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THE AGENCY FOR INTERNATIONAL DEVELOPMENT

During the Administration of

PRESIDENT LYNDON B. JOHNSON

November 1963 - January 1969

Volume I

Administrative History

Part II

~~CONFIDENTIAL~~

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Near East - South Asia
A.I.D. Net Obligations and Loan Authorizations
(U.S. Fiscal Years - Millions of Dollars)

	1962	1963	1964	1965	1966	1967	Total 1962-1967	(Gross) 1968
<u>Grand Total</u>	<u>1068</u>	<u>901</u>	<u>797</u>	<u>669</u>	<u>622</u>	<u>506</u>	<u>4563</u>	<u>533</u>
Afghanistan	38	16	20	8	10	24	115	9
Ceylon	1	- 3	- 2	-	7	7	13	-
Cyprus	1	3	-	- 2	-	-	2	-
Greece	30	31	8	-10	-18	-	41	-
India	465	397	336	265	309	202	1975	301
Iran	53	22	4	2	7	- 1	88	-
Israel	45	45	20	20	9	-	139	-
Jordan	43	42	39	40	42	37	242	12
Nepal	8	3	4	4	2	3	20	2
Pakistan	240	174	214	182	114	127	1051	132
Syrian Arab Republic	25	- 13	-	-	-	- 14	- 3	-
Turkey	71	127	126	150	133	134	741	72
UAR (Egypt)	41	46	- 3	2	1	- 15	72	-
Yemen	7	0	5	4	3	2	26	-
CENTO	2	2	21	-1	-	-	28	-
Regional	2	1	1	2	4	1	11	4
Other Countries	-	1	-	-	-	-	5	-

Near East and South Asia
Net Commitments by Appropriation Category
(U.S. Fiscal Years - Millions of Dollars)

	1962	1963	1964	1965	1966	1967	1968 (Gross)	Total 1962-1967
<u>Grand Total</u>	1,068	901	797	669	622	507	533	4,564
Development Loans	756	758	690	588	541	441	479	3,774
Technical Cooperation/ Development Grants	64	49	44	45	40	33	35	274
Supporting Assistance	150	94	64	38	34	31	10	-411
Contingency Fund	98	(-1)	-	(-2)	8	1	-	105
Other, Including Inter- national Organizations	-	-	-	-	-	-	-	-

Source: A.I.D. Operations Report
(Figures may not add due to rounding.)

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The Near East and South Asia Region extends from Greece and the UAR in the West to Pakistan, India and Nepal in the East. The region contains three of A.I.D.'s largest aid recipients: India, Pakistan and Turkey. Aid programs there have a strong development emphasis and economic aid has provided the leverage to effect or accelerate economic policy change and has contributed significantly to acceptable rates of economic growth. Per capita income has improved and increasingly larger numbers of people are beginning to share some of the benefits of economic progress.

Progress has been sufficient in Greece, Lebanon, Israel and Iran so that they no longer need loans from the United States on concessional terms and are able to finance their requirements for technical assistance from their own resources and those of other donors. U.S. economic aid programs have been terminated in these countries. An aid phase-out target date for Turkey has been developed with that country. Relatively small programs continue in Afghanistan, Jordan, Nepal and Ceylon. Because of political factors described below aid programs in U. A. R. and Yemen were terminated in 1967. The programs in Iraq and Syria were terminated in 1964 and the program in Cyprus in 1966 for similar reasons.

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The Region includes countries of wide diversity in economic attainment and potential, size of population and area, culture and political development, climate and resources. Greece and Turkey are economically oriented toward the European Economic Community and are making their way within this competitive environment while India, U. A. R. and Pakistan hold leadership roles among developing countries because of relative importance, size, progress in economic development or political sophistication. Some countries -- Turkey, Pakistan, Iran, Israel -- have made surprisingly good economic progress despite immense problems, because of the quality of leadership and their commitment to development while others remain heavily dependent on external assistance for tasks of only moderate complexity, e. g. , Afghanistan, Nepal.

Friction between countries in the region, and external threats against countries of the region, have affected economic development progress. In some countries, revolutions are endemic, and in others political instability has hampered development.

While there may be certain common characteristics among several of the countries, each has its distinct problems and unique difficulties and the aid programs have had to be tailored to the opportunities and obstacles prevailing in each country.

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Taken together the entire region embraces about thirty-five percent of the Free World population, sharing six percent of the world's GNP. By contrast, the United States has about six percent of the world's population but enjoys more than fifty percent of its GNP. Poverty is still the most prominent common characteristic of the region as a whole. People are poorly fed and housed, poorly educated, in poor health. Prospects for the mass of individual citizens are poor in the near term; population is expanding rapidly and over-taxed governmental services must cope day-by-day with increased demands.

Since 1963 the U.S. aid commitment has been most extensive to India, Pakistan and Turkey - in that order, these being countries which for a variety of reasons over a period of time have been judged to be of greatest concern to U.S. national interest.

Turkey's NATO context, its participation in the OECD, its pivotal role in Middle East defense through CENTO (although CENTO's purpose and role has largely eroded) has been, with that of Greece, the focus of particular attention for the longest period. Nevertheless, the intimacy of our relationship with Turkey has changed with the change in our relationships with U.S.S.R. and with the U.S. position on the Cyprus issue. Even so, with the

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application of development criteria as the basis of aid giving, the quantity of aid has remained considerable.

Pakistan because of its military alignment with the United States and membership in CENTO and SEATO warranted particular attention. Large quantities of aid have been extended to Pakistan, particularly since the early 1960s and notably in partnership with a number of other donors. The military arrangement eroded rapidly when the U. S. provided military aid to India after the Chinese invasion of 1962. But, as the ally relationship lost reality, the application of economic development criteria as the basis for aid has resulted in a continuing high-level of aid to Pakistan.

Our interest in India as the primary counterweight to China, as the largest Free World developing country with the greatest and most complex set of problems and as a leader among developing countries, indisputably occupies the most significant place in our concerns. We have been willing to accept India's neutral course while at the same time we have been regretful at Pakistan's attempts to balance its relationships between the three powers: U. S., U. S. S. R. and China.

Much Executive Branch attention has focused on these countries, including extensive participation by President Johnson in all

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the major aid decisions and, in the case of India and Pakistan all significant decisions since the 1965 war between India and Pakistan. Given the extensive investment of U.S. resources in these two countries and the obvious misuse by India and Pakistan of scarce resources in conflict with each other, and an increase in defense expenditures at the potential expense of development expenditures, strong pressure was brought to bear on both countries. Economic aid leverage was used to help bring about a cease fire and has since been used to hold these two countries on a development course. The 1965-1966 period was characterized by what has come to be called a "short leash" policy, i.e., allocation from time to time of modest portions of total anticipated allocations for a given fiscal year. While there has not been a return to the larger, sometimes multi-year, commitment of the earlier period, it has been the constraints of aid availabilities rather than policy design which has resulted in lower allocations of funds.

B. Policy Focus

As a general rule in the larger countries where aid has been substantial, the first and primary focus has been to encourage economic development through certain basic changes in economic policy. This is achieved in a number of ways.

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The economy is examined to determine where the obstacles to economic growth are and to consider alternative policies to overcome these obstacles. The alternative or alternatives selected normally must be negotiated at ministerial level or higher. In the process of negotiation this generally means support and encouragement to major forces of change and economic liberalism in the government concerned.

Decisions have to be reached as to what issues to push within a given time period since successful initiatives depend on keeping demands on executive time manageable. Conclusions must also be reached about what is negotiable given the range of resources available to the negotiator - capital aid, technical assistance, P.L. 480 and local currency. Economic conditions are established by means of which the country concerned must mobilize those resources and institute those economic policies which will assure effective use of aid resources. The allocation of aid is then timed so as to coincide with bench mark actions by the government concerned. But it is not sufficient to stop here, there must be accompanying action such as dealing with problems of distribution of inputs. The private sector must be given maximum opportunity to play its full role. And consistent with prudent management of scarce resources there should be

increased private sector participation in allocation of resources, i.e., movement toward a more market-oriented economy. It has become clear, particularly during the past several years, that if the private sector can be encouraged and to some extent channeled along constructive investment lines, with coordinate action to reduce the areas of government involvement, development objectives are more likely to be met.

In the smaller countries of the region which receive aid, the problems are smaller although not necessarily less complex, but the absorptive capacity for effective use of aid is less. Their stages of development are lower, in the case of Nepal primitive, and the road toward development a much longer one. Their requirements for capital aid may be minimal at this stage while their needs for technical assistance are more extensive, as in the case of Afghanistan. While in the larger countries projects may be an integral part of the implementation of new economic policy, projects may have a much more limited objective in the smaller countries, for instance, intensive improvement in agriculture in particular regions. Projects may be directed toward establishing a more comprehensive vocational school system and this may be more important than having a well articulated national education policy.

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In many respects the major aid countries of the NESa region have been used to test aid policy - particularly in the development of country-focus and development of economic performance criteria as a basis for aid-giving. Country summaries which illustrate some of the foregoing points follow.

C. India

The record of U.S. economic aid relations with India since 1963 is one of a marked and successful shift to a policy of deliberately cooperating with and encouraging those Indian officials who sought to effect a more liberal and a more market-oriented economic program. This policy has meant greater self-help with broader provisions of incentives for private enterprise in agriculture. It has meant more freedom from internal price controls and from investment and import licensing in industry. Such freedom has initially led to greater availability of raw materials and other resources to utilize existing capacity more fully, more competitively and more efficiently and has resulted in less investment in new plant. In the

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social sphere, the major U. S. effort in recent years has been to help India convert its commitment to control of population growth into an active program and to improve quality of higher education.

American aid policy in the 1950's and into the 1960's was based on the assumption that the principal problem was providing sufficient outside resources to fill the foreign exchange gap since Indian planning and discipline for development progress was basically sound. There were some grounds for this conclusion in view of the apparent success of India's Five Year Plans. But in the early 1960's some of the significant growth trends slowed and it became clear that some of the progress was more apparent than real. The Indian economy was headed for trouble and this forced a searching re-examination of the base on which the development program was initiated.

Most seriously, agricultural production was falling behind the population pace critically. Although agricultural output rose about three percent a year from 1950, much of this increase came from the cultivation of new land. Grain imports rose steadily from an annual average of one and one-half million tons in the early 1950's to an average of over three million tons in the early 1960's. This trend was in part deliberately

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induced by a U. S. P. L. 480 policy which, while it had other objectives, tended to be a disincentive to production. While P. L. 480-generated funds supported massive investments in schools, transportation facilities, health centers, etc., it also provided India with the option of investing in industry and, as such, was a deterrent to needed modernization and growth of India's dominant agricultural sector.

The investment program and the massive administrative controls which blanketed industry and trade resulted in inefficient, costly production, helped to distort industrial investment decision, and consequently resulted in a serious underutilization of plant capacity, deceleration of the increase in output, and stagnation of exports.

A. I. D. 's pressures for self-help came later in India than in other countries and came as a concomitant to a general disillusionment, within as well as outside India with the economic policies India had been pursuing. India's economic progress during the Third Plan period (1961-1966) was disappointing and a matter of major concern to India's leaders. This concern was reflected in actions of the Consortium for India and led to an intrusive IBRD economic study. The 1964 IBRD mission, led by Mr. Bernard Bell, recommended a far-reaching program of economic reform: (a) a shift in emphasis to agriculture which would provide the physical input supplies, the incentive prices and the credit required

approximately to double the rate of growth of agricultural output;

(b) invigoration of the Family Planning Program and its conduct on a truly massive scale and intensive basis; (c) devaluation of the rupee;

(d) elimination or substantial relaxation of direct government controls over imports and over industrial investment and production; and

(e) fuller and more effective use of existing production capacity in the interest of more rapid expansion of output, investment and export, and even at the expense, in the very short run, of expansions of industrial capacity. This program was accepted in principle and has since become the basis for action.

A. I. D. efforts to focus attention in India on the improvement of agricultural production -- assisted by the personal attention of the U. S. Secretary of Agriculture -- began to show results in Indian agricultural policy by late 1965. President Johnson refused to release P. L. 480 commodities to India without assurance that the Government of India was resolved to do its part in attacking the agricultural problem and to take steps which would within a reasonable time permit it to feed its burgeoning population. India fully explained its revised agricultural policy in discussions between Secretary Freeman and Minister of Agriculture Subramaniam in November 1965.^{1/} In December, India proceeded to carry out the agreement, announcing a new liberal policy on private investment for fertilizer manufacture and larger allocations

for fertilizer imports. ^{2/} The incentive price supports for grains established during 1965 were raised in 1967. India has progressively increased the agriculture share of its development budget from nine percent in 1964-65 to fourteen percent in 1968.

With A. I. D. 's encouragement India took measures to promote trade and industry which denoted further acceptance of the Bell Mission Report recommendations. In June 1966, with IBRD and IMF counselling and a strong element of U. S. encouragement India devalued her currency by 36.5 percent. In July 1966, the government began to put an import liberalization program into effect designed to free priority industries from government controls. Investment controls over these same priority industries were also loosened. A. I. D. program loans worth \$382 million as part of a consortium package of \$900 million of non-project aid supported the new liberalization policies.

The policy successes were not immediately converted into production successes because of the intervention of the worst two-year drought period in a century and because of the consequential industrial depression. However, throughout the two-year period, A. I. D. conducted a vigorous program to introduce to Indian farmers the new high yield wheat and rice seeds developed by the Ford and Rockefeller Research Foundations. A. I. D. worked to supply the Indians with the knowledge and materials -- fertilizer, plant protection supplies, water, and seed --

necessary to take advantage of the seed research breakthrough. The program involved both technical assistance and commodity loans to finance the needed agricultural inputs. In a program loan to India authorized in March 1968, \$100 million was specifically designated for the purchase of agricultural inputs. Also, A. I. D. development loans have been extended to fertilizer plants, such as Coromandel and the new private sector Madras plant. The fruits of these A. I. D. efforts and Indian policy changes began to show in production in 1967 and 1968.

In 1968 a harvest of about 100 million tons was obtained. Perhaps one-third of the increase is due to optimum weather conditions, the other two-thirds is due to the new technology, the policy measures introduced by the Government of India and the substantial foreign assistance provided by the U.S. and others. The previous record had been eighty-eight million tons, set in 1965.

The methods by which the Indian policy turnaround was encouraged included personal "economic diplomacy" by the President and key administration figures, refraining from blanket or long-term aid commitments (A. I. D. or P. L. 480), association of aid offers directly with performance, and mobilization of parallel action by the Consortium.

"Economic diplomacy" by the President included personal talks with Prime Minister Gandhi, Deputy Prime Minister Desai, Minister of Planning Ashoka Mehta, Minister of Food and Agriculture Subramanian

and Minister of State for Health and Family Planning Chandrasekhar. The President also transmitted two special messages to Congress on the Indian food situation and asked a Congressional team to visit India on its food problem and program.^{3/} The A. I. D. Administrator, the Assistant Administrator for NESAI, and the A. I. D. Mission in New Delhi took many opportunities to discuss economic issues with key Indian officials, particularly the Deputy Prime Minister (also Finance Minister), the Minister of Planning, the Minister of Food and Agriculture, and the new Minister of State for Health and Family Planning. U. S. Secretary of Agriculture Freeman also took a direct interest in India's affairs. Through personal contacts in India, at FAO meetings and in Washington, he lent strong support to new agricultural priorities and programs.

The duration and firmness of aid commitments changed drastically in early 1965. The prior pattern had included: general endorsement of the magnitude of needs for a full Five Year Plan period, a firm public pledge each year of a dollar aid amount, and a four year P. L. 480 agreement. In the Consortium meeting in April 1965, on instructions by the President, A. I. D. indicated an intention to provide dollar assistance for Indian fiscal year 1965-66 rather than state a firm pledge as previously. The formal language used at the open meeting of the Consortium referred to a number of reservations about Indian policy and performance, and

tied the possible availability of up to a stated figure of aid to Indian progress on economic reforms.

The first A. I. D. loan (\$50 million) after the September 1965 war had a three-pronged impact on Indian policy and priorities: (a) it was available only for fertilizer imports, (b) it was conditioned on India importing an approximately matching amount of fertilizer using other funds, and (c) it was conditioned on a marked new attention to agricultural programs and on a broad new set of incentives to private foreign investment in fertilizer manufacturing in India. The A. I. D. non-project loans totalling \$382 million for Indian fiscal year 1966-67 represented an increase in U.S. non-project aid financing (from a pre-war level of about \$250 million) but they were to enable India to undertake a broad reform and import liberalization program. P.L. 480 agreements were accompanied by Indian self-help commitments on agricultural priorities and were used to focus discussions of policies on progressive eventual elimination of food zones, on continued maintenance of forward incentive price supports to farmers, and on creation of enlarged buffer food stocks.

A further conscious method employed in the campaign to alter Indian policy was the mobilization of the opinion of the Aid-to-India Consortium. Bilateral contacts with Consortium members were directed

to that end, playing on, for example, the German strong support for a market economy. In the course of pressing for food matching and for debt relief, A. I. D. was able to focus attention on the deficiencies of Indian performance and on the policies needed to improve performance. A. I. D. 's support of exchange and import policy reforms, played a strong, even forcing hand. Three aspects of encouraging more and better aid by others deserve attention: (a) food matching; (b) increasing the proportion of non-project aid relative to project aid; and (c) debt relief.

The efforts in 1966 and 1967 to mobilize world opinion on the Indian food crisis and to have the very large U.S. contribution more nearly matched met with qualified success. A. I. D. efforts focussed attention on the problem and created pressure on India to improve agriculture. A. I. D. also secured some additional response from Consortium members by the pressure of the call for matching. A. I. D. did not secure equivalent matching, but it is possible that this effort was crucial in gaining acceptance of the International Grains Agreement.

To back the 1966 devaluation and import reform, the Consortium increased non-project aid. The Consortium provided \$900 million of non-project assistance. This contrasts with \$450 - 500 million in the years preceding. Total aid remained unchanged. The U.S. increased its contribution in this form by about one-half, but others more than doubled the aid they provided in this more flexible, more freely usable form.

India still has a pressing debt relief problem. India's debt service burden now approximates one-quarter of export earnings. While the U.S. has used this fact to emphasize to India need to expand exports, we have also stressed with other donors that this situation is not a result of profligacy on India's part. Rather, it is a sign of India's large and long-term need and is a consequence in significant measure of the hard terms of assistance provided by some members of the Consortium. In the past five years the United Kingdom and Canada have shifted to providing only long-term, no interest loans. Germany has made a great improvement in the quality of its aid. Japan and France have made minor improvements. The discussions on debt relief have been protracted, but we succeeded in reaching agreement on a relief program which bears most heavily on those who have given the poorest past terms. The U.S., although India's largest creditor, is to provide under nine percent of the relief.

U.S. aid to India has been reviewed in light of both the Symington and the Conte-Long amendments. The Chinese attack of 1962 and the Indo-Pak hostilities of 1965 did lead India to a defense build-up, but A.I. D. concluded after study of these defense expenditures, that the increases did not represent diversion of resources materially affecting India's development effort.

Nor has the Conte-Long amendment been applied to India to date. India has made no payments on contracts or commitments for sophisticated weapons signed since January, 1968. Recent acquisition of Soviet arms arose from contracts signed during 1964-66. Arms acquisition is the subject of frequent discussion between U.S. and Indian officials.

C. PAKISTAN

The Johnson Administration coincided with a basic re-evaluation of the relationship between the U.S. and Pakistan. The defensive alliance between the two countries which began in the early 1950's and existed almost without question or reservation until 1963 came under severe attack in Pakistan following U.S. arms aid to India, as did Pakistan's membership in CENTO and SEATO.

The U.S. had given both economic and military support to help Pakistan become a stronger and therefore more useful ally in the 1950's and the first half of the 1960's. U.S. aid policy, with its increased attention to economic development adopted in the 1960's, reinforced and expanded our previous relationship. Believing that long-term development was essential to achievement of our objectives in Pakistan, the U.S. helped mobilize Free World support for Pakistan's development effort. The Pakistan Consortium was formed in 1961 under the IBRD auspices. The level of U.S. capital assistance was increased, pledged for two years, and was nearly matched by contributions from other non-Communist donors, most of whom were assuming significant aid responsibilities toward Pakistan for the first time.

Following the Indian border war with the Communist Chinese, when the U.S. began to supply arms to Pakistan's enemy, India, the phase of meaningful defense alliance ended abruptly and relationships

between the two countries deteriorated rapidly, reaching a low point by October, 1965. Pakistan sought new contacts with the Chinese after 1963 to counter India's growing strength and adopted a more neutralist stance in general. Pakistan's press, reflecting Government as well as public attitudes, often carried vituperative and inflammatory articles against the United States.

U.S. -Pakistan political ties had loosened considerably by 1964. As a consequence, the U.S. felt less compelled to extend aid as automatically but was unwilling to take decisive action to terminate or reduce aid sharply. Pakistan's economic development, per se, was still judged to be in the U.S. interest.

The new development concepts of the A. I. D. program had stimulated the Pakistan Mission to try to identify the most inhibiting obstacles to economic growth. The program was drastically reshaped and emphasized agricultural development of the Indus Plain in West Pakistan and accelerated production of rice in East Pakistan, liberalization measures in industrial policy and improvement of development administration. Also, many projects were shed and staff was reduced appreciably. Major emphasis was given to economic policy change.

The economy was hamstrung by administrative controls and a logical first target was to change the existing policy of administrative control over imports. In October 1963 the Mission had undertaken to survey industrial capacity in selected industries, mostly users of iron

and steel imports, to determine the causes of underutilization. The survey of 72 plants revealed 80 percent operating at one-third of one shift capacity.^{4/} The insufficiency of imported raw material was most frequently cited as the main reason. The IMF and Harvard Advisory Group also pointed out the distortions in investment and import allocations resulting from the existing import policies.^{5/} Mission executives thoroughly discussed the problem with Pakistani officials and pressed hard for exchange rate adjustment and import policy reform. The issues were raised in pointed discussions concerning non-project or commodity loans for fiscal year 1964. In January 1964 the Government of Pakistan was persuaded, as a condition of aid, to put four large iron and steel categories on a free import list to be financed by the U.S. commodity loan. This was the first time that quantitative controls were eliminated and the free flow of some imports permitted a response to needs as determined by the market.

The following year Pakistan officials were urged to undertake a broader import liberalization, primarily of raw materials and spare parts. The position of the opposition, although still strong, had been weakened by the success of the new policy. The Mission executives negotiated with the Minister of Finance and with key economic staff of the Ministry of Finance and the Planning Commission. The Minister of Finance was once again assured of significant aid providing there would be liberalization of import policies including a surcharge approaching

10 percent to restrain the expected increase in demand. The Minister of Finance asked for a three-year commitment to underwrite the major portion of the import bill of the commodities on the free list. A letter giving more modest assurances (e. g. , subject to annual review) was sent to the Minister of Finance at the time of the preparation of the budget and import program.^{6/} This enabled him to push the liberalization measures through the cabinet. The report prepared for the first FY 1965 Consortium meeting by the IBRD was also helpful and stated that commodity assistance was the most important contribution that could be made to economic growth by increasing utilization of excess industrial capacity.^{7/} Although the economists of the Pakistan Planning Commission were convinced of the soundness of the proposed policy, the Government of Pakistan was still deeply divided over the issue, but the Minister of Finance had the confidence of the President and was able to prevail. Thus, in July 1964 the Government of Pakistan announced a new import policy which liberalized imports for fifty-one major industrial commodities and imposed an additional tax of about 7.5 - 8.0 percent. At the Consortium meeting approximately \$200 million of non-project assistance was pledged to support the new policy, \$60 million of which was to be from Consortium members other than the U. S.

The change in policy had remarkable results. First, utilization of capacity increased from 53 percent in July-December 1963 to eighty-two percent in February-March 1965. Second, a portion of the windfall profits

which would have accrued to many Pakistan importers were diverted into government revenues and increased funds available for development expenditure. Third, greater availability of essential raw materials enabled domestic producers of capital goods to be more efficient and to withstand competition from imported capital goods. By December 1964 imports under the free list had grown by forty-six percent over the previous year while total imports rose only fourteen percent. In June 1965, the free list was expanded to fifty-six items. For reasons related to suspension of aid, hostilities with India and increase in defense expenditures, this policy was never fully implemented.

Because development performance had exceeded expectations and prospects were now much more favorable, Pakistan asked an increase in total Consortium aid pledges for FY 1966 from \$430 million to \$500 million. However, political relations with the U.S. were still deteriorating and Pakistan's flirtation with Communist China caused major annoyance. There was doubt in some U.S. circles whether the continued provision of substantial aid was indeed in the U.S. interest. There was feeling that Pakistan, sensing that aid was being provided on economic grounds and rationale, believed that it could take offensive positions to the United States without fear of retribution. Rather than giving our customary pledge at the Consortium meeting, the White House decided instead that no pledge should be made at the June meeting.

In September 1965, India and Pakistan were at war and all new aid commitments to both countries were suspended. Following the President's talks with President Ayub in December, A. I. D. proposed a loan to prevent too radical a deterioration in Pakistan's economic position. A loan of \$50 million was announced by Vice-President Humphrey during a visit to Pakistan in February 1966. Although this marked the first aid extended after the war, it did not represent a full-scale resumption of the aid program. This followed later in the year, but overall pledges were no longer given by the United States although "magnitudes" and "indications" were given by U.S. delegations at subsequent meetings of the Consortium.

The tensions resulting from the war had led to a doubling in the Pakistan defense budget. This was subsequently reduced and the defense budget today, as a percentage of GNP, is about what it was in 1964. U.S. grant military assistance ended during the war and the need to buy items from more costly suppliers, i. e., European arms merchants, which formerly had been received as gifts further exacerbated the budgetary problem. Deficit spending for defense contributed to a rapid rise in domestic prices and lower foreign exchange availabilities for development. It reduced public investment sharply, and private investment declined. New controls on imports were imposed although not through the old

licensing system FY 1966 imports dropped by twenty percent. Moreover, Pakistan was suffering from a drought of two years which compelled the government to import \$100 million of foodgrains for cash and short-term credit through commercial channels in FY 1967 compared to an annual average of \$25 - \$30 million over the previous five years. These factors caused Pakistan foreign exchange reserves to fall to \$140 million in December 1967, the lowest level in years. Utilization of industrial capacity in the aftermath of the war dropped from eighty percent to less than sixty percent.

Before the July 1966 Consortium meeting the U.S. informed the Government of Pakistan that the U.S. was prepared to commit \$70 million in non-project loans before the end of FY 1966 against FY 1967 requirements in recognition of Pakistan's intended steps to restore high priority to the development budget and import liberalization, and that it would consider further non-project loans as well as project loans assuming the implementation of the above policies. The Pakistan Government demonstrated clear dedication to economic development and in FY 1967 defense expenditures dropped by an estimated Rs. 46 crore (\$96.6 million) below the FY 1966 expenditures and development priorities were reordered to place more emphasis on food production.

Although the "pause" in U.S. aid giving and its smaller total constituted a setback to economic liberalization and temporarily to economic growth, it did have several salutary effects. It caused Pakistan to undergo a most thorough-going review of its economic plans and policies. Targets and programs for the Third Five-Year Plan (1965-1970) were changed and the entire development program was rephased. Highest priority was given to agricultural development and self-sufficiency in foodgrains at the earliest practicable date became an active campaign. Pakistan sought new sources of aid -- Bloc countries -- which has reduced requirements against the Consortium and the United States. Utilization of industrial capacity - the availability of more raw materials - was given priority over new plant investment. Industrial investment with long gestation periods, and much of this was to be public sector investment, had to be deferred. Priority was given to plants which made more use of indigenous raw materials and to plants which could better support an accelerated export drive. The emphasis on development helped to restrain defense expenditures. The consequence was that Pakistan was forced to make more effective use of foreign aid. In the process, unfortunately, investment in human resource development education, social services - was cut severely. Nevertheless, the net effect was an environment in 1966-1968 which coincided more closely with the policies which A. I. D. had been advocating.

A. I. D. has supported Pakistan's goal of obtaining self-sufficiency in foodgrain production by the early 1970's. Commodity aid has accelerated importation of fertilizers. A. I. D. promoted private sector distribution of fertilizer and pesticides. Indeed, A. I. D. reserved increasing funds specifically for such use and conditioned aid on Pakistan's financing additional quantities from other sources. A. I. D. also provided maximum encouragement to private sector fertilizer plant investment.

The distribution of fertilizer in Pakistan had begun by means of government-sponsored cooperatives - a torturous and inefficient process. With A. I. D. encouragement, the government offered distribution rights to private entrepreneurs in West Pakistan in January 1964. A surplus of 250, 000 tons of ammonium sulfate equivalent became eight months later a deficit of 125, 000 tons in unfilled orders. Recent loans for purchase of U. S. fertilizer have been made on the condition that private distribution and domestic production of fertilizer increase. The use of fertilizer has risen from 30, 000 nutrient tons in fiscal year 1960 to 270, 000 nutrient tons in fiscal year 1968. Over the past three years (fiscal years 1966-68) A. I. D. has provided \$70 million in development loans for fertilizer.

Waterlogging and salinity control has been a critical problem in West Pakistan. By 1964, of 23.6 million acres of irrigated acres in West Pakistan, some 5.3 million acres had either gone out of production or were in advanced stages of deterioration due to waterlogging and salinity. Pakistan was losing 100, 000 acres a year -- one acre every

five minutes. As far back as 1945 the Government of Pakistan had begun a series of small tubewell projects to lower the water table, leach the soil and to irrigate the land. U.S. assistance began in 1954 and contributed to the organization and training of personnel for compiling and analyzing data on salinity and waterlogging. The first large project, and the basic pilot project to reduce salinity and waterlogging, was initiated in 1961 with foreign exchange financing by A. I. D. through a development loan of \$15.2 million. More than 1,800 tubewells were installed and electrified, and virtually all were operational by March 1963. As a result, the water table was lowered an average of eight feet in the project area, and of a total of 425,000 acres that had gone out of production or experienced underutilization in the area, 250,000 acres have now been returned to full use. The additional supply of water by the wells virtually eliminated the effects of the droughts of late 1965 and 1966 whereas the surrounding areas suffered badly.

On his return to the United States after his first world tour as Vice-President, during which he visited Pakistan, President Johnson strongly recommended that President Ayub Khan be invited to visit Washington. During his official visit in July 1961 President Ayub expressed his concern with the problems of waterlogging and salinity. President Kennedy immediately responded and undertook to send a group of American experts to Pakistan, headed by Dr. Roger Revelle. The first draft report in September, 1962, and the final report in February 1964 endorsed major tubewell projects and intensive agricultural improvement. 8/

Pakistan has largely accepted the recommendations and A. I. D. has financed, or agreed to finance a series of large projects. Germany and Yugoslavia are also financing such projects.

Using seed developed by Rockefeller and Ford Foundations in other parts of the world, the importation of much of which has been financed by A. I. D. in the past three years, Pakistan's production has shown dramatic growth. In West Pakistan, 12,000 acres planted in the new high-yield wheat types in the fall of 1965 increased to two million acres in the fall of 1967. In East and West Pakistan IRRI rice is showing similar results.

Pakistan has an active family planning program. Pakistan's family planning policy initiated in 1958 was one of the first by any country and President Ayub was probably the first Chief of State to give public and wholehearted support to family planning. During the Second Plan period, 1960-1965, about 3,000 family clinics were established and useful research and demonstrations were conducted concerning IUD's, motivation methods, and techniques of distribution. In FY 1964 the A. I. D. Mission gave rupee assistance for the support of family planning clinics, the first time major U.S. funds were used directly to support a family planning program in a developing country. In FY 1965 the U.S. made \$500,000 available under a commodity loan for transportation equipment; in FY 1966, \$168,000 equivalent in rupees under a Cooley loan to a Pakistan subsidiary of a Chicago pharmaceutical company to

construct a plant which among other things would manufacture oral contraceptives. In FY 1966 provision was made for a team of five technicians to serve in Pakistan and to finance training of Pakistani personnel. In FY 1968 the U.S. increased its aid to over one million dollars in grants. The U.S. also obligated \$4.5 million equivalent in rupees under P.L. 480 for commodity assistance to the family planning program.

As of March 1968 over 1.3 million IUD's have been inserted, 214,000 vasectomies performed, and 240 million conventional contraceptives sold. In addition, about 40,000 women are using oral contraceptive pills. An estimated 2.5 million couples are currently practicing family planning, fifty percent of the target number for 1970. This performance, the strong Pakistani leadership, and the well-trained and relatively well-paid and highly-organized family planning staff should permit Pakistan to achieve its overall goal of reducing the population growth rate from three percent to 2.5 percent by 1970. This would be a remarkable achievement.

Finally, the Rural Works program has been an important part of the Mission's efforts in Pakistan. Among experts two programs are generally held up as prime examples of how to go about developing a rural area and seeding democratic processes -- The Joint Commission on Rural Reconstruction in Taiwan and the Basic Democracies/Rural Works Program in East Pakistan.

After the 1958 revolution, the Ayub administration considered various plans for developing popular institutions at the local level. He formulated a system of "Basic Democracies" consisting of councils at the local level elected through popular suffrage, members of which served on a higher tier of councils. Rupees generated from the sales of U.S. agricultural commodities under P.L. 480 provided the funds for financing many works projects which were largely determined at the local level through a democratic process. These projects and the system through which they were formulated and executed have fostered the growth of democracy, alleviated a severe unemployment problem and developed a rural economic infrastructure more extensive and comprehensive than any other similar program in the world. There was considerable skepticism in both Pakistan and the United States about a works project, but the pilot project launched by the Academy for Rural Development located at Comilla in East Pakistan and lead by Mr. Akhtar Hameed Khan, Director of the Comilla Academy, with the guidance and assistance of Dr. Richard Gilbert of the Harvard Advisory Group, proved workable and provided an outstanding record of accomplishment. The subsequent rural works program has created an insitutional structure in the countryside through which other development programs - irrigation, education, etc. - are being extended.

D. Turkey

The bloodless military coup of 1960 and associated political and economic instability marks a dividing point in our A. I. D. relationships with Turkey. Before that time our assistance was largely related to the build-up of Turkey's military strength within the NATO framework. The Government's handling of economic affairs, while successful in achieving substantial economic growth, was inept in the fiscal, monetary and foreign trade areas. By the late 1950's inflationary pressures were rampant and ill-advised acceptance of suppliers credits had led virtually to balance of payments bankruptcy. On the political side, the government in power appeared not to intend relinquishing the reins of Government in accordance with constitutional processes. Thus, the military group which in May 1960 took over the government was greeted with relief by many. Its reform image carried over to subsequent civilian governments since 1961.

Turkey's record of sustained economic progress has been remarkable since the beginning of the First Five-Year Development Plan in 1963. It has been characterized by: fiscal responsibility and a high degree of monetary stability; development planning with a high degree of success in sustaining a high growth rate and channeling resources into priority areas; and disciplined self-help, including a rapid increase in domestic revenues and savings and austerity in controlling non-essential imports.

GNP in real terms increased at over six and one-half percent with industrial production growing at over ten percent per year. Price increases were held to less than four percent per year. Domestic savings rose over 200 percent with the result that by 1967 Turkey could finance over ninety-two percent of its investment requirements from its own resources. Commodity exports increased about forty-two percent and a new source of foreign exchange, workers remittances, was by 1967 contributing almost \$100 million to the balance of payments.

A. I. D. marked its shift in emphasis from defense support to development with a shift in its financing from supporting assistance grants to development loans. Relating our assistance to Turkish development plans, we urged upon the Turks a concept of "assistance completion" which they articulated in their Second Five-Year Plan. With this concept built into the aid relationship it has become easier to discuss the nature of the efforts which the Turks had to make in order to achieve early self-sustaining capability with a reasonably high rate of economic growth.

Also, during the 1960's, we took the initiative to coordinate our A. I. D. efforts with those of major European lenders. The device used was a Turkey Consortium, chaired by the OECD. The Turkey Consortium has provided a forum several times a year in which we have sought, and to a large extent achieved, rescheduling of the unbalanced Turkish debt service burden and better assistance terms from the Europeans. This

has virtually eliminated Turkish reliance on suppliers credits for financing imports. Recognizing that the long-term economic and political interest of Turkey were intimately associated with Europe, we have vigorously pressed the European members of the Consortium to increase their assistance to Turkey. In addition, we have, on Presidential initiative, emphasized the need for a more balanced sharing of the assistance burden which more appropriately reflect the economic interests and trade patterns of the Consortium members. These initiatives have been largely successful.

The policy issues affecting provision of U.S. aid to Turkey are in part similar to the policy concerns of our Consortium partners and the IMF. This is particularly true where foreign exchange problems are concerned. The U.S. has not had to stand alone in recommending constructive policy shifts by the Turkish Government in areas such as maintaining monetary stability, increasing foreign exchange earnings, and encouraging foreign investment and private sector development.

U.S. development assistance during the 1960's has included loans for both general commodity imports and development projects. Over the past several years, commodity assistance had complemented similar aid from European countries which together financed the Turkish balance of payments deficit. The Government of Turkey has come to recognize that the responsibility for meeting the economy's import requirements lay not with foreign lenders but with the Government itself. During this period the Government has taken a number of pragmatic steps to increase

foreign exchange earnings. Special financial incentives for overseas workers to remit their earnings were instituted as was a system of tax rebates for exports the State Planning Organization was given authority to waive customs duties on imports needed for export industries. A special loan fund for export industries was established. As part of the U.S. balance of payments program, we have made a number of changes in our financing policies and negotiated a major change in the Turkish import regime to insure freer access to the Turkish market of U.S. commercial exports.

Project assistance, while encompassing a number of fields, has been largely directed to essential infrastructure including highways and power. One project completed during this period represented the largest A. I. D. private sector project loan to any country and financed the building of a steel mill of 500,000 tons capacity on the Black Sea in the town of Eregli. The project was signed in 1960. It was completed on schedule and is now producing at capacity. Having this project in the private sector, albeit with very substantial government involvement, is of special significance in view of the unhappy situation of the State Economic Enterprises in Turkey. In 1967 another substantial private sector project loan was authorized for a copper smelter which should give further impetus to private sector development.

The financing of the Keban Dam in 1965 represents a new departure in multilateral funding of projects, though somewhat comparable to earlier experience on the Niger Dam in Nigeria. A.I. D. worked with IBRD, the European Investment Bank (which is the development loan fund of the Common Market) and the Governments of Germany, France and Italy to come up with a financing package covering the foreign exchange costs which would permit international competition in the award of contracts and the purchase of materials. Thus U.S. funds would be used only to finance American products and services but this arrangement assured the Turks that all foreign exchange would be provided on development terms. The success of the negotiation hinged on obtaining sufficiently large contributions from the Europeans and persuading the French and Italians, particularly, to provide better terms than had hitherto been made available to Turkey.

While much of U.S. assistance has emphasized general economic policy and infrastructure development, an equally important concern has been to help the Turks build institutions essential to a dynamic pluralistic society. In this connection, A.I. D. has supported the development of a vigorous labor union movement, and business and professional training in the U.S. of private sector as well as governmental leaders.

Substantial assistance has been provided in all fields of education but a higher education program begun in 1967 illustrates our emphasis in this area. Turkey's system of higher education was built on an outdated French model and difficult to change. However, two institutions were developing outside the system under the leadership of gifted Turkish educators: the Middle East Technical University under President Kenal Kurdas and Hacettepe University under President Ihsan Dogramagi. A. I. D. decided that investment in these institutions would help them develop as models which hopefully in the long-run would influence the rest of the Turkish higher educational environment. In addition to smaller inputs on local currency and technical assistance, A. I. D. developed in 1967 a combined technical assistance-development loan program under which A. I. D. will finance library and laboratory facilities, training of faculty in the United States and the hiring of American professors to teach in Turkey. Breaking away from established A. I. D. concepts, Turkish institutions are expected to pay each American professor the normal Turkish salary plus all housing and other allowances. A. I. D. will "top" the Turkish salaries. All negotiations for staff will be between the Turkish institutions and the individual professors with the help of the Organization of Educational Services in New York, thus assuring the academic independence of these two institutions and developing, hopefully, lasting ties with the U. S. academic community.

Throughout the period, A. I. D. has been deeply interested in and concerned with Turkish agricultural development but until 1967 Turkey continued to be a food importer requiring substantial P. L. 480 assistance. The seriousness of the world food problem, strongly publicized by the U.S., led to awareness by Turkish leaders of their own agricultural problem. The development of new "miracle" wheat varieties provided an opportunity for incorporating the various modern farming techniques, which had been emphasized in our previous agricultural programs, into a "package of practices". In the hands of a dynamic Minister of Agriculture, Bahri Dagdas, this "package of practices" may help revolutionize Turkish agriculture. In the 1967-68 crop year over 18,000 tons of new wheat seed was planted with resulting yields almost triple the standard Turkish wheat varieties. If the momentum continues, self-sufficiency in food grains within a reasonable period will be assured.

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E. Jordan

Throughout the 1950s it was the consensus of informed observers that Jordan had little or no chance of becoming economically self-sufficient in the foreseeable future. However, Jordan's economic progress led in the early 1960s to some change in attitude and resulted in a shift in U.S. strategy. Jordan issued its first Five Year Plan in 1962 (1962-1967) with the help of Ford Foundation economists. The Plan lacked focus and clearly articulated priorities and was revised as a Seven Year Plan, 1964-1970. U.S. and Jordan planning then called for assisting Jordan to accommodate to modest reductions in U.S. budget support. It identified priority sectors of development to help close the government's budget and balance of payments gaps.

The new emphasis on a development program led to discussions and common understanding that the Government of Jordan would have to adopt certain goals as a condition of further U.S. payments for budget support. These goals included the following:

- Overall recurrent expenditures should be limited to increase of five percent annually.
- Development projects should be financed on concessionary terms and should be proven to be commercially and technically feasible prior to their initiation.

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In addition to this understanding, the annual budget support consultations permitted a detailed review of Jordan's performance, monetary policy and budget plans. U. S. budget support permitted us to enforce the claim to knowledge about budgetary matters.

By the Spring of 1966 Jordan's progress was such that President Johnson approved a budget package which called for a reduction of \$5 million in budget support to Jordan in calendar 1967. Jordan's foreign exchange reserve position was strong; growth prospects in tourism, remittances and other earning potential from exports were favorable; and even without its abundant reserves, Jordan had the capability for borrowing funds to meet internal financial needs. Continued U. S. assistance, combining technical, development loan and budget aid, still indicated a strong U. S. commitment to the development of Jordan. In view of U. S. balance of payment difficulties, budget support payments were tied to procurement of goods from the U. S. This amounted to 67.7 percent in 1967, seventy-five percent in 1968, and had budget support not been terminated the payments would have been restricted wholly to purchases from the U. S. after 1968. The P. L. 480 Title II grant program was changed in April 1966 to a Title I program with sixty percent of the local currencies allocated for U. S. uses. In August, 1966, and again in April, 1968, P. L. 480 agreements were signed in which ultimate repayment is entirely in dollars, rather than in local currencies.

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These policies reflected U.S. confidence that Jordan could increasingly manage its own development process and particularly its own budget, including military outlays. To improve Jordan's technical capability, A. I. D. offered technical assistance in public administration designed to improve budget, taxation, and accounting procedures and practices.

A. I. D. also urged Jordan to develop its principal foreign exchange earnings sectors more effectively. To this end, U.S. assistance in the fields of agriculture, water development, tourism and transportation improved the prospects for indigenous income generating production as well as foreign exchange earnings. Assistance to the education sector also helped contribute to Jordan's significant remittance earnings, as Jordanian teachers and workers succeeded in finding higher paid work opportunities in oil rich states in the region.

Following the Israeli raid on Sammu in November, 1966, the President authorized the restoration of \$2 million of the \$5 million cut, agreed upon in June, to meet the extraordinary budget requirements resulting from the raid. Public safety equipment in excess of \$1 million was also approved and shipped to aid the Government of Jordan to improve its capability for controlling clandestine efforts operating within Jordan.

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Over one-half of grant aid to meet emergency needs of Middle East war victims has been spent in Jordan.

On February 9, 1968, the President approved an \$82.4 million military sales package determining that it was in U. S. national interest to provide the arms to Jordan. This accorded with the Conte requirement preventing shipment of sophisticated weapons to countries unless determined to be in national interest. These actions reflected the President's policy of promoting moderate Arab approaches to Middle East problems.

With the help of this strategy, Jordan's GNP in the years prior to the June 1967 war with Israel, had been growing at nearly ten percent a year. Net tourism earnings had increased from about \$2.5 million in 1959, to nearly \$8 million in 1963 and to about \$17 million by 1966. Remittance earnings increased from about \$13 million in 1959 to \$17 million in 1963 and to about \$30 million by 1966.

U. S. assistance in the agricultural sector was given special emphasis to promote irrigated production in the East Ghor area of the Jordan Valley. The East Ghor canal project irrigated some 30,000 acres parallel to the Jordan River, accommodating about 3,400 families and resulting in increased yields of over 500 percent per unit of land over the pre-Ghor canal project crop year of 1959-60.

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This has also helped to increase exports of higher yielding citrus, banana and vegetable crops to neighboring countries.

The basic U. S. strategy of phasing down supporting assistance from over \$45 million in U. S. fiscal year 1958, \$35 million in U. S. fiscal year 1963 and \$32 million in U. S. fiscal year 1967 was justified by the increase in Jordan's foreign exchange reserves from \$63 million in 1963 to \$168 million by the end of 1966. As U. S. grant aid declined, a loan program for development purposes increased from \$1.6 million in U. S. fiscal year 1965 to \$7.9 million in U. S. fiscal year 1966 and was scheduled for \$17 million in U. S. fiscal year 1967. However, the June 1967 Arab-Israel war suspended most of the loan program because it was no longer possible to carry out the projects.

Budget support payments to Jordan were terminated earlier than anticipated because of factors arising out of the war with Israel in June 1967. Following the war Jordan's economy had been truncated by the loss of the West Bank, now occupied by Israel. Tourism, remittance and other export earnings were sharply reduced. The mass movement of uprooted refugees to the East Bank area of Jordan had created additional problems in providing jobs, housing and schooling for the new inhabitants of the inadequately endowed East Bank.

Nevertheless, while U. S. interest in supporting a moderate Arab government continues, the expression of this interest in the form of U. S.

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budget support has since U. S. fiscal year 1968 been obviated by Jordan's ample reserve position and the large grants received by Jordan from the more affluent Arab states. In U. S. fiscal year 1968 these grants were estimated to reach well over \$100 million. Part of the consequence of this is that Jordan's foreign exchange reserves as of May 1968 reached over \$250 million, compared to less than \$170 million at the end of 1966.

The U. S. maintains its strategic interest in fostering this moderate Arab state by selectively providing technical assistance and loans for priority projects or programs as the preferable alternative to budget support. After the June 1967 war, the President did approve a final budget support payment of \$6.2 million to demonstrate continued interest in promoting stability and moderation in Jordan. (ENDS CONFIDENTIAL)

F. Other Countries

Iran

The termination of the A. I. D. program to Iran on November 30, 1967, marked the successful ending of more than fifteen years of U. S. economic assistance to Iran. Although the program had begun as a modestly technical assistance program in 1952, it had been expanded into a full-scale undertaking when the nationalization of Iranian oil brought the Iranian economy to the brink of collapse in 1953.

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The closing of the program was celebrated at a luncheon held at the Department of State on November 29. Remarks made on the occasion included a personal message from the President. "[We] are celebrating an achievement", he said, "not an end. This is a milestone in Iran's continuing progress and in our increasingly close relations."

Secretary Dean Rusk's remarks included the following statement

"The story . . . of modern Iran is one of the great success stories of our time and the realization that in some small measure we have been able to help Iran to achieve this success should give all of us in the United States satisfaction and joy."

The success of which the President and Secretary of State spoke had been the result of Iran's own efforts supplemented, in the beginning, by large scale economic inputs by the United States. The large scale assistance made available had been needed to overcome internal chaos which followed in the wake of Premier Mosaddegh's nationalization of the oil industry at a time when the country was still shaky from the effects of the Second World War and an attempt by the U. S. S. R. to take over Iran's northernmost province of Azerbaijan. A successful solution to the oil problem had been found, however, and with rising oil revenues, enlightened leadership on the part of the Shah of Iran, and the capital and technical assistance of A. I. D., the Iranian Government instituted and was carrying out a progressive development program.

When the A. I. D. program was terminated, a total of \$602.8 million in aid appropriations had been made available. This was supplemented by \$120.2 million under the Food for Freedom program, \$200.4 million in Export-Import Bank loans and \$34.8 million in other U. S. economic programs. Of the total \$958.2 million thus made available, about one-half was in the form of loans and one measure of the program's success is the fact that Iran has already made payments to the United States Treasury aggregating nearly one-half of the total amount of U. S. loan funds it received.

The capital and technical assistance spanned the whole spectrum of development needs. Hundreds of American technicians and professional advisors provided ideas and guidance in all fields of activity including agriculture, health, education, transportation, communications, public administration and industry. Needed foreign exchange was supplied for the import of essential commodities and building of roads, dams, a large new Persian Gulf port and a nation-wide power system. A less tangible but equally significant contribution to Iran's development was the education of many young Iranians through employment in A. I. D. projects and programs and a large A. I. D. participant training program.

The Iranian development effort itself was massive and continues to be so. After the turmoil of the early 1950s had been overcome and oil revenues began to flow with regularity, the Shah instituted and personally

led a program of economic and social reform. At the top of his list of priorities was an agricultural reform program which has had far-reaching social as well as economic effects. By the end of 1967, over 2.4 million farm families making up 11.5 million of the population owned the land they tilled and shared in the fruits of their labor. Literacy and health programs were also prosecuted with vigor, and women, who for centuries had been relegated to a subservient position in Iranian society, were given legal rights which officially recognize their equal status. An impressive attack on the evils inherent in a weak civil service is also included in the Shah's program of reform which Iranians were proudly referring to as the "White Revolution" because it betokens the bloodless revolution being brought about by the Shah's programs. There has also been a large scale and still growing program of investment in industry and public works. The costs of the Iranian development programs have been entirely met out of oil revenues in recent years.

The results of the joint U. S. -Iranian effort speak for themselves. By the end of 1967, the Iranian Government could report that its economy had been growing at one of the highest rates in the world. Gross national product rose by eleven percent in 1965 and nine percent in 1966 and 1967. The Iranian Government embarked in March, 1968, on a new five year plan which called for even greater rates of development.

When USAID's role in Iranian development became history in 1967, there was no doubt that it had been played with remarkable success.

Afghanistan

The basic objective of the A. I. D. program for Afghanistan was, and continues to be, to offer an alternative to total dependence on Soviet aid and to promote an independent, non-aligned state between the Soviet Union and the South Asian sub-continent. Since 1964, this objective has been pursued under harder terms and with stronger emphasis on the development justification for activities undertaken. Thus, in fiscal year 1964, A. I. D. decided to finance future capital development projects with loans rather than grants. Relatively few such projects were approved -- only seven from fiscal year 1964 to date -- and economic criteria were stressed in evaluating them.

Since fiscal year 1964, most A. I. D. funds used for Afghanistan were spent on technical assistance stressing two of the President's three "new initiatives": agriculture and education.

Terms of P. L. 480 also have been hardened. In fiscal year 1967, it was decided to discontinue the practice of providing food to Afghanistan as a grant under Title II. Sales under Title I were offered with the self-help requirement that prices paid to Afghan farmers be raised as an incentive to local production. This has been done and agricultural production is now increasing at a rate which should obviate the need for food imports in the near future.

Ceylon

U. S. assistance to Ceylon resumed in fiscal year 1966 after a three-year suspension caused by Ceylon's failure to settle private U. S. claims over expropriated property. The claims were settled after new elections brought in a government headed by Mr. Dudley Senanayake, friendly to the West and interested in economic reforms to restore the pace of economic development. Caught between mounting pressures for social services and a declining value of traditional foreign exchange earnings the former government had allowed development imports to be choked off. The U. S. joined a group of aid donors formed under the auspices of the IBRD to provide Ceylon with the balance of payments support it needed to resume imports of investment goods before its economic reforms became effective. The U. S. pledged about \$15 million to Ceylon of a \$50 million total from all donors for the first year (fiscal year 1966) with the U. S. share to be made up of development loans and P. L. 480. Development loans totalled \$7.5 million in each of the first two years but were dropped entirely in fiscal year 1968, the third year, since it was evident that, as a major importer of food residual balance of payments support needs from the U. S. could be satisfied wholly by P. L. 480 sales. Technical assistance has not been resumed.

Israel

As a result of an assessment of Israel's economic progress, the decision was made in 1963 to reduce the A. I. D. program sharply in fiscal year 1964. Israel's per capita income, growing at seven percent a year, was over \$1,300 -- more than double that of Greece and many times that of Taiwan, two countries where the U. S. had terminated concessional aid. In fact, Israel's per capita income matched Austria's and was not much less than that of The Netherlands. Ample foreign exchange reserves, fortified by a growing flow of remittances, private capital, restitution payments and export earnings were also highly encouraging factors which led to the U. S. policy of phasing down and ultimately in fiscal year 1967 ending concessional aid to Israel.

Loan authorizations dropped from \$45 million in fiscal year 1963, to \$20 million each year in fiscal year 1964 and fiscal year 1965, to \$9.5 million in fiscal year 1966, the last year of such assistance. At the same time, the U. S. encouraged Israel to submit its loan applications to the Export-Import Bank. A. I. D. technical assistance had already been terminated in 1961 when the Israelis showed a satisfactory degree of technical competence.

The ability of Israel to finance its own development was also reflected in the U. S. policy during this period of hardening terms

of P. L. 480 assistance. P. L. 480 terms for Israel were hardened in 1967 when fifty percent of the sales were made for dollar repayable credits. In 1968, P. L. 480 terms were hardened further to 100 percent dollar repayable with a five percent down payment in an agreement signed in March for \$30.4 million worth of sales.

United Arab Republic

The objective of the U. S. assistance had been to encourage the U. A. R. to focus on its own internal economic stability and development problems and to urge the U. A. R. toward a moderate political course in the Middle East. To promote these objectives the U. S. had provided development loans, technical assistance, P. L. 480 commodities and guaranties to encourage American private investment.

U. S. efforts have been thwarted by a lack of U. A. R. determination to address its inflation, investment and balance of payments problems, and by its political adventurism in the Middle East. Consequently, the U. S. began to withdraw support in fiscal year 1964 by terminating development loan support, which had mounted to \$40 million in fiscal year 1962 and \$44 million in fiscal year 1963. No development lending has been provided since fiscal year 1963. As involvement in the Yemen continued and the

U.A.R. increased its hostility toward Israel while increasing its dependence on the U.S.S.R., its major economic difficulties continued to be neglected. In June, 1965, the U.S. terminated a multi-year P.L. 480 program which had been approved in October, 1962. Nevertheless, a Presidential determination was made in December, 1965, that sale of surplus agricultural commodities to the U.A.R. was essential to the national interests. However, the last P.L. 480 program was signed January 3, 1966, covering only six months and this was on harder terms.^{9/}

The last Presidential determination on aid to the U.A.R. was made in January, 1967, when \$1.6 million of technical assistance was approved on the ground that such assistance maintained a useful U.S. presence, was in the national interest of the United States and did not "directly or indirectly assist aggressive actions by the U.A.R."^{10/}

In May, 1967, the U.S. Mission in the U.A.R. was forced to begin scheduling a phase-out of the technical assistance program beginning August, 1967, because the Egyptian Government had announced that it would not pay certain debts owed to the U.S. Under Section 620(q) of the Foreign Assistance Act, aid must be suspended after six months if a country defaults on its debt payments to the U.S. Actual aid termination resulted from the

outbreak of hostilities in the Middle East in June, 1967. At that time, technical assistance was immediately ended, personnel was withdrawn, and an earlier loan worth \$15.8 million on a grain storage project, which had not been started, was deobligated.

Yemen

The principle objective of the moderate U. S. aid program in Yemen had been to check the Communist Bloc threat in the area, including denial of oil to the West, and also to promote a moderate political course by Yemeni leaders. U. S. assistance focused on local projects designed to involve and organize the self-help efforts of the Yemeni people.

During fiscal year 1964, A. I. D. continued to finance construction work and technical assistance on a gravel road project and on the Taiz municipal water system which had begun in 1962 with supporting assistance funds. Yemen was politically unstable after its revolution in 1962 and no new capital projects were begun. After fiscal year 1964, only small projects of a technical assistance character were financed by the U. S. Following the successful completion of the Kennedy Memorial municipal water system of Taiz in fiscal year 1965, communities throughout Yemen requested similar assistance. In response A. I. D. initiated a

reasonably successful self-help project through which dozens of water supply and feeder road projects were started and completed, including a temporary water works at Sana'a. The local contribution to these activities in cash, kind and labor had ranged from thirty to sixty percent of the total project cost. Political relations deteriorated and U.S. aid to Yemen was terminated after April 26, 1967, at the initiative of the Yemen Arab Republic Government.

Footnotes, Chapter IX

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- 3/ The President's Message to Congress on Indian Food, March 1966;
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- 4/ A Case Study of Import Liberalization in Pakistan, A. I. D. file
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- 5/ Study by John Gunther, IMF, Spring 1964; Study by Irving Freidmann,
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- 6/ Letter from Donald G. MacDonald, A. I. D. Director, Pakistan to
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- 7/ IBRD, The Economic Development Program of Pakistan - 1964-1965,
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- 8/ Report on Land and Water Development in the Indus Plain by the
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- 9/ Presidential Determination No. 66-10, dated December 29, 1965;
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1965.
- 10/ Presidential Determination No. 67-17, dated January 9, 1967; see
also Presidential Determination No. 66-9, dated December 18, 1965.

CHAPTER X

LATIN AMERICA

A. Overview

Economic & Social Development

B. Country Programs

Brazil

Chile

Colombia

Other Countries

C. Regionalism & Multilateralism

Regional Economic Integration

Inter-American Development Bank & Social Progress Trust Fund

CIAP

Special Development Assistance Fund

A. I. D. Net Obligations and Loan Authorizations - Latin America
(U.S. Fiscal Years - Millions of Dollars)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>Total 1962-1967</u>	<u>Gross 1968</u>
<u>Total</u> ^{a/}	<u>478</u>	<u>542</u>	<u>603</u>	<u>523</u>	<u>637</u>	<u>556</u>	<u>3,338</u>	<u>532</u>
Latin America								
Argentina	22	99	9	-16	-6	1	109	3
Bolivia	32	35	58	2	27	14	170	9
Brazil	84	86	179	231	242	213	1,034	193
Chile	142	40	78	99	86	12	458	58
Colombia	38	93	74	4	75	104	389	77
Central American								
Economic Com- munity ^{b/}	16	53	62	82	31	62	306	67
Dominican Rep.	26	30	-1	53	94	53	255	43
Ecuador	20	18	19	11	15	-	84	3
Mexico	21	-	22	25	-	-	69	-
Panama	12	8	9	11	12	34	86	20
Paraguay	1	3	5	2	12	4	27	3
Peru	27	-3	29	6	18	22	99	5
Uruguay	-	8	6	-1	6	2	21	16
Venezuela	11	33	2	2	1	1	50	1
All Other	26	37	50	13	25	32	182	33

^{a/} Totals may not add due to rounding

^{b/} Consists of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and ROCAP

Latin America

Net Commitments by Appropriation Category

(U.S. Fiscal Years - Millions of Dollars)

	1962	1963	1964	1965	1966	1967	Total 1962-1967	1968 (Gross)
<u>Total*</u>	478	542	603	523	637	555	3,339	532
Development Loans	189	342	467	387	467	433	2,285	427
Technical Cooperation/ Development Grants	82	108	74	70	71	75	480	78
Supporting Assistance	26	20	11	33	44	31	166	26
Contingency Fund	81	73	51	32	55	16	308	-
Other, Including Inter- national Organizations	100 ^{a/}	-	-	-	-	-	100	-

^{a/} Chilean Earthquake Reconstruction Loan

* Excludes \$66,095,000 of AFP funds used for and included with Non-Regional programs

Source: A.I.D. Operations Report

(Totals may not add due to rounding)

A. Overview

President Johnson's policy toward Latin America reflected historic special interests in this area. It also resulted from special personal ties and affection. As the new President his first act in foreign affairs was with respect to Latin America. On November 26, 1963, he reaffirmed the pledge before a group of Latin American leaders, made by President Kennedy a week before to improve and strengthen the role of the United States in the Alliance for Progress. He proposed that the Alliance be regarded as a living memorial to the President who had sponsored it. He also stated his belief that the Alliance for Progress was the only route offering economic and social development without despotism.

Editor's Note: The Bureau of Inter-American Affairs--Bureau for Latin America (ARA/LA) is a merger of the Department of State and the Agency for International Development operations in Latin America. This unique organization is responsible for the political affairs and A.I.D. policy and operations in that area. The merged Bureau reflects the fact that U.S. policy in Latin America is integrated in the Alliance for Progress. The story of A.I.D. operations in Latin America should not be separated from its political setting. However, limitations of space and the desire for a modicum of uniformity in treatment limits this chapter to development. As is true for other regional chapters a more complete coverage of the political events can be obtained in the Administrative History prepared by the Department of State.

As affirmation of his concern, and the priority he attached to it, the President asked a trusted friend and special advisor, Mr. Thomas Mann on December 15, 1963, "to undertake the coordination and direction of all policies and programs of the United States Government -- economic, social and cultural -- relating to Latin America." ^{1/} In assuming these responsibilities, Mr. Mann was given three hats to wear; that of Special Assistant to the President for Latin America, Assistant Secretary of State for Inter-American Affairs, and Coordinator of the Alliance for Progress. Not only were State and A.I.D. operations merged (See Chapter XIX) but this arrangement also afforded opportunity for Latin American problems to be brought to the White House without necessarily having to go either to the Secretary of State or the A.I.D. Administrator.

When, in March, 1965, the President appointed Mr. Mann to be Under Secretary of State for Economic Affairs he selected Jack Vaughn, Ambassador to Panama, to fill the vacancy. The position of Special Assistant was abolished. In early 1966, President Johnson appointed Lincoln Gordon, Ambassador to Brazil, to replace Mr. Vaughn who had been appointed Director of the Peace Corps. When Mr. Gordon left to assume the

Presidency of Johns Hopkins University in mid-1967, the President replaced him with Mr. Covey Oliver, a former Ambassador to Colombia.

The policy of the Alliance was expressed in five major objectives: ---attainment of self-sustaining economic growth, combined with wider distribution of income and social progress; -- political tranquility under democratic institutions; -- prevention or repulse of foreign interference by any power outside the hemisphere or by any political organization serving the interests of such a foreign power; -- peaceful settlement of disputes within the hemisphere; -- promotion of closer friendship and cooperation among the nations of the hemisphere.

Trends in Latin American Aid Appropriations

The Latin American programs have enjoyed somewhat better treatment from the Congress than total aid appropriations. Appropriations have run about \$500 million a year during Fiscal Years 1963 through 1967. While the appropriation declined in Fiscal Year 1968, appropriations for the Inter-American Bank, which only amounted to \$60 million in Fiscal Year 1963, were running at the rate of \$300 million a year during Fiscal Year 1967 and 1968. Military grant assistance and sales to Latin America

has been limited by Congress (See Chapter XV) and has been the subject of extensive controversy with the Executive. The dispute resulted in several Administration defeats in 1967 on the question of foreign appropriations, including appropriations for Latin America. Congress also refused to make the advance commitment, requested by the President, to increase Latin American aid prior to his departure for the Summit Meeting at Punta del Este in April, 1967.

Growth and Stabilization

The rate of growth of per capita gross national product (GNP) is commonly accepted, despite its shortcomings, as the single most important measure of economic development. The Inter-American Economic and Social Council at the Punta del Este Conference in 1961 adopted a target rate of annual economic growth of not less than 2.5 percent per capita for each Latin American country, to be achieved as far as possible with stable price levels and avoidance of social hardships and maldistribution of resources. While even this modest goal has not been achieved, progress in a number of countries has been significant and encouraging.

Average per capita gross national product increase during 1960-63 for eighteen Latin American countries (excluding Cuba,

Haïti, and the English-speaking Caribbean republics) was 1.4 percent. Under the Alliance for Progress, the average per capita gross national product increase in the years 1963-67 for these in Latin American countries increased slightly. In 1967, the eighteen-country average gross national product increase dropped to 1.5 percent due to adverse developments in a few large countries but indications are that the average gross national product of the area will approximate 2.5 percent in 1968. While development progress in economic terms has been good in some countries income distribution has not improved significantly and the bulk of the population has not shared the benefits of growth.

The Inter-American Economic Council recognized at the Punta del Este Conference that economic growth in certain key Latin American countries was seriously hindered by severe price inflation and called for price stability as a major objective. Brazil, Chile, and Colombia had suffered heavily from excessive inflation, and undertook, with assurances of U.S. cooperation a broad range of policy changes, structural corrections and institutional modernization. In Latin America, as elsewhere, A.I.D. increasingly emphasized policy reforms which, in Latin America have involved

tax reform, crop diversification, import liberalization, exchange rate adjustments or other steps designed to decelerate inflation, increases in investment programs, and export promotion.

This policy oriented approach, together with self-help efforts by the recipient countries, has brought impressive results to Brazil, Colombia, and Chile, the countries receiving the bulk of U.S. assistance to Latin America. However, on the whole, the Alliance has not been able to induce adequate self-help measures, effective stabilization or adequate development programs.

While there has been a trend toward deceleration of the annual rate of price increases in Brazil, Chile, and Colombia since 1964, it has remained substantial compared to countries in other areas of the world. In Chile, where the price increase for 1967 was slightly higher than in 1966, indications are that the price situation during 1968 may worsen because of a record drought and political problems confronting the Government of Chile.

A major factor in reducing the annual rate of inflation in these three countries has been a decline in deficit financing made possible by significant revenue increases resulting from new taxes and improved tax collections. For example, Central Government taxation in

1967, as compared with the 1963-64 average, had increased in real terms by about twenty-five percent in Brazil, thirty-three in Colombia, and about sixty percent in Chile.

United States assistance in Latin America is coordinated with the Inter-American Committee on the Alliance for Progress (CIAP) - the coordinating body of the Alliance. U.S. assistance is also closely coordinated with the International Bank for Reconstruction and Development and the International Monetary Fund.

Agriculture

The agricultural problems in Latin American countries have tended to increase over the years because of the pressure of population increase and the slowness in adopting policies favoring the modernization of agriculture. It is estimated that over fifty percent of the Latin American population lives in the rural areas, largely at the subsistence level. The vast majority have neither money, practical literacy, skills, adequate tools, land nor access to these resources. In some of the Latin American countries, particularly in the Andean region, the number of landless families added to rural society each year far outnumbers those families being benefited. Moreover, small plots tend to be continually subdivided because of inheritance and population pressures. Land

reform and redistribution -- a major objective of the Alliance and basic to a more rapid growth of agriculture and a better distribution of the benefits of progress -- has fallen far short of expectations. Food production, other than subsistence farming, still rests largely with the medium-size farmer who has his problems in finding and obtaining adequate credit and technical assistance to expand his production and take advantage of the developing new markets.

Because of these problems agriculture has received increasing emphasis in the Alliance for Progress. This emphasis on agriculture was reinforced by President Johnson's efforts at the Summit Conference at Punta del Este where he stressed that the Latin American countries needed to take measures which would enable them to feed their populations adequately.

There have been significant increases in agricultural production. Agricultural growth rates set forth in the Alliance Charter have been met and, in many countries, exceeded. Central America and Panama now have agricultural production growth rates well above population increases. Brazil is self-sufficient or very nearly self-sufficient in all crops except wheat. Mexico and Venezuela, on their own resources, are moving ahead.^{2/}

A.I.D.'s emphasis has been centered on getting countries to change their policies, particularly those that create disincentives to investment in the agricultural sector, such as export taxes, price controls, high cost of storage and handling, the high cost of credit. Considerable progress has been made since 1963. Sixteen of the Alliance republics have adopted land reform legislation with Mexico. Venezuela and Chile scoring the most notable advances. Programs to speed issuance of land titles are under way in a number of countries. Crop diversification programs are under way in most of the Alliance countries to help reduce dependence on a single crop such as coffee or sugar; credit and price incentives have been established to encourage increased production of food crops; crop research and demonstration programs have been accelerated and prices of fertilizer and other inputs have been reduced.

In 1967 net agricultural production in fifteen of the nineteen Republics showed increases over the previous year. Net food production for the nineteen Latin American Republics ^{3/} reached a record level of 139 as compared to 131 for 1966 (1957-59-100). Significantly per capita food production increased three percent.

There are encouraging signs that investment in the agricultural sector, estimated to average only about ten percent of the total annual investment in the region, is beginning to grow at a faster rate. External financing by international organizations -- representing about twenty-five percent of the total public financing for the agricultural sector -- has increased at an even faster rate during the past five years when such assistance totalled about \$1 billion. Yet much greater efforts are needed to achieve the five percent minimum annual growth rate in agriculture required to attain the overall growth rates established at Punta del Este.

Education

Long-term and sustained development progress in Latin America can only come about if there is appreciable improvement in education. Literacy is low; about one-half of the school age children at the primary level are in school; still fewer are in secondary school and only a fraction of these reach the university; quality of teaching remains poor at all levels and increases in population add to the burden annually.

Education has long had a prominent place in aid to Latin America. The Inter-American Educational Foundation was established in the early 1940's to channel aid to Latin America, but progress over the past quarter of a century has been difficult and obstacles many. Only with the Alliance of Progress has the flow of resources in education begun to approach the critical needs to be met. Mass education required to sustain a development effort has run counter to prevailing cultural patterns in Latin America countries which are oriented to sustaining the established elite. Consequently, the flow of resources must be accompanied by attitudinal change if optimum effectiveness of aid is to be obtained.

While the basic problems are a long way from being solved and deep-seated attitudes are slow to change, there are encouraging signs, particularly in the last two years. The Alliance has been able to show a larger percentage of enrollment, greater than the increase in school age children. Number of teachers -- and better trained teachers -- have increased. President Johnson must be given credit personally for the new emphasis on education -- he led the drive to emphasize education at the Punta del Este Conference of chiefs of States in 1967.

President Johnson outlined his new policy beginning with his historic Smithsonian Speech in September, 1965, followed by a directive to A.I.D. for New Initiatives in education, agriculture and health;^{4/} and signing of the International Education Act in October, 1966.^{5/} The President promulgated a strong U. S. policy for the use of books as instruments of educational development and enthusiastically promoted the application of educational technology, educational television in particular, to the problems of developing countries.^{6/} His new policies for education found focus in U.S. assistance programs in Latin America.

Bilateral Programs

A.I.D. developed new strategies and instruments for educational assistance, capitalizing on past experience (some of it disheartening). A.I.D. sought ways to elicit greater self-help and reform and called for sound national planning as a condition of substantial assistance. The first A.I.D. sector loan was made in Fiscal Year 1967 to the Government of Chile (\$10 million) for educational expansion and modernization. A.I.D. authorized education loans totaling \$69.5 million during Fiscal Year 1968 bettering the Fiscal Year 1967 input by \$20 million. Brazil, for example, received a loan of \$32 million for modernizing and

expanding secondary education in four states; Guatemala, a loan of \$8.6 million to expand primary and secondary opportunities in rural areas; Chile, a second loan of \$16.3 million to accelerate the impressive education reform program of the Frei Government.

A.I.D. increased technical assistance to education, and U.S. educational institutions played a vital and enlarged role in providing it. Indeed, the university contract became the major instrument for executing technical assistance programs. Between 1964 and 1968 the number of university contractors nearly doubled (fifty-one) and cumulative funding approached \$60 million.

Regional Programs (A.I.D. -Administered)

Through its Regional Technical Aids Center (RTAC) in Mexico, A.I.D. continued and expanded its program for providing Spanish-language books and other educational materials. In 1966, RTAC began to give high priority to translation of university textbooks. RTAC with collaboration of A.I.D. country Missions pioneered the establishment of university textbook rental libraries and cooperatives, to help alleviate the shortage of textbooks at prices students can afford.

In 1966 A.I.D. joined forces with the Latin American Scholarship Program of American Universities, Inc., an association of

150 U.S. institutions to provide scholarships to promising Latin youth of limited means. By the fall term of 1968 more than 450 LASPAU students will be enrolled.

Multilateral Programs

The signing of the Declaration of the Presidents issued at Punta del Este marked a turning point in several key respects. ^{7/} Not only did it commit the Chiefs of State to expanded internal efforts in education -- it also called for new multilateral initiatives in education and, what previously had been largely neglected in Inter-American educational programs -- science and technology. The sharp focus on education and the unexpected thrust on science and technology came at the initiative of the U.S. Delegation. Most of the U.S. proposals were translated into programs by the Inter-American Cultural Council at its Fifth Meeting held at Maracay, Venezuela in February 1968. ^{8/}

At Maracay, Member State representatives pledged to support a \$25 million program (\$15 million for science and technology and \$10 million for education) during the initial period. Assistant Secretary Covey Oliver delivered the U.S. pledge statement affirming a U.S. voluntary contribution in accordance with the standard formula. The Cultural Council also set up machinery for coordinating and executing the two new programs and established guidelines for program operations.

Health and Family Planning

From the outset of his administration, President Johnson emphasized repeatedly his intention that the U.S. participate actively in a worldwide war on health problems. In a statement released from the White House on March 18, 1965, he said: "This nation has no finer or firmer commitment than our determination to conquer disease and improve the health of all people in our land and around the world."

Prior to 1960 the Foreign Assistance Program of the U.S. had placed considerable emphasis upon health manpower development, the strengthening of preventive health services, the control of environmental health problems, the distribution of medical care and health education. In 1961, with the development of the concept of "self-help" and a better definition of development priorities, A.I.D. support of health programs diminished. What remained was principally malaria eradication, water supplies and sewage disposal systems projects, a child feeding program and continued participation in the support of the Pan American Health Organization (PAHO).

Between 1963 and 1968, A.I.D. loans for water supply and sewerage disposal systems increased markedly. Apart from the resulting increases in the installation of facilities, the most

important development in the Community Water Supply field during the period was more effective regional institutions, primarily PAHO, the Inter-American Development Bank and regional educational centers.

Between 1964 and 1968 A.I.D. assistance for malaria eradication programs in ten Latin America countries amounted to \$43.7 million, of which \$29.7 million was in the form of loans. In the same period (1964-68) A.I.D. contributed \$8.59 million in grants to the Special Malaria Fund of the PAHO. In 1968 fifty-five million were protected out of a total population of fifty-nine million living in malarious areas compared to 10.5 million in 1964.

During the period 1963-1968 A.I.D. assistance for nutrition programs in Latin America focused on the creation of understanding and concern about the economic and social significance of malnutrition; on the encouragement of private sector participation in seeking solutions for nutritional problems; and on accelerating child feeding programs.

Operation Niños was established by A.I.D. in 1962 to expand child feeding activities. During the first eighteen months, \$1,436,000 was obligated for the purchase of equipment.

At the fourth conference sponsored by Operation Niños in

1966, approximately 150 delegates from Latin American countries met to consider the economics of nutrition. This was followed by another conference in 1967 at which leaders from government, industry, agricultural production and the public information media recommended the activation of national food and nutrition coordinating councils in all Latin American countries and the establishment of an Inter-American Council on Hunger and Malnutrition.

Subsequent to this conference a provisional committee met in Miami to prepare by-laws and the organizational framework for an Inter-American Council which is to be known as Consejo Interamericano para Mejor Alimentacion. Ratification of the statutes is to be considered at a meeting of the Latin American Ministers of Health to be held in Buenos Aires in October, 1968.

As a result of the stand taken by the Catholic Church on birth control, the predominately Catholic Latin American countries have been very cautious in overtly pursuing programs of population control.

In fiscal year 1964, A.I.D. obligated funds for the first time for population. A sum of \$130,000 was used to assist in the development of two regional institutions. By fiscal year 1968, population programs assisted by A.I.D. were being carried out in fourteen

Latin American countries. In addition, there were nine regionally funded projects. Fiscal year 1968 funds obligated for population and family planning programs totalled \$7.8 million.

Housing and Urban Development

The rate of urbanization in Latin America is the highest of any developing region in the world. While the magnitude of U.S. financial assistance to this sector has been considerable, it has been inadequate in terms of the total need. Housing construction has not kept pace with the increase in family formation during the period.

Basically, problems in housing construction and urban development have been in two areas. The first was the great need for institutions which could mobilize local resources and channel them into long-term housing mortgages at reasonable interest rates and reasonable down payments in order to accommodate that portion of the population which are poor. The second problem was that of the expanding squatter settlements. A.I.D. and the Inter-American Development Bank made loans which were used primarily for low income housing sponsored by national public housing institutions. These loans were generally matched by host country contributions and resulted in the construction of more than 400,000 dwelling units.

Public Administration

Tax Reform

The Charter of Punta del Este posed the tax reform objective of the Alliance for Progress as follows:

"To reform tax laws, demanding more from those who have most, to punish tax evasion severely, and to redistribute the national income in order to benefit those who are most in need, while at the same time promoting savings and investment of capital."

A.I.D. agreed in the fall of 1961 to provide assistance in tax administration, while regional organizations -- the OAS, ECLA, and IDB working together -- would work in the more sensitive field of tax policy. The U.S. Commissioner of Internal Revenue, in consultation with A.I.D., created a Foreign Tax Assistance Staff to organize and direct the U.S. program. By May, 1963, IRS and A.I.D. signed an inter-agency agreement authorizing IRS to train Latin American tax personnel and to provide technical assistance advisory teams to those Latin American countries requesting them. By September, 1963, one such team of tax advisers was resident in Chile.

After five years, there were sixteen teams totalling about fifty-six tax advisers in Latin America, including a regional group in Guatemala coordinating tax administration assistance programs for the Central American Common Market countries and Panama.

Improved Administration

In helping to improve the administrative capacity of Latin American governments, A.I.D. has provided technical assistance to existing governmental entities and helped to create new ones. As of December, 1967, twenty-four public administration advisors were stationed in fourteen countries. For the fiscal years 1964 through 1968, A.I.D. brought 1,508 trainees in development administration to the U.S.

Assistance to Planning Organizations

From the earliest days of the Alliance for Progress, existence of national development plans has been a factor in consideration of assistance. Many of the plans represented little more than statements of gross needs and desires and they pointed to the need for technical assistance to planning bodies. Initially, A.I.D. was reluctant to provide bilateral assistance in areas so intimately concerned with national policies. When it became apparent that the OAS was unlikely to provide much planning assistance, A.I.D. supported direct contracts between planning consultants and host countries. The first such effort began in El Salvador in 1962. Since then, A.I.D. has provided assistance to Nicaragua and Costa Rica in project planning; and assistance to Bolivia, Brazil, and Panama in strengthening the governments'

institutional machinery for planning.

Other areas which have received emphasis and assistance were fiscal administrative modernization, state and local government administration, and customs administration.

Private Sector Development

Partners of the Alliance

The Partners of the Alliance was established in March, 1964, and grew to a network linking private organizations and individuals of thirty-five states in the United States and thirty-six areas in Latin America.

Statewide committees exchanged program development teams which identified specific self-help projects that could be implemented through private sector support. As of July 1, 1968, \$10.5 million in material and technical assistance had been provided through the Partners program to Latin America. Five investment conferences produced joint ventures in such fields as food processing, housing and tourism. Teacher and student scholarship exchanges, strengthening of cooperatives, and development of rural youth programs resulted from other Partners projects. An Inter-American Coordinating Committee developed regional projects related to the Central American Common Market.

Trade Union Development

Founded in June, 1962 the American Institute of Free Labor Development (AIFLD) has trained Latin American union leaders in trade union administration. U.S. labor and business groups have provided more than \$3 million, and A.I.D. \$16 million to this effort.

As of November, 1963, 4,800 student labor leaders had been trained in seven countries; by July, 1968, these numbers had grown to more than 72,000 student labor leaders in twenty Latin American countries and the Caribbean Islands. An additional 500 leaders had received intensive training at an AIFLD school in Front Royal, Virginia, and a university-level labor economics program had entered its second year. The AIFLD has completed over 5,000 worker housing units in seven countries, with 13,000 more in prospect.

Cooperative Development

A.I.D. cooperative development activities have been most heavily concentrated in Latin America beginning in 1963. U.S. programs under the Alliance for Progress sought to reach 17,000 cooperatives, having 7 million members through technical assistance in organization, operation and training for cooperative efforts in such fields as agricultural production, marketing, banking, credit

unions, rural electrification, farm supplies, insurance and consumer activities. Contracts with U.S. cooperative organizations yielded the professional resources needed for these purposes.

The Credit Union National Association, Cooperative League of the United States and National Rural Electric Cooperative Association, have been heavily involved in cooperative development in the areas of agriculture and electrification.

Investment Guaranties

A.I.D.'s investment guaranty program sought to overcome the reluctance of private lenders to commit their resources to ventures in less developed countries where commercial risks appeared greater than elsewhere. Except for housing, guarantees were used sparingly: As of July 1, 1968, A.I.D. had authorized guarantees for only eight Latin American projects totalling \$39.5 million. Growing interest and knowledge by potential investors resulted in an increased number of applications toward the end of the period.

The initial objective of the housing guaranty program was to encourage builders to demonstrate advance techniques and methods of financing, marketing, management, and construction. As of March 31, 1968, forty "Pilot Demonstration" projects, representing

36,000 family units, were under contract or authorized in the amount of \$207 million.

In 1967 Congress amended the FAA to raise the total amount of housing guarantees from \$250 million to \$400 million, and directed A.I.D. to utilize its guaranty authority, not only for the purpose of assisting in the construction of Pilot Demonstration projects but also "in the development of institutions engaged in Alliance for Progress programs." These institutions included cooperatives, free labor unions, savings and loan type institutions, and other private enterprise programs in Latin America engaged directly or indirectly in the financing of home mortgages, the construction of homes for lower income persons and families, the increased mobilization of savings and the improvement of housing conditions in Latin America. However, the President's Balance of Payments Committee allowed only \$100 million of the additional \$150 million authorized by Congress to be used.

B. Country Programs,

Brazil

When the Goulart regime was overthrown in March, 1964, Brazil became a fully participating member of the Alliance. The new political climate which ensued permitted important new aid initiatives and a large step-up in U.S. assistance.

Within weeks of assuming power in April, 1964, the Castello Branco government began to reverse the steady economic and political deterioration which had so seriously threatened the country's democratic political system and economic integrity in 1962-1963.

The new government adopted a broad program of economic stabilization, growth, and reform, mounting a serious attack on an inflation rate which had reached an annual rate of increase of 140 percent in early 1964. Government actions began to reduce the alarming budgetary deficit by cutting back expenditures and increasing revenues. With important help from the U.S. and other foreign creditors, Brazil's near-bankrupt external payments account began to move back toward solvency. Other major government initiatives included the creation of a sorely needed central bank, a comprehensive land reform law, and a national housing program and bank.

In this new atmosphere of political stability and fiscal responsibility, the United States was called upon for critical support, and responded quickly with a substantially increased, more effective assistance effort, both in capital loans and technical cooperation. Major balance of payments support through program loans was furnished to support the Brazilian economic reform effort by

providing scarce foreign exchange for the importation of necessary raw materials and other essential goods from the United States. Since 1965, the U.S. has made four program loans, totaling \$475 million, to Brazil. Special incentive devices incorporated in these loans stimulated substantial additions to U.S. exports. The U.S. share of Brazil's total import market rose from thirty-one percent to thirty-nine percent, with equivalent increases in the share of non-A.I.D. financed imports. The local currencies generated by these loans in part helped to reduce the inflationary pressure from the government deficit and in part were allocated to special accounts which provided Brazilian private enterprise with agricultural, industrial, and housing credit. The program loans have also provided the U.S. with important leverage to encourage sound performance by the Brazilian government on such issues as public investment levels and fiscal, monetary, and foreign exchange policies.

The results have been impressive. Inflation dropped by 1967 to about twenty-five percent annually; government deficits have been cut from thirty-five percent of federal expenditures in 1963 to fifteen percent in 1967. Net foreign exchange reserves have risen from practically zero in early 1964 to over \$300 million by March, 1968, and Brazil's credit abroad has been restored. Perhaps

most important, economic growth has been rekindled by healthier policies: from 1.6 percent growth in gross national product in 1963, the rate rose to over five percent in 1967 and a probable rate over six percent in 1968.

The new government selected the agriculture sectors as one where a true "revolution" can and must take place, and it assigned the highest priority to that area in its development program and investment plans. The U.S. realigned its priorities accordingly. Greatly increased technical and capital assistance has gone to improve research capabilities, strengthen overall technical competence, improve production and marketing, and provide more adequate credit channels for modernizing production and distribution systems. In late June, 1968, the U.S. authorized a \$13.4 million loan to Brazil for a five-year program of applied agricultural research. This loan will continue a major, successful technical assistance effort provided for several years on a grant basis. The Brazilian Government has agreed to undertake a number of new budgetary and institutional commitments, including the upgrading of its research staff salaries, as a condition to this loan.

Brazil's other major priority area -- education -- represents the key to the country's long range development future. Unfortunately, the Brazilian Government's efforts in this sector have been

inadequate, and unimaginative. Since 1964, the U.S. program has placed emphasis on the most pressing needs in certain selected areas, principally those of improving overall educational planning and implementation, and on the one sub-sector which presents a bottleneck which is crippling the entire system -- secondary education. The U.S. has also attacked this problem by its recently authorized \$32 million education sector loan. This loan will permit the construction of over 300 junior high schools in four key Brazilian states and will serve as the mechanism to obtain important self-help commitments from the Brazilian Government in the financing of secondary education programs. Federal resources for education normally allotted to the states will be increased and disbursed in a constant manner; the participating states will increase their education expenditures, particularly in the secondary sector; and finally, these states will develop multi-purpose junior high schools as an integral and high priority element of the secondary education development plans they have had to draw up as a condition for the loan.

In the field of health the most critical area is that of gastro-enteric diseases. The best approach in attacking these diseases in a country of Brazil's size is the provision of an adequate supply of safe water and the sanitary disposal of wastes; that is, to

concentrate on prevention rather than treatment. Prolonged, patient technical assistance from the U.S. led the Government of Brazil in 1965 to create a National Water Loan Fund, a financial mechanism capable of mobilizing federal, state, and municipal funds for the construction of municipal water and sewerage systems. In addition to the obvious health benefits, the Water Fund concept incorporates institution-building features which represent a new departure in Brazilian public life by requiring mobilization and coordination of resources on three levels -- the national, state and municipal.

The Costa de Silva government which took office in March, 1967, has continued to perform satisfactorily on the economic side, but its performance on political and social matters have been less satisfactory. There has been an upsurge of nationalism and anti-Americanism in 1967 and 1968, taking the form of attacks on U.S. A.I.D. agreements in the field of higher education, accusations that there were American designs to take over Brazil's undeveloped Amazon area, charges that American missionaries were carrying on a program to sterilize Brazilian women and keep Brazil an underpopulated, weak nation, and attacks on the role of U.S. capital in Brazilian industry.

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With an increasing level of nationalism and anti-Americanism, Ambassador John W. Tuthill concluded that the U. S. presence in Brazil could, and should be, reduced without appreciable adverse effects on programs. The proposal received swift approval by the Secretary of State. As a result of an interagency Task Force study, recommendations were made that would reduce personnel by about thirty-three percent by June 30, 1969.

Toward the end of 1968 the middle-of-the-road Costa e Silva administration came under increasing criticism for its lack of dynamic leadership. Rumblings of discontent began to emanate from the military establishment as a result of government inaction in the face of challenges from elements of the Catholic Church, the students, urban labor and the opposition. When the Brazilian Congress rejected a military-backed request by President Costa e Silva to waive the parliamentary immunity of a radical opposition congressman so that he could be tried for criticizing the Armed Forces, military leaders pressed the President to take matters into his own hands. Succumbing to this pressure, Costa e Silva issued on December 13 a broad "Institutional Act" which suspended numerous constitutional rights and gave the government almost unlimited power to rule by decree. Armed with these new arbitrary powers, the government

recessed Congress for an indefinite period and imposed tight press and media censorship. The government arrested about 200 critics (some were later released) and canceled the political rights of 13 opposition leaders. There has been little sign of support for the "Institutional Act," except from some elements of the business community, but neither have there been demonstrations of wide public opposition.

This policy of repression, forced on the government by the Brazilian military on December 13 presented the United States with some complex decisions. The Brazilian events were a blow to the objectives of the Alliance for Progress and to democracy in the hemisphere. Because of the strongly negative reaction of U. S. opinion, it became apparent that the repressive acts of the Brazilian Government would worsen our bilateral relations along a broad front. On the other hand, Brazil is a significant country on the world scene and the dominant country of South America. Relations with Brazil are therefore important to the U. S. in many ways.

The United States attempted to balance its policy toward Brazil to achieve as many of its overall foreign policy objectives as possible without exacerbating current problems. The Department stated that U. S. economic assistance programs in Brazil had gone under review

and that the United States was concerned with human rights and the maintenance of the rhythm of development in Brazil. At the same time, the Voice of America transmitted criticism in the U. S. press of the Brazilian military's action. The United States, however, avoided the kind of official censure which might be interpreted as "intervention" in Brazil's domestic affairs. We wanted to avoid giving Brazilian leaders a pretext for further repression and harmful ultranationalism.

In most respects, however, the years 1964-1968 have been highly successful ones vis-a-vis Brazil and the U. S. A serious internal threat of subversion and economic chaos was overcome by a popularly-backed revolt, an unstable economic situation was halted, and Brazil, with U. S. financial and technical assistance, has made great progress in economic and social reform, and is continuing to move (albeit with difficulty) towards increased democracy in the political life of the country. Bilateral relations between Brazil and the U. S. have been extremely close and cooperative over the past four years, despite some recent differences on some specific issues.

Chile

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Priority objectives of the U.S. in Chile have been to promote the development of new programs in education and agriculture, as well as to assist in reducing inflation. Of secondary importance has been the initiation of health programs to encourage family planning. Under President Frei the Chilean Government has given educational reform the high priority it deserves as a fundamental instrument of economic and social development. By initiating reforms in the educational programs, the educational opportunities available to all students have been greatly expanded.

These efforts have caused public sector investment in education to increase very rapidly, both in absolute terms and in relation to total public sector investments -- from 4.1 percent of the total in 1964 to 6.3 percent in 1967. The U.S. has approved two sector loans totaling over \$26 million to support the Chile education program.

In agriculture the Frei Administration has attempted to increase production in a number of ways. A high priority goal has been to raise agricultural prices which had gradually declined prior to 1964 in the face of steady increases in the general price index. From 1964 to 1966 farm prices were increased by twenty percent in real terms -- the highest level ever recorded. Since

then the government has announced prices in advance of harvests which were calculated to equal or exceed the 1966 levels. However, greater than anticipated price increases in other sectors of the economy have caused farm prices to decline somewhat on a relative basis.

The Frei Administration has supported agrarian reform strongly, both to increase production on poor or extensively exploited land and to improve the lot of the Chilean peasant. A new agrarian reform law was promulgated in July, 1967, which included criteria and procedures for the entire land reform process; expropriation, formation of the agrarian reform settlements and division of the settlements into private plots of sufficient size to allow efficient production. Under previous legislation the Frei Administration expropriated 347 farms comprising some 2,368,000 acres, and under the new law the rate has been increased somewhat. Settlements have not been formed on all of the expropriated land, but by the end of 1967 settlement membership had been increased to approximately 10,000 families.

Other elements in the agricultural program of the Frei Administration have been (1) the reorganization and improved coordination of the programs of the public agricultural agencies, (2) increased organization and training of landless workers and

small and medium-sized land holders, and (3) increased farm credit.

The U.S. has supported the efforts of the Chilean Government to increase agricultural production, and have been instrumental in encouraging the government to move even further in some cases. For example, approximately \$8.6 million of the \$23 million agriculture sector loan approved in October, 1967, was for financing the importation of fertilizer from the U.S. A condition prior to the signing of the loan agreement was that the Chilean Government would announce a twenty percent reduction in the price of fertilizer. Consumption has increased substantially following that announcement.

To promote monetary stabilization in Chile, A.I.D. has used the program loan technique extensively. Loans of \$35 million and \$55 million, two of \$80 million, and another of \$10 million were approved in 1963, 1964, 1965, 1966, and 1967, respectively. In each case conditions were placed on disbursements of the loan relating to Chilean Government performance and performance of the economy as a whole. Many of the conditions were aimed at increasing the rate of growth of the gross national product while lowering the inflation rate.

With U.S. support Chile has been a leader in Latin America in the development of population and family planning programs. The Government has officially recognized the desirability of family planning. Also, various local and international organizations have developed research and operational programs in Chile.

A principal concern of the Chilean Government has been to lower the very high abortion and infant mortality rates without affecting the rate of population growth, which has steadily declined in recent years. Family planning services have been incorporated into the child and maternal health programs of the Chilean National Health Service (SNS). Family planning information and contraceptives are now available at all SNS hospitals and clinics, and demand is high.

The reform initiatives were not made without creating problems for the Frei Administration. Traditional conservative forces viewed the reforms with alarm and questioned the Government's ability to maintain control. The middle-class to some extent resented the burden placed on them to finance the reform programs. On the other hand, there are groups who feel the reforms have not been sufficiently far-reaching.

Colombia

At the beginning of the Johnson Administration, Colombia was

in a period of hazardous political and economic change. For several years, Colombia's inadequate foreign exchange earnings, deriving sixty-seventy percent from coffee sales in a declining international market, had necessarily reduced the level of essential imports and nearly exhausted inventories. Outside assistance, including two A.I.D. loans in 1962 to help finance essential imports had been insufficient to curb the slowdown in industry, employment, and the earlier momentum for development. The crisis also handicapped operation of an array of transitional institutions for social and economic reform which Colombia had initiated in years just preceding the Alliance for Progress.

Confronted with these problems, the major objectives of the A.I.D. program in Colombia were:

- to overcome the severe balance of payments constraint on growth by diversification of exports, by improved fiscal and monetary policies and by improved planning for development;
- to strengthen and diversify agricultural production, particularly to lessen dependence on coffee for export earnings, (sixty to seventy percent), but also for improved nutrition and import substitution;

- to modernize the educational system -- more than one third of those over seven years old can neither read nor write simple instructions -- and to make education more relevant to the development needs of the country;
- to mobilize public and private resources through fiscal and institutional reforms for programs which would meet growing social pressures.

Economic Stabilization

To ease the financial crisis in 1964, A.I.D. approved two loans for essential imports -- \$15 million in March and \$35 million in July. Also during 1964 five project loans totalling \$16 million were approved, the largest being \$10 million for a Private Investment Fund and \$4 million to the mainly private Livestock Bank. Technical assistance accompanied the implementation of these loans.

Through subsequent loan negotiations, the United States and the IBRD have stressed policies to stimulate savings, to increase exports other than coffee and petroleum, progressive liberalization of imports in order to make the economy more competitive, strengthening of the central and ministerial planning agencies, adequate price and wage policies, diversification into crops other than coffee, and improvement of the educational system.

Under the guidance of development-minded President Carlos Lleras, elected to office in 1966, the Colombian Government increased tax revenue, pursued sound monetary policies, and improved planning and fiscal policies.

Agriculture

Colombian agriculture has barely kept pace with the population growth of 3.2 percent, nor has it reduced its dependence on coffee. Nonetheless, there has been progress in some areas and the number of programs in support of diversification is growing. A loan of \$8.5 million to the Agrarian Reform Institute, INCORA, in March, 1966 (\$10 million loan made in June, 1963), contributed to INCORA's expansion of its supervised agricultural credit program and extension service for small farmers. (An IBRD report of 1967 estimates that INCORA's programs have increased output on participating farms by at least 250 percent.) As one of Colombia's most dynamic entities, INCORA believes its role is to transform the rural sector into a self-sufficient and contributing part of the economy. Since its legal creation in December 1961, INCORA had also built more than 900 miles of access roads and 600 schools, irrigated or reclaimed 160,000 acres of good land, and incorporated about fifteen percent of the total arable land in Colombia into its programs. Two loans

totalling \$12 million to the semi-private Livestock Bank in July, 1964 and 1966 and accompanying technical assistance, resulted in strengthening its institutional capacity to finance a program of directed credit to eligible cattle producers. Assistance has been given to Colombia's Agriculture and Livestock Institute (ICA) in its well-coordinated program to establish a nation-wide system of agricultural education, research, and extension, and in the drafting of an overall agricultural sector plan, in identifying obstacles to momentum in agricultural development, and strengthening the planning capacity of the Ministry of Agriculture.

Education

A National Education Planning Study initiated in 1963 and funded by A.I.D. resulted in a general plan for educational reform (presented to Congress in 1966) which set priorities for action plans now underway. Sectoral plans have been completed for secondary educations, agricultural education, industrial education, education statistics, and teacher education; and these are guiding current education policies.^{9/} Of particular importance is the secondary education plan for the construction of nineteen comprehensive high schools throughout the country. Colombia's request for an IBRD construction loan for half the cost of the first ten schools was approved in July, 1968. A.I.D. has worked closely with the IBRD

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and UNESCO in support of Colombia's plan and commenced training of secondary education administrators (under a contract with the University of New Mexico), in 1967.

An A.I.D. -funded contract with the University of California has provided assistance to the Colombian Association of Universities in completing a study of higher education and manpower needs.

Population

(Begin LOU) Lleras spoke out regarding the implications for development of Colombia's high population growth, 3.2 percent, and the importance of family planning, a politically-delicate subject in Colombia. He tacitly approved a new A.I.D. initiative to assist family planning in Colombia indirectly through grants to the Pan American Health organization, the Population Council, and the International Planned Parenthood Federation. Through their separate programs, technical assistance, training, and material support will reach the Ministry of Health, the Association of Colombian Medical Schools, and private organizations. (End LOU).

Other Countries1. Peru:

Peru has received a smaller share of U.S. economic

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assistance than most other countries of comparable size in Latin America during the 1960-67 period. In fact, capital assistance authorized for Peru since fiscal year 1960 totals less than \$100 million in loans, of which \$30 million was authorized during late fiscal year 1966 and fiscal year 1967. During the other years of this decade aid was either stopped entirely or reduced to a trickle because of several major political problems including the long-standing dispute concerning the status of the International Petroleum Company and the recent problem concerning the Peruvian purchase of supersonic jet aircraft from France.

2. Ecuador:

Political instability and lack of continuity in government policies and priorities has hindered Ecuador's development effort during this period. For example, the reform-minded Military Junta established the Institute of Agrarian Reform (IERAC). In its first two years of operation IERAC distributed land titles to 29,000 families covering 348,000 hectares. However, the conservative interim governments, under pressure from large landowners, have not supported IERAC and the Institute is currently languishing for lack of adequate funds.

Another instance of problems resulting from changing governments

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is the history of the 1966 A.I.D. Budget Support loan. In late 1965 and early 1966 Ecuador experienced a severe balance of payments and budgetary crisis. The Yerovi Government instituted a series of corrective measures, including import surcharges, prior deposit requirements, and expenditure controls. In response to the Government's request for U.S. financial assistance, A.I.D. authorized a \$10 million Budget Support loan in June, 1966, in part as a demonstration of support for Ecuador's return to constitutional government. The first tranche of \$4 million was disbursed in August on the basis of the reform measures implemented by President Yerovi. Disbursement of the second and third tranches (\$3 million each) was conditioned on the Government of Ecuador implementing tax measures designed to collect 250 million sucres (\$13 million) in new revenues. Both the outgoing Yerovi Government and the incoming Arosemena regime lacked the popular support to levy such taxes, however A.I.D. agreed to accept the Government of Ecuador contention that the revenues generated by the import surcharges partially fulfilled the new tax condition and disbursed the second \$3 million tranche. The third tranche was deobligated.

Although A.I.D. has had difficulties working with the Government of Ecuador during the last five years, there have been

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significant accomplishments in certain key areas. Since 1963, 225 new credit unions have been incorporated, with 32,500 members, a five-year family planning program has been designed, and A.I.D. has been heavily involved in the improvement of Ecuador's educational system including a program with the three largest universities in Ecuador.

3. Bolivia:

The principal instrument for carrying out U.S. policy of development of a suitable democratic governmental process in Bolivia for nearly a decade prior to 1963 was the use of grant subsidies to cover the deficit of the Bolivian Government. By 1963 the basic strategy of the United States in Bolivia under the Alliance for Progress began to shift. Emphasis was placed on phasing out the budget support over four to five years and concentrate United States assistance on accelerating development. Economic stagnation of the 1950's gave way to a sustained growth pattern in the 1960's. At the heart of this shift in economic assistance strategy was fiscal reform and effective generation of revenues to replace dependence on the U.S. to cover budget deficits. Bolivian efforts towards self-help and reform continued following the change of government in 1964 and the constitutional elections of July 3, 1966.

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The Bolivian Government entered 1967 with the reasonable expectation that it could finance its budget with tax revenues and Central Bank borrowing permitted under the International Monetary Fund Stand-by Agreement. However, the appearance in early 1967 of Cuban-sponsored guerillas led by Major "Che" Guevara forced emergency expenditures on the Bolivian Government. A drop in production coupled with a decline in world tin prices also affected the balance of payments situation. Finally, the nationalistic fervor whipped by partisan political interest, in part related to the guerillas but also associated with domestic maneuvers for political attention, slowed down reform and revenue measures as well as in efforts to accelerate gas and petroleum exports. These problems, led to the budget crisis of 1968, and have delayed U.S. efforts to divorce itself from budget support in Bolivia. A \$4.5 million Supporting Assistance Loan was signed in June, 1968.

4. Paraguay:

During 1963-68, Paraguay has made notable progress in strengthening its democratic institutions. A substantial degree of press freedom was exercised; opposition political parties were legalized and generally fair and free elections for President and the Congress were held. The atmosphere seemed propitious for

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advances in the field of economic development as well.

Since Paraguay is primarily an agricultural-cattle breeding country with a limited internal market for manufactures, greatest concentration in the A.I.D. program has been placed on expanding production in fields which would either provide additional exports or substitute for imports. Of special importance was the development, after twenty years of U.S. assisted research, of types of wheat which will grow well in Paraguay, which has been importing eighty-five percent of wheat requirements. Roads have been driven through the hinterland and 43,000 families have been settled on the soil while thousands of small farmers who formerly lived outside the cash economy of the country now can bring their produce to market. With assistance from the International Bank for Reconstruction and Development, improved pastures have been developed to raise the quality of the cattle, and breeds have been up-graded on a U.S.-sponsored ranch.

Despite many favorable developments, Paraguay's growth has been less rapid than desired. Paraguay has lacked the local capital needed as a counterpart to foreign loans because of an antiquated tax structure and inefficient tax administration. Assistance has been extended to the Paraguayan Government to modernize its fiscal system.

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5. Uruguay:

It was not until 1967 that Uruguay initiated economic and financial policies for a stabilization effort to overcome the serious problems it was facing and had faced for more than a decade -- economic stagnation, high rates of inflation and recurring balance-of-payments difficulties. The Government also undertook plans to raise domestic agricultural investment substantially in both the private and public sectors. The United States in support of these policies provided a \$15 million loan for Uruguay's agricultural sector which was made contingent on the Government undertaking such self-help measures as:

(1) a coherent and operative fiscal stabilization program.

(2) legislation establishing a tax on income from land to permit the gradual reduction and eventual abolition of the existing tax system.

(3) provision in the budget for increased public activities and investment in the agricultural and livestock sector.

The deteriorating economic situation in Uruguay has been exploited by the communists. They have been particularly successful in the areas of labor and education. To strengthen Uruguay's democratic trade unions, A.I.D., since 1965, has provided over \$500,000 to the American Institute for Free Labor

Development (AIFLD) for labor education programs and for assistance to union socio-political projects. To date over 2,000 unionists have participated in the training programs, and over twenty Uruguayan unions are participating in a cooperative housing program and in the establishment of community and labor education centers throughout the country. A.I.D. has also been supporting, on a pilot basis, initiatives which aim at encouraging basic and fundamental reforms of the Uruguayan educational system. Such programs include assistance to science teaching at the secondary school level, extension of a secondary "pilot school" system and consolidation of rural schools.

6. Dominican Republic

Following the military coup in September of 1963 which overthrew the Bosch Government, the A.I.D. program in the Dominican Republic was suspended and the A.I.D. Mission was withdrawn from the country. Several months after U.S. recognition in December, 1963, of the Triumvirate Government, the A.I.D. Mission was reestablished and economic assistance was resumed. The primary objective of the aid at this time was to attempt to stabilize the economy. This was a joint effort of the IMF, the U.S. Government and a consortium of foreign private commercial banks.

In an attempt to shore up the economy austerity measures were imposed by the Triumvirate Government. As a result of these measures, exacerbated by a serious six-month drought, discontent began to grow until the Government was toppled in April, 1965.

Following the fall of the Triumvirate Government, the A.I.D. effort was of an emergency nature. Large amounts of food were provided by the U.S. in support of emergency relief programs, and massive financial assistance was injected into the economy to prevent an economic chaos. U. S. grants to the Dominican Republic from May, 1965 through February, 1966, totaled \$85,700,000. While most of the resources during this period were used to counter emergency situations, the A.I.D. Mission started during the summer of 1965 to resume some of the technical assistance and development loan projects which had been interrupted.

Although the development assistance effort continued to grow, the primary emphasis for assistance to the Dominican Republic through fiscal year 1968 was to avoid an economic crisis which could undermine the continuance of the stable constitutional government of President Balaquer, elected to office in 1966.

7. Other

Other country programs in Latin America are small. In

Mexico. Argentina and Venezuela, only small amounts of technical assistance is provided. Mexico's substantial progress has led the U.S. to view Mexico as a potential donor of technical and commodity assistance to her neighbors. (Almost 5,000 technicians and students from other Latin American countries are being trained annually in Mexico.) In Panama the U.S. program, emphasizing the standard Alliance objectives, has as one of its major objectives the conclusion and maintenance of mutually satisfactory treaty relationships.

C. Regionalism and Multilateralism

Latin American Free Trade Association (LAFTA)

When President Johnson assumed office in November, 1963, the two major Latin American economic integration groupings, the Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM), were still in their infancy. It is perhaps too early even now to assess what course Latin American economic integration will take. Clearly the highlight of the decade was the historic commitment to create a Latin American Common Market (LACM), which the Latin American Presidents made at the 1967 Hemisphere Presidents' Summit Conference.¹⁰

The Summit commitment to create a LACM remains unimplemented to date. There is strong indication that some of the momentum behind Latin America's integration effort has been lost at least temporarily and that there will be some slippage in the Summit timetable. Nevertheless, the Summit commitment to create a common market has not been abandoned.

The position of the U.S. toward the essentially Latin American effort to create a common market has been clear. As President Johnson pledged at the Summit, "If Latin America decides to create

a common market, I shall recommend a substantial contribution to a fund that will help ease the transition into an integrated regional economy. "11/

At the Summit, the Latin American Presidents formally agreed to take action, "beginning in 1970, to establish progressively the Latin American Common Market, which should be substantially in operation within a period of no more than fifteen years. "12/ The Latin American Presidents decided that the LACM would be based on the improvement of the two existing systems: LAFTA (composed of the ten South American Republics and Mexico) and the Central American Common Market (CACM). Other countries which were not members of either group would be encouraged to join.

The measures, which were to convert LAFTA into a common market, included the adoption of a system of programmed elimination of duties and all other non-tariff restrictions, and also a system of tariff harmonization, leading to the progressive establishment of a common external tariff. It was also agreed that the accelerated integration of the region would require the mobilization of resources within and without the hemisphere to cushion the shortrun effects of integration. Such assistance would help ease the national and sectoral adjustment process required by intra-

zonal trade liberalization.

The U.S. contribution to integration assistance, of which President Johnson spoke at the Summit, would be dependent upon the Latin Americans taking effective measures to establish the LACM.

Attempts to implement the Summit commitments on economic integration have proceeded along two separate lines. The commercial policy and other measures necessary to convert LAFTA to a common market have been discussed within LAFTA, and a mechanism for coordination between LAFTA and CACM has been established. The mobilization of financial resources for an adjustment fund has been discussed in a series of meetings under CIAP auspices. Since the U.S. is not a member of LAFTA, we have not been able to participate in the LAFTA deliberations. As a member of CIAP, however, we have participated as an observer in the meetings on financial assistance.

At the Summit the Presidents of the LAFTA countries instructed their foreign ministers to meet and agree on measures necessary to convert LAFTA into a common market by 1970. The foreign ministers met August 29-September 1, 1967, at Asuncion, but could not agree on either the adoption of automatic tariff cuts or the establishment

of a common external tariff.^{13/} After the Asuncion meeting there was a general understanding that the foreign ministers would meet again in the first half of 1968. By mid-1968 the meeting had still not been scheduled, and there were indications that neither the LAFTA Secretariat nor the LAFTA members were giving priority to the preliminary studies and negotiations.

Despite a lack of agreement on the establishment of the LACM, the U.S. considered it desirable to push forward with the consideration of the financial implications of integration, since this was the aspect of integration where U.S. decisions were important. By mid-1968, however, there was no agreement between the Latin Americans and the U.S. and, more basic, among the Latin Americans themselves as to appropriate types and amounts of assistance.

Aside from the common market venture, progress in LAFTA has been slow in recent years. The trade liberalization mechanisms of the Treaty of Montevideo, the covenant which established the organization, have proven to be increasingly ineffective over the years. The number of tariff concessions granted at the annual negotiating conferences has dropped sharply since the first two sessions in 1961 and 1962. In addition, the LAFTA members have found it difficult to agree on a list of products to be added to the

common schedule to be traded duty-free by 1973.

However, intra-regional trade has made substantial gains in recent years, although in 1967 it still represented less than eleven percent of the total trade of LAFTA countries. Since 1963, intra-regional imports have increased forty-four percent, while total imports are up only twenty-three percent.

Physical Integration

In their meeting at Punta del Este in April, 1967, the Presidents of the American States declared that "we will lay the physical foundations for Latin American economic integration through multinational projects."^{14/} In the Action Program the Presidents adopted they underscored the fact that "the economic integration of Latin America demands a vigorous and sustained effort to complete and modernize the physical infrastructure of the region."

After Punta del Este, additional resources were allocated to the IDB Preinvestment Fund for Latin American integration that had been established in 1966 to finance studies of multi-national projects.^{15/} Furthermore, IDB members agreed to provide the Bank with additional capital resources that would enable it to finance at least \$300 million in multi-national projects over the next three years.^{16/} These actions left the assignment of priorities

as the main item agreed at the Summit in this area on which no action had been taken.

At a meeting of the National Security Council on March 6, 1968, President Johnson indicated that it would be desirable to give increased emphasis to accelerating physical integration and thereby facilitate the creation of the LACM. He expressed the belief that a task force should be established to recommend priorities and guidelines for carrying out the work of physical integration.

Before proceeding further, the Department consulted with key Latin American governments and key individuals such as the Chairman of CIAP and President of the IDB. The response was favorable. ¹⁷

President Johnson, accordingly, on the occasion of signing the Protocol of Amendments to the OAS Charter on April 23 suggested to his fellow Presidents and to those who direct the Alliance for Progress, "that they establish a high-level task force, the finest collection of planners that we can bring together, under the leadership of a distinguished Latin American, to prepare a five-year plan for speeding up the physical integration of our own hemisphere."

Upon learning of President Johnson's statement, the Board of Governors of the Inter-American Development Bank, then meeting

in Bogota, adopted a resolution, proposing"

"That the Bank undertake promptly, in conjunction with CIAP, to initiate the establishment of a task force to develop a five-year plan and action program for physical integration projects in Latin America." ^{18/}

In turn, CIAP, at the fifteenth meeting in early May, 1968, requested its Chairman

"To work with the President of the IDB and the appropriate representatives of other institutions, in formulating specific proposals relative to procedures, mechanisms, and possible financing" ^{19/}

After these basic decisions were made, however, it became clear that certain Latin American governments, while strongly supporting the principle of accelerating physical integration, were uncertain as how to proceed. Brazil, in particular, felt strongly that "international bureaucracies" and "international technicians" (the IDB and OAS) could not play a key role in recommending priorities. ^{20/} Brazil was supported by Argentina and Mexico in stressing the essentially political nature of decisions on priorities and the central role of governments in making the decisions. At the same time, however, both Argentina and Mexico strongly favored action to accelerate physical integration and wished to push forward, while maintaining government control.

In the face of these views, the Chairman of CIAP and President of IDB collaborated in developing a proposal for strengthening

the existing OAS-IDB working group on physical integration to carry out the task proposed by President Johnson.^{21/} This proposal was considered by the Seventh Special Session of the IA-ECOSOC, June 26-28, 1968. After considerable debate, the IA-ECOSOC instructed CIAP to intensify its current work on physical integration and to develop suggestions as to how it should proceed to help accelerate physical integration. After governments have analyzed these suggestions, the IA-ECOSOC is expected to agree on terms of reference for CIAP's further work on physical integration.

Central American Common Market

The organization of the Central American Common Market was a major self-help effort by the Central American countries within the context of the Alliance for Progress, and this effort has influenced the nature of the A. I. D. program in Central America.

On September 9, 1963, when Costa Rica ratified the General Treaty of Economic Integration (signed in Managua in December, 1960),^{22/} the Common Market became effective for all five Central American countries. The General Treaty provided a bold approach to establishing a free trade area, since it followed the

general principle that internal free trade should be the general rule except for stated exceptions. The Treaty provided, for example, for the immediate elimination of a large percentage (seventy-four percent) of the inter-country tariffs on goods of Central American origin; and it provided that most of the remaining tariffs on such goods be removed within a five-year period. Consequently, with few exceptions, manufacturing and processing plants operating in any of the Central American countries can sell freely in the other four.^{23/}

To promote the growth of industry within the expanded Central American market, A. I. D. on May 8, 1964 signed a loan agreement with the Central American Bank for Economic Integration (CABEI) under which \$10 million was made available for relending to the private sector. The funds provided by this loan were in addition to loan assistance A. I. D. has given to the country development banks, which (since 1963) through fiscal year 1967 have totaled \$57.5 million.

The movement toward economic integration in Central America is much more comprehensive than creation of a common internal market. A number of regional institutions have been established and in an increasing number of fields there has been

inter-governmental coordination at the ministerial level. In July, 1962, a regional A. I. D. Mission (ROCAP) was established in Guatemala City to serve as liaison with the regional institutions and to administer an A. I. D. program directly in support of regional development.

One of the principal regional institutions is the Common Market Secretariat (SIECA) -- a staff unit to assist the five Central American Ministers of Economy in administration of the Common Market, as well as planning its future development. SIECA prepares projects, undertakes studies and supervises implementation of the Central American agreements.

In April, 1965, in order to provide a more systematic structure for Central American integration, the charter of the Organization of Central American States (ODECA) was revised to provide overall supervision of the regional organizations at the presidential and ministerial level.^{24/} Under this revised charter, the five Central American foreign ministers have met on several occasions and there have also been regional meetings at the ministerial level on manpower, social security, education and health.

From the time that the Common Market was organized, monetary union has been considered as an eventual -- although somewhat

distant -- goal. In February, 1964, the Central American Monetary Council was organized by the five Central American Banks. The serious nature of monetary and exchange problems in Central America within the last two years has given the Monetary Council an increasingly important role in integration affairs. A. I. D. has recently provided consultants to advise on establishment of a regional stabilization fund.

Another regional institution which has begun to play an important role in development in Central America is the Central American Bank for Economic Integration. This regional bank, located in Tegucigalpa, Honduras, was created with the subscription of \$4 million by each Central American Government, \$2 million of which was paid in. The Bank opened its doors on September 1, 1961, and since that date has established a lending program in Central America that is now well above \$100 million for industrial and infrastructure development.

Through fiscal year 1967 A. I. D. has provided \$82.5 million to CABEI for development projects. The Inter-American Development Bank has provided an additional \$32 million.

A major part of U. S. assistance to CABEI is in support of the Central American Fund for Economic Integration. The Integration Fund had its origin in the meeting which President Kennedy

held with the Presidents of the five Central American Governments and Panama in San Jose, March, 1963. At this meeting President Kennedy proposed "a fund for Central American economic integration, to be made available through the Central American Bank for Economic Integration" and promised that the United States would make a substantial contribution to such a fund.^{25/}

In July, 1965, President Johnson for the United States and Enrique Delgado for CABEI signed a loan agreement under which A. I. D. extended \$35 million as initial external financing for the Integration Fund. The Central American Governments, in turn, agreed to contribute \$1.4 million each.

In June, 1967, A. I. D. authorized a second loan of \$20 million in support of the Integration Fund.

Regionalism in Central America has also begun to affect the major development areas. Agriculture, which has been oriented largely toward the export crops (coffee, cotton and bananas) has, with the growth of interpal trade under the Central American Common Market, emphasized development for domestic use. A principal achievement in this respect was adoption and ratification by the five countries of the "Basic Grains Protocol." This protocol established the basis for the coordination of price

and stabilization policies for the basic grains (corn, beans, rice, and grain sorghums). It provides a basis for free trade in these commodities throughout the region and should lead to expanded production in the areas most suited. Also, regional solutions are being sought for agricultural problems. The Regional Plant and Animal Sanitation Organization (OIRSA) -- an organization that has been in existence for several years, but largely limited to questions of border control -- with assistance from ROCAP is undertaking to establish a regional control laboratory for pesticides and fertilizers.

Similarly in education integration has begun -- most clearly in higher education and in certain vocational and job oriented training programs. At the university level, the Superior Council of the Central American Universities (CSUCA), made up of the rectors of the five public universities, was one of the earliest integration bodies. By bringing rectors, deans and heads of departments together regularly, the Central American university community has slowly developed some feeling of unity and cohesiveness. A promising plan for the specialization of the faculties of agriculture on a regional basis is now being worked out, which may result in Central America having for the first time in its history a viable program in this important sector.

Efforts at the graduate level have advanced with the formal opening of the Central American Graduate School of Business Administration (INCAE).

Another aspect of educational integration concerns textbooks for primary teachers and students. The Regional Textbook Program for Central America and Panama was begun in 1962 in response to the need for instructional materials in the primary schools -- eighty percent of the children in school in Central America were totally without textbooks. Conceived as a regional effort, the program is developing and producing free textbooks and teachers' guides in five basic subjects (reading, language, science, mathematics, social studies) for public elementary schools throughout Central America and Panama. Through May 31, 1968, over 8.7 million textbooks and 250,000 teachers' guides have been published.

The Central American Council of Educational and Cultural Affairs (Ministers of Education) has become a forum for educational reform and development. Since it is recognized that educational planning is one of the weakest links in all of the five national systems, ODECA is sponsoring meetings of the Central American Directors of Educational Planning and trying to get collective action in this vital and neglected field.

A recent initiative in the field of education is the use of instructional television as a means of educational reform. On the occasion of his visit to San Salvador in July, 1968, President Johnson announced a loan of \$1.9 million to the Government of El Salvador to establish an instructional television project with the dual purpose of upgrading the educational system of El Salvador and providing a demonstration of this new technique, for possible adaptation by other Latin American countries, as a means of extending educational opportunities.

Inter-American Development Bank

Under Secretary of State Dillon's announcement, in August, 1958, that the U.S. was prepared to consider establishment of an Inter-American financial institution dedicated exclusively to helping finance development needs of Latin American nations, followed growing Latin American insistence on U.S. support for such an institution and for increased foreign assistance on favorable terms. The Inter-American Development Bank (IDB) opened in October, 1960. Under an agreement signed in June, 1961, the IDB administers for the U.S. the Social Progress Trust Fund, to finance social development projects as a complement to the economic development projects of the IDB per se. When the

Inter-American Economic and Social Council, at its 1963 Annual Meeting, established CIAP (the Inter-American Committee on the Alliance for Progress), the IDB was declared to be "the technical arm of the Committee in matters concerning financing of Latin American development," thus acknowledging the central role of IDB in the Alliance for Progress.

The continued achievements and growth of the Inter-American Development Bank during the Johnson Administration would not have been possible without the support of the United States. Although the U. S. is only one of twenty-one members, it is the IDB's largest shareholder.

The U. S. provided forty-three percent of the IDB's "ordinary capital" (available for lending on normal banking terms). Of this amount \$206 million, representing the 1968 U. S. contribution, is expected to be appropriated by Congress this fall. Most of these funds were "callable capital" (requiring no cash outlay except in the unlikely contingency that the IDB experienced some financial difficulty). The IDB now derives the bulk of its ordinary lending resources by borrowing against the security of the U. S. callable subscription.

The IDB's Fund for Special Operations (available on softer

terms) received seventy-nine percent of its financial support from the U. S. (Included in these figures is the 1968 U. S. contribution of \$300 million which still must be appropriated by Congress). In addition, the Social Progress Trust Fund, administered by the IDB for the U. S. , received \$525 million.

Impact on Development

By December, 1967, the IDB had committed nearly \$2.4 billion in loans for 450 projects. When borrowers' contributions to the 450 projects are taken into account, total cost is estimated at \$6.4 billion. IDB contributions by sector were:

- \$578 million in agriculture;
- \$88 million in industry and mining;
- \$468 million in economic infrastructure;
- \$288 million in housing;
- \$395 million for water supply and sewerage systems;
- \$102 million for education;
- \$52 million in preinvestment; and
- \$20 million in export financing.

These sums helped in reclaiming millions of acres of farm land, to build thousands of miles of highways and roads, as well as being instrumental in the development of housing, educational and industrial programs.

The above figures are exclusive of the Social Progress Trust Fund. Half a billion dollars in SPTF funds helped support 117 projects whose total cost was \$1.1 billion.

The IDB, with strong U.S. support, also played an increasingly important role in promoting and financing Latin American integration.

Establishment and Operation of CIAP

The Inter-American Committee on the Alliance for Progress (CIAP) grew out of the need to give the Alliance for Progress multilateral guidance and to coordinate the activities of the many assistance organizations involved. The First Annual Meeting of the Inter-American Economic and Social Council (IA-ECOSOC) in October, 1962, charged two outstanding Latin Americans with studying the structure and activities of those organizations in order to inject greater efficiency and dynamic qualities into the Alliance. The former Presidents of Brazil and Colombia, Juscelino Kubitschek and Alberto Lleras, following authorization from the Council of the OAS, made reports to member states on June 15, 1963, on the need to create a permanent multilateral body representing the Alliance for Progress. At the Second Annual Meeting of IA-ECOSOC at the ministerial level on November 15, 1963, the CIAP was created.

A multilateral mechanism was desired by both recipient and donor to ease the problems of aid conditioned on effective self-help.

The U.S. Government had pledged to supply a large percentage of the public external resources needed to help bring about the enormous changes called for in the Charter of Punta del Este. Hence, it was evident we would be placed in the unenviable position of having to act as a continuous prod to achieve the necessary internal reforms. To do so, moreover, would require guidance and direction from some kind of multi-national mechanism in order to reflect the very nature of the Alliance. The Marshall Plan experience wherein the European nations make an analysis of their overall needs was regarded as a device which had implications for the Latin Americans. The Latin Americans were eager to find some device which would increase the flow of external resources and make the quantity responsive to their needs as they saw them but were not eager to have the donors tell them what they had to do internally. The CIAP mechanism was devised to satisfy both sides -- it would be a forum wherein country performance could be studied and self-help, internal reform measures and other recommendations made, and it would provide a means to estimate financing needs, including external resources.

The first Chairman, Carlos Sanz de Santamaria, and seven members of CIAP were elected at a Special IA-ECOSOC Meeting on January 30, 1964.

The inaugural session of CIAP, which was addressed by President Johnson, was held in Washington in March, 1964, and the first meeting was held in Mexico City in July, 1964. At this first meeting CIAP decided on a country review process that would meet the specific requirements placed on it:

- to make an estimate of the financial needs for Latin American development and growth at the rate of 2.5 percent per capita, and of the total funds that may be available from the various domestic and external sources to satisfy those needs;

- to review national and regional plans and actions to execute them; and

- to make specific recommendations to the members of the Alliance and to the regional organizations in the hemisphere concerning these plans.,

Since its creation CIAP has conducted four series of annual country reviews, attended by representatives from the governments and from the lending agencies, including A. I. D. , and sixteen plenary meetings to consider policy problems of the Alliance for Progress.

CIAP held a meeting to review the external financial requirements for economic integration of the Central American Common Market, in July, 1968.

The attitudes of member governments regarding the value of the reviews vary. Those governments who hold the reviews to be of real value send higher level delegations, participate actively, and there is a good chance that they will incorporate CIAP recommendations into policy and action programs during the year. Others are skeptical of the benefits to be derived from the process and, on occasion, appear reluctant either to submit their policies and programs to a critical analysis, or to accept CIAP recommendations -- particularly when they touch on sensitive areas. Since the process is voluntary, it is a matter for the governments themselves to decide how they will react to the recommendations. In addition, the degree to which the lending agencies are guided by the Committee's finding varies from case to case.

The country reviews have often yielded sound recommendations to member countries on their development policies. CIAP has spurred the governments to make more extensive structural reforms in taxation, agriculture, education and administration. It has also

recommended constructive action by the U. S. and other developed countries. It has been unsuccessful in its effort to have the U. S. agree to a multilateral review of its development policies.

Each year since its creation, CIAP at the conclusion of the annual country reviews has prepared an evaluation of Latin America progress covering all major fields of endeavor of the Alliance.

In 1966, at the mid-point of the decade of development,

CIAP prepared an evaluation of the first five years of the Alliance.

It has convoked a great variety of meetings on trade, basic commodities, fertilizers, economic integration, telecommunications and has participated in the establishment of the Inter-American Export Promotion Center, launched in 1968.

The U. S. has sought to place increasingly greater emphasis on the multilateral features of the Alliance through CIAP. In 1966, the U. S. Congress approved the Fulbright Amendment (Section 251(b) of the Foreign Assistance Act of 1966) which required that all Alliance for Progress loans be consistent with the conclusions and recommendations of CIAP in its reviews of development programs. In January, 1968, the U. S. Representative on CIAP announced that A. I. D. was prepared to coordinate the granting of program loans in such a manner that recommendations of CIAP could be taken into

account. In May, 1968, A. I. D. further proposed, and CIAP accepted, a plan whereby CIAP would be consulted concerning the development loans to be made by A. I. D. prior to the initiation of formal negotiations with the countries concerned. ^{26f}

The other agencies -- IDB, IBRD, and the IMF -- have not been willing to link their decision-making process as closely to CIAP recommendations on actions as has A. I. D.

Special Development Assistance Fund

The Special Development Assistance Fund is a multilateral development program managed by the Inter-American Committee for the Alliance for Progress (CIAP) and the Inter-American Economic and Social Council (IA-ECOSOC) which augments self-help efforts of Latin American countries in carrying out technical assistance, training and sectoral studies.

In order to promote the multilateralism of the Alliance for Progress it was agreed to establish the Fund at the Third Annual Meeting of the Inter-American Economic and Social Council held in Lima, Peru from December 5 to December 11, 1964. The Fund replaced the contribution made by the U. S. to the multilateral Technical Cooperation Program of the Pan American Union, begun in 1950, and supplanted certain funds provided bilaterally by the U. S.

Contributions by the Latin American nations are matched by the U. S. at a sixty-six/thirty-four ratio with all member nations making annual pledges at the annual IA-ECOSOC meeting. Each year the OAS/CIAP Secretariat prepares a budget which is then reviewed by a budget subcommittee of CIAP of which a U. S. national is a member. The subcommittee prepares a report of recommendations to CIAP which in turn endorses the budget and with comments submits the budget to IA-ECOSOC for final approval at the ministerial level.

Actual operations of the Fund started in the spring of 1965 with the expenditure rate gradually rising to an average of about \$6 million level by 1968. In deciding on the type of operations and programs which the Fund would finance, it was agreed that these would include long-range type technical assistance activities such as the establishment of national training centers, and, in conjunction with the OECD and other free world countries, an extra-continental training and integrated projects programs, both of which looked towards getting the Western European nations involved in providing integrated and selective assistance to Latin America.

The Fund also provides resources to permit CIAP to carry out its many responsibilities related to the annual reviews of the Latin

American countries' economic and social performance and special studies in the field of general development, inflation, fiscal policy, trade and commerce, and commodities.

On the whole, the Fund has provided a unique opportunity to test various concepts of technical assistance in a multilateral setting.

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- 1/ Letter from the President to Mr. Thomas Mann, December 15, 1963.

 - 2/ "Agricultural Development in Latin America: The Next Decade," Inter-American Development Bank, 1967, p. 125. Also, "The Western Hemisphere Agricultural Situation," ERS, U.S. Department of Agriculture, 1968, p. 21.

 - 3/ Western Hemisphere Agricultural Outlook (Including revised data from unpublished sheets of December, 1967), U.S. Department of Agriculture.

 - 4/ Letter, President Johnson to David E. Bell, Administrator, A. I. D., May 14, 1966 (Directives on New Initiative).

 - 5/ International Education Act of 1966, October 29, 1966. Message from the President to Congress relative to International Education and Health Programs, February 2, 1966.

 - 6/ National Policy Statement on International Book and Library Activities, signed by the President, January 4, 1967. Memorandum from the President to the Administrator of A. I. D., November 26, 1966, establishing a White House Task Force on ETV for underdeveloped countries. Report of the White House ETV Task Force to the President, June 27, 1967, Director, USIA.

- 7/ Declaration of the Presidents of America, Meeting of American Chiefs of State, Punta del Este, Uruguay, April 12-14, 1967.
- 8/ Final Report, Fifth Meeting of the Inter-American Cultural Council, Maracay, Venezuela, February 15-22, 1968.
- 9/ Informe del Ministerio de Educacion Nacional al Congreso, Republica de Colombia, Ministerio de Educacion Nacional, July, 1966.
- 10/ Declaration of the Presidents of America, at the 1967 Hemisphere Summit Conference, April 14, 1967.
- 11/ Statement by President Johnson at the 1967 Hemisphere Presidents' Summit Conference, April 12, 1967.
- 12/ Declaration of the Presidents of America, April 14, 1967.
- 13/ Airgram, CA-2390, September 26, 1967.
- 14/ Declaration of the Presidents of America, April 14, 1967.
- 15/ National Advisory Council on International Monetary and Financial Problems (NAC) Action 67-325, December 7, 1967.
- 16/ Special Report of the NAC, House Document #117, May 3, 1967, p. 7.
- 17/ Memorandum to the President, "Task Force to Plan Latin American Physical Integration," April 4, 1968.
- 18/ IDB Resolution AG - June, 1968, Ninth Annual Meeting, April 25, 1968.
- 19/ CIAP Resolution IV, Fourteenth CIAP Meeting, May 3, 1968.
- 20/ State Department Airgram, CA-8149, May 20, 1968.
- 21/ CIES/1342, "Proposals by the Chairmar of CIAP for Invigorating the work of CIAP, the OAS, and the IDB in Multi-national Projects," June 24, 1968.

- 22/ Economic Integration Treaties of Central America, ROCAP, Guatemala, March, 1964.
- 23/ Wardlaw, Andrew B., The Operation of the Central American Common Market (unpublished manuscript), pp. 43-57.
- 24/ CAPTO Circular Airgram - 75 from ROCAP/Guatemala, November 9, 1964, Subject: "Reorganization of ODECA."
- 25/ Declaration of Central America, Department of State Press Release No. 145, March 20, 1963.
- 26/ "Final Report, Sixteenth Meeting of CIAP, July 29-31, 1968," OEA SER. H-XIV, CIAP-238, August 16, 1968, pp. 10-11.

Chapter XI

AFRICA

- A. Background**
- B. Policy Changes 1963-1968**
- C. Regional and Multilateral Programs**
- D. Accomplishments Under New Policy -- Highlights**
- E. Private Enterprise**

A. I. D. Net Obligations and Loan Authorizations - Africa

(U.S. Fiscal Years - Millions of Dollars)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>Total 1962-1967</u>	<u>Gross 1968</u>
<u>Total</u>	<u>315</u>	<u>239</u>	<u>189</u>	<u>150</u>	<u>169</u>	<u>184</u>	<u>1,246</u>	<u>156</u>
Africa								
Congo(Kinshasa)	67	38	20	16	20	20	180	16
Ethiopia	6	9	4	8	35	13	75	7
Ghana	64	2	-	1	1	24	92	17
Guinea	6	12	7	13	3	-1	41	1
Ivory Coast	2	2	6	-	-	1	11	-
Kenya	3	5	3	4	3	2	21	3
Liberia	11	36	12	15	7	6	88	6
Libya	11	11	5	-	-	-	27	-
Mali	2	4	3	1	1	-	12	1
Morocco	31	20	19	11	3	4	88	15
Nigeria	21	26	45	26	22	13	153	21
Somali Republic	11	7	3	4	4	15	45	4
Sudan	10	5	2	3	13	10	43	-
Tanzania	3	9	6	2	1	3	23	2
Tunisia	28	24	20	18	17	24	131	13
Uganda	4	7	2	2	2	7	24	2
Regional	8	9	13	10	21	31	92	33
All Other	27	12	17	17	15	11	99	21

Totals may not add due to rounding.

Africa

Net Commitments by Appropriation Category (U. S. Fiscal Years - Millions of Dollars)

	1962	1963	1964	1965	1966	1967	Total 1962-1967	1968 (Gross)
<u>Grand Total</u>	<u>315</u>	<u>239</u>	<u>189</u>	<u>150</u>	<u>170</u>	<u>184</u>	<u>1. 247</u>	<u>156</u>
Development Loans	86	95	77	43	70	88	458	72
Technical Cooperation/ Development Grants	125	74	65	71	75	74	485	67
Supporting Assistance	23	29	48	36	23	19	178	17
Contingency Fund	16	5	- 1	-	2	4	25	-
Other, Including Inter- national Organizations	65	35	-	-	-	-	101	-

Source: A. I. D. Operations Report

Totals may not add due to rounding

A. Background

During the 1960's there have been four major developments in A. I. D. 's assistance programs in Africa.

- a shift away from bilateralism towards regionalism,
- an emphasis on multi-donor cooperation,
- development and refinement of the development emphasis countries concept as the basis for assistance on a country basis, and
- a de-emphasis of strategically oriented assistance and a concentration on development oriented assistance.

These changes in assistance policy resulted from the large number of African countries eligible to receive aid, the desire of many African countries for some type of regional cooperation and Congressional limitations on bilateral assistance. These new policy directions also have been reflected in the reorganization of the Africa Bureau along more regional lines (see Chapter XIX) , and in the increasing amount of funds allocated for regional projects. In the short time since the initiation of these changes in policy there have been many examples which suggest the soundness of the new approach.

During the colonial period, the U. S. , except for the special relationship with Liberia, had few contacts with the Continent.

World War II awakened U. S. interest, partially as a consequence of Allied military efforts and post-war security arrangements. Subsequently, the African independence movement commanded U. S. attention.

U. S. assistance efforts in the 1940's consisted chiefly of lend-lease funds and ad hoc agriculture and public health assistance. The first formal aid relationship was the signing of a formal assistance agreement with Liberia in 1951. In the years immediately following, limited U. S. aid, in the form of some "Point Four" help and Marshall Plan aid went to Africa indirectly through the European metropolises.

During the 1950's U. S. assistance to Africa was directed primarily to two small groups of countries--the long-independent nations like Liberia and Ethiopia and the newer states like Tunisia, Morocco, Sudan and Ghana. This aid, oriented chiefly to safeguarding global U. S. security arrangements, was an outgrowth of the special World War II relationships deriving from strategic facilities in several of the African states. As the cold war intensified, military base considerations became an even more important element in U. S. interests in North Africa.

Starting in about 1957 U. S. policy began to take into account the growing number of newly independent states. These countries

tended to look to the U. S. as a world power, without territorial ambitions or previous colonial relationships in Africa. The U. S. was also helping to meet the needs of less-developed countries elsewhere in the world.

Between 1955 and 1958, the U. S. initiated modest aid programs in seven new states: Ghana, Kenya, Morocco, Nigeria, Sudan, Tunisia, and Uganda. Existing programs in Libya and Somalia expanded sharply. In this period, total American economic aid to Africa rose from \$37 million to \$100 million a year. However, the bulk of this assistance was still non-developmental, related to maintaining bases and other strategic objectives. Assistance directly related to improvement of skills and capital investment amounted to only \$20 million in 1958.

In the 1960's, in line with the shift in emphasis of U. S. assistance from security-related to development activity, a similar shift occurred in Africa. This was reflected in the shift from supporting assistance for strategic stabilization purposes, to development assistance for economic development purposes. The proportion of supporting assistance to total assistance (which exceeded fifty percent in fiscal year 1960) declined steadily to twenty-four percent in 1963, to twelve percent in fiscal year 1967 and ten percent in fiscal year 1968, when Congo (K) was the major recipient.

This shift coincided with the advent to independence of many African states. The early 1960's found a number of newly independent African countries struggling toward economic and political independence. Most were heavily dependent on civil services led and held together largely by expatriates, and were faced with a lack of adequately trained manpower. All were substantially dependent on their former metropolises, and many had only the most rudimentary economic and political infrastructure.

The beginning of the 1960's saw a dramatic increase both in the volume of aid going to Africa and in the number of nations receiving aid. In 1961 total U.S. economic aid, including agriculture commodities under P. L. 480, reached \$460 million, a sharp increase from the \$211 million total in 1960. The wave of fifteen newly independent African states in 1960 brought the total of African nations receiving bilateral U.S. assistance to thirty-two by 1962. Despite this large number of states receiving U.S. help, however, A.I.D. concentrated sixty to seventy percent of its development aid in a few countries (Ghana, Morocco, Tunisia, Nigeria) which were believed to have the potential to show significant economic progress and to the Congo (K) where political and economic stability were precarious. With the new

emphasis on development aid, supporting assistance dropped from a peak of about \$130 million in 1961 to \$17 million in fiscal year 1968. Development assistance has averaged about \$150 million during 1964-1968.

During the 1960's U.S. aid made up only about twenty percent of the approximately \$1.6 billion per year in total donor aid going to the Continent. Other Free World donors -- France, the United Kingdom, the European Economic Community, West Germany and the World Bank family (IBRD, IDA, IFC) -- provided the bulk of this assistance (sixty-eight percent), while twelve percent came from eight Communist countries.

As a result Africa received during the 1960's roughly \$6.00 per year for each of its approximately 270 million people -- the highest per capita assistance received by any region. However, Africa was not of high priority in A. I. D.'s overall funding, and total A. I. D. assistance to Africa has amounted to less than ten percent of the total grants and loans made by A. I. D.

U.S. aid to Africa has been affected significantly by political crises, largely evolving from post-independence problems. Some of the major developments in the period fiscal year 1964 through fiscal year 1968 are mentioned briefly below:

The program in the Congo, designed to establish political and economic stability and internal security, suffered major interruptions. A number of successive rebellions have been put down and it appears in mid-1968 that the stability needed to allow the Congo to concentrate on its economic development is being created.

The U.S. in 1965 participated in an airlift of petroleum products to Zambia, whose economic stability was threatened by a cut-off of such products, after Southern Rhodesia's unilateral declaration of independence.

In Ghana, the opportunities for the use of U.S. aid deteriorated under the economic and political policies of the Nkrumah regime. The overthrow in 1966 of Nkrumah was followed by a new government determined to reverse previous policies and make more effective use of Ghana's rich resources. This new situation established the basis for large-scale economic aid by a concerted effort of free-world donors, including the U.S.

Conversely, the outbreak of the Arab-Israeli five-day war in June, 1967, led to suspension of the U.S. development aid program in Sudan, which had previously been designated as a development emphasis country. It also led to the cessation of aid to Algeria and Mauritania, which had been receiving assistance on a smaller scale.^{1/}

One of the largest A.I.D. programs in Africa was in Nigeria. The outbreak of civil war in Nigeria led to cessation of assistance in

the Eastern provinces and limitation to technical assistance in the country as a whole until the political future is clarified, stability restored, and a development program resumed.

Military expenditures was another area of concern. In fiscal year 1968 an A.I.D. loan to Nigeria was reduced by \$1.8 million--the amount that country had spent on IL-28 jet bombers--as called for by the Conte-Long Amendment (Sec. 119) to the Appropriation Act of fiscal year 1967, which placed restrictions on expenditures for sophisticated weapons systems by U.S. aid recipients. The economic assistance program in seven African countries required intensive consideration as a result of their large military expenditures, as provided by the Symington Amendment to the Foreign Assistance Act of 1967, which calls for termination of assistance to countries with "unnecessary military expenditures" (Sec. 620(s)). The reviews determined that six of the seven countries were not making "unnecessary military expenditures." The case of the seventh is still under review.

The continued U.S. interest in Africa and its development problems was reconfirmed by a visit of Vice President Humphrey and a group of Government officials and U.S. businessmen. They visited nine African countries in December 1967 and January 1968. Mr. Humphrey met with the leaders of the countries and visited A.I.D. projects. In a report to the President following the trip,

the Vice President recommended increased U. S. private investment in Africa and said we must continue to encourage regional cooperation and the regional approach in our A. I. D. programs.^{2/}

B. Policy Changes: 1963-1968

In addition to the general policy directions discussed in Chapter I which helped to shape the African program, other policy changes were unique to Africa.

After initiation of bilateral programs for all the newly independent African states, which reached a high of thirty-two countries in fiscal year 1966, it became apparent to A. I. D. that it would be expensive and administratively difficult to continue to administer so many small bilateral programs in the field. Administration of twelve of the smaller bilateral country programs was shifted in April 1964 from the field to Washington, where they became the responsibility of a new Office of Regional Affairs.

The Clay Committee, appointed by President Kennedy in 1963 to make a thorough study of A. I. D.'s worldwide policy and operations, had concluded that the U. S. was extending itself too far in assisting so many small African countries and that Great Britain and France should continue to have primary responsibility for economic aid to Africa. The Clay Report conclusions, however, were not accepted by either the Congress or the Administration, both believing that

the developing nations would feel the U.S. was abandoning them.^{3/}

Simultaneously with the Administration's effort to reduce the number of separate field missions, Congress grew increasingly apprehensive about economic assistance to so many countries.

After an unsuccessful attempt in 1965, Congress, in 1966, amended the Foreign Assistance Act for 1967 to limit the number of recipients of A.I.D.'s development assistance (outside Latin America) to forty for technical assistance and ten for development loans. Congress did provide that the President might provide assistance to additional countries if judged to be in the national interest. Additional recipients were subsequently permitted, and the number increased to forty-eight and twenty-nine respectively for fiscal year 1967.

Limiting recipients of economic assistance affected U.S. programs in Africa severely. Before the limits were set in fiscal year 1966, A.I.D. provided technical assistance to thirty-four countries and development loans to eight. After the limits went into effect, in fiscal year 1967, the number receiving technical assistance dropped to twenty-three but, to complete existing commitments, the number receiving development loans rose to ten.

The Congressional limitations on the number of countries eligible to receive aid arose concurrently with Administration moves toward a new approach to U.S. assistance in Africa.

The Department of State took the position that U. S. aid for Africa was necessary and recommended a study of African assistance policies. President Johnson, in his speech to the Organization for African Unity (OAU) on May 26, 1966--the first policy statement on Africa by an American President--stressed the need for regional cooperation in Africa and stated that the U. S. would assist African nations in such efforts.^{4/} He also directed U. S. Ambassador to Ethiopia, Edward Korry, to indicate ways in which to improve U. S. assistance to Africa, including means to foster regional cooperation. Ambassador Korry was directed to indicate new policy directions for U. S. assistance to Africa, as well as to recommend basic ways of implementation.

The Korry Report was issued on July 27, 1966.^{5/} Its essential recommendations were as follows:

- a. Development and strengthening of multilateral donor coordination mechanisms for dealing with African development;
- b. Concentration of assistance to Africa on functional sectors of fundamental importance and on programs around which regional and sub-regional institutions and activities could be built;
- c. Stimulation of increased U. S. private investment in Africa;

- d. Concentration of major economic development assistance in those countries where it could be utilized most effectively, and reliance on regional and multilateral organizations and methods as our primary means for development support elsewhere;
- e. A modest annual increase in A. I. D. 's development assistance to Africa, as well as an increase in the total resources available to the IDA so that it could also increase assistance to Africa;
- f. A revision of A. I. D. 's procedures for its work in Africa;
- g. Participation in an effective international cocoa agreement; and
- h. Support for arms limitation and control in Africa.

In January 1967, President Johnson approved the basic guidelines for A. I. D. 's Africa program which established a) bilateral assistance to a limited number of countries and b) regionalism and multi-donor cooperation as the guiding principles of U.S. assistance to this region. ^{6/}

In the years since the issuance of the Korry Report, the Department of State has tended to want to soften the impact of bilateral phase-outs, and has from time to time recommended--unsuccessfully--that the time schedule for complete bilateral A. I. D. phase-outs in those countries be stretched out.

Application of the new policy specifically to the African region led to the selection of fewer "development emphasis" countries eligible for continued bilateral development assistance, a shift in focus from bilateral assistance to regional projects, and increased emphasis upon assistance through multilateral arrangements.

The development emphasis countries are those whose past performance indicates promise for development on a national scale, where a good resource base exists, and where aid from other sources is inadequate, or where a special relationship exists with the United States. These criteria for eligibility as development emphasis country remained essentially the same as prior to the 1967 shift to regionalism. The effect of the policy restatement was to create a distinct development emphasis category for bilateral assistance which confirmed and articulated criteria which had been used on an ad hoc basis previously. At the end of fiscal year 1968 the development emphasis countries were Tunisia, Morocco, Ethiopia, Liberia, Ghana, Nigeria, Congo (k), the three countries of the East Africa Community, Kenya, Tanzania and Uganda and Ethiopia and Liberia in a "special relationship" category. Our aid to Congo (k) was at the end of the pre-development phase of internal stabilization under the supporting assistance program.

Bilateral aid continued to be an important but decreasing part of A.I.D.'s total program in Africa. In fiscal year 1968 it made up eighty percent of the total A.I.D. budget for Africa. In fiscal year 1969

this percentage was to decrease to about sixty percent. It should also be noted that each of the development emphasis countries was participating in one or more regional projects.

As a result of the new policy, bilateral programs in Africa for other than the "development emphasis" countries (Liberia, Congo (k), Kenya, Uganda, Tanzania, Ghana, Morocco, Tunisia, and Nigeria) have been reduced in number and funding. Bilateral programs in the Central African Republic, Chad, Cameroon, Gabon, Malagasy, the Ivory Coast, the Gambia, Dahomey, Senegal, Togo, Niger, Upper Volta, Mali, Sierra Leone, Rwanda, and Burundi (sixteen countries in all) either had been or were--by mid-1968--being phased out. They were receiving or would shortly be receiving only regional aid, except for a small Self-Help Fund. In fiscal year 1968 A.I. D. completed the last development loans to those countries in which projects were at an advanced stage of planning.

U.S. Ambassadors in the phase-out countries have consistently expressed concern about the effects of the halt in bilateral aid on U.S. diplomatic relations with these countries. They have urged continuance of some sort of bilateral program, which they deemed useful as an indicator of continued U.S. interest in the country, and without which they felt their role in maintaining close and friendly relations with host-country officials would be more difficult. A.I. D. has been unable to respond favorably to these pleas because of funding,

policy and Congressional restrictions. A. I. D. has urged every ambassador to encourage his host government to participate in Regional Projects and has insured that each ambassador had a Self-Help Fund, which provided him with a small annual "evidence" of continued U. S. assistance in his country.

These Self-Help Funds, usually amounting to \$50,000 or \$100,000 a year in each country, are available for the ambassador and his country team to use on small projects that have a high impact on the community and have a substantial level of self-help input. For example, the Peace Corps and the Government of Somalia worked together on a highly successful self-help school construction project. The Peace Corps provided about twenty volunteers to manage the planning and construction activities, and local government councils provided funds for imported materials, tools, and equipment, and trucks to transport the construction teams from job to job.

In another example, townspeople of Ejorji, Kenya, used fittings, pipe, storage tank materials and other assistance furnished by A. I. D. to construct a local water supply system, schools, a market and a maternity hospital. Self-help assistance has also helped Kenya to build 6,000 miles of access roads, over 1,000 bridges, and more than 2,500 schools, nurseries, and health centers.

C. Region and Multilateral Programs

Regional programs supported by U.S. assistance in Africa involve either an indigenous international organization or cooperation on the part of two or more African countries. In fiscal year 1968 twenty-two percent of total A. I. D. assistance to Africa was for regional programs, compared with only seven percent in fiscal year 1964. The request for fiscal year 1969 anticipated continuing the trend, with almost forty percent earmarked for regional and multi-donor projects. ^{7/}

The regional effort, moreover, follows the initiatives of African leaders who have long recognized the advantages of regional cooperation. A major thrust of A. I. D. assistance has been to strengthen and expand the capabilities of some of these existing African regional organizations. Among these organizations are the Lake Chad Basin Commission, the Niger River Basin Commission, and the Economic Commission for Africa (ECA). Under review for fiscal year 1969 for possible assistance is the Central African Economic and Customs Union (UDEAC), the Organization for Coordination and Cooperation in the Fight Against the Major Endemic Disease of Central Africa (OCCEAC) and the same organization for West Africa (OCCGE), and the Scientific Technical and Research Commission (STRC) of the Organization of African Unity (OAU).

Through their own frequent use of regional arrangements, Africans have shown their realization of the advantages and even the necessity of regional cooperation in a vast continent with so many small states and in an international atmosphere of diminishing aid funds. Nevertheless, the enthusiasm with which Africans have reacted to the new U.S. policy of regionalism has varied widely. In some quarters it is suspected that regionalism was a disguise for U.S. withdrawal from the Continent.

Other misgivings among Africans about regionalism included the feeling that regional aid was not really an adequate substitute for bilateral aid, especially when a project was located in a country other than their own. There were also real, physical obstacles to getting regional projects off the ground, such as the frequent difficulty of obtaining qualified, French-speaking technicians (which had also plagued previous bilateral projects in French-speaking countries of Africa) and the embryonic character of many of the African institutions. In addition, the geographical separation of the Malagasy Republic from the body of the Continent has created a special problem.

Such reactions have been strongest in the countries where bilateral aid was being phased out. They have created a challenge to A.I.D. to show that the U.S. remains interested in their welfare and that the regional policy was a genuine effort--within our own limitations--to aid their development. At the close of the period, the progress A.I.D. could point to in developing a number of successful and workable regional projects had ameliorated the initial misgivings of some of the African countries.

Increasingly, A.I.D. assistance in Africa has been coordinated through multilateral agencies such as IBRD Consultative Groups or the International Monetary Fund. The Consultative Groups proved useful because they enabled the African countries to obtain the benefits of a review of plans, strategy and self-help efforts and joint decisions by the free world donors and international organizations. Such multilateral reviews predated the 1967 shift to regionalism -- both the Nigerian and Tunisian Consultative Groups were established earlier. Multi-donor projects have also proved a useful device to fund the larger projects in Africa. An

early multi-donor project which preceded the 1967 shift of policy was the fiscal year 1964 A.I.D. loan for the construction of a hydroelectric dam on the Niger River in Nigeria. The total funding for this multi-donor project was \$101 million, of which the U.S.'s share was \$8 million.

D. Accomplishments Under New Policy -- Highlights

Agriculture

In the field of agriculture, the focus of A.I.D.'s regional projects has been on cooperating with other donors in providing more food and a better diet, and to assist participating countries to save for economic development the foreign exchange now being used for food imports.

In cooperation with the U.N. Development Program, the Ford and Rockefeller Foundations and other donors, A.I.D. has been working on a project in West Africa to increase the production and distribution of rice. About ten West African nations import about 500,000 tons of rice a year valued at more than \$50 million. An increase in rice production by these countries would obviate the need to import this much rice and would save scarce foreign exchange for development projects.

Livestock is also important to most of Africa, but animal diseases drastically reduce the available meat supply through

infection and death. Potential foreign exchange is also lost since meat may not be exported abroad. Rinderpest, along with contagious bovine pleuro-pneumonia and hoof and mouth disease are the three principal scourges of livestock in Africa that must be eradicated before African meat may be exported for hard currency.

Perhaps the most successful on-going regional program in Africa is the Rinderpest Eradication Program under the sponsorship of STRC. Started in 1962, it has received steady U.S. and other donor assistance. The program -- designed to bring the disease under permanent control -- involved all the Sub-Saharan countries of West Africa east through Chad. At the completion of the program in 1969, twenty-four million cattle will have been inoculated against the disease. Rinderpest had for many years severely curtailed food production. The results to mid-1968 had been dramatic. From 8,000 rinderpest deaths of cattle in Chad during 1962, the number declined to 229 in 1964, after the inoculations were completed. Some 2,300 cattle died of rinderpest in Cameroon during 1962. There were none after the campaign ended in that country in 1965.

Health

A regional Measles Control and Smallpox Eradication Program begun in fiscal year 1966 under A. I. D. has assisted in the eradication of smallpox and the control of measles in nineteen West and Central African countries, in cooperation with two African regional organizations and the World Health Organization. In the period January 1, 1967, through June 30, 1968, A. I. D. technicians gave nearly fifty million smallpox vaccinations in West and Central Africa, reaching about forty percent of the estimated population in the nineteen-country region. During a similar period, over eight million measles vaccinations were given, with a corresponding decrease of fifty percent in reported measles cases.

In Ethiopia, where half of the population lives in malarial areas, more than four million people were protected against the disease. Regions where malaria once struck one out of three people were ninety-eight percent malaria free by 1968.

Education

During the middle 1960's, four main programs, covering almost all of Africa, were pursued in the field of education. A. I. D. set up a scholarship system to encourage the higher education of Africans in Africa rather than abroad. The program

sought to place African students in African universities outside their own countries in an effort to strengthen African universities and encourage their commitment to regional education by admitting students from many countries. At the same time, assistance to African colleges and universities was extended to improve their facilities. In short, the U.S. was attempting to stop the proliferation of universities in Africa, by encouraging the African countries to concentrate their efforts and resources in the most promising universities.

Other important projects included training of Africans in fields important to economic development at U.S. universities, when adequate facilities were not available in Africa. By June 1968 some 1,900 African students had studied at U.S. universities under A. I. D. auspices.

Transportation

In the field of transportation and communications, a number of regional projects were under way during this period. By fiscal year 1969 for example, two roads in Kenya, one eighty-six miles in length and the other seventy-six miles in length, were being improved under joint African Development Bank and A. I. D. financing. These two roads form a part of the regional road network involving Kenya, Tanzania and Uganda.

Projects with African Regional Organizations

African Development Bank (ADB)

A. I. D. has assisted the ADB in becoming an effective regional financial institution in support of rational economic development in Africa. In June, 1968, A. I. D. granted the ADB \$435,000 for the financing of technical assistance and feasibility studies. In fiscal years 1968 and 1969 A. I. D. was considering an ADB request for contributions to a special development fund.^{8/}

U. N. Economic Commission for Africa (ECA)

The United States has been a consistent supporter of the aims of the ECA, and has contributed to the organization through dues and contributions to the United Nations and through direct contact between ECA and A. I. D. In 1968 A. I. D. attached an American Special Assistant for Agriculture to the staff of the Executive Secretary of ECA, and also posted a new Attache for Regional Economic Affairs in the U. S. Embassy in Ethiopia.

African Training and Research Center in Administration for Development (CAFRAD)

The United States made a major contribution to CAFRAD through annual UNESCO payments. In fiscal year 1968, an agreement was signed between CAFRAD and A. I. D. to supply an

American public administration expert to the organization for two years.

The Council of the Entente States

The Entente, whose members are Ivory Coast, Niger, Upper Volta, Dahomey and Togo, was established in 1959 for the purpose of mutual assistance and cooperation. The Entente countries began receiving A. I. D. regional assistance after the establishment of the Entente's Mutual Aid and Loan Guaranty Fund in 1966. A. I. D. has financed several investment studies, including meat marketing in the Entente States (Ivory Coast, Niger, Upper Volta, Dahomey and Togo), agro-industry investment possibilities, and grain stabilization in the Entente States and Ghana.

The Niger River Basin Commission

A. I. D. has provided the services of a river economist and an engineer hydrologist to the Niger River Basin Commission, which was established in 1963 with headquarters in Niamey, Niger, to study and coordinate all phases of the river's development. Membership included the Ivory Coast, Dahomey, Guinea, Upper Volta, Mali, Niger, Nigeria, Chad and Cameroon.

The East African Community (EAC) :

The East African Community (Kenya, Tanzania, Uganda) represented a significant step toward regional cooperation in Africa. From colonial days the three countries inherited a system of East African common services and organizations. The ECA Treaty was signed in 1967. The U.S. has joined with other Western donor nations in an IBRD-sponsored consultative group to coordinate economic assistance to the region.^{9/}

E. Private Enterprise

Promotion of private investment in Africa has played an important role in A.I.D.'s assistance to that continent.

Since U.S. firms were giving low priority to Africa a Regional Office of Private Enterprise was created in 1965 charged with the promotion of private investment.^{10/}

The Office of Private Enterprise has used several existing programs, such as Cooley loans and specific and extended risk investment guaranties,, to encourage U.S. business investment in Africa, and created some other programs on its own initiative.

Cooley loans -- using local currency generated from the sale of surplus P.L. 480 agricultural commodities -- are made to assist U.S. business investment in less-developed countries. They are also made to host country enterprises for projects

involving the processing of surplus agricultural products. In Africa, A. I. D. made two Cooley Loans prior to 1966 -- both in the Sudan. From 1966 to 1968 Cooley Loans were made in Morocco, Tunisia, Guinea, Ghana and the Congo (K).

Specific risk investment guaranties provide American investors with protection against currency inconvertibility, expropriation and war, revolution and insurrection. This incentive has been widely used by American firms. During the Johnson Administration, A. I. D. negotiated bilateral agreements with most African aid-receiving countries for specific risk guaranties.

An extended risk guaranty protects an American firm against the additional hazard of losses due to all business risk except fraud. Extended risk guaranties may be obtained by U.S. firms up to seventy-five percent of loan capital investments, and fifty percent of equity investments.

Specific and extended risk guaranties have proved to be excellent mechanisms for generating private investment in Africa and have replaced A. I. D. development loans for private investment projects in that continent.

The Africa Bureau has also promoted private investment through the regular A. I. D. Investment Survey Program, under

which A. I. D. underwrites fifty percent of the cost of investment surveys undertaken by American firms, in the event that a firm decides not to invest.

The Chanas Fund, one of the development projects of the Office of Private Enterprise, was established in fiscal year 1968 at \$0.5 million. The Fund was created by a group of U. S. private citizens interested in the investment potentials of Africa, and was a branching off from the Private Investment Promotion Program undertaken with U. S. investment firms and Edge Act corporations. The Fund is used for small investments of less than \$100,000 each.^{11/}

The Midwest International Development Association (MIDA) was formed by three Chicago-based firms interested in investing in Africa and in participating in the Investment Promotion Program. From its founding in 1967, MIDA, with A. I. D.'s financial help, placed three representatives in Africa to seek out investment opportunities. By mid-1968, MIDA, together with the other five investment firms participating in the Investment Promotion Program, had identified over 500 investment opportunities and was actively engaged in promoting about 100 of these projects. At the time of this writing, positive investment decisions had been taken in four cases.^{12/}

In addition, the Africa Bureau initiated in 1968 an investment survey program which provides greater incentives to potential U.S. investors. This program has been limited to agro-industrial projects. Due to the high priority given to food production by A.I.D., and due to the low priority given to investment in Africa by U.S. investors, the Africa Bureau has offered 100 percent financing for agro-industrial investment surveys in Africa regardless of whether or not an investment is made. If an investment is made, a certain part of the cost is repayable to A.I.D. from the profits of the investment. This program, in its first year, resulted in contracts for over thirty investment surveys and led to two positive investment decisions.

Direct U.S. private investment in Africa, which stood at \$1,064 billion in 1961, more than doubled by mid-1968, to an estimated \$2.3 billion. About one-fourth of this investment was in the Republic of South Africa, with Liberia and Libya accounting for twenty-five percent of the total.

U.S. investor interest in the mid-1960's has shifted somewhat from South Africa, Liberia and Libya towards the Maghreb countries of Morocco and Tunisia and the countries of West Africa. However, white Africa has fared much better than black

Africa in attracting U.S. private investments; despite geographic shifts in emphasis, this still was the case in mid-1968.

Mandatory controls on equity investments outside the United States went into effect on January 1, 1968 as part of the President's effort to reverse the gold outflow. These investment controls are administered by the Office of Foreign Direct Investment (OFDI) of the Department of Commerce. The controls do not apply as stringently to companies investing in the developing countries -- including most of those in Africa -- as they do in the more developed areas. The controls allow U.S. firms to make equity investments in less-developed countries at the rate of 110 percent of similar investments made by the firms during the base period of 1965-1966. However, companies without any overseas investments during the base years have had to obtain special authorizations from the Department of Commerce before they were allowed to invest overseas.

Since the function was new and the regulations were still in the process of being written, the unclear situation with regard to those companies during the first half of 1968 caused some apprehension in the segment of the U.S. business community interested in African investments. A further complicating factor was the failure of many U.S. overseas investors to report to the

Department of Commerce the size of their 1965-1966 investments, which made it hard for the Department of Commerce to determine the overall base-figure on which the 110 percent was to be figured. Despite the concern evidenced by U. S. investors, it was impossible to determine in mid-1968 whether any of them had failed to carry through on an investment in Africa because of the investment controls.

One discouraging phenomenon that has plagued U. S. investors in French-speaking Africa has been the French attempt to guard their strong interests and to set roadblocks in the paths of U. S. firms seeking to invest in those countries. This attitude has not been seen on anything approaching this level in the former British colonies.

1/ Embassy Dakar telegram 2714, dated June 15, 1967, Current Projects Mauritania (Conf.) and A. I. D. /State telegram 219930, June 30, 1967, Guidance on Current Mauritania A. I. D. projects (Conf.)

2/ "The Vice-President's Trip to Africa," December 30, 1967 - January 11, 1968, Report to the President (Secret) and "Report to the Vice President by Assistant Administrator for Africa, R. Peter Straus," January 11, 1968, Economic Assistance and Related Matters (Confidential).

- 3/ The Scope and Distribution of U. S. Military and Economic Assistance Programs, March 20, 1963, Chairman, General Lucius D. Clay.
- 4/ Speech to the Organization of African Unity, President Johnson, May 26, 1966.
- 5/ Review of Development Policies and Programs in Africa, Edward M. Korry, Ambassador to Ethiopia, July 27, 1966.
- 6/ Action Plan for Implementation of the Korry Report, memorandum from Herald Kleine. December 17, 1966 (Confidential); A. I. D. Position on Korry Report Recommendations (Confidential); Memorandum to Recipients of the Korry Report and the Action Program, Robert S. Smith, Special Assistant to the Assistant Secretary of State for African Affairs, April 21, 1967 (Confidential).
- 7/ Memorandum from Assistant Administrator for Africa, R. Peter Straus, Improvement of RUA Operations and Increased AFR Bureau Focus on Regional Activity, September 29, 1967 (Limited Official Use).
- 8/ U. S. Proposal to Assist the Special Fund of African Development Bank, October 18, 1967 (Confidential); memorandum to the African Development Bank from the U. S. Government, December, 1968.
- 9/ Statement on the Future of the East African Consultative Group; telegram from President Lyndon B. Johnson to President Kenyatta of Kenya, President Nyerere of Tanzania, and President Obote of Uganda; Concluding Statement by the Chairman of the IBRD Consultative Group for East Africa on The East African Community and on Common Problems, Paris, April 22-27, 1968.
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- 11 / AIDTO Circular XA 3256, May 16, 1968, Chanas Fund, Inc. -
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- 12 / Memorandum to R. Peter Straus from Benjamin Goldberger,
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