PRINCIPLES OF

FOREIGN ECONOMIC ASSISTANCE

AGENCY for INTERNATIONAL DEVELOPMENT

PRINCIPLES OF

FOREIGN ECONOMIC ASSISTANCE

AGENCY for INTERNATIONAL DEVELOPMENT

OFFICE OF PROGRAM COORDINATION

AGENCY FOR
INTERNATIONAL DEVELOPMENT

DEPARTMENT OF STATE

OFFICE OF PROGRAM COORDINATION

AGENCY FOR
INTERNATIONAL DEVELOPMENT

DEPARTMENT OF STATE

First printing—September 1963
Revised—September 1965

For sale by the Superintendent of Documents, U.S. Government
Printing Office, Washington, D.C. 20402. Price 25 cents

TABLE OF CONTENTS

I. BASIC A.I.D. CONCEPTS 1
The Purpose of Foreign Assistance 1
The Evolution of Foreign Assistance 2
The Foreign Assistance Act of 1961 3
Principles for Allocating Development Assistance 3
Major Types of Economic Assistance Programs 5

II. PROGRAMING U.S. ASSISTANCE 8
The Programing Process 8
New Programing Emphases 10
Scope of Program Analysis 11

III. RESOURCES FOR FOREIGN ASSISTANCE 14
Development Loans 15
Development Grants and Technical Cooperation 18
Supporting Assistance 20
Contingency Fund 21
Encouraging Private Enterprise 21
Food for Peace Program 23
U.S.-Owned Local Currencies 26
Excess Government Property and Stockpile Materials 26
Research 26

IV. EXTERNAL ASSISTANCE AND INTERNAL DEVELOPMENT POLICIES 28
The Principle of Self-Help 29
National Planning for Development 32
Program Assistance and Project Assistance 34
Programing Local Currencies 36
Multi-Year Commitments 37

V. AID AS A SOURCE OF FOREIGN EXCHANGE 39
Import Requirements of Development Expenditures 39
Financing Short-Term Balance of Payments Crises 40
Promoting Trade to Reduce Balance-of-Payments Problems 42

VI. COORDINATION OF ASSISTANCE PROGRAMS 43
Military Assistance Program 43
Export-Import Bank 44
Peace Corps 45
Assistance from Other Free World Donors 46

PREFACE

This pamphlet, now in its second edition, presents a summary statement by the Agency for International Development of the principles which guide U.S. economic assistance programs. These principles result from twenty years of experience with foreign assistance, starting with post-war 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 A.I.D. Program Guidance Manual, which sets out in detail the procedures for preparing and evaluating U.S. economic assistance programs, we have kept in mind the needs of four types of readers: A.I.D. personnel, 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 *Mutual Defense and Development Programs, Fiscal Year 1966.*

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 both donor and recipient countries and institutions through such organizations as the Development Assistance Committee of the Organization for Economic 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.

Gustav Ranis

GUSTAV RANIS
Assistant Administrator for Program

I. BASIC A.I.D. CONCEPTS

THE PURPOSE OF FOREIGN ASSISTANCE

THE MAJOR objective of the U.S. foreign assistance program is to assist other countries that seek to maintain their independence and develop into self-supporting nations. The resulting community of free nations, cooperating on matters of mutual concern, offers the best long-run 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 members of the Organization for Economic Cooperation and Development and other international organizations can assist the free nations of Asia, Africa and Latin America to reach agreed objectives.

This community will grow in strength as the less-developed countries attain social justice and rising standards of living. At present their human skills, institutional framework and capital resources are inadequate to meet rising internal demands for such progress. We seek to help the less-developed countries realize their hopes by a process of economic and social development compatible with our basic objectives.

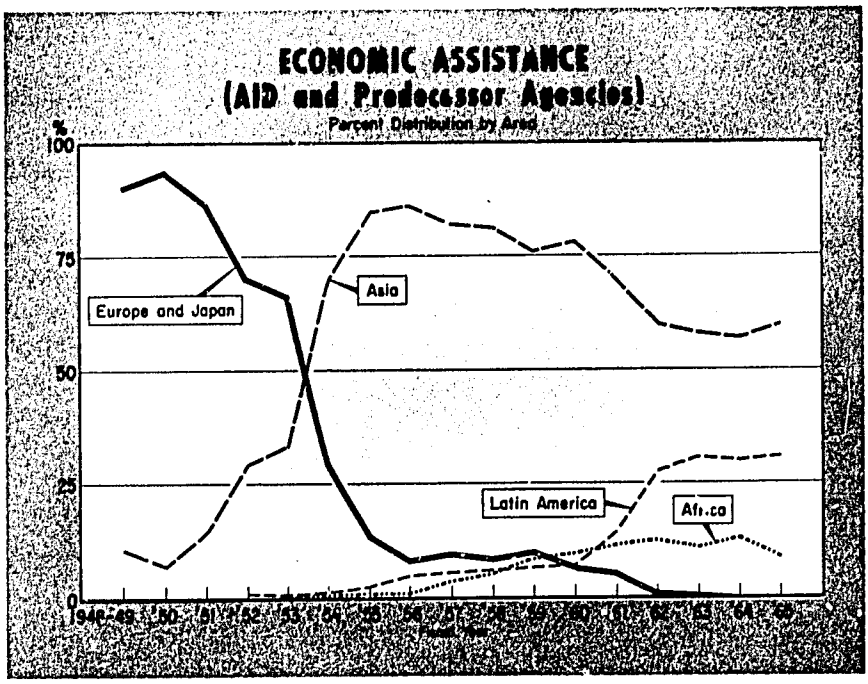
In countries facing immediate internal or external threats to their security and independence, military assistance and supporting economic aid are used to help avert or defeat the threat. In countries lacking basic law and order, administrative services, and political continuity to launch a serious development 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.

Clearly a central objective of extending aid is to help each country reach the point at which its own resources and its ability to attract investment and credit on commercial terms are adequate to sustain satisfactory growth.

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 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.



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 pe-

riphery of the Communist Bloc was cut by more than one-third. 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 required. 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 for coordinating economic and military assistance. U.S. foreign assistance objectives were also clarified. U.S. aid is now planned within the framework of a broad economic and political analysis of each country's needs and prospects.

Two types of economic assistance are provided by the Act: "development" and "supporting." Development assistance, upon which major emphasis is placed, includes loans and grants for long-range economic development. Specific criteria have been established to assure the effective use of these funds in the development of economic resources and productive capacities. Supporting assistance is given to promote economic and political stability where the usual requirements of development assistance cannot be met. Such assistance is, however, designed to provide the maximum contribution feasible to economic growth.

PRINCIPLES FOR ALLOCATING DEVELOPMENT ASSISTANCE

To make the most effective use of its limited development 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 development 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 not only reflects the determination with which its government and people seek to progress, but also the current stage of development of its human and institutional resources. Aid to countries in early stages of development normally must concentrate on technical assistance to train personnel and develop administrative services, educational institutions, 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 projects, 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 bottleneck-breaking efforts. Later, 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. In this way the need for foreign grants or loans on concessional terms will be progressively reduced.

The normal pattern of aid to a developing country—whether supplied primarily by the United State 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 own 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 understandably 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 ECONOMIC ASSISTANCE PROGRAMS

The immediate goal of U.S. economic assistance is to help countries reach the point at which their own increased human and capital resources, combined with their improved ability to attract and service foreign investment and credit on commercial terms, are adequate to sustain satisfactory growth. The need for external assistance on concessional terms is nearly at an end in some countries as they reach the goal of self-sustaining growth; in others it may take decades to achieve. The U.S. 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 to achieve economic self-support as rapidly as possible.

AID's economic 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) Transitional programs for those countries nearing self-support and continuing growth; (2) Major programs directed to development or security; (3) Limited programs with more restricted objectives.

1. *Transitional Programs*

Most of these programs are in countries which are on the verge of self-sustaining growth, such as Israel, Mexico, or Venezuela. As the need for aid on concessional terms diminishes, AID phases out its assistance. In fiscal year 1966, eight programs were in this group; less than 1% of AID funds requested from the Congress are planned for the eight.

2. *Major Programs*

About 31 countries receive substantial assistance for long term development, or for maintaining or reestablishing security. These countries are of major importance to the U.S. Ninety-five per cent of the FY 1966 country program funds are intended for these countries. They fall into three groups:

—Countries following relatively effective development policies and making reasonable progress toward self-sustaining growth. This group includes India, Pakistan, Nigeria, and Chile, among others. About two-thirds of all funds for major programs, and virtually all of AID's program loans for development, go to the countries in this group.

—Countries with potential for development but in which adequate self-help measures are not now being demonstrated. Often political or

economic institutions in these countries are not strong enough to carry out needed improvements. Much of AID assistance to countries in this group is conditional on specific self-help 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.

The U.S. approach may take a variety of forms. One procedure is to agree with the government on a set of key policies and to condition the amount of aid on the country's performance. Where this is not possible, a less comprehensive approach is used, linking loan or technical assistance projects to specific reforms in sector policies, administrative organization or procedures, or other steps. In fiscal 1966, about 11% of AID funds is planned for the 16 countries in this group.

—Countries of critical importance to U.S. foreign policy, where grave internal or external security problems must be solved before turning to long term economic and social development. Roughly one-quarter of AID funds for 1966 are planned for such programs.

Some of these countries border on the Communist world and in these economic aid may be limited in comparison to the military assistance being given. Such military aid provides support to friendly countries for the maintenance or restoration of their internal security and self-defense in order to preserve the freedom and peace of the world.

The general objectives of aid in these circumstances are 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, such as Greece, Taiwan, and Turkey, 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. Our programs in those countries now suffering serious instability are intended to move them through these phases.

3. *Limited Aid Programs*

In more than half of the countries receiving aid, U.S. commitments are quite limited in nature and involve relatively small expenditures. Planned U.S. aid to these countries in Fiscal Year 1966 amounts to less than 4% of total country funds. In virtually all cases, the United States

intends to maintain its marginal 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.

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 the 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 objectives and our general development criteria, development loans and grants are appropriate; where there is a conflict, supporting assistance funds are used.

II. PROGRAMING U.S. ASSISTANCE

THE PROGRAMING PROCESS

PROJECTS AND activities in approximately 70 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.

Close working relations with the host country are an essential element in planning assistance programs. Although aid can often be used to stimulate certain kinds of activities or change emphases in host government programs and policies, the starting point must be the host country's own planning and the activities it is undertaking for itself. As activities are being readied for implementation, planning by both the aid donor and the recipient must be closely coordinated.

Coordination is desirable at the earliest possible stage of planning. A principal limitation—which cannot be ignored—is that our aid plans, even when preliminary, may be interpreted as being in some sense commitments. The effect of this possibility on the degree of joint planning will vary widely and will be a question of judgment in each individual case. Proposals such as those for changes in economic policies or additional self-help measures that may later become subjects of negotiation must sometimes be worked out almost unilaterally in their earlier formative stages. Despite these limitations, a considerable degree of coordination is generally possible in the earlier stages of planning, well in advance of the commitment of aid funds.

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 to Washington, 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 subjected to intensive review in Washington within the appropriate regional bureau of A.I.D. and subsequently by the Administrator of the Agency. The Mission Director or Program Officer often comes 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 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". This "strategy statement" is designed, particularly for development-oriented programs where the bulk of A.I.D. resources are now concentrated, to go beyond the general purpose of accelerating economic and social development and to deal more specifically with the ways of achieving this purpose. It 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 fit the total level of funds actually appropriated.

The entire program planning process for a given year normally takes at least 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 PROGRAMING EMPHASES

Many aspects of the A.I.D. programing 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 programing procedures and guidance were developed and were applied to programs for fiscal year 1963. The procedures and guidance were designed to place greater emphasis on accomplishment of the following purposes:

1. *Longer-range planning.* Within the context of the host country's plans and programs, 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 AID has authority to make multi-year commitments to a few countries, a number of conditions (set out in Chapter IV) must be met before such commitments are considered, and they are made extremely rarely.

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 major 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 need to work with the host country in identifying social and 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. programing permit such integration whenever there is a well developed country plan or set of development policies.

6. *Improvements and New Directions Since 1963.* After several years of experience with the new programing emphases, A.I.D. has revised and refined its multi-year programing system. For many countries macro-economic models are being developed to provide an indication of the resource flows necessary, under varying assumptions, to obtain a specified goal. Increased emphasis is also placed on improved analysis in depth of key sectors or policy problems affecting such sectors. A.I.D., along with most federal departments and agencies, is developing a planning-programing-budgeting system which will concentrate on quantifiable output targets and the "cost effectiveness" of various programs.

Agency experience has taught the importance of exploring opportunities for joint A.I.D.-recipient country efforts in several priority sectors. Increasing food production in the developing countries and involving the domestic private sector in the development process are two major goals within many country programs. Two other fields—education and health—also require the active and imaginative attention of both A.I.D. and the recipient countries. Nearly half of the A.I.D.-financed technicians currently employed in development programs are working in the fields of agriculture, education or health.

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. This draws from over-all U.S. policy guidance those elements of particular relevance for the assistance program and restates them in a manner most useful for shaping the aid program. In cases where host country objectives in the development field do not fully coincide with U.S. objectives, consideration is given to how these differences can best be mitigated or accommodated.

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—the over-all 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. *Evaluation of the effectiveness of recent strategy.* The field missions are asked to provide explicit analyses of the progress of individual country programs. They focus on the accomplishments and/or failures of our AID strategy, including important developments in host country or other donor aid policies. Such critical appraisals may provide a basis for changes in strategy and program composition.

6. *Formulation of U.S. assistance programs and selection of goals.* The analysis of U.S. objectives and of the country situation and development efforts provides 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, although often with some special emphases. If the analysis reveals key host country measures or changed policies needed to make aid more 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.

In developing an assistance program, it is often useful to translate general objectives into specific goals for high-priority sectors of the economy. These goals provide a focus for capital assistance and technical assistance activities and help to relate external aid to the country's development program.

The kinds of concentration or focus to be furthered by the use of intermediate goals will be of various kinds. Increased self-help in the form of improved economic policies may often be a major goal, with incentives and negotiations largely unrelated to specific projects. In other cases, existing or potential bottlenecks in the economy may call for concentrated assistance. In general, concentration is encouraged to make the program more manageable. This may be less necessary for capital projects when the host country has a good plan, but is likely to be particularly important for technical assistance activities which may lose their impact unless arranged in such a way as to be mutually reinforcing. The strategy also takes into account planned and potential assistance from other donor countries and collateral United States actions and policies which may be important to furthering the strategy. In short, the strategy endeavors to analyze, in a total context within a given country situation, what magnitude of aid is appropriate and how aid can be most effective in achieving its purposes.

In those countries where AID conducts major development assistance programs, missions undertake more intensive analysis and develop more detailed multi-year projections of assistance goals and strategies. Many of the countries selected for such studies have meaningful development plans and relatively reliable data to support such analysis.

In order to conduct such studies, mission and Embassy staff are augmented by personnel from AID in Washington and by consultants from other Government agencies, universities, foundations, or other non-governmental organizations. These experts are sent to the field to work with the Mission and Embassy staff and with the host government. As each study is initiated, key problems for analysis are tentatively identified by the mission and AID headquarters staff. These problems may be economic, social, political, or administrative in nature, and analytical models are often prepared to clarify and isolate the causes of such bottlenecks to development. The ability of Mission and Embassy staffs to analyze these specific problems is assessed, and the best available consultants are selected to assist in those areas where field capacity is inadequate.

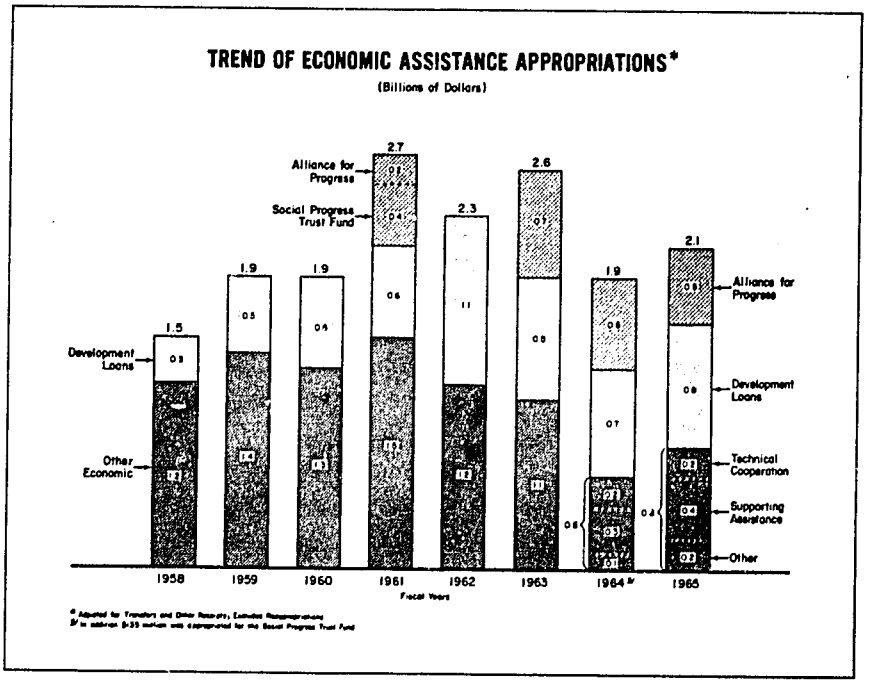
III. RESOURCES FOR FOREIGN ASSISTANCE

UNITED STATES assistance to developing countries takes a variety of forms. Dollars are lent 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 lent 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, dollar and local currency 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. Nearly 60% of the total economic assistance program funds planned for Fiscal Year 1966 are Development Loans, including loans to Latin American countries under the Alliance for Progress. Development Grants and Alliance for Progress Grants, which finance most technical assistance and related activities, amount to roughly 13% of program funds to be committed in FY 1966. 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 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. Through program lending A.I.D. makes available to the borrowing country the spare parts and raw materials which are necessary to sustain the countries' existing industrial facilities. These imports from the United States may mean the difference between success or failure to many of the small and medium sized private enterprises in the developing countries.

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. Thus, capital project loans may provide for training and management assistance not merely to initiate operations but also to the point where host country personnel can operate a facility with reasonable efficiency.

Development Loan funds are available to private enterprise and 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 to controls and policies inconsistent with free and open societies. However, this does not mean that the United States will refuse requests to assis governmental activities. The question is whether, in a specific country, the measures taken are justifiable 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. Maturity rates on Development Loans have ranged from 15 to 40 years and have included grace periods of up to 10 years. Interest rates may range up to 5¾% but are usually substantially lower. Most AID loans are made at 1% for the first 10 years and 2½% for the remaining 30 years, as set by Congress in 1964. 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 directly or 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, 3½ percent or higher interest, and a grace period, when necessary, not to exceed two years.

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 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 the country's 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 audio-visual 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 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 lent 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 to Development Grant and Technical Cooperation activities.

Procurement Restrictions. Goods and services for projects financed by Development Grant funds may be procured only in the United States.

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 probably involve disastrous economic and political disintegration;

—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 17% of the total FY 1966 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 major class group of countries described in Chapter I: those countries where essential growth prerequi-

sites 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), in very exceptional cases, cash transfers.

Procurement Restrictions. Commodity procurement financed by Supporting Assistance funds is confined to the U.S. and a limited group of developing countries, where a major aid purpose will be served by such procurement.

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.

ENCOURAGING PRIVATE ENTERPRISE

Recognizing that private initiative and participation are essential ingredients in the development process, A.I.D. seeks to strengthen the private sector in aid-receiving countries and to mobilize private resources from the United States to assist the developing countries. A.I.D. emphasis on private enterprise is based not only on the American experience, but on the experience of the developing countries themselves. The countries that have grown most rapidly—and the countries where progress has been most broadly based—have been those countries where public policy and public investments have spurred private enterprise.

A.I.D.'s efforts to improve the climate and conditions for private economic activity in the developing countries take several forms. Through the country programing process, A.I.D. helps to identify and provide the resources to carry out needed reforms in governmental policies, regulations and programs affecting the private sector. The needed reforms range from improved tax structures and new investment laws to exchange rate changes. To an increasing extent A.I.D. assistance is linked to the fulfillment of self-help measures agreed upon with the recipient government.

A.I.D. also assists in developing the basic institutional and human resources on which private industrial and agricultural growth depend.

A.I.D. project loans help build the basic infrastructure of power, transportation and communications facilities. Program loans finance the imports of raw materials, spare parts and components for private factories and farms. Through capital and technical assistance to industrial development corporations, agricultural credit banks, cooperatives, credit unions, and savings and loan associations, A.I.D. helps to mobilize private savings and to open more sources of credit for private borrowers. A.I.D. also makes dollar and local currency loans directly to private borrowers.

A.I.D. technical assistance to investment promotion offices, productivity centers, trade associations, research and training institutions, and managerial and vocational training schools help private industry to locate sound investment opportunities, upgrade its technical and managerial skills, and train its work force.

A.I.D. also provides planning assistance to the governments of developing countries through contracts for advisory, training and research services from U.S. universities and private consultant firms. Planning assistance along with other A.I.D. instruments often helps to encourage more liberal economic policies in the financial, foreign exchange, credit, price and allocation fields.

In addition to these efforts to spur local private enterprise, A.I.D. administers a broad spectrum of information, risk sharing and financial programs specifically designed to encourage U.S. private investment in the developing countries.

Information: Through publications, speeches, personal contacts and liaison with business organizations, A.I.D. publicizes its incentive programs and brings to the attention of American businessmen basic investment data and specific investment opportunities. A.I.D.'s "Catalog of Investment Information and Opportunities" contains over 1600 economic and feasibility studies sponsored by A.I.D. and other public, international and private institutions.

Investment Surveys: A.I.D. is authorized to share with potential U.S. investors up to 50 percent of the cost of surveys to examine the feasibility of specific investment opportunities. If after making the survey the investor decides to invest, he bears the full cost; if he does not go ahead with the investment, he is entitled to reimbursement from A.I.D. of 50 percent of the cost of making the survey and the Agency retains the survey results.

Loans: A.I.D. makes both dollar and local currency loans to U.S. private borrowers for investments in the developing countries. Development loans, repayable in dollars, may be made to expand existing enterprises and to establish new enterprises. Before authorizing development loans, A.I.D. is required by statute to take into account the

availability of financing from other public and private sources on reasonable terms.

Local currency loans are available for private sector projects under the "Cooley" loan program. Loans from the proceeds of agricultural commodity sales under Title I of Public Law 480 may be made to U.S. firms to finance such local costs as plant expansion, equipment purchases, land acquisition, industrial training, and other normal costs of operation. Cooley loans usually bear interest at rates comparable to those charged by local development banks. Maturities are related to the purposes of financing. Loans are repayable in the currency borrowed, without maintenance of value provisions.

Investment Guaranties: A.I.D. is able to guaranty American firms against some political risks and, in certain cases, a portion of the commercial risks relating to new investments in developing countries. Specific "political" risk guaranties are available against inconvertibility of foreign currency, loss by expropriation or confiscation, and loss due to war, revolution or insurrection. These guaranties cover new U.S. private investments abroad which further the development of the economic resources and productive capacities of the developing countries.

In certain priority investment situations, A.I.D. can also offer guaranty coverage against any and all risks except fraud or misconduct, for which the investor is responsible. A.I.D. may cover up to 75 percent of the investor's risk in investments other than housing, and up to 100 percent in certain housing investments.

A.I.D. has strongly supported the establishment of the International Executive Service Corps (IESC) as a means to strengthen cooperation between American business and private enterprise in the developing countries. The IESC, a private, non-profit organization directed and managed by American businessmen, provides experienced American volunteers to help privately-owned firms in the developing countries improve their management, production, and marketing performance.

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 programs are established under four titles of the Act.

Title I. Under this provision, substantial assistance is provided for development programs through the sale of U.S. surplus agricultural

commodities. Such commodities may be sold to friendly countries for their own currency and the local currency proceeds of these sales lent or granted to the purchasers for development purposes. 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 through the Department of State; these estimates are used to avoid a disruption of normal trade patterns.

The programing of funds realized from surplus commodity sales is determined by an interdepartmental committee of which the principal members are the Department of Agriculture and A.I.D. Proceeds from sales are used for loans and grants to the government and to private enterprise for development or for the common defense. Some funds may also be used for U.S. expenses in the developing country.

Loan agreements using the proceeds of surplus agricultural commodity sales under Title I may be made for periods of up to 40 years at interest rates no lower than the cost of the currency to the United States Treasury. The rate may be lowered with the consent of the President and his advisory committee.

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.

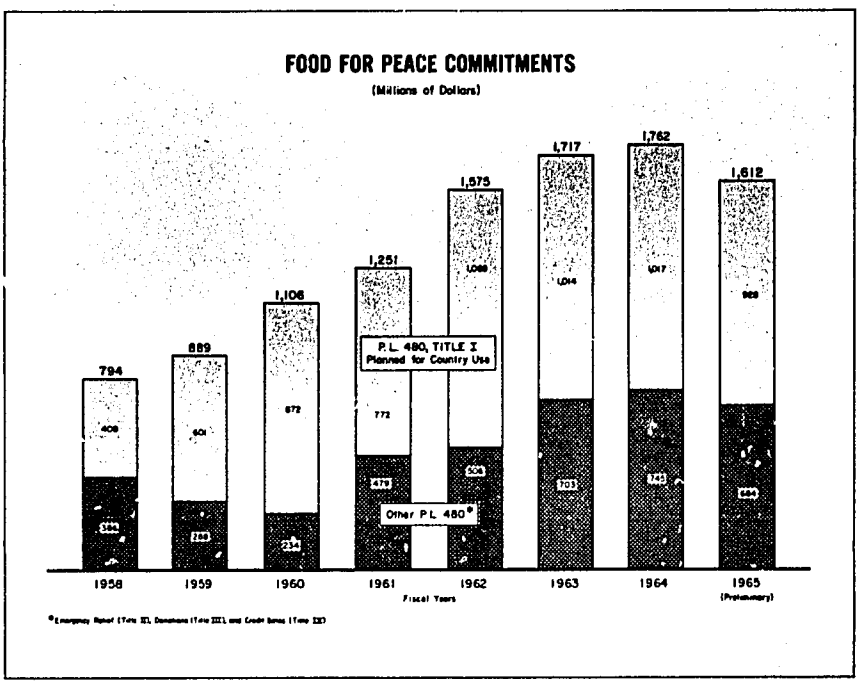
C.C.C. surplus commodities are available for emergency relief and for development purposes which will not displace other sales, including Title I sales for local currency. A.I.D. undertakes such programs in cooperation either with the host government or with a registered United States voluntary agency. 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 of 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 programing 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.

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 concerns specific development problems, or assesses past U.S. and international experience in giving aid. Some research projects 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 seeks 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 is also directed to more fundamental, theoretical aspects of the development process. Even in this area, the principal objective is to improve the planning and effectiveness of development assistance.

Most A.I.D.-financed research is 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 also seeks to strengthen U.S. research facilities working on these problems and to help to develop research facilities in the less developed countries themselves.

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. While both needs are likely to be present in any given country situation, and the two are closely interrelated, at a particular point in time one or the other will generally be the more critical problem. 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 and the trade policies of other countries. 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 mainly 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 more 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 programing 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 programing, the utilization of development plans in coordinating the use of external and internal resources, the choice between program and project assistance, the programing 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 the effectiveness with which they are used.

A country desiring to increase its supply of domestic capital must save for development purposes as much as it can of its national income. It may undertake a wide variety of measures to increase savings and limit consumption. For example, tax reforms may be instituted which raise rates and improve collections, or budget procedures adopted which limit current expenditures and increase government funds for needed investment. The government may foster the extension and diversification of financial institutions to raise the flow of private savings, or provide special tax incentives to encourage private businesses to save for reinvestment. Taxes to limit private consumption may be imposed or steps taken to limit private attempts to send capital abroad.

The best available measure of a country's achievement in improving domestic capital supply is the proportion of additions to national income which it saves. In serious development efforts, 20 percent or more of increments to gross national product may be saved, even though initially the share of gross national product which is saved domestically may be only 6 to 8 percent.

To increase its supply of skilled manpower, a country may extend its educational system, organize training programs, or improve its system of incentives. The development of vocational and technical schools, the expansion of scientific and engineering faculties of universities, and the establishment of teacher training centers for primary, secondary and vocational schools are examples of specific steps which may be taken in training and educating manpower.

Measures to improve the efficiency of resource use include price and wage policies, taxation and incentive programs that produce a

better allocation of capital and trained labor; improvements in planning procedures; provision of better information and forecasts to private entrepreneurs; schemes to utilize unemployed resources; and investment in essential overhead facilities, such as roads, power installations and irrigation systems.

The effectiveness of resource use is reflected in the ratio of the aggregate increase in real national product over the life time of the investment to the total investment required to produce it. When available, this measure provides a gross indicator of (i) improvements in the use of existing equipment and labor, (ii) the productivity of 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 output per manhour in specific sectors of the economy.

Social and Political Aspects

Economic development is not the sole aim of A.I.D.'s development assistance program. A.I.D. is also concerned with the social welfare, broadly conceived, of the population which it assists. The concept of self-help includes, therefore, efforts to bring about more equitable distribution of the benefits of economic growth as well as efforts to achieve more effective and resilient political democracy. Such measures of "social and political self-help" may contribute to economic growth as well as to social welfare; it is recognized, however, that some of them do not necessarily promote economic efficiency in the short run.

More equitable distribution of income and wealth may be achieved in a variety of ways. Revised tax structures and land reform are among the most effective in many circumstances. Measures which contribute to the physical well-being and work capacity of a population are forms of social self-help which may help promote economic efficiency. Examples are the extension of housing, provision of better health facilities including the training of doctors and construction of hospitals, legislation for the prevention and control of disease, and improvements in water supplies and in sanitation facilities.

Self-help measures to strengthen political democracy are less amenable to precise definition. They include measures to broaden participation in the political system: for example, by extending voting rights, developing effective channels for expression of political views, or instituting more representative political procedures. They also include measures taken to improve the efficiency of public administration; such measures can contribute to greater social justice, more effective pursuit of desired objectives, and more efficient use of resources.

Although inter-country comparisons of self-help performance are difficult, they cannot be avoided in administering an aid budget. The effectiveness of alternative aid allocations can only be judged through comparisons among countries. Examination of such key variables as the rate of domestic saving or the ratio of tax receipts to national income reveals significant differences in achievements among countries. Analysis of these and other indicators of self-help performance helps to make the necessary international comparisons more systematic and objective.

Relating Aid to Self-help Measures

United States aid may be linked to a single project, to a particular sector, or to the performance of 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 the finding that the project is integrally related 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 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 the benefits of economic progress more equitably may, for example, unfavorably affect investment incentives. The appropriate balance between measures to increase the rate of economic growth and measures to improve equity and welfare depends upon factors unique to each country, and upon the country's own value judgments on the relative importance of these various objectives.

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, social or cultural.

NATIONAL PLANNING FOR DEVELOPMENT

A major self-help measure is often the formulation and implementation of a national development plan. 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 fundamental characteristics of development planning. Although the best formal economic planning is no substitute for sensible economic policies and implementation mechanisms, 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 and encouragement to the activities of private enterprise. A good plan should assure the private sector an appropriately large share of scarce inputs such as finance and foreign exchange, and should leave to private entrepreneurs as important a role as possible in the expansion of the economy. The plan should, in addition, contain projections of resource needs and output for a few key private sectors whose growth it wishes to promote. If realistically conceived, the plan may become an effective device for stimulating private contributions to the development process.

Planning and Foreign Aid

An overall national plan can increase the effectiveness of external assistance in several ways. It can provide estimates of resource availa-

bilities and of the resource requirements associated with alternative rates of growth of income and alternative allocations of investment funds. 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 only 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 resource 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 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 provision 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. may suggest competent non-profit organizations or commercial consulting firms to the host government. It will brief and discuss ideas informally with the chosen advisors during normal contacts similar to those 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 the planning and execution of 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 imports in support of development programs without tying these to specific projects. Nearly half of all A.I.D. country funds are currently used for program asistance; major U.S. assistance efforts often 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 are intended to 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

needed for improvements and modernization may not be readily identified with a particular project, even though foreign aid helps 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. The share of total imports which consists of 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 provides greater flexibility than the project approach in providing for unforeseen bottlenecks which may be induced by the country's investment program.

(iii) Program aid may enable the recipient government to give less emphasis to large project activities and to the public sector. Where total aid finances only projects, large public projects and public investment in general may well appear the simplest activities for the government to negotiate and control. Program aid may induce a more balanced set of development activities.

(iv) Program aid may on occasion be less expensive to the recipient government, if it permits a wider choice in the selection of imports for procurement in the United States. Funds provided on a project basis must be spent on requirements for the projects financed. Since aid funds are 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 justification for 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) Where the bulk of U.S. aid consists of project assistance, year-to-year adjustments in aid levels as country needs and situations change may prove easier to make. Variations in the flow of acceptable project proposals and concentration of the impact of large projects produce considerable variability in aid totals. Also, slow utilization of funds available for approved projects leads to quasi-automatic reductions in aid levels. Program assistance may be less flexible in meeting changed circumstances, since the establishment of a program aid level may create expectations of fixed annual amounts.

(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 and of the U.S. contribution to the country's development efforts. 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.

(iii) Project assistance permits more detailed cooperation between the United States and the recipient government in supervising the use of aid funds than does program assistance. The recipient government may, of course, use resources freed by project aid for purposes not related to aid projects. However, project aid assures the financing of particular investments which the United States and the country's government consider important.

(iv) Project aid may facilitate 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 is 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.

PROGRAMING LOCAL CURRENCIES

Domestic purchasers in an aid-recipient country pay local currencies for American goods financed under the A.I.D. and Food for Peace programs. 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 Public

Law 480, 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 resources and, as such, are subject to programing. As in the programing 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 programing local currencies as apply in programing dollars.

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

For most effective use of local currencies, it is desirable that they be programed by the recipient government in a manner consistent with its general budget and plan. Aid negotiations on the use of counterpart funds should take account of their overall impact. In particular, it is important that the rate at which funds are released not aggravate unduly domestic inflationary or deflationary tendencies. Aid negotiations should also consider the essentiality of the specific projects which the recipient government proposes financing with counterpart funds.

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."

During 1962 and 1963, A.I.D. made several commitments under this authority. However, more recently the Agency has found that other techniques offer most of the advantages of multi-year commitments, while avoiding some possible drawbacks.

Long-term loan commitments had been expected to facilitate good host country planning and resource use by providing advance knowledge of the level of assistance over more than one year. It was also hoped that such commitments would encourage closer agreement between the U.S. and the host country on needed self-help measures. On the other hand, there are also risks associated with long-term commitments. U.S. negotiating leverage and flexibility might be reduced. There might be pressure to relax technical and economic standards in order to reach the agreed aid level.

Therefore, instead of making a formal commitment to provide a definite amount of assistance during a specified period, A.I.D. now prefers to assure selected countries of our continuing support, making it clear that we will stand by them as long as their own efforts warrant such support. This assurance is adequate for the country's forward planning, yet retains U.S. negotiating leverage and avoids the tensions sometimes associated with trying to implement a formal commitment to specific levels of aid.

V. AID AS A SOURCE OF FOREIGN EXCHANGE

UNITED STATES 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 usually 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 higher the share of increased incomes going into taxes, savings and consumption of domestically-produced goods and services, 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 and are a legitimate aspect of development costs. If aid should be provided in excess of the total required amount, direct and indirect, it might encourage unnecessary imports; the maximum use of local resources might be inhibited and government incentives to increase tax collections and savings reduced.

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, regardless of the form in which aid is furnished. When aid is more limited and data are inadequate for over-all analysis, it may be necessary to estimate the additional import requirements of particular projects by a less comprehensive analysis of their direct and indirect effects. A general rule that the U.S. will not finance more than 50 per cent 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 balance-of-payments 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 developments 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 appro-

priate if the intentions of the country to engage in corrective actions 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 encourag 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. It is important that the forms of import substitution chosen be those in which the country will eventually have a reasonable comparative advantage. Since import substitution is rarely a sufficient means to accelerate growth, A.I.D. also encourages the less developed countries to place emphasis on both immediate and long-run policies and measures to promote competitive exports.

VI. COORDINATION OF ASSISTANCE PROGRAMS

THE A.I.D.-administered assistance constitutes only a part of official U.S. foreign assistance. The Military Assistance Program, 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 (MAP) is directly administered by the Department of Defense. However, the Foreign Assistance Act of 1961 made the Secretary of State, under the direction of the President, responsible for the supervision and general direction of the entire foreign assistance program, including military assistance. This responsibility has been delegated by the Secretary of State to the Administrator of A.I.D. in his capacity as Coordinator of Foreign Assistance.

Coordination between the economic and military assistance programs is of particular significance in those countries on the Sino-Soviet periphery in which large military assistance programs create problems of resource allocation. The coordination problem is also important in

a few other countries receiving smaller but still significant military assistance.

In those countries receiving substantial military assistance, the planning of U.S. aid takes into consideration the comparative costs and benefits of alternative combinations of the two types of assistance in order to maximize the program's total contribution toward both security and developmental goals. The two forms of assistance are often mutually supporting. Improved military security contributes indirectly to increased economic productivity and civilian investment; economic and social growth often increases the effectiveness of counter-insurgency and internal security programs. Military infrastructure or technical training programs contribute directly to increased civilian output, and civilian transportation investment directly assists military logistics. Coordination and the minimization of possible conflicts is particularly important at the country level, where it is accomplished by the mutual examination of programs by AID Missions and military assistance groups.

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 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 5¾ 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 5¾ 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 ensure 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.

ASSISTANCE FROM OTHER FREE WORLD DONORS

In recent years the volume of aid from non-U.S. sources to the less developed countries has grown substantially. The 1965 report of the Chairman of the Development Assistance Committee estimated that the total net resources flow, including private capital, to developing countries in CY 1964 rose to about $9.7 billion. In 1962, the comparable figure was $8.2 billion.

Estimated Net Disbursement[a]
Related to the Economic Development of
Less Developed Countries CY 1962-1964
(in $ millions)

Source	*1962*	*1963*	*1964* [b]
DAC: a) Official Bilateral:	$5,388	$5,681	$5,554
Of which U.S.	(3,640)	(3,644)	(3,308)
Of which non-U.S.	(1,748)	(2,037)	(2,246)
b) Private Bilateral	1,869	1,961	2,581
Other Industrialized Countries[d]	172	205	275[c]
Multilateral Agencies	412	654	794
Sino-Soviet Bloc	391	425	500[c]
	$8,232	$8,926	$9,704

Technical assistance personnel of all types sent abroad under bilateral UN and EEC assistance programs totalled more than 87,000 in 1964. Bilateral programs accounted for 80,000, of which the U.S. share was 14,000.

Trainees from the developing countries under bilateral, UN and EEC programs totalled 51,000 in 1964, of which 42,000 were

[a] Net of amortization; excludes loans of 5 years maturity or less.
[b] Preliminary.
[c] Informal estimate; precise data are not yet available.
[d] Australia, Finland, New Zealand, South Africa, Sweden and Switzerland.

under bilateral programs; about 11,000 of the latter were financed by the U.S.

Coordination of Assistance with Other Donors

As the volume of aid from other Free World donors has grown, the number of aid sources has also increased. Therefore, coordination of assistance activities is increasingly important in order to avoid duplication and to maximize the effectiveness of limited total aid resources.

U.S. policy is to work with other donors to: (a) improve coordination of assistance policies, objectives, planning, and implementation; (b) meet demonstrated needs of developing countries in relation to their self-help efforts, and to share responsibility for furnishing resources; (c) provide terms appropriate to the debt-servicing capacity of individual recipients; and (d) make increased use of multilateral aid channels to the extent possible without impairing their effectiveness and multilateral character.

The U.S. and other Free World nations coordinate aid activities in several ways. The most important are:

—the Development Assistance Committee (DAC) of the OECD
—consortia and consultative groups for certain recipient countries
—regional organizations such as the Inter-American Committee of the Alliance for Progress (CIAP), and the Inter-American Development Bank (IDB)
—field coordination in individual countries.

The DAC

The DAC, made up of the U.S., Canada, Japan, and aid-donor countries of Western Europe, is a basic coordination forum for the major donor countries. Its purpose is to coordinate donors' over-all assistance policies and to improve members' aid programs. A principal DAC activity is the Annual Aid Review. Each member of the DAC submits an annual report on its aid policies and programs, which forms the basis for a frank discussion by all DAC members of its policies and procedures and the volume and terms of its assistance.

The DAC also establishes working groups for intensive consideration of specific assistance problems, such as how to assess a less-developed country's performance and aid requirements, or how to encourage greater private investment in developing countries. The DAC also arranges *ad hoc* meetings to exchange experience and views on topics of general interest to donors, such as investment guaranties.

Recently, DAC countries have agreed to a resolution calling for attaining at least the UN Trade and Development Conference target of 1% of net national income for their aid programs. They have also agreed that members should recognize, in determining the amount and

composition of their assistance, those developing countries which are mobilizing and making good use of available resources, and those countries in which additional aid will clearly increase the effectiveness of present efforts. In addition, DAC members have set specific targets for improving the terms of their assistance. (See Bilateral Assistance Programs, below.)

Consortia and Consultative Groups

Consortia and consultative groups are mechanisms for coordination of various donors' assistance programs in specific countries—usually where the recipient is undertaking a major development effort. Consortium members are committed to meet the recipient's foreign exchange requirements not covered by export earnings or private foreign investment. The projected gap between foreign exchange requirements and availabilities is determined annually after careful economic analysis by the recipient and the donor nations. The IBRD sponsors aid consortia for India and Pakistan; the OECD sponsors a consortium for Turkey.

Consultative groups are less formal donor arrangements which meet periodically to discuss an aided country's problems and donors' aid plans. The DAC and World Bank each chair several consultative groups.

Both consortia and consultative groups provide an effective means of coordinating aid, and for working with recipients to achieve needed self-help and reform measures, and general improvement in development efforts.

Regional Organizations

Regional organizations are gaining importance as instruments of coordination. Regional Development Banks, such as the IDB, provide a means for recipient countries in a region to take important responsibility for review of their own progress and performance, and to work together with major donor nations in coordinating aid resources.

The Inter-American Committee for the Alliance for Progress (CIAP) is a new regional coordinating organization which includes the U.S. and Latin American members of the Alliance for Progress. CIAP makes country-by-country reviews of development progress, including the soundness of national and sectoral plans and progress in plan implementation. The 1964 review also covered foreign trade, regional integration, external assistance and the domestic efforts of Latin American countries, and recommended specific courses of action to accelerate progress.

Coordination in the Field

Of fundamental importance is day-to-day coordination in the recipient country, among donor nations operating aid programs, and

the host government. Some host governments have organized special staffs to coordinate external assistance.

U.S. field staffs actively cooperate with other bilateral and multilateral donors, and with the host country to achieve maximum effectiveness in assistance programs. Other major donors are also aware of the need for field coordination. But coordination in the field is complicated by the fact that most other donors do not maintain in aid-receiving countries specialized staff responsible for assistance matters.

The United Nations assists in aid coordination through the Resident Representative or Regional Representative responsible for each country in which the U.N., the U.N. Special Fund, or U.N. specialized agencies conduct operations. The Resident Representative, in addition to supervising U.N. assistance activities, generally seeks to establish cooperative relations with all bilateral and multilateral assistance donors.

Field coordination has a direct effect upon U.S. aid planning. Each U.S. field staff takes into account in annual program submissions to Washington the volume, content, and terms of other donor programs, and their probable trends, in order that A.I.D. may design programs complementary to other aid efforts.

Bilateral Assistance Programs:

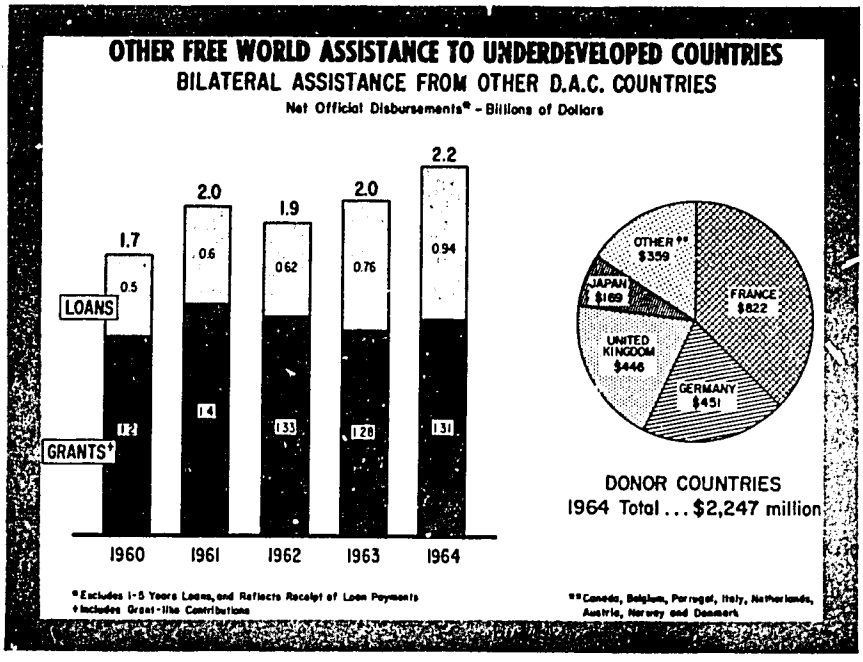
Most of the developed countries of the Free World carry on aid programs in the underdeveloped world. The volume of assistance from other donors has grown steadily, although not as rapidly as the U.S. feels is appropriate. Aside from the U.S., France led all Free World countries in volume of official aid disbursement in 1964 ($841 million), followed by the U.K. ($491 million) and Germany ($460 million). Other DAC members, and Switzerland, Australia and New Zealand provide smaller bilateral aid programs.

Most other aid giving countries have reorganized or created new agencies to administer aid in recent years. The U.K. completed a basic reorganization in 1964. These efforts have improved aid programing and coordination, but the U.S. is still the only country with specialized field staffs.

The U.S. and other donors are increasing the proportion of lending in their assistance programs. There has been some improvement in the terms on which loans are made. Average maturities for all donors increased from 18.9 years in 1961 to 27.6 years in 1964. Average interest rates have improved from 4.6% in 1962 to 3.3% in 1964. Further improvement is needed. In response to this need DAC members have approved targets for aid terms under which members are to try to make their aid available by 1968 on the following minimum terms:

80% or more of net aid to be either grants or loans with maturities of at least 25 years, interest at 3% or less, and grace periods of 7 years or longer.

Several countries have already taken steps to liberalize loan terms. Canada started a new soft loan program in 1964; in 1965 the U.K. announced a policy of extending interest-free loans to selected LDC's; the EEC, Germany and Japan have each taken initial steps to ease their terms. However, the debt burden of less devloped countries is already heavy and growing. Improved terms will only slowly have a real impact on this burden.



Multilateral Programs

In recent years multilateral agencies have accounted for an increasing proportion of total economic assistance provided to developing countries.

World Bank Group

The largest multilateral group providing capital assistance is the World Bank (IBRD) and its affiliated institutions, the International Development Association (IDA) and the International Finance Corporation (IFC). These institutions committed over $1 billion to developing countries in FY 1965.

The World Bank itself makes loans with maturities averaging over 20 years at interest rates of 5½% to finance productive investments in member countries, in cases where private capital is not available on reasonable terms. The Bank, which made commitments of about $740 million to developing countries in FY 1965, lends primarily for electric power, transportation, industrial and agricultural projects, in addition to providing a wide variety of technical assistance services. It has begun to make portions of its own resources available to IDA and IFC. Most of its current lending resources are derived from borrowing in the world's capital markets.

The IDA is financed largely by official bilateral contributions and operates on the same principles and with the same management as the World Bank. However, its soft loan terms of 50 years with no interest (except a service charge of ¾ of 1%) are designed for developing countries which need outside capital but cannot now borrow on conventional terms without accumulating excessive debt burdens. IDA credits totalled over $300 million during FY 1965.

The IFC assists the industrial development of its less-developed members through investments in productive private enterprises. It provides financing, in association with private investors, through stock subscriptions, loans, or loans with equity or other special features. In FY 1965, the IFC invested $25 million in developing countries.

Regional Institutions

Other multilateral institutions providing capital assistance include regional development banks, the largest of which is the Inter-American Development Bank (IDB). The IDB seeks to further the economic development of its Latin American members through the use of its own capital and technical assistance resources and the promotion of investment by other public and private development capital. The United States provides a major portion of IDB resources but the Latin American countries themselves contribute a substantial share. Conventional loans from IDB Ordinary Capital Resources and lending on softer terms from the Fund for Special Operations totalled about $250 million in FY 1965. Increased resources are being provided to the Fund for Special Operations which will take over projects of the kind financed by the Social Progress Trust Fund (SPTF) which has been administered by the IDB and funded by the U.S.

The Asian Development Bank, now being formed, and the African Development Bank, already in operation, are two new regional institutions. In each case, major responsibility for resources, operation, and review rests with the Asian or African member nations.

The European Development Fund (EDF) and the European Investment Bank (EIB) are financing institutions of the European

Economic Community (EEC) which assist the development of EEC-associated overseas countries and territories. The EDF has emphasized the provision of largely grant funds for African countries, and the EIB has made loans to Greece and Turkey. The two institutions have disbursed over $100 million annually in the last few years.

The UN Family

Many UN bodies provide technical and other assistance on a broad scale. These include: the UN Special Fund (UNSF) and the Expanded Program of Technical Assistance (EPTA), which are supported by annual governmental voluntary contributions, UNICEF, and the autonomous UN specialized agencies (the Food and Agriculture Organization, World Health Organization, International Labor Organization, etc.) which provide technical assistance both from their own budgets and from funds provided by the UNSF and EPTA. The UN also has developed four Regional Economic Commissions with associated development institutes.

The UN Special Fund emphasizes larger, long-term projects, principally of the pre-investment and training type, while EPTA projects are usually small and short term. The UN Economic and Social Council has proposed a merger of these two programs.

In calendar 1964 commitments for technical and special assistance by UN organizations totalled $300 million.