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AID AND PRIVATE ENTERPRISE

- PRIVATE RESOURCES FOR INTERNATIONAL DEVELOPMENT
- FOREIGN AID AND THE AMERICAN ECONOMY

AGENCY FOR INTERNATIONAL DEVELOPMENT

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GENERAL NOTE

This is an excerpt from *Proposed Foreign Aid Program, FY 1968*, the Agency for International Development's summary presentation to the Congress outlining the President's foreign aid request for fiscal year (FY) 1968.

Unless otherwise stated, the terms "foreign assistance" or "economic assistance," as used in this volume, refer only to programs conducted under the Foreign Assistance Act and exclude programs of the Export-Import Bank, the Peace Corps, Social Progress Trust Fund programs administered by the Inter-American Development Bank, and the Food for Freedom programs carried out under Public Law 480, the Agricultural Trade Development and Assistance Act of 1954 as amended.

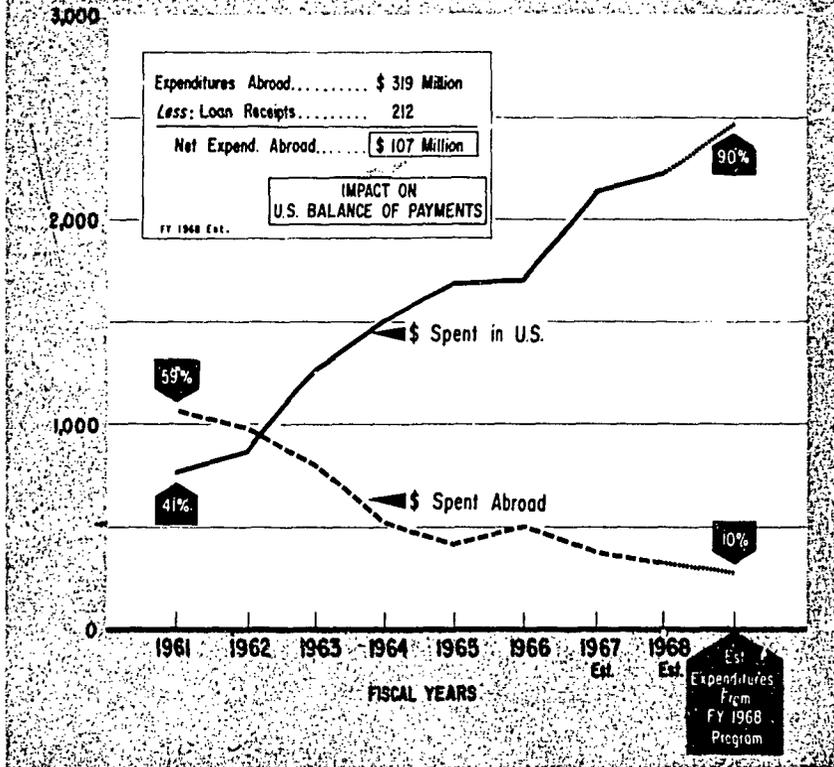
All figures for fiscal years prior to 1967 represent actual obligations. Fiscal year 1967 figures are necessarily estimates based on the rate of obligation at the time this volume went to press, two months before the close of the fiscal year. All fiscal year 1968 figures represent proposed programs based on the fiscal year 1968 appropriation request and anticipated carryovers and recoveries.

Since the original volume went to press May 10, 1967, neither it nor this excerpt reflects policies or proposals that may have changed since that date.

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AID EXPENDITURES - IN THE U.S. AND ABROAD

(Millions of Dollars)



proving the overseas climate for private American investment through its programs of direct assistance to private sectors of developing countries.

For another, AID depends on the diversity of skills afforded by the American economy to meet needs for all kinds of expertise. Private Americans expert in a range of subjects are drawn from business, industry, academic institutions, labor unions, foundations, cooperatives—wherever private talent for solving problems, for making things work efficiently, has asserted and organized itself.

Finally, AID not only pays for services rendered, and to that extent supports and advances the well-being of whoever supplies them, but it also finances production and delivery of large quantities of American commodities that developing nations need for sound growth but at present can neither produce nor buy with their own resources. In this manner growing nations become familiar with American products and the basis is laid for later trade through normal commercial channels.

In fact, AID spends the bulk of its funds in the United States; most AID dollars never leave home. Of the total of \$2.2 billion spent in fiscal year

FOREIGN AID AND THE AMERICAN ECONOMY

AID is not in business to assist American business.

It exists to help other countries develop self-sustaining economies and thus strengthen their ability to remain free. Its function as an instrument of American foreign policy is to help ensure the kind of world in which the United States will itself be secure, prosperous and at peace.

But this is also the kind of world in which business everywhere has the highest kind of stake. A world whose masses seek but do not find a better life is not a world of peace and stability but of turmoil and unrest, the very opposite of conditions in which business flourishes.

Thus business—including American business—is among the largest beneficiaries of successful economic assistance. Developed countries buy and sell more than those that are not, as data on this nation's exports to former aid recipients make clear.

Export sales to Western Europe more than doubled since the Marshall Plan and more than quadrupled to Japan, rising 26 percent between 1963 and 1965 alone. Exports have also risen markedly in countries where aid ended more recently, for example in China (Taiwan) whose commercial imports from the United States went from \$71 million in 1963 to \$119 million in 1965, a climb of 68 percent in two years. In the same two-year period, U.S. commercial imports to Greece rose 48 percent, from \$63 million to \$93 million, while also increasing 28 percent in the case of Israel, moving from \$102 million to \$132 million. And in Korea, although it still receives economic assistance from this country, American commercial imports rose from \$62.4 million in 1963 to \$75.1 million in 1965, a matter of 20 percent.

Successful foreign aid, in short, enlarges the arena of competitive free enterprise while multiplying and diffusing its benefits. This is the long-range connection between foreign aid and the American economy.

A VITAL RELATIONSHIP

The American economy and the country's programs of foreign economic assistance also have a close and vital relationship in the shorter run.

For one thing, AID works hard at convincing American private enterprise that good investment opportunities abound in the developing world. It operates a number of programs that reduce the risk involved while im-

PRIVATE RESOURCES FOR DEVELOPMENT

Those countries that are developing most rapidly—in rising per capita incomes and strengthened institutions—are those where government policies, investment of savings and external assistance have combined to bring the creative forces of private initiative into full play.

Taiwan, Israel, Greece and more recently Pakistan and Korea are examples. Specifics vary widely but a dramatic surge in productivity, stemming from operation of factors basic to any good climate for local and foreign investment, is common to all.

Imperative to such a climate are sound legislation and wise government whose policies—on taxes and revenue, on money and credit, on imports, prices and wages—support rather than inhibit private initiative.

The vigorous functioning of private institutions—labor organizations, cooperatives, business groups—is another essential characteristic. So is availability of skilled workers and responsible managers, and of medium- and long-term credit at reasonable interest.

Awareness that all this is so underlies the objectives and methods of AID's programs of direct assistance in developing nations, namely loans and the provision of technical advice through which it consciously attempts to generate, shape and strengthen the prerequisites of a satisfactory climate for investment.

It has equally sharpened AID's appreciation of how it can encourage and assist Americans outside the federal government—in private businesses, non-profit organizations, even state and local governments—to the widest possible participation in development. Here AID's role is largely catalytic—that of a helpful agent—in stimulating the vital contribution that U.S. private resources can make.

Information services, investment insurance, guaranties, loans—all are used to encourage responsible private American investment. Other AID efforts help broaden the development contribution of groups organized on a non-profit basis.

In March 1967, AID established the Office of Private Resources to improve the agency's relations with the private community and to assist it to play a wider role in the common task. Within the new office a Private Investment Center was created to administer AID's investment incentive pro-

grams and serve as a single point of contact for present and future private American investors in the developing world.

Formation in March 1967 of the International Private Investment Advisory Council, as contemplated by the Foreign Assistance Act governing AID operations, provided AID with a new and valuable source of advice and guidance in its efforts to increase investment in developing countries. Council membership includes Alfred C. Neal, President, Committee for Economic Development; W. P. Gullander, President, National Association of Manufacturers; Robert M. Norris, President, National Foreign Trade Council, Inc.; H. Bruce Palmer, President, National Industrial Conference Board; M. A. Wright, President, U.S. Chamber of Commerce; and Christopher H. Phillips, President, U.S. Council of the International Chamber of Commerce.

HELPING PRIVATE ENTERPRISE OVERSEAS

Much of AID's lending aims directly at strengthening private enterprise in developing countries, is conditioned on measures to the same end taken by nations being helped, or has important and intended indirect effect in the private sector.

So-called program loans finance a wide range of development commodities procured in the United States and ultimately distributed overseas through private channels, the \$132 million loan to India authorized in April 1967 being one example and a \$70 million loan to Turkey in fiscal year 1966 being another. Such loans are increasingly contingent on basic reforms, for example in import and licensing procedures, that give private farmers or businessmen access to what they need. A \$50 million fertilizer loan to India in fiscal 1966 applied the same principle to the agricultural sector of the Indian economy.

On the other hand a fiscal 1966 loan of \$5.8 million to help expand a private nylon filament plant in Korea illustrates how AID pinpoints its lending to specific private projects. Similarly, a fiscal 1966 project loan of \$18.6 million to help the Korean National Railways acquire American locomotives will clearly benefit the private sector by improving its means of moving goods. An \$8 million fiscal 1966 loan to the government-owned Ethiopian Investment Corporation is being relent to private enterprisers establishing or expanding their business. In Bolivia a \$2.1 million loan made in fiscal 1966 provides a new source of long-term capital to businessmen and farmers.

Technical assistance, meaning AID-financed American advisors who themselves often are drawn from private enterprise, is particularly effective in encouraging private sector growth overseas. Relevant examples include:

- Helping Korean industrialists expand exports by better quality control or establishing a productivity and investment center in Paraguay;

- Developing indigenous small industries in Nigeria or assisting the Chilean private sector to take part in national planning;
- Stimulating democratically oriented labor unions in Latin America and Africa;
- Assisting Brazil to draft comprehensive capital markets legislation or developing a modern graduate school of business administration in Peru;
- Establishment in the United States of an Inter-American Investment Promotion Center, a clearinghouse for investment opportunities generated by Latin American industrial development organizations where sponsors and potential investors may meet face-to-face.

Private American organizations also play a particularly prominent role in helping developing countries profit from the U.S. experience with cooperative endeavors—credit unions, cooperatives for farm credit or marketing, rural electric cooperatives, savings and loan institutions. For this purpose AID has worldwide agreements with Credit Union National Association, Farmers Union International Assistance Corporation, Foundation for Cooperative Housing, Cooperative League of the USA, International Cooperative Development Association, National Rural Electric Cooperative Association, National League of Insured Savings Associations, and the International Cooperative Training Center of the University of Wisconsin.

These organizations supply about two-thirds of the 357 advisors and consultants working on AID-assisted cooperative development projects in 54 countries. In fiscal year 1966, AID assistance had affected 30,000 cooperatives and credit institutions with 9.8 million members in 46 countries. In that year alone, 2,500 new cooperatives with 500,000 members were organized, mostly for agricultural purposes. Through its contract arrangements, AID is involved with all major national, regional and local cooperative organizations in the United States.

In fiscal year 1968, AID plans two innovations in its attempt to strengthen private enterprise in developing countries and make better use of private American capabilities:

- In cooperation with private business it will study use of cost-plus-incentive-fee contracts as a means of inducing investment in situations where growth is critical but risks are higher than usual. Specific authority for this type of activity, which is particularly applicable to the War on Hunger, was provided in the Foreign Assistance Act of 1966.
- On a test basis AID will employ firms from private industry to make "systems analysis" studies of economic development problems.

In carrying out its programs of direct assistance, AID financing increasingly flows to private American suppliers of goods and services.

AID AS A CATALYST

AID recognizes that the American private community—its non-profit organizations no less than its businesses and industries—has a large and unique contribution to make to sound growth of developing nations. AID encourages and assists this process in a variety of ways.

In the case of business and industry, the American private contributions to overseas development are an investment in the usual commercial sense and in peace and security as well. But they remain disappointingly small, notwithstanding that the volume of American investment in developing countries is growing, notably in manufacturing.

Direct American investment in manufacturing in developing countries rose from \$262 million in 1962 to \$461 million in 1965. In Western Europe, on the other hand, the respective totals were \$1 billion and \$1.2 billion. The contrast in figures is only one measure of the problem AID is trying to help solve. Equally important are the technologies and skills that American firms transmit to countries in which they invest.

AID's focal point for serving potential investors is the Private Investment Center established in the Office of Private Resources. It offers the following services:

Information

A Businessmen's Information Service is the central inquiry office for business firms and possible investors. The index of AID's *Catalog of Investment Information and Opportunities*, already supplied to nearly 48,000 organizations, firms and individuals, is also available. It covers over 1,600 data and feasibility studies as well as current opportunities for joint ventures with developing country investors. A special supplement on Southeast Asia was issued in July 1966. In addition, 250 *Industry Profiles*, each giving basic information on establishment of small or medium-sized plants in specific industries, are distributed.

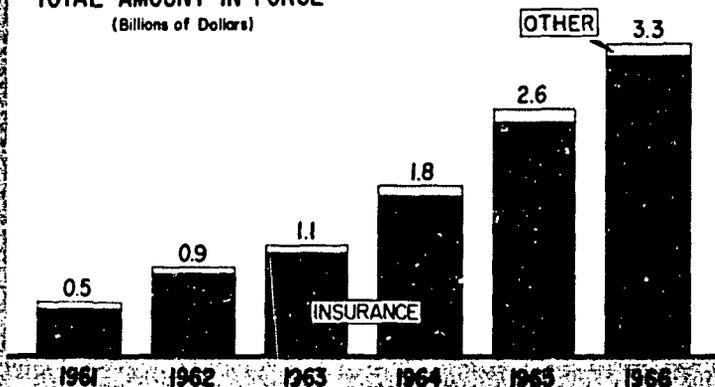
Investment Surveys

AID helps meet the problem of high-cost pre-investment feasibility and market studies through an arrangement permitting it to pay for up to half such a survey's cost if the investment studied is not made. Of 111 surveys completed by April 1, 1967, there were 31 that resulted in planned investment of a total of \$70 million. Cost, in terms of appropriated funds obligated to pay the AID share of surveys that did not lead to an investment decision, was \$1 for each \$90 in investment. AID is asking congressional authority

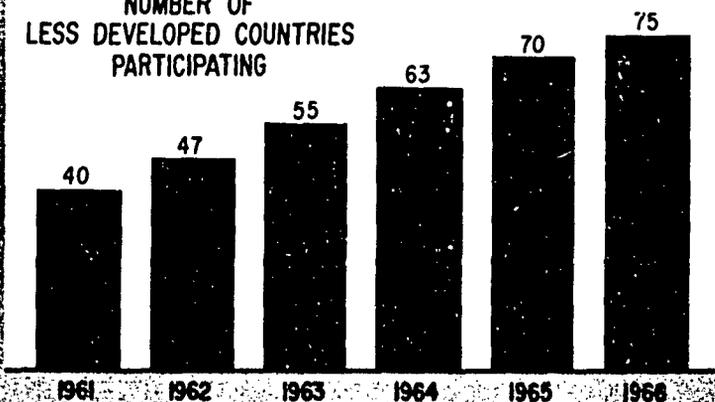
INVESTMENT INSURANCE and GUARANTY PROGRAM

(As of December 31)

TOTAL AMOUNT IN FORCE (Billions of Dollars)



NUMBER OF LESS DEVELOPED COUNTRIES PARTICIPATING



to increase the survey cost share for which it may reimburse a potential investor who fails to invest in cases where the survey is particularly important to AID objectives.

Specific Risk Insurance

AID may insure investors in developing countries against political risks of expropriation, inconvertibility, and damage due to war, revolution and insurrection. This program was in operation in 75 countries as of December 31, 1966, compared to 40 countries five years earlier. In the same period outstanding coverage rose from \$479 million to \$3.1 billion, in 1966 alone covering a total of \$205 million in new investment. A 1966 reduction in fees for this service saved investors about \$3 million in that year alone. Fees

received in 1966 amounted to \$8.3 million while three claims totaling \$217,000 were paid, two for inconvertibility, one for revolution damage. AID is requesting increased authority for investment insurance (\$1 billion for each of the next two years) as well as authority to expand war damage coverage to include "civil strife."

Equity Insurance

A new equity insurance program provides "all risk" coverage of up to half of any loss of equity investment realized through bankruptcy or sale.

Extended Risk Guaranties

Under this program, AID may protect 75 percent of investments against loss for any reason (excluding risks for which commercial insurance is available) not due to investor fraud or misconduct. As of December 31, 1966, AID had thus guaranteed part of the financing of eight projects with coverage totaling \$55 million, compared to four projects with \$14 million coverage a year earlier. The eight projects include a petrochemical plant in Argentina, a carbon black plant in Colombia, a fish packing plant in Somalia, fertilizer plants in Korea, India and Brazil, a hotel in Nicaragua and a pulp and paper mill in Thailand. Total investment in these will be \$310 million. AID has used its Extended Risk Guaranty Program to attract long-term credit financing from American institutional lenders such as pension funds and insurance companies.

Housing Guaranties

In Latin America, housing guaranties totaling \$200 million had been authorized for 37 projects in 14 countries as of December 1966. Of these, 22 involving 21,000 dwelling units have been completed or are under construction. Other examples are found in the Republic of China (Taiwan) where a \$5 million guaranty covers construction of some 1,400 units and in Thailand and Tunisia where guaranties of the same value cover 817 and 700 units respectively.

Loans to American Firms

AID may lend U.S.-owned foreign currencies, proceeds of sales of Food for Freedom commodities, to American firms and their affiliates. During calendar 1966 it authorized 41 of these loans (called "Cooley loans" after the Congressman who sponsored legislation) in 15 countries for a total equivalent to \$42.6 million. Pharmaceuticals in Greece, foodstuffs in Israel, animal feed in Sudan and Peru, polyethylene in Taiwan, integrated electronic circuits in Korea, and development banking facilities in Pakistan were among typical loan beneficiaries. AID also lends dollars to private American and local ventures in developing countries, but has mostly done so for large projects.

HELPING NON-PROFIT GROUPS

The contribution to development of private non-profit organizations is significant, approaching \$750 million annually. It embraces humanitarian programs, including emergency relief, and technical assistance. The latter, however, has received increasing emphasis in recent years. AID continues a mutually helpful relationship with such groups that is nearly as old as the foreign aid program itself. Indeed, many of these organizations have been in the "aid business" longer than the government.

Voluntary Agencies

Voluntary agencies, a traditional American source of help to peoples overseas, committed more than \$400 million to assist developing countries in fiscal year 1966. AID assists the 67 voluntary agencies registered with its Advisory Committee on Voluntary Foreign Aid in a number of ways.

In fiscal 1966, AID paid \$5.5 for the ocean shipping cost of about \$65 million in privately donated supplies sent overseas by such non-profit voluntary organizations as Church World Service, Catholic Relief Services, American Jewish Joint Distribution Committee, CARE and the like. In fiscal 1968 it is budgeting \$6.3 million for this purpose.

Registered agencies also are eligible to receive American agricultural commodities under the Food for Freedom program. In fiscal 1966 these supplies reached 72 million persons of whom 36 million were children fed through school lunch programs. Ocean shipping costs also are paid in this case.

Similarly, voluntary agencies may purchase at 15 percent of original costs to the government a variety of excess property whose shipment to ports in the countries where it will be used is also paid by AID. This material, often tools, vehicles, medical instruments or laboratory equipment, is used in vocational training, community development and for other developmental purposes. In fiscal 1966 purchase of about \$13.5 million in such supplies was authorized for 10 voluntary agencies.

Disaster relief is a traditional function of voluntary agencies and in fiscal 1966 they distributed \$1.6 million in supplies that included Public Law 480 commodities, tents, clothing, blankets, medicines and other items.

The Technical Assistance Information Clearing House, which publishes a directory of 500 non-profit groups engaged in technical assistance overseas, is supported by AID as an encouragement to developmental activities of voluntary agencies. A special section on such programs in East Asia was published in 1966.

International Executive Service Corps

The IESC is a private non-profit corporation based in New York City that strengthens private businesses in developing countries through a volunteer corps of experienced American businessmen. AID encouraged its estab-

ishment and continues to provide financial assistance. More than 2,600 experienced businessmen are on its roster, recruited by unpaid representatives in 38 American cities. Volunteers, whose services are paid for by the beneficiaries at rates prevailing in the host country, are assigned after evaluation of requests from foreign businessmen. For example, in 1966 there were 367 requests from large and small businesses in 37 developing countries, and 154 projects were begun. In 1967, volunteers are working on well over 300 projects. The program has been enthusiastically received by both overseas businessmen and their governments.

- Responding to an Iranian oil processor's request for help with market research and sales planning, a retired managing director of Standard Brands introduced new practices and has been asked to return.

- IESC volunteers with long experience with A & P food stores helped supermarket operators in Venezuela and Nicaragua improve buying techniques and food cleanliness practices and to reduce overhead.

- A mid-career official of Chase Manhattan Bank helped a commercial bank in Thailand revise international lending practice and improve internal accounting.

- In Honduras, a small family company dealing in soaps, detergents, insecticides, shoe polish, etc., improved its products and marketing techniques with help from a retired executive of Proctor and Gamble.

- An IESC volunteer with 30 years experience as head of his own concert block business showed a producer in San Salvador how to improve both its product and sales.

Other projects have assisted in the fields of heavy equipment manufacture, glass and ceramics production, textiles, paper, plastics and rubber, mining and construction.

President David Rockefeller of Chase Manhattan Bank is IESC board chairman. Its executive committee is headed by Philip D. Reed, former chairman of the board of General Electric, while Frank Pace, Jr., former Secretary of the Army and past president of General Dynamics Corporation serves as President and Chief Executive Officer.

Partners of the Alliance

This AID-sponsored program encourages and assists private Americans at state and local levels to participate in Latin American development under the Alliance for Progress. Under its auspices, private groups and individuals in 30 states and the District of Columbia are cooperating with counterparts in 15 countries of Latin America. In January 1967, AID granted financial assistance to the newly-formed National Association for

the Partners of the Alliance to help it sponsor, coordinate and expand the program throughout the United States. Partners of the Alliance activities generally assist educational exchanges and assistance projects, health and preventive medicine programs, joint investment and commercial ventures, agriculture and cooperative projects, cultural exchanges and community development programs.

- Colorado, Connecticut, Indiana, Missouri, New Jersey, Ohio, Oklahoma, Pennsylvania, Texas and Wisconsin have sent large quantities of hospital and medical equipment on request of Latin American counterparts. Connecticut's contributions to a hospital in Paraiba, Brazil, were worth \$400,000.

- More than 150 schools have been built or helped with equipment and supplies. Maryland and its partners in Rio de Janeiro have exchanged high school students for the past two years.

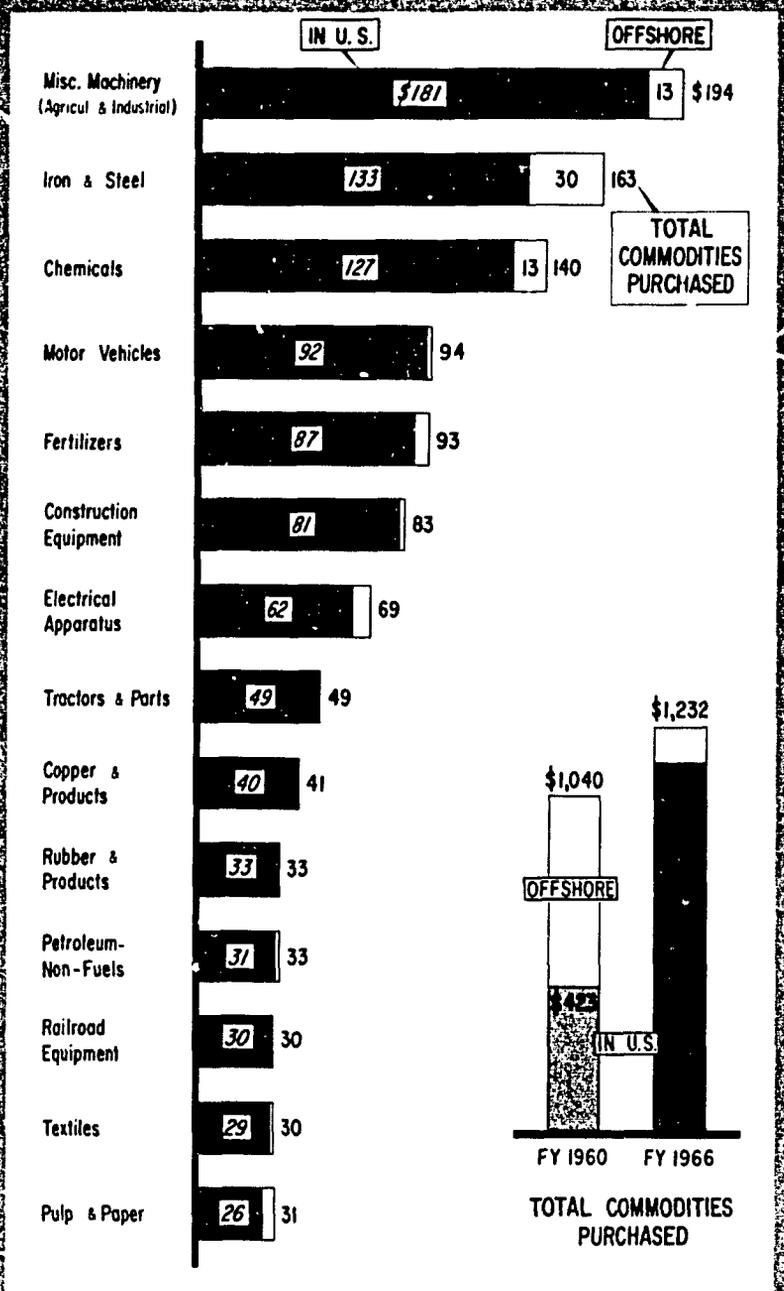
- The Honduras community of Choluteca will receive a truck, 25 deep-well pumps, drilling equipment and pipe from Partners in Vermont who will also provide help to install the pumps.

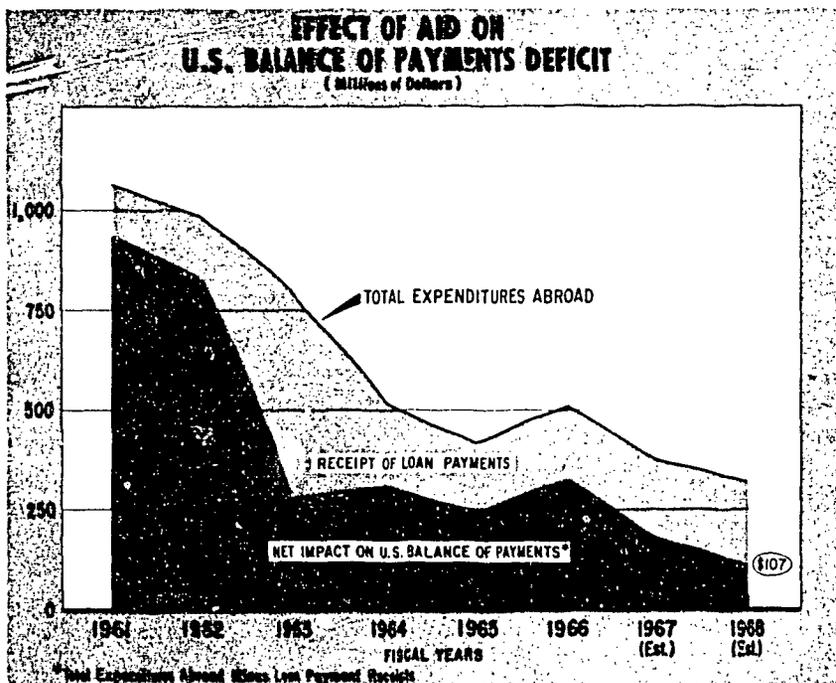
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AID-FINANCED COMMODITY EXPENDITURES

COMMODITIES PURCHASED IN U.S. and OFFSHORE

FY 1960 - Millions of Dollars





Although the United States continued to enjoy a trade advantage, selling more than it bought, its overseas military commitments, investment, tourist spending, foreign aid and other international activities meant that in the aggregate more money left the country than came in. Accordingly, policies were changed to limit procurement in world markets and tie it increasingly to American suppliers.

By fiscal year 1961 the net impact on the payments deficit of aid spending (overseas expenditures less loan repayments) had been reduced to \$934 million. By fiscal 1966 it was \$238 million.

In fiscal 1967 AID estimates that the effect of its programs after deduction of predicted loan repayments of \$203 million will be \$175 million. And in fiscal 1968 the expectation is that deduction of \$212 million in loan repayments will reduce AID's impact on the deficit to only \$107 million, an 88 percent improvement since 1961.

Today all but three elements in the AID program are rigidly tied to spending in the United States. These are the salaries paid AID employees and contractor personnel overseas, only part of which is spent there; minimal overseas purchases for AID's own administrative purposes; and contributions to the United Nations and other international organizations, although in practice two-thirds thereof, about \$100 million a year, is spent in this country. In the instance of the Indus Basin Development Fund, for example, United States dollar contributions account for 44 percent of the "hard" currency foreign exchange needed by the World Bank to finance

1966 for all AID purposes, \$1.7 billion or 77 percent was paid for American goods and services. But in terms of commodities financed the proportion was even higher, for of a total of \$1.2 billion spent to finance them, \$1.1 billion or 90 percent went U.S. suppliers. In the first half of fiscal year 1967, the American share of AID-financed commodity procurement was running at about 95 percent.

AID financing, then, helps the American economy of today as well as fostering conditions that assure peace for the world in which it must function in the future.

The domestic impact of foreign economic assistance programs is of major proportions, particularly in such industrial commodities as agricultural and industrial machinery, iron and steel, chemicals, motor vehicles and construction equipment (see chart on inside back cover). It also has a significant effect on the American farmer.

- Although AID accounting does not permit tracing all commodity procurement to the place of manufacture within the United States, it conservatively estimates that the \$1.1 billion in AID-financed purchasing cited above for fiscal 1966 involved over 4,500 companies in more than 1,500 cities in the 50 states, the District of Columbia and Puerto Rico.

- In the same period agricultural commodities grown in 45 states and shipped to developing countries, largely under Food for Peace legislation, were worth an estimated \$1.6 billion.

- At the end of fiscal year 1966, current AID contracts with universities and with organizations and individuals for technical services had a value of \$478 million. Universities engaged numbered 123 in 49 states and the District of Columbia while technical service contracts were in effect with 420 companies or individuals in 191 cities, 40 states, Puerto Rico and the District of Columbia.

AID AND THE BALANCE OF PAYMENTS

Substantial spending within the United States has been characteristic of AID and the agencies that came before it. In the immediate postwar years, when this country was the only major source of goods and services needed by aid recipients, most U.S. foreign economic assistance dollars were spent here as a matter of course.

But with revival of European economies with help of the Marshall Plan purchases of aid supplies could often be made more cheaply outside the United States. Thus by 1959 the share of aid spending allocated to United States sources stood at 40 percent, a circumstance that coincided with an increasingly unfavorable balance of payments position for the country.

construction. Yet 54 percent of foreign exchange costs of contracts for construction or consultant activities has gone to American firms.

There are other factors, of course, that bear on the payments deficit in relation to foreign aid spending. Some of the few AID dollars that do flow overseas unquestionably find their way back when a country buys goods in the United States without being required to do so; or when it spends dollars in a third country that in turn purchases in the American market. But on the other hand, American goods bought with AID dollars specifically tied to U.S. purchase may free other foreign exchange reserves for spending as a country sees fit, thus merely substituting one resource for another with possible adverse effect on the American payments position.

AID has a number of techniques for reducing this risk, including emphasizing to aid recipients that the continued capacity of the United States to maintain assistance levels is itself directly related to lowering the payments deficit. Although precise measurement is impossible, AID considers that subtraction of loan repayments from total AID spending overseas provides an acceptably accurate measure of its net impact on the balance of payments.

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