

AGENCY FOR INTERNATIONAL DEVELOPMENT

February 7, 1966

TO: David E. Bell

You have asked the Office of Development Finance and Private Enterprise to coordinate the Agency's actions in response to the Report of the Advisory Committee on Private Enterprise in Foreign Aid. Attached is a summary of the Agency's actions to date.

D. W. Hoagland

A. I. D. 'S RESPONSE TO DATE TO THE REPORT OF THE
ADVISORY COMMITTEE ON PRIVATE ENTERPRISE IN FOREIGN AID

INTRODUCTION

The Advisory Committee on Private Enterprise in Foreign Aid was appointed on May 26, 1964, held eleven meetings and concluded its work in July 1965. Its Report was given to the President in August 1965. This memorandum describes A. I. D. 's response to date to the Report.

Although the Advisory Committee has disbanded, the individuals who served on it and the organizations they represent have a continuing contribution to make and are entitled to know what we are doing with their work. This memorandum is for them. The Report requests the Members of the General Advisory Committee for Foreign Assistance Programs, appointed by the President in May 1965, to give continuing attention to the role of non-government organizations. This memorandum is also for them. The Members of the Congress are vitally interested in this field. This memorandum is for them as well.

A Report such as this, if it is to be useful, cannot be treated as an isolated event. It must be one step in a continuing process of evaluation, questioning, and experimentation, and one step in the continuing dialogue between A. I. D. and the broad range of private organizations deeply concerned with the problems of developing nations. This memorandum is, then, a report to ourselves, a provisional balance sheet to guide us through the next stages.

A NOTE ON PROCEDURE

The Advisory Committee made thirty-three recommendations. Within A.I.D., responsibility for each of the recommendations has been assigned to a specific office. Overall coordination is assigned to the Office of Development Finance and Private Enterprise. Consultations have been held with the Departments of State, Agriculture, Treasury, Justice, the Bureau of the Budget and the Export-Import Bank. A.I.D. and the Department of Commerce have established a joint working group. Consultations have also been held with the International Finance Corporation and the World Bank.

The Report has been widely distributed. Efforts are being made to draw on many firms, individuals and organizations outside of A.I.D. for comment, advice and suggestions. For example: the Report has been systematically reviewed by the Task Force on Private Enterprise in Foreign Aid of the National Association of Manufacturers and its views given to A.I.D. at a joint meeting in January; the Council for International Progress in Management also reviewed the entire report with A.I.D. in January; many of the recommendations were discussed at a recent meeting of A.I.D.'s Advisory Committee on Economic Development, chaired by Professor Edward Mason of Harvard.

SECTION 1: PRIVATE ENTERPRISE AND FOREIGN AID

A.I.D. is in full agreement with the broad philosophy set forth by the Committee. The Report has been received throughout the A.I.D. organization in Washington and in the field as a thoughtful analysis of the role private resources can and must play in economic and social development. The Report, designed to influence the tone and shape the direction of A.I.D.'s programs, is having the intended effect:

1. Its influence began to be felt even before the final drafting in June. The program guidance for Fiscal Year 1967 programs sent by the Administrator to all Mission Directors on April 13, 1965, included the following:

"Private sector development continues to be a subject of special A.I.D. concern. For each country in which private sector activity can play a substantial role in meeting U.S. objectives, the mission should consider including in its Country Assistance Strategy Statement as a major program goal plan a broad, comprehensive program of host country action, AID action, and strategy for fostering needed host country and other donor action to promote private sector development. The program should include an effort to develop a sequence of projects and programs designed to identify and eliminate obstacles to private investment, both foreign and local, and to strengthen private activity generally."

2. Particular attention was given to private sector development in the Administrator's Fall reviews of the major country programs.

3. The Agency is reaching out to many private organizations in the U.S. to explore new forms of government-private association. Illustrative are recent contacts with the American Institute of Banking, the American Management Association, the Investment Bankers Association, the National

Industrial Conference Board and the Investment Company Institute. These groups are valuable sounding boards and sources of information and ideas.

4. A.I.D. is working to cause national and international planning organizations to give increased attention to the private sector and to increase private participation in the planning process. New organizations have been created and existing organizations strengthened, often with direct A.I.D. assistance, to represent the private sector. For example:

- A private enterprise conference will be held in Panama in August of this year under the auspices of CONEP, the newly formed Panamanian national council of private companies. Participants are expected from all Latin American countries. The topic of the conference will be ways and means to involve private sector representatives more deeply in national planning.

A.I.D. is also encouraged to note that the Inter-American Committee for the Alliance for Progress (CIAP) is now emphasizing in its country reviews that meaningful participation by the private sector in the planning process is highly important.

5. In May 1965, A.I.D. proposed that the Development Assistance Committee of the OECD include private investment matters in its activities. Representatives of the member countries are preparing a work program to: exchange information on investment incentives, coordinate public and private development efforts, improve statistics on private capital flows and

study the overall effects of foreign private investment in selected developing countries. The Business and Industry Advisory Committee of the OECD will participate, to represent the private business firms of the DAC member countries.

A number of developments in recent months are of interest in relation to the Committee's discussion of the attitude towards private enterprise prevailing in less developed countries: In November 1965, Brazil and the U.S. concluded the final arrangements under which A.I.D.'s investment guaranty program, covering both political and extended risks, is now available to U.S. investors in Brazil. This is one aspect of a basic change in attitude in Brazil towards foreign private investment. Its potential significance is shown by the applications now on hand in A.I.D. for coverage in Brazil - they total over \$200 million in potential investments. Another example of the changed attitude is the decision of the Brazilian Government to permit certain iron ore and petrochemical projects to be handled by private industry in association with foreign investors.

The governments of Tunisia and Ceylon are now making real efforts to attract foreign private investment. Chile and Bolivia have enacted improvements in their investment laws. India has made significant changes in its policies affecting private enterprise in the fertilizer industry. To facilitate investment in this field the government has announced that it will remove price controls, permit distribution to be handled by private firms and streamline project clearance.

SECTION 2: THE FLOW OF DIRECT INVESTMENT

Recommendation No. 1

"We recommend that AID select a number of key aid-receiving countries for intensive study of factors which may improve the investment climate; that such studies enlist the help and advice of the appropriate business communities concerned; that an explicit program be developed for the improvement of the climate in those countries studied; and that, wherever the foreign aid program offers some effective opportunity for the improvement of such climate, the opportunity be used to the full."

By September 1965, A.I.D. had selected six countries for the study - Korea, Brazil, Thailand, Tunisia, Turkey and Chile. Instructions have emphasized: give the studies priority; consider the climate for local private investment as well as factors of special significance to foreign investment; involve both the local and foreign business communities in the studies; the desired product is not the study but a plan to improve the climate for private economic activity.

The Korea Mission started its study in October. Since several members of the strong private enterprise team in Taiwan had been transferred to Korea to build up Korea's private enterprise program, Mission personnel only were assigned to the job. The Mission's outline of its plan of work is attached as an example of the scope of these studies.

In performing its task, the team held many discussions with the Korean Businessmen's Association, a representative group of prominent men in industry and commerce. The report is expected by February 15.

and the proposed actions will be reflected in Korea's country program submission due April 1.

Brazil's study was started by Mission personnel and supplemented by a consultant's report submitted in December. The Mission's official report will be based on this work, and is expected February 15.

Thailand retained a consultant who arrived at the Mission in January. He will transmit a status report on March 1, at which time we can establish a date for submission of the final report containing the survey generated action programs.

During November and December 1965, an A.I.D. consultant made a study of the investment climate in Tunisia. We received a preliminary report in late December. Arrangements are being made for a team representing one of the leading Edge Act Corporations to go to Tunisia shortly to look for new investment projects. (This plan is described more completely under Recommendation No. 4.) Their primary interest will be to work out actual investments, but while they are doing this, they will also be used to check to results of the consultant's study and, on the basis of this live experience, to propose specific actions for the A.I.D. program.

The study in Turkey is substantially farther along than the others. In May and June of 1965, A.I.D. decided to do a study of industrial development - particularly private development - in Turkey. This study, as was the case with many other agency actions in this field during this period, emerged from the normal planning processes of the Agency, but

was directly influenced by the discussions of the Committee. As the study progressed, and the Committee's recommendations were released, it became clear that it covered material called for by this recommendation.

During the summer and fall of 1965, a team gathered information which was used as a basis for a series of recommendations by the Mission in October of 1965. In preparation for this, A.I.D. representatives who were to participate in making these decisions met with the NAM Task Force on Private Enterprise in Foreign Aid to discuss the investment climate of Turkey. Among the Mission's recommendations were:

- To work towards liberalization of controls on imports of raw materials and machinery for the private sector.
- To help the Turks develop major projects in the private sector.
- To devise means of extending credit availability to areas outside Istanbul.
- To work toward increasing the capability of Turkish institutions rendering credit, engineering, training and consultant services to the private sector.

Since that time, senior Mission personnel have worked to find private sector projects for possible financing. This campaign has turned up a substantial number.

A full report on these activities is expected from the Mission this month.

The Chile study is to be done by a team of expert consultants. This team has not yet been put together. We have set a March 1 deadline for the design of this study and the contracting of consultants to execute it.

As the results of these pilot country studies become available, we expect to apply ideas and methods that have proven to be useful on a broader basis to other countries.

Recommendation No. 2

"We recommend that the United States Government accept in principle the concept of international arbitration; that it ratify the proposed International Convention for the Settlement of Investment Disputes; and that it seek to secure its ratification by others."

The U.S. Government does accept in principle the concept of international arbitration.

Secretary Fowler signed the International Convention for the Settlement of Investment Disputes on behalf of the United States on August 27, 1965. Submission of the Convention to Congress for ratification during the present session is expected.

As of January 3, 1966, thirty nations, including an encouraging number of less developed countries, had signed the Convention. No Latin American State has yet signed. One ratification, that of Nigeria, has been deposited. The Convention will come into force after ratification by twenty nations.

Recommendation No. 3

"We recommend that the United States Government lend its full support to the principle of an investment code under international sponsorship; and that as part of such a code the United States be prepared to accept a reasonable statement of the obligations of investors, to accompany a statement of the obligations of host countries."

The U.S. Government has actively participated in the preparation of one code of this kind - the OECD draft Convention for the Protection of Foreign Property. The United Nations and the Inter-American Committee for the Alliance for Progress are both in the early stages of developing a statement of principles of this kind. We agree with the Committee about the kind of statement the United States should be prepared to accept. No significant support for the OECD draft Convention has yet appeared among the developing countries. As a result, the possibility of adoption of such a code appears slim for the present.

Recommendation No. 4

"We recommend that both the United States Government and private organizations assist the less developed countries in undertaking large scale programs of market studies and feasibility studies, to be used as part of a campaign in engaging the interest of prospective local and foreign private investors. In view of the need for persistence and continuity in the promotion of any given project, the generating of such studies should be the prime responsibility of local entities, such as a development bank or well-equipped ministry, motivated and equipped to maintain a follow-up campaign from the stimulation of an initial interest by investors to the final act of establishment. If necessary, the contracting of foreign technical assistance should be included. AID financing should be predicated on significant contributions by the local institutions but might include the costs of a substantial effort to 'sell' proposals in face-to-face contacts with enterprises in the United States."

A.I.D. agrees with this recommendation in general.

A.I.D. shares the view of the Committee that local entities, such as development banks have a major role to play in project identification and promotion. For example, we are now considering undertaking technical assistance to the Industrial Development Bank of Pakistan for the specific purpose of increasing the Bank's capability to handle private loan proposals.

On January 31, 1966, A.I.D. signed a \$3,000,000 loan agreement with COFIEC, a newly established private development bank in Ecuador. The new bank was organized by Ecuadoran businessmen and bankers and has \$1,000,000 subscribed capital from numerous U.S., foreign and Ecuadoran private banks, companies and individuals. It will be staffed to seek out investment opportunities and bring them to the attention of potential investors. The A.I.D. loan will supply investment capital and finance feasibility studies, as well as technical assistance to the ultimate borrowers. It will provide medium and long term credits at 8% to private industry, a sector previously not served by private banks in Ecuador.

Last fall a new Office of Promotion and Assistance to Private Enterprise was established within the Guatemalan National Economic Planning Council. Although Guatemala has had a highly successful industry productivity center, little, if any, efforts were being directed toward identification and promotion of new investment. A.I.D. is providing, through a November 1965 contract with a Puerto Rican consulting firm and

its own personnel, technical and advisory services to this new entity that will make it a one stop center of investor information, feasibility studies and aggressive promotional activities.

The A.I.D. loan to Brazil, authorized October 1965, is also relevant. It is to finance feasibility studies for both the private and public sector. It includes the provision of technical assistance to a newly established central agency and several related sub-lending agencies which will make the loans for the studies. The loans for private projects will be made to potential investors, so that the need for independent promotion is minimized. The loan will not only generate projects suitable for international financing but, notably, will create an institutional capacity to perform studies within all the Brazilian agencies involved.

A U.S. contractor is now making a pre-investment survey of the petrochemical sector in Korea which is expected to identify a number of private projects. American firms and banks are following the survey with great interest.

Joint arrangements now being worked out between A.I.D., a leading financial institution, the Tunisian Chamber of Commerce and a Tunisian development bank, are an imaginative blending of resources bearing on the identification and promotion of investment opportunities. The banking representatives will provide financial know-how and provide personnel in Tunisia to coordinate with Chamber personnel in selection and promotion techniques. After collecting

selected projects bearing approval of the Government of Tunisia and backed by pledges of local financing if necessary, the banking team will promote these projects through its U.S. banking connections, being prepared to lend or invest in them for its own account.

Plans are being made to apply this technique in other countries.

In March 1965, A.I.D. contracted with the International Marketing Institute of Cambridge, Massachusetts, to make an overall survey of export promotion services. This intensive survey is in its final phase and its findings should provide A.I.D. with a set of guidelines with which to help the less developed countries build productive export programs.

A task force has been set up by State, Commerce, and A.I.D. to review and evaluate the current programs of commercial, trade and investment reporting. The work of the Committee is well advanced and recommendations for improvement are expected soon.

A.I.D. is clearly involved in a lot of work of the general type recommended by the Committee: feasibility studies to be marketed by major consulting firms, market studies, the statutory program of investment surveys, financial and technical advisory support to local development banks and other institutions, promotional efforts by investment centers, etc. These activities represent the deployment of substantial resources, but we have concluded that we need to learn more about their comparative efficiency. To do this, we are organizing an evaluation project. Planning of this project is underway. We expect the work to begin by March 1, 1966.

Recommendation No. 5

"We support the proposals under consideration by the Congress which would: (1) raise the \$2.5 billion statutory ceiling on the guaranties against inconvertibility, expropriation and military hazards to a new level of \$5.0 billion; (2) relax the statutory requirements for enterprises eligible for guaranty, to permit the coverage of foreign corporations jointly owned by more than one U.S. company; (3) relax the 20-year statutory limitation on the life of guaranties; and (4) permit AID to use income from the guaranty program not only for the management and custody of assets but also for certain other operational costs associated with the guaranty program.

"We urge in addition (5) that enterprises be permitted to insure comprehensively for all three categories of risk, rather than for each risk separately, thereby reducing the total amount of insurance coverage required; and (6) that consideration be given to a reduction in the rates applicable to such insurance so that the coverage of two specific risks costs $3/4\%$ rather than 1% , and the coverage of three specific risks costs 1% rather than $1-1/2\%$."

In the Foreign Assistance Act of 1965, signed by the President on September 6, Congress adopted the proposals covering points 1 through 4 although the 20-year limit on guaranties was relaxed only for loans. In analyzing points 5 and 6, A.I.D. will make a number of changes. If the National Advisory Council on International Monetary and Financial Problems approves, A.I.D. will: offer a combined war and expropriation coverage at a combined premium rate of $7/8\%$; reduce the premium for convertibility coverage from $1/2\%$ to $1/4\%$; reduce the fee for standby coverage from $1/4\%$ to $1/10\%$.

Recommendation No. 6

"We recommend an expansion of the extended risk guaranty. In undertakings in which businessmen are willing to risk as much as 25% of the total investment on a junior basis, an amount not to exceed 75% of the investment should be eligible, upon approval by AID, for a 100% extended risk guaranty.

"To permit adequate opportunity for the development of such programs, we recommend that the statutory authority to issue housing and extended risk guaranties be prolonged to June 30, 1969. We recommend also that the \$25 million guaranty limit in connection with loans and the \$10 million limit in connection with other investments be removed."

The Administration's proposed Foreign Assistance Act of 1966 requests an expansion of authority to issue Extended Risk Guaranty contracts from the effective current availability of \$175 million to \$300 million. This authority would be available for five years. A. I. D. has altered its policy concerning 100% coverage to meet the Committee's recommendation in part, although it has not yet applied the full recommendation. Subject to approval by the National Advisory Council, A. I. D. is now offering to give direct 100% guaranty coverage to long-term lenders, provided other financing (presumably shorter term) is furnished by banks or other financial institutions equal to 25% of the loan financing. This would give institutional lenders the full 100% coverage which they require and which the Committee recommended. It varies from the Committee's recommendation by seeking to bring a short-term lender into the picture at risk.

At the same time A. I. D. is considering a reduction in fees in order to make the cost of money raised under this program more attractive, and

to reduce the burden on the developing country's balance of payments. (The U.S. balance of payments is protected by a requirement for U.S. procurement.)

Six projects are now in the stage of active negotiations on this basis with good prospects of realization this year.

The Committee also recommended removal of the \$25 million guaranty ceiling on loans; Congress enacted this provision in 1965. Congress also enacted the recommendation to remove the \$10 million limit on other forms of investment, but extended the statutory authority to issue these guaranties to June 30, 1967, rather than June 30, 1969, as recommended by the Committee.

Recommendation No. 7

'We recommend that the United States Government urge the World Bank and the Inter-American Development Bank to explore further the feasibility of setting up a guaranty system which would selectively indemnify both locally-owned and foreign-owned enterprises in the less developed countries against the effect of a devaluation.'

A.I.D. has forwarded this recommendation to the National Advisory Council for International Monetary and Financial Problems for its consideration as coordinator of U.S. policies on international matters of this kind. It will develop a U.S. position to guide the U.S. Executive Director of the World Bank. It has also been discussed informally by A.I.D. with the Bank's staff.

Recommendation No. 8

"We recommend that the United States Government support both wholly-owned and jointly-owned enterprises in the less developed countries, and that it avoid any doctrinaire position on the issue.

"We recommend further that where the prospective investor has legitimate concerns regarding the nature of the arrangement proposed by the host government, and wishes to enlist the support of the United States Government in expressing these concerns to a host government, the United States Government should consider sympathetically the possibility of lending such support."

A.I.D. has no formalized policy requiring insistence on joint ownership in any given situation. We do see many advantages to jointly owned enterprises in less developed countries, and, wherever this is feasible and realistic, tend to favor them. At the same time we are aware that this type of ownership can create problems for the U.S. investor. In our discussions with business, we find a divergence of views. Although our policy is not doctrinaire, our attitude in specific cases should be based on a thorough understanding and the best available information. Accordingly, we expect continued consultation with business on this subject. On February 11, 1966, it will be reviewed at a meeting of the Advisory Committee on International Business Problems (the Randall Committee), when individual companies with particular problems in this area will present their views and experiences to the Committee, along with representatives of State, A.I.D. and Commerce.

Recommendation No. 9

"We recommend that the United States tax laws and regulations be amended so that the United States taxpayer's right to offset losses in subsidiaries against taxable income from other sources would be the same for subsidiaries in less developed countries as it is for subsidiaries in the United States."

Consultations with Treasury and expert private tax counsel lead us to question the advisability of adopting this recommendation. The Department of Treasury believes that the proposal would permit distorted allocation of profits and create double deduction for losses. Private experts have emphasized that a rule permitting current deduction of losses but no current taxability of earnings runs counter to generally accepted rules of taxation. They have also emphasized the complexity of enforcement problems which would be faced by the Internal Revenue Service. We will continue our consideration.

Recommendation No. 10

"We recommend that the United States Senate accept the provisions of the United States-Thailand tax treaty which would apply a 7 percent investment credit to United States-owned investment in Thailand.

"We recommend also that the United States Government take steps to apply the same treatment to investment in other selected less developed countries, either by legislation or by treaty."

The tax treaty with Thailand and a treaty with Israel containing a similar provision were submitted to the first session of the 89th Congress. A Subcommittee of the Senate Foreign Relations Committee held hearings on the bill but action was not completed prior to adjournment. A number

of Administration witnesses, including the Assistant Secretary of State for Economic Affairs, testified in support of the treaties. Although some opposition has been voiced, it is hoped that action will be completed during the current session of Congress. Negotiations with other countries have been started.

Recommendation No. 11

"We recommend the enactment of a proposal for a tax credit equal to 30 percent of the investment by United States investors in productive facilities in less developed areas, to be applied against the total United States tax liability of such investors."

In his remarks to the Advisory Committee in August 1965, the President said:

"We have already made certain recommendations - both in tax treaties now before the Senate and in my foreign aid message - for using tax measures to encourage private investment in the developing countries. I am certain that the Congress, in its consideration of this subject, will give weight to the views of this Committee."

The submission of this tax credit proposal is currently under review in the Executive Branch.

Recommendation No. 12

"We recommend that the encouragement to investment offered by such tax-sparing measures in less developed countries should not be negated by United States tax laws."

Although the principle of tax sparing was incorporated in a tax treaty with Pakistan negotiated several years ago, the treaty was withdrawn by the Administration as a result of a basic change in policy. Tax sparing is disadvantageous to the developing country because it encourages

rapid repatriation of profits. (It is only when profits are brought back into the U.S. that the investor derives a direct U.S. tax benefit.) Further, tax sparing gives the greatest benefits to U.S. investors in countries with the highest rates of local taxation and gives local tax authority the power, in effect, to set U.S. tax levels.

Recommendation No. 13

"We recommend that the United States Government, working through its bilateral treaties of establishment, through the mechanisms provided by the OECD, or through other appropriate means, widen and strengthen its collaborative practices with other governments in the antitrust field. Wherever the activities of such governments seem likely to raise the problem of multiple standards and jurisdictional conflict in the application of antitrust policies, a major objective of the collaboration would be to reduce the uncertainty of the businessman concerning the jurisdictional authority and antitrust standards which would apply in his overseas activities."

The Department of Justice has been advised of this recommendation and, with the State Department, is taking an active part in the work of the Restrictive Business Practices Committee of the OECD, assisted by the Federal Trade Commission, the Department of Commerce and the Office of the Special Representative for Trade Negotiations. In November 1965, the U.S. proposed that the OECD sponsor a system of bilateral consultations. The proposal will be considered further in future meetings. Justice and State officials have conferred this year with officials of Canada, the United Kingdom, the European Economic Community and Japan on antitrust matters. An active and successful Antitrust Modification and Consultation Procedure is in operation between the U.S. and Canada under which current

consultations are held and advice is given prior to the institution of anti-trust actions affecting the other country's interests or nationals. The Departments of Justice and State are seeking to expand cooperation with other nations in this field in order to prevent conflicts with other national laws and develop a common approach to antitrust law.

SECTION 3: THE FLOW OF FINANCE CAPITAL

Recommendation No. 14

"We recommend that the Federal Reserve Board amend its recommendations to United States banks so that the restrictive effects on loans to less developed countries are eliminated."

The official statistics have shown substantial availabilities for credits to the less developed countries within the overall lending ceilings. It is possible that these availabilities are not in the institutions which do business in the developing countries, but to date the evidence of curtailment of lending to developing countries has not been sufficient to cause a policy change.

The guidelines were recently amended to make it possible for banks which heretofore have had little or no foreign lending activity to make some foreign credits.

The proportion of the total new foreign lending which has gone to developing countries has sharply increased since the Federal Reserve guidelines were issued in March 1965, but total lending to both developed and developing countries has decreased sharply. It is this decrease which concerns us now, and we are following the situation closely to be ready to

act if called for. In specific cases, if financing is needed but not available because of the guidelines, procedures exist to consider relief if needed.

Recommendation No. 15

"We recommend that a large-scale program of assistance be expanded for the development and improvement of local financial institutions in support of private and cooperative enterprises in the less developed countries; and that the program draw heavily not only on the expertise of the United States and other advanced countries, but also on expertise in countries whose institutions may be more relevant to those of the less developed countries. Presumably, such a program could be conducted not only through the auspices of public international agencies such as the Organization of American States and the United Nations specialized agencies, but also through private organizations such as those in the cooperative and labor fields which have the necessary experience and interest."

A.I.D. considers this recommendation to be of major importance, and is addressing it in a number of ways. The studies made in response to Recommendation No. 1 will suggest specific projects. A.I.D.'s programs of capital and technical assistance to intermediate credit institutions should continue to support the goals of this recommendation.

A July 1965 message from AID/Washington to each Field Mission emphasized the significance of soundly conceived and well administered legal institutions responsive to modern developmental needs, encouraged the Missions to review their existing programs aimed at improvement of legislation and public administration and, as appropriate, to propose new efforts and projects in this field. The legal institutions of a number of developing countries as they affect the forms and ways in which business is conducted are now being analyzed.

The July message pointed out that while there may be a lack of appropriate commercial, corporate and property codes and institutions to facilitate credit transactions in many less developed countries, the few programs we have undertaken in this area have had notable success.

A survey of the operations of the Brazilian stock exchange, made by experts from the SEC and the American Stock Exchange, has just been completed under an A. I. D. contract authorized in August 1965. Its recommendations have been welcomed by Brazilian authorities and appropriate technical assistance will be provided this year.

On February 15, 1966, a former Vice President of a leading U.S. investment bank, now an IESC volunteer, is going to Taiwan at the request of the China Development Corporation to undertake a similar study of the Taiwan Stock Exchange.

Last year an intensive study was made of the Korean financial sector as part of the Administrator's review of specific sectors in selected countries. Evaluations were made of all the major financing institutions in the country and programs directed toward this sector were scrutinized. This resulted in a strengthening of the Mission staff to include, among others, a Banking Advisor, an Agricultural Economist, the extension of contracts with accounting and management consultants to work within banks, savings and loan associations and other credit institutions, and renewed program emphasis on increasing the effectiveness of this sector.

The Committee's suggestion that the experience of other countries, whose institutions may be more relevant to those of the less developed countries than the U.S., be looked to as a source of guidance and expertise, is welcomed. We believe that the rapid development of corporate and financial techniques in Japan and Mexico in recent years may be particularly relevant and intend to draw on this experience to the extent possible.

In November 1965, the Liberian Bank for Industrial Development and Investment (LBIDI) was established to provide medium and long term capital to private enterprise in Liberia. Capital amounting to \$1,000,000 was subscribed and paid in by the IFC, the Liberian Government and several U.S. firms. A \$2,500,000 loan has been granted by Germany. A.I.D. is contributing to the cost of management and is providing the services of a U.S. consulting firm for loan reviews on behalf of the LBIDI. This is an excellent example of the joining together of private and public multilateral support for a private enterprise directed lending agency.

A.I.D. loans for cooperative type projects, housing, electrification and agricultural credits, now total \$565 million. An example is the loan, authorized by A.I.D. in June 1965, of \$3,650,000 to the Chilean Cooperative Bank. These funds will be used for sub-loans to cooperative organizations throughout Chile for various productive purposes.

In FY 1962, A.I.D. committed \$2.8 million in support of technical assistance for cooperative development. By FY 1965, this figure rose to

\$16 million. A.I.D. sponsored cooperative programs in 39 countries during FY 1965. Eighty-eight contracts with American non-profit and cooperative organizations were the backbone of this activity. Among these organizations were:

American Institute for Free Labor Development
Cooperative League of the USA
Credit Union National Association
Farmers Educational and Coop Union
Foundation for Coop Housing
Fund for International Development
International Coop Development Association
International Coop Training Center
National League of Insured Savings Associations
National Rural Electric Coop Association

These institutions have over 280 men serving in the field, stimulating and guiding the development of indigenous counterpart organizations.

The Committee's views have led us to plan a systematic evaluation of our efforts to determine if we are doing the right thing in the right places with the right amount of resources.

Recommendation No. 16

"We urge the United States Government to approve a proposal to permit the IFC to borrow up to \$400 million from the World Bank for investment in private enterprise in the less developed areas; and we urge approval of the provision eliminating the need for the guaranty of such transactions by governments in the country of investment."

Congress has now approved the proposal that the IFC be authorized to borrow up to \$400 million from the World Bank. (The provision for host country guaranty had been eliminated sometime ago.)

The necessary amendments to the IFC's Articles of Agreement entered into force on September 1, 1965 after adoption by the IFC Board of Governors. The necessary amendment to the World Bank's Articles of Agreement came into force on December 17, 1965 after adoption by its Board of Governors and acceptance by the required number of member countries.

IFC is now a shareholder in 14 development finance companies in 12 countries. With its new authority, it will be able to play a substantially increased role in private sector development.

Recommendation No. 17

"We recommend that AID review its policies with a view to widening the use of United States-owned local currencies; and in that connection, that it give serious consideration to the greater use of those currencies for increasing the capital base of financial intermediaries of both the commercial and co-operative types."

A.I.D. has created a task force to study ways in which more U.S. controlled local currencies can be used to increase the capital base of various kinds of financial intermediaries. From FY 1957 through FY 1964, A.I.D. has channelled the local currency equivalent of \$773 million to intermediate credit institutions, primarily to industrial, agricultural and housing banks.

U.S. controlled local currencies are in excess of our requirements for other U.S. Government use in only ten countries. Of these, potential applications of the kind recommended by the Committee seem feasible only in India, Pakistan and the United Arab Republic. A change in A.I.D.

policy authorized in January of this year now permits the lending of Cooley funds to U.S. banks overseas and their affiliates to be used for sub-loans to private borrowers. This channels local currency to the small investor who needs it and assures that control management of the lending operation funds is in competent hands. We have already authorized three such loans to a U.S. bank in Pakistan and are considering others in India.

Recommendation No. 18

"We urge the Administration to consider the possibility that any United States tax credits extended by treaty or legislation to the direct investments of United States investors in less developed countries, such as the 7% and 30% credits proposed in Section 2, also should be extended to the portfolio investment of United States corporate or institutional investors, wherever such investments meet the eligibility criteria which would apply to direct investments."

We are reviewing this recommendation as part of the overall analysis of fiscal incentives referred to in the discussion of Recommendation No. 11.

Recommendation No. 19

"We recommend that AID tailor its specific risk guaranties to permit their easier availability to United States buyers of selected issues of foreign private enterprises. Among the possibilities which AID should explore is: arranging for the application of such guaranties through negotiation and agreement with the underwriters rather than with the ultimate buyers, thereby sparing the buyers the cost and difficulty of direct negotiations and ensuring a wider United States market for the securities involved."

A.I.D. is advising the investment community of the advantages and problems of arranging for specific risk guaranty coverage with underwriters. Arrangements are being worked out. No statutory changes are

needed, and this can be done. This coverage is feasible, although specific arrangements will have to be tailored to meet the requirements of different kinds of transactions. We believe this is understood by the firms that are active in the international financial community.

Recommendation No. 20

"We recommend that AID offer portfolio investors extended risk guaranties, combining risk-yield features which make selected securities of private enterprises in the less developed countries competitive with the alternative opportunities of such investors."

In our discussion of pending projects, we have proposed varying rates of return on early and late maturities and have attempted to interest institutional investors in something less than 100% coverage of risk. Thus far, we find them interested only in 100% coverage.

Recommendation No. 21

"We recommend that, in the administration of its aid programs in the less developed countries, United States representatives be instructed to subordinate other objectives to that of securing the economic and social development of the less developed nations. In this connection, it should be recognized that United States interests are usually best served by testing any project in these terms, rather than in terms of whether the project would affect the competitive position of particular branches of United States industry or United States agriculture."

The foreign assistance program is part of the total U.S. effort to achieve its foreign policy objectives. In general, we agree with the Committee's statement, recognizing, as does the Committee, that there may be cases where other policies and objectives may outweigh the objectives of pure economic development.

SECTION 4: DEVELOPING HUMAN RESOURCES

Recommendation No. 22

"We strongly urge AID, in reviewing and responding to a country's development strategy, to place major emphasis upon the planning, host country commitments to, and the execution of educational programs. In such programs, we urge AID to use every means to tap the rich resources in United States universities, labor unions, cooperatives, business enterprises, professional societies, and other non-governmental entities which have something to offer to the educational process."

A.I.D. fully endorses this recommendation. The desirability of increased emphasis on the place of education in the development process has been recognized by the President in the 1966 Foreign Aid Bill and in the proposed International Education Act of 1966.

Over the years a high proportion of A.I.D. loan and grant funds have gone into educational fields at all levels. Some 350 separate projects in the educational field are now underway, of which approximately 140 are being carried on by U.S. universities under A.I.D. funded contracts.

A.I.D. is attempting to ensure that all possible U.S. private resources be utilized in this field as well. For example, in Latin America 17 Worker Training Centers are being operated by the American Institute of Free Labor Development with A.I.D. funding support.

Recommendation No. 23

"We recommend that, in selected cases, AID partially finance the sale of technical, professional or managerial assistance from United States organizations to entities in less developed countries, and that the subsidy contribute not only to the costs of the assisting enterprise but also to the costs of searching out and finding the appropriate source of such assistance."

A.I.D. shares the Committee's view of the importance of insuring an adequate transfer of technical information to enterprises in the less developed countries. There seem to us to be several possibilities for establishing or supporting institutions that can be called upon to carry out this proposal. The program of the International Executive Service Corps, a private organization which in its early years is receiving substantial funding from A.I.D., is very promising. In the fall of 1965, A.I.D. decided to continue funding this project at a substantial level for another year. The IESC is now operating in 20 less developed countries. Approximately 151 projects have been completed, are currently underway, or have had a volunteer assigned. The planned project level for Calendar Year 1966 is 250.

A.I.D. recently has asked VITA (Volunteers for Industrial Technical Assistance), also a non-profit, privately managed organization, to consider the possibility of VITA becoming A.I.D.'s principal source of technical industrial advice in response to inquiries generated from and through A.I.D. Missions.

In selected situations, A.I.D. is subsidizing part of the salaries of U.S. technicians engaged in improvement of operations in host country development banks. A typical example is the A.I.D. contribution which makes it possible for the Industrial Development Bank of the Sudan to maintain the services of a competent U.S. technician.

In Nigeria, A.I.D. has made it possible for the development bank to hire experienced U.S. personnel as loan application reviewers.

Taking the recommendation more broadly, A.I.D.'s technical and financial assistance to productivity centers, business and vocational schools and research institutes help fill the need for this kind of assistance.

A.I.D. loans usually provide for the hiring of technical experts from the private sector to act as advisors.

For example, the loan made in 1965 to two large chemical enterprises in Korea engaged in the manufacture of fertilizer, the Khinhae Chemical Company and the Yongnam Chemical Company, included the cost of U.S. engineering services as part of the loan. A loan to a private Brazilian cement company, authorized in August 1965, provides funds for engineering advice to the borrower.

Recommendation No. 24

"We urge AID to actively promote the development of management schools and vocational institutions in the less developed countries capable of generating the manpower needed for the management and operation of a society based on principles of private enterprise, cooperative ventures, and other non-centralized enterprise forms. We also recommend that AID survey the possibilities of more extensive use of facilities of American-owned subsidiaries and affiliates in the less developed countries for training purposes; and that it undertake to provide financial support, using local currency as available for such added training activities as these enterprises or other organizations might be willing to undertake with the use of these facilities."

We agree that the shortage of qualified management personnel is a serious obstacle to satisfactory economic development. Although we are

supporting a number of management schools and vocational institutions, a broader effort is required. Our successes and failures are now being evaluated.

A three man team from the Harvard Business School supported by A.I.D. and headed by Mr. George Lodge, Director of International Activities, is in Tunisia now assessing the needs for a program to bring the Faculty of Business Administration and Economics of the University of Tunisia to an adequate scholastic level. The school was established under an original A.I.D. loan of \$1,800,000 granted in 1963.

In Brazil, the Sao Paulo School of Business Administration, built through an A.I.D. - financed contract, is a successful management training institution with an outstanding reputation in Latin America.

We support the concept and activities of the International Center for the Advancement of Management Education, as well as other private groups. ICAME is in touch with some 55 business schools in 25 countries which have 4,000 full time graduate students, 35,000 undergraduate students and some 3,000 full or part time faculty members.

The American Management Association is assisting A.I.D. informally to investigate the possibility of greater use of American affiliated firms for training purposes and to help us develop an appropriate action program. Thus far, two firms have shown positive interest. Our tentative conclusion is that this kind of program can best be carried out by pooling the resources of several companies located in the same area.

Recommendation No. 25

"We recommend that AID and the Export-Import Bank review their present policies for extending guaranties and export credits to exports of technical and professional services destined for the less developed areas, with the object of eliminating any remaining disparities of treatment between exports of services and exports of goods."

A.I.D. and the Export-Import Bank have reviewed their policies in response to this recommendation. The Export-Import Bank is the primary source of guaranties and credits covering export sales of technical and professional services. Early in 1966 it decided to increase its coverage for the export of technical services.

A.I.D.'s Specific Risk Investment Guaranty Program does not cover export sales; it covers long term investments. However, contracts running longer than five years for the provision of technical and professional services, as well as patents, processes and other technical information, may be covered under A.I.D. programs provided the agreement is not a simple sale of services on current account or short payment terms. Exports of services which are contributed for an equity interest are also eligible for coverage.

Recommendation No. 26

"We recommend that AID finance increased research imaginatively related to the agricultural, industrial, educational and administrative needs of the less developed countries. In some of these fields, such as agriculture, education and administration, the research would no doubt have to draw heavily upon United States resources, of the sort that can be provided by universities, agricultural research institutions and the like; but the experimentation itself would usually take place in the less developed areas themselves and should be directed towards strengthening research institutions and

capabilities within these areas. Defining the problems to be studied and identifying qualified research capabilities requires of AID considerably more skill and more effort to involve the less developed countries than has heretofore been characteristic. Some of this activity might be financed by United States owned local currency where available."

An intensive examination of the direction and administration of A.I.D.'s research program in agriculture, industry, education and administration has recently resulted in a reorientation of the program in the direction suggested by the Committee. Research objectives have been more sharply defined and a number of administrative improvements put into effect. For example, research institutions are being developed in the less developed countries. Illustrative is the current planning for an institute of industrial technology and applied science in Korea. Another example is a new combined research and agricultural extension field project in Brazil.

A.I.D., together with the Ford, Rockefeller and Kellogg Foundations, will join in an effort to upgrade the Colombian Agriculture Institute. The effort will be directed at improving research, extension and the supporting educational capabilities. A.I.D., through a contract with the University of Nebraska, will devote itself to bringing the curricula of three Colombian universities into line with the demands for trained technicians that will be occasioned by refinements in the research and extension organizations. It is planned to employ as many as 20 U.S. university professors in the three Colombian schools.

The Agriculture Research Committee of A.I.D.'s Office of Technical Cooperation and Research has approved a Mississippi State University seed

production research proposal that is particularly relevant to several of the recommendations of the Report. The project will investigate the reasons why U. S. private seed producers have not expanded their production of seeds in the less developed countries and devise ways of encouraging them to do so. Included in the scope of work will be an intensive study of those factors now apparently acting as a disincentive to further investment in this field and the determination of what changes are in order. The study will be carried out in 23 countries and its deliberations would be assisted by an advisory committee of representatives of FAO and the foundations.

Recommendation No. 27

"We recommend that AID assist in financing the development of appropriate non-profit institutions in the less developed countries and that it finance the development of links between such organizations and their counterparts in the United States, through which technical assistance could be effectively provided. Assistance of this sort could take many forms, from such familiar activities as assisting educational institutions to supporting public forums and discussion groups. We see this activity, too, as a fruitful possibility for the expenditure of United States-owned local currencies."

A. I. D.'s assistance to existing voluntary agencies, guided by the Advisory Committee on Voluntary Aid, has produced excellent results. In many instances the programs of these agencies have changed from charitable operations to technical assistance efforts in a variety of fields. Community development and educational projects are being worked into the programs of the volunteer agencies in increasing numbers. At the field level a start is being made in unified planning between A. I. D. Missions

and the voluntary agencies active in each country. Some Missions, Vietnam for example, now have a resident staff member working exclusively on such coordination.

A.I.D. has an increasing number of contracts with cooperative agencies, savings and loan associations, credit and labor unions, which are designed to encourage the establishment of counterpart organizations in the developing countries. The Report has further stimulated this trend. In addition, this recommendation will be given further consideration in connection with Recommendation No. 31.

SECTION 5: SOME ISSUES OF ORGANIZATION

Recommendation No. 28

"We urge the Congress to encourage not only well-conceived project loans but also well-conceived program loans in the administration of United States aid, especially when such program loans would stimulate the local private sector to a greater contribution in the process of social and economic development."

In FY 1966, to date, A.I.D. has authorized six program loans totalling \$362,500,000. Disbursement of these loans is generally by installments. The release of each installment is conditioned on achievement by the recipient of specific economic performance criteria and reforms, many of which are designed to stimulate the private sector, such as monetary stabilization measures and import control liberalization.

Recommendation No. 49

"We recommend that AID expand and improve its organization both in Washington and in the principal missions abroad so that it is appropriately staffed with persons who, by experience and competence, are capable of acting as an effective conduit between the private sector and the official aid organization. In this connection, we urge AID to take steps to establish a basis for co-opting men from the private sector for rotation back to their permanent organizations after a tour with AID."

Starting in 1962, A. I. D. has made a particular effort to respond to the concerns reflected in this recommendation. A number of experienced business executives have been brought into the Agency either as direct hire personnel or as consultants. Mission and Washington private enterprise organization is being continuously studied. Recently Korea and Thailand Missions have expanded their private enterprise staff and realigned certain other duties to bear more on private sector development. The Turkey Mission is planning to have a private enterprise officer resident in Istanbul.

In each of the principal missions one or more senior private enterprise officers have been designated. The Agency's Fiscal Year 1967 budget submission and Fiscal Year 1966 manpower allocations reflect an increase in mission direct-hire staffing for projects affecting private enterprise, and increased use of contractor personnel from private American institutions, although total Agency direct-hire staffing will remain virtually level through Fiscal Year 1967, except for Vietnam.

In Washington, the Africa Bureau of A. I. D. has split off private enterprise activities from the Capital Development Office. This new Office

of Private Enterprise will report directly to the Assistant Administrator for Africa.

In the Bureau for the Far East and in the Bureau for Near East and South Asia, the functions of handling capital and technical assistance projects for stimulating the local private industrial sector and encouraging U.S. investment in less developed countries have been consolidated within a single unit headed by a senior officer. In the Bureau for Latin America, the region where lesser-developed countries' private sectors are most vigorous, there are separate units for housing and urban development, loans to private enterprise, cooperatives, labor and marketing programs.

To be fully satisfactory, a system of co-opting men from the private sector should protect accumulated pension rights and other fringe benefits derived from their permanent organization. However, this creates difficult to resolve conflict of interest problems. A.I.D.'s Office of Personnel, together with the General Counsel, are exploring possible solutions.

Recommendation No. 30

"We commend AID for its increasing use of contractors in the handling of specialized tasks and urge the Agency to extend this practice."

The trend towards the use of contractors in the handling of specialized tasks, noted with approval by the Committee, continues. Conversations with the investment banking community are currently underway to explore possible bases for contractor relationships for the purpose

of identifying and promoting specific investment opportunities. This is an extension of the well established practice of using management consultant firms. As noted in other parts of this Report, the range of specialized tasks for which A.I.D. is turning to outside contractors is constantly being extended.

Recommendation No. 31

"We recommend that the Administration formulate specific proposals aimed at creating one or more organizations which could increase the technical assistance commitments of private groups and in time more effectively administer publicly-funded technical assistance programs in coordination with those which are privately funded. In view of the urgency of the problem, such proposals should be prepared in time for consideration and adoption in next year's AID program."

A task force within the Agency is in the process of evaluating:

(a) A.I.D.'s current support of a number of private groups engaged in technical assistance; (b) those areas where A.I.D. purposes are not now adequately served and ways of strengthening the capacity of the professional community to serve them; (c) existing institutions which might provide the base upon which to build one or more autonomous groups as recommended in the Report; and (d) A.I.D.'s internal organization and method of dealing with the non-Federal technical assistance resources in an effort to improve this relationship.

The recommendation has also been discussed with the Advisory Committee on Economic Development composed of leading professionals in development economics and social science. The task force has begun

a series of interviews with professional operating personnel and appropriate institutions and individuals outside the Government for their views.

From these investigations will be drawn action recommendations for the Administrator.

Recommendation No. 32

"(1) We commend AID on its initiative in seeking the creation of a binational non-profit foundation in India. We urge AID to press forward with this experiment as a matter of high priority.
"(2) We urge that, if initial indications are encouraging, the experiment be repeated in other countries where local conditions are favorable."

In The Message on International Education and Health of

February 2, 1966, the President said:

"We have at our disposal excess foreign currencies in a number of developing nations. Where conditions are favorable, I propose that significant amounts of these currencies be used to support Bi-National Educational Foundations. Governed by leading citizens from the two nations, they would have opportunities much like those afforded major foundations in the United States to invest in basic educational development."

Recommendation No. 33

"We recommend that AID draw up a plan for staffing the recommendations proposed in this report, and that the Congress and the Executive Branch give sympathetic consideration to the AID proposals."

It is too soon to establish an overall plan for staffing the recommendations contained in the Report, and it is probable that this can best be done piecemeal, as work proceeds and different projects are worked out. The requirements of each Regional Bureau, Staff Office and Field Mission are constantly changing. However, the Committee's recom-

mendations have created a sense of priority for this work which can be expected to be reflected in the allocation of positions and in an intensification of our efforts to attract the best men possible to fill them.

CONCLUSION

The Advisory Committee's Report is of real value to A.I.D. It is functioning as the framework for further development of private enterprise programs. Its words of encouragement are reassuring; its conception of what can be achieved will spur us to greater efforts.

ATTACHMENT

Illustrative Outline of Work in Re-
sponding to Recommendation No. 1 -
Korea

COPY

DEPARTMENT OF STATE CABLEGRAM

TO: AID/Washington

FROM: AID Mission in Korea

SUBJECT: Private Enterprise Study

1. USOM has reviewed in detail Watson Committee Report and Reference Airgrams. Study program to be undertaken in Mission devised against background accomplishments, current and planned activities.
2. Focus on investment climate improvement most timely and fits well into Mission strategy and program goals as set forth in recently submitted CAP. In fact such study recognized by USOM as integral part Mission emphasis on export development and modernization industrial sector. Many actions under these headings, as well as much of on-going activities in public administration area bear directly on and are logical parts of program to improve investment problem.
3. In past year Mission has repeatedly brought to attention of ROKG and business leaders need for good investment climate for both domestic and foreign investment. After decade reconstruction and erratic but unspectacular progress, Korea past two years achieved relatively high rates economic growth, considerable reorientation economic policy in direction and ways conducive to improved investment climate. Past year ROKG taken number steps improve basic economic structure - floating of exchange rate, liberalized import procedures, stabilization measures which have diminished steady inflationary trend of recent years, liberalization of interest rates. Further improvements necessary include savings inducement, improved credit management, financial institutions restructuring, tax revenue improvements, promotion private sector. Also need continuous refinement stabilization measures insure price stability while investment and operating expenditures are met. Need wider Government acceptance value long-range planning, techniques to provide proper blending public, private development plans as vital factor for effective use domestic, foreign resources. In addition, significant positive factor is relative stability of Cabinet and Bureau Chiefs who have now been in office long enough to have gained confidence which in turn has resulted in increased ROKG attention to policy matters rather than expedients. Governmental stability also important to confidence of business community in word of Government. USOM notes improved Government-business relations, particularly where MCI involved. USOM feels accomplishments plus achievement goals cited should result in sharp change economic climate. Growing confidence country entering period accelerated growth.

4. Following studies to be conducted: (Some will require longer than 90 days to complete.)

- A. Analysis all applicable business laws.
- B. Survey existing financial institutions; effect on private investment.
- C. Current participation businessmen in Government: at what levels business views hears; what degree response to legitimate business needs?
- D. Study of and action needed to set up institution for aggressive investment promotion: structure, functions, location, staffing.
- E. Definitive evaluation business education and training.
- F. Survey labor practices, manpower availability, capabilities.
- G. Analysis export and domestic marketing practices use of credit instruments.
- H. Analysis recent business failures.
- I. Current foreign investments Korea: how initiated problems encountered, how solved.
- J. Procedural flow-chart of foreign investment from visa application to start of production.
- K. Survey Korean business attitude re foreign investment.
- L. Survey Japanese investment opinion re Korea.

5. In conducting studies plan utilize ROKG research capabilities, Government organizations and certain extent business community, as well as available Mission talent. Anton's mid-December arrival be most helpful this regard. Proceeding before October 30 to complete assignments and lay groundwork with ROKG and others for collaboration on study, will advise details. Success in enlisting ROKG energies will in itself be indicator of possible basic problem that while Korea preponderantly private enterprise country, traditional business-government relations characterized as adversarial. Government exerts heavy pressure on business while not providing in many areas services which Government should provide and at same time exercising self restraint necessary allow business make business decisions.

6. Suggest considerable benefit possible through exchange studies from other Missions result Watson Report. Also request AID/W study Korea reputation in U.S. investment community determine actions necessary improve Korea image to alter from popular concept of country engaged in hostilities in 1950s and on semi-permanent sick list. In addition, FYI all USOM divisions requested review proposed activities in latest E-IS to determine practical actions within scope each project area which can contribute to growth private enterprise and improvement investment climate.

COUNTRY ZAMBIA

	1968 %	Elasticity with respect to GNP, 1965-68
<u>FISCAL</u>		
Revenue (% of GNP)	26.9	1.1
Taxes (% of revenue)	85.5	1.1
direct (% of taxes)	33.0	0.1
indirect (% of taxes)	18.9	1.5
other (% of taxes)	48.1	2.4
Expenditures (% of GNP)	37.6	3.5
Deficit (% of GNP)	10.6	4.4
% of deficit financed from domestic source		

NOTES

Trade - exports and imports of goods & services data available only in 1966.

Trade - goods used for traditional commodities - data converted at \$2.80/kwacha in 1966 and \$1.40/kawacha in 1968 to U.S. dollars.

copper

Capital formation - domestic aggregate savings (% of total savings) used 1966 figure

Fiscal - 1968 figures are on budget basis.