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EMBASSY OF THE

UNITED STATES OF AMERICA



Dr. John A. Hannah, Administrator  
Agency for International Development  
Washington, D. C. 20523

Dear Dr. Hannah:

The attached FY 1975 Economic Assistance Program for Thailand is submitted for AID/W approval. Although the heart of the program is referred to as Supporting Assistance, it represents a clear step forward in a transition to development-oriented programming.

After some years in Thailand I would like to offer my interpretation of how we can best help Thailand while concurrently implementing U.S. foreign policy interests. Perhaps Thailand's greatest achievement has been its ability to develop patiently, to learn from other societies, and to seek a mixture of the modern and traditional. Its greatest failure has been its slowness in moving the society forward on a rational basis, enabling better use of modern technology. Thailand's long-run economic development requires a greatly improved educational system and a new orientation toward technology and problem solving. A satisfactory level of social justice, including an equal and rational application of law, is also necessary in achieving a modern, progressive society. Finally, there is the question as to whether the modernization of Thailand is to be achieved by the incumbent group, through an evolution in present leadership, or through other radical opposition forces such as the rural insurgency.

For some years, the Thais have been dealing with a small, but well-organized and motivated, communist insurgency; on the whole, the Thai have kept insurgent growth within tolerable limits, with our support and advice. They now face uncertainties on their long northern and eastern borders as the war in Indo-China winds down. The long frontiers with Laos and Cambodia are serious question marks, and the Burma frontier is also a security hazard. As the

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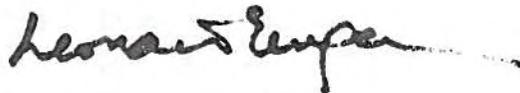
Dr. John A. Hannah

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American shield prepares for phasedown in Southeast Asia, important economic, social and defense readjustments are required of the Thai government.

At this point I believe these problems of Thailand can best be addressed by AID through helping Thailand to become a stronger and more modern nation, able to withstand the effects of a protracted low level insurgency, while reducing the inequities which tend to encourage insurgency. Our view of the best way to reach this goal, within the policy and program restraints that must be followed, is set forth in the attachment.

Sincerely yours,



Leonard Unger

Attachment:

FY 1975 Program Submission for Thailand

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FY 1975 PROGRAM SUBMISSION: THAILAND

- REFS: A) TOAID A-542, July 21, 1973  
B) STATE 024348, February 9, 1973  
C) STATE 032514, February 22, 1973  
D) Bangkok A-180, June 26, 1973

I. SUMMARY

The Supporting Assistance (SA) program for FY 1975 is projected at \$13 million. Current programming guidelines assign priority to support of Royal Thai Government (RTG) counterinsurgency (CI) programs, to focus on activities which enhance the RTG's institutional capability to suppress communist insurgency and eliminate the factors which nourish it (particularly rural development projects and the improvement of para-military, primarily police, forces) and to encourage and support RTG efforts to improve the long-term growth potential of the economy. For reasons stated later in this Program Submission, the FY 1975 program will focus primarily on the latter goal.

The SA program is but one of several economic tools at the disposal of the US Mission which support these and related objectives. In FY 1975 these include Narcotics Funds \$1.9 million; Development Loans \$10 million; Population Grants \$1.3 million and PL-480 Title I \$12 million. Some small PL-480 Title II projects are possible, depending on the availability of desired commodities. Housing Guaranties and Private Investment Guaranties are projected at \$10 million and \$20 million, respectively. Export-Import Bank, Peace Corps and Regional Economic Development programs are expected to continue along the lines projected in Bangkok A-179 and the Military Assistance Program along the lines discussed in Bangkok A-178. The continuation or withdrawal of US military expenditures in Thailand, however, will have more impact on the Thai economy than these other programs, and includes possible effects which may influence RTG expenditure priorities among CI, development and welfare.

The SA and other USOM-administered resources in support of Thai programs are summarized in the following table which contains actual figures for FY 1973 and projections for FY 1974-76 in millions of dollars:

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	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>	<u>FY 1976</u>
Supporting Assistance (SA)	10.6	15.0 <sup>1/</sup>	13.0 <sup>2/</sup>	10.0 <sup>3/</sup>
Population Grants (PG)	1.8	1.6	1.3	1.0
Narcotics (NC)	1.7	1.6	1.9	1.5
Development Loans (DL)	7.0	-	10.0	10.0
PL-480 Title I <sup>4/</sup>	15.6	14.4	12.0	10.0
Title II	-	.5 <sup>5/</sup>	.5 <sup>5/</sup>	.5 <sup>5/</sup>
Housing Guaranties	-	5.0	10.0	10.0
Private Investment Guaranties	25.0	25.0	20.0	20.0

1/ Includes \$2 million SA loan

2/ Includes \$2.5 million SA loan. Most of remainder can qualify for TC-DG funding.

3/ Qualifies for TC/DG funding.

4/ Proceeds directed to development purposes

5/ In doubt pending final decision on availability

## II. RATIONALE FOR CURRENT PROGRAM TREND

The above table shows that by FY 1973 USOM economic assistance no longer could be characterized as being primarily focused on direct support of RTG counterinsurgency programs. The \$10.6 million FY 73 SA portion, now a much less significant element in the total program, financed only \$3.8 million of commodities of which \$1.8 was directed to the Thai National Police Department (TNPD). As directed by Washington, the program included no military type weapons or ammunition used by the Police in anti-insurgent operations. The other major RTG CI program supported by USOM, Accelerated Rural Development (ARD), provides a rural public works capacity to provincial governments seeking to open isolated areas to normal social, economic and administrative association with the central government and thus to provide alternatives to the insurgency as a way of life. The program has development as well as CI aspects. In any case, during the past several years there has been a major decline in the SA program and in these two projects which were considered of primary importance in supporting RTG counterinsurgency.

From the beginning of the expanded US support for RTG counterinsurgency efforts in 1965, USOM support of programs in Thailand focused on the

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problems of rural security and rural development. The primary vehicles of our assistance, the TNPD and ARD, received approximately \$135 million assistance through FY 1973. Net obligations totaled \$77 million for the TNPD (\$52 million since FY 1967) and \$58 million for ARD (\$43 million since 1967). Assistance on a smaller scale also continued in other areas of national development, particularly those related to increasing RTG capacities to administer programs and services in rural areas.

Starting in 1969-70, the limits on absorptive capacity of direct CI programs (TNPD and ARD) became increasingly evident. The problem became less one of inadequate foreign equipment resources; therefore USOM devoted more attention during 1971-73 to helping the RTG achieve better management and proper utilization of resources. TNPD and ARD absorptive capacity has improved, but the management problem requires continued attention. At the same time, it became clear that the RTG was not adequately addressing basic economic and social problems which continued to nourish unrest and that it would need to formulate policies and programs essential for generation of resources to outlast the insurgents in a protracted struggle. Consequently, the US Mission believes its SA resources should be increasingly directed at helping the RTG to effectively focus on some of the more basic problems which inhibit national development and breed unrest, particularly in rural areas.

The SA program in Thailand in FY 75 will emphasize development. This is justified on three grounds: First, programs which received early emphasis in a CI context, such as the TNPD and ARD, are now basically equipped for their jobs. Their management has improved. Their staffs and budgets have increased tremendously. They have set patterns for future expansion. Their long run viability now requires increased emphasis on self-sufficiency and continued improvements in utilization of resources. However, the TNPD traditional role of law enforcement necessary for economic development has not kept pace with its CI capability which received first priority since 1965. Future loan and technical assistance to these agencies will focus on these purposes. Second, the Mission believes a long-term solution to Thailand's insurgency must include as a major part an integrated effort to stimulate general economic development, to redress unjust opportunity patterns and income disparities, to provide better government services in rural areas and to promote social justice - in short

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to carry out many of the same activities which also make an effective development effort. Third, it is clear that the Congress expects AID to concentrate on its developmental role, relying on flexible use of military assistance to meet national security requirements.

We believe that US interests in Thailand can be protected during this transition to development assistance. Indeed, such a development program, given the investment already made in security-oriented activities, can now do as much, or possibly more, in the long term to foster Thai security than direct assistance to RTG counterinsurgency efforts.

For these reasons, during the remainder of FY 1974 assistance to the TNPD will undergo a rationalization which will permit its FY 1975 level to be entirely financed on developmental grounds, including narcotics control and related income substitution activities.

### III. RATIONALE FOR FUTURE PROGRAMMING

USOM assistance will increasingly concentrate its SA and other resources on economic development goals which seek to strengthen RTG ability to manage the economy and promote general economic growth. Special attention will be devoted to rural Thailand which is characterized by a per capita income of less than \$100, wide income disparities, labor surplus most of the year and land productivity stifled by inadequate technical inputs.

Thus, SA, DL and PL-480 programs will increasingly concentrate on improving agricultural production and income, and promoting the development of agricultural and other exportable products to generate foreign exchange which will become critical for development purposes as US military expenditures fall off. It will seek to promote creation of increased employment opportunities for both the educated urbanite and the less educated rural and urban population. It will seek improved use of existing and potential resources through (1) influencing of policies and aiding specific RTG programs which promote mobilization of private sector resources and (2) helping the RTG find additional means for financing its growing educational requirements to which it is committed and to help make the use of such resources more effective and relevant.

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USOM assistance will also be used to strengthen social progress. In the short run the culture imposes limits with regard to changing officials' attitudes and behavior toward the rural populace and workers, but progress is being made.

Certain Thai leaders at top and middle levels have demonstrated a considerable degree of enlightened pursuit of social and political as well as economic change. The Government is promoting farmer and worker associations to enhance popular participation in economic affairs. Such efforts are being encouraged by providing PL-480 and DL resources through the Bank for Agriculture and Agricultural Cooperatives (BAAC) and by providing technical assistance to the Department of Labor. USOM also expects to exploit new opportunities for assisting RTG youth programs so that their potential political effect will be beneficial, as far as possible, rather than adverse.

In the long run increased employment and educational opportunities for the hitherto deprived should bring about a greater degree of social mobility. USOM is seeking to influence the RTG in the ARD and other projects to increase labor intensive activities when such an approach seems sensible. An education advisor is helping the RTG to develop formulae for equalizing the distribution of educational resources. To the extent the RTG is able to provide integrated health services in rural areas it should have a social impact on both the elite providing those services and the poorer recipients. USOM is attempting to influence the RTG in this direction through participation in the Rural Health project. Both local administration and police training programs include in their objectives an improvement of official attitudes and behavior.

Population grants aim at helping the RTG to lower the rate of population increase from 3.5% to 2.5% by the end of 1976. While this is only a beginning goal its achievement will have long-range effects on per capita income, its distribution and on social well being.

Narcotics funds are aimed primarily at helping the RTG to stop the drug traffic which starts in the Golden Triangle of Northern Thailand, Burma and Laos and spreads throughout the country and beyond. Narcotics

funds will continue assistance to TNPD interdiction and preventative efforts and customs improvement, and also place increasing emphasis on the basic data, research and testing needed for developing alternate sources of employment and income for the hilltribe opium producers. The social and political effects of changing hilltribe modes of living are still to be assessed. If not carefully managed, the changes may redound to the advantage of the insurgents present in the opium growing areas of North Thailand.

To achieve these primarily economic but also social and political aims, USOM will work primarily with RTG institutions to promote (1) improved capability and effectiveness in the planning and management of resources, (2) coordination among RTG agencies and by them with the private sector in developing and implementing projects to achieve national objectives, and (3) attempts to improve government administration and responsiveness.

#### IV. THE FY 1975 PROGRAM

Except where otherwise noted the following narrative describes the SA program. Projected FY 1975 obligations are parenthetically noted.

##### Agriculture

The SA program (\$2.6 million) will focus on five projects. Narcotics funds (\$737,000) will assist another.

Assistance to the Agricultural Research Project (\$670,000), including the Northeast Agricultural Research Center begun in FY 1966, will be completed in FY 1975. As assistance is phased out the institution will become fairly well established and addressing the broad research problems of Northeastern agriculture. A small sub-project to improve RTG planning and decision-making through training and research utilizing data made available from the NASA ERTS program will also phase out in FY 75. This latter effort will prove useful not only in agriculture but in planning all areas of natural resource utilization. Narcotics funds will assist development of a highland research center (\$737,000) to be established with US help in FY 74. This project will help bring into play for the first time the full resources of the Ministry of Agriculture and Cooperatives (MOAC) in supplementing the more ad hoc experimental efforts of the UNSFDAC and the King's Hilltribe Project in developing alternate income opportunities for the opium growing hilltribes. FY 74 narcotics funds will also finance a highland market analysis (\$100,000).

The Agricultural Economics, Sector Analysis and Planning Project (\$650,000) emphasizes institutionalizing sector analysis tools and policy planning procedures to provide the MOAC by FY 1978 with the capability of using these tools to design and monitor plans optimizing resource use and achievement of national objectives in agriculture. The Agricultural Extension Project (\$440,000) will build on recent Department of Agricultural Extension (DOAE) action to: (1) decentralize administration and backstopping of extension services which established six new regional centers and transferred nearly 400 professional staff out of Bangkok, (2) begin a large program of on-farm verification testing plots, and (3) expand and improve its program for the multiplication and distribution of certified seeds. Continuing technical advice on planning and management and academic and in-service training for upgrading present and

new professional technical staff, particularly those assigned to the new regional centers, will permit phaseout of US assistance to agricultural extension by FY 1978.

Under a proposed new National Youth Project (\$140,000) USOM will provide modest advisory training and research assistance over a three-year period to the newly created National Office of Youth in the Prime Minister's Office. This Office is responsible for coordinating and providing policy direction to several RTG agencies which sponsor youth activities with a view to encouraging a sense of purpose, self-development, economic improvements and pride in local community and nation.

The interest of the IBRD and ADB in improving Agricultural Water Utilization has caused USOM to change earlier plans in this area. USOM is now considering requests for technical assistance in FY 1975 (\$700,000) for related studies of the development of a river basin plan for the Chao Phya and Mae Klong Rivers, limited TA and training assistance during FY 1974-78 for the irrigation related extension regional center covering a twelve province area of Central Thailand, and limited support over a two-three year period for development of a model cooperative in an irrigated area.

One of the Thailand Development Loans authorized in late FY 1973 was conditioned on the establishment of long-term lending by the BAAC and for the first time linked MOAC planning, extension and engineering services to the provision of BAAC credit programs. Current PL-480 proceeds are being used to expand BAAC credit programs as well as Industrial Finance Corporation of Thailand (IFC/T) agri-industry credit programs.

The substantial strengthening of MOAC/BAAC project preparation and analysis capability which is occurring as a result of the FY 73 Development Loan will generate fundable projects in greater numbers than can be funded from that loan. For FY 75 USOM expects to further strengthen MOAC/BAAC cooperation and build on the FY 73 loan experience through combining DL, PL-480 and RTG resources. Proposed funding ratios of 30 percent DL dollars, 40 percent PL-480 generated baht, and 30 percent RTG budget would finance further irrigation and drainage improvement, land reclamation and resettlement and rice storage for a new buffer stock program. USOM is also discussing with the RTG a major reforestation/employment/income generation proposal in North Thailand. The latter, if successfully developed, may also require and justify some inputs from narcotics funds.

## Labor

USOM's interest in problems of employment, income distribution, and social and political participation requires a continuing dialogue with the Department of Labor (DOL). Previous projects, ending in FY 1974, provided the DOL with advisory and training services for the Employment Service, as well as consultants who helped draft legislation creating an industrial relations system to include workmen's compensation, a minimum wage, labor safety and worker associations (unions). The Third Five Year Plan emphasizes employment promotion and income development as well as implementation of these labor laws.

Through a new three-year project beginning in FY 1975 (\$225,000) USOM expects to assist the DOL with the complex task of fully implementing these new policies and laws. Emphasis will be placed on the creation of a community manpower system meant to translate national manpower plans into suitable local action programs providing more systematic assistance to job seekers. In addition, modest assistance through short-term advisors and training will be given the Employment Service and the worker education program.

## Health and Population

A new project for National Health Development (\$424,000) departs in certain respects from activities assisted under the Rural Health Project phasing out in FY 1974, but also builds on foundations successfully laid down in that project. Under the Rural Health Project, USOM helped the RTG create an organizational and physical infrastructure for delivery of health services to rural populations in selected security-sensitive provinces. An effective network of medical services has now been established in those areas. Under the new National Health Development Project, the US will assist RTG beginning efforts to extend this medical care network to the rest of the country with introduction of an important new component. Recently the Ministry of Public Health effected an integration of the curative and preventative services in its central organization. This new project involves extension of this integrated organization, which includes the previously separate, vertically structured programs e. g. malaria, VD, tuberculosis, and other public health and curative functions, into a combined community-oriented health service under integrated administration. The concept has obvious cost-cutting implications, and also promises to bring much more effective, comprehensive medical care and preventative services to rural people. The new project

will also build on accomplishments of the protein food promotion component of the Rural Health Project. As the Thais begin large scale distribution of the low cost nutritious foods developed under the present project, USOM will provide advisory assistance in conducting a national study of the country's nutrition resources and requirements, and in implementing remedial measures for nutritional deficiencies.

The Population/Family Planning Project (\$1.3 million PG) will continue through FY 1976 by which time it is expected that Thailand's annual population growth rate will have dropped from over 3% in 1972 to 2.5%. After FY 1976 the RTG will assume all costs of purchasing oral contraceptives. The Project's main thrust continues to be provision of contraceptive supplies and related commodities. Emphasis through FY 1975 will be on expanding and upgrading family planning services provided by hospitals and rural clinics and to complement these services by creating joint public/private sector distribution channels for contraceptives. Beginning in FY 74 USOM will assist the Ministry of Education in introducing population education materials into secondary school and college curricula. Also beginning in FY 74 USOM will provide a long-term demographer to assist the RTG National Statistical Office in a detailed demographic analysis of the 1970 Population and Housing Census. Participant training will focus on management and administration of family planning programs, clinical contraceptive methodology, population dynamics and population education. Some proposed activities of the population project may lend themselves to possible use of local currencies generated under PL-480.

#### Rural Education

The RTG is committed to massive expenditures in education currently running at 17% of its annual expenditure budget and scheduled to go higher. USOM assistance (\$940,000) will help the RTG find ways of making better and more relevant use of the largest portion of the budget, the portion directed to rural elementary and continuing education and related activities, and provide for its more equitable distribution. First steps for reform will begin in 1974-76, the last two years of the Rural Education Project. These steps call for cooperation between several departments of the Ministry of Education (MOE) and two departments of the Ministry of Interior approaching the entire gamut of rural elementary education and related activities through a multi-dimensional, experimental approach in a small pilot area in the

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Northeast. The activity will include establishment of a Northeast Educational Development Complex (NEDC). The NEDC will provide the locus for revising elementary school and teacher training curricula, updating instructional material and providing in-service training for teachers and educational leaders. The remainder of this project through FY 1976 will focus on completion of a radically revised educational finance structure, providing advice in adult education, developing and starting the work of the NEDC in the pilot area, training teacher trainers and administrators and completing plans for a follow-up project to begin in FY 1977 when the NEDC becomes fully operational. In the subsequent project, lessons learned in the pilot area will be transferred by stages to the surrounding Northeast provinces and gradually to the nation as a whole. Specific RTG objectives include upgrading the skills of 12,000 teachers, intensive training for 500 provincial and district education administrators, and developing 1,500 instructors for non-formal education reaching adults and out-of-school youth. Much of the expansion will be implemented through the teacher training colleges being built or expanded under an \$11 million IDA loan. These institutions should be operating by FY 1977.

This project addresses a major problem confronting Thailand - the imbalance of educational opportunity between greater Bangkok and rural areas, and between different rural areas. It also seeks to make Thai educational development an indigenous, self-sustaining matter. In addition to its obvious impact on manpower development required for economic growth it also provides a major route to social mobility and fuller participation in national life. For example, the pass rate from lower (grades 1-4) to upper primary (grades 5-7) in 1971 was 85 percent in Bangkok and only 15 percent in the Northeast. Further, 15 percent of rural primary classes had no teachers and 30 percent of rural primary teachers had no formal qualifications. Nevertheless, the most pervasive central government representative in rural Thailand is the teacher. This project capitalizes on the role they can play in strengthening links between the villagers and their government.

#### Public Safety

During the first half of FY 1974 contract advisors whose primary role involves counterinsurgency activities of the National Police will be phased out, and direct hire advisors will be concerned with the development of the TNP as an institution. SA (\$2.5 million) will be directed

toward improving TNPD management and the general upgrading of police forces through improved training as these relate to general law enforcement and contacts with the people. This funding level necessarily limits the grant commodities which can be provided for the purposes identified above. In order to cushion the transition for the TNPD to more limited commodity assistance, USOM would hope for authority to discuss with the RTG a \$2 million Development Loan. It is not clear that the RTG would request such a loan under current policies; however, the US would gain political advantage from such an offer, and the Thais may recognize its value in light of declining grant commodity inputs. In addition, narcotics funds (\$230,000) will be used to enhance TNPD capability to eliminate the drug traffic.

For FY 76, USOM is considering a proposal to break the program down into discrete projects in order to facilitate more exact planning of each portion to its logical phase-out.

#### Public Administration and Development Planning

The National Economic Policy Planning Project (\$450,000) focuses on improved central planning of the use of available resources. Through the assignment of advisors to key staff of the National Economic and Social Development Board (NESDB) and the Secretary-General of the National Statistical Organization, and through training of staff in those and related agencies the project seeks to upgrade national development planning capability, greatly improve the capability of all departments to prepare developmental projects for budgetary funding, and improve development administration. While first obligations were made at the end of FY 1972 the project has been slow in starting and achievement of planned targets will require the delay of final obligations from FY 1975 until FY 1976. A related Development Loan for Project Development authorized in late FY 1973 will assist the RTG in conducting feasibility and pre-investment studies which will improve RTG capability for obtaining international financing of sound development projects.

FY 1972 obligations for a Local Government Finance Project were not implemented because of inability to obtain a contract advisor. With recruitment now completed of a direct hire advisor, implementation of a three-year activity will begin in FY 75 (\$164,000). The project seeks to develop local sources of financing, in part complementing the school finance activity in the Rural Education project. It is hoped that the

project will lead to increased local responsibility and participation in administration and development activities involving local revenues and matching central government grants.

USOM is considering assistance to three new government planning and management projects in FY 1975. The first is the Ministry of Interior Planning Advisory Services Project (\$184,000). Responsibilities of the MOI, the RTG's largest employer, include the full gamut of civil administration at all levels of government, e.g., the TNPD and the Departments of Rural Elementary Education, Public Welfare, Local Government, ARD, CD and Labor. The MOI recently established an Office of Policy and Planning (OPP) concerned with programming and planning functions in rural and urban development, and is asking for US assistance. USOM projects such assistance during 1975-77 to involve some or all of the following: (1) methodology for formulating departmental guidelines, (2) analytical procedures for reviewing departmental project submissions, (3) improving procedures for cost effectiveness, (4) evaluation, and (5) review of laws and regulations to determine relevancy to changed conditions. USOM considers that the MOI will be the one most likely to facilitate the initiation of activities, regardless of the source of support, which will affect income and improved opportunity for rural people.

The second involves technical assistance for development of computerized RTG Management Information Systems (\$215,000). This project would help the RTG to store and retrieve rapidly requisite economic, social and program management data. In addition, the project would provide support for the computational requirements of different agencies. Initial scope of this project includes the Office of the Prime Minister (OPM) and the MOI. Government decision making at present is retarded by delays in data availability and often the lack of adequate, comprehensive information about on-going projects.

The third project (\$225,000) seeks to improve administrative coordination in the OPM by introducing program budgeting and sector analysis, laying the base for a more logical approach to national security programs, and improving procedures for implementing organizational reforms and legislation by OPM organizations.

Consideration of a fourth project to improve operations of NSO has been deferred to FY 76.

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Narcotics funds will continue a project in Customs Improvement (\$960,000), funding of which began in FY 1973.

### Rural Development

ARD began its life in the Office of the Prime Minister in 1964. In late 1972 it was transferred to the MOI where, under influence of the new OPP described above, it is expected that improved coordination can be effected with the Departments of Community Development and Local Administration. Having focused in the past largely on rural public works, e. g. farm to market roads and village water supplies, and having expanded its operations into thirty-one security-sensitive provinces, ARD has now been charged by the Deputy Prime Minister with taking a lead in activities which more directly affect the income and welfare of rural people. Because of this background, and in view of the large investments made in ARD and other rural development activities, USOM is planning a study to be made during FY 1974 of progress made, future requirements, and obstacles to be overcome in the general rural development area including agriculture. As part of this effort USOM is segregating the various elements of its assistance to ARD into discrete projects, thus permitting more exact planning of each project to its phase-out date. Pending final results of the study, and completion of PROPs for each project in FY 1974, projected inputs and phase-out dates should be treated as tentative.

The core of the assistance program is continued in a Changwat (Provincial) Public Works Development Project (\$1.7 million) in which ARD aims eventually to expand public works capacity for roads, service tracks, water resources and other village infrastructure from 31 to 42 security-sensitive provinces. In the past, USOM has provided on a grant basis large quantities of commodities for these purposes. The FY 1974 Congressional Presentation provides for a \$2 million loan for the replacement of worn out equipment as a step toward shifting the RTG from dependence on commodity grants to eventual self-reliance. In FY 1975 USOM would meet the bulk of commodity requests, both for expansion and for replacement, through a \$3 million development loan. By FY 1976 all ARD needs for construction equipment and vehicles would be met through development loans and the RTG budget. Technical assistance is tentatively planned to phase out by FY 1978.

The year 1978 is also the scheduled phase-out date for a separate project (\$400,000) focusing on ARD's more generalized planning and management capabilities in areas not immediately linked to public works.

During 1974 USOM will provide an advisor to help ARD and other entities identify opportunities for agro-industrial development more directly benefiting the poor farmer. A subsequent Rural Income Augmentation Project (\$324,000) is envisioned for three years (1975-77) which would help to link urban capital and entrepreneurship with rural labor in a series of new enterprises drawing on the support of various RTG agencies and foreign donors. It is anticipated that the RTG would use PL-480 generated local currency as the external resource for this project which is directly focused on income disparities and rural under-employment.

ARD will sponsor an experimental three-year Rural Intern Service Corps project to involve 250-300 recent university and technical school graduates in rural development at the district level. In addition to stimulating crop promotion projects, this activity will expose new graduates, mostly urban oriented, to the problems of rural Thailand and hopefully stimulate their active continuing interest in this area. USOM hopes to spark the beginnings of this useful endeavor through authority to grant \$50,000 in local currency.

A one-year Project (\$10,000) aims at completing capability of the National Security Command's Base Logistics Center to provide equipment maintenance support for the Mobile Development Units (MDUs) and Construction Company (MDUCC), Protein Expansion Project (PEP) and well drilling activities. These NSC activities involve the poor people of Thailand's remote border areas in local development and income producing projects.

A proposal has been advanced for US assistance through narcotics funds for assisting in the development of hilltribe market access routes to be accomplished by MDUs and/or ARD. The proposal requires considerable study and refinement before presentation, and proposed funding is not included in the narcotics control figures which appear in the table at the end of this narrative.

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### Private Capital Investment

This project (\$600,000) seeks to improve Thai Government effectiveness and coordination in establishing policies and plans to facilitate investment and industrial growth. To accomplish this objective, advisory assistance is provided to government agencies responsible for monitoring Thailand's investment climate. Advice is given in investment promotion and investor services; export development; availability, terms and conditions of financing; industrial policies, plans, and regulations; manpower development; and industrial diversification and dispersion, particularly of priority industries in Thailand such as food processing, minerals, etc.

Agencies to receive assistance are the Ministry of Commerce, Board of Investment, Ministry of Industry, Ministry of Finance, the Bank of Thailand, the Industrial Finance Corporation, and the National Economic and Social Development Board.

First priority is export development and related national policies and plans in support of private sector growth. The first advisor has begun work in this area with the Ministry of Commerce. Others are under recruitment in the same area. The other major project element is planning assistance in rural industrial development. Plans for implementing this aspect of the project are nearing completion.

### Special Training for National Development

This continuing project (\$270,000) provides specialized training for individuals who are contributing to Thailand's development but whose activities are not directly connected to AID-assisted projects. Training under this project is provided, for example, where projects have been phased out but a follow-up element is still needed, or where training is a prerequisite to beginning a new project under consideration.

### Loan Proposals

The Mission is considering loan proposals which total over \$30 million of which it requests \$10 million loan authority in FY 1975. The exact nature of the final program will depend upon further discussions with various RTG agencies and other prospective donors. Current proposals under consideration are the following:

1. Up to \$8 million for commodities to various RTG agencies such as ARD, TNPD, the Community Development Department and the Malaria Eradication Program. The basic objective is to encourage the Thai Government to budget for imported commodities and to provide adequate budgets for maintenance and replacements. Additional purposes include (a) easing the transition from grant funded commodities, particularly the TNPD and ARD, and (b) enabling certain RTG agencies to standardize on US equipment.

In the past a number of Thai agencies have relied almost wholly on foreign grants to expand operations which required imported commodities, particularly vehicles and construction equipment. These agencies failed to persuade the Bureau of the Budget to furnish sufficient budget to adequately maintain existing stocks of equipment and to provide for their replacement. Some programs, like Malaria Eradication, are failing to achieve their targets largely for these reasons. For those agencies already basically equipped, the availability of loans in the face of drastically decreasing grants may have a powerful influence on budgetary practice. Loans for expansion and replacement purposes will require RTG agencies to budget for loan re-payments. Moreover, because of the budgetary and debt burden implications the Finance Ministry and the Bureau of the Budget would tend to restrict loan commodity purchases for realistic program expansion and to provide the budget for more adequate maintenance. Proposals currently under consideration would involve \$3 million for ARD, \$2 million for the TNPD, \$500,000 for the Community Development Department and up to \$2.5 million for the Malaria Eradication Program.

2. Up to \$10 million for Northeast Sub-Regional Plan Implementation. This proposal includes two parts of \$5 million each. The first targets on Changwat (Province) Khon Kaen but also includes Maha Sarakham, Chaiyaphum and Kalasin to provide primarily irrigation for upland crops in support of agro-industries. The second would help the IFC/T to finance small industries and industrial estates.

3. \$3 million for an Agricultural Development Loan as an extension of activity started pursuant to the FY 1973 Loan.

4. \$4 million to facilitate the export of agricultural crops, particularly cereal grains and tapioca, through the financing of the foreign exchange component of bulk export handling facilities at the Port of Sattahip.

5. \$3 million supplement to the feasibility study loan authorized in FY 1973 to finance a feasibility study, master plan and design in support of Bangkok transportation requirements.

6. \$2.5 million to finance detailed minerals investigations and surveys as a follow-on to the USGS survey and cataloging of all existing information on minerals in Thailand undertaken pursuant to an FY 1973 SA obligation.

Costs of the above activities in FY 73-75 are summarized below in thousands of dollars:

<u>SA Grants</u>	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>
<u>Agriculture</u>	<u>1434</u>	<u>2450</u>	<u>2600</u>
Research	767	995	670
Economics	263	620	650
Extension	404	435	440
Water Utilization	-	400	700
National Youth Program	-	-	140
<u>Labor</u>	<u>129</u>	<u>85</u>	<u>225</u>
Labor Training and Management	129	85	-
Upgrading Labor Department Services	-	-	225
<u>Health and Sanitation</u>	<u>343</u>	<u>507</u>	<u>424</u>
Rural Health	343	507	-
National Health Development	-	-	424
<u>Rural Education</u>	<u>309</u>	<u>1015</u>	<u>940</u>
<u>Public Safety</u>	<u>3347</u>	<u>3700</u>	<u>2500</u>
<u>Public Administration</u>	<u>270</u>	<u>487</u>	<u>1238</u>
Commodity Management	158	157	-
National Economic Policy & Planning	112	244	450
Planning Advisory Services, MOI	-	-	184

	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>
Local Government Finance	-	86	164
Administrative Coordination (OPM)	-	-	225
Management Information System(RTG)	-	-	215
<u>Rural Development</u>	<u>2616</u>	<u>2224</u>	<u>2473</u>
ARD	2237	1760	-
MDU	379	464	-
Rural Income Augmentation	-	-	324
Rural Intern Service Corps	-	-	50
Changwat (Provincial) Public Works Development	-	-	1689
ARD Management Improvement	-	-	400
NSC Base Logistics Center	-	-	10
<u>General and Miscellaneous</u>	<u>2152</u>	<u>2532</u>	<u>2600</u>
Private Capital Investment	153	445	600
Technical Support	1658	1737	1730
Special Participant Training	341	350	270
SUB-TOTAL (SA)	10,600	13,000	13,000
<u>Population Grant</u>	1789	1590	1265
<u>Narcotics Control</u>	1673	1645	1927
<u>Development Loans</u>	7000	-	10,000
<u>SA Loan (Rural Development - ARD)</u>	-	2,000	-
<u>PL-480 Title I</u>	<u>15,600</u>	<u>14,400</u>	<u>12,000</u>
GRAND TOTAL	36,662	32,635	38,192

As requested, identified below are projected FY 1974 SA obligations (\$000) which fall within the lowest 20% in terms of priority. USOM would apply any reductions, should such become necessary, in the following order:

- |                                     |                                      |
|-------------------------------------|--------------------------------------|
| 1. Water Utilization (200)          | 10. Civil Police (400)               |
| 2. Civil Police (300)               | 11. Rural Development Loan (250)     |
| 3. Education (200)                  | 12. ARD (145)                        |
| 4. Rural Health (107)               | 13. Ag Research (200)                |
| 5. Rural Development Loan (250)     | 14. Commodity Management (35)        |
| 6. ARD (200)                        | 15. NEPP (50)                        |
| 7. Private Capital Investment (100) | 16. Ag Economics (65)                |
| 8. Water Utilization (200)          | 17. Ag Extension (25)                |
| 9. Education (203)                  | 18. Special Participant Training(70) |

TOTAL (3,000)