

1966

U.S. FOREIGN AID
AND THE ALLIANCE
FOR PROGRESS

AGENCY FOR INTERNATIONAL DEVELOPMENT

BEST AVAILABLE



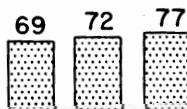
 AID PROGRAMS

LATIN AMERICA

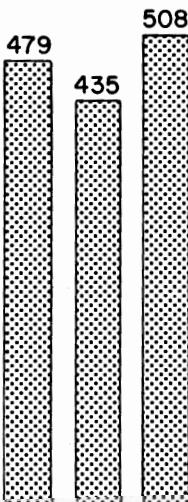
Program by Function*

(Millions of Dollars)

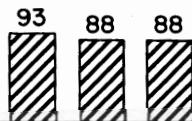
Military Assistance



Alliance for Progress Loans



Alliance for Progress Technical Cooperation



Supporting Assistance



*\$54 Million was programmed for Economic Assistance from Contingency Funds in FY 1964 and \$9 million in FY 1965.

FOREIGN AID AND THE ALLIANCE FOR PROGRESS

The Alliance for Progress moves into fiscal year 1966 with new momentum, new confidence, and steadily improving prospects for success. The labor and patience of the first years of the Alliance are beginning to pay dividends. The past year saw substantial economic growth, improvements in the terms and volume of trade, and heartening social and economic progress.

A new government came to power in Brazil during the year, determined to stop the country's descent into political and economic bankruptcy. The new administration's adherence to the principles of the Charter of Punta del Este reflect the general disenchantment with Communist appeals which has characterized recent developments in Latin America. As the Brazilian Government has moved against the problems of runaway inflation, budgetary crises, and mounting social tensions, the United States has responded (in fiscal year 1964 and again in fiscal 1965) with appropriate forms of support.

The Chilean presidential elections of 1964 and the congressional elections of March 1965 decisively demonstrated Chile's preference for democratic reform rather than Marxist solutions for the country's social and economic problems. U.S. assistance will support the extensive stabilization, reform, and development program launched by the new administration of President Frei.

These goals will not be easily attained, even though many of the obstacles which stood in the path of progress four years ago have been reduced or eliminated. It will require the continued and expanded efforts of all the Alliance partners. The U.S. contribution must be stepped-up if the quickening pace is to be sustained.

The Magnitude of the Challenge

The Alliance has awakened Latin America to the magnitude of the challenge of development, but poverty is still the lot of the majority of the people. The pervasiveness of this poverty is a constant threat to progress toward fulfillment of the hopes the Alliance has raised.

Population is growing faster in Latin America than anywhere else in the world. National economics must grow at rates higher than that of many developed nations simply to keep pace with population. Despite progress in home construction, the number of ill-housed people is increasing. Despite greater attention to education, the percentage of school-age children attending class is not increasing; in fact, the percentage of illiterates may be growing. For all the efforts of the Alliance, unemployment

and under-employment, caused largely by the inefficient use of land and lagging industrial development, remains a crushing problem.

For many Latin American countries economic life is a matter of boom or bust. In several countries, inflation saps the incentive to save. Budget deficits continue. Poorly operated public enterprises are contributing to government financial imbalance. Monopolistic practices and regressive tax structures restrict the development of national markets.

Alliance Goals and Self-Help Measures

Political developments in 1964 were encouraging. New governments in Chile, Brazil, Venezuela, Panama, and Mexico have produced progressive leadership.

Latin American economic progress has accelerated since the Alliance began. Although only preliminary estimates are available for 1964, growth in 1964 may approximate the minimum goal called for by the Charter of Punta del Este. The improvement stems mainly from an upswing in the Argentine economy and healthy rates of growth in Mexico, Venezuela, and Peru. Latin American export earnings were some eight percent higher than in 1963.

New development banks, cooperatives, and other intermediate credit institutions—many initiated with U.S. assistance—have stimulated the private sector. Nine countries—notably Brazil, Chile, Colombia, and Panama—have undertaken major tax reforms. All the Latin countries of the Alliance have improved their tax systems and/or tax administration. Land reform laws are now on the books in a dozen countries and land reform institutions and agencies in these countries have strengthened their resources. Fifteen countries have self-help housing programs. Ten countries—Bolivia, Brazil, Chile, Colombia, Ecuador, Honduras, Mexico, Panama, Peru, and Venezuela—have submitted national development plans or sector investment programs for evaluation. Other country programs are in the final stages of preparation.

At the end of 1964, the Inter-American Committee for the Alliance for Progress (CIAP) completed the first cycle of country-by-country development reviews under the Alliance. It examined national and sectoral plans, the steps that had been taken to put them into effect, and the efforts that each country is making to carry out its responsibilities under the Alliance charter. The CIAP review covered foreign trade, regional integration, and external assistance as well as domestic efforts of the Latin American countries, and recommended specific courses of action to accelerate progress.

CIAP concluded that short-term debts posed a major problem facing Alliance nations, and called for: (a) monetary and development policies which will lead to longer-term financing; (b) a firmer control over the expansion of external debt; and (c) where possible, negotiations to reduce the burden of repayment.

The next CIAP review session will give emphasis to improving development plans; preparing and executing projects; establishing better borrowing practices; and increasing domestic investment. The following organizations providing the bulk of the external financing for Alliance efforts took part in the review: The World Bank, Inter-American Development Bank (IDB), the International Monetary Fund (IMF), and AID. A number of DAC countries will participate in CIAP's next review cycle.

In addition to assistance by AID, U.S. support for Latin America is also provided through Food for Peace, the Export-Import Bank, the IDB, and the Peace Corps. In fiscal year 1964, the World Bank and the IDB loaned nearly \$400 million to Latin America. The Export-Import Bank financed more than \$180 million of Latin American projects in fiscal year 1964 and is expected to increase its lending operations in fiscal year 1965 and fiscal year 1966. Fiscal year 1965 will probably be the last year of operations of the Social Progress Trust Fund, administered by the IDB. During the first four years of the Alliance, it was responsible for financing \$525 million of housing, education, water and sewage, and agricultural resettlement projects. The Fund will be merged with the Fund for Special Operations in the IDB and expanded by contributions from Latin American countries and the United States.

Development of the Private Sector

As the Alliance for Progress matures, more and more of the stimulus to development must come from the private sector. Significant private sector growth took place in 1964. Colombia's Private Investment Fund was so successful in its first year that similar institutions are under consideration in Argentina, Brazil, Chile, and Peru. The Atlantic Community Development Group for Latin America (ADELA) was incorporated in September with an authorized capital of \$40 million. ADELA will provide Latin American private enterprise with equity capital and technical competence.

Regional integration is removing some impediments to the growth of commerce among Latin American countries; Central America is building a successful Common Market; the Latin American Free Trade Association (LAFTA) is progressing more slowly.

Private U.S. investment in Latin America in the first six months of 1964 nearly equaled the total for the entire year of 1963. In fiscal year 1964, \$342 million in AID investment guaranties were issued for Latin America—nearly five times the 1963 level. This accelerated pace is continuing; over \$130 million in U.S. investments were guaranteed during the first quarter of fiscal year 1965. U.S. housing guaranties already issued or in process cover projects worth over \$150 million in 11 Latin American countries. AID lending to intermediate credit institutions—for farm credit, housing, and new industry—now amounts to about 25 percent of all AID loans. The investment surveys approved to date could result in over \$130

million of investment. Cooley Loans passed the \$23 million mark in 1964. A catalog of 372 specific investment opportunities has been prepared for U.S. private investors.

U.S. programs to develop the human resources necessary for a vigorous private sector have been expanded. For example, AID is helping to support university programs of business administration in Colombia, Brazil, Peru, and Central America.

The FY 1966 Program

Development lending needs to be expanded in fiscal year 1966 to a minimum level of \$510 million. Technical Cooperation is requested at about the same level as fiscal year 1965, in order to provide the critical margin of hope against human misery and to create the resources of skilled and capable manpower which can make progress self-perpetuating .

A minimal amount of Supporting Assistance is requested for non-development requirements in four countries. Potential emergency and incentive situations in the hemisphere may require resources from the President's Contingency Fund, or, if the Fund is depleted, from supplemental appropriations.

The concentration on development lending will increase in fiscal year 1966; more than 90 percent of the proposed loans will go to four countries and Central America. Development lending as a proportion of the total Alliance program is as follows: fiscal year 1964, 71 percent; fiscal year 1965, 81 percent; fiscal year 1966, 86 percent. Three countries—Brazil, Chile, and Colombia—are expected to receive program loans to help carry forward self-help measures and other economic and social programs within a framework of financial stability. Imports financed by these loans go largely to the private sector and help contain inflationary pressures.

The changes in emphasis in the program for fiscal year 1966 reflect the favorable developments in Brazil and Chile. The program does not assume, however, that fiscal year 1966 will produce any new major breakthroughs in other Latin American countries.

Major AID programs are planned for Brazil, Chile, Colombia, Peru, and Central America.

A program combining both loans and technical cooperation is proposed to support Brazil's stabilization, development, and reform efforts. The new government of Brazil has a short-range investment program and is drawing up a longer-term plan. The government's interim program includes: (a) practical anti-inflationary measures; (b) reductions in government deficits; (c) improvements in its balance of payments position; (d) encouragement of domestic and foreign private enterprise; and (e) reforms in rural land ownership, education, banking, and housing. Success of current reform efforts under the Alliance for Progress is essential if Brazil is to move forward.

Assistance to Chile in fiscal year 1966 will support the Frei government's program of financial stabilization and accelerated economic growth. The new Christian Democratic administration is attempting to check chronic inflation and to provide economic and social reforms which would draw more low-income families into community and national life. This ambitious program is based on monetary stabilization policies, an investment budget emphasizing social development, and measures to spur agricultural and industrial production, including creation of a private investment fund. Success of these efforts depends largely on Chile's ability to attain large increases in government savings and to achieve other fiscal, monetary, and related objectives. The Frei government already has laid the basis for expanded export earnings to finance future economic development by negotiating a new arrangement with private U.S. firms to increase copper production substantially over the next six years. The Chile-California partnership is expected to provide much of the technical assistance Chile needs.

The United States will continue to cooperate with the Consultative Group led by the World Bank to help Colombia improve resource mobilization and meet the goals of its development program. The private sector of the Colombian economy is strong and diversified. The United States is attempting to help Colombia overcome its excessive dependence on coffee for export earnings by diversifying its exports.

The principal objective of the AID program for Peru is to foster peaceful evolution by supporting the changes needed to bring the highland Indians and recent migrants to overcrowded coastal cities into the national economic and political life. The United States will encourage efforts to channel more domestic savings into necessary overhead investments, such as rural development, education, and transportation. U.S. technical cooperation will continue with the help of such universities as Columbia, North Carolina, Iowa State, and Stanford.

Continued AID assistance is proposed to accelerate the Central American integration movement and enable the five associated countries to deal effectively with their development problems. Remarkable progress has been made toward creating a common market. The major element in the fiscal year 1966 AID program is a proposed loan for a fund for Central American integration, which will serve as the channel for major regional capital projects such as highways.

New Tools for the Alliance

The methods of attaining the goals of the Alliance have been thoroughly tried and tested. On the basis of this experience, the successful programs are being expanded, others are being phased out. New techniques have been devised, their effectiveness determined, and plans made for their application in future endeavors.

1. Technical Cooperation to improve tax administration and provide the public resources necessary for development is being provided by U.S. Internal Revenue Service experts. Internal Revenue Service and Customs Service advisors will soon be working in 14 Latin American countries, six more than last year.

2. The American Institute for Free Labor Development (AIFLD) has expanded training activities aimed at strengthening free labor in Latin America. AIFLD projects are moving ahead in cooperatives, credit unions, worker banks, training centers, and housing. The Cooperative League of the U.S.A. and the National Rural Electric Cooperatives Association (NRECA) have also helped to set up institutions to marshal savings and supply credit. Over 400 credit unions have been set up and savings and loan associations in Latin America have some \$75 million in deposits.

3. Contracts between U.S. universities and 46 Latin American universities and other institutions of higher education are helping to improve and modernize educational curricula, facilities, and operations of Latin America's educational systems.

4. Demographic research is being undertaken with AID help, to enable Latin American nations to analyze their growing populations and plan accordingly.

5. The Partners in the Alliance—a people-to-people effort through which States and private groups in business, labor, education, and other areas can exchange ideas and provide personnel to similar organizations in Latin America—is moving ahead. Some 25 U.S. States are organizing and California, Texas, Michigan, Oregon, Alabama, Arizona, and Utah already have accomplishments on the record.

6. Increased project implementation is under way at AID. Authority for action has been delegated in large measure to field missions. The quality of technical cooperation is being upgraded through the use of contractors and experts from participating U.S. federal agencies.

Outlook for the Future

The road to development is long and difficult. The members of the Alliance recognize that the problems of Latin America will not be solved simply by condemning Castro, Communists, and nationalist extremists. While extremism is a frequent fellow traveler of human misery, it is more often the result than the cause of it. Hunger, ignorance, and despair must be fought with food, knowledge, and hope.

President Johnson said in May 1964, "Our Alliance for Progress will succeed. . . . In the next year there will be twice as much action, twice as much accomplished as in any previous year in this program."

The goals of the Alliance *are* being achieved. With encouragement and help from the United States, Latin Americans can now look forward to the building of their own great societies.

ARGENTINA

Argentina has one of the most highly developed industrial structures in all of Latin America, but expansion of agricultural production—the basis for much of the country's foreign trade—has lagged badly in recent years. This distorted relationship has led to a chronic balance-of-payments problem, hampering the Government of Argentina in its efforts to bring about more rapid and balanced growth. Argentina's development has been further hindered by political turmoil which has persisted in the 10 years since the overthrow of Juan Peron. Persistent problems have been continued inflation; budgetary deficits estimated at the equivalent of one billion dollars in 1964; a large foreign debt; and the problem of petroleum, exemplified by the 1963 cancellation of 13 contracts with foreign firms.

Self-Help Accomplishments

Despite a lack of economic dynamism, Argentina nevertheless has scored successes in some sectors. These include favorable balances of trade in both 1963 and 1964, induced by deliberate efforts at export expansion and import restriction, as well as an 8.2-percent increase over 1963 in the 1964 gross domestic product. Unemployment has been reduced, and in 1964, for the first time since 1945, there was a net reduction in external indebtedness.

A major Argentine effort has been in the tax field. In December 1964, the Argentine Congress enacted wide-ranging tax revisions covering income tax, production taxes, sales and excise taxes, and the amplification and extension of emergency taxes which were expected to increase receipts by 70 percent, or some \$610 million, in fiscal year 1965, as compared with fiscal 1964. In addition, the rates were raised on government-subsidized utilities, thus ameliorating one of the principal causes of the budgetary deficit.

A five-year development plan, prepared with assistance from AID, a team of economists from Harvard University, the Inter-American Development Bank, and the World Bank, participated in the final stage of preparation. The plan is expected to feature the advancement of industry based on the use of goods produced internally, and to call for improvements in agriculture, livestock production, and fisheries. The success of the plan, when finally adopted, will depend in great part upon the administration's ability to foster the political solidarity needed to carry it out.

U.S. and Other Aid

AID's current program in Argentina seeks to develop educational facilities and increase the availability of technical, administrative and management skills, chiefly through contracts with U.S. institutions, organizations, and universities. Our efforts are centered on agriculture, economics, business administration, engineering, and labor. Columbia, Bucknell, Texas A&M, Chicago, and Stanford Universities are helping to modernize cur-

ricula and teaching methods in cooperation with Argentine colleges and the Ministry of Agriculture. Sixty-eight Argentine nationals who will be serving in key positions in that nation's development were brought to the United States for training in 1964, raising to 453 the number brought here since 1958. Through the first half of fiscal year 1965, some 25 American professors have worked in Argentina in one or another aspect of that country's development programs.

Michigan State University began working under an AID contract in February 1965 to help establish at Bolcarce, Argentina's first land-grant college. A loan agreement authorized in fiscal year 1964 to modernize a network of vocational schools is in the last stages of negotiation. U.S. assistance to Argentine aviation—which began in 1958 and will terminate this year—has helped to modernize the civil air system, including navigational control, electronic engineering, and airport management. When this project is completed, 139 Argentine nationals will have received special training in the United States.

At the close of calendar year 1964, over half a billion dollars in investment guaranties had been issued on U.S. private investment (not including housing) in Argentina.

BOLIVIA

Bolivia has been kept impoverished by its dependence on tin mining for external earnings, and the weakness of its administrative and economic structures. Under an anti-Communist revolutionary movement which came to power in 1952, the land-locked nation of three million had moved toward a greater realization of its potential. United States assistance over this period was based on both specific projects as well as broader development efforts, and was critical in maintaining economic and social stability. This assistance was temporarily suspended in November 1964, when a military junta seized power. The junta has indicated that civilian authority will be restored in August 1965, following elections in May.

Self-Help Accomplishments

Agriculture has been one of the bright spots of the Bolivian economy. With a 25 percent increase in productivity since 1961, agriculture's current rate of growth leads all other sectors of an economy which grew at a six percent rate in 1963-64. Bolivia is now self-sufficient in rice and sugar, with more than 75 percent of the sugar and half of the rice grown from varieties introduced through AID programs. Potentially rich agricultural lands have been opened up in the valleys east of the overpopulated altiplano, and an estimated 100,000 persons already settled on them. Another 100,000 are expected to follow suit in the next decade. The Agricultural Bank has been reorganized, and 800 subloans have already been made from AID-supplied credit of two million dollars. Demonstration centers are providing farmers with new seed varieties, 1,000 rams to improve local flocks,

and new cooperatives making possible official exports of llama and alpaca wool and bananas.

Almost equally striking progress has been made in the field of credit unions and savings and loan associations. The first credit union was established in late 1960, and by the end of fiscal year 1964, some 84 were in operation with savings of \$365,000 and loans to members totaling \$691,000. The first savings and loan association was opened for business in June 1964, and by September, had 640 members with deposits of over \$55,000. Two savings and loan executives were trained by a Peruvian expert, under an AID contract.

In the key mining field, steps also were taken to improve the administration, revise the charter, strengthen the management, and streamline the operations of the mining bank—a vital factor in the development of the private mining sector in Bolivia. A program to improve the highway system moved forward, although further government actions are needed to upgrade, consolidate, and finance maintenance operations. The government also concluded an agreement with Gulf Oil Corporation for Gulf's participation in the development of national oil resources.

U.S. and Other Aid

A major segment of U.S. assistance to Bolivia in fiscal year 1964 was a \$33.2 million loan to build a new highway connecting the existing road system with ports on tributary rivers of the Amazon. The need for supporting assistance declined to \$8.9 million, and technical cooperation grants came to \$5.5 million.

Besides United States aid, the Inter-American Development Bank and the International Development Association extended loans for the construction of two hydroelectric plants and related works in central Bolivia to increase installed generating capacity by 38,000 kilowatts for the mining industry, the town of Cochabamba, and the capital city, La Paz. West Germany provided over \$8 million in assistance, chiefly in the fields of mining and geology. The United Kingdom is continuing to finance the cost of 15 tropical agricultural technicians and is considering a loan for COMIBOL, the state mining corporation. The United Nations is currently financing about 60 technicians in a variety of disciplines.

Current U.S. participation in Bolivia's development is based on our experience of recent years in relating external assistance to specific projects as well as to broad development efforts. Using this approach, AID assistance is contingent upon satisfactory self-help efforts by Bolivia in the following areas:

1. Increasing financial discipline by consolidating the budgets and finances of semi-autonomous and state enterprises into one public sector budget.
2. Eliminating current account budget deficits in the public sector.

3. Stimulating the mining industry by restoring civil authority in the mining areas, reorganizing the mining bank, and passing a new private mining code.
4. Liberalizing the restrictions on private investment and issuing an improved private investment code.
5. Consolidating and devoting increased resources to rural development and highway maintenance.

The FY 1966 Program

The nature and magnitude of the U.S. participation in Bolivia's development efforts will depend upon the extent to which the Bolivian Government undertakes the requisite reforms and self-help. AID will continue to help Bolivia's efforts to achieve financial consolidation and administrative reorganization of the public sector through a combination of loans, technical assistance, and budgetary support. If the government and COMIBOL fulfill their commitments to establish civil authority in the mining areas, and improve management and operations through better production controls and uniform audit procedures, the three financing partners (AID, IDB, and Germany) will provide funds for additional equipment, spare parts, and a reorganization of the management system.

Capital assistance funds may also be applied to continuing road and transportation programs to integrate the country economically, politically, and socially, to open new areas for colonization, and to link farming regions with market centers. Under an AID contract, Utah State University will provide seven man-years of consultant services in agricultural economics, research, extension development, and agricultural education and administration.

Credit union programs will be carried on which seek to set up 150 self-sustaining, affiliated credit unions with a membership of 50,000 by 1970. In the savings and loan field, the objective is to establish private mutual savings and loan associations in five major urban centers, financing some 1,500 housing units annually by 1966. In addition, a governmental central savings and loan bank is sought to charter and supervise the operations of member associations and to develop a market for the associations' mortgages among Bolivian and foreign investors. 1966 is also the target date for the realization of cooperative housing laws, the creation of forty legally organized cooperatives, and the development of a national federation of cooperatives.

Technical assistance will be directed toward consolidating the administration of the rural development program, developing better marketing systems, promoting domestic and foreign private investment, training non-Communist labor leaders, and improving the efficiency of government operations. Necessary budgetary support will be provided but at a reduced level sufficient to permit the orderly reduction and tightening up of public payrolls.

BRAZIL

The Brazilian economy in late 1963 and early 1964 was caught in a downward spiral; inflation was rampant, the growth rate had dropped off sharply, per capita GNP had declined, and the flow of private investment from internal and external sources had virtually ceased. The nation was rapidly heading for bankruptcy. But in April 1964, the reins of government were taken over by a combined military-civilian entente. Under the new administration, decisive steps have been taken to stabilize the country's economy and stimulate growth in line with the principles enunciated in the charter of the Alliance for Progress. The Government of Brazil is trying to effect necessary reforms through the creation and expansion of democratic institutions.

The immediate goals of U.S. assistance to Brazil are to reduce inflation and budgetary deficits, improve Brazil's balance of payments position, help restore an adequate rate of economic growth, encourage the free labor movement, and assist with specific projects intended to alleviate the problems caused by the chronic poverty in the Northeast.

New emphasis has been placed on economic planning. Brazil's short range plans have been endorsed in principle by AID and the CIAP. The Government's short term plans will seek to raise the annual rate of growth—which had fallen to three percent by April 1964—to six percent in 1965 and seven percent in 1966. Attempts will be made to curtail the rate of inflation and achieve price stability by late 1966. In addition, tax revenues will be increased, limits set on lending by private banks and the Bank of Brazil, and agricultural productivity increased by liberalizing agricultural credit.

Self-Help Accomplishments

Some progress has already been made and more is expected. The Brazilian Government has moderated restrictions on profits remittance to encourage greater investment of capital from external sources. It has signed an investment guaranty agreement with the United States, and this promises to start a more vigorous flow of U.S. private investment. Fifty-two applications from U.S. firms are pending, representing a total investment of \$150 million.

Strong measures have been taken to reduce the balance of payments deficits. Restrictions on the exchange rates were lifted to encourage the flow of exports, export controls were simplified, and state government sales taxes and transaction taxes on exports were abolished. The entire tax system is being overhauled to increase revenues further and stimulate industrial production (industry accounts for 30 percent of Brazil's GNP) through tax credits. Taxes will be assessed on rural property according to its use; idle land will be subject to higher taxes, thereby inducing land-

owners to cultivate their property or sell it. The Government may expropriate land if necessary, paying the owner a fair price in government bonds.

Deficits accruing from government corporations are being systematically reduced. For example, government-owned railroads are a serious drain on the budget due to high operating overhead arising out of poor equipment, poor management, and inadequate maintenance. In an attempt to put the rail system on a self-sustaining basis, passenger rates were raised about 50 percent during late 1964 and early 1965; suburban passenger rates were doubled; and freight rates went up from 50 to 60 percent between July 1964 and January 1965. Postal rates were increased 100 percent in September 1964, and air fares have been raised 40 percent. Some public corporations eventually will be transferred to private ownership.

Agricultural credit institutions will make easier credit available to small farmers—especially in the distressed areas of the Northeast. Assistance in title acquisition will be provided as part of the seven resettlement projects. A National Water Fund will make loans available to help cities build or improve their water systems. The entire banking system has been modernized and national housing banks set up to assist in the development of an establishment of a vigorous savings and home loan business.

Brazil's efforts in housing and education gained momentum in fiscal year 1964. Some 2,580 housing units were constructed with AID assistance during the year; 7,300 are expected to be completed in fiscal 1965; and over 12,000 are scheduled for completion in fiscal year 1966. The drive to increase the availability of educational facilities was also productive; 2,000 classrooms were built in fiscal year 1964, and 4,500 more are slated for completion in both 1965 and 1966. School text production also moved forward. During fiscal 1964, about 1,110,000 textbooks were printed under a cooperative program with AID; 1.5 million are planned for 1965; and 1.6 million are due for publication in 1966.

Potable water systems were established in 100 rural communities during fiscal year 1964 as part of the effort to raise the level of health in rural areas. In 1965, plans call for clean water for 234 more towns and villages; increasing to 340 in fiscal 1966. U.S. surplus foods will help to feed 6.6 million Brazilians in fiscal 1965 and an estimated 10.5 million in fiscal year 1966. In fiscal 1965, agricultural credit loans will total 45,000—more than double the volume of the preceding fiscal year—a level which will be sustained through the following fiscal year.

Brazil's power supply is not keeping pace with demand. The present rate of urbanization and industrialization calls for an 11.4 percent increase in power generation annually; the actual rate of growth has been nine percent. Plans call for doubling the 1963 capacity of six million KW by 1970. In December 1964, AID-assisted construction was completed on a twelve-diesel generating station, adding 18,000 KW to the power supply of the rapidly growing city of Fortaleza in Northeast Brazil.

United States and Other Aid

Since the change of government last year, Brazil has become one of the major AID general development support countries. U.S. assistance is intended to strengthen existing democratic institutions by bolstering stabilization efforts, stimulating vigorous private sector growth, and promoting social and economic reforms and development. Development loans of approximately \$200 million will be made during fiscal 1965.

AID has contracts with some 17 U.S. universities for work in Brazil in agriculture, engineering, economics, industry, and rural development. For example, Purdue University is working to improve the level of instruction at the agricultural college (Rural University) in Minas Gerais. AID contract advisors from the University of Wisconsin will continue to assist the University Rio Grande do Sul at Porto Alegre to upgrade its agricultural curricula. Under another AID contract, Ohio State will go on with its 4-year program at the agricultural college at São Paulo. Other AID assistance in agriculture includes contracts with the Universities of Arizona, Mississippi State, and Southern California, all of which will continue through fiscal 1965. An AIFLD program to assist the expansion of Brazil's labor movement will also continue under a contract with AID.

Assistance from non-AID sources focuses mainly on debt relief. The Export-Import Bank has rescheduled approximately \$38 million of Brazilian debts falling due in 1965 and will consider new lending on a project basis. Total debt relief, including all European, American, and other sources combined, is expected to total about \$90 million. In addition, the United Nations, France, West Germany, Israel, Belgium, and Great Britain will continue modest programs of technical assistance.

FY 1966 Program

Development assistance will be contingent upon Brazil's performance and the extent of its self-help measures. As the results of feasibility studies are received and analyzed, capital assistance will be considered for projects in agriculture, industry, power, transportation, fertilizer manufacture, and agricultural cooperatives. Brazil's progress in reducing budget deficits, stabilizing the currency, reforming its banking system, and enacting non-inflationary wage policies will be reviewed quarterly, and loan disbursements made accordingly.

Surveys will be made of river basins, mineral deposits, hydroelectric potential, irrigation possibilities, and agricultural potential in the Northeast. U.S. advisors from the Internal Revenue Service will continue to help improve tax collection procedures and Brazilian participants will continue to receive training in the United States.

AID will consider a loan to build some 13,000 homes for low income families; thousands more will be built through the resources of the growing savings and loan industry. The AFL/CIO, under an AID guaranty, will put up \$23 million worth of housing for trade union members, concentrating mostly in the Northeast.

Contract technicians and specialists from the U.S. Department of Agriculture will be cooperating with the Brazilian Ministries of Planning and Agriculture to expand food production, strengthen the price structure, and improve marketing procedures.

CHILE

A reform-minded Administration, committed to an expanded program of development within the framework of representative democracy, took office in Chile in December 1964. This program, it has announced, will be financed by increases in government savings achieved by more economic administration of government, higher tax rates and a more effective tax collection and enforcement system. At the same time, more foreign exchange is to be earned by increasing exports of copper, fruits and vegetables. The Government has reached an agreement with U.S. copper companies involving more than \$400 million in new investment to expand production facilities in Chile. Steps are also being undertaken to negotiate a rescheduling of short-term foreign debt. New wage policies also are being implemented to halt an inflationary wage-price spiral, and major reforms are being made to gear education more closely to the country's actual needs.

Self Help Accomplishments

Already, legislation has been proposed for a new capital levy expected to yield about \$100 million additional in taxes in 1965, and tax collections—spurred by reforms begun in 1962—are being put on a more current basis, with adjusted yields increasing by up to 30 percent. In education, school construction has been moving at a rapid pace; 72 grade and high schools accommodating 50,000 students were built in 1964 alone. For 1965, the completion of 59 urban schools for 43,000 students and 56 rural schools for some 10,000 students is planned. A land reform program, under legislation dating back to 1962, calls for resettlement of some 10,000 to 12,000 families in 1965, and 100,000 by 1970.

The growth of the savings and loan system in Chile, initiated with AID assistance, has been the most vigorous in Latin America. Chile now has more associations (22) than any other Latin American country, more savings (\$48 million), the most members (84,000), and has made more loans (15,000 amounting to \$50 million) than any other Latin American nation. This system particularly has contributed to the development of low cost housing, under both public and private programs. Since 1962, 58 housing developments, totaling 20,300 units, have been completed, and are accommodating more than 100,000 people. Thirty-four developments, with 4,683 units for an estimated 23,000 people, are currently under way. Attention has also been given to health; a total of 18 hospitals, health centers, and clinics, serving in excess of 400,000 people will have been completed by the end of fiscal year 1965. Other accomplishments in Chile under the Alliance for Progress include: 700 miles of paving on the Pan American

highway; 600 miles of transverse roads constructed; 3,000 loans totaling approximately \$10 million made to small and medium farmers; 1,100 loans amounting to \$3 million completed for small and medium industry; production at three milk plants expanded from 360,000 to 900,000 liters per day; six pilot farms under supervised credit placed in operation; 68 forest fire protection patrols totaling 3,400 men trained and equipped; four dam projects and five irrigation canal systems constructed to improve irrigation on 400,000 acres; 38 grain silos built to store 19,000 tons of grain; and 31 sanitary projects for water and sewerage constructed or expanded in 30 communities affecting 500,000 people.

Chileans also are working with the State of California, which, under an AID contract, is helping set up technical training programs in agriculture, industry, and public service, and in organizing a manpower information center and an employment service.

U.S. and Other Aid

Chile has been one of the seven major recipients of AID assistance. This aid, amounting to some \$240 million in development loans and grants over fiscal years 1962-64, has enabled Chile to avoid serious economic deterioration, and encouraged policies which already have resulted in substantial economic and social improvements upon which the new Administration can build.

Other external assistance includes an International Monetary Fund standby credit, and stabilization loans from the U.S. Treasury and the IBRD-IDA. The Export-Import Bank is considering substantial project financing in 1965, and technical cooperation projects will be implemented by the Ford and Rockefeller Foundations, the Organization of American States, and American voluntary agencies. The Peace Corps plans to provide about 350 volunteers to work on community development and producer co-ops.

AID technical advisors will assist the Chilean Government in improving tax administration and customs collections; and provide assistance to the private sector in cooperatives, savings and loan associations, agrarian reform and labor education.

The Fiscal Year 1966 Program

The level of U.S. aid to Chile during fiscal 1966 will be conditioned upon the success of Chile's efforts to reduce inflation, stimulate growth in the private sector, increase productive capacities (particularly in agriculture and exports), and make better use of resources in the public sector. U.S. program loan assistance will be used to finance the import of essential goods for the private sector. Additional loans may be made available for high priority projects. Technical assistance activities will include the development of agricultural marketing, pricing, and extension services. The Chile-California Program of people-to-people aid will provide technical advisors in these fields. In addition, the Chile-California Program will

work on a master transportation program, manpower and educational planning, and the development of a regional program of development for the Maule River basin.

COLOMBIA

Colombia has a sound basis for economic development. Over the past 18 years it has maintained an increase in its GNP of about five percent a year. It has petroleum deposits which have recently been enhanced by new discoveries, and valuable deposits of coal, iron ore, limestone, and precious metals. The variety of its regions permits a greatly diversified agricultural system. It has a population of 16.5 million—not disproportionate to its size—and occupies a central place within Northern South America. Membership in the Latin American Free Trade Association provides it with a potentially rich market for non-traditional export products.

Self-help efforts by Columbia, even those predating the Alliance for Progress, have generally been very successful. Strong national institutions have been developed. Among these is the National Housing Institute, which in the first three years of the Alliance constructed 68,000 homes, benefiting 450,000 persons. The Agrarian Reform Institute has given land titles to 10,757 families occupying public lands, acquired 1.5 million acres of underdeveloped or idle lands, initiated 1,100 miles of penetration roads, made plans for the reclamation of 625,000 acres of land now not in use, and has settled 800 landless families. A supervised agricultural credit program is showing excellent preliminary results. The Cauca Valley Corporation, a Colombian version of TVA on a smaller scale, provides electric generating facilities and irrigation in the rich Cauca River valley.

Colombia has also been active in the field of private enterprise. It has a number of private—and successful—“financieras,” or development banks. With assistance from AID, the World Bank, and The Netherlands, it also has set up a Private Investment Fund which can funnel development funds into key areas of the private sector. An investment guaranty agreement has been signed with the United States, and nearly 90 applications for guaranties are pending.

Within the past year, too, the Colombian Government revised the national budgetary standards to improve control over planning and administration, created a Board of Foreign Commerce to stimulate exports, and set up an import budget for better allocation of foreign exchange resources. A newly created Monetary Board has been given greater control over short-term private foreign debt and exchange rates and more stringent policies were adopted for dealing with tax delinquents, following up on tax increases approved in 1962–63.

A number of negative factors, however, affect Colombia's growth potential. The middle class is relatively small, though expanding, and its savings are limited. There is still a wide gap between the rich and the poor. Procedures for collecting and allocating public revenues, while improving,

are still inadequate. The share of the national budget devoted to education and training for development has lagged behind other self-help efforts. Continuing dependence on coffee exports has contributed to recurrent balance-of-payments difficulties. The solution to the problem of increasing and diversifying exports has not yet been found.

U.S. and Other Aid

Colombia is receiving substantial general support from the United States. The country's development potential and its own self-help efforts have resulted in the establishment of a Consultative Group, set up by the World Bank in 1962. The United States collaborates with the Consultative Group in its assistance to Colombia. About 45 percent of total external assistance has come from the United States—75 percent of this in the form of nonproject (program) loans. Another 45 percent has come from the World Bank. Technical assistance is also provided by the United Nations, the Organization of American States, and such private organizations as the Rockefeller Foundation (in agriculture), the Kellogg Foundation (in medicine) and the Ford Foundation (in education and public administration).

World Bank loans have concentrated on developing Colombia's electric power facilities, with other credits devoted to improving the railway system and constructing new highways. The IDB has assisted with the improvement of four major ports. AID itself, besides the program loans, has provided \$1.3 million under contract with the National Rural Electric Cooperative Association, in a highly successful project to develop rural electric cooperatives. Work also is going forward on arrangements for the export of handicraft goods, through cooperatives being set up with assistance from the Cooperative League of the United States, Colombia's Banco Agrícola, and the National Tourist Enterprise. Civic action teams of military service men—with assistance from AID—also have constructed 173 miles of road, principally in areas of rural violence.

The FY 1966 Program

U.S. aid levels will be conditioned upon Colombian self-help performance in the following areas:

The continuation of sound fiscal and monetary policies and the maintenance of realistic exchange rates.

Better import controls and more rigid restrictions on the import of luxuries.

More productive efforts to diversify the agricultural sector of the economy to reduce the heavy reliance on coffee as a source of foreign exchange.

The development of an educational system geared more closely to the country's real needs.

Refinements in the planning, preparation, and implementation of projects.

More intensification on the effort to increase exports.

The major portion of the U.S. program will continue to be carried out within the framework of the Consultative Group led by the World Bank, with goals being reviewed by the Colombian Government, the Consultative Group, and CIAP in order to determine priorities and agree on program emphases.

AID loans of from \$60 to \$80 million are anticipated to maintain the correct level of capital goods and essential imports. About two-thirds of these funds will be to cover the cost of imports essential to the vigorous private sector. Local currency generated by these loans will be used to expand or create intermediate credit institutions.

Technical cooperation will concentrate on breaking bottlenecks in planning, education, and agriculture. Internal Revenue Service specialists will continue to help improve and update customs procedures and land appraisals. A U.S. land grant college (to be selected) will assist in improving Colombia's agricultural planning and a survey of basic resources will be continued in cooperation with the Inter-American Geodetic Survey. Under AID contracts, the National Education Association will work with Bolivian institutions to streamline educational planning, and the American Institute for Free Labor Development will continue to train Colombian labor union leaders. The Food for Peace program will reach about two million children and a half a million adults.

PERU

Peru's constitutional government, in office less than two years, has been following a development program closely geared to the objectives and principles of the Alliance for Progress. Economic growth over the past several years has been rapid although there is a serious need to distribute the benefits of this growth more evenly among all segments of the population. The Indians living in the highlands in the interior have an annual income estimated at only one-fourth that of people living in the coastal areas. This disparity has led to massive migrations to urban centers on the coast, causing serious problems in housing and community facilities, unemployment, and mounting social and economic tensions. As a result of vigorous private sector expansion, Peru's exports have been increasing about nine percent annually since 1960, paced by copper, iron ore, and fishmeal. Private investment now accounts for about 20 percent of the country's gross national product. The fishing industry has become a major factor in the nation's economy, attracting investments from several U.S. firms. In 1963, Peru surpassed Japan to become the world's number one exporter of fishmeal.

Among the principle obstacles confronting the government's development efforts are the need to build an adequate transportation system to facilitate the economic, social, and political integration of the country; the inability of the industrial sector to absorb the increasing volume of workers arriving from the highlands; and a shortage of trained manpower and competent public administration staffs.

Self-Help Accomplishments

Each year since 1961 has seen an increase in budget allocation for investment in development. The government has developed a public-sector investment plan for 1964-65, aimed at alleviating some of the country's most critical economic and social problems. The plan which calls for a rise in public investment of 33 percent each year, has been reviewed and found fundamentally sound by AID, OAS, CIAP, and international lending agencies. Investment will be channelled into projects for improving agricultural productivity in the highlands, opening up new lands for settlement and cultivation in the valleys east of the Andes, increasing irrigation in areas along the coast, accelerating industrial growth, and expanding educational opportunities.

Last summer, a comprehensive agrarian reform law went into effect. The government purchased a 750,000-acre hacienda in central Peru and limited-scale distribution of the land has begun. The armed forces are being used for civic action to support the resettlement program in such activities as road construction, building schools, setting up medical facilities, and installing water and sewage systems.

Tax revenues have increased by 24 percent in real terms since 1962, keeping pace with public sector expenditures. Continued progress will depend in large part upon the government's ability to plan and execute its programs more effectively; on the speed with which it moves ahead with agrarian reform; and on the maintenance of an investment climate which will attract both domestic and foreign investors, and on progressive improvement of the national tax structure.

U.S. and Other Aid

The main purpose of the U.S. assistance is to assist and encourage Peru to channel increasing resources into rural development, transportation, and education, in order to build some of the institutions necessary for continued progress. During fiscal year 1964, AID authorized six capital assistance loans to Peru. The largest single area of concentration was highway construction, followed by the agricultural development bank, cooperative housing, and hydroelectric projects. At the end of fiscal year 1964, guarantees valued at \$13.4 million were in force with five U.S. companies for investment in Peru.

Other donors have also contributed. European and Japanese loans during the year helped to finance public hydroelectric projects, steel mills, port development, and railway construction. Other lenders—such as the

World Bank, the Inter American Development Bank, and the Export-Import Bank—approved loans totaling nearly \$60 million during fiscal 1964.

The FY 1966 Program

A combination of loans and technical assistance is anticipated for fiscal 1966 in an attempt to solve some of Peru's most critical development problems. Technical assistance has been—and will continue to be—provided mainly through contracts with U.S. universities and consulting firms. For example, technicians from the University of North Carolina and Iowa University will assist in agricultural planning, research, and education as part of the agrarian reform movement. They will also assist in developing capital projects for agricultural credit for small farmers, irrigation, and general community development.

Technical assistance in transportation will be continued with the help of specialists from the U.S. Bureau of Public Roads and the Federal Aviation Agency. Development loans will be given consideration for constructing or improving roads, ports, and airports. Feasibility studies for many of these projects are already underway. The IDRB, IDB, and AID have been working jointly with the Peruvian Government to improve highway planning. This cooperation may permit a pooling of external assistance in a comprehensive highway program during fiscal year 1966.

Technical assistance in industrial development will seek to establish cooperatives, train management specialists, identify promising private investment opportunities, and improve labor-management relations. Advisors from the Stanford Graduate School of Business, the American Institute for Free Labor Development, and the Stanford Research Institute will participate in this endeavor. Consideration will be given to supplementing this effort with development loans for regional industrial parks, regional development corporations to provide credit for domestic entrepreneurs, and a private investment fund.

Efforts to upgrade administrative skills and increase the supply of capable administrators will be assisted by Teachers College of Columbia University (who will serve as educational planning advisors) and the New York Institute of Public Administration. Under study is the possibility of development loans to finance the construction of higher education facilities, feasibility studies, and the purchase of equipment for improved tax and customs collections.

CENTRAL AMERICAN ECONOMIC COMMUNITY

The five countries of Central America—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—have joined their resources in a 10-year program which will lead to their eventual integration and economic unification. The rate at which integration has been taking place has

surpassed previous expectations. The five have established a number of regional institutions, including the Permanent Secretariat for Economic Integration (SIECA), the Central American Monetary Union, and the Central American Bank for Economic Integration (CABEI). Established in 1960, the Bank promotes regional investment within the Common Market by making loans to such industries as food processing, textiles, metals, chemicals and pharmaceuticals. Infrastructure projects include roads, electric power and grain storage, installations directly benefiting industries operating at the regional level.

Their five major universities have been joined in a coordinated regional system. A regional system of home mortgage financing, a regional transportation system, and a regional telecommunications network, all are contemplated, with plans underway. The IDB has just put up \$10 million to finance the telecommunications network which will link all five countries. With regional support, the first steps have been taken to effect substantial increases in land tax revenues, and uniform agricultural policies are being formulated to stimulate agricultural trade among the member nations. Each of the five nations has agreed to make an initial contribution of one million dollars to a Fund for Central American Economic Integration, and accepted the principle that such contributions would be used multilaterally throughout the region.

Individually, these countries still face serious economic and social problems. Until recently, economic growth in all five countries has barely kept pace with population expansion (over three percent per year) and the production of basic food crops (corn, beans, and rice) is lagging seriously behind. Insufficient government revenues, critical shortages of skilled personnel in all areas, and a lack of continuity in planning and executing government programs are also major problems.

Self-Help and External Assistance

The establishment of the Central American Economic Community has contributed to a vast expansion of intra-regional trade, from about five million dollars in 1960 to over \$80 million in 1964.

To assist the integration movement, the United States established a Regional Office for Central America and Panama (ROCAP) in 1962, thus assuring closer liaison and coordination with regional efforts. In November 1963, AID made a \$10 million loan to CABEI to establish a home loan department for secondary financing of homes throughout the region, and provided a U.S. advisor to help establish and work with that department. An AID grant was made to CABEI for regional transportation studies and a specialist has been assigned to the ROCAP staff to work with CABEI and other organizations in developing a regional highway network.

FY 1966 Program

U.S. assistance for important regional projects (such as inter-country highways) will be channeled through the Fund for Central American

Economic Integration. The AID program is expected to include both development loans and technical cooperation grants. Among the short-range objectives of U.S. aid are the creation of a uniform customs administration, the development of common agricultural policy, and the provision of data (through surveys and studies) needed for effective planning. The Harvard Graduate School of Business Administration will continue providing instruction in management and marketing under an AID contract as part of an effort to establish a permanent business training institution in Central America.

The existence of regional institutions will facilitate contributions by other sources which in fiscal 1966 may include the IDB, IBRD, Export-Import Bank, West Germany, Spain, and perhaps Mexico and Venezuela. IDB and IBRD are expected to be the principal contributors to regional infrastructure building, in addition to possible loans for selected projects in individual countries.

COSTA RICA

Despite its relative political stability, it seems evident that Costa Rica will have to make greater efforts in the fiscal and economic areas if it is to achieve more substantial results from its development program. U.S. aid has been—and will continue to be—concentrated on agriculture and industry. An AID-financed industrial engineer has been surveying business possibilities in Costa Rica and preparing preliminary reports on those which might offer good investment possibilities. About 55 industrial opportunities have been identified thus far, and feasibility studies will be made of several of these. Wood pulp production for paper manufacturing, for example, looks promising, and detailed plans are now under study. AID advisors working with the Ministry of Industry use these reports to encourage local and U.S. businesses to invest in Costa Rica. Investors seeking financial assistance may get help from a private industrial bank established with AID assistance.

Because food and farming account for the major portion of Costa Rica's gross national product, AID's assistance to agriculture is critical. Three AID advisors (in tropical agriculture, livestock farming, and rural development) are working with the Ministry of Agriculture and the College of Agriculture at the University of Costa Rica. With the assistance of AID loans, considerable progress has already been made by two AID-financed experimental stations in developing agricultural credit and extension services.

Fiscal Year 1966 Program

Programs in fiscal year 1966 will seek to improve and expand programs in the present areas of concentration.

Among the loan proposals is a road construction and development project for the Nicoya Peninsula. It is hoped that the opening of this area will attract people from the overcrowded Central Plateau and stimulate the agricultural sector of the economy. The program would include de-

veloping better marketing procedures, improving crop storage facilities, expanding irrigation, and overall community development. Six consultants from TVA will conduct feasibility studies on the availability and use of water resources, business and commerce, land reclamation, and forestry. Nine Costa Rican planning officials will visit TVA and one will study planning for a year in the United States with the National Rural Electric Cooperative Association. Assistance will also be drawn from the United Nations, the Food and Agriculture Organization, and other free world sources.

EL SALVADOR

El Salvador is continuing on its course of steady progress, as an active member of both the Alliance and the Central American Common Market. Economic and social distress in rural areas and increasing population pressures are priority targets of the development program. AID is supporting two aspects of the rural development effort—health and agricultural production and agrarian reform.

In 1964, AID made a \$700,000 loan to help build 25 rural health posts as part of a nationwide health program. Each health post serves as a clinic and dispensary, with a few beds, medicines, health information services, and facilities to give inoculations and perform minor surgery.

AID is also helping with El Salvador's "Education Brigades", teams of rural development workers which travel around the country demonstrating how living conditions can be improved through local self-help. The emphasis has been on creating sanitary water supplies, building access roads, conducting literacy campaigns, and helping to set up credit unions. With the help of the Credit Union National Association (a U.S. organization), El Salvador is attempting to establish 30 credit unions with 6,000 members by the end of 1965, making low-interest loans available to small farmers for land improvement, tools, seed, and fertilizer. AID has provided commodities for the Education Brigades, trained 20 Brigade members in the United States, and provided training for 40 others in El Salvador. Four AID technicians are advising on land tenure, reclamation, and title procedures. Twenty-three Peace Corpsmen are working with the Brigades at the grass roots level.

Two advisors from the U.S. Internal Revenue Service are aiding the Salvadorean Government in its drive to modernize and strengthen tax collection and enforcement procedures.

In 1963, AID made a loan to El Salvador's Industrial Development Institution, and in 1964, another loan to a private development bank to stimulate investment in the private sector. In addition, a U.S. specialist has been assigned to work with both of these institutions in processing and evaluating loan applications, helping set interest rates, and instructing in lending procedures.

FY 1966 Program

The United States will provide appropriate technical and capital assistance as El Salvador moves ahead with its plans. Loans to a rural credit agency will enable it to make further subloans to rural dwellers. An immediate goal is to increase the production of such staples as corn, beans, and rice, so as to reduce imports of these commodities and conserve foreign exchange. It is estimated that the program can triple the production of these crops. AID will send two more agricultural technicians to work in the agrarian reform movement and conduct demonstrations of the value of fertilizer. In addition to sending another IRS advisor to stimulate the tax reform program, AID will also train local personnel in El Salvador and bring participants to this country for study.

Educational assistance will emphasize secondary and university education. A U.S. university (to be named later) will conduct teacher-training under an AID contract at the University of El Salvador, bring professors to the United States for advanced training, and offer special training in mathematics, physics, and chemistry so as to develop specialists in these fields.

GUATEMALA

The present military regime in Guatemala has been moving toward the restoration of constitutional government and has scheduled elections for 1965. The determination of the interim government to encourage economic development is reflected in a number of ways. Tax procedures have been overhauled, resulting in increased revenues. Administrative reforms have been instituted which call for each government department to prepare advanced budget proposals and justify requests for funds. A comprehensive development plan is in preparation which would consolidate separate efforts in one coordinated program.

Sustained progress still faces many obstacles. Illiteracy is estimated at about 70 percent; population is growing about three percent annually, causing serious problems in housing, food, and education, especially among the lower income groups; private investment, while on the rise, still accounts for only about 10 percent of the GNP; and administrative performance in various government bureaus remains inadequate.

The United States has sought to develop some of the skills and infrastructures needed for sustained development. Participant training has stressed education, public administration, industry, and public safety (63 trainees were brought to this country in fiscal 1964). AID assistance in tax administration resulted in a 15 percent increase in revenues in 1963 over 1962. Figures for 1964, while not final, indicate a similar increase. AID has provided full and part-time advisors from the Internal Revenue Service, and participant training as well as on-the-job training for Guatemalans in key positions in the tax system. Peace Corps volunteers have been working in the villages to improve sanitation, encourage local artisans

and help them to market their products, teaching, and assisting in general educational operations.

Fiscal Year 1966

Proposals for fiscal year 1966 are aimed at improving government operations, educational facilities, and agriculture. If the requisites of stability and self-help are met, AID will finance a broad survey of land resources, including aerial mapping, land title studies, and boundary inspections. The results of this work will be used as a basis for tax assessment and a more effective use of existing resources. Equipment, vehicles, and technical support would be included as part of U.S. aid. Assistance will also be provided to upgrade Guatemala's civil service, with emphasis on wage policy and employee classification. Another objective is to set up a government training institution (similar to the Brookings Institution) to upgrade the skills of top level civil service employees, through inservice training, and study in the United States.

Agricultural assistance will include loans to finance the construction of grain storage facilities, thereby improving marketing procedures and contributing to greater price stability. The Peace Corps plans to establish regional centers to train development workers, emphasizing water supplies, sewage disposal, education, and cottage industries.

HONDURAS

From the standpoint of technology and economics, Honduras is one of the least developed countries in Latin America. Its progress has been hindered by a lack of adequate roads, communications, and educational facilities. Chief among Honduras' needs, therefore, are improvements in the economic and social infrastructure, to provide a takeoff point for other advances.

An immediate problem facing Honduras is the need to salvage some 10 million board feet of timber killed by the pine beetle and now in danger of destruction by fire during the dry season. An emergency program is now underway with AID assistance. Two AID specialists in forest management are helping to set up a fire control program to protect the trees from fire and further damage by insects. One loan has already been made to build a 60-mile access road to get fire-fighting equipment into position in the northeast part of the country, and another loan is planned.

FY 1966 Program

In addition to continuing its assistance to Honduras' private sector and encouraging the government to move ahead with its plans for reform, the main thrust of U.S. assistance in fiscal year 1966 will be in agriculture and forestry. Working with the Ministry of Agriculture and the National Economic Council, AID will assist Honduras in its effort to increase agri-

cultural production six percent during the next five years. This will be done by providing several contract technicians to advise on agricultural credit and land tenure. The Honduras National Bank has received a \$2.5 million loan from the IDB, and now is in the process of translating this into subloans for low income borrowers. Additional increases in the availability of low-interest, long-term loans to small farmers for tools, seed, livestock, and farm improvements can be realized by helping to establish cooperatives and credit unions in rural areas.

The salvage operation for Honduras' forests will be supplemented by an AID program to assist in setting up a forestry service, through contributions for planning and training in forestry economics, logging, cutting practices, disease prevention, and seedling planting for reforestation.

NICARAGUA

Nicaragua is making substantial social and economic progress but is still beset by serious problems, including an inequitable distribution of income, an impoverished rural population, a shortage of power, and an underdeveloped transportation system.

AID has been assisting in finding solutions to many of these problems. For example, to sustain and expand the vitality of the private sector, AID recently signed a four million dollar loan agreement with the National Development Institute, which will, in turn, relend the funds to business enterprises such as lumbering, agriculture, milk production, and the chemical and textile industries.

Another AID loan has helped to form a rural electric cooperative bringing low-cost electricity to some 10,000 farmers. Although the co-op movement started only recently, twenty separate cooperatives already are in operation. Two AID advisors have been helping to establish new groups including four producer/consumer cooperatives, and are assisting in the efforts to draft the legislation needed to give cooperatives a firmer legal foundation.

Under a \$4.3 million AID loan, approximately 70 miles of paved, farm-to-market roads were built during the past year, giving better access to some of the nation's productive farmlands.

As part of the national effort to make more and better health care available to all the people, AID has provided ten jeep and boat health units which reach almost every corner of the country. About 300,000 farmers and their families are benefiting from this program. If they can afford to do so, they pay a fee of about 28 cents for each consultation. The funds thus derived are returned to the communities for local improvement projects.

In 1964, approximately 230 classrooms were constructed in an AID-assisted self-help school program and another 320 are slated for completion in 1965. Forty percent of the financing was contributed by the Nicaraguan Government, 40 percent by AID, and 20 percent by the local people.

FY 1966 Program

Because of the demonstrated vigor of the private sector of the economy, AID will seek to bolster the institutional framework of business and industry by technical assistance and loans to the private industrial bank.

U.S. technical cooperation will concentrate on programs designed to strengthen the country's infrastructure. In cooperation with the Ministry of Agriculture and the Agrarian Reform Institute, AID will give encouragement and support to the budding cooperative movement in the neglected rural areas. Further assistance will be provided to rural roadbuilding projects. A hydroelectric project with a generating capacity of 25,000 kilowatts is proposed for the Rio Tuma to help alleviate a power shortage. Feasibility studies will be made of the problem of sewage disposal and pollution in Lake Managua. This will include planning for clean water supplies and slum clearance as part of a broad health campaign.

OTHER LATIN AMERICAN COUNTRIES

Ninety percent of U.S. economic assistance to Latin America in fiscal year 1966 will be concentrated in five countries, plus Central America. AID technical cooperation and modest loan programs will continue in other Latin American nations. Summaries of these programs follow:

AID programs were resumed in the latter half of fiscal year 1964 in the *Dominican Republic* after a suspension of several months. The provisional government is making a determined effort to solve some of the country's basic economic and social problems, and has adopted a number of austerity measures designed to correct a serious balance of payments deficit and reduce the imbalance between revenues and expenditures.

An agricultural expansion program recently got under way which seeks to increase the production of food through the use of agricultural advisors, research, training, and the use of agricultural extension advisors. The program also includes forest conservation, the opening up of new areas to cultivation, and the creation and expansion of credit institutions to make small loans accessible to farmers.

Surplus U.S. farm products are being used under the Food for Peace program to construct agricultural training facilities and build farm-to-market roads.

Under the new agrarian reform legislation, new lands for settlement are being measured, subdivided, cleared, and prepared for housing and farming. AID is assisting with technical services, services and equipment for road maintenance, drainage improvements, and consultative services on soil conservation and agricultural credit.

Loans for fiscal year 1966 are proposed for projects in housing, irrigation, and improving the production, processing, and marketing of foodstuffs. Planning assistance will have a high priority and will be coordinated with the OAS-IDB-ECLA Planning Mission. Plans for the development of

the Yague River valley will be drawn up in coordination with the IBRD-UN Special Fund.

Technical cooperation will concentrate on vocational and business education and the upgrading of administrative practices. U.S. assistance is helping to construct a vocational training school which will be taught by American Seabees. Funds are being allocated for courses in collective bargaining, labor organization, and union financing. A U.S. university (not yet named) will help a local business school to train administrative assistants, office managers, accountants, and secretarial personnel. A teacher-training project is also under consideration.

The military junta which has ruled *Ecuador* since mid-1963 has inaugurated several promising reform measures. Included among them are the drafting of a National Economic and Social Development Plan, the creation of a career civil service system, increased customs and tax collections, higher budgetary allocations for education, and an agrarian reform and colonization program to relieve some of the critical problems which beset the rural population.

The new agrarian reform law contains a number of provisions to make land ownership possible for more people; one provision, for example, grants ownership title to people who have occupied specified land for a period of five years. Ecuador's colonization program will attempt to settle 3,500 families on 25,000 acres in 1966, and resettle about 1,000 families on some 32,000 acres.

During 1965, the University of Pittsburgh will be working with the Central University of Quito under an AID contract to improve administration, curriculum, and fiscal procedures.

Technical cooperation in fiscal year 1966 will stress improvements in administrative government operations in such activities as budgeting, personnel utilization, and tax collection. New laws, better enforcement, and improved tax administration are expected to increase revenues 13 percent in 1965, and 17 percent in 1966. Other technical cooperation programs seek to bolster the country's internal security through training programs conducted in collaboration with the Ecuadorian National Police.

Loans for fiscal year 1966 are proposed for primary school construction, the expansion of industrial credit, and the construction of silos to improve the facilities for crop storage and improve marketing procedures.

AID's program in *Haiti* was terminated in fiscal year 1963 except for the malaria eradication campaign, administered jointly by the Pan American Health Organization, the United Nations Children's Fund, the Haitian Government, and AID. U.S. withdrawal from the program would negate the benefits gained thus far and could lead to a reinfection of Haiti's island neighbor, the Dominican Republic. Fiscal year 1966 funds will finance the services of U.S. technicians and about 1,000 Haitians who make up the spray teams, equipment, and transportation during the final portion of the

“attack” phase of the campaign and the first portion of the three-year “consolidation” phase.

Overpopulation and widespread unemployment are two of the principal problems confronting *Jamaica*. The government has set up a development plan calling for heavy emphasis on private enterprise. The United States has contributed modest amounts of technical assistance, and loans for housing, the construction of more adequate water supplies, and feasibility surveys to serve as a basis for future development planning. Fiscal year 1966 will see a continuation of U.S. technical cooperation, principally in the present areas of concentration—housing and water supply. In addition, the American Institute for Free Labor Development, under an AID contract, will provide training at the University of the West Indies in labor management, collective bargaining, and other aspects of trade unionism. AID loans will be considered to support and expand key financial institutions.

With the assistance of AID and the Social Progress Trust Fund, *Mexico* is moving forward in its efforts to close the gap between the depressed rural areas and the flourishing industrial segment of the economy. New emphases are being placed on programs for people in rural areas, who make up about 60 percent of the country's population.

Early in the Alliance, AID approved a loan to Mexico for its program of supervised credit for small farmers. Under this loan, approximately 5,300 subloans amounting to over \$11 million had been made for seed, fertilizer, equipment, irrigation, water pumps and the like as of December 31, 1964.

In fiscal year 1964, further steps were taken through a consortium involving AID, the Ford and Rockefeller Foundations, and the United Nations to expand the Chapingo Agricultural College, Mexico's training center for agricultural technicians. These efforts are being supplemented by community development enterprises under Food for Peace, and an increasing flow of assistance from private Mexican banks.

Another AID loan approved in fiscal year 1964 will help to build some 23,000 housing units for low-income urban families. Under an AID housing guaranty, a 3,000 unit labor housing project was completed and dedicated in late 1964.

For the past several years, U.S. assistance to *Panama* has had as one of its principal objectives the creation of a Panamanian economy less dependent upon the Operations of the Canal. The administration which took office in Panama last October is making a concerted effort to institute reforms which would diversify and strengthen the Panamanian economy. With the assistance of two AID loans, attention is also being given to rural development, improvement procedures for tax assessments and enforcement, and the reorganization of government operations. AID's program in fiscal year 1966 will seek to support the Government of Panama as it strives toward these goals. Loans are proposed to expand the operations of a private

development bank and Panama's savings and loan system, as well as for programs designed to accelerate industrialization, agricultural improvements, and housing. AID will work toward these objectives in consultation with the Inter-American Development Bank and the World Bank, which are considering projects in housing, rural credit, and highway construction.

Paraguay has made commendable progress in stabilizing its currency and controlling inflation. About 2,000 square miles of territory in the east central part of the country is being opened up to agriculture by penetration roads and settlers are rapidly moving in. Food for Peace commodities are being used to grubstake settlers until they clear the land, and plant, harvest, and sell their first crops. U.S. technical cooperation in fiscal year 1966 will support ongoing projects, including efforts to increase agricultural production, achieve financial reforms, and foster educational expansion.

Funds provided to *Trinidad-Tobago* arising out of U.S. military base agreements will continue to be applied to projects mutually acceptable to both countries.

Although *Uruguay* has already passed through some of the early phases of development, further progress will depend upon the completion of sound plans and the adoption of additional reforms. In fiscal year 1966, AID proposes to send contract technicians to work with Uruguayan planning bodies and the Tax Bureau. Ten Uruguayans will be brought to the United States for training in development planning and administration.

Technical support will be given to help the Ministry of Agriculture expand the Agricultural Reform Plan, to stimulate the encouragement of agricultural cooperatives, and to enable the National University with continued assistance from Iowa State University to broaden its program of farm research. Under a \$2.4 million loan, AID will assist the Uruguayan Bank for Agricultural Cooperatives and the National Federation of Agricultural Cooperatives in marketing and pasture improvement activities.

AID's limited program of assistance to *Venezuela* will concentrate on public administration training, rural development (with emphasis on supervised agricultural credit), housing, and urban renewal. Venezuela's ambitious development plans—among other things—call for the training of 100,000 persons annually in a variety of trades and professions needed to support a vigorous economy; the provision of agricultural credit and extension services to 76,428 families which have been resettled on some 4.2 million acres of land; and raising home construction to an annual level of 80,000–100,000 units within the next decade.

The control of the government changed hands in *British Guiana* as the result of the December 1964 election. The new government plans to alter some of the economic trends evidenced under the previous administration and will seek to establish the political and economic conditions conducive to growth and development. The nature and scope of bilateral and multilateral aid to British Guiana will depend upon the outcome of these efforts.