which will require increased assistance for a time.

India, Pakistan and Turkey are expected to receive about nine-tenths of the region's development loans. The volume of lending available to other countries will depend partly on how certain situations develop and partly on what projects are proposed.

### Africa

Western European countries and international organizations are providing about twice as much economic assistance to the developing countries in Africa as the United States is. It is United States policy to encourage other Free World sources to continue and, where necessary, to increase the volume of loans to Africa and, for those countries which do not already do so, to make such loans on terms comparable to those offered by the United States.

The Development Loan program for Africa, for which a range of \$165-240 million is planned for Fiscal Year 1964, will be highly concentrated. Two countries, Nigeria and Tunisia, will account for the bulk of the total proposed program.

Nigeria, with its population of 36 million -- largest in Africa -- has taken long strides toward meeting the preconditions of rapid economic growth. Nigeria is commencing the third year of its Six Year Development Plan during Fiscal Year 1964. The Plan, supported by the World Bank and a number of other Free World sources, will require approximately \$150 million in external assistance in Fiscal Year 1964 and for several years thereafter. The Plan's success depends heavily on support from the United States. A major loan possibility is the Niger Dam which will be financed from a number of sources under the leadership of the World Bank. The dam would provide the power base for a rapid expansion of the Nigerian economy.

Tunisia will be entering the second year of the United States commitment of \$180 million to support its Three-Year Development Plan. United States loans will probably include the purchase of agricultural and phosphate mining equipment from the United States.

Some loans are planned for several other African countries. Likely possibilities include a water supply project in Liberia and a teacher's training college in Tanganyika. For most African countries, however, the major supplier of capital will be a European country. Also, in many cases, the primary need at this stage is for technical assistance.

### Far East

The Fiscal Year 1964 development lending level planned for the Far East is in the range of \$105-155 million, with Korea and the Republic of China the principal recipients.

In the Republic of China, Supporting Assistance was terminated with the \$43 million Fiscal Year 1961 program and reliance has since been placed on Development Loans and Public Law 480 programs to meet assistance requirements. General support for development is evolving toward complete independence from concessional assistance, with higher interest rates on loans to be one element of this transition. Development Loans, however, will still be required in Fiscal Year 1964. Both program and project loans are planned.

Projects are to be concentrated in the private sector with heavy emphasis on development of export industries, essential to the termination of United States economic aid.

In Korea, completion of reconstruction, further economic improvement and the Korean Government's growing concern with development

## DEVELOPMENT LOANS (Continued)

are making possible a transition to a more effective economic development program. Supporting Assistance has been reduced from a level of more than \$300 million in Fiscal Year 1956 and 1957 to \$181.1 million in Fiscal Year 1961 and \$92.5 million in Fiscal Year 1962 with further reductions expected.

Development Loans, which averaged only about \$5 million a year from Fiscal Year 1958 through 1961, rose to \$25 million in 1962. Further increases are planned to promote more rapid economic growth as changing circumstances permit. Fertilizer production and power are likely to be important project areas in 1964. The amount of lending to Korea will depend on the government's performance both in developing sound projects and in carrying out the kinds of fiscal, monetary and foreign exchange policies that would make a higher level of total lending more effective.

Loan programs are also planned for several other countries in the Far East. Their magnitude will vary considerably.

### Latin America

Loan programs for the Alliance for Progress are of two kinds: \$550 million for the regular AID program and \$195.5 million for the loan portion of the Inter-American Program for Social Progress to be administered through the Social Progress Trust Fund of the Inter-American Development Bank. Requests for each of these two programs are being made under separate appropriation headings and are discussed in a following section of this Volume.

### PROGRAMMING DEVELOPMENT LOANS

Country loan programs are based upon a variety of considerations, including the importance to the United States of accelerating growth in the country, the availability of its own and other resources, present development potential, and the prospects of appropriate self-help measures. Most development lending is directed towards those countries where self-help efforts are being made but where assistance is required to realize the possibilities. In cases where the country's own efforts are inadequate, development lending, beyond meeting the minimum immediate need, is administered in such a way as to induce the needed self-help. Well-conceived projects, of course, are a major element in a sound lending program. But development lending by AID can only be a means to achieving the most effective total country program.

The three groups of AID programs described in the introductory section of this Volume can be applied to lending programs as well.

The first category of long-term development includes only about a third of the AID country programs but covers about nine-tenths of total development lending. Accordingly, it will be useful to divide these long-term development programs into the three sub-categories discussed in the introduction.

### Countries Approaching Self-Sustaining Growth

The countries which are already approaching self-sustaining growth include Venezuela, Mexico, Jamaica, Israel, Greece and Taiwan. In some of these, past assistance has been at very high levels. Lending planned for these six countries together is about seven percent of total planned development loans for Fiscal Year 1964.

A gradual hardening of AID loan terms for such countries is planned as they move closer to self-sustaining growth. But self-sustaining growth does not mean an end to the need for all external financing. Because of the low absolute levels of income and savings in most of these countries, and the large labor supply in a number of them, they will continue to require large imports of capital. The United States target is to help them reach a stage where capital needs can be met by private foreign investment and by borrowing on commercial terms such as those now offered by the Export-Import Bank. The United States itself was in a similar situation in the 19th Century.

### Countries Making Major Developmental Efforts

The main thrust of development effort is concentrated in development lending in a few key countries such as India, Pakistan, Nigeria and Colombia. It is expected that a few others will be added to the four in this second group, but the total is not likely to exceed six or eight. Apart from India, where aid per capita is not large, the countries likely to fall in this group will receive an average amount of development lending per person about three times greater than in all other countries. This group is expected to receive at least half of all development loans in Fiscal Year 1964.

AID development loans to these countries are typically only two to three percent of gross national product and something like a fifth of total investment. In addition, development assistance from other sources, often induced in part by United States participation, is sometimes substantial. This amount of outside help can be crucial.

First, in most of the less-developed countries, half or more of the investment is required merely to keep pace with population growth. Second, foreign assistance is in the form of needed

## DEVELOPMENT LOANS (Continued)

imports, a critical bottleneck in many development programs. Thus, a relatively small amount of foreign assistance may well make the difference between just getting along and gaining the momentum required for self-sustaining growth.

Another important aspect of this concentration is the incentive it creates. The prospect of large-scale development assistance both as a reward for self-help measures and as a means of providing resources needed to carry them out can be an effective means of inducing countries to take such necessary steps.

One characteristic that ordinarily distinguishes countries in this group is the use of program loans. These finance commodity imports, rather than capital equipment for specific projects, and, accordingly provide greater flexibility. Since this gain in flexibility entails some loss of detailed control, program loans are generally used only in those cases in which the United States is in substantial agreement with the borrowing country on the nature and fulfillment of its development effort.

Where these conditions exist, program loans serve a useful purpose, providing foreign exchange needed for private procurement of imports. Many desirable kinds of investment which require foreign exchange, including thousands of small investments, are not readily financed through project loans.

A major development program nearly always strains a country's balance of payments, and there is an understandable tendency among developing countries, when foreign exchange becomes short, to cut back on imports of industrial raw materials, components and semi-fabricated items, the kinds of goods financed by program loans. Such cuts fall disproportionately on private enterprise. Program loans thus can be used to balance the import program, to supplement project loans and support private enterprise.

### Countries with Less Adequate Self-Help Measures

The third group contains those countries important to United States interests in which a reasonable growth potential exists but self-help measures are still insufficient to warrant general support of a development program. About 15 of the Fiscal Year 1964 loan programs are in this group, representing about a quarter of the proposed total lending for Fiscal Year 1964. This aid is less subject to accurate programming since a wider range of possible results must be considered.

The aid planned for this group employs a variety of strategies and techniques to encourage the countries to make more effective

efforts to help themselves. Where severe inflation has been a deterrent to economic growth, adoption of a stabilization program is normally a precondition to initiating a major loan program. Tax reforms and tax increases are essential to satisfactory growth in a number of countries. The possibility of aid may spell the difference between what is politically possible and what is not in this sphere.

Excessive short-term borrowing complicates the balance-of-payments problem of a number of developing countries. The prospect of reductions in AID project lending may exercise a restraining influence on a country unwisely assuming such a short-term debt burden.

Other cases may involve narrower objectives. A specific loan may be made to carry out a specific land-reform project. A loan for railway rehabilitation may be conditioned upon a rationalization of rate structures. The technique will vary with the circumstances, but the underlying strategy is to make good performance worth the effort.

### Loans to Other Countries

The other two main categories -- security and development programs and limited aid programs -- include more than 50 countries. Lending programs are planned for less than half of them for Fiscal Year 1964, and altogether they account for only about one-tenth of the proposed lending total. Although the total United States assistance program to these countries is not at this stage focused on development, the loan portion to these countries generally is related to development. Well over half of the loans planned are for five countries. The largest single program, for Korea, demonstrates the growth element in programs which, taken in their totality, cannot be described as wholly development oriented. The situation in Korea still requires predominant concern for security needs. The loan program, however, is designed to hasten the transition to the point where the economy will be strong enough so that security objectives can still be met within a total program that is predominantly developmental.

## ADMINISTERING DEVELOPMENT LOANS

AID is a development institution and its loans must therefore meet development criteria. The fitting of the lending process into the development planning process, as discussed above, is designed to meet this condition.

DEVELOPMENT LOANS (Continued)

But AID also must operate as a banking institution similar to the Export-Import Bank and the World Bank. Each project application must be carefully studied for its technical soundness. Engineering and cost data must be adequate and accurate. The capital structure of commercial-type enterprises must be sound and cash flow analysis must show that the debt can be serviced. Management must be competent, and careful consideration must be given to the fact that management talent and skills are among the most serious deficiencies in many of the less-developed countries. Finally, an informed banking judgment must be reached on the overall economic and technical soundness of the project.

It takes time to meet these requirements. AID experience, like that of the World Bank and the Export-Import Bank, is that it is not unusual for one to two years to elapse between the time a loan is first considered, investigated and analyzed, and the time of final decision. In general, however, the quality of applications is improving and the time required for action is accordingly being reduced.

Carrying through loans also takes time. The long lag required for project implementation, however, is beginning to be bridged and expenditures as a percent of total Development Loan Fund and AID loan approvals are rising. On June 30, 1961, only a little more than a quarter of total approved loan money had been spent. By June 1962, this had risen to over 30 percent and by December 1962 stood at more than 40 percent. As the program matures, this percentage, of course, would be expected to rise. But the increase is now rapid. Total loan expenditures in the first half of Fiscal Year 1963 were more than \$400 million as compared to \$482 million for all of Fiscal Year 1962.

Terms of loans vary but most call for a maximum period of 40 years with a credit fee of 3/4 of 1 percent. AID has followed a policy of not extending loans acceptable to the Export-Import Bank or other sources.

The rate of submission of well-prepared sound applications is also growing. The less-developed countries are learning how to translate the need for capital into specific kinds of effective investment. This improvement in project analysis and the preparation of good applications will reduce both the time required for project review and the time for project implementation. Since it is expected, on the basis of submissions from the AID field missions, that the volume of applications in Fiscal Year 1964 will exceed the amount of funds requested by a very substantial margin, this improved quality of project applications will be a requisite of sound loan administration in Fiscal Year 1964.

DEVELOPMENT GRANTS AND TECHNICAL COOPERATION

The appropriation requested for Development Grants and Technical Cooperation for Fiscal Year 1964 is \$357 million. Of this, \$257 million is programmed for countries outside Latin America and \$100 million for AID-administered grants under the Alliance for Progress.

This request is \$32 million greater than the Fiscal Year 1963 appropriation but \$78 million less than the 1963 request.

Development Grants and Technical Cooperation Appropriations and Requests - FYs 1962, 1963 and 1964

(In millions of dollars)

	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>
<u>Requests</u>			
Development Grants and Technical Cooperation	380	335	257
Alliance for Progress	-	100	100
Total	380	435	357
<u>Appropriations</u>			
Development Grants and Technical Cooperation	296.6 <sup>1/</sup>	225	-
Alliance for Progress	-	100	-
Total	296.6	325	-

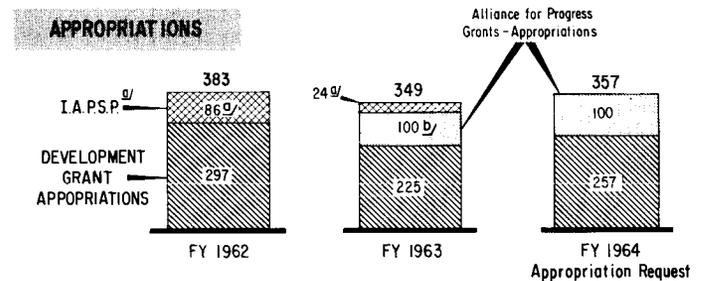
<sup>1/</sup> Excludes \$100 million appropriated for the Inter-American Social and Economic Cooperation Program to be administered by AID.

The total development grant program planned for Fiscal Year 1964 includes an additional \$20 million in estimated reobligations, of which \$5 million comes under the Alliance for Progress and \$15 million is anticipated in the other three regions.

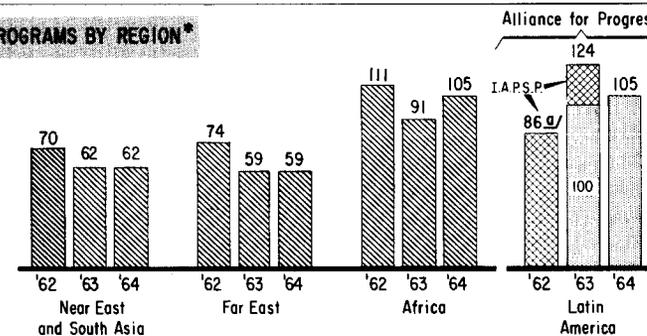
The \$357 million requested for Development Grants and Technical Cooperation, with the \$20 million in reobligated funds, would enable AID to maintain a technical assistance program in Fiscal Year 1964 at about the same level as in the preceding year.

**DEVELOPMENT GRANTS AND TECHNICAL COOPERATION**

Millions of Dollars



**PROGRAMS BY REGION\***



\* Program does not reflect designations of prior year funds.  
<sup>1/</sup> Inter-American Program for Social Progress Supplemental FY 1961 Appropriation (PL 87-41, May 27, 1961), effectively available in FY 1962 and subsequently, upon a commitment basis.  
<sup>2/</sup> Transfer of \$10 million from Alliance for Progress Grants to Supporting Activities is planned.

The Role of Technical Assistance

In most countries aided by the United States today, the development of human resources remains the priority need and technical assistance the heart of our Development Assistance program.

Technical assistance helps create the human resources necessary for development. It helps build the wide variety of institutions

## DEVELOPMENT GRANTS AND TECHNICAL COOPERATION (Continued)

needed to make trained people effective: schools and universities, agricultural extension services, public health systems, trade associations, labor unions and cooperatives.

Technical assistance projects also play a key role in assisting countries to carry out needed self-help and reform measures. In addition to determination, these measures require administrative skill, planning techniques, land surveys and agricultural research and extension services, savings and credit institutions and new educational approaches. The countries themselves must provide the spirit of determination, but we can help them develop the skills and institutions crucial to effective self-help. In Latin America, for example, increased technical assistance for agricultural extension work, the development of cooperatives and public administration is a direct response to the need for institutions that can make reforms effective.

Development of human resources, modern institutions and the ability to carry out self-help measures contributes to more than economic growth. Technical assistance also affects the social and political character of the development process. It serves the dual role of speeding economic growth and helping to create a free and open society.

AID technical assistance activities are financed by Development Grant and Technical Cooperation funds. Out of these funds come the salaries and support costs of United States technicians working overseas; the costs of sending key host country personnel to the United States or other countries for advanced training; the cost of the supplies and equipment technicians need to carry out their jobs; and, to a limited degree, the costs of construction connected with technical assistance, such as demonstration schools or rural clinics.

### Technical Assistance and Levels of Development

The need for technical assistance, like the ability to make effective use of capital assistance, varies with each country's stage of development.

In countries in the early stages of development, lack of administrators, technicians, skilled workers and professionals of all kinds sharply limits the usefulness of capital assistance. Recognizing this, the 1961 Act for International Development provided that in such countries -

"...programs of development of education and human resources through such means as technical cooperation shall be emphasized

and the furnishing of capital facilities for purposes other than the development of education and human resources shall be given a lower priority until the requisite knowledge and skills have been developed."

In 40 countries, most in the early stages of development, Development Grant and Technical Cooperation programs account for more than 50 percent of total United States assistance. In 18 of these countries United States aid is wholly technical assistance.

In more advanced countries, such as India and Pakistan, where AID has major loan programs, Development Grant financing for technical assistance may amount to less than a twentieth of the total AID program. Technical assistance projects, however, remain of crucial importance, helping to develop new or additional institutions or skills required to maintain and to increase the momentum of growth.

As countries develop the ability to train professionals and skilled workers, and as they develop their own institutions to maintain satisfactory economic and social progress, United States technical assistance can be reduced and finally halted. AID technical assistance was ended in Israel in Fiscal Year 1962 and will be ended in Lebanon in Fiscal Year 1963. It is currently being cut back in the Republic of China.

### Technical Assistance and AID Strategy

A country's stage of development determines its needs for technical assistance, but need alone does not determine the level and composition of assistance from the United States.

Like over-all AID strategy, the Development Grant and Technical Cooperation programs in each country reflect not only that country's stage of development, but also the primary goals of United States assistance and the availability of aid from other Free World sources.

In countries where AID programs support broad development goals, technical assistance is directed to the most serious obstacles to growth--lack of necessary skills and supporting institutions. For example, in Nigeria, the United States maintains the largest Development Grant program in Africa. Nearly half is concentrated on strengthening the educational institutions. Teams from four American universities, under contract with AID, are working to expand higher education facilities, develop Nigerian institutions to train engineers, nurses, agricultural technicians and business administrators. Assistance is also going to demonstration secondary

## DEVELOPMENT GRANTS AND TECHNICAL COOPERATION (Continued)

vocational schools in each region, and to teacher training schools to expand primary education in the northern region.

Agricultural development is the second major focus of the Development Grant program in Nigeria. Over a hundred United States agricultural specialists are training Nigerian agricultural extension workers and establishing a network of rural agricultural centers from which they can operate. The balance of the AID program in Nigeria is devoted to improving public administration and to stimulating the growth of the private industrial sector.

In countries where United States assistance is focused on urgent security needs, technical assistance may be used to improve services and to increase production in depressed and politically restless areas. In the case of Thailand, Development Grant projects finance a substantial part of the large-scale program to improve living standards, win the allegiance of the border people and integrate the strategically-located Northeast more closely with the rest of the country. Technical assistance and supporting commodities and equipment are being provided to develop agricultural extension services, to promote community development programs, to survey land use and to improve public health services and sanitation. These efforts are tied in with a major feeder road construction program, financed from Supporting Assistance funds, to link critical border areas with the Thai highway network.

Where the United States assistance goal is a more limited demonstration of interest in a country where other donors are providing the bulk of assistance, technical assistance can provide visible evidence of support without requiring heavy expenditures. Small Development Grant programs in over two dozen African countries are designed to serve this purpose. In the Malagasy Republic, to give one example, the major share of aid is provided by France and the European Economic Community's Development Fund. The modest United States Development Grant program provides equipment to build and maintain feeder roads, two technicians to train operators and mechanics, and instructors to help the Agricultural College of Madagascar establish an Agricultural Extension Department. It provides vehicles for Malagasy's eleven trained and experienced health units, and a well-driller, sanitary engineer and drilling equipment and supplies to help set up a program to improve the rural water supply in regions where people must now walk as much as fifteen miles for water. It also pays the costs of sending Malagasy Development Bank officials to participate in a short United States study program designed to suggest ways of initiating and improving small local industries.

## Carrying Out Technical Assistance

Technical assistance under AID has grown out of the Point Four program. Its primary goal remains the development of skills among people in the host country. Its basic tools remain the sending of American specialists overseas, and the training of key host country people in more advanced countries.

At present, more than 5,000 American professionals and technicians are at work overseas on technical assistance missions. About 3,500 of these are AID employees or experts loaned to AID by other Federal agencies. The balance are nongovernmental experts from American industries, businesses, nonprofit organizations, colleges and universities with whom AID contracts for technical assistance.

During Fiscal Year 1962, about 5,900 participants from host countries arrived in the United States for advanced training at American business firms and industries, colleges and universities, hospitals, or units of municipal, state or federal governments. An additional 2,100 participants were sent for training to third countries where conditions were similar to those in the participants' home countries.

Although the primary goal and the basic tools of technical assistance remain the same, 15 years of experience have led to some changes in emphasis and approach. Under AID, a major effort has been made to plan all assistance, capital and technical, as an integrated program concentrated on priority needs. Among other changes are these:

### Use of Other Federal Resources:

In some cases, the best man for a technical assistance job is to be found not in AID but in another specialized Federal agency. The Department of Agriculture, the Bureau of Public Roads, the Department of the Interior, the Bureau of the Census, the Public Health Service and the Housing and Home Finance Agency are among the agencies whose personnel participated in AID programs during the past year.

Under the Humphrey Amendment to the Foreign Assistance Act, AID in 1962 signed interagency agreements with the Housing and Home Finance Agency and the Department of Labor under which experts from these agencies might be loaned to AID on a reimbursable basis, without break in the expert's career record with his agency.

## DEVELOPMENT GRANTS AND TECHNICAL COOPERATION (Continued)

An interagency agreement with the Federal Home Loan Bank Board is expected to be signed early in 1963 and several other agreements are in preparation.

### State Participation:

In early 1963 the State of California sent a mission to Chile to explore ways in which California could use its resources to help Chile achieve economic growth, particularly in agriculture. A number of other states have expressed interest in similar arrangements with other Latin American countries.

### Greater Use of Nongovernmental Resources:

AID has attempted to make greater use of nongovernmental resources for technical assistance overseas: American businesses, industries, colleges and universities and service organizations.

During the past year, for example, the Agency signed contracts with seven nongovernmental organizations to carry out nine major technical assistance programs to spur the growth of cooperatives for housing, savings, agricultural credit, rural electrification and marketing of consumer goods.

The contractors, in Africa and Latin America, include the Credit Union National Association, the National Rural Electric Cooperative Association, the Cooperative League of the U.S.A., the Foundation for Cooperative Housing, the Farmers Union, the National Grange and the National Council of Farmer Cooperatives, and the American Institute for Free Labor Development.

American colleges and universities are another growing source of technical assistance under AID contracts. By the beginning of 1963, 70 American colleges and universities had teams overseas carrying out technical assistance for the Agency in education, agriculture and agricultural extension, public administration, public health and industrial development.

The Association of State Universities and Land Grant Colleges established in November 1962 an Executive Secretariat and a supporting committee to work with AID and the Assistant Secretary of Agriculture for International Affairs to channel more qualified agricultural specialists into technical assistance and use the facilities of American land grant universities and colleges more widely.

### Greater Emphasis on Institution-Building:

One of the lessons of the first Point Four experience was that technical assistance cannot take place in an institutional vacuum if the people trained are to have a significant effect on their country's development.

Therefore, a public administration program in Thailand includes the training of key government officials, assistance in reorganizing and modernizing government administrative structure, the establishment of a first-rate graduate school of public administration and in-service training for thousands of lower-echelon Thai civil servants.

In India, a technical assistance program which helped create a vigorous fertilizer manufacturing industry worked not only to improve production techniques in the plants themselves but to establish an industry-wide trade association which has helped to enforce quality control and has promoted wider use of fertilizer by Indian farmers.

### Coordination With Other Aid-Givers:

The growing foreign assistance programs of Canada, Japan and the Western European countries, and the more recent entry of Israel and the Republic of China into the technical assistance field offer resources in many cases more appropriate to host country needs than those the United States could supply.

The Development Assistance Committee of the Organization for Economic Cooperation and Development has assumed the job of finding the nation best equipped to provide a specific kind of technical assistance in a specific country. The Committee's Technical Cooperation Working Group directs its entire efforts to improving the coordination and quality of Free World donors' technical assistance programs.

### Proposed Regional Programs and Trends

Of the Development Grant funds requested for country programs (excluding nonregional activities), a third are to be spent in Africa, slightly less than a third in Latin America and somewhat more than a third in Asia. Grant assistance per person in Latin America and Africa is more than three times that in much more heavily populated Asia.

DEVELOPMENT GRANTS AND TECHNICAL COOPERATION (Continued)

No technical assistance is programmed for Europe in Fiscal Year 1964; the last European programs, in Spain and Greece, were terminated in Fiscal Year 1962.

Development Grant and Technical Cooperation Programs\*

(Millions of dollars)

	FY 1962 (Actual)	FY 1963 (Estimated)	FY 1964 (Proposed)
Africa	110.6	90.8	104.5
Europe	1.3	0.1	-
Far East	73.8	59.1	59.4
Near East and South Asia	69.7	61.6	62.4
Latin America	85.6 <sup>1/</sup>	112.3 <sup>2/</sup>	93.8 <sup>2/4/</sup>
Non-Regional	38.2	44.9 <sup>3/</sup>	57.5 <sup>4/</sup>
Total Programs	379.2	368.7	377.7

Note: Details may not add to totals due to rounding.

- \* Program basis does not reflect deobligations of prior year funds.
- 1/ Includes \$63.6 million in Inter-American Program for Social Progress funds.
- 2/ Financed under the Alliance for Progress.
- 3/ Includes \$12.2 million financed from the Alliance for Progress.
- 4/ Includes \$11.2 million financed from the Alliance for Progress.

Many of the Development Grant and Technical Cooperation programs in Africa have been initiated since 1960 as new nations have gained independence. About twice as many AID-financed technicians, on contract and direct hire, will be working in Africa in Fiscal Year 1964 as in Fiscal Year 1961. The per capita concentration of development grant programs in Africa reflects the urgent need for development of human resources in the continent. Roughly a third of the program is being used to improve educational facilities through advisory services, training courses and curriculum development. Most of these activities are conducted through university contracts. Many of the projects in the field of agriculture, health, and public administration also help develop skilled manpower. A small but important part of the program is directed to creating effective planning agencies in several countries. Planning assistance of this kind may have particularly high returns in resource-rich countries like Liberia and Libya (where recent oil

discoveries have reversed previous bleak forecasts) since full use of resources depends on good planning.

The Fiscal Year 1964 Development Grant and Technical Cooperation programs planned for the Near East and South Asia, and for the Far East, continue at approximately the same levels as during the present fiscal year. However, the programs in these regions have declined slightly since Fiscal Year 1962, in part because certain types of projects then financed from grant funds are now being financed from Development Loans. One-fourth of Development Grant funds in the Near East and South Asia go to Afghanistan, reflecting its limited human resource development and United States interest in providing an alternative to complete dependence on bloc aid. Significant programs will also be conducted in India, Pakistan, and several other countries.

In the Far East, several country programs have been reduced in the past three years, with particularly sharp drops in Korea, China and Vietnam. The smaller program in Vietnam reflects the concentration of activities on security-related programs, and the phasing out of programs not connected with security.

About a fifth of the total grant program for the region is in the field of health, including extensive malaria eradication programs. The fight against malaria, however, has passed its peak, and the funds spent on all health programs have declined about 15 percent since 1961 as a result. Technical assistance to agriculture and education each account for about a fifth of the total program. Since 1961 the level of grant funds for industry, mining, and transportation has fallen dramatically, by 75 percent. This is because major capital construction projects are no longer financed from grant funds, but from Development Loans, and from the new practice of also financing technicians and specialists needed for particular capital projects from Development Loan funds.

The technical assistance programs financed under the Alliance for Progress are discussed in a following section of this Volume.

Nonregional Development Grant Activities

Activities financed from interregional Development Grant funds support program, as distinguished from administrative, activities of the Agency. Interregional expenses are mainly incurred in the United States, and would be impracticable to fund on a country or regional basis. Interregional grant funds finance:

The Washington program staff, which includes specialists in fields such as agriculture, community development, education

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17-

DEVELOPMENT GRANTS AND TECHNICAL COOPERATION (Continued)

and health. Many of these specialists are located in the regional bureaus, but are funded under the interregional program to simplify accounting procedures and increase staffing flexibility.

Participant services, such as orientation seminars for trainees from less-developed countries, which must be arranged in advance and are difficult to attribute to specific country programs.

Medical, communications, custodial, fiscal and other services provided to AID program personnel by the Department of State.

Technical services and assistance from other Federal government agencies, in support of AID programs.

The United States Regional Organization and Development Assistance Committee staff in Paris, which coordinates our aid programs and policies with those of the Organization for Economic Cooperation and Development and other Development Assistance Committee donors.

The costs of shipping to less-developed countries commodities and equipment donated by the American public through United States voluntary agencies.

The research program described more fully below.

Research for Development

The purpose of research in AID is to discover, through modern science and technology, new and imaginative ways of speeding development in the less-developed countries of the Free World. The process of modernization and industrialization gives rise to a wide variety of problems, some of them without precedent. Practical solutions can be developed through research.

The AID research program, launched in February 1962, is now one year old - too short a period within which to expect visible results. Extreme caution has characterized research funding approvals for Fiscal Year 1963. Both new and continuing projects have been subjected to intensive scrutiny by the Agency staff and by a small advisory group of scientists representing the nongovernmental research community.

A second and larger advisory group was organized in January 1963 to help develop the strategy and chart the directions of research activity in Fiscal Year 1964. This group represents a broad

cross section of outstanding scientific talent from various fields and from several types of research organizations. Through its connections with the research community, this group provides a quick and economical way of finding out what research being done elsewhere will be useful to us and enables us to draw immediately upon a level of scientific and analytical capability which the Agency could not otherwise afford. Moreover, this group's participation by advising on the design of the research program has stimulated interest in the problems of the developing countries and of our assistance programs, and should eventually generate more widespread independent research on these problems.

Cumulative obligations by the end of this fiscal year are expected to approximate \$14 million. The funding request for Fiscal Year 1964 is \$15 million. The research program contemplated for Fiscal Year 1964 will concentrate on a few problems critical to AID in areas such as agriculture and rural development, and education. Higher agricultural productivity and improved rural living conditions are vital needs in virtually every underdeveloped country. Problems of soil and water conservation, irrigation and drainage, salinity, fertilizer production and use, land tenure, credit, and food marketing cooperatives all present challenges which research can help to meet. These are problems for which American scientists and technicians can find practical solutions.

ALLIANCE FOR PROGRESS

"To lift the standards of living of more than 200 million people even to the minimum goals established by the Alliance for Progress, is not the work for one year or even a few .....

"While the first year of the Alliance has been beset by many difficulties, the accomplishments are real and are promising."

This judgment by the finance ministers of 20 American republics sums up the position of the Alliance for Progress today. It was issued in October 1962, at the time of the Cuba missile crisis, and it is significant that the 20 nations, allied for progress, also stood united in defense against this immediate threat to the security and freedom of the Hemisphere.

The October crisis has diminished, but there still remains the challenge--"the construction of a new community of American nations in which all the citizens can live not only free from fear but full of hope"--in the words of President Kennedy.

The fear to which he referred is not confined to communism--external or internal--but to all the evils that feed on hunger, poverty, illiteracy, disease, poor housing and archaic tax and land tenure systems.

There is increasing evidence that the Latin American countries understand the basic requirements of self-help and reform needed to combat these conditions. The misconception that the Alliance is strictly a United States program is being dissipated. The Alliance, burdened by expectations that an all-out effort would show results immediately, is being viewed more realistically. As the finance ministers stated in their declaration at Mexico City, the obstacles are abundant, but progress is being made and there is promise of success.

Proposed Program for Fiscal Year 1964

Proposed programs for the Alliance for Progress under the Foreign Assistance Act for Fiscal Year 1964 with the comparable program amounts for previous years are as follows:

	FY 1962 Actual	FY 1963 Estimated	FY 1964 Proposed
	(In millions of dollars)		
Development Loans	190	400	600
Development Grants	-	100 <sup>1/</sup>	105 <sup>2/</sup>
Supporting Assistance	107	57	18
Inter-American Program for Social Progress *			
Social Progress Trust Fund	224	170	196
Chile Reconstruction	100	-	-
IAPSP Grants	86	24	4
Total	707	751	925

\* The IAPSP is a separate appropriations request discussed in the next section. (See p. 32)

<sup>1/</sup> Includes \$12.2 million for Non-Regional program expenses.

<sup>2/</sup> Includes \$11.2 million for Non-Regional program expenses.

AID ASSISTANCE FOR THE ALLIANCE

The proposed levels of assistance assume there will be an acceleration of self-help and reform efforts. This requirement provides the basis for encouragement to the Latin American countries and affects the extent of AID commitments.

The Case for Development

The bulk of the proposed Fiscal Year 1964 program is in the form of loans, for which more than a billion dollars in applications is anticipated by AID Missions. It can be expected, however, that Venezuela, and perhaps one or two other Latin American countries, will require little or no further AID loans. These countries can meet their own investment needs, supplemented by loans on regular commercial terms from private enterprise and international lending institutions.

A second group of countries, led by Colombia, has made progress under the Alliance and now needs program support primarily to carry forward already moving development programs.

A third category includes those countries whose development programs are less well established and for whom assistance can be geared to specific self-help measures.

The performance of two Alliance countries--Colombia and Chile--gives hope that major financing from several sources may be in the offing to help them carry out their long-range development plans. This financing would include substantial AID development lending.

## ALLIANCE FOR PROGRESS (Continued)

Colombia's significant self-help efforts are continuing. Its home building, school construction and land reform programs are moving vigorously. It has a good development plan. When faced with a financial crisis recently, Colombia made broad reforms in fiscal and monetary policy.

In Chile, important changes such as tax reform have taken place over the past months--changes which indicate the country is ready to move forward. The stiff conditions posed under Chile's stabilization program give further evidence of that country's capacity for self-help.

Both Colombia and Chile still have serious problems to meet. They have, however, initiated the basic self-help requirements of the Alliance charter.

The Dominican Republic, in the short time it has enjoyed freedom, has made progress toward stable and democratic development. Aided by the United States, principally with Supporting Assistance, the Dominican Republic is now ready for more normal development financing to make a better life for its people and provide a demonstration for the whole Caribbean of the Alliance alternative to Castroism and Trujilloism.

### Central American Integration

The further development of the Central American Common Market, made up of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, encouraged AID to establish a mission in Guatemala City known as the Regional Office for Central America and Panama (ROCAP). The success of building a common market in this strategic area of 12 million people also shows the way to other Latin American countries whose progress within the Latin American Free Trade Area has been considerably slower.

The United States has taken specific steps to support the integration effort through loans and grants through the Central American Bank for Economic Integration and the Council of Rectors of the Central American universities which have banded together to coordinate and complement each other's programs. The distribution of two million textbooks by AID in Central America is already giving physical evidence of the benefit of regional association. The Regional Office for Central America and Panama program will be accelerated in Fiscal Year 1964 with significant loan and grant assistance.

In addition, the two largest countries in Latin America, Brazil and Argentina, now appear to be moving toward more active

involvement in the Alliance. Brazil recently developed a three-year investment plan. This program has begun. As the politically difficult but economically necessary stabilization effort moves forward, AID should be in a position to support Brazil's actions designed (1) to combat inflation, and (2) to allocate its own resources to development. Substantial assistance is also being made available to Argentina under existing commitments. The United States is hopeful that the Argentines will implement measures now under consideration in which case further United States assistance under the Alliance framework would be appropriate.

### Private Effort

Private enterprise will be a major emphasis of the 1964 program. New and simplified investment guaranty agreements have been signed or are under negotiations with every major country in the region, in order to encourage an increase in the flow of United States private capital. In addition, the policy of lending to intermediate credit institutions for relending to private business and industry will be stepped up. Such loans amounted to one-sixth of all loans by AID to Latin America in the past year.

These intermediate credit institutions, which include industrial development banks, agricultural credit banks, cooperatives, and savings and loan associations greatly strengthen local private enterprise. When these funds are loaned, they reach the small businessman, the farmer, the homeowner. Not only do people gain a stake in their society but also the new institutions help to build local savings and expand the tax base. In addition, strengthening private enterprise implies concentrated effort to improve the agricultural sector, to help remove governmental bottlenecks, and to train the human resources required for a modern economy.

### Development Grants

The \$105 million Development Grant program for Fiscal Year 1964 although smaller than the 1963 program including IAPSP grant funds is more than twice as large as the pre-Alliance technical assistance effort for Latin America. While the number of direct hire technicians is decreasing, the number of experts and consultants brought in under contract is increasing. Much greater use is being made of contracts with private United States institutions and organizations qualified to help build comparable institutions in Latin America. By the end of this fiscal year, the knowledge and skill of 37 major United States universities will be utilized in support of Alliance goals. The number is expected to exceed 50 by the end of Fiscal Year 1964.

## ALLIANCE FOR PROGRESS (Continued)

Programs are now focused on: (1) establishing and strengthening organizations, such as educational institutions and rural cooperatives which can break growth bottlenecks; (2) creating financial institutions--savings and loan associations, farm credit institutions, industrial development banks; and (3) helping governments formulate and administer the development programs and economic policies needed for rapid growth.

### Supporting Assistance

The \$17.7 million program of Supporting Assistance is considered sufficient to meet foreseeable needs vital to United States security interests. Emergency situations, of course, may call for additional amounts.

### The First 18 Months

In 1960, the American republics signed the Act of Bogota in which the goals of a better life for Latin Americans were set forth. In March of the following year, President Kennedy called for an "Alliance for Progress." Congress, in 1961, appropriated \$500 million for the Alliance, allotting \$394 million to the newly created Social Progress Trust Fund of the Inter-American Development Bank, \$6 million to the Organization of American States and \$100 million for AID's participation.

The Charter of Punta del Este, signed in August 1961, laid down the principles for cooperation on a 10-year program for social and economic development. These principles stressed the necessity for basic reforms and the importance of effective self-help measures. Eighty percent of the required investment would come from the Latin American countries and the balance from outside free world sources.

This was re-emphasized by the delegates to the Mexico City meeting in 1962: The Latin American people themselves are the key to the Alliance; it is they who will make it work. The re-evaluation that took place at this meeting examined the difficulties of the first year:

- (a) Political upheavals in several countries.
- (b) Operation of the Castro propaganda and subversion machine. The October missile crisis both deflated Castro and, on the other hand, motivated him to desperate efforts to regain prestige.

- (c) No improvement in terms of trade. While an international agreement designed to stabilize coffee prices was signed, it has not yet had much practical effect.
- (d) Lack of trained human resources; slow pace of improvement in national budgeting (often further retarded by the absence of a whole-hearted commitment to development); scarcity of soundly developed projects, and political obstacles to structural changes.
- (e) Continued need for budget support and emergency balance-of-payments assistance. Large commitments, though to a lesser degree in 1962 than in 1961, have been required to cope with budget crises. These stopgap measures alleviate deteriorating economic situations but are not in themselves directly productive of development.

Further difficulties can be expected, either because old patterns of economic and social imbalance still prevail or because the impact of the Alliance is being felt. Change is often resisted by those who would benefit from the old way and now feel their privileges challenged.

### Beginnings of Progress

During the 18 months ending December 31, 1962, commitments from AID, the Social Progress Trust Fund, the Export-Import Bank, Food for Peace and the Peace Corps have totaled \$1.5 billion. Specific examples follow of concrete accomplishments already generated by this investment.

Houses are being built--more than 160,000 dwellings have been constructed or are a-building. This is only a small dent in the vast need for 12 to 14 million, but the pace is accelerating. It is expected that the dramatic example in Bogota, Colombia, where the former 770-acre airport has become the Ciudad Techo for 8,898 families, 71,000 persons, will be emulated. Here, an old airplane still sits on the ground but is surrounded now by new brick and concrete homes and apartments, most of them built or being constructed by the families themselves. One of these families is that of Senor Argenil Plazas Garcia, a vendor of second-hand clothing, who has written to President Kennedy that now he and his wife and children "have dignity and liberty" in their new home.

A \$30 million slum clearance project is under way in Venezuela. North of Lima, Peru, the satellite city of Ventanilla is already populated, equipped with schools, shopping centers, nursery schools and community center. A year ago it was a treeless, arid waste.

## ALLIANCE FOR PROGRESS (Continued)

Classrooms are being built--more than 18,000 new ones are in use or soon will be. Two million textbooks are being distributed in a massive attack on illiteracy. Teachers are being trained. Self-help construction of schools is expanding.

In Brazil a \$4 million agreement with the state of Rio Grande do Norte is helping to train 3,000 teachers, and build 1,000 classrooms, 10 vocational schools, eight normal schools and four teacher training centers.

Roads are being built--13,000 miles being constructed and maintained. The 110 farmers of Herrera Province in Panama formerly risked loss and drowning to transport their crops to market by canoe. A farm-to-market road, for which the people enroute voluntarily cleared trees, moved fences and built culverts, now enables these farmers to travel safely. In addition, the road has opened up 100,000 acres of new land.

Twelve hundred miles of roads will be built in Argentina; a road from Quito to Guayaquil in Ecuador is being built; another is being designed for La Paz to El Alto in Bolivia.

### Agricultural Progress

The Alliance is helping to carry out land reform and improve agricultural production. In Bolivia, where land reform is already a fact, a promising colonization project is taking place in the Alto Beni area. Here, in a fertile, previously uncultivated area, surveys were made to determine the suitability of the soil and health conditions among other elements. Roads were built from La Paz to Caranavi and from Caranavi to Santa Ana. Six hundred families already have relocated from the crowded Altiplano to an agricultural center near Santa Ana where they have been grubstaked and provided loans to farm 30 acres apiece. They will receive title to the land after two years. Although the first phase of this project calls for 3,000 families, there are 35,000 applications.

Venezuela, the Dominican Republic and two states in Brazil have initiated land reform programs. More limited plans are being implemented in Chile, Colombia, Panama, Uruguay and Central America.

### Tax Reform

Major tax reforms are under way in Argentina, Bolivia, Brazil, Colombia, Chile, Costa Rica, Dominican Republic, El Salvador, Mexico, Panama and Venezuela. In Chile, where a United States tax expert has been assisting the government in revamping its tax laws

and administration, reforms are being aided by a detailed aerial survey financed by the Organization of American States, Inter-American Bank and the Government of Chile.

### "The Most Critical Area"

The foregoing represents a considerable acceleration of the pace of Alliance for Progress programs over the previous year. A further speed-up of the work can be expected next year, although the basic transformation of Latin America into a modern society as projected by the Charter of Punta del Este will take a good many more years to accomplish.

It is through the dogged pursuit of this objective that patriots in Latin America, in cooperation with the United States and other countries of the free world, are seeking to solve the problems of what President Kennedy has called "the most critical area in the world today."

Despite difficulties and disappointments experienced in the initial period of the program, the Alliance remains the agreed and feasible alternative of the free forces of the Americas to violent revolution and the spread of totalitarian rule. Thus, it represents an essential element in strengthening the security of the United States.

Opposition to the Alliance itself comes almost exclusively from extremists of the right and left. Criticism from other sources has been inspired not by hostility to the concept but by disappointment that the program has not been put into effect more rapidly.

Against this background, the slowly but steadily mounting evidence of progress calls for the improvement and intensification of the program and for the means to do this job.

## INTER-AMERICAN PROGRAM FOR SOCIAL PROGRESS

The Inter-American Program for Social Progress reinforces the principle that social progress and economic development must move forward together in Latin America.

Working with AID, the Social Progress program is concerned with the areas of land reform, better housing, sanitation, water supply, education and tax reforms. The Social Progress Trust Fund of the Inter-American Development Bank is the primary instrument. A small portion is administered by the Organization of American States, which provides technical assistance in self-help fields of public administration, tax administration and planning.

As of December 31, 1962, the Trust Fund had made 53 loans totaling \$320,562,000, leaving little more than \$70 million available. In order to replenish the Program for Social Progress an appropriation of \$200 million is requested for Fiscal Year 1964. Of this, \$195.5 million would be for the Social Progress Trust Fund and \$4.5 million for Organization of American States activities.

The Social Progress programs grew out of the Act of Bogota of 1960 and President Kennedy's call for an Alliance for Progress in 1961. Congress recognized the uniqueness of the relations between the United States and Latin America, affirming that "the interests of the American Republics were so interrelated that sound social and economic progress in each is of importance to all and the lack of it in any American Republic may have serious repercussion in others."

In 1961, Congress appropriated \$500 million for the Social Progress program, accepting both the principle of a major cooperative effort by the American nations to progress and the need for self-help and reforms for Latin America.

The Social Progress Trust Fund was created under a Trust Agreement between the United States and the Inter-American Development Bank. The U.S. provided the capital, \$394 million. The Organization of American States was granted \$6 million. This \$400 million total was in addition to the \$100 million appropriated for AID's participation in the Social Progress program.

The Trust Agreement between the Inter-American Development Bank and the United States assures that the Trust Fund will support the efforts of Latin American countries that are prepared to initiate or expand effective institutional improvements and to employ their

own resources efficiently to achieve greater social progress. The IDB is a multilateral institution. Member countries of the Alliance are represented, under a system of weighted votes. Loans are made on the basis of a two-thirds vote. The United States has 41 percent of the voting strength.

The Trust Agreement went into effect on June 19, 1961. Between that date and the end of 1961, loans totaling \$115.6 million were made. In 1962, loans totaling \$205 million were made.

The Inter-American Development Bank has adhered to the practice of approving loans on a priority basis and emphasizing self-help measures. The willingness to say "no" has brought an impetus to sound planning and project preparation. The Inter-American Development Bank seeks assurance of the ability of the borrowing agency to execute the project with maximum economy and efficiency. The professional competence and planning standards of the IDB are of the highest quality. It frequently requires the reorganization of the agency concerned or the establishment of a new institution. Private investment is encouraged to participate in the venture where possible. Technical assistance ordinarily is provided as part of the loan. The result is that local sources have put up 53 percent of the \$780 million total required for approved projects. The Social Progress Trust Fund's share was 41 percent and other external sources added the remaining six percent. The interest charged has ranged from 1 1/4 percent to 4 percent for periods from 15 to 30 years. A service charge of 3/4 of 1 percent is charged on all loans.

### Social Progress Loans

Of the Trust Fund's share, approximately 48 percent has been allocated for low-cost housing (\$152.7 million), 32 percent for water works and sanitary facilities (\$103.7 million), 16 percent for land settlement and improved land use (\$52 million), and 4 percent for advanced education (\$12 million).

### Housing:

Housing has received primary attention from the Trust Fund for three reasons. First, it is in this field that the need and demand for social progress are most urgent in Latin America. The lack of decent housing is the most visible of all Latin America's problems. Second, the preparation of housing projects presents fewer technical difficulties for an underdeveloped country than other social progress programs. With a little assistance, especially building materials and advice, individuals can do much of the work themselves. Third, home ownership is vital to social progress. It gives people a stake in their society. Low-cost housing stimulates a sense of civic responsibility. It also builds up local industry and provides employment.

## INTER-AMERICAN PROGRAM FOR SOCIAL PROGRESS (Continued)

In the 18 housing loans the Trust Fund has made in 15 countries, some 160,000 units will be built for 960,000 persons. Almost half are being constructed in part under some form of the self-help system.

A recent loan for \$30 million was made to the Banco Hipotecario Nacional of Argentina to finance the construction of more than 15,000 housing units for low-income families. This is the largest single loan granted by the Bank.

The Government of Uruguay has received an \$8 million loan for the construction of 4,100 homes costing between \$1,800 and \$5,000 for families with incomes ranging from \$55 to \$190 per month. Eighty-five hundred houses for low-income families in Brazil's Northeast will be built with a \$3,850,000 loan. Families with incomes from \$40 to \$140 per month will buy the homes. Limit on the mortgage rates is 8 percent.

### Water and Sewage:

Seventeen water and sewage loans in 10 countries will provide 933 water and sewer systems for 14.5 million people. In making these loans, the Inter-American Development Bank has insisted on effective measures to assure efficient construction and operation. As a matter of policy the Inter-American Development Bank requires the charging of rates which will cover at least the operation and maintenance of the systems and, wherever possible, the amortization of borrowed capital.

One water and sewage loan calls for \$15 million to Colombia to help finance projects in more than 300 towns with a population of nearly three million people. The project is a part of the country's plan to extend water services to the entire population by 1975. Only 27 percent have these services now. The funds will pay for construction of water systems, treatment plants, technical studies and sewer system construction.

Another loan will help finance expansion of the Rio de Janeiro, Brazil sewerage system. It will extend service to 380,000 low-income people. Similar loans have been undertaken for seven other Brazilian cities.

### Land Settlement:

In the fields of land settlement, land reform and improved land use, the Social Progress Trust Fund has 13 loans in 11 countries. Twenty thousand small farmers have already received credits under these programs. While 56 percent of the loans is for agricultural

credit, 34 percent goes for agrarian reform and settlement programs. Farm cooperative centers and small farming irrigation works account for the remaining 10 percent. In Mexico, for example, a Trust Fund loan is helping to improve the productivity of farms distributed long ago under Mexico's land reform law.

A \$12,700,000 loan to the Instituto Agrario Nacional of Venezuela will help finance projects for improved land use in many of the 124 farm settlements expected to be developed in the next two years. The project is part of a program to increase the agriculture production of Venezuela which now must import about 25 percent of its requirements.

### Higher Education:

In higher education and advanced training, seed capital is being used in nine countries to build and strengthen institutions in fields directly related to economic and social development. The Trust Fund is financing parts of programs to (a) provide equipment for advanced technical education for the national universities of Argentina, (b) establish five regional colleges in Chile, (c) acquire laboratory equipment in Mexico, (d) install a department for basic sciences at San Marcos University in Peru, and (e) develop a comprehensive program in basic sciences for the five Central American countries.

### Organization of American States Special Projects:

The request for further funds for special projects of the Organization of American States provides another opportunity for stimulating development through international cooperation.

The Organization of American States uses these funds for a series of tripartite advisory teams on planning with the Inter-American Development Bank and the United Nations. It is conducting special studies through committees of Hemisphere experts into specific fields, such as tax administration and public administration. Funds also support the development evaluation effort by the Panel of Nine Experts of the Organization of American States.

### Conclusion

The need for social progress now is greater than ever, since the Alliance for Progress is beginning to generate more and more developmental momentum in Latin America. If it is to perform that special function which was entrusted to it by the U.S.--that is, the promotion of social development to complement economic development--the Trust Fund must be replenished. The request for further funding for special projects of the OAS provides another opportunity for reform through international cooperation. Here is a program which is generating enthusiasm in Latin America and is producing results. All in all, its renewal is crucial to the self-help orientation of the Alliance for Progress.

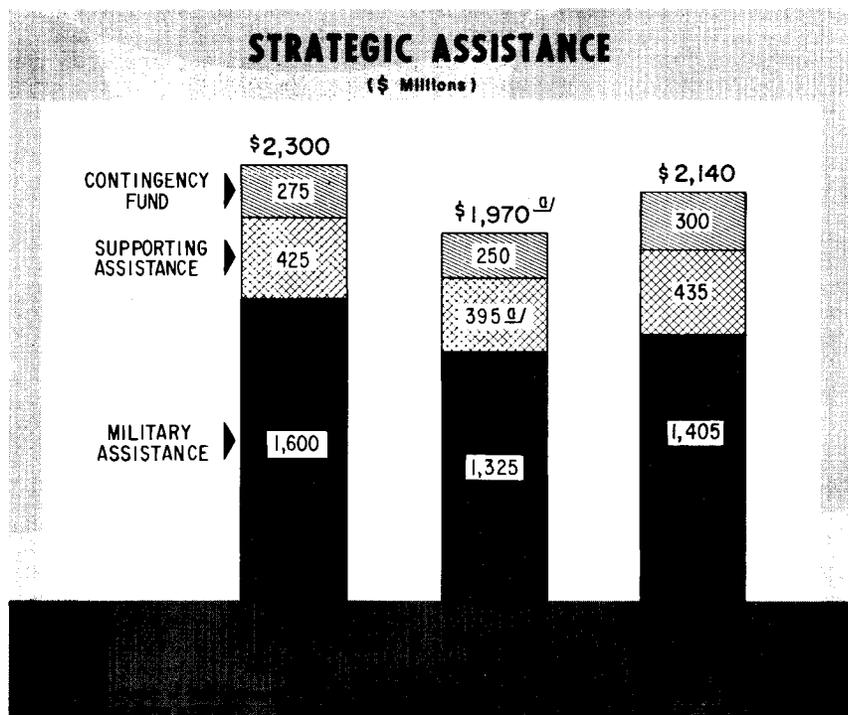




STRATEGIC ASSISTANCE

Both military and economic aid are used in the United States programs of Strategic Assistance to strengthen Free World defenses, preserve the security and stability of friendly countries, and create a foundation for economic progress.

The request for Fiscal Year 1964 for Strategic Assistance is \$2,140 million. It includes three funding categories of aid: The Military Assistance Program, \$1,405 million; Supporting Assistance funds, \$435 million, and the Contingency Fund, \$300 million. The Fiscal Year 1964 program is compared with the appropriations for the last two years in the following chart:



The requested appropriations, together with expected recoveries of previously appropriated funds, would support total programs of \$2,300 million during the 1964 Fiscal Year as shown in the following table:

1964 Fiscal Year Strategic Assistance Program

(In millions of dollars)

	Requested Appropriation	Estimated Recoveries	Requested Program
Military Assistance	1,405	150	1,555
Supporting Assistance	435	10	445
Contingency Fund	300	-	300
<b>Total</b>	<b>2,140</b>	<b>160</b>	<b>2,300</b>

The largest element of Strategic Assistance is the Military Assistance Program, which provides military equipment, training and related services to help other Free World nations protect themselves against external attack or subversion.

Supporting Assistance is regularly programmed economic aid to countries with heavy defense burdens or other pressures that generate economic and political instability.

A third source of Strategic Assistance is the Contingency Fund, a supplement to Supporting Assistance to meet emergency requirements which could not be anticipated and programmed in advance.

Uses of Strategic Assistance

South Vietnam today is a vivid illustration of the several programs under Strategic Assistance in action. United States helicopters fly United States trained and equipped Vietnamese soldiers into jungle combat with the Communist forces of the Viet Cong; American dollars finance the import of raw materials and machinery into South Vietnam to keep the economy functioning; and American technicians and advisers and United States economic aid are helping to create a police force, establish strategic hamlets for the protection of the civilian population and carry forward other counterinsurgency projects.

Strategic Assistance programs will be concentrated in countries which border the Communist bloc and are under constant threat of invasion or subversion. Over two-thirds of the Military Assistance Program is planned for nine countries covering the Communist

## STRATEGIC ASSISTANCE (Continued)

periphery from Greece to Korea. Approximately half of the Supporting Assistance funds will be allotted to two of these countries, Vietnam and Korea.

The other principal use of Strategic Assistance is to contribute to political and economic stability in a number of countries by helping to improve internal security forces and meet the minimum economic requirements. In this connection, Military Assistance Programs are planned for more than 60 countries to meet varying needs for equipment and training. Supporting Assistance grants to finance essential imports or carry out specific projects are scheduled for 14 countries.

When a crisis arises in a country where the security of the United States is involved, immediate needs are usually first met by the use of the Contingency Fund. In subsequent years, these needs are included in the Supporting Assistance requests. As the crisis is brought under control, or the increased threat to the country's security is counterbalanced, the need for Supporting Assistance is reduced. The normal pattern is to cut back on Supporting Assistance as rapidly as the security and economic conditions in a particular country will permit and to shift the emphasis to Development Assistance.

The amount and form of military assistance is more directly related to immediate security requirements than to economic conditions. Emergency military aid was initiated for India in Fiscal Year 1963 as a result of the Chinese Communist invasion. The rapid increase of military programs in Vietnam over the past two years has resulted in an expansion of military assistance to that country. Military assistance to Western Europe, however, has declined sharply in recent years, illustrating the effect of economic development on the ability of those countries to meet the costs of their own military requirements.

### Coordination of Military and Economic Assistance

Military and economic assistance are closely related. Both provide additional resources to a recipient country and both require complimentary human and material resources from within that country. The material, training and technical assistance included in military and economic programs are different, as are the specific goals, but the overall objective is the same.

In recent years coordination of military and economic programs has been strengthened in the field and in Washington. The United States Country Team, under the leadership of the American Ambassador reviews both military and economic assistance programs and

the programs are similarly subjected to joint review by the Departments of Defense and State. The AID Administrator has been delegated responsibility by the Secretary of State for coordination of all foreign aid programs carried out under the Foreign Assistance Act.

Beginning in Fiscal Year 1964 the long-range planning for both economic and military assistance programs is being conducted concurrently and new methods for assessing the interrelationships between the two types of assistance are being employed. Specific attention is being given to possibilities for adjusting the balance between military and economic assistance in selected countries in order to accelerate their progress toward self-sufficiency and security.

The ultimate objective of the various programs included under Strategic Assistance is to make it possible for the less advanced countries of the world to survive and to progress in an environment free from external coercion or the threat of internal chaos. This type of assistance will be an essential element of United States foreign policy so long as independent countries are striving to create viable political and economic foundations in the face of Communist efforts to obstruct their progress and deprive them of independence.

THE MILITARY ASSISTANCE PROGRAM

The Military Assistance Program strengthens the security forces of independent nations and supports their efforts to remain free.

The request for military assistance funds for Fiscal Year 1964 is \$1,405 million as compared with an appropriation for the current fiscal year of \$1,325 million. The cost of military assistance represents less than three percent of the amount required to support the United States military establishment.

The overwhelming proportion of the military assistance funds is for direct support of military objectives. Military equipment, training and related services provided to the armed forces of allied and friendly foreign nations strengthen their ability to meet both external and internal threats to their independence. At the same time, military assistance strengthens the national defense posture of the United States. The degree and type of assistance are determined in relation to the nature and scale of the threat, United States strategic concepts, the capabilities of the United States itself to assist beleaguered nations in the event of need, and the needs of recipient countries in the light of their own resources.

The Military Assistance Program also enhances the security of the United States by helping to ensure continuing access to those overseas installations which are essential to the effective deployment of American military strength. Facilities on foreign soil and the existence of combat-effective allied soldiers, who have received assistance under the military aid program, places the first line of the defense of the United States thousands of miles from its shores.

The Military Assistance Program also contributes to the political objectives of the United States through its training programs which bring many present and future foreign military leaders to this country, and through support of civic action and public safety programs which stress the civic responsibility of indigenous military forces, improve relations between the civil population and their governments in the less developed countries, and contribute to economic and social development.

Appropriations Since 1959

Military assistance appropriations reached a peak of \$5.7 billion at the time of the Korean War and the initial build-up of the North Atlantic Treaty Organization. Since Fiscal Year 1959 the appropriations have averaged \$1.5 billion a year. There has been a steady decrease in assistance to European countries because they have rebuilt and expanded their economies and are consequently increasingly able to assume responsibility for maintaining their own military establishments. The decrease in assistance to western Europe has been largely offset, however, by additional United States responsibilities in other parts of the world.

MILITARY ASSISTANCE PROGRAMS

(In millions of dollars)

	<u>FY 1962</u>	<u>FY 1963</u> <u>(Est.)</u>
Far East	848.7	685.3
Near East and South Asia	411.1	442.5
Europe	370.6	237.8
Latin America	72.1	70.6
Africa	34.5	33.2
Non-Regional *	<u>95.1</u>	<u>112.2</u>
Total	1,832.0	1,581.7
Less Recoupments & Reappropriations	<u>255.0</u>	<u>256.7</u>
New Obligational Authority	1,577.0	1,325.0

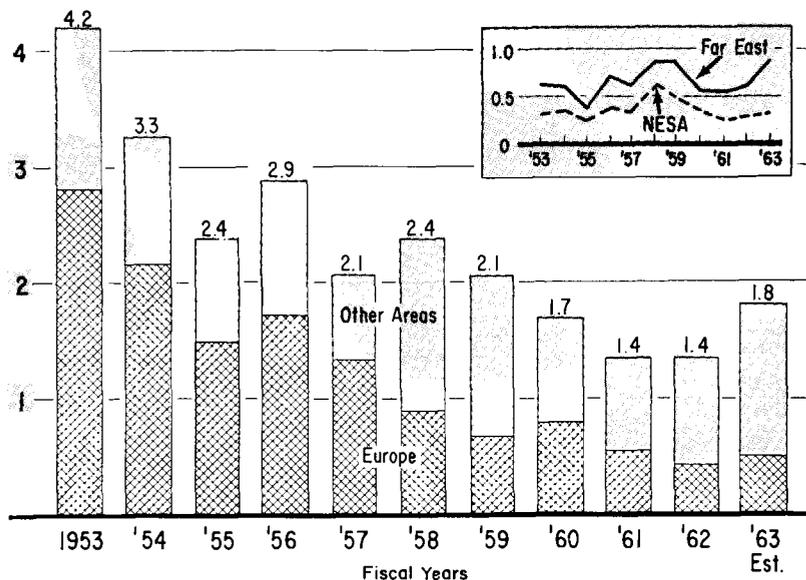
\* Includes NOA used for credit assistance.

Note: Detail may not add to totals due to rounding.

THE MILITARY ASSISTANCE PROGRAM (Continued)

**M.A.P. DELIVERIES\* BY REGION**

Billions of Dollars



\*Excludes acquisition cost of excess stock.

Key Countries on the Soviet Periphery

The countries receiving substantial military aid are Korea, Vietnam, Turkey, the Republic of China, Greece, Thailand, Iran, Pakistan, and India. Each of these countries faces a threat of Communist aggression. In most cases, the threat is external. However, the emphasis is on internal guerrilla warfare and subversion in Vietnam where it is actually under way, and in Thailand where it is threatened.

There is a substantial difference in the probable or actual form of aggression and therefore in the nature of forces which these countries require. Greece and Turkey are confronted by the overall Soviet bloc threat to the North Atlantic Treaty Organization, and by modern weapons in large quantities. Korea and the Republic of China are principally exposed to the threat of Communist China with major armed forces but less sophisticated equipment. Vietnam and Thailand require forces intended primarily to counter

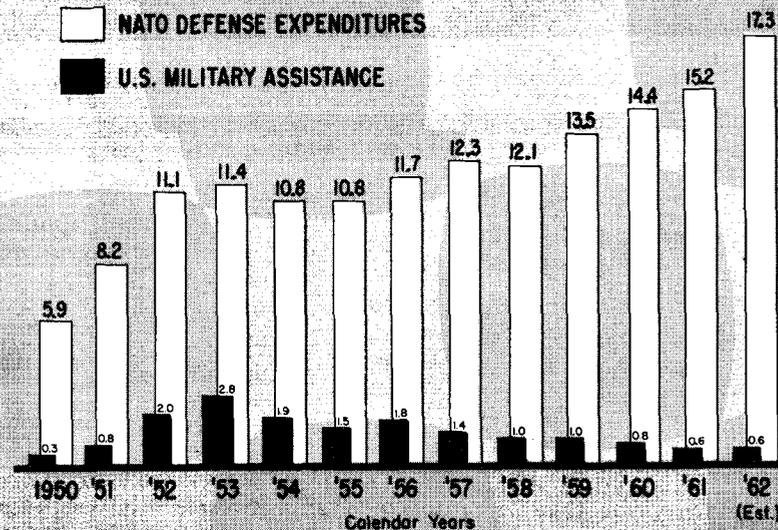
guerrilla activity. These variations are taken into account in the force goals specified by the Joint Chiefs of Staff and in the types of equipment furnished to meet particular military requirements.

Our prompt reaction to the current crisis in India demonstrates the flexibility with which the United States responds to Communist moves in the Cold War. The Indian Government requested military assistance on October 29, 1962. An airlift of the first critically needed equipment was completed on November 9, 1962. The equipment, first American military aid provided to India, included mortars, machine guns, anti-personnel mines, radios and ammunition to strengthen India's self-defense capabilities.

**EUROPEAN NATO COUNTRIES\***

Billions of Dollars

□ NATO DEFENSE EXPENDITURES  
 ■ U.S. MILITARY ASSISTANCE



\*Includes Greece and Turkey

Western Europe

The share of military assistance allocated to western Europe has declined substantially in recent years. Except for Spain and Portugal, where United States base rights are involved, the present program consists entirely of past commitments and cost-sharing arrangements. The program provides approximately \$90 million

## THE MILITARY ASSISTANCE PROGRAM (Continued)

this year for the United States share of maintaining North Atlantic Treaty Organization headquarters and infrastructure such as airfields, communications facilities, transmission and storage facilities for petroleum products, and military training installations. The United States contribution to the North Atlantic Treaty Organization is not military assistance in the normal sense, since it affords the United States access to facilities and installations essential to the support of American forces.

Programs in Norway and Denmark have been placed on an incentive basis, with declining amounts of military assistance provided on the express condition that the recipient countries will make additional budgetary resources - above the levels normally appropriated - available for defense purposes.

In general, military assistance policy for major North Atlantic Treaty Organization nations stresses the increasing assumption by such countries of their own defense burdens and the development of stronger conventional forces.

### Latin America

Military assistance programs for Latin America were oriented to hemispheric defense prior to 1960. As it became clear that there was no threat of significant external aggression, emphasis shifted to strengthening internal security capabilities for use against Castro-Communist activities or other internal disruption or banditry, and to civic action projects designed to contribute to economic and social development. Limited assistance is also given for such activities as harbor defense, coastal patrol and surveillance.

The use of military assistance for internal security purposes is predicated upon the fact that military forces have an essential role as a stabilizing force in these countries. In accordance with Congressional requirements, each internal security program for Latin America is initiated only after a Presidential determination and is subject thereafter to a continuing close policy review by the Department of State.

The total of military assistance to Latin America is subject to a ceiling of \$57.5 million for equipment to be given in any one fiscal year. The ceiling does not apply to defense services, for which purpose an additional amount of approximately \$20 million is expended annually. All military assistance provided to Latin America, including services, amounts to less than 5 percent of the world-wide program.

### Africa

During the past two years, small-scale programs have been instituted in a number of Tropical African countries. The major responsibility for Free World military assistance to these countries is undertaken by the western European nations and the United States plays a supplementary role. The United States programs are oriented, from the military standpoint, strictly to internal security and civic action projects. They are primarily designed to help control the volatile situations which threaten the stability of many recently independent nations. Small military assistance programs continue for Morocco, Ethiopia and Libya where the United States has important military facilities.

### Other Military Assistance Programs

The balance of the Military Assistance Program is directed toward intermediate situations such as that in the Philippines, where the allocation of aid is designed to support that nation's role in the Southeast Asia Treaty Organization and in its own defense. The traditionally close relationship between the United States and the Philippines is vitally important to the common defense of the Far East area, as are installations such as those at Clark Air Force Base and Subic Bay which are made available to the United States by the Philippines.

The military aid program for Japan has declined rapidly from a high point of approximately \$76 million in Fiscal Year 1961 and has been shifted to a cost-sharing basis. Military assistance to Japan will be phased out except for existing commitments to support 25 percent of an early warning radar system and to provide certain special items for naval vessels. Japan is being urged to increase its own defense budget, and to make purchases in the United States which will offset dollar expenditures in support of American military forces in Japan and help to alleviate the United States balance-of-payments problem.

### Civic Action Programs

Currently, civic action programs are being carried on in more than 40 countries. These consist of joint military-economic projects, such as construction of roads, communications and sanitation facilities, public health and vocational education programs, which are designed to strengthen the civilian economy and improve the living conditions of the people. Local armed forces, supported by military assistance, provide the labor and, as necessary, AID finances the materials for these projects which are jointly planned and supervised by the two United States agencies in the field.

## THE MILITARY ASSISTANCE PROGRAM (Continued)

Civic action programs, in addition to their contribution to economic development, also generate important by-products by showing the local populace that the government and its armed forces are concerned and doing something about the well-being of the average citizen. The resultant increased confidence in both the government and the military lessens the vulnerability of the populace to the blandishments and threats of Communist agents engaged in fomenting insurrection.

### Military Training Programs

Training of foreign military personnel is a major aspect of the Military Assistance Program. Approximately 175,000 foreign nationals have been trained in the United States since the beginning of the program. Another 50,000 have been trained overseas at United States installations, such as Fort Gulick in the Canal Zone and Clark Air Force Base in the Philippines. Additional thousands have been trained in their own countries by United States teams and technical representatives.

Nearly all training provided in the United States takes place in some 150 service schools such as the Army's Infantry School, the Great Lakes Naval Training Center, and the Air University where the foreign students attend regular courses of instruction alongside United States military personnel. These training programs serve not only to improve the technical competence of military personnel, but also expose them to the requirements of responsible military leadership in a democratic society.

In many countries, military technicians, who have been trained in the United States are providing an impetus for technological change which is essential to economic progress. In other cases the military forces are a stabilizing influence in times of political and social upheaval. Several former United States trainees have played key roles in restoring political stability and re-establishing democratic procedures.

SUPPORTING ASSISTANCE

Supporting Assistance is that part of the economic aid program which is directed primarily toward meeting immediate political and security objectives.

The request for Fiscal Year 1964 for Supporting Assistance is \$435 million. Most of the Supporting Assistance funds will be used in coordination with the Military Assistance Program to strengthen the military-economic position of four countries on the fringe of the Communist bloc.

The second major use of Supporting Assistance is to maintain economic stability in six countries which either are passing through periods of basic political and economic instability or have economies which simply are not viable at this stage. These are countries in which the United States has strategic political interests and therefore must assure that economic deterioration does not bring on political chaos.

A third use of Supporting Assistance is to provide an alternative to excessive dependence on Communist aid. This contributes to political stability in five countries in Asia, the Near East, and Africa which might otherwise fall under greater Chinese or Soviet influence. Supporting Assistance is also planned for three countries to assure access to important United States military bases.

Supporting Assistance Programs Have Declined

The funds requested and programmed for Supporting Assistance have declined significantly since Fiscal Year 1962 as shown in the following table:

Supporting Assistance Program Requests  
FY 1962 - 1964

(Millions of dollars)

	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>
Appropriations requested	581.0	481.5	435.0
Estimated carryovers and recoveries	<u>29.1</u>	<u>15.5</u>	<u>10.0</u>
Total proposed programs	610.1	497.0	445.0

The Supporting Assistance program for Fiscal Year 1964 is less than that for Fiscal Year 1963 despite the fact that the requirements for the Congo, which had been funded previously under Contributions to International Organizations are to be included in Supporting Assistance in Fiscal Year 1964. This shift in funding reflects changed circumstances in the Congo and a United States Government decision to carry out a bilateral aid program as a supplement to, rather than part of, a general United Nations program.

There has been a downward trend in the amounts requested for three of the four main uses of Supporting Assistance and in the number of countries to which this type of assistance is granted. Since Fiscal Year 1962 the amounts requested for support of common defense and to assure access to military bases have declined by 35 percent and 60 percent respectively. The increase in Supporting Assistance to maintain economic stability is due to the inclusion of funds for the Congo.

Comparison of Supporting Assistance Requests  
By Category of Use, FY 1962, FY 1963 and FY 1964

(Millions of dollars)

	<u>FY 1962</u>		<u>FY 1963</u>		<u>FY 1964</u>	
	<u>Amt.</u>	<u>No. of Coun-tries</u>	<u>Amt.</u>	<u>No. of Coun-tries</u>	<u>Amt.</u>	<u>No. of Coun-tries</u>
1. Support for Common Defense	\$395	8	\$322	3	\$256	4
2. Maintenance of Economic Stability	88	6	85	4	114	6
3. Alternative to Excessive Dependence on Bloc Aid	68	4	53	5	51	5
4. Access to U.S. Military Bases	<u>59</u>	<u>4</u>	<u>37</u>	<u>3</u>	<u>24</u>	<u>3</u>
Total	610	22	497	15	445	18

Funds to Support The Common Defense

Funds requested in Fiscal Year 1964 to support the common defense will be utilized in Vietnam, Korea, Turkey and Thailand. The program in Vietnam has two facets--supplying essential imported goods to maintain a reasonable degree of economic stability, and rural relief and development activities which are an integral part of the war effort. Over the past 18 months AID has completely reoriented its project activities in Vietnam to provide immediate and tangible benefits to the rural population, give them the means of protection against Communist guerillas through the Strategic

## SUPPORTING ASSISTANCE (Continued)

Hamlet program and create some basis for the hope of a more stable and abundant life. These activities are closely coordinated with military operations.

Supporting Assistance for Korea and Turkey will be used to finance raw material and capital goods imports which maintain current production and contribute to the long-range development of the economy.

In northeast Thailand, the United States and the Thai Government have agreed to a 50-50 cost sharing of projects which strengthen and increase the mobility of internal security forces and bring the inhabitants of that threatened region into closer association with the rest of the country.

### Maintenance of Economic Stability

Most of the Supporting Assistance for maintenance of economic stability is designated for the Congo, Laos and Jordan.

In the Congo, Supporting Assistance will be used to finance imports from the United States of raw materials, machinery and spare parts. These imports are required for stabilization of the economy during a transitional reconstruction period. It is hoped that loans from both the United States and other sources can be substituted for Supporting Assistance after several years. The Supporting Assistance programmed for Fiscal Year 1964 will be one part of the total external assistance for the Congo which is being coordinated by the United Nations.

In Laos, the United States is collaborating with several other developed countries of the Free World to meet the essential import requirements of the country. The United States is also helping the new Laos Government to consolidate its position, unify the country, reduce heavy expenditures for military forces and restore a greater degree of order to the economy. The next few years will inevitably be a difficult period of political and economic adjustment for Laos. Without United States financing of imports and assistance to refugees as well as support for demobilization of military forces, the existing government would collapse or come under the domination of the Communist faction. If the political viability of the neutralist government can be achieved, it should then be possible to reconstruct the economy on a more nearly self-sustaining basis.

Jordan is still heavily dependent on Supporting Assistance which finances roughly half of the country's imports. These imports have contributed to a steady expansion of productive capacity as

well as political stability. It now appears possible to project declining levels of Supporting Assistance and corresponding progress toward self-sufficiency.

### An Alternative to Bloc Aid

Supporting Assistance as an alternative to excessive dependence on bloc aid, is intended to indicate United States interest in the economic advancement and independence of five countries which are also receiving substantial assistance from Communist sources. None of these countries has so far evidenced a sufficient commitment to economic development or the capacity to implement effective economic programs to qualify for major development support. Through Supporting Assistance the United States is endeavoring to establish institutions or create economic infrastructure which will eventually provide the basis for sound economic growth. Concurrently we are encouraging these countries to adopt economic reforms and avoid entangling commitments with the Communist countries.

### United States Military Bases

In three countries Supporting Assistance is used to assure access to United States military bases considered important for Free World defense.

### Needs for Supporting Assistance in the Future

AID has sought consistently to cut back on the use of Supporting Assistance and place increasing emphasis on Development Loans and Grants.

This trend is expected to continue in countries now receiving Supporting Assistance. New requirements will undoubtedly arise, however, such as the program for the Congo or support of the conflict in Vietnam and will affect the size of future programs.

Supporting Assistance has been discontinued in China, Greece, Pakistan, Iran, and Tunisia in the past two years.

In Korea, the level of Supporting Assistance type of aid has declined from \$320 million in Fiscal Year 1956 to \$90 million in Fiscal Year 1962 and further reductions are planned in the future. Loans were initiated in Fiscal Year 1958 and amounted to \$25 million in Fiscal Year 1962.

Supporting Assistance type of aid for Vietnam declined from \$254 million in Fiscal Year 1957 to \$117 million in Fiscal Year 1961 but increased insurgency, beginning in 1960, made it necessary to

## SUPPORTING ASSISTANCE (Continued)

maintain the Supporting Assistance funds at about the same level in Fiscal Year 1962. The process of shifting to development loans in Vietnam will have to await improvements in security conditions.

In Thailand, also, the increased threat of Communist subversion in the northeast halted AID plans to discontinue Supporting Assistance after Fiscal Year 1962. It has been necessary to provide emergency assistance from the Contingency Fund in the current fiscal year and to program additional amounts of Supporting Assistance in Fiscal Year 1964.

## THE CONTINGENCY FUND

Each year, unforeseen international situations create a need for immediate response by the United States. Economic and political needs, which may have been anticipated only in a general way, suddenly harden and demand quick, vigorous action by the President. The Contingency Fund provides the flexibility necessary to meet crises before they grow more dangerous or to seize opportunities to advance United States political interests.

It is impossible to state specifically how much is enough for the Contingency Fund. In Fiscal Year 1962 the \$275 million provided by the Congress was insufficient and it was necessary to transfer military assistance funds to meet urgent requirements. Through February 28, 1963, only \$73.6 million of the \$260 million available in the Contingency Fund had been authorized but the list of possible requirements exceeded availabilities. If a number of these contingencies do not materialize and no new emergencies develop in the next few months, it will be possible to turn back a sizable unobligated balance to the Treasury at the end of the year.

The request for Fiscal Year 1964 is \$300 million. This is \$100 million less than was requested, but \$50 million more than was appropriated in Fiscal Year 1963. Despite the possibility of ending the current Fiscal Year with some surplus, it is essential to maintain an adequate contingency fund. Adequacy must be judged in terms of the reduced request for Supporting Assistance and the probability of continuing needs for contingency assistance as a result of unsettled world conditions. As in the current fiscal year, the Fund will be used only in those situations which serve the United States national interest and funds which may not be required under this criterion will again revert to the Treasury.

In the six years of its existence, the Contingency Fund has expedited reaction to Communist attack and subversion. It has offered help and encouragement when needed most to Free World countries with political or economic difficulties. Our ability to respond quickly and effectively to natural disasters has continued a long-standing American tradition and won friends for the United States throughout the world.

The Contingency Fund is not a separate authority. Only programs which can meet the regular requirements of the Foreign Assistance Act are eligible. For the most part, the Fund is used under the authority for Supporting Assistance to friendly countries and organizations in order to promote or support economic or political stability.

### Uses of the Contingency Fund

The most important use for the Contingency Fund has been for quick response to shifts in communist pressure in Southeast Asia. The current conflict in Vietnam has increased the need for preventive counter-insurgency measures throughout Southeast Asia. As a result there was a significant demand for Contingency Funds in Fiscal Year 1962 in Vietnam, Thailand, Laos, and Cambodia. In Fiscal Year 1963, it has been necessary to use the Fund to step up the rate of equipment and expansion of the Thai border police.

The situation in Southeast Asia is still extremely unsettled. While assistance to promote stability has been included in the Fiscal Year 1964 program request, those programs are based on minimum essential requirements. Increased needs which cannot now be foreseen may have to be met from the Contingency Fund.

The second major use of contingency funds is to meet emergency economic needs of politically vulnerable countries. Recently these needs have arisen most frequently in Latin America and the Near East.

In Fiscal Year 1962 the Dominican Republic faced an empty treasury. To help revive the economy and support the new liberal government \$25 million was required from the Contingency Fund. In Fiscal Year 1963 an additional \$24 million has been placed in a special economic readjustment fund, designed to help the Dominicans adjust their economy to the sudden change in the sugar production and export pattern caused by American legislation.

In Ecuador last year and again this year budget support loans were required to forestall riots and maintain internal stability.

In the Middle East there were substantial uses of the Contingency Fund which closely paralleled those in Latin America.

Syria and Egypt faced acute balance of payments problems in 1962 and required Supporting Assistance loans which could not have been foreseen. This assistance was extended as part of a stabilization agreement with the International Monetary Fund which included financing extended by the Monetary Fund and major European countries.

Another important use of the Contingency Fund is to provide the flexibility to move into unforeseen situations where the alternative would be a dangerous dependence on Soviet bloc assistance. The occasion for such action has recently arisen in three cases--

### THE CONTINGENCY FUND (CONTINUED)

two in Africa and one in Asia. In each case the Soviet bloc has provided substantial assistance but with a growing friction of relationship with the recipient country. If the United States had not had the capacity to meet these requirements, continued and increased dependence on Soviet assistance would have been unavoidable. The ability last year to use \$3.5 million of Contingency Funds in Guinea, \$2.6 million in Mali, and \$17 million this year on a loan basis for urgently needed import requirements in Indonesia has enhanced United States relations with these countries.

### Disaster Relief Requirements

The most frequent but smallest use of the Contingency Fund is for disaster relief. To the extent possible, disaster relief requirements are met with surplus foods under the authority of Title II of Public Law 480. However, in many instances, medicines, blankets, tents or other supplies are needed which frequently can be obtained most rapidly from nearby United States military depots with subsequent reimbursements to the Department of Defense by AID. In Fiscal Year 1962 Contingency Funds were used for emergency disaster relief on 24 occasions totaling slightly over \$950 thousand. Through February 1963, a need for this type of emergency assistance has arisen in connection with three earthquakes in Iran, Morocco and Libya.

In addition to these major cases there have been a number of occasions for small scale disaster relief under the authority delegated to the American Ambassadors in the less developed countries to obligate up to \$10,000 for emergency relief purposes. In Fiscal Year 1962 this authority was used on 20 occasions for a total cost of \$131,000.

**OTHER  
AGENCY  
PROGRAMS**

**OTHER  
AGENCY  
PROGRAMS**

THE ROLE OF PRIVATE ENTERPRISE  
IN INTERNATIONAL DEVELOPMENT

Development programs of the United States recognize and increasingly stress the vital role private enterprise must play in the growth of a free society. Their aim is to create a favorable climate for private venture, suited to the cultivation of gainful jobs and justifiable returns on investments.

To fulfill this objective, AID pursues two courses:

To encourage and promote overseas investment opportunities for the United States business community.

To help develop a vigorous private sector within the participating countries' economies.

OPPORTUNITIES FOR U.S. BUSINESS

Encouragement of investment opportunities for United States private enterprise in the underdeveloped countries serves two important purposes: It provides stimulation for local investors, and it opens new possibilities for American capital.

The serious need for private participation in overseas development may be deduced from the analysis of American private investment abroad in manufacturing, a field in which the emerging nations particularly lack capital and experience. In the less developed countries, invested American capital for manufacturing amounted to only \$1.8 billion in 1961, of a total of \$12 billion invested in manufacturing in all countries outside the United States. It is in this field that intensive efforts are being made by AID to encourage United States investment abroad.

A number of methods are authorized:

1. Dollar loans to private borrowers for well-conceived investments where financing is not available from other sources on reasonable terms.
2. Local currency (Cooley) loans for sound private undertakings.

3. Investment surveys under which AID shares the cost with potential investors.

4. Investment guarantees, both specific and extended.

Dollar Loans to Private Borrowers:

During the period from November 4, 1961 to December 31, 1962 dollar loans were made to private borrowers for synthetic rubber and carbon black in Brazil; viscose and cellophane in Egypt; trucks, tires, machine tools, paper and pulp in India; electricity in Pakistan and India; cement in Korea and aluminum in Ghana.

In addition to these loans totaling \$164.25 million, pending applications amounting to more than \$181 million are being considered.

Applicants must show that financing is not available from other capital sources, including the Export-Import Bank, before approval. Borrowers also are required to provide detailed technical and economic feasibility studies. Most loan applications coming to the attention of AID seek relatively large amounts to cover the foreign exchange costs of an investment. Development banks make the smaller loans to industry. Recent authorizations of this type included a \$55 million loan to a private consortium for aluminum development in Ghana, to be administered by the Export-Import Bank which also made \$55 million available, and seven loans to firms in India accounting for more than \$68 million.

Local Currency Loans:

An added incentive for United States investors is provided through local currency (Cooley) loans. These are made available from funds generated by the sale of American surplus foods and fibers. Under the provisions of Title I of Public Law 480, up to 25 percent of the funds realized from these sales in a country can be lent to United States business firms or their affiliates. Such funds also are available to local companies if the purpose will promote the sale of United States agricultural products.

As of February 1, 1963, the equivalent of \$164 million was available in local currencies in 25 countries. AID periodically informs the United States business community of the availability of local currency loans in specific countries.

Local currency loans cover a wide range. For instance, during the past year, a loan of 7.5 million Iranian rials (\$0.1 million equivalent) was made to a private dairy engineering company to

THE ROLE OF PRIVATE ENTERPRISE  
IN INTERNATIONAL DEVELOPMENT (Continued)

finance a dairy development program in Iran. A loan of 750,000 rupees (\$0.158 million equivalent) was made to Victor Gasket, India Private, Ltd., to produce gaskets.

Recently, 10 million Greek drachmas (the equivalent of about \$0.3 million) which the United States had previously received from the sale of agricultural commodities to Greece, was lent to Voktas Feeds, Inc., a poultry business located in Athens. Voktas--owned by Adam M. Syrigoes of Athens, his American wife and their two American sons, Matthew A., 25, and Evangelos A., 24, both graduates of Cornell University in poultry science--will use the local currency to expand the company's broiler production from 475 tons to 1,305 tons annually. This will help to supply the local demand for fresh poultry. It is also estimated that the expansion program will result in an increase of United States poultry feed exports to Greece, which were valued at \$8 million in 1961. The Voktas firm estimates it will use at least \$300,000 worth of United States feed grains annually after enlarging its facilities.

Countries in which several loans have been made are: Colombia, six loans totaling the equivalent of about \$2.5 million; Pakistan, over \$3 million; Turkey, \$6.5 million; China, over \$800,000. In total, AID has authorized the equivalent of \$20 million in local currency Cooley loans since the Agency took over from the Export-Import Bank the administration of this program on January 1, 1962.

Investment Surveys:

As an encouragement to private enterprise, AID helps American firms explore and study opportunities in less developed, friendly countries. This is done through the Investment Survey Program in which AID is authorized to share the costs of investigating the feasibility of private investment possibilities that will contribute to overall AID objectives.

Ten agreements have been signed since the program began to operate effectively in Fiscal Year 1963. Fields in which these United States firms are interested include resin manufacturing in Pakistan, plastics in Turkey, transportation in the Philippines, milk and ice cream in Colombia, food stores throughout Latin America, machine tools in India, and kraft paper and furniture in Thailand.

AID's share of the cost in each of these surveys is the maximum of 50 percent, totaling \$143,400. In each case, however, if the firm decides to proceed with the investment, AID does not pay for its share, and the investor will retain exclusive rights to the survey. If the investment is not made, the survey will become the

property of the United States and the firm will be entitled to the share of payment agreed upon by AID. Participation in an investment survey in no way implies that AID will provide the investor with further financial assistance.

In addition to the 10 survey agreements, there were 15 formal applications in process as of March 1, 1963. Total cost of the surveys would be \$500,000. Estimating AID's share at the 50 percent maximum, the total survey liability for Fiscal Year 1963, including present commitments, is placed at about \$400,000. Carryover of the remaining available funds appropriated in FY 1963 is requested (about \$1 million). This amount should cover the increased level of activity expected in Fiscal Year 1964.

Investment Guaranties:

In 1960, the Pluswood Industries of Oshkosh, Wisconsin, made an investment in what was then the Belgian Congo. Political upheaval, along with foreign exchange difficulties, resulted in the firm's inability to transfer into dollars the Congolese franc interest on a \$0.2 million loan. Through an investment guaranty, Pluswood received \$9,921 from AID in 1962. Again, in February of 1963 the firm was paid \$7,626 for interest earned in Congolese francs.

This is an example of how a specific risk investment guaranty operates to facilitate participation of private enterprise in less developed countries. Besides specific risk guaranties, there are offered general extended risk guaranties and extended risk guaranties for selected self-liquidating pilot housing projects in Latin America.

Specific Risk Guaranties:

The two payments to Pluswood happen to be the only ones made to date under the new Investment Guaranty program. (A \$650,000 guaranty to Ingall Taiwan Shipbuilding Co. in Taiwan, for risks incurred under the former Development Loan Fund authority, was paid in April 1962). In addition to protection up to the amount specified for inconvertibility of currency, firms such as Pluswood also are insured under specific risk guaranties against expropriation, confiscation, war, revolution or insurrection.

At present, there is no restriction as to the size of the investment that may be guaranteed. Contracts have been written for as little as \$1,000 and for as much as \$60 million. They may be written for a maximum term of 20 years from the date of issuance. A fee of 1/2 percent of the amount of each coverage in force is charged in any given contract year. There is also an annual fee

THE ROLE OF PRIVATE ENTERPRISE  
IN INTERNATIONAL DEVELOPMENT (Continued)

of 1/4 percent of the amount of stand-by coverage--that is, the difference between the amount in force and the maximum amount which the investor may elect to have put in force.

The effect of the guaranty program on the balance of payments has been of concern to AID. A questionnaire was sent to insured investors asking where they had spent their invested funds. Of the 95 percent sampling of recently issued contracts, it was learned that 88 percent of this investment is in the form of United States export--of equipment, materials, engineering, etc., leaving an initial dollar outflow of 12 percent of the investment. Against this was the continued expectancy, not only of return on the investment, but of expanded exports of components and equipment to supply the new factories.

In Fiscal Year 1962, and so far in Fiscal Year 1963, the issuance of investment guaranties has reached record highs. In Fiscal Year 1962 there were 92 contracts written for a total value of

\$306,658,200 and in the first half of the current fiscal year, 71 contracts, for a total value of \$158,390,970. Applications for guaranties continue at the rate of roughly two per working day. In January 1963, there were, altogether, more than 800 applications for guaranties in process for countries already in the program, totaling more than \$3 billion, and over 100 applications for more than \$700 million for countries not yet signed up.

Recently issued guaranties covered investments going to Thailand to establish a plant to manufacture and distribute tires, tubes and related products; to about 20 American subscribers for a large \$72 million petrochemical complex in Argentina; to Vietnam for facilities for the production of sweetened condensed milk; to Argentina for plants to produce carbon black and to construct truck axles; to Bolivia for housing and tungsten mining; to Honduras for the manufacture of cotton and burlap bags; to Peru for a plant to make fish flour and other fish products; to Pakistan and Tunisia for continuing investments of construction contractors on developmental projects.

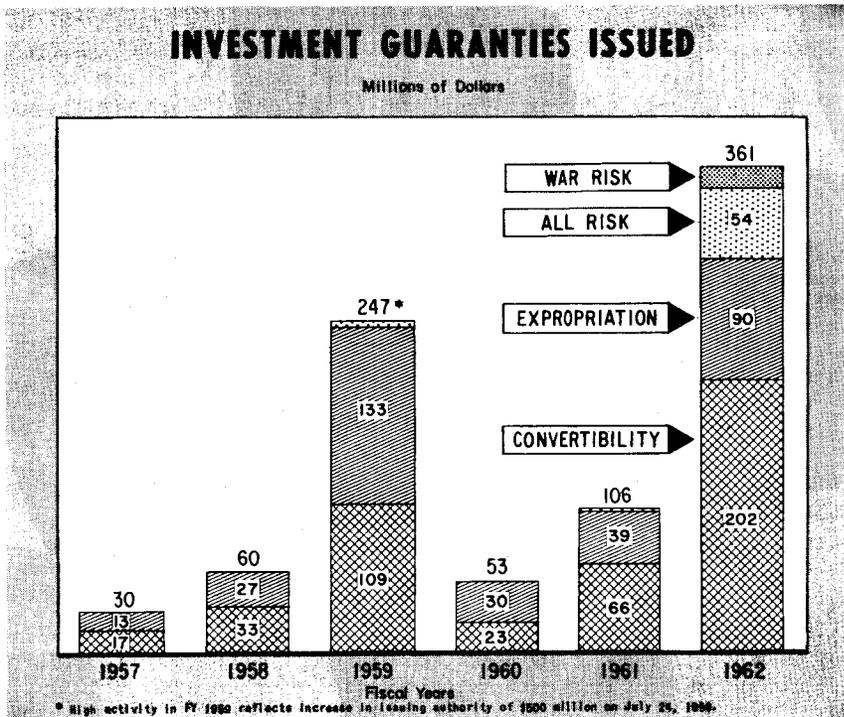
General Extended Risk Guaranties:

In addition to specific risk guaranties, AID may issue guaranties up to 75 percent of the investment to cover commercial and political risks. These cover special and specific cases which occupy high-priority positions in the host country's development. Emphasis is placed on those investments which further social progress and the development of small independent business enterprises, including housing projects.

Extended risk guaranties are considered only for projects where it can be clearly demonstrated that private investment would not be made otherwise. These guaranties are available for loans as well as for equity investment. The normal maximum limit for a guaranty is \$10 million except in the case of a loan which may be a maximum of \$25 million.

Extended Risk Housing Guaranties in Latin America:

The authorization of \$60 million in last year's legislation for Latin American housing guaranties was accompanied by the creation of an office in the Latin American Bureau to administer this experimental program for self-liquidating private housing projects. The program is directed at solving the home ownership problem of middle and lower middle income families through the stimulation of private investment.



THE ROLE OF PRIVATE ENTERPRISE  
IN INTERNATIONAL DEVELOPMENT (Continued)

Guaranties are available for the construction of new housing projects that would not have been undertaken without United States Government assurance. AID may not fully guaranty an investment, and, in fact, is now guarantying a maximum of 90 percent of an investment. The investor, however, may obtain from other sources security for that part of the investment not guarantied by AID.

Investment Guaranties

Number and Value of Applications in Process

(As of December 31)

	<u>1960</u>	<u>1961</u>	<u>1962</u>
Number	287	478	875
Value (in millions)	1.440	2.026	3.174

FISCAL POSITION AND NEW AUTHORIZATIONS SOUGHT

The total reserve fund available for discharge of investment guaranty obligations is in excess of \$268 million. The Executive Branch does not seek an increase at this time for two reasons: one, present reserves, based on the experience of 15 years, are adequate to meet claims likely to mature before an additional appropriation could be obtained, and two, the full faith and credit of the United States is behind each investment guaranty.

The Executive Branch does propose, however, that the present reserve fund be made available to serve claims arising on a first come, first serve basis. Last year the Congress suggested this approach, with the understanding that if reserves became seriously depleted, Congress would provide the necessary monies.

Also proposed are increases in the statutory ceilings on the amounts of guaranties outstanding at any one time. The principal purpose of these increases is to assure investors that guaranties will remain available in the next two years. Experience has demonstrated the need for a two-year planning period by private investors. The amounts requested are:

Specific risk--from \$1.3 billion to \$2.5 billion. The increase of \$1.2 billion is designed to meet needs for the next several years. At present, the total amount of coverage is nearly \$900 million, leaving authority for \$400 million. At present, 875 applications are on hand seeking coverage of more than \$3 billion. Acceptance of one-third of these applications alone would require substantial increase in authority.

Extended risk--from \$180 million to \$300 million. Although no extended risk guaranties have yet been issued, applications have been received by AID in an amount sufficient to use up existing authority.

Extended risk, housing, Latin America--from \$60 million to \$150 million. Existing authority is expected to be exhausted in the next several months.

Program Loans

In addition to the direct efforts to stimulate private investment overseas, United States suppliers benefit from program loans to foreign governments which use the funds to finance imports from the United States.

The largest development loan ever made by the United States was a program loan of \$240 million to India in February 1963. The Government of India will allocate most of the loan funds to Indian private enterprises under import licenses, for specific commodities in such categories as nonferrous metals, iron and steel products, machinery, automobile components, chemicals and pharmaceuticals, fertilizers, earth-moving equipment, among other products.

All of the purchases will be made from United States suppliers.

During the first seven months of Fiscal Year 1963, nonproject loans benefiting private enterprise totaled \$451.2 million. The total committed for Fiscal Year 1962 was \$787.5 million.

Building Private Enterprise in Developing Countries

AID's efforts to stimulate private enterprise are also directed toward encouraging businessmen and firms in the developing countries to participate productively in their national economies. This is done through development banks, development centers, participant training and consulting contracts.

Development Banks:

Fundamental to the growth of private enterprise in less developed countries is the availability of credit (foreign exchange and local currency) on reasonable terms. AID fosters the establishment of development banks where there is a demonstrated need. The purpose is primarily to build capital, initiative and experience into a developing economy.

THE ROLE OF PRIVATE ENTERPRISE  
IN INTERNATIONAL DEVELOPMENT (Continued)

These banks not only may make medium and long-term loans on their own but may guarantee repayment by credit-worthy borrowers of loans from other investment sources. They also may serve to promote a capital market and broaden the base of individual ownership by making (and later selling) equity investments, by underwriting individual issues and by issuing their own securities. Such banks offer a practical solution to the difficulties of providing foreign exchange and local currency financing in moderate amounts. Loans are made to deserving small and medium sized enterprises at reasonable rates of interest.

When competently staffed, a development bank may provide management, engineering, accounting and legal assistance to borrowers. Finally, a development bank may sponsor economic studies and surveys, stimulate and promote promising new investment opportunities and bring them to the attention of potential investors, both foreign and local.

As of January 1, 1963, AID had authorized 51 loans in dollars amounting to \$352 million to 45 separate intermediate credit institutions located in 30 countries. In addition, AID had provided in 1962 local currency loans to four institutions in four countries. Included in these totals are loans amounting to \$57 million to agricultural institutions and \$63 million to housing credit firms. While complete statistics on subloans made by agricultural and housing credit institutions are not yet available, the industrial development banks had made 924 AID-financed subloans amounting to \$66,247,800 as of June 30, 1962.

The contribution of the private industrial development banks to the economic growth of China, Israel, Lebanon, Turkey, Pakistan and India has been conspicuously successful. As of June 30, 1962, these six institutions had concluded a total of 391 subloans amounting to \$35 million to local businessmen, an average of \$90,000. Representative industries included among the subborrowers are food products, and food processing, wood and wood pulp products, leather and leather products, chemicals and ceramics, metal working and miscellaneous industrial activities.

Development Centers:

The establishment of a strong and dynamic private system within a developing economy is sought also through investment and development centers. These institutions have the major function of training and advising local businessmen in effective business management; identifying investment opportunities; conducting feasibility surveys; bringing together local and foreign investors, and recommending legislation to improve the local investment climate.

An example is the China Development Corporation in Taiwan, established with the assistance of the United States, which has been instrumental in the economic progress of the country. In Venezuela, AID is providing management and operation consultant services on a demonstration basis to a number of selected industrial firms in cooperation with the Venezuelan Development Corporation.

Participant Training:

Another way in which AID encourages private enterprise is through training. During 1962, 1,300 persons in the fields of industry and mining were brought to the United States for instruction and participation, as part of a continuing program. In addition, 338 persons were sent to third countries for additional training under AID financing.

Consulting Contracts:

AID has contracted with outside consulting firms to participate in the development of private industry and assist in creating a sound industrial program. For example, in Nigeria, the A. D. Little Company, under an AID contract, has a team of experts working with Federal and Regional Ministries of Industry at the invitation of the Nigerian Government. Consulting firms have been retained in a number of other countries to assist in establishing development centers and banks, to study specific investment opportunities or to formulate small industry programs.

Efforts in Latin America:

In Latin America, the principal emphasis has been placed on increasing the productivity of industry and improving management efficiency. Under this program, technicians are assigned to factories as management consultants. The program has been set up in 14 countries; some 2,500 Latin Americans have been brought to the United States for training since 1950.

Attention is also being given to investment opportunities in Latin America. Broad studies of opportunities were made in 10 countries and steps are being taken to bring these opportunities to the attention of the United States business community. In addition, detailed economic feasibility studies of specific opportunities are now being undertaken in Venezuela and are planned for Peru at an early date.

In building industrial development institutions, full advantage will be taken of the lessons learned from the successful experience

THE ROLE OF PRIVATE ENTERPRISE  
IN INTERNATIONAL DEVELOPMENT (Continued)

of the Fomento movement in Puerto Rico. Efforts are being made to secure the individuals best qualified for such promotional type activity from within Latin America and the United States.

GOVERNMENT-PRIVATE ENTERPRISE PARTNERSHIP

The need for harnessing the energy of private enterprise in overseas development has been eloquently voiced both in and out of government. The achievement of this objective, however, requires a maximum of cooperation within the overall assistance effort. With this in mind, AID has launched pilot projects in four countries to determine how best private enterprise programs can be integrated in their development programs. In Colombia, Thailand, Pakistan and Nigeria, all of the tools to stimulate private enterprise are being intensively employed: investment surveys, dollar and local currency loans, investment guaranties and development banks.

Illustrating how it functions, a United States dairy company signified its interest in exploring an opportunity to establish a dairy and ice cream plant in Colombia in partnership with a Colombian investor. The company received an investment survey grant and it appears that it will make the investment. The next step will be an investment guaranty and possibly dollar or local currency financing from the local development bank.

Through cooperative experience such as this, it is expected that solutions to basic problems can be found, thus enabling private enterprise to achieve its maximum participation in international development efforts.

## CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

In achieving the broad objectives of the Foreign Assistance Program there are some activities which it is desirable for the United States to channel through multilateral organizations. The United Nations family of agencies and a number of regional organizations allow flexibility in the execution of programs for maintaining peace and security and for directing economic and technical assistance, and thus provide a desirable supplement to direct assistance from the United States.

The use of these agencies, supported by many nations, permits greater use of the financial resources of other developed countries and, of increasing importance, technical skills which are in short supply. Certain elements of development assistance, such as those designed to lead to administrative or financial reforms are often more readily accepted by the less developed countries, and hence tend to be more effective if given by multilateral organizations of which they are members. Similarly, in certain acute circumstances, such as the recent Congo history demonstrates, there may be important United States political and security interests in avoiding risks of cold war rivalries inherent in a direct confrontation of bilateral programs.

Finally, mature development of international agencies is in itself a vital national objective to which the United States is deeply committed. Multilateral organizations endowed with the capacity to act in the interest of security and development have a fundamental role in that open world society of independent and self sufficient nations which is the ultimate goal of our foreign policy.

For Fiscal Year 1964, \$136,050,000 is requested to cover voluntary contributions of the United States to eight international programs. Each is sponsored by an agency of the United Nations. The funds requested for these programs are separate from the assessed budgets of various international organizations, which are funded under the Department of State's budget.

The number of programs is three less than was covered by last year's appropriation. The United Nations Emergency Force, the North Atlantic Treaty Organization Science Program, the Asian Productivity Organization, and the Commission for Technical Cooperation in Africa have been dropped from the list. Added for Fiscal Year 1964 is a voluntary contribution to the World Food Program of the Food and Agriculture Organization.

The costs of the United Nations Emergency Force--peace-keeping operations--are currently being financed from the proceeds of the United Nations bond issue. The North Atlantic Treaty Organization's Science Program has been absorbed into the regular budget of that organization. The Commission for Technical Cooperation in Africa and the Asian Productivity Organization are included in another request.

### Summary of Proposed Fiscal Year 1964 Contributions

(In thousands of dollars)

#### United Nations

1. Technical Assistance and Special Fund	55,000
2. Economic Assistance to the Congo	5,000
3. Relief and Works Agency for Palestine Refugees	17,200
4. Children's Fund (UNICEF)	12,000
5. Food and Agriculture Organization World Food Program	2,000
6. International Atomic Energy Agency Operational Program	1,250
7. World Health Organization's Special Program	500
8. Indus Waters	<u>43,100</u>
TOTAL	136,050

#### United Nations Expanded Technical Assistance Program and Special Fund

Several years ago the United States actively supported the target of \$150 million as the annual program level for the pre-investment studies and development projects of the Special Fund and the institution building activities of the Technical Assistance Program. The level of contributions from United Nations countries has increased from \$20 million in 1951 to \$112 million in 1962. The United States share of the total has declined from 60 to 40 percent. This mounting financial support from other governments is one measure of the success of these programs.

The request of \$55 million for Fiscal Year 1964 is based on a continuance of the 40 percent contribution, and an estimate that actual pledges will reach \$135-140 million.

## CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS (Continued)

The United Nations Special Fund, established by the United Nations General Assembly as a result of United States initiative, began operations in 1959. Since then it has used funds contributed by member nations for projects such as water, mineral and soil surveys; plans for multi-purpose development and teacher and technological training.

A sampling of projects that have been undertaken through the Special Fund include a \$2.0 million survey of land and water resources and establishment of agricultural stations in Afghanistan; a \$1.5 million mineral survey in Senegal; preparation of a water supply and sewage plan for Ghana costing \$2.2 million; the \$0.8 million Anatolia Region Development Project in Turkey to assist long-range regional development of agriculture, forestry and water resources.

In the Republic of China, one of the countries that has shown remarkable progress with United States aid, two Special Fund projects called for \$0.5 million to develop hydraulic power and irrigation facilities and \$0.6 million for training engineers in communications and electronics.

### United Nations Economic Assistance to the Congo

The picture in the Congo has changed sharply since last year's presentation to the Congress. In view of the progress made recently in unifying the administration of the Congo, United States support for the peace-keeping activities of the United Nations can be reduced and some of these resources shifted to the nation building enterprise which the United Nations now plans to accelerate. The United States is planning to utilize \$5 million in Fiscal Year 1964 as a voluntary contribution to the United Nations Fund for the Congo for economic assistance to help get the unified government off to a sound start.

The formation of a "Congo Club" of friendly governments is being planned. These countries would share this task by contributing bilateral assistance under the coordinating authority of a high level executive staff of United Nations management and public finance experts, assisted by a corps of experienced United Nations technicians in the various ministries. The \$5 million requested would be for the support of this United Nations' "umbrella" and would further the nation building activities essential to the restoration of a stable and cohesive society in the country. The major portion of United States aid would be on a bilateral basis and will be funded from other appropriations in the Foreign Assistance Act. It would be devoted to supplying needed imports from the United States to meet the country's urgent balance of payments

problem from Supporting Assistance, and a small amount of technical assistance under Development Grants.

### United Nations Relief and Works Agency for Palestine Refugees

The Fiscal Year 1964 request for the United Nations Relief and Works Agency for Palestine Refugees is the same as that for Fiscal Year 1963 -- \$17.2 million, plus authorization to provide \$7.5 million in relief foodstuffs through the Food for Peace Program. While the basic political problem of the refugees has not been solved, new initiatives will be undertaken by the Agency to help place more of the refugees on a self-supporting basis.

Maximum use of local currencies and surplus foods will be made in meeting the United States pledge.

### United Nations Children's Fund

Due to the widespread acceptance of the programs of the United Nations Children's Fund in the fields of health, nutrition and education, and consequent increases of contributions from others, the United States has been able to reduce its share of the total contribution to 40 percent, while maintaining a fixed level of \$12 million. The programs currently are assisting over 400 projects for children and mothers in more than 100 countries and territories.

Some specific examples of recent projects being undertaken by the United Nations Children's Fund include efforts to control tuberculosis, yaws and leprosy in Nigeria; improvement of nutrition and education facilities in the Congo; helping control trachoma and emergency aid to resettled Algerians; sanitation, milk conservation and improvement of primary education in Brazil; nutritional and vocational training in Costa Rica, and basic medical services, environmental sanitation, and education in Peru. The United Nations Children's Fund in many instances, works with other United Nations organizations in these efforts.

### Food and Agriculture Organization's World Food Program

The World Food Program was initiated through the Food and Agriculture Organization of the United Nations last year. The three-year program contemplates distribution of surplus foods under international auspices. One of the advantages of the program is that foods other than United States products may be distributed, supplying missing nutrients and variety to the diets of those being fed. Statistical studies will be made to determine the effects of

#### CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS (Continued)

such food distribution on prices, living standards and imports. Such data are expected to prove useful to the United States and other countries.

The initial program is for three years and calls for a target of \$100 million, toward which the United States had pledged \$40 million in surplus agricultural commodities and \$4 million in transportation costs financed under Public Law 480. The United States has pledged to match 40 percent of cash contributions to be used for administrative expenses up to a total of \$6 million as a voluntary contribution under the Foreign Assistance Act. Other countries have pledged \$27 million in commodities and services, plus \$12 million in cash. The request of \$2 million for Fiscal Year 1964 is to meet the second installment of the United States' three-year pledge.

#### International Atomic Energy Agency

The International Atomic Energy Agency was founded in 1957 to stimulate the peaceful uses of atomic energy. Our support from this program will promote closer ties between the United States and the developing nations in the field of nuclear energy, and will further the role of American leadership in science and technology. The request of \$1.25 million for Fiscal Year 1964 is the same as that for 1963.

#### World Health Organization Special Programs

The \$0.5 million proposed is for a contribution to the World Health Organization's medical research program. The \$6 million malaria eradication and community water supply programs of the World Health Organization, to which the United States contributed significantly, have been moved into the regular budget of the World Health Organization.

#### Indus Waters Project

The Indus Waters project, conceived as a solution to one of the major causes of friction between India and Pakistan, calls for a Free World commitment of over a billion dollars, stretching over a period of ten years to divert to India waters now used in Pakistan and to replace these by a system of dams, reservoirs and link canals. The funds are administered by the International Bank for Reconstruction and Development which has indicated a planned call-up of \$43.1 million from the United States during Fiscal Year 1964 to finance construction works now underway or those for which new

contracts will be awarded. This increase over the \$24.6 million call-up in Fiscal Year 1963 reflects the accelerating pace of the construction of works called for under the original Settlement Plan. Changes in this Plan based on more refined engineering data are still being studied by the Bank and will be discussed with the Government of Pakistan to fulfill the original intentions of the Plan, within cost limits acceptable to the donor governments.

## SUPPORT FOR SCHOOLS AND HOSPITALS ABROAD

No nation can develop to its full potential without responsible scientific, political and economic leaders. Their number and quality bear directly on a country's growth and character. To further the well-rounded training of qualified leadership in developing countries, the United States provides funds to American-sponsored schools and institutions abroad.

The schools, libraries, hospitals and medical centers founded or sponsored by American citizens are also recognized for their value as study and demonstration centers for American ideas and practices. They serve as models for improved educational methods, materials and teaching procedures.

The Foreign Assistance Act specifically authorizes dollar grants to such schools and libraries. It also authorizes local currency allotments for hospitals and medical centers.

The Executive Branch now recommends consideration of an amendment to the Foreign Assistance Act which would authorize the appropriation of \$20 million in dollars for American-sponsored schools and hospitals. This amendment also would authorize appropriations on a continuing basis for this activity. Thus, the schools would be able to plan their programs over several years instead of annually.

### 1962 Grants to Eight Schools

For example, the American University of Beirut needs to expand its already crowded facilities. The proposed authorization would permit the University to plan effectively for orderly growth -- and thus to maintain its important and respected position in the Near East.

In fiscal year 1962, grants totaling \$6,000,500 were made to the following colleges and universities: American University of Beirut, including its medical school, \$4,500,000; American University of Cairo, \$70,000; Robert College in Istanbul, \$300,000; Athens College, \$220,000; American Farm School, Salonika, \$95,000; Anatolia College, Salonika, \$90,000; Pierce College, Athens, \$611,000; and Escuela Agricola Panamericana, Tegucigalpa, Honduras, \$114,000.

These schools train teachers, future government administrators, agriculturists, business administration experts, doctors, nurses and other specialists in a wide range of fields. They have been assisted in past years by various American foundations. United States funds, although serving a valuable developmental purpose, are intended to supplement other sources of income.

### Children's Hospital in Poland

The American Research Hospital in Poland, Inc., a private organization, is building a 300-bed children's hospital in Krakow, Poland, with the assistance of funds appropriated by the United States Congress.

The Hospital, now about one-third finished, will have two pediatric clinics and one surgical clinic along with research and teaching facilities. Construction is being carried out by a Polish Government Agency according to plans and specifications originally prepared under the supervision of the Cooperative for American Relief Everywhere (CARE). It is hoped to complete the hospital by June 1964, to coincide with the 600th anniversary of the establishment of the University of Krakow.

Since 1960, approximately \$4.3 million in local currency has been appropriated by the United States Congress to finance the project. An additional \$2 million in local currency is requested for Fiscal Year 1964. In addition, \$2.2 million in dollars for imported equipment needed to complete the hospital is included in the appropriation request for \$20 million for American Schools and Hospitals Abroad.

### VOLUNTARY AGENCIES

People-to-people aid -- the food package, the tool box or the crate of medicine provided by American private citizens to the needy overseas -- is made easier by AID's program for paying ocean freight costs of supplies donated to United States voluntary agencies.

For example, the American Friends Service Committee was able to ship an estimated \$500,000 worth of clothing, food, tools and other materials, donated and purchased privately, to Algeria last fall. AID paid the \$50,000 freight costs.

Young men and boys, some of whom had learned carpentry and masonry, were thus enabled to rebuild their village homes. Farmers were helped through the shipment of agricultural tools, seeds, farm equipment and fertilizers. Young women and girls were taught to sew, mend, knit, weave, make layettes and the basic elements of nutrition, hygiene and child care. This was accomplished through sewing machines, wool yard goods and cooking equipment which were part of the shipment. Writing materials and recreational equipment were included for school children.

For fiscal year 1964, AID is requesting \$4 million to ship an estimated \$80 million worth of similar assistance to about 80 countries for eligible United States voluntary agencies. The fiscal year 1963 appropriation was \$3.2 million.

#### Allocations of Cost

No surplus food under Public Law 480 is transported under this program. The voluntary organizations bear the costs of acquisition, processing, packing, storage and delivery to United States ports, as well as administrative and maintenance costs of their overseas personnel.

Recipient countries must allow duty-free entry. Costs of overseas inland transportation are paid by host governments or other

non-United States government resources. The United States origin of these supplies is clearly indicated.

The following 27 eligible organizations are currently making use of the overseas freight payment program:

American Friends Service Committee  
American Jewish Joint Distribution Committee  
American-Korean Foundation  
American Medical Center for Burma  
American Mission to Greeks  
American National Red Cross  
American Relief for Poland  
Assemblies of God-Foreign Service Committee  
Brethren Service Commission  
Catholic Relief Services-NCWC  
Church World Service  
Congregational Christian Service Committee  
Cooperative for American Relief Everywhere (CARE)  
Foster Parents' Plan  
Hadassah  
Heifer Project  
International Rescue Committee  
Iran Foundation  
Lutheran World Relief  
Mennonite Central Committee  
People to People Health Foundation (Project HOPE)  
Save the Children Federation  
Seventh-Day Adventist Welfare Service  
Unitarian Service Committee  
World Relief Commission of the National Association  
of Evangelicals  
World Vision Relief Organization  
Young Mens' Christian Association - International  
Committee

### EXCESS PROPERTY

Dollars are being saved and stretched through an expanded excess property program inaugurated by AID during the past year. This is being accomplished by substituting excess property for new equipment required for a project, or by adding to the material assistance originally planned.

Section 608 of the Foreign Assistance Act authorizes AID, in anticipation of overseas needs, to acquire and process equipment declared excess for government requirements. It enables AID missions to purchase materials at prices far below those of new property, and obtain faster deliveries. Besides the financial benefit, the prestige of the United States is enhanced by good equipment speedily put into action.

In addition, the removal by AID of more excess property from the United States market is expected to reflect favorably on the sales of new domestic equipment. A long-range economic benefit also is anticipated from the increased use of American-made equipment overseas. As economies grow in underdeveloped countries, markets for new American-made products also will expand. Familiarity with United States materials will be an asset to exports.

Technologically, the greater use of mechanized equipment, facilitated by the use of excess property, will enable projects to proceed faster and acquaint previously untrained workers with modern methods.

### Excess Property Acquired in 1962

During fiscal year 1962, excess property originally valued at \$51.5 million was acquired and utilized by AID. Such acquisition is without charge as to the value of the property itself. It is merely transferred from another government agency. Costs of repair and transportation to destination are borne by AID or, under Section 607 of the Foreign Assistance Act, by the recipient. Exclusive of ocean transportation, such costs generally amount to 15 percent or less of the original price of the item to the United States Government. At this ratio, missions are able to purchase such items as a \$35,570 crane for \$5,335.50; a \$12,000 dump truck for \$1,800; a \$6,240 generator unit for \$936, or a \$150 kerosene refrigerator for \$22.50.

AID's Office of Material Resources recently issued a catalogue for all missions, listing equipment acquired under Section 608, originally worth about \$9 million. A recent order sent \$700,000 worth of this equipment, ranging from school buses to turret lathes and kitchen utensils, to Ecuador for use in an education program.

### Seven Domestic Marshalling Sites

In the Section 608 program, there are seven domestic marshalling sites in operation under agreement with the Department of the Army. Three primary sites are located at Schenectady, N.Y.; Memphis, Tenn.; and Stockton, Calif. Secondary sites are situated at Chambersburg, Pa.; Atchison, Kan.; Texarkana, Tex.; and Tooele, Utah. Foreign marshalling sites are in operation under agreement with the Department of the Army in Japan and Korea. Negotiations for marshalling sites in the European area are still continuing.

Ten field supervisors are employed by AID in the United States to inspect and select the excess property. In cooperation with civilian and military personnel at the marshalling depots, they see to it that each item stockpiled is in operable condition. Once the item is requested, the original manufacturer is informed of the new use, and asked to notify the recipient mission of a nearby spare parts center or dealer for his product.

Expectations were held that AID's excess property programs would result in the use of \$100 million worth of equipment in fiscal year 1963. It now appears that this objective will not be attained until fiscal year 1964.

## ADMINISTRATION

The changing character of United States assistance programs requires a continuing analysis of the Agency's administrative operations to assure their effectiveness - at a minimum expenditure of funds to the Government.

During the past fiscal year, the Agency has intensified its efforts to improve overall administrative services, while conserving or reducing administrative costs. In addition, it has made a major effort to upgrade the quality of the men and women - in Washington and the Field - who are administering the program. The search for qualified personnel continues. In addition to internal transfers of personnel to head AID missions, 32 new Directors or Deputy Directors have been recruited from outside the Agency.

Within the basic organization structure of strong regional bureaus with supporting policy and management offices created by the Foreign Assistance Act of 1961, much progress has been made in reducing the delays and duplication inherent in the former International Cooperation Administration and Development Loan Fund organizational structure. In addition, continued use is being made of the world-wide facilities of the State Department and the skilled personnel of other Federal agencies.

Since its creation in November 1961, AID has knit the separate parties of the United States foreign assistance effort into a single organization and staff. The country programming process has been revised and improved to make it more responsive to United States policy and strategy needs.

The next step is now under way. An implementation project made up of six functional working groups, is developing workable, efficient, operating procedures for the Agency. Its goal is to rationalize the differences in operating procedures that resulted when a variety of operations and two agencies were merged, and to integrate effectively operating procedures into the programming process. Preliminary recommendations are expected in the near future, and it is expected that new procedures will take effect during Fiscal Year 1964.

Every effort is being made - within legal and practical bounds - to delegate more authority and responsibility to the field, and thereby eliminate costly reviews and duplication in Washington.

In the Field, streamlining efforts are also being undertaken. Reorganization of a number of AID Missions has led to reductions in the overall numbers of United States employees overseas.

The AID staff in Korea, formerly the Agency's largest Mission, has been cut almost in half. The administrative staff has been reduced by almost 25 percent. This reorganization is the result of a program reduction and comprehensive management survey which established a tighter chain of command and a more economical operation.

A major effort has been made to reduce administrative costs in the Agency's Africa Missions. In five smaller countries - Sierra Leone, Cameroon, Congo (Leopoldville), Sudan, and the Ivory Coast - management functions are being consolidated with those of the United States Embassy and United States Information Agency. A Consolidated Administrative Management Organization (CAMO), reporting to the United States Ambassador and responsible for providing administrative support to all elements of the United States country team, is replacing separate administrative operations.

In ten other African countries AID has delegated authority to perform its functions to the United States Ambassador, thus eliminating the need for an AID staff and administrative costs. These "delegated posts" are being established in the Central African Republic, Chad, the Congo Republic (Brazzaville), Dahomey, Malagasy, Niger, Senegal, Togo, Upper Volta and Algeria.

These several actions have enabled AID, within funds available in Fiscal Year 1963, to make partial headway in strengthening the administrative support for the Alliance for Progress.

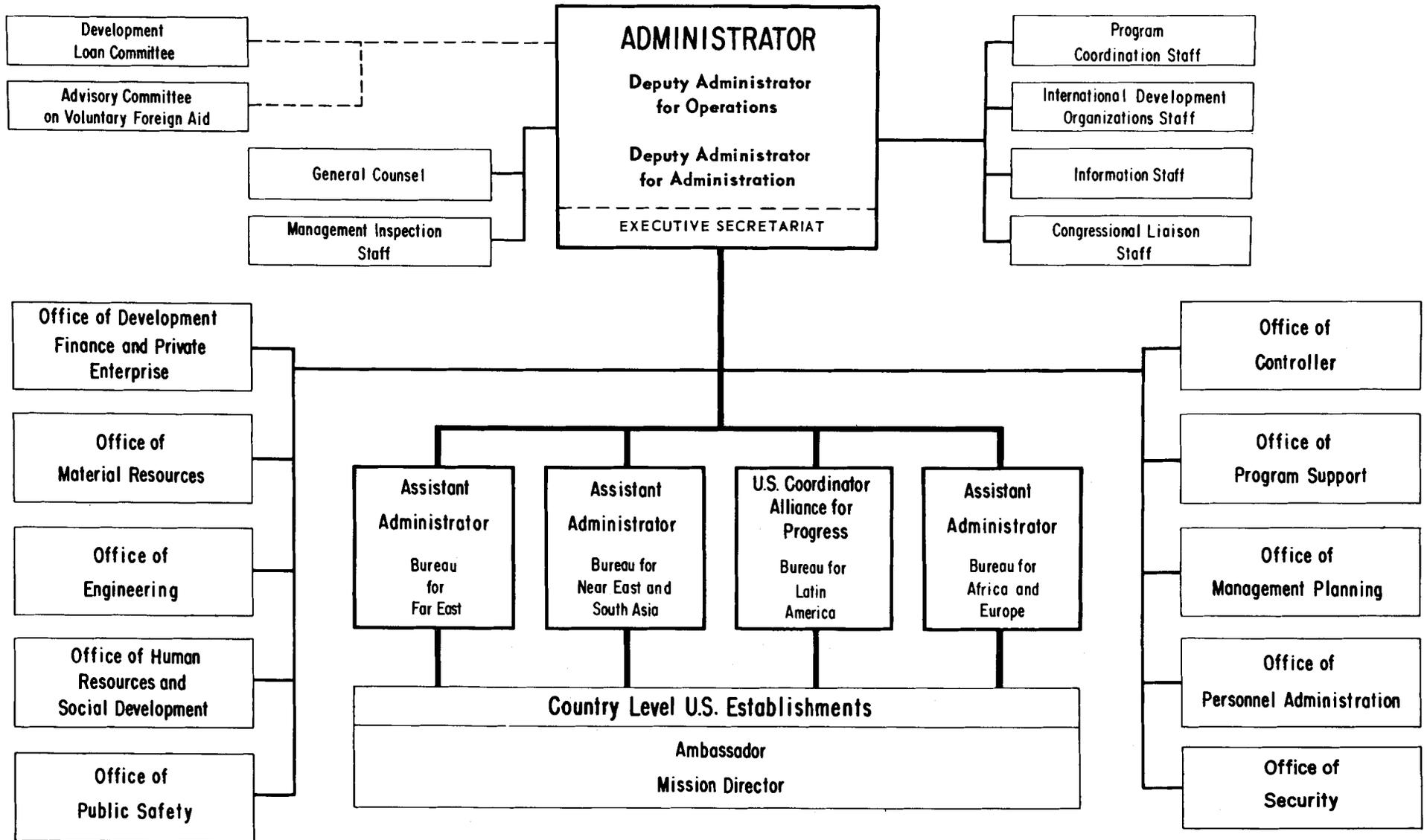
### Administrative Functions

AID administers an aid program in some 81 countries: 24 in Latin America, 30 in Africa, 16 in the Near East and South Asia, 9 in the Far East and 2 in Europe.

The administrative functions in carrying out these programs include:

1. Establishing program policies and standards;
2. Planning, reviewing and directing the implementation of programs and projects;
3. Evaluating the effectiveness of program in achieving United States foreign policy objectives; and

# AGENCY FOR INTERNATIONAL DEVELOPMENT



## ADMINISTRATION (Continued)

4. Providing management and staff services required to administer the program. These include for example, accounting, auditing, and reporting.

### Fiscal Year 1964 Request

AID is requesting \$57,250,000 for administrative expenses - 1.7 percent of the amount being requested for economic assistance. For Fiscal Year 1963, \$52,240,000 is available or 2 percent of economic assistance funds. This includes the Fiscal Year 1963 appropriation of \$49,500,000, \$1,277,000 reappropriated from unobligated prior year funds, and \$1,463,000 in anticipated supplemental funds for increased pay costs.

Of the administrative funds needed for Fiscal Year 1964, 55 percent are required to cover overseas administrative expenses.

Of the total increase of \$5,010,000 over the 1963 amount available, \$1,425,000 would be applied to the Alliance for Progress. No increases in levels of operation elsewhere in the world are proposed. Mandatory increases, due primarily to the recent revisions of Federal salary scales, total \$1,545,000.

Essential expenditures which were postponed during Fiscal Year 1963 due to limited funds account for the remaining \$2,040,000 of the total increase that is requested.

### Strengthening Administration for Latin America

The level of assistance funds in Latin America has increased sharply under the United States commitment to the Alliance for Progress. Missions which in the past primarily carried out technical assistance programs, are now administering substantial capital assistance programs as well. This demands strengthening the capability of the Missions for the purposes of (a) analyzing country development plans to determine those goals to which the United States should commit funds, (b) reviewing proposed capital projects, in terms of their economic and financial feasibility, and (c) particularly, auditing the expenditure of United States funds.

The proposed increase of \$1,425,000 for administrative expenses in Latin America, would permit an increase of 65 United States and approximately 130 local employees, most of them to strengthen Mission financial review and management staff.

### Mandatory Increases

The Postal Service and Federal Employees Salary Act of 1962 provided for a two-step increase in salaries in October 1962 and January 1964. Of the \$1,545,000 requested for these mandatory increases, \$1,290,000 is for making the first step applicable to current employment on a full-year basis in 1963 and to provide the same employees the second step increase for six months beginning in January 1964. Although the Act also provides for a 20 percent increase in postal rates beginning January 1963, additional postage costs would be absorbed within the funds requested. The balance of the increase, \$255,000, provides for two extra paid days in 1964.

### Requirements Postponed in Fiscal Year 1963

The increase of \$2,040,000 for Fiscal Year 1964 for expenses postponed in 1963 will be required for items such as supplies, equipment, staff training, and rest and recuperation travel for personnel in hardship posts. In order to carry out its most essential functions during the current fiscal year within available funds, AID has had to curtail or postpone other essential expenditures. The limited 1963 staff training program is not adequate to meet AID's need for better trained personnel. The rest and recuperation travel authorized by recent legislation was only partially implemented this year due to fund shortages. This adversely affects employee rights and morale. The increase requested for Fiscal Year 1964 would enable AID, belatedly, to fulfill its commitments in this regard.

ADMINISTRATIVE AND OTHER EXPENSES, DEPARTMENT OF STATE

Two specific activities involving United States foreign assistance are the responsibility of the Department of State. These are:

(1) The support of the United States Mission to the North Atlantic Treaty Organization (NATO) and European regional organizations, and (2) Administration of the Mutual Defense Control Act (Battle Act).

An appropriation of \$3,025,000 is requested in Fiscal Year 1964 to cover costs of these functions. This compares to \$2,700,000 appropriated for Fiscal Year 1963 and \$3 million in 1962.

The increase of \$325,000 over 1963 includes mainly amounts for Pay Act increases, seven new positions for the regional organizations representation, overseas wage and price increases and increased cost of financing United States participation in international conferences under the North Atlantic Treaty Organization.

United States Mission to NATO and European Regional Organizations:

Representatives of the Department of State, Treasury and Defense, AID and the United States Information Agency comprise the United States Mission to the North Atlantic Treaty Organization and European regional organizations, which include the Organization for Economic Cooperation and Development (OECD). Development Assistance Committee, and the Consultative Group--coordinating committee for strategic trade control.

Of the \$3,025,000 requested for Fiscal Year 1964, \$2,182,000 would cover the expenses for the State Department element of the Mission, including the Office of the Mission Chief, Office of Political Affairs and the Administrative Staff and Secretariat for the entire organization.

Two of the seven new positions requested are for the Chairman of the Development Assistance Committee and his secretary. Two officers and a secretary are needed for the Organization for Economic Cooperation and Development. Two positions and additional travel funds are needed in Washington to assist in the ever-increasing backstopping requirements of the North Atlantic Community operations.

Overseas wage and price increases are attributable to a 3 percent increase in wages and a 7 percent increase in local prices in Paris.

Mutual Defense Assistance Control Act (Battle Act)

The basic objectives of the Battle Act are to safeguard the strength of the United States and its allies, and to impede the war-making potential of the Sino-Soviet bloc, by a system of security trade controls designed to prohibit or limit exports of Free World strategic materials to the bloc.

The United States has cooperated effectively with the major industrialized nations of the Free World in the operation of an agreed system of controls over strategic trade with the Sino-Soviet bloc.

The Department of State conducts bilateral and multilateral negotiations regarding security trade controls and the shipment or transshipment of controlled items, and attempts, with the cooperation of other countries, to prevent unauthorized diversion of strategic commodities.

The request for this purpose for Fiscal Year 1964 is \$843,000. Increases requested are for minor amounts and are, for the most part, such mandatory items as Pay Act increases and overseas wage and price increases.





## FOOD FOR PEACE

On the shore of Lake Titicaca, more than 12,000 feet high in the mountains of Bolivia, 30 small children attend a new school. It is one of 100 in the country made possible by the United States Food for Peace program.

The 10 Bolivian soldiers and 30 campesinos who built the school were paid in beans, flour, dried milk and cornmeal, produced by U.S. farmers, prepared by U.S. processors and donated by the people of the United States.

This school building for Andes Indians is only one of the uses for America's agricultural abundance in international development. Not too far away, on the other side of Lake Titicaca, Peruvian children in the Puno area are eating bread baked from wheat grown on the plains of Nebraska and drinking milk produced by Wisconsin dairy cows. In Tunisia, a mountain that lay barren for centuries now is blanketed with young trees, planted and irrigated by Tunisian workmen paid in food from American farms. In Vietnam, Food for Peace sustains families of soldiers fighting communism, adding strength to the hamlets that are the outposts of the Free World in a jungle war.

More than 92 million people in 112 countries and territories now benefit directly from the creative use of American farm surpluses. Millions more benefit indirectly from food which might otherwise lie idle in government warehouses.

Measured in dollars, Food for Peace assistance totals more than eight billions since legislation was formally adopted in 1954. Measured in tons, pounds and bushels, the figures are astronomical. In wheat alone, sales made under Food for Peace agreements over an eight-year period accounted for 2.5 billion bushels, an average of three shiploads a day.

"Donated by the People of the United States" -- the legend printed on all gift bags and containers shipped abroad under the grant and donation sectors of the program -- has become the best-known food label in the world.

Food for Peace is the name given to programs carried on primarily under Public Law 480, the Agricultural Trade Development and Assistance Act. Its purpose is to provide for the use of excess farm products "to expand international trade, to promote the economic

stability of American agriculture and the national welfare ... to encourage economic development ... to promote collective strength and to foster ... the foreign policy of the United States."

The Department of Agriculture, through the Commodity Credit Corporation, determines which foods and fibers are available for use overseas and ascertains how much is available. It supervises the processing, packaging, transportation and handling of the food to the port of embarkation. It also is responsible for carrying out the sales agreements and barter provisions of the Act.

The Agency for International Development (AID) has the responsibility of administering the overseas operations of the program. It coordinates Food for Peace programs within the broader program of U.S. foreign aid, seeking more effective use of a greater share of America's agricultural abundance. AID assures that food resources made available to foreign countries are used constructively and in ways which contribute to achieving foreign policy objectives. AID also supervises use of food for emergency and disaster relief through foreign governments and voluntary agencies.

The Director of Food for Peace, appointed by the President and whose office is part of the White House staff, supervises and coordinates all programs.

### Role in Country Programs

Experience has shown that Food for Peace is a useful resource, serving a valuable purpose in the assistance effort in a country. Accordingly, it is recognized both by countries receiving assistance and by AID's missions to these countries as a significant part of their programs.

Food as a form of assistance, of course, cannot be a total substitute for the usual types of development aid. It serves, rather, as a complement. Its use is limited by the absorptive capacity of the recipient country, and normal marketing practices and traffic. However, it is extremely useful in programs which otherwise would require dollar aid. Food and the local currency it may generate help to reduce the cost of development assistance to the American taxpayer.

In the consideration of all Food for Peace programs, care is taken to avoid interference with commercial markets. Only commodities declared surplus by the Department of Agriculture are used in the program. They cannot be substituted for agricultural products normally sold in export transactions nor are they permitted to disturb normal production, consumption or import requirements.

During fiscal year 1962, shipments under the program reached a record total of \$1.6 billion while dollar exports of agricultural commodities in normal trade channels also set a high mark of \$3.5 billion. Since 1954, Public Law 480 shipments have accounted for 27% of all U.S. farm exports.

In planning, distributing and administering Food for Peace, the Department of Agriculture and AID are governed by the provisions of the four "Titles" of Public Law 480. They are: I -- Sales for Foreign Currencies; II -- Emergency Relief and Economic Development; III -- Donations Through Voluntary Agencies, and Barter; IV -- Credit Sales for Dollars.

#### Title I - Sales for Foreign Currencies

This section of Public Law 480 accounts for the largest volume of Food for Peace programs. In the period from July 1954 through June 30, 1962, Title I grant and loan agreements amounted to \$5.4 billion, nearly 64% of the total for all programs.

Under Title I, foreign countries buy American farm products with their own currencies instead of dollars. The foreign currencies realized from these sales are controlled by the United States and can be used, in turn, for many purposes, several of which are: to pay some of the overseas costs of American embassies and other U.S. Government programs; to be loaned, under certain conditions, to U.S. private enterprise overseas; or turned back to the government of the cooperating country as loans or grants for economic development.

India, the world's most populous democracy, has purchased Title I commodities worth more than \$2 billion since 1955. Rupees generated from sales of wheat, flour, corn, rice, cotton, tobacco, milk, fats and oils have accounted for more than half of the U.S. contribution to India's development.

More than 80% of the rupees realized from Title I sales to India has been used as loans and grants for economic and social development projects. This money has helped wipe out malaria; it has helped Indian universities expand facilities and improve methods of education; highways have been built and maintained; electric power has been extended to industries and homes.

India's use of local currency loans and grants is typical of the type of economic development programs possible through Title I sales. AID seeks to coordinate sales of surplus foods under this Title with the over-all country programs.

In Pakistan, Korea, Vietnam and other countries on the periphery of the Sino-Soviet bloc, sales proceeds under Public Law 480 have supported a wide range of programs, particularly the bolstering of the Free World's defenses. Local currencies are used for procurement of military equipment, materials, facilities and services. Here, again, food cannot be a substitute for complete financing of a total military program but it does help reduce dollar cost. The funds are used for such purposes as mapping, base construction, barracks construction and budget support. Fourteen countries have received more than \$367 million in this type of aid since the beginning of the program.

An impetus to private enterprise abroad is also offered under Title I through so-called "Cooley loans," named after Representative Harold D. Cooley who introduced the legislation in 1957. Up to 25% of the funds generated by Title I sales may be used by AID for local currency loans to U.S. firms or branches, affiliates or subsidiaries for business expansion in the countries involved, and to foreign private investors for purposes designed to increase consumption and markets for U.S. agricultural commodities.

#### Title II - Emergency Relief and Economic Development

The Bolivian school building project described at the beginning of this section is an example of a "food for work" economic development program authorized by Title II of Public Law 480. There has been a steady increase in emphasis on the economic development phase of this section of the act. This legislation also permits the American farmer, through AID, to offer direct help to peoples stricken by famine or other disasters, and to refugees. Since July 1954, donations under Title II have totaled nearly \$1 billion.

Where large segments of the population are unemployed and underfed, workers usually are willing to accept food as partial payment of wages for work on high labor component projects such as land clearing, reforestation, and the construction of roads, bridges, schools, dams and irrigation and drainage ditches.

Title II commodities are also "grubstaking" agricultural resettlement and colonization projects in support of land reform -- in Africa, in the Near East and in Latin America -- and are helping to build cooperatives, too, by substituting food and feed grants for dollars or "seed" capital.

Programs of this type require more effort to develop and carry out successfully than mass charity feeding programs, but they also make a more permanent contribution toward helping people of other lands to help themselves.

## FOOD FOR PEACE (Continued)

An example of the flexibility of Title II Food for Peace distribution was provided in Brazil in 1962. To relieve a prolonged drought in the northeast states of the country, the United States and the Government of Brazil signed a Title II agreement that provided 26,000 tons of food valued at \$5.4 million. The food is being used as part payment of wages for work on projects planned by the Brazilian Government, with the result that hunger is being alleviated and permanent improvements carried out in the communities.

Title II also authorizes emergency food assistance through voluntary agencies. A dramatic illustration is the role Food for Peace is playing in Algeria where four million Algerians were uprooted by the long war for independence. They have been allotted a total of 209,000 metric tons of U.S. wheat, flour, edible oils, dry beans, and nonfat dry milk at an estimated value of \$50,835,000. In addition, under "food for work," a vast reforestation project has been started by Church World Service. Twenty-one million trees are being set out on 28 sites covering an estimated 53,000 acres. Some 93,000 Algerians are doing the planting with part payment in the form of wheat, dry milk and oil valued at \$11.5 million.

Food for Peace child feeding programs have had tremendous impact throughout the world. The government-to-government programs under Title II have been singularly successful. The act contemplates that recipient governments will eventually assume full responsibility for the program, as in Japan where the government no longer needs donations but now purchases nonfat dry milk from the Commodity Credit Corporation.

To augment this kind of food program, the Ministry of Public Health in Lima, Peru, constructed 21 child feeding buildings within a four-month period in 1962. Situated mostly in the crowded, dusty, bleak slums of the city, these stations provide eating facilities for youngsters whose health and education have been severely hampered by lack of food.

### Title III - Donations Through Voluntary Agencies

Familiar to most Americans are the humanitarian overseas tasks performed by such voluntary organizations as CARE, Red Cross, Church World Service, Catholic Relief Services, Lutheran World Relief, and U.N. agencies such as the United Nations International Children's Emergency Fund (UNICEF) and the United Nations Relief and Rehabilitation Administration (UNRRA). Food for their overseas programs, and those of other organizations registered with AID, is supplied through agreements with AID. Since 1954, the donations have totaled \$2.1 billion. In fiscal year 1962, the volume reached more than 2.7 billion pounds, valued at \$224.5 million. These foods were distributed in 109 countries and territories to 68 million people, including 32 million children.

Combined with Title II programs, the number of school children throughout the world fed by American farmers has soared to 37 million. One of these is a thin, undersized boy named Jose who did not start school in a suburb of Rio de Janeiro until he was 12 years old. During his first year he was often sick. He also had to help at home, taking care of some of his 13 brothers and sisters. There was no school lunch program at that time. Jose failed to pass first grade.

A school lunch program, using American bulgur wheat and powdered milk, was started in August the next year, halfway through the school term. Jose, who until that time was chronically absent again and who was in danger of having to stay a third year in the first grade, started coming to school regularly. By the end of the term in December, three months later, Jose had gained nine pounds and had grown 2-1/2 inches. He passed into second grade. Similar statistics have been recorded wherever school feeding programs have been started.

A typical family feeding program carried on by voluntary agencies is sponsored by Catholic Relief Services in Bogota, Colombia. In the impoverished neighborhood of the Barrio Claret in Bogota, mothers and children line up early each morning with buckets, pails, cans and bags to receive reconstituted powdered milk and buns. Cards which carry the Alliance for Progress symbol and the information that the food comes from the people of the United States, are their meal tickets. For most of these families -- living in one or two rooms with six to 12 children -- it is their only food of the day.

Food for Peace cannot be used to promote any belief and must be made available to all who qualify without regard to race, creed or color. By the same token, food cannot be given to anyone other than those eligible.

The voluntary agencies also supply valuable aid in emergencies under Title III. Victims of the severe earthquake in Iran in September 1962 were helped by American food and supplies furnished by CARE. Within 24 hours after the quake struck, the agency was feeding some of the 10,000 injured and 40,000 homeless in the largest single disaster relief distribution in CARE's history. Eighteen days later it had distributed 1,416 tons of food to 14,951 families in more than 200 villages.

### Title III - Barter

It is also under Title III that barter agreements are made by private U.S. firms under contracts with the Department of Agriculture Commodity Credit Corporation. In these instances, American food and fiber may be exchanged for materials, such as tin from Bolivia or chromite from Turkey for the Supplemental Stockpile. Since 1954,

FOOD FOR PEACE (Continued)

value of barter agreements has totaled \$1.5 billion. Since inventories of most strategic materials in the U.S. Stockpile are in excess of objectives, it is envisioned that future barter will be on a more selective basis, and that emphasis will be shifted from the acquisition of strategic and critical materials to its use in various types of offshore procurement programs and as an aid in assisting some of the lesser developed countries.

On September 20, 1962 the President, by National Security Action Memorandum No. 187, approved certain recommendations by the Executive Stockpile Committee for a new barter program. Recommendation No. 3 provides among other things that ". . . The Department of Defense and the Agency for International Development should cooperate with the Department of Agriculture by effecting offshore procurement, using qualified barter arrangements to the greatest extent when dollars would otherwise be spent abroad for the items being procured."

AID is presently developing policies and procedures to implement such a program and will cooperate with the Department of Agriculture and other concerned departments in this new program.

Title IV - Credit Sales for Dollars

A new title providing for credit sales for dollars was added to Public Law 480 in 1959. The first agreement was signed in August 1961 with El Salvador for \$2 million worth of wheat. Contracts totaling more than \$51 million had been concluded through fiscal year 1962. In September 1962, the 87th Congress added authority for the Secretary of Agriculture to enter into agreements with foreign and U.S. private firms in friendly nations.

Title IV provides for long-term supply arrangements of up to 10 years for commodities to be consumed within the purchasing countries. Credit periods may be extended for as long as 20 years. Major objectives are to encourage economic development of the receiving countries while increasing the sale of U.S. surplus agricultural commodities for dollars. Deferred payments are to be used to stimulate dollar trade.

A typical Title IV agreement with Liberia carries a value of \$8.6 million. Under the agreement, the United States supplies commodities and credits to assist Liberia in developing its poultry and livestock industries to provide increased protein food supplies.

What Food for Peace Means

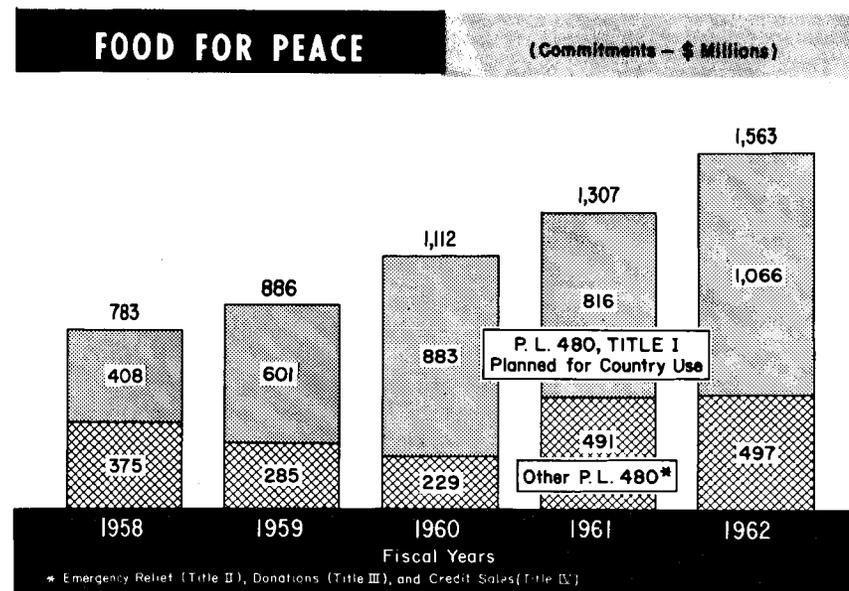
To much of the world's population afflicted with hunger, Food for Peace is literally life itself. To the emerging peoples seeking to

develop economic and social systems that will give them a greater share of civilization's benefits, it is a practical and versatile tool that generates progress while preserving the dignity of the individual.

But Food for Peace also has significance in the furtherance of the interests of the United States. Currencies generated by sales of surplus food are used by the Department of Agriculture to maintain or expand present markets and to develop new outlets. In the year ending June 30, 1962, U.S. farm exports reached an all-time high of \$5.1 billion of which \$3.5 billion were commercial cash transactions. Poultry exports for dollars, for instance, rose 66% in 1962. Grains were 23.7% higher.

The emerging nations of the world contain 50% of the world's population. Economists predict the greatest potential market of the future is in the areas now being assisted.

Food for Peace is a valuable instrument in international development. It is not only a tangible expression of practical assistance in the Free World's search for security and progress but a vivid reflection of the American people's long and proud humanitarian tradition.



## THE EXPORT-IMPORT BANK

Loans and credits advanced by the Export-Import Bank add substantial strength to the international development efforts of the United States.

Complementing the activities of the Agency for International Development, the Export-Import Bank contributes to overseas economic growth by lending money for the purchase of U.S. equipment for capital improvement projects. By extending general lines of credit and by providing financing where foreign exchange deficits and arrears interfere with trade and exports, the Bank on occasion helps in the stabilization of a country's economy.

Although both make loans, there is no duplication between the Export-Import Bank and AID. Before AID makes a loan it must consider alternative sources of financing. It therefore does not make loans which the Bank is prepared to undertake. Coordination between AID and the Export-Import Bank is achieved through an interdepartmental Development Loan Committee (DLC) to which both AID and the Export-Import Bank belong. There is also a staff liaison committee for coordinating Bank-AID action on specific lending proposals.

The Export-Import Bank's principal function is to promote U.S. sales abroad through loans, guarantees and insurance. Its funds are obtained from the Treasury upon authorization by Congress. Loans are made to foreign governments or businesses for use solely in the United States.

### Terms and Services

The terms of the guarantees and insurance fees and premiums are commensurate with the risks involved, and are generally comparable to those of commercial banks. The terms for loans are based on the nature of the project in which the equipment is to be used. The general policy is that interest rates on loans should be 2% more than the cost of money to the Treasury, but should not exceed 5-3/4%, the rate currently charged. Loans are repayable in dollars with a repayment range from five to 20 years.

A typical Export-Import Bank loan is one for \$45.6 million to purchase equipment for a copper mine in Chile. The loan is for 5-3/4% per year for a term of 15 years including the grace period. A \$9 million credit to Trinidad will permit the city of Port-of-Spain to expand and modernize its sewerage system through the purchase of U.S. machinery and equipment.

In addition to loans to finance equipment for industrial development, the Export-Import Bank also finances the purchase of U.S. farm commodities. Terms for these loans run about a year at 4-1/4 to 4-3/4% interest.

The Export-Import Bank also helps U.S. exporters by issuing export credit insurance on short-term and medium-term transactions in partnership with the Foreign Credit Insurance Association (FCIA); by issuing medium-term export sales guarantees to commercial banks and other financial institutions providing export financing, and by direct guarantees to exporters for medium-term transactions.

The Bank is a government-owned corporation with capital of \$1 billion in nonvoting stock paid in by the United States Treasury. It may borrow from the Treasury on a revolving basis an additional \$6 billion as required. Interest is paid on these borrowings and dividends are paid on the capital stock.

Since its formation in 1934, authorizations by the Bank have totaled more than \$13 billion. Out of its income, the Bank has paid interest to the Treasury of \$405 million and dividends to the Treasury of \$306 million. The balance of \$746.7 million of undivided profits has been placed in a reserve available for future contingencies. Losses and defaults to date are less than three-tenths of 1%.

This is the distribution of Export-Import Bank loans in recent years by region:

### EXPORT-IMPORT BANK LOAN AUTHORIZATIONS REPAYABLE OVER FIVE YEARS OR LONGER

(In millions of dollars)

	Fiscal Year				
	1958	1959	1960	1961	1962
Africa	-	7.3	1.3	52.6	67.6
Near East and South Asia	179.3	47.2	26.7	162.5	83.1
Far East	64.4	114.7	64.8	123.6	103.1
Europe	89.9	170.4	98.4	119.4	76.5
Latin America	213.6	417.9	111.9	570.7	253.9
Total	547.2	757.5	303.1	1,028.8	584.2

Includes loans to countries receiving aid under the Foreign Assistance Act and various antecedent acts. Figures reflect subsequent participations or cancellations.

## AID AND THE PEACE CORPS

In Togo, 19 Peace Corps Volunteers are serving as doctors, nurses and health instructors, using medical supplies and hospital equipment furnished by the Agency for International Development (AID). In Gabon, 50 Volunteers trained in basic construction techniques will help villagers build schools, using construction materials and tools provided by AID.

These are two examples of cooperative activities between the Peace Corps and AID, representing the broad scope for joint endeavor that exists for the two agencies.

The Peace Corps selects from among host country requests those projects which provide opportunities for wide and continuing contacts with the people. This leads to an emphasis on projects involving teaching, rural and urban community development, health, farming and skilled trades. The Peace Corps consults with AID when new projects are under consideration or established ones are expanded or modified.

### Colombian Health Program

AID and the Peace Corps will cooperate with the Government of Colombia to implement its nation-wide rural health program. According to present plans, AID will provide loan assistance for this program. The Peace Corps will provide 30 nurses who will help train Colombian nurses; 200 health educators, hygienists and home economists who will give instruction in rural health centers, in schools and in homes; and 100 Community Development workers who will organize self-help projects to construct health centers, water and sewer systems and other environmental health facilities. These Peace Corps Volunteers will go to Colombia in two groups; one in the fall of 1963, and one in the spring of 1964.

In Ecuador, as in many Latin American countries, Peace Corps and AID programs are mutually reinforcing. For example, the Ecuadorean Extension Service received an AID grant of about \$250,000 early in 1963. This grant was utilized to facilitate the expansion of agricultural extension activities already undertaken by Heifer Project, Inc., the Andean Mission and the Government of Ecuador. The Peace Corps Volunteers are working with all of these agencies. Additionally, penetration roads and feeder road construction in remote,

developing areas is being speeded by AID funding assistance and Peace Corps Volunteers.

### Effectiveness Augmented

Such projects fit the purpose of the Peace Corps, "to help the peoples of interested countries and areas in meeting their needs for trained manpower, and to help promote a better understanding of the American people on the part of the peoples served and a better understanding of other peoples on the part of the American people."

The effectiveness of many individual Peace Corps Volunteers in achieving this objective is augmented as a result of the assistance and advice provided by AID technicians.

Likewise, the impact of AID programs is enhanced when Peace Corps Volunteers are stationed in the areas being assisted, thus assuring effective use of materials or equipment made available.





FREE WORLD ASSISTANCE

"Our policy is to bring about a closer association of the more industrialized democracies of Western Europe, North America, and Asia . . . in promoting the prosperity and security of the entire free world . . ."

This statement by Secretary of State Dean Rusk is finding increased acceptance among the other developed nations of the world. A number have had established policies of economic assistance to developing countries. Others have recently joined their ranks. Programs are enlarging; money is being made available on easier terms of repayment.

International agency programs, supported largely by contributions from the more advanced governments, are increasing their assistance activities. Twelve industrialized countries (Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, United Kingdom and the United States), accounting for about 98 percent of total bilateral public assistance from free world sources, have joined together in the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) to promote a larger, more effective and better coordinated flow of aid.

All of this growing effort is in part a response to United States leadership. But the United States is by no means satisfied that this response, encouraging though it appears, is yet commensurate with the present capacity of most of the developed nations to meet the needs of world-wide assistance.

To assess the participation of other free world efforts, it is useful to examine: 1. To what extent other nations are sharing the bilateral and multilateral burden; 2. Specifically, what individual nations are doing in their bilateral programs, and 3. What contribution is being made by multilateral organizations.

Sharing The Burden

How much money is put into assistance efforts by other nations and how much of a load is it on their economies? How does this compare with the aid programs of the United States? How liberal are the terms? The following helps indicate the current situation:

How Much Money?

United States vs. Other DAC Countries - Net Official AID

(Billions of dollars)

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
United States	2.0	2.1	2.4	2.4	2.8	3.4
Other DAC Countries	<u>1.2</u>	<u>1.7</u>	<u>2.0</u>	<u>2.1</u>	<u>2.1</u>	<u>2.5</u>
Total	3.2	3.8	4.4	4.5	4.9	5.9

In this calendar year table, DAC bases its bilateral figures on the total of grants, loans over five years, consolidation credits and reparations. The totals other than bilateral include grant contributions and subscriptions to international organizations, and purchases of bonds from international aid organizations. It also includes Public Law 480 sales and donations of surplus food on the part of the United States.

The table shows that the United States annual aid level rose \$1.4 billion or 71 percent over the six-year period while the combined aid level of other DAC members rose \$1.3 billion, or 112 percent.

In addition, private capital investment from the other DAC countries in less developed areas totaled \$1.5 billion in both 1960 and 1961. United States private capital flow was \$1 billion in 1960 and \$1.2 billion in 1961.

How Much Load?

The trend in performance in relation to economic ability to provide aid, as measured by gross national product, also shows a generally rising trend for the other DAC countries. The table below compares the United States and the other DAC countries combined and shows that their aid as a percentage of gross national product is actually slightly higher than our own.

Aid As a Percent of Gross National Product

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Other DAC	.49%	.63%	.70%	.68%	.62%	.71%
United States	.48	.47	.55	.50	.56	.66

The statistics do not tell the whole story. For example, the United States spends a much greater share of gross national product on defense than do the other members of DAC. On the other hand, all

FREE WORLD ASSISTANCE (Continued)

the DAC countries have lower total and per capita gross national product than the United States and some are much lower. However, the GNP figures of other DAC countries are understated in terms of real purchasing power when compared to the United States gross national product. These and other factors make it difficult to find a fully satisfactory yardstick to measure each country's aid effort.

On balance, the evidence indicates that the programs of other DAC members have grown to significant proportions, but as the chairman of DAC stated in his 1961 report "...there is scope for special emphasis on an increase in the aid effort of certain countries."

How Liberal Are the Terms?

On the critical question of terms of assistance, the record shows the other DAC countries are providing a continuing high percentage of aid on a grant basis, and a liberalizing of loan programs. However, there is great need for continued and accelerated improvement of their terms. This is being sought through a special DAC Working Group on aid terms.

In 1961 the other DAC members provided 66 percent or \$1.7 billion of their aid as grants (including contributions to international aid organizations). Of the remaining 34 percent, \$239 million was for purchase of World Bank bonds and \$622 million was for bilateral loans (net after repayments) and represented \$808 million in gross loans before repayments. Of this amount, \$372 million, or 46 percent, was for loans of 20 years or more. The following tables compare the United States and the other DAC countries on the degree of liberality of aid expenditures in calendar years 1960 and 1961:

Grant-Like Aid vs. Loans

(Millions of dollars)

	1960	1961
<u>United States</u>		
Grants	2,695	2,853
Loans	131	561
<u>Other DAC</u>		
Grants	1,513	1,678
Loans	555	861

Loan Maturities and Repayments

(Millions of dollars)

	1960		1961	
	Other DAC	U.S.	Other DAC	U.S.
<u>Loans (Gross)</u>				
20 years and over	176	38	372	341
Over 10 to 20 year	195	217	207	358
Over 5 to 10 year and Consolidations	267	78	229	298
<u>Repayments</u>	152	202	186	436

The other DAC members maintained roughly the same proportion of grants and loans in 1960 and 1961, whereas the United States significantly increased the loan share. (Grants in the case of the United States include grant-like aid such as loans repayable in local currency and sales of Public Law 480 surpluses for local currency.)

On the loan side, because of extensive hard loan activity by the Export-Import Bank in prior years, the United States showed considerably higher levels of loan repayments in 1960 and 1961 than the other DAC members, many of whose programs only got into high gear in the past two or three years. Also, as a reflection of the predominance of Export-Import Bank activity in United States aid lending expenditure up until 1962, the terms of United States loan assistance appeared no more liberal than the terms of the other DAC members in 1960 and 1961.

On an expenditure basis, the level of grants and the volume and trend of loans on more liberal terms of the other DAC countries compared favorably with the United States record in 1960 and 1961.

Commitments in 1961

In view of the rapid rise of lending activity on very liberal terms by AID, it is necessary to compare the United States with the other DAC countries on the basis of new commitments in 1961 (as contrasted with expenditures arising from commitments made in previous years). This increase in AID lending reflected a change in United States policy in recognition of the growing debt burden problem of developing countries and called for loans repayable in dollars with terms of 40 years repayment, 10 years grace, and 3/4 percent interest (service charge) in most cases.

FREE WORLD ASSISTANCE (Continued)

These terms moved the United States ahead of the other DAC members in liberality, although not so far as is commonly thought. The following indicators show how other DAC members and the United States compare:

	<u>Comparison of Loan Terms</u>			
	<u>1961 Commitments</u>			
	<u>United States</u>		<u>Other DAC Members</u>	
	<u>Amount</u>	<u>% of</u>	<u>Amount</u>	<u>% of</u>
	<u>(In \$</u>	<u>Total</u>	<u>(In \$</u>	<u>Total</u>
	<u>Millions)</u>	<u>Loans</u>	<u>Millions)</u>	<u>Loans</u>
1. Longer Maturities 20 Years and Over	\$632.2	41%	\$468.4	43%
2. Longer Maturities and Lower Interest 20 Years and Over, under 3% Interest	445.0	29	81.0	7
3. Higher Interest Rate 5% and Over	945.0	62	664.5	61
4. Higher Interest Rate and Shorter Maturity 5% and Over, 5-10 Years	105.8	7	204.9	19

Where the other DAC members clearly lag is in bringing a larger share of loans below 3 percent interest towards 3/4 percent and in lengthening maturities up to 30 and 40 years. Of United States 1961 loan commitments, \$341.5 million or 22 percent were for 40 years and 3/4 percent. Only France committed a few loans for 40 years or more at less than one percent interest.

The Bilateral Effort

In considering the bilateral part of the aid efforts of other countries it is useful to examine what the countries are doing individually, and what is being attempted on a coordinated basis.

The following table compares the total and bilateral aid expenditures of the United States and the other DAC members for 1960 and 1961. On the basis of existing and expected commitments, the other DAC countries estimate that there will be a continued increase in bilateral aid expenditures in 1962 and 1963, with the strong

possibility of a 1963 level about 50 percent above the 1960 level, or approximately \$2.5 billion.

Bilateral Aid vs. Total Aid Expenditures

	<u>(Billions of dollars)</u>			
	<u>CY 1960</u>		<u>CY 1961</u>	
	<u>Total</u>	<u>Bilateral</u>	<u>Total</u>	<u>Bilateral</u>
	<u>Aid</u>	<u>Program</u>	<u>Aid</u>	<u>Program</u>
United States	2.8	2.6	3.4	3.1
Other DAC Countries	<u>2.1</u>	<u>1.6</u>	<u>2.5</u>	<u>2.0</u>
Total	4.9	4.2	5.9	5.1

Individual Performance of Other DAC Members

Generally speaking, most of the other DAC members showed significant improvement in aid performance in 1961 over 1960 in amounts and in terms of aid. The trend of aid levels also seems definitely upward. However, the performance is still quite uneven, with several countries lagging well behind others.

France. Bilateral aid amounted to \$777 million in 1960 and increased to \$874 million in 1961. French aid terms on an over-all basis rate as the most liberal in DAC. Over 90 percent of French bilateral aid in 1961 was in grants. Net bilateral loan expenditures in 1961 were thus only \$58 million. This lending was on very liberal terms with 57 percent of gross loan expenditures calling for repayment periods of 20 years or more. New French loan commitments in 1961 were 75 percent (\$143 million) at 20 years or over and of that amount 30 percent (\$57 million) for 30 years or more. Interest rates were below 2 percent on \$62 million or 33 percent of loan commitments. Thus far, however, French lending outside the French franc area has been on relatively hard terms.

Germany. Bilateral expenditures increased from \$219 million in 1960 to \$288 million in 1961 and a significant increase is also expected in 1962 and 1963.

The terms of German aid lending have shown a steady liberalization. In 1959 virtually all loans were for periods under 5 years. Loans of 20 years and over totaled \$11 million and comprised 8 percent of total loan expenditures in 1960; they climbed to \$94 million and 43 percent in 1961. Interest rates in 1959 were nearly always at market rates. Now a significant proportion of commitments are made at well below commercial rates, with grace periods of 3 years and more.

## FREE WORLD ASSISTANCE (Continued)

German loan commitments were made to 38 countries in 1961, and the list of recipients seems to be broadening.

United Kingdom. Bilateral expenditures increased from \$310 million in 1960 to \$403 million in 1961.

Well over half of British aid is made up of bilateral grants. British bilateral lending provides for rather liberal repayment periods (73 percent of 1960 loan outlays or \$128 million were for 20 years or more, and 87 percent or \$192 million in 1961) and for grace periods running up to seven years. Britain still provides only a nominal proportion of its loans at sub-commercial interest rates.

British aid is concentrated in Commonwealth countries but Britain is participating in the Turkish consortium and has started technical cooperation programs in Latin America.

Japan. The bilateral component of Japanese aid increased sharply from \$118 million in 1960 to \$203 million in 1961. Japan continues a sizable annual flow of grant reparations payments and has built up a larger and growing flow of aid loans. The terms of loans are also improving. In 1960 only \$18 million or 30 percent of loan expenditures were for periods over 10 years. In 1961 the figure rose to \$66 million or 44 percent, and new commitments, which would generate expenditures in later periods were \$167 million or 64 percent for periods of over 10 years (including \$100 million or 38 percent for periods of over 15 years).

The Japanese provide aid to a number of Latin American countries as well as to most of South Asia and the Far East.

Italy, Canada, Belgium, Netherlands, Portugal. These five DAC countries combined provided a total flow of bilateral assistance approaching the level of Germany in 1961. This amount remained roughly constant at about \$240 million in 1960 and 1961, but is expected to increase significantly in 1963.

New DAC Countries and Non-DAC Countries. Norway and Denmark, which joined DAC subsequent to the first Annual Aid Review, and Sweden, which is not in DAC, have recently passed new foreign aid legislation. The Swedish law accepts 1 percent of Gross National Product as a target for the eventual size of its program, and the Norwegians have set a similar objective. Switzerland and Austria have made very modest beginnings with an aid program. Australia and New Zealand contribute through the Colombo Plan.

These countries together currently expend about \$75 million in bilateral aid apart from private capital. The flow can be expected to increase.

## Coordination of the Bilateral Effort

DAC is the principal forum for coordination of the bilateral assistance programs and policies of the industrialized countries of the free world. The members of DAC, and the Commission of the European Economic Community, have undertaken to work together to increase the flow of financial resources to developing countries in general; to improve the effectiveness of their aid; to coordinate national aid efforts; and to promote a fair sharing of the burden of aid among the donor countries. Through the participation in its sessions of representatives of the World Bank, the European Economic Community and the Inter-American Bank, it also is able to take into account the progress and policies of the multilateral capital assistance institutions.

Its principal method for dealing with aid levels is the Annual Aid Review. Each country submits a detailed written exposition of its aid programs and policies, and senior officials from capitals are questioned closely. The first such Review was held in the spring of 1962, and the Chairman of DAC prepared a report summarizing the information developed during the Review and his conclusions and recommendations. These were then considered at a high level meeting of member governments in July.

DAC holds meetings and sets up working groups to discuss particular policy problems and it commissions the Secretariat of the Organization for Economic Cooperation and Development to prepare necessary studies. Several current and prospective examples are: a continuing working group on technical assistance, a study and working group on aid tied to procurement within member countries, meetings on the question of multilateral investment guarantees and on policy problems involved in the programming of assistance.

## DAC Working Party on Terms

Of particular interest and importance is the current DAC Working Party on Terms of Aid. This temporary subcommittee of DAC was set up last fall to examine the problems of the growing debt burden of developing countries, the need for more liberal terms in donors' programs, and the problem of comparability of aid terms among donors, particularly in major joint consortium and consultative group aid efforts. This working party is already making an important contribution to the understanding of member governments of the problems it is addressing.

## FREE WORLD ASSISTANCE (Continued)

DAC coordinating groups have been at work for some months on East Africa and Thailand. A recent meeting discussed the problems of four Far Eastern countries and a similar meeting is to be held soon on four Latin American countries.

The World Bank is performing an important coordination function. It is operating three consortia -- for India, Pakistan and the Indus Basin -- and has organized consultative groups on Nigeria, Tunisia and Colombia. The Colombo Plan has long served as an informal forum for program coordination in the Far East and South Asia among its donor and recipient members.

### Multilateral Capital Assistance

The principal international financial institutions providing capital assistance to the developing countries are the World Bank, the International Development Association, and the International Finance Corporation, which are affiliated institutions; the Inter-American Development Bank; and the Development Fund and European Investment Bank of the European Economic Community.

These institutions are able to attract and retain competent international public servants, drawing on the experience, knowledge and resources of many nations including both the industrially advanced nations and the developing countries themselves. For loans on conventional terms these institutions borrow funds in the capital markets of the free world.

### Level of Operations and Trends

The commitments of these institutions to developing countries were \$667 million in 1960, \$1.3 billion in 1961, and \$1.2 billion in 1962. Their net disbursements (i.e., after deducting repayments) to these countries were \$261 million in 1960, \$230 million in 1961, and \$421 million in 1962. Net disbursements may be close to \$700 million in 1963 and \$1 billion a year by 1965.

Multilateral financial aid is thus expanding more rapidly than bilateral capital assistance. At present the multilateral institutions generate a flow of resources about one-tenth the size of the aggregate of free world bilateral assistance. This share may well double in the next few years, the increase being accounted for primarily by grants from the European Economic Community and loans on very soft terms of repayment from the International Development Association and the Inter-American Development Bank.

### Sources of Financing

The multilateral financial institutions derive their funds from capital subscriptions by member governments, earnings, and borrowings on capital markets. Grants and long-term loans at low rates must be financed by subscriptions by member governments. The United States Government's share in such subscriptions varies from 29 percent of the World Bank capital to 43 and 42 percent, respectively, of the subscriptions of hard currency to the IDA and the IDB. The United States does not contribute to the European Economic Community program. The other DAC member countries (including Denmark and Norway) have subscribed 38.4 percent of the World Bank capital and 48.7 percent of the hard currency available to the International Development Association. They do not now subscribe to the Inter-American Development Bank.

### Consortia

The World Bank has organized consortia of industrially advanced nations for aid to India, Pakistan and the Indus Basin Program. For example, in the case of India, the consortium members are Austria, Belgium, Canada, France, Italy, Japan, the Netherlands, United Kingdom, United States, the World Bank and International Development Association. These members have pledged a total of \$2,365 million for the first two years of India's Third Five Year Plan (from April 1, 1961 to March 31, 1963).

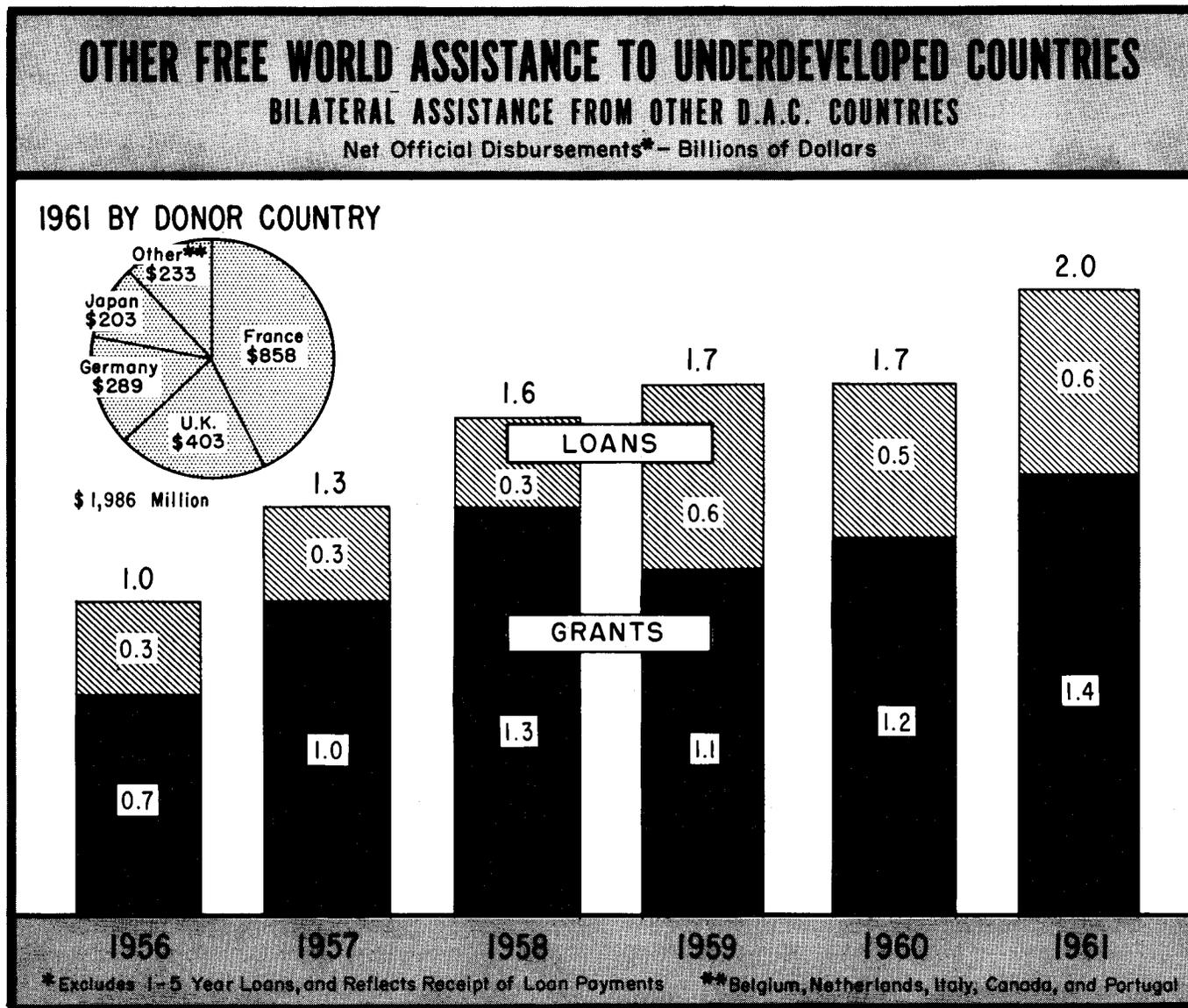
The United States' share of these pledges is \$980 million (41.4 percent), other member governments have pledged \$935 million (39.6 percent) and the International Bank for Reconstruction and Development and International Development Association together \$450 million (19 percent). AID loans to India amounting to \$895 million are for 40 years, including a 10-year grace period, without interest, but with a 3/4 percent service charge. Export-Import Bank loans, expected to be about \$85 million of the United States' pledge, are for 10-11 years at 5-3/4 percent with 2-1/2 years grace.

The other consortium member governments are offering their \$935 million of credits for 10-25 years, with interest at 3 to 6-1/4 percent (one credit of \$1 million is at 2 percent). Of their \$935 million, \$270 million carries grace periods of 4-7 years. The World Bank loans totaling \$200 million are for 10-25 years at 5-1/2 - 5-3/4 percent while International Development Association credits amounting to \$250 million are for 50 years including a 10-year grace period, without interest but with a 3/4 percent service charge. AID and the International Development Association are the only

FREE WORLD ASSISTANCE (Continued)

contributors providing assistance on soft terms; the other member governments, the World Bank and the Export-Import Bank are making loans and credits on conventional terms.

The terms offered by the other donors represent a considerable degree of improvement over prior pledges to the India consortium. But it is clear that a further liberalization of terms is still necessary.



## SINO-SOVIET BLOC ASSISTANCE

Military spending, the space effort, domestic investment and the need to increase output of consumer goods are placing a heavy demand on the Soviet economy. Yet the USSR and Communist bloc continue to pursue a vigorous foreign aid program.

It is a program obviously designed to challenge the power and influence of the West, even though it means following the precedent of the United States in giving aid to less developed countries.

Although the assistance techniques of the two great powers may appear outwardly similar, the objectives differ greatly. Aid from the United States and other developed nations of the Free World is designed to enable developing countries to strengthen their freedom and independence, to support their efforts to become economically strong, and where necessary to help them maintain defenses against Communist incursion.

The Soviet motives are to weaken the ties of less developed countries with the West, to undermine their protective defensive arrangements and to increase dependence on the bloc. The ultimate aim is to absorb, by one means or another, the 1.3 billion people of the developing countries into the Communist camp.

### Bloc Assistance Since 1955

Since 1955, Soviet Russia and the bloc countries have sought to accomplish these objectives with economic, military and technical aid commitments amounting to about \$7.1 billion -- \$4.6 billion economic and \$2.5 billion military. These figures exclude aid to Cuba.

In 1962, Sino-Soviet commitments of economic aid dropped to about half of the \$900 million in 1960-1961. The reasons for this reduction are unclear, but two factors which are undoubtedly relevant are the heavy shipments to Cuba, and a lack of receptivity on the part of aided countries because of the large backlog of unused credits. There is also an increasing awareness in recipient countries of the negative aspects of Sino-Soviet aid.

In any case, there is no evidence that the bloc is contemplating any sharp over-all cutback in its assistance programs over the long term. In fact, there has been a continuing increase in

expenditures under current agreements. It can be expected that the Soviet Union will continue to use foreign aid as a vital part of its expansionary foreign policy.

### Aid in Thirty Non-Communist Countries

In seven years, bloc aid has fanned out to all regions, including Latin America. Bloc technicians are now working in nearly 30 non-Communist countries. They encounter the same difficulties as the Free World. Distance, transportation difficulties, language differences, contract disputes, lack of technical skills in the recipient countries, shortages of local materials and local currencies -- the bloc has encountered all these familiar impediments.

Less than 30% of total bloc economic aid commitments has been disbursed thus far. The bloc aid pattern has been to make large commitments to assist countries and then work out projects and payment methods later. This technique sometimes has backfired because of slow deliveries under the commitments. They are making efforts to improve.

Military aid has moved at a much quicker pace. Nearly all bloc military aid commitments have been fulfilled.

### USSR Major Donor

The USSR accounts for about 70% of total bloc economic aid commitments; the European satellites about 22%, and Communist China for about 8%.

	<u>Amount</u> (\$ millions)	<u>Per-</u> <u>cent</u>
Soviet Russia	3.2	70
European Satellites	1.0	22
Communist China	0.4	8
Total	4.6	100

The bulk of bloc assistance is in the form of large lines of credit. These credits are subsequently drawn upon for specific projects agreed upon with the recipient country. Grants constitute less than 4% of the total, although they are significant in a few countries, such as Cambodia and Nepal. Interest rates generally are about 2-1/2%, although there are instances where credits are interest-free, and sometimes satellites charge 3-1/2% to 5%.

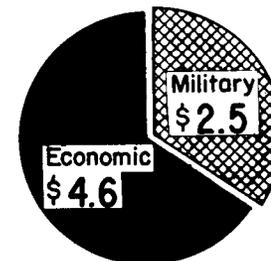
Repayment terms generally run about 12 years, with principal repayments starting after the project is completed and interest starting after the first disbursement. However, there are repayment

# SINO-SOVIET ECONOMIC AID PROGRAM ECONOMIC CREDITS AND GRANTS TO LESS DEVELOPED COUNTRIES\*

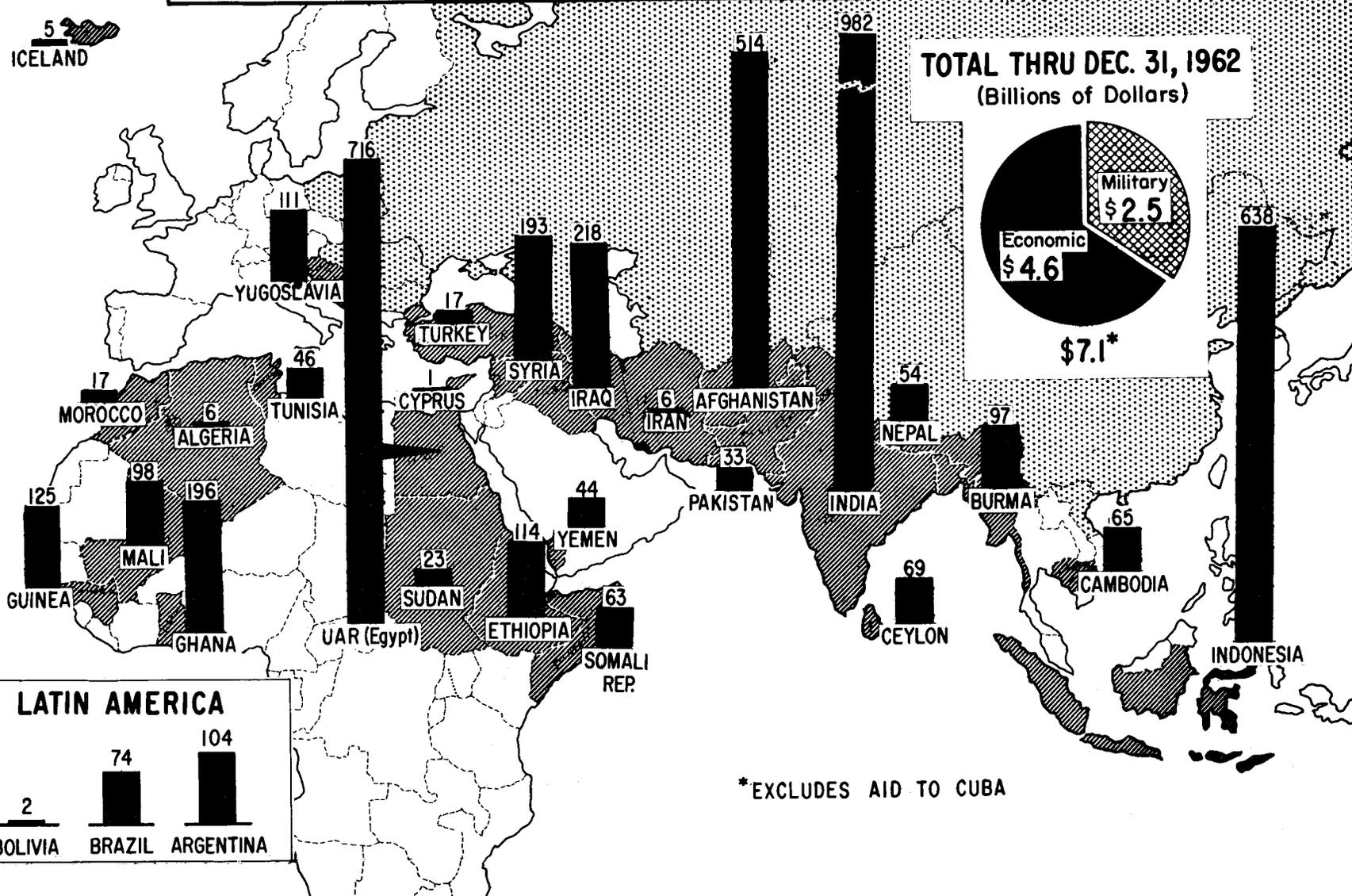
Cumulative, 1955 through Dec. 31, 1962 - Estimated in Millions of Dollars

5  
ICELAND

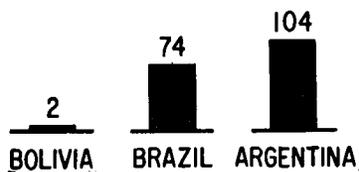
TOTAL THRU DEC. 31, 1962  
(Billions of Dollars)



\$7.1\*



## LATIN AMERICA



\*EXCLUDES AID TO CUBA

SINO-SOVIET BLOC ASSISTANCE (Continued)

schedules of from eight years up to 50 years. Most bloc aid agreements call for annual negotiations to establish types, quantities and prices of goods to be delivered in repayment. Often there is an option allowing the bloc donor to call for convertible currency in payment. These loose provisions leave much to later bargaining, and actual costs to the recipient can turn out to be more of a burden than originally contemplated. Already some recipients have become concerned about the repayment load.

Bloc Program Concentrates on Project Aid

The bloc economic aid program is directed almost entirely towards construction of specific projects. About \$3 billion worth of bloc projects have been determined out of the total bloc economic aid commitments of \$4.6 billion. More than half of these projects are concentrated in the industrial sector of the recipient countries. Projects of this type include not only such heavy construction as the recently completed Bhilai steel mill in India, but a whole variety of large and small industrial installations: cement plants, textile mills, sugar refineries, assembly plants, machine-tool factories, bicycle and tire plants, fruit canneries, and even small nuclear reactors.

Other major uses of bloc aid are: transportation and communications, multipurpose hydroelectric power projects such as the Aswan Dam in Egypt, and mineral exploitation, especially oil exploration in Afghanistan, India and Pakistan. Less than 3% of bloc aid goes for the kind of showpiece projects exemplified by the hotel in Burma and the Asian Games stadium in Indonesia, or by the various gift hospitals.

Use of Bloc Economic Assistance  
to Less Developed Countries

<u>End Use</u>	<u>Percent of Total Obligations</u>
<u>All Uses</u>	<u>100%</u>
Manufacturing	57
Multipurpose projects and agriculture (includes reclamation, irrigation, and hydroelectric power projects)	12
Transport and communications	12
Mineral surveys and exploitation	11
Health, education and municipal services	3
Commodity credits	3
Gold, foreign exchange and funded trade deficits	2

Technical Assistance Substantial

The Communist bloc is engaged in many large technical assistance programs. There are nearly 10,000 bloc technicians of all types working in developing countries in connection with aid projects or engaged in advice and training programs not related to specific projects. (This figure excludes bloc personnel in Cuba.)

The bloc also has an extensive program of training individuals from developing nations in Communist countries. Several thousand nationals from various countries have gone to the Soviet Union and the satellites for technical training programs. The bloc is extremely active in sending and receiving military technicians as well as in giving scholarships for extensive courses of academic studies. In addition, institutes for technical training are being established in many aid recipient countries.

Evaluation of this impressive effort must be balanced by evidence of Soviet shortcomings in technical assistance. There are increasing reports of bloc technicians unable to speak the local language; of ingrown bloc compounds isolated by choice from local cultures; reports of demonstrations by foreign students in bloc countries; of unfilled bloc scholarship quotas. These do not erase bloc successes in technical assistance and training; they do demonstrate that weaknesses of the Communist system and callousness of their motives are difficult to hide in prolonged contacts with other cultures.

Key Role in Soviet Foreign Policy

Foreign aid serves as a cutting edge in the Communist bloc's apparatus for penetrating developing countries. Their assistance programs attempt to expand Communist political influence, push Soviet propaganda, promote the power of domestic Communist groups where possible, exploit discontent and infiltrate key planning processes and military units.

By assuming the role of aid donor, the Communist bloc promotes itself as the example for quick economic success. The USSR, in particular, points to itself as a model growth country. It conveniently ignores, however, the major differences in resources, state of industrial development and availability of skills that exist in the developing countries as compared to the USSR when it began its first five-year plan. It also ignores the fact that the postwar rates of growth in the non-Communist economies of Japan and the Federal Republic of Germany have been greater than in any Communist country, including the Soviet Union.

## SINO-SOVIET BLOC ASSISTANCE (Continued)

Conveniently overlooked, too, are the faltering economies of Communist China, East Germany, and recently even the once relatively prosperous Czechoslovakia, not to mention the nagging failure of agriculture in every bloc economy.

### Developing Countries View of Bloc Aid

Evidence accumulated in recent years indicates that developing countries have fewer illusions about the benefits of bloc aid than they did when the bloc began its aid program. Some of the seeds of this disillusionment lie in the reasons for accepting bloc aid originally. Three basic reasons were: (1) the great and immediate need and desire of the developing countries for materials and technical assistance for their development effort; (2) the desire to maintain a neutral position in the cold war; and (3) the appeal of the bloc's anti-colonial pretensions, of Marxian economics as a key to rapid economic growth, and of bloc countries' claims to be perfect growth models.

The developing countries are beginning to realize that the bloc can provide only a small portion of the external resources needed for their economic growth. Then, too, slow deliveries, frequently obsolete plants and high repayment burdens all contribute to developing countries' re-evaluation of the bloc's real contribution to their growth efforts. Developing countries are realizing more and more the subversive potential of bloc aid -- particularly in the training of students and intellectuals. The close economic ties and dependence generated by either trade surpluses or deficits under trade agreements with the bloc are not proving to be helpful to the efforts of developing countries to be neutral. As leaders of developing countries begin to grapple seriously with problems of growth, they become aware that there is no simple key to development -- Marxian or otherwise. In addition, the continuing failure of Soviet agriculture is making an impact as leaders of developing countries study their own agriculturally oriented economies. Bloc assistance is not discredited, but a more realistic understanding of its full implications is growing.

### U.S. Response to Soviet Aid

The U.S. response to the Soviet aid effort is pragmatic, based on a careful evaluation of each situation. The United States attempts to make clear to developing countries the dangers of subversion in bloc assistance, particularly in military and education fields. Because of the good possibilities of disillusionment, the United States in many cases uses a small assistance program to maintain an alternative to complete dependence on the Communist bloc. Great care is exercised to insure that our assistance does not become a reward for accepting bloc aid. When

disillusionment with bloc aid begins, it is often valuable to use our assistance to accelerate the movement away from bloc dependence. Guinea and the United Arab Republic (UAR) are good examples of countries which have moved from excessive dependence on the bloc to a more balanced position.

The Sino-Soviet bloc has recognized the accelerating dynamism of the drive to development of the emerging nations. They have mounted a major effort to influence, direct, and subvert this drive to their own goal of world domination. The developed nations of the Free World are making positive efforts to encourage constructive dynamism -- through assistance for internal and external security to meet the immediate threat; and through assistance for sound development -- economic, social, and political -- in order to help build the healthy, progressing societies in which communism cannot take root.

## **SINO-SOVIET BLOC ECONOMIC AID EXPENDITURES**

\$ Millions

1960-1962

