PN-ABT-638

PRELIMINARY VERSION

POLICY GUIDANCE FOR FOREIGN ASSISTANCE

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Program Coordination Staff

POLICY GUIDANCE FOR FOREIGN ASSISTANCE

PREFACE

With the increase in the volume of assistance to developing countries and in the number of sources providing it, there is a need for clearer statements of the principles on which the supplying agencies operate. This pamphlet is an attempt to provide such a statement for the Agency for International Development, which has overall responsibility for the United States assistance program. It is a condensation and simplification of the A.I.D. Program Guidance Manual, which sets out in detail the procedures for preparing and evaluating U.S. economic assistance programs.

The principles which guide present U.S. programs are the result of nearly twenty years of experience with foreign assistance, starting with postwar programs of relief and reconstruction. As the largest single supplier of economic assistance to the developing countries, the United States maintains aid missions in most of the recipient countries and makes a continuing study of each country's needs. Out of this relationship has evolved a system of country programming in which the U.S. tries to take account of the country's overall performance, its priority needs, and other aid sources available to it.

In preparing this condensed version of the program manual, we have kept in mind the needs of three types of users: the officials of recipient countries, the other suppliers of foreign assistance, and interested scholars and civic groups in the United States and elsewhere. Information on the content of current U.S. programs is given in the A.I.D. summary presentation to Congress, entitled Proposed Mutual Defense and Assistance Programs, Fiscal Year 1964.

Much remains to be learned about the processes of economic, social and political development and the ways in which they can be most effectively supported by external assistance. The principles guiding U.S. assistance programs are constantly modified and expanded as our understanding of these processes grows. Increased knowledge should result from sharing and evaluating the experience of other donor countries and institutions through the Development Assistance Committee of the Organization for Economic

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Cooperation and Development. It is hoped that the present statement will contribute to a wider understanding of U.S. assistance efforts and to an emerging consensus on basic principles among those who extend and those who receive assistance.

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May 14, 1963

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Chapter I. BASIC A.I.D. CONCEPTS

THE PURPOSE OF FOREIGN ASSISTANCE

The major objective of U.S. foreign policy is the development of a community of free nations cooperating on matters of mutual concern, basing their political systems on consent and progressing in economic welfare and social justice. Such a world offers the best prospect of security and peace for the United States.

We share this objective with other nations of the free world. It calls for a cooperative effort in which the Organization for Economic Cooperation and Development members can assist the free nations of Asia, Africa and Latin America to achieve objectives on which all can agree.

Such a community will grow in strength as the less developed countries attain the rising standards of living and the sense of prestige and progress that characterize the Atlantic community. At present their human skills, institutional framework and capital resources are inadequate to meet rising internal demands for such progress. Traditional values and lines of authority often block effective use of existing resources and skills. We seek to help the less developed countries realize their hopes by a process of economic and social development compatible with our basic objectives.

Foreign economic assistance is one major instrument through which the United States seeks to promote its basic foreign policy objectives. In countries facing immediate and grave internal or external threats to their security and independence, military assistance and supporting economic aid are used to help avert or defeat the threat. In countries lacking the basic law and order, administrative services, and political continuity to launch a serious development effort, U.S. assistance may help to establish these preconditions for growth. In many more countries, U.S. capital and technical assistance are used to speed development efforts already under way. In some of these countries the United States carries the major burden of external aid; in others our aid is small and supplements that of other donors bearing primary responsibility.

The ultimate goal of U.S. aid is to help the country reach the point at which its own increased human and capital resources, plus its improved ability to attract and service foreign investment and credit on commerical terms, are adequate to sustain satisfactory growth. The goal of self-sustaining growth is almost reached in some countries; in others it will take decades to achieve. However, the United States believes that the developing countries themselves do not wish to perpetuate reliance on outside assistance. Our aid is intended to help them preserve their political independence and achieve economic self-support as rapidly as possible.

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THE EVOLUTION OF FOREIGN ASSISTANCE

Since World War II, the foreign assistance programs of the United States have constantly evolved in form and scope to serve our national purpose and to deal with changing international problems.

The emphasis of foreign assistance has shifted in the past decade or so from the advanced to the less developed countries. As Europe and Japan recovered their economic strength and ability to support their own defense efforts, U.S. aid shifted first to the Far East and South Asia and then also to Latin America and Africa, where the new challenges of Communist aggression and subversion have focussed in recent years.

The other advanced countries of the world, most of whom we were helping ten years ago, are now taking on an increasing share of the total aid burden. Their growing economic strength has made it possible for free world assistance to less developed countries to double over the past seven years with only a moderate increase in the U.S. contribution.

The share of foreign aid funds that goes to promote long-term economic and social development, rather than short-run stability and security, has increased steadily for the past ten years. As the threat of international disaster provoked by the Korean conflict subsided, aid to increase military strength and to bolster economies around the periphery of the Communist Bloc was cut in half. Two-thirds of all assistance is now devoted to the more hopeful objective of establishing economic and social progress in the underdeveloped world. At the same time, the dominant form of U.S. assistance has been changed from grants to loans.

THE FOREIGN ASSISTANCE ACT OF 1961

As the need for substantial changes in U.S. aid programs became apparent, new instruments and techniques of operation were called for. The Foreign Assistance Act of 1961 improved the existing tools and made it possible to adopt new methods of using them.

A single Agency for International Development was established and its Administrator was made responsible for carrying out the economic aid programs and coordinating economic and military assistance. In addition, the Act clarifies foreign assistance objectives in support of United States foreign policy. U.S. aid is now planned within the framework of a broad economic, social, and political analysis of each country's needs and prospects.

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The Act puts major emphasis on loans and grants for development and establishes criteria to assure that these funds are effectively used. The Act distinguishes development funds from military assistance and supporting assistance, which are normally used to meet more direct stability and security requirements. Although, more than one type of aid is typically used in a country program, the nature of U.S. interests generally results in the predominance of one category.

PRINCIPLES FOR ALLOCATING ASSISTANCE

To make the most effective use of its limited aid funds, the United States must be highly selective in allocating aid among countries and in designing programs for each country.

Three basic principles determine the countries to which aid is offered and the amounts and kinds of aid which they receive:

(1) The effectiveness with which the country can use available resources - both internal and external - to promote economic and social development;

(2) The importance to the United States of sustaining or accelerating the economic growth of the country;

(3) The availability to the country of other external resources in a suitable form.

These principles derive from our basic objective of assisting selected countries to become self reliant as soon as possible. Aid is most effective in bringing about the transition from dependence or stagnation to self-sustaining growth if it is concentrated on the countries that are doing the most to help themselves. There it serves as a catalytic agent which permits the mobilization of a much larger development effort. Self-help is therefore the dominant theme of our major assistance efforts.

A country's ability to utilize external assistance reflects not only the determination with which its government and people seek to progress, but also the current stage of development of its human and institutional resources. In many less developed countries, essential human and institutional resources must be created before large-scale capital assistance for transportation, industry, irrigation, and similar major projects can be absorbed.

Aid to countries in early stages of development normally must concentrate on technical assistance to train personnel and

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develop administrative services, educational systems, savings, credit and trade associations, and other institutions needed to support growth. Assistance of this kind is complex and difficult, but it does not require heavy expenditures. Such aid is often accompanied by some capital assistance, directed to building roads, ports, power and other infrastructure. Greater capital assistance will be required as the country's ability to undertake more varied productive capital projects grows. Meanwhile, the need for technical assistance is likely to continue, but its emphasis will probably shift from more general training and institution building activities to more specific bottle-neck breaking efforts. The expanding economy should gradually generate greater domestic savings and investment and attract growing private foreign investment and increased support from sources such as the World Bank. The need for foreign grant aid or loans on concessional terms will dwindle as the country approaches self-sustaining growth.

The normal pattern of aid to a developing country -- whether supplied primarily by the United States or by another donor or donors -- therefore may require that the volume of aid increase before it is gradually phased out. The length of time required to complete the pattern will depend on the country's initial stage of development and on the vigor of its self-help efforts. Some countries may also be relatively advanced when aid is started, and may not need the first stages of the sequence. Under the Marshall Plan in Europe, the Europeans organized their own skills and energies to the task of rebuilding their war-devastated economies. The United States provided the crucial margin of resources which enabled the countries of Europe to overcome the need for outside economic aid within five years - from 1948 to 1953. In the less developed economies, the capacity to utilize outside help effectively is much less than it was in Europe, and the period required to achieve self-supporting growth is likely to be substantially longer. Countries such as Israel, Greece, and Taiwan, have achieved rapid development and increasing self-reliance over a period of ten to fifteen years. A similar period should be sufficient in many Latin American countries, but in many of the poorer countries of Asia and Africa the time-table will be considerably longer.

MAJOR TYPES OF ASSISTANCE PROGRAMS

U.S. assistance programs may for convenience be divided into three general categories according to the nature of our objectives and the extent of our participation: (1) Substantial programs directed to long-term economic and social development; (2) substantial programs dominated for the immediate present by the need to maintain external and internal security, but aiming at

economic development in the long run; and (3) Limited programs with more restricted objectives.

1. Substantial programs for long-term development.

About thirty countries receive substantial assistance for long-term development and are judged to have good prospects of attaining self-sustaining growth within a reasonable period of time if they make effective use of the internal and external resources available to them. These countries receive almost 90 percent of all U.S. development lending. They fall into three groups:

--Countries which are approaching self-sustaining growth and in which needs for assistance on favorable terms are relatively limited. This group includes Venezuela, Mexico, Jamaica, Israel, Greece and Taiwan.

--Countries following relatively effective development policies and making reasonable progress toward self-sustaining growth. This group includes India, Pakistan, Colombia and Nigeria.

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

In the first two groups the United States is in basic agreement with the country's objectives and with the way in which they are being pursued. In most of these countries, there have already been substantial increases in investment, taxation and savings, and dependence on external assistance is not excessive.

In the third group of countries, where the adequacy of development policies has yet to be demonstrated, U.S. aid is related to the adoption of self-help measures. The U.S. approach may take a variety of forms. The general procedure is to agree with a government on a set of key policies and to condition the amount of aid upon the country's performance. In these countries, the U.S. is interested in increasing the domestic financing of development and in encouraging policies which alleviate balance-of-payments deficits and utilize total resources more effectively.

United States assistance to these thirty countries, combined with other external sources, can make the difference between sustained increases in per capita income and economic stagnation. It is reasonable to hope that, over the next decade, as many as half of them will have reached a stage of self-sustaining growth in which they can meet their needs for foreign capital through private foreign investment, loans from international institutions, and other similar sources.

2. Substantial programs to promote security and development.

In a small number of critical countries, it is necessary for the United States to help establish external and internal security before turning to long-term economic and social development. Some of these countries border on the Communist world, and in these military assistance may be a major part of the aid total.

The general theme of aid strategy in these circumstances is to move from stabilization programs to setting the stage for economic and social progress. A mixture of military aid and supporting assistance is usually provided in the early stages of this sequence, with a gradual shift to development assistance and an increasing proportion of loans as economic conditions improve.

Looking over the past decade, one can observe three phases through which a number of countries have moved in recovering from political or military upheavals with external help. In the first phase, external security and a minimum of internal law and order are established. In the second, political and economic institutions are strengthened and the economy is stabilized. In the third, economic growth is resumed and dependence on extraordinary grant assistance is steadily reduced and then eliminated.

Some countries, such as Greece and Taiwan, have moved to the last of these phases in a period of 8-10 years. Others seem likely to complete the cycle in even less time. U.S. aid strategy in all these countries is to help them to mobilize their domestic resources and to steadily reduce their reliance upon any form of external support through further development of their economic strength.

3. Limited Aid Programs

In more than half of the countries receiving aid, U.S. commitments are quite limited in nature. Planned U.S. aid to these countries in Fiscal Year 1964 will amount to less than 12% of total economic aid funds and less than 8% of military assistance funds. In virtually all cases, the United States intends to maintain its minority role and does not contemplate substantial assistance programs. The typical program is one of limited technical assistance, but in a few countries development loans are made in selected economic sectors.

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

Some countries receiving limited aid from the U.S. are dependent on the Communist Bloc for substantial amounts of assistance. If alternative sources of aid are lacking, the long-term Communist objective of increasing their influence in key economic and political sectors in these countries may be furthered. Although the U.S. does not seek to outbid Communist offers, it is in our interest to prevent excessive dependence on bloc assistance in strategic countries.

In these and other limited assistance efforts, the choice of aid activities represents a compromise between the requirements of the specific objective and the general aim of providing aid in as useful and efficient a way as possible. Where there is no conflict between the special objective and our general development criteria, development loans and grants are appropriate; where there is a conflict, supporting assistance funds are used.

CHAPTER II. PROGRAMMING U.S. ASSISTANCE

THE PROGRAMMING PROCESS

Projects and activities in approximately 80 countries are planned by A.I.D. as part of integrated country assistance programs. A.I.D. maintains field missions in countries to which the United States extends significant amounts of economic assistance. Some small programs, particularly in Africa, are under the direct supervision of the Ambassador and no separate A.I.D. mission is maintained. Country assistance programs are the product of discussions with the host governments; field mission analysis and recommendations; review by A.I.D. headquarters in Washington; and consultation with other branches of the U. S. Government.

The annual program planning cycle begins with an analysis by each field mission of the current situation in the country and of the alternative ways in which our aid can most effectively promote development. The mission discusses the country's development plans and aid priorities with the host government. The mission then recommends, subject to approval by the Ambassador, the level and content of the U. S program of assistance to the country for the coming year and indicates the expected range and pattern of assistance for the next several years. The mission's analysis and proposed program are sent to Washington, where they are subjected to intensive review within the appropriate regional bureau of A.I.D. and subsequently by the Administrator of the Agency. The Mission Director or Program Officer often come to Washington to participate in this review. For those countries also receiving U. S. military assistance, the Department of Defense participates in the program review, and the Department of Agriculture takes part when programs include a substantial Food for Peace component.

The review process examines whether the proposed program reflects not only adequate economic analysis but also the recipient country's self-help efforts and the probable availability of assistance from other donors. The review also considers whether the proposed assistance level, content, and approach are designed to elicit greater self-help efforts and encourage sound development policies. Other points examined include whether the program is sufficiently concentrated on clearly defined goals so that the assistance may reasonably be expected to have a significant impact and whether the various projects and programs are coordinated with host country and other donors' efforts.

The consensus reached as a result of this review is summarized in a country assistance "strategy," which states priority goals for each country, and outlines the approximate level and forms of aid required to achieve these goals.

The programs planned in this way provide the basis for the Agency's annual request to the Congress for appropriation of funds. The level of assistance for individual countries may later have to be adjusted to the total level of funds actually appropriated.

The entire program planning process takes approximately eighteen months, spanning field mission analysis and discussions with the host government, Washington review, Congressional action on the appropriations request, final allocation of funds to regions and countries, and commitment of funds for specific projects or programs. Radical changes in a country's economic, security or political situation may make necessary a reassessment of country program proposals at any time during this process.

NEW PROGRAMMING EMPHASES

Many aspects of the A.I.D. programming process were carried over from the International Cooperation Administration and other predecessor agencies. The Act for International Development of 1961 emphasized the long-term nature of the development process and of development assistance; the importance of self-help; and the need for concentration of aid both among countries and upon selected sectors or areas of activity in each country. To incorporate these new emphases into the country assistance programs, new programming procedures and guidance were developed and were applied to programs for fiscal year 1963. The new procedures and guidance are designed to accomplish the following purposes.

1. Longer-range planning. Each field mission is asked to project U. S. assistance goals, and the aid level, content, and approach required to achieve these goals, over the next several years. Realistic development goals can usually be established only for a period of several years. Once established, such goals provide the framework for a clearer assistance strategy than is possible when program planning is confined to yearly judgments on whether to continue old activities and initiate additional ones. Longer-range goals encourage continuity and make programs less subject to variations in the interests and talents of changing mission and host country personnel. Finally, such goals provide benchmarks against which to judge the effectiveness of our aid.

The increased emphasis on looking ahead should not be confused with multi-year commitments to aided countries. Although A.I.D. makes multi-year commitments to a few countries, a number of additional conditions (set out in Chapter IV) must also be met before such commitments are considered.

2. More comprehensive analysis. Missions are asked to think in terms not only of the effects of United States aid in stimulating economic growth, but also of its impact on the country's social and political development. In those countries where our aid is substantial, it inevitably has such an impact, even if its primary purpose is to promote economic growth. Moreover, in many countries the primary impediments to economic growth are social and

political in nature. Not only must we fully recognize the broader effects of our aid, but in some cases we should also establish with the host country social and even political goals to be promoted as part of the development process.

3. Closer integration of assistance activities with United States foreign policy. Missions are asked to indicate what collateral activities and policies on the part of other United States agencies are necessary or desirable to achieve the stated goals.

4. Closer integration of our aid programs with those of other free-world donors. Integration is facilitated by the formulation of more explicit, long-range goals as well as by fuller consideration of specific coordination possibilities.

5. Closer integration of our aid with the recipient country's development program. The multi-year basis and broad scope of A.I.D. programming permit such integration whenever there is a well developed country plan or set of development policies.

SCOPE OF PROGRAM ANALYSIS

The analysis on which country assistance program proposals are based includes the following elements:

1. Statement of U.S. foreign policy and assistance objectives. The first element in the analysis is a statement of U.S. objectives, short and long-range, in the country. The field mission, working with the U.S. Embassy, assesses whether these objectives are compatible with each other, and the extent to which they coincide with or vary from host country economic and political objectives.

2. Analysis of the country situation. The mission examines those aspects of the economic, political, social, administrative and security situations and trends which are relevant to planning and assistance programs within the framework of U.S. objectives. If U.S. objectives are limited - for example, where another donor carries primary responsibility for assisting the country and U.S. assistance is intended to demonstrate support and help relieve exclusive dependence on the major donor - the overall country situation may be treated fairly briefly. Where U.S. assistance contributes substantially to country resources and can significantly influence the country's development program, much fuller analysis is required.

In the economic field, the volume and rate of growth of savings and investment, the allocation of investment resources, progress and problems in key sectors, trade and balance of payments factors, and the effects of other development policies are examined. Major political and social factors affecting growth are also surveyed. In some countries the security situation and trends

require close attention; in others little or no special consideration of security factors is needed.

3. Analysis of self-help efforts. Special attention is directed to the extent and effectiveness of the country's self-help efforts. Where possible, specific quantitative measures are used to supplement qualitative evaluation.

4. Analysis of the country development plan. Where the recipient country has formulated a comprehensive program or plan, the A.I.D. field mission examines it in detail. The analysis covers the basic assumptions stated or implied by the plan and the realism and internal consistency of its targets and projections. The mission also assesses whether the country's political situation and administrative capacity are likely to support efficient implementation. If the country plan is unrealistic or inconsistent, the A.I.D. mission makes independent projections of external resource needs and sources, as a basis for estimating U.S. assistance requirements.

5. Formulation of U.S. assistance strategy and selection of goals. The analysis of U.S. objectives and of the country situation and development efforts provide the raw material from which a U.S. assistance strategy can be formulated. Where the U.S. is in broad agreement with the country's priorities and policies, a program of general support is appropriate. If the analysis reveals key host country measures or policies needed to make aid effective, the mission may propose that these measures be discussed with the country, that technical assistance in formulating and implementing needed measures be offered, or that capital assistance be linked to fulfillment of measures agreed upon with the recipient.

Assistance goals are formulated to convert the general strategy into specific action proposals. Each "Goal Plan" states a specific objective and describes the activities necessary to achieve it. A.I.D. activities in each country must normally be justified in terms of their contribution to a specific Goal Plan. The number of goals is sufficiently limited to assure the concentration of A.I.D. and local resources to the degree necessary to achieve significant results in a reasonable time.

An estimate is made of the total U.S. assistance required to meet the goals selected. Since funds may not be available to meet all goals, the mission establishes priorities among them and indicates which goals would have to be dropped or altered at lower levels of assistance.

The strategy statement also indicates the collateral United States actions and policies required to achieve the goals set, the efforts expected of the country and the approaches the United States might use to elicit these efforts, and the relationship of the proposed assistance program to those of other donors.

In summary, capital and technical assistance are selected within the context of an overall analysis or assistance strategy, but each contributes to a specific

goal. Each project must not only meet requirements of technical and economic soundness, but must also satisfy the criteria applied to the program as a whole: contribution toward high priority goals; coordination with other U.S. assistance activities and with recipient country and other donors' efforts; and recipient country interest and contribution sufficient to ensure gradual assumption of responsibility for the project.

LONG-RANGE ASSISTANCE STRATEGY

In a few countries, A.I.D. is conducting particularly intensive analysis along the lines described, in an effort to develop Long-Range Assistance Strategies which will more explicitly project assistance goals and strategy over several years. Countries for which Long-Range Assistance Strategies will be formulated are those receiving substantial and continuing U.S. assistance. Their development prospects are thought to be good, and they are sufficiently stable politically so that it is not unrealistic to project trends for several years into the future. Several of the countries selected for such studies have well-prepared development plans; all must have sufficiently reliable data to support detailed analysis.

In order to conduct such studies, mission and Embassy staff are augmented by personnel from A.I.D. in Washington and by consultants from other Government agencies, universities, foundations or other non-governmental organizations. As each study is initiated, key problems for analysis are tentatively identified by the mission and A.I.D. headquarters staff. These problems may be economic, social, political, or administrative in nature. The ability of field mission and embassy staffs to analyze these specific problems is assessed, and the best available consultants are sent to assist in areas where field staff capacity is inadequate.

Once completed and accepted, the Long-Range Assistance Strategy provides a guide for using both A.I.D. and other United States foreign policy tools to stimulate and assist the recipient country's development over the next several years. Although unanticipated changes in the country's situation may require early revision, a Long-Range Assistance Strategy is normally expected to be valid for several years in the same way as the country's own development program.

Chapter III. TOOLS OF FOREIGN ASSISTANCE

United States assistance to developing countries takes a variety of forms. Dollars are loaned or granted to help finance needed developmental imports. With limited exceptions, these dollars must be used to purchase U.S. equipment, commodities and services. U.S. specialists and advisors are financed, usually on a grant basis, to go to developing countries and teach new skills, demonstrate techniques, conduct surveys and advise on programs for human resource and institutional development. Grant funds also finance the training of host country officials and specialists in the U.S. or in other developed or developing countries. Surplus U.S. agricultural commodities are sold to developing countries in return for their own currencies. Most of the local currency proceeds from sale of these commodities are then loaned or granted for use in the purchasers' development programs. The Food for Peace program in this way supplies needed agricultural imports, easing balance-of-payments pressures for the aided countries, and also helps the recipient governments gain command over additional local currency to support development efforts. U.S. assistance programs also draw on excess U.S. Government property which includes equipment and supplies of considerable value to developing countries. The Agency for International Development also makes use of a variety of tools to encourage private investment in developing countries. These tools include investment guarantees, investment surveys and feasibility studies, Cooley loans, and capital and technical assistance to development banks and investment centers.

Development loans constitute the major share of A.I.D. assistance, and the proportion of loans to total assistance has grown steadily over the past few years. 52% of the funds requested of Congress for Fiscal Year 1964 are intended for Development Loans, including loans to Latin American countries under the Alliance for Progress. Development Grants, which finance most technical assistance and related activities, amount to roughly 12% of the total funds requested from Congress for FY 1964. Additional grant assistance to meet security and political objectives is financed under a separate appropriation category, Supporting Assistance.

The sections which follow describe more fully the policies governing the use of these assistance instruments and types of resources.

DEVELOPMENT LOANS

Development Loans are intended for high-priority capital projects which either directly produce revenue or are important to the economic infrastructure of a country. These include, for

example, establishing or expanding manufacturing facilities, development banks, irrigation, power, multi-purpose water resource development, mining, ports, transportation and communication facilities, fisheries and grain storage facilities. Loan funds are available also for programs and projects designed to promote social development, including schools, hospitals, housing, and similar capital projects, as well as for social programs in areas such as adult education, public health, or community development. Not only the direct foreign-exchange costs of particular programs and projects, but also that fraction of local costs which represents indirect foreign-exchange costs attributable to the program or project, may be considered for Development Loan financing. (See Chapter V.)

Loan funds are available to finance general import programs in support of a comprehensive development effort or a sector thereof: such loans are called program loans. Program and project loans in support of an over-all or sectoral development program may, under appropriate circumstances, be committed on a multi-year basis subject to annual appropriation. (See Chapter IV.)

Loans may be made to finance engineering and feasibility studies and other project surveys.

A capital project may require technical assistance not only for project planning, surveying, and feasibility studies, but also for the training of key personnel. Such assistance may be financed from other appropriations categories, but it is usually considered best to fund any training needed to operate a loan-aided facility from the loan itself. In all cases the loan application must show that adequate provision has been made for necessary training. Capital project loans should provide for training and management assistance not merely to initiate operations, but to the point where host country personnel can operate a facility with reasonable efficiency.

Development Loan funds are available to private enterprise as well as to government or quasi-government organizations. Development Loans are used, to the extent practicable, to support undertakings that promote development of private enterprise in the borrowing country. Loans to intermediate credit institutions for relending to the private sector and for the development of suitable types of cooperatives are strongly supported. Joint ventures between private investors or investors from third countries are also encouraged.

For the United States, assistance to state enterprises is a controversial issue. Government operation of all a country's major productive activities is usually inefficient and may lead

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to controls and policies inconsistent with free and open societies. However, this does not mean that the United States will refuse requests to assist governmental activities. The question is whether, in a specific country, the measures taken are efficient from the viewpoint of economic growth and are consistent with efforts to create a viable free political and social system. There is no rigid set of rules applicable to all countries over the world.

Loans may be made for justified development uses in emergency balance-of-payments situations where such uses are part of the action required to help correct and reverse temporary payments problems. Loans may also be made to meet reconstruction needs resulting from catastrophes.

Loans may also be advanced for research activities.

Legislative criteria. Development Loans for any of the above purposes may be made only where there are reasonable prospects of repayment. The following additional criteria are to be taken into account and apply to all borrowers, governmental, quasi-governmental, or private:

--Whether financing could be obtained in whole or in part from other free-world sources on reasonable terms. (In judging whether alternative financing is available on reasonable terms, the criteria applied and terms offered by other lending institutions and governments and the repayment capacity of the country are considered.)

--The economic and technical soundness of the activity to be financed.

--Whether the activity gives reasonable promise of contributing to the development of economic resources or to the increase of productive capacities. (The records of discussion in Congress indicate that this provision is meant to include loans for social development projects and programs.)

--The activity's consistency with and relationship to other development activities being undertaken or planned, and its contribution to realizable long-range objectives.

--The extent to which the recipient country is responsive to the vital economic, political and social concerns of its people and demonstrates a clear determination to take effective self-help measures.

--The possible effects of the loan upon the United States economy, with special reference to the balance-of-payments and areas of substantial labor surplus.

Terms. Principal and interest on Development Loans (made under the authority of Chapter 2, Title I of the 1961 Foreign Assistance Act) are repayable in dollars. A.I.D. loan terms are based primarily on the Agency's objective of providing assistance to foster long-term economic growth and political stability and on an estimate of the borrowing country's capacity to service long-term foreign debt. One of the following combinations of terms is employed as appropriate unless other terms have been approved by the Administrator.

	(i)	(ii)
Maturity	40 years	15, 20, or 25 years
Grace Period	10 years	0 to 5 years
Interest	3/4% credit fee	3/4%, 3½%, or 5-3/4%

The combination of terms applicable to each potential borrowing country is established on the basis of a periodic world-wide review.

For loans to private borrowers and for public self-liquidating, revenue-producing projects, an effort is made to maintain a normal debt burden on such borrowers without unduly aggravating the host country's balance-of-payments difficulties. Usually a two-step arrangement is concluded among the borrower, the host government, and A.I.D. which provides for repayment by the borrower on normal commercial terms (approximating those of the Export-Import Bank). However, this loan may be repaid in local currency to the host government, which then assumes the obligation to repay A.I.D. in dollars on terms similar to those which A.I.D. would apply to direct loans to the host government. Alternatively, A.I.D. may lend low-interest, long-term funds to the government, which relends on commercial terms through development banks or similar institutions to private or public, self-liquidating borrowers. A.I.D. also retains discretion to make direct loans on normal terms to private enterprise and revenue-producing, self-liquidating public projects, bearing in mind the capacity of the country to repay.

Terms on loans for emergency balance-of-payments requirements designed to help correct and reverse temporary payments problems include a maturity of up to 5 years, 3-1/2 percent or higher interest, and a grace period, when necessary, not to exceed two years.

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Terms on loans for emergency balance-of-payments requirements resulting from catastrophes, such as earthquakes or crop failures, are set on a case by case basis.

Procurement Restrictions. Development Loan funds must be used to purchase U.S. goods and services, with relatively few exceptions. Waivers are made to permit procurement in other countries of parts needed for already installed European or Japanese equipment, or for additional equipment in an already existing series where U.S. items would greatly complicate the maintenance problem.

DEVELOPMENT GRANTS AND TECHNICAL COOPERATION

Development Grants are authorized by the Foreign Assistance Act to be used "to promote the economic development of less developed friendly countries and areas, with emphasis on assisting the development of human resources through such means as programs of technical cooperation and development." Much of the Development Grant and Technical Cooperation program is directed to training needed specialists, technicians, professionals and administrators in less developed countries, by sending abroad American specialists and advisors, or by bringing trainees to the United States or to other developed countries. Development Grant and Technical Cooperation activities are also directed to building the wide variety of institutions needed to make trained people effective: school systems and universities, agricultural extension services, public health systems, trade and credit associations, labor unions and cooperatives. Development Grant funds may also be used to finance surveys, research and analysis of development needs, and to provide advisory and technical assistance to countries' own planning efforts. Finally, Development Grant funds may finance projects that contribute directly to improved health, housing, and other areas of public welfare--for example, malaria eradication projects.

In addition to providing the services of U.S. specialists and advisors, and meeting the costs of training host country personnel in the United States or elsewhere, Development Grant funds may finance the equipment and materials needed to support the efforts of our specialists--for example, basic workshop tools for a vocational high school, DDT for malaria eradication, or simple audiovisual aids for use in expanding public health education to rural areas.

Development Grants may also be used to construct physical facilities required for the development of human resources. In countries still in the earlier stages of development, grant capital assistance may be provided to construct critically needed physical facilities not directly related to human

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resource development. Funds may be provided to cover a portion of the local costs as well as the foreign-exchange costs of projects financed under this category.

Development Grants normally may not be used where Development Loans would be more appropriate. For example, Development Grants are not used to finance capital projects that directly earn foreign exchange. They are not normally used to finance self-liquidating capital projects. Development Grants are not used for balance-of-payments or budgetary support and the like. The fact that a project has social or human resource benefits does not preclude it from loan financing where the host country has the capacity to service a loan.

During the past decade of U.S. official technical assistance programs, it has become clear that transferring skills through demonstration and training must be supplemented by developing the institutions and organizations needed to make trained people effective. In order to accomplish this more complex task, the Agency for International Development increasingly works through contracts with private U.S. organizations that have the needed experience, information and personnel. For example, many American universities are working under contracts financed by A.I.D. to establish or improve universities and school systems in developing countries. Land grant colleges are helping establish Agricultural colleges and extension services. U.S. cooperative and credit organizations are conducting technical assistance programs to spur the growth of cooperatives for housing, savings, agricultural credit, rural electrification and marketing of consumer goods. Other U.S. government agencies also supply specialized personnel needed for technical assistance assignments. Several interagency agreements have been signed or are in preparation permitting experts from other agencies to be loaned to A.I.D. on a reimbursable basis, without break in the expert's career record with his agency.

Legislative Criteria. Development Grant and Technical Cooperation activities must give reasonable promise of contributing to the development of educational and other institutions and programs directed toward social progress. In addition, the criteria established for Development Loans regarding technical and economic soundness, consistency with other development activities, recipients' self-help efforts, and impact on the U.S. economy apply also to Development Grant and Technical Cooperation activities.

Procurement Restrictions. Development Grant funds may be used to procure goods and services not only from the United States, but also from less developed free world countries on a competitive basis. However, grant funds may not be used to purchase goods from nineteen specified industrialized countries,

mainly in Western Europe, that have accumulated large dollar reserves.

SUPPORTING ASSISTANCE

Supporting Assistance is provided to further urgent United States national security and foreign policy objectives, where the usual criteria for Development Loans or Grants cannot be met. However, the amount and specific uses of such aid are devised so as to make the maximum feasible contribution to development. Supporting Assistance is normally used for the following purposes:

-- to enable countries to make a contribution to the common defense, or to internal security, greater than their economies can support unaided;

-- to maintain economic stability in countries where the absence or drastic reduction of current support would mean probable economic and political disintegration;

-- To maintain access to United States bases and to assist the local government in dealing with economic or other problems arising out of the existence of such bases;

-- to provide, along with other aid sources, an alternative to Sino-Soviet bloc aid where such aid threatens a country's independence or otherwise conflicts with vital U.S. interests.

To the extent that these purposes can be achieved through use of Development Loans and Grants, subject to the criteria that govern them and the amount of funds available, Supporting Assistance is not used.

The request for Supporting Assistance constitutes about 14% of the total FY 1964 request to Congress. Since much of the Contingency Fund (see next section) is likely to be used for Supporting Assistance purposes, the funds obligated under Supporting Assistance criteria may make up roughly 20% of the total A.I.D. program. The bulk of Supporting Assistance goes to the second group of countries described in Chapter I: those countries where essential growth prerequisites of stability and security must be established. In these countries aid will be shifted toward a Development Loan basis as rapidly as improved security and stability permit.

Supporting Assistance, which may take the form of a loan or a grant, can be used to finance (a) capital projects, (b) commodities and services for emergency or refugee relief projects, police and internal security activities, etc.; (c) general commodity imports, and (d) cash transfers, usually for budget support or to finance

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local costs.

Procurement restrictions. The same restrictions that apply to procurement financed from Development Grant and Technical Cooperation funds apply also to use of Supporting Assistance funds.

CONTINGENCY FUND

The Contingency Fund is an emergency reserve fund for meeting urgent and unforeseen requirements for economic assistance, (e.g., needs resulting from an earthquake, flood, or other disaster) or for meeting requirements that cannot be clearly defined or accurately costed in advance. The Fund may be drawn upon for any of the purposes of economic assistance. In practice, however, Supporting Assistance is likely to be the most appropriate funding category for most uses of the Contingency Fund.

The annual submissions by the A.I.D. missions identify separately requirements that are of a tentative nature, that are not included in the mission's proposed program under the regular categories of aid, and that therefore constitute possible requirements which should be taken into account in estimating the total Contingency Fund requirement.

FOOD FOR PEACE PROGRAM

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), as amended, establishes the authority and basic procedures through which surplus U.S. agricultural commodities can be made available to encourage economic development, relieve famine and other crises, and support the work of U.S. voluntary agencies abroad. Four types of program are established under four titles of the Act.

Title I. U.S. surplus agricultural commodities may be sold to friendly countries for their own currency, and the local currency proceeds of these sales may be loaned or granted to the purchasers for use in their development programs. It is the policy of the United States Government to maximize shipment of commodities under this authority, with due regard for the need to protect regular exports of the United States and other friendly countries and to avoid an adverse effect on domestic agricultural production.

The eligibility and availability of commodities are determined by the Department of Agriculture. The Department also estimates "usual marketing requirements" of recipient countries, subject to concurrence by and third country consultation

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through the Department of State; these estimates are used to avoid disturbing normal trade patterns.

Program levels and the use of the proceeds of local currency sales are determined on the basis of country requests by an interdepartmental committee of which the principal members are the Department of Agriculture and A.I.D. The sales proceeds may be used for U.S. expenses in the country, for loans to certain types of private enterprise (Cooley loans), or for loans or grants to the government for development or the common defense. A.I.D. is responsible for administering the local currency loans and grants.

Loan agreements using the proceeds of surplus agricultural commodity sales under Title I may be made for periods of up to forty years, at an interest rate of 3/4 of one percent to foreign governments.

Title II. Commodities held in stock by the Commodity Credit Corporation of the Department of Agriculture may be granted for famine relief and other assistance. Within certain limitations, such commodities may be used in work programs to promote economic development.

C.C.C. surplus commodities are available for emergency relief and for development purposes which will not displace other sales, including Title I sales for local currency. A.I.D. undertakes such programs in cooperation either with the host government or with a registered United States voluntary agency. Commodities may be used for a wide variety of purposes, including school lunches, supplemental feeding for mothers and young children, and pre-crop subsistence in land resettlement programs. They may also be used as part payments of wages in kind on community development projects and labor-intensive public works such as irrigation, roads, reforestation, elementary school construction, etc. Finally, such commodities may be granted for use as livestock feed to encourage establishment of new poultry or hog production enterprises in areas deficient in animal protein foods. PL 480 Title I loan or grant currencies, counterpart, and other sources of local financing may be used to cover the local currency costs of these development programs.

Title III. Surplus foods from stocks held by the Commodity Credit Corporation may be donated to United States voluntary agencies such as CARE, Church World Service, and Catholic Relief

Services, and intergovernmental organizations such as UNICEF for distribution to the needy overseas.

Title IV. Long-term supply contracts for repayment in dollars over a maximum period of 20 years are authorized. Long-term dollar credits are used instead of Title I foreign currency sales whenever the dollar credit terms are appropriate to the country's situation and are consistent with the objectives of the A.I.D. program, taking into account the country's debt servicing capability and its need for United States aid.

Terms for each agreement under Title IV are approved by the National Advisory Council on International Financial and Monetary Problems. Interest rates in general match those of A.I D. Development Loans to the country. The maximum permissible maturity is 20 years, with a two-year grace period. Payment may be made in "reasonable" annual installments, modifying an earlier requirement that payment be in equal installments.

U.S. OWNED LOCAL CURRENCIES

In many countries the United States owns or has joint control of, and A.I.D. has programming responsibility for, large or small amounts of local currency resulting from the sale of commodities provided as U.S. assistance. These funds are largely the proceeds from sales under the P.L. 480 program. However, substantial amounts of local currency or "counterpart funds" are also generated by grant non-project programs, predominantly Supporting Assistance, and in some cases by non-project, or program loans.

The imports which generate these currencies add to the country's total resources. However, the local currencies collected through sale of the imported commodities in the country do not represent resources additional to the original imports. They are, however, a claim against domestic resources and a non-inflationary source of investment funds. As such, they constitute an important tool of assistance. A.I.D. attempts to make sure that U.S. owned or controlled local currencies are used to improve as much as possible the total pattern of resource use.

EXCESS GOVERNMENT PROPERTY AND STOCKPILE MATERIALS

It is A.I.D. policy to make as much use as possible of items of United States government-owned property which have been declared excess to the needs of owning Federal agencies. This property is acquired at no cost to A.I.D., other than charges incurred in transfer and rehabilitation. It is also A.I.D. policy to maximize the use of excess stockpile materials in its foreign aid program to the extent that this is possible without disturbing normal trade patterns.

TOOLS FOR ASSISTING PRIVATE ENTERPRISE

Increased participation by private enterprise -- both host country and U.S. -- should increasingly supplement and gradually supplant governmental foreign assistance. In order to encourage growing private investment, A.I.D. makes use of several tools.

Investment Guaranties. A.I.D. is authorized to provide specific risk guaranties protecting private American investments against inconvertibility of local currency earnings and against loss through expropriation, war, revolution and/or insurrection (but not civil unrest). These guaranties are offered for projects which further the development of the economic resources and productive capacities of the host country.

Guaranties are given on a case by case basis to investors in countries where bilateral Investment Guaranty Agreements are not in force. However, it is A.I.D. policy to have prior host country agreement before investment guaranties are issued widely in any country. A.I.D. and the Department of State are seeking to conclude agreements with a number of countries not yet covered, especially in Latin America.

As of January 1963, fifty less developed countries had signed the basic bilateral Investment Guaranty Agreement providing for guaranties of convertibility of foreign (local) currency earnings and/or return of capital from insured American investments. Forty-seven of these countries had also agreed to protection against loss from expropriation of the investment. Twenty-six of these had further agreed to guarantee protection from loss through damage to physical property from war. Negotiations are under way with a number of other countries.

Extended-risk Guaranties. The investment guaranties described cover specific political risks. In addition, extended-risk guaranties are available covering commercial as well as political risks. These guaranties are issued in special cases where the investments meet high priority needs in the host country's development. The extended risk guaranty program is being administered on a highly cautious and experimental basis.

Two extended risk guaranties are now offered. The general extended risk guaranty is available for use anywhere in the world for economic development projects, with emphasis on those investments which further social progress and the development of small independent business enterprises. The second extended-risk guaranty program is limited specifically to self-liquidating pilot or demonstration housing projects in Latin America.

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Cooley Loans. Since January 1, 1962, A.I.D. has had responsibility for the administration of the Cooley Loan program, formerly administered by the Export-Import Bank.

Public Law 480 has for some years authorized loans of up to 25 percent of the proceeds of any surplus agricultural commodities sale (a) for economic development to U.S. business firms, affiliates, or subsidiaries or (b) to any business firms for facilities that will increase markets for U.S. agricultural products, such as food processing plants, storage facilities, or possibly certain transportation facilities.

In many countries these loans have met a lively demand and have proved to be a useful tool for increasing investments. In other countries funds have accumulated unused. Where the demand for such loans presses on the supply of funds the full 25 percent of sales proceeds is normally reserved for this purpose, unless an exception is approved in Washington on grounds either of a significantly higher priority use of the currency or of overriding policy considerations.

The terms and conditions of Cooley Loans are subject to the concurrence of the National Advisory Council under the chairmanship of the Treasury Department. They are given for medium terms, preferably for physical investments, at interest rates competitive with similar loans from local sources (normally development banks) and are denominated in local currency units, not dollar equivalents. All Cooley loans are subject to approval by the host government and by A.I.D. in Washington.

Investment Surveys. A.I.D. may share with U.S. private investors up to 50 percent of the cost of surveys designed to examine the feasibility of specific investment opportunities other than in the extractive industries. The initiative for surveys of investment opportunities may come from U.S. private investors, from the U.S. Government, or from the host government.

Feasibility Studies. A.I.D. may finance from grant funds up to 100 percent of the cost of feasibility surveys. Such surveys are normally undertaken by professional consulting firms where no investor is immediately available but where a project is believed to be suitable for public or private investment, e.g., the transportation system of Nigeria or the requirements of the Indian economy for steel products in the decade 1963-1973.

Development Banks. It is A.I.D. policy to foster the establishment and growth of sound development banks and other intermediate credit institutions. While a development bank may be privately-owned, government-owned, or of mixed ownership, loans are made only to borrowers who represent substantially private interests.

A.I.D. may provide (a) initial surveys of the needs and requirements of a less-developed country for one or several development banks, (b) dollar loans to such institutions, (c) local currency loans, and (d) technical assistance and other training for management and advice in the establishment of a development bank. As of January 1963, A.I.D. had authorized dollar loans to 43 institutions located in 29 countries and had provided local currency loans to three additional institutions.

In addition to guaranteeing the investment of private U.S. capital in foreign development banks, A.I.D. may also guarantee the collection of medium and long-term loans made by a private bank for developmental purposes.

Development and Investment Centers. A.I.D. may also provide technical assistance for the establishment and improvement of development or investment centers either within or separate from a development bank. The purpose of such a center is to help bring together local and/or foreign capital and identified investment opportunities. It can assume major advisory and training functions for the government as well as the private sector and can assist in the preparation of feasibility studies and prospectuses and perform other promotional activities.

RESEARCH

The Foreign Assistance Act of 1961 authorized the President:

> "to use funds made available for any form of economic assistance to carry out programs of research into, and evaluation of, the process of economic development in less developed friendly countries and areas, into the factors affecting the relative success and costs of development activities, and into the means, techniques, and such other aspects of development assistance as he may determine, in order to render such assistance of increasing value and benefit."

Most A.I.D.-financed research will concern specific development problems, or will assess past U.S. and international experience in giving aid. Some research projects will examine special problems of particular countries or regions. Other research, such as experiments with small power generators for rural villages, may have potential applicability in many countries. Research into past aid experience will seek improved techniques in areas such as recruiting and orienting specialists to serve abroad, or in program planning procedures. Past experience in increasing agricultural productivity or carrying out land reform in several different countries may be examined to help solve similar problems

in other countries. Some research will also be directed to more fundamental, theoretical aspects of the development process. Even in this area, the principal objective will be improving the planning and effectiveness of development assistance.

Most A.I.D.-financed research will be conducted through grants or contracts, as appropriate, to universities, foundations, other non-profit institutions, private enterprise, and other U.S. Government agencies.

In addition to finding practical solutions to specific problems and increasing understanding of development processes, the A.I.D.-sponsored research program is expected to stimulate wider interest and increased autonomous research within the U.S. research community on problems of developing countries. The research program should also strengthen U.S. research facilities working on these problems and help to develop research facilities in the less developed countries themselves.

CHAPTER IV. EXTERNAL ASSISTANCE AND INTERNAL DEVELOPMENT POLICIES

Foreign assistance performs a dual economic function: it adds to the total resources available for development and at the same time it provides additional financing for imports. In some cases, the fact that aid adds to the resources that can be channeled into investment is more important than the nature of the commodities supplied; in other situations, the fact that aid supplies commodities that are not locally producible is of paramount importance.

In its first aspect, aid is a supplement to taxation and private saving and should be considered in relation to the country's investment program and development policies. This will be done in the present Chapter. In its second aspect, aid is an alternative to increased exports or reduced imports and must be considered in relation to the country's trade policy and balance of payments. This will be done in Chapter V.

This dual role of foreign resources has caused considerable difficulty in establishing and explaining policies for administering foreign assistance. In one situation, the need for aid is determined by a gap between investment requirements and domestic sources of finance. This leads aid administration to focus on the government budget and use of local resources. In the other type of situation, the level of aid is determined mainly by the gap between import requirements and foreign exchange earnings. This leads aid administration to focus on the types of imports needed and the adequacy of controls on their use.

While both sorts of analysis and control are utilized by A.I.D., an effort is made to determine which is the most important element in each situation and to emphasize it in aid administration. A recognition of this basic fact helps in understanding the different emphases of programming procedures used in different countries.

This chapter discusses various aspects of the relationship between U.S. assistance and the recipient country's internal policies: the assessment of self-help, the relation of self-help to aid programming, the utilization of development plans in coordinating the use of external and internal resources, the choice between program and project assistance, the programming of local currencies, and the use of multi-year commitments. Chapter V will take up the program policies stemming from the second function of aid as a source of foreign exchange.

THE PRINCIPLE OF SELF-HELP

Economic Aspects. The success of a country's economic development effort depends both on the amounts of resources which it can mobilize and on the efficiency with which its resources are used. Self-help measures may either increase the supply of such scarce factors as capital and skilled manpower, or they may improve resource use.

A country desiring to increase its supply of capital must save for development purposes as much as it can of its national income. It may undertake tax reforms to increase government funds for development; it may limit private attempts to send savings abroad; or it may take steps to attract an inflow of foreign capital. The best single measure of its achievement in improving capital supply is the proportion of additions to national income which it saves. In serious development efforts, 30 percent or more of increments to national income may be saved, even though the share of total gross national product which is saved may be only 6 or 8 percent initially.

To increase its supply of skilled manpower, a country may extend its educational system; it may improve its wage structure; or it may organize training programs both at home and overseas.

Measures to improve the efficiency of resource use include price and wage policies that produce a better allocation of scarce factors such as capital and trained labor; improvements in planning procedures; provision of better information and forecasts to private entrepreneurs; and schemes to improve the utilization of unemployed resources.

The effectiveness of resource use is reflected in the ratio of the increase in national product to the total investment required to produce it. When available, this indicator reflects (i) improvements in the use of existing equipment and labor,

(ii) new additions to plant and equipment and (iii) the effectiveness with which investment funds are distributed among sectors of the economy. Narrower indicators of efficient resource use are measures of agricultural yields per acre or of labor productivity in specific sectors of the economy.

Social and Political Aspects. Self-help measures for social and political progress are less amenable to precise definition. They include improvements in public administration or educational systems which tend to increase economic efficiency as well as to promote social welfare. On the other hand, they also include measures to distribute the benefits of progress more equitably and measures to strengthen political democracy which are socially desirable but which do not necessarily contribute to increased productivity in the short run. Examples are efforts to achieve fairer land and income distribution, more equitable tax structures, improved coverage of health and welfare programs and broader participation in the political system of the country.

Political, social and economic self-help achievements can be evaluated by comparison either with previous performance or with the performance of other countries in similar circumstances. The easier comparison is with past performance. Even for comparisons within a country, however, statistical information can only aid qualitative judgment.

Inter-country comparisons of self-help performance are difficult. The data for different countries are seldom comparable; and, more important, it is difficult to decide which countries may be appropriately compared. Nevertheless, examination of such key variables as the percentage of national income which is saved or collected through taxation does reveal significant differences in self-help performance. Since the allocation among countries of an aid budget fixed by Congress requires some sort of international comparisons, analyses of self-help performance helps to make such comparisons more objective.

Relating Aid to Self-help Measures. United States aid may be linked to a single project, to a particular sector, or to the entire economy. Our strongest interest is in country-wide improvements in resource utilization and in country-wide social and political progress. However, where our aid is small and likely to remain so, it is usually only feasible to relate aid to performance on the projects we are financing. For most projects our minimum requirements are a substantial host country contribution and an analysis of the relation of the project to the country's general development framework.

Where U.S. aid programs are substantial, our interest in improved economic policies and in social and political progress may be more effectively underlined. Even where programs are large, however, it is desirable to focus on a few key measures at any one time. Concentration on a small number of objectives clarifies the issues and focuses attention upon those which are both of first importance and most feasible. In some cases action on difficult measures may have to be deferred until the country's development effort has achieved a certain momentum or until progressive leadership has been established.

In relating aid to self-help requirements, the U.S. recognizes that measures for increasing social welfare may conflict with the goal of raising national income as rapidly as possible. Tax reform to distribute more equitably the benefits of economic progress may, for example, unfavorably affect investment incentives. The appropriate balance between measures to immediately increase productivity and measures to improve equity and welfare depends on factors unique to each country.

Although past performance is the most straight-forward basis for rendering aid, there are important instances where self-help performance depends upon the receipt of aid. A government may find it more practicable to put through key reform measures if it is assured of United States financial support. In such a case, aid may be provided in spite of inadequate past performance on condition that specific actions -- exchange rate reform, improvements in budget policy, increases in taxes -- be carried out.

In countries where technical difficulties are hindering self-help efforts, technical assistance may help to solve the problem. For example, specialist advice may assist in establishing credit and savings institutions, reforming land tenure or tax systems, improving budgeting practices and fiscal policies, or mobilizing idle resources through work schemes and community efforts. Aid missions must determine whether such assistance will actually promote self-help efforts, or whether the difficulties hindering self-help are primarily political and social.

NATIONAL PLANNING FOR DEVELOPMENT

Major self-help measures to improve resource utilization often include the formulation and implementation of national development plans. The broad purpose of a nation's development program is to achieve its economic, social and political goals through effective use of available resources, both internal and external. Clarification of a nation's goals and assessment of its willingness to make present sacrifices for future growth are

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fundamental characteristics of development planning. Although the best formal economic planning is no substitute for sensible economic policies, a systematic and realistic budgeting of resource availabilities can often make sound policies more effective.

A good development program provides a basis for allocating the scarce resources of the economy: capital, skilled manpower, fertile lands, foreign exchange. At the same time, it supplies an overview of the most desirable future development of the national product and its components. It also helps assure that the activities of different government departments and private groups are consistent with each other.

A key problem in many underdeveloped countries is to ensure that the planning process gives sufficient emphasis to the activities of private enterprise. A good plan should contain specific projections for the private sectors which include their needs for capital, foreign exchange and other resources. If these projections are given the same attention as those for the public sectors, the plan may become an effective device for stimulating private contributions to the development process. Governments may often find that private enterprise is the most effective vehicle for carrying out much of their national plans.

Planning and Foreign Aid. An overall national plan can increase the effectiveness of external assistance in several ways. It can provide estimates of resource availabilities and of the resource requirements associated with alternative rates of growth of income. These estimates facilitate an analysis of the amounts of external assistance needed to achieve various growth targets. Aid "requirements" derived from careful overall analyses are more dependable than those based upon a list of individual projects and programs.

A comprehensive plan can indicate those activities in which aid may be particularly effective in promoting growth. It may point to major bottlenecks to be eliminated or to sectors in which resources are under-utilized. It may reveal sectors or areas in which assistance would not only directly increase productivity, but would also stimulate increased effort and output in related fields. Careful analysis of alternatives enables both the recipient government and the United States to apply aid to higher priority activities.

A sound plan also establishes yardsticks against which self-help efforts can be measured. The goals of the plan, both quantitative and qualitative, should be specified and the policies and actions necessary to achieve them defined. When this is done,

the plan helps supply a standard for judging the effectiveness with which external assistance and internal resources are used.

Finally, a plan which extends the analysis of resources requirements to human resources provides a basis for allocating technical assistance in education, training and related fields.

It is A.I.D. policy to encourage recipient governments to formulate and improve national plans and the administrative machinery for their implementation. Where adequate planning and implementation exist, U.S. assistance is related to the country plan and the objectives and priorities established by the plan are usually supported. There is, however, no intention of making any standard type of plan a precondition of United States aid. In the early stages of planning, development plans may not be sufficiently realistic or meaningful to relate aid to them. Mere paper plans or inadequate planning organizations are no substitute for the sustained effort required to mobilize and direct public and private resources into development activities.

U.S. Planning Assistance. The Agency for International Development is prepared to respond to the needs and requests of the less developed countries for planning assistance. Direct contacts between A.I.D. staff and host government agencies, training programs in development planning, and the provisions of expert planning advisors are several of the means available for providing assistance. A.I.D. has established contacts with universities, other non-profit organizations, private consultant firms and other government agencies in order to acquaint them with the Agency's needs for planning advisors and to make use of the services which they can supply.

Host governments are encouraged to make and finance their own contracts for planning advisory services, since a government is more likely to accept advice from a group selected by and responsible solely to itself. Even where the contract is financed by A.I.D. funds, the planning advisors are responsible directly to the host government so that their advice may be more effectively utilized. A.I.D.'s influence on the advisors is limited to suggestions regarding competent non-profit organizations or commercial consulting firms, to briefings and to ideas offered during normal contact and discussion similar to A.I.D. contact with host country officials.

PROGRAM ASSISTANCE AND PROJECT ASSISTANCE

In administering aid and relating it to self-help performance, the United States may make use of two broad types of assistance. "Project assistance" is directed to individual capital projects, such as a dam or a steel mill, or to individual technical assistance activities. "Program assistance" is linked to an

assessment of the overall requirements and resource availabilities of the country and finances commodity and equipment imports in support of development programs without tying these to specific projects. Nearly half of all U.S. economic aid is currently in the form of program assistance, and major U.S. programs usually use both forms of aid.

Program assistance offers the host country greater flexibility to meet resource needs. However, in order to make certain that the commodities provided will be effectively utilized, a comprehensive analysis of the country's resources and their proposed uses is necessary. This analysis should include a fairly detailed program of investment and a statement of import requirements which can provide a basis for agreement with the United States.

The review procedures associated with project assistance assure efficient use of both the imported and local resources which go into specific investment projects supported by U.S. aid. In drawing up a program for a given country, it is necessary to weigh this advantage against the increased flexibility associated with program support.

Advantages of Program Assistance.

(i) Program assistance is required in some cases to meet agreed resource needs. Many elements of investment in a development program do not lend themselves to project treatment. Capital imports for improvements and modernization and for new small-scale plants are not readily identified with a particular project, although foreign aid may help to meet such needs by assisting local lending institutions. Imports of industrial raw materials, spare parts, and replacement equipment may be as essential as many projects to the success of a development program. Over-all, the share of total imports that can be accounted for by direct imports of machinery and equipment for identifiable projects may be only 10 percent or so of a country's import needs, whereas the desirable level of external support for development may be a larger proportion.

(ii) The program approach sometimes provides negotiating advantages. In some instances, the desired level of aid can be made available through specific projects, but only with considerable difficulty. Insistence on financing only projects may lessen U.S. effectiveness in negotiating more important issues.

(iii) Program aid is desirable when project aid would unduly emphasize large schemes or the public sector. These

dangers are inherent to a degree in development planning, since public sector investment in general and large public projects in particular appear to be the simplest for the government to plan and control. A total project approach to aid may heighten this tendency. If more projects are required to obtain more aid, projects will certainly be emphasized, and government projects may predominate because they are easier to negotiate.

(iv) Project assistance may on occasion be more expensive than program aid. Funds provided on a project basis must be spent on requirements for the projects financed. Since aid funds are in large part tied to United States procurement, these commodities will normally be purchased in the United States. Program assistance permits the aided country to select for purchase in the United States those parts of its import requirements for which United States procurement offers price or quality advantages.

The effectiveness of program assistance in supporting development depends on the recipient's effective and responsible over-all resource use. Any decision for substantial program assistance should rest on previous favorable experience in the country concerned, as well as on careful analysis of needs and clear agreement upon the purposes of the program support.

Advantages of Project Aid.

(i) The risk of creating expectations of a fixed annual aid level is less acute where project assistance constitutes the bulk of United States aid. Even where it is desirable to announce an aid level, variations in the flow of acceptable project proposals and the impact of a particularly large project in one year make a constant aid level unlikely. Also, poor economic performance often is reflected in slow submission of acceptable projects, or slow utilization of funds available for approved projects. In this case, there is a quasi-automatic reduction in the aid level when performance falls short of expectations.

(ii) Project aid provides visible or tangible results and often has greater public appeal both at home and abroad. Successful capital projects such as a new cement plant or irrigation dam are visible evidence of economic development. Even where the same amount of resources would have made an even greater contribution to economic growth if they had been made available for general program support, the analysis that demonstrates this is necessarily somewhat sophisticated and can be understood by only a small group. This advantage of projects is, of course, offset in cases where the project is subject to considerable criticism.

(iii) Project aid sometimes permits more effective control than does program aid. Resources freed by project aid may of course be used for other purposes, thereby making the appearance of United States control over resource use illusory. However, aid used for a project assures that at least this particular investment takes place.

(iv) Project aid may permit certain types of assistance not possible through program aid. For example, where the country feels it needs help in designing and executing a particular investment, project aid is clearly appropriate.

Balance in Program Implementation. The disadvantages of both types of aid are most severe where one or the other is used exclusively. For example, the danger that program assistance will establish a politically frozen aid level is reduced if total assistance includes a major project component. The risk that project aid will over-emphasize public sector activities and large schemes, or cause unduly protracted negotiations, is reduced if project aid concentrates on those projects for which agreement can be easily reached, and the remainder of agreed assistance requirements are met through program aid.

Conversely, the advantages of each type of aid can be achieved without excluding use of the other. The public relations advantages of visible physical progress can be obtained by some well chosen projects, while the flexibility needed to achieve a desired level of aid or specific policy objectives does not require that all assistance be on a program basis.

PROGRAMMING LOCAL CURRENCIES

The major part of U.S. assistance results in the importation of goods and services to be sold to domestic purchasers for local currency. The United States controls in varying degrees the use of these local currency or "counterpart funds" generated by Supporting Assistance grants, agricultural commodities sold under the Food for Peace Program, and non-project loans. Except for the few aid receiving countries with exceptionally heavy defense burdens, the great bulk of these funds is used to promote the economic development of the recipient country.

Although these local currencies do not represent additional resources, they do represent a claim against existing local currencies and, as such, are subject to programming. As in the programming of dollars discussed above, it must first be decided whether to use the local currencies for project assistance or for more general program uses such as support of the defense budget, expansion of credit for the private sector or general support of the development budget. Many of the same considerations will apply.

In some cases it may be advantageous, even though the dollars are being used for general program assistance, to use the local currencies for projects. For example, when a program loan is desirable on balance of payments grounds, it is possible for the United States to retain some influence over the allocation of investment funds by agreeing with the government on specific projects to be financed with the local currency generated. This procedure may have advantages for both the recipient government and A.I.D. It makes it possible for A.I.D. to help finance high-priority developmental activities which may be difficult to finance as dollar projects because of their small size, low import component, or for other reasons. At the same time, it permits the government a wider choice of commodities to import than would be possible if imports were directly tied to projects.

Since additional resources are provided to the economy at the time that AID-financed goods are imported, it is desirable to plan the use of local currencies at approximately the same time as the commodity imports are agreed upon. To be most meaningful, aid negotiations should take into account both the import program and the additional use of local resources that aid makes possible. This procedure is most likely to result in real agreement and optimum use of local currencies. Advance planning also reduces the risk of a deflationary effect resulting from accumulation of unused counterpart funds, followed by an inflationary impact when counterpart funds are used for investment after the offsetting inflow of goods has been largely consumed or utilized.

MULTI-YEAR COMMITMENTS

Multi-year development loan commitments are authorized in the Foreign Assistance Act when "it is important to the advancement of United States interests" and "in the interest of orderly and effective execution of long-term plans and programs of development assistance."

Long-term loan commitments may offer advantages both to the United States and to the recipient country. Advance knowledge of the level of assistance over more than one year may permit improved planning and use of resources by the host country. When a multi-year commitment is arranged, the United States and the host country may be able to achieve closer agreement on self-help measures appropriate to the country's development effort. Successful execution of multi-year loans may also encourage other donors to make similar commitments where appropriate.

There are also risks associated with long-term commitments. U.S. negotiating leverage and flexibility may be reduced. There may be pressure to relax technical and economic standards in order to reach the aid level already conditionally established. If the economic and political performance of the recipient fails to meet the agreed standards, the United States may face the alternatives of a major departure from the conditions of the commitment or of the abrogation of the commitment itself. Finally, such commitments may reduce A.I.D.'s flexibility in allocating appropriations for any given year.

In estimating whether the expected benefits of a multi-year commitment outweigh the potential risks, both the prospects for effective self-help performance by the country and the impact upon U.S. interests must be evaluated. Relevant self-help considerations include whether the country has a well-developed plan and effective planning processes as well as sound fiscal, trade and related policies. The country should have demonstrated its willingness to devote a reasonable share of its own resources to development. It should also have a political system which permits steady progress and orderly change so that the policies and programs on which the commitment are based are not likely to be radically altered during the period of the commitment.

Chapter V. AID AS A SOURCE OF FOREIGN EXCHANGE

U. S. assistance is normally provided to a country in order to achieve certain mutually agreed results. As indicated in the previous chapter, the principal forms of aid are support of general economic programs and support of individual projects. In either case there is a need to measure the amount of additional external resources required to sustain a given expenditure or policy. Such a measurement requires a detailed analysis of the balance of payments and the policies affecting it.

In addition to the central question of measuring aid requirements, there are often other problems involving the relationship of aid to the balance of payments. In the short-run, there is the question of relating loans for stabilization purposes to loans for development. In the long run, the additional resources provided by foreign assistance should be used in such a way as to promote growth within a context of long-run reduction of balance of payments deficits.

IMPORT REQUIREMENTS OF DEVELOPMENT EXPENDITURES

Aside from the handful of countries in which supporting assistance is provided to maintain current import levels, the purpose of U.S. assistance is to finance additional expenditures, usually for investment or other development purposes. The additional import requirements generated by such an expenditure are of two types: (i) direct imports of machinery, equipment, and other commodities used in the investment process, and (ii) indirect imports to satisfy demands resulting from the increase in local production of investment goods or the resulting increase in domestic incomes.

The total imports required to support an increase in development expenditure are substantially less than the amount of the total expenditure. Some of the commodities and services required to complete the investment process and to satisfy the resulting increase in incomes can be produced from local productive capacity and under-utilized labor. The extent of the resulting increase in incomes, and subsequent derived demand for imports, will depend on the share of income that is taken by taxes or savings. The higher this share, and the larger the proportion of increased demand that can be satisfied from local resources, the smaller is the amount of aid needed to support a given increase in investment or other expenditure.

It is U.S. policy to provide only the additional imports economically required to sustain the agreed increases in investment. This procedure requires the recipient country to finance a substantial fraction, normally at least half, of the local costs of a given project or activity, but it does not limit aid financing to direct import requirements. The indirect import requirements are also eligible in many cases. When aid is provided in excess of the total required amount, it often encourages unnecessary imports that inhibit the maximum use of local resources and reduce the incentive to governments to increase tax collection with savings, which are necessary to put growth on a self-sustaining basis.

In countries where U.S. aid is a substantial fraction of total imports, of the order of 10 per cent or more, the calculation of aid requirements is made from a general balance of payments analysis, whatever the form in which aid is furnished. When aid is more limited and data are inadequate for overall analysis, it may be necessary to estimate the additional import requirements of particular projects by a more partial analysis of their direct and indirect effects. A general rule of not more than 50% of local costs is applied to all projects, however, and special justification is required for any exceptions. In many cases the justifiable amount will be less. If a project is of high priority, the recipient should be able and willing to finance at least this proportion from tax revenues and local savings.

FINANCING SHORT-TERM BALANCE-OF-PAYMENTS CRISES

Aid for relief of short-term balance-of-payments crises requires special consideration. Two cases may be distinguished: (i) cases where short-term balance-of-payments aid, unless subject to stringent restrictions, is likely to result in the postponement of corrective action, and (ii) cases where aid may be expected to support effective corrective action. This distinction is a difficult one to make; however, an examination of the reasons for the crisis may provide a tentative classification.

Balance-of-payments crises which could have been averted. A.I.D. policy is that short-term balance-of-payments support should be met as far as possible from such sources as the International Monetary Fund, the Export-Import Bank, the Treasury Stabilization Fund, or commercial credits from other countries or private United States sources. If support from these sources is inadequate, limited use of Supporting Assistance loans on terms appropriate to the case may be considered. This assistance is generally limited to relatively small amounts and the terms of the loans are less favorable than are the terms of Development Loans. Development Loans are considered only in the event that proposed projects meet Development Loan standards as well as contributing to a solution of the short-run problem.

A.I.D. assistance for a balance-of-payment crisis is granted only if the potential economic and political repercussions of the crisis are serious enough in the view of the United States to warrant its use. If the crisis was foreseeable or attributable to failure to live up to previous stabilization agreements, the United States may well elect to let the crisis run its course rather than give aid which might reduce the country's incentive to solve its own problem.

An assessment of the willingness and ability of the recipient government to take necessary corrective actions is essentially a judgment about intentions and cannot be made with precision. Informed judgments on necessary corrective actions may also differ considerably. A.I.D. assistance is generally provided, therefore, only if the government has shown a serious interest in pursuing corrective action, perhaps by reaching agreement with the I.M.F. on a stabilization program, and if the government undertakes to seek balance-of-payments assistance from other countries.

Short term balance-of-payments problems beyond recipient country control. Where a balance-of-payments crisis is attributable to factors that are largely beyond the control of the country (such as a serious crop failure in a one-crop economy, a sharp adverse turn in the terms of trade, or even mistakes in pricing policy arising from inexperience) more substantial assistance may be considered. For these countries, we may more safely presume that a real effort will be made and successful corrective action undertaken.

The form of assistance must be tailored to the particular situation. Development Loans may be used if the prospects for corrective action as a base for future development are promising and if there is a need to support development activity as part of the solution.

Short-term balance-of-payments problems resulting from reforms. Short-term balance-of-payments difficulties may also arise following actions, such as devaluation or the substitution of indirect for direct import controls, which have an uncertain effect upon the balance of payments. Major efforts to discontinue the use of short-term foreign credits for long-term investment projects provide a similar example. In cases such as these, the use of Development Loan funds is appropriate if the intentions of the country are judged to be serious, and if Development Loan standards can be met.

PROMOTING TRADE TO REDUCE BALANCE-OF-PAYMENTS PROBLEMS

The United States has a strong interest in assisting and encouraging the less developed countries to increase their foreign exchange earnings through export diversification and expansion.

Demand for the primary products on which many developing countries rely for export earnings has expanded less rapidly in recent years than have world trade and world income. The United States is joining in efforts to free the trade in raw materials from artificial restrictions which impede market expansion and consumption. In order to reduce short-term problems of fluctuating commodity prices and sales, the United States will consider international commodity agreements with the major consuming countries and compensatory financing schemes designed to stabilize earnings.

In the long run, however, commodity and financing agreements are not enough to assure adequate export earnings. Most developing countries must diversify their exports and reduce their dependence upon a small number of raw materials. A.I.D. encourages research in product improvement and utilization and promotes soil surveys and other research to determine possibilities for alternative uses of land. Where possible, United States influence is used to encourage changes in subsidy, tax or related host-country policies which will induce movement away from crops in over-supply. In the industrial field some less developed countries tend to emphasize import substitution, in response to the slow growth of their traditional exports and the barriers in major industrial markets to their present and potential exports. Since import substitution is rarely an adequate route to growth, A.I.D. encourages the less developed countries to place more emphasis on both immediate and long-run policies and measures to promote competitive exports.

Chapter VI. COORDINATION OF ASSISTANCE PROGRAMS

A.I.D.-administered assistance constitutes only part of official U.S. foreign assistance. The Military Assistance Program administered by the Department of Defense, the Export-Import Bank, and the Peace Corps also supply different types of assistance to developing countries. A.I.D. seeks to coordinate its programs with the activities of these agencies.

U.S. foreign assistance activities must also be coordinated with the expanding programs of other Free World donors and with multilateral programs such as those of the International Bank for Reconstruction and Development and the United Nations Specialized Agencies.

MILITARY ASSISTANCE PROGRAM

The U.S. provides military assistance, primarily in military goods and services, to increase collective security among friendly nations, to limit Sino-Soviet bloc military and political influence, and to secure base and operational rights for U.S. forces. Military assistance is used to develop and maintain forces to defend against external aggression and to contribute to internal defense against Communist-inspired subversion and insurgency. Military aid is also used to assist selected local forces in undertaking civic action programs designed to contribute to economic and social development.

The Military Assistance Program (M.A.P.) is administered by the Department of Defense. However, the Foreign Assistance Act of 1961 states:

> Under the direction of the President, the Secretary of State shall be responsible for the continuous supervision and general direction of the assistance program authorized by this Act, including but not limited to determining whether there shall be a military assistance program for a country and the value thereof, to the end that such programs are effectively integrated both at home and abroad and the foreign policy of the United States is best served thereby.

The Secretary of State has delegated responsibility for coordination of the M.A.P. and A.I.D. programs to the Administrator of A.I.D. in his capacity as Coordinator of Foreign Assistance.

Coordination between the two programs is of particular significance in eight countries on the Sino-Soviet periphery where large military assistance programs create major problems of resource allocation. The coordination problem is important in a few other countries receiving smaller but still significant military assistance.

In those countries receiving substantial military assistance, the planning of both economic and military assistance should compare the costs

and benefits of different combinations of the two types of aid, so that the total assistance program will contribute as much as possible toward both security and developmental goals. Comprehensive analysis of alternative uses of both domestic and external assistance resources is desirable to determine the optimum allocation between military and economic assistance.

A.I.D. Missions and military assistance groups are also urged to examine more thoroughly the ways in which each program can support the other. Improved military security contributes indirectly to increased economic productivity of civilian investment; economic and social growth often increases the effectiveness of counter-insurgency and internal security programs. Military infrastructure or technical training programs contribute more directly to increased civilian output, and civilian transportation investment directly assists military logistics. In any country receiving both economic and military assistance, project evaluation should weigh the complementary benefit of a project in either program on the other as heavily as the project's contribution in its own field. The two types of assistance may also lead to direct or indirect conflicts. A.I.D. and military assistance missions are urged to watch for and minimize such conflicts.

EXPORT-IMPORT BANK

The Export-Import Bank was established in 1934 to assist U.S. exporters and importers. Much of the Bank's activity, including medium-term credits, cannot be described as foreign assistance. However, the Bank also extends substantial long-term development loans. There is no sharp distinction between A.I.D. Development Loans and Export-Import Bank long-term loans in terms of recipient countries or purposes for which funds are available. Both agencies' loans are repayable in dollars and are predominantly for procurement of U.S. goods and services. However, the Export-Import Bank finances only U.S. dollar costs while A.I.D., when circumstances warrant, can finance a share of local costs. The Bank usually lends for industrial or public utility projects needing considerable machinery from the United States while A.I.D. lends for a broader range of purposes. The Export-Import Bank loan terms are geared to the nature of the project itself; A.I.D. takes the nature of the project into account but adjusts the terms of its loans to the repayment capacity of the country. All Export-Import Bank long-term loans are made at not more than 2 percent above the cost of money to the U.S. Treasury, but not to exceed 5-3/4 percent. Maturities for long-term project and development loans vary from 8 to 20 years, usually depending on the nature of the project. A grace period, normally not exceeding two or three years, may be added to the period of the loan.

In some instances, the Export-Import Bank has extended general lines of credit in order to finance projects which may be worked out later; to refinance foreign exchange arrears when these interfere with normal trade; or to finance continued U.S. exports to a country suffering from protracted foreign exchange deficits despite stabilization programs worked out by the country (preferably in agreement with the IMF and supplementing the use of

IMF funds). Terms on balance of payments loans generally provide maturities of up to seven years with interest rates of about 5-3/4 percent.

To facilitate coordination of A.I.D. and Export-Import Bank activities in the field of long-term development lending, the President has appointed the President and Chairman of the Board of the Export-Import Bank as a member of the Development Loan Committee, of which the A.I.D. Administrator is chairman. There is also a liaison committee to coordinate the activities of the Bank and A.I.D. on specific lending proposals.

The Foreign Assistance Act of 1961 directs A.I.D. to take into account alternative sources of financing before making loans. A.I.D. does not normally make loans that the Bank is willing to undertake. Optimum use of United States-financed resources requires that A.I.D. and Export-Import Bank funds be used in complementary fashion with due regard to the development plan and repayment capacity of the borrowing country.

PEACE CORPS

The Peace Corps is a separate agency under the Department of State. Its objectives as stated by the Congress are three-fold: "To help the peoples of interested countries and areas in meeting their needs for trained manpower, and to help promote a better understanding of the American people on the part of the peoples served and a better understanding of other peoples on the part of the American people."

Peace Corps volunteers provide manpower at the middle level between highly skilled technical experts, whether local or supplied from external sources, and the predominantly unskilled population in most less developed countries. The Volunteers serve in a wide variety of jobs, including teachers, agricultural extension workers, surveyors, water and sanitation workers, nurses and nurses' aides, medical technicians, vocational and athletic instructors, youth group organizers, and rural and community development workers. In contrast to A.I.D. professional and technical specialists, whose purpose is usually to advise and train recipient country personnel and demonstrate new techniques and approaches Peace Corps Volunteers usually serve under host country supervision to fill immediate manpower needs. While performing their duties, the Volunteers may also, where appropriate, train host country nationals to do the job.

In order to insure a clear recognition of the idea and purpose of the Peace Corps, its activities in a particular country are conducted separately from those of the Embassy and other United States agencies. When its program is being formulated, Peace Corps officials consult with the Embassy and the A.I.D. mission in the field, as well as with the Department of State and A.I.D. in Washington. A.I.D. program planning officials in turn take account of possible Peace Corps projects that will contribute to priority goals. Both look for opportunities for coordinated projects and seek to avoid duplication and competition.

MULTILATERAL SOURCES OF ASSISTANCE

Human Resources Assistance. The two General Assembly resolutions providing for a UN Decade of Development urged the UN Specialized Agencies to increase their assistance programs to the less-developed countries. In 1961 the UN family of programs provided about $165 million in technical assistance to developing countries.

The Organization for Economic Cooperation and Development (OECD) has a technical cooperation program for member countries and is presently establishing a development center. The Organization of American States has a regular program of training and technical cooperation and also assists individual countries in planning their economic and social development programs.

International Financial Institutions. The major international financial institutions in 1961 committed about $1.3 billion and disbursed about $230 million (net of repayments) in loans, grants, and to some extent in equity participations in the less developed countries. Both commitments and expenditures are expected to continue to rise.

The World Bank group (IBRD, IDA and IFC) made available in 1961 over $750 million in commitments and $200 million is disbursements. IBRD lending policies are patterned to a larger extent on the practices of private investment banking, while the purpose of the International Development Association is to finance projects on more favorable terms in member countries whose repayment capacity precludes or limits their assuming additional debt on IBRD terms. The International Finance Corporation seeks, through selected investment financing, to function as a catalyst, attracting local and foreign private capital into productive private enterprise in the less developed countries. The World Bank also provides technical assistance, primarily in the field of development planning, and the IFC provides advice on the role and organization of enterprise and investment in the less developed countries.

The Inter-American Development Bank is supported by regularly subscribed capital from the United States and the Latin American countries (except Cuba). The Bank makes direct loans to governments and private entities. In June 1961, the United States transferred to the Bank $394 million to establish the Social Progress Trust Fund, which the Bank administers for the United States. Additional funds for the Trust Fund are requested of Congress in FY 1964. IDB commitments of its own funds in 1961 were about $180 million.

The European Economic Community has established a European Development Fund for grant and soft loan assistance to associated countries in Africa, and a European Investment Bank which lends primarily in Europe but will supplement the Development Fund with hard loans in Africa. In 1961, commitments were about $150 million. As in the case of the IDB, initial EEC

expenditures are beginning to reach appreciable levels.

OTHER BILATERAL PROGRAMS

Although multilateral programs are growing, the bulk of foreign aid will probably continue to be given on a bilateral basis. Other Free World industrialized countries currently provide about 40 percent of total aid, including both bilateral assistance and contributions to international programs. Other donors' loan terms are improving. The proportion of loans with maturities of 20 years or more has risen substantially, interest rates have been reduced and grace periods lengthened. However, further improvement in amounts and terms of aid and in the quality and flexibility of programming of other donors' programs are still major U.S. objectives.

INTERNATIONAL COORDINATION OF ASSISTANCE

The United States views its foreign assistance programs as a component part of Free World aid, rather than as an isolated effort. Therefore, it is the policy of the United States to seek (i) an increase in the total flow of aid from the developed countries of the Free World to the less-developed and an equitable sharing of contributions to the common aid effort, based on the ability to pay; (ii) liberalization and greater comparability of terms on which assistance is offered; (iii) greater consistency among aid donors in the conditions attached to aid, such as planning and self-help efforts; and (iv) much closer coordination of United States capital and technical assistance with that supplied by other nations and by international organizations. Aid coordination becomes increasingly important as the number of bilateral and mulitlateral aid donors grows and each donor offers an increased volume and more varied types of aid to more countries.

The general purpose of coordination is to promote the most effective possible use of limited aid resources from all donors. More specifically, it is needed to assure compatible approaches to aid giving, to facilitate an effective division of labor among donors by matching needs for assistance with the donors best qualified to meet the specific needs, as well as to avoid duplication and to assist the recipient countries' efforts to work with a large number of aid sources.

On a broad policy level, the United States seeks general agreement among bilateral donors and international organizations both on basic aid policies and on assistance strategies and techniques. On the level of country programs, the United States discusses with other industrialized countries and international aid sources the need for broader support for development programs in particular countries where several donors have important interests and responsibilities. Country coordination among bilateral and international donors is also necessary to achieve an efficient division of labor on projects, sectors, and skills.

Channels of Coordination. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) is an inter-governmental committee of the major donor countries. It provides the basic international forum for discussing aid problems and policies and for promoting coordination. DAC conducts an Annual Aid Review of the aid efforts of member countries (and the EEC). DAC has also established coordinating groups for specific developing countries. There is a DAC Working Group on Technical Cooperation, and special ad hoc meetings and working parties — such as the Working Party on Terms of Aid — are set up to examine particular policy questions. The OECD Development Center is also an instrument through which the OECD and DAC work to increase the effectiveness and coordination of members' assistance programs.

The International Bank for Reconstruction and Development (IBRD), in addition to its lending activity, sponsors "consortia" of donor countries which provide financing for the Pakistani and Indian development programs and the Indus Basin program. The Bank also sponsors less formal "consultative groups" to coordinate bilateral aid efforts in several other countries. Unlike consortia, these consultative groups are not committed to meet funding gaps in development plans.

World Bank coordination has focused principally on capital assistance. Another channel of coordination is the Colombo Plan made up of Far Eastern and South Asian developing countries and Free World industrialized countries with major interests in that region. The Colombo Plan meetings have discussed capital aid, but focus more heavily on technical assistance.

There is a U.N. Resident Representative, or a Regional Representative responsible for each country where the U.N., its specialized agencies, or the U.N. Special Fund conduct operations. The Representative, in addition to supervising U.N. assistance activities in the country, generally seeks to establish cooperative relations with all bilateral and other external assistance groups and acts as a coordination center.

A.I.D. missions in every developing country are instructed to take active steps to promote good relations and to coordinate both capital and technical assistance programs with other bilateral donors, with the technical aid programs of the U.N. and its specialized agencies, and with the international financial institutions. For example, Directors of A.I.D. missions discuss their programs regularly with resident U.N. Chiefs of Missions, and A.I.D. technicians at all levels are responsible for maintaining as close relations with their U.N. counterparts as is appropriate under local conditions. Missions also take into account, in their annual program submissions to Washington, the volume, terms, content and effectiveness of other capital and technical assistance programs and their likely trends in the coming years. A.I.D. also tries to assess the objectives and policies of other donors and the degree to which they mesh with our own.