

**THE  
CHANGING  
CHALLENGE  
IN  
FOREIGN AID**

By **DAVID E. BELL**  
Administrator,  
Agency for International Development

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**AGENCY FOR INTERNATIONAL  
DEVELOPMENT  
DEPARTMENT OF STATE  
Washington, D. C.**

# The Changing Challenge in Foreign Aid\*

Few Americans seriously question the assumption on which our foreign-assistance programs have been based: that it is plainly in our national interest to help build free, strong, and independent countries around the world because this is the kind of world in which our own free institutions can best survive and flourish.

Most Americans acknowledge the success of the Marshall Plan in bringing about the recovery of our Western European allies.

Most debate on foreign aid today centers on the very different challenge posed by the world's underdeveloped countries. Looking out from the United States on the struggle and change going on in the underdeveloped countries, some draw gloomy conclusions.

Some suggest that the Communists are winning in Vietnam, or Indonesia, or Brazil, and we should therefore withdraw in those places. Some suggest that the poverty and ignorance in Asia, Africa, and Latin America are so great that no real progress can be hoped for, that population growth is so rapid that any possible economic gains will be lost, that we are wasting the free world's resources in a hopeless attempt to achieve economic progress in underdeveloped countries.

## Different Situation Faced

There is no question that we face a different challenge in the developing countries than we did in Western Europe or Japan. But there is no reason, on our experience to date, to conclude that it is a challenge beyond our ingenuity or our wisdom.

Five countries—Greece, Israel, Mexico, Nationalist China, and Venezuela—have progressed well enough during the past decade so that we can expect to end all United States assistance to them within the next two to five years. Another dozen underdeveloped countries, including India, Pakistan, Turkey, Thailand, and Colombia, have made solid progress with assistance from the United States and, to a growing extent, from the free nations of Western Europe, Canada, and Japan.

Looking to the future, we know that for many of the underdeveloped countries there is still a long road ahead. But there is movement, and we approach the challenge with assets not available to us 10 or 15 years ago.

The first asset, very plainly, is the emergence of the Western European nations and Japan as major donors, sharing the burden of assistance with the United States. In 1962, they contributed more than \$2 billion in assistance to the developing nations. More aid recipients are

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becoming donors: Israel and Nationalist China, for example, are now sources of technical assistance.

## **Two Developments Stand Out**

The second asset, and perhaps the most important, is experience. From our failures—and there have been failures—as well as our successes we have learned how to use our resources to much better effect. Two developments stand out.

First, we have learned much better how to draw on the nation's great nongovernmental resources in developing the trained people and the institutions so urgently needed in the new nations of Asia, Africa, and Latin America.

Today, more than 1,500 professional and technical employees of American universities, businesses, industries, and nonprofit organizations with whom the Agency for International Development (AID) contracts for technical assistance are at work overseas helping to train teachers, improve public administration, train rural health workers, and do many other things.

As of last June 30, the agency had in force 118 contracts with American colleges and universities for technical assistance in 37 countries.

In spurring the development of cooperatives for agricultural credit and marketing, for housing, for electric-power distribution, and of savings and loan associations, AID now contracts on a worldwide basis with American organizations like the National League of Insured Savings and Loan Associations, the Credit Union National Association, and the National Rural Electric Cooperative Association.

AID is strongly supporting the proposed executive service corps, which would draw on the ranks of American businessmen, active and retired, to provide management and business skills in the developing countries.

We favor establishment of such an organization on a nongovernment basis, with perhaps initial government financing.

## **Another Promising Approach**

Another promising approach is the development, with AID support, of relationships like the California-Chile program, and the cooperative program between Oakland County, Michigan, and Cali, Colombia, in which American states, counties, and cities, with the entire range of private and governmental resources they represent, work with counterparts in the developing countries.

In brief, we are learning how to use the AID program as a catalyst to bring about relationships of great significance between private American resources and foreign needs.

Second, we find a growing awareness in the developing countries that the maximum progress toward active and self-sustaining economies comes through major reliance on the private sector. I do not suggest that young nations which once dogmatically asserted the virtues of state enterprise are now dogmatically supporting private enterprise. I do suggest that there has been a decline in

dogmatism, and an increasing willingness to support private enterprise when it can do the job and where its performance is effective.

The developing countries which have made the greatest advances are those which have encouraged the growth of private enterprise.

Nationalist China, the Philippines, Malaya, Pakistan, and India can be cited as good examples.

Whenever possible, AID and its predecessor agencies have urged that development efforts be carried out through the private sector, not only in manufacturing and industry, but in all areas of business. On Formosa, for example, the AID mission has played a major role in stimulating the development of the private sector by providing technical and managerial assistance to individual industries.

Much that has been criticized as "government-to-government" assistance — the investment in education, in health, in improved public administration, in ports and highways and power plants — has, in fact, laid the foundations for the growth of private enterprise.

### **Capital Markets Lacking**

Many of the developing countries lack effective capital markets; they are simply not organized to provide capital for local entrepreneurs who wish to expand or to go into business. AID has provided both technical assistance and seed capital to establish development banks designed to fill this need. As of Sept. 30, 1963, AID had authorized \$190 million in loans to establish or expand 30 development banks in 25 countries, and as of that date, more than 2,400 individual borrowers had been authorized subloans from these banks to finance new or expanded private ventures.

Finally, AID is better prepared under existing law than ever before to encourage United States private investment in the developing countries. The fact that 12 additional countries signed investment guaranty agreements during fiscal year 1963 illustrates the growing interest of the developing countries in the technical and capital assistance that United States private investment can bring.

With even our best efforts, the problems of the developing countries will be difficult to resolve. Rapid population growth, Communist subversion, repressive military dictatorships, poverty, and ignorance are formidable difficulties, and they will not be overcome easily or overnight.

I am sure we will continue to be advised to give up the struggle as too costly, too exhausting, too risky. But I see no reason for giving up, and every reason for continuing. The long-range security of the free world is at stake in the underdeveloped countries. The developments I have just outlined, the growing partnership between government and private assistance efforts, may well be the best guarantee that the challenge of development, difficult though it may be, is not beyond either our wisdom or our ability.