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SIXTH ANNUAL REVIEW
OF THE
ALLIANCE FOR PROGRESS



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"THE DECADE OF URGENCY"

All that has been dreamed in the years since the Alliance started can only come to pass if our hearts and minds become committed to it . . . Here in the countries of the Alliance, a peaceful revolution has affirmed man's ability to change the conditions of his life through the institutions of democracy. In your hands is the task of carrying it forward.

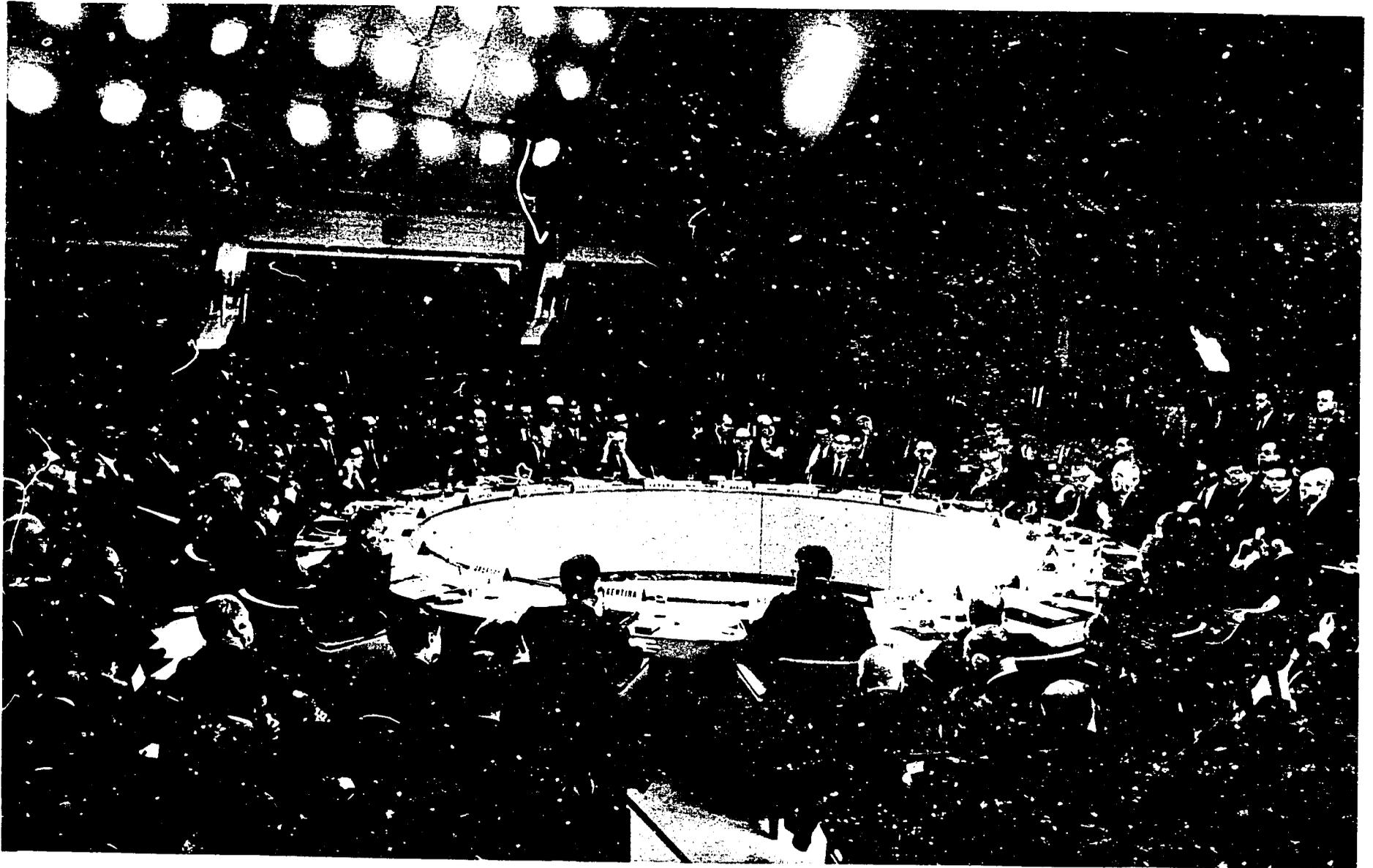
— PRESIDENT JOHNSON
at Punta del Este
April, 1967

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THE AMERICAN CHIEFS OF STATE AT THE PUNTA DEL ESTE SUMMIT CONFERENCE

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S I X T H A N N U A L R E V I E W
of the •
A L L I A N C E F O R P R O G R E S S

Economic integration has become the major force for accelerating Latin America's development during the next "decade of urgency". This is the dominant note of the Alliance for Progress six years after its inauguration.

The integration movement, initiated by the Latin Americans, received strong endorsement from the Chiefs of State attending the April Summit conference in Uruguay. As a result of this high level impetus, the Latin American members of the Alliance have undertaken important regional and sub-regional agreements involving further tariff concessions and multi-national collaborations.

On the sixth anniversary of the Alliance, August 17, 1967, the Declaration of the Presidents, signed by 19 nations at Punta del Este, was being implemented in numerous ways.

"Latin America Will Create a Common Market"

The first item in the Presidential Action Program adopted at Punta del Este declares, "Latin America will create a Common Market." Today it can be reported that two multi-national groups, the Latin American Free Trade Association (LAFTA) consisting of Mexico and the South American republics, and the Central American Common Market (CACM) are intensifying their regional integration efforts

in anticipation of merging, by 1985, into a Latin American Common Market extending from the U.S.-Mexican border to the tip of Cape Horn.

When LAFTA country officials hold a meeting at the ministerial level in Asuncion, Paraguay, at the end of August, they will consider ways of reaching agreements on across-the-board tariff concessions. They will also study ways of arriving at a common external tariff.

This will be followed, early in September, by a mixed LAFTA-CACM Committee Conference. The Committee will designate a commission with authority to study and recommend ways of facilitating a merger between LAFTA and CACM into a Latin American Common Market. The foreign ministers of the LAFTA and Central American republics are expected to participate in this conference.

Up to January 1, 1967, nine LAFTA countries had agreed on 9400 tariff concessions. Recently Bolivia and Venezuela joined the LAFTA group, indicating that more concessions are in the offing. The LAFTA area includes all the South American republics and Mexico.

In 1966 LAFTA country exports to each other reached a level of \$673 million, or 125 percent above the 1961 level of \$299 million. The dollar amounts of intra-zonal trade in chemicals and manufactured goods are growing at a faster pace than trade in traditional commodities.

After eliminating most of the traditional barriers to free trade, the five Central America republics have developed a Common Market whose intra-zonal commerce and foreign trade have reached new peaks. Trade between the member republics has soared from \$32 million in 1960 to \$186 million in 1966. Central America's overseas export volume in 1966 amounted to \$650 million against \$417 million in 1961.

U.S. trade with Central America has likewise developed favorably. Between 1961 and 1966 our exports to this market rose from \$207 million to \$362 million--better than a 50 percent increase. This trade is expected to grow as integration expands Central America's buying power.

Implementing the Summit Decisions

Just prior to the conference at Punta del Este, the leaders of five republics--Chile, Ecuador, Peru, Colombia, and Venezuela--signed the Declaration of Bogota to strengthen their regional economic relations. Subsequently the same five republics established the Andean Development Corporation to promote the physical and economic unity of their countries. The participating governments will give preferential treatment to multi-national projects for the chemical, petro-chemical, automotive and steel industries.

Colombia and Venezuela also concluded a border integration agreement. A similar agreement was drawn up by Colombia and Ecuador in their Declaration of Rumichaca which provides for economic, cultural and technical collaboration. The partner countries are also considering pooling their merchant marine fleets and forming bi-national companies for handling telecommunications and electric power transmission.

Developments in Physical Integration

Physical integration, the second item on the Presidential Action Program, is considered essential to the success of economic integration. It generally involves multi-national projects linking roads, utilities, airlines and communications systems; also developing river basins, consolidating industries and sharing educational facilities.

The emphasis of multi-nationalization centers on projects whose costs are shared by the participating countries, with appropriate assistance from AID or other lending agencies.

The benefits, however, may effect people living beyond the borders of the participating countries.

Under a grant from the Inter-American Development Bank (IDB), partially funded by the United States, five neighboring countries--Argentina, Bolivia, Brazil, Paraguay and Uruguay--are sponsoring a comprehensive study for the integrated development of the vast River Plate region.

Another Alliance multi-national project is a 90,000-kilowatt power plant on the Acaray River in Paraguay, which will also service adjoining areas in Argentina and Brazil. Total cost is equivalent to \$25 million, partially funded by IDB assisted by AID.

Other multi-national projects under consideration by the Bank call for investments amounting to \$286 million of which \$130 million will be financed with external credits.

Meanwhile, as a result of the Summit conference, work on the unfinished portions of the Pan American Highway and the 3500-mile Marginal Highway along the eastern slopes of the Andes Mountains is being stepped up. The latter highway, co-sponsored by Peru, Ecuador, Colombia and Bolivia, will help to develop a vast virgin territory. The basic survey of the road was financed with U.S. funds disbursed through the Social Progress Trust Fund.

Numerous other physical integration projects are in various stages of study and planning.

New Emphasis on Social Development

The Summit's emphasis on social development and public welfare has inspired new efforts to promote rural development, education, housing, health and social services.

The strain on Latin America's health, education and housing facilities is accentuated by a 2.9 percent annual increase in the population.

If the present trend continues the population of Latin American Alliance countries will double every 24 years and reach 625 million by the year 2000. More than 40 percent of the present population, estimated at 237 million, is under age 15, foreshadowing new demands on the economy, such as--

*A six percent annual increase in farm production-- about double the present rate.

*More than 140 million jobs must be created before the 20th century ends.

*About one million dwelling units must be added each year to match the population growth.

*Thousands of schools and hundreds of thousands of new classrooms must be provided.

To tackle these and related problems, AID recently created the Office of the War on Hunger, to coordinate preexisting programs into a massive continental effort.

Under Food for Freedom, for example, the Alliance countries in Latin America received some \$523 million in food donations between 1962 and 1967.

AID's Population Service has, on request, supplied the Alliance partners with \$4.6 million in family planning programs during the last three fiscal years. Congress is now considering expanded assistance to family planning programs.

During the first six years of the Alliance, AID assisted in reclaiming and irrigating about 2.5 million acres in the Alliance countries.

Important progress was also achieved in extending agrarian reform, supervised agricultural credit, and in conducting crop research, demonstration plots, dietary studies and protein experiments.

Promoting Good Health

AID plans to step up its assistance to Latin America's health programs in a concerted drive to meet the demands of a fast-growing population.

The health goals set at Punta del Este are considered within realization--but these will not materialize soon. Meanwhile deaths due to malaria have been cut to a fraction of their former level. The mosquito carrier of urban yellow fever is declared eradicated in 15 countries. More than half of the 104 million Latin Americans who had lived in malarious areas five years ago are now free from malaria risk.

Since the Alliance began, about four million persons have been vaccinated against smallpox, measles and cholera.

Developments in Education

In Latin America's education sector, progress has been sparked by far-reaching reforms and by a modernization of methods, systems and policies. With AID assistance, 11 countries have opened educational planning offices. Since the Alliance began, the total enrollment in Latin America's primary schools has risen by 23 percent, secondary school enrollment by 50 percent and university enrollment by 39 percent. Most Alliance countries have increased university budgets by 150 to 200 percent.

As a result of presidential directives at the Summit, education officials are planning multi-national institutes of science and technology. A panel of experts will soon

explore the feasibility of establishing an educational television training center for all Latin America. A team of experts has visited Central America with a view to establishing a regional pilot demonstration project for an educational TV network. Inter-agency meetings are considering the establishment of U.S. university-based Alliance for Progress centers.

On a grass roots level, the Central American republics have joined AID in a Regional Textbook Program which, up to the present, has produced and distributed more than eight million textbooks for free use in the elementary schools of Central America and Panama. The beneficiaries are about 1.3 million school children and 58,400 teachers in the first four grades. AID has thus far contributed about \$4 million to this program.

More than 300 U.S. universities, firms, and non-profit institutions under contract to AID are assisting ministries of education in modernizing and upgrading the educational methods and standards of Latin American schools as well as in carrying out studies pertaining to a variety of public service projects.

U.S. Assistance to the Alliance Countries

During fiscal year 1967 total United States assistance to Latin America reached a new level. Preliminary gross figures, including \$572 million in AID loans and grants, amount to \$1,418 million.

Summary figures, subject to adjustment, for the past six fiscal years--1962 through 1967--amount to \$7,310 million. This includes the financing of AID loans and grants, Food for Freedom, the Social Progress Trust Fund, and the Export-Import Bank programs in Latin America. Likewise it takes in contributions to the Inter-American Development Bank, the Peace Corps, and the Inter-American Highway.

In addition to project lending in priority sectors of the Alliance, AID's lending program in fiscal 1967 also continued the previous year's practice of directing significant amounts of local currency into the priority areas of food and agricultural production, housing, health, and urban development. These local currencies are generated through AID's Commodity Program Assistance loans.

AID has also stepped up its support for the Central American Common Market by authorizing an additional \$20 million for the Integration Fund, bringing the total U.S. assistance to \$55 million.

In the past year AID introduced a "sector loan approach" to the problem of carrying out basic structural changes in the key sector of a country's economy. The first of this type was a \$10 million education sector loan to Chile.

Other sector loans are in various stages of development. In Brazil, for example, sector loans in education, health and agriculture are under study. An agricultural sector loan for Chile is nearing completion.

The fiscal 1967 rate of loan disbursement continued at an increased tempo, totaling \$500 million, against \$450 in 1966. This \$500 million disbursement level is substantially above the \$439 authorization level of Alliance loans during fiscal 1967. This has brought about a reduction of funds in the "pipeline" of undisbursed loans.

The Role of the Inter-American Development Bank

The Inter-American Development Bank (IDB) is directing its increased resources to the task of accelerating the integration process through multi-national projects.

The Bank is focusing its resources on a wide range of single-country projects, especially in agriculture, industry, mining, sewerage and housing. IDB is also accelerating the integration process through multi-national projects with a regional impact.

The drive for regional development is helped by IDB's \$16.5 million Pre-Investment Fund for Latin American Integration, to which the U.S. has contributed \$1.5 million. The Fund finances priority multi-national studies in highways, air, marine, and river transportation, and surveys of regional natural resources and industries.

In sympathy with these aims, Congress is considering a U.S. contribution of \$900 million to IDB over the next three years, payable in three equal installments. The previous U.S. contribution was for \$750 million.

To help finance Alliance programs approved at the April Summit meeting, the Bank's governors have voted to boost its resources to a record \$5.5 billion for Latin American development. This figure includes the \$525 million Social Progress Trust Fund which the Bank administers for the United States. Most of the Bank's resources have been provided by the United States. But other Free World countries, including Canada, the Netherlands, Sweden, Japan, and Spain are participating in various financial arrangements with the Bank.

As of December 31, 1966, the total amount committed by the Bank in loans from its own resources and the Social Progress Trust Fund amounted to \$1,905.3 million. But the total cost of the projects financed with IDB assistance is estimated at \$5 billion. Thus the Bank helped to mobilize about \$3.1 billion from other sources, principally those of the borrowing countries.

Promoting the Private Sector

Delegates to the June conference of the Inter-American Economic and Social Council gave a boost to the Hemisphere's

private sector by establishing an Export Promotion Center. In addition to expanding overseas markets, the Center will provide technical training to exporters.

Another profit incentive for the private sector is the new Inter-American Investment Development Center, established in New York by AID as a clearing house for bringing investment proposals to the attention of U.S. investors. The Center collaborates with banks and other financial institutions in Latin America. It is intended to become self-supporting in three to five years.

Substantial external assistance to Latin America is also provided by the World Bank, the United Nations, and the European Economic Community. Along with IDB's loans and grants, this assistance amounts to more than \$4 billion.

Self-Help Efforts

Latin America's domestic savings, both in the public and private sectors, have yielded far more resources for the Alliance than the total of all external assistance. About 87 percent of total gross investment (compared with initial estimates of 80 percent for the Alliance effort) has been financed from domestic Latin American savings.

The growing determination of the Alliance governments to mobilize increased revenues for development and to allocate more of these resources to the key areas of agriculture and education is clear. Total central government revenues have risen by about 25 percent in real terms since the beginning of the Alliance. Central government expenditures for education rose 49 percent since 1961; and in agriculture, expenditures increased 32 percent since 1963. In contrast, total expenditures for the region rose nine percent from 1961 through 1966.

The increase in total revenues reflects a significant increase in the tax receipts of most countries. In eight countries tax revenues of the central governments increased more than 50 percent since 1961. In five countries, tax collections increased between 30 and 50 percent.

These are permanent benefits which are likely to grow as local tax officials become more conversant with modern equipment and methods of tax administration.

Part of the new tax income is the direct result of AID technical assistance to tax agencies in 16 countries. Under a contract with AID, tax experts from the U.S. Internal Revenue Service are assigned to the countries requesting tax administration assistance.

The Growing Cooperative Movement

Latin America's wage-earners and small businessmen are lending active support to the more than 17,000 cooperatives which have mushroomed in the last few years. Some seven million people are directly involved in this self-help effort but millions more are affected indirectly.

The cooperatives include 2200 credit unions with a membership of 597,000 persons in twelve countries. Combined savings of these members total more than \$42 million. The credit unions disburse about \$35 million per year in interest-bearing loans for tools and farm equipment, as well as for education, doctor bills, and numerous other necessities.

Other cooperatives are active in the fields of rural electrification, transportation, housing, farm supply and marketing, retail consumer stores and savings-loan associations. A unique Bank for Cooperatives has been established in Ecuador and Chile with help from AID.

Yardsticks of Progress

Latin America's progress against heavy odds, to achieve self-sufficiency and economic security, can be measured in numerous tangible and intangible ways. Intangible progress is reflected in her willingness to accept sacrifices and in her determination to activate a complex program of economic and social unification.

Latin America's tangible progress, in the form of physical achievements, is visible throughout the Hemisphere. Among the visible products of the Alliance are---

Roads

New construction and improvements to some 15,000 miles of roads, including many farm-to-market access roads, were financed by the Alliance countries assisted by international lending agencies.

Through June 1967 AID and its predecessor agencies alone had made construction and improvement loans amounting to some \$314 million; about \$260 million of this sum helped to finance 4750 miles of road construction.

AID highway maintenance equipment loans account for \$94 million. Under these credits, about \$35 million has been earmarked for equipment purchases in the U.S.

Housing

Urban and rural housing projects to meet a critical shortage of decent shelters are prominent symbols of the Alliance effort.

In the past six years AID has made housing loans totaling \$170 million, supplemented by AID-generated

local currency housing loans. AID also administers a \$450 million housing investment guaranty authorization to spur private participation in the housing program.

In addition, the U.S. has provided \$225 million for housing through the Social Progress Trust Fund, plus another \$50 million through the Fund for Special Operations. Both funds are administered by the Inter-American Development Bank.

This assistance has resulted in some 250,000 dwelling units--completed or under construction or in various stages of planning. The figure includes 65,000 units financed by private savings and loan associations which received AID assistance.

Through their own resources, local public agencies and private interests in Latin America are building an estimated 400,000 dwelling units per year.

Despite Latin America's record-breaking building activity, and as a consequence of the extraordinary population growth, the deficit increases by about one million housing units per year; the present deficit amounts to a total of 15 million units.

In the overall program, AID emphasizes the development of self-help institutions, like cooperatives and savings and loan associations, to mobilize capital for housing development.

IDB, on the other hand, is concerned mainly with upgrading public housing institutions and financing impact projects.

Schools

More than 29,000 classrooms accommodating 1,200,000 students have been built in the Alliance countries with assistance from AID and the Social Progress Trust Fund. The total number of students enrolled in AID-assisted schools has passed the three million mark.

Measured against Latin America's educational deficits, these achievements are notable but still inadequate. For example: About 50 percent of Latin America's eligible children are not enrolled in primary schools.

Health

Sanitary piped water supplies are now available to 70 percent of Latin America's urban population; but the goal of such service for 50 percent of the rural population lags behind. About 1800 water systems, serving an additional 10.5 million people, have been added under the Alliance.

Ninety-six mobile health units operating in Chile and six Central American countries provide health care and counsel to rural families. In addition, about 1200 Alliance-sponsored health clinics are helping to meet the facility shortages in hospitals. The mobile units and clinics together serve an estimated 3.2 million people.

The Inter-American Committee on the Alliance for Progress

During the past year the Inter-American Committee on the Alliance for Progress (CIAP) completed its third cycle of intensive reviews of the development efforts of 19 Alliance countries.

Trinidad and Tobago, the newest member of the Alliance, will become the 20th country participating in the review process when the fourth cycle begins in September.

CIAP's experience with the review process shows that conventional benchmarks for measuring economic progress do not always coincide with the actual development rate. While Latin America's regional growth rate declined slightly in 1966, compared to 1964-1965, the rate of development was increasing in almost every country. For example:

--Progress in tax reform was continuing, although this improvement was not necessarily reflected in growth rates.

--Substantial increases in expenditures for education, especially higher, vocational and technical education, are not reflected in economic growth rates, although they are essential to the expansion of national development capacity.

Early in 1967 CIAP played an important role in preparing for the Summit conference of the American Chiefs of State. It also--

*Estimated the requirements for and availability of external financial resources in 1967. Requirements were estimated at \$2.8 billion, compared with \$2.3 billion in 1966. The Committee found that private, external capital investment is rising and might reach the level of \$500 million in 1967.

*Carried out studies and proposed the structure and functions of an Inter-American export promotion agency, which was approved by the Alliance countries in June, 1967.

*Cooperated with the Inter-American Development Bank in drawing up the first annual work plan of the Bank's fund for pre-investment studies of multi-national projects, which was created at the suggestion of CIAP.

*Established close working relationship with the private sector, forming joint groups to study ways and means of improving national and regional capital markets and other developmental matters.

The OAS and the Alliance for Progress 1966-67

During the past year basic changes were made in the structure of the Organization of American States. These changes will influence the course of the hemisphere's economic and social development programs in the years ahead.

The Inter-American Economic and Social Council (IA-ECOSOC) and the Inter-American Cultural Council were upgraded to a level equivalent to that of the Council of the OAS. New norms in the economic and social area were adopted, setting forth the specific obligations of member states for internal reform and external assistance under the inter-American system.

The new provisions are part of sweeping revisions in the OAS Charter adopted at the Third Special Inter-American Conference held in Buenos Aires in February. Other Charter provisions, designed to streamline OAS operations, include reduction in the Secretary-General's term of office from ten to five years; and convocation of an annual General Assembly in place of the present Inter-American Conference, held every five years.

The new Charter will become effective when ratified by two-thirds of OAS member states. To date, one country, Argentina, has ratified the amendments.

At Buenos Aires, the OAS also voted to admit a new member state, Trinidad and Tobago. It is now an operative partner in the Alliance for Progress and a member of the Inter-American Development Bank as well.

First steps toward compliance with the Declaration of the Presidents at Punta del Este were taken at the fifth annual conference of IA-ECOSOC held in Viña del Mar, Chile, in June. There, for the first time, experts appointed by the Inter-American Cultural Council met with representatives of IA-ECOSOC to map common programs for educational development.

In the "Action Plan of Viña del Mar," IA-ECOSOC stressed means for improving Latin trade. The Council created a new Inter-American Export Promotion Agency and voted to send a special mission to Europe to present the hemisphere's trade picture to developed nations there.