FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS FOR 1976

DOCUMENTS

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS AND RELATED AGENCIES

OTTO E. PASSMAN, Louisiana, *Chairman*

CLARENCE D. LONG, Maryland
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BILL CHAPPELL, JR., Florida
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DONALD E. RICHBOURG, *Staff Assistant*

PART 1

Asian Development Bank
Cuban Refugee Program
Export-Import Bank
Inter-American Development Bank
Inter-American Foundation
International Development Association
International Narcotics Control Program
Migration and Refugee Assistance
Overseas Private Investment Corporation
Peace Corps (ACTION)

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
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U.S. GOVERNMENT PRINTING OFFICE

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FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1976

MONDAY, MAY 5, 1975.

INTER-AMERICAN FOUNDATION

WITNESSES

WILLIAM M. DYAL, JR., PRESIDENT
LEON M. PARKER, EXECUTIVE OFFICER
CSANAD TOTH, PROGRAM DIRECTOR

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1974 actual	1975 estimate	1976 estimate
Program by activities:			
1. Social and economic development programs	8,122	7,942	7,800
2. Program support services	1,604	2,058	2,200
Total obligations	9,726	10,000	10,000
Financing:			
Unobligated balance available, start of year	−40,735	−31,009	−21,009
Unobligated balance available, end of year	31,009	21,009	11,009
Budget authority			
Relation of obligations to outlays:			
Obligations incurred, net	9,726	10,000	10,000
Obligated balance, start of year	3,510	6,953	7,920
Obligated balance, end of year	−6,953	−7,920	−7,920
Outlays	6,283	9,033	10,000

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

Personnel compensation:			
Permanent positions	1,021	1,325	1,439
Positions other than permanent	30	36	37
Other personnel compensation	2	5	5
Special personal services payments	8	10	10
Total personnel compensation	1,061	1,376	1,491
Personnel benefits: Civilian	86	110	124
Travel and transportation of persons	146	188	204
Rent, communications, and utilities	156	186	188
Printing and reproduction	16	30	30
Other services	103	128	120
Supplies and materials	13	20	23
Equipment	23	20	20
Grants, subsidies, and contributions	8,122	7,942	7,800
Total obligations	9,726	10,000	10,000

PERSONNEL SUMMARY

Total number of permanent positions	62	74	74
Full-time equivalent of other positions	3	3	3
Average paid employment	59	72	75
Average GS grade	10.57	10.48	10.42
Average GS salary	$17,516	$18,744	$18,970

Mr. PASSMAN. The committee will come to order.

This is the beginning of the hearings of the Foreign Operations Subcommittee on Appropriations for fiscal year 1976.

The first item on the agenda is the Inter-American Foundation.

We have as witnesses Mr. William M. Dyal, Jr., President; Mr. Leon M. Parker, Executive Officer; and Mr. Csanad Toth, Program Director.

I would assume, Mr. President, that you have a statement you would like to make to the committee.

GENERAL STATEMENT

Mr. DYAL. Yes, Mr. Chairman.

APPROACH

The Inter-American Foundation is an experiment in foreign assistance. This role was clearly spelled out in the original legislation which called for "a new direction and a new emphasis for U.S. assistance efforts in Latin America."

We are not a development agency in the usual sense. We offer neither models, nor solutions, nor technical aid. We are essentially gap-funders, providing resources for activities which generally fall outside the purview of the traditional aid agencies.

In simple terms, we attempt to respond to people's efforts to solve their own problems by their own methods, recognizing that other societies are different than our own, having different histories, needs, and desires. The focus always remains on people—individuals and communities—rather than on macroeconomic questions such as GNP increase, development planning, modernization, and industrialization.

This approach is admittedly a high risk one. Although we attempt to recognize and analyze inherent risk, we do not have a technical backstopping staff scattered over the hemisphere to instruct proponents on how to carry out their own designs. We feel strongly that Latin Americans and Caribbeans, who comprise the area of our mandate for assistance should have the major role, not only in program design but in the implementation and operation of their programs.

Once a decision has been made to fund a particular activity, we stand aside. While we observe with sympathetic interest, we don't intervene or interfere.

Although risk and uncertainty are involved in this approach, there is a partnership of risk-taking between donor and grantee. People who construct a project, put up part of the money, and invest it with their aspirations, clearly have more interest than we do in making it a success.

The result of this approach is that the money we have allocated to date has been more than matched by local and counterpart sources. (Exact figures are found in the supplemental data.) We have also entered into consortium funding with other United States and foreign foundations and entities.

I personally believe there is strong underlying support in the United States for this type of assistance. A recent survey conducted by the Overseas Development Council supports this view. The survey found that a clear majority of the American people favor direct people-

oriented foreign assistance which encourages self-sufficiency. The survey also found that Americans view foreign assistance as primarily a moral or humanitarian responsibility, not as a necessity dictated by international politics.

PROGRAM

The Foundation has now completed 4 years of operations. During this period, we have funded approximately 300 projects in 27 countries for a total of over $32 million. The projects range in size from $400 to $1.5 million, the average being around $100,000.

Enclosed in the supplemental material is a brief summary of each of the projects funded during the past year. You will note that they cover a wide range, including such activities as credit and production cooperatives, workers self-managed enterprises, low-cost housing, legal aid clinics, consumer cooperatives, peasant unions, cultural awareness programs, health care, agriculture extension, and leadership training.

In all of these projects, the Foundation recognizes that the concepts are not necessarily unique, but we believe each exhibits certain manifestations of what we call the social process. We define social process as the process of many striving to creatively fulfill his needs in a way that is consistent with his values. These needs range from basic physiological needs such as food, clothing, shelter, to higher level psychological needs such as self-esteem, security, and achievement. It is our assumption that people have the ability and desire to define their own needs, the ability to design a means for fulfilling them consistent with their values, and the skill and motivation to implement the means.

FISCAL YEAR 1976 BUDGET

The Foundation's authorizing legislation provided that not to exceed $50 million should be made available to the Foundation from the economic assistance funds authorized by the Foreign Assistance Act of 1961, as amended. The entire $50 million has been transferred to the Foundation and has been available since fiscal year 1971. The unobligated balance as of February 28, 1975, was $27,891,926.

The Foundation's budget request for fiscal year 1976 is based on a projected program of $20 million. This is the same as we requested and received for fiscal year 1975. It includes a request for a $10 million limitation on obligations of appropriated funds for fiscal year 1976, plus $2.5 million for the 3-month transition period, or a total limitation of $12.5 million. An additional $10 million will come from reflows to the Social Progress Trust Fund under the agreement signed with the Inter-American Development Bank in 1973.

The $20 million is broken down into $17.8 million for program and $2.2 million for program support. (The supplemental material includes a detailed breakdown of support costs.)

CONCLUSION

An article last year in the Harvard Political Review sums up the Inter-American Foundation better than I can:

> For the growing population to manage the coming decades, initiatives from the lowest rank and file must be encouraged and honored. It finally becomes a question of individualizing Washington's approach to Latin America * * *.

These years may not be as glamorous or altruistic as the Alliance for Progress decade, but they may attack the core of Latin America's troubles—the cloaked identity of a geometrically multiplying mass of lost individuals who need only a small amount of money and a little sympathy to change their lives.

JUSTIFICATION MATERIAL

Mr. PASSMAN. Thank you very much for your statement. We will insert in the record the justification material at this point.

[The information follows:]

FY 1976 Appropriation Language Request
Contained in the President's Budget
January 1975

INTER-AMERICAN FOUNDATION

The Inter-American Foundation is authorized to make such expenditures within the limits of funds available to it and in accordance with law, and to make such contracts and commitments without regard to fiscal year limitations as provided by section 104 of the Government Corporation Control Act, as amended (31 U.S.C. 849), as may be necessary in carrying out its authorized programs during the current fiscal year: Provided, That not to exceed $12,500,000 of appropriated moneys shall be available for such programs during the period July 1, 1975, through September 30, 1976.

INTER-AMERICAN FOUNDATION

SUMMARY FUNDING HISTORY

The Foundation (formerly the Inter-American Social Development Institute) was established by Section 401 of Public Law 91-175, of December 30, 1969, the Foreign Assistance Act of 1969.

The Act authorized the transfer to the Foundation of up to $50,000,000 of previously appropriated funds. It authorized funds so transferred to remain available until expended. (Section 401(s))

The $50,000,000 so authorized was transferred, and has all been available for Foundation use since FY 1971.

A limitation was placed on the use of these funds during the appropriations process for FY 1971. That limit stated that "not to exceed $10,000,000 shall be available to carry out the authorized programs during the current fiscal year". (PL 91-619 dated December 31, 1970). A similar limitation was included in Pl 92-242 for FY 1972, again at the $10,000,000 level.

For FY 1973 the Foundation was limited by a Continuing Resolution to a level of $5,000,000.

In January, 1974 the Foundation received a limitation of $10,000,000 of appropriated monies for FY 1974. An additional $6,000,000 in Social Progress Trust Funds was also made available.

The Foundation has received a limitation of $10,000,000 in appropriated monies for fiscal year 1975 and plans to obligate an additional $10,000,000 in Social Progress Trust Funds. The same amounts have been requested for FY 1976.

INTER-AMERICAN FOUNDATION
1515 WILSON BOULEVARD
ROSSLYN, VIRGINIA 22209

FUND AVAILABILITY

	APPROPRIATED	SPTF	TOTAL
Total Made Available	$50,000,000	$31,000,000	$81,000,000
Prior Year Obligations	18,772,626	5,930,448	24,703,074
Balance	31,227,374	25,069,552	56,296,926
Obligations through February	3,335,448	6,888,267	10,223,715
Balance	27,891,926	18,181,285	46,073,211
Planned Obligations Remainder FY 75	6,664,552	3,181,285	9,845,837
Balance	21,227,374	15,000,000	36,227,374
FY 76 Plan	10,000,000	10,000,000	20,000,000
Balance	11,227,374	5,000,000	16,227,374

INTER-AMERICAN FOUNDATION
1515 WILSON BOULEVARD
ROSSLYN, VIRGINIA 22209

SUMMARY BUDGET DATA

APPROPRIATED FUNDS

	$ in 000		
	Total	Program	Program Support
FY 1971 Obligations	$ 376	-	376
FY 1971 Expenditures	193	-	193
FY 1972 Obligations	3,929	2,804	1,125
FY 1972 Expenditures	1,577	343	1,234
FY 1973 Obligations	4,890	3,408	1,482
FY 1973 Expenditures	3,982	2,445	1,537
FY 1974 Obligations	9,577	7,973	1,604
FY 1974 Expenditures	6,283	5,039	1,244
FY 1975 Obligations - 2/28/75	3,336	2,097	1,239
FY 1975 Expenditures - 2/28/75	4,690	3,478	1,212
FY 1975 Obligations Plan	10,000	7,942	2,058
FY 1975 Expenditures Plan	9,033	6,983	2,050
FY 1976 Obligations Plan	10,000	7,800	2,200
FY 1976 Expenditures Plan	10,000	7,806	2,194

SOCIAL PROGRESS TRUST FUNDS

FY 1974 Obligations	5,930
FY 1974 Expenditures	222
FY 1975 Obligations - 2/28/75	6,888
FY 1975 Expenditures - 2/28/75	5,614
FY 1975 Obligations Plan	10,000
FY 1975 Expenditures Plan	7,881
FY 1976 Obligations Plan	10,000
FY 1976 Expenditures Plan	9,018

A&F/Budget
As of 2/28/75

INTER-AMERICAN FOUNDATION
1515 WILSON BOULEVARD
ROSSLYN, VIRGINIA 22209

PROGRAM FUNDS SUMMARY

AS OF FEBRUARY 28, 1975

PROJECTS APPROVED		31,653,356
APPROPRIATED FUNDS		18,300,060
In FY 75	3,889,950	
In Prior Years	14,410,110	
SPTF		13,353,296
In FY 75	7,422,848	
In Prior Years	5,930,448	
TOTAL OBLIGATIONS		29,100,340
APPROPRIATED FUNDS		16,281,625
In FY 75	2,096,507	
In Prior Years	14,185,118	
SPTF		12,818,715
In FY 75	6,888,267	
In FY Prior Years	5,930,448	
TOTAL DISBURSEMENTS		17,232,226
APPROPRIATED FUNDS		11,396,290
In FY 75	3,478,335	
In Prior Years	7,917,955	
SPTF		5,835,936
In FY 75	5,614,292	
In Prior Years	221,644	

INTER-AMERICAN FOUNDATION

PROGRAM APPROVALS BY COUNTRY
AS OF FEBRUARY 28, 1975

COUNTRY	FROM PRIOR YEARS PROJECTS*	FROM PRIOR YEARS AMOUNT	FY 1975 PROJECTS*	FY 1975 AMOUNT	GRAND TOTAL PROJECTS	GRAND TOTAL AMOUNT
ARGENTINA	2	29,230	2	75,760	4	104,990
BARBADOS	5	763,115	1	36,500	6	799,615
BELIZE	5	67,291	1	13,200	6	80,491
BOLIVIA	8	1,367,174	6	810,585	14	2,177,759
BRAZIL	41	3,614,775	9	395,627	50	4,010,402
COLOMBIA	14	1,964,543	6	228,496	20	2,193,039
COSTA RICA	3	241,486	1	157,423	4	398,909
CHILE	4	833,187	4	1,559,592	8	2,392,779
DOMINICAN REPUBLIC	3	562,068	1	505,000	4	1,067,068
ECUADOR	7	753,765	-	-	7	753,765
EL SALVADOR	4	1,118,610	4	730,141	8	1,848,751
GUATEMALA	7	369,366	5	561,348	12	930,714
GUYANA	2	90,200	1	55,150	3	145,350
HAITI	9	726,667	-	45,500	9	772,167
HONDURAS	8	1,412,974	5	2,186,409	13	3,599,383
JAMAICA	9	691,351	-	57,200	9	748,551
MEXICO	15	1,342,851	10	855,642	25	2,198,493
NICARAGUA	5	683,149	5	731,387	10	1,414,536
PANAMA	11	1,598,987	6	567,585	17	2,166,572
PARAGUAY	2	934,677	6	304,822	8	1,239,499
PERU	7	221,912	1	531,211	8	753,123
TRINIDAD	5	328,513	2	32,062	7	360,575
URUGUAY	1	233,812	2	176,563	3	410,375
VENEZUELA	3	89,694	1	55,270	4	144,964
WEST INDIES	4	160,248	2	213,526	6	373,774
U.S.	10	63,733	8	392,228	18	455,961
FELLOWSHIP PROGRAM	-	77,180	-	21,454	-	98,634
INVITATIONAL TRAVEL	-	-	-	13,117	-	13,117
TOTAL	194	20,340,558	89	11,312,798	283	31,653,356

*Includes program and evaluation projects. Also includes all SPTF projects.

INTER-AMERICAN FOUNDATION
PROGRAM OBLIGATIONS BY COUNTRY
AS OF FEBRUARY 28, 1975

COUNTRY	FROM PRIOR YEARS PROJECTS*	FROM PRIOR YEARS AMOUNTS	FY 1975 PROJECTS*	FY 1975 AMOUNTS	GRAND TOTAL PROJECTS*	GRAND TOTAL AMOUNTS
ARGENTINA	2	29,230	1	5,610	3	34,840
BARBADOS	5	763,115	1	36,500	6	799,615
BELIZE	4	61,291	2	19,200	6	80,491
BOLIVIA	8	1,310,497	6	867,262	14	2,177,759
BRAZIL	41	3,614,775	8	283,372	49	3,898,147
COLOMBIA	14	1,964,543	3	60,571	17	2,025,114
COSTA RICA	3	241,486	1	157,423	4	398,909
CHILE	4	833,187	3	353,592	7	1,186,779
DOMINICAN REPUBLIC	3	562,068	1	505,000	4	1,067,068
ECUADOR	7	753,765	-	-	7	753,765
EL SALVADOR	4	1,118,610	4	730,141	8	1,848,751
GUATEMALA	7	333,226	5	597,488	12	930,714
GUYANA	2	90,200	1	44,150	3	134,350
HAITI	9	722,167	-	4,500	9	726,667
HONDURAS	8	1,412,974	3	1,816,409	11	3,229,383
JAMAICA	8	664,751	2	125,300	10	790,051
MEXICO	15	1,290,051	10	864,644	25	2,154,695
NICARAGUA	5	683,149	4	581,022	9	1,264,171
PANAMA	11	1,598,987	5	469,385	16	2,068,372
PARAGUAY	2	934,677	3	200,737	5	1,135,414
PERU	6	198,637	2	554,486	8	753,123
TRINIDAD	5	328,513	1	29,987	6	358,500
URUGUAY	1	233,812	1	68,800	2	302,612
VENEZUELA	3	89,694	1	55,270	4	144,964
WEST INDIES	4	160,248	2	213,526	6	373,774
U.S.	8	44,733	8	305,828	16	350,561
FELLOWSHIP PROGRAM	-	77,180	-	21,454	-	98,634
INVITATIONAL TRAVEL	-	-	-	13,117	-	13,117
TOTAL	189	20,115,566	78	8,984,774	267	29,100,340

*Includes program, evaluation and dissemination projects. Also includes all SPTF projects.

INTER-AMERICAN FOUNDATION

Program Support Funds
($ in 000)

OBLIGATIONS

Object Class		30 June'73 ACTUAL	30 June'74 ACTUAL	FY 75 BUDGET	FY 76	FY 76 Transition Period
I.	Staff Salaries & Related Exp.					
.1	A. Permanent Positions	849	1,021	1,325	1,439	359
.3	B. Positions Other than Perm.	22	30	36	37	8
11.5	C. Other personnel Compensation	1	2	5	5	1
.8	D. Spec. Persnl. Ser. Payments	137	8	10	10	3
	Total	1,009	1,061	1,376	1,491	371
.1	E. Personnel Benefits	72	86	110	124	31
21.0 II.	Foundation Travel	129	146	188	204	52
III.	Support Services					
3.0	A. Rent and Utilities	98	100	108	110	36
23.0	B. Communications	33	40	45	45	8
3.0	C. Postage	2	3	8	8	-
3.0	D. Rental of Equipment	6	13	23	23	3
	Total	139	156	184	186	47
1.0	E. Printing & Reproduction	7	16	30	30	8
25.0	F. Commercial Contractors	4	53	61	49	13
3.0	G. Conferences	6	-	4	4	-
3.0	H. Maintenance of Equipment	2	4	4	4	-
25.0	I. Building Alterations	14	1	10	10	-
3.0	J. Leased Transportation	3	1	2	2	-
3.0	K. Contractual Admin. Services	32	41	46	50	17
25.0	L. Representation Allowance	2	3	3	3	1
25.0	Total	63	103	130	122	31
26.0	M. Consumable Supplies	10	10	15	18	4
26.0	N. Resources Library & Pub.	3	3	5	5	2
	Total	13	13	20	23	6
31.0	O. Office Furn. & Equip.	50	23	20	20	4
	Grand Total	1,482	1,604	2,058	2,200	550

INTER-AMERICAN FOUNDATION

PROGRAM SUPPORT FUNDS
FY 1975

		FEBRUARY OBLIGATIONS	OBLIGATIONS THROUGH FEBRUARY	ANNUAL PLAN	PERCENT OF ANNUAL PLAN	BALANCE
I.	STAFF SALARIES & RELATED EXPENSES	110,906	917,194	1,486,119	61.71	568,925
II.	TRAVEL	21,704	128,874	188,000	68.55	59,126
III.	SUPPORT SERVICES					
	A. RENT AND UTILITIES	8,659	77,930	108,000	72.16	30,070
	B. COMMUNICATIONS	4,154	27,736	45,000	61.64	17,264
	C. POSTAGE	18	2,859	8,000	35.74	5,141
	D. RENTAL OF EQUIPMENT	23	17,620	23,000	76.61	5,380
	E. PRINTING & REPRODUCTION	1	583	30,000	1.94	29,417
	F. COMMERCIAL CONTRACTOR	4,351	16,348	44,000	37.15	27,652
	G. CONFERENCES	-0-	2,136	4,000	53.40	1,864
	H. MAINTENANCE OF EQUIPMENT	-0-	2,437	4,000	60.92	1,563
	I. BUILDING ALTERATIONS	-0-	1,710	10,000	17.10	8,290
	J. STAFF TRAINING	390	9,029	17,000	53.11	7,971
	K. LEASED TRASPORTATION	213	710	2,000	35.50	1,290
	L. CONSUMABLE SUPPLIES	752	7,419	15,000	49.46	7,581
	M. CONTRACTUAL ADMINISTRATIVE SERVICES	103	17,773	46,000	38.64	28,227
	N. RESOURCES LIBRARY	869	3,131	5,000	62.62	1,869
	O. OFFICE FURNITURE AND EQUIPMENT	12	3,988	20,000	19.94	16,012
	P. REPRESENTATION ALLOWANCE	309	1,464	3,000	48.80	1,536
	SUB-TOTAL	19,854	192,873	384,000	50.22	191,127
	GRAND TOTAL	152,464	1,238,941	2,058,119	60.19	819,178

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INTER-AMERICAN FOUNDATION
1515 WILSON BOULEVARD
ROSSLYN, VIRGINIA 22209

ANALYSIS OF MATCHING AND LEVERAGED FUNDS FOR ALL APPROVED PROJECTS

AS OF FEBRUARY 28, 1975

(Expressed as a Percentage of the Amount Provided by the Foundation)

Number of Projects where other contributions are approximately equal to or in excess of the Foundation's	74
Number of Projects where other contributions are equal to or in excess of 75% of the Foundation's	25
Number of Projects where other contributions are equal to or in excess of 50% of the Foundation's	30
Number of Projects where other contributions are equal to or in excess of 25% of the Foundation's	29
Number of Projects where other contributions are equal to or in excess of 10% of the Foundation's	17
Number of Projects where other contributions are equal to 10% or less than Foundation's	63
TOTAL	238

INTER-AMERICAN FOUNDATION

SUMMARY

ANALYSIS OF MATCHING AND LEVERAGED FUNDS FOR ALL APPROVED PROJECTS
AS OF FEBRUARY 28, 1975

	FOUNDATION FUNDS	GRANTEE & OTHER FUNDS	TOTAL	GRANTEE AND OTHER FUNDS AS % OF TOTAL	GRANTEE AND OTHER FUNDS AS % OF FND
FY 1972					
Obligations	2,803,750	2,435,003	5,238,753	46	87
FY 1973					
Obligations	3,347,995	3,078,342	6,426,337	48	92
FY 1974					
Obligations	13,046,365	13,260,093	26,306,458	50	102
Appropriated	7,115,917	6,230,696	13,346,613	46	88
SPTF	5,930,448	7,029,397	12,959,845	54	118
FY 1975					
Obligations	8,440,631	13,073,781	21,514,412	61	155
Appropriated	1,571,364	2,012,927	3,584,291	56	128
SPTF	6,869,267	11,060,854	17,930,121	62	161
FY 1975					
Appr. not yet Oblig.	2,338,174	3,975,766	6,313,940	70	228
Appropriated	1,677,536	3,838,744	5,516,280	17	21
SPTF	660,638	137,022	797,660	63	170
TOTAL	29,976,915	35,822,985	65,799,900	54	120

SOCIAL PROGRESS TRUST FUNDS

In October of 1973, the Inter-American Foundation (Foundation) and the Inter-American Development Bank (Bank), in accordance with the stated desires of the House Subcommittee on Inter-American Affairs, entered into negotiations to revise the Social Progress Trust Fund (SPTF) arrangements between the United States and the Bank. On December 17, 1973, the Congress enacted PL93-189, Section 36(a), directing the President of the United States to renegotiate the SPTF Agreement between the United States Government and the Bank so that SPTF monies could be periodically transferred to the Foundation. An agreement between the Bank and Foundation was reached on December 20, 1973, providing that resources of the SPTF would be utilized to finance projects and programs which pertained to the categories of activity for which the Social Progress Trust Fund was initially established.

The agreement states that $5,000,000 in Social Progress Trust Funds will be made available to the Foundation every six months starting January 1, 1974. Any funds not committed during the six month period can be carried-over to subsequent periods until the end of December 31, 1976. Also advance allocations from future periods may be made if all of the funds previously allocated have been fully committed. The Agreement further states that funds in excess of the $30,000,000 will be allocated for projects selected by the Foundation as a result of a specific written request from the Bank.

During FY 1974, the Foundation utilized $5,930,448 in Social Progress Trust Funds and as of February 28, 1975 had obligated $6,888,267 of the $10,000,000 it plans to utilize during FY 1975. Plans for FY 1976 call for use of another $10,000,000.

SUMMARY OF GRANTS
FUNDED DURING THE PERIOD OF
MARCH 15, 1974 THROUGH FEBRUARY 1, 1975

ARGENTINA - AR-015

Centro de Perfeccionamiento en Administración de Empresas (CEPADE)

$19,190

Grantee will conduct a five day workshop to design a model for employee participation in the management of business enterprises. Argentine specialists, business leaders, and labor executives will attend. In addition to the design of the model, participants expect to generate new data that can be used to influence pending legislation regarding employee participation in management.

* * *

ARGENTINA - AR-017

Instituto de Promoción Comunitaria (IPC)

$10,900

To assist IPC in surveying private social development institutions in northern Argentina. IPC will interview key officers, prepare a report and analyze the general trend of programs in the region.

* * *

ARGENTINA - AR-027/D

Asociación para la Promoción de Escuelas de la Familia Agrícola (APEFA)

$4,750

To enable six Directors of Family School programs throughout Latin America to meet and plan a program of communication and cooperation.

* * *

BARBADOS - BA-005

YORUBA House

$36,500

To support Grantee's efforts to provide a means for motivating creative action for social change through the performing arts. YORUBA will construct a shed-theater to be used for weekly performances, lectures, discussions, teaching, and practice. A small printing press is also provided under the grant.

* * *

BELIZE - BE-009/E

Mr. Francis B. Arana, Project Director

$3,200 to evaluate the Adventist Vocational College (AVC) project

The evaluation will document the social and economic linkages created as low cost feed is made available to poultry producers and as a steady market is created for local feedgrain producing farmers.

* * *

BELIZE - BE-010

NORFARM Federation of Cooperatives Limited

$36,144

To provide a 66 small farmers' cooperative drying and storage/marketing facilities, plus training to manage and operate them.

* * *

BELIZE - BE-011

Christian Social Council (CSC)

$23,744

To establish a small cooperative food processing center, used by about 2,000 persons annually, which will be owned, operated and managed by the cooperative. It will also provide a focal point for women's activities, particularly leadership training. One third of any profits realized during the first two years will be set aside to establish a similar project in another district.

* * *

BELIZE - BE-012

Community Information Service (CIS)

$6,000

Grant to maintain a community information service clinic that provides social, medical, and legal counsel to low-income persons for nominal fees.

* * *

BOLIVIA - BO-008/E

Dr. Salvador Romero, P., Project Director

$21,175 to evaluate Centro para el Desarrollo (DESEC) project

The evaluation will assess the role and importance of creating physical infrastructures in organizing viable peasant controlled marketing, credit and agricultural structures. It will also examine the micro and macro changes in productivity, income, consumption, savings and investment, utilization of capital and generation of employment.

* * *

BOLIVIA - BO-019

Central de Cooperativas "Beni y Pando Ltda."

$83,750

To enable the Central to provide transportation and marketing means to isolated production and consumers' cooperatives. This is expected to stimulate the creation, expansion and coordination of cooperative activities throughout the Beni-Pando Region.

* * *

BOLIVIA - BO-021

CODEX-Bolivia, Oficina de Consultores, Coordinación de Estudios en el Extranjero y Asistencia Técnica.

$92,492

A Pilot Center for the Social Promotion of Women in La Paz will be established to provide services and training to groups of migrant women. The Center will also offer technical assistance and training to professional staff and to volunteers working with existing institutional programs.

* * *

BOLIVIA - BO-025

Asociación de Arrendatarios Mineros de Colquiri (AMAC)

$12,350

To assist 306 marginal mine worker families establish and operate a consumer cooperative and mining workshop. They will receive orientation in improved mining techniques, health, nutritional practices, social organization, cooperative management and administration.

* * *

BOLIVIA - BO-026

Asociación de Comunidades de Campesinos para el Desarrollo (ASCODE)

$133,555

Grantee will support the experimental, self-development efforts of two Quechua communities in the Valle Alto region of Bolivia. Activities will include experimentation to improve health, agriculture, artisan projects, and communications. Promoters will extend the program throughout the Valle Alto region.

* * *

BOLIVIA - BO-028

Asociación de Servicios Artesanales y Rurales (ASAR)

$500,900

To enable ASAR, a technical assistance agency, organize agro-livestock community enterprises in colonization areas. Campesino groups will receive promotional, organizational, financial, and technical assistance to create cooperative production enterprises which will be federated on a regional basis.

* * *

BOLIVIA - BO-029

Cooperativa Integral Mineros (CAIM)

$44,972

To provide an educational and capitalization program which will strengthen CAIM's capacity to serve and increase a network of agricultural, community cooperatives throughout the Mineros region.

* * *

BOLIVIA - BO-030

Departamento Socio-Económico, Caritas (DSE)

$78,770

To enable Grantee to facilitate the coordination of activities among social action, intermediary organizations in four regions in Bolivia. Grantee will also expand a revolving loan fund used by intermediary and base organizations for social action projects.

* * *

BOLIVIA - BO-031

Servicio Ecuménico de Documentación

$18,225

To assist a documentation center providing practical information on social development resources and experiences to local, national, and international social action groups.

* * *

BOLIVIA - BO-032

CODEX - Regional Action for Development in the Chapare Region

$386,253

To assist CODEX establish a training and technical assistance facility and a crop and livestock farm on land in the Chapare area donated by the government. Technical assistance, marketing, cooperativism, communitarian development and health care programs will be planned and executed, based on research data collected through field surveys and dialogue with the Chapare colonists. The farm will produce income to cover, in part, the development service costs.

* * *

BOLIVIA - BO-034

Centro de Coordinación y Promoción Campesina MINKHA

$144,160

To strengthen MINKHA's capacity to promote and support Quechua and Aymara socio-economic projects in the Altiplano of Bolivia by providing training, technical assistance, and credit.

* * *

BRAZIL - BR-068/E

Escritório de Pesquisa, Planejamento e Assessoria em Desenvolvimento Rural, Ltda. (ESPLAR)

$53,692

ESPLAR will analyze the pre-cooperative education program of the Diocese of Crateús, Ceará, both for the change processes occurring in select communities and for the impact made by external change agents in these participating communities. This study will give practical suggestions for improving community educative processes, paying particular attention to the leadership roles.

* * *

BRAZIL - BR-109

Sociedade Beneficente Dois de Fevereiro

$5,385

The grant covers initial costs of constructing a center and providing seed capital for a rotating fund to purchase material, supplies and equipment. Short-term instructors' fees for training courses in organizations skills, and cooperative farming are also provided.

* * *

BRAZIL - BR-119

Movimento de Organização Comunitaria (MOC)

$70,100

To finance the costs of installing and operating an irrigation system as part of a year-round agricultural training program for about 33 local community organizations. Training includes community organization as well as technical assistance in health, education, and agricultural projects.

* * *

BRAZIL - BR-122

Caritas Brasileira

$5,195

To assist Caritas Diocesana de Araçatuba, São Paulo train community leaders through a series of 12 courses. This will upgrade the program coordination skills of about 360 individuals from some 25 local community organizations and representative local communities.

* * *

BRAZIL - BR-123

Paróquia Nossa Senhora do Livramento

$14,300

Foundation funds will match those of the Parish and the communities in the construction of at least ten community centers. The project will also pay stipends to about 50 local community leaders/teachers working in a system of elementary schools established by the Parish in 50 isolated rural communities.

* * *

BRAZIL - BR-124

Paróquia São Francisco de Paula

$85,000

To cover purchase of a farm by five village-level self-help groups who have lived and worked on that land for years as share-croppers. A rotating loan fund will be established to provide other peasant groups with downpayments for land purchases.

* * *

BRAZIL - BR-125

Archdiocese of Paraiba

$91,570

The grant provides the capital needed for productive operation of a sugarcane plantation which will eventually be owned and operated by rural workers.

* * *

BRAZIL - BR-126

Fundação do Desenvolvimento Integrado do São Francisco (FUNDIFRAN)

$750,000

The grant will assist in creating a network of about 120 community organizations. FUNDIFRAN will provide credit and technical assistance in agriculture, health services, training, and community education.

* * *

BRAZIL - BR-128

Cooperativa Mista dos Agricultores do Treze, Ltda.

$1,400

The grant provides funds for two leadership training courses. The object is to move beyond economic production objectives toward greater social participation.

* * *

BRAZIL - BR-132

Campanha da Solidariedade

$20,000

To assist the grantee raise $1 million in financial and other aid for 100,000 victims who lost crops, animals and homes because of the May 1974 floods in the State of Ceará in Northeast Brazil.

* * *

BRAZIL - BR-138

Associação Difusora de Treinamentos e Projetos Pedagógicos (ADITEPP)

$17,640

To assist ADITEPP in conducting a survey of educational methodologies utilized by 20 groups in the Northwest part of Paraná state. In addition, ADITEPP will provide technical advisory services and upgrade the planning, implementation and evaluation skills of social action organizations.

* * *

BRAZIL - BR-140

Caritas Brasileira-Escritório Regional de São Luis

$166,500

The Maranhão Regional Office of Caritas Brasileira will carry out human promotion activities in some 20 rural communities in the State of Maranhão. Involving 600 families, these activities are expected to stimulate the creation of representative community organizations. The project is meant to demonstrate a process of rural community development to personnel of nine dioceses and to influence them to undertake similar action in reaching rural communities throughout the State of Maranhão.

* * *

BRAZIL - BR-142

Centro de Orientação da Pastoral de Itabira (COPAI)

$5,000

Grantee will conduct a series of leadership training programs for selected youths from low-income communities. The participants will use their leadership skills to organize social action projects in their communities.

* * *

BRAZIL - BR-147

Universidade Estadual de Campinas, São Paulo

$7,000

To enable the State University of Campinas, São Paulo, to conduct a workshop in which international scholars and young Brazilian social scientists will analyze contemporary social issues in Brazil.

* * *

BRAZIL - BR-150

Helio Guedes de Campos Barros, Project Director

$19,000

This evaluation grant will analyze the specific educational activities of the Fundação Projeto Piauí and assess its potential impact as a methodology for motivating change. The socio-cultural context will also be diagnosed.

* * *

CARIBBEAN REGION - CAR-001

Caribbean Tourism Centre (CTC)

$291,000

The Centre was established to provide technical assistance, action research, and dissemination to support indigenous tourism, harmonious with the social, cultural, ecological and economic concerns of Caribbean people. The grant will assist the Centre in establishing an institutional capability and organizing for three years.

* * *

CARIBBEAN REGION - CAR-004/D

Caribbean Contact, Ltd.

$193,000

To enable CONTACT, a major regional Caribbean newspaper dealing with social change issues, to reach a diverse audience and to achieve financial self-sufficiency through market research. CONTACT is published by CADEC, the development arm of the Caribbean Conference of Churches.

* * *

CARIBBEAN REGION - CAR-005

Caribbean Women's Association (CARIWA)

$1,115

A grant to support CARIWA's Second Biennial Conference which will focus on the role of women in the development of the Caribbean. Approximately 50 delegates from eight countries and observers from several others are expected to attend. Grant funds will be used to enable publication of conference papers and the Resolutions of the Conference.

* * *

CARIBBEAN REGION - CAR-007/D

Association of Caribbean Universities and Research Institutes (UNICA)

$98,700

To establish a systematic communications network designed to transmit relevant development data throughout the Caribbean.

* * *

CARIBBEAN REGION - CAR-008/D

Leatherman Federation

$21,076

To enable the formation of a federation initially comprised of leather craftsmen from Antigua, Montserrat, St. Kitts, St. Vincent, and Trinidad and Tobago. The Federation will construct small tanneries in Antigua, Montserrat, and Trinidad and Tobago to provide federation members with leather. Excess production will be sold on the world market.

* * *

CARIBBEAN REGION - CAR-009

Owen Baptiste, Grant Fellowship

$29,987

A grant fellowship to produce a definitive study of the role of the communitations media in stimulating and supporting social change in the Caribbean.

* * *

CARIBBEAN REGION - CAR-012

The Organization of Commonwealth Caribbean Bar Associations (OCCBA)

$67,725

OCCBA will undertake a study of legal aid needs and facilities in all Commonwealth Caribbean territories; prepare and promote plans for the provision of legal aid and services to the poor through cooperation between territorial governments and the legal profession of the region.

* * *

CARIBBEAN REGION - CAR-013

The Organization of Commonwealth Caribbean Bar Associations (OCCBA)

$37,150

To enable OCCBA to assist the Guyana Legal Aid Center (GLAC) establish a national institution providing legal services for low-income persons.

* * *

CHILE - CH-022

Departamento de Práctica y Asistencia Legal (DEPAL)

$97,367

To aid DEPAL, the Vicerectoría de Comunicaciones, and the Escuela de Artes de la Comunicación (EAC) of Pontificia Universidad Católica de Chile, produce and broadcast 60 thirty-minute radio dramas and 36 thirty-minute television dramas. These programs will inform the public about existing laws, legal agencies, and the judicial process.

* * *

CHILE - CH-023

Social and Economic Formation Center - Cardijn Foundation

$94,000

The IAF grant will enable the grantee to conduct a continuing program of technical assistance for those workers concerned with implementing workers' self-managed enterprises.

* * *

CHILE - CH-024

Comisión de Solidaridad y Desarrollo

$590,420

To enable grantee to expand their revolving credit fund in order to provide short-term loans to workers' self-managed industries. A seven-man Board of Directors and a staff of 20 professionals will administer the Fund and render technical assistance in planning and operational procedures. The new worker industries will create a non-profit Social Fund to provide loans and help in supporting social service programs.

* * *

CHILE - CH-025

Centro para el Desarrollo Rural y Cooperativo (CENDERCO)

$92,700

Based on research data to be generated through the project, CENDERCO will develop a communication system for channeling the concerns of small farmer cooperatives into agrarian policy formation in Chile.

* * *

*CHILE - CH-026(2)

Instituto Pastoral Rural (IPR)

$133,980

To enable IPR to create and operate a leadership training program for approximately 120 potential and 135 active leaders of five rural confederations. During the program, IPR will also carry out a survey among 1,500 confederation members to obtain data on current workers' problems and aspirations. A coordinating council consisting of representatives from IPR, the five rural confederations, and CARITAS will be responsible for the execution of the project.

* * *

CHILE - CH-027

Departamento Universitario Obrero Campesino (DUOC)

$122,912

To enable DUOC to extend a two-phase educational system to rural confederations in seven Chilean provinces.

* * *

*CHILE - CH-029

Fundación para el Desarrollo

$1,200,000

The IAF grant will assist the Fundación para el Desarrollo in implementing an investment system that will facilitate the transfer of state-controlled industries to the workers' self-management sector and in providing a support network to that sector.

* * *

COLOMBIA - CO-004/E-2

Fundación para el Fomento de la Investigación Científica y Tecnológica (FICITEC)

$5,000

A grant to allow FICITEC to assist the Federación Agraria Nacional (FANAL) in an economic and financial analysis of two of their empresas comunitarias. The results of this effort will enable FANAL to improve planning, fiscal control, and decision making in the two empresas.

* * *

COLOMBIA - CO-035/E

Dr. Giovanni Ciardelli Fadul, Project Director

$17,000 to evaluate the Unión de Trabajadores de Colombia (UTC) project

This effort will describe and analyze the process by which the Workers' Bank has attempted to achieve greater participation and wider distribution of capital resources in Colombia. It will examine the results of the bank in terms of increases in deposits, loans, taxes and capitalization, and their destination; assess the impact of the Workers' Bank on the financial sector; and investigate previous sources of credit used by current creditors of the Workers' Bank and determine savings to the creditor.

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*COLOMBIA - CO-046/E

Sr. Manuel Zapata, Project Director

$33,545

To study the effectiveness of popular theater for development education in both rural and urban areas.

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COLOMBIA - CO-048

Unión de Seglares Misioneros (USEMI)

$43,056

This grant enables USEMI to conduct a comprehensive linguistic, pedagogical and social-structural analysis of four diverse aboriginal groups in Colombia with whom its staff is involved. At the end of the two-year project an evaluation seminar will be held and USEMI will publish the results of its research.

* * *

COLOMBIA - CO-051/D

Federación Agraria Nacional (FANAL)

$14,422

Grant to make it possible for FANAL to share and expose its experiences in cooperative farming enterprises through dissemination to the public via both 35mm and 16mm films. The film will show the transition from subsistence farming of small plots to participation in a more profitable community farming enterprise.

* * *

COLOMBIA - CO-052

Fundación Estación de Investigaciones de Ecología Humana (HERS)

$83,500

To enable grantee to implement the first year of a two-year project to apply and evaluate an early childhood development system tailored to community resources in five pre-school centers in impoverished areas of Cali, Colombia. The research findings of HERS, and its experience in two experimental centers will be applied to this project. The project will provide for parent and community participation.

* * *

COLOMBIA - CO-055

The Public Interest Law Research Center

$95,320

Grantee will conduct a study of socially relevant legal issues. Strategies for resolving them will be developed and carried out along with a campaign to arouse public support.

* * *

COLOMBIA - CO-059

Caritas, Cali

$9,826

To enable CARITAS to purchase materials and equipment to be used in small rural development projects involving fresh water commercial fish ponds, vegetable production, and mining operations. Community cooperatives will be organized for production and marketing.

* * *

*COLOMBIA - CO-060/R

Universidad de los Andes - Centro de Estudios Sociales de Desarrollo Económico (CEDE) Difusión de Información Urbana y Regional

$49,705

Grantee will carry out a study to identify and describe the information system in Colombia as it feeds into executive level government decision-making. Results of the study will be used to devise more efficient ways to use the information system for information-producing and dissemination entities and for individuals and groups involved in planning and policy-making.

* * *

COSTA RICA - CR-006

Universidad Nacional de Costa Rica (Heredia)

$308,523

To enable the School of Social Planning and Promotion to establish a rural extension system. The program is expected to improve management and institutional capabilities of thirty rural community cooperative production enterprises and train rural development professionals. The University is committed to continuing this program after IAF support ends.

* * *

COSTA RICA - CR-007(2)

Publicaciones Ecuménicas, S.R. Ltda.

$83,000

To enable the grantee to develop a weekly newspaper supplement written for campesinos and delivered to them in rural areas. A feedback system will also be developed to ensure campesino influence and participation in the newspaper.

* * *

DOMINICA - DO-001/E

Mr. Allan N. Williams, Project Director

$30,123 to evaluate the Castle Bruce Cooperative project

The evaluation will assess the performance of the Castle Bruce Cooperative as an agro-economic, decision-making, and social unit. It will attempt to determine whether a worker-controlled enterprise can bring about social change and raise the level of agricultural productivity.

* * *

DOMINICA - DO-003

The Dominica Social Centre

$192,450

The Social Centre will seek to gain an income-generating capability by separately incorporating Sunstyle, a garment industry it established, and by expanding its operations to 100 employees. The Centre will progressively involve the workers in the ownership and management of the firm. Employees in the firm will acquire shares through participation in an "own-as-you-earn" program.

* * *

DOMINICAN REPUBLIC - DR-020(2)

Confederación Dominicana de Cooperativas (CODOCOOP)

$505,000

The grant, matched by $961,557, will enable CODOCOOP to develop a joint financial system for agricultural cooperatives. This will increase their capacity to market coffee; accelerate the diversification of agricultural production; and develop and operate a cooperative management training program. During the first year, these services will help about 7,200 small farmers market five million dollars worth of produce.

* * *

ECUADOR - EC-014

Central Ecuatoriana de Servicios Agrícolas (CESA)

$381,600

CESA will establish a service structure which will offer education and organization courses, technical assistance, and means for increased communication among local campesino groups in seven rural zones of Ecuador. An interdisciplinary team in each of the seven zones will provide legal, agricultural, marketing, education, and administrative services to 320 local communities. In each community, a permanent education committee will be established to facilitate communications, organizational and educational activities among small farmers.

* * *

ECUADOR - EC-015

Fundación Ecuatoriana de Desarrollo (FED)

$170,360

FED will establish a credit fund for small farmers in Bolivar Province to be managed by both FED and a campesino council. Credit money will be used by campesino groups primarily to initiate rural industries, to establish community marketing centers and to implement agricultural modernization efforts.

* * *

ECUADOR - EC-016

Federation of Shuar Centers

$99,000

The grant will enable the Federation, composed of some 20,000 Shuar Indians, to expand an existing loan fund for the purchase and raising of cattle. Technical assistance, research support, and coordination with extension workers from the Ministry of Agriculture will also be provided.

* * *

ECUADOR - EC-017

Instituto de Formación Social del Chimborazo (INFOSCH)

$17,150

The grant will enable INFOSCH to educate and organize the leaders and general membership of rural and urban worker groups in the province of Chimborazo. Courses are offered for cooperative managers, community leaders, domestic and industrial workers, and service personnel in urban private and public sector employment. Course content includes: basics of cooperativism and unionism, agrarian reform law, labor problems, social security law and legislation affecting labor unions and campesino groups.

* * *

ECUADOR - EC-018

Pontificia Universidad Católica del Ecuador (Quito) - Facultad de Jurisprudencia

$5,373

The grant will enable those laws schools in Peru, Ecuador, and Chile seeking reforms in juridical training to benefit from each other's experience. The Catholic University in Quito will conduct a one-week workshop. Chilean and Peruvian law professors will lead seminars to impart their experience with teaching reform based on Socratic methodology.

* * *

EL SALVADOR - ES-008/E

Instituto Interamericano de Ciencias Agrícolas de la OEA (IICA)

$133,642 to evaluate the Unión Comunal Salvadoreña (UCS) project

To document the process and impact of this agrarian reform experiment as carried out by the UCS, this evaluation will: (1) examine the central cooperative for efficiency, participation of the campesinos in the decision-making process, and their access to land; (2) study the impact of the UCS on its members in terms of social solidarity, attitudinal change, critical consciousness, and socio-economic welfare; and (3) attempt to create within the UCS a continuous and self-evaluative system.

* * *

EL SALVADOR - ES-010/D

Universidad Centroamericana José Simeón Cañas (UCA)

$1,600

To partially cover the costs of publishing 2,500 copies of the June-July issue of Estudios Centroamericanos as a special monograph on low-income housing. The issue will include the University's evaluation of Fundación Salvadoreña de Desarrollo y Vivienda Mínima's low-income housing project which was funded by IAF.

* * *

EL SALVADOR - ES-011/D

Unión Comunal Salvadoreña (UCS)

$8,500

A grant to assist campesino leaders from Central America, Panama, Colombia, Dominican Republic and Peru to conduct a working seminar. The

leaders will interchange experiences on building peasant associations and operating cooperative farms.

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*EL SALVADOR - ES-012

Fundación Promotora de Cooperativas (FPC)

$272,300

This grant will allow the FPC to expand and operate its credit system and develop and implement a marketing system for regional cooperative centers serving subsistence farmers.

* * *

GUATEMALA - GT-031

Federación Guatemalteca de Cooperativas de Consumo (FEDECON II)

$99,490

The Foundation grant matched by $89,298 will enable FEDECON to: develop a managerial and cooperative extension capability; sponsor educational courses in consumer cooperativism; provide administrative extension services to its affiliates and other consumer cooperatives; expand a marketing center in Guatemala City; and conduct marketing surveys and feasibility studies to regionalize consumer cooperatives in Guatemala.

* * *

GUATEMALA - GT-032

Cooperativa Agrícola y de Servicios Varios San José El Obrero, R.L.

$30,600

The Cooperative will establish a revolving loan fund to help its members purchase and irrigate small plots of farm land. It will provide the participants with production credit, agricultural education and extension and marketing services.

* * *

GUATEMALA - GT-033

Federación de Cooperativas Agrícolas de Productores de Café de Guatemala, R. L. (FEDECOCAGUA)

$504,000

The grant, matched by $1,680,026 will enable FEDECOCAGUA to develop a national network of coffee processing plants. The network will serve small producers; expand and operate a centralized financial and international marketing service; regionalize the 35 affiliated cooperatives; and develop a national cooperative management training program. These services will help about 7,500 small farmers gain greater control over the means of production and marketing.

* * *

GUATEMALA - GT-034/E

Escuela de Adiestramiento en Cooperativas Agrícolas (EACA)

$4,118

A grant to enable EACA to hold a three-day workshop seminar in Guatemala for 40 cooperative leaders and technical personnel concerning the evaluation of cooperative programs.

* * *

GUATEMALA - GT-037

Parróquia de San Pedro, "Indian Health Educators Program"

$18,140

To establish a health and education program and community health centers among Mam Indians in the municipality of San Marcos. Each Indian community will select the persons who will participate.

* * *

GUATEMALA - GT-038

Comité de Caritas para el Desarrollo del Altiplano Occidental (COMITE)

$4,490

To conduct a four month study of COMITE's credit and education programs. The results of the study will enable the grantee to more effectively support the organizational and social action activities of peasant groups in western Guatemala.

* * *

HAITI - HA-019

Centre Haitien d'Investigation en Sciences Sociales (CHISS)

$5,000

CHISS will study consumption habits and patterns in Port-au-Prince as one element of a ten-part survey of the internal marketing structure of agricultural produce in Haiti.

* * *

HAITI - HA-020

Christian Community Development/Diocese of Les Cayes

$294,000

To assist a comprehensive Haitian program of rural development which will organize and train rural leadership for social action. Ten federations of agricultural groups will be established with associated programs in education, health, and women's organizations.

* * *

HAITI - HA-021

Cooperative de Pecheurs Dirigée par le CRESHS (COPECRE)

$13,918

To assistin the establishment of a fishing cooperative in Montrouis, a small fishing village near Port-au-Prince.

* * *

HONDURAS - HO-015

Federación de Asociaciones Cooperativas de Ahorro y Crédito de Honduras, Ltda. (FACACH)

$193,900

FACACH will establish on a regional basis, a system of campesino para-professional agricultural extension services and expand the technical and supervisory services of a Production Credit Program serving rural credit unions and agricultural production and marketing cooperatives. The project attempts to develop an integrated and coordinated multi-service approach to the needs of campesinos, incorporating management training, agricultural technical assistance, provision of supplies, cooperative education and marketing with supervised credit.

* * *

HONDURAS - HO-017

Acción Cultural Popular Hondureña (ACPH)

$321,500

To enable ACPH to extend its agricultural promotion program to the Department of Olancho. The program will be implemented by a network of campesino para-professionals supported by a team of agronomists, a farm training center, and radio school broadcasts. As part of this project, ACPH, in cooperation with the Fundación Hondureña de Desarrollo

(FUNHDESA) will capitalize a production and marketing loan fund from bank loans secured by FUNHDESA and matched by the Inter-American Foundation.

* * *

HONDURAS - HO-018

VITA/Honduras

$37,698

VITA will work with teams of small farmers' organizations in a program to test adapt manual and animal-drawn farm equipment to local conditions. Once intermediate agricultural technology has been adapted, artisan groups will be established to produce the equipment locally.

* * *

HONDURAS - HO-021

Asociación Coordinadora de Recursos (ACORDE)

$31,046

A grant to enable the grantee to implement an agricultural education program on the island of Roatán. ACORDE will establish an agricultural school, provide technical assistance, and create a loan fund for small projects.

* * *

HONDURAS - HO-023

Acción Cultural Popular Hondureña (ACPH)

$1,012,823

To establish an agricultural production and marketing loan fund, to cover costs of training, administration and obtain demonstration plots. The program is aimed at providing small farmers in the zones of Yoro, Occidente and the South, control over the production and marketing system.

* * *

JAMAICA - JA-003/E

Dr. Carl Stone, Project Director

$16,600 to evaluate the Housing Cooperative Services Society (HCSS) project

This study will analyze cooperative housing as an agent of social change to identify the unique underlying social and social-psychological factors associated with the level of success achieved. To do so, it will examine the human and social resources of the project, the potential for other cooperative self-help and community activities, and evaluate the development of the community action.

* * *

JAMAICA - JA-010/E

Drs. Edward Laing (lawyer) and Barry Chevannes (anthropologist), Project Directors, $79,000 to evaluate the Kingston Legal Aid Clinic (KLAC) project

The history, nature and functions of KLAC will be examined in this evaluation as well as methods for improving KLAC's efficiency and effectiveness. Additionally, an assessment will be made of the impact

of KLAC's other legal services on the legal system and in achieving social reform. Finally, this study will focus on KLAC's work in relation to its effect on law reform in such specific areas as child-rearing and landlord/tenant problems.

* * *

LATIN AMERICA - LA-011/D

Organización Interamericana de Vivienda Cooperativa (INTERVICO)

$5,085

Grant will enable INTERVICO to conduct a workshop designed to convey its ideas, research efforts, and proposals for an experimental cooperative housing project to representatives from international funding agencies. Grantee hopes to obtain enough funds to test its experimental housing approach in one or two urban locations in Latin America.

* * *

LATIN AMERICA - LA-023/D

International Women's Film Project

$83,138

Grant to enable the research and filming of a 90-minute, 16mm, color, documentary film on the role of women in Latin American societies. The finished film, to be disseminated through T.V., schools, and civic organizations, will serve to change attitudes towards the role of women so that they may participate more actively in the social and economic roles in their countries.

* * *

LATIN AMERICA - LA-024/D

Centro de Estudios Ecuménicos, A.C.

$5,500

To help provide the means for approximately 30 people, including Indian leaders from both North and South America, to attend a workshop focused on such topics as ethnic consciousness and the formulation of public policy affecting Indian groups. The feasibility of a permanent international organization of native American people will be addressed.

* * *

MEXICO - ME-015/E

Centro de Estudios Educativos (CEE)

$7,042 to evaluate the Instituto Mexicano para el Desarrollo (IMDEC) communications project

The evaluation will assess the extent to which experimental communications techniques in five low-income neighborhoods near Guadalajara, Mexico, served to reinforce identity and promote a sense of community. The respective communications media will also be separately and collectively evaluated to determine their effect on stimulating participation in community activity.

* * *

MEXICO - ME-016/E

Estudios Sociales, A.C. (ESAC)

$22,617 to evaluate the Instituto Mexicano para el Desarrollo (IMDEC) housing project

The evaluation will assess the internal processes and total impact of IMDEC's involvement in health, housing, education, employment and

communications projects in Santa Clara. The second stage of the evaluation will compare and contrast social change indicators in a similar barrio which also received IAF funding and IMDEC assistance.

* * *

MEXICO - ME-017/E

Promoción de Desarrollo Popular

$21,520 to evaluate the Instituto de Fomento de la Casa Mexicana, PROCALLI, A.C. project

The evaluation will study three major areas affecting PROCALLI's program: (1) the socio-educational; (2) the economic-administrative; and (3) the technical-urban.

* * *

ME-024

Fundación Mexicana para el Desarrollo (FMD)

$161,226

The Foundation grant enables the grantee to recruit and train 16 trainer/promoters who will implement a training program in organizational development, cooperativism and administration for about 1,800 campesinos. The program will operate in 12 regions having participating FMD service centers.

* * *

MEXICO - ME-026

Servicios Educativos Populares, A.C.

$27,200

The grant will enable the grantee to hire three researchers. They will design public interest research activities to be conducted with

University volunteers among the poor barrios of Mexico City. Research topics will be selected according to the priorities of the community.

* * *

MEXICO - ME-027

Centro Social de Promoción Popular, A.C.

$83,728

To conduct an anthropological study to provide information for an experimental education and promotion program in three Zapoteca Indian communities. The adult education program will be the focal point for organizing the community through production cooperatives, savings and loan associations and agricultural groups.

* * *

MEXICO - ME-029(2)

Centro Social de Promoción Popular, A.C. "Barrios de Emergencia"

$480,880

Centro Social will assist community organizations in promoting housing cooperatives in three areas of Mexico City. This will be accomplished through cooperative training courses, organization of production groups, and establishment of a revolving loan fund for housing construction.

* * *

MEXICO - ME-030

Central de Servicios Populares, A.C. (SERPAC)

$236,141

To implement integration of campesinos into SERPAC's decision-making structure, and train a campesino staff for technical and administrative duties. The grant will also create income generating capability for eventual self-sufficiency.

* * *

MEXICO - ME-031

Instituto de Asesoría Antropológica para la Región Maya

$18,000

To establish an applied anthropology center for the Mayan area, preparing new personnel and providing anthropological analytical tools to Chiapas community development workers.

* * *

MEXICO - ME-032/D

Promoción de Desarrollo Popular

$734

Grantee will send two staff members to Honduras to study the programs of CONCORDE and FUNHDESA. The former performs a coordinating function for rural groups and the latter has extensive expertise in management of revolving loan programs. Grantee hopes to start similar programs in Mexico.

* * *

MEXICO - ME-033/D

Diocese of San Cristóbal de las Casas

$1,200

This grant will allow a linguist and an educator who participated in the organization and implementation of the Indian state congress held in Chiapas to describe and analyze the activities of the past year in order to share the experience with other Indian groups in the hemisphere.

* * *

MEXICO - ME-035

Jalisco Desarrollo y Fomento, A.C. (JADEFCO)

$530

To enable JADEFCO to learn how a promotional and service system for consumer cooperatives is functioning in Honduras. Grantee is interested in using the information to start a similar system in Mexico.

* * *

NICARAGUA - NC-006/E

Instituto Centroamericano de Administración de Empresas (INCAE)

$35,950 to evaluate the Fundación Nicaragüense de Desarrollo (FUNDE) project

This evaluation will develop an information system model that can be applied to other social development projects of FUNDE. The information system is to generate operational input data and data on attainment of project objectives.

* * *

NICARAGUA - NC-014

Fundación Nicaragüense Pro-Desarrollo Comunitario Integral (FUNDECI)

$98,070

To assist in the establishment of an autonomous research center to systematically investigate social and economic problems. This will enable Nicaraguan social development organizations to better define national development problems, and formulate indigenous alternative solutions.

* * *

NICARAGUA - NC-015

Servicio de Documentación y Comunicación para el Desarrollo Rural (SEDOC)

$36,629

To establish an inter-institutional library, and design and adapt visual aid teaching materials. SEDOC will also develop new contacts and communications with other Latin American private and public institutions involved in rural development.

* * *

NICARAGUA - NC-016

Fundación Nicaragüense de Desarrollo (FUNDE)

$9,943

A grant to supplement personnel costs for an experimental rural education program to train farm youth in agricultural technology and cooperative organizational methods. The program involves the total farm family in school management and curriculum development.

* * *

NICARAGUA - NC-017

Cáritas Nacional de Nicaragua

$15,000

To initiate a pilot project in eleven communities of northwestern Nicaragua to develop an educational training service structure for organizing associated small farmer agricultural groups and cooperatives.

* * *

NICARAGUA - NC-018

Cáritas Nacional de Nicaragua

$25,051

To enable Cáritas to conduct seminars for health educators, training courses for women and other community leaders. Caritas will establish technical back-up services at the community level.

* * *

PANAMA - PN-007-010/E

Ricardo Falla, S.J. (anthropologist), Project Director

$24,455 to evaluate the Asociación Nacional de Desarrollo Económico (ANDE) projects

A comparative impact study of ANDE's two projects, both concerned with the training of volunteers to help Indian groups prepare for rapid modernization associated with the construction of the Pan-American Highway considering the dynamics of power and control in relation to neglected Indian populations of Panama.

* * *

PANAMA - PN-014/E

Instituto de Investigaciones Socio-Económicas (IISE)

$3,000 to evaluate the Asociación Panameña de Desarrollo (APADE) project

The evaluation is a one-month intensive survey to gather baseline data which will be used later as comparative data for an in-depth impact evaluation, as well as help APADE establish plans for the next two years.

* * *

PANAMA - PN-016

Cáritas Nacional de Panamá

$290,003

Grantee will establish a housing service center to support community organizations in Chorrillo, Pedregal and Capira in the construction of housing units and to assist in the organization of cottage industries, construction materials cooperatives and self-help work groups. Training courses in organizational techniques, problem-solving skills, self-help construction techniques, and cooperativism will be conducted. A loan fund will provide short-range financing (3-8 months) for housing construction.

* * *

PANAMA - PN-018

Cáritas Nacional de Panamá (Promoción Femenina)

$74,520

To enable Cáritas to promote the federation of women's rural organizations. Cáritas will train promoters and members of community groups, establish services for community groups and promote coordination and joint planning among women's groups on a regional and national level.

* * *

PANAMA - PN-019

Confederación Latinoamericana de Cooperativas de Ahorro y Crédito (COLAC

$1,000,000

To expand COLAC's equity base thereby increasing its loan portfolio, lending experience and member commitments to capital growth. This enables COLAC to negotiate for international financial resources. Funds mobilized by expanding the equity base will be loaned to national

credit union federations for sub-lending to their affiliated credit unions. This provides an agricultural multiple service production credit program.

* * *

PANAMA - PN-020

Fé y Alegría - Social Communications

$73,115

The grantee will provide technical assistance to community groups in the development of newsletters, theater, and audio visual material as a means of organizing for social action.

* * *

PANAMA - PN-021/D

Cáritas Nacional de Panamá

$4,334

To enable the six Cáritas organizations in Central America to conduct a 5-day workshop for the purpose of expanding rural women's organizations in the region.

* * *

PANAMA - PN-022/D

Asociación Panameña de Desarrollo (APADE) - Seminario de Promoción

$11,896

To conduct a 13-day seminar for approximately 56 delegates from Central America, Panama and the Caribbean. Delegates will study educational methodologies and theoretical frameworks used in various rural organization efforts.

* * *

PANAMA - PN-023

Junta Comunal de Santa Ana

$98,200

To train some 1,000 leaders in the municipalities of Santa Ana and Canazas through 20 courses and technical assistance at the local level. This facilitates effective participation in community councils.

* * *

PANAMA - PN-025

Asociación Panameña de Desarrollo (APADE)

$425,700

Transfer the training and social and economic functions of APADE to campesinos by establishing two independent agencies controlled by them, one for training and the other for social and economic analysis, and augment a loan fund for agricultural production.

* * *

PARAGUAY - PY-010/E

Centro Paraguayo de Estudios Sociológicos (CPES)

$60,358 to evaluate the Centro de Estudios e Investigaciones de Derecho Rural y Reforma Agraria (CEIDRA) project

The evaluation will focus on: (1) the interaction between CEIDRA and the community; (2) changes in land tenure social relationships; and (3) the effectiveness of financial, technical, marketing, and agricultural assistance and the local institutions they produce.

* * *

PARAGUAY - PY-010

Centro de Estudios e Investigaciones de Derecho Rural y Reforma Agraria (CEIDRA)

$230,677

The grant assists CEIDRA in designing and implementing a community controlled agrarian reform experiment. CEIDRA will procure titles to 1,800 hectares, create cooperatives and community organizations, redistribute the land, and provide training, loans, and technical assistance to 162 families.

* * *

PARAGUAY - PY-011

Centro de Estudios Antropológicos de la Universidad Católica (CEADUC)
Universidad Católica Nuestra Señora de la Asunción

$134,379

To assist a program of: information on legal rights, self-development, medical assistance and leadership. A public awareness campaign will explain the cultural contribution and problems of 17 Indian groups.

* * *

PARAGUAY - PY-013

Centro de Estudios Antropológicos de la Universidad Católica (CEADUC)
Universidad Católica Nuestra Señora de la Asunción

$6,000

To enable seven Indian leaders from Bolivia, Ecuador, Colombia and Venezuela to attend a ten-day workshop in Paraguay. Approximately 30 indigenous participants will focus on options available for resolving the common problem of participating in the national society while preserving their indigenous cultural characteristics.

* * *

*PARAGUAY - PY-015

Vicariato Apostólico del Pilcomayo

$3,908

To cover the reproduction costs of 3,000 bilingual grammar texts in Nivacle, the native tongue of 12,000 Indians in the Paraguayan Chaco. The text is a component in a project to stimulate reflection among the Indians about their values and customs and to achieve literacy in Nivacle and Spanish.

* * *

PERU - PU-037

Doctor Carlos Zuzunaga Flores

$9,500

To enable Doctor Zuzunaga to research the implications of the Peruvian government's recently initiated Industrial Reform Law. Based on the research, he will write a monograph for dissemination to workers, labor union leaders, and business managers and owners.

* * *

PERU - PU-038

Escuela de Administración de Negocios para Graduados (ESAN)

$527,720

This grant will enable ESAN to prepare the teaching staff, course content and methodology for a business education program for workers in participatory management enterprises.

* * *

URUGUAY - UR-007

Comisión Nacional de Fomento Rural (CNFR)

$233,812

The grant will enable a total of 225 farmers, each utilizing one hectare, to receive technical support, training, and loans for production and marketing. The farmers will eventually become incorporated into a rural service organization.

* * *

URUGUAY - UR-007/E

Centro Cooperativista Uruguayo

$69,859 to evaluate the Comisión Nacional de Fomento Rural (CNFR) project

To determine the degree to which a program of technical assistance, credit, educational activities and marketing services stimulates a sustained growth of family income. The study will also determine whether an existing network of farmer organizations can extend their services to low-income farmers.

* * *

URUGUAY - UR-008

Banco Apícola

$107,763

To enable a rural youth club association extend technical assistance in bee-keeping and credit to approximately 300 young men and women. This creates income and employment for club members and more fully integrates youth into the management and policy-making of the organization.

* * *

UNITED STATES - US-062/D

Atlanta Association for International Education

$69,190

A grant to partially support the production of a 50-minute film documenting the interaction between a representative group from the U.S. and a group from Mexico. Grantee and counter-part Mexican organization will use the film in non-formal educational activities designed to create higher levels of awareness and understanding between peoples of the two countries.

* * *

VENEZUELA - VZ-020

Centro al Servicio de la Acción Popular (CESAP)

$55,270

This grant will enable CESAP to organize 10 women's groups in 10 barrios in Caracas. The groups will design and implement action projects to resolve identified problems. An effort will be made to more effectively use existing social services by linking available resources in public and private agencies to specific group needs in the barrios. Opportunities for the development of income producing skills will also be provided to women participants.

* * *

AREA WIDE - US-065/D

Educational Broadcasting Corporation

$76,500

A grant to provide part of the costs for a new series of 20 one-hour T.V. programs dealing with international issues. Entitled, "Bill Moyers' Foreign Report," the series will involve filmed documentaries and magazine-style discussion programs. One of the four planned documentaries will explore the dynamics of social change in the developing islands of the Caribbean. Another will concentrate on economic development in Mexico.

* * *

Mr. PASSMAN. The item under consideration is to be allocated from a prior transfer in from the AID agency to the Inter-American Foundation; is that correct?

Mr. DYAL. Yes, sir, it was a transfer in the beginning year.

Mr. PASSMAN. The proposed limitation request for fiscal 1976 is $10 million, and I believe that the conferees in conference agreed to $10 million for the 1975 limitation.

USE OF SOCIAL PROGRESS TRUST FUNDS

In an inspector general's report dated November 8, 1974, it was indicated that they recommended the foundation deobligate U.S. dollar grant obligations and reobligate them under the social progress trust fund to the extent that local currency is available, therefore saving the expenditure of U.S. dollars; is that correct?

Mr. DYAL. Yes, sir, that is correct.

Mr. PASSMAN. The report went on to say that the foundation should make some effort to try and have the social progress trust fund finance some of the project related support costs.

Could you tell the committee if any progress has been made along these lines?

Mr. DYAL. Mr. Chairman, some progress was made insofar as local currency was available. We deobligated appropriated funds and utilized social progress trust fund moneys. We can provide you an exact listing of that.

[The information follows:]

During fiscal year 1975 total obligations of $235,312 were transferred from appropriated funding to SPTF.

GRANT VERSUS LOANS

Mr. PASSMAN. What percentage of the funds made available to you from both sources are made by way of loans?

Mr. DYAL. No loans, Mr. Chairman.

Mr. PASSMAN. It is all grants?

Mr. DYAL. That is right. We never made a loan in our history.

Mr. PASSMAN. But the legislation would permit loans if the Foundation wanted to make them.

Mr. DYAL. Many times, Mr. Chairman, they set up a revolving loan fund.

Mr. PASSMAN. You could make loans if you so desired, could you not?

Mr. DYAL. That is right, the original legislation so provides.

Mr. PASSMAN. With the deplorable conditions that we have with our own finances in this country, why wouldn't you elect to make these funds available on a loan basis rather than on a grant basis?

Mr. DYAL. Mr. Chairman, we felt that by utilizing the grant process, we can leverage more local resources, and we don't require the bureaucracy to police the loan processes.

Mr. PASSMAN. That is wonderful. We could handle the Export-Import Bank the same way and just make all their business on a grant basis.

Mr. DYAL. It doesn't function the same way for us.

Mr. PASSMAN. This could be made on a loan basis. With the deplorable financial situation that we find ourselves in this country, it would appear to me that the time has come to cut out all grants whether it be in this Foundation or in all other areas. We have to borrow this money. We are spending money we don't have for things we don't need, trying to be everything to everybody, everywhere on borrowed money and at the expense of unborn generations.

Gentlemen, it is time that we bring foreign aid under control, because I don't believe that it is going to be easy to get any type of foreign aid bill through the Congress this year. We shall hold hearings, make the best case that we can, and just hope for the best.

NUMBER OF COUNTRIES OPERATING IN

How many countries do you operate in?

Mr. DYAL. We have made grants over the entire life of the Foundation in just about every country of Latin America and the Caribbean.

Mr. PASSMAN. And, of course, all Latin American countries are eligible for all other spigots of foreign aid, are they not, with the exception possibly of a few?

Mr. DYAL. The one difference, Mr. Chairman, would be that we are funding nongovernmental entities.

Mr. PASSMAN. I am not talking about that. It is a form of foreign aid, is it not?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. But they are eligible for all spigots of foreign aid, are they not?

Mr. DYAL. Generally the people we are funding are not. They are outside.

Mr. PASSMAN. The nations are eligible.

Mr. DYAL. That is true.

Mr. PASSMAN. How about the Inter-American Development Bank? Are they not in the same area doing in many respects the same work?

Mr. DYAL. The same area, not the same work.

AREAS OF OPERATIONS

Mr. PASSMAN. Let's take one specific rural project that you are doing.

Could you name one?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. What is it?

Mr. DYAL. In Honduras.

Mr. PASSMAN. That doesn't mean anything.

What kind of a project?

Mr. DYAL. In Honduras there is a network of four or five rural development organizations.

Mr. PASSMAN. That isn't what I asked you. You have a habit of never answering my questions, but I am going to ask you 50 times until I get an answer.

Could you put your finger on a specific project in a specific country where the Foundation is now operating?

Mr. DYAL. The Honduran Development Foundation.

Mr. PASSMAN. Let's stop right there.

What do they do?

Mr. DYAL. They make technical assistance and credit available.

Mr. PASSMAN. Tell me what is involved? Is it putting up a rail or wire fence or digging a well?

Mr. DYAL. It is helping the smallest farmer in Honduras.

Mr. PASSMAN. Helping the farmer do what?

Mr. DYAL. Have money to buy seed, fertilizer.

Mr. PASSMAN. This same farmer can likewise make an application to several of the cooperatives operating in the country as well as other spigots of the Inter-American Development Bank for these funds, can he not?

Mr. DYAL. Generally he has no access, Mr. Chairman. He has no access to those other resources.

Mr. PASSMAN. I thought the purpose of the entire foreign aid program was to provide resources to small farmers and businessmen.

FUNDS ALLOCATED

How much money have you people allocated, since you have been in business, out of the two spigots.

Mr. PARKER. The Social Progress Trust Fund?

Mr. PASSMAN. That is correct.

Mr. PARKER. As of the material we gave you, as of the end of April just past we have approved projects in fiscal year 1975 for $14,599,000.

Mr. PASSMAN. You didn't get the question. I don't want to know how much you have approved. I want to know how much money you have actually disbursed.

Mr. DYAL. Obligated?

Mr. PASSMAN. No; how much money have you disbursed?

Mr. PARKER. Disbursements?

Mr. PASSMAN. Out of both spigots that feed money into the Foundation.

Mr. PARKER. A total of disbursements to date for program activity, $19 million.

Of that, the Social Progress Trust Fund is $7,082,110.

Mr. PASSMAN. Where do you get the other funds?

Mr. PARKER. The rest is the appropriated money.

Mr. PASSMAN. For a total of $19 million.

Mr. PARKER. $19 million.

Mr. PASSMAN. I want you to place in the record at this point the countries you allocated the $19 million to, and the projects.

Could you do that?

Mr. DYAL. Yes.

Mr. PASSMAN. Then we will get a general idea as to the amount of duplication involved here. Because, as you say, this is a technical aid program and we have several already in existence.

[The information follows:]

BRAZIL REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
B R A Z I L		
BR-003	MOC	7,455
BR-005	ACAO	39,500
BR-006	OROBO	5,460
BR-008	FASE I	50,650
BR-009	FASE II	15,500
BR-025	PUC	176,500
-	PIAUI (ACTION PLAN)	6,852
BR-016	CASA	167,500
BR-029	CEPIM	13,300
BR-032	MPH	27,072
BR-036	FIDENE	35,260
BR-039	PIAUI	1,504,200
BR-063	CEAS II	8,540
BR-068	DIOCESE	55,741
BR-087	FUNDIFRAN	10,000
BR-091	MORRO AZUL	18,000
BR-098	ADITEPP	2,832
BR-005E	ACAO	3,750
BR-008E	FASE I	5,780
BR-008E2	FASE I (DaMatta)	9,280
BR-009E	FASE II	11,065
BR-091E	MORRO AZUL (Santos)	3,900
BR-057	MEPES	30,750
BR-101	CEAS III	28,395
BR-109	Sociedade Beneficente	5,385
BR-113	CEDOC/JOVEM	7,460
BR-119	*MOC II	25,650

BRAZIL REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
B R A Z I L		
BR-122	CARITAS Brasileira	5,195
BR-123	*Paroquia Nossa Senhora	14,300
BR-124	Paroquia Sao Francisco	85,000
BR-125	Archdiocese of Paraiba	69,855
BR-126	*FUNDIFRAN II	247,838
BR-128	COMAT	1,400
BR-132	*Campanha Solidariedade	10,000
BR-016E	CASA	13,700
BR-016E	CASA (DaSilva)	2,000
BR-025E	PUC	7,400
BR-032E	MPH	5,400
BR-039E1	PIAUI (Instituto Joaquim)	24,496
BR-039E2	PIAUI (U. de Brasilia)	22,096
BR-039E3	PIAUI (U. Federal/DaMatta)	22,000
BR-121D	FASE (Video)	4,400
BR-138	*ADITEPP	17,640
BR-068E	DIOCESE (Esplar)	19,650
BR-140	CARITAS Maranhao	30,000
BR-142	*COPAI	5,000
BR-147	Inst. de Filosofia	7,000
BR-159	CEDOC/JOVEM	3,676
BR-150	*Helio Barro	13,600
BR-149E	FASE I	10,020
BR-025E	UNGER (PUC LAW)	-0-
BR-151E	*Paroquia Sao Francisco (Esplar)	17,750
BR-152E	*Archdiocese of Paraiba	17,876
	TOTAL	2,953,069

CENTRAL AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
BELIZE		
BH-004	FYA	4,800
BH-009	AVC	6,603
BH-010	NORFARM	33,444
BH-011	CSC	16,000
BE-012	CIS	6,000
BE-009E	AVC (Arana)	1,300
	TOTAL	68,147
COSTA RICA		
CR-005	U. of Costa Rica	6,850
CR-006	*U. Nac. of Costa Rica	120,031
ES-008E	UCS (IICA II)	536
CR-007	Pueblo	33,570
	TOTAL	160,987
EL SALVADOR		
ES-004	Provivienda Minima	625,800
ES-008	UCS	397,500
ES-009	FUNPROCOOP	2,500
ES-004E1	A. Portes (Pr. Minima)	1,034
ES-004E2	L. Burns (Pr. Minima)	1,125
ES-004E3	Prov. Minima	42,325
ES-008A	*UCS	324,000
ES-008E	UCS (IICA)	50,135
ES-010D	ECA	1,600
ES-011D	UCS	8,500
ES-012	*Fundacion Promotora	95,400
	TOTAL	1,549,919

CENTRAL AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
G U A T E M A L A		
GT-013D	El Centavo	10,000
GT-003	El Quetzal	115,635
GT-016	LANDIVAR	32,371
GT-023	FEDECON	5,537
GT-028	*Fundacion El Centavo	23,972
GT-031	*FEDECON II	41,504
GT-003E	El Quetzal (Zalada/Hinten)	2,500
GT-032	Coop. San Jose Obrero	30,000
GT-033	*FEDECOCAGUA	350,000
GT-034	Escuela Cooperativismo	3,780
GT-037	*Parroquia San Pedro	18,140
GT-038	Comite de Caritas	4,490
GT-003	*El Quetzal	21,138
GT-040	Comite de Xe-Sampual	6,000
	TOTAL	665,067
H O N D U R A S		
HO-001	CARITAS	193,404
HO-012	FUNDHESA	521,543
HO-014	FUNDHESA II	5,000
HO-015	*FACACH	64,650
HO-017	*ACPH	319,000
HO-018	*VITA	30,918
HO-001E	CARITAS	20,800
HO-012E	FUNDHESA	20,500
HO-021	ACORDE	30,046
HO-023	*ACPH II	1,002,823
HO-030	*CONCORDE	512,150
HO-030A	*FUNDHESA	-0-
HO-030B	*FACACH	-0-
	TOTAL	2,720,834

CENTRAL AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
MEXICO		
ME-001	FMD	500,000
DR-015D	FMD Eval. Wkshp.	7,000
ME-012	Mision de Guadalupe	4,558
ME-015	IMDEC	10,017
ME-016	IMDEC II	28,000
ME-019	Centro Social	68,884
ME-026	SEPAC II	17,810
ME-017	*PROCALLI	104,766
ME-018	Desarrollo Popular	84,439
ME-022	San Cristobal	38,869
ME-021	SEPAC	42,709
ME-020	*Fomento Cultural	26,540
ME-027	*Centro Social II	54,944
ME-024	*FMD II	23,880
ME-023D	Centro Estudios Educ.	4,000
ME-033D	San Cristobal II	1,200
ME-031	Instituto de Asesoria	18,000
ME-030	*SERPAC	114,801
ME-016E	IMDEC (Esac)	5,000
ME-032D	Desarrollo Popular	670
ME-017E	PROCALLI	4,500
ME-035	JADEFCO	530
LA-024D	CEE	5,500
ME-015E	IMDEC (CEE)	2,750
ME-029	*Centro Social	395,360
ME-016	*IMDEC II	14,000
	TOTAL	1,578,727

CENTRAL AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
N I C A R A G U A		
NC-006	FUNDE	501,076
NC-009	FUNDE II	10,000
NC-015	SEDOC	13,482
NC-014	FUNDECI	31,838
NC-006E	FUNDE (INCAE)	27,950
NC-016	*FUNDE III	9,943
NC-017	Caritas Nicaragua	6,372
NC-018	*Caritas Nicaragua II	14,669
NC-020	*FUNDE	158,720
	TOTAL	774,050
P A N A M A		
PN-007	ANDE	6,300
PN-010	ANDE II	8,500
PN-011	Mov. Campesino (LUPA)	34,610
PN-014	APADE	86,550
PN-016	*Caritas Nacional	155,535
PN-019	*COLAC	500,000
PN-015	Fe y Alegria (Wkshp.)	2,189
PN-018	*Caritas Nacional II	22,630
PN-020	Fe y Alegria II	40,665
PN-011E	LUPA (Arosema)	-0-
PN-021D	Caritas Nacional III	4,334
PN-013D	Fe y Alegria	4,800
PN-022D	APADE	11,896
PN-010E	ANDE (FALLA)	21,195
PN-014E	APADE (IISE)	3,000
PN-025	*APADE II	165,550
PN-027	L. Rodriguez (Guyami Nation)	2,154
	TOTAL	1,069,908

CARIBBEAN REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
BARBADOS		
BA-002	CADEC	73,700
BA-003	BIMAP	66,723
BA-005	YORUBA	35,000
CAR-004	Caribbean Contact	150,000
CAR-001	CTC	68,499
CAR-005	CARIWA	1,115
	TOTAL	395,037
DOMINICAN REPUBLIC		
DR-002	FDD	466,652
DR-002E	FDD	15,430
LA-008	Solidarios	49,458
DR-020	*CODOCOOP	300,000
	TOTAL	831,540
GUYANA		
GY-001	DRC	78,790
GY-001E	DRC (U. of Guyana)	7,550
CAR-013	OCCBA II	12,000
	TOTAL	98,340

CARIBBEAN REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
H A I T I		
HA-001	CHISS II	4,850
HA-004	CWS/SCH	5,000
HA-004E	SCH (CHISS)	15,370
HA-008	Holy Cross Fathers	29,870
HA-015	Foi et Developpement	1,149
HA-012	CHISS III	98,833
HA-019	CHISS IV	5,000
HA-020	Diocese Les Cayes	36,000
HA-021	CRESHS	12,658
	TOTAL	208,730
J A M A I C A		
JA-004D	UNICA	9,700
JA-003	HCSS (MHS)	49,368
JA-010	Kingston Legal Aid	81,400
JA-012	M.R.R.	4,180
JA-003E	MHS (Stone)	2,201
BA-003E	U. West Indies	20,420
JA-010E	Kingston Legal Aid (Laing)	32,915
JA-014D	UNICA	16,115
JA-003E1	HCSS (MHS) (STONE)	4,150
CAR-007D	UNICA	30,000
JA-024	M.R.R	2,750
CAR-001E	CTC (UNICA)	10,000
	TOTAL	263,199

CARIBBEAN REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
TRINIDAD		
TR-001	Christ Church College	9,500
TR-002	SERVOL	95,476
TR-003	T&T Develop. Fndl II	37,000
TR-002E	SERVOL (T. Henderson)	11,000
TR-004D	T&T Develop. Fnd. I	1,247
CAR-009	Owen Baptiste	11,987
TR-007	Memphis Agric. Coop Inc.	2,075
	TOTAL	168,285
WEST INDIES		
GR-001	Grenada Homemakers	400
DO-001	Castle Bruce	60,000
CAR-012	OCCBA	8,730
DO-001E	Castle Bruce (Williams)	11,899
DO-003	Dominica Social Centre	46,350
CAR-008	Leathermen Ltd.	6,710
CAR-011	Castle Bruce II	7,995
	TOTAL	142,084

NORTHERN SOUTH AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
C O L O M B I A		
CO-004	FANAL	412,296
CO-007	FICITEC	148,353
CO-008	COPAC	23,300
CO-010	AeC	29,839
CO-003	INTERVICO	60,000
CO-010E	AeC	3,294
CO-020	FUNDES	300,000
CO-007E	FICITEC/FUNDES (FES)	51,556
CO-035	UTC	375,000
CO-046	TEATRO	160,332
CO-048	USEMI	19,666
CO-051D	FANAL II	7,211
CO-052	*Fundacion Estacion	82,000
CO-055	Centro Pro Defensa	22,830
CO-059	Caritas Program Integrado	4,913
CO-035E	UTC (FADUL)	4,250
CO-004E	FANAL (FICITEC)	2,500
CO-046E	Teatro	-0-
CO-056	*Accion Unida	64,948
	TOTAL	1,772,288
E C U A D O R		
EC-001	CEAS I	67,430
EC 001E	CEAS (Velasco)	1,500
EC-014	*CESA	89,960
EC-015	*FED	40,000
EC-016	*Fed. Centro Shuar	96,000
EC-017	INFOSCH	17,150
EC-018	PUC (LAW)	5,373
	TOTAL	317,413

NORTHERN SOUTH AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
PERU		
PU-006	COOPESCHI	68,142
PU-023	SIL	10,725
PU-033D	CEPTEL	7,000
PU-034	IPFE	43,366
PU-037D	C. Zuzunaga Flores	9,500
PU-038	*ESAN	260,395
-	Conscientization Seminar	24,222
PU-036	Ministerio de Educacion	-0-
	TOTAL	423,350
VENEZUELA		
VZ-004	CES	60,700
VZ-004E	CES (Grajal)	3,204
-	Fnd. & Business Ldrs. Mtg.	7,500
VZ-020	CESAP	15,979
	TOTAL	87,383

SOUTHERN SOUTH AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
ARGENTINA		
AR-015	CEPADE	19,190
AR-017	IPC	10,900
AR-027D	Promocion Escuelas	4,750
AR-028	*APEFA	32,771
AR-025	CEPADE II	40,000
	TOTAL	107,611
BOLIVIA		
BO-008	DESEC	69,405
BO-016	ACLO	42,238
BO-025	AMAC (Coop. de Mayo)	6,300
BO-018	*Los Sauces	145,300
BO-021	*CODEX	40,600
BO-019	*BENI	79,850
BO-028	*ASAR	339,530
BO-008E	DESEC (Romero)	3,000
BO-026	ASCODE	43,860
BO-030	*CARITAS (DSE)	25,595
BO-031	Servicio Ecumenico	6,975
BO-029	*CAIM	43,472
BO-034	*Centro Coord. (MINKHA)	75,760
BO-008A	*DESEC	-0-
BO-026A	*ASCODE	18,395
BO-032	*CODEX II	39,940
	TOTAL	980,220

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SOUTHERN SOUTH AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
CHILE		
CH-008	UNIVERSIDAD	50,550
CH-022	PUC (DEPAL)	49,000
CH-023	Fund. Beneficencia	50,000
CH-024	Comite de Cooperacion	487,921
CH-025	CENDERCO	42,000
CH-026	*IPR	17,950
CH-027	*DUOC	58,046
	TOTAL	755,467
PARAGUAY		
PY-006	IDIA	609,434
PY-010	*CEIDRA	6,740
PY-010E	CEIDRA (CPES)	15,870
PY-011	CEAU (MARANDU)	60,550
PY-013	Univ. Catolica	6,000
PY-015	Vicariato Apostolico	3,908
PY-017	Consejo Directivo	11,116
	TOTAL	713,618
URUGUAY		
UR-007	*Comision Nacional	170,140
UR-007E	Comision Nac. (Centro Coop.)	20,000
UR-008	*Mov. Juventud Agraria	-0-
	TOTAL	190,140

UNITED STATES AMERICA REGION
AS OF APRIL 30, 1975

CODE	NAME	TOTAL DISBURSEMENTS TO DATE
U N I T E D S T A T E S		
-	IICA	8,172
LA-006	NAPA	5,000
LA-021	Inst. Of Latin Am Studies	4,500
LA-013	NAPA II	5,000
LA-014	Latin Am. Center (Calif)	7,200
LA-011	INTERVICO II	5,085
LA-015D	Univ. of Louisville	7,000
LA-016	Feminine Perspectives	1,788
US-055R	Juan Braun	3,000
LA-023D	Intl. Women's Film	81,638
LA-018D	CLAS	15,000
US-059D	Denis Goulet	15,000
US-063D	Thomas La Belle	10,000
US-056D	AAIE	67,690
US-062D	Philip Wheaton	9,000
US-065D	EBC	-0-
LA-030D	AAAS	-0-
US-067D	Int. Education Dev. Assoc.	17,771
US-068D	ASLA	10,620
	TOTAL	273,464

Mr. PASSMAN. As we mentioned earlier, under the original legislation you could have handled the program on a loan basis.

Who made the decision that it would be grants for the entire amount rather than some loans and some grants?

Mr. DYAL. The Board of Directors.

Mr. PASSMAN. You have legislation making it possible to have some grants and some loans, but the board of directors of the Foundation said it doesn't make a lot of difference what the Congress said, they decided it shall all be grants and you moved on that basis; is that correct?

Mr. DYAL. No, Mr. Chairman, because the counsel of both House and Senate committees has been to go the grant route.

Mr. PASSMAN. That is a beautiful compliment to the House and Senate.

Mr. DYAL. I am speaking of these committees.

Mr. PASSMAN. Your basic legislation said it could be either loans or grants?

Mr. DYAL. That is correct.

Mr. PASSMAN. But your Board of Directors said it would be grants and not loans?

Mr. DYAL. That is right.

Mr. PASSMAN. Did you notify the Congress of your determination?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. Do you have a copy of that document?

Mr. DYAL. We have discussed this every year.

Mr. PASSMAN. Do you have a copy of the document?

Mr. DYAL. There is no document other than the statement we have made in hearings.

Mr. PASSMAN. All you do is submit statements and justifications.

[Discussion off the record.]

Mr. PASSMAN. I am a little disappointed when I recognize that the legislation made it possible for you to have grants and loans or a combination of the two, but your Board of Directors decided that it should all be grants and no loans.

Would it not be wise, since we have to borrow this money that you are giving away, to have a look at the basic legislation, and try to switch some of this over to a loan basis?

Mr. DYAL. Mr. Chairman, the hearings for the last 4 years will recall—and that is the document I am basing this on——

Mr. PASSMAN. I am asking you a question. Inasmuch as the public legislation made it possible for the Foundation to operate with loans or grants or a combination of the two don't you think it is now time to have a look at the basic legislation and see if you can't switch some of this over to loans?

Mr. DYAL. Sir, we have always been open to the possibility of loans, but in these hearings with you, you have repeatedly said we should always go the grant route. That is in the hearings.

Mr. PASSMAN. Where do you find I said we should always go the grant route?

Mr. DYAL. I recall very well. It is in the hearings.

Mr. PASSMAN. Let's get it.

Can you recite me the page number?

Mr. DYAL. No; I can't because I didn't know the question was going to come up, but I recall it.

Mr. PASSMAN. If you can find that in the record, please refer me to it.

Mr. DYAL. Yes, sir, I will.

Mr. PASSMAN. Regardless of that, why can't you now switch to loans?

Mr. DYAL. To switch to loans would change the basic character of what the original legislation was about.

Mr. PASSMAN. The legislation provided for loans.

Mr. DYAL. But it provided for loans as a part of the total activity, but it did not set us up to be a bank. It set us up to be a foundation functioning in the grant-making process.

Mr. PASSMAN. The basic legislation provided that you should make loans if you decided it should be that way and at this time you still have the original legislation on the statute books, do you not?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. And if the Board should decide it should be loans rather than grants, then they have that power, do they not?

Mr. DYAL. They do.

Mr. PASSMAN. Then will you have a look at it?

Mr. DYAL. Yes, sir; by all means we will.

CHANGE OF LANGUAGE

Mr. PASSMAN. I note in the justifications that you plan to change the appropriation language in the bill slightly. Could you tell the committee why these changes were made?

Mr. DYAL. The change was made to clarify that the limitation only applies to appropriated funds.

SOCIAL PROGRESS TRUST FUND

Mr. PASSMAN. Could you please tell the committee how much the Foundation plans to receive from the Social Progress Trust Fund in fiscal year 1976?

Mr. DYAL. $10 million, sir.

Mr. PASSMAN. Could you please tell the committee how this arrangement is working, and please indicate what the total agreement amounts to?

Mr. DYAL. The arrangement appears to be working well, and will result in an initial total of $31 million with a possibility to negotiate for more.

Mr. PASSMAN. Could you use the funds from the Social Progress Trust Fund for the same purposes as the appropriated funds?

Mr. DYAL. Generally the same program purposes, except for the purchase of agricultural land.

Mr. PASSMAN. When the funds from the Social Progress Trust Fund agreement are all obligated would you propose to enter into a new agreement with the Inter-American Development Bank?

Mr. DYAL. Yes, sir.

OBLIGATIONS

Mr. PASSMAN. Of the $50 million you received from AID by way of transfer, could you tell the committee how much of this will remain unobligated as of the end of fiscal year 1975?

Mr. DYAL. At least $21,227,374.

Mr. PASSMAN. Of the $10 million obligation limitation provided in the fiscal year 1975 foreign aid appropriation bill, could you please tell the committee how much will remain unobligated as of the end of fiscal year 1975?

Mr. DYAL. We may use SPTF funds to cover part of the program we had planned to fund within the limitation, leaving as much as $1,500,000 of the limitation unobligated.

PROGRAM SUPPORT INCREASE

Mr. PASSMAN. I note that your program support obligations have increased from $1,604,000 in fiscal year 1974 to an estimated $2,200,000 in fiscal year 1976. Could you please tell the committee why there is such a large increase in this 2-year period?

Mr. DYAL. We reached our planned complement of staff and a full level of operations during late fiscal year 1974.

U.S. PROJECTS

Mr. PASSMAN. You indicate that $455,000 was spent for projects in the United States. Could you please explain these projects to the committee?

Mr. DYAL. The funds granted to U.S. organizations have been chiefly to permit Latin Americans and Caribbeans to learn from U.S. experiences and North Americans to learn from their southern neighbors.

TRAVEL

Mr. PASSMAN. You also indicated that $13,000 has been approved for invitational travel. Would you please explain this item to the committee?

Mr. DYAL. Part of our legislative program mandate is to support the interchange of information about social change. Sometimes grantees, potential grantees, and others are invited to conferences which foster the dissemination of information on social change processes. During these conferences there is an exchange of information, sometimes concerning specific projects in which the participants are involved and sometimes concerning broader areas of concern. Often these activities are easier to handle administratively by funding means other than grants; invitational travel is one of these alternatives, the other being a contractual arrangement.

Mr. PASSMAN. You indicate that the travel by the Foundation was $146,000 in fiscal year 1974 and in fiscal year 1976 you estimate this cost will increase to $204,000. Would you please explain in detail what this travel item covers, and why there is such a large increase?

Mr. DYAL. This is based on the increase in the number of staff members who travel as well as an increase in air fares and overseas per diem. The travel funds cover air fares, per diem, taxis, official telephone calls, hiring of other transportation within the country, and sometimes the fee of a translator.

Mr. PASSMAN. Do you plan to increase your travel mileage in fiscal year 1976?

Mr. DYAL. Yes, sir.

PRINTING AND REPRODUCTION COSTS

Mr. PASSMAN. Could you please tell the committee why your printing and reproduction costs will just about double over the fiscal year 1974 cost to $30,000 in fiscal year 1976?

Mr. DYAL. During fiscal year 1976 we plan to publish several bulletins on the Foundation and one other document similar to "First Steps." This money will cover the printing of these documents as well as the printing of our stationery and other routine material. We initially showed this increase in fiscal year 1975, but haven't been able to execute our plans, so we're now expecting the increase in fiscal year 1976. With such a very small item any change looks on a percentage basis to be very large.

NUMBER OF PROJECTS AND COUNTRIES INVOLVED

Mr. PASSMAN. Could you please tell the committee the total projects the Foundation has now financed, and in how many countries you are presently operating?

Mr. DYAL. As of April 30, 1975, the Foundation has funded 288 projects in 27 countries totaling $30,337,608.

Mr. PASSMAN. Has the Foundation ever considered financing a project in Cuba?

Mr. DYAL. No, sir.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. What percent does your administrative expenses represent of the total program in fiscal year 1976, and how does this compare to last year?

Mr. DYAL. Our administrative expenses represent 11 percent of our total fiscal year 1976 budget of $20 million. Our administrative expenses for fiscal year 1975 are budgeted at 10 percent of our total budget of $20 million.

SCOPE OF PROJECTS

Mr. PASSMAN. I notice in looking through your project descriptions that many of your projects deal with evaluating certain programs, dealing with social development, motivating creative action for social change, and various other equally nebulous subjects. Could you please tell the committee how these projects actually are going to help a poor farmer or the poor people in a particular country in South America?

Mr. DYAL. These projects are actually going to help the poor because they are designed and developed by them and thus will be of enduring value. Often this stimulus to creative action must be motivated. We are not talking about the kind of project, not funded by the Foundation, which has outsiders designing and carrying out activities for the people. In such situations, people cannot be faulted for developing dependencies when everything is done for them.

Motivating creative action for social change is often misconceived as propaganda peptalks to convince people that they can produce more and thereby live better. This is done by minimizing the risks and maximizing the seductive benefits. It is a manipulative process and

another example of human engineering rather than people making decisions for themselves.

People who use this type of social engineering justify their methods by saying, "It was the only way I could get you to do something I know was good for you." This is a way to get something done, but it is not a way to develop mature decisionmaking skills and have people take responsibility for their lives.

The programs we fund enable people to develop the critical reflection skills required to assess both the risks and the potential advantages of a proposed social development project. They make an enlightened judgment that the potential gains are worth the risk of failure and the sustained effort this project will require. In this way they learn to overcome attitudes of dependency and passivity. They would rather accept the risks of possible failure than remain secure but dependent on paternalism. When they make that decision they have made a true commitment to social change and are ready to act for themselves rather than continue waiting for someone to solve their problems for them.

Mr. PASSMAN. On page 31 you indicate that there is an international women's film project at a cost of $83,000 which would provide a 90-minute color film on their role of women in Latin American societies. Could you please tell the committee why in the world you would finance a project of this sort? What benefit will the poor people of South America receive from this project?

Mr. DYAL. We fund a project of this sort because it deals with a segment of the population usually neglected by development programs. Technical and other assistance usually benefit the men in communities to the detriment of women's status. In addition, it is an inefficient allocation and utilization of resources to exclude one-half of the population. The film will have something to say to project proponents about this phenomenon.

Mr. PASSMAN. Mr. Conte, we are discussing the Inter-American Foundation.

PROJECT EVALUATION

Mr. CONTE. Mr. Dyal, as you admit in your opening statement, your approach is a high risk one. Last year you told us there were some 24 evaluations of Inter-American Foundation projects underway.

How many of those have been completed, and will you tell me what the results of those evaluations show about your program?

Mr. DYAL. As I understand it, four have been completed, Mr. Conte. I think Mr. Toth can speak to that if he will.

Mr. TOTH. Given the fact that most of the projects are not just an event but long-range projects in motion, it is very hard to evaluate them within the period of time that we have. Four of them have been completed, principally agriculture projects. One was completed within a month, and another took about 1½ years.

Generally these evaluations pointed out certain deficiencies in the project we had already considered might take place because of the nature of the environment. However, in the last 4 years of our experience, we have come to the conclusion that evaluations of such nature do not really represent the learning experience that is required from

this foundation. However, I can submit for the record what was actually learned.

Mr. CONTE. Do that.

[The information follows:]

Five evaluations supported by the Inter-American Foundation have been completed to date: EACA (Guatemala), FANAL (Colombia), Casa, FASE-training and Morro Azul (all in Brazil). Information on EACA was submitted subsequent to last year's congressional hearings. Brief statements summarizing the most salient points from each of the other evaluations will be made here, followed by general comments which apply to all four evaluations.

The most significant finding regarding FANAL is that those persons who participated in the cooperative farms did experience a betterment in the quality of life (higher incomes, better health and housing) as a result of common rather than individualistic efforts. Thus, a sense of community was not only built but reinforced by the tangible benefits occurring to the population involved.

The rationale for funding Casa in Sao Paulo was that it could serve as a model for helping disadvantaged youth learn skills whereby they might more fully participate in their society. The major finding was that students in this program had higher aspirations than nonparticipants (the control group). Whether this was a result of training they received, or was what motivated them to enroll in the school in the first place was not determined.

The FASE-training evaluation proved to be more of a technical assistance endeavor than an evaluation *per se*. Among other problems was the difficulty of evaluating training as a separate component from aspects of community development. What did result from this evaluation was a better training exercise and an increased appreciation on the part of FASE of internal and program evaluation.

The favela named Morro Azul, in Rio de Janeiro, had a project which was funded to demonstrate a new approach to housing for the poor. The project did facilitate new and improved residences for certain inhabitants; however, there was no real participation due to the authoritarianism of the local priest and the lack of a pre-existing community.

Mr. CONTE. How much of your budget have you spent on evaluation?

Mr. DYAL. Less than 10 percent. I believe that is correct.

Mr. CONTE. Can you supply for the record two instances where the evaluation results have been implemented in either the project or in similar projects?

Mr. DYAL. Yes.

[The information follows:]

Two projects where evaluation results have been implemented are APADE in Panama and SERVOL in Trinidad. In the former a recently conducted 1-month evaluation had revealed a dominance on the part of APADE toward its constituent organizations; this has been corrected, largely as a result of this critique. An extensive in-depth evaluation of SERVOL pointed up excessive authoritarianism on the part of the foremen of the cooperative farms which resulted in low worker productivity. This finding has provoked either a change in personnel or a substantial alteration of style of supervision at the foreman level.

SCOPE OF FOUNDATION

Mr. CONTE. Last year you assured us that you were unique, that you did not duplicate any efforts of the other assistance programs. I wonder if you could tell me exactly how you differ, for example, from the Inter-American Development Bank and the Alliance for Progress, and in what ways you do not duplicate these activities.

Mr. DYAL. Those institutions primarily respond in a macroeconomic basis with governmental, sectorial program loans, between the U.S.

Government and the governments of the countries. The Inter-American Foundation, on the other hand, responds to indigenous efforts of nongovernmental organizations and people's movements to resolve their own problems. It is at a very different level of operation totally, what could be described as "grassroots" for want of a better term.

This would be the basic thrust and difference. We are speaking to and responding to social processes of people defining both economic and social problems, and attempting to resolve them themselves in the nongovernmental sectors.

FAILING OF THE FOREIGN AID PROGRAMS

Mr. CONTE. Last year, you may recall, you received some flak when you said that despite the fact that billions of U.S. dollars had been spent to attack the human problems of Latin America, the end results show little evidence that the people of Latin America are better off. In essence, what you said was that our bilateral and multilateral assistance programs just weren't working.

I think we would all have to agree with that, but I wonder if you can give us some suggestion about other directions in which we should be heading with our assistance programs.

Should we be putting more of our assistance resources into a program like yours? In short, where do you think we have gone wrong, and where do you think we should go from here?

Mr. DYAL. That is a heavy order. I think we probably all still have more questions than we have answers. The chairman certainly spoke to that in his introductory remarks this afternoon, but if you can make funds available closer to the people who are the ultimate beneficiary and they have to put their own resources into it, and they are sitting in the driver's seat of what is going to happen, then I think you have less of the problems which occur when people are the objects, rather than the subjects of aid processes.

In other words, let popular participation be primary, with the beneficiary as much as possible sitting in the driver's seat, defining the problem, setting in motion the designs of projects to try to solve particular problems.

Obviously you have massive economic sectorial areas where that is not possible, but once again where the people who are the ultimate beneficiaries have a voice, they need to have that voice listened to.

Mr. CONTE. If you will look at the hearing records over the years, you will find that I have been saying just that same thing for the past 17 years.

But how can you do it? You have to work through the governments. It is government to government. The United States can't just go into a country and say, "Look, we want to put in this program and that program," because that government won't permit it. We have to work through channels.

Mr. DYAL. That is the reason you must have a variety of alternatives. Just as in our own country there are in the private sector, outside of government, many initiatives that move into vacuums either left by government or where government is not addressing the problems. This is what I think is happening in Latin America. There is a new dynamic of nongovernmental initiative by people's groups.

We have not been prepared generally to respond to it because we do have to go through governments in most of our traditional AID programs.

Mr. PASSMAN. Would the gentleman yield?

Mr. CONTE. Sure.

Mr. PASSMAN. But this is a little different, because we are not utilizing private funds. We are utilizing Government funds, aren't we?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. Thank you, Mr Conte.

OVERSIGHT

Mr. CONTE. As I understand your program, you do not have a technical staff on site to supervise your projects.

Mr. DYAL. That is correct.

Mr. CONTE. What sort of oversight do you have, once you have obligated these funds?

Mr. DYAL. Two main areas. We have a commercial audit which is done under general GAO guidelines utilizing local commercial auditors. We have very clear audit processes which GAO then audits for the foundation. That is one side in terms of fiscal responsibility.

We also have a monitoring process in which the grantee himself is providing us information based on the original grant agreement we worked out with him, which tells us what is happening in that project over time. So we have two lines.

One would be objective in terms of commercial audit. One would be perhaps more subjective in some instances relating to the process of that project, but it has a quantitative side also where that is appropriate to the nature of that project.

Mr. CONTE. It seems that the grantee would be conducting any oversight you have.

Mr. DYAL. But this is worked out in the process of our disbursements, such as according to the grantee's capacity to raise local funds. Many of our disbursements are based on his capacity to raise local funds. Then you have the direct reporting process. We also maintain an informal relationship with him over time. In some instances an evaluation by a third party will give other views.

SELECTION OF PROJECTS

Mr. CONTE. How do you pick these projects? Do you go out looking for projects or do you get applications?

Mr. DYAL. A range of both, but generally by application. With 4 years now of experience and relationships, there is a certain amount of local awareness of the Inter-American Foundation. There is also a referral process through those who have received grants and who know the way we function. We also have a traveling staff that makes new contacts.

Many of those in the international aid community are aware that we can provide assistance that they are unable to because of the nature of our relationship to people at the base.

Mr. CONTE. What are your criteria in determining what project you are going to accept?

Mr. DYAL. We are primarily concerned about projects which relate to social process. I think Mr. Toth might add a word to that which would be helpful.

Mr. TOTH. There are certain criteria, provisions for exclusions that we wouldn't do, for example, if the host government would do it, we shouldn't duplicate.

Mr. CONTE. What is that?

Mr. TOTH. If the host itself, the Government itself,, would do it, we would not get into the same project in most cases. There are a number of eliminating circumstances, but there are perhaps two most important things that we look at besides the project being economically feasible, which is a sine qua non for any project.

One is that the project has had a history in which the people who are the beneficiaries of the project are they, themselves, the ones who design and decide what the proposal should be, so that nobody has an ego trip, nobody is imposing on somebody else what he thinks is best for the people.

No. 2, that the ends pursued by the projects are proportionate to the means, that is to say the means adopted to achieve certain ends are sometimes more important than the fact that they are achieved. This may be metaphysical or philosophical criteria but it is high time that we insert them into economic analysis.

CONSORTIUM

Mr. CONTE. You mentioned that you have entered into consortium funding with other U.S. and foreign foundations and entities. Could you be more specific? Particularly, what U.S. foundations do you cooperate with?

Mr. DYAL. The Ford Foundation, Rockefeller Foundation, Tinker Foundation and Clark Foundation, among others, have provided partial funding of some of the projects we have related to.

Mr. CONTE. In these consortia, what portion of the money is put up by you, and what portion by other groups?

Mr. DYAL. We have put up less than half of the money. As of February 28, 1975, we had obligated approximately $30 million and the grantees and other groups had contributed approximately $36 million.

Mr. CONTE. You mentioned a survey on foreign assistance conducted by the Overseas Development Council. Would you provide a citation for that study so I can get a copy of it?

Mr. DYAL. Yes, sir. The title is World Poverty and Development—A Survey of American Opinion by Paul A. Laudicina, Monograph No. 8 of the Overseas Development Council.

PROJECT SUCCESS

Mr. CONTE. Of the approximately 300 projects which you have funded, how many of them would you say were successes? How many failures? How do you measure failure and success for the types of projects which you support?

Mr. DYAL. We are neither obsessed with success nor fear of failure. However, we do stress accountability for the funds on the part of the recipients and stringent auditing measures are in effect to assure this.

However, it is our belief that failures are often as instructive as successes.

As everyone else, we also use traditional measures of success which is based on the degree and manner of accomplishments of stated objectives. Only two projects so far, in that sense, can be considered failures. These projects were canceled at their early stages as it became obvious to us that the grantees could not comply or follow their original workplan. There are some other projects which we know will not fully accomplish quantitatively their stated goals due to inflationary and other exogenous factors. We prefer, however, more creative measures to assess success which is based on the long-range impact and balances results against expectation we and the grantee had at the time of funding. The assessment of this will necessarily require a longer timeframe.

Another measure of success, more visible at this point, is the recognition by other funding agencies and governments of the desirability and viability of the projects we fund. Some of our projects were pioneering efforts for more cautious agencies. For example, the World Bank has provided $7.8 million to a housing project in El Salvador once they deemed the project we funded a success. Similarly, the Inter-American Development Bank provided $2.2 million to an agro-industry project in Bolivia. The FAO is creating a training course in the Caribbean built around the concepts and experiences of a project we funded. NOVIB, the Dutch Development Agency, provided $500,000 to a project we funded in Bolivia and these are just illustrative examples.

PSYCHOLOGICAL NEEDS

Mr. CONTE. Do you believe that it is desirable, or even possible, to deal with what you refer to as the higher level psychological needs before the basic physiological needs are taken care of? Do you take this into consideration in your funding of projects?

Mr. DYAL. In our analysis of proposal projects, we consider their potential impact on both the satisfaction of basic physiological needs as well as high psychological needs.

Attempts, both in our own country as well as in the Latin American countries, to address basic physiological needs without taking into account man's psychological needs and values have usually resulted in short-term solutions that stifle initiative and create long-term dependencies on others. An example is low-income housing which addresses the basic need for shelter. Solutions to this problem, based on utilizing the latest technology to construct dwellings and then moving in the people, have usually resulted in failure to keep up mortgage payments, lack of maintenance, and abuse of property. This results either in the project reverting to a slum or having to sell the units to middle-income residents. Dramatic examples of this can be found here in our own country.

In El Salvador, we funded a low-income housing project which involved the people in the planning, design, and construction of their houses and their community. The people build their own houses designed according to their own needs and values at a pace consistent with their ability to pay for the materials and mortgage. The basic physiological need for shelter is being satisfied, but just as important,

the project enables the participants to develop a sense of pride, self-esteem, and realize their need to creatively express themselves, all of which depends on the opportunity to determine your own destiny and participate in the decisions which affect your life. These are values which we in our own society hold to the sine qua non for the dignity and well-being of all mankind, rich or poor, and consequently, those we hope, along with basic physiological needs, will be better realized by the beneficiaries of the projects of the fund.

AGREEMENT WITH IDB

Mr. CONTE. Would you outline the terms of your agreement with the Social Progress Trust Fund through the Inter-American Development Bank?

Mr. DYAL. In October of 1973, the Foundation and the Inter-American Development Bank started negotiations to revise the Social Progress Trust Fund arrangements between the United States and the Bank. An agreement was reached on December 20, 1973. The agreement states that $5 million in Social Progress Trust Funds will be made available to the Foundation every 6 months starting January 1, 1974. Any funds not committed during the 6-month period can be carried over to subsequent periods until the end of December 31, 1976. Also advance allocations from future periods may be made if all of the funds previously allocated have been fully committed. The agreement provides for a renegotiation for additional funds during 1976. The agreement further states that funds in excess of the $30 million will be allocated for projects selected by the Foundation as a result of a specific written request from the Bank. To date this last provision has resulted in an additional $1 million being made available.

These SPTF funds are in local currencies, and not convertible, which somewhat restricts our ability to use them.

OBLIGATIONS

Mr. CONTE. How much money did you obligate in 1974? How much do you expect to obligate through the end of 1975?

Mr. DYAL. During fiscal year 1974 we obligated $15,501,213. We expect to obligate the full $20 million during fiscal year 1975. However, we may use more SPTF funds and less appropriated funds for our program activity.

USE OF LOANS

Mr. CONTE. I believe that you are authorized to make both loans and grants, isn't that correct?

Mr. DYAL. Yes, sir.

Mr. CONTE. Last year you did not make any loans. Do you expect to make any loans in 1975?

Mr. DYAL. No, sir.

Mr. CONTE. Why not?

Mr. DYAL. As we discussed with the chairman, it has been the judgment of our board of directors that the use of loans to support the kind of activity we've been financing was not appropriate.

Mr. CONTE. Is there any difference between the projects funded through appropriated funds and those funded through the Social Progress Trust Fund? If so, what is the difference?

Mr. DYAL. The projects funded through the Social Progress Trust Fund generally have the same program purposes except that SPTF funds cannot be used to purchase agricultural land.

FELLOWSHIP PROGRAM

Mr. CONTE. Would you tell me about your fellowship program?

Mr. DYAL. The learning fellowship on social change is designed to enable pre- and post-doctoral fellows to study social change processes through affiliation with a foundation supported development project. Fellowships are open to all without regard to citizenship, sex or age, but predoctoral candidates must be enrolled in higher education institutions in the United States. The objectives of the program are: (1) to contribute to research and scholarship on social change in Latin America and the Caribbean; (2) to provide an opportunity for scholars to learn from Latin American and Caribbean initiated and operated social change programs; (3) to involve the academic community in learning about social change from a multidisciplinary perspective; and (4) to advantage academic-practitioner cooperation.

PER CAPITA INCOME COUNTRIES

Mr. CONTE. In looking at the country-by-country list of your projects, it seems that the countries which are receiving the most assistance are those with the relatively highest standards of living. Would you provide a listing of the Caribbean and Latin American countries by income, as compared to the amounts of assistance received through your program?

Mr. DYAL. Yes, sir.

[The information follows:]

Country	Per capita income [1]	Foundation obligations	Country	Per capita income [1]	Foundation obligations
Argentina	$971	$373,990	Haiti	$78	$772,167
Barbados	878	799,615	Honduras	249	3,599,383
Belize		80,491	Jamaica	616	840,988
Bolivia	190	2,177,759	Mexico	600	2,164,313
Brazil	350	4,016,008	Nicaragua	440	1,264,171
Colombia	324	2,160,017	Panama	729	2,078,526
Costa Rica	542	398,909	Paraguay	238	1,167,457
Chile	674	1,186,779	Peru	241	753,123
Dominican Republic	360	1,067,068	Trinidad	767	360,575
Ecuador	213	753,765	Uruguay	700	410,375
El Salvador	279	1,893,751	Venezuela	779	144,964
Guatemala	329	952,414	West Indies		381,769
Guyana	350	134,350			

[1] Based on the "Official Associated Press Almanac 1974."

Mr. CONTE. Would you explain why you seem to have focused the greater parts of your assistance to Brazil, Mexico, and Panama, which many people consider already covered by other assistance programs?

Mr. DYAL. Poverty knows no hierarchy. It is abject, hopeless and dehumanizing. It is little comfort for the Brazilian or Mexican poor

to know that their respective countries per capita income is relatively high. And this foundation's mission is not one of further penalizing the poor in any place just because their privileged countrymen or governments are either incapable or unwilling to share their riches and wealth. Furthermore, the combined population of Brazil and Mexico represents more than half of Latin America's population and at least as much of its poor.

PROJECT PURPOSES QUESTIONED

Mr. CONTE. Mr. Dyal, I have some reservations about some of your specific projects. For example, CEPADE project in Argentina (AR–015). You say that this workshop is going to generate data to influence legislation. That sounds like lobbying to me. Do you think that it is appropriate for the United States to finance foreign lobbying efforts, and how will this workshop of business leaders help the workers?

Mr. DYAL. We consider it a great achievement if and when a project we fund does carry some impact to improve public policy in any country on development. We would not, however, fund direct lobbying efforts. The CEPADE project involved businessmen as well as legislators and workers at an opportune time in Argentina to identify alternatives toward greater worker participation in management.

Mr. CONTE. Can you tell me what the pilot center for the social promotion of women in La Paz will be doing? What kind of services and training will it be providing? Hasn't most of Latin America been somewhat slow in endorsing concepts like the "social promotion of women?"

Mr. DYAL. The pilot center for the promotion of women in La Paz is (1) conducting research on existing institutional programs of social promotion for migrant women in La Paz and, (2) providing to leaders and members of community groups information and training on services such as theories of organization and power, legal rights and responsibilities, cooperatives, public health services, employment and housing opportunities, and techniques of research, planning, project development, and evaluation.

Given the Latin American cultural patterns, I doubt that the promotion of women was any slower than ours in this country.

Mr. CONTE. I see that you are providing $7,000 for a workshop at the State University of Campinas in Sao Paulo, Brazil. Can you tell me whether the university receives any other American funding?

Mr. DYAL. We do not know of any funding by U.S. sources for the university itself. In answer to your question about other U.S. funding for the Conference of the University of Campinas, the Ford Foundation furnished $5,000. The other $13,000 (total being $25,000) came from Brazilian sources (the University of Campinas itself and the research foundation of the Federal University of Sao Paulo).

Mr. CONTE. Can you tell me more about the International Women's Film project (LA–023/D)? Who is filming it, how is it being distributed, and what is its purpose? Aren't most projects of this type being funded through the United Nations' observance of International Women's Year?

Mr. DYAL. A private, nonprofit organization called the International Women's Film Project, Inc., which has applied for incorporation in the District of Columbia, is filming the project. We provided funds only for researching and filming and not distribution costs. They plan to distribute this film through public television, schools, women's groups, unions, civic, and community organizations throughout the hemisphere. The director of the project is Helena Solberg Ladd, a Brazilian, who also serves as president of this corporation.

Men and women have traditionally been cast in adversary roles characterized as the war between the sexes. Development advocates are often in the ludicrous role of interrupting this battle for dominance to ask both partners to work together as equals in a cooperative project.

Containing people within the narrow parameters of stereotyped sex roles necessarily limits their contribution to the social development process which suffers from a scarcity of vital resources. This project did not receive funding from the United Nations and elsewhere probably because the role of women was seen as a cultural commentary rather than as a means of tapping the potential of a vitally needed human resource.

There is also the ethical question of the foundation having funded several other projects whose purpose is to raise poor people's awareness of exploitation, dependency, and domination. We can hardly focus attention on the injustice of those abuses while ignoring them when they occur between men and women. This would be a very selective social consciousness which would be clearly recognized as hypocrisy.

Mr. CONTE. Would you tell me how you justify partial funding for Bill Moyers' foreign report? I have nothing against Bill Moyers, but I wonder how this program is going to help the people of Latin America.

Mr. DYAL. One of the four purposes of the Inter-American Foundation spelled out in the originating legislation is "to strengthen the bonds of friendship and understanding among the peoples of the hemisphere." The primary purpose of this series will be to build international understanding by presenting some non-American perspectives on the world we live in. It will attempt at a time when Americans are becoming increasingly self-centered, to keep alive in this country some intelligent discussion of international issues, and to create an awareness of how people at the base in other countries view their social and economic problems and are attempting to resolve them.

One of the four documentaries explored the dynamics of social change in the developing islands of the Caribbean. Another concentrated on economic and social conditions in Mexico and Colombia.

After the programs are aired, distribution will be provided by the Educational Broadcasting Corporation to classrooms and other groups. The programs will also be made available to interested networks and stations in other countries.

PROJECTS FOR WEALTHIER COUNTRIES

Mr. PASSMAN. I read the other day a description of foreign aid. It said we are taking money from the poor people in a wealthy country,

and giving it to the wealthy people in a poor country. Sometimes it is a little bit difficult to disprove that.

I think possibly Brazil and Mexico are the two wealthiest countries in Latin America, are they not?

Mr. DYAL. Certainly among the top.

Mr. PASSMAN. Let's look at Brazil. In Brazil they have gotten almost $4 million out of the total of $29 million. I think they are possibly better off financially than any other nation in Latin America.

Next is Mexico. Mexico says they don't accept U.S. aid, but I think we agreed earlier that this is foreign aid, is it not?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. Now we see Mexico. They are a large recipient at $2,154,000. It looks like possibly most of it is going to the wealthier countries.

I won't belabor it, but I think that I am making a statement of fact, am I not?

Mr. DYAL. Mr. Chairman, you are making a statement of fact.

Mr. PASSMAN. Thank you very much, sir.

If Mr. Roush would not object, I would like to yield to Mr. Obey, because he must now go to another committee.

Mr. ROUSH. By all means, Mr. Chairman.

Mr. OBEY. No, Mr. Chairman, I can wait.

Mr. PASSMAN. Mr. Roush, we are on this Inter-American Foundation.

Mr. ROUSH. I pass, Mr. Chairman.

Mr. PASSMAN. Then we go back to Mr. Coughlin.

FUNDING PROCESS

Mr. COUGHLIN. Thank you, Mr. Chairman.

In your statement I am confused as to the funding of this. Your entire authorization is $50 million; is that correct?

Mr. DYAL. Yes, sir.

Mr. COUGHLIN. And the entire $50 million has been available since fiscal 1971?

Mr. DYAL. That is right.

Mr. COUGHLIN. And for what period is that authorization?

Mr. PARKER. Until expended.

Mr. COUGHLIN. And since 1971 you have only spent about $23 million of the $50 million?

Mr. PARKER. Those are expenditures, yes, sir. There has been a limitation in each fiscal year's budget on the amount within the $50 million that we could obligate in that year. Generally it has been $10 million per year of the appropriated funds. In fiscal year 1973 I believe it was $5 million, so that within the $50 million that was initially made available we have been limited in each year as to how much we can use. We are testifying now in support of a limitation of $10 million that we can use, that could be obligated during fiscal year 1976, which would leave us with $11 million more.

Mr. COUGHLIN. You say your program for fiscal 1976 is based on $20 million.

Mr. PARKER. Right. That is $10 million worth of appropriated funds and an additional $10 million from the social progress trust fund administered by the Inter-American Development Bank.

Mr. COUGHLIN. Are you saying that the program for fiscal 1976 will be about the equivalent of the total program since fiscal 1971?

Mr. PARKER. It would be the equivalent of the program for this year, which is the $10 million in appropriated money and $10 million from the Social Progress Trust Fund.

We concluded an agreement in December of 1973 with the Inter-American Development Bank to get access to $30 million worth of social progress trust fund moneys. Those become available to us at the rate of $5 million every 6 months for a period of 3 years, so that the combination of those funds plus the appropriated funds is the limitation of the total program.

Mr. DYAL. I think the question is that it sounds as though our budget for this year is the equivalent of everything we have spent so far.

Mr. COUGHLIN. Yes.

Mr. DYAL. But that is not the fact. There is a difference between approval and actual disbursement.

Mr. COUGHLIN. Plus $30 million in your overall program. Out of that you have expended $23 million.

Mr. PARKER. In terms of expenditures, we have obligations for considerably more and approvals of even more than that. The process involves an approval of the grant and conclusion of grant agreements with the grantee which results in an obligation.

Then the process of expenditure takes place in the program area over a 3- to 4-year period because we don't give them all the money at once. We pay against progress on it in the grant. The reporting process that Mr. Dyal mentioned triggers disbursement steps over a period of time, so that we are essentially holding and not disbursing a considerable portion of that money that we have obligated.

Mr. COUGHLIN. It is very confusing.

Mr. DYAL. It is simply the difference between approval of a 4-year grant, let's say, of $500,000 which is going to be actually disbursed to the grantee in perhaps 6-month segments, so all you are seeing at the beginning of that is maybe the first 6 months disbursement out of that total $500,000. That is the difference between an approval and an obligation and disbursement.

Mr. PARKER. It is particularly hard to understand in a new program because we are just reaching the point where our expenditures in any one year start to approximate our obligations because we are building up over the past 2 or 3 years and our expenditures have not in any way seemed to catch up on a proportional basis. We went for 2 years just spending a little bit of program support money before we really started obligating money for projects.

DIFFERENCE OF FOUNDATIONS

Mr. COUGHLIN. Let me pursue one other line of questioning to refresh my recollection. How does your program differ from other programs under AID, the Inter-American Development Bank or others?

Mr. DYAL. This is a basic question, of course, that is always asked and it is an appropriate one, because we do have to see uniqueness. I think this is the reason, when the Congress created the legislation, they called for a new direction and a new emphasis, and said we should be primarily responsive to nongovernmental attempts to resolve social and economic problems.

Most of the people we deal with are outside the scope of and access to the banks and other AID programs, which deal primarily with government-to-government loans of a sectorial nature, to beef up a national budget, to build bridges, schools, highways, or to provide massive technical assistance.

Mr. COUGHLIN. Farm co-ops?

Mr. DYAL. AID, you see, is usually at a different level and primarily in the governmental sector as an instrument of U.S. foreign policy, whereas our foundation is able to respond, say, to a campesino movement, peasant farmers who have organized themselves into a union and are beginning to form together in order to have access to technical assistance and credit. They would not ordinarily have that access under most AID programs.

Mr. COUGHLIN. And under the Inter-American Bank, none of those can be funded?

Mr. DYAL. Generally they do not have access there. We are basically a gap funder primarily of organizations and institutions that do not have access to and are not funded by other funding entities in the United States, certainly not in Government.

SIZE OF STAFF

Mr. COUGHLIN. How many people do you have in your organization; how many in Washington and how many overseas?

Mr. DYAL We have 67 people, including secretaries. We have no one overseas. We have a staff that travels overseas, but we elected not to set up regional offices overseas for two reasons. Since we are not designing, controlling, or operating projects, we felt it was inappropriate to have overseas staff. This also allows us to cut back on our administrative costs which now are about 10 percent; 90 percent of our money is able to go to the various projects.

Mr. COUGHLIN. My time has expired.

Thank you, Mr. Chairman.

Mr. ROUSH. It has expired.

I wonder if we could follow through on this for a moment, if there is no objection.

Do you have consultants whom you are hiring, however?

Mr. DYAL. No, sir. I think in the whole history of the foundation we can count on both hands the consultants who have been employed.

Mr. ROUSH. Do you have any personnel detailed from other agencies or departments?

Mr. DYAL. We do not.

Mr. ROUSH. Are all the employees of the foundation located in Washington?

Mr. DYAL. Yes, sir; they are.

Mr. ROUSH. Mr. Obey?

PROJECT LIMITATION

Mr. OBEY. Thank you, Mr. Chairman.

As a new fellow on the block, let me just ask a few questions. Let me state first of all that I think the goal of your organization is commendable. I think, as was indicated by a question asked previously, from time to time many people might feel that it is virtually

impossible to reach little people in any AID program, and I think it is commendable to try. Let me ask you, in terms of how broad a field do you try to cover, what care do you take to make certain that you don't spread yourself so thinly that you have no effect on anything that can really be measured?

Mr. DYAL. That is obviously a very important question, because you can just touch the edge of the whole problem. I think part of it is the nature of a process we are attempting to relate to. Rather than saying that you are building a certain number of houses in a country, which obviously is never going to meet the housing need of the people at the bottom, we would attempt to fund an organization that sees housing as a means to a larger end of community organization and participation. Thus we see more multiple effects from many of the projects that we are funding, through their attempts to raise other funds and to develop a community-based organization that can speak to a broad range of psychological and physiological needs.

NUMBER OF PROJECTS FUNDED

Mr. OBEY. What projects did you fund this last year?

Mr. DYAL. About 100 projects, in most of the countries of the hemisphere.

Mr. OBEY. Into how many classifications would those projects fall? Are you concentrating on any three, four, or five areas or are you pretty well shotgunning it?

Mr. DYAL. We decided not to try to focus in a program sense, because of this very concern of being able to speak to a social process. Obviously we cannot have built within our staff an expertise at all points. You can get access to that. The point I would try to make is what we are responding to is something stronger and deeper than just one community building a road or something of this nature. You are talking about community organizations that have been maturing over the last 5 to 10 years, as well as some new ones, which are developing their own expertise for addressing a whole series of problems.

EVALUATION

Mr. OBEY. Let me ask this: Since you say you are pretty well shotgunning it, you are not concentrating on any two , three, four, or five areas, what measure of success or failure do you use? Obviously your failure rate I would assume in an effort of this kind would have to be pretty high, but how do you tell when you think you are doing something effective and when you are not?

Mr. DYAL. Let me just give an introductory sentence and ask Mr. Toth to speak to this as program director.

We are very worried about words like "success and failure," because to sit in Washington and talk about success-failure in terms of what is happening with a group of peasant farmers in El Salvador is immediately perhaps to get yourself in a corner.

Mr. OBEY. I understand. My point is I don't think there is any sin in dealing with something like this with problems of this nature. I don't think there is any sin in not succeeding.

Mr. DYAL. Exactly.

Mr. OBEY. I know you don't want to use that term, but my point is that you have a heck of a problem if you don't know whether you have had any effect or not, and that is what I am trying to get at.

Mr. DYAL. Right.

Mr. TOTH. If I may comment on that in a roundabout way, without wasting your time pointing out differences between us and other development agencies. It must be said that our virtue, if we have any, is not a function of others' weaknesses. However, when you ask us about classification, one of the inherent difficulties is that human beings cannot be classified into health, housing, and education. We are all very complex individuals. Therefore, when we look for indicators of evolution or accomplishment in a project, we must deal with the complexity of the project.

Let me give you an example.

We have funded a number of projects in the Caribbean and South America which are called community enterprises, located in both urban and rural areas. We perceive a philosophy behind the process of community enterprise which I will not go into here. However, we could identify about 10 major indicators which in the course of 1½ years, I think would help to measure degrees of success.

I will submit that list of indicators for the record, but let me just mention some of them here.

Mr. OBEY. I wish you would.

Mr. TOTH. We have been asked many times why we don't provide loans. In a way we do, indirectly, by turning over capital to enterprises to expand. Let's take as an example a grant to capitalize a self-management enterprise. One of the indicators in the long run will be whether the workers repay this start-up money by capitalizing similar enterprises instead of reaping benefits for their own aggrandizement.

I think this would show whether the workers were involved or not.

Other indicators in community enterprises, which do not appear in traditional cooperatives, are the extent to which the worker-members become managers of their own agricultural enterprise or industrial enterprise and the extent to which they increase the base of their membership. If community enterprises hire other people and institute traditional relationships between bosses and workers we may assume that the experience in community enterprise has not met success.

In summary, success would depend on the extent to which members reinvest part of their profits and the degree to which they expand the membership base. It would also depend on whether they are meeting the needs of the community in which they are located, for example, instead of making heavy capital intensive investment or, on the other hand, making labor intensive investments and providing employment in the community.

Success would also depend on whether or not they create new dependencies, for example, a business limiting its products to dependency on the petrochemical industry would be very dangerous and imprudent in today's world of scarcity.

An agricultural worker's self-managed enterprise, instead of being attracted to high international coffee prices or cotton or something like that (which would make them economically profitable) would take a more mature view, and provide products which meet the needs of the community, and thus not be vulernable to the fluctuations of the international market.

Other indicators of success would be the degree to which their marketing and production link up with similar organizations which are worker or peasant managed.

Mr. OBEY. I have two other questions I want to ask you, so I would appreciate it if you would respond more for the record on that.

[The information follows:]

Workers' self-managed enterprises and community enterprises are a process and not an event; because of their inherent motion, they are more difficult to study than something that is an accomplished fact. Put another way, the establishment of such an entity is not social change per se; how it behaves in the long run may lead to social change.

Although precise measures of success are not possible, we can identify some principal indicators which should demonstrate whether such enterprises are socially relevant or are only economically viable. Indicators of worker and community enterprises which are socially relevant may include the following:

(a) they extend to others the same privilege they have received (external funding) by funding other projects of similar character in a nonspeculative fashion;

(b) they do not create a privileged class of worker-member-managers who employ hired labor who do not participate in the decisionmaking (as has happened in many traditional cooperatives);

(c) they relate their production priorities to the priorities and needs of the communities in which they are located, preferring labor intensive investment over capital intensive investment and emphasizing the community's consumption needs over industrial raw materials (such as sisal and cotton);

(d) related to the above, they resist the lure of the market or "conyuntura" (high international cotton or coffee prices) which might show them to be highly profitable and, they emphasize, instead, nonspeculative lines of products. On the other end of the spectrum, they consciously avoid, where possible, creating new dependencies by what they produce (that is, dependency on petrochemical products);

(e) they reinvest their profits for expansion cum inclusion of new members;

(f) they reinvest portions of their profit in noneconomic priorities, such as education and social welfare;

(g) they seek, in the long run, a coalescence with similar organizations to make their presence felt at the macro level, and they articulate their experience to gain a systemic impact (that is, seeking to modify laws governing cooperative enterprises). Such coalescence is also an indicator of greater societal awareness instead of a parochial mentality;

(h) they seek linkages not only with similar organizations, but also with other worker and community enterprises involved in various stages of the production process from raw materials to marketing.

APPLICATION PROCEDURE

Mr. OBEY. These are my last two questions.

I wonder if you could outline very briefly here, and then more for the record, what procedures you have for applications. I wonder how long it takes any organization before it develops procedures that are so complicated that people can't understand what they are expected to do in order to obtain the kind of help you are talking about.

Mr. DYAL. This is a very important question. If you are going to reach and be responsive to, for want of a better term, "grassroot organizations," you cannot have a heavy formula that they have to fill out. We have no questionnaires that have to be submitted. We have no lengthy list of criteria they must meet. The criteria is basically philosophical, as Mr. Toth said. We have set for ourselves a time limit from the very beginning of the foundation of 4 months maximum during which, from date of receipt of a proposal, through our analysis and study of it, a decision has to be forthcoming, yes or no, and the reasons

for that decision, including a rejection letter that states the reasons, or an acceptance which gives our rationale for funding it.

We did an audit internally recently of 3 years of grant making, and our average time per project is 3 months.

Mr. OBEY. How does somebody find out about your programs for instance?

Mr. DYAL. A whole variety of ways. We have a staff that travels and relates in the countries, people who have life and work experience in Latin America and language capacity to function in those countries. Also through referral processes of the whole network of funders, both public and private, sometimes even through government, even though these are nongovernmental entities primarily. All of this together brings in the proposals.

FUNDING IN BRAZIL AND MEXICO

Mr. OBEY. One last question.

The chairman asked a question which I thought was interesting. He asked why, I think the figure was $6 million, of $29 million that had been expended in Brazil and Mexico. I wonder if you would expand on that for me. I wonder what your response would be.

Mr. DYAL. That is I think a very important distinction also. We have not set for ourselves priorities of sums of money to go to any country. You have to take into account in both Brazil and Mexico all of these moneys go to nongovernmental institutions and organizations. In Brazil, the thrust of it is primarily in the northeast where actually the bulk of the poor population exists. It is like being on two planets in Brazil. South is wealthy and north is dirt poor. Most of those groups and organizations have no access even within their own country to many funding resources. They are at a beginning state. The church also has been very active in north Brazil in forming a whole network of organizations that we relate to.

In Mexico the bulk of the grants have gone once again at the lowest level, the farmer who has one cow and maybe not even that. Indian groups in the Chiapas area, et cetera.

The reason always in that kind of wealthy setting would be for the organization to be a base population organization generally out of touch with funders.

Mr. OBEY. I apologize for exceeding my time.

Mr. DYAL. I think it was our answers that exceeded your questions in time.

Mr. ROUSH. That is generally the situation.

Mr. Bevill?

FUNDING FOR VENEZUELA

Mr. BEVILL. Thank you, Mr. Chairman.

I, too, commend you for the goal of your organization and the fine people with whom you work. However, I am very concerned about the money that it takes. I see here in looking at this list, we have talked about Brazil and one of the other countries, and I notice Venezuela. This doesn't appear to be a lot of money but it still puzzles me. This is $89,000 and $55,000; is that right? That is $89,000; is that right?

Mr. DYAL. Yes.

Mr. BEVILL. In fiscal year 1975 the amount is $55,000.

Why are we, a country that is going to have a $50 to $70 or $100 billion deficit, to put the real question where it ought to be, why should the taxpayers of the United States borrow money to send to Venezuela, one of the wealthiest oil countries in the world; could you tell me?

Mr. DYAL. That is a very hard but a very important question, because unless you can show that in that setting there is indeed a gap relating to people at the very bottom of Venezuelan society, whereby a grant from a foundation like this foundation could perhaps leverage either public or private funds locally to do something that needs to be done and ultimately I think would be their self-interest and in ours, then I think it is inappropriate for us to think of very much money going in that direction.

The problem with Venezuela, it has leaped into the 20th century with heavy oil money without much of the organizational life and infrastructure at the bottom to relate to the mass of their people, and until they can begin to develop some of those groups of organizations who can make demands on their own government and on the international lenders, if that is the appropriate place, but certainly with their own government, not much is going to happen.

We have not funded much, as you can see, in Venezuela, because of our recognition that there has to be a primary thrust from that government itself. These would be areas where we would be concerned about the leveraging of money.

Mr. BEVILL. That is all I have.

Mr. KOCH. I will forego.

Mr. ROUSH. We are having a series of votes here, and I think it would be a waste of your time to retain you just for the purpose of answering a few questions afterward. That being the case, the subcommittee stands adjourned until tomorrow at 1 p.m.

TUESDAY, MAY 6, 1975.

ACTION—PEACE CORPS

WITNESSES

DR. MICHAEL P. BALZANO, DIRECTOR
JOHN GANLEY, DEPUTY DIRECTOR
JOHN DELLENBACK, ASSOCIATE DIRECTOR FOR INTERNATIONAL OPERATIONS
ALFREDO PEREZ, DEPUTY ASSOCIATE DIRECTOR FOR INTERNATIONAL OPERATIONS
EMERSON MARKHAM, DIRECTOR OF BUDGET
RONALD GEREVAS, ASSOCIATE DIRECTOR-DESIGNATE FOR DOMESTIC OPERATIONS AND FORMER DIRECTOR FOR RECRUITMENT AND COMMUNICATIONS
JORGE CORDOVA, GENERAL COUNSEL
ROBERT GRAULICH, ACTING ASSISTANT DIRECTOR FOR ADMINISTRATION AND FINANCE
HARRY HOGAN, ASSISTANT DIRECTOR FOR POLICY AND PLANNING

Program and Financing (in thousands of dollars)

Identification code 30-01-0100-0-1-151		1974 actual	1975 est.	1976 est.
	Program by activities:			
	Direct program:			
	1. Training and specialized recruiting	10,253	9,923	9,059
	2. Volunteers	33,143	36,612	35,319
	3. Program support	33,553	36,383	36,423
	(Share of agencywide costs)	(12,909)	(14,078)	(13,983)
	Total direct program	76,949	82,918	80,801
	Reimbursable program	267	180	150
10	Total obligations	77,216	83,098	80,951
	Financing:			
	Receipts and reimbursements from:			
11	Federal funds	−85	−30	
14	Non-Federal sources	−182	−150	−150
25	Unobligated balance, lapsing	14		
	Budget authority	76,963	82,918	80,801
	Budget authority:			
40	Appropriation	77,000	82,256	80,826
41	Transferred to other accounts	−37	−25	−25
43	**Appropriation (adjusted)**	76,963	82,231	80,801
44.20	**Proposed supplemental for civilian pay raises**		687	
	Relation of obligations to outlays:			
71	Obligations incurred, net	76,949	82,918	80,801
72	Obligated balance, start of year	24,948	17,184	17,336
74	Obligated balance, end of year	−17,184	−17,336	−15,138
77	Adjustments in expired accounts	−3,978		
90	Outlays, excluding pay raise supplemental	80,735	82,113	82,965
91.20	Outlays from civilian pay raise supplemental		653	34

Object Classification (in thousands of dollars)

Identification code 30-01-0100-0-1-151	1974 actual	1975 est.	1976 est.
Direct obligations:			
Personnel compensation:			
11.1 Permanent positions	8,230	9,203	8,855
11.3 Positions other than permanent	3,301	2,574	2,332
11.5 Other personnel compensation	40	53	48
11.8 Special personal services payments:			
Employees	254	262	252
Volunteers and trainees	22,385	24,859	23,114
Total personnel compensation	34,210	36,951	34,601
12.1 Personnel benefits:			
Employees	959	1,051	1,033
Volunteers and trainees	1,439	1,516	1,534
13.0 Benefits for former personnel	49	50	48
21.0 Travel and transportation of persons	10,638	10,248	11,032
(Staff)	(1,709)	(1,404)	(1,582)
22.0 Transportation of things	1,100	1,124	1,233
23.0 Rent, communications, and utilities	2,450	2,834	2,831
24.0 Printing and reproduction	140	153	146
25.0 Other services	9,757	11,159	11,100
26.0 Supplies and materials	2,679	2,777	2,528
31.0 Equipment	494	640	601
41 0 Grants, subsidies, and contributions	66	279	70
42.0 Insurance claims and indemnities	59	58	61
Total program obligations	64,040	68,845	66,818
93.0 Administrative expenses (share of agencywide costs—see separate schedule)	12,909	14,078	13,983
Total direct obligations	76,949	82,918	80,801
Reimbursable obligations:			
11.1 Personnel compensation: Permanent positions	85	30	----------
31.0 Equipment	182	150	150
Total reimbursable obligations	267	180	150
99.0 Total obligations	77,216	83,098	80,951

Personnel Summary

Total number of permanent positions	705	799	799
Full-time equivalent of other positions	3	1	1
Average paid employment	687	776	776
Average grade, grades established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801-1158) (as amended by Public Law 88-426):			
Foreign Service reserve	4.62	4.61	4.61
Foreign Service staff	7.52	7.48	7.48
Average salary, salary established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801-1158) (as amended by Public Law 88-426):			
Foreign Service reserve	$20,671	$20,932	$21,142
Foreign Service staff	$10,838	$10,941	$11,050
Average salary of ungraded positions	$4,873	$5,048	$5,755

Mr. PASSMAN. The committee will come to order. We shall continue our examination today of another spigot of foreign aid. Today we examine the budget request of the Peace Corps.

We shall insert in the record at the point the general statement of Dr. Balzano.

[The statement follows:]

GENERAL STATEMENT

STATEMENT OF DR. MICHAEL P. BALZANO, DIRECTOR OF ACTION

Mr. Chairman and members of the committee, it gives me great pleasure to appear before this committee once again to testify on behalf of the Peace Corps appropriation request for fiscal year 1976.

I am pleased to have at my side today Hon. John Dellenback, newly designated Associate Director for International Operations, who I am sure needs no further introduction. I think the President has made a splendid choice. The Peace Corps has always been most fortunate in having outstanding leaders, and I feel confident that John Dellenback will carry on this fine tradition.

In addition to Mr. Dellenback, and in order to respond in as much detail as possible to any questions you and your colleagues may have, I am accompanied by some of my key staff. They are:

John Ganley, Deputy Director, ACTION;

Harry Hogan, Assistant Director for Policy and Planning;

Alfredo Perez, Deputy Associate Director for International Operations;

Ronald Gerevas, Acting Assistant Director for Domestic and Antipoverty Operations and until just recently, Assistant Director for Recruitment and Communications;

Jorge Cordova, ACTION General Counsel;

Robert Graulich, Acting Assistant Director for Administration and Finance; and

Emerson Markham, Director of Budget.

Also with us today are the three Regional Directors of International Operations.

While John Dellenback has come to the Peace Corps from the Congress, I would like to note that there have been some significant contributions in the other direction. Two former Peace Corps volunteers—Christopher Dodd of Connecticut and Paul Tsongas of Massachusetts—are freshmen Members of this Congress. In addition, I believe that there are several dozen former Peace Corps volunteers contributing to the work of this Congress in various staff positions. This is only one example of the rich return on their investment in the Peace Corps which the American people have received.

Peace Corps volunteers do not, like the soldier in the old cliche, simply fade away. They return to America enriched in education and seasoned in experience beyond their years. Their postservice record of accomplishments in all phases of American life is one of which we all can be proud. Within ACTION, the Peace Corps continues this tradition today.

Mr. Chairman, before discussing our fiscal year 1976 appropriation request I would like to review the current status and some of the most recent accomplishments of the Peace Corps, especially those of the past year.

THE PEACE CORPS MANDATE

The purpose of the Peace Corps, as stated in its enabling legislation, is "to promote world peace and friendship." Within this broad responsibility, three distinct goals are specified:

To help developing nations meet their needs for trained manpower;

To promote better understanding of the American people among those served by volunteers; and

To promote a better understanding of other cultures and peoples, not just by Peace Corps volunteers, but by all Americans.

This congressional mandate for the Peace Corps remains as vital today as it was in 1961. Today's Peace Corps volunteer is as dedicated to these three goals as was his or her predecessor of almost a decade and a half ago.

SUPPORT FOR THE PEACE CORPS

Since September 1961, when the first volunteer deplaned in Accra, Ghana, more than 62,000 American men and women have served in the Peace Corps in more than 80 countries. Currently, there are some 6,800 volunteers serving in 68 countries.

I address this committee today in full confidence that this record of service by the Peace Corps will continue.

Some indications which support this conclusion are:

There has been a continuing high level of requests by host countries for volunteers, averaging over 5,000 per year, with an estimated additional 1,000 requests that are not processed overseas because of budgetary and other operational constraints;

Host countries are increasing their financial support of Peace Corps programs. Host country contributions increased about 10 percent last year, from $3.9 million to $4.3 million and are expected to reach $6 million in fiscal year 1976;

Volunteer applications continue at a high level, averaging between 25,000 and 30,000 since the low of 19,000 in 1970;

A report of the National Academy of Sciences in December 1973, was quite favorable concerning the continuing benefits of the Peace Corps to this country and to those it has aided abroad. It made 10 recommendations for maintaining the record of the Peace Corps and improving its effectiveness, to which we are giving attention;

A recent survey of American attitudes toward foreign assistance, conducted for the Overseas Development Council, reported that 88 percent of those polled considered the Peace Corps effective, outranking all other organizations covered by the survey;

In a recent radio poll sponsored by the Government of Liberia, listeners voted the Peace Corps as the most outstanding international organization serving in Liberia in 1974. Over 95 percent of rural respondents placed the Peace Corps first.

Last year, through the Peace Corps school partnership program, American groups donated $160,000 which were matched by host country donations of $272,000 to finance 105 volunteer-directed community self-help projects, including construction of schools, dispensaries, and wells. Since the mid-60's over $2 million have been donated to benefit 1,000 projects in more than 50 countries.

These facts indicate that the Peace Corps concept continues to have a broad base of public support, both at home and abroad.

One of the primary reasons for this continuing public support abroad is the fact that Peace Corps has learned to adapt to the changing needs of our host countries.

For instance, we have long recognized the great value of cross-cultural interchange to the United States and other countries of the world, and of Peace Corps' capacity for contributing to it.

More recently, and particularly in 1975, we have begun to recognize and capitalize on our potential for providing genuine social and economic assistance as well.

A major problem faced by many of our host countries is the inability of their organizations to deliver goods and services to their people. While the plans upon which such organizations operate are sound, the implementation of these plans is not. Far too often, the bureaucracy established to implement the plan falters and fails at the critical point where delivery to the people should take place, for instance, in rural distribution mechanisms.

The Peace Corps is unique in its ability to place effective people within the delivery systems at the levels where these systems most frequently break down, that is, at the middle and lower levels.

While other institutions can provide the capital needed for large-scale development projects, the Peace Corps can most effectively provide individual assistance which helps to channel directly the flow of social and economic benefits to the masses of people for whom such benefits are intended.

THE PEACE CORPS IN ACTION

Mr. Chairman, on this July 1, the Peace Corps will have completed its fourth year as the largest full-time volunteer service program within ACTION. The

spirit of service which sustains both the Peace Corps and the domestic volunteer programs of ACTION has provided a strong and logical bond between them.

I will discuss a few of the more important improvements made in Peace Corps operations since it joined ACTION.

First, the Peace Corps has made substantial progress in reducing volunteer training costs. Although the cost of training each Peace Corps volunteer increased from $3,862 in fiscal year 1968 to $5,123 in fiscal year 1970, the last pre-ACTION year, we have since reduced this cost by nearly half. In fiscal year 1974, we averaged out a $2,722, and despite inflation and related problems, expect to virtually hold the line at $2,792 this year and $2,762 in 1976.

We have overcome the problem of late payments of readjustment allowances to volunteers, which had persisted for many years. Without going into detail as to why past delays were experienced, let me say that we took a fresh look at the entire problem, developed a new accounting and volunteer pay system, and now have in place procedures which will pay the volunteer one-third of his allowance at the time he leaves his overseas post and the balance in less than a month after his termination date. We are now erasing a large backlog of delayed payments and expect our new system to be fully current by May 31, 1975.

Volunteer attrition, another area of major concern to the Peace Corps, has been stabilized. During fiscal year 1974 a study was completed to determine the nature and causes of early termination. These are differentiated and grouped into two types: unmanageable and manageable. Unmanageable attrition includes financial, medical, or family problems clearly beyond the control of the volunteer or the Peace Corps. On the other hand, manageable attrition, which causes the higher portion of volunteer termination, is usually program-related and reflects job dissatisfactions which can be reduced

Accordingly, each Peace Corps country staff has now been provided an analysis of its volunteer attrition trends and must develop a strategy for reducing it. The full effect of these plans has not yet been felt; however, we expect to continue the decreasing trend in the attrition rate that we have been experiencing, from 9 percent in fiscal year 1973 to 8.8 percent in fiscal year 1974, and a projected 8.6 percent in fiscal year 1975.

ACTION has also assisted the volunteer in many ways to continue his or her service and use his or her developed talents upon return to this country. For example:

As of June 30, 1974, 122 former Peace Corps volunteers were serving as VISTA volunteers;

Over 40 percent of American Peace Corps staff are former Peace Corps volunteers.

THE PEACE CORPS IN FISCAL YEAR 1975

We are also proud of the progress the Peace Corps has made during the past year in financial management, program development, and program administration.

We have concentrated considerable resources on improving program development, since effective programing is the key ingredient in achieving our goals.

In response to host country requests, we have begun to shift more of our volunteer resources into such critical program sectors as food production, health, and the conservation of natural resources. The results of this shift should become immediately evident during fiscal year 1976, with agriculture increasing from 21 percent to 23 percent of Peace Corps' volunteer resources. We believe these trends will continue in the following 2 years.

We have demonstrated our capacity to provide prompt assistance at the community level to cope with natural disasters, such as the drought in the Sahel region of Africa, and the 1974 hurricane in Honduras.

We have realined our training procedures to emphasize in-service training overseas, so that we could:

Focus training on the skills the volunteer needs to do his job, once he has some feel for the challenge he faces in a new culture;

Provide language training when the volunteer's recognition of the need for fluency is at its peak; and

Take advantage of reduced training costs overseas.

We have continued to emphasize the strong binational nature of the Peace Corps by:

Increasing the number of Peace Corps program agreements with host country ministries;

Increasing the use of host country citizens in the professional management of Peace Corps programs overseas; and

Increasing host country participation in Peace Corps program and training decisionmaking.

Volunteers have been encouraged to participate jointly with host country personnel in project development and evaluation. Volunteers often provide valuable insights to improve project viability and otherwise contribute to program development.

The Peace Corps has carried out successfully projects in countries experiencing international tensions or internal discord, such as Ethiopia, Chad, Chile, and Korea, and managed a prompt withdrawal without incident from one country (Peru) which decided to terminate its program.

We have explored possibilities for new programs in several countries, such as Burundi, the Portuguese African colonies, Indonesia, Cyprus, and Haiti. Given adequate funding and continued interest by these countries, we expect to further these arrangements in fiscal year 1976.

A few examples of some of the thousands of social and economic development activities undertaken by volunteers may best illustrate the impressive capability of Peace Corps volunteers functioning in programs overseas.

AFRICA

In the Cameroons and Central African Republic, fisheries programs have made fish available to persons living within protein deficient rural population centers. For example, by August 1975, 150 new carp farms will each be producing 1,200 kilograms of fish per year in the Cameroons. Although an important focus of this project has been as an income supplement to farmers, what is most impressive on the personal level is the fact that the above results represent the primary protein ingredient in approximately 180,000 major daily meals.

These successful models are spurring inland fisheries development programs in Zaire, Senegal, Niger, and Chad, with many other Francophone countries involved in future programing.

LATIN AMERICA

Volunteers were directly involved in disaster relief efforts following Hurricane Fifi in Honduras. Teams of Peace Corps volunteer nurses from other Peace Corps countries worked directly in emergency hospitals, vaccination programs, and at the central supply depot for U.S. medicines. Peace Corps volunteer relief teams participated in:

Rescuing stranded Hondurans, including evacuation of over 100 children from a flooded orphanage;

Assisting in food distribution centers;

Distributing materials and clothing;

Clearing debris and reconstructing water systems;

Establishing relief clinics and pharmacies; and

Assisting in translation and missing-persons services.

NORTH AFRICA, NEAR EAST ASIA, AND PACIFIC

In the Philippines a Peace Corps assisted credit program is advancing the development of the rural poor. More than 60 volunteers provide the technical and entrepreneurial skills that permit over 6,000 farmers to qualify for loans from participating banks. These financial resources would otherwise remain unproductive.

Turning to the program administration area, we have continued our efforts to increase the level of efficiency of our operations, and to improve Peace Corps' ability to respond rapidly to requests for assistance. For example:

We have completed the second year of uniform project budgeting and program management procedures throughout the Peace Corps. These procedures help insure the development of sound programs and the intelligent utilization of financial and volunteer resources. An important part of this process involves the application of standard criteria to programs throughout the world as one means of evaluating the quality of our efforts.

We have restructured Peace Corps Headquarters to decrease the number of Washington-based personnel by 17 percent, from 156 to 129, and to provide better accountability of line management. The Peace Corps now has a leaner,

more responsive, headquarters organization. The key change was to merge the programmatic and operational functions in the three international operations regional offices. The support staff in each region had previously been divided into an operations unit which handled all coordinating and administrative responsibilities, and a program and training unit which analyzed the kinds of projects being programed. These various functions have now been assigned to an individual desk officer for each country, thus making this person the focal point for all headquarters services to each country. The desk officer positions have been enhanced in other ways to emphasize their broader range of responsibility to, and accountability for, the countries they serve.

We have reduced the office space allotted to each ACTION headquarters employee. During fiscal year 1975, we have consolidated from 215 square feet to 187 square feet per person, a net reduction of 28 square feet. We anticipate further reductions in fiscal year 1976. In accomplishing this task we have utilized open-space planning, which has reduced the number of private offices, and will reduce the costs of any future alterations. As a result of the consolidation, by the end of this fiscal year we will have reduced our headquarters buildings from 3 to 2 at an estimated future savings of some $200,000 per year.

ACTION's volunteer recruitment and placement system has also been extensively improved, and this is, in my view, one of our most significant accomplishments in support of Peace Corps programs. In January 1974, after developing a management system which would tie its recruitment goals and accomplishments to its expenditures, ACTION's Office of Recruitment and Communications began a series of experiments designed to:

Tie recruitment more directly to programming;

Shorten the time for processing applications;

Lower the number of applications needed to obtain a volunteer trainee, and otherwise improve the effectiveness of the trainee delivery system;

Provide better service to the applicants; and

Reduce the overall costs of the delivery system.

In October of last year, on the basis of these tests, ACTION decentralized its recruitment operations to the field, creating five Regional Service Centers and assigning to these centers responsibility for recruiting, processing, and evaluating volunteers for the Peace Corps, although placement of overseas volunteers will still be done by Washington Headquarters. This restructuring has also consolidated all field communications activities into the Service Centers.

In the last 14 months the Office of Recruitment and Communications has:

Reduced application processing time by 72 working days (48 percent) for Peace Corps and 52 working days (44 percent) for VISTA; and

Developed a computerized Combined Applicant Record System, comprised of nonsensitive records of Peace Corps and VISTA applicants and volunteers, designed to expedite the handling of applicant data.

Terminals are located at headquarters and in each Service Center.

In addition, the Peace Corps has refined its procedures for defining its volunteer requirements, so that the Office of Recruitment and Communication can focus its recruitment campaigns on those college graduates and other groups who possess the specific skills required. Thus, in 1974, the recruitment program provided the same number of trainees as in 1973, although it processed 10 percent fewer applications. Approximately 4,900 trainees were selected from some 30,000 applications in fiscal year 1974. In fiscal year 1976 our goal is to select 3,750 trainees from only 21,000 applicants. Each application we do not have to process saves us money. This, Mr. Chairman, has been accomplished with a reduction of staff in our recruitment and placement operation.

FACTORS INFLUENCING FISCAL YEAR 1976 PLANNING

In planning for fiscal year 1976, we are influenced by three major factors:

The rapidly increasing rate of worldwide inflation;

The application of our own increasingly stringent guidelines for identifying high and low priority projects; and

The increasing number of requests from host countries for volunteer skills that are in short supply.

During the current fiscal year we have asked our host countries to support Peace Corps programs to an extent consistent with their individual resources. Often this means increasing their level of support. We believe that such support:

Confirms the binational character of the Peace Corps;

Insures that the host country takes an active role in the utilization and assessment of volunteers; and

Enables the Peace Corps to meet a larger number of host country requests than could be supported by appropriated funds alone.

We have been increasingly successful in this area. There is presently a genuine willingness by many host countries to make such contributions to Peace Corps programs despite their own uncertain budgets and spiraling costs, and we are hopeful that this willingness will continue.

However, if we are unable to realize the significant increases we expect in host country contributions, we will have to make careful adjustments in program levels on the basis of highest priority needs, the alternatives available to particular countries, and Peace Corps' ability to respond most effectively.

Mr. Chairman, the nature of the Peace Corps program does not always allow us to make a clear-cut decision as to when our work in a particular country is complete. Development never really ceases in any country. The need for cross-cultural understanding may in fact increase, after a country has achieved some degree of economic development. In the past, the question of how long the Peace Corps should continue its presence in developing countries has been only theoretical; recently, however, economic growth in some countries has made this a real issue.

For example, we are presently considering reductions in programs in such countries as Brazil, Iran, and Venezuela, which have alternatives other than the Peace Corps to help meet their developmental needs. We are making plans to reallocate these resources to programs in other countries, and this is a key issue in the development of our 1976 program strategy. We are going about such adjustments very carefully, since we appreciate the sensitive nature of these decisions.

In fiscal year 1976, in view of our limited budget and the uncertain economic outlook, Peace Corps will continue to focus attention on effective program management to insure that both the American people and the peoples of the countries abroad where we are serving receive the maximum possible benefit from our efforts and that volunteers receive the maximum possible satisfaction from their service. We are now in the midst of a major forecasting and planning exercise which will allocate an increasing proportion of Peace Corps resources to those program sectors where the greatest need exists, including food production, health services, nutrition education, and the conservation of natural resources. We expect to increase the proportion of our resources allocated to the poorest countries within the developing world.

SUMMARY OF APPROPRIATION REQUEST

Our request for $80,826,000 in fiscal year 1976 will provide for an anticipated 3,750 Peace Corps trainees and will support 6,062 volunteer man-years of service in 68 nations. By program sector, we expect to allocate about 23 percent of our volunteers to agriculture; 3 percent of our volunteers for small business assistance; 49 percent to education; 12 percent to health and nutrition, and 13 percent to urban development, public works, and other multisector projects.

This request represents an increase of $3,139,000 above the fiscal year 1975 appropriation, assuming we receive the Federal pay raise supplemental. This is distributed across Peace Corps budget activities in the following manner:

Volunteer costs are expected to increase by $506,000 despite a decrease in volunteer man-years. This is due largely to worldwide inflation of 20 to 30 percent, with particularly high increases in overseas airfares and other transportation costs.

Training and specialized recruiting will decrease by $57,000 as the result of a reduction fiscal year 1976 preservice training man-weeks, despite increased travel costs and an increase of 321 trainees.

The increase of $2,690,000 in program support costs is in large measure the result of a very low operating level in fiscal year 1975 made necessary to meet the constraints imposed by what we hope was a one-time legislative restriction on the program support portion of the appropriation. A large part of the increase is directly related to our overseas operations where costs have increased substantially due to inflation. We are also requesting funds for an increase of $298,000 in our evaluation efforts over the level of this fiscal year. The other part of this increase is a $1,440,000 rise in State Department Shared Administrative Support. Again, this is an overseas expense which has been affected by inflation.

The Agency is also requesting $25,729,000 for the Federal fiscal year transition period between July 1, 1976, and September 30, 1976. This amount would enable Peace Corps to operate at the same level during this 3-month period as that requested for fiscal year 1976.

In fiscal year 1976, we expect the total volunteer man-years supported by the Peace Corps appropriation will reflect the following changes:

About 2,200 volunteers each will be assigned to the Africa Region and to the North African-Near East-Asia-Pacific Region, and about 1,700 to Latin America. The number assigned to Latin America represents a decline of about 16 percent, primarily because of expected decreases in requests from Brazil and Venezuela attributable to the other development alternatives available to them.

We expect more than double the number of volunteers working on health and nutrition projects worldwide, from 340 to 728. The number of volunteers assigned to urban development and public works projects will drop nearly 60 percent, to a total of 303. Teachers and others assigned to education projects will be cut by one-sixth to a total of 2,970; nevertheless, education projects will still involve 49 percent of Peace Corps man-years. Assignments of volunteers to agricultural, conservation, and rural development projects will be 23 percent, or almost 1,400, while we attempt new programing and training approaches to overcome the shortage of available skilled volunteers. Man-years projected for the other two sectors, business and public management, and multisector/miscellaneous projects, will total 182 and 458, respectively, or about 10-percent less than this year.

In fiscal year 1976, we will continue to maintain a major program effort in the Sahel as these countries continue their recovery from the drought. During 1974 and 1975, the Peace Corps made a major effort to assist the six countries of the Sahel and adjacent areas as they confronted the effects of their continuing drought. This effort, we believe, is another example of our capacity to respond effectively to disasters. In 1975, an estimated 348 man-years are allocated to the Sahel. In 1976, volunteers will be assigned to projects concerned with:

Reforestation to arrest desert advance, to replenish ground cover, and to provide building materials and firewood;

Well conservation and maintenance to provide villages with clean water supplies;

Construction of pit silos to maintain dry season livestock feed;

Construction of water catchments and dams for improved management of rainfall supplies; and

Construction of irrigation structures increasing rice and vegetable production.

Additionally, there are a number of critically important programing opportunities that Peace Corps will be addressing specifically in fiscal year 1976. These include the following:

The Peace Corps' successful experiment in agricultural technical training of generalists gives great promise as our answer to the shortage of volunteers for agricultural programs. In fiscal year 1976, we will determine which countries throughout the world can utilize these specially trained volunteers.

The Peace Corps' successful experiments in the programing of generalist volunteers in health and nutrition projects provide us with the opportunity for expanded implementation throughout the world.

In fiscal year 1976 we will attempt to implement several domestic/international program experiments. The first involves a combined effort of Peace Corps Latin America Region and our New York Domestic Regional Office. Development and testing of an integrated program and training project will be undertaken in the area of agricultural extension and research and nutrition education utilizing Peace Corps experiences in Latin America in agriculture and health programing, and its expertise in the training of generalists, for application in Puerto Rico. Additionally, a bilingual education program will be jointly developed with the Government of St. Croix.

VOLUNTEER READJUSTMENT ALLOWANCE RATE

Mr. Chairman, during last year's authorization hearings before the House Committee on International Relations we promised that ACTION would undertake a thorough study of the current adequacy of the readjustment allowance paid to Peace Corps Volunteers after they complete their overseas assignments. This allowance has remained, since 1961, at $75 for each month of service. I would like to bring the committee up to date on this matter since last spring.

We did undertake, and we have completed, a study which recommended that an increase would be justified in view of economic factors existing today. Within the Agency this initial report was subjected to, and continues to receive, intensive review.

However, we are not requesting funds for fiscal year 1976 to provide for payment of higher allowances. Given the need for strict budgetary restraint in the

coming year, increases in the readjustment allowance would require us to substantially reduce the number of volunteer man-years we could support. We believe we have to give first priority to maintaining the maximum number of volunteers overseas to fulfill our ongoing commitments.

IMBALANCE IN THE READJUSTMENT ALLOWANCE DEPOSIT FUND

Last year, Mr. Chairman, the Congress authorized ACTION to deposit an additional $315,000 in the Readjustment Allowance Deposit Fund, which is maintained by the Treasury Department, to make up an accumulated deficiency in the funds available to pay volunteers who have completed their service the readjustment allowance to which they were entitled. This imbalance occurred for a number of reasons which we described to the committee last year, and I am happy to report that the causes of the imbalance have all been corrected.

However, during fiscal year 1975 a problem arose which prevented us from making the required deposit. The Congress appropriated only $77 million, which was below our fiscal year 1974 funding level and below the continuing resolution level during the first nine months of the fiscal year. Because of the reduction we have no funds available to make the deposit. Therefore, we are requesting that the time period to make this deposit be extended 6 months, until December 31, 1975, so that we can make the required payment from the fiscal year 1976 appropriation.

CONCLUSION

Mr. Chairman, the need for the Peace Corps in the developing world is as real today as it was in 1961. The September 1973 meeting of the Board of Governors of the World Bank in Nairobi, Kenya, concluded that the benefits of economic growth had not reached the poor of the developing nations, who are still largely unable to contribute to, or benefit from, economic progress. The Peace Corps volunteer, with the ability to operate equally well at the grass roots level and directly with the staff of host nation ministries, performs a significant function in delivering to the target population the aid the American people have so generously given.

The assignment of a Peace Corps volunteer represents a commitment between the Peace Corps and the host country to work together toward a mutual project goal. During this process of education, interaction, and change, there develops that element of shared experience and human understanding that is the hallmark of the Peace Corps.

The Peace Corps, Mr. Chairman, dreamed of in embryo form by President Eisenhower, conceived by President John Kennedy and his staff, and shaped into its present form by a series of farsighted Congresses—is of course a governmental structure. But it's infinitely more than that. Built on an idea and a concern, it has come alive from the heart of America and the willingness of more than 50,000 Americans to give of themselves freely, often at considerable sacrifice.

It embodies the best of this Nation's almost 200-year heritage. It is a heritage of looking outward, of sharing, of taking an active interest in world peace and in the prosperity and well-being of other parts of the world.

Unique among all Government and nongovernment efforts, formal and informal, is the Peace Corps. It is the only substantial, nonpolicy making Government group which represents the altruistic idealism and spirit of sharing with others which is so much a part of America. The record of the stewardship of and by the Peace Corps has been a good one. Idealistic since its creation, the Peace Corps has proved to be a model of responsive and responsible Government. There have been considerable efforts to keep the operating costs to a minimum. With streamlining and economizing throughout the agency we believe that the Peace Corps represents one of the most cost-effective Nation's overseas activities. The Peace Corps, I can assure you, will continue to engage in the ongoing and never-ending task of demonstrating its ability to realize congressionally established goals, to manage the agency effectively, and to use Federal funds carefully and wisely. But the Peace Corps is much, much more than a program to be evaluated solely in terms of dollars and cents.

The Peace Corps is not as large as it once was; it does not have the headlines it once did. Good stories frequently repeated may not always be newsworthy. But perhaps this is just as well. It appears to be a good time for America to work quietly and effectively to achieve realistic goals of cooperation with the peoples of the developing world. This the Peace Corps can and will do.

This concludes my prepared statement, Mr. Chairman. We will be glad to answer any questions your colleagues may have.

BIOGRAPHY

Mr. PASSMAN. We will insert Mr. Dellenback's biography in the record at this point.

[The information follows:]

BIOGRAPHICAL SKETCH OF JOHN DELLENBACK

John Dellenback, 56, a lawyer and former Congressman from Oregon, serves as ACTION's associate director for international operations, with responsibility for Peace Corps programs and operations in 68 developing nations around the world.

Continuing a long career in public service, Dellenback oversees the efforts of 7,300 Peace Corps volunteers working in a wide variety of agriculture, health, education, public works, and other development projects. The Peace Corps has been part of ACTION, the Federal agency for volunteer service, since 1971.

Before joining ACTION, Dellenback was a member of the U.S. House of Representatives, where he served four consecutive terms as the Congressman from Oregon's Fourth District. First elected to the 90th Congress in 1966, he became a member of the Wednesday Group and served on the committees on Education and Labor, Interior and Insular Affairs, and the Joint Committee on Congressional Operations. He was reelected in 1968, 1970, and 1972.

Born in Chicago, Dellenback graduated Phi Beta Kappa from Yale University in 1940 with a B.S. degree in applied economic science. He received his law degree from the University of Michigan Law School in 1949 and settled in Oregon, where he taught business law for 2 years at Oregon State University.

In 1951, he entered private law practice in Medford, Oreg. He was active in community and church affairs, serving as a trustee of Lewis and Clark College and of the Kiwanis Foundation of Medford. He also was a member of the Masonic and Elk lodges and served on the Permanent Judicial Commission of the United Presbyterian Church.

In 1960, Dellenback entered politics and was elected to the Oregon State Legislature as a representative from Jackson County, an office to which he was reelected for two succeeding terms. While serving in the legislature, he was chairman of both the Judiciary and Constitutional Revision Committees. At various times, he also was a member of committees on education, highways, elections, State and Federal affairs, and legislative counsel.

Named by the press corps in 1961 as "Most Promising Freshman Legislator," Dellenback went on to serve as vice chairman of the permanent Legislative Tax Study Committee and the Judicial Council of Oregon.

During World War II, Dellenback served a 4-year tour of active duty with the U.S. Naval Reserve. Commissioned an ensign in 1942, he was released to inactive duty in 1946 with the rank of lieutenant, senior grade. He subsequently received an honorable discharge as a lieutenant commander.

Prior to his military service, Dellenback had been a business training student with the General Electric Co. in Bridgeport, Conn.

Dellenback is married to the former Mary Jane Benedict of Indiana. The couple resides in Washington, D.C. They have three children, Richard, 25, David, 23, and Barbara, 19.

Besides the Peace Corps, ACTION programs include Volunteers in Service to America (VISTA), foster grandparent program, retired senior volunteer program (RSVP), senior companion program, Service Corps of Retired Executives (SCORE), Active Corps of Executives (ACE), ACTION Cooperative Volunteers, and University Year for ACTION.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We shall also insert the justifications in the record at this point.

[The information follows:]

INTRODUCTION

ACTION, the Federal agency for volunteer service, was established on July 1, 1971. Legislative authority for the agency is provided by the Domestic Volunteer Service Act of 1973. The agency brings together a number of volunteer programs including the Peace Corps, Volunteers in Service to America (VISTA), Foster Grandparents (FGP), Retired Senior Volunteer Program (RSVP), University Year for ACTION (UYA), and the Service Corps of Retired Executives and Active Corps of Executives (SCORE/ACE).

Administration

The Director of ACTION and a Deputy administer all agency programs, assisted by an Associate Director for International Operations (Peace Corps) and an Associate Director for Domestic and Anti-Poverty Operations. Supporting these Associate Directors are:

-an Assistant Director for Recruitment and Communications, who manages volunteer recruitment;

- an Assistant Director for Policy and Planning, responsible for agency-wide program, policy, and fiscal planning and evaluation;

-an Assistant Director for Administration and Finance, who oversees agency administrative functions;

-Assistant Directors for Minority Affairs, Congressional Affairs, and a General Counsel.

International programs are administered on a country-by-country basis, under the guidance of three Regional Directors, one each for Africa and Latin American countries and one for all other areas where the Peace Corps has volunteers--North Africa, the Near East, Asia, and the Pacific (NANEAP).

Domestic Programs are administered through regional offices in each of the ten standard Federal regions. Programs are administered in local communities within this regional structure.

ACTION FY 1976 and Transition Appropriation Requests
(Dollars in Millions)

	FY 1975	FY 1976	Transition
Total (appropriations)	$177.7	$182.4	$46.8
International Programs	77.7 1/	80.8	25.7
Domestic Programs	100.0	101.6	21.1

Funds requested for International Programs reflect a decrease in anticipated volunteer strength for FY 1976 and an intensification of efforts to solicit and utilize host country contributions. This is offset by unavoidable overseas cost increases anticipated in FY 1976 because of inflation. Funds requested for Domestic Programs reflect a higher average paid employment because of full staffing in the domestic regions. Both appropriations include full costs of the October 1974 pay increase not included in FY 1975. Funds requested for the Transition period maintain, with minor exceptions, the FY 1976 program level request. As in FY 1976, the funds requested for the period July through September reflect the program needs unique to the summer calendar quarter.

Funding at requested levels will support the following volunteer strengths by the end of FY 1976 and the end of the Transition period.

ACTION Volunteer Strength 2/

	FY 1975	FY 1976	Transition
International Programs			
(Full-Time)	6,670	6,062	1,434
Domestic Programs			
(Full-Time)	20,348	20,594	1,788
(Part-Time)	150,500	197,700	197,700

1/ At the time of this submission, Congress has not yet enacted appropriations for the Peace Corps. The total anticipated appropriation includes a $687,000 supplemental request for pay increases.

2/ Full-time volunteers are measured in man-years; i.e., the equivalent of one volunteer working full-time for one year. Part-time volunteers refer to end strength on June 30 of that fiscal year.

FY 1975 Highlights

ACTION has made substantial strides in the current year in a number of management and program areas.

In the Domestic Programs area ACTION continued the trend toward improved staffing for state offices within the ten domestic regions. The reallocation of staff is expected to be completed by the end of FY 1975. In addition, the Domestic Programs began implementation of the Integrated Program and Training System (IPTS) in the regions. This system will coordinate the agency response to requests for volunteers among VISTA, UYA, RSVP, and other domestic programs in order to provide the optimum mix of volunteers within any given funding level.

In the International Programs area, the Peace Corps terminated its program in one country, Peru, and initiated preliminary steps that may lead to entry into several new countries. The International Operations staff completed a reorganization of personnel that resulted in a smaller total staff in the Washington office.

In the Agency-Wide Support area, the agency planning, evaluation, and budget functions were consolidated into one unit under an assistant director.

FY 1976 and Transition Appropriation Requests

Agency funds are requested in two separate appropriations, one for International Programs (Peace Corps) and one for Domestic Programs. Each of these appropriation requests include funding for a share of ACTION's support costs, such as volunteer recruitment, legal services, budgeting and accounting functions, and others. As in FY 1975, the share of administrative costs requested in each appropriation reflects the ratio of full-time personnel assigned to each activity versus total agency full-time personnel. The method of arriving at this ratio is explained more fully in the justification material for ACTION Agency-wide costs. which begins on page 42.

ACTION

OPERATING EXPENSES, INTERNATIONAL PROGRAMS (PEACE CORPS)

For expenses necessary for ACTION to carry out the Peace Corps Act (75 Stat. 612), as amended; ($77,000,000). $80,826,000.

OPERATING EXPENSES, INTERNATIONAL PROGRAMS
(PEACE CORPS)

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Activity 1 Training and Specialized Recruiting	$10,253	$ 9,116	$ 9,059	-$ 57
Activity 2 Volunteers	33,143	34,813	35,319	+ 506
Activity 3 Program Support (Peace Corps Share of Agency-Wide Support)	33,590 ($12,909)	33,758 ($14,078)	36,448 ($13,983)	+ 2,690 (-$ 95)
New Budget Authority	$76,986 1/	77,687 2/	$80,826 2/	+$3,139
Less Transfers	- 37	---	---	---
Net Authority	$76,949	$77,687	$80,826	+$3,139
Trainee Input	4,886	3,429	3,750	+ 321
Volunteer Man-years	6,489	6,670	6,062	- 608

1/ FY 1974 Program Total includes $37 thousand transferred to the General Services Administration, but excludes $14 thousand unobligated balance lapsing.

2/ FY 1975 and FY 1976 Program Totals include a proposed $25 thousand transfer to the State Department for Inspector General services.

General Statement

The Peace Corps was established in 1961 under the Peace Corps Act (75 Stat. 612) as an agency under the Executive Office of the President. On July 1, 1971, this program was transferred to ACTION in accordance with Reorganization Plan No. 1 of 1971 and Executive Order 11603.

The Peace Corps goals continue to motivate volunteers and provide the flexibility that permits the Peace Corps to confront the changing needs and priorities of the 68 host countries where it presently serves. Working at the grassroots, in projects planned by or with host country governments, volunteers have been, and continue to be, key participants in host country efforts to improve the quality of life at local levels.

OPERATING EXPENSES, INTERNATIONAL PROGRAMS (PEACE CORPS) - continued

The Peace Corps Mission

The mission given to the Peace Corps by legislative action of the Congress in 1961 serves as the underlying precept of the Peace Corps program. This mission is contained within three goals:

1. To promote world peace and friendship through a Peace Corps, which shall make available to interested countries and areas men and women of the United States qualified for service abroad and willing to serve, under conditions of hardship, if necessary;

2. To help the people of such countries and areas in meeting their need for trained manpower;

3. To help promote a better understanding of the American people on the part of the people served, and a better understanding of other peoples on the part of the American people.

Program Emphasis

During FY 1976, it it expected that the Peace Corps will be concentrating its resources into several significant program areas as a result of requests by host countries.

- Education will continue to receive slightly over half the volunteer strength as it did in FY 1974 and FY 1975. The trend, however, will reduce the percentage of volunteers in education, resulting in increases in other program areas.

- The Peace Corps will be channeling greater and greater resources into Agriculture, Health and Nutrition, and Conservation. This is in keeping with the goals of host countries' wishing to improve their ability to manage these basic resources.

Program Resources

During FY 1976, the Peace Corps plans a 3,750 Trainee input and a 6,062 volunteer man-year level funded at $80,826,000. With this combination of resources, the Peace Corps can most effiently meet host country needs.

OPERATING EXPENSES, INTERNATIONAL PROGRAMS (PEACE CORPS) - continued

The Peace Corps has undertaken an effort to generate increased host country contributions to support on-going program needs in FY 1976. Since the establishment of the Peace Corps in 1961, many of the countries in which the Peace Corps has served have accomplished significant economic growth. The need for trained manpower continues, in spite of this economic growth, and as a consequence, the Peace Corps will request from those countries additional host country contributions totaling $1,700,000. This will be in addition to amounts already being contributed.

The on-going examination and evaluation of the Peace Corps program will continue in order to assure that its resources are used as efficiently as possible. Experimental and innovative programs will be used, as needed, to maximize the volunteer's impact upon host country needs. Resources will continue to be reallocated to areas where the Peace Corps can provide significant impact, as for instance, the SAHEL or areas of natural disasters.

OPERATING EXPENSES, INTERNATIONAL PROGRAMS (PEACE CORPS)

Summary of FY 1976 Budget Request

	($000) FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Activity 1 Training and Specialized Recruiting			
A. Training	$ 9,447	$ 8,548	$ 8,269
B. Specialized Recruiting	806	568	790
Subtotal, Activity 1	$10,253	$ 9,116	$ 9,059
Activity 2 Volunteers			
A. International Travel	$ 6,670	$ 6,264	$ 7,599
B. Allowances	21,702	23,201	22,502
C. Other Volunteer Support	4,206	4,713	4,596
D. Dependent Support	476	595	522
E. Multilateral Volunteers	89	40	100
Subtotal, Activity 2	$33,143	$ 34,813	$35,319
Activity 3 Program Support			
A. International Operations Staff	$16,283	$15,775	$16,822
B. Evaluation	78	20	318
C. State Department Services	4,320	3,885	5,325
D. Peace Corps Share of ACTION Agency-Wide Costs	12,909	14,078	13,983
Subtotal, Activity 3	$33,590	$ 33,758	$36,448
Less Transfers	-37		
Net Activity	$33,553	$ 33,758	$36,448
Total, ACTION, International Programs	$76,949	$77,687	$80,826
Trainee Input	4,886	3,429	3,750
Volunteer Man-years	6,489	6,670	6,062
Staff	705	799 1/	799

1/ FY 1975 staff total includes the conversion of 129 foreign nationals on Personal Service Contracts to Foreign Service Local positions.

SUMMARY OF MAJOR CHANGES

In FY 1976 there is a net increase of $3,139,000 above the estimated FY 1975 obligation level. The major changes are:

		($000)
FY 1975 Estimate		$77,687
Activity 1 - Training and Specialized Recruited		
The decrease in Training and Specialized Recruiting funds results from a reduction in FY 1976 pre-service man-weeks, which is only partially offset by increased travel costs and the 321 increase in Trainees.	-$ 57	
Activity 2 - Volunteers		
The increase in volunteer funds is despite the FY 1976 volunteer man-year level being 608 man-years lower than the FY 1975 level. The decreased level of allowances and support costs are completely offset by increased travel and other costs.	+$ 506	
Activity 3 - Program Support		
The large increase in program support costs is the result of FY 1975 administrative restrictions. SAS accounted for $1.2 million, evaluation accounted for $380 thousand and staff vacancies and deferred travel accounted for $1.0 million.	+$2,690	
FY 1976 Estimate		$80,826

Budget Activity 1
TRAINING AND SPECIALIZED RECRUITING

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
A. Training	$ 9,447	$8,548	$8,269	-$ 279
B. Specialized Recruiting	806	568	790	+ 222
Total	$10,253	$9,116	$9,059	-$ 57
Trainee Input	4,886	3,429	3,750	+ 321

General Statement

All Peace Corps volunteers receive special training prior to and during their volunteer service. Training includes language study, technical skills adaptation, and cross-cultural orientation. Pre-service training in these areas is essential to the volunteer's ability to make an early adjustment to, and become effective in, the volunteer role. In-service training, particularly in language, accelerates the volunteer's ability to communicate and thus enhances the volunteer's program effectiveness.

All training presently occurs either in the country, where the trainees will later serve as volunteers, or in an adjacent country. The advantages to this approach are that In-country training:

(1) makes training more relevant since trainees can experience first-hand the environment in which they will live and work.

(2) permits maximum participation by the requesting host country governments and therefore gives them a realistic partnership in the preparation of trainees for service.

(3) permits the Peace Corps field staff to participate more directly in the planning and implementation of training and allows closer staff coordination between training and volunteer support activities.

Budget Activity 1: TRAINING AND SPECIALIZED RECRUITING - continued

There are two distinct steps an applicant must follow to become a volunteer:

(1) The applicant must attend a staging in the United States prior to beginning training. Applicants go through an intensive three-day screening to learn about the Peace Corps and the project in which they are invited to work and to be evaluated with respect to their suitability for the particular project. The staging may take different forms. Some applicants will attend comprehensive stagings immediately prior to departing for overseas pre-service training. Other applicants will attend pre-invitational stagings (PRIST). PRISTs are used in cases where special screening is required, such as entering a new country.

(2) Subsequent to completion of staging, the applicants are invited to begin training in the host country or, in some cases, at a central third country location. The trainees receive intensive pre-service training consistent with the objectives of the trainees' expected project assignments. Trainees must attain defined performance levels and achieve established language proficiency levels before becoming volunteers.

To recruit and train applicants with certain specialized volunteer skills, Peace Corps enters into contractual agreements with universities to administer intern programs. Students having the needed skills are recruited and are given special Peace Corps orientation during their senior year of undergraduate school or during graduate school. After completing the program, they enter Peace Corps as part of the regular training cycle.

Budget Activity 1A
TRAINING

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
A. Pre-Service Training	$9,447	$ 8,188	$7,526	- $ 662
B. In-Service Training	-	360	743	+ 383
Total	$9,447	$8,548	$8,269	- $ 279

Pre-service training is usually conducted in groups. Volunteers prepare themselves under the supervision of a trained staff, which in most instances, consists of a project director and language, technical, and cross-cultural instructors. Former Peace Corps volunteers often comprise the technical and cross-cultural staffs. Pre-service training emphasizes what the trainees will actually need in order to do their jobs effectively, as volunteers, and relate to their communities in a productive manner.

Although the length of pre-service training varies from program to program, it will average nine weeks in FY 1976, which represents a reduction from previous years. This reduction in the length of pre-service training will be countered by an increase in the length of in-service training. While the length of in-service training varies from country to country, it will average two weeks in FY 1976 as compared to one week in FY 1976.

In-service training is provided on a group and an individual basis. Volunteers receive this training at various points, usually within six months of completing pre-service training. In FY 1975, a policy of formally emphasizing and identifying in-service training has been initiated.

There are three major advantages to more emphasis on in-service training:

(1) Training needs are more clearly identified and the volunteers have increased motivation to learn because training occurs after a period of experience as a volunteer.

(2) Training in a third language is possible in those countries where a third language is required or useful.

(3) The cost of in-service training is less than the cost of pre-service training because no additional funds for subsistence are required, travel costs are minimal, and in-service training can frequently be coordinated with mid-service conferences.

Budget Activity 1A: TRAINING - continued

Pre-service training expenses include the costs of the actual training, trainee support, and travel costs for trainees who terminate. In-service training includes the costs of actual training and volunteer in-country transportation. The actual training expenses are the costs of facilities, including classrooms and language equipment, and the costs of instruction, including salaries and benefits of trainers and clerical support and staff transportation costs. Trainee support expenses cover all other costs of maintaining trainees during their training period. These include the cost of trainee materials (books, language tapes, manuals), food, housing, local transportation, medical services, and dependent support.

Changes in Training

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Pre-Service Training				
Number of pre-service man-weeks	58,632	40,140	33,750	- 6,390
Average training cost per trainee man-week 1/	X$ 161	X$ 204	X$ 223	+$ 19
Subtotal ($000)	$ 9,447	$ 8,188	$ 7,526	-$ 662
In-Service Training				
Number of in-service man-weeks	---	4,000	7,500	+ 3,500
Average training cost per trainee man-week 1/	---	X$ 90	X$ 99	+$ 9
Subtotal ($000)		$ 360	$ 743	+$ 383
Training Total ($000)	$ 9,447	$ 8,548	$8,269	-$ 279

1/ To the nearest dollar

The estimated decrease of $ 662,000 in pre-service training from FY 1975 to FY 1976 is a result of the decrease of 6,390 in the number of pre-service man-weeks, partially offset by a ten percent average cost increase. The estimated increase of $383 thousand in in-service training is caused by an average cost increase of ten percent and the 3,500 increase in in-service man-weeks.

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Budget Activity 1A: TRAINING - continued

The reduction in FY 1976 pre-service man-weeks is primarily a result of decreasing the average length of the pre-service training cycle from eleven to nine weeks. This saves 6,390 man weeks or $662,000 over FY 1975 despite a planned increase of 321 in the number of trainees. A corresponding increase from one to two weeks in in-service training increases cost by only $383 thousand. This results in a net savings of $279,000.

Budget Activity 1B
SPECIALIZED RECRUITING

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
A. Intern Programs	$241	$403	$625	+$ 222
B. Pre-Invitational Staging (PRIST)	565	165	165	-
Total	$806	$568	$790	+$ 222

Intern programs are one means by which ACTION recruits and trains volunteers in those sectors where the supply of qualified applicants does not meet the demand from host countries. The programs are designed primarily to attract and train qualified agriculturalists, nurses, and certified teachers of mathematics, science, vocational education, and industrial arts.

ACTION enters into contractual agreements with universities producing the specific type of graduates needed in the developing countries requesting volunteers. The universities help recruit and prepare qualified Peace Corps applicants either during the senior year of undergraduate work or during the first year of graduate study. In addition to weekly seminars oriented to their prospective assignment, Peace Corps interns have the opportunity to adapt their own course schedules to better prepare themselves for service overseas. Most universities in turn allow academic credit for successful completion of Peace Corps tours.

The cost of intern programs includes on-campus recruiting, pre-invitational staging, training staff and materials, medical coverage and the administrative costs of the universities. In FY 1973, the National Bureau of Standards conducted an evaluation of the intern program. The basic conclusion of the study, using FY 1969 through FY 1972 data, was that the intern program was cost-effective in terms of cost per volunteer man-year, primarily because of lower attrition rates for volunteers who had been interns in relation to volunteers who had not been interns.

The Pre-Invitational Staging (PRIST) is an intensive three-day job interview to which potential Peace Corps trainees are invited. At least one month prior to the beginning of a training program the PRIST takes places at a central point in the United States to provide

Budget Activity 1B: SPECIALIZED RECRUITING - continued

a two-way suitability screening. The potential trainees are given detailed firsthand information on the Peace Corps, the country which is requesting their service, and the exact nature of the jobs to be preformed. With this information, the applicants assess their own suitability and motivation to join the Peace Corps before entering a training program overseas. At the same time, the ACTION staff has an opportunity to assess the potential trainees' qualifications for Peace Corps service overseas in particular jobs.

In FY 1976, PRISTs will be conducted for individuals entering the following types of program situations: new countries, programs or countries designated as sensitive in nature, and countries where a formal agreement requires us to conduct this type of selection process.

PRIST costs include round-trip air fare for the potential trainees from their home of record to the PRIST site, room and board for three days, and meeting facilities.

Changes in Specialized Recruiting

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of intern trainees produced	251	408	493	+ 85
Average cost per intern trainee 1/	X$ 960	X$ 988	X$1,268	+$ 280
Intern Trainee Subtotal ($000)	$ 241	$ 403	$ 625	+$ 222
Number of PRISTees	1,911	540	514	- 26
Average cost per PRISTee 1/	X$ 296	X$ 305	X$ 321	+$ 16
PRIST Subtotal ($000)	$ 565	$ 165	$ 165	---
Specialized Recruiting Total ($000)	$ 806	$ 568	$ 790	+$ 222

1/ To the nearest dollar

The estimated increase of $222 thousand in the intern program from FY 1975 to FY 1976 is based on an increase of 85 intern trainees produced and an average cost increase of $280. The increased emphasis on recruitment of trainees with certain scarce skills is responsible for this increased cost per intern. The estimated increase of $16 per PRISTees is offset by a decrease of 26 PRISTees.

Budget Activity 2
VOLUNTEERS

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
A. International Travel	$ 6,670	$ 6,264	$ 7,599	+$1,335
B. Allowances	21,702	23,201	22,502	- 699
C. Other Volunteer Support	4,206	4,713	4,596	- 117
D. Dependent Support	476	595	522	- 73
E. Multilateral Volunteer Program	89	40	100	+ 60
Total	$33,143	$34,813	$35,319	+$ 506
Volunteer Man-years	6,489	6,670	6,062	- 608

General Statement

After an applicant has been recruited and trained for a specific job request abroad, the trainee is then sworn in as a volunteer and is assigned to the host country institution requesting the volunteer's services. The volunteer works directly with the host country officials. The term of service is two years. Volunteers live at a level generally equivalent to that of their host country co-workers. In almost all instances this represents a standard of living substantially below what the volunteer has been accustomed to in the United States.

There are a number of expenses which are required to support volunteers in the field. These expenses can be separated into four general categories:

Travel to and from the host country of assignment;
Subsistence, leave and readjustment allowances;
Other support costs
Support of dependent children

Included in other volunteer support costs are, in-country travel, conferences and group meetings, volunteer supplies, medical services, and Office of Federal Employees Compensation Payments. Most of these expenses vary among volunteers depending on the host country cost of living and the requirements of the volunteer's works. In addition, this activity includes grants to multilateral organizations and support in the field for volunteers working under the sponsorship of multilateral organizations.

Budget Activity 2A
INTERNATIONAL TRAVEL

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Travel to Host Country	$3,058	$2,362	$2,936	+$ 574
Travel from Host Country	2,287	2,615	3,117	+ 502
Extendee Travel	680	577	752	+ 175
Emergency Leave Travel	280	298	338	+ 40
Medical Evacuation Travel	365	412	456	+ 44
Total	$6,670	$6,264	$7,599	+$1,335

International travel has five components:

-the transportation of trainees to their country of assignment
-the return travel of volunteers
-round trip fare to U.S. for volunteers who are extending their two-year tour of service by at least one year
-round trip fare to the U.S. for volunteer emergencies
-transportation to the U.S. or another country for volunteers or their dependents who require emergency medical care.

In FY 1975 and FY 1976 all travel costs reflect the increase domestic and international air fares.

Changes in Travel to Host Country

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of trips	4,886	3,429	3,750	+ 321
Average cost per trip 1/	X$ 626	X$ 689	X$ 783	+$ 94
Total ($000)	$3,058	$2,362	$2,936	+$574

1/ To the nearest dollar

The estimated increase of $574 thousand between FY 1975 and FY 1976 results from an anticipated fourteen percent increase in air fares and an increase in the number of trips. Travel to host country is affected by the trainee input which will increase by 321 between FY 1975 and FY 1976.

Budget Activity 2A: INTERNATIONAL TRAVEL - continued

The average cost per trip to host country in FY 1974 reflects savings from the use of charter flights. As a result of current difficulties in obtaining charter flights, the FY 1975 and FY 1976 cost estimates do not include charter offsets. To the extent charter flights can be arranged, they will be used in the transportation of trainees.

Changes in Travel from Host Country

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of trips	3,505	3,647	3,824	+ 177
Average cost per trip 1/	X$ 652	X$ 717	X$ 815	+$ 98
Total ($000)	$2,287	$2,615	$3,117	+$ 502

1/ To the nearest dollar

The estimated increase of $502 thousand between FY 1975 and FY 1976 is caused by the increase of 177 in the number of trips from host countries and airfare increases. Travel from host countries is related to the number of volunteers completing service or terminating early. Travel varies from year to year, following primarily the training input of two years prior.

Changes in Extendee Travel

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of trips	517	417	485	+ 68
Average cost per trip 1/	X$1,315	X$1,384	X$1,550	+$ 166
Total ($000)	$ 680	$ 577	$ 752	+$ 175

1/ To the nearest dollar

The estimated increase of $175 thousand between FY 1975 and FY 1976 is caused by the anticipated air fare increases and an increase of 68 in the extendee trips. The number of volunteers who are able to extend is a function of a specific host country request for the extension and a request to extend by the volunteer.

Budget Activity 2A: INTERNATIONAL TRAVEL - continued

The average cost per trip includes round-trip transportation plus per diem estimated at $270 per trip ($9 per day for 30 days).

Changes in Emergency Leave Travel

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of trips	241	241	241	---
Average cost per trip 1/	X$1,162	X$1,237	X$1,402	+$165
Total ($000)	$ 280	$ 298	$ 338	+$ 40

1/ To the nearest dollar

It is estimated that the number of emergency leave trips will remain constant from FY 1975 through FY 1976. The average cost per trip includes round-trip transportation plus per diem estimated at $135 per trip ($9 per day for 15 days).

Changes in Medical Evacuation Travel

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of trips	298	298	298	---
Average cost per trip 1/	X$1,225	X$1,383	X$1,530	+$147
Total ($000)	$ 365	$ 412	$ 456	+$ 44

1/ To the nearest dollar

It is estimated that the number of trips in FY 1976 will remain the same as in FY 1975. The average cost per trip includes emergency travel arrangements, plus per diem estimated at $240 per trip ($16 per day for 15 days).

Budget Activity 2B
ALLOWANCES

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Settling-In Allowance	$ 767	$ 610	$ 633	+$ 23
Living Allowance	12,333	14,054	14,046	- 8
Leave Allowance	1,350	1,387	1 261	- 126
Readjustment Allowance	7,252	7,150	6,562	- 588
Total	$21,702	$23,201	$22,502	-$699

Volunteers receive four payments classified as allowances.

The settling-in allowance is a one-time payment at the beginning of each volunteer's tour for the purpose of buying such items as dishes, cooking utensils, and bedding. The amount of each allowance reflects variations in the local cost of these items.

The living allowance is paid monthly to each volunteer for subsistence level support covering food, housing, clothing, and minor incidental expenses. The living allowance varies from country to country and within countries according to the cost of living in the region where the volunteer lives and works.

The leave allowance is paid to each volunteer at the rate of two days for each month of service. Volunteers receive $9 for each day of leave for a total of 24 days, or $216 per year. With this leave, volunteers have the opportunity to travel within the country of assignment or to nearby countries in order to broaden their international awareness and understanding.

As currently provided in the Peace Corps Act, each regular volunteer also receives a readjustment allowance of $75 for each month of service, while each volunteer leader and head of household receive $125 for each month. These amounts are deposited in a Treasury Department account, each month, and accumulated for payment to the volunteer upon completion of service. In addition, the Peace Corps contributes payments as prescribed under the Federal Insurance Contribution Act (FICA). This allowance provides the returning volunteer with living costs, until he secures a job or returns to school.

Budget Activity 2B: ALLOWANCES - continued

Changes in Settling-In Allowance

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer arrivals	4,076	3,193	3,014	- 179
Average cost per volunteer arrival 1/	X$ 188	X$ 191	X$ 210	+$ 19
Total ($000)	$ 767	$ 610	$ 633	+$ 23

1/ To the nearest dollar

Changes in Living Allowances

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer man-years	6,489	6,670	6,062	-$ 608
Average cost per volunteer man-year 1/	X$ 1,901	X$ 2,107	X$ 2,317	+$ 210
Total ($000)	$12,335	$14,054	$14,046	-$ 8

1/ To the nearest dollar

Changes in Leave Allowance

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer man-years	6,489	6,670	6,062	- 608
Average cost per volunteer man-year 1/	X$ 208	X$ 208	X$ 208	---
Total ($000)	$ 1,350	$ 1,387	$ 1,261	-$ 126

1/ To the nearest dollar

Budget Activity 2B: ALLOWANCE - continued

Changes in Readjustment Allowance

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer and trainee man-years	,461	7,356	6,751	- 605
Average cost per volunteer and trainee man-year 1/	X$ 972	X$ 972	X$ 972	
Total ($000)	$7,252	$7,150	$6,562	$- 588

1/ To the nearest dollar

The estimated increase of $23 thousand in settling-in allowance between FY 1975 and FY 1976 is because of a $19 dollar increase in the average cost offset by a decrease of 179 in the number of trainees scheduled to become volunteers in FY 1976. The settling-in schedule is a function of the timing of trainee input and the length of the training programs. The estimated decrease of $8 thousand in living allowance between FY 1975 and FY 1976 is due to a $210 increase in the average living allowance payment offset by a decrease of 608 in the volunteer man-year level between FY 1975 and FY 1976. In FY 1976, the average settling-in and living allowance payments reflect a ten percent increase required to meet host country cost of living increase.

The estimated decrease of $126 thousand in leave allowance reflects the decrease of 608 volunteer man-years between FY 1975 and FY 1976. The average unit cost is $208 because host country contributions have offset the need for additional appropriated funds in this category.

The estimated decrease of $588,000 in the volunteer readjustment allowance costs between FY 1975 and FY 1976 reflects the decrease of 605 in trainee and volunteer man-years between FY 1975 and FY 1976.

Budget Activity 2C
OTHER VOLUNTEER SUPPORT

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
In-Country Travel	$ 588	$ 674	$ 673	-$ 1
Conferences and Group Meetings	143	313	285	- 28
Volunteer Supplies and Equipment	799	860	782	- 78
Medical Supplies and Services	1,679	1,814	1,719	- 95
Office of Federal Employees Compensation	997	1,052	1,137	+ 85
Total	$ 4,206	$4,713	$4,596	-$ 117

Other Volunteer Support covers the above categories of expense in support of volunteers in the field and after service. These expenses are incurred by volunteers in the course of their work, and are paid as justified by individual circumstances.

In-Country Travel costs cover a volunteer's travel within the country of assignment. Nearly all jobs performed by volunteers require travel at some time. The actual expenses are reimbursed to the volunteers as travel is performed.

Changes in In-Country Travel

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer man-years	6,489	6,670	6,062	- 608
Average cost per volunteer man-year 1/	X$ 91	X$ 101	X$ 111	+$ 10
Total ($000)	$ 588	$ 674	$ 673	-$ 1

1/ To the nearest dollar

Budget Activity 2C: OTHER VOLUNTEER SUPPORT - continued

The anticipated decrease of $1 thousand between FY 1975 and FY 1976 is the result of a decrease of 608 in the number of man-years between FY 1975 and FY 1976 offset by an increase of ten percent in costs.

Conferences and Group Meetings include the costs of travel, per diem, and supplies to support meetings of volunteers during their tours of service. The focus of the meetings is project evaluation and administrative matters. The most common type of conference is the mid-service conference, for volunteers completing their first year of service.

Changes in Group Conference Meetings

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer man-years	6,489	6,670	6,062	- 608
Average cost per volunteer man-year 1/	X$ 22	X$ 47	X$ 47	---
Total ($000)	$ 143	$ 313	$ 285	-$ 28

1/ To the nearest dollar

The FY 1976 decrease of $28 thousand in conference and group meetings costs is the result of the 608 FY 1976 volunteer man-year decrease.

Volunteer Supplies and Equipment cost cover the materials used by the volunteers themselves, in their job assignments. These materials vary according to the country and job being performed but typically include textbooks, teaching materials, and hand tools. Other material costs for projects are supplied by host countries or other sources.

Budget Activity 2C: OTHER VOLUNTEER SUPPORT - continued

Changes in Volunteer Supplies and Equipment

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer man-years	6,489	6,670	6,062	- 608
Average cost per volunteer man-year 1/	X$ 123	X$ 129	X$ 129	---
Total ($000)	$ 799	$ 860	$ 782	-$ 78

1/ To the nearest dollar

The anticipated decrease of $78 thousand in FY 1976 is caused by the 608 FY 1976 volunteer man-year decrease.

Medical Supplies and Services are provided to all volunteers. The cost of this medical care varies from country to country, but typically includes doctor's fees, hospital costs, supplies, dental care, and medical care associated with medical evacuations.

Changes in Medical Supplies and Services

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Volunteer man-years	6,489	6,670	6,062	- 608
Average cost per volunteer man-year 1/	X$ 259	X$ 272	X$ 284	+$ 12
Total ($000)	$1,679	$1,814	$1,719	-$ 95

1/ To the nearest dollar

The $95 thousand decrease in medical supplies and service costs in FY 1976 is due to the decrease of 608 in the volunteer man-year level planned for FY 1976 offset by a 4.5 percent average cost increase.

The Office of Federal Employees Compensation adjudicates all cases requiring compensation of Peace Corps volunteers under the Federal Employees Compensation Act. ACTION is required to reimburse the Department of Labor for all compensation dispensed. The $1,137,000 budgeted for FY 1976 is based on actual costs incurred in FY 1974.

Budget Activity 2D
DEPENDENT SUPPORT

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Dependent Support	$476	$595	$522	-$73

Acceptance of volunteers, with dependent children, results in additional costs for the Peace Corps. However, family responsibilities should not preclude acceptance of highly motivated volunteers. In addition, in order to obtain volunteers to fill certain scarce-skill jobs, it is necessary to accept married volunteers with children. Spouses of volunteers are considered, and budgeted for, as volunteers, and are given volunteer assignments. For each child, funding is provided, in this activity, for international and in-country travel, food and lodging, clothing, medical care and education.

Changes in Dependent Support

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Children-years	220	251	200	- 51
Average cost per child 1/	X$2,163	X$2,371	X$2,608	+$237
Total ($000)	$ 476	$ 595	$ 522	-$ 73

1/ To the nearest dollar

The anticipated decrease of $73 thousand between FY 1975 and FY 1976 is due to the decrease of 51 in the number of children-years planned for FY 1976 offset by an average cost increase of ten percent. This request maintains the policy of accepting families with two or fewer children only, unless the volunteer skills required warrant an exception.

Budget Activity 2E
MULTILATERAL VOLUNTEERS

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Multilateral Grants	$66	$ 20	$ 70	$+ 50
Multilateral Volunteers	23	20	30	+ 10
Total	$89	$ 40	$ 100	$+ 60

Congress approved Title III of the Peace Corps Act in 1963 to encourage the development of, and participation in, international voluntary service programs. In FY 1976, the Peace Corps will be involved in four international programs: the United Nations Volunteer Program (UNV), the International Secretariat for Volunteer Services (ISVS), International Volunteer Services (IVS), and the Joint Volunteer Committee of Ghana (JVCG).

Multilateral grants are funds given to the multilateral organizations to share the costs of volunteers from countries other than the United States and the agency administrative costs. Multilateral volunteer funds are used to support multilateral organization volunteers who are sworn in as Peace Corps volunteers. Peace Corps covers the costs of staging, training, travel, leave and readjustment allowances, and supplies and equipment.

Budget Activity 2E: MULTILATERAL VOLUNTEERS - continued

Changes in Multilateral Grants

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Multilateral Grants	$66	$ 20	$70	+$ 50

The FY 1976 request for $70 thousand in multilateral grant funds reflects the funds needed to meet anticipated FY 1976 commitments.

Changes in Multilateral Volunteers

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number or multilateral volunteer man-years	19	12	23	+ 11
Average cost per volunteer man-year 1/	X$1,211	X$1,667	X$1,304	-$363
Total ($000)	$ 23	$ 20	$ 30	+$ 10

1/ To the nearest dollar

The FY 1976 increase of $10 thousand is due to the placement of 11 more volunteers and an average cost decrease of $363. The average cost reflects and sharing of multilateral volunteer costs between the Peace Corps and the multilateral organizations and the high initial cost of placing multilateral trainees in FY 1975.

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Budget Activity 3
PROGRAM SUPPORT

	($000) FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
A. International Operations Staff	$16,283	$15,775	$16,822	+$1,047
B. Evaluation	78	20	318	+ 298
C. State Department Service	4,320	3,885	5,325	+1,440
D. Peace Corps Share of ACTION Agency-Wide costs 1/	12,909	14,078	13,983	- 95
Total	$33,590	$33,758	$36,448	+$2,690
Less Transfer	-37	----	----	----
Net Total	$33,553	$33,758	$36,448	+$2,690

1/ Justification for these amounts is included in the section entitled ACTION Agency-Wide Costs beginning on page 42.

General Statement

International Operations (Peace Corps) staff is needed to develop, maintain and coordinate effective programs abroad. Overseas staff begin detailed planning for prospective volunteer jobs approximately one year before the volunteers complete training and begin service. Thorough discussions are held with appropriate host country officials to assess the need for the requested volunteers. When agreement is reached between the host government and resident Peace Corps staff, formal program requests are prepared detailing the job requirements, establishing the required volunteers' qualifications, and identifying support commitments both to the Peace Corps and the host country to insure volunteer job viability.

In addition to other operational and program planning responsibilities, field staff must provide administrative and technical support to volunteers already on the job and supervise in-country training programs. All staff, including program, administrative, medical, and clerical personnel, must have diplomatic, as well as technical abilities. Whether staff members are Americans or host country nationals, they are in daily contact with host country officials, volunteers, American Embassy staff, and host country citizens. Additional post support is provided through the State Department's Shared Administrative Support System (SAS).

Budget Activity 3: PROGRAM SUPPORT - continued

Washington staff reviews and approves all program and administrative requests from the field against available resources. They also provide technical, programmatic, and administrative support to field staff and volunteers. They work with host country embassies in Washington, develop and implement policy, and provide general direction to overseas programming. Washington staff develops training models, provides technical assistance to overseas posts in the planning of training programs, and participates in PRISTs and stagings prior to the commencement of training. The additional supporting functions performed in Washington, such as recruitng, accounting, and legal services are included in Agency-Wide Costs on page 42.

Program Support funds requested in FY 1976 also provide for the use of less than one half percent of the total requested for evaluation.

Budget Activity 3A
INTERNATIONAL OPERATIONS STAFF

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Washington Staff				
Salaries and Benefits	$ 2,935	$ 2,892	$ 2,708	-$ 184
Travel	566	362	420	+ 58
Supplies, Equipment Other Services	281	199	199	---
Building Rental and Related Services	37	229	213	- 16
Washington Staff, Subtotal	$ 3,819	$ 3,682	$ 3,540	-$ 142
Overseas Staff				
Salaries and Benefits	$ 7,536	$ 7,310	$ 7,725	+$ 415
Travel	1,501	1,183	1,556	+ 363
Education Allowance	122	139	159	+ 20
Staff Housing	1,007	1,070	1,166	+ 96
Space, Utilities	949	1,000	1,075	+ 75
Maintenance, General Services	634	691	750	+ 59
Supplies, Equipment, and Transportation	697	640	651	+ 11
Vehicles	18	50	200	+ 150
Overseas Staff, Subtotal	$12,464	$12,093	$13,282	+$1,189
Total Staff, Washington and Overseas	$16,283	$15,775	$16,822	+$1,047
Planned Positions				
U.S. Staff, Washington	156	129	129	---
U.S. Staff, Overseas	224	216	216	---
Foreign Service Locals	325	454 1/	454	---
Total Permanent Staff	705	799	799	---

1/ Represents conversion of 129 personal service contract employees to foreign service local staff in FY 1975.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Washington Staff - Salaries and Benefits

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Salaries and Benefits ($000)	$2,935	$2,892	$2,708	-$184
Planned Positions	151	129	129	---

Salaries and benefits for Washington Staff are expected to decrease between FY 1975 and FY 1976 by $184 thousand. The decrease is caused by the full year impact of the reduction in the level of staff to be achieved during FY 1975.

Changes in Washington Staff - Travel

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
International Travel				
Number of trips	333	210	220	+ 10
Average cost per trip 1/	X$1,396	X$1,464	X$1,632	+$ 168
Subtotal ($000)	$ 466	$ 307	$ 359	+$ 52
Domestic Travel				
Number of trips	250	128	128	---
Average cost per trip 1/	X$400	X$430	X$477	+$ 47
Subtotal ($000)	$100	$ 55	$ 61	+$ 6
Total, International & Domestic Travel ($000)	$566	$362	$420	+$ 58

1/ To the nearest dollar

International travel enables Washington Staff to visit posts to provide technical support and to maintain a current understanding of overseas problems. Domestic travel is for Washington Staff attendance at PRISTs and stagings. Staff travel costs include both travel and per diem. The average cost per trip in FY 1975 and FY 1976 increased due to higher domestic and international air fares.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Washington Staff - Supplies, Equipment, and Other Services

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Supplies, Equipment, and Other Services	$281	$199	$199	---

The allocation for supplies, equipment, and other services will remain the same in FY 1976 as in FY 1975 in a continuing effort to limit expenditures in this category. The primary items in this category are up-dated books and manuals and replacement of equipment.

Changes in Washington Staff - Building Rental and Related Services

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Building Rental and Related Services	$37	$229	$213	-$ 16

Building rental and related services are provided for the International Operations staff at headquarters. The funds requested are a pro rata share of those incurred by the entire ACTION agency. The amount requested represents a decrease of $16 thousand between FY 1975 and FY 1976 because of a decrease in the headquarters staff and a lower per person allocation of office space.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Overseas Staff - Salaries and Benefits

($000)

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
U.S. Citizens	$5,130	$4,813	$5,251	+$438
Foreign Nationals	1,684	2,147	2,474	+ 327
Personal Service Contracts	722	350	---	- 350
Total	$7,536	$7,310	$7,725	+$415

Planned Positions

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
U.S. Citizens	224	216	216	---
Foreign Nationals	325	454	454	---
Total, Permanent Positions Overseas	549	670	670	---
Personal Service Contracts	170	---	---	---

Salaries and benefits for staff overseas include compensation to U.S. citizens and foreign nationals.

The $438 thousand increase in U.S. salaries and benefits in FY 1976 results from delays in filling staff vacancies during the latter half of FY 1975 to meet the one-time administrative restriction on program support, as well as a one percent increase in the average salary and benefits to cover the net effect of step increases, offset by lapse.

The $327 thousand increase in foreign national salaries and benefits and the $350 thousand decrease in Personal Services Contracts in FY 1976 are costs associated with the conversion of those on Personal Service Contracts to Foreign Service Local positions.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Overseas Staff - Travel

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Staff Assignment- Return				
Number of trips	164	128	149	+ 21
Average cost per trip 1/	X$4,470	X$4,782	X$5,269	+$ 487
Subtotal ($000)	$ 733	$ 612	$ 785	+$ 173
International Travel (Operational, PRIST-staging travel)				
Number of trips	233	130	160	+ 30
Average cost per trip 1/	X$1,296	X$1,360	X$1,533	+$ 173
Subtotal ($000)	$ 302	$ 177	$ 245	+$ 68
In-Country Travel				
Overseas professional staff	350	350	350	---
Average annual cost per professional staff 1/	X$1,331	X$1,127	X$1,504	+$ 377
Subtotal ($000)	$ 466	$ 404	$ 526	+$ 122
Total, Overseas Staff Travel ($000)	$1,501	$1,193	$1,556	+$ 363

1/ To the nearest dollar

Overseas staff travel consists of staff assignment-return travel, international operational travel, PRIST-staging travel, and in-country travel. Assignment-return travel results from staff reaching their appointment limitation of five years, as well as normal turnover, and also includes staff reassignment, home leave, and emergency leave travel. International travel is for regional or sub-regional conferences, consultation with Washington, and exploration of programming-training alternatives in new countries. PRIST-staging travel is travel of overseas staff to participate in PRISTs or stagings. In-country travel is the travel of post staff to visit volunteer work sites.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Average cost per trip for staff assignment-return travel includes air fare, baggage, per diem costs, and the shipment and storage of household goods. Average cost per trip for international operational and PRIST-staging travel includes round-trip air fare and per diem allowances. Overseas staff travel is increasing by $363 thousand in FY 1976 primarily due to reductions in staff travel in FY 1975 to meet the one-time administrative restriction on program support, as well as anticipated air fare increases.

Changes in Overseas Staff - Education Allowance

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of dependents	200	200	200	---
Average cost per dependent 1/	X$610	X$695	X$795	+$100
Total ($000)	$122	$139	$159	+$ 20

1/ To the nearest dollar

The education allowance is given to American staff overseas with school-age children. The 216 Americans overseas in FY 1975 will have approximately 200 school-age children. The estimated increase of $20 thousand in education allowance between FY 1975 and FY 1976 reflects an increase of $100 in the average cost per dependent based on anticipated tuition commitments.

Changes in Overseas Staff - Housing

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of U.S. Staff	224	216	216	---
Average cost per staff 1/	X$4,496	X$4,955	X$5,398	+$443
Total ($000)	$1,007	$1,070	$1,166	+$ 96

1/ To the nearest dollar

Overseas staff housing includes that portion of staff residential rents and utilities paid by the Peace Corps. The $96 thousand increase reflects anticipated lease renewals at higher rates and increased utility costs.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Overseas Staff - Space, Utilities

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Space, Utilities	$949	$1,000	$1,075	+$ 75

Office rents, and utilities cover the expense of maintaining overseas staff offices. Increased cost of $75 thousand in FY 1976, are the result of higher rates for lease renewals and utilities charges.

Changes in Overseas Staff - Maintenance, General Services

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Maintenance, General Services	$634	$691	$750	+$ 59

Maintenance and general services costs include janitoral, watchmen, maintenance, repair, and upkeep services for overseas facilities and equipment. Costs are expected to increase by $59 thousand based on current estimates of contractual costs.

Changes in Overseas Staff - Supplies, Equipment, and Transportation

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Supplies, Equipment and Transportation	$697	$640	$651	+$ 11

Supplies, equipment, and transportation levels will increase slightly due to postponement of some purchases in FY 1975 coupled with increased costs of items and services.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Vehicle Purchases

	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Number of vehicles	4	10	38	+ 28
Average cost per vehicle	X$4,500	X$5,000	X$5,250	+$250
Total ($000)	$ 18	$ 50	$ 200	+$150

Vehicle costs cover the purchase and shipment of vehicles for Peace Corps programs. In FY 1976, Peace Corps plans to replace 38 vehicles at a cost of $200 thousand. Whenever possible, vehicles are purchased in the United States.

Budget Activity 3B
Evaluation

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Evaluation	$78	$ 20	$318	$ 298

In FY 1976, Peace Corps evaluation will emphasize three priority issues.

1. Program Evaluations. The purpose of these types of evaluations is twofold: a) to provide an objective and independent assessment of Peace Corps programs to various levels of program management; and b) to provide the basis for more effective programming by providing insight into and advancing recommendations related to the qualities, trends and potentialities of Peace Corps Volunteer assistance. The Guidelines for Program Evaluations, developed in FY 75, will be pilot-tested and validated in preparation for implementation in FY 76.

2. Special Evaluative Studies. In response to specific program and management needs, several special evaluation studies will be undertaken. The first deals with an assessment of the applicability of agriculture training center concept for the preparation of generalist and agriculture background to agriculture needs in the three respective regions. This will be based on the actual experience of such an effort currently underway in Central America. The second will involve the testing of a health/nutrition experiment for preparation of volunteers with generalist or health backgrounds to serve in Peace Corps programs addressing health and nutrition needs of host countries. Both studies are being undertaken to determine the best way of redistributing currently available and anticipated resources to these two major program sectors.

3. In-Country Self-Evaluation and Monitoring. Support and technical assistance is planned to further implement this internal programming-evaluation system. It is designed to provide for a regular assessment of volunteer, project, and country program effectiveness in a manner that allows for adjustments to be made in the composition and emphasis of Volunteer activity. This in turn, will enhance Peace Corps performance. The objective of the supporting assistance process and to upgrade the field's capability of applying the various processes.

Budget Activity 3C
STATE DEPARTMENT SERVICES

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Shared Administrative Support (SAS)	$4,295	$3,860	$5,300	+$1,440
Inspector General	25	25	25	---
Total	$4,320	$3,885	$5,325	+$1,440

The Peace Corps and other federal agencies overseas have contracted with the State Department to purchase various administrative services in support of their overseas staffs. The State Department through Shared Administrative Support provides the Peace Corps with services such as budgeting and accounting, communications, health services, and a variety of other logistical services. The exact services provided vary among countries and are negotiated annually in each country by the overseas Peace Corps staff and State Department staff.

SAS is only one means of providing this support in overseas locations. As with every other part of program support, SAS is under continuing review to assure that it still provides the best and least costly method of procuring this support. Based on latest information available from the State Department, it is expected that worldwide SAS costs will continue bo increase, due to escalating inflation in many overseas countries.

The significant increase in the SAS allocation for FY 1976 results from the artificially low figure in FY 1975 which was the result of a reduction of the SAS payment to meet the one-time administrative restriction placed upon program support during that year. The reduction was a proportional decrease of the amount by which the FY 1975 appropriation was reduced from the original budget request.

The Foreign Assistance Act of 1961, as amended, provides that expenses of the Inspector General of Foreign Assistance shall be charged to appropriations made to carry out certain programs including the Peace Corps. The projected share for the Peace Corps in FY 1976 remains at the $25 thousand level.

ACTION AGENCY-WIDE COSTS

	($000) FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Funded by:				
1. Peace Corps, ACTION International Programs	$12,909	$14,078	$13,983	-$ 95
2. Operating Expenses, Domestic Programs	6,562	7,318	7,764	+$ 446
Total	$19,471	$21,396	$21,747	+$ 351
Total Permanent Positions	586	557	557	---

General Statement

Within ACTION, administrative functions which support both domestic and international volunteer activities are conducted on a consolidated basis. Costs of these consolidated functions are referred to as ACTION agency-wide costs. Included in this category are expenses of volunteer recruitment, selection, and placement; communications; program, policy, and fiscal planning and evaluation; and general management and administrative functions. For FY 1976, the budget request includes $21,747,000 in agency-wide costs.

Agency-wide costs are financed jointly from the domestic and international program appropriations. Because it is impossible to determine precisely which of these costs are attributable to domestic programs and which to international programs, the costs of consolidated functions are assigned to each appropriation statistically, according to the formula outlined below.

The formula is based on workload, expressed by the ratio of full-time staff employed exclusively for domestic programs to full-time staff employed exclusively for international programs. This methodology for assigning agency-wide costs to appropriations has been applied since FY 1973, and has proven readily understandable outside ACTION and administratively uncomplicated to execute within the agency. In an attempt to insure that this formula is as equitable as possible, costs specifically related to the program appropriations have been included in their program support activities rather than in this agency-wide cost section. Such costs include program evaluation, contract audit which can be directly associated with an appropriation, and development of domestic programs.

ACTION Agency-Wide Costs - continued

Allocation of Agency-Wide Costs
by Appropriation (FY 1976)
($000)

FY 1976 permanent positions	1,242
Exclusively international programs	799
Exclusively domestic programs	443
International positions as percentage of 1,242	64.3%
Domestic positions as percentage of 1,242	35.7%
FY 1976 ACTION agency-wide costs	$21,747
International appropriation share ($21,747 X 64.3%)	$13,983
Domestic Appropriation share ($21,747 X 35.7%)	$ 7,764

Agency-wide costs are reflected in the following organizational categories:

	($000)			
	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate	Increase or Decrease
Recruitment and Communications	$ 8,694	$ 8,685	$ 8,592	-$ 93
Planning and Evaluation	706	987	1,728	+ 741
Management and Administration	10,052	11,661	11,373	- 288
National Voluntary Service Advisory Council	19	63	54	- 9
Total	$19,471	$21,396	$21,747	+$ 351

Further description of agency-wide activities and justification of the FY 1976 funding request is provided in the following pages.

ACTION Agency-Wide Costs - continued

OFFICE OF RECRUITMENT AND COMMUNICATIONS

($000)

	FY 1974 Actual		FY 1975 Estimate		FY 1976 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	245	$5,583	237	$5,199	237	$5,193	---	-$ 6
Other Expenses	---	3,111	---	3,486	---	3,399	---	- 87
Total	245	$8,694	237	$8,685	237	$8,592	---	-$ 93

General Statement

Recruitment, selection, and placement of volunteers is conducted by the Office of Recruitment and Communications (ORC). It is the responsibility of this office to ensure that a sufficient number of well-qualified volunteers are available for volunteer programs, both domestic and international, on a timely basis. This function includes communicating with the general public concerning opportunities for voluntarism, identifying potential volunteers, processing applications, matching applicant skills with program requirements, and related tasks. In addition, this office is responsible for agency public affairs activities related to other than volunteer recruitment.

To accomplish this task, the Office of Recruitment and Communications is currently organized into a Washington headquarters office and four regional recruitment offices: Boston, Atlanta, Chicago, and San Francisco. Area recruitment offices support the regional offices to ensure that recruitment efforts are centered nearest to the sources of potential volunteers. Functions performed by the headquarters office are the overall direction of the recruitment effort: planning and evaluation, national recruitment advertising and related efforts, processing and record-keeping of applications, and the placement of potential volunteers in specific Peace Corps, VISTA, and other domestic volunteer programs for which the applicants are qualified.

Budget Justification

An effective recruitment effort is a mandatory element in the overall success of the volunteer programs. This is especially true when highly skilled volunteers are being requested for VISTA programs and from host countries in the case of Peace Corps programs. The Office of Recruitment and Communications will continue to recruit well qualified volunteers to meet program needs as detailed in the International and Domestic budget requests.

ACTION Agency-Wide Costs - continued

Budget requirements for recruitment are based primarily on anticipated levels of applications needed to produce volunteers and/or trainees in ACTION's full-time volunteer programs. The $8,592,000 request provides for the following:

Peace Corps trainees-	3750
VISTA nationally recruited trainees-	1850
ACTION Cooperative Program (ACV) nationally recruited trainees-	500
Total Recruitment	6100

In addition, this office will provide assistance related to the recruitment of VISTA and ACV volunteers at the local level and also process University Year for ACTION (UYA) and the Program for Local Service (PLS) volunteer applications.

A decrease of VISTA and Peace Corps trainees in FY 1976 permits a reduction of $93 thousand in this budget request. Included in this reduction is a decrease of $6 thousand in the Personnel Compensation and Benefits category reflecting permanent staff pay increases offset by a decrease in recruiters. The request of $5,193,000 provides for financing 237 full-time positions in headquarters and regional offices as well as intermittent recruiters in the field.

$3,399,000 is requested for Other Expenses, a reduction of $87 thousand. This reduction is possible because of a decrease in recruiter travel. The significant items included in this category are:

- travel for recruiters and permanent staff;
- headquarters and regional building rental costs;
- contracts for recruitment and classified advertising, including $50 thousand for a special Bicentennial brochure;
- printing of volunteer applications, recruitment brochures, and the agency's volunteer and staff monthly newspaper - INTERACTION:
- mailing services for recruitment materials;
- contracts for graphics and photographic services;
- mailing lists to assist in recruitment efforts.

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ACTION Agency-Wide Costs - continued

PLANNING AND EVALUATION

($000)

	FY 1974 Actual		FY 1975 Estimate		FY 1976 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	26	$558	54[1/]	$ 855	54	$1,367	--	+$ 512
Other Expenses	--	148	--	132	--	361	--	+ 229
Total	26	$706	54	$ 987	54	$1,728	--	+$ 741

1/ Includes 22 positions assigned directly to IO and DO appropriations in FY 1975.

General Statement

ACTION's program, policy and fiscal planning and evaluation is undertaken on an agency-wide basis and includes the functions described below.

Planning - the definition, development, and analysis of program and administrative goals and objectives; the translation of these into long- and short-term plans; the review and guidance necessary to their achievements.

Policy Development - the identification of social problems where volunteers or a volunteer approach would be needed and the identification of people and organizations inclined toward volunteerism; the definition of ACTION policies and the identification of volunteer service programs, both domestic and international, which would assist in meeting identified social action by using volunteers.

Budget - the formulation, presentation, and justification of ACTION budget requests to OMB and the Congress; the formulation and execution of operating budget plans; and the review of utilization of all funds.

Evaluation - the assessment of the effectiveness of agency programs in regard to their structure and delivery, their individual impact, and their relationship to total agency efforts.

ACTION Agency-Wide Costs - continued

Budget Justification

$1,728,000 is requested for 1976 planning and evaluation activities, a $741 thousand increase over FY 1975.

The $512 thousand increase in Personnel Compensation and Benefits is a result of reassigning functions directly charged to the IO and DO appropriations in FY 1975 to Agency-Wide costs in FY 1976.

Most of the increase in Other Expenses allows for an intensified special contractual studies effort at approximately the $250 thousand level. Agency planners have continuing responsibility to gather and analyze basic information about the effectiveness of and necessity for volunteer efforts. For example, in the past, funds available for this purpose have been used to procure specialized baseline data from the United States Bureau of Census and demographic projections from the National Academy of Sciences. The agency will be able to intensify its inquiry into the relationship between private and public sector voluntarism, considering whether Federal or private funding and administration of certain programs provides optimum impact.

ACTION Agency-Wide Costs - continued

MANAGEMENT AND ADMINISTRATION

($000)

	FY 1974 Actual		FY 1975 Estimate		FY 1976 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	315	$ 5,898	266	$ 6,352	266	$ 6,046	---	-$306
Other Expenses	---	4,154	---	5,309	---	5,327	---	+18
Total	315	$10,052	266	$11,661	266	$11,373	---	-$288

General Statement

Management and Administration expenses represent the costs of assuring basic services to all of ACTION's volunteers, programs, and staff. Administrative services provided include legal counsel, legislative representation, health services, provision of technical project information, assistance to volunteers entering and completing service, and activities of the Agency Director. Management services provided include internal audit, procurement, grants management, management and organizational analysis, accounting, personnel management, staff training, property management, data processing, and general logistical support.

Delivery of these services is accomplished by staff offices, which report to the agency Director, and the Office of Administration and Finance, under an Assistant Director.

Included in the staff offices group are the following:

1. Office of the Director - coordinates activities of the Agency Director, Deputy, and staff.

2. Internal Audit - conducts audits within agency headquarters and field offices emphasizing methods of improving financial management procedures and using resources most efficiently, while achieving desired program results. To insure objectivity and maximum effectiveness, Internal Audit reports only to the agency Director.

3. Congressional Affairs - maintains agency liaison with the Congress, and responds to constituent inquires.

ACTION Agency-Wide Costs - continued

4. Minority Affairs - directs the Agency's equal employment and affirmative action programs, investigates grantee, contract and beneficiary compliance with Federal minority opportunity regulations, hears grievance proceedings, and assists in recruiting minority staff and volunteers.

5. General Counsel - provides legal guidance in regard to legislation affecting Agency programs, and to volunteers.

Administration and Finance functions include:

1. Management Analysis - coordinates organizational changes within the Agency, reviews management, pinpoints areas where practices can be improved, and recommends improvements.

2. Administrative Services - handles property management, volunteer staff travel arrangements, the ACTION directives system, library and volunteer information services, agency-wide printing and distribution, and mail and telecommunications services.

3. Contracts and Grants Management - establishes Agency-wide policies, procedures and standards for procurement and grant functions; at Headquarters, negotiates awards and administers contracts and interagency agreements, processes purchase orders and procurement requests, issues and monitors grants.

4. Health Services - oversees delivery of primary health care and insurance benefits to volunteers in the U.S. and overseas. The office also functions as Agency liaison with the Office of Federal Employees Compensation.

5. Accounting - develops and maintains agency financial reporting and accounting functions, administers volunteer and staff payroll, and processes all other agency financial transactions.

6. Computer Services - designs, develops and implements the data processing systems for preparing and producing data and reports to fulfill agency and outside reporting requirements.

7. Personnel Management - establishes policies, standards and procedures regarding staff recruitment and placement; administers labor and employee relations matters, and employee training (including Upward Mobility programs). It also assists volunteers completing service to find employment and develop careers.

ACTION Agency-Wide Costs - continued

Budget Justification

$11,373,000 is requested for Management and Administration services in FY 1976. A reduction of $306 thousand is anticipated in FY 1976 brought about by the Agency's attempt to reduce full-time permanent staff positions. Absorbed within the personnel compensation and benefits request is a $100 thousand increase in payments to the Office of Federal Employees Compensation.

The significant items included in the Other Expenses category are:

- All ACTION Postal Service costs;
- All Headquarters telephone costs and ACTION Federal Telephone System (FTS) long distance and Wide Area Telephone Service (WATS) lines;
- Building rental costs for Management and Administration offices;
- Headquarters copying services;
- All Headquarters building maintenance and renovation costs;
- ACTION staff training costs;
- Computer Services costs for Headquarters accounting, payroll, and personnel systems;
- Staff travel related to management and administration functions.

The increase of $18 thousand in the Other Expense category results from anticipated cost increases for telephones, copying services and building maintenance, offset in part from a lowering of building rental costs because of consolidation of Washington Headquarters staff space.

ACTION Agency-wide Costs - continued

NATIONAL VOLUNTARY SERVICE ADVISORY COUNCIL

($000)

	FY 1974 Actual		FY 1975 Estimate		FY 1976 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	---	---	---	---	---	---	---	---
Other Expenses	---	$19	---	$63	---	$54	---	-$9
Total	---	$19	---	$63	---	$54	---	-$9

General Statement

The Domestic Volunteer Service Act of 1973 (P.L. 93-113) establishes within ACTION a National Voluntary Service Advisory Council. Composed of 25 members and appointed by the President, Council members represent public and private groups and individuals interested in the programs carried out by ACTION. The Director and Deputy Director of ACTION are ex-officio members of the Council.

The Council meets as a whole at least four times each year; its subcommittees also convene at regular intervals. The Council is expected to review the effectiveness and operation of ACTION domestic programs, and programs conducted under authority of the Peace Corps Act, and to advise ACTION's Director with respect to its findings. The scope of its recommendations includes proposals for the improvement of ACTION programs, elimination of duplicated efforts, and the coordination of ACTION programs with other Federal anti-poverty efforts.

Beginning in calendar year 1975, the Council will also be required to make an annual report to the President, for transmittal by the President to the Congress, with comments and recommendations.

Budget Justification

In FY 1976, its second full year of existence, activities of the National Voluntary Service Advisory Council will require $54,000, a decrease of $9,000 from estimated FY 1975 levels.

ACTION Agency-Wide Costs - continued

Members of the Council other than those regularly employed by the Federal Government receive travel and subsistence expenses while attending Council meetings and while in the field for program review.

Whereas its activities heretofore centered largely around domestic programs, in FY 1975 and FY 1976, the Council is expanding its international programs activities. The majority of the increased costs projected for FY 1976 are thus attributable to the increased proportion of the Council's activities directed toward international program review.

APPENDIX A: Statement of Authorizations and Appropriations FY 1962 - FY 1976 and Transition
($000)

Fiscal Year	Original Authority & Budget Request	Amended Budget	Authorized	Appropriated (Including Reappropriation)	Appropriation Transfers 1/	Allocation from AID	Obligated as of June 30	Unobligated as of June 30	Reappropriated
1962	$ 40,000	$---	$ 40,000	$ 30,000	$---	$---	$ 29,496	$ 504	$ ---
1963	63,750	---	63,750	59,000	444	---	54,692	3,864	3,864
1964	108,000	102,000	102,000	95,964	---	---	76,164	19,800	17,000
1965	115,000	106,000	115,000	104,100	7	---	85,449	18,644	12,100
1966	125,200	---	115,000	114,100	---	---	113,173	927	---
1967	110,500	112,150	110,000	110,000	104	---	104,525	5,371	---
1968	124,400	118,700	115,700	107,500	---	---	106,846	654	---
1969	112,800	---	112,800	102,000	49	---	100,301	1,650	---
1970	109,800	101,100	98,450	98,450	---	---	90,776	7,674	---
1971	98,800	94,500	94,500	90,000	---	---	84,978	5,022	---
1972	71,200	82,200	77,200	72,500	---	2,600	75,037	63	---
1973	88,027	---	88,027	81,000	427	---	80,560	13	---
1974	77,000	---	77,000	77,000	37	---	76,949	14	---
1975	82,256 2/	---	82,256	77,000 2/	---	---	---	---	---
1976	80,826	---	---	---	---	---	---	---	---
Transition	25,729	---	---	---	---	---	---	---	---

1/ Appropriation transfers are to GSA for all years except FY 1973. In FY 1973, $158,000 was transferred to GSA and $269,000 was transferred to Operating expenses, Domestic Programs (PL 93-50; 87 Stat. 99).

2/ Total does not include $687,000 supplemental request for government-wide October, 1974 Federal pay raises.

APPENDIX B: Reconciliation of Appropriation and Obligation Totals
FY 1974- FY 1975
($000)

	FY 1974	FY 1975
Appropriation	$77,000	$77,000
Real transfers to:		
General Services Administration	-37	0
Receipts and reimbursements from:		
Federal funds	+85	+30
Non-federal funds	+182	+150
Requested pay supplemental	0	+687
Unobligated balance lapsing	-14	0
Total Obligations	$77,216	$77,867

APPENDIX C - Schedule of Host Country Contributions By Region FY 1967 - FY 1976 and Transition
($000)

	Actual						Estimated				
	FY 1967	FY 1968	FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974	FY 1975	FY 1976	Transition FY 76 - FY 77
Africa	$2,380	$1,885	$1,624	$1,270	$1,167	$1,179	$1,753	$2,458	$2,598	$3,778	$1,304
Latin America	180	219	241	343	283	232	245	263	300	454	166
North Africa, Near East Asia & Pacific	1,014	861	1,626	892	755	853	1,007	1,206	1,447	1,768	600
TOTAL	$3,574	$2,965	$3,491	$2,505	$2,205	$2,264	$3,005	$3,927	$4,345	$6,000	$2,070

APPENDIX D: Allocation of Volunteer Manyears by Country
FY 1974 - FY 1976

Africa	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Botswana	78	105	110
Cameroon	62	84	88
Central African Republic	12	21	23
Chad	37	39	26
Dahomey	56	61	63
Ethiopia	215	163	138
Gabon	5	17	30
Gambia	40	27	18
Ghana	173	222	219
Ivory Coast	86	92	44
Kenya	199	179	164
Lesotho	37	50	32
Liberia	264	275	299
Malawi	19	19	12
Mali	18	27	39
Mauritania	3	10	12
Mauritius	11	10	5
Niger	84	116	98
Nigeria	2	6	6
Senegal	80	94	85
Seychelles	1	2	4
Sierra Leone	168	237	250
Swaziland	88	96	93
Togo	76	81	93
Upper Volta	56	62	61
Zaire	219	216	188
SUBTOTAL	2,089	2,311	2,200

APPENDIX D: Allocation of Volunteer Manyears by Country-continued

Latin America	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Belize	49	46	52
Brazil	316	236	139
Chile	25	42	58
Colombia	282	261	157
Costa Rica	110	153	118
Dominican Republic	66	66	73
Eastern Caribbean 1/			
Antigua	13	14	10
Barbados	49	44	36
Grenada	22	21	19
Montserrat	13	11	10
St. Kitts	19	18	15
St. Lucia	19	17	15
St. Vincent	24	22	19
Ecuador	200	237	208
El Salvador	49	91	125
Guatemala	125	140	136
Honduras	142	137	105
Jamaica	190	194	179
Nicaragua	54	69	94
Paraguay	52	67	75
Peru 3/	100	37	-
Uruguay 2/	1	-	-
Venezuela	205	140	85
SUBTOTAL	2,125	2,063	1,728

1/ The Peace Corps office in Barbados is the administrative unit for seven Caribbean Islands.

2/ Peace Corps terminated its program in Uruguay in October 1973.

3/ Peace Corps terminated its program in Peru in December, 1974.

APPENDIX D: Allocation of Volunteer Manyears by Country-continued

North Africa, Near East Asia, and Pacific	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Afghanistan	162	113	106
Bahrain	5	5	12
British Solomons	7	11	14
Fiji	120	128	114
Gilbert and Ellice Islands	1	3	4
India	23	23	10
Iran	115	127	119
Korea	256	245	196
Malaysia	297	293	278
Malta	1	2	2
Micronesia	155	195	172
Morocco	147	180	178
Nepal	98	103	98
Oman	14	23	23
Philippines	370	324	302
South Pacific Commission	2	1	1
Thailand	230	217	196
Tonga	75	88	65
Tunisia	108	88	93
Western Samoa	79	104	115
Yemen	10	23	36
SUBTOTAL	2,275	2,296	2,134
TOTALS	6,489	6,670	6,062

APPENDIX E: Budget Estimates by Region and Country*
($000)

Africa	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Botswana	$ 527	$ 785	$ 814
Cameroon	805	954	1,206
Central African Republic	220	280	459
Chad	434	482	334
Dahomey	571	599	704
Ethiopia	1,612	1,273	1,095
Gabon	102	273	671
Gambia	356	212	176
Ghana	1,329	1,571	1,805
Ivory Coast	1,223	1,181	686
Kenya	1,502	1,328	1,317
Lesotho	377	368	358
Liberia	2,483	2,518	2,976
Malawi	206	202	142
Mali	328	405	778
Mauritania	42	141	184
Mauritius	126	100	63
Niger	889	1,017	1,100
Nigeria	45	104	148
Senegal	721	798	839
Seychelles	-	16	45
Sierra Leone	1457	1,870	2,324
Swaziland	695	696	810
Togo	812	807	1,089
Upper Volta	528	655	630
Zaire	2,595	2,074	2,392
Africa Regional Support	1,379	1,379	1,520
SUBTOTAL	$21,364	$22,088	$24,665

* Post budget estimates include both direct obligations to the posts and Washington obligations associated with the posts.

APPENDIX E: Budget Estimates by Region and Country-continued
($000)

Latin America	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Belize	$ 266	$ 283	$ 307
Brazil	3,347	2,723	1,651
Chile	333	520	842
Colombia	1,905	2,143	1,189
Costa Rica	993	1,029	1,193
Dominican Republic	592	559	713
Eastern Caribbean 1/			
Antigua	75	88	62
Barbados	281	278	224
Grenada	126	132	119
Montserrat	75	69	62
St. Kitts	109	114	94
St. Lucia	109	107	94
St. Vincent	138	139	119
Ecuador	1,321	1,702	1,541
El Salvador	493	753	1,409
Guatemala	903	1,131	1,099
Honduras	925	1,012	744
Jamaica	1,002	1,255	1,056
Nicaragua	438	672	831
Paraguay	466	628	732
Peru 3/	1,078	617	-
Uruguay 2/	37	-	-
Venezuela	1,788	1,365	807
Latin America Regional Support	1,164	938	1,067
SUBTOTAL	$17,964	$18,257	$15,955

1/ The Peace Corps office in Barbados is the administrative unit for the seven Caribbean Islands.

2/ Peace Corps terminated its program in Uruguay in October, 1973.

3/ Peace Corps terminated its program in Peru in December 1974.

APPENDIX E: Budget Estimates by Region and Country-continued
($000)

North Africa, Near East Asia, and Pacific	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Afghanistan	$ 1,444	$ 1,116	$ 967
Bahrain	42	58	108
British Solomon Islands	31	81	66
Fiji	760	857	765
Gilbert and Ellice Islands	19	29	82
India	430	280	202
Iran	1,323	1,607	1,457
Korea	2,266	1,845	1,829
Malaysia	2,704	2,702	2,678
Malta	10	9	26
Micronesia	1,632	1,764	1,940
Morocco	1,434	1,587	1,822
Nepal	844	951	909
Oman	166	214	293
Philippines	2,543	2,033	2,183
South Pacific Commission	7	9	9
Thailand	1,613	1,612	1,431
Tonga	503	442	470
Tunisia	1,018	762	945
Western Samoa	515	815	808
Yemen	175	291	679
NANEAP Regional Support	918	951	1,012
SUBTOTAL	$20,397	$20,015	$20,681

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APPENDIX E: Budget Estimates by Region and Country - continued
($000)

SUMMARY	FY 1974 Actual	FY 1975 Estimate	FY 1976 Estimate
Africa	$21,364	$22,088	$24,665
Latin America	17,964	18,257	15,955
North Africa, Near East Asia and Pacific	20,397	20,015	20,681
World Wide Support	4,582	3,429	5,667
Peace Corps share of ACTION Support	12,909	14,078	13,983
TOTAL	$77,216	$77,867	$80,951

OPERATING EXPENSES, INTERNATIONAL PROGRAMS (PEACE CORPS)

For expenses necessary for ACTION to carry out the Peace Corps Act (75 Stat. 612), as amended; for the period July 1, 1976, through September 30, 1976, $25,729,000.

ACTION
OPERATING EXPENSES, INTERNATIONAL PROGRAMS
(PEACE CORPS)

	($000)	
	FY 1976 Estimate	Transition Estimate
Activity 1 Training and Specialized Recruiting	$ 9,059	$ 4,737
Activity 2 Volunteers	35,319	11,229
Activity 3 Program Support	36,448	9,763
(Peace Corps Share of Agency-Wide Support)	($13,983)	($ 3,556)
New Budget Authority	$80,826	$25,729
Less Transfers	-25 1/	-6 1/
Net Authority	$80,801	$25,723
Trainee Input	3,750	1,400
Volunteer Man-years	6,062	1,434

1/ FY 1976 and Transition Program Totals include a proposed $25 thousand and $6 thousand respectively to be transferred to the State Department for Inspector General services.

General Statement

Title V of the Congressional Budget and Impoundment Control Act of 1974 changes the beginning of the fiscal year from July 1 to October 1. This justification covers the Peace Corps activities during the transition period beginning July 1, 1976, and ending September 30, 1976. The funds requested are designed to support International Operations (Peace Corps) programs during the transition period at a viable continuing level. The proposed funding would provide adequate resources to maintain the program activities, without major change in the level of services.

Training and specialized recruiting during the three-month period will constitute 52 percent of the total level projected for FY 1976. This higher percentage in this activity is due to the concentration of trainee input during the months of June and July and the specialized recruiting costs associated with these trainees.

OPERATING EXPENSES, INTERNATIONAL PROGRAMS (PEACE CORPS) - continued

The request for funds to cover volunteer activities amounts to 32 percent of the total projected for FY 1976 while supporting 24 percent of the volunteer man-years. A number of factors within the volunteer budget account for the difference between these two percentages. For instance, international travel is based on a schedule of volunteer arrivals and departures, and the higher percentage during this period can be associated with the level of volunteer travel; i.e., higher percentage of trainee input from July through September, a greater number of volunteers completing service or extending, as well as increased costs per trip caused by air fare increases. The percentage share of settling-in allowances is also higher due to the large number of trainees scheduled to become volunteers during this period. The annual payment to the Office of Federal Employees Compensation for FY 1975 based on actual costs incurred during that period will become payable during the transition period.

Program Support costs are projected to be 26 percent of the previous year. This increase is due primarily to anticipated increases in foreign national salaries, international travel, and overseas rent and utility costs. Staff levels will remain constant.

Based on these factors, $25,729,000 is being requested for the transition period. It is anticipated that this amount should be adequate to cover the operations of the Peace Corps from July 1, 1976, through September 30, 1976.

OPERATING EXPENSES, INTERNATIONAL PROGRAMS (PEACE CORPS)

Summary of Transition Budget Request

	($000) FY 1976 Estimate	Transition Estimate
Activity 1 Training and Specialized Recruiting		
A. Training	$ 8,269	$ 4,278
B. Specialized Recruiting	790	459
Subtotal, Activity 1	$ 9,059	$ 4,737
Activity 2 Volunteers		
A. International Travel	$ 7,599	$ 2,837
B. Allowances	22,502	5,975
C. Other Volunteer Support	4,596	2,219
D. Dependent Support	522	143
E. Multilateral Volunteers	100	55
Subtotal, Activity 2	$35,319	$11,229
Activity 3 Program Support		
A. International Operations Staff	$16,822	$ 4,584
B. Evaluation	318	161
C. State Department Services	5,325	1,506
D. Peace Corps Share of ACTION Agency-Wide Costs	13,983	3,512
Subtotal, Activity 3	$ 36,448	$ 9,763
Total, ACTION, International Programs	$80,826	$25,729
Trainee Input	3,750	1,400
Volunteer Man-years	6,062	1,434
Staff	799	799

Budget Activity 1
TRAINING AND SPECIALIZED RECRUITING

	($000) FY 1976 Estimate	Transition Estimate
A. Training	$8,269	$4,278
B. Specialized Recruiting	790	459
Total	$9,059	$4,737
Trainee Input	3,750	1,400

Budget Justification

The estimates for training and specialized recruiting during the transition period between FY 1976 and FY 1977 are based upon projections of trainee inputs and ongoing specialized recruitment activities. It is also projected that the average costs for training will have increased an average of ten percent over FY 1976 and that costs for special recruiting will have increased five percent in the same period.

Budget Activity 1A
TRAINING

	($000) FY 1976 Estimate	Transition Estimate
A. Pre-Service Training	$7,526	$4,060
B. In-Service Training	743	218
Total	$8,269	$4,278

During any calendar year, the heaviest input into Peace Corps Pre-Service training occurs during the months of June, July and August. Training classes last for nine weeks and, as a consequence, trainees that enter during June of 1976 will receive about 6 weeks of training during the transition budget period. August and September trainees will enter the field after the beginning of FY 1977. Due to this overlap, 1400 transition period trainees and June trainees will receive an estimated total of 16,572 weeks of pre-service training during the transition period.

In-service training will comprise 2002 weeks, or 2 weeks for 1,001 Peace Corps volunteers.

Changes in Training

	FY 1976 Estimate	Transition Estimate
Pre-Service Training		
Number of pre-service man-weeks	33,750	16,572
Average training cost per trainee man-week 1/	X$ 223	X$ 245
Subtotal ($000)	$ 7,526	$ 4,060
In-Service Training		
Number of pre-service man-weeks	7,500	2,002
Average training cost per trainee man-weeks 1/	X$ 99	X$ 109
Subtotal ($000)	$ 743	$ 218
Training Total ($000)	$ 8,269	$ 4,278

1/ To the nearest dollar

Budget Activity 1B
SPECIALIZED RECRUITING

($000)

	FY 1976 Estimate	Transition Estimate
A. Intern Programs	$625	$394
B. Pre-Invitational Staging (PRIST)	165	65
Total	$790	$459

Specialized recruiting activities which will take place during the transition period include continuations of the intern and PRIST programs. Since most intern programs with universities are negotiated at the beginning of the academic year, a substantial portion of the costs related to these programs will be incurred during the transition. An estimated 296 interns will be contracted for at an average cost of $1331 per intern. The PRIST program will be conducted for 192 potential Peace Corps volunteers and is a projection based upon the planned 1400 trainee input during the transition period.

Changes in Specialized Recruiting

	FY 1976 Estimate	Transition Estimate
Number of intern trainees produced	493	296
Average cost per intern trainee 1/	X$1,268	X$1,331
Subtotal ($000)	$ 625	$ 394
Number of PRISTees 1/	514	192
Average cost per PRISTee 1/	X$ 321	X$ 337
PRIST Subtotal ($000)	$ 165	$ 65
Specialized Recruiting Total ($000)	$ 790	$ 459

1/ To the nearest dollar

Budget Activity 2
VOLUNTEERS

	($000) FY 1976 Estimate	Transition Estimate
A. International Travel	$ 7,599	$ 2,837
B. Allowances	22,502	5,975
C. Other Volunteer Support	4,596	2,219
D. Dependent Support	522	143
E. Multilateral Volunteer Program	100	55
Total	$35,319	$11,229
Volunteer Man-Years	6,062	1,434

Budget Justification

The estimates for the transition between FY 1976 and FY 1977 result from projecting the trainee and volunteer inputs planned for that period and anticipating a ten percent average increase over FY 1976 costs.

There are categories which do not conform to that general projection. Volunteer Conferences and Group Meetings, and Volunteer Supplies and Equipment are planned at a five percent increase. Volunteer Medical Supplies and Services anticipates the replacement of medical kits in addition to a ten percent increase over FY 1976 costs.

Budget Activity 2A
INTERNATIONAL TRAVEL

($000)

	FY 1976 Estimate	Transition Estimate
Travel to Host Country	$ 2,936	$ 1,205
Travel from Host Country	3,117	1,077
Extendee Travel	752	314
Emergency Leave Travel	338	108
Medical Evacuation Travel	456	133
Total	$ 7,599	$ 2,837

The travel cost for the transition period reflects increased domestic and international air fares projected here to be ten percent above FY 1976.

Changes in Travel to Host Country

	FY 1976 Estimate	Transition Estimate
Number of trips	3,750	1,400
Average cost per trip 1/	X$ 783	X$ 861
Total ($000)	$ 2,936	$ 1,205

1/ To the nearest dollar

Changes in Travel from Host Country

	FY 1976 Estimate	Transition Estimate
Number of trips	3,824	1,201
Average cost per trip 1/	X$ 815	X$ 897
Total ($000)	$ 3,117	$ 1,077

1/ To the nearest dollar

Budget Activity 2A: INTERNATIONAL TRAVEL - continued

Changes in Extendee Travel

	FY 1976 Estimate	Transition Estimate
Number of trips	485	187
Average cost per trip 1/	X$1,550	X$1,680
Total ($000)	$ 752	$ 314

1/ To the nearest dollar

Changes in Emergency Leave Travel

	FY 1976 Estimate	Transition Estimate
Number of trips	241	70
Average cost per trip 1/	X$1,402	X$1,545
Total ($000)	$ 338	$ 108

1/ To the nearest dollar

Changes in Medical Evacuation Travel

	FY 1976 Estimate	Transition Estimate
Number of trips	298	80
Average cost per trip 1/	X$1,530	X$1,659
Total ($000)	$ 456	$ 133

1/ To the nearest dollar

Budget Activity 2B
ALLOWANCES

($000)

	FY 1976 Estimate	Transition Estimate
Settling-In Allowance	$ 633	$ 342
Living Allowance	14,046	3,657
Leave Allowance	1,261	298
Readjustment Allowance	6,562	1,678
Total	$22,502	$5,975

The level of volunteer allowances varies from country to country and within countries in the region where the volunteer lives and works. These allowances are set to provide a subsistence level of support but due to overseas inflation a ten percent increase has been projected for the transition period.

Changes in Settling-In Allowance

	FY 1976 Estimate	Transition Estimate
Volunteer arrivals	3,014	1,482
Average cost per Volunteer Arrival	X$ 210	X$ 231
Total ($000)	$ 633	$ 342

1/ To the nearest dollar

Changes in Living Allowance

	FY 1976 Estimate	Transition Estimate
Volunteer man-years	6,062	1,434
Average cost per Volunteer man-year 1/	X$ 2,317	X$2,550
Total ($000)	X$14,046	$3,657

1/ To the nearest dollar

Budget Activity 2B: ALLOWANCES - continued

Changes in Leave Allowance

	FY 1976 Estimate	Transition Estimate
Volunteer man-years	6,062	1,434
Average cost per volunteer man-year 1/	X$ 208	X$ 208
Total ($000)	$1,261	$ 298

1/ To the nearest dollar

Changes in Readjustment Allowance

	FY 1976 Estimate	Transition Estimate
Volunteer and trainee man-year	6,751	1,726
Average cost per volunteer and trainee man-year 1/	X$ 972	X$ 972
Total ($000)	$6,562	$1,678

1/ To the nearest dollar

Budget Activity 2C
OTHER VOLUNTEER SUPPORT

($000)

	FY 1976 Estimate	Transition Estimate
In-Country Travel	$ 673	$ 174
Conferences and Group Meetings	285	72
Volunteer Supplies and Equipment	782	195
Medical Supplies and Services	1,719	550
Office of Federal Employees Compensation	1,137	1,228
Total	$4,596	$2,219

Other Volunteer Support covers the above categories of expense in support of volunteers in the field and after service.

Changes in In-Country Travel

	FY 1976 Estimate	Transition Estimate
Volunteer man-years	6,062	1,434
Average cost per volunteer man-year 1/	X$ 111	X$ 121
Total ($000)	$ 673	$ 174

1/ To the nearest dollar

Changes in Conferences and Group Meetings

	FY 1976 Estimate	Transition Estimate
Volunteer man-years	6,062	1,434
Average cost per volunteer man-year 1/	X$ 47	X$ 50
Total ($000)	$ 285	$ 72

1/ To the nearest dollar

Budget Activity 2C: OTHER VOLUNTEER SUPPORT - continued

Changes in Volunteer Supplies and Equipment

	FY 1976 Estimate	Transition Estimate
Volunteer man-years	6,062	1,434
Average cost per volunteer man-year 1/	X$ 129	X$ 136
Total ($000)	$ 782	$ 195

1/ To the nearest dollar

Changes in Medical Supplies and Services

	FY 1976 Estimate	Transiton Estimate
Volunteer man-years	6,062	1,434
Average cost per volunteer man-year 1/	X$ 284	X$ 384
Total ($000)	$1,719	$ 550

1/ To the nearest dollar

The Office of Federal Employees Compensation adjudicates all cases requiring compensation of Peace Corps volunteers under the Federal Employees Compensation Act. The $1,228 budgeted for the transition period is based on an anticipated eight percent increase over the previous bill. The amount budgeted for this item will cover the bill for a full year's charges which will become payable during the transition period.

Budget Activity 2D
DEPENDENT SUPPORT

Changes in Dependent Support

	FY 1976 Estimate	Transition Estimate
Children-Years	200	50
Average cost per child 1/	X$2,608	X$2,869
Total ($000)	$ 522	$ 143

1/ To the nearest dollar

With an emphasis on scarce-skill volunteers, the Peace Corps has a continuing need to place volunteer families. Consequently a stable projection of 50 children-years is being planned for during the transition period.

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Budget Activity 2E
MULTILATERAL VOLUNTEERS

	FY 1976 Estimate	Transition Estimate
Multilateral Grants	$ 70	$ 40
Multilateral Volunteers	30	15
Total	$100	$ 55

The request for $50 thousand reflects anticipated Peace Corps commitments to the multilateral volunteers program during the transition.

Budget Activity 3
PROGRAM SUPPORT

	($000) FY 1976 Estimate	Transition Estimate
A. International Operations Staff	$16,822	$4,584
B. Evaluation	318	161
C. State Department Services		
D. Peace Corps Share of ACTION Agency-Wide costs 1/	5,325	1,506
	13,983	3,512
Total	$36,448	$9,763
Less Transfer	-25	-6
Net Total	$36,423	$9,757

1/ Justification for these amounts is included in the section entitled ACTION Agency-Wide costs beginning on page 89.

Budget Justification

The estimates for the transition period between FY 1976 and FY 1977 for program support were developed by projecting the costs for this activity with the anticipation of an average annualized increase of seven percent over FY 1976 costs. This average increase results from percentage differentials among the four activities.

International Operations staff costs are expected to increase by seven percent over FY 1976 primarily due to increases in the average cost of overseas support items and travel costs for overseas and Washington staff.

Evaluation costs during this period will be 51 percent of FY 1976 total. This results from the scheduling of evaluation activities which require spending during this quarter.

State Department Services are expected to increase by a rate of 13 percent because of escalating costs overseas.

Peace Corps share of ACTION Agency-Wide costs are expected to remain level during the transition period.

Budget Activity 3A
INTERNATIONAL OPERATIONS STAFF

	($000) FY 1976 Estimate	Transition Estimate
Washington Staff		
Salaries and Benefits	$ 2,708	$ 695
Travel	420	141
Supplies, Equipment Other Services	199	79
Building Rental and Related Services	213	53
Washington Staff, Subtotal	$ 3,540	$ 968
Overseas Staff		
Salaries and Benefits	$ 7,725	$2,038
Travel	1,556	428
Education Allowance	159	84
Staff Housing	1,166	309
Space, Utilities	1,075	285
Maintenance, General Services	750	199
Supplies, Equipment, and Transportation	651	173
Vehicles	200	100
Overseas Staff, Subtotal	$13,282	$3,616
Total Staff, Washington and Overseas	$16,822	$4,584
Planned Positions		
U.S. Staff, Washington	129	129
U.S. Staff, Overseas	216	216
Foreign Service Locals	454	454
Total Permanent Staff	799	799

The International Operations Staff budget activity includes amounts for the support of Washington and Overseas staff.

Washington staff salaries and benefits are expected to increase at a one percent rate over FY 1976 to cover the net effect of step increases offset by lapse. Washington staff travel costs are expected to increase by approximately ten percent due to rising air fares. Supplies, equipment and other services during this

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

period will be consistent with FY 1976 costs with the addition of $45 thousand for mailing and other costs for School Partnership Program which are scheduled to be utilized during the transition period. Building rental and related services will be 25 percent of the total of FY 1976.

Overseas Staff salaries and benefits for U.S. personnel will increase at a one percent rate similar to Washington staff. Salaries and benefits for Foreign Service Local employees are expected to increase by ten percent over FY 1976 in accordance with salary increases based on cost of living surveys and government decreed wage and benefit increases in many countries. Overseas staff travel costs are projected at a rate increase of ten percent due to increased air fares and other overseas transportation costs. Education allowances are budgeted at a rate of ten percent above FY 1976 due to increased tuition costs. Fifty percent of the expected amount for the academic year 76-77 is budgeted during this period to meet tuition payments for the first semester. Additional overseas staff support costs, including housing and office rental and utilities, maintenance and general services, and supplies, equipment and other transportation are expected to increase at a rate of six percent over FY 1976. An amount equal to fifty percent of the FY 1976 allocation for vehicle purchase has been budgeted during the transition to allow for necessary replacement of vehicles.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Washington Staff - Salaries and Benefits

	FY 1976 Estimate	Transition Estimate
Salaries and Benefits ($000)	$2,708	$695
Planned Postions	129	129

Changes in Washington Staff-Travel

	FY 1976 Estimate	Transition Estimate
International Travel		
Number of trips	220	66
Average cost per trip 1/	X$1,632	X$1,830
Subtotal ($000)	$ 359	$ 121
Domestic Travel		
Number of trips	128	38
Average cost per trip 1/	X$ 477	X$ 524
Subtotal ($000)	$ 61	$ 20
Total, International and Domestic Travel ($000)	$ 420	$ 141

1/ To the nearest dollar

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Washington Staff-Supplies, Equipment, and Other Services

	FY 1976 Estimate	Transition Estimate
Supplies, Equipment and Other Services	$199	$79

Changes in Washington Staff - Building Rental and Related Services

	FY 1976 Estimate	Transition Estimate
Building Rental and Related Services	$213	$ 45

Changes in Overseas Staff - Salaries and Benefits

	FY 1976 Estimate	Transition Estimate
U.S. Citizens	$5,251	$1,347
Foreign Nationals	2,474	691
Total	$7,725	$2,038
Planned Positions		
U.S. Citizens	216	216
Foreign Nationals	454	454
Total, Permanent Positions Overseas	670	670

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Overseas Staff - Travel

	FY 1976 Estimate	Transition Estimate
Staff Assignment-Return		
Number of trips	149	37
Average cost per trip 1/	X$5,269	X$5,796
Subtotal ($000)	$ 785	$ 214
International Travel (Operational, PRIST-staging travel)		
Number of trips	160	40
Average cost per trip 1/	X$1,533	X$1,710
Subtotal ($000)	$ 245	$ 68
In-Country Travel		
Overseas professional staff	350	88 2/
Average annual cost per professional staff 1/	X$1,504	X$1,654
Subtotal ($000)	$ 526	$ 146
Total, Overseas Staff Travel ($000)	$1,556	$ 428

1/ To the nearest dollar

2/ Represents one quarter of the annual rate.

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Overseas Staff - Education Allowance

	FY 1976 Estimate	Transition Estimate
Number of Dependents	200	200
Average cost per dependent 1/	X$795	X$418
Total ($000)	$159	$ 84

1/ To the nearest dollar

Changes in Overseas Staff - Housing

	FY 1976 Estimate	Transition Estimate
Number of U.S. Staff	216	216
Average cost per Staff 1/	X$5,398	X$1,430
Total ($000)	$1,166	$ 309

1/ To the nearest dollar

Changes in Overseas Staff - Space, Utilities

	FY 1976 Estimate	Transition Estimate
Space, Utilities	$1,075	$285

Budget Activity 3A: INTERNATIONAL OPERATIONS STAFF COSTS - continued

Changes in Overseas Staff - Maintenance, General Service

	($000)	
	FY 1976 Estimate	Transition Estimate
Maintenance, General Services	$750	$199

Changes in Overseas Staff - Supplies, Equipment, and Transportation

	($000)	
	FY 1976 Estimate	Transition Estimate
Supplies, Equipment and Transportation	$651	$173

Changes in Vehicle Purchases

	FY 1976 Estimate	Transition Estimate
Number of Vehicles	38	18
Average cost per vehicle	X$5,250	X$5,540
Total ($000)	$ 200	$ 100

Budget Activity 3B
EVALUATION

	($000) FY 1976 Estimate	Transition Estimate
Evaluation	$318	$161

Funds for evaluation will be used to continue studies which will have been in progress throughout FY 1975 and FY 1976. The funds being provided are based upon the projected needs during the transition period and are not tied to a quarterly rate.

Budget Activity 3C
STATE DEPARTMENT SERVICES

	($000) FY 1976 Estimate	Transition Estimate
Shared Administrative Support (SAS)	$5,300	$1,500
Inspector General	25	6
Total	$5,325	$1,506

Funds for State Department Services Shared Administrative Support (SAS), are projected at a rate of increases of 13 percent over FY 1976. This increase is consistent with the history of SAS charges to Peace Corps during the past several years, and with information provided by the State Department which indicates that worldwide overseas costs can be expected to continue to escalate.

ACTION AGENCY-WIDE COSTS

	($000) FY 1976 Estimate	Transition Estimate
1. Peace Corps, ACTION International Programs	$13,983	$ 3,512
2. Operating Expenses, Domestic Programs	7,764	1,950
Total	$21,747	$ 5,462
Total Permanent Positions	557	557

General Statement

Costs of administering ACTION programs during the FY 1976 transition period will generally equal 25 percent of the Agency's FY 1976 appropriation request for that purpose.

Agency-wide costs will be assigned to ACTION's two appropriations on the same basis as in FY 1976. The formula for assignment of these costs and its application to transition period funds is as follows on the next page:

ACTION Agency-Wide Costs - continued

Allocation of Agency-Wide Costs
by Appropriation (Transition)
($000)

Transition permanent positions	1,242
Exclusively international programs	799
Exclusively domestic programs	443
International positions as percentage of 1,242	64.3%
Domestic positions as percentage of 1,242	35.7%
FY 1976 ACTION agency-wide costs	$5,462
International appropriation share ($5,462 X 64.3%)	$3,512
Domestic appropriation share ($5,462 X 35.7%)	$1,950

Agency-wide costs are reflected in the following organizational categories:

	($000)	
	FY 1976 Estimate	Transition Estimate
Recruitment and Communications	$8,592	$1,968
Planning and Evaluation	1,728	422
Management and Administration	11,373	3,059
National Voluntary Service Advisory Council	54	13
Total	$21,747	$5,462

Further description of agency-wide activities and justification of the FY 1976 funding request is provided in the following pages.

ACTION Agency-Wide Costs - continued

OFFICE OF RECRUITMENT AND COMMUNICATIONS

($000)

	FY 1976 Estimate		Transition Estimate	
	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	237	$5,193	237	$1,181
Other Expenses	---	3,399	---	787
Total	237	$8,592	237	$1,968

Budget Justification

Recruitment and Communications will require slightly less than 25 percent of funds requested for this purpose in FY 1976. Recruitment costs are cyclic; the period of time covered by the transition budget includes months during which recruiting requirements are generally low.

ACTION Agency-Wide Costs - continued

PLANNING AND EVALUATION

($000)

	FY 1976 Estimate		Transition Estimate	
	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	54	$1,367	54	$ 341
Other Expenses	--	361	--	81
Total	54	$1,728	54	$ 422

Budget Justification

Planning and Evaluation will require slightly less than 25 percent of the FY 1976 request during the transition period. While personnel compensation and most other expenses will be maintained on a par with FY 1976, new starts in special studies and evaluation will be delayed until FY 1977.

ACTION Agency-Wide Costs - continued

MANAGEMENT AND ADMINISTRATION

($000)

	FY 1976 Estimate		Transition Estimate	
	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	266	$6,046	266	$1,512
Other Expenses	---	5,327	---	1,547
Total	266	$11,373	266	$3,059

Budget Justification

Management and Administration activities will be maintained at 25 percent of FY 1976 during the transition period, with one exception: reimbursement to the Office of Federal Employees Compensation (OFEC) for twelve prior months' service will be required in August 1976; thus, a 12-month increment is included for this cost.

ACTION Agency-Wide Costs - continued

NATIONAL VOLUNTARY SERVICE ADVISORY COUNCIL

($000)

	FY 1976 Estimate		Transition Estimate	
	Pos.	Amount	Pos.	Amount
Personnel Compensation and Benefits	---	---	---	---
Other Expenses	---	$ 54	---	$ 13
Total	---	$ 54	---	$ 13

Budget Justification

National Voluntary Service Advisory Council will be funded at 25 percent of its anticipated FY 1976 requirements during the transition period.

APPENDIX A: Reconciliation of Appropriation and Obligation Totals
FY 1976 - Transition
($000)

	FY 1976	Transition
Appropriation	$80,826	$25,729
Real transfers to:		
State Department - Inspector General	25	6
Unobligated balance lapsing	0	0
Total Obligations	$80,801	$25,723

FISCAL 1975 APPROPRIATIONS

Mr. PASSMAN. Mr. Balzano, I think the last time we were together we were flying to Atlanta.

Dr. BALZANO. We certainly were, sir.

Mr. PASSMAN. I remember you came over to my seat, sat down, and said, "Mr. Passman, I want to congratulate you and thank you for being so nice to the Peace Corps. You provided $77 million for fiscal 1975."

Do you remember that?

Dr. BALZANO. I recall something like that.

Mr. PASSMAN. You recall it, do you not?

Dr. BALZANO. Yes.

Mr. PASSMAN. And I gave you the only copy of the report that I had, and you were very appreciative.

I am glad you admit that, because before I got off the plane, there was more pressure than a tornado to restore the funds to the Peace Corps, but I experienced that so often from Peace Corps officials until now it just rolls off my back. I didn't pay any attention to it.

You were so very warm and thankful you can imagine the disappointment I suffered when I learned we were wrecking the Peace Corps by following the recommendations.

BACKGROUND OF FOREIGN AID

I think we should state for the record at this point that our public debt now stands at $517 billion. When I came to Congress, it was $259 billion. The foreign aid program since I came to Congress, has cost $269 billion. The increase in the public debt in the amount of $258 billion is just about what foreign aid has cost us.

Some people have red faces when we look at Southeast Asia and find that close to $200 million has gone down the drain.

The mistakes we made were certainly from the head, not from the heart, but it just goes to show that giving our wealth away trying to secure friends doesn't pay off. Practically every nation, maybe Korea is standing firm, has said to get out.

Foreign aid has been a dismal failure, we might as well face up to it.

You have so many different spigots of foreign aid. Some types of foreign aid are outright grants. Other types are loans where we get some repayment.

My position has been to always scrutinize the budget requests. That does not mean that I want to be ugly or disagreeable. It is just a question of recognizing that we are spending money we don't have for things we don't need, trying to be everything to everybody, everywhere on borrowed money and at the expense of unborn generations.

FISCAL YEAR 1976 REQUEST

Now we take the Peace Corps. We look at your request for fiscal year 1976 and it is $80,826,000 or an increase over last year of over $3 million.

We have to add to that about another $70 million in interest, because

the Peace Corps has spent since its inception about $1.2 billion, and not one nickel of that comes back to the United States. It is just a one-way street. The benefits, if any, are quite imaginary, but to say the least we have to pay out this year approximately $70 million in interest on funds the Peace Corps has previously received, so this committee must look at both sides of the ledger.

Actually the cost of the Peace Corps for fiscal 1976, if you should include this interest, is about $150 million because we still have to pay interest on the money that we previously borrowed for the Peace Corps to spend.

FISCAL YEAR 1976 AND TRANSITION PERIOD REQUEST

As I look at your request for fiscal 1976 of $80,826,000, that exceeds the 1975 appropriation, I believe, including the supplemental by $3,139,000; is that correct?

Dr. BALZANO. Yes, sir.

Mr. PASSMAN. The transition period is a 90-day period.

If you multiply $25,729,000 by 4, the amount is in excess of what you are requesting for the first 12 months; isn't that right?

Mr. BALZANO. Yes, sir.

Mr. PASSMAN. Why would you need such a tremendous increase for the additional 90 days?

Mr. MARKHAM. Mr. Passman, that is because our training expenses are always heavier in the first quarter of what is now the fiscal year, the period between July and September 30. We have the heaviest Peace Corps trainee entries at that point so we have to have a larger amount of our training during that period.

Mr. PASSMAN. The budget for fiscal 1977 is being made up at this time; is it not?

Mr. MARKHAM. We haven't really started, sir.

Mr. PASSMAN. It is being made up because budgets are usually started 18 months in advance of the time they are presented to the Congress. I think we have testimony to that effect.

It may not apply just to the Peace Corps, but that is the average.

Then would you expect to make a corresponding reduction in the next fiscal year because you are running at a rate of possibly $103 million for the last 90 days?

Mr. MARKHAM. It is a little early to speculate on what is going to happen.

Mr. PASSMAN. How are you able to speculate on the $25 million? If you could speculate on $25 million for 90 days, you ought to be able to speculate on what you can do in the next months. How come you can only speculate for 90 days so accurate, because you have it down here to almost the penny, and you couldn't speculate on the last three quarters?

It is a good point, isn't it?

Mr. MARKHAM. Yes, sir.

Mr. PASSMAN. Let's have some explanation of how you could speculate so accurately on 90 days and you can't speculate on the other 9 months.

Mr. MARKHAM. When we made up the estimates for fiscal year 1976, we were asked by the Office of Management and Budget, on behalf of

the President, to make up estimates for the transition period. We are not being asked by the President at this point——

Mr. PASSMAN. I am not talking about what the President asked for. You speculated so accurately from July 31 to September 30. You could speculate on the first 90 days, why couldn't you speculate on an additional 9 months?

Mr. MARKHAM. I guess we could, sir, but we haven't.

Mr. PASSMAN. You haven't?

Mr. MARKHAM. No, sir.

INTRODUCTION OF NEW ASSOCIATE DIRECTOR FOR INTERNATIONAL OPERATIONS

Mr. PASSMAN. Before we get too far into the examination, I want to welcome our former esteemed, and very able colleague to his new position.

I believe you are going to be the Associate Director for International Operations, Mr. Dellenback?

Mr. DELLENBACK. That is right, Mr. Chairman.

Mr. PASSMAN. You are certainly well equipped for the position because I do remember the many years we served in the House together. It was certainly a pleasant association and I welcome you to your new position.

I would like to yield to the other members to wish you well in your new assignment.

Mr. Cederberg?

Mr. CEDERBERG. I came here for just a few minutes to see that the chairman treated our former colleague well. I am delighted to stop in just for a few minutes to welcome you here before I go to another committee and another commitment.

I know the Peace Corps will be in good hands under your direction, and I know of your commitment over the years to the Peace Corps and the contribution that you can make to international understanding.

I suppose one of the problems that you have in the Peace Corps is similiar to what we find in our State Department budget. Because so much of the Peace Corps budget is spent overseas, the inflationary impact is a major item, plus the devaluation of the dollar and the value of the dollar varies from country to country through certain adjustments.

You will just have to learn to live with some of these problems, now that you are on the other side of the table.

Mr. PASSMAN. Thank you, Mr. Cederberg.

Would my other colleagues like to wish Mr. Dellenback well?

Mr. ROUSH. I certainly would join you in wishing Mr. Dellenback well in his new position. We know from our experience here in the House of Representatives that he will lend not only expertise and experience to this position, but also bring with it compassion and a feel for peoples throughout the world. I am very pleased to welcome him.

Mr. PASSMAN. Thank you. Mr. Coughlin?

Mr. COUGHLIN. Thank you, Mr. Chairman.

I join in welcoming our former colleague, who was, certainly in my mind, one of the most able members of the House. We miss him here,

but I know the ability that he has will serve him and the country well. I am grateful that he is with the Peace Corps.

Mr. ROUSH. Mr. Chairman, I wonder if you will insist on having a record vote on all appropriation bills, particularly this one.

Mr. DELLENBACK. I understand—if I may, Mr. Chairman, be facetious for 1 minute before I say a serious word—there was an appropriation bill of no mean consequence that was passed last week. I was just down on the floor when Mrs. Pettis was sworn in as a member and there was some discussion of an event which took place last week, Mr. Cederberg, in this particular regard, and I grinned wryly and was sort of sorry not to be back with you at that time.

May I just say, Mr. Chairman, how much I appreciate your words and your kind thought as well as the expressions of Mr. Cederberg, Mr. Roush, and Mr. Coughlin.

I value all four of you as well as other members of this subcommittee among the most dedicated members this body. I know how hard you and the others have all worked. I recognize the difficulty of being the watchdogs that you are, and you must balance off requests. It is not an easy task.

The trust that is placed in you and the burden that is placed on your shoulders is a hard one, and we as citizens are grateful.

We welcome this chance to open up these subjects and have a chance to exchange views about this agency that we think so very highly of, but I am pleased to be with you today and I am grateful for your kind words.

PEACE CORPS PROGRAMS IN SOUTHEAST ASIA

Mr. PASSMAN. Thank you very much.

I am frightened over the fact that we just spend and spend and spend. It is almost unbelievable that in the past periods of great prosperity we have collected an unprecedented amount of revenues. We have not only spent the revenues but we pushed up this public debt from $259 billion to $517 billion.

There is no such thing as a bad program to hear the people who come before this committee. They are all good. Abolish some other program but not this one.

We have to look at some of the requests where money will actually flow back to the United States. With certain types of aid, it is a one-way street. It all goes out and there is no return whatsoever other than that long-range, imaginary help that we get.

How many Peace Corps people did you have in Cambodia and Vietnam prior to their fall?

Dr. BALZANO. None, Mr. Chairman.

Mr. PASSMAN. How about Thailand?

Mr. PEREZ. A bit over 200, Mr. Chairman.

Mr. PASSMAN. It looks like Thailand is going to follow the same line as the others. They have politely told us to get out. It is much more serious than you see in the press. They want us to get out and let them run their own business.

Have they talked to you about getting the Peace Corpsmen out yet?

Dr. BALZANO. No; they have not, Mr. Chairman.

PEACE CORPS PROGRAM IN IRAN

Mr. PASSMAN. One other country that I noted with interest was Iran. They have just got money running out of every pocket. They have billions of dollars that they don't know what to do with.

You have a Peace Corps group in Iran, do you not?

Dr. BALZANO. Yes; we do.

Mr. PASSMAN. Who is paying for them?

Dr. BALZANO. We are.

Mr. PASSMAN. Isn't it pretty hard to take a nation where they have billions of dollars just begging for someplace to invest it?

I believe your fiscal 1976 program is $1,457,000.

Why should we be furnishing Peace Corpsmen at a cost of $1,457,000 to Iran, with all the money they have?

Dr. BALZANO. Mr. Chairman, when the Peace Corps first entered Iran, Iran was considered to be a developing nation. We recognize that the nation is now reaching a position where its level of technology and development is such that its need for Peace Corps has diminished.

Mr. PASSMAN. Let's don't say reaching. They have reached the position.

Have I stated it for the record correctly, that they have a tremendous amount of wealth, in the billions of dollars that they are looking for places to invest?

Dr. BALZANO. Yes; they are.

Mr. PASSMAN. Then why should we be giving Iran $1,457,000 when these people have billions of dollars, and have billions of dollars more coming in? Why should we be borrowing money to give to Iran with that tremendous amount of wealth that they have?

Dr. BALZANO. Mr. Chairman, there are two points I would like to make. First, the mission of the Peace Corps is not just to supply manpower, but to provide a cross-cultural exchange between volunteers and host country nationals.

Mr. PASSMAN. Iran is not borrowing money, are they?

Dr. BALZANO. No.

Mr. PASSMAN. But we are borrowing money, are we not, to do these things?

Dr. BALZANO. That is correct.

Mr. PASSMAN. I think it is ridiculous and I think that somehow or other we had better write it out in the bill. If you people won't wake up and come to your senses on this thing, we are going to have to do it for you.

I think we had testimony last year that you were thinking about switching Iran over to a reimbursable basis.

What happened to that idea?

Mr. PEREZ. Mr. Chairman, we have undertaken a very extensive and energetic negotiation with the Government of Iran through our Embassy, and utilizing our Peace Corps staff members in Iran for a significant increase in host country contributions.

Mr. PASSMAN. Let's get right down to the meat in the coconut. Iran has a surplus of billions of dollars, and they are looking for places to now invest them, and they have a tremendous income, billions of dollars a year coming in from their petroleum production, do they not?

Mr. PEREZ. Yes; they do, sir.

Mr. PASSMAN. Then why, gentlemen and ladies, should we be giving $1,457,000 of borrowed money to them when they have this tremendous amount of wealth? It just doesn't make sense.

Now look at Thailand, with a tremendous surplus in their foreign exchange account, we see where you are going to ask us to borrow $1,431,000 for Thailand. It just really doesn't add up, gentlemen. We have to borrow this money.

Let's look at Indonesia. Do you have a Peace Corps program there?

Mr. PEREZ. No; we don't, Mr. Chairman.

Mr. PASSMAN. I am going to go around the table under the 5-minute rule and return. Mr. Roush?

CRITERIA FOR ENTERING AND LEAVING COUNTRIES

Mr. ROUSH. Thank you, Mr. Chairman.

Let me try to focus on this problem just a little more, if I may.

What is the criteria for first going into a country and, second, the criteria for voluntarily leaving a country, that is what type of country do you go into? Is it dependent upon the income, on the standard of living in that country, how far down they are as a developing country?

Dr. BALZANO. Congressman Roush, there are a number of different criteria we use. I would like to have Mr. Perez provide you with some of the details.

Mr. PEREZ. Thank you, sir.

We begin by responding to a request from a particular country. We are very sensitive to the fact that the Peace Corps has very limited resources available, so our main focus will be on analyzing those requests that come from the poorest of the countries of the world, the poorest of the countries that have the fewest alternatives available to them to assist them in their economic and social development.

Mr. ROUSH. Many of these countries reach that point where they have really come up in the world. I am thinking of Brazil, simply because I visited Brazil. There is a country which we at one time considered a developing country. Yet at this point in time we have seen fit to terminate our AID program there and acknowledge that Brazil has come a long way. Yet we still keep Peace Corpsmen there.

Are you making plans and do you have in mind the possibility of terminating programs in some of these countries because of the fact that they have come a long way economically in their development?

Dr. BALZANO. Yes.

Mr. ROUSH. Yes isn't a satisfactory answer. Tell me about it.

Dr. BALZANO. With respect to some of the countries that were cited earlier, Iran, for example, we are reevaluating our position. But as I pointed out to the Chairman, the Peace Corps does not just supply technical assistance. There is another element of the program, which the Congress saw fit to incorporate as a Peace Corps objective which is to provide an opportunity for cultural exchange.

We are negotiating agreements with some governments, such as Brazil and Iran, for a phaseout or deescalation of our program.

Mr. ROUSH. Are there others than Brazil and Iran?

Dr. BALZANO. Yes, there are, sir; but we never make a final decision without full consultation with the State Department. It is a joint de-

cision. We have the responsibility for operating the programs, but we also take into consideration the host government's ability to replace the resources we provide with their own.

Mr. ROUSH. You haven't by chance had an offer from any government to support the cost or the major portion of the cost of having a Peace Corpsman in their country, have you?

I observe from your testimony that host countries do make a contribution.

Mr. GANLEY. Sir, one country, for example, where we get a great deal of support percentagewise is Ethiopia. There are others but Ethiopia is one where we get a substantial contribution. In 1976 we expect to get about $6 million from host country contributions.

Mr. PASSMAN. Would the gentleman yield to clear up one point?

Mr. ROUSH. Surely.

Mr. PASSMAN. You talk about the host country. They are the recipients of the Peace Corps aid. Take Iran. Regardless of what they may take out of their own economy, they are the recipients of both what they take out of their own economy and what we give them, are they not?

Mr. GANLEY. They are recipients.

Mr. PASSMAN. Let's just make the record as it is. We get nothing out of it. They are the beneficiaries of both what we put in and what the countries may put in themselves; is that correct?

Mr. GANLEY. Mr. Chairman, when the Congress passed the Peace Corps Act in 1961——

Mr. PASSMAN. I want an answer first. Whatever we contribute in Iran and whatever they may contribute, they are the recipients of both pots, are they not?

PEACE CORPS CONTRIBUTION TO THE UNITED STATES

Mr. GANLEY. We do bring something home, Mr. Chairman.

Mr. PASSMAN. What do you bring home?

Mr. GANLEY. We bring home a better citizen.

Mr. PASSMAN. That is imaginary, I want my question answered, because we are going to be a little different this year. I want you to be fair with us. Whatever Iran puts in and whatever we put in, the Iranians are the recipients of both pots; are they not, financially speaking?

Dr. BALZANO. Mr. Chairman, I cannot——

Mr. PASSMAN. Never mind.

Thank you for yielding, Mr. Roush.

Mr. ROUSH. Mr. Chairman, I was just going to respectfully disagree with my chairman.

Mr. PASSMAN. Disagree if you want to, but I will make the case when it gets back to me.

Mr. ROUSH. What do you bring back?

Dr. BALZANO. The volunteers and staff bring back the knowledge and understanding of another people. They return with a tremendous wealth of knowledge that would be difficult to obtain any other way.

We also leave something there, more than just the dollars that we put into the program. We leave a view of Americans that these people might not otherwise have. In this era of emphasis on peace, friendship, and détente, I believe a positive image of Americans abroad is something that is tremendously valuable to us and to the countries we serve.

TERMINATIONS IN FISCAL YEAR 1976

Mr. ROUSH. How many programs do you plan or hope to terminate during the coming year?

I won't say plan, but in how many countries do you plan to terminate Peace Corps programs during the coming year?

Mr. GANLEY. We do not at this time have a fixed plan approved by all concerned planned to terminate any, Mr. Roush.

Mr. ROUSH. Do you hope to terminate any such as in Iran?

Mr. GANLEY. We would hope to terminate Iran and possibly some others.

Mr. ROUSH. Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Coughlin?

Mr. COUGHLIN. Thank you, Mr. Chairman.

Certainly in the past I have and continue to be a strong supporter of the Peace Corps, but I do think you have got to realize that we are going to have tremendous difficulty taking a bill to the floor that has money in it for countries like Venezuela, Iran, and some of the others.

TERMINATION OF PROGRAM IN PERU

I would like to ask you to comment on the termination of the Peace Corps in Peru. Was that a failure on the part of the Peace Corps?

Dr. BALZANO. Peru found itself in a situation where there were other resource alternatives available to it, and had reached the point where the Government felt they could now turn to those other alternatives. In the exchange of notes between Peace Corps and the Government of Peru, the Peruvian Government thanked us very much for the years Peace Corps had spent there, and it was a situation where they simply had other alternatives.

Mr. COUGHLIN. And you don't feel it was a failure on the part of the Peace Corps itself?

Dr. BALZANO. No, Congressman; I don't think so. In my view there should be an ultimate termination point in each country, and that termination point is reached when the host government can decide that the kinds of services that we have been providing can now be provided internally.

As a matter of fact, I made a statement in San Francisco several months ago, to the effect that there is no dishonor in admitting that we have done our job.

For example, I spent some time in Iran several months back, and learned that the Government of Iran is now operating its own domestic volunteer program with 160,000 volunteers. I might add, that this program was designed from the Peace Corps model.

Mr. COUGHLIN. You mention Iran. There is no problem in leaving people in Iran if the Iranian Government wants to pay for the U.S. people. I think the problem is taking to the floor a bill that is asking for our taxpayers' money to support people in Iran.

I see an advantage in having our people there for international relations.

REDUCTION IN COUNTRY DIRECTOR SALARIES

Has anything been done to reduce the average salary or grade of the various country directors?

Dr. BALZANO. Yes; there has. As a matter of fact the only problem we have had is that while we have been reducing salaries our savings have been offset by pay raises. We have held country director salary increases to about 2 percent, while Government-wide salary increases have averaged about 10½ percent. We have had savings, but they have been eaten up by congressionally mandated pay raises.

Mr. GANLEY. The grade is going down, that is, the FSR grade, which, as you know, the lower the designation, the higher it is paywise. In 1973, the average FSR grade was 3.14; in 1975 it is 3.37. That is about 2/10 of a grade better.

Mr. COUGHLIN. On page 7 of your prepared statement, you stated that the cost of volunteer training had been cut in half since 1970, and you further state that despite inflation you will hold this year's training cost to about $2,762 per individual.

However, on page 67 of your formal budget submission, it says that the Peace Corps expects a 10-percent increase in these costs in 1977.

Could you elaborate on these figures for the record?

Mr. GANLEY. Mr. Markham, will you provide Mr. Coughlin with a specific summary?

Mr. MARKHAM. I am sorry; which page is that on?

Mr. COUGHLIN. Page 7 of the prepared statement and page 67 of your formal budget submission.

Mr. MARKHAM. Page 67 of the formal submission deals with the transition budget. This was the matter I referred to earlier when we were anticipating beyond fiscal year 1976. We are anticipating at least some additional average cost increases in the transition period.

Mr. COUGHLIN. In other words, you will hold the cost down this year but next year you expect an increase in cost.

Mr. MARKHAM. This year, as in the prepared statement, the cost will be about what it was in 1971. In view of all the pay raises and inflation, we think that is a very significant fact. We expect, however, to be unable to do that in the transition period.

[Recess.]

Mr. PASSMAN. Mr. Obey, we are under the 5-minute rule.

Mr. OBEY. Mr. Balzano, could you answer a couple of very short questions for me?

REDUCTION IN VOLUNTEERS

How long do volunteers serve in the Peace Corps?

Dr. BALZANO. The average service is 2 years, sir. We do have extensions.

Mr. OBEY. What is the maximum, or isn't there any?

Dr. BALZANO. Not legislatively but we have set a maximum of 5 years, except in extraordinary circumstances.

Mr. OBEY. Why the drop in volunteers from 15,000 to 6,800 over the years?

Dr. BALZANO. There are a number of reasons for the drop in volunteers. Budget levels have been smaller, but another important factor is that host governments have been requesting volunteers with skills that are more difficult to recruit for. The skill level has risen to the extent that we may not have a spot for everyone who wants to serve though they may have the desire, but I would say it is combination of budget and skill levels.

Mr. OBEY. Is the primary reason budget levels, or would it be because there is any less interest on the part of host countries than there has been previously?

Dr. BALZANO. There is not less interest. The requests have been far more difficult to recruit for. The days of the Peace Corps have changed. There was a time when just about anybody who wanted to serve could serve, but kinds of skills that people are requesting are far more difficult to recruit for.

CONTRIBUTIONS OF RETURNED PEACE CORPS VOLUNTEERS

Mr. OBEY. Let me ask along the lines of the questions Mr. Roush asked—and don't get me wrong. I came to Congress with a lot of basic prejudices as everybody does, and one of them is that the Peace Corps is a good program, but I really would like some specifics as well.

What do we get out of the Peace Corps? What do we provide except a 2-year field trip for middle class kids? How is the character of volunteers changing over the last 3 or 4 years, and where do volunteers go after they leave the Peace Corps?

I know you have quite a number of them who still work for you, but where do they go in, the main?

Mr. DELLENBACK. Mr. Obey, I would be glad to speak to that briefly.

First, on the last question, one of the things that I have on my own list, high on the order of priorities, is to analyze where our some 60,000 former volunteers and staff are now because that is the number who have served abroad and are back in this country. We have some gaps. We know in this Congress there are two former volunteers, and in congressional staffs we have, from present indications, something in excess of one dozen who served abroad as volunteers. We are in the process of getting additional information right now on exactly where they are in the country.

Frankly, this is one of the gaps. We do not have a good roster of where those 60,000 have been.

Mr. OBEY. If you are developing it now, when will you have it?

Mr. DELLENBACK. It is just getting underway at the present time, Mr. Obey. This is one of the things that I have added to my list. There was a study made some years ago that was incomplete. It did not give us the information. I am not satisfied with it. I will report it back directly to you and back to the Congress just as quickly as we can get that kind of information.

It is not easily done, because while we have good records on the people who are in the Peace Corps at the present time, when they come out and when they are once terminated, we don't have a regular follow-up system that will tell us where they are at any given moment. So we don't have that.

May I say one thing about volunteers, in response to an earlier question that you asked?

You made the point that the number of volunteers actually on station has dropped from about 15,000 in 1967 to 6,700 or 6,800 now. That is not to be confused with the number of applicants.

Mr. OBEY. I understand.

Mr. DELLENBACK. Because as you know the number of applicants is well up above. It has gone up to about 33,000 a year ago and last year it was about 30,000.

It is our feeling that there is an extensive need out there. We get this from the standpoint of requests made by host countries, Mr. Obey. We are in more countries now—68 in 1975 and 69 until we left Peru—than we were when we were at the height of our numbers abroad.

REASSESSMENT OF PROGRAMS

Mr. OBEY. That is my concern. I don't know that is necessarily wise to expand the number of countries we are involved in at the time that the number of volunteers is declining, because I would think if you wanted to have an effect internationally that you would have a greater concentration of volunteers.

Mr. DELLENBACK. If I may, I think your question is an excellent one. If I may say so, that is the second one of the things that I am in the process of beginning to take a look at. One is this question of where our former volunteers are at the present time.

One, I know that the inflation rate has been extremely high internationally. In terms of what a dollar would buy, what would your budget be this year if it were able to buy the same amount of program that it bought last year?

Mr. GANLEY. Again, 2 years ago it would be up about 28 percent.

Mr. OBEY. It would be 10-percent increase this year.

I came to Congress in 1969. How much would your budget have to be increased to buy the same amount of program you were buying in 1969?

Mr. GANLEY. Something short of 40 percent, about 40 percent.

Dr. BALZANO. It would be exactly 33 percent over Peace Corps' last year prior to its coming into action, 1971.

REDUCTION IN TRAINING COSTS

Mr. OBEY. Let me ask one last question.

The second one is a continuation on a broad basis of the examination of every country in which we are at the present time.

I am interested in finding out not only about Iran and whether we should be there, and if so in what number, and not only Venezuela and Brazil, but Colombia, Ethiopia, and a series of other countries. We are looking at the question of Thailand. There are at least a half dozen countries where there are some serious questions, and we want to do with the available number of skilled volunteers the best possible job we can do.

You put your finger on a thing that needs to be done. That is another one of the things that we are getting underway.

CONSTANT DOLLAR BUDGET

Mr. OBEY. My time is limited and I have to go to another subcommittee meeting as always, but let me ask just two other questions.

You mentioned in your statement that you have reduced volunteer

training costs. My question is how and what does that imply as far as the quality of training is concerned?

Dr. BALZANO. We believe the quality of the training has improved. We have moved from a situation where training was conducted in the United States to an in-country training program in order to increase the host government's participation in the training program, and to simulate as much as possible the actual working conditions which the volunteer will operate under. This change has contributed to a reduction of the overhead costs of the program.

Mr. GANLEY. Mr. Obey, one question you asked was about where the volunteers go. You might want to know that there are about 140 to 150 of them that are in the VISTA programs. They can come back into a domestic program to help out there.

Dr. BALZANO. I would like to make one point, Mr. Obey. Earlier you mentioned that when you came to Congress you had some prior notions about the Peace Corps. You mentioned that it was a program that enlisted large numbers of middle class kids.

Mr. OBEY. No; what I said was that I came to Congress with the prejudice that it was a good program.

Dr. BALZANO. Yes.

Mr. OBEY. But if somebody asked me back home what are we getting for our money, I would like to be able to tell them that we are getting more than a 2-year field trip for middle class kids.

Dr. BALZANO. That is right. You can tell them that today our volunteer population is more reflective of the entire spectrum of society. As I have traveled around the world visiting projects, I have seen senior citizens, well diggers, and skilled mechanics. I have seen high-school dropouts who are plumbers. We now have a volunteer profile that is very, very close to that of the country.

Mr. OBEY. Good.

Mr. PEREZ. The combined attrition rates for trainee and volunteer is a bit more than 25 percent.

Mr. CONTE. What is being done to combat the attrition rate of volunteers? That is a pretty high attrition, isn't it?

Mr. PEREZ. We separate and distinguish between trainee attrition and volunteer attrition. Referring to the volunteer attrition you may recall that last year a study was undertaken, some of the results shared with the Congress, in which the very difficult causes of attrition were identified as manageable and unmanageable categories, the latter being very personalized situations that one can't control.

The manageable aspects we hope are the variables that we can control. As for the results of these studies, the data have been returned to the individual country directors and staff overseas for their very specific attention on a project-by-project basis as to why they are having such attrition, if it is high indeed, or what are the conditions under which they are experiencing no attrition, and trying to understand whether one program will give us insights into another program to attempt to control the attrition.

Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. At the outset I want to welcome our former colleague, John Dellenback in his new role as head of the Peace Corps. I know that he will do a good job. He was an outstanding Congressman, one of the best, and I know that he will bring that talent and ability that he used as a Congressman to his role as head of the Peace Corps.

Mr. DELLENBACK. Thank you, Mr. Conte.

Mr. CONTE. As one who has supported the Peace Corps over the years, and who was one of the originators of the Peace Corps together with Henry Reuss back many, many years ago, I am really pleased to see John taking over the helm of this important Agency.

ATTRITION RATES

What is the present combined attrition rate of the trainees and the volunteers?

The indications we have had are that on the volunteer level we are grasping and somewhat diminishing the level of volunteer attrition.

In the case of trainee attrition we are also showing some percentage decreases. In both cases although the ideal would be no attrition whatsoever or zero, I think we recognize that we are dealing with human beings, and much too many variables, and we shall always have some element of attrition.

COST OF TRAINING

Mr. CONTE. What is the average cost of training a volunteer this year compared to last?

Mr. MARKHAM. In 1975 it is going to be $2,792, which is 50 percent below the average training cost in fiscal year 1970. In 1974 it was $2,722. There is a slight increase.

Mr. CONTE. About $70; that is not bad.

SUCCESS OF PROGRAM

What would you judge to be the most successful aspect of your program, agricultural, educational, or what?

Dr. BALZANO. It would be pretty difficult to put a label on what is successful, sir. In terms of numbers, the majority of our programs are in the field of education. On the other hand, some of our comparatively smaller programs such as our agriculture programs are producing some very good results, as I indicated in my prepared statement. Sometimes you have a very small program in the agriculture sector that has a great economic impact and then you have a very large program in education that might not have the same measurable impact on the economy of the country or the ability of the country to become self-sufficient. It is very difficult to ascertain.

Mr. CONTE. Do you have any vocational programs?

Dr. BALZANO. Yes, we do.

Mr. CONTE. Electrical work, carpentry, plumbing?

Dr. BALZANO. Mr. Perez, can you give the precise figures?

Mr. PEREZ. I am sorry, I don't have it with me. I shall be pleased to provide it for the record.

[The information follows:]

Region and country	Average number of volunteers	Description
Africa:		
Ethiopia	10	Teaching industrial arts, home economics, and mechanics in large provincial towns.
Gambia	3	Teaching home economics; establishing new technical program for woodwork, metal work, electricity, electronics, technical drawing, welding.
Kenya	10	Teaching handicrafts, masonry, plumbing, auto and diesel mechanics.
Lesotho	3	Establish program of general shop instruction; teacher training.
Liberia	5	Teaching and teacher training in vocation education.
Zaire	5	Teaching electricity theory and practice and auto mechanics.
Latin America/Caribbean:		
Eastern Caribbean area	2	Industrial arts teacher training.
Jamaica	20	Do.
Nicaragua	10	Teaching trade skills in vocational education schools.
NANEAP:		
Afghanistan	13	Do.
Fiji	6	Do.
Iran	24	Do.
Korea	6	Teacher training, teaching trade skills in vocational schools.
Morocco	17	Teaching trade skills in vocational education schools.
Thailand	8	Teaching and curriculum development in vocational education, secondary schools.
Tunisia	14	Teaching and curriculum development in vocational education, secondary schools.

SKILLED VOLUNTEERS

Mr. CONTE. What was the number of skilled volunteer requests from host countries last year?

Mr. PEREZ. Close to 60 percent of the requests from countries I think we would place in that skilled category, Congressman.

Mr. CONTE. But how many?

Mr. PEREZ. Approximately between 4,000 and 4,500.

Mr. CONTE. How many were filled?

Mr. PEREZ. Of those I recall from memory that perhaps close to 60 percent were filled, sir.

Mr. CONTE. What would you consider to be a reason for the difficulty in obtaining skilled volunteers, for that 40 percent that you didn't fill?

Mr. PEREZ. The difficulties are here in the United States, sir. There are insufficient numbers of applicants with the requisite skills who are available for overseas work. Our biggest problems, for instance, are in finding agronomists.

Mr. CONTE. Do you have a recruiting program? I know you did have a good recruiting program in this area.

Mr. DELLENBACK. May I speak briefly to this?

This is again one of the major things that we are looking at very hard. The recruiting is in a separate office under ACTION. It is not part of Peace Corps per se. It is the Office of Recruitment and Communication, ORC, that is conducting an extensive recruitment operation which is constantly going on, reaching out more and more broadly, Mr. Conte.

I personally am not convinced that the numbers of skills among people who are willing to give of those skills are not present out there. We are just never satisfied that we have tapped the maximum, because I am just not persuaded myself that in a Nation the size of this one, 215 million Americans, if we do the right thing, if we get the message out

there, that we can't increase that number, and meet those needs that are being requested of us.

Mr. GANLEY. To add to that, Mr. Conte, we have changed our recruiting techniques. In the past we worked the campuses, and now we are going more to direct mail and to associations. We are going where the people are whom we need to recruit.

Mr. CONTE. You wouldn't find skilled people on campuses?

Mr. GANLEY. No, sir, you wouldn't. We are going more to direct mail. We have got some experiments going and we are beginning to see some results, but the fact is that as you go to different recruiting techniques, the cost of recruiting goes up, and we are trying to keep those lines from intersecting at too high a point.

IMPROVEMENTS IN RECRUITING

Dr. BALZANO. Mr. Conte, without intending to embarrass the former Assistant Director for Recruitment and Communications who is here, Mr. Gerevas, I would add that one of our greatest recent success stories has been the overhaul of the recruiting system, a system that was developed in 1961 and had been left virtually untouched until last year.

In the last year alone we have decreased the applicant processing time and lowered our recruiting cost by at least $2.5 million. We have increased the fill rate and as a result of the recent reorganization we will be able to process applicants in still less time which I'm sure will result in fewer complaints to the Congress.

We think this is going to impact on attrition too, because the longer an application is in processing and the more ambiguity there is regarding an assignment, the more you are going to have a volunteer arriving at a situation that is ambiguous.

Mr. CONTE. I have violated my time limitation, Mr. Chairman.

Mr. PASSMAN. You may have more time, Mr. Conte.

Mr. CONTE. I will come back, Mr. Chairman. I have many more questions.

Mr. PASSMAN. Mr. Chappell?

Mr. CHAPPELL. I am sorry that I came in late.

It is good to see our colleagues here at the table with us.

Mr. DELLENBACK. Thank you, Mr. Chappell.

PEACE CORPS ROLE IN THE THIRD WORLD

Mr. CHAPPELL. Mr. Director, let me ask how many of the third world nations are engaged in the Peace Corps program.

Mr. GANLEY. May we submit the exact number for the record?

Mr. CHAPPELL. If you don't have the exact number, do you have the listing for us here?

Mr. GANLEY. Yes, sir, we do.

[The information follows:]

If you define Third World nations as being developing nations then all of the 68 countries in which Peace Corps has volunteers are Third World nations.

Mr. CHAPPELL. Can you enumerate by country which ones of those countries have voted with the United States on world matters?

Dr. BALZANO. No, we would not be able to do that.

Mr. CHAPPELL. Have you not made any study of that?

Dr. BALZANO. No, we have not.

Mr. CHAPPELL. Why have you not? Don't you think it is important that we spend U.S. dollars in a way which is most beneficial and useful to this country?

We should look at the record of the United Nations, and also the other programs where these Third World nations don't actually have a vote. If my information is correct, these are countries which, first of all, have no capacity to defend their own borders and which have no standing forces that could be of any great assistance to us.

They, on the one hand, kick us and fuss at the things we do and, on the other hand, hold out their hands for every kind of assistance. It just seems to me that it is about time we had a good look at this situation. I am surprised to hear you people say you hadn't even taken that into consideration in recommending where these funds are to be spent.

Mr. GANLEY. Sir, I think if we might just make this answer: we work very closely with the State Department, but the State Department has the responsibility for policy guidance, and we, the Peace Corps, historically have not followed a practice of doing that which you have suggested.

As I say, we have taken our lead from the State Department.

Mr. CHAPPELL. Can you point to an instance where any of these Third World countries, once our Peace Corps organization has been in there for a period of time, has changed its attitude toward this country?

Mr. DELLENBACK. May I speak to that?

Mr. Congressman, if by that you mean votes in the United Nations, no, we haven't made that kind of a survey. Even though I have not been aboard very long, I know in looking back at it and talking to those who have been, that that is not the kind of a look that the Peace Corps has made. Under the statute that created the Peace Corps, it didn't set that up as one of the goals.

The Congress when it created the Peace Corps talked in terms of aid to these countries which were underdeveloped and needed help in bringing them along, and it talked in terms of carrying an American message in the sense of relationships and explaining to those countries what America was like and, third, bringing back the impact of those cultures and what those people are like into America.

The Congress itself in creating purposes didn't reach for that kind of thing.

Mr. CHAPPELL. I understand that and I appreciate that, but it seems that somewhere along that line some of that information must have been collected as we rolled the programs in there. We must have had some kind of an impression as to whether these Peace Corps dollars were doing any good or whether they were not.

I was just hoping for some positive proof of a country that has in any way changed its attitude. I think it would be very beneficial at the proper time, Mr. Chairman, to have before this committee the proper representative from the State Department who has the input into where these dollars go, to show us what good these dollars are doing in these third world nations.

Mr. GANLEY. Mr. Chappell, we would like to give you an analysis of that for the record if you will permit, sir.

Mr. CHAPPELL. Rather than have it for the record, I would like to request that at some early moment we might have them back before

us. This way we can talk to them about it, rather than just have something in black and white that is not subject to examination.

Mr. PASSMAN. If the gentleman will yield, inasmuch as they passed the blame or credit completely over to the State Department and I think you have positively said you followed the policy of the State Department, we had better ask State Department officials some direct questions on it.

You have named some of the nations that have been recipients of U.S. aid but their attitude toward us seems to be hardening in many instances rather than softening.

Mr. CHAPPELL. No question about it.

Mr. PASSMAN. It looks like without exception, or with very few exceptions, that our foreign aid has been a dismal failure.

[Discussion off the record.]

Mr. CHAPPELL. I would like to refer to page 5.

Mr. GANLEY. Sir, may I respond?

Mr. CHAPPELL. Yes, sir.

Mr. GANLEY. I would like to point out that we feel the attitude is not hardening in the third world so much that it is forcing us into a competition. While I can't state here at this table whether we are keeping somebody else out of a country, I can say that in certain countries in the third world where we are active, Ethiopia being an example, some of the other countries that we never refer to as having volunteers, such as the Russians, and the Chinese, and Japanese have not been able to get in, or stay.

How much the Peace Corps can take credit for that I don't know, but obviously we have had some success there. The other folks haven't gotten volunteers in for any period of time.

Mr. CHAPPELL. We are into a funny kind of colonialism aren't we? We are in a race with the Soviets as to who can go in there with a new type of colonialism or new type of imperialism, as the Soviets would call it. We are in a contest to see who can do a better job in a new kind of colonialism, and gain in influence in those areas, aren't we?

On page 5 of your statement you say "A recent survey of American attitudes toward foreign assistance reported that 88 percent of those polled considered the Peace Corps effective, outranking all other organizations covered by the survey."

You likewise say:

> In a recent radio poll sponsored by the Government of Liberia, listeners voted the Peace Corps as the most outstanding international organization serving Liberia in 1974, and over 95 percent of rural respondents placed Peace Corps first.

We are talking about developing nations, developing countries. I would like to see the surveys, Mr. Chairman, and would like to have them placed in the record. I would like to know the type of survey that was made, the questions that were answered and what types of people were polled. I would like to see this for both of these surveys.

Mr. PASSMAN. Without objection, it will be placed in the record at this point.

[The information follows:]

> The Overseas Development Council concluded a survey of American attitudes on global poverty and development. ("World Poverty and Development: A Survey of American Opinion," by Paul A. Laudicina, Overseas Development Council Monograph No. 8, October, 1973.)

A group of experienced public opinion analysts, community organizers, and development educators was consulted on the content of the questionnaire in the early stages of the survey project.

A sampling expert then prepared the survey's nationwide sample, with a base of 1,200 respondents each for the youth and general populace samples. In the selection of the sample, a stratification technique was applied to 1970 census data to insure that the cross-section of the public would be proportionately representative not only on a geographic basis but also by size of community. Interviews lasted from 45 minutes to 1½hours,[1] averaging just over 1 hour per interview.

For a more complete description of the sample methodology, the aforementioned publication includes four annex sections, totaling 27 pages, including:

A. Survey Questionnaire and Record of Responses of National Population Sample.

B. Survey Sampling Technique.

C. Sampling Error and Statistical Significance Tables.

D. The Sympathy and Information Indices.

Of particular interest were the summary observations and the results of questions on the channels of foreign assistance.

Americans also hold some strong opinions about the inefficiency of the aid bureaucracy and corruption in aid programs. A remarkable 91 percent of the public (96 percent of those over age 50) agree with the statement that too much of our foreign assistance is kept by the leaders of poor countries and does not get to the people. Eighty-six percent of the public agrees that too much foreign aid is wasted in our own bureaucracy and never finds its way abroad.

Despite the fact that official U.S. Government assistance to the poor countries has been declining in recent years, American voluntary aid has been increasing. Given the importance of such voluntary efforts, the survey sought to examine public attitudes on some of the non-governmental programs of foreign assistance. The list of 10 organizations on which respondents' views were solicited was not intended to be all-inclusive. Rather, the 10 groups were selected because it was thought that the public would be familiar with most of them as well as because of their different approaches to development assistance. Generally, those organizations thought to be helping underdeveloped countries most effectively are also most favored to receive U.S. assistance. Apparently, the public considers those organizations with the highest public visibility to be the most effective.

Of the organizations listed, respondents judged the Red Cross, Peace Corps, CARE, and UNICEF to be most effective in helping people in underdeveloped countries. Given the public's demonstrated bias for direct, people-to-people assistance, this finding was hardly surprising. The somewhat lower rankings of the YMCA/YWCA, private foundations, U.S. corporations, and the World Bank was probably not an indication of nagative disposition, but a result of the public's unfamiliarity with the overseas work of such organizations.[2]

23a. Here is a list showing different groups that help people in underdeveloped countries. For each group mentioned on the list, do you think the job it does is helping people in under-developed countries is very effective, only somewhat effective, or not effective at all?[3]

[In percent]

	Very effective	Somewhat effective	Not effective	Not sure
Peace Corps	50	38	6	6
Religious groups	33	48	13	6
World Bank	11	30	16	43
YMCA/YWCA	18	39	18	25
United Nations	29	43	17	11
U.S. Corporations	15	45	19	21
CARE	50	37	5	8
Private foundations	17	46	15	22
Red Cross	51	33	10	6
UNICEF	38	34	7	21

[1] Overseas Development Council, Monograph No. 8, Op. cit., page 3.
[2] Op. cit., page 47.
[3] Op. cit., page 106, Annex A. Survey Questionnaire and Record of Responses of National Population Sample.

23b. It has been suggested that the U.S. Government should give more of its foreign assistance money to organizations like the ones on this list and give less money directly to the countries. Do you feel that the U.S. Government should give the money directly to the governments of the countries themselves?[3]

	Percent
Give money to organizations	57
Give money to countries	22
Not sure	21

23c. If the U.S. Government did decide to give more foreign assistance money to organizations like those on the list, which two or three organizations would you favor the most for receiving money?[3]

	Percent
Peace Corps	57
Religious groups	29
World Bank	6
YMCA/YWCA	8
United Nations	13
U.S. corporations	3
CARE	46
Private foundations	6
Red Cross	46
UNICEF	1
Not sure	5

On January 1, 1975, Liberia's local television and radio stations announced that the U.S. Peace Corps in Liberia had been awarded the honor of "Most Outstanding International Organization for 1974."

The concept of this award program was initiated by the Government of Liberia's Ministry of Information and Cultural Affairs. The implementation of the concept and the polling of the Liberian people were conducted by the Liberian Broadcasting Co.'s (ELBC) radio and television networks. For 2 months prior to January 1, listeners and viewers were asked to write in votes including appropriate comments regarding their selections. To assure a broad cross-section of rural and metropolitan votes, the stations also employed direct mailings to community leaders in the rural areas via the nine county superintendents' offices. (It should be noted here that superintendents are to Liberia as Governors are to the United States.) In addition, staff broadcast translators traveled throughout the country promoting the "election" thus optimizing the chances of a heavy poll. It is interesting to note that the program staff at the ELBC are particularly proud of the way in which the poll was conducted. As the director of ELBC commented: "We were able to keep politics out of it this way, since we just had no way of responding to pressure from the ministries."

Although the exact number of votes was never tallied, estimates range in the tens of thousands with the best estimate between 50,000 and 75,000 votes cast. ELBC's director said that "95 percent of the letters from the rural areas mentioned the Peace Corps." In view of the fact that Peace Corps' involvement in Liberia is 80 percent rural based and has been at this level since our input began in 1962, we are extremely proud of this indication of acceptance by the Liberian people.

The positive community reaction at the time of the award was strong and continues to be strong to this day. The volunteers and staff continue to receive congratulations from every section of the Liberian society.

Mr. PASSMAN. Mr. Koch?

Mr. KOCH. I also want to congratulate the Peace Corps for its perspicacity in taking on John Dellenback, an old friend and very able colleague. He will do you much good.

Notwithstanding that, I do have some questions.

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[3] Op. cit., page 106, annex A. Survey Questionnaire and Record of Responses of National Population Sample.

While I come to this hearing as Mr. Obey indicated he does, with a general good impression of the Peace Corps over the years, there are some disturbing situations that I would just like to explore with you.

When for the first time did you decide that you ought to consider whether we should continue aid to Iran, considering its financial condition? Can you pinpoint that in time for us?

Dr. BALZANO. I can speak for myself, sir. The first time I did——

Mr. KOCH. I am referring to the agency. Even if your predecessors considered this matter, you are responsible.

Dr. BALZANO. I hope that doesn't carry through in every case.

Mr. KOCH. When for the first time did the Peace Corps examine the question of whether aid should be continued to Iran, based on its financial condition?

Mr. PEREZ. About 6 months ago we began a very close look at the programs and alternatives in the case of Iran.

Mr. KOCH. Do you know how long Iran has had a favorable balance of trade?

Mr. PEREZ. No, sir, I don't.

Mr. KOCH. Do you think it is important to know?

Mr. PEREZ. Yes, sir, it is.

Mr. KOCH. How is Iran characterized in terms of its development? Is it underdeveloped or developed?

How is Iran described in that lexicon?

Mr. PEREZ. It is described close to a developed state among developing nations.

Mr. KOCH. Are there many that are more developed in terms of dollars and cents, and the ability to spend them today, than Iran?

Mr. PEREZ. No, not many, sir.

Mr. KOCH. Would you say it is really one of the richest countries in the world?

Mr. PEREZ. No, sir, I would not say that.

Mr. KOCH. You would not?

Mr. PEREZ. No.

Mr. KOCH. Will you tell me five that are richer?

Mr. PEREZ. Five richer?

Mr. KOCH. Yes.

Mr. PEREZ. Among developing nations?

Mr. KOCH. No, the whole world, five that have more moneys available to them than Iran.

Mr. PEREZ. Several of the European nations, the United States of course.

Mr. KOCH. You will list the five in the record. Maybe you will get five. I am not sure you will get 10.

[The information follows:]

It is difficult to identify the richest countries of the world because of the different definitions that are applicable to the term "rich" and because of the different value systems affecting a consideration of "richness."

The common utilization of gross national statistics gives some macroeconomic insights which can seriously distort a nation's actual well-being especially with-

out the availability of data on income distribution and a country's age profiles. As in all statistical gathering, accuracy and timeliness of data varies greatly throughout the world and among institutions.

A recently published survey by the Union Bank of Switzerland listed the following ten leading countries in terms of 1974 gross national product per person.

1.	Kuwait	$11,000
2.	Switzerland	7,270
3.	Sweden	6,840
4.	Denmark	6,800
5.	United States	6,595
6.	Canada	6,340
7.	West Germany	6,215
8.	Iceland	5,955
9.	Norway	5,820
10.	France	5,390

A recent Fortune magazine article (May, 1975) discusses the international economic upheavals that are so complex to understand that new definitions of comparative economic strength of nations are needed. The author observes that despite their vastly increased financial wealth, many oil-rich developing nations are doomed to remain poor in other ways for years or even decades. The majority of their people will have low output and correspondingly low incomes and standards of living, and that illiteracy and backward technology will remain commonplace.

Mr. KOCH. The point I am making is that Iran is surely one of the richest countries in the world.

Is that a fair statement?

Mr. PEREZ. I will agree with you, sir, yes.

Mr. KOCH. If that is true, then the reason that you have not discontinued the program, according to your discussion with the chairman, is that there is an intangible that you like to review that makes it necessary for us to keep programs.

Dr. BALZANO. That is right.

Mr. KOCH. What is that intangible?

Dr. BALZANO. My point to the Chairman was that one of the goals of Peace Corps is to provide opportunities for cultural interchange.

Mr. KOCH. Describe that intangible, cultural exchange. What does that mean?

Mr. BALZANO. It is probably one of the most difficult questions that can be asked, because you ask for the description of a process which helps build character, citizenship and understanding.

Mr. KOCH. Amongst the Iranians or amongst our people?

Dr. BALZANO. Both.

Mr. KOCH. So the reason that we are spending how much in Iran——

Dr. BALZANO. $1,457,000.

Mr. KOCH [continuing]. Is to build character and citizenship amongst our American young people who go there. Is that a fair statement?

Dr. BALZANO. In the spirit of cultural interchange, yes.

Mr. KOCH. When you examine this question, we come to Mr. Chappell's very penetrating questions. He asks if this good character, friendship and other intangibles to which you allude can be reflected in incidents that have occurred—and I don't necessarily mean votes in the U.N.

I know intangibles are hard to see but sometimes you can see the results of it.

Can you point to something that we can look at and say that is the intangible?

Mr. DELLENBACK. May I comment briefly on that?

We can reach into some of the correspondence, and I was trying to find some of it here, where I know that we have heard from such countries as Chile, where there has been an expression of gratitude and an expression on the part of officialdom.

Mr. KOCH. Which country is that?

Mr. DELLENBACK. Chile is one.

Mr. KOCH. Is that the best illustration, Chile?

Mr. DELLENBACK. No, we have the same thing from the Philippines, from Central Africa.

Mr. KOCH. I want to interrupt you, John, and because we are such good friends, I know you won't take umbrage. When you point to a military junta, Chile, expressing its thanks to the Peace Corps or you point to the Philippines which has a totalitarian government, expressing its thanks to the Peace Corps, should I assume those are great recommendations?

Mr. DELLENBACK. May I add Liberia and the Central African Republic and may I add a number more that we will be glad to supply when we reach into our files?

Mr. KOCH. It is interesting you led off with those two.

Mr. DELLENBACK. I led off with them because I am flipping through some letters I happened to have here. I came across those particular letters. I don't mean to sit in judgment of their particular form of government.

Mr. KOCH. I think you can sit in judgment if you are involved, and I think this Congress has a right to sit in judgment as to whether or not we will lend money, or grant assistance. Shouldn't that depend in part on the nature of the government? Don't you think that that is a consideration?

Mr. DELLENBACK. I think it is one of the factors that should be looked at as we go forward with this.

Mr. KOCH. I think that is very important.

Mr. CONTE. Will the gentleman yield?

Mr. KOCH. Yes, sir.

Mr. CONTE. I remember very vividly when our former colleague Harold Collier offered an amendment on the floor to cut off the Peace Corps in Chile when Allende was the head of that country. I fought it, and we won by a small margin. The Peace Corps was the only communication we had with Chile at that time. Yet because some Congressmen didn't agree with the philosophy of that leader they tried to knock out the Peace Corps.

Mr. KOCH. Let me make this point. I didn't happen to support Allende because I don't support any totalitarian government. The only distinction I make is that his government came in under a Democratic vote. The subsequent government did not.

Mr. CONTE. I am saying that we had Members of Congress who disagreed with his philosophy trying to knock out the Peace Corps in Chile. If you will look at the Congressional Record, you will find that debate.

Mr. KOCH. It is always a question of balance. I am not personally in support of any totalitarian governments whether on the right or

the left. I don't distinguish between totalitarian governments but I just want to pursue this question of Iran.

Would you be distressed if this committee established certain economic criteria which required that when a host country attained a certain financial status, that country would pick up the bill or the Peace Corps would leave?

Do you have objection to that?

Dr. BALZANO. I would hope that if such an amendment were made, that it would at least allow us some flexibility.

Mr. KOCH. Do you have any objection to that, that principle?

Dr. BALZANO. Mr. Koch, I think if you examine the record of the last 2 years, you will find a number of instances where the Peace Corps has discussed pulling out of some of these countries.

Mr. KOCH. But you are still in Iran.

Dr. BALZANO. Yes.

Mr. KOCH. You just considered Iran 6 months ago. That is what you told us, and to the best of my knowledge Iran has been in a really solid financial condition for a number of years.

Why does it take so long, and the Peace Corps is still there?

Dr. BALZANO. There are projects.

Mr. KOCH. I have no other questions.

Mr. PASSMAN. Thank you, Mr. Koch.

Mr. EARLY. Thank you, Mr. Chairman.

I am curious. Could the committee be given some type of a breakdown as to what the Peace Corps is spending in each country?

Dr. BALZANO. Yes; it has been provided.

Mr. EARLY. I have no other questions.

Mr. PASSMAN. Thank you, Mr. Early.

U.S. FOREIGN AID ACCOMPLISHMENTS

So many times we use our imagination to establish results, but when we get right down to the serious examination, it is most difficult to put your finger on anything that we have accomplished with foreign aid other than a lot of nice folks who have been in a lot of countries abroad. At least that is the way I feel, and I think I am quite charitable and I try to be understanding, but we have always been able to push this program more or less because there is just something about it that attracts people when you say Peace Corps.

Had this program been known by some other title, it would have been altogether different.

What I want to do is establish for the record that whatever we appropriate we have to borrow the money. I think you agree when you were a member of the House you had to shoulder a lot of responsibility in the past. We referred to Ethiopia earlier. Haile Selassie was head of Ethiopia for many years. That government was overthrown a few months ago as I understand it. He is under house arrest. I just wonder about the new government.

How do they feel about the United States? Are they supporting us in the United Nations on these tight votes, or are they voting against us? Could you answer that question?

Mr. DELLENBACK. Mr. Chairman, I can't answer the question as to how they are supporting us or not supporting us in the United Nations if that is the direct question.

Mr. PASSMAN. Isn't that very important policy-wise? If we have imparted information, you would think that occasionally we would be able to point to some good maybe resulting in the United Nations. We have had a lot of very tight votes there where we needed votes very badly.

Mr. DELLENBACK. Mr. Chairman, I really don't mean to debate it with you at great length, but I would like to make this comment on your question because I think your question is basically a good question.

It seems to me that if we took the total matter of the foreign policy of the United States, consisting of everything the State Department did, everything AID does, every kind of foreign aid program or foreign assistance program, including the Peace Corps, we can make a judgment on the package, but if you separate out a given program, and in this instance we are dealing with one program, the Peace Corps, which dollar-wise is one of the reatively small ones, and saying that program should be held responsible for everything that happens in the earlier foreign policy——

Mr. PASSMAN. I didn't put it in that context.

Mr. DELLENBACK. It isn't a good judgment.

Mr. PASSMAN. I want to some day, somewhere, somehow, in some way, put my finger on at least one little accomplishment that we have been able to get out of the Peace Corps.

You talk about a little money. Let us go back to the record. Actually through fiscal 1975 the Peace Corps has received $1,218 million. This is just one spigot, but when you put all of them together, we find that all the disbursements including the interest have been $269 billion.

Now we go to Thailand. I have been there many, many times, and I was somewhat shocked the other day to learn that Thailand said that we could no longer be trusted and they had no confidence in us. I believe you remember reading that and they have asked us to get out.

The accusation is far more serious than what hit the press. We are now asked to get out of Thailand. With Cambodia gone and Vietnam gone, the Philippines is also beginning to get touchy about the U.S. presence there.

If we are going to measure the value of these programs by what has been accomplished, then I think we are on the minus side. It just looks like our foreign policy is caving in all over the world.

I am not blaming only the Peace Corps, but you have to place the blame collectively. You people say that you are imparting knowledge about the United States and what we stand for and you get knowledge from them, but it doesn't seem to be getting any favorable results because our foreign policy is in a very bad state at this time.

Mr. DELLENBACK. I think we are in a desperately serious position internationally, Mr. Chairman.

Mr. PASSMAN. We have tried to make money do things that it was never intended to do. As I mentioned earlier, I would rather deal with money. Any man can use his imagination as to what has been accomplished, but let's look at the facts of life.

Mr. DELLENBACK. Mr. Chairman——

Mr. PASSMAN. Let me finish, if I may.

I am looking at a public debt today of $517 billion. When I came here it was $259 billion. The dollars that I saved when I came to Congress today are worth 34 cents. My Government has legally confiscated 66 percent of my savings through inflation.

The increase in the public debt during my tenure in the Congress just about equals what foreign aid has cost us.

[Discussion off the record.]

Mr. PASSMAN. If we may deal specifically with countries, let's take Thailand. If they mean what they say, that we cannot be trusted and they want us to remove our personnel, what will be your position in Thailand if we withdraw from that country? What is going to be your position?

Dr. BALZANO. Our position will be that we will have a consultation with the State Department.

Mr. PASSMAN. I appreciate your frankness. In reality, some of these questions should be directed to the people who come before this committee from the State Department, should they not?

Dr. BALZANO. They certainly could be answered jointly.

Mr. PASSMAN. You don't usually do these things jointly. I believe you have yielded to the State Department on almost every important question today, so we will question them at the proper time. I want to ask you this question if I may, Mr. Director.

Where are we going and where are we going to stop?

As we all know, foreign aid is not declining. It is increasing, but it is being channeled into international organizations.

You put new labels on it, but as far as the grand total, foreign aid is not declining. If anything, it is increasing.

Where are we going? Are we going to try to bring these things under control, even though according to your interpretation it is of value?

Aren't we, somewhere along the way, going to have to cut down on all foreign aid spending to bring it under control?

Mr. DELLENBACK. Mr. Chairman, if I may.

Mr. PASSMAN. Yes.

Would you comment on that?

Mr. DELLENBACK. Yes. I think we are going to have to look at all Federal spending, and I think that that will clearly embrace all foreign aid spending.

Mr. PASSMAN. Let's look at foreign aid first and then get back to domestic programs. Your own household is your responsibility. You look after your neighbor when you take care of your own household.

Let's talk about foreign aid. That is the difference between the present public debt and the public debt when I came to Congress.

Do you recommend that we try to cut down foreign aid?

Mr. DELLENBACK. Yes, I do, but not across the board and not cutting the same percentage out of every program in which cuts are made.

Mr. PASSMAN. Nobody has advocated that. You people come in with an increase. You don't come in with a decrease. You are up this year over last year.

Mr. DELLENBACK. That is correct. Our request is up, Mr. Chairman. What I am saying on that is this. If we look comparatively at expenditures within foreign aid——

Mr. PASSMAN. What?

Mr. DELLENBACK. Comparatively at various kinds of expenditures within foreign aid, and I don't mean to speak in derogation of any other kind of foreign assistance program, but I don't think you will find a single program that is more efficient in the use of dollars than the Peace Corps.

OVERHEAD COSTS

Mr. PASSMAN. What part of your total appropriation goes for overhead?

Mr. MARKHAM. Fifteen percent, Mr. Chairman.

Mr. PASSMAN. Don't you want to have a look at that before you close your case? You had better have a good look at that.

Do you have hearings of previous years? Let's just take our time and see what our overhead is.

Mr. DELLENBACK. While he is doing that, may I speak briefly, Mr. Chairman?

Mr. PASSMAN. Let's keep in mind this one question. He said 15 percent and he is one of your big auditors down there. Let's see what it is. I asked the question because you referred to it as being so efficient.

What page is that?

Mr. CHAPPELL. Pages 32 through 39, if I understand what the chairman is getting at. That is international operations staff.

Mr. PASSMAN. While they are looking for that, let me make this observation because we compare one program to another program.

Mr. DELLENBACK. Which is very difficult.

Mr. PASSMAN. Let's take the International Development Association, IDA. Let's see if this isn't correct. They started off at $61 million a year and they only wanted it for 4 years.

Do you remember those days? We gave it to them for 4 years. Then they moved up to $104 million a year for 3 years and we gave it to them. Then they moved up to $160 million for 3 years and we gave it to them. Then $320 million for 3 years. Again we gave it to them.

Now they are up to $375 million a year, I believe, for 4 years. What do we find? That the terms are 50 years with no interest, three-fourths of 1 percent service charge, but we make the money available on a basis of 50 years with no interest for the entire 50 years. Then you give them a 10-year grace period. None of the funds return to the U.S. Treasury, because it doesn't call for it. These are the things when you compare one against the other.

You will find that administrative support is 27 percent of the total Peace Corps budget. On page 776 of last year's hearings you will find the following exchange:

Mr. PASSMAN .What is the total budgeted amount for administration expenses in fiscal year 1975? Would you please tell the committee what percent these administrative expenses represent of the total Peace Corps budget for fiscal year 1975?

Mr. MARKHAM. Of the $34,877,000 budgeted for program support in fiscal year 1975, $22,259,000 is required for administrative support, including State Department shared administrative support expenses. This administrative support total is 27 percent of the total Peace Corps budget for fiscal year 1975.

You just threw out a guess of 15 percent. I don't want to be critical, but it would appear to me you ought to know more about your program.

This question follows your statement about the efficiency of the Peace Corps administration expense was 15 percent. Yet the record you testified to last year shows 27 percent.

Have I cited it correctly for the record?

Mr. MARKHAM. No, sir.

Mr. PASSMAN. Did you look at this?

Mr. MARKHAM. I am sorry I understood you to ask me what the overhead was.

Mr. PASSMAN. Administrative expense or overhead. What is the difference between administrative expense and overhead?

Mr. MARKHAM. The agencywide support costs that we talked to you about last year that are in the record include, for example, all recruiting of the Peace Corps. I don't think we would consider that an overhead expense.

Mr. PASSMAN. What is the overhead then?

Mr. CHAPPELL. I don't know what else it would be.

Mr. PASSMAN. You have a different interpretation than I do and I kept books for 25 years.

Mr. GANLEY. Mr. Chairman, I think we are involved with apples and oranges. I am sure you are not, but we are. We are talking about overhead in the sense that you and I understand it as accountants. Then we should throw in the value of the Peace Corps dollar, the volume of the service.

Mr. PASSMAN. Let's let the record speak for itself that your administrative expense is 27 percent.

Is that what you testified to last year?

Mr. GANLEY. Last year, yes, sir.

Mr. CHAPPELL. Mr. Chairman, I have to go to another subcommittee to make a quorum.

May I ask two questions for the record?

Mr. PASSMAN. Certainly.

Mr. CHAPPELL. With reference to the 71 countries listed on pages 56, 57, and 58, in the ACTION book I would like to ask that you supply for the record how many and which ones of those countries have attended at least one of the third world conferences sponsored by Castro and some of the other Communists.

Mr. DELLENBACK. We will supply that for the record.

[The information follows:]

Peace Corps is a people-to-people program whereby we attempt to focus our program resources, specifically the volunteer, at the community rather than the national level. Our own experience indicates that Peace Corps volunteers have caused a favorable change or implanted positive attitudes towards America and Americans among the people with whom we have worked.

The nature of the Peace Corps' operation and the Peace Corps' mandated mission precludes our involvement in international politics and thus the data-gathering and analysis of other nations' voting activity in such forums as the United Nations or attendance at "third world" conferences is not undertaken by Peace Corps.

We are requesting assistance from the State Department in addressing these queries, and we shall provide their replies immediately upon receipt.

VEHICLE PROCUREMENT POLICY

Mr. PASSMAN. I notice on page 39 of your justifications that you plan to replace 38 vehicles in fiscal 1976.

You go on to say that the vehicles will be purchased in the United States whenever possible.

Why aren't all the vehicles purchased in the United States?

Mr. PEREZ. Many of the vehicles, sir, are found to be very expensive if purchased in the United States.

Second, in several of the countries in which we serve, there would be no replacement parts and no maintenance available for that type of vehicle, sir.

Mr. PASSMAN. You know that frightens me.

Have you people been so disassociated with the policies and principles of the United States that you can tell this committee that once of the reasons is that they are more expensive to purchase in the United States?

You know why they are more expensive, don't you? Because we have a foreign aid program of some $10 to $11 billion annually, and that has to go into the cost of the vehicles. What if you do have to pay more? Wouldn't it be to the advantage of the American economy for you to buy all these vehicles in the United States, even though the cost was a little more? You talk about not being able to get parts. You could certainly have parts shipped, could you not?

Mr. PEREZ. Yes, sir, that is possible, at extremely higher costs.

Mr. PASSMAN. Gentlemen, I think we are going to write in the bill, and I hope you will agree with me, that all vehicles must be purchased in the United States.

As we sit here today and talk we are losing our markets. I think that our imports are skyrocketing. U.S. automobile manufacturers are closing down more factories. If we may pursue it a bit further, I note that you indicate the average cost per vehicle would run around $5,250.

Could you tell the committee why there is such a large per unit cost?

Mr. PEREZ. Mr. Chairman, the nature of our vehicles, they are these heavy-duty vehicles, four-wheel drive vehicles, and they, as an average cost, run around $5,000.

Mr. PASSMAN. You have $5,250.

Where do you propose to buy vehicles other than in the United States?

Mr. PEREZ. It is decided on a country-by-country basis, sir. It depends on what is available.

Mr. PASSMAN. Let's get the information. I don't want to quarrel with you, but you are so vague on these answers. You are bound to know. You are able to establish the cost at $5,250. You have to know the price of the vehicle and in what nations they are procured or you couldn't pinpoint this down to the exact dollar.

Don't you think we should know?

Mr. DELLENBACK. Mr. Chairman, the point Mr. Perez is making is that there isn't a flat single statement. They come from a given country.

Mr. PASSMAN. How did you arrive at the per unit price of $5,250? How could you arrive at such an exact figure if you didn't go to these countries to get the price of the automobiles?

Mr. DELLENBACK. That is the very point, sir. It is done on a country-by-country basis.

Mr. PASSMAN. Name one country you are going to buy cars from other than the United States?

Mr. DELLENBACK. Some Italy, some Japan, some France, some Germany.

Mr. PASSMAN. In other words, you purpose to buy automobiles from several other foreign countries while the automobile manufacturing plants in this Nation are shut down and people are unemployed and on welfare; is that correct?

Mr. DELLENBACK. But you see the decision would be made in the country where the purchase was to be acquired where it could be done most efficiently.

Mr. PASSMAN. Let's see if we can't make a record. A lot of the automobile plants in this country are closed down, isn't that correct?

Mr. DELLENBACK. Certainly.

Mr. PASSMAN. And you have thousands of the workmen unemployed, do we not?

Mr. DELLENBACK. I am sure that that is the case.

Mr. PASSMAN. I believe they are having to live on welfare or some kind of a handout during that period.

Mr. DELLENBACK. I am sure that there is a great deal of unemployment compensation.

Mr. PASSMAN. Wouldn't it be to our advantage even if you paid a little more to buy those automobiles from the United States?

Mr. DELLENBACK. Mr. Chairman, we would be glad to run an estimate for the committee of what additional amounts of money would be expended if that were to be the case.

Mr. PASSMAN. What if you found it less?

Mr. DELLENBACK. Any time we found it less we would want the purchase made that way.

Mr. PASSMAN. What kind of automobiles are you buying?

Mr. DELLENBACK. Land Rovers among other things.

Mr. GANLEY. Four-wheel drives.

Mr. PASSMAN. Are all of your automobiles four-wheel drive?

Mr. GANLEY. A lot of them.

Mr. PASSMAN. How many?

Mr. GANLEY. Most of them are.

Mr. PASSMAN. What four-wheel drive automobiles are you buying in America?

Mr. GANLEY. Jeep Wagoneer.

Mr. PASSMAN. What is the price of it?

Mr. DELLENBACK. About $6,000, Mr. Perez says.

Mr. CONTE. Oh, no. You can buy a Jeep——

Mr. GANLEY. This is the big Jeep, Mr. Conte, with four-wheel drive.

Mr. DELLENBACK. We are talking about delivered price in the country involved, Mr. Conte. We are not talking about here.

Mr. PASSMAN. Do you have a Peace Corps program in Japan?

Mr. DELLENBACK. No.

Mr. PASSMAN. If you buy automobiles in Japan, you may have to ship them to Iran.

Mr. DELLENBACK. It wouldn't be a case of buying them in Japan. It would be a case of buying them in Afghanistan if the delivered price was lower.

Mr. PASSMAN. Somebody has to pay for the shipment of that automobile from Japan to Iran.

Mr. DELLENBACK. Right.

Mr. PASSMAN. Just think—thousands of people are unemployed, automobile plants are closed down, and you people are considering buying maybe Jeeps or automobiles of some kind in Japan and shipping them to Ethiopia or Iran.

Mr. DELLENBACK. We would not buy it in Japan. We buy it in the country involved at the delivered price in the country.

Mr. PASSMAN. Most are manufactured in Japan and shipped out. They don't have many assembly plants in Ethiopia or Iran.

Mr. DELLENBACK. In some they can ship them there and sell them at a delivered price which is lower than any other price in that place.

Mr. PASSMAN. The freight has to be added and the freight from Tokyo to Iran could be higher than the freight from the United States to Iran; is that true?

Mr. DELLENBACK. I suspect that is true but with freight with the delivered price involved, it is often lower than if we were to buy an American product.

Mr. PASSMAN. Do you know why? We are spending money we don't have for things we don't need trying to be everything to everybody on borrowed money so naturally you create inflation and our prices have to go up.

What if we write into the bill a provision that all automobiles or vehicles must be procured in the United States? Could you live with it?

Mr. GANLEY. No, sir.

Mr. PASSMAN. You may have to.

Mr. GANLEY. May I tell you, sir, why we couldn't?

Mr. PASSMAN. Yes.

Mr. GANLEY. Because in some places we may have one or two vehicles. We would be the only American vehicles in that country, in that area. We just couldn't get the spare parts. We couldn't keep them going because there is no way you could keep those going.

Mr. PASSMAN. How do you know you can't until you try?

Mr. GANLEY. Because we have tried, sir.

Mr. PASSMAN. You can get spare parts overnight, can you not?

Mr. GANLEY. No, sir.

Mr. PASSMAN. Then possibly in 3 days you could get parts.

Mr. GANLEY. No way.

Mr. PASSMAN. By air express?

Mr. GANLEY. No way.

Mr. OBEY. I would like to get parts for my car in 3 days.

Mr. GANLEY. You are living in the United States, Mr. Obey.

Mr. PASSMAN. You can get air freight to Iran from here in about 3 days, can't you?

Mr. GANLEY. We are not talking about Iran. It is not the only country.

Mr. PASSMAN. Any other country. You are making an excuse to take hard earned American money to buy automobiles from other countries when the automobile industry here is in bad shape.

Mr. GANLEY. Mr. Chairman, the only case we are making before you is to administer this bill the best way we can.

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Mr. PASSMAN. I am for that but I don't know if you are succeeding. Where are you going to purchase these automobiles and how many under the present plan will be United States and how many foreign?

Mr. GANLEY. We will be glad to do that.

Mr. PASSMAN. I want it now.

Mr. GANLEY. I don't have it.

Mr. PASSMAN. You are asking for funds. It looks like you would be able to tell us.

Mr. GANLEY. A good point.

Mr. PASSMAN. How about fiscal 1975? Can you tell us?

Mr. MARKHAM. Seven American vehicles in 1975.

Mr. PASSMAN. How many foreign vehicles?

Mr. MARKHAM. Three out of the ten.

Mr. GANLEY. Ten, seven American and three foreign.

Mr. PASSMAN. How many are you going to buy in 1976, 38?

Mr. GANLEY. Yes, sir, 38.

Mr. PASSMAN. What are the ages of the vehicles that you are going to trade in or sell?

Mr. GANLEY. May Mr. Markham answer that?

Mr. MARKHAM. Mr. Chairman, the total vehicle fleet at the moment is 554 which is down from 634 last year. We have at the moment 40 vehicles as old as 1969. We have 73 vehicles as old as 1970.

Mr. PASSMAN. What is the average mileage on those vehicles?

Mr. MARKHAM. That I can't tell you, sir, but I will be glad to supply it for the record.

Mr. PASSMAN. Aren't you familiar with the Government regulation that they either be 6 years old or have 70,000 miles? Isn't that it?

Mr. MARKHAM. We follow those regulations, sir.

Mr. PASSMAN. But you couldn't answer my question.

Mr. MARKHAM. I can't tell you the specific mileage of these 40 vehicles, no, sir.

Mr. PASSMAN. How old are the vehicles that you are trading in?

Mr. MARKHAM. We will be trading in the older vehicles, sir, to buy new ones; 1968 or older.

Mr. PASSMAN. Will you place in the record at this point the total number of vehicles you have purchased in the past 6 years?

Mr. MARKHAM. Yes, sir.

Mr. PASSMAN. Do you have it with you?

Mr. MARKHAM. No, sir.

Mr. PASSMAN. Would you place in the record at this point the number of vehicles purchased and what country you purchased them from?

[The information follows:]

The following vehicles were purchased for Peace Corps overseas posts from fiscal year 1969 through fiscal year 1975:

Manufacturing country:	*Number of vehicles*
United States	234
France	85
Japan	67
Great Britain	62
Germany	19
Italy	6
Total	473

Mr. PASSMAN. You have a lot of American automobiles in most any country you go to, do you not?

Mr. GANLEY. Not all countries, sir.

Mr. PASSMAN. Haven't you had enough experience to be able to anticipate what spare parts you would actually need to operate these vehicles? Why don't you stick with American-manufactured automobiles? You should have a pretty general idea as to what the spare parts request would be, and you could have spare parts shipped for the automobiles.

You could do that by airfreight, could you not?

Mr. GANLEY. It would be a good idea, Mr. Chairman, but we are so small every place we are that we are not maintaining a vehicle fleet by ourselves. We are using somebody's garage down the street. That is what we are using, Mr. Passman. It is just not that easy for a Peace Corps person who is in a small town, who has one vehicle, and there is no garage in that town, to get it maintained because there is no depot. There is no capability to maintain it.

Mr. PASSMAN. Are you saying that having foreign vehicles is more advantageous to your program than American vehicles?

Mr. GANLEY. No, sir. What we are saying is that if the only vehicles in the town are foreign vehicles, and we have one vehicle, it is to our advantage and to the programs advantage to have a vehicle which can be maintained. That is all.

Mr. PASSMAN. Any way you take it, you are still justifying buying foreign vehicles to be used by the Peace Corps while we have automobile plants closed down and people out of work living on welfare in this country.

Mr. DELLENBACK. The only time that is done, Mr. Chairman, is when it is economically advantageous to the program to do it.

Mr. PASSMAN. How can it be economically advantageous? The reason we are higher is we priced ourselves out of the market on account of our generosity.

Mr. DELLENBACK. Because the only measure of economic advantage that we can control, sir, is the limited number of dollars that are available in that country to spend for a vehicle, if that is what is necessary.

Mr. PASSMAN. You are taking American dollars to pay for the vehicles, are you not?

Mr. DELLENBACK. Of course.

Mr. PASSMAN. Even if purchased abroad. We should take a look at that.

Dr. BALZANO. We will take a very close look at it.

Mr. PASSMAN. Could you place in the record the type of vehicle you plan to purchase? How many will be jeeps, and how many will be regular automobiles? Place that in the record, if you will.

Mr. GANLEY. Yes, sir.

[The information follows:]

Jeeps	16
Station wagons	12
Pickup trucks	6
Vans	2
Sedans	2

INCREASES IN PROGRAM SUPPORT

Mr. PASSMAN. On page 9 you indicate that $2,690,000 of the increase over fiscal 1975 is due to the result of program support costs caused by certain administrative restrictions.

Would you please explain this statement to the committee?

Mr. MARKHAM. Mr. Passman, there are three main reasons for the increase of $2.7 million.

Mr. PASSMAN. What?

Mr. MARKHAM. There are really three main reasons for that increase.

Mr. PASSMAN. Explain them, please.

Mr. MARKHAM. One is the increase in the operating costs of the staff. This is largely salary increases of two kinds, one for the extra 3½ months of the mandated pay raise of October 1974 that we have from the Congress and the other is the pay raises given to foreign service local employees around the world who work for the Peace Corps who have a lot of inflation in their own countries.

A second major reason for the increase is the bill for the shared administrative support for the State Department. We enter into agreements with the State Department in most of our 68 countries around the world for them to provide certain administrative support to us. They are providing them overseas and those costs have a lot of inflation associated with them, just like the rest of our costs.

The third, a smaller increase, is to do more evaluation. We were unable under the appropriation in 1975 to really do anything significant in our evaluation program. We are endeavoring to do more in that program in fiscal year 1976.

AVERAGE COST PER VOLUNTEER

Mr. PASSMAN. What is the average tour of a Peace Corpsman?

Mr. MARKHAM. Of a staff man?

Mr. PASSMAN. The average tour.

Mr. MARKHAM. An average volunteer usually serves about 24 months.

Mr. PASSMAN. What does it cost to recruit, train, and maintain the Peace Corpsman for 2 years?

Mr. MARKHAM. For 2 years?

Mr. PASSMAN. Possibly the first year would be more expensive because he has to be trained.

Mr. MARKHAM. The average cost——

Mr. PASSMAN. Give it to us by years.

Mr. MARKHAM. In 2 years it is $10,800. I am sorry, it is $20,000.

Mr. PASSMAN. $10,400 a year; is that correct?

Mr. MARKHAM. I am sorry, $10,796.

Mr. PASSMAN. $10,796.

Mr. MARKHAM. The fiscal year 1976 estimate.

Mr. PASSMAN. That is $21,000 plus for 2 years.

Mr. MARKHAM. Yes, sir.

Mr. PASSMAN. How many former Peace Corpsmen do you have recruiting people?

Mr. GEREVAS. 150.

COUNTRIES REMOVING VOLUNTEERS

Mr. PASSMAN. Evidently some countries where you have a Peace Corps program, the officials consider your help strictly borderline. I don't want to overplay this Peru story, but I believe all together for various reasons you have been asked to remove Peace Corpsmen I believe from 16 countries.

Mr. DELLENBACK. We have been in and out of 17 countries.

Mr. PASSMAN. How many?

Mr. DELLENBACK. Seventeen.

Mr. PASSMAN. Which is the last one?

Mr. DELLENBACK. Peru.

Mr. PASSMAN. Seventeen.

Mr. DELLENBACK. That is right.

Mr. PASSMAN. It would certainly indicate to some people that the United States thinks more of the Peace Corps than some of the people in the nations where you have them.

Peru asked the United States to have the American workers withdrawn as quickly as possible. They said that primarily agricultural development projects can be done just as well by Peruvians.

Do we accept that at its face value?

Dr. BALZANO. Yes.

Mr. PASSMAN. Thank you.

I quarrel with you a little bit because I thought Dr. Balzano was saying a prayer for me when he got down by my seat on the plane.

Dr. BALANZO. I am very careful where I pray.

Mr. PASSMAN. You bragged to me what a great job I did funding you at that level.

Dr. BALZANO. I thanked you for all your cooperation.

PEACE CORPS PROGRAM IN IRAN AND THE MIDDLE EAST

Mr. PASSMAN. Let's, if we may, go back to Iran briefly.

Why don't you give some thought to pointing out to Iran what you are able to accomplish for them, and ask them to reimburse you?

Mr. GANLEY. A good idea, Mr. Chairman.

Mr. PASSMAN. You do have funds in this year's bill for Iran of $1,457,000.

How much progress have you made towards getting these people to agree that they will reimburse you for these services or have you advanced that far with the negotiations?

Mr. GANLEY. Are you speaking strictly for Iran, Mr. Chairman, or all of them?

Mr. PASSMAN. Speaking of Iran now because they have billions of dollars accruing to their foreign exchange account that is surplus.

Mr. GANLEY. Would you like to speak to how far the negotiations are along and what we expect to do, Mr. Perez?

Mr. PEREZ. Mr. Chairman, we are currently continuing very active negotiations, and the indications are that Iran will be at least forthcoming with twice the amount of past host country contributions.

Mr. PASSMAN. Will be what?

Mr. PEREZ. That Iran would be forthcoming with at least twice the amount of last year's contributions.

Mr. PASSMAN. We are not interested in twice. If you get them to pay for the whole program we would be happy.

What do you mean twice? Are they going to give you $2.8 million?

Mr. PEREZ. No, sir.

Mr. PASSMAN. Let's talk specifically about the $1,457,000 that you have in your request for Iran.

Are you going to call for Iran to reimburse the Peace Corps for the $1,457,000?

Mr. PEREZ. No, sir. We have been asking them to support up to 100 percent of the volunteer costs in country.

Mr. PASSMAN. Let's go back again, because we are not communicating.

You are asking this committee to appropriate $1,457,000 for Iran, are you not?

Mr. PEREZ. Approximately so; yes.

Mr. PASSMAN. I believe Iran is able to absorb this expense themselves, are they not?

Mr. PEREZ. They appear to be so; yes, sir.

Mr. PASSMAN. Are you negotiating with them to reimburse us in cash for the $1,457,000?

Mr. PEREZ. Not for the total of it.

Mr. PASSMAN. How much of it?

Mr. PEREZ. For the support of all of our volunteers in country.

Mr. GANLEY. Mr. Chairman, as of right now, after our last quarterly review, it looks like we have a firm commitment for about $300,000 of that $1.4 million.

Mr. PASSMAN. Then you are not asking them to reimburse you for the entire $1,457,000. You are only asking them to reimburse you for $300,000; is that correct?

Mr. GANLEY. No, sir, I didn't say that. I said we had a firm commitment for the $300,000. We haven't given up on getting additional but we have a commitment.

Mr. PASSMAN. You have a commitment from them for $300,000?

Mr. GANLEY. Yes, sir.

Mr. PASSMAN. And that is their commitment out of their billions of dollars surplus, and on that basis if they don't yield, then are you going to go ahead and give them the $1,157,000? That is the difference.

Mr. GANLEY. No, sir. We haven't made that decision yet, sir.

Mr. PASSMAN. How do you feel at this point? Do you think you will say either come up with the other $1,147,000 or out we go?

Mr. GANLEY. We would prefer not to get into an either/or situation.

Mr. PASSMAN. You are talking to the committee that is going to recommend this money.

Mr. GANLEY. I realize that.

Mr. PASSMAN. We want to know what you are going to do.

Mr. GANLEY. I understand that.

Mr. PASSMAN. I sometimes wonder if you do.

Mr. GANLEY. I do.

Mr. PASSMAN. What will be your position if they say "No, as wealthy as we are, we are only going to give you the $300,000. Either you put up the $1,157,000 or no Peace Corps"?

Then what are you going to tell them?

Mr. GANLEY. I am not sure.

Mr. PASSMAN. You are not sure?

Mr. GANLEY. No, sir.

Mr. PASSMAN. We are not sure how much money we are going to give you either.

Do you have a program in any other countries in that area?

Mr. GANLEY. In Iran?

Mr. PASSMAN. No; that area, the Middle East.

Mr. GANLEY. Yes, sir.

Mr. PASSMAN. Do you have a program in Lebanon?

Mr. GANLEY. No, sir.

Mr. PASSMAN. Jordan?

Mr. GANLEY. No, sir.

Mr. PASSMAN. Israel?

Mr. GANLEY. No, sir.

Mr. PASSMAN. What countries out there do you have a Peace Corps program?

Mr. DELLENBACK. Tunisia and Morocco.

Mr. GANLEY. Afghanistan, and Bahrain.

Mr. DELLENBACK. Yemen and Oman.

Mr. PASSMAN. If you are in Iran with a program of $1,457,000, and let's say that the Iranians are in the same area, of technical aid for agriculture and they are spending we will say $4 million. They are spending that $4 million to help themselves, aren't they?

Mr. GANLEY. Yes.

Mr. PASSMAN. And, of course, then we are spending the $1,457,000 to help them, aren't we?

Mr. GANLEY. Yes.

UNOBLIGATED BALANCE

Mr. PASSMAN. Each year the Peace Corps indicates that they would have a very difficult time existing on the appropriations that are finally made available by Congress, but I note in each year the Peace Corps has had an unobligated balance available at the end of every fiscal year. Could you please tell the committee what unobligated balance you anticipate to be available as of the end of fiscal year 1975?

Mr. MARKHAM. We anticipate that there will be no balance unobligated as of the end of fiscal year 1975.

I would like to point out that for the 3 years since Peace Corps has been included in ACTION the amount in lapsed funds decreased considerably. In fiscal year 1972, $63,000 or eight-tenths of a percent were lapsed. In fiscal year 1973 and fiscal year 1974 $13,000 and $14,000 respectively or two-tenths of a percent were lapsed.

DISTRIBUTION OF VOLUNTEERS

Mr. PASSMAN. Peru asked the United States to withdraw all Peace Corps volunteers from her country because the work on projects could be done just as well by Peruvians.

Since this was true in Peru last year, could it not be true in other countries, and if it is the case, has the Peace Corps conducted a review to see if other volunteers could be withdrawn?

Mr. DELLENBACK. Peace Corps has begun a conscious redistribution of its limited resources against its anticipated level of appropriations and as a complement to this effort has been undertaking an energetic program to encourage the expansion of host country contributions fully recognizing the inflationary burdens that are affecting governments throughout the world.

Beginning with fiscal year 1976, Peace Corps scarce resource reallocation strategies can be viewed at regional levels and at sub-regional levels within the Peace Corps regions.

For instance, for fiscal year 1976 the Latin America/Caribbean Region traditional allocation of resources has been lessened and the Africa region traditional level increased. The NANEAP Region has been maintained relatively unchanged. although critical analyses currently underway may result in redistribution of resources to other higher priority alternatives.

AID TO FINANCIALLY ABLE COUNTRIES

Mr. PASSMAN. I note you plan to provide a program to Nigeria, Brazil, Ecuador, Venezuela, and Thailand. Could you please tell the committee why you are providing programs to these countries when they are in fairly good financial shape and probably could be able to finance the program on their own.

Mr. DELLENBACK. The question of Peace Corps priorities, and indeed, the presence of Peace Corps in any of our countries assumes valid programs, but must also be looked at in terms of the three Peace Corps goals mandated by the Peace Corps Act and the approaches by which Peace Corps seeks to achieve these goals.

The Peace Corps Act calls for the provision of manpower to developing countries and thereby the opportunity to enhance an understanding of the United States and in turn for us to return to the United States with a greater understanding of other countries' cultures and values.

The uniqueness of the Peace Corps goals is enhanced by the approach undertaken to achieve these goals. Peace Corps attempts to achieve its mandate through the efforts of a volunteer, who with rare exceptions serves individuals at the level of local or regional communities. The volunteer is the provider of a technical resource and at the same time serves as both a participant in and the recipient of a sensitive and enlightening intercultural experience. However difficult it may be. we should judge our performance and make our decisions with respect to all three Peace Corps goals.

On this basis we do not see a Peace Corps presence in countries such as Brazil, Ecuador, Nigeria, Thailand, or Venezuela as inappropriate, or contrary to the Peace Corps mission. On the other hand the resource level of Peace Corps effort in each of our host countries is very much a management issue.

To view macro-statistics in terms of per capita income or gross national product and conclude relative economic well-being is to lull us into facile conclusions. An analogy can be drawn to the relative economic well-being of our country and the underdevelopment of our urban ghettos, of Appalachia. of the rural South, of our native peoples and of our migrant streams. Gross statistics are misleading unless we

analyze and report these statistics against a range of income distribution, for instance, and an age profile.

For example, a casual statistical reading of the economy of Venezuela can be misleading and result in detrimental conclusions. It is perhaps an oversimplification to describe Venezuela as living on "borrowed time," but indeed it is. Venezuela has perhaps a generation left in which to invest income from its fast depleting (and nonrenewable) crude oil reserves in national development.

In viewing Venezuela's comparatively undeveloped interior, its urban concentration—especially in its capital city—and the character of its population with half its citizens less than 16 years of age, in light of its resources and needs, the short-term nature of Venezuela's economic well-being becomes painfully apparent.

Similarly, a statistical reading of the economy of a nation with the dynamism of Brazil can also be misleading, especially at those regional levels where Peace Corps' staff and volunteers commit themselves to serve. For instance, the majority of Peace Corps' much decreased program is focused in the poverty-stricken Northeast, which taken by itself would qualify as one of the ten poorest "nations" of the world.

In the case of Brazil and Venezuela, these are countries that have major developmental needs, but which have comparatively better opportunities to address these needs. Intensive critical appraisals of volunteer projects have concluded the desirability of maintaining an essentially agriculture and health program in the depressed areas of the Northeast and the Mato Grosso in Brazil. In the case of Venezuela similar assessments have concluded the desirability of maintaining Peace Corps support in three high priority program areas only; namely, municipal management development of small and mid-sized communities, physical education teacher training, and rural development focusing on agricultural extension and reforestation and nutrition and home economics education.

In the case of Ecuador, Ecuador has historically been one of the five poorest countries in Latin America in terms of per capita income, ranking with Paraguay, Bolivia, Honduras and Haiti. The wealth of the country has been, and still is, poorly distributed. The Ecuadorian National Planning Board estimates that better than half of the population lives outside the money economy. Of the economically active population, 7 percent absorb more than 50 percent of all income while 54 percent must content itself with 9 percent of all income.

Since mid-1972, Ecuador has been exporting increasing amounts of oil. The new revenue from petroleum can be interpreted in a number of ways. Statistically, there may be a marked rise in the per capita income in the years ahead, which may elevate Ecuador into the middle range of Latin America development. On the other hand, the oil revenues are also causing a marked increase in the rate of inflation, which is currently pushing 30 percent on an annual basis; such inflation has not been experienced in Ecuador for nearly 20 years and is already causing economic dislocation, resulting in even greater problems for the marginalized poor.

An important expectation of the impact of the new wealth is that at last Ecuador has the potential to capitalize on development opportunities. The question is how to utilize effectively this wealth in a country without sufficient infrastructure, without adequate technical expertise, and in the context of continuing poverty of the majority of Ecuadorians.

We feel that this is precisely where the role of the Peace Corps fits the needs of Ecuador in 1975 and in the future. In fact, the traditional role of volunteers in training host country nationals and building infrastructure might now be pursued with more effectiveness than ever before. Peace Corps programs that strained under the lack of host country financial support now possess great opportunities to accomplish much in a short period of time. The Peace Corps presence also offers an established network of volunteer technicians capable of absorbing and applying these new resources in a productive way.

A case in point is the rural electrification project in which volunteer electrical and mechanical engineers and electric linemen have participated since 1964. Hydro-electrification is now a national priority and the volunteers are in place to assist in the construction of new distribution lines, installation of new generating equipment and the maintenance of both. They often act as foremen, and in the course of their service train groups of up to 15 Ecuadorians, who will carry out primary maintenance functions once the planned system is in place by 1977. Other similar examples can be given.

Most importantly, for the Peace Corps and for Ecuador, we believe that the presence of volunteers in Ecuador enhances communication and understanding between our two countries. Peace Corps continues its role as an organization promoting indepth human contacts. This human touch in a time of worldwide economic and political tension and misunderstanding reaffirms the appropriateness of the Peace Corps volunteer role in Ecuador.

In the case of Nigeria, it is true that the Government of Nigeria presently has large revenue of money due to oil resources. This income is a recent development which has occurred since the end of the Nigerian Civil War. It should be noted that Nigeria's per capita income averages between $180 and $200.

Nigeria lacks the midlevel manpower needed to create an infrastructure so that the benefits of oil revenues via social programs will filter to the Nigerian populace. At this time this is how Peace Corps can best assist in the development of Nigeria by participating in providing American volunteers with the necessary technical expertise at this midlevel manpower area.

In the case of Thailand, Thailand is a poor country with a per capita income of approximately $226, based on 1974 data. This level of increase qualifies Thailand for inclusion in virtually any large list of countries needing foreign assistance.

At present (early 1975), Thailand has a significant amount of hard currency reserves ($1.7 billion) as a result of two factors:

1. Sharp rises in world agricultural commodity prices in the last three years, and
2. A high level of capital imports into Thailand from abroad.

Both of these factors are proving to be shortlived. Commodity prices are already falling. Rice for example is down by about one-third from last year. Capital imports will fall drastically, and remain low, until the situation in Southeast Asia becomes more stable.

Accordingly, the hard currency reserves, which represent only 5 months of imports, will in all likelihood dwindle without having had any appreciable and beneficial impact upon the level of poverty which exists in the country.

SUPPORT COSTS

Mr. PASSMAN. As you know, last year there was a limitation put on the direct support of volunteers in the amount of $44,500,000. Could you please tell the committee what effect this limitation has had on the Peace Corps during fiscal year 1975?

Mr. MARKHAM. Overseas operational travel was limited to emergencies only in the fourth quarter. Approximately 20 percent of staff vacancies were unfilled. The State Department's bill for shared administrative support will not be fully paid.

Mr. PASSMAN. What amount of your fiscal year 1976 budget request will be used for direct support of volunteers?

Mr. MARKHAM. $44,378,000 of our fiscal year 1976 budget request will be used for direct support of volunteers or 55 percent.

CONFIDENTIAL FUNDS

Mr. PASSMAN. Does the Peace Corps have any confidential funds available to the agency, and if so would you please indicate the amounts?

Mr. MARKHAM. There are no confidential funds in Peace Corps.

NEW ACCOUNTING SYSTEM

Mr. PASSMAN. The General Accounting Office has indicated that ACTION should design and operate an effective accounting system. Could you please tell the committee what efforts have been made to institute such a program?

Mr. BALZANO. ACTION has designed and will have in operation by July 1, 1975 a new accounting system which is in full compliance with GAO's guidelines and requirements. ACTION's official accounting principles and standards in conjunction with this system were accepted and approved by GAO on March 31, 1975. The new system will provide improved accuracy and speed of transmission of financial management.

TRAVEL COSTS

Mr. PASSMAN. Could you please tell the committee what the total fiscal year 1976 travel costs are estimated to be, and how this compares to the total travel cost in fiscal year 1975?

Mr. MARKHAM. I would like to submit for the record a chart which makes a comparison of fiscal year 1975 and fiscal year 1976.

[The information follows:]

	Fiscal year 1975 estimate	Fiscal year 1976 estimate
Volunteer international travel	$6, 264, 000	$7, 599, 000
Volunteer incountry travel	674, 000	673, 000
Washington staff travel	362, 000	420, 000
Overseas staff travel	1, 913, 000	1, 556, 000
Total	8, 493, 000	10, 248, 000

Mr. PASSMAN. Could you please tell the committee why this travel cost has increased by such a large amount?

Mr. MARKHAM. The comparison indicates a 21-percent increase over all categories. Fifteen percent of this increase is directly attributed to airfare price increases. The remaining 6 percent apparent increase results from cutting travel costs severely in fiscal year 1975.

Mr. PASSMAN. Do you plan to increase your travel mileage in fiscal year 1976?

Mr. MARKHAM. Yes, the travel proposed for fiscal year 1976 is projected on the need to provide adequate support of volunteers and to assign and return a greater number of volunteers than fiscal year 1975.

Mr. PASSMAN. What is the estimated travel mileage in fiscal year 1976 and how does this compare with fiscal year 1975?

Mr. MARKHAM. We do not program on a basis of miles traveled but on the necessity for each trip. For instance: volunteers assigned to posts will increase by 321 in fiscal year 1976; volunteers completing service will increase by 177 in fiscal year 1976; staff assignments will increase by 21, which is due to the deferred vacancies in staff positions in fiscal year 1975.

BALANCE OF PAYMENTS

Mr. PASSMAN. Could you tell the committee how much the Peace Corps contributes to our balance-of-payments deficit each year?

Mr. MARKHAM. In fiscal year 1975, it is estimated that the Peace Corps will contribute 44/100 of 1 percent of the U. S. dollar outflow.

SUPPORT STAFF

Mr. PASSMAN. What percent of the total support staff is located in Washington, D.C. and what has been the trend in this percentage since the inception of the program? Could you tell the committee the number of support personnel available in fiscal year 1975 and how this compares with 1974?

Mr. MARKHAM. Of the total 799 positions providing support to volunteers in fiscal year 1975 and 1976, only 129 or 16 percent of the positions are located in Washington, D.C. This compares with 22 percent in fiscal year 1974, 23 percent in fiscal year 1973 and 70 percent in fiscal year 1962, which was the first full year of Peace Corps operation.

SUSPENSION OF VOLUNTEERS

Mr. PASSMAN. Have you suspended any volunteers this past year because of misconduct?

Mr. DELLENBACK. Yes. This fiscal year we have suspended 23 Peace Corps volunteers for misconduct.

NUMBER OF COUNTRIES

Mr. PASSMAN. How many countries is the Peace Corps presently operating in and how many countries did you add in fiscal year 1975? Also, how many countries do you plan to add in fiscal year 1976 and what countries do you plan to withdraw operations from in fiscal year 1975 and fiscal year 1976, and for what reason?

Mr. DELLENBACK. The Peace Corps currently is operating in 68 countries. We concluded an agreement with the Government of Burundi in fiscal 1975 and expect to have volunteers in country in fiscal year 1976.

We are not certain how many countries might be added in fiscal year 1976, but active negotiations are underway with Haiti and active exploration will take place with Rwanda and former Portuguese colonies in Africa and possibly with Indonesia. Peace Corps withdrew from Peru in January 1975 and plans to phase out of India in fiscal year 1977 at the request of the Government which has decided that foreign volunteer assistance is no longer needed.

DROP-OUT RATE

Mr. PASSMAN. What is your present drop-out rate for all trainees?

Mr. DELLENBACK. Our trainee attrition rate is expected to drop to 12 percent during fiscal year 1975. It has been dropping gradually in recent years, from 15.2 percent in fiscal year 1972, and we are continuing to apply efforts so that it will drop below 12 percent in fiscal year 1976.

The drop in trainee attrition can be ascribed to our improvements in the selection process and our training program as well as to changes in motivation among the pool of potential volunteers. However, it must be realized that some attrition during training is not entirely detrimental. It represents a de-selection of certain trainees who would not be happy serving under the hardship conditions that a Peace Corps volunteer must endure. Also, it is less costly or detrimental to the program to have a trainee return than to have a volunteer request early termination.

TRAINEE ATTRITION, FISCAL YEAR 1972 TO FISCAL YEAR 1974

[In percent]

Fiscal year	Africa	Latin America	NANEAP	Overall
1972	12.1	16.8	16.5	15.2
1973	10.0	13.0	16.0	13.0
1974	13.0	12.7	13.1	12.0
1975 (estimate)	12.0	12.0	12.0	12.9

TOTAL PERSONNEL

Mr. PASSMAN. What will be the total number of personnel involved in the Peace Corps program for fiscal year 1976 and does this total also include contract people or consultants?

Mr. DELLENBACK. I will provide that for the record.

[The information follows:]

	Equivalent man years
U.S. staff (Washington)	129
U.S. staff (overseas)	216
Foreign local	454
Subtotal permanent staff	799
Volunteers	6,062
Trainees (3,750)	650
Subtotal volunteers and trainees	6,712
Training contractors (overseas)	286
Subtotal part-time staff	286
Total all types	7,797

AVERAGE COST PER VOLUNTEER

Mr. PASSMAN. What is the total average annual cost per volunteer for fiscal year 1976, and how does this compare with fiscal year 1975?

Mr. MARKHAM. The average annual cost of a volunteer is $10,180 for fiscal year 1975 and $10,796 for fiscal year 1976. This average annual cost is phased over a 27-month tour of service. It includes all costs direct and indirect of recruiting, training, and maintenance.

REPRESENTATION ALLOWANCE

Mr. PASSMAN. Would you please tell the committee how much is budgeted for fiscal year 1976 for representation or entertainment allowance, and how this compares to the last several fiscal years?

Mr. MARKHAM. The Peace Corps Act authorizes $5,000 per year for representation or entertainment allowance. Our budget does not show any specific amount budgeted for this year. In the past, Peace Corps has spent around $200 per year for these purposes.

NUMBER OF PROJECTS

Mr. PASSMAN. How many projects are presently being administered by the Peace Corps?

Mr. DELLENBACK. The following tabulation identifies 744 projects being undertaken by volunteers throughout 68 countries.

[The information follows:]

	Africa	Latin America-Caribbean	NANEAP	Total
Agriculture	85	135	37	257
Small business assistance	11	28	6	45
Education	76	122	40	238
Health	38	77	16	131
Urban development, public works	26	35	12	73
Total	236	397	111	744

ADMINISTRATIVE RESTRICTIONS

Mr. PASSMAN. On page 9, you indicate that $2,690,000 of the increase over fiscal year 1975 is due to the result of program support costs caused by certain administration restrictions. Would you please explain this to the committee?

Mr. MARKHAM. Congress made two decisions: (1) The appropriation was cut from $82,256,000 to $77,687,000; (2) we were required to obligate at least $44.5 million for direct support of volunteers.

In order to comply, we had to reduce shared administrative support, defer filling 80 percent of staff vacancies, and eliminate all but emergency travel. These are all actions affecting program support and they total $2,690,000.

INCREASE IN INTERN PROGRAM

Mr. PASSMAN. On page 15, you indicate that the intern programs will be increased by $222,000 above fiscal year 1975. Could you please tell the committee why this program has been increased by such a large amount?

Mr. BALZANO. There are a number of minor increases in intern contracts. For the record, I would like to provide a list of such increases:

[The information follows:]

$37.0—increased request for vocational education skills (Cal. State).
$65.0—Smithsonian contract will now cover four quarters; last years' contract covered for three fiscal quarters.
$50.0—new program for highly skilled health professionals.
$32.5—FARM.
$25.0—Teachers Overseas Program (TOP); both FARM and TOP increases are based on ORC field requests for moneys to provide for education and agriculture skills recruitment.
$12.5—covering recruitment for Ghana's request for specialized education skills and Chile's request for skill trades volunteers.
Total—$222.0.

Mr. PASSMAN. On the same page, you indicate that the cost of intern programs include medical coverage while they are in college, or is it medical coverage overseas?

Mr. BALZANO. The justification statement is in error. We have no current intern program which provides medical coverage.

Mr. PASSMAN. Could you please tell the committee why the average cost per intern trainee has increased by $280 over fiscal year 1975?

Mr. MARKHAM. In response to increasing host country requests for more scarce skills, we have had to increase the cost for many intern programs to fill these requests. For example, we estimate the average cost per trainee will increase from $988 to $1,268. The skilled trades will increase from $1,189 to $2,400. The Teacher Corps industrial arts will increase from $1,111 to $2,500. The math sciences will increase from $1,115 to $1,440.

INCREASE IN TRIPS

Mr. PASSMAN. On page 18 of the justifications, you indicate that the number of trips to host countries will increase by 321 over fiscal year 1975. Could you please tell the committee why these trips are increasing when you show that the volunteer man-years are going to decrease in fiscal year 1976?

Mr. MARKHAM. The trips to host countries are trainee input of that year, while the man-years of any fiscal year are the result of the trainee input 2 years prior. The man-years are going down because fiscal year 1974 had a large number of trainees who are now completing their service.

Mr. PASSMAN. On page 19, you indicate that the number of trips from host countries will also increase in fiscal year 1976. Is this because volunteers are becoming dissatisfied?

Mr. MARKHAM. No, sir; fiscal year 1974 had a comparatively high trainee input and the 2 years of service will be up in fiscal year 1976.

OFFICE OF FEDERAL EMPLOYEE COMPENSATION

Mr. PASSMAN. Would you please explain what the Office of Federal Employees Compensation does for Peace Corps?

Mr. BALZANO. Peace Corps volunteers are considered to be Federal employees under the Federal Employees Compensation Act. This entitles them to compensation under this act for any illness or disabilities that they may incur during or as a result of Peace Corps service. The Office of Federal Employees Compensation (OFEC) provides the same services and payments to Peace Corps volunteers that they would any other Federal employee.

MULTILATERAL VOLUNTEER PROGRAMS

Mr. PASSMAN. On page 28 you indicate that multilateral grants are funds given to the multilateral organizations to share the costs of volunteers from countries other than the United States and the Agency administrative costs. Would you please explain this program to the committee, and indicate why the Peace Corps should fund volunteers from other countries?

Mr. DELLENBACK. The Peace Corps Act was amended by the Congress in 1963 to encourage the development of, and participation in, international voluntary service programs and activities. This responsibility is carried out by the Office of Multilateral and Special Programs in International Operations which provides support to multinational voluntary activities, such as (1) The International Secretariat for Volunteer Service (ISVS); (2) United Nations Volunteers (UNV); (3) International Voluntary Service, Inc. (IVS); and (4) The Joint Volunteer Committee of Ghana (JVC/G).

Many industrialized and developing countries support multilateral volunteer programs. Currently the United Nations volunteer program consists of volunteers from 46 countries. Volunteers are serving in 41 countries. The industrialized countries support multilateral programs, both in the form of grants and volunteers.

As of February 1975: A total of 432 volunteers had become UNVs; 141 volunteers have returned home following their volunteer assignment. Eighty-five volunteers were en route to assignments; 206 individuals were serving as volunteers. Of these, 131 or 64 percent were from 19 industrialized countries and 75 or 36 percent were from 27 developing countries.

The United States represents 12 percent of the total and 20 percent of the volunteers from the industrialized countries. Of these only Ger-

many contributes more volunteers with 14 percent and 21 percent, respectively. The next highest contribution is by the United Kingdom with 6 percent and 10 percent, respectively. The Peace Corps does not provide direct support to volunteers from other countries. We do provide direct support in recruiting and transportation of U.S. Volunteers serving in the United Nations program. These volunteers are considered to be Peace Corps volunteers under the Peace Corps Act.

EVALUATION COSTS

Mr. PASSMAN. On page 40 of the justifications you indicate the evaluation costs will increase by $298,000 in fiscal year 1976. Could you please explain this large increase?

Mr. BALZANO. The increased funds being dedicated to evaluation in fiscal year 1976 is a reflection of the fiscal year 1975 budget constraints arising from the late approval of our appropriations, as well as the restricting limitations; and the reorganization within ACTION, which combined Peace Corps, Domestic and Agency evaluation into one unit. While it is felt that, in the long run, this will provide for greater effectiveness and efficieicies, in the immediate term, it has taken time to implement and will provide for increased evaluation capability in fiscal year 1976.

In comparing fiscal year 1975 with fiscal year 1976, the following points should be noted. First, there will be an increase from 1 to 3 full-time permanent professional persons devoted to Peace Corps evaluation in the central evaluation office. Second, there will be an increase in activity from approximately a dozen project activities in fiscal year 1975 to 27 in fiscal year 1976. This, in turn, will result from our emphasis in two major areas: Conducting program and evaluations of a country-specific nature on a more regular and systematic basis and undertaking more special evaluative studies to examine critical issues pertaining to the future reallocation of resources over the next 5 years.

PUBLIC AFFAIRS

Mr. PASSMAN. On page 44, you indicate that the Office of Recruitment and Communications is responsible for agency public affairs activity. Could you please explain what some of these public affairs activities are, and what they are expected to accomplish?

Mr. BALZANO. The goal of the Communications Division is to inform and educate the American public concerning all part-time and full-time volunteer opportunities.

All media are used on a nonpaid public service basis. The only exception is paid classified ads in professional journals and publications designed to reach the highly skilled volunteers needed by Peace Corps and VISTA.

We have professional writers who produce a constant flow of stories about volunteers which are used by hometown media, and school and professional publications.

Our public information branch services inquiries from the American public. Inquiries are handled by our Wide Area Telephone service and by writing correspondents. The inquiries range from prospective volunteers to the casual inquirer.

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We also avail ourselves of the Advertising Council which provides creative services designed to help Peace Corps fill its recruiting and informational needs. Members of the advertising media provide free placement for all media productions.

Some of the activities produced by ACTION in conjunction with the Ad Council are—television and radio spots, print ads, billboards and direct mail campaigns.

One major function of ACTION Communications is response to the working press and other media correspondents. The nature and mission of Peace Corps generates many media inquiries demanding hundreds of man-hours in research and program liaison.

Though our information and advertising spots we hope to be able to attract more skilled and quality volunteers.

Mr. PASSMAN. Mr. Obey, would you take over for a while for me?

Mr. OBEY. Mr. Balzano, I have a number of questions.

First of all, Mr. Dellenback, you said something which frankly really bothers me. The reason I bring it up is because I think it relates to the attitude which the Peace Corps has toward the world or about the world. I think it determines what color glasses you are looking at the world through.

You said in response to the chairman you believed that we are in a "desperately serious situation internationally."

Do you really believe that?

Mr. DELLENBACK. I think we are in a very serious situation in the total matter of relationships, Mr. Obey, with all the nations of the world in the total picture. I don't mean that we, the United States, have an individual desperate relationship with each other country of the world but I think that the total picture is a very serious one, yes.

Mr. OBEY. I am frankly stunned by that statement, because I don't know of anyone whom I have talked to in government who agrees with it. I certainly don't share that view.

We have had a setback which has been traumatic to us as far as Vietnam is concerned, but as I look around the world, we aren't in a desperately serious situation. We have strains with the NATO countries. We have tensions in the Middle East, but I would say that in the main we are getting along better than we have in most periods since the end of World War II.

Our relations with the Russians are certainly not as bad as they have been on several occasions.

The only reason I bring it up is because I think if that kind of view is brought to the Peace Corps program, that it would have a tendency to put more of a burden on the Peace Corps than an operation like that could sustain even under the best of conditions.

I was just concerned to hear you say it.

Mr. DELLENBACK. If I may amplify a little bit on it, Mr. Obey, we have stopped armed conflict so far as American Forces are concerned anywhere throughout the world at the moment, and I think that is excellent. I think that is a step in the right direction.

I think at the same time if we look at the United Nations, we see very serious strains which have developed there. I think if we look at the matter of relationships with the U.S.S.R., we see a less desirable situation there than apparently existed in the relatively recent past.

I think if we look at the Far East, we of course see certain very serious strains that have existed there. I think if we look at the Middle East, we see a temporary cessation in hostilities there that I hope remains permanent, but which is straining, not because of our own direct relationship but because of the nations in that area, and we are close to being involved.

When we talk in terms of the seriousness of the worldwide situation, it is made up of a series of component parts like that.

If you talk in terms of conflict, then clearly not at the moment, and I think as I say, it is highly desirable.

Mr. OBEY. I just bring it up because if you are talking about serious situations, serious problems, obviously we have serious problems.

Mr. DELLENBACK. I will withdraw the word "desperate" and talk in terms of serious.

Mr. OBEY. That would make me feel a lot better.

Mr. DELLENBACK. I agree.

Mr. OBEY. Because I don't think it describes our situation at all.

Mr. DELLENBACK. We don't have to deal with the words. I would be perfectly willing to talk in terms of a serious situation, and I think it is a serious situation in a series of parts of the world.

DEFINITION OF ADMINISTRATIVE EXPENSES

Mr. OBEY. Let me ask on the chairman's question of administrative expenses, how do you define administrative expenses in a program like the Peace Corps?

Mr. MARKHAM. Mr. Obey, we have structured our budget to divide the direct support for volunteers, which includes the allowances that we pay volunteers and the things we buy for volunteers, from all of the costs of the staff, who also support volunteers.

Also, because we have an ACTION agency, we have a joint recruiting program in one organization recruiting volunteers both for the Peace Corps and for VISTA. That is a jointly shared cost. That is also included in our program support costs.

You can't have a Peace Corps program in any country without staff in that country, they manage the program. The staff includes doctors who give medical treatment to volunteers.

Mr. OBEY. I am not arguing that point. I am simply trying to get on the record what you do consider as being administrative costs as opposed to direct program application costs.

Mr. MARKHAM. We would include all of the Washington management costs which includes accounting, budgeting, the computer services, the general kinds of costs you would associate with administrative overhead.

Mr. OBEY. What costs would you not include as being administrative?

Mr. MARKHAM. We would not include recruiting costs. We would not include——

Mr. OBEY. Why wouldn't you include recruiting costs? I understand that they are not specifically under your operation because of the umbrella which ACTION has over you, but I still don't understand why you wouldn't include that as part of your cost of operation.

Mr. MARKHAM. We do include it as part of the cost of operation but we just wouldn't define it as administrative cost.

Mr. GANLEY. I think part of the problem, Mr. Obey, is some of us are looking at this thing from the GNA approach, the factory burden approach or another approach.

Mr. OBEY. My point is simply this. I don't care what you call it. What I want to know is what you consider to be the punch value which is in the Peace Corps program versus what all of your other costs are.

By the time you take recruiting and your Washington staff and other nonservice related costs, what percentage of the total pot is that, as opposed to the money which actually goes to volunteers for whatever they are doing?

Mr. GANLEY. The answer to your question if I may express it in numerical terms, it is a fraction, 20 over 80, which is roughly 25 percent, which is about the figure that was given to the chairman last year of 27 percent.

AUTOMOBILE COSTS

Mr. OBEY. On auto costs I would take a somewhat different view than the chairman. I would seem to me that if you are in an isolated area, where it is difficult to keep a vehicle in repair, that you would be foolish to try to buy an American product, but let me just ask you this.

I would like to know what your estimate would be as to the annual increase in cost if you were required to buy all vehicles of American manufacture.

Mr. GANLEY. With your permission, sir, we would like to supply that for the record. It is a little bit complicated, but I would like to say that there are two of us here who have a great firsthand knowledge, Dr. Hogan and myself. We traveled in Latin America for the Peace Corps 6 months or so, and we rode on American vehicles and we rode on non-American vehicles, and we rode on American vehicles that broke down, and we are quite knowledgeable of what happens when you try to get something fixed when the American vehicles are not serviceable. You know putting a grease seal on a four-wheel drive in Guatemala in an American Jeep just isn't going to happen.

Mr. DELLENBACK. May I ask a question?

Are you interested in knowing the acquisition or maintenance costs on an annual basis?

Mr. OBEY. Why don't you separate them, the acquisition cost differential and what you would estimate to be the maintenance cost as well.

Mr. DELLENBACK. We will be glad to do that for the record.

[The information follows:]

Peace Corps policy is to buy American made vehicles whenever maintenance and parts are available and the procurement cost is competitive. Recent economic changes have rendered the American-made vehicles more competitive. As this exhibit shows, most of our fiscal year 1976 procurement (from 32-36 vehicles) would be American:

ESTIMATED FISCAL YEAR 1976 PC VEHICLE ACQUISITIONS

Type of vehicle	Quantity	Foreign	Unit price	Total	American	Unit price [1]	Freight per vehicle	Total	Maintenance [2]
Jeep or equivalent	16	8 Landrover	8,650	69,200	8 Jeep	5,000	1,350	50,800	8,800
		4 Peugeot (204)	4,300	17,200	8 Cherokee	4,500	1,350	46,800	8,800
		4 Toyota SWB	4,950	19,800					
Station wagons	12	Peugeot	4,800	57,600	12	3,500	1,350	58,200	13,200
Pickup trucks	6	do	5,000	30,000	6	3,200	1,350	27,300	6,600
Vans	2	Toyota	3,600	7,200	2	4,400	1,350	11,500	2,200
Sedans	2		4,200	8,400	2	3,000	1,350	8,700	2,200
Total	38			209,400				203,300	41,800

[1] Average fleet price furnished by GSA.

[2] Maintenance, if done by State under SAS, is assumed same for foreign or American makes.

Mr. OBEY. I am going to vote.
[Recess.]

PEACE CORPS DEPARTURE FROM HOST COUNTRIES

Mr. OBEY. I have another question.

You indicated, Mr. Dellenback, that you were in and out of 17 countries.

Could you put in the record exactly what the circumstances were, and also just for a very short time explain what conditions have led you to leave those 17 countries?

Mr. DELLENBACK. We would be glad to. We actually put some such comment as that, Mr. Obey, into the hearings before the Subcommittee on Appropriations of the House in the 93d Congress, where we dealt with the summary and with the individual countries. All except Peru, because that is the one that was done since then, but we would be very glad to supply that for the record.

[The information follows:]

PEACE CORPS HOST COUNTRIES—FISCAL YEARS ENTERED, TERMINATED, REENTERED

	Entered	Terminated	Reentered	Net terminations
Africa:				
Botswana	1967			
Burundi	1974			
Cameroon	1963			
Central African Republic	1973			
Chad	1966			
Dahomey	1968			
Ethiopia	1963			
Gabon	1963	1968	1973	
Gambia	1968			
Ghana	1962			
Guinea	1964	1968, 1971	1969	1
Ivory Coast	1962			
Kenya	1965			
Lesotho	1968			
Liberia	1962			
Malawi (Nyasaland)	1963			
Mali	1970			
Mauritania	1967	1968	1972	
Mauritius	1970			
Niger	1962			
Nigeria	1962	1971	1973	
Senegal	1962			
Seychelles	1974			
Sierra Leone	1962			
Somali Republic	1962	1970		1
Swaziland	1969			
Tanzania (Tanganyika)	1962	1970		1
Togo	1962			
Uganda	1965	1973		1
Upper Volta	1967			
Zaire (Congo)	1971			
Total		8	4	4
Latin America:				
Barbados	1965	(1)		
Bolivia	1962	1971		1
Brazil	1962			
British Honduras (Belize)	1962			
Chile	1962			
Colombia	1962			
Costa Rica	1963			
Dominican Republic	1962			
Eastern Caribbean	1967			
Ecuador	1962			
El Salvador	1962			
Guatemala	1963			
Guyana	1967	1970		1

Footnotes at end of table.

PEACE CORPS HOST COUNTRIES—FISCAL YEARS ENTERED, TERMINATED, REENTERED—Continued

	Entered	Terminated	Reentered	Net terminations
Latin America—Continued				
Honduras	1692			
Jamaica	1962			
Nicaragua	1969			
Panama	1963	1971		1
Paraguay	1967			
Peru	1962	1975		1
St. Lucia	1962	(1)		
Uruguay	1963			
Venezuela	1962			
Total		4	0	4
NANEAP:				
Afghanistan	1962			
Arabian Peninsula	1973			
Ceylon	1962	1964, 1971	1968	1
Cyprus	1962	1964		1
Fiji	1968			
Gilbert-Ellice Islands	1973			
India	1962			
Indonesia	1963	1965		1
Iran	1962			
Libya	1966	1970		1
Malaysia	1962			
Malta	1971			
Micronesia	1967			
Morocco	1963			
Nepal	1962			
Pakistan	1962	1967		1
Philippines	1962			
Republic of Korea	1966			
Solomon Islands	1972			
South Pacific Commission	1972			
Thailand	1962			
Tonga	1967			
Tunisia	1962			
Turkey	1962	1972		1
Western Samoa	1967			
Total		7	1	6
Grand total		19	5	14

[1] Barbados and St. Lucia were consolidated under the Peace Corps administrative unit of Eastern Caribbean, which Peace Corps entered in fiscal year 1967. Also administered as a part of that same unit are Antigua, Grenada, Montserrat, St. Kitts-Nevis, and St. Vincent.

Ceylon

The Peace Corps suspended operations in Ceylon in June 1964, when the only group of volunteers to serve there completed its 2 years of service. AID assistance to Ceylon was suspended a year earlier, pursuant to the terms of section 620 (e) of the Foreign Assistance Act of 1961, as amended.

The volunteers had served as science, home economics, and physical education teachers. The Government of Ceylon, under the Prime Ministership of Mrs. Bandaranaike, did not ask for replacements for those volunteers nor for additional groups. The Ceylon-Peace Corps agreement, however, was not canceled, allowing Ceylon to invite the Peace Corps to reopen its program at a future date without the necessity of negotiating a new agreement.

In early 1967, under the Prime Ministership of Dudley Senanayake, the Government of Ceylon, under this original agreement, requested new Peace Corps volunteers to work in food production and rural community development. These volunteers arrived in Ceylon on December 12, 1967.

In 1970, Mrs. Bandaranaike again became Prime Minister, and the Peace Corps' role in Ceylon was terminated under circumstances similar to those of 1964. The services of other volunteer and development groups, such as the Asia Foundation, were terminated by Mrs. Bandaranaike's Government at the same time.

Cyprus

When hostilities broke out in Cyprus, it became impossible for volunteers to continue their work. Accordingly, Peace Corps withdrew all volunteers in February 1964, a few months before their normal termination. By the time hostilities stopped, their tour was up, and they were not reassigned.

The Peace Corps has considered the possibility of assigning new volunteer contingents to Cyprus, but in view of the unstable political situation, has taken no new initiative in this area.

Indonesia

The Indonesian program was terminated in May 1965, as a result of a mutual decision by Peace Corps and Indonesian authorities. Peace Corps initiated the action when it became impossible for volunteers to operate effectively in the face of the Indonesian Communists Party's campaign to harass and embarrass the Peace Corps and, if possible, force its withdrawal.

By April 1965, it had become apparent that the Indonesian Government could no longer guarantee the volunteers' safety. In the subsequent May withdrawal, there was mutual agreement that both Peace Corps and the Government of Indonesia would look forward to the time when volunteers could resume their service. The withdrawal was conducted on a friendly basis and was without incident.

Pakistan

Peace Corps closed out its operations in Pakistan in June 1967, when the last group of volunteers completed its tour of service. The first volunteer group arrived in Pakistan in 1961. That group and subsequent ones served in rural public works, agriculture, and education programs.

By September 1966, it was apparent that the Government of Pakistan did not intend to request additional volunteers. Pakistan said the reason for the phaseout was related to its then rising needs for highly skilled technicians and specialists, as opposed to the more generally skilled manpower Peace Corps was providing at that time. The deterioration of United States-Pakistan relations, following the 1965 India-Pakistan war and a reduction in U.S. economic and military assistance to Pakistan, might have been a major factor in the phaseout.

Gabon

In December 1967, the Government of Gabon, while expressing its appreciation for the work of Peace Corps volunteers, requested that the program be terminated by January 1968.

Gabon officials explained the action was necessary due to budgetary deficiencies that made it impossible to continue its local cost contribution to the AID-Peace Corps rural school construction project.

It was widely reported in the U.S. press that Gabon's decision was also influenced by French President Charles DeGaulle's policy to minimize U.S. influence and prestige in the former French colonies in Africa.

Since that time, however, new volunteers have been requested; and the Peace Corps reentered that country in fiscal year 1974.

Guinea

On November 8, 1966, President Sekou Toure of Guinea ordered the expulsion of Volunteers by November 15, 1966. At the same time, he complimented the Peace Corps for its contribution and sacrifice.

The President's action came as a culmination of a series of incidents that strained relations between Ghana and Guinea, one in which the United States was accused of complicity. That incident involved a Pan American Airways plane en route to addis Ababa that was making a routine stopover in Accra. Ghanians boarded the plane in Accra and ordered the Guinean delegation to deplane and held some Guineans as hostages. The United States was blamed for the incident, because Pan Am is an American company.

As a result, the U.S. Embassy residence was ransacked, Pan Am personnel were expelled, and eventually, private U.S. business interests, official U.S. personnel, and Peace Corps volunteers were expelled.

In June 1969, a highly trained group of Peace Corps volunteer mechanics was invited to Guinea. Those volunteers, however, were all withdrawn, following the November 1970 invasion, which resulted in Guinea's retrenchment of all foreign technical assistance programs.

Mauritania

During the Arab-Israeli conflict, the Government of the Islamic Republic of Mauritania, in order to show solidarity with other Arab states, on June 7, 1967,

broke diplomatic relations with the United States. The Peace Corps and official U.S. personnel were given 48 hours to leave the country.

Four years later, Mauritania requested a small volunteer poultry project. In September 1971, Peace Corps sent one volunteer who was followed by a second.

The country has requested more volunteers, but the program there will remain small.

Libya

In September 1969, a coup d'etat overthrew the monarchy of Libya; and, in October 1969, the Peace Corps program was terminated.

The volunteers, in the areas of education and health, had been a vital part of that country's development plans. As late as August 1969, Peace Corps officials and the Ministries of Health and Industries had planned to discuss new programs.

After the coup d'etat, however, the new Prime Minister criticized the instruction of foreign languages in primary schools; and, after dismissal of the first new Minister of Education, the elementary English program was abolished. A surplus of English teachers resulted.

With neither condemnation nor thanks, the Government of Libya terminated the Peace Corps program. Teachers for the French Voluntary Service who had taught in junior high schools, were similarly affected, as were numbers of Jordanian and Palestinian English teachers.

Somalia

On December 19, 1969, Foreign Secretary Omar Arteh announced the termination of volunteers in Somalia. The announcement came only 6 days after the Ministry of Education confirmed a request for 60 new volunteers.

In his official announcement, the Foreign Secretary said:

"While we are grateful to the U.S. Government for having sent us the Peace Corps to assist us in the education field, the Supreme Revolutionary Council has on the other hand decided that the Somalia Democratic Republic should dispense with the services. * * *"

Peace Corps volunteers were replaced by Egyptian personnel, an action indicating that political considerations probably played a major role in the termination.

Tanzania

Tanzanian President Nyerere often expressed to U.S. officials his appreciation for the contributions made by volunteers of ongoing Peace Corps projects. Following his public plea for "self-reliance" and "Africanization," however, a slow phaseout of the Peace Corps program was allowed to occur. The last volunteer completed his service there in October 1969.

Tanzanian officials did not request the Peace Corps program to leave that country, but simply did not request replacement groups. The Government was careful not to state any official reason for allowing the program to phase out.

Guyana

Peace Corps programs in Guyana were phased out in June 1971, as a result of an October 1970, decision by the increasingly nationalistic government to terminate all foreign volunteer programs. This action was consistent with the Government's policies on foreign aid, national self-sufficiency, and non-alignment; and, it was not seen as an unfavorable reflection upon Peace Corps' activity there. In fact, a number of Peace Corps volunteers were requested to remain there on Guyana Government contracts in order to continue the work they had been doing as volunteers.

Nigeria

In February 1969, it became clear that the Nigerian Government did not intend to request additional volunteers; and, by December 1970, all projects were phased out. Nigeria's decision reflected a policy of encouraging the replacement of foreign voluteer teachers by Nigerians. Underlying the decision were political considerations. Although official U.S. policy supported the Nigerian Government during their civil war with Biafra, the Nigerian Government reacted unfavorably to the widely publicized private efforts in the United States on the behalf of secessionist Biafra. Both the extended duration of the war and the fact that

volunteers had been assigned to the Biafran region made the continuing existence of the Peace Corps in Nigeria difficult.

Two years later, however, in a calmer political environment, the Nigerian Government requested new volunteers. Presently, a small group of volunteers serve in Nigeria.

BOLIVIA

In June 1971, Bolivian President Juan Torres asked that volunteers be withdrawn. The action came following a Leftist propaganda campaign to discredit the Peace Corps as a form of American imperialism." Widely circulated unsubstantiated press reports, such as an accusation that volunteers were CIA agents, brought great pressure on the Bolivian Government to take action against the Peace Corps. The Government's official announcement of the program's termination, however, acknowledged the contributions made by volunteers and thanked Peace Corps for its work there.

In August 1971, the government of Juan Torres was deposed by a coup d'etat. The new President, Hugo Banzer, has stated his interest in reestablishing a program in Bolivia, but, to date, no official action has been taken.

PANAMA

On February 12, 1971, Foreign Minister Juan Antonio Tack announced that all Peace Corps volunteers would be terminated from Panamanian service in 90 days. Following that announcement, Tack stated:

Panama has decided to end the Peace Corps agreement with the United States because we can enlist Panamanian and international volunteers to do the same things as the Peace Corps is doing.

In Panama, Peace Corps had encouraged development of a national volunteer program and utilization of international volunteer groups. Therefore, Peace Corps viewed the new directions in volunteer service, announced on February 12, 1971, as an indication that the Peace Corps had been successful in its developmental efforts in Panama.

The foreign minister and other government officials made it clear that the request to withdraw Peace Corps volunteers from Panama was in no way related to any existing anti-American feelings.

TURKEY

In the spring of 1970, Peace Corps began to close down its program in Turkey. The last volunteer terminated his service in August 1971.

This action was taken following the civil unrest and student strikes of 1970. Although unrelated to Peace Corps projects, these activities so disrupted the volunteers' working environment that fulfillment of project goals became impossible.

The Turkish Government, however, never requested withdrawal of volunteers, nor was the Peace Corps-Turkey agreement ever canceled. To date, no formal request for volunteers has been forthcoming.

UGANDA

By December 1972, all volunteers had been evacuated from Uganda due to Peace Corps' concern for the volunteers' safety.

Earlier, volunteers had been able to function despite political unrest; but, the outbreak of hostilities between Uganda and Tanzania made it virtually impossible to continue.

PERU

On November 4, 1974, the Government of Peru expressed its decision to terminate the 1962 Exchange of Notes which provided for the services in Peru of Peace Corps volunteers. The government explained that henceforth it would use its own resources to perform the desired tasks, and therefore, the services of the volunteers would no longer be necessary.

Peace Corps was given until February 4, 1975, to complete its operations. During the closeout period, conditions in Peru remained calm. The 36 people who were in training at the time of the announcement were brought back to the United States by mid-November, and all 101 volunteers had left Peru by the end of December. More than half of these volunteers sought alternate assignments in other countries.

Mr. OBEY. What has been the basic reason for your exodus?

Mr. DELLENBACK. I suppose the simplest single phrase would be the political situation. But sometimes we deal with the economic situation. In country after country, Gabon, for example, although they expressed their appreciation, they asked that Peace Corps be terminated in January 1968. They said it was necessary due to budgetary deficiencies. At that time they asked that we leave.

Since that time, they asked that we come back in again, and Gabon is one of those 17 which we left but which we are back into again, and so on down the line.

In Nigeria we recall the situation where the Biafran secessionist movement had rather strong support in some parts of the United States domestically. When that movement was put down, there was a request by Nigeria that we eliminate programs there. That was a second country where 2 years later when it had calmed down a little politically they requested new volunteers and we are back in again.

I think you might say it is that kind of political situation, coupled with certain situations where it is the economy that predominates as the reason.

Mr. OBEY. Mr. Chappell asked you to put certain information into the record concerning the countries listed on pages 56 through 58 in the justifications.

Mr. DELLENBACK. Right.

GROSS NATIONAL PRODUCT OF PARTICIPATING COUNTRIES

Mr. OBEY. Would you also supply at that same point in the record, an indication of what the per capita GNP of each of those countries is?

Mr. DELLENBACK. Of all of the countries on those pages, Mr. Obey?

Mr. OBEY. Yes.

Mr. DELLENBACK. Or the ones that Mr. Chappell inquired about?

Mr. OBEY. Do it for all of them.

[The information follows:]

GNP per capita (in U.S. dollars)—Africa

1. Botswana	$240
2. Cameroon	200
3. Central African Republic	160
4. Chad	80
5. Dahomey	110
6. Ethiopia	80
7. Gabon	880
8. Gambia	140
9. Ghana	300
10. Ivory Coast	340
11. Kenya	170
12. Lesotho	90
13. Liberia	250
14. Malawi	100
15. Mali	80
16. Mauritania	180
17. Mauritius	300
18. Niger	90
19. Nigeria	130
20. Senegal	260
21. Seychelles	330
22. Sierra Leone	190
23. Swaziland	260
24. Togo	160
25. Upper Volta	70
26. Zaire	100

Source: World Bank Atlas, 1974—figures as of 1972.

GNP per capita (in U.S. dollars)—Latin America

1. Belise	$670
2. Brazil	530
3. Chile	800
4. Colombia	400
5. Costa Rica	630
6. Dominican Republic	480
7. Eastern Caribbean:	
Antiqua	430
Barbados	800
Grenada	420
Montserrat	(1)
St. Kitts	410
St. Lucia	420
St. Vincent	270
8. Ecuador	360
9. El Salvador	340
10. Guatemala	420
11. Honduras	320
12. Jamaica	810
13. Nicaragua	470
14. Paraguay	320
15. Venezuela	1,240

[1] Not available.

Source: World Bank Atlas, 1974—figures as of 1972.

GNP per capita (in U.S. dollars)—North Africa, Near East Asia, and Pacific

1. Afghanistan	$80
2. Bahrain	670
3. British Solomons	210
4. Fiji	500
5. Gilbert and Ellice Islands	490
6. India	110
7. Iran	490
8. Korea	310
9. Malaysia	430
10. Malta	950
11. Micronesia	410
12. Morocco	270
13. Nepal	80
14. Oman	530
15. Philippines	220
16. South Pacific Commission	(1)
17. Thailand	220
18. Tonga	320
19. Tunisia	380
20. Western Samoa	150
21. Yemen	90

[1] Not available.

Source: World Bank Atlas, 1974—figures as of 1972.

GNP per capita (in U.S. dollars)—20 highest countries

United States	$5,590
Sweden	4,480
Canada	4,440
Switzerland	3,940
Denmark	3,670
France	3,620
Germany	3,390
Norway	3,340
Belgium	3,210
Australia	2,980

GNP per capita (in U.S. dollars)—20 highest countries—Continued

Netherlands	2,840
Finland	2,810
Israel	2,610
United Kingdom	2,600
New Zealand	2,560
Austria	2,410
Japan	2,320
Czechoslovakia	2,180
East Germany	2,100
Puerto Rico	2,050

Source: World Bank Atlas, 1974—figures as of 1972.

PEACE CORPS AND PRIVATE ORGANIZATIONS

Mr. OBEY. Could you tell me what has the effect of the Peace Corps been on private organizations like the Quakers, who are operating in some of those same places around the world?

Mr. DELLENBACK. I am less able to deal with that because you are dealing with an experiential thing.

Mr. Perez, are you able to talk to that?

Mr. PEREZ. Peace Corps volunteers have collaborated with a number of small private voluntary agencies together in behalf of a specific host country, agency or institution.

Mr. OBEY. In what ways? Can you give us some examples?

Mr. PEREZ. A recent example, for instance, in response to a disaster situation, the hurricane in Honduras, in which Peace Corps together with CARE worked on food distribution.

Mr. OBEY. How about on a nonemergency basis? Do you generally work with volunteer private groups or not?

Mr. PEREZ. It depends on the host country agency itself and the requests that they have made, but there are some joint agricultural extension projects, for instance, in which again CARE and Peace Corps are collaborating together in behalf of the agricultural ministry of a country.

DECISIONS ON PROJECT FUNDING

Mr. OBEY. You have referred to the State Department quite a few times.

Who really decides in your mechanism where you will locate a Peace Corps project? Where is that decision made?

Mr. GANLEY. A Peace Corps project as opposed to a Peace Corps country, Mr Obey?

Mr. OBEY. Who decides which countries you will be working in?

Mr. GANLEY. The Peace Corps decides that, but we generally consult with the State Department.

Mr. OBEY. And what does that mean?

Mr. GANLEY. It means that at the bureau level that one of the regional directors from Peace Corps, and they are all here today, will talk with the assistant secretary or the desk. Basically, that is what it means.

Mr. OBEY. Have you ever located in a country which the State Department has advised against?

Mr. GANLEY. Not to my knowledge. Does anybody know?

Mr. PEREZ. I am not aware of any, sir.

Mr. DELLENBACK. Mr. Perez has been very active for almost 5 years in the Peace Corps, and it is his feeling that he cannot recall any such countries during that period of time.

PEACE CORPS PROGRAMS IN CRITICAL SECTORS

Mr. OBEY. You mention on page 10 of Mr. Balzano's statement: "We have begun to shift more of our volunteer resources into such critical program sectors as food production," and then you indicate that you have gone this year from 21 to 23 percent. That would hardly be a significant trend.

Mr. GANLEY. It would be a 10-percent increase just taking 2 from 20 percent. It would be a 10-percent increase over what it was last year.

Mr. OBEY. I go to your statement on page 21. You say, "We are now in the midst of a major forecasting and planning exercise which will allocate an increasing proportion of Peace Corps resources to those program sectors where the greatest need exists including food production," et cetera, et cetera.

When did you start additional emphasis upon food production?

Mr. PEREZ. Sir, during the course of this past year we have been elaborating upon our long-range planning, trying to identify how Peace Corps could best address some of the major concerns of the world, as modest as we are.

What page 10 is attempting to say here is that in anticipation of this we are already beginning to see for fiscal year 1976 a shift of our limited resources into these program sectors such as agriculture and health.

Mr. OBEY. My point is simply that if you just began this last year, it was late because it has been at least 3 years since it has been obvious that world food reserves were declining rapidly. There continue to be serious potential food production problems, what with changes in climate and all the rest worldwide. It would just seem to me this is a little late in shift.

Mr. PEREZ. Sir, what we have to focus on is the kinds of resources that are available to Peace Corps, in other words, the Peace Corps volunteer and the difficulties we have had over the past few years in acquiring volunteers that are available to serve in agricultural programs.

In recognizing that limitation, what we have done over the last few years is experiment with new training approaches which make available to us volunteers capable of serving in the agricultural field.

That in a sense might be the response from the supply side. The other approach would be the request of the host countries to which we respond. They have been showing over the last few years, and we anticipate that this will increase, a greater interest in Peace Corps participation in the agricultural sector.

Mr. DELLENBACK. There is in addition to that, Mr. Obey, something of a built-in delay, because once we start a program and are continuing it in a given country, if they decide that in the year ahead or the year beyond that they would like us to change in emphasis, we must build that delay into what we do.

I don't say this by way of excuse because I agree with you that I think that area of concern has been apparent for quite some time, and

I think that our reaction is more delayed than it might otherwise have been, but I think that those factors to which Mr. Perez spoke and to which I spoke are part of the reason why already it is showing up in percentages, but to show up in the percentage that we are talking about for fiscal 1976 we had to reach back several years behind.

PEACE CORPS PROGRAMS IN LATIN AMERICA

Mr. OBEY. On page 24 of the statement it says, "The number assigned to Latin America represents a decline of about 16 percent primarily because of expected decreases in requests from Brazil and Venezuela attributed to other developmental alternatives available to them."

I can certainly understand why you would have a decline in areas like Brazil and Venezuela, but it would also seem to me that we have a more direct national interest in what happens in Latin America than we have in most places in Southeast Asia or, for that matter, in many parts of Africa.

Do you expect, in future years, to see this deemphasis of Latin America continue?

Mr. DELLENBACK. I don't know. I do know that in looking back at what has taken place, I have been informed that the nature of sophistication of the system and the development of the systems in Latin American lands is more advanced than is the situation in a continent like Africa, for example.

We are finding that in Latin America the requests are for more and more highly sophisticated volunteers, where skills are at a very high level, sometimes the premium level, whereas while there is an increase in the level of skill that is requested in a continent like Africa and many of the countries therein, the skill level is not at the same great height.

We are finding the need as measured by that subsistence to be even higher in the African countries on the average than in the Latin American countries.

We are finding also from the standpoint of average per capita incomes that the average per capita income of the Latin American countries is oftentimes considerably higher on the average than in the African countries.

This kind of factor has entered the picture so far as what has been done, and the way that we look at the needs insofar as those factors represent needs and our capacity to supply against those needs.

Probably there is going to be pressure to reach further and further toward continents like Africa. If we have total resources that are adequate, I think it can be done without a decrease in our supply.

Mr. OBEY. I would be interested, since you have mentioned your long-range plans, in knowing, if you could supply for the record, what you think is likely to be Latin America's share of the Peace Corps program 4 or 5 years down the line. I am frankly not enthralled with the idea of having a little project everywhere in the world just to be involved everywhere in the world, because I think you run a great danger of spreading yourself too thin, and don't have the impact that you could otherwise have.

Mr. DELLENBACK. We will be glad to supply a speculative input for the record, Mr. Obey.

[The information follows:]

The Peace Corps is currently undergoing a long-range forecast of needs and Peace Corps response strategies in anticipation of submission of a 5-year plan to the Office of Management and Budget this forthcoming September.

For the shorter term we are projecting redistribution of Peace Corps limited resources between the regions. For instance, for fiscal year 1976 the Latin America/Caribbean region's traditional allocation of resources has been lessened and the Africa region traditional level increased. The NANEAP region has been maintained relatively unchanged, although current critical analyses may result in resource shifts and reallocations to alternative high priority needs.

A significant decrease in Peace Corps' South American operations is being projected which would release resources for the expansion or maintenance of the Peace Corps' operations in Central America and the Caribbean subregion, in addition to the previously noted shift to the Africa region.

The most notable decreases in the South America subregion are projected to occur in Brazil and Venezuela and in Colombia. Selective decreases are planned for Colombia affecting specific projects which require a high level of supervisory support from ministries that are no longer able to supply such support.

In South America, Brazil, and Venezuela are countries that have major developmental needs, but which have comparatively better opportunities to address these needs. Intensive critical appraisals of volunteer projects have concluded the desirability of maintaining an essentially agriculture and health program in the depressed areas of the Northeast and the Mato Grosso in Brazil.

In the case of Venezuela, similar assessments have concluded the desirability of maintaining Peace Corps support in three high priority program areas: namely, municipal management development of small and mid-sized communities, physical education teacher training, and rural development focusing on agricultural extension and reforestation and nutrition and home economics education.

In the Central America subregion important increases are projected for El Salvador and Nicaragua with revised requests expected to be forth coming from Honduras to undertake significant effort in post hurricane reconstruction and rehabilitation activity.

For the longer term we are forecasting at this time the maintenance of an approximate 26 percent of Peace Corps future resources, exclusive of the possible entry into new countries or return to formerly served countries in the hemisphere.

Mr. DELLENBACK. May I say in response to the last comment you made about a little program everywhere in the world, I would agree with you. I would agree that just to get into a large number of countries for the sake of the statistic would be a very serious mistake.

We don't intend to do that. This is something that has been underway within the Peace Corps and which I intend to emphasize. That is the continued careful evaluation of every country we are in, because with the need requests, both from countries that haven't yet formally requested and the need request in the sense of countries we are already in but who want more volunteers, with both of these exceeding our capacity to supply we are going to have to go into the areas where we can do the most effective and efficient job.

If our total supply of dollars remains at all static, that is going to mean that we are not going to be able to go everywhere, even if one wanted to do that.

I think that is clearly something that does not make economic sense.

May I reach back in our conversation before you went off to vote the last time and touch on two more factors just very briefly for the sake of the record, Mr. Obey, about why I think the present situation is a serious one internationally?

One given factor that I think exists in this country in the way of an attitude, which I think is a very serious thing so far as international relations are concerned, and that is a sense on the part of some people that America should turn back within its borders, and we should reach

toward an increased isolationism if not a complete isolationism. I think that factor, permeating a host of relationships on the part of this country with other countries, makes the situation even more serious than would otherwise be the situation if you look at the given relationship in a static sense.

Mr. OBEY. I frankly disagree with that. I think that the American public can take just so much of this constant crisis vocabulary which has been coming out of Washington. I think that the more we talk in terms of international crisis, tremendously serious, desperately serious problems, the less likely we are to be believed back home. I get scared when I see that the only country in the world that the majority of the people would be willing to defend militarily is Canada.

I worry about that but I think it is a logical consequence of the inability of our policymakers to differentiate around the world between what is a direct national interest and what isn't; what is an essential commitment and what is a stupid commitment.

I worry about that also when I look at your program, because I do not think it is wise, given the shrinkage of resources available to you in terms of real dollars to be in as many countries as we are around the world.

Mr. DELLENBACK. We are going to continue to carefully examine that situation and take action based thereon. One other factor I was going to throw in what in my mind is a serious thing and reaches beyond what the Peace Corps is involved in, and that is the whole question of nuclear proliferation. I think that makes for a situation which is again a serious situation throughout the world.

I am not quarreling with what you had to say about language of crisis coming out of Washington. I would agree with you. It was on reflection of that that I withdrew the world "desperate" earlier and talk in terms of serious because I think it is a serious situation, not one that causes any panic whatsoever but one that says look, this is an area at which we should be as a nation, you as policymakers in the Congress, we as policy implementers within the executive branch, looking very carefully and seriously, because it is indeed a very serious situation.

Mr. OBEY. Mr. Conte?

INCREASE IN THE VOLUNTEER READJUSTMENT ALLOWANCE

Mr. CONTE. I will continue with the line of questions I started under the 5-minute rule.

I understand there is a possibility of consideration of increasing the adjustment allowance from $75 to $125 a month.

What would this mean in terms of cost to the program?

Mr. GANLEY. It would mean if we went to $125 in 1976 about $7 million.

Mr. CONTE. Additional?

Mr. GANLEY. Yes, sir, $7.6 million to be exact.

Mr. CONTE. What type of effort has the Peace Corps made to increase private contributions in the host countries?

Mr. GANLEY. With respect to the host countries, we received about $3.9 million in fiscal year 1974, about $4.3 million in fiscal year 1975, and we are expecting to do about $6 million in fiscal year 1976. We set up a rather complicated formula on which we asked our Peace Corps country directors to base their solicitations.

We had hoped to get about $8 million for 1976, but because of the host country budget cycles and the host country budget problems it looks like it is going to come out closer to $6 million in 1976.

This is 40 percent higher than it was in 1975.

PEACE CORPS INTERN PROGRAM

Mr. CONTE. If the intern program is cost effective while training volunteers in their last year in college, why hasn't this program been expanded?

Mr. PEREZ. Sir, we have used the intern program to respond to particular program requests from our countries.

As we are continuing to show success with the program, and indeed cost effectiveness is one of the measurements of that success, we are communicating to our countries the nature of this success and in effect, encouraging them to program against these available skills.

I expect that in the future we may increase the intern program activity.

USE OF CHARTER FLIGHTS

Mr. CONTE. With the marked increase in international trade has any thought been given to the use of charter flights for volunteers?

Mr. DELLENBACK. Mr. Chairman, we use that quite extensively when the numbers are sufficient at any given shipment at any given time. That is a standard operating policy that is already being followed just as often as is possible to do so.

INCREASE IN PROGRAM SUPPORT

Mr. CONTE. There have been some large increases requested in the area of program support particularly in international operations and State Department service.

I wonder if you might substantiate this request, particularly the overseas staff salary and the benefit increases.

Mr. MARKHAM. Mr. Conte, there has been inflation in a great number of overseas countries. We have currently 454 foreign service local employees who work overseas for the Peace Corps which are subject to local wage rates at the embassies. We have had to put in additional money, in the amount of about $327,000 for those salaries and benefits for those employees.

The administrative support for the State Department is another major increase. We enter agreements around the world in most countries with the State Department to furnish common administrative support which we get like all other countries that are overseas. We pay a portion of that. The basis for that support is largely labor costs in those countries also.

We are subject to inflationary pressures there. We provide more money in fiscal 1976 for that purpose.

IMPROVEMENTS IN THE RECRUITMENT/PLACEMENT PROCESS

Mr. CONTE. What have you done to improve the recruitment and the placement process?

Dr. BALZANO. Mr. Conte, we have done quite a bit on that area. As I indicated to you earlier, the recruitment process was a dual system which recruited volunteers for the VISTA program and for Peace Corps.

By and large the model was created in 1961, and had remained pretty much the same until about a year and a half ago. At that time we discovered that the volume of applications that were coming into Washington was so great that the average amount of time it took to process an applicant was enormous because we had I think at one point 47,000 applications going through the same pipeline. Some of the good applicants, or applicants that we were in short supply of in terms of scarce skills would drop out, because of the longtime it took to process the applications and the uncertainty that was built into the system.

We have set up a new system, which we call a Service Center concept, where we have decentralized the recruitment operations so that there is more person-to-person attention paid to the applications and the applicants. It better serves the applicant. It ties recruiting to programing. It puts less volume in the pipeline.

I would like Mr. Gerevas to explain some of the accomplishments in this area.

Mr. GEREVAS. Yes.

The processing time in the past year and a half, because of the changes that we have made in the delivery system has reduced it from an average of 148 working days down to 72, which is about 48 percent.

The new structure allows this because we have decentralized our resources out to the local level until we process them back here for evaluation.

Mr. CONTE. That is not a bad record.

REDUCTION IN SPACE COSTS

Office space costs for the Peace Corps were kind of high in previous years.

Have you done anything to decrease these costs through better utilization of office space?

Dr. BALZANO. Yes, we have, Mr. Conte. When I became director 2 years ago, we were spread out in three buildings. Now we are in two buildings with the exception of the computer operations. We have reduced our total space allotment by 40,000 square feet, at a savings of about $200,000 to the Government. We have also reduced the average per square foot per person.

Mr. CONTE. What is the average now?

The average has dropped from 215 to 187.

PEACE CORPS INVOLVEMENT IN HONDURAS DISASTER RELIEF

Mr. CONTE. Was the Peace Corps involved in disaster relief activities in Honduras?

Mr. BALZANO. Yes, we were involved.

Mr. Perez, will you give some specifics on that involvement?

Mr. PEREZ. Yes, Mr. Conte. We approached the disaster situation in Honduras by utilizing the volunteers who were assigned to the country.

Mr. CONTE. How many?

Mr. PEREZ. Approximately 130 at the moment, and in addition gathering a group of about a dozen nurses from adjacent Peace Corps countries who served on a rotating basis in terms of temporary clinic operations.

The volunteers in the country devoted most of their efforts to food, clothing, and materials distribution, evacuation of stricken persons including young Hondurans from orphanages, missing persons searches, and translation work in terms of assisting other international relief agencies that had come in to help in that area.

We are currently elaborating upon what we might call a posthurricane reconstruction and rehabilitation program, and I should think that during the course of the year we would have to assist that country with additional resources.

PEACE CORPS ROLE IN DEVELOPING A BETTER UNDERSTANDING AMONG PEOPLE

Mr. CONTE. Can you tell me how the Peace Corps fulfills its mission of promoting a better understanding of other cultures and people by all Americans?

Mr. DELLENBACK. Mr. Conte, I would say that as a preliminary I don't think we are doing it as well as we should do it. I think there is more that we can do, and it is my hope that as we really come to grips with it we are going to find that we can do more and more.

We have in this country, at the present time, more than 62,000 people who have been abroad as volunteers or as staff. We have a series of sample newspaper articles that we have brought along where you find that while it doesn't always hit the major paper front headlines, it is in paper after paper around this country that this volunteer was there doing these particular things in this particular country. There is a host of that kind of coverage, but I think to take that and really spread it out on a systemized basis is something that we might take a very serious look at.

We do find that in person after person, whether we are dealing with Government, in the Congress or local government, whether we are dealing with business, whether we are dealing with education, whether we are dealing with public service, you find a host of individual examples, in those among other lines of endeavor, professions or lines of work there is a clear impact that sometimes takes the form of moving into a career and sometimes take the form, often in education, for example, of enriching what one does within a career one is already in, so I can deal with it in that kind of a generalization against the background of what I have laid out.

Just an example. We had a man in the office within the last week who has been our country director in one of the countries in this hemisphere. He had been on loan from one of the major companies, IBM. He had been with us for a matter of several years and had done a fine job. He is going back in a vastly stepped-up position in that company, where he will, as a direct result of the growth that took place during his years in the Peace Corps, be able to enrich American business and strengthen what it is able to do. So it takes the form,

you see, of not just educational gain, not just something which is illusory.

I regret the chairman's use of the word "illusory." It seems to me what we are really dealing with is difficult to measure, Mr. Conte, but that doesn't mean it is illusory. There are lots of things in application which are very difficult to measure. We know that, attitudes and the like. That doesn't make them illusory. It makes them just very difficult to get a handle on in a quantitative type of measurement.

We are satisfied that in this kind of thing to which I have just alluded, we have an already great value that has taken place throughout this country but one we want to see expanded and built even higher than it is.

Mr. CONTE. You can expand on that in the record.

[The information follows:]

Let me share with you some of my thoughts upon coming to the Peace Corps. To me, the Peace Corps embodies the best of this Nation's almost 200-year heritage. It is a heritage of looking outward, of sharing, of taking an active interest in world peace and in the prosperity and well-being of other parts of the world.

The Peace Corps is the only substantial, nonpolicymaking government group which combines in a really significant degree the altruistic idealism and spirit of sharing with others which is so much a part of our national heritage with enlightened self-interest, personal and national. It is living proof that idealism, actually transformed into action, is eminently practical.

At a time when America's image throughout the world is in serious trouble and at a time when the attitude of a great many of the people of the world toward our country is at a low ebb, there is a great and growing risk that we as a Nation will look outward at what might be considered ingratitude and unreliability, that we will look inward at our host of problems and that we may be sorely tempted to seek refuge within our own borders. Isolationism would be a disastrous course. We dare not follow it.

The Peace Corps represents the best avenue, the best instrument we have in Government to express this spirit of sharing with our brothers and sisters around the world the talents which have been placed by God in our stewardship.

The spirit and great ideals which motivate the men and women of the Peace Corps represent the same spirit and great ideals on which our Nation was built. I'm persuaded that when the history of the 20th century is written for our country, one of the finest chapters will be devoted to the Peace Corps and what it has done.

Through the Peace Corps we are saying to the rest of the world something we can never say through a powerful military or through the normal government program or through isolated individual accomplishments.

If we do not do what is necessary to keep this program strong—and indeed, even to make it stronger—it will be at the cost of a lost great opportunity—a cost which this country and the world can ill-afford.

Our dreams must be as large and as bold as our Nation and our dreams deserve—and our actions must measure up to those dreams.

I am proud and honored to be a part of this truly outstanding organization and to be associated with a corps of people who are, collectively and individually, dedicated and tremendous.

Thank you for giving me the opportunity to provide you with some of my views upon coming to the Peace Corps.

Mr. CONTE. Can you summarize the recommendations in the December 1973 report of the National Academy of Sciences and tell me how the Peace Corps is implementing those recommendations?

Mr. DELLENBACK. May we do that for the record?

Mr. CONTE. Sure. Go ahead.

[The information follows:]

The Academy responded with a large number of observations and recommendations that ranged from the long-range future of Peace Corps and the size of Peace Corps to specifics on program and training, management, and organization. In

general, the Academy supports the existence and continuation of the Peace Corps. It says that in terms of developmental needs Peace Corps has a role and a contribution to make to these countries.

We find that certain observations and recommendations are not practical in terms of resource contraints; however, we find that the study will serve as a useful reference base in the development of our forthcoming Peace Corps 5-year plan.

The National Academy of Sciences report highlights a number of observations and recommendations which are summarized below:

Item A

The report comments on the lack of Peace Corps historical data and it is a concern that we are attempting to address by the design and implementation of both an ACTION-wide and an international operations management information system.

Item B

The report emphasizes that Peace Corps' efforts should be directed to high priority program sectors of agriculture and conservation, health, and nutrition. The Peace Corps had already anticipated these very critical global needs and our capacity to assist. We expect that for the future Peace Corps resources will be significantly focused on these high priority sectors, and indeed, for fiscal year 1976 we are beginning to see a shift of resource allocation with a percentage participation increase in the agriculture sector from the previous year's 21 percent to a projected 23 percent.

Item C

The report stresses that Peace Corps should focus upon the expanded acquisition and placement of the traditional AB generalists and increase the Peace Corps presence in underdeveloped countries where Peace Corps is currently found.

Peace Corps philosophy and its programing policy focus upon an attempt to respond to host country requests rather than to impose our presence upon the host countries. In recent years, host countries, for the most part, have tended to increase their request for higher skilled volunteers rather than generalists.

Item D

The report proposes that Peace Corps continue to adhere to middle level manpower volunteer programing in order to promote international understanding. We agree with the study's recommendation that Peace Corps not become an A.I.D.-type upper level manpower and technical assistance organization. In our opinion the mandated mission of the Peace Corps and its source of unique strength emanate from the volunteer and volunteer concept.

Item E

The report proposes that Peace Corps modify its recruitment, training, and placement procedures to enhance the effective use of AB generalists. In the case of recruitment and placement, the Peace Corps feels that it has a responsibility to respond to valid requests from host countries to the degree possible. In the case of training, Peace Corps has successfully experimented with special models for technical training of generalists in an attempt to overcome the shortages of more skilled volunteers and Peace Corps will continue with these efforts to the extent that they are economically feasible.

Item F

The report recommends that Peace Corps need not undertake post-service programs in behalf of volunteers. We disagree and feel that we have an obligation to the volunteer who has been separated from his or her country for several years to facilitate an early and useful return to American society. The volunteer brings back expanded personal and professional capacities and frequently a motivation that is oriented to public service in government and other academic and social fields.

Item G

The report suggests that Peace Corps does not need 100 percent in-country training and we must disagree with this suggestion since our move to in-country training has resulted in significant cost reductions and visibly increased more relevant training.

Item H

The report recommends that Peace Corps identify needs and develop relationships with other private and public institutions. Peace Corps has been particularly active in collaborative efforts with international donor agencies under the sponsorship and supervision of host country agencies. In the United States Peace Corps has been particularly active in establishing special recruitment relationships through intern programs with several universities, through a major highly skilled recruitment program with the Smithsonian Institution and for highly skilled specialized technical assistance support in the conservation field with a consortium of universities throughout the country.

Item I

The report urges that Peace Corps focus on less developed countries and particularly in the poorest areas, even in those countries where there are no formal U.S. diplomatic relations. To date close to 28 percent of Peace Corps' budgeted country resources are allocated to the most seriously affected countries of the world as defined by the United Nations and we forecast that in the future an increasing percentage of Peace Corps' resources will be allocated to the least of the developing countries. We must be careful, however, not to exceed the limits of an individual country's capacity to absorb Peace Corps.

Item J

The report recommends that we reassess overseas staff structures. The limited resources situation which continues to confront Peace Corps requires that we carefully continue to assess our staff organization within countries, among adjacent countries, within subregions and within regions. This reassignment is being done on a continuing basis.

Item K

The report recommends that an experimental program division be established within Peace Corps. The concept of voluntarism to address socioeconomic developmental needs is in itself a programing experiment that was established with the inception of Peace Corps and continues to this date. Furthermore, one of Peace Corps' programing criterion is the placement of volunteers into projects that are experimental or demonstrative or catalytic in nature.

Item L

The report recommends that Peace Corps not rigidly hold to the 2-year PCV service requirement and that the 5-year limitation on staff be eased. The Peace Corps feels that with very rare exceptions a volunteer is not ready to make a significant contribution within less than a 2-year tour because of the language and cultural exigencies of his environment. The Peace Corps is committed to a limited service concept of public service and accordingly in the forthcoming year an extended period of limited service beyond the 5 years will be considered.

Item M

The report recommends that Peace Corps maintain a readiness and capacity to respond to natural disasters. The Peace Corps has demonstrated over the years its unique ability to marshall volunteer resources with great rapidity to confront natural disasters.

Evidence of this ability can be illustrated by Peace Corps' response to the Peruvian and Nicaraguan earthquakes, the Honduras hurricane, the Mauritius typhoon and other Pacific typhoons of recent years.

Report recommends that a reserve of volunteers be maintained; however, we have found from experience that former volunteers are a very mobile group and often difficult to locate and specific disasters require very specific and immediate responses.

Item N

Report recommends that Peace Corps place emphasis on the agriculture, health, and nutrition sectors. Peace Corps has already been emphasizing these areas and encouraging our staff to program with major emphasis in these sectors in consultation with the host country.

Item O

The report recommends that Peace Corps use expert advisory panels, especially in the aforementioned program sectors. This recommendation is one that will receive particular attention in the forthcoming year.

Item P

The report suggests the possibilities of block grants to countries that would permit them to undertake their own recruiting and suggests that particular projects of a multilateral nature might be feasible but would be better handled through the individual host countries. In the former case, this suggestion will undergo a staff study and in the latter case such multilateral projects are already in effect under the sponsorship and supervision of host country agencies. The report restates the possibility and appropriateness of program and volunteer reciprocity along the lines of an earlier volunteers to American program. This suggestion will also be subjected to staff study during the forthcoming year.

Item Q

The report states that Peace Corps should grow significantly larger and supports this statement with an emphasis on the expanded use of AB generalists and the expanded entry into new countries by Peace Corps. The Peace Corps actively pursues entry into the least developed nations consistent with resource capability and host country desires. The expanded use of AB generalists is not desirable unless consistent with budget resource availability and the specific wishes of host countries.

Mr. CONTE. You mentioned in your statement that you have recently begun to capitalize on your potential for providing social and economic assistance.

Will you explain how you are doing this and how it represents a departure from the past? Will you provide that for the record?

[The information follows:]

In absolute terms, Peace Corps is not expanding its level of socioeconomic assistance because of our limited resource capacity, which is significantly affected by the high rates of inflation overseas and the high international transportation costs.

Accordingly, we are confronted more than ever before with the need to allocate and redistribute our scarce resources for maximum effectiveness among the neediest areas and the highest priority programs.

An illustration of the Peace Corps' efforts in this regard can be seen in the situation of those countries identified by the United Nations as most seriously affected (MSA) by the impact of inflation and energy costs.

Using the fiscal year 1976 congressional submission as a basic data source we estimate that in fiscal year 1975, 24.7 percent of country budget resources were allocated to "MSA's" and in fiscal year 1976, 28.1 percent will be allocated to "MSA's". We will provide for the record tables to illustrate this answer.

TABLE I

Re: United Nations	Peace Corps host country	1974 per capita income
Africa:		
Cameroon	X	$248
Central African Republic	X	155
Chad	X	85
Dahomey	X	103
Ghana	X	266
Guinea		
Ivory Coast	X	424
Kenya	X	155
Lesotho	X	93
Malagasy Republic		
Mali	X	20
Mauritania	X	125
Niger	X	120
Senegal	X	285
Sierra Leone	X	190
Somalia		
Africa—Continued		
Sudan		
Tanzania		
Upper Volta	X	70
Asia:		
Bangladesh		
India	X	98
Pakistan		
Sri Lanka		
Yemen Arab Republic	X	80
Dem. Rep. Yemen		
Latin America:		
El Salvador	X	305
Guyana		
Haiti		113
Honduras	X	271

TABLE II.—REFERENCE MSA

	Percent of Peace Corps distribution, fiscal year—		MSA percent of region distribution, fiscal year—		MSA percent of Peace Corps distribution, fiscal year—	
	1975	1976	1975	1976	1975	1976
Africa	36.3	40.1	56.2	54.8	20.4	22.0
Latin America/Caribbean	30.3	25.8	3.0	4.5	.9	1.2
NANEAP	33.4	34.1	10.2	14.5	3.4	4.9
Total	100.0	100.0			24.7	28.1

PEACE CORPS INVOLVEMENT IN THE SAHEL

Mr. CONTE. What is the role of the Peace Corps in the Sahel region?

Mr. DELLENBACK. Let me make a brief comment on this and we would like for the record to put in a very extensive coverage of this because the record of the Peace Corps is not a very recent one there. It goes way back into the early 1960s where we were one of the first group of Americans who were there recognizing aspects of this problem of the drought which hit so very severely within the last couple of years. Even then the record of the Peace Corps in trying to work in the irrigation and in the agricultural field goes back at that time.

When the serious drought hit, we became even more intensively involved with a heavy concentration of Peace Corps volunteers in that full strip across Africa which was involved in the drought. It was one of our people who working very closely not only within our own volunteer organization but working very closely with AID was able to do some very extensive work in programing what we were able to do.

While I will supply chapter and verse, Mr. Conte, for the record, I settle at the moment for that kind of a generalization of a record that goes back a long way, that has been extensive in recent years, which has been I think very significant in recent years, and which is one of the examples of the kind of thing we were dealing with earlier when we say what has the Peace Corps ever done that hasn't had an impact on relationships with other countries?

Anybody who looks at the record in the Sahel can't help but realize that whether you can trace it to a U.N. vote or any other kind of specific action, the picture of America in the minds of the people who have seen the Peace Corps in operation in that area has been, if not changed certainly very materially strengthen. It is the kind of thing where we without any question have friends in an area that we didn't have before the Peace Corps was involved.

[The information follows:]

The Peace Corps has had volunteers working in the Sahel for several years; Chad 1967, Upper Volta 1967, Mali 1972, Niger 1962, Mauritania 1973, Senegal 1965. As of January 1 Peace Corps had approximately 350 volunteers working in this area. Most of the projects that volunteers have been working on have been directly focused on the problems of the drought. For example, the reforestation projects in Chad, Upper Volta, and Niger, were specifically designed to arrest desertification, to replenish ground cover, provide building materials and fire wood. The wells conservation and maintenance programs of Chad, Upper Volta, Niger, and Mali, have been excellent Peace Corps projects that have provided clean water supplies to villages and institutions. Other projects that have had a

high priority because of the drought conditions include the construction of pit silos for dry season livestock feed, water catchments, and dams for improved management of rainfall, irrigation structures for increasing rice and vegetable production.

The Peace Corps will look to renew these projects for the foreseeable future, at least until the ministries have sufficient trained staff to maintain the work on their own. In many cases volunteers are being asked to expand into new areas to replicate a proven successful project. In some respects the drought has brought on a new awareness of development problems on the part of host governments.

The kind of projects that seem to meet the criteria for future programing can be illustrated by some of the activity Peace Corps has been involved in:

1. The Mali Pit Silo Project employs a technology that is adaptable to a variety of circumstances, and it is economically profitable to farmers. This means that farmers would now be able to store livstock feed to maintain the health of livestock through the dry season when grass is unavailable. Inputs are simple and inexpensive, and the results are dramatic on the health and vigor of livestock.

2. *Reforestation* is taking place in Senegal, Upper Volta, Niger, and Chad. These are efforts to conserve soil and water and at the same time provide needed fire wood and building material.

3. *Construction* and Repair of simple Earthen Dams in Niger and Upper Volta is a means to make better use of the sparse rain for crop production and domestic water supply.

4. *Fish Farming* in Cameroon has proven to be a profitable enterprise for farmers. At the same time it provides an inexpensive and badly needed significant source of protein to the diet. A similar effort is now underway in Zaire and C.A.R. and several other countries will find that this is an excellent supplement to traditional agricultural production.

5. *Irrigation Systems* are being developed in Sierra Leone, Mali, Senegal, and Upper Volta to suit particular local needs. It appears that the Sierra Leone project to improve Water Management in swamp rice production will result in a project worthy of replication.

6. *Grain Storage* units that can be constructed on the farm such as those in Dahomey answer a dire need to keep grain safely and economically through the dry season. This provides a degree of price stabilization as well as security against famine. Other countries across Africa from Ethiopia to Cameroon are involved in related projects.

7. *Animal Traction* training in Togo is an example of intermediate technology that can multiply the productiveness of a farmer through the training and care of oxen to cultivate farm land more efficiently.

PEACE CORPS PROGRAM IN AFRICA

Mr. CONTE. I think it is terribly unfair to try to put the responsibility on the Peace Corps for American foreign policy. It is just part of the whole picture, and you have got to look at the whole picture. You have got development loans and you have got multilateral programs, Asian Development Bank, Inter-American Bank, you have got Export-Import Bank, you have got supporting assistance, you have got military assistance. You have got all kinds of grant programs. You have got Food for Peace. You have got family planning programs.

You can name dozens of programs that we have and you just can't single out the Peace Corps, whether we are going to make it or not in a country with our foreign policy.

I recently came back from a conference in Kinshasa where we met with representatives from about 17 countries in Africa. One of their biggest gripes was that we weren't doing enough in Africa. They were banging their heads against a wall in that whole 5-day conference, that other countries, Slavic countries and Red China were in there very heavily in helping them with different programs. That was their big gripe.

One of the things that impressed me most, they said:

You take us for granted. Speeches are made in the United States. They mention Europe; they mention the Middle East; the Far East; but you never mention Africa. We are sort of a forgotten part of the world. We are coming along fast. We have all these mineral resources, copper, ore, zinc, bauxite, uranium, you name it. You had better sharpen up and start taking a new sense of direction in regards to the United States and Africa.

They said that, and I think we have to start listening. One of the more positive aspects of our foreign aid program which they mentioned was the Peace Corps.

Mr. DELLENBACK. May I say one thing so far as Africa is concerned, you are aware because you have been very close to this program that we are in 26 countries in Africa at the present time including the country of Zaire to which you made reference so far as Kinshasa is concerned.

Our impact has been not just in words but in the lives of people, generally young, but people who are there not for purposes of what is in it for them but for purposes of what they can do to really help.

It seems to me that there is a clear picture of America at its very best, and to those countries which cry out and say "What are you doing except talking?" we are in a position to say to them "This is what we are doing in your country, in the Ivory Coast, Senegal, Mali, Mauritania and across the reach up and down Africa."

Mr. CONTE. Not only that, but even if the leader of a country takes a whack at us, as Mobutu did when we were in Kinshasa, when you get out into the countryside and you see where the Peace Corps is out there working in an educational or agricultural program, out living in the boondocks with the people, you talk to the people and you find that they have an altogether different feeling than some leader of a country in regards to the United States and in regard to the Peace Corps and what the Peace Corps is doing for them.

Mr. DELLENBACK. To show how deeply we are into some of those countries, may I touch on another one, Ethiopia?

We have been concerned about the safety of our volunteers in Ethiopia with what has gone on there recently and so we have examined that problem in very great detail. We even had the country director back here to talk to us about where are we with those volunteers. Is there any risk to them and how does it stand?

We are into a situation where we have 159 volunteers there and to show how deeply they are out into the country, it would take us a matter of a couple of weeks, if we said to them bring all the volunteers out of Ethiopia, to send out the messages that we needed to send out, oftentimes by car, because there is no way to reach them except by road. We can't do it by air on a regular scheduled basis. You can't do it even by telephone in some instances, but they are that far out. They are just all over the warp and woof of the country. To say something again about how well they are accepted in those areas where they oftentimes are, if an emergency were to arise, part of our emergency planning for them in many of those areas is to say to them don't immediately head for Addis. Stay right where you are because we know where you are. They love you, and you are safe there, and you are not going to be hurt in that particular area until we can come and get you and bring you out if that should ever happen. We hope it never does.

I am merely talking about first the breadth of dissemination of these volunteers in these countries. They are not in Nigeria just in Lagos and Zaire just in Kinshasa. They are back in the country.

Mr. CONTE. I think you ought to get something in the record in regard to Mr. Obey's questions about being spread out too far and too thin. Here again I think it is a lack of understanding of the Peace Corps. Some countries only need a half dozen volunteers. Some only need three or four, but those three or four or half a dozen in one of those small countries like Togo can do a tremendous job out in the boondocks, or Ethiopia up in Dorya Dawa. They can do a tremendous job either in the agricultural extension program or malaria eradication or an education program. I really wouldn't pull in my horns on that.

I would give it a good look because the issue has come up but I think it deserves an explanation on the record.

[The information follows:]

With the resources being granted by Congress, we feel we are maintaining a reasonable balance although we continually must address changing priorities which occur in an increasingly limited resource situation. This also means that certain program opportunities must be foregone.

The Peace Corps' volunteer-to-staff ratio of 7.6:1 has remained unchanged for the last 5 years although total staff numbers have decreased from a ceiling of 901 to 799. We have begun to redistribute our available resources between and to quality program criteria and in recognition of the availability of alternative development opportunities to particular countries. We have successfully experimented with new training approaches in order to acquire volunteers with required basic skills and in order to develop more cost-effective training methodologies. We are successfully applying new staffing patterns that will permit us to manage effectively the smaller country volunteer operations. We are successfully applying management techniques and systems that clarify our goal-setting activity and that institutionalize continuity into the oragniaztion.

(2) The single greatest management issue for Peace Corps results from the awareness that in the 1970's we are required to operate in a limited resource environment. Consequently, the dilemma which we must continually address is that of the priority distribution of insufficient resources among an excess of requests.

(3) If we focus on the placement of resources in those developmental situations where the level of infrastructure suggests the likelihood of more effective use of volunteers, we then tend to preclude addressing the comparatively lesser of the underdeveloped nations where the need may be greater and the alternatives to Peace Corps fewer. If we focus placement in the latter case, we tend to require a comparatively greater quantity of program support resources.

(4) Consequently, in view of the three mandated Peace Corps goals, the assignment of Peace Corps volunteers for manpower assistance as well as for the intercultural exchange are equally valid, and we must attempt the difficult balance between a desire to respond to all valid requests and the realities of our limited capacity to engage in a volunteer program and to manage that program adequately.

Dr. BALZANO. We point with pride at the fact that the countries in Africa are assuming a larger share of the burden of the host country contributions are concerned, which is an indication that they have put their resources in our programs. They believe in our program. I think it is a credit to the African countries and to Peace Corps that they make this commitment to the Peace Corps when their average GNP is so much lower proportionately.

INDONESIA

Mr. CONTE. I see that you are considering a new program in Indonesia, among other places. Several members of this committee have

indicated some reluctance to include Indonesia in the foreign assistance program because of its tremendous petroleum revenues. What sort of program do you foresee in Indonesia?

Mr. DELLENBACK. Indonesia is one of several countries where Peace Corps has served previously—April 1963 to April 1965. It periodically indicates possible interest in renewing our association. In the recent past, such expressions of interest with regard to Indonesia have been unofficial on both sides. Should funds permit, we would be interested in exploring more fully the possibilities of a Peace Corps program in fiscal year 1976. It is premature to state with any degree of certainty what type of programs would be of interest to both Peace Corps and the Government of Indonesia. In all likelihood, the program would be small in size and utilize volunteers with relatively high skill levels. In recognition of its improving financial condition, we would anticipate that Indonesia would provide a significant level of support for the program.

ETHIOPIA

Mr. CONTE. Would you tell me about your program in Ethiopia? How has it been affected by the conflict over Eritrea?

Mr. DELLENBACK. I will supply the information.

[The information follows:]

Current programs in Ethiopia

Education	113
Agriculture	15
YMCA/skill trades	6
Public health	22
Relief and rehabilitation	4
Volunteers	160
Couples	6
Males	113
Females	32
U.S. staff	5
Local staff	8

I. SOME AREAS OF PEACE CORPS INVOLVEMENT

A. Education

Peace Corps had its beginning in Ethiopia in 1962. Since that date more than 2,800 Peace Corps volunteers have served in Ethiopia. The primary thrust of Peace Corps effort has been in the field of secondary education, a reflection of the government's priority in that area. In recent years the educational system has undergone a restructuring. The major changes have involved a turn to practical education and skill training at all levels rather than the traditional academic subjects.

The new provisional military administrative council announced on September 5, 1974, that secondary students would participate in a work campaign. The immediate effect has been a rescheduling of teachers in the secondary education sector.

During the coming months of June, July, and August, approximately 90 volunteers will be completing their service in Ethiopia. The Government of Ethiopia has requested 125 secondary-level teachers to begin training in July, and it is anticipated that Peace Corps will continue its assistance to the Ethiopian educational system for some time to come. It is further anticipated that while it may remain necessary for volunteers to continue as on-the-line teachers, progressively a greater percentage of their time will be spent in a teacher-trainer capacity. This will demand greater sensitivity on the part of the volunteers. Most importantly, it will accomplish a primary Peace Corps goal of assisting Ethiopians to help themselves.

B. Public Health

The majority of Peace Corps volunteers working in health are smallpox surveillance/containment workers. Smaller numbers, up to three, work as hospital advisors.

The keystone of this global program is surveillance, the detection cases through reporting and constant search. Hand-in-hand with surveillance is containment. Once a case is discovered, the surveillance team proceeds immediately to the region to seek other cases, and to vaccinate all the people there. Vaccination is intensive rather than extensive, seeking to immunize all the people within a restrictive area, rather than many people in a diffuse area. Despite difficult mountain terrain with few good roads, 6 months of rain every year, over 70 languages and 200 dialects, strongly rooted traditional beliefs and customs, the smallpox program in Ethiopia has been one of the most successful immunization programs ever effected.

C. Agriculture

The majority of volunteers at work in Ethiopia's most recent Peace Corps agricultural project are assigned to rural development teams as livestock, irrigation, or community-cooperative workers. Under the supervision of the host country ministry, these volunteers are introducing agricultural innovations (i.e., irrigation and cattle dipping) that have potential for significant financal returns, and creating a new social structure needed by the community to derive the full potential of agricultural change, and finally the volunteers in this area are translating increased community resources into meaningful improvements in the lives of the people.

II. As a result of the Eritrean conflict, Peace Corps has taken the following steps to protect the volunteers and safeguard its programs in Ethiopia:

1. The withdrawal of all volunteers from the provinces of Eritrea, Tigre, and Begemder.

2. Establishment of a system of communication which would permit immediate reporting and removal of volunteers in, or near the troubled areas.

Recruitment for the Ethiopia program has understandably, been hampered by the Eritrea situation and programs may shortfall as a result; however, with the careful staff surveying of job sites and constant checks for volunteer safety and job viability, Peace Corps programing in Ethiopia continues.

PORTUGUESE AFRICAN COLONIES

Mr. CONTE. What sort of program are you considering for the Portuguese African Colonies? What would you consider "adequate" funding which would permit you to further the new programs you referred to?

Mr. DELLENBACK. At this time we do not anticipate any Peace Corps programs in fiscal year 1976, but we are indeed anxious to assist these countries and we believe the Peace Corps can make a contribution. We are following their progress with interest and would hope to have direct contact during the year as formal Independence is achieved.

We are keeping abreast of the development problems in an effort to anticipate which sectors may request skills, but for the next few months, we will rely largely on the information available through the State Department and AID negotiations. The Peace Corps will not conduct any negotiations or plan any involvement until the independent governments have been established and have assessed their needs in manpower.

Guinea Bissau is now independent, but no Peace Corps assistance has been requested. Mozambique will be independent in June of this year, the Cape Verde Islands in July, and Angola in November.

While we do not have any specific requests from the provisional governments we assume that there will be a need for midlevel manpower in the agriculture and conservation sector. We know, for example, that water conservation and food production are high priorities in Angola and the Cape Verde Islands, and we are certain that activities similar to the Sahel projects in Upper Volta and Niger would be of substantial benefit.

SMALL BUSINESS AID

Mr. CONTE. Can you tell me about the activities of the 3 percent of your volunteers involved in small business assistance?

Mr. DELLENBACK. I will supply that information.

[The information follows:]

BUSINESS SECTOR INVOLVEMENT, FISCAL YEAR 1976

Region/Country	Description	Average number of volumes
Africa:		
Botswana	Business development planning advisors	18
Ethiopia	....do	1
Gambia	Crafts marketing assistance	1
Liberia	Development planners	10
Malawi	Credit accounting for agricultural development	1
Sierra Leone	Crafts marketing assistance	2
Swaziland	Business development planning advisors	2
Upper Volta	Rural development	1
Total		36
Latin America:		
Belize	Development finance, assistance to local entrepreneurs	2
Brazil	Small business assistance	6
Colombia	Small/medium business assistance in cost analysis, inventory, marketing, credit financing; training in accounting and management.	27
Costa Rica	Public administration and cooperatives	3
Dominican Republic	Cooperatives technical assistance	18
East Caribbean	Consultants to small business, helping reduce failure rate; management advice.	5
Ecuador	Artisan cooperatives	11
El Salvador	Fishing cooperatives	15
Guatemala	Artisan and credit cooperatives and cooperatives leadership training.	13
Honduras	Craft cooperatives development	4
Nicaragua	Credit cooperatives	6
Venezuela	Small business/industry assistance	3
Total		113
NANEAP:		
Afghanistan	Economics-statistics assistance for dams; tourist development advisors.	3
Fiji	Public assistance in economics, statistics, computer, land use	7
Malaysia	Development assistance of local businesses and industry for new jobs.	3
Micronesia	Magistrate assistance in community development, resource location.	11
Philippines	Rural electrification; rural bank development for credit/loans; credit/loans coops to businesses.	10
Tonga	Development of cooperatives; statistical assistance in business development.	10
Western Samoa	Development of investment projects; analysis of assistance programs; evaluation of government programs.	8
Total		52
Grand total		201

FISCAL YEAR 1975 APPROPRIATION LEVEL

Mr. CONTE. What has been the effect of this year's appropriation level in your ability to continue the many good works undertaken by the Peace Corps in the past year?

Mr. DELLENBACK. The Peace Corps has operated under a continuing resolution level of $77,912,000, in comparison to a total requested level of $82,943,000, for almost 9 months of fiscal year 1975. This reduced operation level, compounded by the high overseas inflation rates, which affect volunteer, local staff, and other operating expenses and which have been rising 20–25 percent annually has forced the Peace Corps to: reduce planned training input from 4,800 to 3,400 new trainees in fiscal year 1975 with the volunteer man-year impact also affecting fiscal year 1976 volunteer strength; curtail volunteer and selected extensions of volunteer assignments overseas by approximately 25 percent; curtail volunteer and staff travel in-country by about 50 percent; cancel more than 50 percent of planned volunteer and staff conferences and training workshops; and reduce specialized recruiting (PRIST and intern programs) by almost 20 percent.

The consequent appropriation of $77,687,000 for fiscal year 1975 (including the Federal pay raise) results in placing the following additional restrictions on the operating activities required for volunteer program support: only emergency overseas operational travel, before July 1; only most urgently required staff moves will be made, which will leave some countries without directors and other important operational personnel; and, total reimbursement of State Department for shared administrative expenses will not be possible.

TRAINING COSTS

Mr. CONTE. How have you decreased training costs?

Mr. PEREZ. Reductions in the cost of training potential volunteers have been occurring over the last few years in response to three major thrusts.

First, has been the move of training operations to in-country or to adjacent third country training. Second, as a result of in-country training operations, greater host country participation in the actual training and in the design and development of training has been possible. Host country contributions for use in the training of volunteers has also resulted. Third, there has been two shifts in the approach to training whereby the higher-cost training period prior to volunteer service has been decreased and the lower-cost training period while in volunteer service has been increased.

In addition to the significantly decreased training costs the shift from preservice to inservice training time has provided a volunteer with enhanced opportunities for increasing language proficiency since that volunteer was already working and therefore much more highly motivated and more aware of the actual needs and conditions of his or her job requirements.

In summary, in-country training has been more cost-effective and is more relevant because it brings the trainee into immediate and day-long contact with the environment, the culture, the people, and the

work which they will be performing as volunteers. Furthermore, the quality of cross-culture and language training is greatly enhanced especially by the opportunity afforded for the host country's agencies to be involved directly in the training of the volunteers.

Mr. CONTE. My good friend Mr. Couglin has some questions.

It reminds me of a banquet I went to one night, something like this committee. I was the next to the last speaker and they kept leaving the podium and leaving the hall and leaving the podium. Finally two of us were left. I go up to speak. When I was through I came back to the fellow and I sat down and thanked him for sitting there listening to my speeches.

"What was it about my speech that kept you here?"

He said, "Nothing, I just happened to be the last speaker."

I am going to stick here with you.

Mr. DELLENBACK. Mr. Coughlin, we will stay also.

Mr. COUGHLIN. I just have a couple of very brief comments and questions.

The chairman mentioned a lessening of confidence in the United States. However, it occurs to me that if we do serious damage to the Peace Corps in terms of not continuing it or reducing significant portions of the program such action might contribute to the erosion of confidence.

Dr. BALZANO. That is a very good point.

Mr. COUGHLIN. Second, however, by the same token, I don't think it would contribute to the erosion of confidence if we could negotiate agreements with particularly Iran and Venezuela. I would suggest that that should be a matter of high priority, because I sincerely doubt that you are going to be getting money to fund those programs.

Mr. DELLENBACK. We are giving it high priority, Mr. Coughlin.

Mr. COUGHLIN. Third, you break down your programs into a number of categories such as agriculture, education, and health. What are the specific categories you break it down into?

Mr. GANLEY. Nutrition.

Mr. COUGHLIN. Four categories?

Mr. PEREZ. Five major program sectors, agriculture which would also include conservation activities, education, health, small business technical assistance, and the last and fifth program sector is urban development and public works.

DISTRIBUTION OF PERSONNEL BY COUNTRY AND CATEGORY

Mr. COUGHLIN. Could you then provide for the record a breakdown for each of the host countries of how many people you have in each one of the categories? That will, I think, give the committee some idea of where the priorities are in various countries.

Mr. DELLENBACK. We have supplied for the record, Mr. Coughlin, as you know, total percentages of what our total utilization of people in these program categories is throughout the world. We can break that down by country or by region, or however you would like it for the record.

Mr. COUGHLIN. By country if we could get it that way.

Mr. DELLENBACK. We can do it.

[The information follows:]

PROJECTED MAN-YEARS FOR FISCAL YEAR 1976 BY COUNTRY/PROJECT CATEGORY

	Agriculture	Business and public management	Education	Health	Urban development and public works	Total
NANEAP:						
Afghanistan	1.0	3.5	94.5	7.0		106
Bahrain			12.0			12
British Solomon Islands			14.0			14
Fiji	18.8	7.2	78.0		10.0	114
Gilbert and Ellice Islands				4.0		4
India	10.0					10
Iran	28.0		52.0		39.0	119
Korea			116.0	80.0		196
Malaysia	55.0	3.0	200.0	20.0		278
Micronesia	20.0	11.0	120.0	11.0	10.0	172
Morocco	19.8		111.0	6.0	41.2	178
Nepal	27.0		32.0	1.0	38.0	98
Oman	5.1		3.0	13.0	1.9	23
Philippines	123.0	10.0	12.0	98.0	59.0	302
South Pacific Commission				1.0		1
Thailand	37.0		141.0	18.0		196
Tonga	10.0	9.5	45.5			65
Tunisia	17.5		53.2	18.0	4.3	93
Western Samoa	10.2	7.5	84.0	3.0	10.3	115
Yemen	11.8		15.0	8.0	1.2	36
Malta	2.0					2
Subtotal	396.2	51.7	1,183.2	288.0	214.9	2,134
Africa:						
Botswana	23.8	18.0	38.5	4.0	25.7	110
Cameroon	43.0		38.0	4.0	3.0	88
Central African Republic	5.3		17.7			23
Chad	5.4		20.0		.6	26
Dahomey	36.3		26.7			63
Ethiopia	19.0	1.0	100.0	13.0	5.0	138
Gabon			10.0		20.0	30
Gambia		.6	13.8	1.0	2.6	18
Ghana	20.8		181.0		17.2	219
Ivory Coast			22.0	4.6	17.4	44
Kenya			92.0	20.0	52.0	164
Lesotho	8.2		19.8	4.0		32
Liberia	119.0	10.4	140.6	29.0		299
Malawi	5.2	.4		5.0	1.4	12
Mali	30.0		9.0			39
Mauritania	8.0		3.0	1.0		12
Mauritius	3.1		.5		1.4	5
Niger	32.0		43.0	23.0		98
Nigeria			6.0			6
Senegal	32.0		53.0			85
Seychelles	4.0					4
Sierra Leone	46.0	2.2	198.5	3.3		250
Swaziland	8.7	2.0	43.7	4.0	34.6	93
Togo	34.8		43.0	11.0	4.2	93
Upper Volta	39.0	.9	16.1	5.0		61
Zaire	26.2		131.0	9.0	26.8	188
Subtotal	549.8	35.5	1,266.9	140.9	206.9	2,200
Latin America:						
Belize	16.2	2.0	17.0	9.0	8.8	52
Brazil	53.0	6.0	13.0	52.0	15.0	139
Chile	33.0		21.0	4.0		58
Colombia	21.0	26.5	39.6	55.0	14.9	157
Costa Rica	25.4	3.1	33.7	27.0	28.8	118
Dominican Republic	22.0	18.0	14.0	12.0	7.0	73
Eastern Caribbean	21.1	5.2	62.0	17.6	17.1	124
Ecuador	60.2	10.7	61.0	41.4	34.7	208
El Salvador	41.3	15.1	55.7	8.0	4.9	125
Guatemala	51.5	13.2	35.5	4.0	31.8	136
Honduras	20.0	4.0	32.0	31.0	18.0	105
Jamaica	44.8		95.5	4.0	34.7	179
Nicaragua	26.0	5.6	14.0	15.0	33.4	94
Paraguay	37.0		11.0	27.0		75
Venezuela	10.4	3.3	27.0	11.0	33.3	85
Subtotal	482.9	112.7	532.0	318.0	282.4	1,728
Grand total	1,428.9	199.9	2,982.1	746.9	704.2	6,062
Percent	(23)	(3)	(49)	(12)	(12)	(99)

Mr. COUGHLIN. Those are all the questions I have.

Thank you very much.

Mr. CONTE. Thank you very much for your fine presentation.

Mr. DELLENBACK. We thank you very much for your courteous attention and giving us a chance to talk about some of these things.

Mr. CONTE. The committee is adjourned.

WEDNESDAY, MAY 7, 1975.

THE EXPORT-IMPORT BANK OF THE UNITED STATES

WITNESSES

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ROBERT S. RENDELL, DEPUTY GENERAL COUNSEL

Program and Financing (in thousands of dollars)

	1974 actual	1975 est.	1976 est.
Program by activities:			
Loan program:			
Operating costs, funded:			
Interest on borrowings	157,078	240,823	286,323
Interest on participation certificates and debentures	165,468	200,484	295,254
Interest on advances under letters of credit	1,474	1,654	1,753
Administrative expenses subject to limitation	5,930	7,175	7,763
Other financial expenses	1,419	2,829	3,562
Other expenses	73	69	70
Total operating costs, funded	331,442	453,034	594,725
Change in selected resources (prepaid expenses and undelivered orders)	1,167	1,316	1,461
Total obligations (operations program)	332,609	454,350	596,186
Capital outlay, funded:			
Equipment and services loans	2,098,528	2,409,970	2,717,335
Commodity loans	69,557	97,526	75,000
Discount loans	368,909	500,000	500,000
Special foreign trade loans	----------	25,000	50,000
Repurchase of loans	1,437	----------	----------
Total capital outlay, funded	2,538,431	3,032,496	3,342,335

Program and Financing (in thousands of dollars)—Continued

	1974 actual	1975 est.	1976 est.
Program by activities—Continued			
Loan Program—Continued			
Change in selected resources (undisbursed loan obligations and loans sold with recourse)	571,280	858,101	292,671
Adjustments in selected resources (loan obligations)	577,477	1,011,711	1,274,465
Total obligations (capital outlay)	3,687,188	4,902,308	4,909,471
Total obligations (loan program)	4,019,797	5,356,658	5,505,657
Guarantee and insurance program:			
Operating costs, funded:			
Administrative expenses subject to limitation	2,819	3,376	3,653
Nonadministrative expenses	7	10	10
Total operating costs, funded	2,826	3,386	3,663
Change in selected resources:			
Guarantees and insurance	475,330	2,640,594	2,673,148
Short-term insurance	535,099	450,000	430,000
Medium-term insurance	27,313	198,150	200,000
Subtotal	1,037,742	3,288,744	3,303,148
Reduction for fractional reserve basis	−778,306	−2,466,558	−2,477,361
Total change in selected resources	259,436	822,186	825,787
Total obligations (guarantee and insurance program)	262,262	825,572	829,450
Other:			
Purchase of equipment	32	100	100
Dividend to U.S. Treasury	50,000	50,000	50,000
	50,032	50,100	50,100
Total obligations	4,332,091	6,232,330	6,385,207
Financing:			
Receipts and reimbursements from:			
Non-Federal sources	−29	−30	−32
Loan program:			
Loans repaid	−1,188,285	−1,334,393	−1,515,684
Sale of loans with recourse	−25,460	−25,000	−25,000
Interest revenue from loans	−441,427	−529,516	−650,902
Guarantee and insurance program fees and premiums, net	−3,123	−1,195	−5,895
Recovery of prior year obligations loan program	−577,500	−1,011,711	−1,274,465
Budget authority (authority to spend agency debt receipts, permanent, indefinite)	**2,096,267**	**3,330,485**	**2,913,229**
Relation of obligations to outlays:			
Obligations incurred, net	2,096,267	3,330,485	2,913,229
Obligated balance, start of year:			
Authority to spend public debt receipts	4,112,335	3,543,098	3,252,275
Authority to spend agency debt receipts	2,708,322	4,131,910	6,156,430
Fund balance	8,220	21,860	10,000
Obligated balance, end of year:			
Authority to spend public debt receipts	−3,543,098	−3,252,275	−2,915,952
Authority to spend agency debt receipts	−4,131,910	−6,156,430	−7,648,847
Fund balance	−21,860	−10,000	−10,000
Outlays	1,228,276	1,608,648	1,757,135

Limitation on Administrative Expenses

Program and Financing (in thousands of dollars)

	1974 actual	1975 est.	1976 est.
Program by activities:			
Administration:			
(a) Loan program	5,930	7,175	7,763
(b) Guarantee and insurance program	2,819	3,376	3,653
(c) Garage management	29	30	32
Total obligations	8,778	10,581	11,448
Financing:			
Receipts and reimbursements from: Federal funds	−29	−30	−32
Unobligated balance lapsing	431		
Budget authority	9,180	10,551	11,416
Budget authority:			
Limitation	9,180	10,242	11,416
Proposed supplemental for civilian pay raise		309	

Object Classification (in thousands of dollars)

Direct obligations:			
Personnel compensation:			
Permanent positions	6,403	7,355	7,854
Positions other than permanent	30	34	37
Other personnel compensation: Overtime and holiday pay	77	96	109
Special personnel service payments:			
Reimbursable detail	119	164	165
Excess of annual leave earned over leave taken	98	109	110
Total personnel compensation	6,727	7,758	8,275
Personnel benefits: Civilian	542	628	669
Travel and transportation of persons	171	275	300
Transportation of things	10	12	12
Rent, communications, and utilities	949	1,428	1,638
Printing and reproduction	105	120	135
Other services	130	195	242
Supplies and materials	115	135	145
Total direct obligations	8,749	10,551	11,416
Reimbursable obligations:			
Personnel compensation:			
Permanent positions	21	20	22
Other personnel compensation: Overtime and holiday pay	6	7	7
Total personnel compensation	27	27	29
Personnel benefits: Civilian	2	3	3
Total reimbursable obligations	29	30	32
Total obligations	8,778	10,581	11,448

Personnel Summary

Direct:			
Total number of permanent positions	396	426	446
Full-time equivalent of other positions	4	4	4
Average paid employment	393	418	440
Average GS grade	9.38	9.37	9.37
Average GS salary	$16,604	$17,773	$17,853
Average salary of ungraded positions	$9,981	$10,720	$10,732
Reimbursable:			
Average paid employment	2	2	2
Average salary of ungraded positions	$9,762	$10,167	$10,167

Limitation on Program Activity

Program and Financing (in thousands of dollars)

	1974 actual	1975 est.	1976 est.
Program by activities:			
Equipment and services loans:			
Authorizations	3,899,466	3,445,000	3,925,000
Participations and cancellations	−109,073	−50,000	−75,000
Net authorizations	3,790,393	3,395,000	3,850,000
All other, excluding administrative expenses:			
Authorizations	1,591,541	3,393,086	2,862,787
Participations, cancellations, and expirations	−116,815	−385,000	−140,000
Net authorizations	1,474,726	3,008,086	2,722,787
Total authorizations other than for administrative expenses	5,265,119	6,403,086	6,572,787
Financing:			
Uncommitted balance lapsing	2,384,881	----------	----------
Limitation	**7,650,000**	**6,403,086**	**6,572,78**

Mr. PASSMAN. The committee will come to order.

We shall consider the budget request for fiscal 1976 of the Export-Import Bank today.

We will hear from the Honorable William J. Casey, President and Chairman of the Export-Import Bank and other supporting witnesses whose names will be placed in the record.

Mr. Casey, it is nice to have you before the committee.

I have a lot of respect for the Export-Import Bank and it has a beautiful record, one that I am sure you are proud of as well as your predecessors.

It is the one Federal agency we can look to to make money not only for the American businessman but also for the U.S. Treasury.

I would assume that you have a statement you would like to make to the committee, Mr. Casey?

Mr. CASEY. Yes, Mr. Chairman, I have.

Mr. PASSMAN. We would be very pleased to hear from you at this time.

Mr. CASEY. All right.

It is a pleasure to be here today, Mr. Chairman, with you and your colleagues to discuss the activities of the Export-Import Bank over the past year and to present our business and budget projections for fiscal year 1976.

I have with me the Vice Chairman of the Bank, Walter Sauer, whom I think all of you know. One of our other directors, Alex McCullough, is also with me as are several officers and members of the staff of the Bank.

Mr. Chairman, I don't know how you want me to proceed.

Mr. PASSMAN. Their names will be placed in the record.

Mr. CASEY. I have submitted a rather comprehensive statement dealing both with the fiscal requirements of the Bank and containing some of my thoughts on the state of world trade, the importance of our exports, and the kind of competition we encounter.

Mr. PASSMAN. Would it be your wish, Mr. President, to insert your statement in the record and then summarize it?

Mr. CASEY. I think it would be well to insert my statement in the record. Then I thought I would state the fiscal and budget position of the Bank, and then my more generalized thoughts, if you care to have me elaborate.

GENERAL STATEMENT

Mr. PASSMAN. Without objection, we will insert the statement in the record at this point.

[The statement follows:]

STATEMENT OF WILLIAM J. CASEY, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Chairman, members of the committee, it is a pleasure to be here today to discuss with you the activities of the Export-Import Bank over the past year and to present our business and budget projections for fiscal year 1976. Since this is my first appearance before this committee as president and chairman of the Bank, I would like to review with you not only the numerous actions undertaken by Eximbank and the legislative changes in the Bank's basic charter enacted by the Congress during the past year, but also to share with you some of my thoughts on the role of this Bank as a U.S. Government export financing institution in relation both to the economy of our own country and to the economic patterns and pressures in world trade.

FISCAL YEAR 1976 BUDGET REQUEST

Our budget request for fiscal year 1976 takes cognizance both of the acute need for national fiscal stringency and the minimum requirements for credit support to keep American business competitive in world trade.

For the fiscal year, the Bank requests:

$3.975 billion for regular loan authorizations, of which
$3.85 billion for equipment and service loans;
$8.9 billion for gross guarantee and insurance authorizations;
$1.4 billion in Discount Loan authorizations; and
$11.4 milion in administrative expenses.

We consider the proposed fiscal year 1976 budget of $3,850 million for equipment and service loans to be a realistic baseline estimate of the minimum probable call on Eximbank credit resources during the year. The Bank currently has outstanding and pending preliminary commitments and applications for credits, totaling $2.9 billion, of which $1.1 billion probably will become firm loans in fiscal year 1976. Also programmed is $2.475 billion for additional equipment and service loans expected to be authorized. The CFF and relending programs are estimated at $275 million, as against a forecast of $250 million for fiscal year 1975.

I would like to call the committee's attention to the fact that the amount requested for direct credits is only 1.3 percent more than was authorized for fiscal year 1974, while the cost of the goods financed has increased by many times that figure. Thus, with the requested authorization, the Bank actually will be able to provide relatively less direct credit in fiscal year 1976 than it did 2 years ago in fiscal year 1974. Neverthless, we feel that these authorizations are generally adequate to enable the Bank to continue actively to meet the demands of the U.S. exporting community.

We are asking in fiscal year 1976 for a gross authorization of $8.9 billion for our guarantee and insurance program. After taking account of repayments and cancellations and adjusting this figure to reflect the fractional charge of these programs with respect to our total authority, the charge to new program activity for guarantees and insurance is $826 million.

The Bank believes that guarantees and insurance will continue to grow as more commercial banks and institutions become involved in export financing and as U.S. exporters respond to increased overseas sales opportunities. The fiscal year 1976 budget provides for a greater increase in guarantees and insurance than in the loan program. This reflects the continued emphasis placed by the Bank on encouraging private financing of U.S. exports.

EXPERIENCE IN FISCAL YEAR 1975

Eximbank ended fiscal year 1974 with an "inventory" of some $700 million in sound, bankable projects which could not be authorized because we had fully utilized our equipment and services limitation for that year. This was the first time in the Bank's 40-year history that had happened.

In order to work off this "inventory" within a budget which, taking no account of inflation, was 11 percent lower than the year before, and still allow funds to cover anticipated needs (including new applications for nuclear and large mining projects stimulated by shortages and high prices in fuels and metals), the Bank had to exercise extreme care and prudence in managing its resources. Terms were tightened by reducing Eximbank participation in direct credits from 45 percent to as low as 30 percent thereby shifting more of the burden to the private sector, and by raising fees on certain programs. The rising cost of money caused the Bank to increase its interest rate from a fixed 6 percent to a band between 7 percent and 9 percent.

As a result of the tightening in terms, the effective blended interest rate paid by the borrower increased to 11 percent plus, compared with 6 to 7 percent then being offered by foreign competition. We consequently began losing export business. U.S. engineering firms and other sponsors of big projects were turning more to sourcing in Europe and Japan in order to get more favorable financing. The Bank's last competitiveness report, submitted to the Congress in February, noted that "there were indications that, in those capital goods sectors of great importance to increasing the level of U.S. exports, several factors, especially the ability of other countries to finance a larger portion of the export price of their goods at lower rates than Eximbank felt able to do, were diverting exports from the United States or otherwise causing a slowdown in potential U.S. sales abroad."

The tightening of terms, the prospective slowdown in world trade, the loss of business to foreign competition, temporary shortages of certain items important to U.S. exports (e.g., certain energy-related equipment), and a general scarcity of private capital together with a more restrictive attitude by the banks toward export financing combined to cause a drop-off or postponement in requests for Eximbank credits. The reduction in our average participation from 47 percent in fiscal year 1974 to 35 percent in fiscal year 1975 resulted in about $550 million less in authorizations than would have been the case at the fiscal year 1974 participation level. In addition, the Bank is aware of some $1.5 billion in planned projects which have been postponed (or in some cases canceled) by their sponsors for various reasons, most notably because of the world economic situation. Finally, between July 1, 1974, and January 4, 1975, the Bank was "out of business" four different times for a total of 44 workdays because of expiration of the Bank's authority to do business as a result of lack of enactment of several continuing resolutions which had extended that authority.

The precise impact of these various developments on exporters and buyers cannot be fully measured. Nonetheless, we are persuaded that they combined to produce a substantial drop-off in anticipated business.

In February 1975, Eximbank responded to the new situation by strengthening its support programs. It relaxed the limitations on the amount of its participation in credit transactions, which now can go up to 55 percent. It also indicated a willingness to make more liberal use of its guarantee authority. (When there is no direct credit, the Bank may guarantee as much as 85 percent of the export transaction.) The Bank's interest rate is now set within a range of 7 and 9 percent. A guarantee commitment fee of one-eighth of 1 percent is being charged and the guarantee fee itself ranges from three-fourths to 1½ percent.

SUMMARY OF EXPORTER CREDIT PROGRAMS

Eximbank places special emphasis on its short- and medium-term exporter credit programs which support private financing at market rates of interest through guarantees, insurance and discount loans. Eximbank's exporter credit programs accounted for 72 percent of the number of all transactions authorized during the first 9 months of fiscal year 1975 and are expected to account for more than three-quarters of the total in the coming fiscal year.

This program, which has various types of policies, has been used to support a diverse range of products including raw materials, consumer goods, agricultural commodities, spare parts, livestock, and capital and quasi-capital equipment of all types.

The exporter credit programs of Eximbank are heavily used by small- and medium-sized exporters, with the average guarantee or insurance policy being well under $100,000. Guarantees and insurance are offered through private intermediaries, with risk-sharing being spread between Eximbank, the private banks, the Foreign Credit Insurance Association (FCIA), and the exporter himself. During this fiscal year such guarantees and insurance, supporting credits with a repayment term up to 5 years,[1] should facilitate exports of about $4 billion. Next year we anticipate at least a 10-percent increase in this activity. The guarantees and insurance are offered at reasonable premiums which have recently been raised so that they will continue to be sufficient to cover claim payments on those export credits which go into default. Guarantees and insurance policies operate on insurance principles by spreading the risk of exporting among many users and preventing defaults on individual export credits from having a disastrous effect on particular exporters or banks.

Discount loans, on the other hand, are meant to stimulate export financing by U.S. commercial banks by providing a source of funds during periods of nonliquidity. Although this has not been a problem in recent months, or even during most of the fiscal year, commercial banks have continued to obtain standby discount loan commitments from Eximbank at market rates of interest which could be drawn upon in the future if general liquidity again becomes tight. During fiscal year 1975, discount loans supporting over $1 billion of exports will be authorized versus an initial estimate of $2 billion of authorizations, and we are now estimating that discount loan commitments for fiscal year 1976 will be about $1.4 billion. It should be noted, however, that most discounting commitments of

[1] This excludes financial guarantees.

the Bank are not called upon. Over the years funds actually called upon pursuant to discount authorizations have ranged from a low of 7 percent to a high of 40 percent.

Another medium-term program of Eximbank, which will support about a third of a billion dollars of exports this fiscal year and shows promise of further development next year is the cooperative financing facility (CFF), designed especially to help small business exports. Under the CFF program, Eximbank makes lines of credit available, currently at 8 percent interest, to foreign banks to finance up to 45 percent of the cost of U.S. exports, with the balance of the funds coming from private sources. The foreign banks relend the funds to buyers in their countries to purchase U.S. goods, and the foreign banks assume responsibility for repaying these loans to Eximbank. There are now 354 banks operating under the CFF program in 51 different countries. During fiscal year 1974, nearly 1,500 separate export transactions were supported under this program. Almost half of the subloans made last year under this program were less than $50,000, proving the effectiveness of the CFF lines in helping small business exporters and buyers.

Of the 354 CFF lines outstanding, 56 (16 percent) have the option to have an Exim financial guarantee and 298 (84 percent) were authorized without a guarantee. In terms of dollars, the Bank has authorized $1,424 million of CFF lines—$250 million with guarantees and $1,174 million with no guarantee.

To encourage small and minority businessmen in their export efforts, Eximbank maintains a small business advisory service to counsel and advise these businessmen on how the various programs of Eximbank and the Foreign Credit Insurance Association (FCIA) may be used to sell their products abroad.

In addition, Eximbank also has an in-house training program which is available to small and minority businessmen. This program entails both group briefings on the various programs and 1 on 1 discussions relating to the finer points of particular programs.

The Bank has in its files the names of over 6,500 U.S. firms which have used Exim's programs one or more times. The large majority of these are small and medium-sized businesses.

Even in the direct credit program where loans of millions of dollars are involved, small businesses share a significant part of the export. For example, the Boeing Co., has estimated that about 15,000 sub-suppliers are involved in the manufacture of one Boeing 747. Many of these firms are small businesses.

It is worthwhile highlighting that Eximbank's guarantee, insurance and discount loan activities, which support private financing at market rates of interest, have become a dramatically greater part of Eximbank's overall export support during the last year. As a result of our attempts to maximize private financing of U.S. exports, guarantees, insurance and discount loans rose from 59 to 67 percent of Eximbank's total authorizations during the first 9 months of fiscal year 1975 and we anticipate that over 70 percent of our activity by fiscal yearend will be in these categories of backup assurances for private money market transactions.

These guarantees, insurance and discount loans supporting market interest rate transactions do not entail any cost to the Bank and actually have generated a modest profit down through the years. The premiums and fees we have received for guarantees and insurance have substantially exceeded the claims we have had to pay and our borrowing costs for funding discount loans have almost exactly balanced the market rates we have charged on those loans.

The exact figures are as follows: The guarantee programs since inception through December 31, 1974, have earned fees of $41.2 million while claims paid net of recoveries have aggregated $18.5 million. The insurance program since inception has earned premiums of $12.1 million while claims paid net of recoveries have aggregated $10.1 million. The discount loan program has earned Eximbank interest of $105.6 million since inception, while costs of borrowing to fund that program have aggregated $105.7 million.

During the last 2 years, however, Eximbank's claims experience, particularly under the insurance program, has slipped considerably, as world economic and commercial conditions have deteriorated. During fiscal years 1973 and 1974, for example, insurance premiums received were only $2.9 million versus claims of $6.1 million. In an attempt to correct this situation, and to induce greater risk taking on the part of the private insurance companies, Eximbank renegotiated its reinsurance agreement with FCIA effective January 1975, to incorporate

higher insurance fee schedules and to impose responsibility for a greater portion of any loss on the FCIA, FCIA is a private company owned by over 50 insurance companies which Exim reinsures for losses in excess of $250,000 per buyer and multiple losses in excess of $6,200,000 per annum. It is estimated that these changes will redress the balance between premiums and claims so that the program will continue to be self-sustaining on a long-run basis.

IMPACT OF EXPORTS ON THE ECONOMY

Economic conditions have changed drastically since March 1974, when Eximbank's budget was last reviewed. At that time, the Nation's—and the world's—No. 1 economic problem was the unprecedented inflation that was occurring and the widespread scarcity of critical commodities and materials. Although we had trouble paying the sharply increased price for oil imports and our trade deficit was widening, it was natural in that environment to ask: Why should we encourage exports? Why do we need Eximbank? Why not pay for needed imports by encouraging capital inflows and depreciating the dollar?

Today we are in the midst of the deepest recession in post-war history. The rate of price increase, although slowing, remains unacceptably high. As we grapple with the problems of recession, inflation and trade deficits, I think it is useful to review the contribution of exports, particularly the capital goods exports that Eximbank supports, to employment, income, and the growth of productive potential.

Of particular significance at this time is the impact of exports on employment. The unemployment rate now exceeds 8 percent and is still creeping up. This is a point of most immediate concern as the Government deals with the current recession; it is the basic reason for the emergency tax reduction which will add an estimated $22 billion to our national deficits this fiscal year and next. I am not advocating a beggar-thy-neighbor policy of exporting unemployment, but I do wish to emphasize the contribution exports make in supporting employment and the natural countercyclical tendency of exports to rise relatively in recessionary periods and to decline relatively in periods of domestic boom.

Sources at the Bureau of Labor Statistics tell us that in 1974 nearly $13 billion in exports facilitated by Eximbank direct credits accounted for almost 700,000 jobs. The great bulk of these jobs were in the high technology industries with the highest wages and best working conditions. We at Eximbank have estimated the cost of providing jobs through public service employment at $8,000 per job. To supply 700,000 jobs at that rate would involve appropriations of nearly $6 billion. Eximbank's year to year operations, on the other hand, do not require any additional appropriations of the tarpayers' money.

Employment in those capital goods sectors where Eximbank support is greatest has increased at double the rate for all manufacturing industries. In fiscal year 1974, employment in the machinery and equipment sector rose 3.8 percent compared to 1.5 percent in all manufacturing industries. In fiscal year 1973, the rates were 9.6 and 4.9 percent; and in fiscal year 1972, 3.8 and 1.7 percent.

These same sectors have also experienced price increases considerably below the general level. In fiscal year 1974, while the wholsesale price index for industrial commodities rose 22 percent, the index for machinery increased 13 percent, and for transport equipment only 7 percent. In fiscal year 1973, the respective increases were industrial commodities 8 percent, machinery 3 percent, and transport equipment 7 percent; and in fiscal year 1972, industrial commodities 4 percent, machinery 2 percent, and transport equipment 4 percent. In addition, U.S. national income and tax receipts also grow as our exports expand.

Exports stimulate investment, savings, and technological innovation that increase productivity. Because the U.S. exports those goods and services in which it has a comparative advantage, an increase in exports results in an expansion of those sectors of the economy which exhibit the greatest relative productivity. The diffusion of productivity gains to the rest of the economy has a significant positive effect on overall productivity.

U.S. capital goods exports also contribute to the growth of resource capacity overseas, a very important factor if we are to be successful in combating inflation over the long term. Much of the machinery and equipment that the U.S. exports—the tractors, the shovels, the drilling rigs—add to future foreign potential to supply the United States and the world with needed agricultural, mineral, and energy products while the nuclear powerplants reduce foreign demand for scarce fossil fuels.

PAYING FOR NEEDED IMPORTS

It would be logical recognizing the contribution that exports make to employment, income, and the growth of productive resources, to increase our exports, particularly our capital goods exports, to pay for needed imports. To rely on capital inflows or on dollar depreciation would deny us the benefits associated with exporting and would also be extremely dangerous and costly.

International capital flows are basically erratic. To count on them as the balancing factor in our international payment structure would force us on occasion—unless capital controls are reimposed—to pursue interest rate policies inconsistent with domestic economic objectives and inhibit us in our efforts to control inflation and stimulate investment.

A depreciating dollar contributes substantially to inflation in the United States by raising the price of imports; it also increases the physical volume of goods we have to supply to earn needed foreign exchange. Exchange rate changes are useful to overcome fundamental balance-of-payment problems, but they are not an alternative to exports.

U.S. exports are concentrated in the high technology industries. In recent years, exports of machinery and transport equipment have accounted for over half of U.S. nonagricultural exports. Eximbank, in turn, supports nearly a quarter of these capital goods exports.

Capital goods are the foundation of the U.S. export base. Whereas agricultural exports are subject to the vagaries of the weather, both domestically and abroad, the production of capital goods is not. The prices of agricultural commodities are also subject to dramatic price swings as the market responds to supply and demand conditions. A large component of the rapid increase in the value of agricultural exports has been due to price increases as a result of poor harvests and rising incomes abroad. As harvests abroad return to normal and as new investments in agricultural projects around the world come to fruition, agricultural prices probably will recede. Overdependence on the export of agricultural produce could produce cyclical "boom or bust" periods in the U.S. external acounts, a situation which would engender pronounced currency and domestic economic instabiilty. Eximbank's continuing support for U.S. capital goods exports helps provide a stable base which lessens the impact of the more volatile movements in agricultural trade.

NEED FOR EXIMBANK

The availability of financing at reasonable cost and adequate maturity is an important element affecting our overall competitiveness in the international market for capital goods. If the United States is to secure the benefits associated with capital goods exporting while paying for needed imports, we need a good export financing program. Even if U.S. products are competitive in terms of price, quality, and delivery date, sales will be lost, unless adequate financing is available, particularly for large capital projects. Even in the few cases where only U.S. equipment presently fills the need, the buyer still has the option of deferring his purchase, possibly until foreign competitive equipment becomes available, stretching out the use of his present equipment, or buying used equipment and not necessarily from U.S. sources.

In our view, private markets should be relied on to the fullest extent possible. There are a number of areas, however, in which export credits may not be available in sufficient volume and on appropriate terms. This is something that has been recognized in almost every study of export financing and in almost every survey of the private financial community.

While the support of Eximbank is more often crucial in the long-term lending area, I would point out to the committee that the Bank's resources are employed to facilitate the exports of all business sectors on all the customary term lengths. As I have indicated, however, a chief feature of the Bank's support is that it is highly concentrated in the capital goods sector. This is where our industries are most efficient, where they compete best, and where U.S. exports are concentrated.

All of the major industrial countries offer some form of official assistance for longer-term export financing. Private institutions clearly cannot meet below-market competition. In recognition of the unfair advantage given U.S. competitors, and for the sake of equity and efficiency, Eximbank is required by current legislation to provide credit on terms and conditions which are competitive with those of our principal competitors.

Eximbank reported to the Congress last February, as required by law, on the competitiveness of our program. We reported on one survey which showed that 50 American companies, in 70 cases over the past 2 years, had lost a total of $4 billion in export sales. Inadequate official financial support was a contributing factor in almost all of the cases. The lost business included steel mill sales in Brazil and Mexico; LNG and related oil and gas equipment sales in Algeria and the Middle East; LNG ship sales in Malaysia; and conventional power projects in Europe and Latin America.

We found that some U.S. manufacturers—especially those producing locomotives, earth-moving, chemical processing, telecommunication and offshore drilling equipment—in order to take advantage of more favorable, foreign government-supported official export financing, have turned to overseas subsidiaries and affiliates for equipment to fill their export orders. Companies which lack the flexibility to set up overseas production, such as steel and power equipment manufacturers, may direct sales opportunities to foreign firms with whom they have licensing agreements, rather than lose out entirely on these transactions.

Some of our world-renowned engineering and construction companies, which are much sought after for the bigger, more difficult projects around the world, are being influenced in their sourcing decisions by the credit competition among major trading nations. These U.S. firms are able to shift their design work to their overseas subsidiaries to take advantage of the host countries' more favorable official export financing. These firms strongly influence decisions as to where equipment will be purchased for the facilities they are building under contract. Even if their designs call for U.S. type equipment, it may be obtained from overseas subsidiaries of U.S. companies in order to save on financing costs. This means a loss of manufacturing business at home, lost jobs and lost balance of payments benefits.

Here are some of the ways the European countries and Japan have recently improved their official export credit programs:

They have used appropriated funds to keep subsidized interest rates at 6 percent or 7 percent. This problem was reduced somewhat, however, late in 1974 when the United States agreed with France, Germany, Italy, Japan, the U.K., and Canada that they would not offer export credits in excess of 5 years at a rate below 7.5 percent.

They have subsidized interest rates on credits with terms as short as 18 months. Eximbank almost never extends credits on less than 5-year terms.

Some countries, particularly France, Germany, and Japan, have mixed their export credits with development assistance loans which typically carry 20-year terms at 4½ percent interest. This can, in effect, convert a 10-year, 7½ percent, export loan to a 15-year, 6 percent blended aid-export loan. The United States does not enter this kind of competition with our AID program being mainly focused on education, health, and agricultural development.

Recently some European countries have introduced new "insurance" programs to insulate their exports from price inflation and exchange rate fluctuations.

Other countries also support a larger share of their total exports—the British, 40 to 50 percent; Japan, 50 percent; France, 20 to 25 percent—compared to about 18 percent in the United States. Germany supports only 7 to 8 percent of its exports. One thing to bear in mind on this is that the European countries get more of their export earnings from sales to other European countries. They have been doing this for so long, and it is such a large part of their economic activity that they have well-developed private financial machinery within Europe and they know their foreign customers quite intimately. On the other hand, the manufacturer in Dubuque does not have the same feeling of confidence in buyers who may want his products in Asia, Europe, or South America, and his banker will be much more hesitant to finance an export to South America than a German banker will be in financing a sale to France or Italy.

A number of deficiencies in private capital markets restrict the availability or raise the cost of funds for export credits. These defects provide a need for Eximbank support even in the absence of foreign export credit competition. Indeed, this is one of the most important bases of Eximbank's programs. The most significant deficiencies include:

A general shortfall in the funds available for export financing—Export financing is more risky for commercial banks than are domestic loans. As a consequence, export credits are less attractive during tight money periods. Moreover, many of

the institutional investors such as insurance companies and pension trusts, who play a major role in financing large domestic projects, are excluded from export financing by regulation and custom.

Lack of long-term credits.—U.S. buyers generally finance their major capital equipment projects through the sale of debt, often to institutional investors. Foreign firms—especially those in less developed and semi-developed economies—do not have access to well-developed domestic capital markets to finance their purchases. They are consequently forced to rely on commercial banks. Commercial banks, however, have traditionally been reluctant to make loans, particularly at fixed interest rates, for maturities exceeding 5 years, even when the project economics require these long maturities as is often the case with major capital equipment purchases.

Excessive risk premiums.—Commercial banks and exporters often appear to have an exaggerated assessment of the risk of financing foreign transactions. They are consequently unwilling to provide credits in the amount or on terms reflecting their true cost (i.e., charging a premium based only on the actuarial risk). The level of export financing is reduced, therefore, and the cost of credit increased.

There are also a number of areas where the private market fails to generate the optimum level of exports consistent with U.S. national welfare. U.S. industry appears to pay less attention to export opportunities and to give a lower priority to export than does industry overseas and then is consistent with national welfare and profit maximization. Often a firm will not attempt to penetrate new markets or stimulate follow-on-exports because the cost to the firm will be great compared with the benefit that accrues to the firm, as opposed to exporters and the nation in general. Similarly, in a number of industries, particularly in the high technology area, there are significant economies of scale which can only be exploited—primarily for the benefit of the product's consumers—by developing wider markets.

By providing longer maturities and market-related interest rates Eximbank is not discriminating in favor of exports. We merely make them financeable. I have made some comparisons on the terms available on loans for equipment used domestically and for export credits on typical items Eximbank finances. On jet aircraft we give 10-year repayment terms. Domestic carriers often use leveraged lease arrangements for 15 years. On nuclear power plants, 20–25 year bond issues are generally used domestically. On locomotives, we give 10 years. Domestic railroads often use 15-year trust certificates. On steel mills and plants, we usually go 10 to 12 years. Our steel companies can use insurance company loans for 18 years and more. On thermal powerplants, we go 12 years; domestic utilities often use 20 to 35 year bond issues. On refineries, petrochemical plants, and iron ore and copper extraction facilities, the banks do a lot of the financing at 8 to 10 years; and that's the range of our maturities. Thus, the average term offered by Eximbank for a wide variety of projects is usually comparable to or shorter than the terms obtained by domestic purchasers of similar equipment.

It is interesting to note that the sources of longer-term financing domestically are not usually commercial banks. They are investment banks and insurance companies who have traditionally played a very minor role in international trade. It is consequently left to the commercial banks and Eximbank to provide the bulk of the export credits. We cannot expect the institutional lenders to modify their policies and move more aggressively into export financing overnight. Nevertheless, in some cases we may be able, by using Eximbank guarantees and restructuring the loan package, to secure their participation.

These are the highlights of our programs, of what we are doing to maximize their effectiveness, and of the contribution they make to American exports, small and large, and the contributions these exports made to employment, income and the growth of productive resources. We appreciate the support this committee has given the Bank to carry out its mandate to aid in financing and to facilitate U.S. exports.

We would be pleased to answer any questions the committee may have.

Mr. PASSMAN. We will take a brief recess so we may go and answer our names and then we will continue.

Mr. CASEY. Thank you, sir.

[Brief recess.]

Mr. PASSMAN. The committee will come to order.
Mr. President, you may proceed in your own way, sir.

REQUESTS FOR FISCAL YEAR 1976

Mr. CASEY. Mr. Chairman, for the fiscal year budget, the Bank requests entail regular loan authorizations of $3.975 billion, $8.9 billion for gross guarantee and insurance authorizations, and $11.4 million in administrative expenses.

The administrative expense request would be $865,000 more than the previous year and would reflect the addition of 20 people to the staff of the Bank, which already is a very small organization to carry on the activities it handles.

We have about 400 people. We have almost tripled the volume of activity over the past several years, but there hasn't been anything near a commensurate increase in personnel, so we would like to add 20 people to the staff. This would not require any appropriation, as you understand.

We also have had an increase in rent and increased communications costs that account for a part of the increase requested in the administrative expenses.

We consider this proposed budget, which would involve $3.850 billion for equipment and service loans, to be a realistic estimate of the minimum probable call on the Bank's credit resources during the year. The Bank currently has outstanding and pending preliminary commitments and applications for credits totaling $2.9 billion, of which we expect $1.1 billion to become firm loans in fiscal year 1976.

We also program $2.4 billion for additional equipment and service loans expected to be authorized.

Mr. Chairman, we can identify these precise loans. It is a tight authorization. We know that these loans are coming in. Some will fall by the wayside; some additional loans will come in, so we will have a tight budget but we think we can handle it on this authorization. The relending programs and CFF for foreign banks are estimated at $275 million.

INCREASE FOR DIRECT CREDITS

I would like to call the committee's attention to the fact that the amount requested for direct credits is only a little more than 1 percent more than was authorized 2 years ago, fiscal year 1974, while the cost of the goods financed has increased by many times that figure, probably close to 40 percent. Thus, with the requested authorization the Bank actually will be able to provide relatively less direct credit in fiscal year 1976 than it did 2 years ago in fiscal year 1974, despite the very marked increase in world trade.

Nevertheless, we feel that these authorizations are generally adequate to enable the bank to continue actively to meet the demands of the U.S. exporting community, and if we find out it is not we will be back to talk to you about it.

GUARANTEE AND INSURANCE REQUEST

We are asking in fiscal 1976 for a gross authorization of $8.9 billion for our guarantee and insurance program. After taking account of repayments and cancellations and adjusting this figure to reflect the 25 percent charge against our overall authorization, the charge to new program activity for guarantees and insurance will come down to about $826 million.

We believe that guarantees and insurance will continue to grow as more commercial banks and institutions become involved in export financing and as U.S. exporters respond to increased overseas sales opportunities. The fiscal 1976 budget provides for a greater increase in guarantees and insurance than in the loan program. This reflects the continuing efforts by the Bank of encouraging private financing of U.S. exports and encouraging private banks and other institutions to go into export financing backed by our guarantee. I should make clear that our guarantee and insurance programs support exports which are directly financed by the private market at market rates.

EXPERIENCE IN FISCAL YEAR 1975

We ended the previous fiscal year, fiscal 1974, with an "inventory" of some $700 million in sound, bankable projects which could not be authorized because we fully used our equipment and services limitation for that year.

As of June 1974 we had an authorization of $3.8 billion. We made or had on hand good loans, recommended by the staff, at $4.5 billion. We had to take $700 million of those loans and carry them over into this year. This was the first time in the Bank's 40-year history that that has happened. We would have exceeded our authorization had we authorized the loan applications on hand.

To work off this inventory within a budget which, taking no account of inflation, was 11 percent lower than the year before, and still allow funds to cover anticipated needs, including new applications for nuclear and large mining projects stimulated by shortages and high prices of fuels and metals, the Bank had to exercise extreme care and prudence in managing its resources which tightened up rather sharply.

STEPS TAKEN TO MAXIMIZE RESOURCES AVAILABLE

We increased our interest rate by about one-third, from 6 to 8 percent and, subsequently, to 9 percent with most of the loans going at an 8 percent interest rate. We increased our guarantee fees almost 100 percent, and we increased our insurance premiums by 50 percent. The terms were tightened by reducing the Bank participation in direct credits from 45 percent to as low as 30 percent, thereby shifting more of the burden of export financing to the private banks.

As a result of the tightening in terms, the effective blended interest rate paid by the borrower increased to 11 percent plus, compared with 6 to 7 percent then being offered by foreign competition.

We consequently began losing some export business.

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COMPARISON OF EXIMBANK RATES AND FOREIGN COMPETITION

Mr. PASSMAN. Did I understand you correctly that you are getting approximately 11 percent interest and some of our competition has interest at 6.5 percent?

Mr. CASEY. We were in that situation during the year. When I say that, I don't mean that Eximbank was getting 11 percent. We were getting 8 percent, but we were only doing half the financing. The banks were coming in and charging 12 and 13 percent at that time on the other half of the financing, so it blended out as high as 11 percent to the buyer.

At that time the European countries and Japan were still financing at 6.5 to 7 percent. Since that time we have had an agreement with them which creates a floor interest rate of 7.5 percent for credits over 5 years.

Mr. PASSMAN. This makes a good record.

Mr. CASEY. At the same time, the bank interest rates in the private market have come down, so today we are much more competitive than we were during that rough period when money rates were so high last year.

Mr. PASSMAN. Pardon me for interrupting.

BUSINESS LOST BECAUSE OF CUTBACK IN EXIMBANK SUPPORT

Mr. CASEY. I am glad to have the opportunity to explain that. I want to emphasize that by cutting back so that we were financing only 30 to 35 percent of the price while our competitors were financing 80 to 85 percent of the export price, we did send some business overseas. We did lose the business.

Mr. CONTE. You lost the business?

Mr. CASEY. Yes; sure. We found that U.S. engineering firms and other sponsors of big projects were sourcing their projects in Europe. We have the best engineering firms in the world. They can put together these big projects better than anybody, but they were going to Japan, to Canada, to Europe to buy the equipment with which to put these projects together because they could get the financing there.

In a period of tight money they could get 75 to 85 percent financing over there so they do a lot of buying where they can get that kind of financing. We also found that some of the multinational corporations in order to get the financing they needed to compete and to complete their projects were sourcing in their foreign subsidiaries and foreign licensees. They were shifting the business overseas. They can do it by Telex.

We spelled this all out in our competitiveness report which was filed with the Congress back in February.

Starting in February 1975 we responded to the new situation by strengthening our support programs.

Mr. Long, I just was explaining as we had a cutback in our participation of financing, a lot of business originated and carried out by multinational corporations and American engineering firms began to get sourced overseas. They put the project together but they would buy the equipment elsewhere.

We may have cut back too sharply to permit this to happen. We did it under the pressure of our limited authorization and of proliferated demand arising from inflation.

CUT IN LOAN AUTHORIZATION IN FISCAL YEAR 1975

Mr. CONTE. Did the Congress cut your authorization down?

Mr. CASEY. The OMB did it in the first instance.

Mr. PASSMAN. I thought it was OMB, not the Congress.

Mr. CONTE. Not the Congress.

Mr. CASEY. OMB had us asking for 10 percent less than we had the previous year.

Mr. PASSMAN. But this committee I believe——

Mr. CASEY. You gave us what we asked for.

Mr. PASSMAN. The full authorization?

FISCAL YEAR 1976 LOAN REQUEST INCREASED

Mr. CASEY. Yes. OMB has reversed course and they are permitting us to ask for the same amount for fiscal 1976 that we had in 1974. I think we have learned to manage with that. It is hard to tell. One reason we have been able to manage and respond to this diversion of business is that we saved about a half billion dollars of the authorization by trimming the percentage of exports we financed from 45 percent to about 35 percent.

Mr. PASSMAN. I wonder if the people at OMB dealing with this had an opportunity to study your record, that is, the record of Export-Import Bank? I am not prone to flatter any agency or any witnesses but when you have a record such as yours I wouldn't be honest if I didn't defend it.

Mr. CASEY. I defend it pretty vigorously but I don't always win.

BIOGRAPHY

Mr. PASSMAN. Thank you, Mr. Casey, for your statement. We will insert your biography in the record at this point.

[The biography follows:]

WILLIAM J. CASEY, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

William J. Casey took his oath of office on March 14, 1974, as President and Chairman of the Export-Import Bank of the United States. The Eximbank position is the third key appointment Mr. Casey has filled in the U.S. Government. He served as Chairman of the Securities and Exchange Commission from April 1971 until February 1973. From February 1, 1973, until March 14, 1974, as Under Secretary of State for Economic Affairs, he was the senior State Department official in charge of international economic policy matters. While Under Secretary of State, he served concurrently as Alternate Governor of the World Bank, the Inter-American Development Bank and the Asian Development Bank. He is now a member of the Commission on the Organization of the Government for the Conduct of Foreign Policy and has previously served on the General Advisory Committee on Arms Control (1969–71) and the Presidential Task Force on International Development (1969–70).

Mr. Casey was born in New York City on March 13, 1913. He received a B.S. from Fordham University in 1934 and an LL.B. from St. John's Law School in 1937. He was admitted to the New York Bar in 1938. From 1938 until 1949, Mr. Casey was chairman of the Board of Editors of the Research Institute of

America. During World War II, as lieutenant, U.S.N.R., he was Chief, Secretariat, OSS, European Theater, in 1943 and 1944. Returning to a civilian capacity, he was Chief, OSS Intelligence Operations in the European theater during 1944 and 1945.

Before his appointment as Chairman of the Securities and Exchange Commission, Mr. Casey was chairman of the Board of Editors, Institute for Business Planning (1953–71), and a partner in the New York City law firm of Hall, Casey, Dickler and Howley (1957–71). He has served as president and chairman of the Executive Committee of the International Rescue Committee (1966–71), as president and as chairman, Long Island Association (1968–71), as trustee of Fordham University (1965–71) of the College of White Plains (1969–71) and of Catholic Charities on Long Island (1968–71) and as a founding director of the National Strategy Information Center (1966–71) and the Center for the Study of the Presidency (1968–71).

Mr. Casey has authored many books and lectured widely on financial, economic and legal subjects. He is married to the former Sophia Kurz. They have one daughter, Bernadette.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will also insert the justification material in the record.

[The justifications follow:]

EXPORT-IMPORT BANK OF THE UNITED STATES

BOARD OF DIRECTORS

William J. Casey, Chairman of the Board.
Walter C. Sauer, Vice Chairman.
R. Alex McCullough, Director.
John C. Clark, Director.
Mitchell P. Kobelinski, Director.

OFFICERS

William J. Casey, President.
Walter C. Sauer, First Vice President.
Warren W. Glick, Executive Vice President.
(Vacant) General Counsel.
William S. Mason, Jr., Senior Vice President and Treasurer-Controller.
Delio E. Gianturco, Senior Vice President—Exporter Credits, Guarantees, and Insurance.
Stephan M. Minikes, Senior Vice President—Research and Communications.
Joan P. Harris, Secretary.

MEMBERS OF THE ADVISORY COMMITTEE

Ernest C. Arbuckle, Chairman of the Board, Wells Fargo Bank, 464 California Street, San Francisco, Calif. (Term expires September 1, 1975.)

Joseph W. Barr, Corporate Director and Farmer, 730 15th Street N.W., Suite 907, Washington, D.C. (Term expires September 1, 1975.)

Gordon E. Doré, President, The Supreme Rice Mill, Inc., P.O. Drawer 490, Crowley, La. (Term expires September 1, 1975.)

William R. Grant, President, Smith Barney & Company, 1345 Avenue of the Americas, New York, N.Y. (Term expires September 1, 1975.)

Lawrence S. Kachelriess, President, Export Credit Corp., 477 Madison Avenue, New York, N.Y. (Term expires September 1, 1976.)

Joseph D. Keenan, International Secretary, International Brotherhood of Electrical Workers, 1125 15th Street NW., Washington, D.C. (Term expires September 1, 1975.)

Buck Mickel, Chairman of the Board, Daniel International Corp., Daniel Building, Greenville, S.C. (Term expires September 1, 1975.)

Alfred E. Miossi, Executive Vice President, International Dept., Continental Illinois National Bank & Trust Company of Chicago, 231 S. LaSalle Street, Chicago, Ill. (Term expires September 1, 1975.)

Nathan H. Wentworth, Chairman of the Board, The Continental Corp., 80 Maiden Lane, New York, N.Y. (Term expires September 1, 1975.)

Export-Import Bank of the United States—Fiscal Year 1976 Budget

INTRODUCTION

The congressional review of Eximbank's budget and operations comes at a time of particular challenge and uncertainty for U.S. exporters and, accordingly, for Eximbank—the only official U.S. export financing agency.

The Bank is charged by the Congress to aid in financing and to facilitate exports by using its resources to undertake that range and mix of programs which will be most effective in (a) making up shortfalls in commercial export financing; (b) meeting competition from officially supported foreign exports; (c) overcoming structural defects in financial and other markets; (d) penetrating new markets; and (e) stimulating follow-on exports.

In assessing Eximbank's budget and operations in light of this congressional mandate, it is useful to begin with a description of recent and current forces and developments in the domestic and international environment with which we must deal.

A. International

(1) Over recent years both United States and world exports have been increasing at high rates—higher in fact than world output. This trend continued through 1974 although a rising portion of the increment reflected price increases rather than a growth in volume. Preliminary estimates for 1975 indicate a deceleration in the recent high rates of growth echoing the worldwide downturn in economic activity, although rising prices will continue to somewhat push up export value.

(2) Within this setting—and in large part because of it—governments throughout the world are stepping up their support for their exports. For example, Britain and France recently announced measures to make exporting more attractive, as did Denmark, Austria, and even some developing nations such as Korea.

U.S. exporters are thus facing ever keener competition for markets that are growing more slowly. On top of this, continued worldwide inflation and fluctuating exchange rates create uncertainties that make longer range export planning more difficult.

B. Domestic

Within the United States certain objectives must be carefully balanced.

(1) On one hand, the United States must continuously build up an efficient and productive U.S. export sector to help increase output and employment, and to help pay for mounting import bills without further depreciation of the dollar with its inflationary consequences.

(2) On the other hand, Eximbank accepts its responsibility, together with all U.S. agencies, for holding back increasing expenditures and personnel levels, even though the Bank does not draw on appropriations to support its operations.

Against this background, Eximbank's recent operations and future plans stand out in clearer perspective.

(1) Eximbank ended fiscal year 1974 with an "inventory" of some $700 million in sound, bankable projects which could not be authorized because we had fully utilized our budget authorization for that year. This was the first time in the Bank's 40-year history this had happened.

(2) In order to work off this "inventory" within a budget which, taking no account of inflation, was 11 percent lower than the year before, and still allow funds to cover anticipated needs (including new applications for large nuclear and mining projects stimulated by shortages and high prices in fuels and metals) the Bank had to exercise extreme care and prudence in managing its resources. Terms were tightened by reducing Eximbank participation in direct credits from 45 percent to as low as 30 percent thereby shifting more of the burden to the private sector, and by raising fees on certain programs. The rising cost of money caused the Bank to increase its interest rate from a fixed 6 percent to a band between 7 percent and 9 percent.

(3) This tightening of terms, the prospective slowdown in world trade, increased export efforts by some major competitors, temporary shortages of certain items important to U.S. exports (e.g., certain energy related equipment), and a general scarcity of private capital together with a more restrictive attitude by the banks toward export financing to preserve funds for dometic use combined to cause a dropoff or postponement in requests for Eximbank credits this year. The reduction in our average participation in all direct credits from 47 percent in fiscal year 1974 to 35 percent in fiscal year 1975 alone resulted in about $550 million less in authorizations than would have been the case at the fiscal year 1974 participation level. In addition, the Bank is aware of some $1.5 billion in planned projects which have been postponed (or in some cases cancelled) by their sponsors for various reasons, most notably because of the world economic situation. The Bank's last competitiveness report, submitted to the Congress in February, noted that "there were indications that, in those capital goods sectors of great importance to increasing the level of U.S. exports, several factors, especially the ability of other countries to finance a larger portion of the export price of their goods at lower rates than Eximbank felt able to do, were diverting exports from the United States or otherwise causing a slowdown in potential U.S. sales abroad." Finally, between July 1, 1974, and January 6, 1975, the Bank was "out of business" for a total of 44 workdays because of expiration of the Bank's authority to do business and of several continuing resolutions which had extended that authority. While the impact of these gaps on exporters and buyers cannot be directly measured, we believe that it had some affect on the Bank's total business for fiscal year 1975.

(4) To reverse this potential loss in export sales, which would show up in the trade account 1, 2, or even more years hence when actual shipments take place and to stem the trend by U.S. exporters to source procurement in Europe and Japan where official export financing is more available, the Bank in February relaxed the limitations on the amount of its participation in credit transactions (which now can go up to 55 percent) and announced a willingness to make more liberal use of its guarantee authority. We continue to charge interest rates ranging from 7 percent to 9 percent mindful of the statutory directive to supplement and encourage, but not compete with, private capital, while maintaining flexibility to meet officially supported foreign competition, as the Congress also has directed.

Looking ahead, it is evident that Eximbank must have increased budget limits for fiscal year 1976 if it is to carry out the job the Congress has mandated. The amount requested for direct credits is only 1.3 percent more than was authorized in fiscal year 1974, while the cost of the goods financed has increased by many times that amount. Thus, with the requested authorization, the Bank actually will be able to provide a relatively smaller amount of direct credit in fiscal year 1976 than it did 2 years ago in fiscal year 1974. Further, since the international competitive situation will increasingly require Eximbank to finance a larger share of each transaction, even the increase requested will permit us to support only a smaller part of the U.S. export sector.

We consider the proposed fiscal year 1976 budget of $3,850,000 to be a realistic baseline estimate of the minimum probable call on Eximbank credit resources during the year. This budget total is comprised as follows: The CFF and relending programs which are hereinafter described are estimated at $275 million, as against a forecast of $250 million for fiscal year 1975. The Bank currently has outstanding and pending preliminary commitments and applications for credits all amounting to $2.9 billion of which $1.1 billion probably will become firm loans in fiscal year 1976. Also programed is $2.5 billion for additional equipment and services loans expected to be authorized.

Internationally, U.S. exporters will continue to meet ever heavier competition. Eximbank must have the resources available to help U.S. exporters meet and beat this competition, when necessary.

Domestically, Eximbank seeks to step up the contribution we make to increasing the levels of output and employment in the productive and high wage export sector, especially in the machinery and equipment and transport equipment industries which comprise 39 percent of total U.S. exports. For although Eximbank's operation is small in comparison to this country's GNP, total employment, or even total exports, it is extremely important to the individual firms, their employees and owners, and the many thousands of subcontracting firms which supply them, as well as to the communities in which they are located. Eximbank support enables these companies to expand their production and export sales beyond what they otherwise would be able to.

Fiscal Year 1976 Budget Request

For fiscal year 1976, the Bank is requesting authorization levels which will enable it to continue to provide support to U.S. exports.

This business plan reflects a higher level of loans in absolute terms, although not in relative terms, than in fiscal year 1975, in expansion of the Bank's guarantee and insurance activities, and an adequate level for the discount program.

In fiscal year 1976, the Bank requests—

For regular loan authorizations, $3,975,000,000, of which $3,850,000,000 are for net equipment and services loans;

For gross guarantee and insurance authorization, $8.9 billion;

In discount loan authorizations, $1.4 billion; and

In administrative expenses, $11.4 million.

These authorization levels will generally permit the Bank to continue to actively meet the needs of the U.S. exporting community.

Preliminary Commitments

Under the Bank's preliminary commitment procedure, Eximbank will, upon request, outline in a preliminary comitment letter the terms and conditions of the financial assistance it will extend to a purchaser of U.S. goods and services. The applicant must provide information sufficient to enable Eximbank to appraise the technical, economic, and financial aspects of the proposed project.

This program has been a great assistance to many U.S. exporters in their overseas sales efforts. In addition, it provides Eximbank with a good indication of the amount of credit assistance which may be requested in support of U.S. exports. As of March 31, 1975, outstanding and pending preliminary commitments for loans and guarantees totaled more than $2.9 billion, representing about $5.4 billion of U.S. export sales.

Participation Financing (Direct Credit) Program

Under the Bank's Participation Financing Program, exports of "big ticket" items such as transportation equipment, nuclear power projects, and communications equipment are assisted.

The purpose of this program is to supplement and encourage private sources of financing when the private sector is unwilling or unable to make the loan, to provide terms required by the economics of the exported item which may be longer than private sources are normally willing to go, and to provide U.S. exporters with terms and conditions which are competitive with those offered by foreign government-supported competition.

In fiscal year 1974, the Bank authorized almost $4 billion of regular loans, of which $3.8 billion were net equipment and services loans, up 65 percent from the previous year. For the first 9 months of fiscal year 1975, $1.7 billion of regular loans were authorized.

Cooperative Financing Facilities

By means of the CFF program, the Bank extends its resources and ability to assist U.S. export sales directly into the foreign marketplace. This program, which was designed mainly to assist sales to small- and medium-sized businesses, is a cooperative effort between Eximbank and foreign banks or overseas units of U.S. banks. The financing pattern is similar to the participation financing program in that a cash payment of at least 10 percent is required, with Eximbank financing up to 45 percent of the U.S. costs of the transaction and the commercial bank providing the remaining 45 percent.

These facilities have been established in almost every market in the free world. A U.S. company can offer its goods in these markets with confidence that any credit-worthy buyer can obtain credit to purchase his products.

Loans under the CFF program have also been increasing. In fiscal year 1973, 831 CFF loans were authorized for $82.5 million supporting U.S. export sales of $175.1 million. In fiscal year 1974, 1,495 CFF loans were authorized for $207.7 million supporting $378 million U.S. export sales. For the first 9 months of fiscal year 1975, 783 CFF loans have been authorized for $131 million supporting U.S. export sales of $258 million.

Writeoffs and Delinquencies

Eximbank has had an excellent repayment record under its loan programs. Since the inception of the Bank through fiscal year 1974, only $6.4 million in loans has been written off. With subsequent recoveries on these writeoffs, a net of only $3.7 million has been charged to the Bank's retained earnings. This is less than two one-hundredths of 1 percent of total loan disbursements over the same timespan.

In recent years, very few loans have been written off. During the period July 1, 1958, to June 30, 1968, only eight loans totaling a net of $712,000 were written off as uncollectable. In the past 6 fiscal years, only $6,000 has been written off.

At June 30, 1974, Eximbank had outstanding $7.9 billion in loans, of which $93 million in loans had at least one delinquent installment of 30 days or more and $745 million in loans had one or more maturities rescheduled.

Guarantee and Insurance Programs

Under the guarantee and insurance programs, the Bank encourages U.S. export sales by removing most of the risks which are particularly acute in international transactions. This permits exporters to make higher levels of export sales through increased availability of financing and provides for greater commercial bank participation in U.S. export financing.

In fiscal year 1974, authorizations for guarantees and insurance totaled $4,194.9 million. For the first 9 months of fiscal year 1975, guarantee and insurance authorizations totaled $2.8 billion.

The Bank believes that guarantees and insurance will continue to grow as more commercial banks and institutions become involved in export financing and as U.S. exporters respond to increased overseas sales opportunities. The fiscal year 1976 business plan provides for a greater increase in guarantees and insurance than in the loan program. This reflects the continued emphasis placed by the Bank on private financing of U.S. exports.

Discount Program

Eximbank's discount program is designed to assist U.S. exports by providing back-up liquidity for U.S. export financing during times of credit stringency.

Under this program, a commercial bank is given an advance commitment by Eximbank (before the sale is made) that if the bank will finance the export, Eximbank will, if requested, loan an equivalent amount to the commercial bank subject, of course, to the request of a minimum 10 percent cash payment by the buyer. The bank must certify that it would not be able to make the loan without an Exim advance commitment and the exporter must certify that the financing is necessary to complete the export sale. This procedure insures that Eximbank resources are committed only where they help the U.S. exporter get the overseas sale.

In fiscal year 1974, the Bank authorized $923.5 million of advance commitments for discount loans. However, disbursements under this program totaled only $369 million, therefore, the authorization levels do not imply an equivalent growth in Federal credit. During the first 9 months of fiscal year 1975, the Bank authorized $740 million of advance commitments for discount loans.

Export Expansion Facility

Public Law 90-390, enacted by Congress on July 7, 1968, established the policy of Congress "that the Export-Import Bank of the United States should facilitate through loans, guarantees and insurance (including coinsurance and reinsurance) those export transactions which, in the judgment of the Board of Directors of the Bank, offer sufficient likelihood of repayment to justify the Bank's support in order to actively foster the foreign trade and long-term commercial interest of the United States".

The law states: "The aggregate amount of loans plus 25 percentum of the contractual liability of guarantees and insurance outstanding at any one time under this Act shall not exceed $500,000,000".

Loans and guarantees are authorized under the EEF for U.S. exports to obligors or countries which would not qualify under the Bank's normal criteria of "reasonable assurance of repayment," but which offer "sufficient likelihood" of

repayment and meet the criteria established by the Bank's management for the facility. Loans and guarantees authorized under the EEF are not made on concessionary terms; they carry the same interest rate and repayment terms as are standard for the particular type of goods or services financed or guaranteed under Eximbank's regular operations. At March 31, 1975, such charges totaled $369.3 million.

Authorizations for Defense Articles

In fiscal year 1974, one credit was authorized for exports of U.S. military goods and services in conjunction with the Department of Defense. This was a $200 million credit for Iran. Eximbank's credit is for 50 percent of the financed portion. A private source of funds advanced the remaining 50 percent. The private portion is not guaranteed by Eximbank.

During the first nine months of fiscal year 1975 no credits were authorized for exports of defense articles and services.

Exports to Communist Countries

Prior to January 4, 1975, the Export-Import Bank Act of 1945, as amended, contained a provision which prohibited Eximbank from guaranteeing, insuring, or extending credit, or participating in any extenson of credit, in connection with the purchase or lease of any products by a Communist country, or the purchase or lease of a product to be principally used in or resold to or leased to a Communist country, unless the President determined such assistance to be in the national interest. In addition, the Export-Import Bank was prohibited from supporting any exports to any country the Government of which is engaged in armed conflict with the United States.

Pursuant to these provisions, for fiscal year 1974 and the first half of fiscal year 1975, Yugoslavia, Romania, Poland, and the U.S.S.R. were the only Communist countries eligible to come under Eximbank's programs. Yugoslavia had been eligible since May 7, 1968, under a Presidential determination of President Johnson. Romania had been eligible since November 22, 1971, the U.S.S.R. since October 18, 1972, and Poland since November 8, 1972, all under Presidential determination of President Nixon that Eximbank assistance to these countries was also in the national interest.

During fiscal year 1974, the Bank authorized $819.9 million in loans and $306.5 million in guarantees and insurance in support of U.S. exports to these countries. Of the $819.9 million in loans, $65.1 million was for exports to Poland, $10.2 million for exports to Romania, $367.7 million for exports to the U.S.S.R., and $376.9 million for exports to Yugoslavia.

During the first 9 months of fiscal year 1975, the Bank authorized credits totaling $60.1 million—Yugoslavia ($43.4 million), Romania ($.1 million), and Poland ($16.6 million)—and guarantees and insurance totaling $60.9 milion in support of U.S. exports to these three countries.

Certain legislation passed in fiscal year 1975 placed additional restrictions on Exim support of U.S. exports to Communist countries. The Trade Act of 1974 (Public Law 93–618) contains a provision which prohibits any nonmarket economy country from participating in any program of the U.S. Government which extends credits or credit guarantees until the President has submitted to Congress a report indicating that such country does not (1) deny its citizens the right or opportunity to emigrate; (2) impose more than a nominal tax on emigration or documents required for emigration; or (3) impose more than a nominal tax on any citizen as a consequence of the desire of such citizen to emigrate. These provisions can be waived by the President under certain circumstances. On April 24, 1975, the President signed such a waiver for Romania. This action permits Exim to again receive and process applications for use of its programs to support U.S. exports to Romania.

The Export-Import Bank Amendments of 1974, signed in January 1975 contains several other restrictions on Eximbank authorizations in support of exports to Communist countries. These restrictions are summarized below:

New Legislation

On January 4, 1975, President Ford signed into the law the Export-Import Bank Amendments of 1974 (Public Law 93–646). Among other things this Act:

(1) Increases the Bank's commitment authority from $20 billion to $25 billion;

(2) Increases the amount of guarantee and insurance which can be charged against the $25 billion commitment authority on a fractional reserve basis from $10 billion to $20 billion;

(3) Requires the Bank to submit a detailed statement to Congress on any proposed transaction involving a loan, guarantee or combination thereof of $60 million or more. This statement must be submitted at least 25 legislative days prior to the final approval by the Bank's Board of Directors of the proposed transaction. The statement must also be submitted for each transaction of $25 million or more involving research, exploration, or production of fossil fuel energy resources in the Soviet Union;

(4) Requires the President to determine that each Eximbank loan of $50 million or more to a Communist country is in the national interest and report that determination to Congress within 30 days following the date of such determination or date of final action in the transaction, whichever comes first;

(5) Places a ceiling of $300 million on new business with the U.S.S.R., of which not more than $40 million may be used for research or exploration of fossil fuel energy resources and none of which may be used for production, processing, or distribution of such resources. This ceiling may be raised upon a Presidential determination that an increase is in the national interest, the submission of such determination to Congress together with the reasons and a statement of the amount of the increase which would be available for export of products and services for research, exploration, production, processing, and distribution of fossil fuel energy resources in the U.S.S.R., and approval of such determination by concurrent congressional resolution;

(6) Extends the life of the Bank to June 30, 1978;

(7) Includes the Bank in the Federal Budget totals effective October 1, 1976.

Administrative Expenses

For fiscal year 1976, the Bank is requesting $11.4 million for administrative expenses. This is an increase over the $10.6 million (which includes the supplemental requested for the pay increase pursuant to E.O. 11811) for fiscal year 1975 and provides for a small increase in personnel and expenses in support of the Bank's export expansion activities.

The budgeted end-of-year personnel level for fiscal year 1976 is 440, 20 people above the 420 level of fiscal year 1975.

Over the past 5 years, activity under the Bank's programs has grown by about 140 percent—while the staff has increased by about only 30 percent. The resultant large increase in workload par staff member has only been handled by taking many steps to increase the Bank's operating efficiency.

The Bank expects to continue to increase its operating efficiency and effectiveness in fiscal year 1975 and fiscal year 1976. However, with the rise in activity expected over the next 2 years, increases in workloads will more than offset the amounts able to be absorbed by higher efficiency levels. Thus, additional staff will be required.

Other administrative expenses are budgeted to rise slightly due to increased activity and staff. The relatively large increases in rent, communications and utilities, is principally due to the General Services Administration increasing the cost per square foot paid to it for the rental of the office space the Bank occupies and to increases in costs of communications.

The Bank is also requesting a limitation of $24,000 for entertainment, which is the same as fiscal year 1975. Such expenses are paid out of the Bank's earnings, as are all administrative expenses, and are within the Bank's overall administrative expenses limitation.

EXPORT-IMPORT BANK OF THE UNITED STATES

Estimated Activity—Fiscal Year 1976

Loan program:	*Thousands*
Equipment and services authorizations	$3,925,000
Commodity authorizations	0
Discount authorizations	1,400,000
Special foreign trade authorizations	50,000
Subtotal—Gross loan authorizations	5,375,000
Less: Participations in and cancellations of loans authorized during fiscal year 1976	215,000
Net loan authorizations	5,160,000

EXPORT-IMPORT BANK OF THE UNITED STATES—continued

Estimated Activity—Fiscal Year 1976—Continued

	Thousands
Guarantee and insurance program:	
Authorization of new and renewed policies	$8, 850, 000
Less: Repayment and cancellations on guarantees and insurance	5, 596, 852
Subtotal	3, 253, 148
Less: Reduction from use of fractional reserve and adjustments	2, 427, 361
Charge to new program activity for guarantees and insurance	825, 787
Other charges:	
Interest and nonadministrative expenses [1]	586, 900
Equipment [1]	100
Total other than for administrative expenses: i.e. "new program activity"	6, 572, 787
Administrative expense [1]	11, 416
Total	6, 584, 203

[1] On the accrual basis.

EXPORT-IMPORT BANK OF THE UNITED STATES

COMPARATIVE STATEMENT OF NEW PROGRAM ACTIVITY AND ADMINISTRATIVE EXPENSE

[In millions of dollars]

	Fiscal year—		
	1974 Actual	1975 estimate	1976 estimate
Loan program:			
Equipment and services authorizations	$3, 899. 4	$3, 445. 0	$3, 925. 0
Commodity authorizations	81. 7	75. 0	0
Discount authorizations	923. 5	2, 000. 0	1, 400. 0
Special foreign trade authorizations	----------	50. 0	50. 0
Subtotal	4, 904. 6	5, 570. 0	5, 375. 0
Less participations in and cancellations of loan authorizations	225. 8	435. 0	215. 0
Net loan authorizations	4, 678. 8	5, 135. 0	5, 160. 0
Guarantee and insurance program:			
Eximbank guarantee authorizations	1, 593. 6	4, 500. 0	4, 650. 0
FCIA short-term insurance authorizations	2, 141. 0	2, 750. 0	3, 400. 0
FCIA medium-term insurance authorizations	460. 3	750. 0	800. 0
Subtotal	4, 194. 9	8, 000. 0	8, 850. 0
Less repayments, cancellations, and expirations subject to fractional reserve	3, 587. 3	4, 861. 3	5, 596. 9
Subtotal, 100 percent	607. 6	3, 138. 7	3, 253. 1
Less reduction from use of fractional reserve and adjustments	346. 7	2, 316. 5	2, 427. 3
Charge to new program activity for guarantees and insurance	260. 9	822. 2	825. 8
Other charges:			
Interest and nonadministrative expense [1]	325. 4	445. 8	586. 9
Equipment [1]	([2])	. 1	. 1
Total other than for administrative expense	5, 265. 1	6, 403. 1	6, 572. 8
Administrative expense [1]	8. 7	10. 6	11. 4
Total	5, 273. 8	6, 413. 7	6, 584. 2

[1] On the accrual basis.
[2] Less than $50,000.

EXPORT-IMPORT BANK OF THE UNITED STATES

POSITION WITH RESPECT TO LENDING GUARANTEE AND INSURANCE AUTHORITY

[In millions of dollars]

	June 30, 1974 actual	June 30, 1975 estimate	June 30, 1976 estimate
Statutory authority	$20,000.0	$25,000.0	$25,000.0
Charges against authority:			
Loan program:			
Loans	7,910.5	9,583.6	11,385.3
Loans sold with recourse	492.4	448.8	362.4
Loan obligations	5,215.0	6,116.7	6,495.7
Loan reservations	2,116.8	2,374.5	2,650.0
Subtotal	15,734.7	18,523.6	20,893.4
Export guarantees and insurance program:			
Short-term: Foreign Credit Insurance Association	663.2	775.7	883.2
Medium-term: Foreign Credit Insurance Association	224.0	273.5	323.5
Export-Import Bank of the United States	1,128.8	1,789.0	2,457.3
Subtotal	2,016.0	2,838.2	3,664.0
Total charges against authority	17,750.7	21,361.8	24,557.4
Unused authority	2,249.3	3,638.2	442.6

Requested Limitation on Program Activity

Not to exceed [$6,403,086,000] $6,572,787,000 (of which not to exceed [$3,395 million] $3,850 million shall be for equipment and services loans) shall be authorized during the current fiscal year for other than administrative expenses.

For "Limitation on program activity" for the period July 1, 1976, through September 30, 1976, not to exceed $1,710,271,000, of which not to exceed $976,300,000 shall be for equipment and services loans.

Requested Limitation on Administrative Expenses, Export-Import Bank of the United States, for Fiscal Year Ending June 30, 1976

Not to exceed [$10,242,000] $11,416,000 (to be computed on an accrual basis) shall be available during the current fiscal year for administrative expenses, including hire of passenger motor vehicles, services as authorized by 5 U.S.C. 3109, and not to exceed [24,000] $24,000 for entertainment allowances for members of the Board of Directors: *Provided*, That (1) fees or dues to international organizations or credit institutions engaged in financing foreign trade, (2) necessary expenses (including special services performed on a contract or fee basis, but not including other personal services) in connection with acquisition, operation, maintenance, improvement, or disposition of any real or personal property belonging to the Bank or in which it has an interest, including expenses of collections of pledged collateral, or in the investigation or appraisal of any property in respect to which an application for a loan has been made, and (3) expenses (other than internal expenses of the Bank) incurred in connection with the issuance and servicing of guarantees, insurance, and reinsurance shall be considered as non-administrative expenses for the purpose hereof.

For "Limitation on administrative expenses" for the period July 1, 1976, through September 30, 1976, not to exceed $2,949,000 of which not to exceed $6,000 shall be for entertainment allowances for members of the Board of Directors.

EXPORT-IMPORT BANK OF THE UNITED STATES

COMPARATIVE STATEMENT OF ADMINISTRATIVE EXPENSE BUDGETS (ON THE ACCRUAL BASIS)

[In thousands of dollars]

	1974 actual	1975 estimated	1976 estimated
Personnel compensation:			
Permanent positions	$6,402	[1] $7,352	$7,850
Temporary employment	30	34	37
Overtime and holiday pay	77	96	109
Advisory committee pay	1	3	4
Reimbursable detail	119	164	165
Excess of annual leave earned over leave taken	98	109	110
Subtotal	6,727	7,758	8,275
Personnel benefits contribution:			
Retirement	440	508	541
Health benefits	71	82	88
Employee life insurance	21	25	26
FICA taxes and incentive awards	10	11	12
Accident compensation		2	2
Subtotal	542	628	669
Travel and transportation of persons	171	275	300
Transportation of things	10	12	12
Rent, communications, and utilities:			
Rent, office space	416	736	842
Rent, storage space	7	8	17
Communications	197	299	351
Postage	83	110	115
All other	246	275	313
Subtotal	949	1,428	1,638
Printing and reproduction	105	120	135
Other services:			
Contractual services and supplies	124	171	218
Official entertainment allowance	6	24	24
Subtotal	130	195	242
Supplies and materials	115	135	145
Total expenses	8,749	10,551	11,416
Savings	431		
Budget limitation	9,180	[1] 10,551	11,416

[1] Includes increased pay costs under Executive Order 11811 pursuant to public law.

EXPORT-IMPORT BANK OF THE UNITED STATES

NUMBER OF EMPLOYEES AT END OF YEAR

	Fiscal year 1974 actual
Office of the Directors	18
Office of the Executive Vice President	3
Office of Government Affairs	3
Office of Executive Secretariat	6
Office of General Counsel	37
Office of the Senior Vice President for Public Affairs and Export Expansion	23
Office of the Vice President for Planning and Research	23

EXPORT-IMPORT BANK OF THE UNITED STATES—Continued

NUMBER OF EMPLOYEES AT END OF YEAR—continued

	Fiscal year 1974 actual
Office of the Senior Vice President for Exporter Credits, Guarantees Insurance	9
Office of the Vice President for Exporter Credits and Guarantees	21
Office of the Vice President for Exporter Credits and Insurance	22
Office of the Senior Vice President for Financing	20
Office of the Senior Vice President and Treasurer-Controller	67
Office of the Vice President for Contract Administration	18
Office of the Vice President for Product Financing	22
Office of the Vice President for Financial Analysis	21
Office of the Vice President for Project Development	19
Office of the Chief Engineer	12
Office of the Secretary	2
Office of the Vice President for Administration	53
Total	399

EXPORT-IMPORT BANK OF THE UNITED STATES

NUMBER OF EMPLOYEES AT END OF YEAR

(Estimated)

	Fiscal year—	
	1975	1976
Office of the Directors	17	17
Office of the Executive Vice President	2	2
Office of General Counsel	33	35
Office of the Senior Vice President—Research and Communications	39	42
Office of the Senior Vice President and Treasurer-Controller	78	84
Office of the Senior Vice President for Exporter Credits, Guarantees and Insurance	42	43
Office of the Vice President—Exporter Insurance	18	18
Office of the Vice President—Exporter Credits and Guarantees	18	19
Office of the Vice President for Contract Administration	20	21
Office of the Vice President—Africa	15	16
Office of the Vice President—Asia	17	18
Office of the Vice President—Europe and Canada	13	14
Office of the Vice President—Latin America	21	21
Office of the Vice President—Middle East	11	12
Office of the Chief Engineer	12	13
Office of the Secretary	7	7
Office of the Vice President for Administration	57	58
Total	420	440

EXPORT-IMPORT BANK OF THE UNITED STATES

PERSONNEL SUMMARY

	1974 actual	1975 estimate	1976 estimate
Total number of permanent positions	396	426	446
Full time equivalent of other positions	4	4	4
Subtotal	400	430	450
Average paid employment	393	418	440
Average GS grade	9.38	9.37	9.37
Average GS salary	$16,604	$17,773	$17,853
Average salary of ungraded positions	$9,981	$10,720	$10,732

REQUIREMENT FOR CASH PAYMENT

Mr. PASSMAN. May I ask this question.

When a country makes a loan application to the Export-Import Bank, we will say for $20 million, to start with they have to make a down payment on these commodities at 20 percent, do they not?

Mr. CASEY. It varies from 10 percent to 20 percent.

Mr. PASSMAN. Ten to twenty?

Mr. CASEY. Yes.

Mr. PASSMAN. But without exception they must put something down?

Mr. CASEY. Yes.

Mr. PASSMAN. How long has the Export-Import Bank been in business?

Mr. CASEY. Forty-one years.

DIVIDENDS PAID TO TREASURY OUT OF BANK PROFITS

Mr. PASSMAN. During the 41 years, how much have you paid into the U.S. Treasury in the way of dividends from profits on interest and insurance, net?

Mr. CASEY. We have paid $906 million in dividends into the Treasury.

Mr. PASSMAN. Profit on the interest and insurance over and above what you pay for the money?

Mr. CASEY. Yes.

Mr. PASSMAN. If we spread it out over the period of 41 years we would expect that you would have peaks and valleys where some years money would cost more than you were able to collect. During that period, what percentage of the time would you say that you were on the plus side in interest over and above what you paid for money?

Mr. CASEY. We have always been on the plus side.

Mr. PASSMAN. You have never been on the minus side?

Mr. CASEY. No. In the last 10 years we have paid $50 million in dividends every year. Our annual profit has been over $100 million during those years.

Mr. PASSMAN. That profit now is from interest charged and from insurance fees and not from commodities sold.

Mr. CASEY. No, no.

Mr. PASSMAN. This is strictly a cash profit——

Mr. CASEY. All from the excess of the interest and fees we receive on our loans over the interest we pay to borrow the money.

Mr. PASSMAN. Every year you had a net gain?

Mr. CASEY. Yes, sir.

INTEREST COST TO BANK

Mr. PASSMAN. I bring that up because some people have argued about the subsidy element on certain loans. I believe you told us at one time that you had a package occasionally where you may have an interest rate a little lower than the borrowing rate but you had to take into account competition as well as the overall profit involved in the commodities that you were financing?

Mr. CASEY. That is right. I think I should also say, Mr. Chairman, that there have been periods when the interest rate has gone up high, that is, the cost of money has run high. We recently moved our rate up with it. We always restrained from going all the way up because our competitors don't move nearly as fast as we do. This was particularly acute last year.

Mr. PASSMAN. But on balance every year since you have been in operation you have had a net profit over and above what you paid for money?

Mr. CASEY. Yes. We have to have a profit or else it would be hard to stay in business.

Mr. PASSMAN. I want to make the record because it has been argued that you were subsidizing certain interest rates. That is not so?

Mr. CASEY. No.

Mr. PASSMAN. On the average every year you have taken in more interest than you paid out?

Mr. CASEY. Yes.

Mr. PASSMAN. And in the cases where you may have charged a lower interest rate, then it was made up in the package deal, is that correct?

Mr. CASEY. I just happen to have the numbers for the last 10 years.

Mr. PASSMAN. Will you insert those in the record at this point?

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

[In millions of dollars]

	Interest received	Interest paid	Dividends paid	Cost of money
Fiscal year:				
1965	174	60	50	110
1966	175	60	50	110
1967	196	92	50	142
1968	231	122	50	172
1969	270	173	50	223
1970	309	203	50	253
1971	312	198	50	248
1972	329	186	50	236
1973	354	215	50	265
1974	423	325	50	375
Total for 10 yr period	2,773	1,634	500	2,134

COST OF MONEY

Mr. CASEY. We received in interest $2.773 billion.

Mr. PASSMAN. How much?

Mr. CASEY. We received interest payments of $2.773 billion. We paid interest of $1.634 billion and we paid dividends of $500 million. So the cost of our money has been $2.1 billion, or so, and we received $2.773 billion; so we are ahead of the game by about $650 million.

LOSSES SINCE INCEPTION

Mr. PASSMAN. What have been the losses during the existence of the Bank?

Mr. CASEY. During the entire history of the Bank we have written off about $32 million, but we have loans outstanding in Cuba and China which are in protracted default but haven't been written off, so it adds up to about one-fifth of 1 percent.

Mr. PASSMAN. One-fifth of 1 percent losses?

Mr. CASEY. Yes, sir.

I am sorry, I mean four-tenths of 1 percent.

Mr. CONTE. Will you yield?

Mr. PASSMAN. Yes.

FUTURE TRADE WITH DELINQUENT COUNTRIES

Mr. CONTE. Now that we are starting to have better relationships with China, do you think we might be repaid some of that money?

Mr. CASEY. Oh, yes. That is why we don't charge off that debt. If we charged it off, we are afraid we wouldn't get it back. I think we are probably going to get that money back if things loosen up in China.

For example, we thought we had about a $350 million loss in Chile 2 years ago. However, some of this has been rescheduled and we have now collected about $56 million on that already.

Mr. PASSMAN. Out of how much?

Mr. CASEY. Out of about $350 million. Chile was a very bad situation, as bad as we ever had.

Mr. PASSMAN. But you collected back $56 million already?

Mr. CASEY. Yes, sir.

EXIM FINANCING RESTRICTED TO U.S. EXPORT SALES

Mr. PASSMAN. Remarkable. Of course, in the Export-Import Bank, your loans are only to finance U.S. commodities.

Mr. CASEY. Yes, sir. We only pay our money to the U.S. sellers who are exporting U.S. products.

Mr. PASSMAN. We would like to make a correct record. You can't go into a third country and finance their commodities. It is strictly for U.S. commodities?

Mr. CASEY. Oh, certainly.

WORLD COMPETITION WITH U.S. PRODUCTS

Mr. PASSMAN. In instances where you finance machine tools to some country, if we didn't sell the machine tools, then some of our competitors would, would they not?

Mr. CASEY. Yes.

Mr. PASSMAN. Would you name some of the competitors that could sell machine tools that you have to compete with?

Mr. CASEY. The Germans, British, French, the Japanese, the Swiss, the Swedes, the Belgians. They all have a sophisticated machinery industry.

Mr. PASSMAN. And it is just a question of being competitive.

Mr. CASEY. Yes, sir.

AVERAGE MATURITY OF EXIM LOANS

Mr. PASSMAN. What is the average length of time of Export-Import Bank loans?

Mr. CASEY. Our average maturity of our direct credits is about 7 years on the average.

JOBS SUPPORTED BY BANK ACTIVITY

Mr. PASSMAN. How many jobs would you say—a fair estimate—is provided because of Export-Import Bank financing of commodities?

Mr. CASEY. About 700,000 jobs a year.

Mr. PASSMAN. 700,000 jobs a year?

Mr. CASEY. Yes, sir.

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TAX REVENUES FROM EXIM-FINANCED SALES

Mr. PASSMAN. Do you have an estimate of the amount of taxes on profit that is paid in to the U.S. Treasury by corporations and by employees because of Eximbank financing?

Mr. CASEY. Well, it is so large that I hesitate to give it to you.

Mr. PASSMAN. I believe you told us $30 billion in taxes was paid in by corporations on profits they made on the commodities they sold.

Mr. CASEY. It wouldn't have been that high. The Department of Commerce has figures on that. The tax is about $400 million on $1 billion of exports.

Mr. PASSMAN. I am not talking about just the year. I am talking about since the inception of the Bank.

Mr. CASEY. Oh, overall; sure. That is about right.

U.S. EMPLOYMENT RESULTING FROM BANK'S 41 YEARS OF OPERATION

Mr. PASSMAN. In addition to that, I think it has furnished employment for some 4 million Americans, has it not, since its inception?

Mr. CASEY. I would think that would be a fair figure.

Mr. PASSMAN. Will you verify that for the record?

Mr. CASEY. I will, because I wasn't here last time.

[The information follows:]

CORPORATE TAXES PAID AND U.S. JOBS SUSTAINED FROM EXIMBANK-SUPPORTED EXPORTS

Eximbank currently estimates that between $35 and $40 billion have been paid in taxes by corporations on exports supported by Eximbank since its inception. Eximbank estimates that approximately 4.5 million U.S. jobs have been sustained by export sales supported by the Bank since its inception.

EXPORT SALES CREATE STATE AND LOCAL TAX REVENUES

Mr. PASSMAN. Of course, these people likewise pay taxes to the cities where they are working and to the State and to the Federal Government.

Is that correct?

Mr. CASEY. That is right. I have some numbers here, Mr. Chairman.

Mr. PASSMAN. All right, sir.

Mr. CASEY. I am not sure it is the way you put the question.

Mr. PASSMAN. I am going to yield to Mr. Conte at this time and I will resume my questioning later.

BASIS FOR FISCAL YEAR 1976 LOAN LIMIT REQUEST

Mr. CONTE. I wish to join my colleagues in welcoming Mr. Casey to our committee in his first appearance as President and Chairman of the Bank. I know with your distinguished background of Government service in international trade and economic positions you will be able to continue the fine record of the Export-Import Bank in promoting American exports.

I believe that you estimate your budget at $3.85 billion, as the minimal probable call on the Eximbank's credit resources.

Could you tell me some of the economic assumptions which were made in arriving at that estimate?

Mr. CASEY. We did it, Mr. Conte, on the basis of analyzing the billions in possible and probable loan requests that we knew about rather than on purely economic analysis. I will come to that in a minute.

Let me say that we have about $2.9 billion of outstanding and pending preliminary commitments and credit applications on hand right now, and we are quite confident that over a billion dollars of that will mature into actual loans in fiscal 1976.

Then on top of that I have a long list of other projects here which, assuming we finance 40 percent of them, will add up to about $2.8 billion. So it is a figure that is geared as much as possible to the specific project.

During the course of the year additional projects will come in, so we may find ourselves tight. At the same time some of these projects may disappear.

As to the economic assumptions, I can only go this way on that: we expected to do a lot more business this year than we actually did. By cutting back on the percentage of the amount that we would loan in each case from the previous rule of 45 percent to an average of 35 percent of the contract price, we reduced our loan amount by about $500 million.

Then we know of $1.5 billion in loans which we had in the Bank that have been deferred, for various reasons including financial stringency. The general recessionary circumstances and the tightness of money has caused a lot of companies to defer their projects.

So the broad economic assumption on which this request rests is that the business next year will be about the way it has been this year and if there is a resurgence in world trade, we can expect some of these projects to accelerate to the point where we would run short of loan authority. However, I propose to keep the committee advised, if that is satisfactory, of how fast we are using up this authorization during the year, and if towards the end of the year we find ourselves running near the limit I may want to come back and talk again.

MAXIMUM POTENTIAL CALL ON BANK RESOURCES IN FISCAL YEAR 1976

Mr. CONTE. What do you think the maximum call on the bank will be during the coming year?

Mr. CASEY. I think now that we can manage within this loan limitation of $3.8 billion. We have learned to do that. If I just made projections on the basis of the increase in world trade and the increase in prices, I would tell you we would need $5 billion to $6 billion to accommodate the demand this year. I think that we have learned to cut back—we have cut our percentage of the amount financed—and still make these financings work. We are still able to put them together with the private banks and put more of the financing burden on the private banks. You have had a decline in economic activity generally and a little bit of price decline, so I am prepared to say that we will exert our best efforts to do the job this year with the $3.8 billion which the OMB has permitted us to request.

Does that clear it up?

Mr. CONTE. That is clear. Thank you.

Mr. CASEY. We are trying to crystal ball the future.

EFFECT ON U.S. BUSINESS OF TEMPORARY EXPIRATIONS OF BANK'S AUTHORITY

Mr. CONTE. What happened to you when you spent 44 days without authorization?

Mr. CASEY. It didn't help the business. It created a great deal of uncertainty. I think people stayed away.

I think that this is one of the things that did shift a lot of business to other countries where the financing was available and to a more substantial degree. I can't measure what that cost us in business, but I think it was one of the things that made our business this year fall below what it was projected to be.

FIRMS UTILIZING EXIM PROGRAMS

Mr. CONTE. Can you provide a breakdown by size of the 6,500 American firms which have used the Bank services?

Mr. CASEY. Yes, I can do that.

[The information follows:]

AMERICAN FIRMS EXPORTING UNDER EXIM PROGRAMS

Eximbank's records indicate that about 6 percent of the 6,500 firms which make direct use of the Bank's services had annual sales under $1 million in 1973, 27 percent had sales between $1 and $10 million, 23 percent had sales between $11 and $50 million, 10 percent had sales between $51 and $100 million, 19 percent had sales between $101 and $500 million, and 15 percent had sales in excess of $500 million.

In addition to those firms which made direct use of the Bank's services, numerous subcontractors also benefited. It is estimated, for example, that over 15,000 firms—many of them small businesses—provide parts for a single Boeing 747 aircraft. Many of these firms are probably not even aware that their products are exported or that their sales benefit from Eximbank support.

HELP TO SMALL BUSINESS FROM CERTAIN BANK PROGRAMS

Mr. CONTE. I serve also as the ranking minority member on the Small Business Committee and therefore I am interested in the small business and international trade, and I was particularly interested in your comments about the Cooperative Financing Facility to help small business exports.

Can you give me some specific examples of this activity and would you explain how this activity is particularly suited to helping small business?

Mr. CASEY. Well, the Cooperative Financing Facility is a program under which we work with some 350 banks in other countries. We provide half the money, they provide half the money, to make loans to buyers in those countries who want to buy U.S. equipment or merchandise. It is particularly well suited to the smaller transactions because it is something that can be done quickly on the spot by the buyer.

We have also the bank guarantee program in which we have over 300 banks around this country participating with us in financing U.S. export sales.

As a result of these programs, any business anywhere in America and any buyer of American goods anywhere in the world can go into a local bank and negotiate a loan, either through Eximbank participa-

tion in the case of the foreign banks or with Eximbank's guarantee in the case of the U.S. banks. There is a network created which is available to assist any business in its locale.

These transactions generally run under $100,000 so they are the kind of things that small businesses do. As to specific examples, they involve trucks, bulldozers, all kinds of machine tools, and so forth.

Mr. CONTE. I would appreciate something more in the record on that.

Mr. CASEY. I can give you a lot of detail on that.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

Select CFF Credits Involving Smaller U.S. Exporters
Authorized between January 1, 1975 - May 15, 1975

Cooperative Institution	Credit Number	Buyer	U. S. Supplier	Product	Total Export Value
The Industrial Bank of Japan, Ltd. Tokyo, Japan	13501	Ataka and Co., Ltd. 14 Imabashi 5-Chome Osaka, Japan	Fellows Corporation Box 399 Springfield, Vt. 05156	Machine Tool (One 10-2 Gear Shaper)	$ 55,483.24
Financiera Aceptaciones Monterrey, Mexico	13483	Clermont, S.A. Tlalnepantla, Mexico	Preco Machinery Sales, Inc. 6519 Rupley Circle Houston, Texas 77017	1 Broderson Crane Roadrunner Model & 1 Industrial X-Ray Machine,	$ 51,112.00
			Balteau Electric Corp. P. O. Box 385 Stamford, Conn. 06902	"Baltograph 260/3P and Accessories"	
Korea Exchange Bank Seoul, Korea	13484/ 13485	Pusan Clothing Co. Ltd. 1-1127 Yeunsandong Pusan, Korea	California Laundry and Equipment Company 2221 Union Street Oakland, Cal. 94607	Laundry and Dry-Cleaning Equipment (5 Model DFBX50 Presses)	$ 76,000.00
Kjobenhavns Handelsbank Copenhaven, Denmark	13471	Sorenco International Roedovrevej 222 Denmark	Di-Acro Houdaille Lake City, Minn. 55041	Metalworking Machinery (1 Model VT36 Turret Punch Press) (Used to numerically punch holes in TV Chassis)	$ 55,465.73

Cooperative Institution	Credit Number	Buyer	U.S. Supplier	Product	Total Export Value
Banco Real de Investimento, S.A. Sao Paulo, Brazil	50969	Instituto de Olhos, Ltda. Rua Rio de Janeiro, 2251 Belo Horizonte, Brazil	Coherent Radiation 3210 Porter Drive Palo Alto, Cal. 94304	Ophthalmology Equipment and Accessories	$ 37,400.00
Bank of Montreal Canada	13442	Gazette Canadian Printing, Limited 1000 St. Antoine Montreal 101, Quebec, Canada	HCM Corporation 115 Cutter Mill Road Great Neck, N.Y. 11021	One Model DC300 Enlarging/Reducing Color Scanner	$206,515.00
Banco do Brasil, S.A. Rio de Janeiro, Brazil	50957	Editora Fink, Ltda. Praca Tenreiro Aranha 33 Manaus, Brazil	Auto Grafica Export Corp. 150 East 42nd Street New York, N.Y. 10017	Photo Processing Equipment	$ 55,851.95
Banco Commercial Mexicano Mexico	13427	Compania Hilandera de Torreon, S.A. P. O. Box 162 Torreon, Mexico	Butterworth Americas Corporation Bethayres, Pa. 19006	Dryer & Shortener (Textile Equipment)	$178,852.50
Banco de Desenvolvimento do Estado de Sao Paulo, SA Sao Paulo, Brazil		Resil, S.A.-Industria E Comercio Rua Martin Buchard, 254 Diadema, SP, Brazil	Eleven States Manufacturing Corp. 815 Nash St. El Segundo, Calif. 90245	1 Zig Zag Sinuous Wire Former, 1 set of Tooling 1-2 2,000 lb. Wire Pay-Off Reel	$ 30,386.00
Banco Itau Portugues de Investimento, SA	50952	Elgin Maquinas, SA Rua Barao de Campinas 305, Sao Paulo, Brazil	Cone-Blanchard Machine Co. Windsor, Vermont 05089	20D-36 Blanchard Vertical Surface Grinder	$ 35,351.44
Bank Hapoalim B.M. Tel Aviv, Israel	13364/ 13365	Techen Enterprises P. O. Box 40009 Tel Aviv, Israel	Genova 300 Rising Street Davison, Michigan 48423,	One Extruder with Spare Parts and Accessories to make Hot and Cold Water Pipes and Fittings	$150,000.00
Banco Financiera Hondureno	13303/ 13304	Concretos de Honduras, SA San Pedro Sul, Honduras	Brazo Equipment, Co. P.O. Box 74 Houston, Texas Plant City Steel Co. Lakeland, Florida	Hobbs Trailer and Steel Forms	$ 50,000.00

Cooperative Institution	Credit Number	Buyer	U.S. Supplier	Product	Total Export Value
Sociedade Financiera Portuguesa Lisbon, Portugal	13305	Sociedade de Industrias Pesadas Texteis-Ipetex SARL Lisbon, Portugal	Rando Machine Corp. The Commons Macedon, N.Y. 14502	Textile Eqpt. (Opening System with Blender and Prefeeder and Accessories)	$ 30,876.00
Banco do Brasil, S.A. Rio de Janeiro, Brazil	50937	Dr. Tuiuti Leandro Guerra Rua 7 de Setembro Santiago, Rio Grande do Sul, Brazil	Coulter Electronics 590 West 20th Street Hialeah, Fla. 33010	Electronic Medical Measuring Devices for Clinic	$ 10,694.00
Banco Popular del Peru Lima, Peru	13255	Cap Casa Grande Ltd. Lima, Peru	Falk Corporation Milwaukee, Wisc.	Falk Reducer	$ 11,263.00
Corporacion Costarricense de Financiamento San Jose, Costa Rica	13134	Alimentos Jack's Centroamericana, SA San Jose, Costa Rica	The Woodman Machinery Co. 5224 Snapfinger Woods Dr. Decatur, Ga. 30032	Food Pakaging Machinery	$ 45,218.10
Comprehensive Financial Corporation Ltd.	13044	Man Food & Fish Conserves Industry Eilat, Ltd. Israel	Carruthers Export Co. Warrenton, Oregon 97146	Automatic Tuna Packing Machine	$ 22,625.00
Banco del el Ahorro Hondureno San Pedro Sula, Honduras	13048	Eng. Omar Abufele San Pedro Sula, Honduras	Jack Miller's Equipment Rental Miami, Florida 33155	Personnel Elevator	$ 18,000.00
Banco Comercial Mexicano S.A. Mexico, Mexico	13077	Mr. Humberto Aguiago Hernandez Durango, Mexico	Krueger Enterprises Longmont, Colorado	Automatic Irrigator and Accessories	$ 17,728.00
Financiera Aceptaciones Monterrey, Mexico	12817	Ing. Gonzalo Valdez Davila Saltillo, Mexico	J. W. McGuffin 119 E. Leona Uvalde, Texas	1 Tractor Caterpillar D-6	$ 14,000.00

SMALL BUSINESS BENEFIT FROM BANK'S INSURANCE PROGRAM

Mr. CONTE. Also do you have any other programs which affect small business?

Mr. CASEY. Well, the insurance program is primarily a small business program. That assures any U.S. seller that he will get paid on sales to his customers in a foreign country. With the Foreign Credit Insurance Association we have had experience with about 80,000 buyers around the world. We have credit information on these buyers which we use to determine whether they are a good credit or not, whereas the manufacturer or bank in Dubuque probably isn't going to have that kind of information readily available.

They have a natural hesitancy and fear of both the political risk and commercial risk in depending upon the credit of a buyer somewhere 4,000 miles away. We sell them an insurance policy to cover nonpayment by the foreign buyer for political or commercial reasons. They take the order with the insurance policy to their bank and the bank will give them the money to replenish their working capital. This is primarily a small business program.

NEED FOR EXIMBANK SUPPORT IN SMALL BUSINESS EXPORT SALES

Mr. CONTE. The next one is a leading question.

Big business has many ways to obtain credit aside from the Export-Import Bank. But for a small businessman, about the only way he can get into the export business is through the Export-Import Bank; isn't that so?

Mr. CASEY. He has to have that kind of credit protection. That is worldwide. I remember, Mr. Conte, I was on a radio program with you, and from that I know that we have helped the small businesses in western Massachusetts.

Mr. CONTE. Right.

INDIRECT BENEFIT TO SMALL BUSINESS FROM LARGE LOANS

Mr. CASEY. It was quite a number as I remember. I think one thing that is important here is not only the direct participation of small business but also their indirect participation, such as when we finance a Boeing airplane where there are 15,000 suppliers and subcontractors around the country involved in that airplane, or a nuclear powerplant with some 6,500 subcontractors. If GE sells a nuclear reactor someplace in the world there are thousands of subcontractors involved in that transaction all across America.

Mr. CONTE. I have gone over my time, Mr. Chairman.

As long as I am on small business, would you elaborate on the work of the Small Business Advisory Service?

Mr. CASEY. Yes.

EXIMBANK'S SMALL BUSINESS ADVISORY SERVICE

We established the Small Business Advisory Service in response to a provision in last year's Eximbank authorization bill which instructed us to designate a small business office. This consists of a group of men, from staff within the Bank, who are available to consult with any small business, or really any business, seeking to get into the export business or trying to find out how to finance specific export transactions. Our

fellows will sit down with them or communicate with them by mail or telephone and say, "To finance this transaction it seems to us that you ought to work it through on a credit insurance basis or do it on a bank discount basis," or through whichever one of the Bank's programs is most appropriate to make that particular kind of transaction financeable and sellable.

Mr. CONTE. Thank you very much.

Mr. PASSMAN. Off the record.

[Discussion off the record.]

Mr. PASSMAN. Mr. Coughlin?

EFFECT OF CHANGES IN EXIMBANK-FCIA AGREEMENT

Mr. COUGHLIN. Thank you, Mr. Chairman.

I join in welcoming you here, Mr. Casey.

Mr. CASEY. Thank you; nice to be here.

Mr. COUGHLIN. Since the new agreement with the Foreign Credit Insurance Association have you noticed any greater risk taking by private insurance companies? I think this was the purpose of the agreement.

Mr. CASEY. Well, part of the new agreement provided for FCIA to take greater commercial risks per buyer and per policy. We also increased the premiums, you know. I am able to report that the higher premiums don't seem to have in any way reduced the business or the call on that facility.

There are 50 private insurance companies that make up FCIA. We work together with them on that program. They have assumed a greater degree of the risk by contract with us.

We used to assume responsibility for commercial losses in excess of $150,000 per buyer because they took only the first $150,000 of the commercial loss. They now take the first $250,000 per buyer. So their risk has gone up by contract and our risk has gone down.

We had shared half the administrative expenses. We relieved ourselves of that responsibility. They now take all the administrative expenses.

One of the advantages of this new agreement is that they are responsible for efficiently and economically running the operation. If they don't, they bear all the pain. Previously they were running the operation and if they were extravagant or sloppy we were stuck with half the cost.

I think it is a much sounder arrangement which does place a greater portion of the risk of loss on these 50 insurance companies.

CREDIT TO IRAN FOR MILITARY EQUIPMENT

Mr. COUGHLIN. In your budget report you describe a credit to Iran for defense articles. Will you give us some further detail as to what that is?

Mr. CASEY. Is that airplanes? Does anybody here know? Was it $200 million in Iran?

Mr. SAUER. The Defense Department sold the items.

Mr. CASEY. Airplanes?

Mr. SAUER. We have a record of what they are.

Mr. CASEY. When was that transaction?

Mr. SAUER. Fiscal 1974, not calendar 1974.

Mr. CASEY. It was before I came to the bank.

Mr. SAUER. Yes; it was. It was in calendar 1973.

Mr. CASEY. We haven't made any loans to Iran since I have been there. I am not saying we wouldn't because there is always a question as to whether you want to lose the deal if somebody else offers them a loan and they are going to put their business where the credit is. This was made, Mr. Coughlin, in August of 1973, a year and a half ago, and it was a $200 million loan on $400 million worth of airplanes, spare parts, and other military equipment.

Mr. COUGHLIN. Has any repayment of that commenced or when is it scheduled to begin?

Mr. SAUER. It was a seven-year credit, so I think it is about ready to start maturing.

Mr. CASEY. Generally, they start delivering 6 months after delivery. I don't think there was delivery by that time. Let me say the Iranians are tight with funds. In fact, I am a little concerned about Iran, because we made a lot of loans there.

I guess we had close to a billion dollars out there at 6 percent—and when I tried to get them to prepay on some of it they didn't want to do that. Those loans were authorized during a period before Iran was recognized to be as rich as it is now. It was at a time when they were just coming out of the AID category. We were just terminating our AID programs there.

AMOUNT REQUESTED FOR SALARIES

Mr. COUGHLIN. I have a couple questions here regarding the requested increase in administrative expenses of about $1 million. How much of your budget goes to individual salaries?

Mr. CASEY. Most of it. I don't know how much.

Do you know, Jim?

Mr. HESS. About 80 percent, sir.

Mr. CASEY. That is about the only administrative expense we have—rent, salaries, and communications.

AUTOMOBILES

Mr. COUGHLIN. How much does the bank spend on hiring passenger cars or do you own any of your own vehicles?

Mr. CASEY. We lease two automobiles. They cost $2,100 a year.

RENT

Mr. COUGHLIN. Does the Bank own any real property?

Mr. CASEY. No; we rent space in a building downtown owned by GSA. Part of the increase in our administrative budget is attributable to an increase in our rent. It goes out of one pocket of the Federal Government into another.

ENTERTAINMENT ALLOWANCE LIMITATION

Mr. COUGHLIN. I see you have requested a limitation on entertainment allowances for members of the Board of Directors. From the

calculations my staff made, the allowances average out to be about $5,000 per Director.

Mr. CASEY. Yes.

Mr. COUGHLIN. Around $5,000 per Director?

Mr. CASEY. Yes; five Directors.

Mr. COUGHLIN. Is most of it in travel expenses?

Mr. CASEY. I think a lot of it is in entertainment associated with travel, as well as here in Washington.

Mr. LONG. It is money well spent.

Mr. CASEY. Well, you have to go out and show the flag and see the projects.

Mr. COUGHLIN. I have no other questions at this time, Mr. Chairman.

Mr. CASEY. We have spent about $4,600. We haven't even spent it all yet. We have 3 months to spend the rest of it.

Mr. COUGHLIN. Thank you very much.

IRANIAN MILITARY LOAN

Mr. PASSMAN. Before yielding to Mr. Long, I would like to clear up one point.

I believe that you made a $200 million loan to Iran for military equipment.

Mr. CASEY. Yes; in 1973.

Mr. PASSMAN. At what interest rate?

Mr. CASEY. Six percent.

Mr. PASSMAN. What length of terms?

Mr. CASEY. Seven-year terms.

That was before I got to the Bank, Mr. Chairman, back in 1973.

Mr. PASSMAN. That $200 million is a small percentage of the total amount of money that Iran has spent with us for military equipment; isn't that true?

Mr. CASEY. Oh, yes.

Mr. PASSMAN. Would you place in the record at this point the total purchases they made from the United States for military equipment, because I understand that the largest part they purchased for cash.

[The information follows:]

IRAN—MILITARY PURCHASES IN THE UNITED STATES AND EXIMBANK FINANCING
(FISCAL YEARS 1971—74)

[Dollar amounts in millions]

	Total GOI purchases	Eximbank loan and guarantee authorizations	Percent financed by Eximbank
Fiscal year:			
1971	$397	$120	30
1972	528	200	38
1973	2,109	300	14
1974	3,794	200	5
Total	[1] 6,828	820	12

[1] In addition to the Eximbank credits and guarantees, $21,000,000 was derived from foreign military sales credit agreement funds approved in earlier years and another $300,000,000 was borrowed from U.S. commercial banks without Eximbank's guarantee.

BENEFITS DERIVED FROM MILITARY SALES

Mr. CASEY. That is correct.

Mr. PASSMAN. Also in this case there was a profit to the manufacturer, profit to the Treasury, profit to the employees that manufactured the military equipment, and if we had not sold to Iran then some seven or eight other countries were eager for the business.

Is that a statement of fact?

Mr. CASEY. Yes; that is correct.

Mr. PASSMAN. Thank you very much. Mr. Long?

PROFITABILITY OF BANK

Mr. LONG. The chairman made this program look as if it were practicably unassailable.

Mr. PASSMAN. That is right.

Mr. LONG. I gather that you feel that this has been a very profitable operation.

Mr. CASEY. The Bank's operation as a whole?

Mr. LONG. Yes.

Mr. CASEY. Oh, yes; it has been.

QUESTION OF SUBSIDY IN BANK OPERATION

Mr. LONG. Does that mean that there are no elements of subsidy in the Export-Import Bank?

Mr. CASEY. Well, that is a matter of definition, Mr. Long.

We compete with organizations abroad which get appropriations every year from their legislatures which they pay to the banks to reduce the interest rate. We don't do that. We do not subsidize in that sense. We are able to moderate the interest rate on the total financing. We are able to do that because the Congress invested $1 billion in the Bank 31 years ago, and from our profits we have built up a reserve so that a portion of our assets is represented by capital and the reserve.

We pay a 5-percent dividend on the capital. The reserves don't cost us anything, and we can blend that money with the money we borrow at market rates and compete to some extent with these other governments which get appropriated funds every year.

That can be defined as a subsidy. I don't happen to define it as a subsidy. I think it is a profitable operation.

Mr. LONG. Do you happen to know whether anybody regards it as a subsidy?

Mr. CASEY. Sure.

Mr. LONG. Did you know that the Office of Management and Budget regards it as a subsidy?

Mr. CASEY. Well, I don't know. I would not be impressed if they did. I disagree with them.

OMB ANALYSIS OF EXIMBANK SUBSIDY

Mr. LONG. Let me quote the figures from page 96 of the "Special Analyses," the Budget of the U.S. Government, fiscal year 1976 on interest subsidies in the loans made by the Export-Import Bank.

The fact is that the Export-Import Bank and other programs listed here lend at a lower rate than is available here in the United States for other types of loans. Subsidies on Export-Import Bank loans were $368 million in 1974, $418 million in 1975, $403 million in 1976.

Mr. CASEY. I am not familiar with those numbers, Mr. Long.

OMB DEFINITION OF SUBSIDY

Mr. LONG. From page 98 let me read the definition which the Budget Bureau has of subsidy:

The subsidy element in any federally assisted loan, direct or guaranteed, is the difference between the cost of borrowing under the Federal program and that cost in private credit markets.

Mr. CASEY. Well, that is a matter of definition.

Mr. LONG. You feel that is kind of farfetched?

PURPOSE OF EXIMBANK FINANCING

Mr. CASEY. It is very farfetched. We are not making as much money with our operation as I could make if I were running the Export-Import Bank like a purely commercial bank. If I were running that bank for private stockholders I would make a lot more money, but the mandate I have from the Congress in running this Bank is to support our exports in competition with other foreign government agencies which get appropriations from their legislatures.

We are competing. We are running a public service, and this is a public service operation rather than an operation for profit. We happen to make profit. We could make more profit if we wanted to neglect the public service aspect.

Mr. LONG. Let us assume that there is a public service aspect. That is one matter; right?

Mr. CASEY. Yes.

EXIMBANK BACKED BY U.S. GOVERNMENT

Mr. LONG. The question of subsidy is another matter. Isn't the faith and credit of the United States——

Mr. CASEY. Nobody is subsidizing here.

Mr. LONG. Isn't the faith and credit of the United States involved?

Mr. CASEY. The faith and credit of the United States makes it possible for us to guarantee but we make money on those guarantees. That program is being operated on a profitable basis. It is not costing the U.S. Government anything.

BANK'S INTEREST RATE

Mr. LONG. In the sense in which you estimate cost. What interest rates do you charge?

Mr. CASEY. Eight percent today. We are over the prime rate.

Mr. LONG. These are guaranteed loans, guaranteed by the faith and credit of the United States.

Mr. PASSMAN. Not all of them.

Mr. CASEY. No.

Mr. LONG. Some of them are direct?
Mr. CASEY. Yes.

FUNDING OF THE BANK

Mr. LONG. When you make a direct loan you are making this out of money furnished by the United States.
Mr. CASEY. No, no. It is money which we borrow in the private market, but we do borrow it with the guarantee of the United States.

COMPARISON WITH SMALL BUSINESS LOAN PROGRAM

Mr. LONG. That is precisely what I am talking about. I cite this because I have had experience with the Small Business Administration. I have had businessmen come to me and say, "Congressman, I have tried to get a loan from Small Business. They have turned me down. For 6 percent they have turned me down on their regular loans. They said they have run out of money. They will guarantee a loan but the local bank wants to charge me 12 percent on that guaranteed loan. In addition to that, they want me to leave about 20 percent of my money in the bank."
So the effective interest rate runs to around 14, 15 percent.
Let me ask you this. Why shouldn't we do for our own domestic small business people the same thing we are doing for foreign businessmen and investors or for the big companies who are sending goods abroad?
If this is such a good thing, why shouldn't we make this available to everybody?
Mr. CASEY. Well, I don't know that I am competent to answer that. I think you have to answer that. All I am doing is carrying out the congressional mandate to finance buyers of U.S. equipment because there are clear benefits to U.S. employment and to our country's balance of payments from export sales.
If we don't support exports, we are going to have more inflation and so on.

COST OF DOMESTIC CREDIT

Mr. LONG. We will come to that a little later, what the benefits are.
My son wanted to buy a home recently. They want 9.5 percent in the credit markets and I don't know of anybody who is able to borrow money to buy a home these days for much less than that.
Mr. CONTE. Eight and a half in my district.
Mr. LONG. Well, you are very fortunate. Show me how you can get it down in Baltimore, will you?
Mr. CONTE. You better get after your banks. They are charging 8.5 in my district.
Mr. LONG. All right, but that is higher than what he is charging. Why can't we make this available to homeowners? They are the ones that pay the taxes.

HOW BANK'S SUPPORT AFFECTS U.S. ECONOMY

Mr. CASEY. We do make a lot available to homeowners. The amount of credit that the Federal Government makes available to homeowners far exceeds the amount of credit made available through the Export-

Import Bank. I would think the judgment would have to be up to the Congress, which supported this Bank for 41 years, to determine that it is important not only to finance homes, but that it is important to provide the employment so the people can pay the mortgages on their homes. Also that it is important to provide the exports so that the cost of homes and the cost of everything else doesn't go up as the dollar goes down.

Mr. LONG. That is what I would think. I couldn't agree with you more.

Mr. CASEY. We are doing both.

Mr. LONG. I couldn't agree with you more, Mr. Casey, but this program has been presented as if this were a wonderful thing from every point of view, and yet if it is such a wonderful thing I don't know why we don't do this for everything in the United States.

Mr. CASEY. I am not sure I follow you.

U.S. JOBS

Mr. LONG. I don't know why you can't follow me.

Let us agree when you promote exports this provides jobs; right?

Mr. CASEY. That is the theory.

Mr. LONG. Aren't jobs provided if we lend money to people here in the United States?

Mr. CASEY. I suppose certain amounts in different sectors of the economy.

NEED FOR EXPORTS

Mr. LONG. Do we have to export our goods in order to provide American jobs? Is that your position?

Mr. CASEY. I think you certainly do. You would be in a terrible fix if you didn't have any exports. You wouldn't be able to pay for the things you need to carry on the rest of the economy.

Mr. LONG. You have to subsidize your exports in order to have exports? Let me point out that I have calculated that you create 5,000 more jobs per billion dollars if you put your money into domestic producers durable equipment investment than through $1 billion of exports.

Mr. CASEY. I would be interested in that calculation.

Mr. LONG. We will provide the calculations for you. This is from the Bureau of Labor Statistics, Division of Economic Growth.

NEED FOR DIVERSIFIED ECONOMY

Mr. CASEY. Mr. Long, if I may just say, I don't think you get anywhere saying why don't we do this instead of that. We have our varied economy. It is necessary to support all aspects of the economy. We can't have an economy that goes totally for foreign products or totally builds houses.

We have a diversified economy, a complicated diversified world. We have programs to support a variety of these programs.

CREDIT TO THE SOVIET UNION

Mr. LONG. I am just trying to figure out why we should subsidize, especially when we are dealing with a country like Russia.

Mr. CASEY. We are making money on what you call subsidy. We are not doing it to help Russia. We are doing it to help ourselves.

Mr. LONG. Is that why the Russians want it so badly?

Mr. CASEY. Everything is mutual or it doesn't happen. In business unless both parties want it, nothing happens. We want it and they want it.

Mr. LONG. I can see where it helps the businessmen in the United States make money but the real question with me is whether we are subsidizing profits for American businessmen at a cost in subsidies and a dilution of the faith and credit of the United States which is being paid for by the American taxpayer.

Mr. CASEY. Mr. Long, I don't think it is my province to determine whether or not we ought to extend export credits to the Soviet Union. The Congress has spoken on that. At the present time we are not doing it. There was a time when we were doing it.

Mr. LONG. We are not doing it because the Soviets turned us down on the trade agreement, didn't they? They refused to go through with the credit arrangement?

Mr. CASEY. Yes.

Mr. LONG. Because we wouldn't give them $8 billion instead of $300 million?

Mr. CASEY. No.

Of course, I think that is debatable.

Mr. LONG. They refused because we attached an insistence that they let minorities in the Soviet——

Mr. CASEY. I would like to say on that score that the Bank has not made any new commitment for credits to the Soviet Union since I have been Chairman. We haven't extended any new credits this year.

Mr. LONG. I am glad to hear that. I hope you keep it up.

Mr. CASEY. I will keep it up as long as that is the policy. If the policy changes, I will follow the policy. I have to do it. That is my job.

OPERATION OF THE BANK

Mr. PASSMAN. Thank you, Mr. Long.

Thank you, Mr. Casey.

Each member has a right to examine in his own way. I am a great defender of the Export-Import Bank because every year since you have been in existence you have paid $50 million in dividends from your net profit into the U.S. Treasury. Is that correct?

Mr. CASEY. Yes, Mr. Chairman.

Mr. PASSMAN. Today you are getting 8 percent on loans and the prime rate is down to about 7 percent.

Mr. CASEY. Seven and a quarter percent.

Mr. PASSMAN. At one time you were getting 5.5 percent on loans when the banks were only paying 2 percent on their CD's and savings.

Mr. CASEY. Yes.

Mr. PASSMAN. So you just can't balance this program 365 days a year where you are going to always be on the plus side, but on the average every year you have had a net profit in interest over and above what you paid to the U.S. Treasury.

Mr. CASEY. That is correct, Mr. Chairman.

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Mr. PASSMAN. In my lifetime, I have tasted milk from black cows and white cows and it all tastes the same. I would just as soon sell to a Communist nation as a friendly one providing you get dollars and gold back and as long as tse goods are not considered strategic.

Your experience with Communist nations has been very excellent, has it not? The repayment record is good?

Mr. CASEY. Yes.

Mr. PASSMAN. If we are going to start selecting to whom we are going to sell, we will be in bad shape.

BENEFITS TO ECONOMY FROM BANK ACTIVITIES

This operation has furnished jobs for 4 million Americans and as we sit here and talk today the Eximbank supported commodity sales for this year are furnishing 700,000 jobs for America.

Mr. CASEY. This year.

Mr. PASSMAN. And those Americans pay income tax into the Treasury on their earnings. Then we have the manufacturer of these commodities who also pays taxes. The manufacturer fixes the price, does he not?

Mr. CASEY. Yes.

Mr. PASSMAN. That is his business. You have nothing to do with it. He makes a profit. He, too, pays substantial profits into the U.S. Treasury; is that correct?

Mr. CASEY. Yes, sir.

DIFFERENCES IN INTEREST RATES IN VARIOUS FEDERAL PROGRAMS

Mr. PASSMAN. We have something like 30 different lending agencies in America and interest rates run from zero up to about 6 percent.

We have all types of interest rates in America on different types of loans.

Mr. CASEY. Yes, sir.

Mr. PASSMAN. I yield to Mr. Conte.

SMALL BUSINESS LOANS

Mr. CONTE. We also have two types of direct small business loans. One is a direct loan at 6¾ percent interest, and of course we get the same argument there in the Small Business Committee. Some small businessmen can't get that loan.

Mr. LONG. Because they ran out of money in a hurry.

Mr. CONTE. Right. And of course a part of that is for minority enterprises.

Mr. KOCH. Would the gentleman yield, because I happen to think that is the worst program we have. You cannot get a direct loan unless you are black, Spanish surnamed, Oriental, American Indian, Aleut, or Eskimo, and it is very tough to find Eskimos in New York City.

Mr. CONTE. Of course, the minority loans are only about 10 percent of the total direct loan portfolio. A small businessman who can't get a guaranteed loan can try for a direct loan.

Mr. LONG. He gets it at 15 percent.

Mr. CONTE. He gets it at 9, 10, or 10.5 percent.

DIRECT VERSUS INDIRECT EXIM SUPPORT

Mr. PASSMAN. The name of the game is profit.

The Export-Import Bank is in business for only one reason and that is to make available capital either direct or through banks and most of it is through banks, is it not?

Mr. CASEY. Two-thirds of it is through banks.

Mr. PASSMAN. Every year you make a net profit and the U.S. Treasury receives a dividend and if the manufacturer makes a big profit he pays taxes into the U.S. Treasury. The man who is holding this job down gets his paycheck and he pays the U.S. Treasury taxes and if that isn't a profit game I don't know what is.

Mr. Bevill?

LOAN TO SOVIET UNION FOR FERTILIZER PLANTS

Mr. BEVILL. Thank you, Mr. Chairman.

Mr. Casey, looking over your record here I think the Export-Import Bank is very fortunate to have you as its President and Chairman.

Mr. CASEY. Thank you, Mr. Bevill.

Mr. BEVILL. I am very much impressed with it. I think, as my chairman has pointed out, this is probably the best international bank that we have. I suppose that term "international" would apply to it, wouldn't it?

Mr. CASEY. Yes.

Mr. BEVILL. And, of course, I have been very impressed with its record and all that up until the loan to Russia to build the fertilizer plant in Russia. And perhaps if I were better informed I would look at it differently but I have to just go with what I have.

This is where you lose me. How many loans has the Export-Import Bank financed for Communist countries?

TOTAL LOANS TO COMMUNIST COUNTRIES

Mr. CASEY. I am guessing now. I would say about 16 to the Soviet Union and probably about 150 altogether. I can give you the exact amounts.

Mr. BEVILL. All right, sir, if you will just put that in the record, each of those if you have a list of them.

Mr. CASEY. Thirteen in Romania.

Mr. BEVILL. Read them.

Mr. CASEY. Sixteen in Russia, for a total of $468 million; 59 in Yugoslavia amounting to $690 million. They have creeping capitalism in Yugoslavia. Forty-two in Poland for $171 million, and 13 in Romania for $47 million. That is it for direct credits.

Mr. BEVILL. What years were those loans made?

Mr. CASEY. I can't give you that exactly.

Mr. BEVILL. Has it been the last 5 years?

Mr. CASEY. In the case of the Soviet Union it started in 1973, so it is 2 years in the Soviet Union; recently in Romania probably back 3 years; recently, Poland goes back 2 years; and Yugoslavia goes way back. That goes way back to 1950. That was the first large credit to Yugoslavia.

We currently don't do any in Czechoslovakia, Bulgaria, Hungary, East Germany, or the People's Republic of China.

PURPOSE OF BANK

Mr. BEVILL. Actually the purpose of this bank as I understand is to encourage interstate commerce and to finance these sales to foreign countries.

Mr. CASEY. Yes, sir.

Mr. BEVILL. And the main thing, I believe as you stated a while ago, is to render service. This is really what you concentrate on. I believe you said if you operated the bank yourself that it would make a much bigger profit.

Mr. CASEY. The main purpose is to foster exports.

Mr. BEVILL. Because the policy of the bank and the purpose of the bank really is to render service.

Mr. CASEY. A specific kind of service in order to promote exports.

ADVANTAGES TO UNITED STATES FROM SOVIET FERTILIZER PLANTS LOAN

Mr. BEVILL. Yes.

But when we get over in these Communist countries and start making loans, then I hear the term, "We make money on that." I believe you sent the chairman a very nice letter there about this loan on the fertilizer plant in Russia, setting that out. I believe the emphasis there was on profits.

Mr. CASEY. No; I don't think so, Mr. Bevill. Would you like me to explain why we made that Soviet fertilizer plants loan?

Mr. BEVILL. I would like to hear it again, yes.

Mr. CASEY. I would like to say that the fertilizer loan had been committed by the Bank sometime during 1973. It seemed like a good export to us because for a $180 million loan we were selling over $400 million worth of equipment.

The transaction had other features which seemed to us to be advantageous to the United States. We are short in nitrogen fertilizer and long in phosphate fertilizer. As a result of this transaction, we will be getting nitrogen fertilizer and they will be getting phosphate fertilizer. This is what the two parties had worked out in a barter transaction.

In addition, there was to be a substantial investment in certain developments in Florida, and a lot of shipbuilding—in total a lot of economic activity within the United States.

Furthermore, the natural gas used to make the ammonia fertilizer was not coming from the United States, but from the Soviet Union. If that amount of natural gas had to be taken out of our U.S. natural gas supply, it would be enough to heat a million U.S. homes a year.

So the United States had advantages in trade, in domestic investments, balance of payments, in fertilizer and food, and energy.

So it seemed to be a transaction that had multiple advantages in terms of our economic interest. On that basis, since it was the policy to make loans to the Soviet Union, we thought that was a good transaction.

Mr. BEVILL. And détente, too, I guess.

Mr. CASEY. Well, yes; that is why we are encouraged and directed to make these loans there. The facility of the Bank was made available to them as part of the détente policy.

Mr. BEVILL. So actually if I understand it the net effect of this is that actually there is a lot of our domestic company sales to foreign countries that couldn't get loans between June and January because you didn't have the credit. You have run up your limit. I think I am quoting you correctly back over here somewhere.

REASON WHY BANK WAS OUT OF COMMITMENT AUTHORITY

Mr. CASEY. No; I think that was the following year, Mr. Bevill.

Mr. BEVILL. Finally, between July 1, 1974 and January 6, 1975 the Bank was " out of business" for a total of 44 workdays because of expiration of the Bank's authority to do business and of several continuing resolutions which had extended that authority.

What I am saying is apparently you have operated pretty much to capacity and then when we find out that you are having to turn down loans and we find out you are making loans to these Communist countries, it is hard to follow, hard to understand.

Mr. CASEY. No, no. That loan was made before we had to cut back. We weren't turning down loans. We were cutting back our participation because we had to live within our fiscal 1975 annual authorization.

Mr. BEVILL. The Bank was out of business.

Mr. CASEY. It was out of business because we didn't have the basic commitment authority.

Mr. BEVILL. You had used the authority——

Mr. CASEY. No, no.

Mr. PASSMAN. We did not use the authority.

Mr. CASEY. You didn't extend the charter. The Congress didn't extend our charter. Our charter lapsed. It wasn't a matter of not having annual authorization. Our charter lapsed.

AUTHORITY FOR COMMUNIST COUNTRY LOANS

Mr. BEVILL. You started on these loans then to the Communist countries about 3 or 4 years ago with the exception of Yugoslavia. Did Congress pass anything making any special provisions or authorize these loans to these Communist countries starting in the 1970's? Did you get some legislation through permitting this?

Mr. SAUER. Yes, we did. We had legislation to the effect that we could make these loans provided that the President of the United States found it to be in the national interest, and the President so found in each individual country that has been mentioned here.

FUTURE BUSINESS IN COMMUNIST COUNTRIES

Mr. BEVILL. In these prospective loans that you mention here in your report do you have any more Communist countries up for loans?

Mr. CASEY. We have Poland and Yugoslavia.

Mr. BEVILL. Do you have some loans planned for those areas? Are they in the making or pending?

Mr. CASEY. I am sure they will be looking for loans, and I am sure al things being equal we will probaby make loans to Yugoslavia and Poland.

Mr. BEVILL. Isn't this a fair statement? You can get all the business you want from these Communist countries. I understand they are wanting all of our technology. They want to get everything that they can, that they will buy our most sophisticated planes, our equipment, and so actually the field is wide open for you there, isn't it?

EXPORT CONTROLS

Mr. CASEY. I think that overstates the situation a little bit because anything that is sensitive from a security standpoint wouldn't get an export license, and we have that machinery to control the export of things which might be to our disadvantage militarily. That is not our business. That is the business of the export control people. We only finance what we export, and if there are things we shouldn't export, export control should stop that.

COMPETITION IN SELLING TO COMMUNIST COUNTRIES

As to our being able to sell them everything we want, I don't think that is quite true because this is a competitive situation and the fact is that they have lines of credit adding up to about $8 billion from Japan and from Europe, and our financing has been a tiny, tiny drop in the bucket compared to the financing that has been made available to them in Europe and Japan.

So they are sitting there looking at our technology, looking at the equipment that other countries can make available to them. Most of the things they have been buying—fertilizer plants, machine tools, the turnkey factories—they can buy from the Germans or the British or the Japanese and get pretty good stuff. Furthermore, they can get better financing from them.

Mr. BEVILL. I see the chairman is calling time on me here. Would you do this? I would like the record to show—and you can insert this at your convenience—a description of each of these loans to these Communist countries, the rate of interest and why they were made, and what was involved and what security they had, and I would like to get all the details on all of these loans to Communist countries, and also the status on payments and where we are on them.

REPAYMENT RECORD ON COMMUNIST COUNTRY LOANS

Mr. CASEY. I can say right now there are no delinquencies.

Mr. PASSMAN. They are all up to date?

Mr. CASEY. Yes, sir.

Mr. BEVILL. So if you will set all that out in the record.

Mr. CASEY. Yes; I would be pleased to do that.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES—DETAIL OF LOANS DIRECT AND CFF, JAN. 1, 1968 TO MAR. 31, 1975

[Dollar amounts in thousands]

Cr. No., date authorized and obligor/ item financed	Guarantor	Interest rate	Export value	Eximbank finance
POLAND				
4372, Feb. 1, 1973: Bk Handlowy w Warszawie S.A., meat processing plants.	Government of Poland	6.0	$19,800	$8,910
4405, Mar. 12, 1973: Bk Handlowy w Warszawie S.A., Sendzimir rolling mill.	do	6.0	4,420	1,989
4445, Mar. 15, 1973: Bk Handlowy w Warszawie S.A., Cyber 72–14 computer system.	Polish Government agency	6.0	2,433	1,095
4493, Apr. 18, 1973: Bk Handlowy w. Warszawie S.A., 9 high temperature furnaces.	do	6.0	5,800	2,610
4548, May. 21, 1973: Bk Handlowy w. Warszawie S.A., tractor components.	do	6.0	1,548	697
4652, June 27, 1973: Bk Handlowy w Warszawie S.A., 2 meat processing plants.	do	6.0	49,600	22,320
4671, July 16, 1973: Bk Handlowy w Warszawie S.A., tape drive manufacturing equipment.	do	6.0	1,261	567
4677, July 16, 1973: Bk Handlowy w. Warszawie S.A , construction gray iron foundry.	do	6.0	31,025	13,961
4771, Aug. 22, 1973: Bk Handlowy w Warszawie S.A., weaving looms.	do	6.0	5,957	2,681
4824, Sept. 27, 1973: Bk Handlowy w Warszawie S.A., computer output equipment.	do	6.0	1,539	693
4831, Oct. 23, 1973: Bk Handlowy w Warszawie S.A., pectin production line.	do	6.0	2,338	1,052
4888, Nov. 1, 1973: Bk Handlowy w Warszawie S. A., electronic equipment.	do	6.0	9,730	4,379
4897, Nov. 5, 1973: Bk Handlowy w Warszawie S. A., meat processing plant.	do	6.0	23,413	10,536
4903, Nov. 1, 1973: Bk Handlowy w Warszawie S. A., disc wheel machinery.	do	6.0	1,839	827
003, Dec. 27, 1973: Bk Handlowy w Warszawie S. A., computer equipment.	do	6.0	3,020	1,359
5031, Dec. 20, 1973: Bk Handlowy w Warszawie S. A., computer configurations.	do	6.0	1,082	487
5137, Feb. 25, 1974: Bk Handlowy w Warszawie S. A., tire plant construction.	do	7.0	1,725	776
5138, Feb. 4, 1974: Bk Handlowy w Warszawie S. A., mechanical drying lines.	do	7.0	1,133	510
5176: Feb. 21, 1974: Bk Handlowy w Warszawie S. A., copper processing facilities.	do	6.0	43,759	19,692
5215, Mar. 22, 1974: Bk Handlowy w Warszawie S. A., textile equipment.	do	6.0	1,954	879
5286, Mar. 22, 1974: Bk Handlowy w Warszawie S. A., computer equipment.	do	6.0	2,748	1,237
5337, Apr. 4, 1974: Bk Handlowy w Warszawie S.A., computer.	do	6.0	1,314	591
5414, Apr. 25, 1974: Bk Handlowy w Warszawie S. A., scarfing machine equipment.	do	7.0	1,050	473
5455, June 13, 1974: Bk Handlowy w Warszawie S.A., tractor components.	do	7.0	6,050	2,723
5456, June 10, 1974: Bk Handlowy w Warszawie S. A., cranes, hoists, and monorails.	do	7.0	2,587	1,164
5477, June 13, 1974: Bk Handlowy w Warszawie S. A., pipe welding equipment.	do	7.0	1,600	720
5657, Sept. 24, 1974: Bk Handlowy w Warszawie S. A., pipe laying machinery.	do	8.0	2,264	1,019
5787, Jan. 6, 1975: Bk Handlowy w Warszawie S. A., 10 digital field recording systems.	do	8.0	3,328	1,331
5830, Jan. 27, 1975: Bk Handlowy w Warszawie S. A., offset printing press.	do	8.0	2,940	882
5831, Feb. 27, 1975: Bk Handlowy w Warszawie S. A., manufacturing equipment.	do	8.0	5,228	2,353
5832, Mar. 20, 1975: Bk Handlowy w Warszawie S. A., hydrogen peroxide plant.	do	8.0	14,340	5,736
5852, Feb. 10, 1975: Bk Handlowy w Warszawie S. A., lines for processing peas.	do	8.0	2,459	738
5860, Feb. 10, 1975: Bk Handlowy w Warszawie S. A., 8 auto body presses.	do	8.0	6,806	2,042
5876, Feb. 27, 1975: Bk Handlowy w Warszawie S.A., textile equipment.	do	8.0	3,100	1,240

EXPORT-IMPORT BANK OF THE UNITED STATES—DETAIL OF LOANS DIRECT AND CFF, JAN. 1, 1968 TO MAR. 31, 1975—Continued

[Dollar amounts in thousands]

Cr. No., date authorized and obligor/ item financed	Guarantor	Interest rate	Export value	Eximbank finance
CFF LOANS				
13204, Feb. 6, 1975: Bk Handlowy w Warszawie S.A., textile equipment.	Polish Peoples Republic	8.0	$377	$170
13296, Mar. 6, 1975: Bk Handlowy w Warszawie S.A., differential carrier assembly.	do	8.0	1,423	640
11373, Sept. 7, 1973: Pittsburgh National Bank, equipment for crystal growth.	do	6.0	450	203
Total			271,440	119,282
ROMANIA				
3999, June 21, 1972: Implexmin State Co., offshore drilling equipment.	Government Bank	6.0	3,178	1,192
4152, Sept. 28, 1972: Tehnoimportexport, seismic processing system.	do	6.0	1,150	431
4484, Apr. 2, 1973: Tehnoimportexport, (3) 707 commercial jets.	do	6.0	44,486	20,019
4503, Apr. 23, 1973: Romchim, tire plant	do	6.0	28,795	12,958
4507, Apr. 30, 1973: Romchim, rubber drying and packaging.	do	6.0	1,830	824
4537, May 17, 1973: Romenergo, nuclear technical center.	Commercial bank	6.0	4,635	1,764
4781, Aug. 27, 1973: Romchim, compressors and turbines.	Government agency	6.0	10,420	4,689
4883, Nov. 1, 1973: Metaron, vacuum furnance and parts.	do	6.0	1,635	736
4958, Nov. 28, 1973: Uzinexportimport, bustling line equipment.	Commercial bank	6.0	1,746	786
5283, Mar. 22, 1974: Metarom, welding machine.	Government agency	6.0	818	368
5368, Apr. 15, 1974: Metaron, equipment produce pipe couplings.	Government Bank	6.0	1,550	698
5379, Apr. 18, 1974: Uzinexportimport, engine bearing plant.	Government Agency	6.0	5,600	2,520
11833, Jan. 24, 1974: Bank of America, N.T. & S.A., seismic digital field system.	None	6.0	277	118
12666, Aug. 29, 1974: Central National Bank of Cleveland, rubber extruding machine.	do	7.0	260	117
11482, Oct. 11, 1973: Morgan Guaranty Trust, Technoimports, Romania, drilling equipment.	do	6.0	595	268
Total			106,975	47,488
UNION OF SOVIET SOCIALIST REPUBLICS				
4399, Feb. 21, 1973: Vneshtorgbank, U.S.S.R., 500 submersible electric pumps.	Government of U.S.S.R.	6.0	25,937	11,672
4421, Mar. 5, 1973: Bank Foreign Trade U.S.S.R., 2 tableware plants.	do	6.0	6,893	3,102
4423, Mar. 5, 1973: Bank Foreign Trade, U.S.S.R., truck and engine plant.	do	6.0, 7.0	342,120	153,950
4794, Sept. 6, 1973: Bank Foreign Trade U.S.S.R., knitting machines.	do	6.0	5,620	2,529
4881, Nov. 26, 1973: Bank Foreign Trade U.S.S.R., equipment and tableware plant.	do	6.0	21,833	9,825
4882, Nov. 26, 1973: Bank Foreign Trade U.S.S.R., piston assembly line.	do	6.0	12,902	5,806
4938, Dec. 20, 1973: Bank Foreign Trade U.S.S.R., turbine compressors and parts.	do	6.0	26,252	11,813
4982, Dec. 20, 1973: Bank Foreign Trade U.S.S.R., iron ore pellet plant.	do	6.0	36,000	16,200
5007, Dec. 20, 1973: Bank Foreign Trade U.S.S.R., tractor friction drum machine.	do	6.0	5,580	2,511
5008, Dec. 20, 1973: Bank Foreign Trade U.S.S.R., piston manufacturing line.	do	6.0	15,722	7,075
5146, May 21, 1974: Bank Foreign Trade U.S.S.R., construct ammonia plant.	do	6.0	400,000	180,000
5169, Feb. 28, 1974: Bank Foreign Trade U.S.S.R., transfer line for flywheel.	do	6.0	7,458	3,356
5170, Feb. 21, 1974: Bank Foreign Trade U.S.S.R., acetic acid plant.	do	6.0	44,515	20,032
5178, Mar. 22, 1974: Bank Foreign Trade U.S.S.R., construct international trade Center.	do	6.0	80,000	36,000
5258, Mar. 22, 1974: Bank Foreign Trade U.S.S.R., canal building equipment.	do	6.0	6,600	2,970
5259, Mar. 22, 1974: Bank Foreign Trade U.S.S.R., valve-making machinery.	do	6.0	4,700	2,115
Total			1,042,132	468,956

EXPORT-IMPORT BANK OF THE UNITED STATES—DETAIL OF LOANS DIRECT AND CFF, JAN. 1, 1968 TO MAR. 31, 1975—Continued

[Dollar amounts in thousands]

Cr. No., date authorized and obligor/ item financed	Guarantor	Interest rate	Export value	Eximbank finance
YUGOSLAVIA				
E-2637, May 29, 1969: Jugoslavenski Aero-transport, 5 DC-9 commercial jets.	Central bank	6.0	$26,870	$11,588
E-2638, May 29, 1969: Interexport, 2 DC-9 commercial jets.	do	6.0	10,300	4,442
E-3291, July 14, 1971: Geoloski Zavod, uranium mining study.	do	6.0	185	79
E-3884, Apr. 13, 1972: R M K Zenica, feasibility study—steel plant.	Government bank	6.0	255	218
2701, Dec. 24, 1969: Zeljeznicko Transport Preduzece, railroad locomotive.	do	6.0	4,151	3,735
2964, Oct. 29, 1970: Jugoslovenski Aerotransport, 3 DC-9 commercial jets.	do	6.0	15,400	6,237
2966, Oct. 29, 1970: Interexport, 1 DC-9 commercial jet.	Central bank	6.0	5,252	2,127
3078, Feb. 22, 1971: INA Industrija Nafte, oil field equipment.	do	6.0	8,348	3,757
3197, June 7, 1971: Interexport, 1 used DC-9 jet.	do	6.0	4,400	1,782
3209, June 17, 1971: Hemijska Industria Pancevo, petrochemical equipment.	Government bank	6.0, 8.0	69,900	28,155
3246, June 28, 1971: Iskra Elektromehanika Kranj, telecommunications equipment.	Government agency	6.0	4,500	2,025
3270, June 29, 1971: Enamels Metal & Press Tool Ind., container production equipment.	do	6.0	980	441
3342, Aug. 23, 1971: Vardar Import-Export of Skopje, study for copper mine.	Government bank	6.0	187	80
3391, Oct. 5, 1971: Zeljeznicko Transportno, 14 electric locomotives.	do	6.0	5,020	2,260
3602, Jan. 17, 1972: Interexport, 1 DC-9 commercial jet.	Commercial bank	6.0	5,250	2,363
3702, Feb. 3, 1972: Metal Kominat Smederevo, construct rolling mill.	Central bank	6.0	36,000	16,200
3963, June 8, 1972: Cajavec Elektronika Elektro, electronics equipment.	do	6.0	10,000	4,500
3971, June 19, 1972: Jugoslovenski Aerotransport, 6 DC-10 jumbo jets.	Government bank	6.0	32,775	14,749
4039, July 27, 1972: Rudarsko-Topionicarski Basen, copper mine equipment.	do	6.0	25,000	11,250
4068, July 31, 1972: Sluzba Drustvenog Knjigovodstv, 73 computer systems.	do	6.0	2,465	1,047
4084, Aug. 31, 1972: Rudarsko Metalurski Kombinat, 2 strand rod mills.	Central bank	6.0	31,800	14,300
4173, Sept. 26, 1972: Rudarsko Metalursko Hemijski, expand 2 battery plants.	do	6.0	3,911	1,760
4195, Oct. 30, 1972: Interexport, 1 DC-9, commercial jet.	do	6.0	5,197	2,338
4397, Feb. 26, 1973: Various Yugoslav Importers, telecommunication equipment and factory.	Government bank	6.0	13,626	6,132
4723, Aug. 13, 1973: Industrisa Nafte Zareb, oil production equipment.	Government agency	6.0	3,000	1,350
4739, Oct. 25, 1973: Polyester Skopje, Polyester plant.	Central bank	6.0	18,500	8,325
4770, Aug. 30, 1973: Energoinvest Sarajevo, feasability study.	Privredna Banka	6.0	56	48
4786, Sept. 13, 1973: Indus Kombinat Krivaja, fiberboard plant construction.	do	6.0	5,950	2,678
4846, Nov. 15, 1973: Zeljezara Sisak, steel mill expansion.	Government bank, Investiciona Banka.	6.0	3,315	1,492
4898, Dec. 6, 1973: Zeljezara Boris Kidric Niksic, steel works modernization.	National Bank of Yugoslavia	6.0	34,000	15,300
4910, Dec. 20, 1973: Zelezarna Jesenice, steel mill construction.	Ljubljanska Banka, National Bank of Yugoslavia.	6.0	24,440	11,000
4986, Feb. 1, 1974: Titovi-Rudnici Kreka Banovici, equipment for coal mining.	Privredna Banka, National Bank of Yugoslavia.	6.0	21,485	9,668
5087, Jan. 21, 1974: Jugoslovenski Aerotransport, 2 727's commercial jets.	Beogradska Banka, Yugoslav Investment Bank.	6.0	20,450	9,203
5089, May 6, 1974: Rudnik Za Bakar Bucim, copper mining and processing.	National Bank of Yugoslavia	6.0	22,543	10,144
5101, May 30, 1974: Feni-Rudnici I IND. Za Nikel, nickel mining and processing.	do	6.0	86,000	38,700
5126, Feb. 14, 1974: Automobilsko Preduzece, Mack road tractors.	do	7.0	1,898	854
5128, Feb. 14, 1974: Autotransportno I Spediterskо, road tractors.	do	7.0	2,178	980
5161, Feb. 11, 1974: Jugoslovenska Aerotransport, 2 used 707 jets.	Yugoslav Investment Bank	7.0	15,800	7,110

EXPORT-IMPORT BANK OF THE UNITED STATES—DETAIL OF LOANS DIRECT AND CFF, JAN. 1, 1968 TO MAR. 31, 1975—Continued

[Dollar amounts in thousands]

Cr. No., date authorized and obligor/ item financed	Guarantor	Interest rate	Export value	Eximbank finance
YUGOSLAVIA—Continued				
5191, May 6, 1974: Energoinvest, aluminum products.	National Bank of Yugoslav	6.0	$9,643	$4,339
5338, May 30, 1974: Elektrarna Sastany, thermal power plant and equipment.	National Bank of Yugoslavia	6.0	40,000	18,000
5199, Apr. 22, 1974: Rudarsko Metalurski Kombinat, haulpak truck.	National Bank of Yugoslavia	7.0	3,113	1,401
5197, June 26, 1974: Jugoslovenski Aero- thermal power plant and equipment.	Beogradska Banka, Yugoslav	7.0	40,000	18,000
5370, May 9, 1974: Various, construct nuclear powerplant.	Ljubljanska Banka, National Bank of Yugoslavia.	7.0	195,577	176,019
5371, May 9, 1974: Various construct nuclear powerplant.	do	7.0		[1] 29,473
5373, Oct. 24, 1974: Rudarsko Metalurski Kombinat, furnaces drawing machine crane.	National Bank of Yugoslavia	8.0	31,000	9,300
5382, Apr. 25, 1974: Community of Yugoslav Railways, railway communication equipment.	do	6.0	3,000	1,350
5396, Apr. 25, 1974: Politex-Enterprise, textile equipment.	Stopanska Banka, National Bank of Yugoslavia.	6.0	12,692	5,711
5419, May 13, 1974: Pan Adria Zareb, aircraft and related equipment.	National Bank of Yugoslavia	7.0	3,175	1,429
5507, Sept. 24, 1974: Rudarsko Topionicarski Basen Bor, excavators, dump trucks.	do	8.0	9,400	2,820
5619, Aug. 26, 1974: General Export Co., 2 commercial jet aircraft.	do	8.0	20,000	9,000
5733, Jan. 16, 1975: Jugoslovenski Aero- transport, 1 727–200 jet aircraft.	do	8.0	10,000	4,000
5806, Feb. 24, 1975: Urdruzena Metalna Industrija Sarajevo, cold rolling mill plant.	do	8.0	22,335	9,149
CFF LOANS				
9008, Feb. 24, 1972: Jugoslavenska Banka, earth moving equipment.	do	6.0	22,137	9,962
11021, June 25, 1973: Jugoslavenska Banka, VC400 towed vibrator roller.	None	6.0	84	38
11023, June 25, 1973: Jugoslavenska Banka, RP–48 vibratory sheepsft roller.	do	6.0	38	17
11157, July 23, 1973: Jugoslavenska Banka, Heavy duty trucks.	National Bank of Yugoslavia	6.0	1,628	733
11925, Feb. 22, 1974: Jugoslavenska Banka, bulldozers and loaders.	None	6.0	994	447
11954, Mar. 8, 1974: Jugoslavenska Banka, Mack motor trucks.	National Bank of Yugoslavia	6.0	2,092	941
10950, June 6, 1973: Ljubljanska Banka, generators and electrical equipment.	None	6.0	627	282
11179, July 26, 1973: Lujbljanska Banka, traction units.	do	6.0	509	229
11752, Dec. 20, 1973: Ljubljanska Banka, electrical equipment.	do	6.0	235	106
11910, Feb. 21, 1974: Ljubljanska Banka, electrical installation equipment.	do	6.0	750	338
12074, Mar. 7, 1974: Ljubljanska Banka, electrical installation equipment.	do	7.0	250	113
12825, Sept. 30, 1974: Ljubljanska Banka, agricultural equipment.	National Bank of Yugolavia	7.0	1,000	450
11750, Dec. 19, 1973: Philadelphia National Bank, motors for excavating unit.	None	6.0	175	79
12081, Mar. 7, 1974: Stopanska Banka Skopje, 30 off trucks.	do	7.0	899	405
12793, Sept. 19, 1974: Stopanska Banka, scarfing machine.	do	7.0	600	270
12795, Sept. 19, 1974: Stopanska Banka, scraper with elevator and spares.	do	7.0	297	134
12797, Sept. 19, 1974: Stopanska Banka, Mack trucks.	do	7.0	932	419
Total			1,014,569	563,371

[1] Capitalized interest.

Note: In the opinion of the Bank's Board of Directors, all of the loans listed above were necessary to enable the U.S. exporter to finalize the export sale. As of Mar. 31, 1975, all of these loans were current in their payments to Eximbank. All of the above loans are secured by a loan agreement and a promissory note, and where a guarantor is indicated, by a guarantee agreement.

Mr. BEVILL. Thank you.

COMPETITION AND BENEFITS ON COMMUNIST COUNTRY SALES

Mr. PASSMAN. Let me just ask this question if I may.

Without exception in any of these sales we make, you are competing with other nations with respect to price, are we not?

Mr. CASEY. Price, financing, quality, everything.

Mr. PASSMAN. So it is strictly competitive. It is not a special favor to them and when you sell to one of these nations you are making a profit for the manufacturer, making a profit for the Treasury, and making a profit for the man who manufactures the goods. Also, if we didn't sell the commodities, some competitor would; isn't that true?

Mr. CASEY. Yes; I think, Mr. Chairman, that there will be certain cases arguable in the sense that our computers are better than anybody else's.

Mr. PASSMAN. But strategic materials and sophisticated planes, you don't make that decision. That decision is made by our Government and you give them export financing to buy them.

Mr. CASEY. That is right.

BAD DEBT EXPERIENCE

Mr. PASSMAN. I want to ask this question because this sounds too good to be true.

Last year on page 81 of the hearings we find the following exchange:

Mr. PASSMAN. What has been your bad debt experience since the Bank's inception?

Mr. SAUER. Since inception the Bank has written off a net of only $6 million of loans and $21 million of guarantees and insurance. The loan figure is only two one-hundredths of 1 percent of loan disbursements to date.

Is that true?

Mr. CASEY. That is correct. With recoveries on the loan writeoffs, the charge for loan writeoffs to the reserves is only $3.8 million, however.

RESCHEDULED LOANS

Mr. BEVILL. Mr. Chairman, how about extensions on loans?

Mr. PASSMAN. That is my next question.

You may place in the record the answer now on how many loans you have rescheduled and are the loans that you rescheduled presently up to date?

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES RESCHEDULED LOANS FROM INCEPTION THROUGH MARCH 31, 1975

Country	Principal	Capital interest	Total
Antiqua	$600,000.00	$ 0	$600,000.00
Argentina	105,880,576.35	1,012,990.56	106,893,566.91
Bolivia	35,088,983.67	0	35,088,983.67
Brazil	401,003,289.82	0	401,003,289.82
Chile	292,476,448.48	55,007,883.93	347,484,332.41
Colombia	1,131,073.48	0	1,131,073.48
Costa Rica	5,170,120.54	0	5,170,120.54
Dominican Republic	400,000.00	0	400,000.00
Ecuador	323,529.60	0	323,529.60
Egypt	20,921,561.97	7,506,148.61	28,427,710.58
Ethiopia	2,542,216.00	0	2,542,216.00
Finland	90,061,791.40	0	90,061,791.40
Greece	554,660.68	0	554,660.68
Haiti	38,973,911.34	138,858.00	39,112,769.34
India	8,862,670.00	0	8,862,670.00
Indonesia	139,359,541.58	16,197,078.81	155,556,620.39
Korea	1,102,500.00	0	1,102,500.00
Kuwait	20,000,000.00	0	20,000,000.00
Liberia	24,927,372.22	0	24,927,372.22
Mexico	15,119,434.93	0	15,119,434.93
Nicaragua	248,371.53	0	248,371.53
Nigeria	1,600,000.00	445,140.67	2,045,140.67
Pakistan	6,689,367.98	2,937,287.60	9,626,655.58
Peru	130,000.00	0	130,000.00
Philippines	10,022,736.00	3,524,897.84	13,547,633.84
Sierra Leone	2,550,000.00	0	2,550,000.00
Spain	1,633,332.00	0	1,633,332.00
Taiwan	2,587,147.36	0	2,587,147.36
Thailand	12,791,116.05	769,504.69	13,560,620.74
Venezuela	3,930,352.00	0	3,930,352.00
Yugoslavia	3,500,000.00	0	3,500,000.00
Zaire	200,000.00	0	200,000.00
Total	1,250,382,104.98	87,539,790.71	1,337,921,895.69

Note: Through Mar. 31, 1975, payments under all of the major reschedulings are current. There are a few small delinquencies of 30 days or more on rescheduled loans to borrowers in Mexico, Argentina and Nigeria.

Mr. PASSMAN. When you appeared before the committee last year you had loans to Chile of about $310 million. It looked like it was a bad situation but they have paid about $56 million on the loans, have they not?

Mr. CASEY. That is correct.

EFFECT OF BANK ACTIVITY ON U.S. JOB MARKET

Mr. PASSMAN. I don't want to overdefend the Bank but you are presently furnishing jobs for 700,000 Americans at a time when we need to provide jobs, and many of your terms are as low as 18 months to 2 years, are they not?

Mr. CASEY. Yes, sir.

QUESTION OF FURNISHING STRATEGIC GOODS TO COMMUNIST COUNTRIES

Mr. PASSMAN. And of these 162 loans to Communist countries, how much of that was for strategic materials that could be a threat or could feed into some area of war materials?

Mr. CASEY. None of it should be.

Mr. CHAPPELL. How about computers?

Mr. PASSMAN. You made no strategic loans. You are prohibited by law from making these are you not?

Mr. CASEY. We can't finance items unless they get export licenses.

Mr. PASSMAN. As far as I am concerned, I am not opposed to selling to Communist nations if you get dollars and gold back and you make a

big profit for the laborer, the Treasury, and the manufacturer, and strategic materials are not involved.

Now, can you say for the record that we have not sold any nation strategic materials that could be converted or diverted into war materials that would go to Vietnam and other places?

Mr. CASEY. I can say that we haven't financed anything that couldn't get an export license. You can always make an argument that anything is strategic materiel.

Mr. PASSMAN. Everything is relative. It could be a bottle of castor oil that can be strategic if you want to carry it that far.

Mr. CASEY. Anything that is identified by our governmental procedures as having strategic value we have not financed.

Mr. PASSMAN. And you are working completely within the framework of the law?

Mr. CASEY. Absolutely.

Mr. PASSMAN. I think you have a tremendous institution. I think it is one of the best that we have in Government and sometimes I overdefend it because it has such a marvelous record.

Every year since the inception of the Bank you have had a net profit on interest over and above what you paid.

Mr. CASEY. Correct, every year.

Mr. PASSMAN. We will take a brief recess and go down and answer the rollcall.

[Brief recess.]

DIVIDENDS PAID TO U.S. TREASURY

Mr. PASSMAN. The committee will come to order.

Picking up where I left off about the profits of the Bank, the Office of Management and Budget notwithstanding, you can state for the record that you have earned for the U.S. Treasury from interest and insurance fees over and above what you paid, almost a billion dollars since its inception?

Mr. CASEY. Yes, that is right.

Mr. PASSMAN. That doesn't come out of the commodities. That means simply profit that you made from interest and fees over and above what you paid for money. What did you pay into the U.S. Treasury during that period?

Mr. CASEY. Since the Bank's inception?

Mr. PASSMAN. Yes.

Mr. CASEY. We've paid dividends of $906 million.

Mr. PASSMAN. Net profit from interest and insurance fees over and above what you had to pay for money?

Mr. CASEY. Yes.

Mr. PASSMAN. You have paid a net in every year since its inception?

Mr. CASEY. Almost every year.

Mr. PASSMAN. What was it the last fiscal year?

Mr. CASEY. $50 million.

Mr. PASSMAN. $50 million over and above your costs.

Mr. CASEY. Yes, and we built reserves of a billion and a half on top of that.

Mr. PASSMAN. And you only started out with a billion and a half 30 years ago.

Mr. CASEY. We started out with a billion 30 years ago. The Bank had limited capital during its first 10 years, so this really has been done in about 30 years.

LEGALITY OF COMMUNIST COUNTRY TRANSACTIONS

Mr. PASSMAN. Here is what we would like to have for the record.

No. 1, that you are working entirely in the framework of the laws passed by the Congress on any loans you make to any Communist country.

Mr. CASEY. Yes, sir.

Mr. PASSMAN. And, furthermore, you know of no direct strategic materials or sophisticated equipment, that has been sold to nations that was subsequently transferred to Vietnam? You make that statement for the record.

Mr. CASEY. Yes, I can make that categorically.

PERCENTAGE OF LOANS FOR MILITARY EQUIPMENT

Mr. PASSMAN. Would you tell the committee the total amount of loans that you have made, we will say in the past 10 years, what percentage has been for military equipment such as planes, tanks, guns, and ammunition?

Mr. CASEY. I don't have that at my fingertips. It is very small in recent years. I can provide that for the record.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

MILITARY LOANS AS A PERCENT OF TOTAL REGULAR LOANS AUTHORIZED, FISCAL YEAR 1965–1975 (THROUGH APRIL 30, 1975)

[Dollar amounts in million]

	Total regular loans authorized	Military loans authorized	Percent of military loans to total
Fiscal year:			
1965	$851	0	----
1966	1,149	$522	45.4
1967	2,652	973	36.7
1968	2,323	827	35.6
1969	1,110	225	20.3
1970	1,625	286	17.6
1971	1,840	253	13.8
1972	2,296	190	8.3
1973	2,414	200	8.3
1974	3,981	200	5.0
1975 (through Apr. 30, 1975)	1,877	0	----

MILITARY LOANS

Mr. PASSMAN. Are you talking about 1 percent, one-half percent, something in that area?

Mr. CASEY. Just guessing, Mr. Chairman, I would think it would be around no more than about 5 percent recently.

Mr. PASSMAN. No more than 5 percent total. To how many nations?

Mr. CASEY. A handful.

WHEAT SALE TO RUSSIA

Mr. PASSMAN. There has been something said about loans to Russia. I believe on the wheat loan, there have been tons and tons of print about the Russian wheat sale. They themselves canceled out part of it, did they not?

Mr. CASEY. Of course, we had nothing to do with that.

Mr. PASSMAN. No, but I want to get the wheat sale in there.

Mr. CASEY. That is not our responsibility.

Mr. PASSMAN. But you are familiar with the wheat sale. Are you, Mr. Sauer?

Mr. SAUER. Yes.

Mr. PASSMAN. They subsequently canceled the order and bought the wheat elsewhere where they could get it cheaper?

Mr. CASEY. They canceled some of the order.

Mr. PASSMAN. But they had a clause in there to cancel the order and I think they only accepted about 50 percent of the wheat they agreed to purchase and used the cancellation clause because they could buy it from our competitor cheaper.

Mr. CASEY. Yes, sir.

Mr. PASSMAN. Mr. Chappell.

COOPERATIVE FINANCING FACILITY

Mr. CHAPPELL. Mr. Casey, on page 8 of your statement you describe the Cooperative Financing Facility whereby the Eximbank makes lines of credit available to foreign banks to finance up to 45 percent of the cost of U.S. exports, that the foreign banks relend the funds to buyers in their countries to purchase U.S. goods.

Now, does this mean also that we borrow money from foreign sources in order to have funds available to lend back to foreign sources?

Mr. CASEY. No. We don't borrow from foreign sources, but there is no reason why we couldn't. However, under this program we lend half the money to the foreign bank which they lend to a foreign buyer. So instead of our lending to the exporter, we lend it to the buyer through his foreign bank in that case and the foreign banks themselves put up the other half of the money.

Mr. CHAPPELL. Are you saying that we are not borrowing any money from foreign sources?

Mr. CASEY. I don't think we are, no. I would like to borrow some from foreign sources.

Mr. CHAPPELL. I though you were.

Mr. CASEY. No.

Mr. PASSMAN. Would you yield for one question?

Mr. CHAPPELL. Yes, sir.

TYPICAL TRANSACTION UNDER CFF PROGRAM

Mr. PASSMAN. Isn't this the way you handle it? Let us say that Italy wants to borrow $20 million. You have certain banks in Italy. They say, "We have a surplus of dollars. We would like to finance half the loan."

Then Italy, of course, would finance half the loan and it would bring dollars home.

Mr. CASEY. Yes. We don't borrow. The buyer borrows it from the foreign bank.

Mr. CHAPPELL. Would the foreign bank make any interest on the money which they borrowed from us?

Mr. CASEY. Oh, yes. They mark it up. We place a limit on how much they can mark it up. They are taking the risks. Part of the advantage of this program to us is that they can lend to the small buyers and take the credit risk, while the advantage of this program to small buyers is that they can deal with their local bank.

By taking the credit risk we let them mark up their interest rate 1.5 percent.

Mr. CHAPPELL. If I follow the Chairman's question there, you might participate with an Italian bank on a 50–50 basis.

Mr. CASEY. Yes.

Mr. CHAPPELL. If you participate on a 50–50 basis does that mean that the Italian bank, for example, takes all the risk, or do we not take half the risk?

Mr. CASEY. The bank takes all the risk.

Mr. CHAPPELL. That is, the local bank.

Mr. CASEY. We lend the money to a local bank on their credit. They relend to the foreign buyer, and they take the buyer's assurance of repayment, so they are taking the risk. We take the risk on the bank. The bank by and large is a good solid credit risk.

The buyers are small businessmen around Italy. We don't know who they are but the local banks know who they are and they take the credit risk.

BUSINESS LOST BECAUSE OF NATIONALIZATION

Mr. CHAPPELL. Can you tell me how much lost business is attributable to the nationalization of companies by foreign governments?

Mr. CASEY. That is a hard one, how much lost business. It is a loss to the company, the owner of the business that is expropriated, if they don't get paid. I don't know that there is any loss of exports because the companies continue to carry on business and keep on buying. We follow the lead of the State Department in not lending to countries that are holding back on repayments or that expropriate without compensation.

Mr. CHAPPELL. Does the Eximbank attempt to discourage investments in countries which have a stated nationalization policy?

Mr. CASEY. No.

Mr. CHAPPELL. You don't——

Mr. CASEY. It is not the policy of the U.S. Government to oppose the nationalization policy as long as nationalization is accomplished with fair compensation. It is not our policy. That is the policy of the U.S. Government.

SECURITY ON LOANS TO COMMUNIST COUNTRIES

Mr. CHAPPEL. If you are lending to a Communist country, you are always looking strictly at the Communist country then as the one to repay the loan?

Mr. CASEY. Yes; we are looking at the credit of the Government.

Mr. CHAPPELL. They don't have any such things as private banks in these Communist countries, do they?

Mr. CASEY. No.

Mr. CHAPPELL. So in every instance that you lend to a Communist country, you are dealing directly with that Government which is borrowing and it is that Government which is responsible for repayment?

Mr. CASEY. Yes, sir.

Mr. CHAPPELL. Which means that if the Government itself just decided it didn't want to repay, for example, if Russia decided it didn't want to repay, all the Government has to do, if it thinks it is strong enough to defend its position, is simply say, "We are not going to repay."

Mr. CASEY. I suppose any Government could say that.

GOVERNMENT GUARANTEES ON LOANS IN FREE WORLD COUNTRIES

Mr. CHAPPELL. Yes, but that is not true where you are dealing directly with banks inside a free country or a so-called free country.

Mr. CASEY. Lots of times, in free countries, we don't make a loan unless we get the guarantee of the Government.

DIFFERENCE IN COMMUNIST COUNTRIES

Mr. CHAPPELL. What do you suppose would happen if Yugoslavia decided they didn't want to repay, for example? Do you think we would take the first step to collect it other than writing them a nice letter?

Mr. CASEY. I don't suppose we would.

Mr. CHAPPELL. That would be true in every Communist nation in the world, wouldn't it?

Mr. CASEY. I think it is true in every nation of the world.

Mr. CHAPPELL. But it is especially true, is it not, with reference to Communist countries because you are essentially dealing strictly with the government. So if the Communist bloc found itself in a very advantageous position of having been favored by a good substantial amount of loans which were very beneficial to them and they decided to make war or decided they simply weren't going to repay, there simply would be no leverage at all to make them repay, would there be?

REASON FOR REPAYMENT BY COMMUNIST COUNTRIES

Mr. CASEY. Of course there is leverage to make them repay and I think there is leverage that would make them unlikely to do what you suggest. May I explain what the leverage is?

Mr. CHAPPELL. Yes, sir. Military force?

Mr. CASEY. No; not military force. They want to keep on getting credit. They want to keep on doing business.

Mr. CHAPPELL. I think you misunderstood the thrust of my question. I said if the Communists decided they had arrived at that point where there was to be a breach with this Nation, they simply could say, "We are not going to repay a dime" and there is no way to make them repay. There are no assets to reach short of military force, are there?

Mr. CASEY. No question about that.

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SECURITY ON FREE-WORLD COUNTRY LOANS

Mr. CHAPPELL. While in dealing with the free countries, the so-called free world, you are looking at a bank which has assets and which presumably you could be able to reach for repayment of the loan, would you not?

Mr. CASEY. Of course, we fought most of our wars over what you call free countries.

Mr. CHAPPELL. That is not answering my question though, is it? I think you see the logic of that.

Mr. CASEY. I think you are making a very narrow definition of the risk.

Mr. CHAPPELL. I may be, but the truth of the matter is, that for the question which I asked the answer would logically have to be yes, wouldn't it? If you are dealing with a bank which has assets, it is a private institution and you made them a loan. Obviously you can go to their assets for the collection, could you not?

Mr. CASEY. Not if they are going to close down and freeze our assets, which is what happens when you break off relations.

Mr. CHAPPELL. But I didn't give you that presumption in the second question. I said if the bank itself simply decided it wasn't going to pay the loan back, you at least have some assets to reach, don't you? The answer is pretty obvious. I think everybody who has been in business at all and knows anything about free enterprise knows a bank has assets and if a bank owes an obligation——

Mr. CASEY. So do government banks have assets.

Mr. CHAPPELL. The Communists you are talking about?

Mr. CASEY. Yes.

Mr. CHAPPELL. How are you going to collect those assets?

Mr. CASEY. How are you going to collect the assets of the free bank?

Mr. CHAPPELL. You are going to collect them I suppose under the legal process of the country.

Mr. CASEY. The legal process will be interrupted on the hypothesis you present.

Mr. CHAPPELL. I didn't give you that hypothesis.

Mr. CASEY. You are trying to have me compare a tangerine with a watermelon.

Mr. CHAPPELL. No such thing.

Let us listen very carefully and see if we can get our minds together on this. I didn't say anything about the country in which the private institution is located having decided it is going to break off relations with this country. I said if the private institution to which you make the loan decides it isn't going to pay or for some reason or other doesn't pay, its assets are reachable under the laws of that nation through the judgment process, aren't they?

Mr. CASEY. Yes.

Mr. CHAPPELL. Of course the answer is yes.

While with a Communist nation the only way you reach the assets if they don't want to pay is through military force. That is the difference. All of us can understand it. That is not a very tough situation to understand.

PERCENTAGE OF BANK'S OUTSTANDING LOANS IN COMMUNIST COUNTRIES

How much, in percentages of the total moneys loaned that are out, loaned at interest today, are in Communist countries?

Mr. CASEY. About 4 percent.

Mr. CHAPPELL. Does that include satellite countries?

Mr. CASEY. Would you call Yugoslavia a satellite country?

Mr. CHAPPELL. Yes, sir, I sure do.

Mr. CASEY. That would take it to close to 8 percent.

Mr. CHAPPELL. I would consider any of the countries which are under the control of the Russians, like Poland——

Mr. CASEY. Yugoslavia isn't quite under the control of the Russians.

Mr. CHAPPELL. It is about as near——

Mr. CASEY. They have a Socialist-type system but they are pretty independent of the Russians. Of course, the Russians could move in there, I suppose.

CUBA

Mr. CHAPPELL. I suppose that Cuba would be entitled to borrow under this same proposition.

Mr. CASEY. No. We don't do business with Cuba.

Mr. CHAPPELL. Cuba would not be eligible.

Mr. CASEY. We don't do business with them.

Mr. CHAPPELL. Would it be eligible under the present law?

Mr. CASEY. No.

Mr. CHAPPELL. Is it precluded specifically? Why is it different from other Communist countries?

Mr. CASEY. The President hasn't found it to be in our national interest to extend credit to them.

Mr. CHAPPELL. But the point is, under the law, if he found it was, that determination is all it would take.

Mr. CASEY. Yes. That is true of the People's Republic of China, too.

TOTAL OUTSTANDINGS IN ALL COMMUNIST COUNTRIES

Mr. CHAPPELL. In this 8 percent now you are including Red China?

Mr. CASEY. Well, my colleagues tell me that is a high number. Do you fellows know what you are talking about on this? This is tricky because there is authorization and then there are disbursements.

Mr. CHAPPELL. Let us reach it this way if we might then. Why don't we supply for the record, and I would like a copy specifically——

Mr. CASEY. We have $468 million committed to the Soviet Union. For all Communist countries, including Yugoslavia, it is a little less than maybe a billion two, and we have about $15 billion of loan authorizations, so 6 percent is a more reasonable number.

I will give it to you exactly, though.

Mr. CHAPPELL. I would like to have that broken down by countries. You are going to furnish that for the record anyway.

Mr. CASEY. Yes; we will be glad to.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES, LOANS TO CERTAIN COUNTRIES COMPARED TO TOTAL LOANS AS OF MAR. 31, 1975

[Dollar amounts in thousands]

Country	Outstanding balance	Undisbursed balance	Total
Poland	$54,101	$64,222	$118,323
Romania	36 997	10,180	47,177
U.S.S.R.	96,741	371,529	468,270
Yugoslavia	194,945	344,934	539,879
Total	382,784	790,865	1,173,649
Total, all loans	9,153,597	6,429,929	15,583,526
Percent of above countries to total all loans	4.2	12.3	7.5

DEFINITON OF STRATEGIC MATERIALS

Mr. CHAPPELL. With regard to strategic materials, what is your interpretation, of the law of strategic material?

Mr. CASEY. Under the laws as they have developed and been promulgated by the Congress anything which is on a list of strategic materials, which list is developed by the Department of Commerce's Export Administrative Office, requires an export license. That office also has the control over the shipment of strategic materials through the export licensing procedure.

Eximbank doesn't have the responsibility or capability of determining whether a shipment is strategic or not.

Mr. CHAPPELL. Let us take an example. Take one of our most modern, up-to-date computers. Would this be at the present time on the strategic list?

Mr. CASEY. As I understand it, almost all computers, except for the small hand computers, are on the strategic list.

Mr. CHAPPELL. You say you understand. You don't know whether that is true or not?

Mr. CASEY. This list is changed and revised from time to time.

Mr. CHAPPELL. But if we pursue that——

Mr. CASEY. That is not my business.

Mr. CHAPPELL. I understand that, but I understand you are working with it and are also knowledgeable in the field.

Mr. CASEY. I am really not because we rely upon the export control and licensing procedure to determine whether or not an export can be made.

Mr. CHAPPELL. What about scrap metal?

Mr. CASEY. We don't finance any scrap metal. Maybe there is some credit insurance on it which is paid for at commercial rates. If the United States wants to block the shipment of scrap metal it is up to the Department of Commerce to block it.

PROBLEM OF STRATEGIC MATERIALS GOING TO COMMUNIST COUNTRIES

Mr. CHAPPELL. Let me say, in general, that I feel very much like the chairman, that you do a tremendous job. I don't fault you at all in this

regard. What does concern me, and I think it concerns Mr. Bevill and some of the others, is that we ought to be extremely careful in our dealings with nations who are obviously our enemies, ideologically and otherwise, to make certain that whatever transaction we enter into is by far and away to the advantage of this country as compared to the advantage of the adversary.

Mr. CASEY. I agree with you entirely.

Mr. CHAPPELL. So it concerns me that we have to be extremely careful and I think the question in this area is very good. I am not one who would say that I would just want to open up business completely with the Communists under any conditions. I don't follow that philosophy. I think we have to be very careful in this day to make certain that we aren't casting off through our sales program, through our export programs, materials, or manufactured goods which could be reverse engineered, for example, which would give them tremendous advantage, a termendous advantage which they might not now have. They are doing a world of this and all of us know they are doing it. So the reason my question is along this line is to make certain we all understand we are not headed in that direction.

Mr. CASEY. I entirely agree with you, Mr. Chappell. I am just as concerned about that as anybody. I think there has to be a procedure to deal with that. It has been established and I hope it works well.

Mr. CHAPPELL. You think it is sufficient?

Mr. CASEY. I don't know that it is sufficient. That is the procedure and I am not involved in operating it. I hope it is sufficient. I hope it is effective.

Mr. CHAPPELL. Thank you, Mr. Chairman.

Mr. PASSMAN. I want to commend Mr. Chappell and Mr. Bevill for their questioning. It has been very excellent. It makes an extremely good record and a very important record. That is why I previously asked you if you could place in the record percentagewise your total exports financed that are considered strategic by any extreme evaluation.

LOANS TO YUGOSLAVIA

How many loans have you made to Yugoslavia?

Mr. CASEY. Fifty-nine. Fifty-five active direct loans.

Mr. PASSMAN. Fifty-five separate loans?

Mr. CASEY. Yes.

Mr. PASSMAN. Aggregating what total?

Mr. CASEY. $634 million.

Mr. PASSMAN. How much have they repaid on those loans?

Mr. CASEY. I don't have it here.

Mr. PASSMAN. What is outstanding?

Mr. CASEY. Outstanding authorizations is $634 million.

Mr. PASSMAN. But I asked the total amount of loans, the aggregate.

Mr. CASEY. I don't have the total amount of loans.

Mr. PASSMAN. What is the aggregate? We need it.

Mr. CASEY. We will get it. This is something that has been made in the past, cumulative, and I am telling you what is left on the books.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES, STATUS OF LOANS AUTHORIZED FOR EXPORTS TO YUGOSLAVIA FROM INCEPTION THROUGH MAR. 31, 1975

[Dollar amounts in thousands]

	Number of loans	Amount authorized	Canceled	Disbursements	Repayments	O/S balance
Direct loans	59	$689,888	$29,531	$318,836	$133,058	$185,776
CFF loans	25	17,223	1,657	12,151	2,984	9,169
Total	84	707,111	31,188	330,987	136,042	194,945

Note: Of the 59 direct loans authorized, 55 for $634,000,000 were active as of Mar. 31, 1975.

Mr. PASSMAN. What is the age of the present loans to Yugoslavia?

Mr. CASEY. I really don't know that. There are 55 active loans. Some of them are 5-year loans, some 8 years. They were made at different times.

Mr. PASSMAN. Many of the loans have since been repaid in their entirety many, many years ago.

Mr. CASEY. That is right. Yougoslavia has been——

Mr. PASSMAN. You did state, I believe earlier, that you had been making loans to Yugoslavia for 22 years.

Mr. CASEY. More than 22 years.

REPAYMENT RECORD OF COMMUNIST COUNTRIES

Mr. PASSMAN. The loans you made to all Communist countries all of them are strictly up to date at this time.

Mr. CASEY. Yes.

Mr. PASSMAN. And, of course, if you could foresee any trouble you wouldn't extend additional credit, would you?

Mr. CASEY. That is right.

LOANS TO OTHER GOVERNMENTS

Mr. PASSMAN. Have you made any to other nations other than Communist nations as such, government to government?

Mr. CASEY. Oh, yes; many.

Mr. PASSMAN. So any government could default, a friendly government or semi-friendly or Socialist or Communist.

Mr. CASEY. Most of them own powerplants; a lot of them own manufacturing plants and railroads.

Mr. PASSMAN. Any government could default because you do have direct loans to dictatorships, do you not? I won't name any of them. Some of them are Socialist governments. Some of them are Communist governments. Some of them are unfriendly governements that heretofore we made loans to.

How many nations have you made loans to?

Mr. CASEY. About a hundred.

Mr. PASSMAN. How many of them would be termed our allies?

Mr. CASEY. That is a fluctuating figure, I would think. I would say there are 20 of them we consider close allies.

Mr. PASSMAN. So about 80 of them are in that strange category and you have to do business with them?

Mr. CASEY. Yes.

Mr. PASSMAN. But you are a little bit more careful, are you not, when you are doing business with one of these dictatorships or Socialist or Communist governments?

Mr. CASEY. I hope we are always careful.

Mr. PASSMAN. But you are more careful?

Mr. CASEY. Yes.

Mr. PASSMAN. That is why you have such a marvelous repayment record with that kind of people; is that right?

Mr. CASEY. Yes.

Mr. PASSMAN. I hope you will be careful in the future.

TRANSITION PERIOD EXPENSE REQUEST

Mr. PASSMAN. I note you are requesting an amount for the transition period expenses which slightly exceeds 25 percent of your fiscal year 1976 estimate. Could you please tell the committee why this amount is in excess of this 25-percent allocation?

Mr. CASEY. The Bank's activities are such that they do not occur evenly throughout the year. Interest expense, for example, which is a component of new program activity, depends on the amounts needed to be borrowed and the interest rate the Bank must pay for its funds, both of which constantly fluctuate. The figure for transition period expenses represents the Bank's best estimate of the amount needed for operations during the period July to September 1976.

EFFECT OF BANK ACTIVITIES ON U.S. BALANCE OF PAYMENTS AND BALANCE OF TRADE IN PAST YEAR

Mr. PASSMAN. Could you tell the committee what effect the Eximbank has had on the U.S. balance of payments and balance of trade during the past year?

Mr. CASEY. In fiscal year 1974, the Bank's total program supported about $8 billion in actual U.S. exports. Actual and potential disbursements by the Bank in support of these exports were about equal to receipts from previous disbursements. Consequently, the net contribution of the Bank to the overall balance of payments was roughly equal to the contribution on trade account, or about $8 billion in fiscal year 1974.

TOTAL EXPORTS SUPPORTED BY BANK SINCE INCEPTION

Mr. PASSMAN. Please estimate the total exports made possible by the Export-Import Bank since operations began?

Mr. CASEY. We estimate that the Bank has facilitated over $80 billion in U.S. exports since its inception. In fiscal year 1974 alone nearly $13 billion in sales were supported.

U.S. JOBS SUSTAINED BY EXIM-SUPPORTED EXPORT SALES

Mr. PASSMAN. How many jobs do you estimate have been created by operations of the Bank?

Mr. CASEY. We estimate that the exports facilitated by the Bank from its inception to date are associated with over 4.5 million jobs for U.S. workers.

PROFITS TO U.S. CORPORATIONS FROM BANK-SUPPORTED EXPORTS

Mr. PASSMAN. Could you estimate the total profits earned by private enterprise as a result of the Bank's operation?

Mr. CASEY. Using the profit to sales ratio that has prevailed in the manufacturing sector during the past few years, authorized Eximbank assistance to U.S. exports since the Bank began operating would have povided some $6 billion profits to U.S. corporations.

TAX REVENUES ASSOCIATED WITH BANK-SUPPORTED SALES

Mr. PASSMAN. How much in taxes and other revenues do you estimate the U.S. Government has received as a result of these profits?

Mr. CASEY. Using only the corporate profits mentioned earlier, the Government take would be approximately $2.5 billion. However, assuming less than full employment of resources, the cumulative impact of Eximbank assistance on additional direct tax receipts by all levels of Government could be put at some $40 billion.

ESTIMATED EXPORT SALES TO BE SUPPORTED BY BANK IN FISCAL YEAR 1976

Mr. PASSMAN. What volume of exports do you estimate will result in fiscal year 1976 from the programs provided by the Bank?

Mr. CASEY. The magnitude of future export support will depend upon trends in the volumes and prices of U.S. goods and services sold overseas. One estimate places potential Bank support in fiscal year 1976 as high as $18.6 billion, 46 percent above the fiscal year 1974 support level.

RESCHEDULED LOANS—FISCAL YEAR 1975

Mr. PASSMAN. Has it been necessary to reschedule any loans this past year?

Mr. CASEY. For the first three quarters of fiscal year 1975, the Bank has rescheduled two loans on Antiqua rescheduling for $600,000 and a Nicaragua rescheduling for $248,371.53.

BANK PROGRAMS SUPPORTING EXPORT SALES IN 175 MARKETS WORLDWIDE

Mr. PASSMAN. How many countries are you presently doing business with?

Mr. CASEY. The Bank is currently operating in some 175 markets all over the world.

PRESENT LOAN POLICIES

Mr. PASSMAN. Could you please tell the committee briefly how the Bank operates, indicating what the present interest rates are now being charged, the amount of cash the obligor is required to put up, the percentage of participation the Bank is involved in a particular loan, and any new terms that are presently in effect?

Mr. CASEY. The Bank does not rigidly apply a particular pattern; rather, it structures each credit according to the economics of the case. The interest charge on new authorizations ranges from 7 percent to 9 percent with the bulk of the credits being extended at 8 percent and 8.5 percent. Direct credits are presently granted for between 30 percent and 55 percent of the total export value; the average Eximbank participation in all direct credits during fiscal year 1974 was about 35 percent and the current average is somewhat higher. Guarantees on private financing may cover up to 85 percent of the total export value when no direct credit is involved; when guarantees are combined with credits, up to 90 percent coverage is possible. Cash downpayments by the obligor are always at least 10 percent of the export price. A commitment fee of one-eighth percent has been charged on guarantees since February 27, 1975. The guarantee fee itself continues to be fixed within a range of three-fourths percent to 1½ percent.

FUEL TRANSACTIONS IN COMMUNIST COUNTRIES

Mr. PASSMAN. Does the Bank have any transactions with Communist countries dealing with fuel production or exploration?

Mr. CASEY. Yes, two transactions. Romania was granted a $1.1 million credit in 1972 to finance the export of $3.2 million in off-shore drilling equipment. The Soviet Union received an $11.7 million credit in 1973 to finance the export of $25.9 million in submersible electric pumps used in oil wells. At the time of the transactions, the supply of these items considerably exceeded domestic demand.

U.S.S.R. TRANSACTIONS

Mr. PASSMAN. Has the Bank had any business transactions with Russia lately?

Mr. CASEY. The most recent credit with the Soviet Union was authorized in the spring of 1974, and signed on May 21, 1974. There have been no credits during fiscal year 1975.

LEGISLATIVE RESTRICTIONS PLACED ON BANK IN 1974

Mr. PASSMAN. Could you briefly list for the record the legislative restrictions put on the Bank by the Export-Import Bank Amendments of 1974, and the Trade Act of 1974?

Mr. CASEY. First, Mr. Chairman, the Export-Import Bank Act, before the changes passed last year, charged Eximbank with the responsibility to aid in financing and to facilitate American exports, and to provide credit and guarantees and insurance at rates which are competitive with the financing assistance furnished by our principle competitors.

The Export-Import Bank Amendments of 1974 did nothing to modify these two fundamental expressions of congressional intent. The amendments did, however, add several provisions which operate to limit Eximbank's flexibility in our efforts to meet these mandates.

Under prior law, before Eximbank could finance exports to a Communist country, the President was required to determine that it was in the national interest for Eximbank to participate in such financing

and to report that determination to Congress within 30 days. This requirement was revised to require the President to report his determination either 30 days after having made it or on the date Eximbank acts to approve the first transaction in support of exports to that country.

Also, the President is now required to make a separate national interest determination on any transaction in which Eximbank would extend a loan to a Communist country in an amount of $50 million or more.

A major limitation on Eximbank's flexibility is the new provision of law which requires us to report to Congress on any loan or financial guarantee of $60 million or more and to give Congress 25 days to study the case before we can take final action. We have made three reports under this new provision. One of these was withdrawn for further study, one was finally approved by the Bank's Board of Directors, and one is currently pending before Congress.

In addition, Eximbank is required to undergo a similar procedure of reporting to Congress and waiting 25 days before we can take final action on any transaction that would involve a loan or financial guarantee of $25 million or more for energy research or development in the Soviet Union.

Finally, there is the provision in our new law which has received most of the publicity. This one places a limit of $300 million on new authorizations to support exports to the Soviet Union. None of this $300 million can be used for the sale of goods or services for production of energy in the Soviet Union. No more than $40 million of the $300 million can be used for research or exploration of energy in the Soviet Union. I should point out that provision is made in this new provision for the ceiling to be increased if the President recommends it and Congress approves.

The Trade Act of 1974 contains two additional restrictions on Eximbank activity. Both of these deal with the support of exports to Communist countries.

First, title IV of the Trade Act contains the provision linking extensions of credit to a finding that the borrower is not denying its citizens freedom of emigration. This proscription currently affects all Communist countries except Poland and Yugoslavia. Also, the President has issued a waiver of the title IV provisions as they would otherwise relate to Romania. Accordingly, Eximbank is currently receiving and processing applications for credit to support exports to Romania.

Section 613 of the Trade Act contains a ceiling on extensions of credit to the Soviet Union similar to that in the Eximbank law passed last year. Again, the ceiling is fixed at $300 million.

These are the principle restrictions enacted by Congress last year. Taken together, they limit Eximbank's ability to meet the dual mandate of aiding in the financing of and facilitating U.S. exports and providing competitive credit for U.S. exporters.

PROGRAMS OF BANK TO SUPPORT EXPORT SALES

Mr. PASSMAN. How active has Eximbank been in providing its services to support the exporters in the United States?

Mr. CASEY. During the last few years, Eximbank has initiated quite a number of programs to support U.S. exporters.

Our cooperative financing facility program is designed to expedite financing for smaller export sales. Many of the exports under the CFF program are undertaken by small businesses.

Our discount loan program insures that commercial banks will be able to sell their export paper to Eximbank when need be for liquidity reasons. This program encourages commercial banks to become more active in financing U.S. exports.

Not too many years ago we began to issue preliminary commitments to U.S. exporters. With a preliminary commitment in hand, the U.S. exporter can bid on a foreign contract with a great deal more certainty that when the contract is finally secured the financing will be available.

Earlier this year, we instituted an Advisory Service for Small Business. This program is designed to encourage small businessmen to enter export markets, thereby providing them with additional opportunities to sell their goods and services. Among other things, the Advisory Service conducts seminars and in-house training programs for small businessmen to inform them about opportunities in world trade and how to go about the business of exporting.

Eximbank has also recently established an Advisory Service on Large Projects. This operation will assist large firms and banks involved in larger projects to work with supplemental sources of financing such as U.S. institutional investors, and will be responsible for developing ways to mesh Eximbank financing with financing from such sources.

Finally, with the cooperation and assistance of Congress, Eximbank has expanded its overall program activities in the direct credit, guarantee, and insurance fields during the last several years.

Altogether, these program initiatives have resulted in a substantial increase in the dollar volume of U.S. exports that are supported by Eximbank authorizations. I have a table outlining the course of these increases over the last several years that might be helpful to the subcommittee.

Export sales supported by Eximbank authorizations

	Millions
Fiscal year: 1969	$2,900
Fiscal year: 1970	5,455
Fiscal year: 1971	6,873
Fiscal year: 1972	9,500
Fiscal year: 1973	10,546
Fiscal year: 1974	12,759
Fiscal year: 1975 (10 mo.)	9,730

AIRCRAFT CREDITS

Mr. PASSMAN. Let us discuss briefly the criticism that the Export-Import Bank has provided credits to foreign airline carriers to purchase American aircraft at rates more favorable to the foreign purchaser than domestic airlines are able to purchase their equipment locally. First of all, is this a true statement, and if not, would you please explain just how the rates compare between foreign carriers and the U.S. domestic carriers?

Mr. CASEY. The GAO, in a March 17, 1975, report to Senator Javits, entitled "Export of U.S.-Manufactured Aircraft-Financing and Competitiveness," concluded that in the period of 1967–73, U.S. carriers, through the issue of long-term debt and through leasing, secured lower cost financing on their purchases of U.S.-manufactured aircraft than did foreign airlines using Eximbank's services. For example, in the period 1967–73, foreign airlines paid interest charges ranging from 6.4 to 8.5 percent for 7–10 year financing assisted by Eximbank, while TWA's senior debt instruments at the end of 1974 had maturities ranging from 18–25 years and a weighted average interest rate of 5.2 percent.

Mr. PASSMAN. However, is it not true that the Eximbank financing of these aircraft has reduced the advantage enjoyed by U.S. carriers?

Mr. CASEY. Well, we believe firmly that if Eximbank had not financed these aircraft—most of which are used on routes which do not directly compete with U.S. carriers—the volume of aircraft production would have been much smaller. This would have meant higher unit costs for domestic aircraft purchasers as well as foreign purchasers, and reduced employment and tax receipts in the U.S. aircraft industry.

Mr. PASSMAN. In past years, the United States has just about had a monopoly on the aircraft market over the world. Is it not true that the Eximbank helped support many of these foreign purchases, whereas they probably didn't have to because the foreign carriers would have had to purchase the equipment anyway to remain competitive?

Mr. CASEY. While Eximbank does not claim that hindsight will not find some aircraft cases where its assistance was not essential, the Bank's experience indicates that in the vast majority of cases, the foreign airlines had other options beside the purchase of new U.S. aircraft. About one-third of the commercial jets now in service or on order in the world's airlines have been manufactured outside the United States. It should be noted, moreover, that to be competitive, an aircraft need not always be the same size, or appearance. Boeing 747's, for instance, compete with 707's on the North Atlantic. They also compete with VC 10's, DC 10's, L1011's, and with IL 62's and will soon compete with the Anglo-French Concorde and possibly the Soviet TU–144 and a long-range version of the A300 airbus.

U.S. COMPETITIVE POSITION IN AIRCRAFT SALES

Mr. PASSMAN. Could you please tell the committee what the U.S. competitive position is at the present time regarding the sale of aircraft and what the role is of the Eximbank in this situation?

Mr. CASEY. At the present time, U.S. manufactured commercial jet aircraft predominate in most major non-Communist fleets. It is reasonable to assume that the United States will maintain this predominance in the near future. However, the European Community and the Soviet Union already have, and Japan is developing, highly competitive aircraft in a broad range of categories. The European and Japanese rationale for supporting what is clearly an inefficient commercial jet aircraft industry is not commercial and economic alone. There are many national policy considerations, including balance-of-payments

concerns, defense requirements, and national and regional prestige. Our competitors, in attempting to assure an adequate market for their product, may offer increasingly more favorable financing terms. Eximbank's objective is to see that no sale of a U.S. manufactured aircraft that is otherwise competitive is lost because of uncompetitive or inadequate financing for credit-worthy borrowers. Each case is examined to make sure that U.S. carriers and other national interests are not adversely affected and to establish that Eximbank assistance is necessary to insure the sale.

INCREASED FOREIGN COMPETITION

Mr. PASSMAN. In your justifications, you state that U.S. exporters are facing keener competition from markets that are growing more slowly. Could you please tell the committee why this competition is becoming keener? Along the same line, is the Export-Import Bank also facing keener competition from similar organizations in other foreign countries financing exports?

Mr. CASEY. Faced with massive import bills, largely related to higher oil costs, many industrialized countries have chosen, as one element in their overall economic strategy to cope with this problem, to increase exports. An important tool used to help achieve this result is to increase the already substantial government support to the export sector.

France recently has made export promotion a key element in government economic policy. Steps being taken to foster exports include placing outside of domestic credit controls $850 million in loans to companies that can show they are increasing the share of their output going to exports and excluding production for exports from the proposed inflation tax.

In the United Kingdom, Chancellor Healey has emphasized the importance of increasing Britain's export competitiveness to facilitate domestic recovery. Three new programs designed to increase exports have been announced. These measures are in addition to the new inflation risk insurance on exports which is expected to cost $130 million during its first year.

Italian Foreign Trade Minister DeMita has also stressed the importance of exports as an anticyclical factor and underlined the necessity of increasing the funds available for export credit insurance, especially for capital goods. In February, the Mediacredito Centrale received an allocation of 100 billion lira for its rediscounting operation. The Danish Government also has established a new credit fund to provide credit, guarantee, and discount facilities for exports, generally on terms between 2 and 5 years. The Austrian Government recently announced an $800 million program to stimulate public and private investment in export industries. Certain less developed countries also have introduced new export promotion programs.

REASON FOR HOLDOVER IN LOANS FISCAL YEAR 1974–75

Mr. PASSMAN. In your justifications you indicate that the Eximbank as of the end of fiscal year 1974 had some $700 million in bankable

projects that could not be authorized. How could this be when you show that there was approximately $2.4 billion in uncommitted authority lapsing as of the end of fiscal year 1974?

Mr. CASEY. The Bank could not authorize the $700 million in bankable projects because we had reached the fiscal year 1974 equipment and services loans limitation of $3.8 billion. The equipment and services loans limitation was a sublimit within the fiscal year 1974 limitation of $7,650 million on the Bank's total program activity. The $2.4 billion which lapsed at the end of the year was not available for authorizations of equipment and services loans. It was available only for other items of program activity such as discount loans and guarantee and insurance authorizations.

INCREASE IN EQUIPMENT AND SERVICES LOAN LIMIT

Mr. PASSMAN. Could you please tell the committee why you show such a large increase in the equipment and services loans in fiscal year 1976?

Mr. CASEY. The increase in fiscal year 1975 is not as large as it seems. In the equipment and services loan area, the increase from $3.4 billion in fiscal year 1975 to $3.850 billion in fiscal year 1976 merely puts the Bank back at the about same level it was in fiscal year 1974. Since there has been inflation over the past 2 years, the fiscal year 1976 level of $3.850 billion for equipment and services loans will actually provide a relatively smaller amount of direct credit than the fiscal year 1974 level of $3.8 billion.

ADMINISTRATIVE EXPENSE AS PERCENTAGE OF TOTAL OPERATION

Mr. PASSMAN. What percentage does administrative expenses represent of your total operation in fiscal year 1976?

Mr. CASEY. Only a very small percentage. In fiscal year 1976, the Bank's administrative expenses of $11.4 million were less than two-tenths of 1 percent of the $6.6 billion budgeted for total program activity. The Bank pays these administrative expenses out of its earnings and last year, in fiscal year 1974, the administrative expenses were only 2.6 percent of total expenses and 8.1 percent of the Bank's net income.

FISCAL YEAR 1976 TRAVEL BUDGET

Mr. PASSMAN. Could you please tell the committee how much you plan to spend for travel expenses in fiscal year 1976, and how does this compare to the fiscal year 1975 cost?

Mr. CASEY. The budget for travel in fiscal year 1976 is $300,000, up from $275,000 budgeted in fiscal year 1975. Travel in fiscal year 1973 was $237,000. However, it decreased in fiscal year 1974 to $171,000.

Mr. PASSMAN. Could you please explain in detail the need for this increase?

Mr. CASEY. The Bank expects increased activity in virtually all of its programs in fiscal year 1976. Accompanying this rising number of applications for export assistance will be increased travel to evaluate the applications for loans. Also, the Bank's staff must continue to travel to monitor existing credits, to keep appraised of current economic

conditions in countries in which Exim has a large exposure, and to inform U.S. exporters of the Bank's programs of export assistance.

Mr. PASSMAN. Do you plan to increase travel mileage in fiscal year 1976? How does this mileage compare to fiscal year 1975?

Mr. CASEY. The Bank does not keep track of actual mileage traveled. However, I'm sure that it will increase in fiscal year 1976 over fiscal year 1975.

NEED FOR FERSONNEL INCREASE

Mr. PASSMAN. I note you plan to increase your total personnel by 20 people, to 440 people in fiscal year 1976. Could you please tell the committee the need for this increase, and indicate where they will be located?

Mr. CASEY. Authorizations for loans, guarantees, and insurance under the Bank's export expansion programs have grown by about 140 percent over the past 5 years, while the staff has increased only by about 30 percent. Only by taking many steps to increase the Bank's operating efficiency have we been able to handle the rising workload so far. Although we expect to continue to increase our efficiency, the increase in workload will more than offset the amount able to be absored by higher efficiency levels. Thus, the increase of 20 persons is the minimum needed for the Bank to meet its multiple responsibilities effectively.

The additional staff will go, in part, to meet the Bank's needs for new and additional research and analytical capabilities necessary to meet new requirements emanating from Congress, OMB, and the National Advisory Council. Specifically, this staff will have the responsibility of strengthening the Bank's statistical base for the evaluations we need to make and for determining and justifying resource allocations, evaluating and improving program use of these resources, and setting the criteria and conducting the evaluations required by our legislation to take into account any serious adverse effect of prospective loans or guarantees on the U.S. economy. Additional staff may also be assigned to several other areas, including the Treasurer-Controller's Office, which not only is impacted by the current year's workload, but also must service the loans and guarantees authorized in past years, and the loan and guarantee evaluation and approval areas which also have experienced large increases in workloads.

PRINTING AND REPRODUCTION EXPENSES

Mr. PASSMAN. Would you please tell the committee how you expect to spend $135,000 for printing and reproduction costs?

Mr. CASEY. Cost for printing and reproduction expenses include the printing of periodic reports such as the loan statement, the Bank's annual report to the Congress required by our charter, informational literature on the Bank's programs, letterhead paper, and so forth. The major costs are those of the periodic reports and the Bank's annual report.

Mr. PASSMAN. Mr. Koch?

Mr. KOCH. Thank you, Mr. Chairman.

Mr. CHAPPELL. Will the gentleman yield?

Mr. KOCH. Yes.

GOVERNMENT VS. PRIVATE SECTOR LOANS

Mr. CHAPPELL. Of those countries we have just been interrogating about here, how many of those loans in non-Communist countries are government-to-government loans or just government to private loans, in dollars?

Mr. PASSMAN. Put that in the record for us.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES
Active Loans in Non-Communist Countries
as of April 30, 1975
($ In Millions)

Country	Authorized Amount						
	Government		Private-Gov. Guar.		Private		
	Amount	%	Amount	%	Amount	%	Total
Algeria	$ 290.4	93.6	$ 5.0	1.6	$ 14.7	4.8	$ 310.1
Angola	-0-	-0-	10.2	82.9	2.1	17.1	12.3
Cameroon	7.9	43.2	10.4	56.8	-0-	-0-	18.3
Central African Republic	2.8	100.0	-0-	-0-	-0-	-0-	2.8
Zaire	221.5	97.2	4.0	1.8	2.4	1.0	227.9
Dahomey	.3	100.0	-0-	-0-	-0-	-0-	.3
Ethiopia	28.4	86.9	4.3	13.1	-0-	-0-	32.7
Gabon	13.9	100.0	-0-	-0-	-0-	-0-	13.9
Ghana	-0-	-0-	81.9	100.0	-0-	-0-	81.9
Guinea	.5	2.0	-0-	-0-	25.0	98.0	25.5
Ivory Coast	100.6	79.7	25.7	20.3	-0-	-0-	126.3
Kenya	9.4	63.5	.8	5.4	4.6	31.1	14.8
Liberia	27.9	27.4	-0-	-0-	73.9	72.6	101.8
Mali	.7	100.0	-0-	-0-	-0-	-0-	.7
Mauritania	4.7	92.2	.4	7.8	-0-	-0-	5.1
Morocco	40.0	81.1	7.9	16.0	1.4	2.9	49.3
Mozambique	17.0	86.3	-0-	-0-	2.7	13.7	19.7
Nigeria	18.9	58.9	9.2	28.7	4.0	12.4	32.1
Senegal	4.2	100.0	-0-	-0-	-0-	-0-	4.2
Sierra Leone	-0-	-0-	-0-	-0-	21.3	100.0	21.3
Sudan	17.3	87.4	2.5	12.6	-0-	-0-	19.8
Tunisia	3.5	57.4	2.6	42.6	-0-	-0-	6.1
Togo	2.4	100.0	-0-	-0-	-0-	-0-	2.4
Egypt	69.0	83.3	-0-	-0-	13.8	16.7	82.8
Zambia	46.3	83.7	-0-	-0-	9.0	16.3	55.3
Afghanistan	42.9	100.0	-0-	-0-	-0-	-0-	42.9
Brunei	-0-	-0-	-0-	-0-	20.7	100.0	20.7
Burma	3.4	100.0	-0-	-0-	-0-	-0-	3.4
Sri Lanka	3.4	100.0	-0-	-0-	-0-	-0-	3.4
Taiwan	782.7	81.8	133.9	14.0	39.8	4.2	956.4
Hong Kong	-0-	-0-	2.4	4.4	52.6	95.6	55.0
India	281.8	72.3	46.9	12.0	61.3	15.7	390.0
Indonesia	114.2	42.6	3.6	1.3	150.2	56.1	268.0
Iran	971.4	97.8	4.8	.5	16.8	1.7	993.0
Iraq	12.6	100.0	-0-	-0-	-0-	-0-	12.6
Israel	135.7	52.2	12.8	4.9	111.5	42.9	260.0
Japan	453.6	29.7	670.1	43.9	404.2	26.4	1,527.9

EXPORT-IMPORT BANK OF THE UNITED STATES
Active Loans in Non-Communist Countries
as of April 30, 1975
($ In Millions)

Country	Authorized Amount						
	Government		Private-Gov. Guar.		Private		
	Amount	%	Amount	%	Amount	%	Total
Jordan	$ 18.0	90.9	$ 1.8	9.1	$ -0-	-0-	$ 19.8
Korea	226.1	59.5	101.0	26.6	52.9	13.9	380.0
Kuwait	-0-	-0-	50.0	100.0	-0-	-0-	50.0
Lebanon	2.5	3.5	-0-	-0-	69.1	96.5	71.6
Malaysia	96.3	96.9	-0-	-0-	3.1	3.1	99.4
Pakistan	102.5	82.3	13.2	10.6	8.8	7.1	124.5
Philippines	40.7	17.1	133.7	56.3	63.1	26.6	237.5
Saudi Arabia	25.5	95.9	-0-	-0-	1.1	4.1	26.6
Singapore	44.4	52.4	34.7	41.0	5.6	6.6	84.7
Thailand	6.2	9.9	11.8	18.9	44.5	71.2	62.5
Turkey	109.1	62.4	56.0	32.0	9.7	5.6	174.8
Canada	61.0	15.7	4.7	1.2	323.6	83.1	389.3
Austria	25.2	44.6	28.1	49.7	3.2	5.7	56.5
Belgium	122.4	79.8	28.9	18.9	2.0	1.3	153.3
Denmark	-0-	-0-	-0-	-0-	57.8	100.0	57.8
Finland	64.7	82.7	8.5	10.9	5.0	6.4	78.2
France	96.6	35.0	4.7	1.7	174.7	63.3	276.0
Germany	137.5	80.2	19.7	11.5	14.3	8.3	171.5
Greece	44.8	67.7	7.6	11.5	13.8	20.8	66.2
Greenland	-0-	-0-	-0-	-0-	.3	100.0	.3
Iceland	8.0	100.0	-0-	-0-	-0-	-0-	8.0
Ireland	54.1	92.0	-0-	-0-	4.7	8.0	58.8
Italy	575.4	89.6	57.5	9.0	9.2	1.4	642.1
Liechtenstein	-0-	-0-	-0-	-0-	1.6	100.0	1.6
Luxembourg	-0-	-0-	-0-	-0-	.5	100.0	.5
Netherlands	107.3	50.9	45.7	21.7	57.8	27.4	210.8
Norway	6.1	1.8	2.5	.7	339.9	97.5	348.5
Portugal	136.1	86.9	10.0	6.4	10.6	6.7	156.7
Spain	701.2	53.1	245.3	18.6	373.3	28.3	1,319.8
Sweden	85.7	35.2	73.8	30.3	83.8	34.5	243.3
Switzerland	-0-	-0-	33.4	32.6	69.0	67.4	102.4
United Kingdom	728.1	66.9	111.9	10.3	248.0	22.8	1,088.0
Various European	44.8	100.0	-0-	-0-	-0-	-0-	44.8

EXPORT-IMPORT BANK OF THE UNITED STATES
Active Loans in Non-Communist Countries
as of April 30, 1975
($ In Millions)

Country	Authorized Amount						
	Government		Private-Gov. Guar.		Private		Total
	Amount	%	Amount	%	Amount	%	
Argentina	$ 252.7	53.5	$ 164.7	34.9	$ 54.7	11.6	$ 472.1
Barbados	-0-	-0-	-0-	-0-	2.5	100.0	2.5
Bermuda	-0-	-0-	-0-	-0-	34.1	100.0	34.1
Bolivia	50.3	100.0	-0-	-0-	-0-	-0-	50.3
Brazil	503.0	26.3	858.5	44.9	549.0	28.8	1,910.5
Cayman Islands	-0-	-0-	-0-	-0-	15.4	100.0	15.4
Colombia	60.7	45.1	52.8	39.3	21.0	15.6	134.5
Costa Rica	21.7	59.8	4.5	12.4	10.1	27.8	36.3
Chile	348.8	65.1	80.1	15.0	106.8	19.9	535.7
Dominican Republic	46.3	63.3	18.2	24.9	8.7	11.8	73.2
Ecuador	10.3	27.8	10.0	27.0	16.7	45.2	37.0
El Salvador	5.2	61.2	-0-	-0-	3.3	38.8	8.5
Guatemala	17.4	50.6	-0-	-0-	17.0	49.4	34.4
Guyana	5.5	76.4	1.7	23.6	-0-	-0-	7.2
Haiti	35.1	100.0	-0-	-0-	-0-	-0-	35.1
Honduras	4.2	23.1	3.3	18.1	10.7	58.8	18.2
Jamaica	35.7	43.9	37.4	45.9	8.3	10.2	81.4
Mexico	467.4	44.9	225.4	21.7	348.2	33.4	1,041.0
Nicaragua	14.9	100.0	-0-	-0-	-0-	-0-	14.9
Panama	44.2	42.8	3.8	3.7	55.3	53.5	103.3
Paraguay	14.1	100.0	-0-	-0-	-0-	-0-	14.1
Peru	56.8	21.5	14.1	5.3	193.4	73.2	264.3
Surinam	6.8	100.0	-0-	-0-	-0-	-0-	6.8
Trinidad & Tobago	28.2	88.1	3.8	11.9	-0-	-0-	32.0
Uruguay	5.8	100.0	-0-	-0-	-0-	-0-	5.8
Venezuela	135.1	51.1	51.1	19.3	78.2	29.6	264.4
British Virgin Islands	-0-	-0-	-0-	-0-	.1	100.0	.1
Antigua	1.5	100.0	-0-	-0-	-0-	-0-	1.5
Bahamas	26.2	42.3	-0-	-0-	35.7	57.7	61.9
West Indies-Netherlands	8.6	31.0	16.0	57.8	3.1	11.2	27.7
Australia	912.7	86.4	45.4	4.3	98.6	9.3	1,056.7
New Zealand	168.4	99.8	-0-	-0-	.3	.2	168.7
New Guinea	-0-	-0-	-0-	-0-	33.4	100.0	33.4
New Hebrides	-0-	-0-	-0-	-0-	.4	100.0	.4
TOTAL	$10,687.2	55.7	$3,714.7	19.4	$4,788.0	24.9	$19,189.9

Mr. CASEY. All I can say is that it is quite a lot of them.

Mr. CHAPPELL. And what percentage then are bank-to-private institutions loans in those countries, in dollars.

Mr. CASEY. I can give you an idea of that. I can't give you anything exact.

I can tell you that in a country like Korea or a country like Taiwan, they have private enterprise economies, but the Governments own the powerplants, they own the railroads, they own the airlines, and a lot of our loans are to government bodies, government organizations.

That is true in France where the Government owns the airlines, and in Spain where they own the powerplants. We sold a nuclear reactor in Spain—one of their bank-to-government loans.

LOANS IN SOCIALIST COUNTRIES

Mr. CHAPPELL. Where you are dealing with the Socialist country, if you are lending for all of the producer's goods, they are all government-to-government loans.

Mr. CASEY. That is right.

Mr. CHAPPELL. Or would you lend to a bank which in turn loaned to the government?

Mr. CASEY. We usually get guaranteed by a bank. We usually lend to the government and make the central bank guarantee repayment to us.

Mr. PASSMAN. Off the record.

[Discussion off the record.]

EXPORT APPROVAL NECESSARY BEFORE EXIMBANK MAKES LOAN

Mr. PASSMAN. I wish that we would make it abundantly clear that on some of the things we have been talking about today, the decision has been made before it reaches your desk.

Mr. CASEY. Oh, sure.

Mr. PASSMAN. Then you proceed from there.

Mr. CASEY. Our decisions are made subject to other things being cleared.

Mr. PASSMAN. An application comes to you and you go as far with this as the export control allows. Then you square it with the President and the State Department and before you can do anything the other agencies already said, "Full steam ahead."

Mr. CASEY. The shipment has to go out.

Mr. PASSMAN. I think you should make the record abundantly clear on that, that it comes to you after it has cleared all other hurdles.

LOANS TO GOVERNMENTS IN 10 COUNTRIES WITH GREATEST EXIMBANK EXPOSURE

Mr. CASEY. Mr. Chairman, I think I might provide information that addresses itself to Mr. Chappell's concern about loans. The 10 countries with the largest Eximbank exposure are Brazil, Taiwan, Japan, Mexico, Spain, Iran, Yugoslavia, Korea, Argentina, and the United Kingdom.

A lot of that in Brazil is to government entities. A lot of it in Taiwan is to government organizations. In Japan, it is to the airlines and for powerplants. In Mexico it is to a lot of government buyers; in Spain to the utilities—nuclear reactors, are most of the business—and the airlines there are also owned by the government. In Iran the same thing is true. In Yugoslavia it is totally true. In Korea, the big loans, such as for steel plants, are to the government. In Argentina they have a lot of government enterprises. In the U.K. the airlines, the steel plants, a lot of other plants, are government owned.

We are not dealing with many countries in which we are not dealing directly with the government.

Mr. BEVILL. The Chair recognizes Mr. Koch.

SUPPORT OF COMMODITY EXPORTS—RICE

Mr. KOCH. Mr. Casey, does the Bank finance commodity exports?

Mr. CASEY. Primarly our traditional annual cotton loan to Japan.

Mr. KOCH. No rice?

Mr. CASEY. We have had a couple of small rice loans, haven't we?

Mr. KOCH. Where are the rice loans?

Mr. SAUER. We guarantee or insure rice shipments.

Mr. CASEY. We insured some rice shipments but we haven't made any loans recently.

Mr. KOCH. On the insurance on rice, can you just elaborate? Is the Soviet Union buying rice these days?

Mr. CASEY. We are not dealing with them on buying rice. They are not buying any rice through us.

Mr. KOCH. Any Communist countries buying rice?

Mr. CASEY. Not through us. All we do is insure rice sales, but we have not done any for Communist countries.

Mr. KOCH. I understand that.

Mr. CASEY. No Communist country, though.

RESTRICTIONS ON FINANCING TO SOVIET UNION

Mr. KOCH. The second question I have relates to the Jackson-Vanik amendment and how it applies to your Bank today.

Aren't you under some restrictions with respect to financing loans to the Soviet Union unless it receives most-favored-nation treaty status?

Mr. CASEY. That is right. We can't make any loans unless they satisfy the emigration requirements.

Mr. KOCH. So at the moment they have——

Mr. CASEY. At the moment we are doing no business with the Soviet Union. The Romanians have agreed to emigration——

SITUATION WITH RESPECT TO ROMANIA

Mr. KOCH. No; they have not agreed. The President is granting them a waiver and then is going to report to us.

Mr. CASEY. That is right.

Mr. KOCH. They haven't agreed.

Mr. CASEY. That is right.

Mr. KOCH. They should agree.

Mr. CASEY. I think they are going to agree. They have indicated they are going to agree or else he wouldn't have approved the waiver and sent it to Congress.

IRAN

Mr. KOCH. The third question I have relates to Iran.

I have some familiarity with the Export-Import Bank as I served on Banking and Currency and we had our exchanges last year.

Mr. CASEY. Yes, I know.

Mr. KOCH. My interest in the Iranian loan is in this area. The purpose of the Export-Import Bank, as I have heard you say many times, is to make us competitive with other countries so that we can sell where they would otherwise sell because of their various subsidies that they give their own manufacturers.

Isn't that a fair statement?

Mr. CASEY. That is one purpose.

CRITERIA FOR EXIMBANK FINANCING

Mr. KOCH. What is the other purpose?

Mr. CASEY. The other purpose is to provide financing which the private financing system doesn't——

Mr. KOCH. Oh, no, you must have the first ingredient in order to make a sale; isn't that so?

Mr. CASEY. No.

Mr. KOCH. You mean you would finance a situation where without your involvement we were otherwise competitive with other countries? Did you understand my question?

Mr. CASEY. Yes.

Mr. KOCH. You would? I don't think people know that.

Let me pose the question. I think this is very interesting. It was my impression until a moment ago that the premise involving any loans made by your Bank, was that otherwise we would not be competitive with other countries. Therefore, if we were competitive in the regular lending situation you would not enter into the loan.

I understand from your testimony a moment ago that that premise that I have been laboring under is not correct.

MANDATE TO BANK TO SUPPORT U.S. EXPORT SALES

Mr. CASEY. I think we understand each other. You reflect on my statement correctly.

Let me just say, Mr. Koch, that it is clear from the legislative history that the Bank was set up to provide financing to encourage exports in order to sustain and create jobs and create markets for our exports. The Bank operated that way for 37 years. In 1971 there was added to that mandate a directive that our financing shall be competitive with that provided by other official credit agencies, but that didn't tell us that what we have been doing, the mandate for the previous 37 years, was obliterated.

The purpose of that mandate is to provide financing, to create liquidity, so our sales in the world can be financeable.

QUESTION OF ROLE OF BANK WHERE NO COMPETITION

Mr. KOCH. I wish there were other members here because I don't think they understand it. If I didn't understand that, having served on Banking and Currency, I doubt they did.

Mr. CASEY. You are depending on your experience at that time.

Mr. KOCH. No; I am depending on my recollection of what that committee did. I am talking about Banking and Currency. Don't you remember a discussion before that committee which concerned itself with the plane industry?

Your testimony was that you would not, for example, finance planes that could not be purchased elsewhere where we had a monopoly on the nature of the plane that had to be sold.

That is not your recollection?

Mr. CASEY. That is not the record.

Mr. KOCH. Tell me what you think is in that record?

Mr. CASEY. Let me remind you that such a provision was put forward by Mr. Reuss but was withdrawn in the committee.

Mr. KOCH. Well, I am going to accept your statement on it because you are closer to it, but I am going to do a little research into it.

However, it is my impression that most members, myself included, believed that where there is no market available and the customer must come to us because there is no comparable product sold by any other country, which exists in some areas——

Mr. CASEY. That would be a totally impractical way to operate.

Mr. KOCH. [continuing]. That in such a situation you would not enter into the financing. But that is not your understanding of the situation.

All right.

Mr. CASEY. We couldn't operate that way. For example, you would have to have an engineer analyze every product to determine whether it was competitive.

ANALYSIS OF COMPETITIVE SITUATION

Mr. KOCH. You mean to say you are not at this point able to decide whether an American product is subject to competition elsewhere? You don't look into that as one of the factors in determining whether or not you are going to get involved?

Mr. CASEY. It is always an arguable question.

Mr. KOCH. Do you consider that question?

Mr. CASEY. We consider that question in setting the terms of financing and deciding whether we want to do it or not. But we are never sure of that.

Mr. KOCH. I don't expect you to be infallible. So you are withdrawing your earlier statement that it is not possible.

Mr. CASEY. It would be a totally impractical mandate under which to operate.

Mr. KOCH. Am I correct that you consider it impractical to explore whether or not the product that is being exported is so singular that

the customer has no other place to buy other than here. Also, you would find such an inquiry impractical? Do I state your position correctly?

Mr. CASEY. I think perhaps you overstate it.

Mr. KOCH. Then you state it.

Mr. CASEY. I think that it would be beyond me to make those judgments with any degree of precision. I think that it would be impossible to carry out the mandate to foster exports if you had to sit back and make an analysis of every product.

Lots of time you make a commitment on an export before you know what the total composition of the project is going to be. Some things involved in it will be unique; other things will not be unique. There will be a composite. Life is just not that simple that we can sit back here and make that——

CRITERIA USED BY BANK IN EVALUATING APPLICATIONS

Mr. KOCH. I understand.

As I indicated to you initially, I am not suggesting that you should be infallible. But if you do not take that into major consideration, then how do you distinguish between loans? Wouldn't you then be in the position of saying that everybody who applies, who wants to export, should receive assistance?

Mr. CASEY. Well, we obviously don't do that.

Mr. KOCH. Obviously you don't. So how do you make your judgment if you don't consider whether or not the product that is going to be exported is so *sui generis* to the U.S. productive capacity that it doesn't need your assistance, that the customer would have to buy it anyway, and then would give them a loan or a guarantee?

Mr. CASEY. You bet your life I would.

Mr. KOCH. You would or would not?

Mr. CASEY. I would.

Mr. KOCH. You would?

Mr. CASEY. Certainly.

Can you name a product that is so *sui generis*. Give me one.

Mr. KOCH. Oh, sure.

Mr. CASEY. What are you talking about?

Mr. KOCH. Let me try.

I believe that certainly up until recently, we have two areas in which products are not duplicated elsewhere—planes and armaments products that are not available elsewhere.

FINANCING TO IRAN FOR MILITARY PURCHASES

Let me take you now to Iran because that is my last question. It is my impression that a country has to make a decision somewhere along the line as to whether it is going to buy Soviet armanents, or French armaments, or American armaments because they are not compatible.

Spare parts are involved. And once they have embarked on that decision when they are the customer of the providing country, unless they want to totally scrap the system and start anew. That is what takes me to Iran.

Why would we finance one of the richest countries in the world, Iran, to make arms purchases here when if what I take as my premise is true? Now, if my premise is not true, tell me how and why.

Mr. CASEY. I think your premise may be true on arms.

Mr. KOCH. Why did you finance $200 million to Iran?

Mr. CASEY. I don't know, Mr. Koch. I wasn't there when the Bank financed $200 million to Iran.

Mr. KOCH. That is no answer. You are responsible——

Mr. CASEY. I am not responsible at all. We haven't financed any since I have been there.

Mr. KOCH. Didn't I hear correctly that in 1973 you financed $200 million?

Mr. CASEY. Yes.

Mr. KOCH. Are you saying as the current Director of the program that you have no responsibility to tell this committee why your agency did certain things as recently as 1973, that that door is closed to this committee's inquiry?

REASON FOR IRANIAN CREDIT

Mr. SAUER. Because Iran at that point was short $400 million in cash to meet payments on the defense items involved. They needed financing.

Mr. KOCH. I understand.

Mr. SAUER. Even though there was no competition from another country, they needed financing.

Mr. KOCH. I am going to get into the substantive area in a minute. Am I barred from asking you to explain——

Mr. CASEY. Of course you are not.

I am not privy to the facts, but I can find out for you. I don't know.

Mr. KOCH. That is a good answer.

Will you tell us, though, in the record.

Mr. CASEY. I will find out for you.

Mr. Sauer just told you. He was there. I wasn't there.

Mr. KOCH. I understand you, Mr. Sauer. It was because in 1973 Iran, you say, didn't have the money to make the purchase.

Mr. SAUER. That was the finding. They were buying up to several billion dollars and they were short $400 million and we participated to the extent of $200 million out of $400 million.

Mr. KOCH. Let me close my inquiry by asking you to do this.

Since you have told us that there was a finding that Iran was not capable of making this payment, would you provide us with that finding, that is to say, your written determination, for the committee's records?

BANK FINANCING WHEN OTHER CREDIT UNAVAILABLE

Mr. SAUER. We can give you minute entry of the record, but what has been left out of this colloquy is the point I am trying to make; that in certain instances there is no competition from abroad, that is, another country making the same item, but the buyer doesn't have the money. He is looking for credit and credit is unavailable in the United States except through the Export-Import Bank.

Who will finance $75 million of 747's other than the Export-Import Bank? That is the point that is not included in your question. That is the point that was made in the hearings, as I recall them, in 1974 when Congressman Reuss and others argued that we should only finance when competition was present.

The answer is that there are instances when we have to support exports because credit is lacking. That is when the Export-Import Bank steps in, but we first determine whether we are needed or whether some private institution will finance the transaction.

If they won't, then we step in, even though there is no competition.

Mr. CASEY. Where we have an exclusive position we will charge more in the interest rate to induce the financing but we try to make the export go forward.

Mr. KOCH. My time has expired.

Mr. CASEY. That is very clear in the House report.

Mr. BEVILL Furnish anything in the record you want to in response to that question.

Mr. CASEY. Yes.

At the present time we are not doing any military loans, defense loans.

[The information follows:]

STATEMENT BY MR. SAUER

With respect to my statement that Iran was short of cash to cover the payments for the arms it was purchasing from the United States, I find that the record of the Bank does not contain an express finding to this effect. However, the record does set forth facts which clearly support the presumption that the Bank made such a finding in connection with extending credit and guarantees. As you will see from the table we furnished in response to an earlier question by the chairman, the facts are that in fiscal 1973 Iran purchased approximately $2 billion of arms, and in fiscal 1974, purchased in excess of $3.75 billion of arms. Iran paid cash to the Defense Department of the United States for its 1973 and 1974 purchases, except for Eximbank loans and guarantees of $500 million in these years, a relatively small credit from the Defense Department and $300 million of loans from private banks without Eximbank guaranty. The Export-Import Bank record also discloses that as of April 1973, Iran had exchange reserves of $1,100,000,000. Thus, it was quite apparent that payment of something over $5.75 billion by Iran in the 24 months in question necessitated Iran borrowing part of the payments.

RECORD OF BANK

Mr. CONTE. That was going to be my first question.

You are not financing any armaments?

Mr. CASEY. At the present time we are not.

Mr. CONTE. The thing I can't understand is some of these questions are certainly legitimate questions but I have sat on this committee for 17 years and carried a lot of battles on the floor of the House for foreign aid, and some of the programs that go through this committee go through without a peep from anyone, and yet here is a good agency, a good track record, that has made a lot of money for the Federal Government and created a lot of jobs that wouldn't have been created had it not been for the Export-Import Bank.

Yet some Members are becoming very contentious about it. We voted money for Israel this past year, and I bet we are going to be up

close to $2 billion for Israel next year. We didn't get a nickel back, not a nickel for it.

I guess you don't have the same constituency.

LOST SALES BECAUSE OF INADEQUATE FUNDS

In your February competitiveness report it is indicated that some $4 billion in export sales were lost during the past 2 years largely because of inadequate official financial support.

What are you doing to insure that we don't lose that much export business again, and what level of support on your part is needed to insure that?

Mr. CASEY. We have increased the use of our guarantee authority for private loans, and increased the percentage of the export price we are prepared to lend. That is all we can do within the loan authorization we have.

We have tried to use our loan authorizations to cover as large a slice of our exports as possible. I think that with the proposed loan authorization for fiscal 1976 we would be able to provide 40 and 45 percent financing and get the banks to come along and do the rest of the financing at an interest rate which would create a package that would be reasonably competitive.

CRITERIA IN DETERMINING U.S. EMPLOYMENT IMPACT

Mr. CONTE. One of the criticisms of the Bank that we get on the floor is that it encourages the export of jobs as well as capital.

How do you respond to a charge such as that? I imagine we will be hit with that again when we take this bill on the floor of the House.

Mr. CASEY. Well, we are under a mandate under the new authorization law to consider the effect on unemployment within the United States in the granting of loans. What we do is first, determine whether the production that will flow from any productive machinery that is sold abroad with our financing will be for export, whether it will come back to the United States or whether it will go into markets where it might compete with things we now export out of the United States.

The second, and perhaps more imporant thing we do, is satisfy ourselves that if we don't finance the sale of equipment from the United States the buyer will be able to get comparable equipment elsewhere. If comparable equipment is available elsewhere, then the employment impact on the United States is still going to occur but we would have lost the export. So we don't finance anything unless we are satisfied that equipment is available freely on the world market so that the buyer has a choice.

SHIFT FROM DIRECT LOANS TO GUARANTIES IN FISCAL YEAR 1975

Mr. CONTE. There was a decrease in your program activity from 1974 to 1975 because of a shifting of emphasis to guaranteed rather than direct loans. Will this emphasis continue through 1976 and beyond, and can you explain the reason for the change?

Mr. CASEY. I think the reason for the change is two things. It was an increase in the guarantee activity and it was also a decline in the

direct loans. The decline came by virtue, first, of our cutting back the percentage of our direct loans and, second, a deferral of a lot of large transactions arising from recessionary conditions in the world economy. If you look ahead I would see the guarantee still increasing. I think probably we are going to handle close to three-quarters of our business on a guarantee or insurance basis next year, but with the inflation in prices and any kind of a resurgence in world economic activity, I feel sure that we will also increase our direct loan activity. This year reflects those two things, first, a cutback in the percentage which, as I pointed out, lost some business for us, and, second, the deferral of a lot of capital projects until next year.

IMPACT OF U.S. AIRCRAFT SALES TO FOREIGN COUNTRIES

Mr. CONTE. As you know, Mr. Casey, another charge against the Eximbank is that in its support for aircraft exports, it gives foreign airlines an edge over domestic airlines. We've all read about the problems the airlines are having, with cuts in service, mergers, and a bewildering assortment of special fares being offered as solutions to the problem. Does the Eximbank in fact give an edge to foreign airlines?

Mr. CASEY. We do not believe so, Mr. Conte, and as I pointed out in previous remarks to the chairman the GAO in their report to Senator Javits concluded that in the period which they studied of 1967 to 1973 the U.S. carriers in fact had lower financing costs on their aircraft purchases than the comparable foreign carriers did utilizing Eximbank financing. I think you also have to recognize and take into account the fact that if these foreign orders had not been consummated, the total volume of aircraft production would have been smaller and therefore the unit cost to the domestic buyers would have been higher.

Mr. CONTE. About how much of American aircraft production is exported? How many jobs would you estimate are provided by aircraft exportation?

Mr. CASEY. Over the last 5 years, approximately 60 percent of U.S.-manufactured aircraft have been exported. Fiscal year 1974 U.S. aircraft exports of some $5.5 billion directly supported some 275,000 U.S. jobs.

Mr. CONTE. Aren't most of these foreign airlines already Government operated or subsidized?

Mr. CASEY. Yes; that is essentially true. A recent study by the CAB of the 55 major foreign airlines showed, however, that only 25 of these carriers are fully owned by their governments. In 16 cases there is significant private participation, and 14 of the airlines are privately owned. Thus, 30 of the 55 major foreign airlines (55 percent) have at least some private participation.

JOBS SUSTAINED BY BANK ACTIVITY

Mr. CONTE. Do you have any estimate of the number of jobs which are directly or indirectly sustained by the activities of the Eximbank?

Mr. CASEY. The Bureau of Labor Statistics estimates that in fiscal year 1974 the $12.8 billion in exports supported by the Bank related directly and indirectly to 663,800 jobs throughout the economy.

EXIM'S IMPACT ON U.S. TRADE BALANCE

Mr. CONTE. About how much do the activities of the Eximbank contribute to our balance of trade?

Mr. CASEY. In fiscal year 1974, the Bank's total program supported nearly $8 billion in actual U.S. exports. Disbursements under the direct lending program alone supported about $6 billion in U.S. sales, or about 20 percent of our machinery and transport equipment exports excluding passenger cars.

Mr. CONTE. Isn't a strong trade position particularly important during a period of recession?

Mr. CASEY. We believe that it is in the best interest of the United States to consistently assure that we have an optimum level of exports. The Bank's programs are consequently based on long-term institutional relationships built up over decades with U.S. exporters and the Bank's customers abroad and foreign governments. Of particular significance at this time, however, is the impact of exports on employment. The nearly 700,000 jobs associated with the exports supported by the Bank last year would require appropriations of nearly $6 billion if these jobs were to be created through public service employment.

DEFAULTS AND DELINQUENCIES

Mr. CONTE. Can you tell me the extent of defaults and delinquencies in your loans? Has there been any major increase during the past year in these categories?

Mr. CASEY. The Bank has had a very good record over the years with respect to defaults and delinquencies. The Bank has written off as incollectable only $6.4 million in loans, and with subsequent receiver on these write-off's a net of only $3.8 million has been charged to the Bank's retained earnings. This compares to more than $23 billion of loans disbursed since the inception of the Bank.

There have been reschedulings of loans when the obligor ran into temporary financial difficulty and some debt relief was necessary to enable the borrower to weather this period and resume servicing his debts. Since inception, the Bank has rescheduled about $1.3 billion of loan maturities, of which $416 million are currently outstanding.

At March 31, 1975, there were, excluding old credits to China and Cuba, loan maturities totaling $3 million which were delinquent 30 days or more. Also in a delinquent status were old loans to Cuba and to China, which relate to assets no longer under the Republic of China's control, which total $58.7 million.

BUSINESS IN THE MIDDLE EAST

Mr. CONTE. Can you tell me about some of your major deals involving the Mideast? For example, were loans made to Arab countries during the oil embargo?

Mr. CASEY. The bulk of the Bank's lending in the Middle East in the past has been to Iran. Although our CFF program continues to be actively used in Iran, we have made no major project loans there since 1973.

We have also been active in supporting Turkey's purchases in the United States. As of March 30, 1975, the Bank's exposure under all programs in Turkey was $257.8 million.

Strictly speaking, Algeria is not a Middle East country, but I might mention our activity as of March 31, 1975. Our exposure amounts to $571.3 million. About $367 million of this is in connection with a single project, that being a major liquefied natural gas (LNG) project which will supply one billion cubic feet per day of LNG to the east coast of the United States.

As for our activity during the Arab oil embargo, we made only one major project loan in an Arab country during the oil embargo, that is, during the period from October 17, 1973 through March 18, 1974. That single authorization involved $100 million in financing extended to the SUMED Pipeline Co. for the Suez-Mediterranean crude oil project in Egypt. The SUMED Pipeline Co. is owned half by the Egyptian Government's oil company and half by the Governments of Saudi Arabia, Kuwait, Abu Dhabi, and Qatar. This financing authorization was made pursuant to a preliminary commitment which had been issued by the Bank in August 1973, before the start of the embargo. As it turned out, the American firm which was bidding on the project lost out to an Iranian consortium, so Eximbank's commitment was eventually canceled.

NUCLEAR POWER CREDITS

Mr. CONTE. To what extent were you involved in financing for nuclear powerplant equipment during the past year? How much of that was for sale by General Electric?

Mr. CASEY. So far during fiscal year 1975, Eximbank credits totalling $34,560,000 have been authorized to support the sale of $103,944,000 worth of nuclear powerplant equipment. This compares to Eximbank credit authorizations during fiscal year 1974 of $439,351,000, supporting $774,093,000 worth of exports; and in fiscal year 1973 of $175,426,000 worth of Eximbank credits in support of $330,351,000 worth of U.S. exports. I will have to submit for the record additional information on Eximbank financial guarantees. At that time I will provide you with a detailed breakdown of the share of these authorizations received by General Electric.

NUCLEAR POWERPLANT AND RELATED EQUIPMENT EXPORTS SUPPORTED BY EXIMBANK

[In thousands of dollars]

	Fiscal year—		
	1973	1974 [1]	1975 [2]
Total:			
U.S. value	330,351	774,093	103,944
Exim credit	175,426	439,351	34,560
Exim guarantee	147,454	162,446	3,600
General Electric:			
U.S. value	104,700	60,400	19,444
Exim credit	47,115	26,515	5,833
Exim guarantee	0	25,515	0

[1] On Apr. 25, 1974, Eximbank authorized a loan of $199,499,000 and financial guarantee of $99,749,400 to enable the Taiwan Power Co. to purchase $498,747,000 worth of U.S. goods and services for construction of 2 nuclear power-generating facilities. Although it is fairly certain that General Electric and Westinghouse will each have a share of this contract, the precise distribution between the 2 companies is unknown. Consequently, none of the potential business for General Electric under this authorization is reflected in the General Electric totals for fiscal year 1974.

[2] For the period between July 1, 1974, and May 12, 1975.

BANK'S POLICY ON ITEMS IN DOMESTIC SHORT SUPPLY

Mr. CONTE. An article in the Washington Post on March 28 indicated that the Export-Import Bank was involved in the export of oil drilling rigs, which are in very short supply here in the United States. Do you have any review procedures to prevent support for the exportation of domestically scarce resources, and what went wrong in the case which I just mentioned?

Mr. CASEY. The Bank has not, and will not, support through any of its programs the export of energy-related equipment in short supply in the United States. The Bank's policies on energy-related equipment which may be in short supply are coordinated with the NAC and with the Federal Energy Administration. Since the beginning of fiscal year 1975, the Bank has supported only a very modest volume—less than $13 million—of drilling and related equipment exports.

The Post article mentions drilling rigs in general and does not describe the specific export transaction which the Bank supported. The Post is in error when it states that: "Oil drilling rigs are in extremely short supply at home." FEA has not objected to Bank support for the export of drilling rigs and the Commerce Department reports that there are now approximately 30 available rigs out of work because of lack of contracts. Due to the decline in demand for drilling rigs worldwide, U.S. manufacturers have already reported cancellations of export orders.

POSSIBLE AGREEMENT TO LIMIT GOVERNMENT EXPORT CREDIT SUPPORT

Mr. CONTE. Do you foresee any further progress in getting trade nations to limit the amounts or terms of export subsidies? Are you engaged in trying to get further limitations?

Mr. CASEY. We hope so. Unlike the export credit facilities maintained by other governments, Eximbank does not receive annually appropriated funds with which to subsidize a below-market rate of interest. The money we lend has to be borrowed—at market rates—with the help of a Government guarantee. To preserve its capital, the Bank keeps the interest it charges close to the rate at which it borrows. As a result, we have consistently charged a higher interest rate than our competitors. The Bank also generally finances a lower percentage of the export price than do our competitors, provides less for local costs financing, and rarely mixes its export credits with AID funds, a practice extensively used by some of our competitors. Finally, the Bank has no programs at all in such areas as inflation risk coverage and exchange fluctuation risk insurance, two other important export financing devices used by our major competitors.

While we have been trying for the past year and a half to have our major competitors raise their interest rate closer to our level and to get them to cut back to eliminate some of their other official export support programs, progress has been slow and, except for an agreement late in 1974 that export credits in excess of 5 years would have a minimum interest rate of 7½ percent, no wider agreement has been reached.

We are making another try in this direction in about a week when Treasury Under Secretary Bennett and I are going to Brussels to see if an agreement can finally be hammered out. I am optimistic that in time we will succeed.

REASON FOR INCREASE IN ADMINISTRATIVE EXPENSES

Mr. CONTE. Would you explain the proposed change in your administrative expenses?

Mr. CASEY. The increase in the Bank's administrative expenses is due primarily to the addition of 20 people to the Bank's staff together with increases in the costs for rent, communications, printing, and other services.

Mr. CONTE. Thank you, Mr. Chairman.

Mr. BEVILL. The Chair recognizes Congressman Long.

PROBLEM OF SHORTAGE OF CAPITAL IN UNITED STATES

Mr. LONG. Mr. Casey, I think we are confronted with deep questions of philosophy here and I understand that you are directing an institution the rules of which have been set up by Congress and you are not really responsible for the matters of philosophy. You do the best you can. But I have heard the Export-Import Bank praised in such fulsome terms that I am somewhat disturbed in view of a lot of considerations which are very important to me and which I think ought to be important from the economic point of view—not from an American capitalistic or a businessman's point of view, which I think is how you and Chairman Passman have been looking at this program. There are matters of economics in which there are strong divergencies of opinion and interest. One is the matter of interest rates that are very high in the United States and have been rising. There is great protest over this, and attempts to keep interest rates down have resulted in great increases in supply of money. The Federal Reserve Bank has advised against that policy that creates currency and bank credit in order to keep interest rates down. In other words, although there is a shortage of real capital, the attempt to make up for it by increasing the supply of money creates inflation and the kind of problems that we are facing in this country.

The basic problem facing this country is a shortage of real capital. I am talking now about equipment, trucks, Caterpillars, and everything that you see all over the world when you travel around. We are, whether you like it or not, not in your words but in the words and figures of the OMB, subsidizing the export of capital to the extent, of $1,200 million in the last 3 years.

You disagree with that description of subsidy. I happen to agree with it.

I saw a table yesterday which compared some of the leading countries in capital investment—Japan, Germany, Great Britain, Italy, France, and one or two others. It showed their growth rates in terms of percentage growth rates and GNP and it showed the percentage of their gross national product which is going into capital investment. We had the lowest growth rate and we were the lowest among those countries in our percentage going into capital investment. The rea-

son for this, as I see it, is partly that we are spending vast parts of our wealth on national defense. We are the protectors of the world and we are paying that cost in a slower rate of growth. We have also given away and lent tremendous amounts of our wealth in foreign aid, and part of it through the Export-Import Bank. I get very disturbed when I hear that we are making a profit on this when this looks at it only in very narrow terms of the difference between the amount of money which is paid out by the Treasury and the amount of money that comes in because this is only a tiny aspect of it.

Would you substantially disagree with anything I have just put forth?

Are you disturbed by the export of American capital, by the small rate of gross capital formation that is occurring?

Mr. CASEY. I think it is a matter of priorities. I agree substantially with what you said. I place different emphasis on it. I think our problem is a failure to save at an adequate rate and create capital at an adequate rate. I don't think that the impact of the Export-Import Bank and exporting capital is so significant at all. We are in a kind of——

Mr. LONG. Let me say I will agree with you it is not the major factor. I am saying it is one more contributing factor of some significance.

IMPACT OF BANK'S ACTIVITIES ON CAPITAL GROWTH

Mr. CASEY. Yes, it is. Let me say that I think the significance is greatly exaggerated because the Export-Import Bank's activities create $15 billion worth of business in the United States and $15 billion worth of exports. If we didn't have those exports there would be some people out of work. A pool of savings would go down.

REALLOCATION OF CAPITAL TO U.S. CONSUMPTION

Mr. LONG. Excuse me, Mr. Casey. That is an assumption which is eminently challengeable. You are assuming that you have to export in order to create jobs. Doesn't this ignore totally the fact that if we would lend that money to American business firms here in the United States to do all kinds of projects which we desperately need—sewers, for example, rapid transit systems, water systems and so on—those investments would create jobs too?

Mr. CASEY. It would create jobs. Mr. Long, if we did that, then we would not be paying our bills in the world. We wouldn't be able to pay for the things we have to bring in from abroad to keep our economy going to keep these jobs functioning. That would mean that the dollar would go down significantly. That would mean that the cost of living would go up very greatly and we would have a new resurgence of inflation. So you have two things you are trading against each other. This business of the scarcity of capital may fuel the inflation, but if you weren't using the capital to finance your exports you would have a lower dollar and you get I think more inflation from that direction. So these things have to be kept in balance.

Mr. LONG. Do you think you could find very many economists who would agree with that kind of analysis?

Mr. CASEY. Certainly, no question about that.

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QUESTION OF SUBSIDIZING EXPORT OF CAPITAL

Mr. LONG. Can you name me one, someone who is respected in the world of economics who would agree that you have to subsidize exports abroad in order to have——

Mr. CASEY. You are using that word "subsidize."

Mr. LONG. And create jobs.

Mr. CASEY. A moment ago you were talking about capital. You wanted to take the capital out of exports and put it in here.

Mr. LONG. I am just talking about subsidy. We are talking about subsidy.

Mr. CASEY. You are subsidizing the capital here too. If you are going to bring that capital and put it to work here you are subsidizing it. Look at that list of subsidies. We are very small. Most of those subsidies are for the application of capital here, just what you are talking about. You are forgetting the subsidies internally and emphasizing a very modest subsidy on exports.

Mr. LONG. I don't think I have forgotten anything. The great problem of our time is that we create a problem through subsidies and then we subsidize something else in order to solve that first problem. The point I am trying to make is that one of the reasons why we have very high interest rates in this country is that we are subsidizing the export of capital. That creates a shortage of capital in this country, makes it difficult for American enterprises. If we weren't exporting our capital through foreign aid and through this type of program, we would have money here in the United States which businessmen could borrow and use to set up businesses and create jobs.

NEED TO EXPORT TO PAY FOR IMPORTS

Mr. CASEY. Mr. Long, if you were not doing what you call exporting the capital, if you were keeping it here, you wouldn't be paying your bills in the world. You would have an inflationary impact which in turn would bring interest rates up and reduce the real value of the capital available in this country.

ACCUMULATION OF DOLLARS BY ARAB COUNTRIES

Mr. LONG. That is very interesting. Let's take the Arab countries now which sell a great deal of oil in the United States. They get dollars for that oil. Right?

Mr. CASEY. Yes, sir.

Mr. LONG. What are they going to do with those dollars?

Mr. CASEY. I guess that is up to them.

Mr. LONG. What are they going to do with them? Eat them?

Mr. CONTE. Invest them.

Mr. LONG. Invest them where?

Mr. CONTE. A lot of them here.

Mr. LONG. When they invest them here that means bringing the dollars back to the United States, doesn't it? Are they going to give them to us? Are they going to get something for it?

When they bring them back here they are buying something, aren't they?

Mr. CASEY. Sure.

Mr. LONG. So when we have bought a great deal of oil from the Arab countries and we give them dollars, there isn't really very much they can do with their dollars except buy goods back in the United States with them, unless they want to eat them or throw them away.

Mr. CASEY. They don't have to buy goods in the United States at all. They could buy in Europe or Japan. They could invest it all over the world.

Mr. LONG. Suppose they buy in Japan. To the Japanese they pay American dollars. What are the Japanese going to do with those dollars? Eat them? Throw them away? Aren't they going to have to spend them back in the United States?

Mr. CASEY. That is the way the trading process goes.

Mr. LONG. Does it really matter whether they spend the money back here themselves or spend the money in Japan and the Japanese spend the dollars back here in the United States? Are dollars good for anything, anywhere, except in the United States?

Mr. CASEY. I have heard of a Eurodollar market.

Mr. LONG. Well, they are holding them there for a while which in a sense means they are making us a non-interest-bearing loan. Of course, what would happen if the Arabs decided to sell us $25 billion worth of oil, took all the dollars, kept them there, put them in some bank? That ought to be fine from our point of view. They were lending us the money to buy their oil, and a non-interest-bearing loan is to our advantage. What is the great problem there?

Let me go on to another subject.

BUDGET DEFICITS CREATING HIGH INTEREST RATES

Mr. CONTE. Before you do may I make one observation in regard to what creates a high interest rate? My observation has been that it has been an irresponsible spending binge which past Congresses have been on. What is happening is that there isn't a bill that doesn't come out of my Health, Education, and Welfare Appropriations Subcommittee that is not increased by billions of dollars, and what is going to happen here is that we are going to run a deficit of at least $70 billion, as I said maybe $100 billion, and when that happens then we are going to have to go out and borrow money and sell Treasury notes to pay the interest on that debt, and that is where you get into the tight money policy.

Mr. LONG. I couldn't agree with you more. What happens when the Government spends a lot of money in excess of what it takes in is that it borrows the money to pay the bills.

Mr. CONTE. That is right.

Mr. LONG. When it does that it creates an extra supply of money; right?

Mr. CONTE. Yes.

SHORTAGE OF GOODS RESULTING FROM EXPORTS ALSO IMPACTS INTEREST RATES

Mr. LONG. The extra supply of money bids up the value of goods, but only because there is a shortage of goods, because we have been shipping the goods out of the country instead of making them avail-

able here in the United States for people to consume or to build buildings and factories and so on. I submit that what this country has been doing through the Export-Import Bank and through all of our foreign aid system and through many other disastrous policies is to subsidize the export of a great quantity of wealth when throughout most of the 19th century and early in the 20th century we were using capital imports to make America great. The administration and Congress simply don't understand the predicament which we have gotten ourselves into. We are glorifying constantly programs like the Export-Import Bank which, together, account for a significant part of the problem that faces us.

IMPACT OF FOREIGN AID SPENDING ON U.S. ECONOMY

Mr. CASEY. There is something to what you say, Mr. Long. Over the last 30 years we put out fifty-odd billion in foreign aid.

Mr. LONG. Wait a minute now; hundreds of billions.

Mr. CASEY. $50 billion.

Mr. LONG. Of foreign aid? I have the figure here; $164 billion.

Mr. CASEY. Appropriated?

Mr. LONG. Appropriations, yes.

Mr. CASEY. Right now, today, to borrow that money is costing the Treasury $8 billion a year.

Mr. LONG. You think that is the only cost?

Mr. CASEY. That is one measure of the cost.

Mr. LONG. What about the fact that we don't have the $164 billion worth of goods and services in this country which would have been put into roads and factories and other projects?

Mr. CASEY. It is important but it can't be considerd as a net loss because we have gotten things back for the things we put out. We have gotten things back. We have paid for other things.

Mr. LONG. This is the total, Mr. Casey, $164 billion of net foreign assistance—that means net of repayments and interest payments—$164 billion. So the point you just made is invalid. We have it right here.

Mr. CASEY. Invalid? What do you mean?

Mr. LONG. I see the gentleman shaking his head. Would you like to make a contribution to this? Why, is what I just said wrong?

How can you challenge that?

Mr. CASEY. I think what you said wrong is when you said what I said was invalid.

Mr. LONG. You said we had gotten something back for it. I pointed out that the $164 billion has taken account of what we have gotten back for it.

Mr. CASEY. I don't think so. I don't think that is right at all. That $100 billion, a lot of it was spent over here to buy things here for which we in turn received things from abroad in the trading process.

Mr. LONG. But when they brought that money back here we sent the goods to them. That is what I am talking about. I am not talking about the money that went out there. I am talking about the exports of goods and services.

Mr. CASEY. But those exports of goods and services paid for imports of goods and services which we received.

Mr. LONG. No.

Mr. CASEY. Sure.

Mr. LONG. No. That is exactly the point. The point is when we give something away we are giving——.

DISTINCTION BETWEEN IMPACT OF EXIMBANK AND GRANT-AID PROGRAMS

Mr. CASEY. That is is distinction I am making. We are not giving anything away.

Mr. LONG. The $164 billion is our net giveaway to other countries.

Mr. CASEY. That is a loss, of course.

Mr. LONG. Of goods and services for which we got nothing in return, no return.

Mr. CASEY. Why are you jumping on the Export-Import Bank? We don't give anything away.

Mr. LONG. You made some statements which sort of got us a little bit adrift, I will agree, but I think I have to meet the points you made. I have told you I thought the Export-Import Bank was only a part of this problem.

Mr. CASEY. A very small part. The point I was trying to make to you is that the cost of the Export-Import Bank to the U.S. Government is $30 million a year because the Treasury has a billion dollars invested in our Bank on which we pay them $50 million a year. They pay $80 million to carry that billion dollars, whereas the cost of foreign aid to the Government is 8 percent of whatever the total contribution to the national debt has been as a result of foreign aid. I was told it was $50 billion. You tell me it was $100 billion. It was either $4 billion or $8 billion so you are comparing $4 billion to $8 billion and $30 million. What I want to know is why you are so steamed up about the Export-Import Bank with all the other things here.

Mr. LONG. I think I am concerned because I have heard so many fulsome remarks made about the Export-Import Bank as being a wonderful thing and the greatest thing that has happened here in the United States since baked beans, and I see here a real cost to this country in exports of real capital.

To come back to the point you wanted to make, what interest we paid on what we borrowed to give away—

Mr. CASEY. We paid 8 percent.

COST OF FOREIGN AID: 1946–74

Mr. LONG. Wait a minute. We paid $105 billion on what we borrowed to give away, so the grand cost, total cost of foreign assistance during 1946–74 has been $269,797,000,000. These are the figures. This is 1946 through 1974. I am just submitting that this is part of the explanation, a major explanation, of why this country is in so much trouble. We have just emptied ourselves of capital to send abroad and the Export-Import Bank, which I agree with you, is only a small part of the problem, has contributed.

Mr. CASEY. We get the capital back, Mr. Long.

Mr. LONG. I submit that it is part of the problem.

BANK ACTIVITY HELPS STABILIZE DOLLAR AND ASSIST U.S. PAYMENTS BALANCE

Mr. CASEY. We get the capital back. It is only there for a short period of time and if it weren't there we would pay a higher price in the inflation that would accrue in this country, because we wouldn't meet our balance of payments. Our dollar would go down.

SOVIET ECONOMY AND MILITARY BUILDUP

Mr. LONG. I don't think you can demonstrate that at all. I would submit you are part of the inflation problem. But it is going to take too long to go into that. I would like to get into another question and that is this business of your selling to Communist countries. You would not dispute, would you, that Russia has been building up its armaments now for a great many decades, that it is challenging the United States on the ocean and in its strategic missiles, and that it has perhaps the largest army in the world. Is not the major reason why we have to spend so much to defend America because of the Russian military threat?

Mr. CASEY. I agree entirely.

Mr. LONG. Very good. You would not dispute, would you, that Russia has been a major supporter of various revolutions and wars that have occurred around the world which we have entered and which have cost us a great deal—notably the Korean war and the Vietnam war?

Mr. CASEY. I wouldn't dispute that.

Mr. LONG. You wouldn't dispute that. Would you accept the notion that you don't have to give a country special weapons in order to help it, that when a country is embarking on a great military buildup any kind of economic help is of some help to that country? Right?

Mr. CASEY. I agree.

Mr. LONG. For example, it has been pointed out that Russia, by going into this huge military buildup over so many decades, has starved her domestic economy. The average Russian wears miserable clothes, he lives in a pretty wretched house, and Russia's agricultural development has been neglected. You recognize that, don't you?

Mr. CASEY. Yes.

Mr. LONG. The Soviet Union has just never produced all the food they needed and they have had very great difficulty from that point of view, so that when we sell them even things which are not strictly military like food and trucks and computers, we are helping their economy. Would you concede that?

Mr. CASEY. Yes; I think I have to say we are helping them. I think it is rather small compared to what they do for themselves.

SOVIET ASSISTANCE TO VIETNAMESE COMMUNISTS

Mr. LONG. Did you ever have any sons or anybody who fought in the Vietnam war, Mr. Casey?

Mr. CASEY. No. I have only a daughter.

Mr. LONG. Well, several million American boys fought there and 300,000 were wounded, 56,000 died there, and I would guess, roughly estimating, about 6,000 wounded from my State.

I would guess maybe 8 or 10,000 from your State, Tom.

Mr. BEVILL. I would guess so.

Mr. LONG. Because your State is somewhat larger than mine.

These American veterans have the spectacle of a country that they fought so hard in to keep out of Communist hands completely lost in a short while. All the while it has been recognized that Russia has been furnishing North Vietnam and the Vietcong with weapons, with military help and economic help of one kind or another. Isn't it true that the Export-Import Bank has in a sense been then trading with the enemy?

Mr. CASEY. You want me to answer that?

Mr. LONG. Yes, please.

Mr. CASEY. Here again we are back into a——

Mr. LONG. Maybe not your fault. No—I put heavy blame on the administration and on Congress for this.

POLICY DECISION ON TRADING WITH SOVIET UNION

Mr. CASEY. I am just as much concerned and just as much distressed about the things that you have so eloquently laid out, the cost, and disappointments, and setbacks, and the other things that we have experienced in our relationship with the world and particularly the Communist world.

I am just as concerned about that threat as I think you are. I don't happen to be either the President or the Secretary of State. They are setting the policy, they together with the Congress.

A judgment has been made that it is a small bet to make to develop an economic relationship with the Soviet Union to see whether that weans them away from this hostile course they are pursuing.

Mr. LONG. It doesn't seem to have worked; has it, during the Vietnam war.

Mr. CASEY. I am not going to defend it.

Mr. LONG. We have the policy of détente. We went into a policy of trading, hoping that this possibly would cause the Russians to use their good offices to end the Vietnam war in some way. Instead they kept on supplying weapons to North Vietnam and now we see a total defeat of a cause which my son and so many other American boys fought so hard to protect.

Mr. CASEY. All I am saying is the Export-Import Bank insofar as they deal with the enemy, as you put it, was merely implementing a policy that had been determined upon by our national leadership.

Mr. LONG. I agree with you.

Mr. CASEY. Of the Government.

Mr. LONG. I am not blaming you. I am not taking it out on you. I just want that in the record in answer to some of the fulsome praise that has been heaped on your organization.

POSSIBLE RISKS AND BENEFITS IN DÉTENTE

Mr. CASEY. Let me say that in my testimony before Congress last year I defended this détente policy because at that time I was making the assessment that while it is true that what we were doing might be of some value to the Soviet Union——

Mr. LONG. It might work.

Mr. CASEY. It might work and it is a very small bet. The Soviets put $200 billion a year into their own development. They have built all this weaponry and all this military power themselves. They didn't build it up with help from us.

What we are putting in there, $300 million a year is, less than one-fifth of 1 percent of what they are doing themselves. That seemed like a small bet.

Mr. LONG. I suppose you could argue, Mr. Casey, that when my son went to Vietnam and fought for a solid year with the 101st Airborne, was wounded twice, that he was making a very small contribution to the cause, but my family and my wife and I spent a year in agony, and our feeling was that even though it was a small contribution, it was a contribution.

Mr. CASEY. I think what we are talking about here is a small economic bet——

Mr. LONG. Your contribution may be small but it is a contribution and it is a hell of a lot bigger contribution than that of any single man in Mr. Bevill's district or my district. I don't see how we Members of Congress can justify setting up a program and defending it when it has helped an enemy which has persisted now for 2 or 3 decades in threatening the cause of democracy, of peace, and which has caused us to build up such vast armaments.

We are not building up our armaments for any other reason but the Soviet Union.

Mr. CASEY. That is right.

Mr. LONG. This is the major cause in my view of our inflation.

Mr. CASEY. What we are doing, Mr. Long, is making a little bet hoping that may scale down this armament business. Maybe it didn't work. Maybe it is not going to work. It is a judgmental matter.

NEED FOR DÉTENTE TO BE TWO-WAY STREET

Mr. LONG. I would feel a lot better if the administration had told us at any time that they had gotten a firm agreement from the Soviet Union and from China not to give any more weapons to the North Vietnamese.

Mr. CASEY. I would feel better, too.

Mr. LONG. For the balance of that period in view of what we were proceeding to do, and if they made such a promise and had broken it, then I would say, all right, it is their fault, not ours. But we never got that agreement.

Apparently we never even sought it.

Mr. CASEY. The Export-Import Bank had very little to do with that.

Mr. LONG. I know it. I repeat, I don't blame you, but I don't want to see the Export-Import Bank heaped with praise for carrying out a policy which I think to a very considerable degree does trade with an enemy of the United States of America.

Those are all the questions I have.

COMMENDATION OF EXIMBANK RECORD

Mr. BEVILL. Thank you.

Mr. Casey, in the conversation there you mentioned, which is a very good question, why should we be picking on, or words to the effect,

the Export-Import Bank when we have all these other agencies, AID, Peace Corps, and all these other people.

Congresman Conte made the same statement, which I think is a very good point. Personally, I consider this Export-Import Bank one of the best institutions that the Congress has created. I think its record has been tremendous. I have never been more impressed.

Really if I had to choose right now, even with these Communist loans, I would still say that is the best organization from the standpoint of helping the people of the United States in promoting foreign trade, and employment, and all that.

QUESTION OF EXIMBANK FINANCING FOR COMMUNIST COUNTRIES

However, this is the reason I am concerned about trading with the Communists and about these loans which I understand are made on a higher level and the President in many instances himself makes the decision, but this is I think why the other Members and I are asking these questions because we hate to see this bank get on the wrong track.

I hate to see it head in this direction. I understand that on most of these loans, the practice started here in the last 3 or 4 years with the exception of Yugoslavia that has some particular situation there that I am sure I am not familiar with but I hate to see this fine institution head in that direction because we know this much.

Certainly you are not going to be selling them sophisticated weapons, but we don't have to think long to know that we have a potential enemy here that is strong enough that we are spending billions of dollars to guard our country against, and we know that the more we help them build up their economy, the stronger they are going to have to spend of our taxpayer's money over here to keep our Nation stronger.

DIFFERING OBJECTIVES OF COMMUNISM AND DEMOCRACY

Congressman Long mentioned philosophy. If I understand the Communist philosophy, it is that every country on Earth should have a dictator heading its government. This is their philosophy, whereas we believe that the people should elect the heads of their countries and their spokesmen.

Perhaps that is oversimplifying, but isn't that basically your understanding?

Mr. CASEY. I think it is the issue of freedom and liberty in the world.

Mr. BEVILL. Am I right in your judgment?

Mr. CASEY. Sure.

Mr. BEVILL. Is that your understanding?

Mr. CASEY. You are dead right. They would prefer to have that dictator Russian, too.

Mr. BEVILL. So actually I don't think with our way of life that we and the Communist countries will ever be able to sit down and reach an agreement, do you?

Mr. CASEY. I am skeptical.

Mr. BEVILL. Frankly I am quoting Ambassador Averell Harriman, and I value his opinion very highly. He is a very good supporter of this

Bank, I know. He even came out and supported this Russian loan which I agreed with. This is the way he summed it up.

He said we will have détente. We will have softening of the tensions. And, of course, détente is getting to be a pretty expensive item for this country.

Mr. CASEY. He made that remark in a talk at John Sparkman's birthday party.

Mr. BEVILL. He made this talk at a dinner. He had just returned from a 4-hour meeting with President Brezhnev and he made this statement, which I thought summed it up mighty well.

What I am saying is I don't think we are getting much out of these loans with the Communist countries. I think in the long run it is costing the taxpayers of this country.

REASON FOR ATTEMPTING DÉTENTE

Mr. CASEY. Mr. Bevill, all I would say there is I think you have to have a certain amount of hope and optimism. If you think that we are about to be on a collision course that is going to cause the world to blow up, I think you keep opening options and hope that maybe we are going to get openings enough at some time to steer away from that collision course. If you think that with a modest bit of economic activity you might improve the chances of that development, I can't argue against trying it, if it doesn't cost you too much and doesn't jeopardize you too much.

I think those are the only terms on which I have ever defended the policy.

FAVORABLE COMPARISON OF EXIMBANK

Mr. BEVILL. It is certainly contributing. I am sure there is a lot I don't know on this and if I were much better informed on the details of some of these transactions, perhaps I would look at it differently.

This is the way I see it from the information I have and it concerns us. We sit here on the Appropriations Committee. We appropriate money for defense. We appropriate money to strengthen our country. We have these sorry programs that come in here like AID and Peace Corps. About 16 countries have asked us to get these Peace Corps folks out of their country, and we have AID that has spent 25 or 30 years figuring out how to give our money away. I mean that program was a good program when it started. It was started to help Germany and Japan get back on their feet and it was a good program, but we are going to wipe that program out.

I think it is just a matter of months now that we get that one out of the way and we get the Peace Corps program out of the way, I think we are going to get a lot of this skulduggery.

Evidently your institution doesn't fit in that category, but that is why we are asking these questions and why we are concerned about the Export-Import Bank, because of the excellent record. I hope that we can keep it up, because I have reservations about that one thing about the Export-Import Bank.

That is all. I don't have anything further unless you just have some statement you wish to put in the record.

Mr. CASEY. Mr. Bevill, I appreciate this discussion we have had. It has been a wide-ranging one and we have all expressed ourselves very candidly. I think the final analysis and action on the East-West trade issue is in the hands of the Congress. At the present time we are not doing anything there except in Poland and Yugoslavia, and possibly soon in Romania. But insofar as resuming anything with the Soviet Union, that is something that the Congress is still going to have to determine.

As far as the Bank is concerned, we will implement whatever policy is laid down for us.

Mr. BEVILL. All right, sir.

Thank you.

You have certainly made a very fine presentation here.

Mr. CASEY. Thank you.

I enjoyed it.

Mr. BEVILL. The committee stands adjourned until 1 o'clock tomorrow morning.

THURSDAY, MAY 8, 1975.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

ASSISTANCE TO REFUGEES IN THE UNITED STATES (CUBAN REFUGEE PROGRAM)

WITNESSES

PHILIP A. HOLMAN, ACTING DIRECTOR, CUBAN REFUGEE PROGRAM
GLYNN W. BAKER, FINANCIAL MANAGEMENT OFFICER, CUBAN REFUGEE PROGRAM
MISS ANNA L. PERKINS, ACTING DIRECTOR, BUDGET DIVISION, SOCIAL AND REHABILITATION SERVICE
WILFORD J. FORBUSH, DEPUTY ASSISTANT SECRETARY (BUDGET), DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1974 actual	1975 estimate	1976 estimate
Program by activities:			
1. Welfare assistance and services	98,077	72,000	31,600
2. Education	14,426	13,300	7,400
3. Other services	2,340	1,700	1,300
Total obligations	114,843	87,000	40,300
Financing: Unobligated balance lapsing	14,157		
Budget authority (appropriation)	129,000	87,000	40,300
Relation of obligations to outlays:			
Obligations incurred, net	114,843	87,000	40,300
Obligated balance, start of year	31,588	28,656	29,656
Obligated balance, end of year	−28,656	−29,656	−15,956
Adjustments in expired accounts	−10,005		
Outlays	107,770	86,000	54,000

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

Personnel compensation:			
Permanent positions	655	613	542
Positions other than permanent	28	14	
Other personnel compensation	18	30	13
Total personnel compensation	701	657	555
Personnel benefits: Civilian	66	59	53
Benefits for former personnel	49	18	4
Travel and transportation of persons	12	12	10
Transportation of things	4	12	5
Rent, communications, and utilities	467	322	276
Printing and reproduction	1	1	1
Other services	13,793	12,353	6,689
Supplies and materials	5	6	5
Equipment	4	10	2
Investments and loans	1,664	1,550	1,100
Grants, subsidies, and contributions	98,077	72,000	31,600
Total obligations	114,843	87,000	40,300

PERSONNEL SUMMARY

Total number of permanent positions	49	39	35
Full-time equivalent of other positions	1		
Average paid employment	52	43	37
Average GS grade	9.68	9.68	9.68
Average GS salary	$17,889	$19,046	$19,237

Mr. PASSMAN. The committee will come to order.

We shall continue our examination on the budget request for another facet of the foreign aid and foreign assistance program.

This morning we have witnesses who will testify for the Cuban refugee program.

We have as witnesses Mr. Philip A. Holman, Acting Director, Cuban refugee program, Mr. Glynn W. Baker, Financial Management Officer, Cuban refugee program, and other supporting witnesses whose names will be spread upon the record at this point.

I would assume, Mr. Holman, that you have a prepared statement which you would like to present to the committee.

Mr. HOLMAN. Mr. Chairman, I am pleased to have this opportunity to appear before you and the committee.

GENERAL STATEMENT

Mr. PASSMAN. Without objection, you may submit your statement and summarize it.

Proceed in your own way.

[The statement follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Social and Rehabilitation Service Statement, by Acting Director, Cuban Refugee Program, on "Assistance to Refugees in the United States"

BUDGET REQUEST FOR FISCAL 1976 AND TRANSITIONAL PERIOD

Mr. Chairman and members of the committee, I am pleased to have this opportunity to present to you the appropriation request for the Cuban refugee program for fiscal year 1976 and for the interim period from July 1, 1976, through September 30, 1976, which provides for the transition to the new Federal fiscal year beginning in October 1976.

An appropriation of $40.3 million is requested for fiscal year 1976—a reduction of $49.7 million compared with the amount of $90 million appropriated for fiscal year 1975.

FACTORS CONTRIBUTING TO REDUCED BUDGET

The request for 1976 continues to reflect two major changes which have occurred in the Cuban refugee situation and the program during the last 2 years: (1) The termination of the Cuban refugee airlift in April 1973 and the expectation that very few new Cuban refugees will reach the United States during the next year; and (2) the continued inclusion of basic maintenance payments for needy aged, blind, and disabled refugees under the program of Supplemental Security Income (SSI), which began in January 1974, rather than under the refugee program, as was previously the case.

Other factors which have resulted in reductions in the last few years and which are reflected in the 1976 request include: (1) Substantial reductions in staff, which were initiated when the airlift first began to be interrupted by the Cuban Government in August 1971; (2) major decreases in the resettlement program, concomitant with the greatly reduced influx of new refugees; and (3) the phasedown policy in the loan program for needy Cuban refugee college students, under which, beginning in September 1973, new borrowers are no longer accepted, but must instead seek aid under the regular federally aided grant and loan programs for which they have been determined eligible to apply.

MAJOR REASON FOR DECREASE IN 1976: RENEWAL OF PHASEOUT PROPOSAL

The major factor reflected in the request for 1976, however, is the renewal of our proposal of an overall phasedown plan for the Cuban refugee program, leading to the complete termination of the program at the end of fiscal year 1977. Under this proposal, substantial reductions would be made in the two areas accounting for the major portion—an estimated 97 percent in 1975—of the program's expenditures: (1) Reimbursements to the States for welfare and medical assistance to needy refugees; and (2) assistance to the Dade County (Miami) public schools.

As you know, Mr. Chairman, we have made this proposal for each of the past 2 years—fiscal years 1974 and 1975—but it has not yet gained the approval of the Congress. In both years, the Congress took action, first in the continuing resolution and then in the final appropriation, to continue the program at a nonphaseout level. In response to the congressional intent, the Department suspended the phaseout plan.

As a result of this 2-year postponement, we estimate that during 1974 and 1975 the States will have received a total amount of $52.4 million in Federal reimbursements for welfare and medical assistance to needy refugees which would not have been available if the phaseout had gone into effect. The Dade County public schools will have received an estimated additional $6.6 million in Federal refugee program funds as compared with the original phaseout plan.

Taking into account these additional funds which have been helpful to the States and to the Dade County school system, together with the passage of additional time since the Congress originally recommended in 1972 that "the executive branch exert every effort in bringing about the termination of this program as soon as reasonably possible,"[1] we have considered it appropriate to again submit a phaseout proposal for the consideration of the committee and the Congress.

Mr. Chairman, the basis for this proposal continues to be that the emergency situation which gave rise to the Cuban refugee program over 14 years ago has passed; that very few new Cuban refugees are reaching the United States; and that the refugees, as a group, have moved into the economic mainstream of American life, paying Federal, State, and local taxes on the same basis as other residents of the communities in which they live.

We believe that under these circumstances those refugees who need assistance should be included in the regular programs intended for this purpose under the regular financing arrangements which apply to each program—Federal, State, local, or, in most instances, a combination of funding sources. At the same time, we believe that an immediate, complete termination of refugee program reimbursements would place too abrupt a burden upon State and local resources. It is for this reason that we have continued to propose a step-by-step reduction prior to the final termination of the program.

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[1] Conference Report, Foreign Assistance Appropriations; Report No. 92–849, February 23, 1972, p. 7.

Phasedown in reimbursements to States

The major points in the proposal to phase down the reimbursements to the States for welfare and medical assistance to needy Cuban refugees are as follows:

1. Beginning July 1, 1975, this program would no longer reimburse States for refugee assistance cases in which the head of the family has been in the United States for 5 years or more. Their needs would be met from the regular Federal/State and State/local welfare programs. An exception to one aspect of this policy would enable the State of Florida to continue to be reimbursed 100 percent from the Cuban refugee program for financial and medical assistance required by those needy refugees, without regard to their length of residence in this country, who are not eligible for assistance under either the SSI program or the federally aided programs of aid to families with dependent children (AFDC) and medicaid in Florida. These are the so-called General Assistance type of cases which—in Florida only—would be exempt from the 5-year policy. This exemption is designed to offset the impact which would otherwise fall on locally financed assistance programs in Florida, where approximately half of the Nation's Cuban refugees are located.

2. Although responsibility for financial assistance to needy aged, blind, and disabled refugees was transferred to the SSI program when it began in January 1974, the refugee program has continued to reimburse States for medical assistance to refugee recipients of SSI. Under the phaseout plan, such reimbursements would be made only on behalf of those refugees who had been in the United States less than 5 years.

3. All reimbursements from the Cuban refugee program would terminate at the end of fiscal year 1977.

Phasedown in aid to Dade County public schools

Assistance to the Dade County public schools was begun in 1961, when the Cuban refugee program was established, to help offset the additional costs of educating refugee pupils and to provide for supplemental services and materials related to the special educational and language-instruction needs of many of these pupils. Through fiscal year 1975, it is estimated that a total of $144.1 million in Federal refugee program funds will have been provided to the Dade County school system for these purposes. During most of this 14-year period, the amounts provided were based on formulas related to the number of refugee pupils and the operating costs per pupil.

In order to effect a phasedown in aid to the schools, we recommended a series of step-by-step reductions beginning in fiscal year 1974 and continuing through 1977. Under this plan, which was communicated to school officials early in 1973, a total of $26 million was proposed for the schools over this 4-year period, with the following amounts proposed for each of the years: 1974, $10.4 million; 1975, $7.8 million; 1976, $5.2 million; and 1977, $2.6 million.

As a result of congressional action on the 1974 budget and on the 1975 budget, the amount of assistance to the schools was set at $12.4 million for each of these years, or a total of $24.8 million for the 2-year period.

The 1976 request proposes a phasedown amount of $6 million, a reduction of $6.4 million compared with 1975 and an increase of $800,000 compared with the phasedown amount anticipated in the original phaseout proposal.

Impact of proposed phasedown on State/local resources

Without a phasedown, it is estimated that the funding level required for the Cuban refugee program in 1976 would be approximately $85 million, or $44.7 million more than the $40.3 million being requested.

Of the difference of $44.7 million, $6.4 million represents the reduction in aid to the Dade County public schools, as compared with the 1975 level; $100,000, administrative and operational costs; and $38.2 million, the reduction in reimbursements to the States for welfare and medical assistance, as compared with a continuation in 1976 of the existing, nonphaseout policies.

With regard to the $38.2 million reduction in welfare and medical costs, it should be noted that only part of these costs would be required from State and local resources. It is estimated that Federal funding under the AFDC and medicaid programs would account for $15.9 million of this amount, and that State or local funds would be required for the remaining $22.3 million.

The major impact of the phasedown in welfare and medical reimbursements would be on the following States, whose State/local funding requirements to off-

set the effect of the phasedown have been estimated as indicated: Florida, $6.6 million; California, $6.5 million; New York, $3.7 million; New Jersey, $2.8 million; Illinois, $600,000; Massachusetts, $500,000; and other States combined, $1.6 million.

Mr. Chairman, I would like to speak briefly about our estimates for each of the major activities of the program.

Activity 1: Welfare assistance and services

As I have indicated, the largest decrease is in the activity welfare assistance and services, which relates to the program's costs for welfare and medical assistance for needy refugees.

Under the phaseout proposal, we estimate a decrease from $74.6 million in 1975 to $31.8 million in 1976, a reduction of $42.8 million.

Even without the phaseout proposal we would estimate a reduction of $4.6 million in this activity, reflecting a continuation of the decreases in welfare caseloads and costs which have been occurring since the beginning of fiscal year 1974 and which reflect—aside from the shift of needy aged, blind, and disabled refugees to the SSI program—the cessation of the refugee airlift and the resultant drop in the number of new arrivals.

During 1976, we estimate that the Cuban refugee program will be responsible for both financial and medical assistance to an average of 15,400 needy refugees, of whom approximately 10,000 will be located in Florida and 5,400 in other States. In addition, the program expects to be responsible only for the cost of medical assistance to an estimated 14,000 eligible refugees, including 9,000 in Florida and 5,000 in other States; almost all of these would be persons who are receiving financial assistance through the SSI program.

If the phaseout were not in effect in 1976, we estimate that the Cuban refugee program would be responsible for both financial and medical assistance for an average of 29,000 needy refugees, including 13,500 in Florida and 15,500 in other States, and would be responsible only for medical assistance for an estimated 45,000 refugees, primarily SSI recipients, of whom 30,000 would be in Florida and 15,000 in other States.

The welfare and medical assistance estimate for 1976 is based on the assumption that the phaseout will be in effect throughout the year, that very few additional Cuban refugees will enter the United States, and that the existing downward trend in State claims for reimbursement will not be reversed. Implicit in these assumptions is the expectation that economic conditions will improve in fiscal 1976. It is believed that Cuban refugees have been at least as seriously affected by unemployment as others, but this has had very little effect on costs to this program because most are eligible for unemployment compensation.

Activity 2: Education

The education activity comprises assistance to the Dade County public schools; loans to needy Cuban college students; and English, vocational, and professional refresher training.

The estimate for these purposes in 1976 is $7.2 million, a reduction of $6.5 million compared with 1975.

As previously discussed, $6.4 million of this reduction reflects the plan for phasing down assistance to the Dade County public schools. The additional $100,000 reduction is expected to occur in the loan program for needy Cuban refugee college students as additional participants complete their education; the loan program has experienced substantial reductions since the policy of not accepting new borrowers was initiated in September 1973.

An estimated $450,000 will be utilized in 1976 for adult English and vocational training and for professional refresher training. There are two groups of refugees whose training needs represent a special responsibility and opportunity prior to the termination of the Cuban refugee program: (1) The residual welfare caseload in Dade County, Fla., for which this program is responsible, consisting principally of persons of limited education and limited knowledge of English, for whom we plan to continue to emphasize training leading to self-support wherever possible; and (2) needy refugees who were qualified professionals in Cuba and who now have the opportunity to qualify to practice their professions in this country under a new Florida law permitting foreign-educated professionals to qualify for State licensing in their native language upon completion of 1 year of professional refresher training.

Activity 3: Other services

The final activity covers Federal direction and day-to-day operation of the program; reception, registration, and orientation services for refugees; and services provided by the voluntary resettlement agencies.

The request for this activity is $1.3 million for 1976, a decrease of $400,000 compared with 1975.

Substantial reductions have been made in this activity, beginning with the interruptions in the airlift in 1971 and since its termination in 1973—including reductions in staff from an average of 170 persons in 1971 to 37 projected for 1976.

In 1976, the major thrust of staff effort will be directed toward assuring implementation of the phaseout together with continued emphasis on the development and carrying out of training efforts on behalf of those persons most in need.

Estimate for interim period

Mr. Chairman, the estimate for the interim period—from July 1, 1976, through September 30, 1976—is $9 million.

This estimate assumes that the phasedown will be in effect throughout this 3-month period, resulting in continued reductions.

TRIBUTE TO MR. HOWARD H. PALMATIER

Mr. Chairman, I could not close this presentation without paying tribute to Mr. Howard H. Palmatier, who had served with the Cuban refugee program since 1963 and as its director since 1969. His sudden death from a heart attack this past March was a shock to all of us. Mr. Palmatier devoted almost all of his working life to refugees—in Europe, in Asia, and in the United States. He served with dedication and distinction, and his loss deprives us of a good friend and a valued colleague.

Mr. Chairman, I will be pleased to try to answer any questions which you and the members of the committee may have.

Mr. HOLMAN. I would like to try to cover briefly some of the major points which are in the prepared statement.

Mr. Chairman, our request for 1976 is for $40.3 million.

Mr. PASSMAN. Let me make this part of the record.

It is my understanding that your fiscal 1976 estimate is $40,300,000.

Mr. HOLMAN. That is correct, sir.

Mr. PASSMAN. And the 1975 appropriation was $90 million.

Mr. HOLMAN. Yes, sir.

BUDGET FOR TRANSITIONAL PERIOD

Mr. PASSMAN. And in addition to the $40,300,000, you are requesting $9 million for the transition period.

Mr. HOLMAN. That is correct, Mr. Chairman.

Mr. PASSMAN. I want to compliment you because some of the others take the transition period, and it exceeds more than 25 percent of the 12-month fiscal year. I don't know whether they are just getting a few extra chips for a good poker game or whether there is a good reason.

It would appear you are balancing out here on the minus rather than the plus side.

Mr. HOLMAN. That is correct, sir.

Mr. PASSMAN. Now you may proceed to summarize.

Mr. HOLMAN. Thank you.

PROGRAM CHANGES AFFECTING 1976 BUDGET

The 1976 request continues to reflect two major changes in the Cuban refugee situation and in the program which have occurred during the last 2 years. The first was the termination of the Cuban refugee air-

lift in April 1973, and the second was the inclusion of needy, aged, blind, and disabled refugees in the program of supplemental security income, the SSI program, which began in January 1974.

Previously, assistance to those refugees was included under the Cuban refugee program.

During the last few years there have also been substantial reductions in staff, major decreases in the resettlement program associated with the reduced influx of refugees from Cuba, and a policy of phasing down the loan program for needy Cuban college students.

PROPOSED PHASEOUT PLAN

The major factor, however, which is reflected in our reduced request for 1976 is the renewal of our proposal for an overall phasedown in the program leading to the complete termination of the program at the end of fiscal year 1977.

Under this phasedown proposal, substantial reductions would be made in the two areas which account for the major portion of the program's expenditures. The first is reimbursements to the States for welfare and medical assistance for needy refugees, and the second is reductions in the assistance to the Dade County public schools.

POSTPONEMENT IN INITIATING PHASEOUT

As you know, Mr. Chairman, we originally proposed that the phaseout begin July 1, 1973—we were responding to a congressional recommendation which was made in 1972—and we made the same phasedown proposal last year. In both years, however, Congress acted, first in the continuing resolution and subsequently in the final appropriation, to continue the program at a nonphaseout level.

ADDITIONAL FUNDS RECEIVED BY STATES DUE TO PHASEOUT DELAY

As a result of the 2-year postponement in the initiation of the phaseout, we estimate that during 1974 and 1975 the States will have received a total of $52.4 million in Federal reimbursements for welfare and medical assistance which would not have been available if the phaseout had gone into effect, and the Dade County public schools will have received an additional $6.6 million in Federal refugee program funds as compared with our original phaseout plan.

Taking into account these additional funds which have been helpful to the States and to the Dade County schools, together with the passage of additional time, Mr. Chairman, we have considered it appropriate to again submit a phaseout proposal for the consideration of the committee and the Congress.

BASIS FOR PHASEOUT PROPOSAL

The basis for the proposal continues to be: First, we believe that the emergency situation which gave rise to the Cuban refugee program over 14 years ago has passed; second, very few new Cuban refugees are reaching the United States today; and, third—and I think most important—the refugees as a group have moved into the eco-

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nomic mainstream of American life, and are paying Federal, State, and local taxes on the same basis as other residents of the communities in which they live.

We believe that under these circumstances the refugees who need assistance should be included in the regular programs, under the regular financing arrangements which apply to each program—Federal, State, local, or, in most instances, a combination of funding sources.

At the same time we believe that an immediate, complete termination of refugee program reimbursements would place too abrupt a burden on State and local resources. Therefore, we have continued to propose a step-by-step reduction over a 2-year period prior to the final termination of the program.

DESCRIPTION OF PHASEOUT PROPOSAL

Under the phaseout proposal, the refugee program would no longer reimburse States for refugee assistance cases in which the head of the family had been in the United States for 5 years or more. Their needs would be met under the regular Federal/State and State/local welfare and medical assistance programs.

In recognition of the concentration of refugees in Florida, and especially in Dade County, an exception to the phaseout policy would be made for those refugee assistance recipients who are not eligible for assistance under either the SSI program or the federally aided programs of aid to families with dependent children and medicaid.

BIOGRAPHY AND JUSTIFICATION MATERIAL

Mr. PASSMAN. Thank you, Mr. Holman.

That is a very fine statement. We will insert your biography and the justification in the record at this point.

[The information follows:]

Biographical Sketch

NAME: Philip A. Holman

POSITION: Acting Director, Cuban Refugee Program

BIRTHPLACE AND DATE: Charleston, West Virginia
May 25, 1928

EDUCATION: Princeton University, Princeton, New Jersey
AB - Political Science, 1949

American University, Washington, D.C.
& Washington School of Psychiatry
Graduate study in Psychology & Social Sciences, 1950-54

EXPERIENCE:

March 1975	Acting Director, Cuban Refugee Program
1969-Mar 1975	Special Assistant, Cuban Refugee Program
1967-1969	Assistant Administrator for Public Affairs, SRS
1965-1967	Assistant Director of Public Information, Office of the Secretary, HEW
1964-1965	Deputy Information Officer, Welfare Administration, HEW
1962-1964	Information Officer, Cuban Refugee Program
1962	Lecturer in Sociology, Columbia University
1961-1962	Chief, Publications and Reports, New York City Housing Authority
1955-1961	Director, Public Relations and Research, Commonwealth of Puerto Rico, Department of Labor, Migration Division, New York City
1954-1955	Research Associate, Samuel Weiss Research Associates, Washington, D.C.
1950-1954	Assistant Managing Editor, journal Psychiatry, William Alanson White Psychiatric Foundation, Washington, D.C.

Appropriation Estimate

ASSISTANCE TO REFUGEES IN THE UNITED STATES

For expenses necessary to carry out the provisions of the Migration and Refugee Assistance Act of 1962 (Public Law 87-510), relating to aid to refugees within the United States, including hire of passenger motor vehicles, and services as authorized by 5 U.S.C. 3109, [$90,000,000] *$40,300,000.*

For "Assistance to refugees in the United States" for the period July 1, 1976, through September 30, 1976, $9,000,000.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL AND REHABILITATION SERVICE

Assistance to Refugees in the United States

Amounts Available for Obligations

	1975	1976
Appropriation	$90,000,000	$40,300,000

Summary of Changes

1975 estimated obligations	$90,000,000
1976 estimated obligations	40,300,000
Net change	-49,700,000

	Base	Change from Base
A. Program Decreases:		
1. The decrease in welfare assistance and services is due primarily to reinstitution, beginning with fiscal year 1976, of the phaseout plan postponed during fiscal years 1974 and 1975 which, in general, will limit welfare assistance from this program to those refugees who have been in the U.S. less than 5 years	$74,600,000	-$42,800,000
2. The decrease in education costs is due primarily to a reduction of $6,400,000 in assistance to Dade County public schools in line with phaseout plans made several years ago; a reduction of $100,000 in student loans is based on continuation of policy of not accepting new borrowers	$13,700,000	-$6,500,000
3. The decrease in other services is due to lower administrative costs related to fewer positions and smaller number of persons serviced by the program, fewer new arrivals, and decreased services such as those related to resettlement	$1,700,000	-$400,000
Total, decrease and net change	---	-$49,700,000

Explanation of Changes

A. PROGRAM DECREASES:

1. Welfare assistance and services

The $42,800,000 reduction in this activity is due almost entirely to the phaseout policy to be effected at the beginning of fiscal year 1976, limiting reimbursements to the States from this program for financial and medical assistance for needy Cuban refugees to only those refugees who have been in the U.S. less than 5 years in all cases except for those refugees in Florida who are not eligible for the federally aided public assistance programs.

Florida.--A net decrease in total welfare costs to the program of $17,600,000 is projected for Florida. The average monthly caseload, under program phaseout policies, of those receiving cash assistance for maintenance is expected to decrease from 14,000 in 1975 to 10,000 in 1976. About 70 percent of the some 35,000 persons eligible for the regular Medicaid program, whose medical care was funded under the Cuban program in 1975, will not be eligible under this program in 1976. The $17,600,000 reduction is comprised of $1,200,000 for cash assistance, $15,000,000 for medical assistance, and $1,400,000 for other items--primarily administration.

Other States.--In 1976, a net decrease of $25,200,000 below the 1975 level is projected for welfare costs in other States. This provides for a decrease of 10,700 in the average monthly cash assistance caseload and decreased costs of $13,600,000 compared with 1975. A decrease of $9,500,000 is projected for medical assistance and $2,100,000 for administrative costs.

2. Education

The reduction of $6,500,000 for this activity is in accordance with the Department's phaseout plans for final termination of the Cuban Refugee Program by the end of fiscal year 1977. Almost all of the decrease--$6,400,000--is for reducing impact assistance provided the Dade County (Florida) public school system, resulting in a 1976 estimate of $6,000,000 for this purpose compared with $12,400,000 provided by the Congress for 1975. The other $100,000 reduction in education costs in 1976 relates to student loans which have been continually decreasing since 1973 under the Program's policy of not accepting new borrowers.

3. Other services

The net decrease of $400,000 for this activity reflects reductions due to staff losses in 1975 and 1976 and retrenchment in other administrative costs and services such as those of the voluntary resettlement agencies.

Obligations by Activity

Page Ref.		1975 Estimate Pos.	1975 Estimate Amount	1976 Estimate Pos.	1976 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
13	Welfare assistance and services	..	$74,600,000	..	$31,800,000	..	-$42,800,000
20	Education	..	13,700,000	..	7,200,000	..	-6,500,000
22	Other services	39	1,700,000	35	1,300,000	-4	-400,000
	Total obligations	39	90,000,000	35	40,300,000	-4	-49,700,000

Obligations by Object

	1975 Estimate	1976 Estimate	Increase or Decrease
Total number of permanent positions	39	35	-4
Average number of all employees	43	37	-6
Personnel compensation: Permanent positions	$613,000	$542,000	-$71,000
Positions other than permanent	14,000	--	-14,000
Other personnel compensation	30,000	13,000	-17,000
Subtotal, personnel compensation	657,000	555,000	-102,000
Personnel benefits	59,000	53,000	-6,000
Benefits for former personnel	18,000	4,000	-14,000
Travel and transportation of persons	12,000	10,000	-2,000
Transportation of things	12,000	5,000	-7,000
Rent, communications and utilities	322,000	276,000	-46,000
Printing and reproduction	1,000	1,000	--
Other services	13,453,000	6,839,000	-6,614,000
Supplies and materials	6,000	5,000	-1,000
Equipment	10,000	2,000	-8,000
Investments and loans	850,000	750,000	-100,000
Grants, subsidies, and contributions	74,600,000	31,800,000	-42,800,000
Total obligations by object	90,000,000	40,300,000	-49,700,000

Authorizing Legislation

Legislation	1976 Authorized	1976 Appropriation requested
Migration and Refugee Assistance Act of 1962, Public Law 87-510.....	Indefinite	$40,300,000

Assistance to Refugees in the United States

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1966	$44,865,000 1/	$44,865,000	$42,600,000	$42,600,000
1967	51,000,000	51,000,000 2/	51,000,000 2/	51,000,000 2/
1968 3/	49,000,000	49,000,000	49,000,000	49,000,000
1969 4/	72,665,000	72,509,000	72,509,000	72,509,000 5/
1970 6/	87,412,000	87,412,000	87,412,000	87,412,000
1971	112,130,000	112,130,000	112,130,000	112,130,000
1972	144,103,000	100,000,000	139,000,000	139,000,000
1973	161,000,000	145,000,000	161,000,000	145,000,000
1974	90,000,000	129,000,000	129,000,000	129,000,000
1975	78,000,000 7/	90,000,000	90,000,000	90,000,000
1976	40,300,000			

1/ Reflects reduction of $2,135,000 contained in H. Doc. 138.

2/ Plus $1,032,997 of prior year unobligated funds.

3/ Plus $4,500,000 of prior year unobligated funds for each of the amounts shown. Data also exclude $1,800,000 made available from the AID Contingency Fund.

4/ All data include $1,800,000 which was transferred to AID Contingency Fund to replace funds used to meet 1968 requirements.

5/ Includes an amount of $2,700,000 transferred from "Economic Assistance," Agency for International Development, and $35,000 for pay increase in fiscal year 1969 transferred from the Public Health Service in lieu of supplemental appropriation.

6/ All data includes $90,000 transferred from a PHS account and $40,000 made available as an indefinite appropriation under P.L. 91-305 for pay increases in fiscal year 1970.

7/ Includes a budget amendment of $18,000,000.

BUDGET SUMMARY OF OBLIGATIONS AND POSITIONS-- CUBAN REFUGEE PROGRAM

Activity	1974	1975	1976	Decrease
1. Welfare Assistance and Services:				
Florida				
a. Financial assistance to needy refugees	$21,406,900	$8,400,000	$7,200,000	-$1,200,000
b. Medical assistance	18,515,291	24,400,000	9,400,000	-15,000,000
c. Care of unaccompanied children	930,100	850,000	800,000	-50,000
d. Administration and other services	4,867,000	4,350,000	3,000,000	-1,350,000
Subtotal (Florida)	45,719,291	38,000,000	20,400,000	-17,600,000
States other than Florida				
Financial and medical assistance to needy resettled refugees	52,357,751	36,600,000	11,400,000	-25,200,000
Subtotal	98,077,042	74,600,000	31,800,000	-42,800,000
2. Education:				
a. Assistance to public schools in Dade County, Florida	12,399,987	12,400,000	6,000,000	-6,400,000
b. Assistance to college students	1,664,243	850,000	750,000	-100,000
c. English, vocational, and professional training	362,096	450,000	450,000	---
Subtotal	14,426,326	13,700,000	7,200,000	-6,500,000
3. Other Services				
Subtotal	2,339,374	1,700,000	1,300,000	-400,000
Total obligations	$114,842,742	$90,000,000	$40,300,000	-$49,700,000
No. of Positions (federal)	49	39	35	-4

Justification

Assistance to Refugees in the United States

General Statement

The Cuban Refugee Program was established by the President in 1961 to provide assistance and services to help refugees build new lives in the United States and, through the provision of Federal funds, to help offset the impact of refugees on States and localities. The present legislative basis for the program is the Migration and Refugee Assistance Act of 1962.

Between 1961 and June 1974, a total of 456,699 refugees had registered at the Cuban Refugee Center in Miami, Florida, of whom 298,965 had been resettled to other parts of the Nation.

The primary activities of the Cuban Refugee Program over the years have included reception and registration of new arrivals; classification of job skills; assistance in resettlement from Miami to other parts of the country; provision of welfare services such as cash assistance and medical care for the needy by reimbursing on a 100 percent basis State and local welfare departments providing such assistance; and education services.

The number of Cuban refugees entering the United States has diminished substantially since interruptions, at the request of the Cuban government, began to occurr in the airlift of refugees from Cuba to Miami in August 1971 and since the airlift terminated in April 1973. Only 4,601 refugees registered at the program's Cuban Refugee Center during fiscal year 1974.

Program costs have begun to diminish substantially as a result of the decreased influx and the eligibility of needy aged, blind, and disabled refugees for the program of Supplemental Security Income (SSI) which began in January 1974. Previously, assistance to these refugees was provided from Cuban Refugee Program funds.

Further reductions in the program were proposed by the President for fiscal year 1974 and 1975 in the form of a phasedown in reimbursements to the States for assistance to needy refugees and in impact aid to the Dade County (Miami) public schools. This phasedown has not gone into effect because of Congressional action continuing the program at a nonphasedown level.

The proposed budget for 1976 is based on the assumption that the phasedown will be in effect during the entire year. Complete termination of the program continues to be projected for the end of fiscal 1977.

As in the past, most of the program's funds continue to be spent in the welfare area -- about 79 percent in 1976. The second largest item, accounting for about 15 percent of the budget, is assistance to Dade County (Florida) public schools in recognition of the substantial impact on that school system of refugee children enrollments. The balance of the budget, about 6 percent, relates to overall operations and other program services, primarily training: college loans and English, vocational, and professional refresher courses.

In summary, the substantial reduction in funds requirements for 1976 -- a request of $40,300,000 for 1976 as compared with $90,000,000 appropriated for fiscal 1975 -- is due almost entirely to reinstitution of the original phaseout policy with no change except a 2-year delay in the commencement date. This phaseout policy, in general, limits welfare reimbursements to the states from

this program to those refugees who have been residing in the U.S. for no longer than 5 years.

The phaseout policy is designed to effect the transfer of the Cuban refugee welfare caseload to the regular State and local welfare programs in recognition of the fact that the flow of refugees from Cuba has virtually ceased and that the overwhelming majority of Cuban refugees who have entered this country over the past 15 years have been fully self-supporting, tax-paying members of their communities on the same basis as other residents for a number of years.

Because of the large number of refugees in Florida -- primarily Dade County -- the program would exempt from the 5-year policy those needy refugees in Florida who would not be eligible for the federally aided welfare programs.

The primary concerns of the program today are its welfare and educational aspects and planning for its complete phaseout by the end of fiscal year 1977. The funding levels estimated for these activities in 1976 are discussed under each of the three budget activities, which follow.

Assistance to Refugees in the United States

Activity 1. Welfare Assistance and Services

	1974	1975	1976	Increase or Decrease
I. Florida.....	$45,719,291	$38,000,000	$20,400,000	-$17,600,000
II. Other States.....	52,357,751	36,600,000	11,400,000	-25,200,000
Total obligations...	98,077,042	74,600,000	31,800,000	-42,800,000

A policy of providing 100 percent Federal funds for welfare assistance to eligible needy Cuban refugees was established at the time that the Cuban Refugee Program was initiated in February 1961. Under this policy State/local welfare and health agencies have been offered 100 percent reimbursement for financial assistance, essential medical care, and certain other related welfare services provided eligible Cuban refugees; such assistance has been granted through regular Federal, State, and local welfare administration channels and, in general, has been based on need standards applicable in regular U.S. programs in the State where the refugee resides.

In early 1972 the Department of HEW developed a 5-year plan to accomplish a year-to-year phasedown in the Cuban Refugee Program with complete termination of the program projected by the end of fiscal year 1977. Since most of the program's funds were utilized for reimbursements to the States for financial and medical assistance to needy Cuban refugees, the major aspect of the phaseout plan related to these costs.

The phaseout plan was premised on a number of factors, including: (1) a recommendation from the House-Senate conferees in connection with the 1972 appropriation that "the Executive Branch exert every effort in bringing about the termination of this program as soon as reasonably possible"; (2) the realization that the substantial decrease in airlift flights from Cuba that had begun in August 1971 would continue -- there were only 76 flights between the end of 1971 and April 1973 when the airlift was finally ended; (3) the expectation that new legislation in the welfare field would be enacted which would reduce both caseloads and costs in this program without substantially increasing State/local costs -- the enactment of the Supplemental Security Income program for the aged and disabled, which became operative January 1, 1974, accomplished this to a considerable degree; and (4) the fact that as time has passed the vast majority of refugees have entered into the mainstream of American life as self-supporting, tax-paying members of the communities in which they live.

The above factors have contributed considerably to reducing the costs of the program since 1973. The Department believes, however, that substantial reductions, which would not be achieved under present policies, are essential and appropriate during the next 2 years as steps toward the complete termination of the program -- which was set up on an emergency basis 14 years ago -- at the end of fiscal year 1977. Therefore the 1976 budget proposes initiating, on July 1, 1975, the phasedown in welfare reimbursements to the States under the same policy that would have become operative July 1, 1973, if Congressional approval had been received at that time.

This phasedown plan, in general, would limit reimbursements to the States for welfare assistance under the Cuban Refugee Program to those needy refugees who have been in the United States less than 5 years; the regular welfare programs would be utilized for refugees in the U.S. over 5 years. There is a modification in this general policy to recognize the unique situation in Florida where about one-half of the refugees in the United States reside. This modification will enable the State of Florida to continue to be reimbursed 100 percent from the Cuban Refugee Program for financial and medical assistance required by those needy refugees not eligible for assistance under the federally aided public assistance programs of Aid to Families with Dependent Children (AFDC) and Medicaid, or the Federal Supplemental Security Income (SSI) program -- regardless of their length of residency in this country. These would be the so-called "General Assistance" type of cases, which, in Florida only, it is planned to exempt from the 5-year policy. This exemption is designed to offset the impact which would otherwise fall on locally financed assistance programs in Florida -- primarily in Dade County where the overwhelming majority of the refugees in Florida live.

Reduction in Welfare Payments to States

Reductions in welfare caseloads and costs of the Cuban Refugee Program have been occurring since the beginning of fiscal year 1974. During the first half of that fiscal year it appears that there were some instances of phaseout activity by the States despite postponement of the phaseout plan following Congressional action. The caseload decreases during this period probably also reflect actions by the States to convert refugee cases to the regular programs in preparation for assumption of the Federal/State aged and disabled programs by SSI upon its commencement on January 1, 1974. Of course, some new cases continued to be added, but the above factors coupled with cessation of the airlift and other turnover as persons left the rolls for a variety of reasons, including employment, resulted in an overall downward trend. In December 1973, approximately 74,000 persons nationwide were receiving maintenance payments under this program, a drop of some 8,000 from the July 1973 caseload 6 months earlier.

The impact of the start-up of the SSI program and the continuing emphasis of the Cuban Refugee Program (CRP) on assuring maximum utilization of the SSI program in lieu of the CRP program for those aged and disabled Cuban refugees who qualified for SSI, led to substantial further reductions beginning January 1 with respect to cash assistance maintenance payments under this program. The latest data available from the States indicate the maintenance caseload as of December 1974 approximated 32,000 persons, a net drop of some 42,000 from the previous December, reflecting primarily the initial and continuing shift from this program to SSI.

Medical Care

It is emphasized that the shift of Cuban refugee welfare recipients to SSI affected only cash assistance payments for basic maintenance, not medical assistance, which continued to be provided through CRP funding. In the medical area, however, claims for funds have also shown a downward trend in States other than Florida although the program's funds have continued to be available for medical care for needy refugees, including those on SSI. It is believed that for those on SSI some of the States are having difficulty in identifying the refugees and have elected in some instances to forgo claims against this program and instead to utilize the regular Medicaid program to cover medical bills for Cuban recipients of SSI.

About 50 percent of total welfare funds expended by the program, nationwide, for 1975 will be for medical care. In States other than Florida it is estimated about 35 percent of the welfare costs will be for medical care compared to about 25 percent before SSI. In Florida, medical costs will represent about 65 percent of welfare payments during the current fiscal year; this is about twice the proportion of welfare funds devoted to medical care in Florida before SSI and before Florida was directed by a Federal court to utilize regular Medicaid type services for most of the Cuban refugees rather than medical service of the Cuban Refugee clinic formerly maintained by the program, which was closed in August 1974. However, the financial assistance caseload transferred to SSI in Florida -- some 30,000 persons -- was almost twice as large as that for all other States combined, reflecting the fact that a much higher percentage of aged recipients were on the Florida rolls, due in part to the program's resettlement efforts which emphasized employment goals and resulted in fewer resettlements outside of the Miami area of the aged.

Thus, in terms of persons eligible for medical care from the program in fiscal year 1975, in addition to the almost 32,000 receiving financial assistance, it is estimated between 45,000 or 50,000 others -- primarily those receiving SSI -- are eligible to have their medical care needs met through the program.

Estimates for medical care costs are based on dollar trends as reflected by State's claims for reimbursements from the program, since it is not possible to predict with specificity the frequency, type, extent, and cost for various units of medical care that needy refugees, comprised largely of the aged and disabled, may require or that various States with differing and changing standards of coverage, etc., may provide and claim as costs to this program. As mentioned, the trend in terms of fund claims from the States is down, resulting in an estimate of $13 million for States other than Florida for fiscal 1975 compared with $16.4 million for 1974, and a total estimate of $12 million for 1976, disregarding the phaseout. For Florida, the 1975 medical care estimate of $24.4 million is higher than the 1974 cost due primarily to the change-over from clinic services to Medicaid type services; the comparable estimate for 1976, however, disregarding the phaseout, is $22 million, based on estimates supplied by Florida.

Florida's administration of Cuban refugee medical assistance differs in several respects from other States. There were some 9,000 refugees not technically eligible for Medicaid who were not covered by the Federal court decision that resulted in medical services for most refugees (some 35,000) being provided under Medicaid-type arrangements rather than through the Miami Cuban Refugee Clinic established by the program in 1961. Upon closing the clinic, the non-institutional care for these 9,000 continued to be provided for through arrangements with the U.S. Public Health Service and Dade County Public Health, as Clinic services were, but on a basis comparable to Medicaid. Medical care for the other 35,000, as with refugee medical care in other States, is handled through the regular Medicaid agencies. Also, Florida's medical costs to the program are approved on the basis of services authorized, whereas other States' medical care claims are reimbursed on the basis of when medical bills are paid. Considerably more detail is also available on Florida's medical program than for other States. For example, in 1975 about 40 percent of medical care funds for Florida will be for inpatient hospitalization, 23 percent for physician visits, 18 percent for drugs, 12 percent for nursing homes, and 7 percent for all other.

1976 Estimates

The assumptions underlying the estimate of $31,800,000 for the welfare services activity in 1976 and the funding implications for States under the phaseout are the following:

Virtually all refugees dropped from the Cuban Refugee Program because of the 5-year residency policy are assumed to be eligible for other public welfare programs, either (1) the federally aided programs of AFDC and Medicaid or (2) the General Assistance programs which operate in most jurisdictions throughout the U.S. and which are funded entirely through State/local resources without Federal funding.

In estimating the funding effect on the Cuban Refugee Program, on other Federal welfare programs, and on State/local resources, it is necessary to construct costs on the basis of continuing the present Cuban program as it would be expected to operate without the phaseout and to superimpose the phaseout effect on the several funding sources.

Florida.-- For this State, as previously noted, those refugees considered General Assistance type cases would not be phased out during 1976 regardless of length of time in the U.S. under the exception provided in recognition of the great preponderance of refugees residing there -- over 50 percent of the entire group of Cuban refugees in the U.S. reside in South Florida. Thus, the cost to this State would be only the matching funds required for refugee recipients in the U.S. over 5 years eligible for AFDC and Medicaid. The total estimated welfare costs for Cuban refugees in Florida for 1976 with no phaseout would approximate $36 million. Of this amount, about $11.3 million would be for the General Assistance caseload, and thus unaffected by the phaseout. Of the remaining $24.7 million estimated for refugees eligible for welfare assistance and services, it is estimated about $9.1 million would be required from the Refugee Program, $9.0 million in Federal funds from the AFDC and Medicaid programs, and $6.6 million in State funds. These estimates assume that about 70 percent of the some 30,000 SSI recipients eligible for Medicaid and 65 percent of the 5,400 refugees receiving AFDC and eligible for Medicaid will be removed from the responsibility of the Cuban program because of 5 years' U.S. residency.

States Other than Florida. -- It is estimated a total of $34 million would be required from the Refugee Program in fiscal 1976 for "Other States" if there were no phaseout. About one-third of these funds, or $11.4 million, is estimated to be required for refugees who have not been in the country over 5 years. Of the other two-thirds, or $22.6 million, which is related to the group in the U.S. over 5 years, it is estimated that $13.6 million would be for refugees eligible for the regular federally aided programs, resulting in Federal costs to the AFDC and Medicaid programs of about $6.9 million and State/local costsof $6.7 million. The remaining funds of $9.0 million are estimated as the State/local costs for welfare provided to those refugees in the General Assistance category in the U.S. over 5 years, for whom Federal matching would not be available. Thus, the State/local costs of the phaseout in 1976, outside Florida, are estimated at $15.7 million.

Five States -- excluding Florida -- receive 90 percent of welfare funds provided "Other States" by the program, and the costs to these States in fiscal 1976 of the phaseout are estimated as follows:

California	$6.5 million
New York	$3.7 million
New Jersey	$2.8 million
Illinois	$0.6 million
Massachussetts	$0.5 million
Other States	$1.6 million
Total	$15.7 million

The above fiscal year 1976 cost data are summarized as follows for the welfare portion of the budget:

With or Without Phaseout		With Phaseout Costs to: (millions)		
	Total Costs of Welfare Assistance (millions)	Cuban Refugee Program	Other Federal Programs	State/Local Resources
Florida	$36.0	$20.4	$9.0	$6.6
Other States	34.0	11.4	6.9	15.7
Total	$70.0	$31.8	$15.9	$22.3

There are three major overall assumptions regarding the discussion above pertaining to the 1976 estimates: (1) The phaseout will be effected as of July 1, 1975; (2) very few additional Cuban refugees will enter the country; and (3) in addition to giving effect to the phaseout, the pattern of State claims for welfare reimbursements from the program, which show some downward trend, will not be reversed -- this includes the assumption that present negative economic conditions will not worsen but perhaps moderate in 1976.

The two tables which follow summarize the estimates for welfare assistance and services for Florida and for "Other States".

Selected Statistical and Cost Data Estimates
for Welfare Assistance and Services

FLORIDA

Fiscal Year 1974

Maintenance Payments (Data as shown differ from other years due to SSI start-up)

No. of persons assisted, July 1973.....39,553
No. of persons assisted, June 1974.....14,882
Average monthly payment(last 6 months, FY 1974).....$55
Total cost (maintenance assistance).....$21,406,900

Medical Assistance.....$18,515,291

Care of unaccompanied children..... $930,100

Administrative costs..... $4,867,000

Total obligations, fiscal year 1974.....$45,719,291

Fiscal Year 1975

Maintenance Payments

Average monthly number assisted.....14,000
Average monthly payment.....$50
No. of persons assisted, June 1975.....14,500
Total cost (maintenance assistance)..... $8,400,000

Medical Assistance.....$24,400,000

Care of unaccompanied children[1/]..... $850,000

Administrative costs..... $4,350,000

Total obligations, fiscal year 1975.....$38,000,000

Fiscal Year 1976

Maintenance Payments

Average monthly number assisted.....10,000
Average monthly payment.....$60
No. of persons assisted, June 1976.....9,200
Total cost (maintenance payments)..... $7,200,000

Medical Assistance..... $9,400,000

Care of unaccompanied children[1/]..... $800,000

Administrative costs..... $3,000,000

Total obligations, fiscal year 1976.....$20,400,000

1/ Unaccompanied Children statistics:

	1974	1975	1976
Average monthly number.....	248	215	190
Average monthly cost.....	$312	$329	$350

STATES OTHER THAN FLORIDA

Fiscal year 1974

Maintenance Payments (Data as shown differ from other years due to SSI start-up)

No. of persons assisted, July 1973	42,000
No. of persons assisted, June 1974	19,150
Average monthly payments (last 6 months, FY 1974)	$99
Total cost (maintenance assistance)	$32,700,000
Medical Assistance	$16,400,000
Administrative costs	$ 3,257,751
Total obligations, fiscal year 1974	$52,357,751

Fiscal year 1975

Maintenance Payments

Average monthly number assisted	16,750
Average monthly payment	$103
No. of persons assisted, June 1975	15,600
Total cost (maintenance assistance)	$20,600,000
Medical Assistance	$13,000,000
Administrative costs	$ 3,000,000
Total obligations, fiscal year 1975	$36,600,000

Fiscal Year 1976

Maintenance Payments

Average monthly number assisted	5,400
Average monthly payment	$109
No. of persons assisted, June 1976	4,900
Total cost (maintenance assistance)	$7,000,000
Medical assistance	$3,500,000
Administrative costs	900,000
Total obligations, fiscal year 1976	$11,400,000

Assistance to Refugees in the United States

Activity 2. Education

	1974	1975	1976	Increase or Decrease
a. Assistance to public schools in Dade County, Florida...	$12,399,987	$12,400,000	$6,000,000	-$6,400,000
b. Assistance to college students.....	1,664,243	850,000	750,000	-100,000
c. English, vocational, and professional training.....	362,096	450,000	450,000	---
Total.....	14,426,326	13,700,000	7,200,000	-6,500,000

Provision is made in the Cuban Refugee Program for meeting certain educational needs resulting from the presence of a large number of Cuban refugees in the United States as a result of the national policy granting asylum to those who have been able to leave Cuba since Castro came to power in 1959. These educational activities (1) assist in meeting part of the added cost related to refugee children in the Dade County (Florida) public school system where the number of such children represents a sizable portion of total enrollments; (2) provide loans to assist needy and eligible Cuban refugee students enrolled in institutions of higher learning in the United States; (3) provide English and vocational training to Cuban refugees in the Program's welfare caseload in Miami, Florida, in order that the refugee may acquire two basic requisites (English ability and job skill) for self-support; and (4) assist in the revalidation, through refresher training, of the credentials of Cuban refugee professionals in the United States.

Program decisions already in effect will result in a continued decline in the student loan program: Beginning with the 1973 Fall academic year the Program no longer accepted new borrowers in the student loan program. English and vocational training for which the program now pays is limited to only those persons receiving welfare in Miami who are referred by the welfare services staff in Florida as part of an employment plan, and to enable the licensing of qualified professionals.

Directly affected by phaseout decisions is the impact assistance to the Dade County public school system. The cost data shown in the above tables propose a phasedown amount of $6,000,000 for fiscal 1976 compared to the nonphaseout level of $12,400,000 approved for both 1974 and for 1975, as indicated by the Senate Appropriations Committee in acting on these budgets. The $6,000,000 for 1976 compares with an amount of $5,200,000 forecast for 1976 in the program's original phaseout plans presented to the Congress (and also communicated to Dade County) 2 years ago.

Program Data

Dade County School Assistance.- Funds for the public school system of Dade County from this program in recent years have been based on the number of children enrolled in the system who have not been in any U.S. school system more than 5 years; Dade County school officials estimated that there continues to be about 20,000 such children. In 1974 the Program's funding of $12.4 million included

about $9 million to cover slightly over 40 percent of the projected per-pupil operating cost of $1,103 for the 20,000 eligible children plus $3.4 million for special supplementary teaching requirements. Estimates for years subsequent to 1974 are not based on pupil counts (these have not yielded progressive annual reductions to an appreciable extent), but have been designed to place a ceiling on these costs and to effect successive annual reductions in 1976 and 1977 prior to the final close-out of this special aid for Dade County along with all other elements of the program by the end of fiscal year 1977.

For fiscal year 1975, the Office of Education, which represents the Program in this area, had not completed its negotiations with school officials in late March. Estimates received from the County in February 1975 indicated an operating cost of $1,309 per pupil for the system as a whole -- an increase of almost 20 percent over the 1974 cost. The 1975 funding level made available by the Congress for this purpose is $12.4 million -- compared with the request of $8.5 million presented to the Congress in the original 1975 budget. Since funds will continue to be earmarked for the special supplemental teaching costs directly related to special needs of Cuban refugee children -- $3.5 million -- the funding for operating costs would approximate $8.9 million, representing about 35 percent of the estimated cost of $1,309 per pupil for an estimated 19,200 children in average daily membership in 1975 who have not been in a U.S. school system for more than 5 years.

The total amount of $6 million estimated for Dade County schools for 1976 represents a reduction of slightly over 50 percent compared with 1975, but it is $800,000 higher than the amount originally contemplated for 1976 and communicated to the school system as part of the program's total phaseout plans.

Student Loans.- Approximately 1,800 Cuban refugee college students received loans in 1974, averaging about $900 per student. Based on experience through the first half of fiscal year 1975, about 900 refugee students, or 50 percent of the number of borrowers in 1974, are expected to receive loans from the program in 1975, with a further drop of about 150 in student borrowers projected for 1976. These reductions reflect the effect of the policy of not accepting new borrowers, completion of educational programs by the students, and greater utilization of other on-going student aid programs of the Office of Education.

Professional and English/Vocational Training.- Professional refresher courses continue to be an important program service in terms of helping Cuban professionals to attain licensing in this country in their professional fields. Over the years through such projects funded by this program, some 3,000 Cuban physicians have qualified to practice in this country and almost 2,000 refugees have qualified as teachers (of Spanish, primarily). Under a recently enacted Florida law it is now possible for additional refugees to prepare for and take examinations in a number of professions in their native language following 1 year of refresher training.

Of the $450,000 estimated for these types of training in both 1975 and 1976, about $300,000 of the funds are earmarked each year for professional retraining opportunities, including basic conversational English related to the particular profession; it is estimated these funds will enable as many as 400 Cuba-trained professionals to obtain Florida licenses in their professional fields in 1976. The other $150,000 is for vocational/English training for about 1,000 persons each year receiving welfare for whom there are employment plans.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL AND REHABILITATION SERVICE

Assistance to Refugees in the United States

Amounts Available for Obligation

	1976 Estimate	Interim Period
Appropriation	$40,300,000	$9,000,000
Total, obligations	40,300,000	9,000,000

Obligations by Activity

	1976 Estimate		Interim Period	
	Pos.	Amount	Pos.	Amount
1. Welfare assistance and services	---	$31,800,000	---	$7,600,000
2. Education	---	7,200,000	---	1,000,000
3. Other services	35	1,300,000	35	400,000
Total, obligations	35	40,300,000	35	9,000,000

Obligations by Object

	1976 Estimate	Interim Period
Total number of permanent positions	35	35
Average number of all employees	37	35
Personnel compensation: Permanent positions	$542,000	$155,000
Positions other than permanent	---	---
Other personnel compensation	13,000	5,000
Subtotal, personnel compensation	555,000	160,000
Personnel benefits	53,000	16,000
Benefits for former personnel	4,000	4,000
Travel and transportation of persons	10,000	2,500
Transportation of things	5,000	1,000
Rent, communications and utilities	276,000	164,000
Printing and reproduction	1,000	500
Other services	6,839,000	800,000
Supplies and materials	5,000	1,500
Equipment	2,000	500
Investments and loans	750,000	250,000
Grants, subsidies, and contributions	31,800,000	7,600,000
Total obligations by object	40,300,000	9,000,000

Justification

Assistance to Refugees in the United States

The funding level requested for the interim period July 1, 1976 through September 30, 1976, provides for continuing the program phasedown started in 1976, resulting in less than one-quarter of fiscal year 1976 requirements for the program during this period.

Mr. PASSMAN. I have some questions I would like to ask.
Mr. HOLMAN. Yes.

COMMENTS REGARDING MR. PALMATIER

Mr. PASSMAN. I read where Mr. Palmatier, who served with the Cuban refugee program since 1963, and was the director, died of a sudden heart attack in March.

Mr. HOLMAN. Yes, Mr. Chairman, that is correct.

Mr. PASSMAN. He was a very great American, a very patriotic American and a dedicated man. He was always a man who answered your questions forthrightly, and I am sure that I speak for every member of this committee when I say we regret to learn of his passing.

NUMBER OF CUBAN REFUGEES IN UNITED STATES

If I may ask this question to start with, what was the number of Cuban refugees brought into America under the Cuban refugee program?

Mr. HOLMAN. The total number of Cuban refugees who have come to the United States since Castro came to power in Cuba in 1959 is an estimated 650,000.

Mr. PASSMAN. 650,000.

Mr. HOLMAN. Yes.

MOST OF THE REFUGEES READILY ABSORBED

Mr. PASSMAN. I believe that they have been absorbed into our society very readily, and most of them today are working and contributing to the economy rather than taking from the economy, if you take it on the main balance.

Mr. HOLMAN. That is correct, Mr. Chairman. The vast majority are self-supporting.

Mr. PASSMAN. Putting it on the basis of the adult able-bodied people, what percentage would you think are actually employed?

Mr. HOLMAN. Of the adult able-bodied people, considering the present unemployment situation, so far as we know in general throughout the Nation unemployment among the Cuban refugees would be just about the same as unemployment generally.

CUBANS CONTRIBUTE TO ECONOMY

Mr. PASSMAN. Let's look at New Orleans, for instance, where you have a very large colony of Cuban refugees. They have their own stores, their own shopping centers, their own drugstores, and most of the adults are working and they are actually contributing to the economy, so it is a net gain rather than a net loss in instances of that type; is that correct?

Mr. HOLMAN. Yes, sir.

Mr. PASSMAN. Is that pretty generally the pattern throughout the country?

Mr. HOLMAN. That is the pattern throughout the country, Mr. Chairman.

Mr. PASSMAN. I make the statement because after all we are a nation of immigrants, and I do have a lot of compassion for these people.

VIETNAMESE REFUGEES

I feel the same way about the Vietnamese, and I think I am going to feel better when they finally pull my number, if I do everything within my power to help those people. I am going to try to locate a sizable number of them down in my own congressional district.

Right, wrong, or indifferent, I have supported our policy, and we know a great many who possibly have saved their lives by coming here. I am personally concerned. I have a lot of compassion for them and I feel the same way about them as I do about the Cuban refugees.

CUBAN REFUGEES ARE IN EVERY STATE

How many States have Cuban refugees?

Mr. HOLMAN. We have Cuban refugees in all 50 States, Mr. Chairman.

Mr. PASSMAN. They have spread out all over the Nation.

Mr. HOLMAN. That is correct.

CONCENTRATION OF CUBAN REFUGEES IN SOME AREAS

Mr. PASSMAN. You have certain areas where there is a concentration. I think New Orleans has the colony I referred to.

Do you have other locations where you have concentrations of Cuban refugees?

Mr. HOLMAN. Yes, sir, in additon to Florida and New Orleans, which you have mentioned, major concentrations are also located in New York City, Los Angeles, New Jersey, Chicago; lesser numbers in Boston, Texas, and other States and communities.

Mr. PASSMAN. Thank God for our great country, a country of wealth and compassion and charity. As you know, everybody wants to be an airplane pilot or a bookkeeper, you understand. They don't want to take the average job.

WILLINGNESS OF CUBANS TO TAKE JOBS

How about the Cuban refugees; are they very sensitive in that area or do they usually take jobs offered to them?

Mr. HOLMAN. We received, as you know, Mr. Chairman, many Cuban refugees who were professionals and highly qualified persons in Cuba, and they showed almost without exception a tremendous willingness to start again at the bottom of the occupational ladder.

Mr. PASSMAN. Without any great difficulty?

Mr. HOLMAN. Without any great difficulty.

Mr. PASSMAN. So they took the jobs that were available whether they fit their profession or not.

Mr. HOLMAN. That is correct.

Mr. PASSMAN. Is that pretty generally true with all of them?

Mr. HOLMAN. That is an outstanding characteristic of the Cuban refugee experience.

Mr. PASSMAN. That has been verified so you are making that as a statement of fact.

Mr. HOLMAN. That is a statement of fact.

Mr. PASSMAN. If he was a lawyer or a Ph. D. and he didn't have a job in that area then he would take whatever job was available if it was a dignified job.

Mr. HOLMAN. That is correct.

Mr. PASSMAN. Whether it was cleaning up streets or what-have-you.

Mr. HOLMAN. Yes.

Mr. PASSMAN. That is how we became great, too, in this country.

BUDGET FOR 1976 IS BASED ON PHASEOUT

Mr. PASSMAN. Is it not true that you base this large reduction in your program for fiscal year 1976 on the fact that you plan to try and institute the phaseout as of July 1, 1975?

Mr. HOLMAN. That is correct, Mr. Chairman.

BUDGET LEVEL WITHOUT PHASEOUT

Mr. PASSMAN. What would be the amount you would need if there were no phaseout instituted in fiscal year 1976?

Mr. HOLMAN. If there were no phaseout, we estimate our requirement would be $85 million for 1976 and $20 million for the interim period.

SOME PHASEDOWN ACTIVITY UNDERWAY

Mr. PASSMAN. Could you please tell the committee if there has been any sort of phaseout instituted by the Cuban refugee program as of this time?

Mr. HOLMAN. Not with regard to the welfare reimbursements to the States or in the aid to the Dade County public schools; we have followed the congressional intent and continued our present policies in those areas. We have, however, reduced our staff by more than 75 percent in the last few years. We have also limited the loan program for needy Cuban refugee college students to current borrowers since September 1973; Cuban refugees are now eligible to apply under all of the regular federally supported grant and loan programs for college students.

REASONS FOR RECENT REDUCTIONS IN PROGRAM COSTS

Mr. PASSMAN. Is most of the reduction that has been observed in this program over the last several years due to the fact that there has been a large decrease in the number of Cuban refugees coming into this country?

Mr. HOLMAN. That is exactly right, Mr. Chairman, plus the fact that since January 1974, when it began, the SSI program has assumed the responsibility for assistance to needy, aged, blind, and disabled refugees.

UNOBLIGATED BALANCES: 1974 AND 1975

Mr. PASSMAN. I note you had an unobligated balance of $14,157,000 in fiscal year 1974. Do you anticipate an unobligated balance for the end of fiscal year 1975?

Mr. HOLMAN. As you know, Mr. Chairman, our needs are determined by the claims for reimbursement we receive from the States, so at any point in time during the year, until the final bills are received from the States, it is always an estimate. At this point, we expect to be very close for fiscal year 1975, within 1 percent.

REACTIONS BY STATES TO PHASEOUT

Mr. PASSMAN. Could you tell the committee what the reaction has been from the various States concerning the planned phaseout of this program? I am particularly interested in Florida and Dade County within Florida.

Mr. HOLMAN. Florida and Dade County have consistently strongly opposed the phaseout proposal. Since the phaseout was first proposed, letters opposing the proposal have also been received from the States of California, Colorado, Louisiana, New Jersey, and Texas, and from the governments of Los Angeles County and Santa Clara County in California, and from New York City. Letters supporting the phaseout were received from the States of Nevada and Oregon.

RESPONSIBILITY FOR VIETNAM REFUGEES

Mr. PASSMAN. Have you had any indication that you might get involved in handling the refugee program for the South Vietnamese?

Mr. HOLMAN. We have been closely involved in the planning for Vietnamese refugees in the United States, but the location of operational responsibilities within HEW has not yet been assigned.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. Could you please tell the committee how much you plan to spend on administrative expenses in fiscal 1976 and how that compares to fiscal 1975?

Mr. HOLMAN. The 1976 estimate for Federal administrative expenses is $1,100,000 compared to $1,380,000 for fiscal year 1975.

NEW ARRIVALS AND PERCENT REQUIRING ASSISTANCE

Mr. PASSMAN. How many Cuban refugees would you estimate will enter the United States in fiscal years 1976 and 1975 and tell us what part of these would require U.S. Federal assistance?

Mr. HOLMAN. A total of approximately 8,000 Cuban refugees are expected to enter the United States in 1975, primarily through Spain; the estimate for 1976 would be about half this number. We estimate approximately 5,000 refugees will register with the program in 1975 and 2,500 in fiscal 1976. Since registration with the program remains a condition for receiving assistance under it, most of those who now register require some assistance but usually for very short periods.

TOTAL U.S. CUBAN REFUGEE POPULATION

Mr. PASSMAN. How many Cuban refugees do you presently have in the United States and how many of these have you registered under your program?

Mr. HOLMAN. An estimated 650,000 have reached the United States, of whom approximately 460,000 have registered with the Cuban refugee program.

REFUGEES REGISTERED WITH CUBAN REFUGEE PROGRAM: NUMBER RECEIVING WELFARE AND NUMBER SELF-SUPPORTING

Mr. PASSMAN. What percentage of the total number of refugees registered are now on the assistance rolls?

Mr. HOLMAN. Including the aged and disabled, who are now under the SSI program, the total would be approximately 75,000, Mr. Chairman, or about 16 percent of those registered.

Mr. PASSMAN. Please provide an update comparison, like that which appeared on page 403 of last year's hearings, showing the number of refugees who are self-supporting.

Mr. HOLMAN. Yes, sir.

[The information follows:]

CUBAN REFUGEE PROGRAM[1]

	Number of registrations	Number on welfare	Total number self-supporting	Percent of registration self-supporting
June of:				
1961	29,628	13,756	15,872	53.6
1962	122,212	55,084	47,128	46.1
1963	165,596	53,170	112,353	67.9
1964	172,572	32,110	140,462	81.4
1965	177,599	21,588	156,011	87.4
1966	207,147	19,882	187,265	90.4
1967	250,519	29,346	221,173	88.3
1968	290,353	39,370	250,983	86.4
1969	332,692	52,740	279,952	84.1
1970	379,229	66,178	313,051	82.5
1971	426,167	77,700	348,467	81.8
1972	445,150	90,747	354,403	79.6
1973	452,098	86,822	365,276	80.8
1974 (estimate)	456,699	[2] 76,000	380,699	83.4
1975 (estimate)	462,000	[2] 75,000	387,000	83.8

[1] Number of persons registered with the program, number receiving welfare assistance and services, and the number and percentage self-supporting in relation to the number of registrations.

[2] Includes estimated number of Cuban refugees receiving financial assistance under program of supplemental security income (SSI) which began Jan. 1, 1974.

FAVORABLE OBSERVATIONS CONCERNING CUBAN REFUGEES

Mr. PASSMAN. I have read many favorable articles about how Cuban refugees have made contributions to the United States. Is it not true these people are hard working and an asset to the United States?

Mr. HOLMAN. Yes, sir. That is very true. And when you consider that they arrived here deprived of all possessions and resources, many after several years of forced labor, the fact that the vast majority have become self-supporting is all the more impressive.

Mr. PASSMAN. Would you say that the Cuban refugees make good citizens and are generally law-abiding peple?

Mr. HOLMAN. Yes, that is correct, Mr. Chairman.

TOTAL COST OF PROGRAM, 1961–75

Mr. PASSMAN. What has been the total cost for the program since it started?

Mr. HOLMAN. From the inception of the program, in February 1961, through June 30, 1975, the estimated total cost is $1.069 billion.

TRAVEL COSTS

Mr. PASSMAN. Could you please tell the committee how much you plan to spend on travel in fiscal year 1976 and how this compares to the fiscal 1975 cost?

Mr. HOLMAN. Our travel estimate for fiscal 1976 is $10,000, Mr. Chairman, as compared with an estimate of $12,000 for fiscal 1975.

Mr. PASSMAN. Could you tell the committee what these travel costs include?

Mr. HOLMAN. These are employee travel costs that relate to various operations of the program, including supervisory and administrative travel between headquarters and the Miami center, consultation visits to State agencies, HEW regional offices, et cetera. Considerable travel is also performed by our Miami staff within Dade County related to maintenance of liaison with various educational institutions, other Federal agencies, and State and local agencies.

Mr. PASSMAN. Do you plan to increase your travel mileage in fiscal 1976, and if so, could you indicate what the total will be and how that compares with 1975?

Mr. HOLMAN. We anticipate a decrease in both travel mileage and funding requirements in 1976.

COMPARISON OF AVERAGE PAYMENTS IN FLORIDA WITH OTHER STATES

Mr. PASSMAN. On page 18 of your justification you indicate that the average monthly maintenance payments estimated for fiscal 1976 in Florida amount to about $60, and on page 19 you indicate that these average monthly payments amount to $109 in States other than Florida. Could you please tell the committee why there is such a large difference between Florida and other States for these payments?

Mr. HOLMES. Yes, sir. Under our policies, each State determines the payment levels based on the standards of need and the payments used in its regular welfare programs; these standards vary very considerably among the States. Florida's welfare payments are relatively low among the States and considerably lower than the States where most refugee assistance cases outside of Florida are located—California, New Jersey, and New York.

Mr. PASSMAN. Mr. Roush?

Mr. ROUSH. Thank you, Mr. Chairman.

TOTAL COST OF CUBAN REFUGEE PROGRAM

How much has been spent so far on the Cuban refugee program?

Mr. HOLMAN. From the beginning, sir, in February 1961 through June 30, 1975, the total amount would be a little over $1 billion.

1975 OBLIGATIONS

Mr. ROUSH. And at the present time is there money in the pipeline that has not been obligated, and, if so, how much?

Mr. HOLMAN. We expect to come very close for fiscal 1975 to the actual appropriation of $90 million; we think within 1 percent. We are dependent upon the states' submitting claims for reimbursement for welfare and medical assistance, so up until the moment that all those claims are in, at any point in the year, sir, it is always an estimate with regard to the end of the year. But as I say, we believe we will be very close this year.

EFFECT OF POSSIBLE CUT IN 1976 BUDGET

Mr. ROUSH. I don't mean to scare you by this question. It is just a hypothetical question, but what would happen if $10 million was trimmed from your request?

Mr. HOLMAN. If $10 million were trimmed from our request for 1976?

Mr. ROUSH. Yes.

Mr. HOLMAN. I feel certain, sir, that we would have to notify the States at some point in the year that we would not be able to continue the reimbursement for those cases which are included under the budget, or we would have to return for a supplemental request, sir.

REFUGEE CHILDREN IN DADE COUNTY SCHOOLS

Mr. ROUSH. How many children of Cuban refugees are in the Dade County schools?

Mr. HOLMAN. The schools have never done an exact count of the total number of Cuban children. We have been in past years providing assistance on the basis of those Cuban children who have been in a U.S. school system less than 5 years.

However, during the past 2 years a ceiling has been placed on the amount of assistance provided to the schools. The estimate is that the total number of Cuban children in the school system is probably about 45,000.

Mr. ROUSH. I find some inconsistency in what you just said and in your statement.

On page 6 you state: "During most of this 14-year period, the amounts provided were based on formulas related to the number of refugee pupils and the operating costs per pupil."

How can you determine how much Dade County will get, for example, if you don't know precisely how many Cuban children there are in Dade County?

Mr. HOLMAN. Let me clarify that, sir. The assistance was based on the number of Cuban children in a U.S. school system less than 5 years. That figure was provided to us by the Dade County public schools.

Mr. ROUSH. Then it is not based on the number of children who are in the schools now.

Mr. HOLMAN. That is correct, sir.

Mr. ROUSH. Why not?

Mr. HOLMAN. We found that the formula was leading to annual increases in the amount of assistance to the schools. Therefore in negotiation with the schools, we were able to reach an agreement setting a ceiling of $12.4 million on that assistance during the past 2 years.

Mr. ROUSH. What you are saying to me is that as a result of your action then you are really supplying less money than you believe you

would be supplying if you used a formula based upon the actual number of students in the schools; is that correct?

Mr. HOLMAN. That is correct, sir.

HIGHER 1976 REQUEST FOR DADE COUNTY SCHOOL ASSISTANCE THAN IN ORIGINAL PHASEOUT PLAN

Mr. ROUSH. Why is it this year you are asking for an amount which is over and above the amount stated in your phasedown plan for the schools?

For example, in your phasedown plan, 1976, $5.2 million. However, this year you are asking for $6 million.

Mr. HOLMAN. Yes, sir. When the original phasedown plan was proposed, we had in it a number of annual steps of reductions. It was not possible to initiate the phasedown plan for the schools during the past 2 years, as we had proposed, because the congressional intent of maintaining the schools at the $12.4 million level was made clear.

We have suggested therefore reducing it next year from $12.4 down to $6 million. The $5.2 million which we had originally proposed was based on two previous steps of reduction having occurred, and we felt that perhaps a reduction from $12.4 down to $5.2 would be even too stringent.

Mr. ROUSH. How much did you say you are proposing for next year, 1977?

Mr. HOLMAN. For 1976, sir, we are proposing $6 million for this.

1977 ESTIMATE FOR DADE COUNTY SCHOOLS

Mr. ROUSH. And do you have an estimate for 1977?

Mr. HOLMAN. Yes, sir. We are proposing $3 million for 1977.

Mr. ROUSH. Which again is over and above the $2.6 million that your phasedown plan called for.

Mr. HOLMAN. That is correct, sir.

Mr. ROUSH. Just one other question. On page 11 of your testimony, under "Other Services," you are requesting $1.3 million for 1976.

EXPLANATION OF NEED FOR FUNDS FOR "OTHER SERVICES"

I observe in your statement concerning other services you state:

> The final activity covers Federal direction and day-to-day operation of the program; reception, registration, and orientation services for refugees; and services provided by the voluntary resettlement agencies.

Yet I observe on page 1: "The termination of the Cuban refugee airlift in April 1973 and the expectation that very few new Cuban refugees will reach the United States during the next year."

Why then, if this definition of other services pertains, do you need $1.3 million, if you don't expect many refugees during this coming year?

LARGE REDUCTIONS HAVE OCCURRED IN "OTHER SERVICES"

Mr. HOLMAN. This category covers, of course, all the items which you have indicated from the statement. We are still receiving a few new Cuban refugees. There have been tremendous reductions, of course,

in the resettlement program. In fiscal year 1971, which was the last full year of the airlift, in which some 40,000 refugees came into Miami on the airlift and 30,000 were resettled, that was a massive resettlement program at that time at a cost of $5.5 million, so that there have been tremendous reductions in all these activities.

As I have also indicated, there have been tremendous reductions in our own staff, which a few years ago averaged 170 people and is now down to 39 people, so we have been reducing that substantially each year since interruptions first began to occur in the airlift and since the airlift terminated.

Mr. ROUSH. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Roush. Mr. Bevill?

Mr. BEVILL. Thank you.

CUBAN REFUGEE PROGRAM STARTED IN 1961

When was this agency created?

Mr. HOLMAN. The program was formally established by President Kennedy in February 1961, and that followed emergency efforts which were initiated by President Eisenhower in December 1960.

TOTAL NUMBER OF REFUGEES PROCESSED

Mr. BEVILL. And how many refugees have you processed or has your agency worked on since that time?

Mr. HOLMAN. Out of the total of an estimated 650,000 who came to this country, 460,000 registered with our Cuban Refugee Center in Miami.

Mr. BEVILL. 460,000. How many are you servicing now?

NUMBER CURRENTLY RECEIVING WELFARE ASSISTANCE

Mr. HOLMAN. The number, sir, who are receiving financial assistance with funds from the Cuban refugee program is approximately 30,750. In addition we reimburse the States for medical assistance to needy refugees whose financial assistance is provided by the SSI program, and that would cover an additional approximately 45,000 persons, so that the total would be approximately 75,000 who are receiving assistance which is funded by the refugee program.

ROLE OF STAFF IN PROVIDING ASSISTANCE

Mr. BEVILL. What role do you play on these 45,000 that you reimburse? In other words, we have people on the payroll there who are servicing those people down there in the State of Florida, for example, most of them.

Mr. HOLMAN. The welfare and medical assistance sir, is handled through the State welfare agencies.

Mr. BEVILL. Yes, and those caseworkers and all those people who work those cases, handle them and pay them, you reimburse the States for them?

Mr. HOLMAN. That is correct.

Mr. BEVILL. What do you do other than just write them a check? You have got your guidelines set down? What I am getting at is what

role do you play? I am a taxpayer sitting here asking you what am I getting for my money, paying you to send checks down to 45,000 people.

What is the use? What role do you play? What do you do?

They tell you that you owe them $50,000 and you send them $50,000?

Mr. HOLMAN. Yes, sir. The role we play in the central office, and we have a staff of four people here in Washington, is a role of policy direction and responding to policy questions which may arise.

In the staff in the Cuban Refugee Center in Miami we have refugees who come to our staff for orientation and referral to other agencies. We have some new refugees who come in for registration. We have an ongoing relationship with the State welfare agency, with the schools, with other community agencies and organizations to try to be as helpful as possible to refugees who confront problems.

Mr. BEVILL. Yes, I am sure all this is very good and very helpful, but now the policy questions, the orientation, the ongoing relationship, I mean when you really get right down to it, all of that is being handled by the local SSI or the local welfare department, isn't it, and you are just reimbursing them?

Is there any reason for us to have this duplication of work? Obviously there is a duplication. They are handling it. They are getting the checks to the people. They are deciding who is qualified. They are looking after them. You are just writing checks.

I am referring to that 45,000, which really is over half the people that you are dealing with now.

Let's go over the 30,750 whom you are handling.

What do you do for them?

Mr. HOLMAN. You are referring to the total of 75,000?

Mr. BEVILL. You have already explained the 45,000.

What I am interested in now is the 30, 750 whom you are helping.

What do you do for them?

Mr. HOLMAN. Basically what you have said is correct, sir. The major function that we perform with regard to the recipients is reimbursement to the States. We have no staff located anywhere except the small staff in Washington, D.C. and the greatly reduced staff in Miami, Fla., performing the functions that I have described.

Mr. BEVILL. Yes. In other words, you do the same thing for the 30,750 that you do for the 45,000. I thought you made a distinction there.

Mr. HOLMAN. No, sir, I was making a distinction between those recipients for whom this program bears the cost of both financial and medical assistance and those recipients for whom we bear the cost of medical assistance only.

Mr. BEVILL. What is that 30,750? What do you do for them?

Mr. HOLMAN. The 30,750 is the number nationally for whom we reimburse the states for both financial and medical assistance.

Mr. BEVILL. Financial and medical assistance, and that is SSI and medical? Is that what those two are?

Mr. HOLMAN. It is the medical for those persons who are on SSI, and it is both the financial and medical assistance for those persons who would be either AFDC type cases or general assistance type cases.

Mr. BEVILL. All of that is handled by the Department of Pensions?

Mr. HOLMAN. That is handled by the State welfare agencies we reimburse.

Mr. BEVILL. So those 30,000 are medical, and medical and financial assistance? Am I correct on that?

Mr. HOLMAN. That is correct, sir.

Mr. BEVILL. Then the 45,000 is policy questions, orientation, ongoing relationship?

Mr. HOLMAN. 45,000 is those for whom we reimburse the States for medical assistance only.

Mr. BEVILL. Reimburse only?

Mr. HOLMAN. Yes, sir. I think I should distinguish between Florida and the other States. Of the total number of 75,000 persons, there are 14,000 in Florida for whom we reimburse for both financial and medical assistance, and 30,000 for medical assistance only, and in all other States combined there are 16,750 for whom we reimburse for both maintenance and medical assistance, and 15,000 for whom we reimburse for medical assistance only.

These, of course, sir, are what we might call the residual cases, because as I have indicated before, the vast majority of the Cubans are self-supporting and have been for the last several years.

CONGRESSIONAL ACTION HAS PREVENTED INITIATION OF PHASEOUT

Mr. BEVILL. You said something in your statement that I didn't follow and I wish you would clarify it, to the effect that you had asked for funds, you were phasing this out, but the Congress insisted on reactivating it or something to that effect.

What did you mean by that?

Mr. HOLMAN. Yes, sir, let me amplify on that. We have proposed that reductions be effected in the program by the refugee program no longer making reimbursements to the States on behalf of the welfare and medical assistance for those refugee cases in which the head of the family had been in the United States for 5 years or more.

Mr. BEVILL. This was your recommendation?

Mr. HOLMAN. That was our recommendation.

Mr. BEVILL. But Congress didn't go along with you?

Mr. HOLMAN. That is correct.

Mr. BEVILL. We went on and insisted on continuing the program after you recommended phasing it out.

Mr. HOLMAN. That is correct, sir.

CUBAN REFUGEE SITUATION COMPARED WITH POSSIBLE VIETNAMESE PROGRAM

Mr. BEVILL. You have had a lot of experience and I am sure as the chairman has mentioned, you have done a great job, but is this in your judgment what we are going to expect from the Vietnam refugees, that the situation will be very similar; won't it?

There will be people coming in just like these 460,000 people from Cuba, with no clothes, no food, no medicine, nothing.

Mr. HOLMAN. Yes, sir.

Mr. BEVILL. And this is going to be the same thing. This has been going on for 14 years, and in the next bill I think we are going to be taking that up. Really this is a sample of what we can expect with the next one, isn't it?

Mr. HOLMAN. I will certainly have to defer to the witnesses who will be here on behalf of the Vietnamese refugee situation. I believe, however, sir, that that situation will be rather different from the Cuban situation in the sense that the Cuban refugees have actually come into the United States over a long period of time.

We had the period from the time that Castro came to power up until the time of the missile crisis in October 1962 in which at first there was a gradual buildup of Cubans coming primarily into the Miami area, and then the rate of flow increased a great deal. At that time they were coming on the commercial air flights, and these flights were suspended at the time of the missile crisis.

Then you had a period from October 1962 through November 1965, in which relatively few people came because there was no air transportation available.

Then on December 1, 1965, there was the beginning of the Cuban refugee airlift under the memorandum of understanding which had been negotiated between the United States and Cuba, which provided for an orderly flow of refugees at the rate of about 3,500 persons a month.

The airlift continued until August 1971, without interruptions, and then from that time, with various interruptions imposed by the Cuban Government, the airlift went on until it finally terminated in April 1973.

Of course in the Vietnamese situation you are going to have a very large number of people coming in in a very brief period of time, so the beginning of the situation is different.

Also there was the gradual buildup of the Cuban refugees in Miami, and in a number of instances they were there for several years before they could be resettled to opportunities in other places, whereas with the Vietnamese the resettlement will take place comparatively quickly from the reception centers, and you will not have a buildup in any particular community.

Mr. BEVILL. Thank you.

That is all, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Bevill.

NUMBER OF STAFF

Would you place in the record at this point the number of your staff in Washington at this point compared to the high point?

Mr. HOLMAN. Yes, sir.

Mr. PASSMAN. And also place in the record the total number of staff in Miami as compared to the peak period.

Mr. HOLMAN. We will be pleased to do that, sir.

[The information follows:]

COMPARISON OF NUMBER OF STAFF[1]

	High point	Present	Reduction	
			Number	Percent
Headquarters staff, Washington, D.C.	18	4	−14	−78
Central service staff, social and rehabilitation service, funded by Cuban refugee program on equivalency basis, Washington, D.C.	8	3	−5	−64
Staff located in Miami, Fla.	156	32	−124	−79
Total	182	39	−143	−79

[1] Based on authorized positions.

Note: Table compares the present number of staff of the Cuban refugee program with the highest number ever authorized (1970).

Mr. PASSMAN. Your main function is processing and keeping accurate records on these people; is that correct?

Mr. HOLMAN. That is correct, sir.

DISTRIBUTION OF FUNDS TO STATE AND LOCAL GOVERNMENTS

Mr. PASSMAN. What percentage of the total amount of money that we are providing for the Cuban refugees goes to reimbusing the States for their expenditures after you receive the bill? You don't pay them until they have certified as to the amount they have spent; is that correct?

Mr. HOLMAN. That is correct.

Mr. PASSMAN. What percentage of the total goes to the States?

Mr. HOLMAN. The percentage of our total funds going to the States, including the assistance to the Dade County schools——

Mr. PASSMAN. You don't have to elaborate a great deal. Just give us the percentage whether it is Dade County or Smithfield County. We want the total percentage.

Mr. HOLMAN. The figure is 97 percent.

ECONOMIC IMPACT OF CUBAN REFUGEES

Mr. PASSMAN. Do you feel that these people are reaching the point now where they are returning more to the economy than they are taking out of the economy on account of their employment?

Mr. HOLMAN. That has been an incontrovertible fact, sir, for the past several years.

Mr. PASSMAN. They are actually contributing more to the economy than they are taking from the economy.

Is your answer in the affirmative?

Mr. HOLMAN. It is, sir.

Mr. PASSMAN. Mr. Coughlin?

Mr. COUGHLIN. Thank you, Mr. Chairman.

NUMBER OF STAFF VERSUS PROGRAM EXPENDITURES

With a proposed cut in your program by one half, the reduction of your personnel is slight in comparison. Why is that?

Mr. HOLMAN. We began the major reductions in personnel at the time the interruptions began to occur in the airlift. It was clear at that point that there apparently was going to be a series of interruptions followed by the termination of the airift.

Mr. COUGHLIN. But I mean this coming year the percentage reduction in your staff doesn't correspond at all with the percentage reduction in your program.

Mr. HOLMAN. That is correct. We have reduced the staff from a high of over 170 persons down to 39 persons now. We were previously providing large-scale reception services, housing for the refugees who came on the airlift. We are now providing the minimal functions associated with the administration of the program, with the orientation of people who come to the refugee center in Miami, and those sorts of things.

What I am saying in summary is that we have already made the large cuts in staff.

We are proposing for fiscal year 1976 not so much a cut in the functions that we are currently performing as a reduction in the reimbursements to the States based on the phaseout proposal.

Mr. COUGHLIN. You still need as large a staff to perform that function.

Mr. HOLMAN. Yes, sir. We will still be performing the same functions in Miami. We will still be receiving the same number of bills from the States, so that the full functions performed will be the same as now.

Mr. COUGHLIN. Thank you, Mr. Chairman. Those are all the questions I have.

Mr. PASSMAN. Mr. Chappell, we are on the Cuban refugees.

CUBAN POPULATION: USE OF CENSUS DATA

Mr. CHAPPELL. Mr. Holman, what method are you using to determine the Cuban population in Florida; what census data?

Mr. HOLMAN. As I recall, sir, the 1970 census showed a Cuban population of——

Mr. CHAPPELL. I am asking you which one do you use. Aren't you using one far older than 1970?

Mr. HOLMAN. Sir, the place where the——

Mr. CHAPPELL. So we understand each other, answer that one yes or no, if you will, and then explain so we know where we are.

Aren't you using census data much older than 1970?

Mr. HOLMAN. In the phaseout proposal, sir, which provides for an exception in certain respects for Florida, it is the 1970 census data which would be used as the basis for providing that exception.

Mr. CHAPPELL. Are you saying, then, that you are not using 1970 but something older than 1970?

Mr. HOLMAN. No, sir, 1970.

Mr. CHAPPELL. You are using 1970 for the whole country in the determination of the Cuban population?

Let me explain what I am getting at, Mr. Holman.

Mr. HOLMAN. I would appreciate it, sir.

Mr. CHAPPELL. I am not trying to ask a trick question. You know many of our Federal programs are, of course, tied to the census, and many of these programs, and certainly some of them with reference

to school data in Florida, go back to about 1967 or 1968, while unquestionably the census data is available on an up-to-date, yearly basis in most of these areas.

What I am trying to get from you, so we might establish the actual population of the Cuban refugees in the country and in Florida, is which table or which census data you are using, if you know. You may not know.

Mr. HOLMAN. Sir, there are only two respects in which we might be considered to use census data in a way which would affect the program.

Mr. CHAPPELL. Is population not one of them?

Mr. HOLMAN. No, sir. The only way in which we have proposed using census data in an operational way is in order to provide the additional benefit to Florida under the phaseout proposal.

Mr. CHAPPELL. So you don't really have to take to the census data in order to determine this proposition.

Mr. HOLMAN. That is correct, sir.

DADE COUNTY SCHOOLS: BASIS FOR PAYMENT

Mr. CHAPPELL. Does that relate also to the school program and the funds to the school?

Mr. HOLMAN. No, sir. The schools in the past have provided us with the number of Cuban children who have been in a school system in the United States less than 5 years.

Mr. ROUSH. Will my colleague yield?

Mr. CHAPPELL. Yes, sir.

Mr. ROUSH. We touched on this a moment ago, but in response to a question from me, it was pointed out that the school population is not used. The present Cuban school population is not used in determining the amount that the school receives. I felt that that is what my colleague was driving at.

Mr. CHAPPELL. Yes, sir, you are exactly correct.

Mr. HOLMAN. That is correct, sir. The agreements with the schools were previously based upon a portion of the Cuban pupil enrollment. However, from our standpoint, we found that this was yielding annually increased amounts in the agreements. Therefore, in negotiation with the school system during the past 2 years, a ceiling of $12.4 million was set on the amount of assistance to the Dade County schools.

Mr. PASSMAN. Will my colleague yield?

Mr. CHAPPELL. Yes, sir.

Mr. PASSMAN. I am just a little confused.

What you are actually saying, here is a school with 400 Cuban children. It may be that 100 have been in the community over 5 years, so the State absorbs the cost of educating those, and you only pay the cost for those who have been in the school system under 5 years; is that correct?

Mr. HOLMAN. That has been the historic basis.

Mr. PASSMAN. Is that correct?

Mr. HOLMAN. That is correct.

Mr. PASSMAN. Thank you, Mr. Chappell.

Mr. CHAPPELL. Thank you.

Mr. KOCH. Will you yield?

Mr. CHAPPELL. Yes.

Mr. KOCH. I understood you to inform Mr. Roush that if the school population has been here less than 5 years, and it actually exceeds the fixed number you have agreed upon, then those students are not counted for the purpose of the census. You have agreed, that notwithstanding the size of that population, there is a maximum that will be contributed. Isn't that what you said earlier?

Mr. HOLMAN. Yes.

Mr. KOCH. So your response to the chairman is not correct. The actual people in the school system are not the determining factors. Your contribution is limited by the ultimate agreement that you have entered into.

Mr. HOLMAN. Yes, sir. I was trying to indicate that there has been a change over the years, and that during the past 2 years a ceiling has been placed on the amount of money for the school system.

Mr. KOCH. I understand that. I just wanted to clarify that response.

Mr. PASSMAN. If the gentleman will yield further?

You are not reimbursing the school system for any cost for school children who have been in the community over 5 years; is that correct?

Mr. HOLMAN. That is correct.

Mr. PASSMAN. That is all I was interested in.

Thank you.

Mr. CHAPPELL. I think the gentleman has still another point.

Mr. KOCH. Nor are you reimbursing for every child who fits into that category; isn't that correct?

Mr. HOLMAN. Sir, it can be couched in those terms or in terms of the percentage that we pay.

Mr. KOCH. That is not my question. Nor are you reimbursing for every child who fits that description. There is an artificial limit that you have imposed. I am not arguing with it but I would just like to get it on the record.

Mr. HOLMAN. We have imposed a ceiling on the amount.

Mr. KOCH. There are children then who might exceed that number for which the school system is not being reimbursed. That is the point I am making. New York wants to help Florida.

Mr. CHAPPELL. And Florida appreciates it.

Can you answer the question? The total of what we are saying is that you are not reimbursing Florida schools for any student who has been there over 5 years. That is the first step.

The second step is that you are not supporting all of those who have been there less than 5 years because you have a cap on it.

Isn't that correct?

Mr. HOLMAN. That is correct, sir.

Mr. CHAPPELL. And what is that cap?

Mr. HOLMAN. The cap is $12.4 million.

Mr. CHAPPELL. In dollars.

Now what is the actual population of those in the category of less than 5 years attendance, or less than 5 years in Florida?

Mr. HOLMAN. The estimate is 19,200 for whom we are paying 40 percent. The $12.4 million yields a figure of 40 percent as being that pro-

portion of the educational expenses for those children on behalf of which we are assisting the Dade County public schools.

Mr. CHAPPELL. And Florida is picking up the 60 percent?

Mr. HOLMAN. That is correct, sir.

Mr. CHAPPELL. By whose estimate do you have the population of the school system?

Mr. HOLMAN. That figure is from the Dade County public school system.

Mr. CHAPPELL. And what is that again?

Mr. HOLMAN. 19,200.

Mr. CHAPPELL. In students?

Mr. HOLMAN. Yes, sir.

Mr. CHAPPELL. That is only in the one school system.

Are there other school systems to which these funds are applicable?

Mr. HOLMAN. No, sir.

BUDGET LEVELS: 1974, 1975, AND 1976

Mr. CHAPPELL. In 1974 the appropriation was $129 million.

Was that full funding?

Mr. HOLMAN. Yes, sir.

Mr. CHAPPELL. In 1975 the funding was $90 million.

Was that full funding?

Mr. HOLMAN. Yes, sir, that is correct.

Mr. CHAPPELL. That was in keeping with what the Congress directed the agency to do; is that right?

Mr. HOLMAN. Yes, sir.

Mr. CHAPPELL. Now you are asking for some $40 million this time; is that right?

Mr. HOLMAN. That is correct.

COSTS TO FLORIDA AND OTHER STATES UNDER PHASEOUT PROPOSAL

Mr. CHAPPELL. Do you have any analysis of what this phasedown program is going to cost Florida?

Mr. HOLMAN. Yes. The State has provided us with an estimate of $6.6 million as being the cost to the State in welfare and medical assistance costs.

Mr. CHAPPELL. In order to fully fund this program, what would it take in the appropriation bill? What funds would be necessary, added to your request, to take care of that?

Mr. HOLMAN. We estimate that to continue the program on the present basis, without a phaseout, would require approximately $85 million for fiscal year 1976.

Mr. CHAPPELL. Do you have any other State that has the problem that Florida has on this?

Mr. HOLMAN. We have indicated on page 17 of the justifications the estimated impact on the major locations of refugees in the United States. The estimates indicate that the impact on California would be $6.5 million, New York $3.7 million, New Jersey $2.8 million, Illinois $600,000, Massachusetts $500,000, and all other States combined $1.6 million.

Mr. CHAPPELL. $15.7 million. Excuse me, that is all other States. Your total is $15.7 million; is that right?

Mr. HOLMAN. Yes, sir. You need to add to that the $6.6 million for Florida.

Mr. CHAPPELL. What you are saying is, to fully fund this program you need $61.7 million; is that correct?

ASSISTANCE FOR PHASED-OUT REFUGEES INVOLVES OTHER FEDERAL FUNDS

Mr. HOLMAN. No, sir. The total amount that we would need to fully fund it is greater than that, because the impact on the States, which these figures indicate, is lessened by the fact that for those refugees who would be phased out of our program and are eligible for the regular AFDC and medicaid programs, there is a substantial element of Federal funds under the regular programs. So that when you take that into consideration, if those refugees are left under the present arrangement without a phaseout in the refugee program, the total cost for the refugee program for fiscal year 1976 would actually amount to $85 million.

Mr. CHAPPELL. The impact figures which you show on page 7 are only educational or for all phases of the program?

EXPLANATION OF FUNDS: EDUCATION AND WELFARE

Mr. HOLMAN. Only welfare, sir. They do not include the educational impact.

Mr. CHAPPELL. What you are saying is that you take those figures which are welfare, and which provide some 90 percent of the welfare funds for those recipients, with the State picking up 10 percent and you would have to add to it the educational funds.

How much are they? Is that the way you arrive at your $85 million?

Mr. HOLMAN. The additional educational funds, sir, to maintain assistance to the Dade County schools at the present level would be $6.4 million. But I would like to call your attention to the table which follows on the same page, page 17 of the justifications, which sorts out the amount that under the phaseout would be reimbursed from federal funds under other programs of $15.9 million. So that if you consider not having a phaseout of the refugee program, just on the welfare side, sir, you have to take into account the $31.8 million which we would be expending under the phaseout, the $15.9 million that would otherwise be provided by other Federal programs, plus the $22.3 million that would be the impact of the phaseout on State and local welfare and medical assistance resources.

Mr. CHAPPELL. You are coming up then with a figure of $70 million?

Mr. HOLMAN. You come up with a figure of $70 million on the welfare side, and then if you include the additional funds for the schools, you add an additional $6.4 million.

Mr. CHAPPELL. But don't you have that in this table here on page 17 already in the $22.3 million figure?

Mr. HOLMAN. No, sir. Those figures deal only with the welfare and medical assistance aspect and not the educational aspect.

Mr. CHAPPELL. For full funding we are talking about $85 million; is that correct?

Mr. HOLMAN. Yes, sir.

Mr. CHAPPELL. However it is broken down.

Mr. HOLMAN. Yes, sir.

TOTAL CUBAN POPULATION

Mr. CHAPPELL. What is the Cuban population in total? I guess that question has already been asked.

What is the total Cuban refugee population at this time?

Mr. HOLMAN. The estimate is that a total of approximately 650,000 Cuban refugees have come to the United States since Castro came to power.

Mr. CHAPPELL. And Florida has roughly half of those, doesn't it?

Mr. HOLMAN. That is correct.

Mr. CHAPPELL. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you. The next two questions are very, very important. I hope you can give the answers quickly and accurately.

AVERAGE COSTS RELATED TO CUBAN REFUGEES

You have had a Cuban refugee program in the United States since 1961; is that correct?

Mr. HOLMAN. Yes, sir, since 1961.

Mr. PASSMAN. Could you place in the record the annual cost per refugee from 1970?

Mr. HOLMAN. We will be pleased to provide that.

Mr. PASSMAN. This is very important to get down.

What is the annual cost per refugee, say for 1974, if that is the last year on which you have the complete facts.

Mr. HOLMAN. The annual per capita cost based on the number of refugees registered was $251.

Mr. PASSMAN. $251 per year per refugee. That was the amount of money that was provided by Federal and State governments per refugee.

Mr. HOLMAN. That is the cost for the Cuban refugee program.

Mr. PASSMAN. Are you sure that is an accurate figure? That includes medicine, education, food, everything that is provided? That is the total cost?

Mr. HOLMAN. Yes, sir, that is correct.

Mr. PASSMAN. $251 per year?

Mr. HOLMAN. That is correct.

Mr. PASSMAN. That is all inclusive.

Mr. HOLMAN. Yes, sir.

Mr. PASSMAN. You are positive.

Mr. HOLMAN. Yes.

CUBAN REFUGEE COSTS IN RELATION TO VIETNAMESE SITUATION

Mr. PASSMAN. Do you know why it would cost any more to provide the same benefits for a refugee from some other country than Cuba? Would you agree that this would be a pretty good formula by which we could estimate the cost of refugees who may be coming from other lands?

Mr. HOLMAN. The annual cost which I have provided you, Mr. Chairman, is the per capita annual——

Mr. PASSMAN. You didn't answer my question.

Do you figure if you had refugees coming from other countries that this would be a good formula on which to base the cost of other refugees?

Mr. HOLMAN. No, sir, I do not.

Mr. PASSMAN. Do you think it would cost more to provide the same services for a refugee from some other country than it would from Cuba?

Mr. HOLMAN. The question relates to at what point in time and how much time has passed since the refugees came.

Mr. PASSMAN. I am talking about per year. We don't know how long it will be for other refugees we bring from other countries.

Mr. HOLMAN. If you speak about the long-term effects of other refugees, I believe that they would follow the same pattern.

Mr. PASSMAN. Go ahead.

Mr. HOLMAN. I believe that they would follow the same pattern as the Cubans, and after a period of adjustment become self-supporting and contributing residents of the United States.

Mr. PASSMAN. You said the average is $251 per year.

Mr. HOLMAN. Yes, sir.

Mr. PASSMAN. If you have had a refugee whom you have maintained for 5 years, would it be fair to say then that you could multiply that by five? It is very important that we get this information accurately, because this is the only formula I know of that we can go by when we start figuring the cost of refugees from other countries.

COST DATA ARE ON PER CAPITA BASIS

Mr. HOLMAN. The cost which I gave you was a per capita cost on a 1-year basis. The cost per refugee throughout the life of the program has been approximately $2,000.

Mr. PASSMAN. Wait a minute. I want to keep it on an annual basis because we fund programs on an annual basis, but the original response to my question, is it still good, that it costs $251 per year per refugee to maintain them on the basis that we are presently maintaining them?

Mr. HOLMAN. That is correct.

Mr. PASSMAN. That is a good answer and an accurate answer; is that correct?

Mr. HOLMAN. That is correct, sir.

Mr. PASSMAN. Mr. Koch?

Mr. KOCH. Thank you, Mr. Chairman.

You are not suggesting that in the first year of the Cuban airlift when the refugees came here that it cost $250 to maintain a person for that year, are you?

Mr. HOLMAN. No, sir.

Mr. KOCH. That is the impression you are giving.

Can you give us the first year cost of maintaining a Cuban refugee?

Mr. HOLMAN. Yes, sir. The figure in the first year, which was 1961, was $332.

Mr. KOCH. Per person?

Mr. HOLMAN. That is correct.

Mr. KOCH. I find that a rather small figure. It is hard for me to believe that you could——

Mr. OBEY. Would the gentleman yield on that point?

Mr. KOCH. Yes.

Mr. OBEY. Could you tell us what that figure would be adjusted for inflation?

Mr. HOLMAN. In 1967 dollars, based on that being the basis of the consumer price index, that figure would have been $371 in 1967 dollars. It would be considerably higher now of course, sir.

Mr. OBEY. I would like to see that supplied for the record.

[The information follows:]

1961 COST IN CURRENT DOLLARS

The 1961 per capita cost of $332 in current dollars (March 1975) is $585.

EXPLANATION OF DATA BASE RE AVERAGE COSTS

Mr. HOLMAN. Yes, sir. I should make clear that this figure is a per capita cost figure based on the number of registrations with the Cuban refugee program. It is not the cost of welfare or medical assistance or resettlement or other services to a particular refugee in need of those particular services.

Mr. PASSMAN. Will the gentleman yield?

Mr. KOCH. Of course, to my chairman.

Mr. PASSMAN. I asked you specifically to make it all inclusive. I said this is a most important question that I would ask you during the hearings, because we may be considering other refugee programs before the day is over. We would like to get some idea as to what it costs per refugee, Cuban refugees all-inclusive.

You will remember I said all inclusive. I am talking about clothing, medicine, schooling, food, all the component parts.

Let me ask the question again, and be sure that you understand the question.

AVERAGE COST: DATA TO BE ON BASIS OF PER PERSON AIDED

Let's take the last full year. What I want to know is the total cost all inclusive to maintain one Cuban refugee for 12 months. That is clothing, food, medicine, education, and everything else that goes towards maintaining this individual and keeping life in his body.

Could you give me the answer?

Mr. FORBUSH. Mr. Chairman, one problem is that we are dividing the total number registered into the total cost of the program.

Mr. KOCH. That is not what we want. What we want is your actual cost, including State and Federal expeditures, for those people actually receiving assistance, not for those who came here and are included in the number of Cuban refugees but who did not receive assistance.

While the chairman asked for last year, I am more interested in your first year.

Mr. PASSMAN. If the gentleman will yield further, we may be considering aid for additional refugees at an early date. We have to have some formula to move on. You just can't pull a figure out of the air. You people come before this committee. You need a certain amount of money for a certain number of refugees for a certain length of time. It looks like by division you would be able to tell the committee what it is costing per refugee per year, regardless of the number. All you

have to do is take the number of refugees whom you are maintaining on a full-time basis, and just divide it by the funds needed.

Can't you give us that information?

I don't know how you would ever arrive at your need.

Mr. KOCH. Mr. Chairman, not number of refugees but number of refugees receiving assistance is totally different.

Mr. PASSMAN. I would assume the gentleman understood I was not talking about refugees who were not receiving assistance.

Mr. KOCH. They were doing that.

Mr. PASSMAN. Don't do that. Somewhere, gentlemen, you ought to be able to tell us what it costs to maintain a Cuban refugee for 1 year.

Would you do a little research on that and I am going to yield back to the gentleman because we don't want any inaccuracies in this because we may mark up some subsequent bill based upon your answer. That is why it is very important.

Thank you, Mr. Koch.

Will you proceed now?

Mr. KOCH. If you will forgive me, I am going to be somewhat critical. I support your program, but I don't think you have the facts. It is very distressing to me as a member of this committee that the facts are not available when we are marking up or will be marking up a bill of this size. I want to make it clear I am for this program. I am for the program that will assist the Vietnamese and Cambodian refugees, but I think that what we need from you—because you have the alleged expertise, having dealt with comparable refugees—are figures so that we can make intelligent judgments. That is just a statement. It doesn't require a response unless you feel compelled to reply.

COST PER PERSON DEPENDS ON STATE OF RESIDENCE

Mr. HOLMAN. I would like to respond if I may, sir. I would like to respond to the specific content of your question, which related to those refugees who are receiving welfare and medical assistance, and to say that the standards of need and the payment standards that are used are based on the State standards and vary from State to State, so that for a refugee on assistance in New York you have a particular amount of money being paid, for one in Florida or one in California you have a different amount. Those amounts are based on the location of the refugee.

Mr. KOCH. Couldn't you give us then the two extremes, Florida with its largest number of refugees, half the number of refugees as I understand it, and New York with its probably larger scale of payments because of the cost of living.

If you gave us those two we would have probably those two extremes Is that possible?

Mr. HOLMAN. We can provide it for the record, sir, and would be pleased to.

[The information follows:]

VARIATIONS IN STATE WELFARE PAYMENTS

Based on the latest information available, the largest amounts currently paid for basic needs under the AFDC program for two family sizes in Florida and New York and in the highest and lowest States are as follows:

State	2-recipient family	4-recipient family
Wisconsin	$292	$403
New York	268	392
Florida	111	170
Mississippi	30	60

Mr. PASSMAN. If the gentleman will yield, we want it for the record but we want it today. We are going to need this information.

Mr. KOCH. Just look at your records. You will find it.

CUBAN REFUGEE EXPERIENCE REFLECTED IN VIETNAMESE ESTIMATES

Mr. FORBUSH. I would like to make one point, too. The material you will be reviewing for the cost of the Vietnam program does have specific assumptions and unit costs stated, and we have tried to use recent experience in the Cuban refugee program as a guide.

Mr. KOCH. You are not indicating you can't provide the information.

Mr. FORBUSH. Oh, no.

Mr. PASSMAN. That is all we want. We are not asking you to comment on the Vietnamese refugee program at this time. We are examining on the Cuban refugee program, but we want your formula. We will decide what refugee cuts we will take up next if it is all right.

AMERICAN BORN CHILDREN ARE NOT REFUGEES

Mr. KOCH. Can you tell me whether you include as refugees American-born children of Cuban parents?

Mr. HOLMAN. No, sir, they are not included. The authorizing legislation is limited to aliens.

NATURALIZED CUBANS

Mr. KOCH. Of the approximately 650,000 Cubans who have come into this country, how many of them have become citizens; would you know?

Mr. HOLMAN. Yes, slightly over 100,000.

Mr. KOCH. Do you know why the balance have not in substantial numbers become citizens?

Mr. HOLMAN. That would be difficult to generalize about, sir. Many have become permanent residents, and in fact, of those who have not become citizens, about 70 percent have become permanent residents and can be considered on their way toward citizenship.

TAXES PAID BY CUBAN REFUGEES

Mr. KOCH. Would you have available for the record the taxes paid paid each year in this 14-year program by these refugees? It is my impression that the Cuban refugees, as well as Czech, Hungarian, and other refugees who have come to this country have given far more than they have taken. There is nothing wrong with their receiving the benefits of this country in a compassionate response but it is my impression that ultimately they give far more in return.

It would be helpful to demonstrate that if figures were available to indicate the taxes paid over the last 14 years by this group of 650,000 Cubans.

Do you think that is available?

Mr. HOLMAN. We will be pleased to check with the Internal Revenue Service to see if that figure is available.

[The information follows:]

TAXES PAID BY CUBAN REFUGEES

The Internal Revenue Service advises that statistics on taxes paid by nationality groups are not available. However, IRS has previously estimated that personal income taxes paid by Cuban refugees for calendar year 1970 totaled $110 million based on statistical information from other sources on the income of Cubans in the United States. This figure does not take into account other Federal taxes paid or generated by Cuban refugees—such as corporate taxes paid by refugee-owned businesses—or State or local taxes. The personal income tax alone, however, exceeded the cost of the Cuban refugee program for calendar year 1970, which was $99.8 million.

ENTRY OF CUBANS INTO UNITED STATES—CURRENT SITUATION

Mr. KOCH. Are Cubans still emigrating, and if they are, are they still admitted to this country in the same status as a refugee?

Mr. HOLMAN. Cubans are leaving Cuba through third countries in rather small numbers, primarily to Spain, and there is a continuing small flow from Spain to the United States. Some are entering as parolees and some are entering as permanent residents.

Mr. KOCH. And there is no direct exodus from Cuba to the United States?

Mr. HOLMAN. That is correct. Since the Cuban airlift ended there has been no direct transportation available.

Mr. KOCH. I have no other questions. Thank you.

Mr. CHAPPELL. Mr. Chairman, would you yield for a couple of questions?

Mr. KOCH. Certainly.

NUMBER OF REFUGEES CURRENTLY RECEIVING ASSISTANCE

Mr. CHAPPELL. Trying to get right down to this particular problem, Mr. Holman, how many refugees do you have who are receiving aid as of today?

Mr. HOLMAN. Our figures for the present time for the Nation as a whole indicate approximately 75,000 refugees for whom this program is reimbursing the States for either both financial and medical assistance or medical assistance only.

Mr. CHAPPELL. I am talking now about the total number of refugees who are now receiving assistance. I don't care what kind it is, but of all kinds.

Mr. HOLMAN. That would be 75,000, sir.

Mr. CHAPPELL. Is that the figure which would also be applicable for the appropriations of fiscal year 1975?

Mr. HOLMAN. I am referring to the present figure, sir.

Mr. CHAPPELL. That is the current year then; is that right?

Mr. HOLMAN. Yes, sir.

FUNDS EXPENDED BY CUBAN REFUGEE PROGRAM PER WELFARE RECIPIENT

Mr. CHAPPELL. If you divide the 75,000 into the $90 million, aren't you talking about $1,000 per recipient or a little over?

Mr. HOLMAN. Yes, sir; that is correct.

Mr. CHAPPELL. Would that not be a fair way to judge what it is going to cost us at the present level of assistance to take care of the refugees during the next fiscal year?

Mr. HOLMAN. Yes, sir; it would.

Mr. CHAPPELL. As a matter of fact it is highly possible you are going to have more in this fiscal year than last; is that correct?

Mr. HOLMAN. Sir, we would anticipate a slight reduction in fiscal year 1976.

Mr. CHAPPELL. Can you give us what figure you anticipate?

Mr. HOLMAN. Yes, sir, 74,000.

Mr. CHAPPELL. Now we are talking about 74,000, and if we retain the present level, we are still talking about 74,000 times whatever the factor is after you divide 75,000 into $90 million, right?

Mr. HOLMAN. That is correct, sir.

Mr. CHAPPELL. If your criteria for assistance remain the same all you are saying, all you are recommending, is that you simply provide less money to do the same job you have done before. This means that somehow you must be attempting to lower the value of a particular service which is rendered to these people; is that correct?

Mr. HOLMAN. You are referring to our phaseout proposal, sir?

Mr. CHAPPELL. Yes, sir.

Mr. HOLMAN. Yes, sir; that is correct.

CONTINUING DIMINISHMENT OF PROGRAM IF NO PHASEOUT

Mr. CHAPPELL. If you set your criteria, over the period of time, for example on the education program, where you provide assistance only for those who are in the school system less than 5 years, that will eventually phase itself out anyway, won't it?

Mr. HOLMAN. Yes, sir; it should.

Mr. CHAPPELL. It would essentially phase itself out in 5 years under all circumstances, given no great influx of new people; is that right?

Mr. HOLMAN. That is correct.

Mr. CHAPPELL. Wouldn't this primarily be true of the rest of the people also, the rest of your programs also as well as education?

Mr. HOLMAN. I believe, sir, over a period of several years, as you are suggesting, the other parts of the program would also continue to diminish.

Mr. CHAPPELL. What then is your reasoning for lessening the benefits to these people who have needed the same kind of care based upon the same kind of situation for the next year?

Mr. HOLMAN. Actually, sir, we are really——

PHASEOUT REPRESENTS SHIFT FROM FEDERAL TO STATE FUNDING

Mr. CHAPPELL. In essence you are saying get out of the program, aren't you?

Mr. HOLMAN. Yes, sir; we are really proposing to reduce the benefits to the States, which would pick up the cost.

Mr. KOCH. You are really moving the burden to the States by lessening the burden to the Federal Government. Isn't that correct?

Mr. HOLMAN. That is what we are doing, yes, sir.

Mr. PASSMAN. I will yield to Mr. Early.

Mr. EARLY. Mr. Holman, isn't that the whole thing? You don't have any phaseout at all. You just have a lateral transfer of the cost. As far as the cost is concerned, it goes to different taxpayers. You are requesting a reduction in your budget of $49.7 million, and that is really moving it laterally in the case referred to by Mr. Chappell for the welfare and medical assistance to $22.3 million.

Mr. HOLMAN. Yes, sir. We are suggesting by that proposal that the refugees who have been in the United States over 5 years be included under the regular assistance programs, which requires a picking up of some funds by States and/or localities.

Mr. EARLY. Therefore this committee has no reduction. It is a reduction to the Cuban refugee program and an increase to the six specific States, $6.6 million, and so forth. As far as the program is concerned, it is still costing the United States a large sum. I will bet we are still at the highest figure you ever had, 100 and some odd million dollars.

Mr. HOLMAN. Our overall figure has been decreasing. But you are correct in that under the phaseout proposal approximately the same amount of public funds would be required. We are suggesting that the sources from which those funds are derived be changed, as I have indicated, by including the over-5-years refugees in the regular programs.

Mr. EARLY. The phasedown to phaseout really has no net saving. It is just a lateral moving of the expense from the Federal Government to specific States.

Mr. HOLMAN. Yes, sir, that is correct.

RECENT ANNUAL TRENDS IN NUMBER ASSISTED

Mr. EARLY. Would you tell the committee of the 75,000 eligible refugees, can you say in the last 3 years what the decrease in the number of eligible persons has been each year, the SSI, the blind, the aged? Can you tell how many Cuban refugees were eligible in 1973 under all programs, 1974 under all programs, 1975 under all programs?

Mr. HOLMAN. I have the figures of the number that were receiving assistance under the Cuban refugee program.

Mr. EARLY. Can you give us that, and then give us the figure as to how many shifted from the Cuban refugee to the SSI, and how many shifted from the Cuban refugee to the aged, and how many shifted to the blind?

Mr. HOLMAN. Yes. The high under the Cuban refugee program was in fiscal year 1972, when the number receiving assistance was 90,747. In the current year, speaking of financial assistance to needy persons, there are 30,750 refugees receiving assistance under the Cuban refugee program, and there are 45,000 receiving assistance under the SSI program for the needy, aged, blind, and disabled.

Mr. EARLY. So that the 90,000 eligible in 1972 has been reduced to 75,000. Aren't there other social programs they are eligible for? Could you tell us how many shifted to the blind and the aged?

Mr. HOLMAN. Those who are aged, blind, or disabled would all be included under SSI now.

Mr. EARLY. Did they go to any other alternatives other than SSI?

Mr. HOLMAN. No. These are the basic financial assistance programs. As I have indicated before in terms of medical assistance for needy persons, the refugee program is reimbursing for the full 75,000.

REDUCING THE WELFARE ROLLS

Mr. EARLY. In fact where we have very few new refugees, we are really doing a very poor job at getting these refugees off the social rolls.

Mr. HOLMAN. I think, sir, for those who are aged or disabled, these are persons who are dependent upon SSI because they did not have the chance to accumulate social security credits by working in this country, because they were not here in their younger years. That is why they are on the SSI program. We do not believe that those persons will leave the SSI program.

Mr. EARLY. No one ever wants to leave them.

Mr. HOLMAN. These are the aged or disabled persons.

ELIGIBILITY FOR ASSISTANCE NOT DIRECTLY AFFECTED BY PHASEOUT PLAN

Mr. EARLY. Your new proposal that after 5 years they will be ineligible for the Cuban refugee program, except in Florida, what is going to prevent the Cuban refugee in any other area other than Florida from going to Florida if they don't become eligible for SSI in New York or in Massachusetts?

Mr. HOLMAN. This would not apply to SSI.

Mr. EARLY. I am talking about the Cuban refugee reimbursement.

Mr. HOLMAN. In terms of the eligibility of the individual refugee for assistance, that would not change under the proposed phaseout. The refugee who is eligible today in New York or Illinois or Massachusetts or another State would continue to be eligible. The only change would be as we have described—the source of the funding for that assistance would be changed for the over 5-year-cases.

Mr. EARLY. On page 4 you say:

> Beginning July 1, 1975, this program would no longer reimburse States for refugee assistance cases in which the head of the family has been in the United States for 5 years or more.

If a Cuban refugee has been in Massachusetts for 6 years and as of July 1 is the head of the family will he be eligible?

Mr. HOLMAN. He will be eligible for assistance under the regular programs in Massachusetts.

Mr. EARLY. I am talking strictly about the Cuban refugee program.

Mr. HOLMAN. However, we would not be reimbursing the State for that particular case.

Mr. EARLY. Let's say he is not eligible under the Massachusetts statute for their social programs. What is to prevent him from then going to Florida, and still, because of that 5-year exemption, be eligible for the Cuban refugee program?

Mr. HOLMAN. He would be eligible in Massachusetts, sir, because in each State the same standards of need are applied as relate to other

residents of the State or community. The exemption which we have proposed for Florida is an exemption in the funding reimbursement to Florida in recognition of the concentration of refugees in Florida.

Mr. EARLY. That isn't the point. My State of Massachusetts is trying to get people off the social rolls. It accounts for one-half of our State budget. Welfare is one-half, 50 percent. This isn't going to take anyone off. You are suggesting that we are going to pick up an added expense in Massachusetts which is only $500,000 and Massachusetts is now in a drive to take people off the rolls.

If we are going to look at the refugee problem, not a problem, but cost, it is a cost under this program or a cost under that program. Your phasedown is no saving at all. It is a lateral movement of expense to the Government, whether it is the State or Federal Government.

Mr. HOLMAN. That is correct, sir. We have tried to lay out here what the estimated impact on the States is for the consideration of the committee.

Mr. EARLY. Thank you, Mr. Chairman, I have no further questions.

Mr. BEVILL. Mr. Chairman, could I ask a question at that point?

Mr. PASSMAN. Certainly.

PROPOSALS TO PHASEOUT PROGRAMS UNUSUAL

Mr. BEVILL. As I understand it, you are planning on phasing this agency out; is that correct?

Mr. HOLMAN. That is the proposal, sir.

Mr. BEVILL. And you have proposed it two or three times.

When is it supposed to be phased out?

Mr. HOLMAN. We are proposing to begin the phasedown July 1, 1975, with a projected final termination date for the entire program at the end of fiscal year 1977.

Mr. BEVILL. The gentleman ought to have a Congressional Medal of Honor. We have never had anybody come in here——

Mr. PASSMAN. And just say categorically that it is all over. You know what you are talking about too. School is going to be out then?

Mr. HOLMAN. Yes, sir.

Mr. BEVILL. I think it is significant this is the first agency that has ever come in here advocating phasing itself out. Very good.

Mr. PASSMAN. Mr. Long?

CRITERIA FOR ADMISSION OF CUBAN REFUGEES INTO THE UNITED STATES

Mr. LONG. Are the criteria by which people were and are admitted to the United States from Cuba based on whether they wanted to come, or because they were in physical danger?

Mr. HOLMAN. Sir, that determination was made by the Immigration and Naturalization Service.

Mr. LONG. Do you happen to know what those criteria were?

Mr. HOLMAN. I can state in general but not technical terms. I would have to defer to the Immigration Service. They were permitted to enter the United States as parolees, as refugees fleeing from fear or reality of persecution in their homeland.

Mr. LONG. You took their word that they would be in danger if they went back to Cuba, right?

Mr. HOLMAN. From the standpoint of the Department of Health, Education, and Welfare, our responsibilities for the refugee begin at the point after——

Mr. LONG. I am trying to get some idea, and I won't hold you to this, about the criteria for admitting them.

I admit that you do not set those criteria, but I am hoping you will give me some information on that.

Mr. HOLMAN. They were considered to be refugees from a Communist government in Cuba.

Mr. LONG. On their say so?

Mr. HOLMAN. Sir, I really would have to defer to the Immigration Service.

Mr. FORBUSH. When the Cuban airlift started, the criteria that Castro used for letting people out was a relationship with someone in this country, a family relationship, a son, parent or close relative on the established waiting list in Cuba, which then was drawn upon for the flights that came to Miami.

CONCERN REGARDING HOW MANY REFUGEES UNITED STATES CAN ABSORB

Mr. LONG. I want to support refugee programs. I think most right thinking Americans want to, but let's face it. We now have a world that is approaching 4 billion in population. About 3½ billion of those would probably like to come to the United States if they could, and we could be in the same predicament as India if we allowed this to happen. Somewhere you have to draw a line between generosity and some kind of prudence and good sense.

We do have Americans in this country with whom we are not dealing altogether generously, and if nothing else, we have an obligation to our own poor.

I am concerned that we draw the line at some point which does make some sense. What I would like to know is are we admitting people, through this program, who are in real danger or simply people who would just like to come to the United States?

VERY FEW CUBAN REFUGEES NOW ENTERING UNITED STATES

Mr. HOLMAN. With regard to the Cuban refugees, sir, very few are now entering the United States.

Mr. LONG. Very few what?

Mr. HOLMAN. Very few Cuban refugees, sir, are now entering the United States.

Mr. LONG. Currently?

Mr. HOLMAN. Yes, sir.

Mr. LONG. We have taken in how many all together?

Mr. HOLMAN. Approximately 650,000.

ILLEGAL ALIENS

Mr. LONG. We have I believe 6 million illegal aliens in this country right now, so we do have a problem. These illegal aliens are diluting all of our welfare facilities and making it difficult for us to treat them generously.

EXPERIENCE WITH CUBAN REFUGEES: GOOD RECORD

Can you tell me this: What is the experience with the Cubans who have come to this country so far as being on welfare and so on, throwing themselves on the doorstep of the public, compared with the native American population? Do they have a better or a worse record?

Mr. HOLMAN. The truly outstanding quality of the Cuban refugees, if you want to single out one quality, has been the determination to work, to be self-supporting.

Mr. LONG. I have heard good things about them but I wish you would document that. They have had a good record.

Mr. HOLMAN. They have an excellent record.

Mr. LONG. Could you document that as much as you can?

Mr. HOLMAN. I will be pleased to document it for the record.

Mr. LONG. Give us some comparison that would be meaningful on how they have done and what uses they have made of our faciilties compared with the native Americans. I think that would be very helpful for the record.

Mr. HOLMAN. I will be pleased to do that, Mr. Chairman.

[The information follows:]

CONTRIBUTIONS OF CUBAN REFUGEES

The following excerpts from the article "The Cuban Colony: A Ten Year Span" by Carlos J. Arboleya, published in July 1973, highlight some of the contributions of Cuban refugees. Mr. Arboleya, who arrived in the United States as a refugee is president of the Flagler Bank in Miami:

"A little over 10 years ago a unique and explosive immigration came about through the door of our southernmost State, Florida. Miami, to be more exact, became the target of refuge of what is today said to be 350,000 people. As this immigration began pouring into the Miami area, the city was experiencing, as were many others in the United States, a recession almost on the verge of a depression and the impact of the Cuban exiles, seeking freedom and democracy as they fled the Castro Communist regime, is often referred to today as a matter of shame-faced pride by the local business establishments, as they sit back and review the growth of the community.

"At first relegated to menial jobs, the Cuban colony claims today, among the many other accomplishments attained during this last decade, an annual gross income of over $1 billion. This does not mean by any chance that the total credit of Miami's growth can be attributed to the Cuban influx; but without any doubt, a very large percentage of the credit can be claimed by this industrious and hard working group of immigrants. . . .

"More than one-third, over 8,000, of the businesses in Miami are Cuban owned and operated. They range from million-dollar firms listed on the stock exchanges to one man or family operated businesses and, it is interesting to point out, that these, rather than take away jobs from local residents, the new immigrant owned and operated organizations have created and provided jobs for the native Miamian as well as for the Cubans, blacks, and other immigrants of our area.

"The building and real estate market is a booming one. Over 40 percent of all new construction in Miami is being done by, or for, Cubans. Ranging from the tallest building in our city to the remodeling and rebuilding of old neighborhoods and the initiatng of new ones. . . .

"Over 25 Cuban-operated private schools are now operating in the Miami area and we see that they are more and more receiving the accreditation necessary for the admittance of their pupils to our universities.

"The medical and hospital situation, rather than becoming a problem for the area, has actually been solved by the many doctors who resettled in the area. . . .

"Approximately 70 percent of the service stations in this area are owned or operated by Cubans. Eighty-five percent of the garment industry's factory operation is composed of Cuban labor. Hotels are almost entirely Cuban staffed and the construction workers percentage has reached almost 65 percent. . . .

"Dade County now has approximately 70 banks; of those, we have found that 5 have Cuban presidents and 13 have Cuban executive or senior vice presidents. Overall, Cubans occupy 57 vice presidential positions and over 150 other officer or managerial positions within the banks. This does not take into consideration the very high percentage of Cubans employed in various other positions within the industry. . . .

"Upon their arrival in the United States, we saw how many of these refugees settled in other States; now as the years pass, they are returning to the Miami area, not penniless, as they originally arrived in the United States, but with $10,000, $20,000 or more after 2 to 5 years of working two or more jobs, ready to resettle and establish themselves in business in Miami. . . .

"The tobacco industry is another of great importance in Miami. Over 19 cigar factories operate, employing approximately 300 workers.

"Spanish restaurants and night spots number in the hundreds with some of the most exquisite food being served at nationally recognized Spanish restaurants in Miami, with the gaiety of the Latins being reflected in the night life for the Cubans have brought a musical history and excitement that the city lacked.

"The fishing industry has also been heavily integrated by the Cubans. A large number of fishing vessels are owned and operated by them and provide a large amount of the seafood for the area as well as for export to other States.

"Miami's chief of police, as well as Dade County's sheriff, have both repeatedly reported on the law-abiding personality of the Cuban—crime was almost nonexistent. A unique situation in a mass type of immigration such as this. It is now, after more than 13 years of exile that some problems are being experienced, possibly due to a more relaxed or lenient attitude on behalf of the middle-aged groups, and parents as opposed to the very strict Latin traditions maintained after the initial immigration. . . .

"The Cuban colony in Miami is composed of approximately 93,000 households. Each household now averages 4 persons, while 10 years ago, the average household housed under its modest roof 6 to 10 people as they were beginning their new lives. Today, we see that of the 93,000 households, about 42 percent reside in their own homes and approximately 58 percent rent; of the 58 percent renting, it is significant that 28 percent are in the process of buying their own home. . . .

"Civic involvement has become a way of saying 'thank you' to the United States: almost every civic, social and service club organization has either a Latin division or has a large Cuban enrollment. We have recently seen two demonstrations of the strength of this community: a telemarathon for the needy Cuban refugee children in Spain produced $250,000 in 24 hours and when the Nicaraguan earthquake struck almost a month later, $150,000 was raised in 1 day and over 15 planeloads of food, clothing, and medicine were sent to Managua, Nicaragua, from the Cuban colony in Miami."

Mr. PASSMAN. Thank you, Mr. Long.

Mr. Obey, we are on the Cuban refugee program.

Mr. OBEY. Thank you, Mr. Chairman. I, for one, really doubt whether the costs of the Cuban refugee program are in very many ways comparable to the cost of any other program but let me just ask you these three questions.

CUBAN REFUGEES' EDUCATIONAL AND PROFESSIONAL BACKGROUND; ENGLISH ABILITY

Could you tell us what was the average educational level of the Cuban refugees when they came to this country?

Second, could you tell me what was the breakdown by way of professional background before they came here, and third, how many could speak English?

Mr. HOLMAN. I don't have all the figures with me, sir. There were several different phases in the Cuban refugee flow over the years. At the very beginning of the Cuban refugee flow, you had a high preponderance of professionals, of managers of businesses, very well

educated people. Within 2 years, you began to have more of a cross-section of the Cuban population, with all different occupations and levels represented.

I would be pleased to provide statistical information for the record, sir.

[The information follows:]

BACKGROUND OF CUBAN REFUGEES

By and large, the Cuban refugees have been a highly skilled group. Sample studies conducted at the Cuban Refugee Center in Miami, Fla., showed the following characteristics of refugee wage earners who arrived during 1959–62: About 50 percent professional, technical, and managerial personnel; about 25 percent clerical, sales, and skilled workers; and about 25 percent unskilled and semiskilled. Professionals among the refugees who arrived during this period included some 2,000 accountants, 200 architects, 100 chemists, 300 dentists, 550 engineers, 1,800 lawyers, 500 pharmacists, 1,000 physicians, and 3,500 teachers and college professors.

The occupational background of refugee wage earners who arrived on the Cuban refugee airlift (1965–73) was as follows: Approximately 17 percent professional, technical, and managerial; 57 percent clerical, sales, and skilled workers; 12 percent unskilled and semiskilled; 9 percent service occupations; and 5 percent farming and fishing. Nearly two-thirds of those who arrived on the airlift were housewives and children, as in any family type of refugee movement.

Professionals have continued to be represented throughout the refugee movement. For example, over 2,700 Cuban physicians have now qualified for State licenses in 41 States, the District of Columbia, and Puerto Rico.

The average educational level (median years of school completed) of Cuban-born persons 25 years of age and older in the United States, according to 1970 census data, is 11.3 years for males and 9.2 years for females.

With reference to language, a 1974 survey of the Latin population (88 percent Cuban) of Dade County, Fla., showed that the language most frequently spoken at home is Spanish in 89.4 percent of the households, and English or Spanish-and-English-equally in 10.6 percent. At work, the language spoken most frequently is Spanish for 38.9 percent of the employed persons, and English or Spanish-and-English-equally for 61.1 percent.

Mr. OBEY. How many could speak English?

Mr. HOLMAN. The English speaking ability followed the same pattern I have just described with regard to the occupational level.

Mr. OBEY. What about the first group?

Mr. HOLMAN. The first group was very largely an English-speaking group.

Mr. OBEY. Are we talking 20, 50, 70, what average percentage?

Mr. HOLMAN. I would say probably 75 percent of the early group.

Mr. OBEY. Just one other question.

PROJECTING PHASEOUT COST TO STATES BEYOND FISCAL 1976

Over the 5-year phaseout that you are talking about, what is your estimate in light of the partial lateral transfer of costs at least mentioned by Mr. Early and others? What is your estimate of the total fiscal impact on the various States over that 5-year period? What is the total package cost to States?

Mr. BEVILL. Over $1 billion.

Mr. HOLMAN. You are asking about the cost of phasing out the program?

Mr. OBEY. No. What I am saying is this: You say that the costs of this program will be borne by other mechanisms, and you are saying

that some of those mechanisms imply at least partial support by States. I understand that after the 5-year period it is a different question. I am simply saying during this 5-year transition period what is the total additional cost which will accrue to the various States, if you add all of those 5 years together.

Mr. HOLMAN. Yes. Actually we are proposing the change in reimbursement where the refugee has been in the United States for over 5 years and proposing the phaseout over a 2-year period. The State-local costs during fiscal 1976 would be an estimated $22.3 million in welfare and medical assistance funds. Probably the cost over the 2-year period would be perhaps $50 million, but we are proposing ending the program at the end of fiscal year 1977.

Mr. OBEY. It is $22 million the first year and the total of $50 million the second year? It doesn't escalate?

Mr. HOLMAN. I was estimating about $30 million the second year since you have an additional number of people reaching the 5-year cutoff mark.

Mr. CHAPPELL. Will the gentleman yield?

Mr. OBEY. Sure.

OTHER PHASEOUT POSSIBILITIES

Mr. CHAPPELL. If you use the same criteria for assistance which you now use, and take into consideration your proposed new people coming in, and people now becoming ineligible, how many years will it take to phasedown to zero based upon the present criteria?

Mr. HOLMAN. Under our proposal?

Mr. CHAPPELL. No, sir, under the present program. Your proposal is not present, your proposal is the future. We are talking about the present now.

Do you understand my question?

Mr. HOLMAN. Sir, if you don't have a large additional influx of Cuban refugees, you tend to have a diminishing fund requirement each year, assuming the absence of a very adverse economic situation which would cause more persons to return to the assistance rolls.

Mr. CHAPPELL. But based upon the present circumstances, how many years would it take? You are only talking about 5 or 6 years anyway, aren't you?

Mr. HOLMAN. I believe that is a reasonable estimate, sir.

Mr. CHAPPELL. So you are talking about shortening it to 1977, which is about a 2-year phaseout instead of 5 or 6.

Mr. HOLMAN. Yes, sir.

Mr. CHAPPELL. What criteria do you change in your proposal? Mr. Early has pointed out you don't change the criteria. It is strictly a transfer of responsibility, which means that a few States pick up the total burden rather than having it spread across the 50 States.

Mr. HOLMAN. Yes. sir.

Mr. CHAPPELL. Then wouldn't it be far more sensible, if we are going to do it that way, to attempt to phase down a little each year rather than try to throw the burden that you have attempted to throw here all in 1 year?

Mr. HOLMAN. Actually we are allowing 2 years.

Mr. CHAPPELL. Two years, but you cut it in half the first year, and I suppose next year if you are going to go down, you would come down at least half again, wouldn't you? So you are cutting your responsibility or you are transferring your responsibility at a very, very rapid pace, aren't you? That is all you are doing.

Mr. HOLMAN. It is a transfer of the responsibility in a total way over a 2-year period.

Mr. CHAPPELL. Couldn't we save a good deal of money by cutting—you have already done a pretty good job in cutting staff, but since these programs are pretty well established and since they are administered primarily by the States, couldn't you virtually cut out staff and simply transfer the funds to the States and have a pretty good saving?

Mr. HOLMAN. We would still end up, sir, with very nearly the same total budget.

Mr. CHAPPELL. Why would that be?

Mr. HOLMAN. Because 97 percent of the cost, sir, is in the actual assistance that goes to States and localities.

Mr. CHAPPELL. Don't the States bear the biggest brunt of the handling of these moneys?

Mr. HOLMAN. Yes, they do.

STAFFING

Mr. CHAPPELL. What was your staffing this year when you administered the $90 million budget?

Mr. HOLMAN. Thirty-nine.

Mr. CHAPPELL. Thirty-nine total people?

Mr. HOLMAN. Yes, sir.

Mr. CHAPPELL. And what do you propose under the $40 million?

Mr. HOLMAN. We are proposing 35.

Mr. CHAPPELL. That is a pretty substantial cut.

Mr. HOLMAN. Yes, sir. As I indicated previously sir——

Mr. CHAPPELL. Four.

Mr. HOLMAN. Four persons out of 39. We had already decreased our staff from an average of 170 persons in 1971 down to the present level.

Mr. CHAPPELL. You had kind of a surplus before, didn't you?

Mr. HOLMAN. I beg your pardon?

Mr. CHAPPELL. You had kind of a surplus in those other years?

Mr. HOLMAN. No, sir, we had the airlift operating during those years.

Mr. KOCH. Were they flying the planes?

Mr. HOLMAN. No; they were receiving the refugees.

Mr. FORBUSH. There was a health clinic in Miami which has been closed since.

Mr. HOLMAN. We operated a reception facility at the Miami International Airport.

Mr. FORBUSH. We are getting down to the residual corps of people you need to operate any program.

Mr. CHAPPELL. You have reduced as much as you can regardless of the dollar.

Mr. PASSMAN. Mr. Conte?

TERMINATION OF CUBAN AIRLIFT; ENTRY OF CUBAN REFUGEES BY OTHER MEANS

Mr. CONTE. Mr. Holman, would you explain why the Cuban refugee airlift was terminated in April 1973, and by whom?

Mr. HOLMAN. Yes, sir. The airlift ended when the Cuban Government advised the United States that there were no additional persons for whom the Cuban authorities were prepared to authorize departure on the airlift.

Mr. CONTE. Are there any other legal ways for Cuban refugees to reach the United States?

Mr. HOLMAN. Yes; if a person reaches a third country from Cuba—such as Spain or Mexico—he can then apply for permission to come to the United States. He can then be paroled into the United States as a refugee by the Immigration Service or, in some cases, be admitted as a permanent resident.

RECENT AND PROJECTED STATISTICS ON NEW REFUGEES

Mr. CONTE. How many new Cuban refugees do you expect to reach the United States during the next year, and how would this compare to the number during the previous 4 or 5 years?

Mr. HOLMAN. We are expecting very few next year, sir, as far as we can tell at this time. Our estimate of persons registering with the program next year is 2,500. This would compare with nearly 100,000 persons during the last 5 years.

ELIGIBILITY OF CUBAN REFUGEES FOR SSI

Mr. CONTE. Mr. Holman, you mentioned the continued inclusion of basic maintenance payments for needy aged, blind, and disabled refugees under the SSI program. Is there any reason that these refugees would not ordinarily be eligible for SSI payments?

Mr. HOLMAN. No, sir. Under the law, refugees are eligible for SSI, together with citizens and permanent-resident aliens.

Mr. CONTE. In effect, aren't you just substituting SSI payments for payments under the refugee program?

Mr. HOLMAN. Yes; that is correct.

DECREASED RESETTLEMENTS

Mr. CONTE. Have you had decreases in your resettlement program beyond those simply associated with the reduced influx of new refugees?

Mr. HOLMAN. No, sir. The very substantial decreases have been associated with the reduced influx.

EXPLANATION OF STUDENT LOAN PROGRAM

Mr. CONTE. Would you outline the basic provisions of the loan program for needy Cuban refugee college students?

Mr. HOLMAN. The Cuban loan program, which began in 1961, was patterned after the national direct student loan program of the Office of Education, which was then called the national defense student loan

program. The Office of Education administers the student loans for Cubans except for a few loans for Cuban dentists which have been handled by the Public Health Service. The purpose of the Cuban loan program has been to make available long-term, low-interest loans to Cuban refugees who are without sufficient resources to finance their attendance at institutions of higher education. In general, the maximum loans permitted are $1,000 for undergraduates and $2,500 for graduate students for an academic year, although the loans handled through PHS may be higher in accordance with its regular loan programs for the health professions. The borrowers sign promissory notes for each loan. The interest is 3 percent per year on the unpaid balance beginning 1 year after the borrower ceases to be enrolled as at least a half-time student.

Mr. CONTE. How does this differ from other loan programs administered through the Office of Education, other than by designating Cuban refugees to receive these funds?

Mr. HOLMAN. So far as the student is concerned, there is really no difference from the national direct student loan program. There are some operational differences, however. The Cuban loans are funded 100 percent by this program whereas in the regular domestic program the schools put up 10 percent of the loan funds. Repayments of the Cuban loans are handled directly by the Office of Education and deposited into the miscellaneous receipt accounts of the Treasury, while in the regular loan program the institution collects the loan payments and the funds become part of a revolving loan fund.

The Cuban refugees are now considered eligible for all of the regular loan programs and other student aid programs of the Office of Education, which is one of the reasons the Cuban refugee program adopted a policy in 1973 of not accepting new borrowers under the Cuban loan program. This had led to substantial decreases in the fund requirements for the Cuban loan program.

Mr. CONTE. When do you propose to have the Cuban student loan program completely phased out?

Mr. HOLMAN. This would occur at the end of fiscal year 1977, the projected termination date for the entire refugee program. Since the loan program was limited to current borrowers beginning in the fall of 1973, this should have provided sufficient time for students to complete their education.

Mr. CONTE. You spoke about the two areas which account for about 97 percent of your program. Where does the other 3 percent go?

Mr. HOLMAN. The other 3 percent includes the student loan program we have just discussed; vocational, English, and professional training; Federal administrative costs; and other services such as those of the voluntary resettlement agencies.

PHASEOUT: REASON FOR EXEMPTING CERTAIN CASES IN FLORIDA

Mr. CONTE. Can you tell me why, under your phasedown, only the State of Florida should be reimbursed 100 percent for assistance to refugees ineligible for SSI, AFDC, or medicaid? What about other States with high concentrations of Cuban refugees?

Mr. HOLMAN. We took into account, sir, the very high concentration of Cuban refugees in Florida, over 3 percent of the population. No other State even approaches that figure.

ELIGIBILITY OF REFUGEES FOR OTHER PROGRAMS

Mr. CONTE. How many of these refugees are in fact ineligible for other assistance programs such as SSI or AFDC?

Mr. HOLMAN. That would be the so-called general assistance type cases. Nationally, they would total about 15,000 persons.

Mr. CONTE. Why has the refugee program continued to reimburse States for medical assistance to refugee SSI recipients? Why aren't they covered under medicaid programs?

Mr. HOLMAN. Under our phaseout proposal, sir, we recommended that those refugees who had been in the United States over 5 years be included under the regular medicaid program as well as the other regular programs. However, the congressional action postponing the phaseout has resulted in our continuing to reimburse the States 100 percent. Actually the refugee SSI recipients would be eligible under medicaid, as would the AFDC-type cases for which we have continued to reimburse the States.

EDUCATIONAL COSTS HIGHER FOR REFUGEE CHILDREN

Mr. CONTE. Would you estimate the average per pupil cost of educating a Cuban refugee versus the cost of educating a nonrefugee in Dade County, Fla.?

Mr. HOLMAN. Over the years, the Dade County public schools have estimated the cost to be about 10 percent greater for a Cuban refugee child. This would relate to the special language needs, especially during the first years after entering a U.S. school system. Based on the schools' estimated per pupil operating cost of $1,309 for the present school year, the 10 percent additional would be about $130.

FEDERAL SAVINGS UNDER PHASEOUT BECOME ADDITIONAL COSTS TO STATES

Mr. CONTE. When you estimate that Federal funding under AFDC and medicaid programs would amount to $15.9 million of the $38.2 million reduction, doesn't that give you a net savings of just about $22.3 million in Federal expenditures?

Mr. HOLMAN. Yes, sir. That is the estimated saving in Federal funds as compared with continuing the welfare and medical reimbursements to the States on a nonphaseout basis during fiscal 1976.

Mr. CONTE. Would you provide a breakdown of the other States which are contributing that remaining $1.6 million referred to on page 8 of the opening statement?

Mr. HOLMAN. Within the total of $22.3 million estimated as costs to State/local funding sources resulting from the phaseout, $20.7 million is estimated for the six States identified. Of the remaining $1.6 million, the following eight States account for $1,050,000: Connecticut, $250,000; Michigan, $200,000; Louisiana, $150,000; Nevada, $150,000; Texas, $115,000; Pennsylvania, $90,000; Oregon, $65,000; and Georgia, $30,000. I don't have estimates individually on the remaining States, which total $550,000, but none of these would be expected to have costs exceeding $30,000.

WELFARE COSTS: FLORIDA VERSUS OTHER STATES

Mr. CONTE. It appears from your statement that about two-thirds of the needy refugees are located in Florida. What portion of the program's funds go to Florida?

Mr. HOLMAN. Currently about 58 percent of those refugees who are receiving welfare or medical assistance are located in Florida, and the funds going to Florida for this purpose comprise about 51 percent of the total. The fact that the percentage of funds is less than the percentage of recipients reflects the fact that assistance payments are higher in most of the other States where Cubans are located.

Mr. CONTE. When you say that most of these refugees are eligible for unemployment compensation, what sort of percentage are you talking about?

Mr. HOLMAN. We don't really know the percentage, sir, but we have observed that most of the refugees who have sought assistance from the refugee program after becoming unemployed in Miami have been found to be eligible for unemployment compensation. Therefore the increased unemployment has so far had little impact on this program. This could change, though, if people exhaust their unemployment benefits before finding work again.

IMPACT ON REFUGEE SITUATION IF UNITED STATES-CUBA DIPLOMATIC RELATIONS RESTORED

Mr. CONTE. There seems to be some movement afoot to restore diplomatic relations with Cuba. If this were to occur, and there was relatively open travel between Cuba and the United States, what do you think the impact would be on the refugee situation?

Mr. HOLMAN. I would really have to defer to the Department of State and the Justice Department on that, sir, since the question of granting asylum would be under their jurisdiction. However, if travel were open, it seems clear that many persons would want to visit relatives whom they haven't seen for many years. It also seems likely that some elderly refugees might want to return to Cuba, if that were possible, in order to spend their last years in their homeland, especially if they have close relatives there.

REQUEST FOR DATA ON COST PER REFUGEE ASSISTED

Mr. PASSMAN. Mr. Director, it would be very helpful to the committee after you return to your office if you would ask your staff to help establish the cost per Cuban refugee in any year that you want to pick that is complete. We want it all inclusive. I should think that you would take any year, your total cost and the number of Cuban refugees whom you maintain for a full year, you should be able to come up with that answer.

Mr. HOLMAN. We will be pleased to provide that, Mr. Chairman.

Mr. PASSMAN. Will you be able to provide it to us over the telephone, because we really will need it this afternoon.

Mr. HOLMAN. Yes, sir, we will provide that today.

Mr. PASSMAN Will you make it all inclusive and give us the average cost?

Mr. HOLMAN. We will provide that figure, make it all inclusive, and specify what it includes.

54-802 O - 75 - 30

[The information follows:]

Comparison of Cuban-Vietnamese cost estimates

Cuban refugees:	
Number of Cuban refugees assisted, fiscal year 1975:	
Welfare and medical assistance, including medical only for those receiving SSI whose basic maintenance is no longer included in Cuban refugee program funds	75,000
Cuban refugees for whom educational costs incurred (unduplicated count—that is, about 3,000 children on welfare in Dade County also in school count are excluded, but includes 900 student borrowers)	18,000
Total number aided	93,000
Costs:	
Cuban refugee program	$90,000,000
Estimated costs funded by supplemental security income program	45,000,000
Total cost, Cuban refugees	$135,000,000
Average cost, fiscal year 1975, per person aided:	$1,452
Vietnamese/Cambodian refugees:	
Estimated number to be aided by HEW for welfare and medical assistance and education	65,000
Estimated cost (14-month period for HEW portion of Vietnamese/Cambodian refugees (exclusive of the Public Health estimate of $15,000,000 since this item is not comparable to current expenditures on behalf of Cubans), $110,000,000; converted to 12-month period)	$94,300,000
Average 1-year cost per refugee	$1,451

Mr. PASSMAN. Thank you very much.

Are there further questions before we recess this part of the hearing?

Thank you very much for the wonderful cooperation. We have expedited the hearings today.

Thank you, gentlemen, for the information you have furnished to us. We know you are doing the very best you can.

Mr. HOLMAN. Thank you very much.

Mr. PASSMAN. The committee is adjourned.

TUESDAY, MAY 13, 1975.

DEPARTMENT OF STATE

MIGRATION AND REFUGEE ASSISTANCE

WITNESSES

FRANK L. KELLOGG, SPECIAL ASSISTANT TO THE SECRETARY FOR REFUGEE AND MIGRATION AFFAIRS

LOUIS A. WIESNER, DIRECTOR, OFFICE OF REFUGEE AND MIGRATION AFFAIRS

ANTHONY C. CHASTKA, ASSISTANT TO THE EXECUTIVE OFFICER, OFFICE OF REFUGEE AND MIGRATION AFFAIRS

JAMES L. CARLIN, COUNSELOR OF MISSION FOR REFUGEE, MIGRATION AND RED CROSS AFFAIRS, U.S. MISSION, GENEVA, SWITZERLAND

Program and Financing (in thousands of dollars)

Identification code 14-25-1143-0-1-151	1974 actual	1975 est.	1976 est.
Program by activities:			
1. Intergovernmental Committee for European Migration	3,460	3,460	3,000
2. United Nations High Commissioner for Refugees	5,310	1,300	1,471
3. International Committee of the Red Cross	275	500	500
4. United Nations Relief and Works Agency	4,200	10,000	.....
5. United States refugee program	4,739	6,820	3,700
Total calendar year program	17,984	22,080	8,671
6. Operational and administrative expenses	1,242	1,363	1,429
7. Adjustments to fiscal year basis:			
Calendar year 1973 program funds obligated in 1974	2,635	.....	.....
Calendar year 1974 program funds obligated in 1975	−8,284	8,284	.....
Calendar year 1975 program funds obligated in 1976	.....	−1,050	1,050
Calendar year 1976 program funds obligated in transition period and 1977	.....	.....	−1,050
9 Total obligations	13,577	30,677	10,100
Financing:			
1 Unobligated balance available, start of year	−616	−6,784	−600
4 Unobligated balance available, end of year	6,784	600	600
5 Unobligated balance lapsing	33	.....	.....
Budget authority	19,779	24,493	10,100
Budget authority:			
0 Appropriation	9,779	19,470	10,100
2 Transferred from other accounts	10,000	5,000	.....
3 **Appropriation (adjusted)**	19,779	24,470	10,100
4.20 **Proposed supplemental for civilian pay raises**	.....	23	.....
Distribution of budget authority by account:			
Migration and refugee assistance	19,779	14,493	10,100
Assistance to Palestinian refugees	.....	10,000	.....
Relation of obligations to outlays:			
1 Obligations incurred, net	13,577	30,677	10,100
2 Obligated balance, start of year	3,895	3,418	2,618
4 Obligated balance, end of year	−3,418	−2,618	−2,718
7 Adjustments in expired accounts	−86	.....	.....
0 Outlays, excluding pay raise supplemental	13,968	31,456	9,998
1.20 Outlays from civilian pay raise supplemental	.....	21	2
Distribution of outlays by account:			
Migration and refugee assistance	13,968	21,477	10,000
Assistance to Palestinian refugees	.....	10,000	.....

Note.—In 1974, $10 million were transferred from funds available under the Foreign Assistance Act of 1961 pursuant to section 2(c) of the Migration and Refugee Assistance Act of 1962. In 1975, $5 million were similarly transferred from foreign assistance appropriations and $10 million were appropriated for assistance to Palestinian refugees in the continuing resolution.

Object Classification (in thousands of dollars)

Identification code 14-25-1143-0-1-151		1974 actual	1975 est.	1976 est.
	Personnel compensation:			
11.1	Permanent positions	696	740	784
11.3	Positions other than permanent	14	32	32
11.5	Other personnel compensation	3	2	2
11.8	Special personal services payments	33	33	33
	Total personnel compensation	746	807	851
12.1	Personnel benefits: Civilian	129	136	135
21.0	Travel and transportation of persons	32	35	40
22.0	Transportation of things	1	1	1
23.0	Rent, communications, and utilities	27	22	22
24.0	Printing and reproduction	6	10	10
25.0	Other services	3,338	8,725	4,045
26.0	Supplies and materials	11	14	14
31.0	Equipment	13	6	11
41.0	Grants, subsidies, and contributions	9,274	20,921	4,971
99.0	Total obligations	13,577	30,677	10,100

Personnel Summary

Total number of permanent positions	43	40	40
Full-time equivalent of other positions	1	1	1
Average paid employment	41	40	40
Average GS grade	8.09	7.91	8.00
Average GS salary	$14,300	$14,297	$14,737
Average grade and salary rates established by the Foreign Service Act of 1946 (22 U.S.C. 801-1158):			
Average grade:			
Foreign Service officer	3.82	3.05	3.05
Foreign Service reserve	2.75	2.02	2.02
Foreign Service staff	6.00	6.00	5.03
Average salary:			
Foreign Service officer	$25,728	$25,605	$25,892
Foreign Service reserve	$27,541	$30,617	$30,908
Foreign Service staff	$16,069	$17,428	$17,860
Average salary in foreign countries (local rates)	$12,689	$15,417	$15,745

Assistance to Refugees From the Soviet Union

Program and Financing (in thousands of dollars)

Identification code 14-25-1146-0-1-151	1974 actual	1975 est.	1976 est.
Program by activities:			
10 Assistance to refugees from the Soviet Union	36,498	10,000	.....
Financing:			
25 Unobligated balance lapsing	2	.....	.....
40 **Budget authority (appropriation)**	36,500	10,000	.....
Relation of obligations to outlays:			
71 Obligations incurred, net	36,498	10,000	.....
72 Obligated balance, start of year	16,829	24,307	.....
74 Obligated balance, end of year	−24,307	.....	.....
90 Outlays	29,020	34,307	.....

Object Classification (in thousands of dollars)

Identification code 14-25-1146-0-1-151	1974 actual	1975 est.	1976 est.
11.3 Personnel compensation: Positions other than permanent	13	.....	.....
12.1 Personnel benefits: Civilian	1	.....	.....
21.0 Travel and transportation of persons	5	.....	.....
25.0 Other services	3,479	.....	.....
41.0 Grants, subsidies, and contributions	33,000	10,000	.....
99.0 Total obligations	36,498	10,000	.....

Mr. PASSMAN. The committee will come to order.

We shall continue this afternoon the examination of the request for funds for the foreign aid and assistance program.

Today we have the migration and refugee assistance request from the Department of State with the Honorable Frank L. Kellogg, Special Assistant to the Secretary for Refugee and Migration Affairs, Mr. Louis A. Wiesner, Director, Office of Refugee and Migration Affairs; Anthony C. Chastka, Assistant to the Executive Officer, Office of Refugee and Migration Affairs; James L. Carlin, Counselor of Mission for Refugee, Migration and Red Cross Affairs, U.S. Mission, Geneva, Switzerland.

Gentlemen, we are very pleased to have you appear before the committee in support of your request for your fiscal 1976 program. I would assume, Mr. Kellogg, that you would have a statement that you would like to make to the committee.

GENERAL STATEMENT

Mr. KELLOGG. I have, sir.

Mr. Chairman and members of the committee: The Department of State has been acutely aware of the concern expressed by this committee about the distribution among various agencies and offices of refugee activities. Some of this stems from the nature of the activities themselves; for example, the Cuban refugee program is operated by HEW because it is a domestic U.S. program involving significant support to State welfare. The Department has now moved to bring more order into this complex by appointing a Coordinator for Humanitarian Affairs in the Office of the Deputy Secretary of State whose duties include supervision of refugee, prisoner of war/missing in action programs and the coordination of human rights matters. Among his functions will be broad budgetary oversight and allocation of funds in refugee and migration matters particularly.

The tragic events in Cambodia and Vietnam have themselves had a significant effect on refugee programing and budgeting. While the struggle for independence was going on, the so-called refugees were internally displaced, and assistance to them was provided by AID as part of an economic and humanitarian package. Since the fall of Cambodia and South Vietnam the handling of the refugees generated from Indochina has created special problems which were the subject of testimony by Ambassador L. Dean Brown, the President's Coordinator of this gigantic effort. Some $98 million of AID funds have been transferred to the Office of Refugee and Migration Affairs (ORM), and it has been recommended that the bulk of the additional $507 million which the President is requesting for this purpose also be channeled through ORM.

The regular budget request for fiscal year 1976 which you are considering now is much more modest, but in many respects it is the core which helps to support the continuing refugee institutions and programs which in turn are able to cope with the great emergency operations. For example, the trained and experienced staff of ORM is being called upon to supply part of the expertise which the Interagency Task Force requires for its work. The United Nations High Commissioner for Refugees (UNHCR) and especially the Intergovernmental Committee for European Migration (ICEM) are being asked to play

a significant role in seeking out resettlement places around the world for the Indochina refugees, and in protecting and moving them. The same voluntary agencies which operate our U.S. Refugee Program have assumed the responsibility of resettling Indochina refugees in the United States. Thus, the institutions and programs which our regular budget supports are not only of value in themselves but they contain the capability for rapid expansion to meet large emergencies.

Now, to examine our $10.1 million appropriation request:

We are requesting a net increase of $1,657,000 over the amount appropriated in fiscal year 1975. This includes an increase of the $1,050,000 to restore program levels plus $607,000 to meet the increased demands of worldwide inflation.

We have cut $76,000 from one of the largest items in the proposed budget, that of regular support for the Intergovernmental Committee for European Migration (ICEM) in order to arrive at a figure we believe to be the minimum consistent with the national interest. ICEM however, will probably assume a major share of the funds requested for the travel and resettlement of refugees to third countries under the special Indochina refugee program.

One of the larger increases in our appropriation request, $456,000 for the International Committee of the Red Cross (ICRC), was authorized by the Congress when it raised the annual authorized contribution to the ICRC to $500,000 in Public Law 93–312 of June 8, 1974. The sum previously permitted by Public Law 89–230 had been $50,000 annually.

Increases requested for other programs, the United Nations High Commissioner for Refugees (UNHCR), the U.S. refugee program (USRP), and for operational and administrative expenses reflect the inroads of inflation and will permit us to operate in much the same manner as in prior years.

A lean budget such as this contains no cushions for emergencies. We cannot foresee where and when the need for additional refugee assistance will arise, but in a less-than-perfect world we may be sure that it will. Given our national and foreign policy interests and the deep concern and sympathy of our citizens, we know that the United States will want to continue to respond to humanitarian appeals on behalf of the oppressed and the dispossessed. In the event of emergencies, it will probably become necessary to invoke the President's transfer authority under section 2(c) of the Migration and Refugee Assistance Act of 1962. In the fiscal year 1976 State Department authorization request, the administration is asking the Congress to raise from $10 million to $25 million the sum which may be transferred by Presidential determination under the act.

With the approach of the American Bicentennial, we were perhaps more aware than ever before of this country's 200-year record as a haven for refugees from all corners of the world, as a help to those who would take refuge in other lands, as a leader in the long, slow march toward dignity and self-respect for the world's dispossessed. That the United States' concern and compassion are continuing in spite of domestic difficulties and other troublesome questions is made manifest by our ongoing support of the international and direct refugee assistance operations described in these pages.

Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you very much, Mr. Kellogg. We will insert the justifications in the record at this point.

[The material follows:]

DEPARTMENT OF STATE
MIGRATION AND REFUGEE ASSISTANCE

Appropriation, 1975	$ 8,420,000
Transfer from Foreign Assistance funds by Presidential Determination Order No. 75-6	5,000,000
Proposed Supplemental for Federal Salary Increases	23,000
Total availability 1975	13,443,000
Estimate 1976	10,100,000
Decrease	-3,343,000

Program by Activities:	1975[1/] Appropriation	1975[1/] Presidential Determination	1975[1/] Total Program	1976	Increases/Decreases 1975 Appropriation	Increases/Decreases 1975 Total Program	Justification Page No.
1. Intergovernmental Committee for European Migration (ICEM)	$3,076,000	-	$3,076,000	$3,000,000	$-76,000	$-76,000	4
2. United Nations High Commissioner for Refugees (UNHCR)	1,156,000	-	1,156,000	1,471,000	+315,000	+315,000	5
3. International Committee of the Red Cross (ICRC)	44,000	-	44,000	500,000	+456,000	+456,000	7
4. United States Refugee Program	2,953,000	$5,000,000	7,953,000	3,700,000	+747,000	-4,253,000	9
United States Refugee Program	(2,241,000)	(5,000,000)	(7,241,000)				
Far East Refugee Program	(445,000)	-	(445,000)				
Southern African Refugee Education Program	(267,000)	-	(267,000)				
5. Operational and Administrative expenses	1,214,000[2/]	-	1,214,000	1,429,000	+215,000	+215,000	10
Total Obligations	8,443,000	5,000,000	13,443,000	10,100,000	+1,657,000	-3,343,000	

1/ This table excludes $10,000,000 for Palestinian refugees appropriated by P.L. 93-570.
2/ Includes $23,000, proposed supplemental appropriation.

MIGRATION AND REFUGEE ASSISTANCE

1975	1976	Difference
$8,443,000	$10,100,000	+$1,657,000

General Statement

An appropriation of $10,100,000 is requested for fiscal year 1976 for programs of assistance to refugees and migrants. The appropriation funds contributions to: the Intergovernmental Committee for European Migration (ICEM), the United Nations High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC). It also funds the United States Refugee Program (USRP) and Operational and Administrative Expenses.

The fiscal year 1976 request represents an increase of $1,657,000 over the amount appropriated in fiscal year 1975.

The appropriation for 1975 was $8,420,000 which was a reduction of $1,050,000 below the $9,470,000 requested. A reduction of this magnitude coming late in the fiscal year does not permit an orderly adjustment of the programs and operations to the reduced levels mandated by the appropriation.

The ICEM and the UNHCR, organizations supported primarily by contributions from governments, are impaired by reductions of more than 10% in the amounts available from the United States. Both the ICEM and UNHCR depend on a significant and continuing level of support and financial assistance to carry out their increasingly important refugee functions. These organizations, together with the International Committee of the Red Cross (ICRC), provide services and assistance to refugees more effectively and efficiently than would be the case if done unilaterally.

The United States Refugee Program (USRP) provides a range of activities including initial reception, aid, care and maintenance and resettlement assistance for refugees from Eastern Europe and the People's Republic of China who seek asylum, and finances education programs for refugees from certain Southern African countries. The reduced level of funding in fiscal year 1975 will impair the ability of the voluntary agencies to carry on required resettlement activities and will cause increased financial difficulties for these organizations in performing a service desired by this Government.

In fiscal year 1976 the Department requests a net increase of $1,657,000 to permit a restoration of these programs to a fully effective level. The programs, both bilateral and multilateral, enable the United States to meet its fair share of the demands of what is commonly known as predictable refugee needs and help insure that the mechanisms are available and ready to meet sudden and in many cases unanticipated major refugee crises. The value of these mechanisms has been frequently demonstrated in past years and will be utilized continuously in the future.

In fiscal year 1976 as well as in 1975 we will watch with special concern situations in several nations which conceivably can result in explosive exodus of new waves of refugees. We have every reason to believe that some existing movements are going to continue and that new problems are going to arise in expected and unexpected places.

Unresolved refugee problems tend to deteriorate, resulting in tensions, ferment and even terrorism. The programs described in the justifications of this appropriation request are intended to help find just solutions to refugee problems which in turn can help promote the reduction of tensions, the solution of broader problems, the stability of concerned nations and the preservation of the peace.

1. INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION (ICEM)

1975	1976	Difference
$3,076,000	$3,000,000	-$76,000

The amount proposed for the United States contribution to the Intergovernmental Committee for European Migration for 1976 is $3,000,000. The net reduction of $76,000 from the 1975 appropriation is composed of a planned reduction of $350,000 from the Latin American Program offset by an increase of $171,000 in funds required for transportation loans to refugees and an $103,000 increase in the U.S. contribution to the Administrative and Refugee Migration functions required to cover wage and price increases.

ICEM is the only multinational organization dealing with international migration. Currently, more than 90 per cent of its migrants are refugees, the remainder national migrants. On their behalf, and in the interest of its member governments, ICEM acts as intermediary in finding new homelands, arranges for low-cost transport and assists in necessary documentation and resettlement. It does so in cooperation with voluntary agencies, and where appropriate, other international organizations. In January 1974, ICEM moved its two millionth migrant, a refugee.

The scope of ICEM's activities is much broader than its name, "Intergovernmental Committee for European Migration." Over the years ICEM has expanded its scope in order to meet emerging refugee situations in other regions of the world, by extending its operations on a fully reimbursable basis. Recent examples of such assistance are ICEM's emergency evacuation of Ugandan Asians, its resettlement program for Chilean refugees, and its transport arrangements for the exchange of refugees between Pakistan and Bangladesh.

ICEM is a relatively small organization of governments which, in the words of ICEM's Constitution, have "a demonstrated interest in the principle of the free movement of persons". Primarily because of its common purpose, ICEM is able to move rapidly to meet and help solve crises as they emerge.

Thirty-two nations are currently members of ICEM, sixteen of them Latin American. In addition, there are eight Observers, including Japan and Egypt. Egypt joined ICEM as an Observer in 1974. In 1973 Australia withdrew when its new government was formed and its migration policies changed. In 1973 also, Venezuela rejoined ICEM. Cyprus became an ICEM member in 1974.

ICEM's Operational Budget consists of three main Sections: Section I - NATIONAL MIGRATION (to which the U.S. does not contribute), Section II - REFUGEE MIGRATION, and Section III - LATIN AMERICAN PROGRAM. The Refugee Migration Program is in large part financed by the U.S. and European members, the "developed" countries of ICEM. It serves their interests by preventing the accumulation of refugees and the political tensions which would otherwise result, and by providing prompt onward movement to assure that the major asylum countries continue to keep their doors open to refugees. Section III, the Latin American Program, serves a different purpose. Its main component is the Selective Migration Program, whereby ICEM, at the request of its Latin American members, recruits skilled migrants, the human resources they require in their economic development.

ICEM's present Director, an American with long refugee experience, and his staff are able to deal skillfully with concerned governments on behalf of ICEM members. The varied services ICEM provides in the humanitarian and selective migration fields could not be duplicated by individual members except at far greater financial or political cost.

2. UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)

1975	1976	Difference
$1,156,000	$1,471,000	+$315,000

For 1976, the Department proposes that the United States contribute $1,471,000 to the United Nations High Commissioner for Refugees (UNHCR), an increase of $315,000 from the contribution of $1,156,000 for 1975. The proposed increase would restore a level of contribution consistent with those of prior years as modified by increased costs for wages and prices.

The UNHCR is a key element in the international framework for assistance to refugees and serves as an invaluable instrument in providing international protection for refugees throughout the world and for promoting permanent solutions to their problems. Problems of unassimilated refugees affect adversely the economic and often the political stability of asylum countries, and in some cases involve tensions which threaten the preservation of peace. The UNHCR assistance program, by reestablishing refugees, helps relieve these problems, encourages liberal asylum policies and reflects the humanitarianism of democratic societies. Thus, such UNHCR activities directly serve U.S. interests.

The 1951 Convention and 1967 Protocol Relating to the Status of Refugees serve as the High Commissioner's primary legal instruments in his international protection function, which he actively exercises in Europe, Asia, Africa, and the Western Hemisphere. In addition to seeking the prevention of forcible repatriation, this function of the UNHCR seeks to secure for refugees those legal, political, economic, and social rights within asylum and third countries which are essential to the reestablishment of refugees on a self-supporting basis. In 1974 the High Commissioner intensified his efforts to gain additional accession to the treaties, and thus to strengthen the protection function.

In 1974, the High Commissioner's total annual program amounted to almost $12 million, which does not include expenditure of trust and emergency funds. Of this, $9.2 million consisted of specific allocations for geographic areas, with $5.2 million allocated to sub-Saharan Africa (and another $521,000 for North Africa and the Middle East). In addition a substantial portion of the $2.6 million for overall allocations, program support, administration, and reserve monies was allocated to Africa. The small Material Assistance Program in Europe ($444,000 of area allocations) promotes the local integration of refugees who cannot emigrate and is an essential supplement to the U.S. Refugee Program and to the ICEM program which concentrates on external resettlement. The program for Latin America rose from a projected $210,000 to $2.9 million for 1974 with the addition of the Chilean refugee program. In that program and in others over the years, the UNHCR has demonstrated notable ability to deal swiftly with emergency refugee situations worldwide which fall within his concern. In implementing programs of material assistance, the UNHCR relies upon national and international organizations and voluntary agencies and host governments for the actual conduct of operations.

When called upon by higher United Nations authority, the UNHCR assumes on an extraordinary basis special assignments of major refugee problems outside his usual concern. The High Commissioner played a vital role in South Asia in 1973-74 as "Executing Agent" in the two-way movement of over 241,000 uprooted and homeless persons to Pakistan and Bangladesh, launching an international appeal to implement this mass movement by airlift, and thus contributing to the reestablishment of peace and stability in that area of the world. Of a total response of some $12.3 million, the U.S. contributed $4.55 million to the appeal. Currently, the UNHCR has undertaken assistance programs in Cyprus to aid the estimated 225,000 refugees created by the hostilities of July and August, 1974. Having been designated to coordinate United Nations humanitarian assistance in Cyprus, the High

Commissioner launched an appeal for aid which resulted in the donation of over $22 million in cash and kind by the end of the year, with the U.S. contributing $7.3 million.

The budget of the UNHCR Material Assistance Program has risen steadily over the past several years: from nearly $6.0 million in 1970 to $11.8 million in 1974, with some $12.65 million allocated for 1975 and expected expenditure in 1976 of over $13.0 million. A United States contribution of $1.471 million would be approximately 15 percent of total expected government contributions for 1976.

The UNHCR program continues to grow in size both because of the need to meet demands for greater refugee assistance and because of substantial worldwide wage and price increases. The increase in the U.S. contribution is necessary to assist the UNHCR to keep pace, and to enable the organization to deal effectively with refugee situations within the UNHCR program without appealing to governments for special contributions. We continue to believe that U.S. contributions for the programs of the High Commissioner are well justified and consistent with U.S. foreign policy objectives. In this regard, UNHCR programs in Africa, Asia, and Latin America have related directly and significantly to United States interests because they help in the solution of refugee problems where it would be difficult or not feasible for the United States to provide direct assistance. In addition, our contributions enhance the U.S. image of leadership in promoting effective humanitarian assistance for refugees and for the resolution of increasing refugee problems and uphold our standing and views among the 31 member nations of the UNHCR Executive Committee and the United Nations generally.

3. INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)

1975	1976	Difference
$44,000	$500,000	$+456,000

For 1976 it is proposed that the United States contribute $500,000 to the International Committee of the Red Cross (ICRC), an increase of $456,000 over the amount in the 1975 appropriation. Public Law 93-312 authorizes a contribution of $500,000. This law amended Public Law 89-230 which authorized an annual contribution to the ICRC of $50,000.

The fundamental purpose of the International Committee of the Red Cross is to implement, supervise and promote the application of the provisions of the 1949 Geneva Conventions, to which the United States is a party. These international treaties deal with the humanitarian treatment of prisoners of war, the protection of civilians in time of war and the amelioration of the conditions of wounded, sick and shipwrecked members of the armed forces. Founded in Geneva in 1863, the ICRC is the mother organization of all Red Cross societies and serves as the promoter of Red Cross principles. Although Swiss in its constitution and personnel, it operates on an international level and has the ability to act as a neutral institution, whether in cases of international or national sensitivities, or tensions.

The scrupulous adherence of the ICRC to the principle of political impartiality is recognized throughout the world and has often enabled the ICRC to act decisively and in a timely manner in situations in which, due to political sensitivity, other organizations or governments are either unable to act effectively or are not permitted to participate in the action required. In such circumstances, the ICRC is often called upon to meet compelling humanitarian relief needs.

ICRC activities in the field have traditionally involved the provision of medical services for the wounded of the armed forces and civilians affected by hostilities. This function and its programs of subsistence and related relief assistance, arranging for prisoner of war exchanges, and other humanitarian efforts are amply illustrated by its most recent major activities. In Chile and elsewhere in Latin America ICRC delegates have visited detainees and provided material assistance to detainee families. In the 1973 Yom Kippur conflict in the Middle East, ICRC carried out major relief, protection, and tracing operations and was instrumental in the repatriation of prisoners of war among Egypt, Syria and Israel. On the Asian sub-continent in 1973-74, the ICRC played a key role in facilitating the movement of over 241,000 persons between Pakistan and Bangladesh and in the repatriation of prisoners of war and civilian internees between Pakistan and India. More recently, in Cyprus, the ICRC assumed for a time the role of coordinator for the relief effort until the arrival of other organizations such as the UNHCR. It has been instrumental there in arranging prisoner of war exchanges, in distributing relief supplies to displaced persons, in establishing safety zones in Nicosia during the hostilities, and in the distribution of family messages.

Over the years the ICRC has been of great assistance to the United States Government, the United States armed forces, and American civilians. With its Central Tracing Agency, the ICRC has been in the forefront of efforts to account for Americans still missing in action. In many cases, ICRC activity in the fields of relief and supporting assistance has come in direct response to a request from the U.S. Government. U.S. support of the organization is thus in keeping with U.S. foreign policy goals for the promotion of peace and the relieving of tensions throughout the world, and serves to demonstrate traditional U.S. humanitarian concerns.

As noted, under the authority of Public Law 93-312 the authority for the U.S. contribution to the ICRC was raised from $50,000 to $500,000. In CY 1974, the U.S. contribution to the ICRC was $250,000 as authorized through the Second Supplemental Appropriations Act. The increase in the U.S. contribution was initially proposed by the ICRC itself as part of a proposal to balance the contribution of the Swiss Government to ICRC with the contributions from all other governments. The increased U.S. contribution therefore should not in any way prejudice the impartiality, independence and neutrality of the organization and will make a significant impact on its fiscal well-being. In addition to the Swiss and U.S. contributions, over 50 other governments contribute to the annual permanent budget totaling approximately $5 million. This sum does not include contributions from National Red Cross societies and other resources, nor does it cover special programs, for which funds must be raised separately.

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4. UNITED STATES REFUGEE PROGRAM (USRP)

1975	1976	Difference
$2,953,000	$3,700,000	+$747,000

The amount requested for the United States Refugee Program for 1976 is $3,700,000, an increase of $747,000 over the amount appropriated for 1975.

The estimate provides $367,000 for the reestablishment of support for the United States Refugee Program, the Far East Refugee Program and the Southern African Refugee Education Program at levels maintained in recent years, $330,000 to fund wage and price increases and $50,000 to increase the number of students in Africa. The reduction in appropriation level for 1975 will require a decrease of $279,000 in contributions supporting transportation for USRP eligible refugees, $55,000 of Far East Refugee Program construction deferrals, and $33,000 for student support.

The fiscal year 1975 availability will necessitate a reduction in the number of Southern African students supported through the Education Program of 10%. The 1976 estimate provides for an increase in this program of 30 students to a total of 60 at the university level, and 100 at the secondary level and provides for mandatory wage and price increases in the program.

The United States Refugee Program consolidates assistance programs previously covered in requests for three separate activities:

1. The United States Refugee Program (USRP)

2. The Far East Refugee Program (FERP)

3. The Southern African Refugee Education Program (SAREP)

This program is designed to provide initial reception aid, care and maintenance, and resettlement assistance for refugees from Eastern European countries (Albania, Bulgaria, Czechoslovakia, Hungary, Poland and Romania) who seek asylum in Western Europe and the Middle East, and refugees from the People's Republic of China who get to Hong Kong and Macau. It also provides care, maintenance, and educational assistance in asylum countries to refugees from certain Southern African countries.

The United States Refugee Program is evidence of our commitment to the freedom of movement of individuals. Many of the countries of first asylum offer assistance and also absorb refugees into their economies; however, these countries alone are unable to cope with this flow of refugees. The USRP therefore provides services incident to resettlement in other countries including the United States. The reception, care and maintenance, and resettlement assistance funded through this program is provided on a contract basis by the voluntary agencies.

In addition to resettlement assistance, the program for Chinese refugees concentrates on a few selective construciton projects designed to meet highly conspicuous needs.

The Southern African Refugee Education Program provides assistance in African asylum countries to finance the education of refugees from certain Southern African countries at both the secondary and university levels.

5. OPERATIONAL AND ADMINISTRATIVE EXPENSES

1975 1/	1976	Difference
$1,214,000	$1,429,000	+$215,000

The request for 1976 is $1,429,000, an increase of $215,000 over the appropriation for 1975 and $66,000 over the President's budget request for 1975.

The $1,429,000 will provide funds for operational and administrative expenses for the Special Assistant to the Secretary for Refugee and Migration Affairs (S/R), his operational arm (the Office of Refugee and Migration Affairs) in Washington, the Refugee, Migration and Red Cross Section, U.S. Mission, Geneva and one employee in the Consulate General, Hong Kong.

The total increase of $215,000 provides for full funding of the 40 positions approved in the appropriation for fiscal year 1975, the support costs for these positions and includes $66,000 required to fund mandatory wage and price increases, annualization of pay act increases, within grade salary increases and provides for one extra day's pay. The estimate provides for increased communications costs and a limited program of equipment replacement.

The requested $1,429,000 provides funding not only for the direction, coordination and support of the activities of the Special Assistant to the Secretary for Refugee and Migration Affairs and the operational organizations, but in addition for policy formulation, coordinative, and leadership activities for U.S. refugee programs exercised by the Special Assistant to the Secretary. Specifically, the Special Assistant to the Secretary is assigned the following primary responsibilities.

a. To formulate comprehensive policy, enunciate goals, develop plans for and make evaluations of United States Government refugee and migration efforts;

b. To provide the leadership, guidance, and coordination for refugee and migration programs within the United States Government; and to assist in the formulation and presentation of budgetary requirements and fiscal policies for these programs to the full extent permitted by law.

c. To exercise, within the Department, policy direction and operational control of refugee and migration programs and to assure appropriate consideration of refugee and migration affairs in foreign policy decisions;

d. To represent the United States in and maintain liaison with intergovernmental bodies, voluntary welfare agencies, and other organizations dealing primarily with refugee and migration affairs;

e. To establish a focal point for information and action for refugee and migration affairs as they relate to the Congress, voluntary agencies, and the public.

1/ Includes $23,000, proposed supplemental for Federal Salary Increases.

The staff of the Office of Refugee and Migration Affairs performs a number of refugee functions in addition to those specific programs funded under this appropriation. Examples of these include formulation of recommendations to the Immigration and Naturalization Service concerning individual requests for asylum, and special parole programs, such as Cuban refugees in third countries, foreign refugees from Chile, refugees from the Soviet Union, etc. under Section 212(d)5 of the Immigration and Nationality Act.

FISCAL YEAR 1976 REQUEST

Mr. PASSMAN. I believe, Mr. Kellogg, that your fiscal 1976 estimate is $10,100,000 which is an increase of $1,657,000 over the fiscal year 1975 appropriation.

In addition thereto, you are requesting $800,000 for the transition period July 1 to September 30 of fiscal 1976; is that correct, sir?

Mr. KELLOGG. That is correct, yes, sir.

Mr. PASSMAN. In addition, $10 million was transferred by Presidential determination, is that correct?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. $5 million for Soviet refugees settling outside of Israel and $5 million for Cambodian and South Vietnamese refugees, is that correct?

Mr. KELLOGG. That is correct.

ASSISTANCE TO REFUGEES FROM THE SOVIET UNION

Mr. PASSMAN. Even though the administration made no request, we appropriated $40 million for the Soviet refugees. Are you returning the $5 million that was transferred in for the Soviet refugees?

Prior to the enactment of the legislation it would appear that you have transferred $5 million over to the program, is that correct?

Mr. KELLOGG. That is correct.

Mr. PASSMAN. Are you canceling that out or are you transferring it back inasmuch as we gave you the appropriation of $40 million?

Mr. KELLOGG. No, sir, that is not the intention.

Mr. PASSMAN. You are going to use the $40 million that the administration did not ask for and there really was no justification for it other than that they were concerned with the refugees. Are you going to spend that, also?

Mr. KELLOGG. Sir, are you talking about $40 million in fiscal 1975?

Mr. PASSMAN. Yes.

Mr. KELLOGG. I believe there was a supplemental request.

Mr. PASSMAN. But not in the original request.

Mr. KELLOGG. That is correct.

Mr. PASSMAN. We did put in $40 million.

Mr. KELLOGG. That is correct.

Mr. PASSMAN. What was the budget request for the $40 million in the supplemental?

Mr. KELLOGG. It was for $40 million.

Mr. PASSMAN. But you transferred the $5 million over because you had no funds and we had not enacted the regular legislation, is that correct?

Mr. KELLOGG. Would you care to have me explain that, sir?

Mr. PASSMAN. I would like to have an answer to my question first. You transferred the $5 million over to the Soviet refugees before you had a regular appropriation for fiscal 1975. Then you say your supplemental request was $40 million and the Congress gave you the entire $40 million but now you had $5 million given to you because you didn't know whether or not you would get the 40.

Mr. KELLOGG. That is correct.

Mr. PASSMAN. Why do you have to double-dip?

I am just as pro-Israel as they come. We want to provide whatever funds are necessary to take care of the refugees but it would appear to me first you had no request, then you asked for $40 million.

The Congress gave you $40 million, but not knowing whether you would get any part of it, the President transfered the $5 million to you. Now you are going to spend the $40 million and the $5 million.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Isn't that a clear indication that at the time of the supplemental you didn't know what you needed?

Mr. KELLOGG. No, sir; there is an explanation. Regarding the $40 million, I believe it was Congress desire and wish that it was to be used for refugees going to Israel.

Mr. PASSMAN. I thought we made the determination of 30 and 10.

Mr. KELLOGG. No; 35 million and 5 million. And the five was specifically asked for and drawn down for Soviet refugees who were going to Europe and elsewhere.

Mr. PASSMAN. But we made the division for you. That means you have double the amount requested in the supplemental appropriation, isn't it that simple?

Mr. KELLOGG. No, sir. All we had was the $5 million for those not transitting to Israel.

Mr. PASSMAN. But we subsequently gave you a bill for $40 million and $5 million of that was to take care of Soviet refugees going outside of Israel.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. That is par for the course.

Mr. CHASTKA. The costs outside Israel are greater than $5 million.

Mr. PASSMAN. But you asked for a total of $40 million. This committee gave you every dime you asked for. It seemed to satisfy you. Now you are going to spend the $35 million, the $5 million and the $5 million that was transferred. You plan to spend it.

Mr. KELLOGG. Yes, sir.

Mr. CHASTKA. All of it will be spent.

Mr. PASSMAN. You had in the regular appropriation bill, $40 million.

Then you had another $5 transferred in. That gives you a total of $45, right?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Is your request this year on a sounder basis as to what you need for 1976?

Mr. CHASTKA. We have no request for Soviet refugees for fiscal 1976.

Mr. KELLOGG. That is a correct statement.

Mr. PASSMAN. Do you anticipate that you will?

Mr. KELLOGG. Not at this time, sir.

Mr. PASSMAN. Let's have one thing understood. As far as I know every member of the committee is very sympathetic to the problem. We want to provide adequate funds but I think it would be much better if we could make a better case as to the need in the beginning. At this time you are not in a position to tell the committee whether or not you are going to need any additional funds for 1976; is that a fair statement, at this time? I say you don't know whether or not you will need any additional funds for 1976, do you?

Mr. KELLOGG. The Department of State has no objection if this committee or if the Congress provides funds for this particular program, Mr. Chairman.

Mr. PASSMAN. Mr. Kellogg, ordinarily you would not get $2.09 with that kind of testimony. You have no objection. Certainly you have no objection. We are not moving on the basis that you have no objection. I would assume that you would not have any. My question is: At this time you do not know whether or not you will have a need in fiscal 1976 for additional funds, do you? I'm trying to be fair about this thing.

If you had a request in here, we want to look at it. But you do not have any request in for Soviet refugees for fiscal 1976, do you?

Mr. KELLOGG. No, we do not.

Mr. PASSMAN. Do you anticipate that you will need additional funds over and above what you have on hand for fiscal 1976?

Mr. KELLOGG. I can testify, Mr. Chairman, that Soviet refugees continue to come out of the U.S.S.R.

Mr. PASSMAN. Then do you anticipate at this time that you will need a supplemental request for funds for the Soviet refugees?

Mr. KELLOGG. The Department would hope that the Congress and this committee would—well, the Department would see no objection if you were to fund this particular program.

Mr. PASSMAN. I'm always desirous of being fair. I don't want to press the point. The question was not whether or not they would object to it. I'm trying to establish whether or not you will need additional funds for the Soviet refugees. If not, say so. If you think you will, please do not use the phraseology, "We would not object." Let me just move into this line of questioning very briefly. The administration did not request any funds for Soviet refugees for fiscal 1976; is that correct?

Mr. KELLOGG. That is correct.

Mr. PASSMAN. Why didn't they?

Mr. KELLOGG. Because this is a program that has been funded by congressional initiative from the outset.

Mr. PASSMAN. I thought Congress funded all programs. Isn't that true that Congress funds all programs?

Mr. KELLOGG. Absolutely.

Mr. PASSMAN. Now you did feel that you had a request in the budget and you submitted a justification for all the other pieces of the programs around the world, correct?

Mr. KELLOGG. That is correct.

Mr. PASSMAN. The one I would consider maybe the most important, why didn't you ask for any funds?

Mr. KELLOGG. The only answer I can give you, Mr. Chairman, is that this is one which Congress has handled.

Mr. PASSMAN. I yield to Mr. Long under the 5-minute rule.

Mr. LONG. As the chairman says, we are a very generous Congress on the question of refugees.

We are certainly sympathetic to this program. I am wondering myself what might be the circumstances under which you might ask for more money. Perhaps you can talk about that for the record.

[The information follows:]

Congress at its own initiative has provided substantial funds to assist Soviet refugees—$50 million in fiscal year 1973, $36.5 million in fiscal year 1974, and $40 million in fiscal year 1975—though the administration supported the last appropriation with a budget amendment. Congress has determined the levels of assistance it believes necessary and these levels have shaped the programs which have been established—scholarships, apartments, training programs as opposed to the more traditional types of services given to other Eastern European refugees under the U.S. refugee program. The principal aim of the legislation has been to assist Israel in coping with a large influx of refugees. The administration has no objection to the initiation of and continued funding of such a program. Congress in this particular instance is in a better position to establish the parameters of the program itself. The numbers of refugees leaving the Soviet Union has declined substantially this year; thus the need for the traditional forms of refugee assistance has been reduced. However, the Israeli requirements for resettlement continue, and congressional guidance on this aspect is valuable.

Mr. LONG. Tell me what is the rate at which the Soviet Jewry is being released from Russia at the present time? It was running at a rate of about 30,000 a year; wasn't it?

Mr. KELLOGG. That is correct.

Mr. LONG. That was through 1973. What was it last year, 17,000?

Mr. KELLOGG. In 1973, 35,000 Soviet refugees were able to leave the U.S.S.R. In 1974 about 22,000. January through March of this year, 4,300 refugees.

Mr. LONG. That is a diminution so far this year compared to the same time last year?

Mr. KELLOGG. Yes, sir.

Mr. LONG. Is there a strong possibility that the tap may be turned on again and there may be substantially more coming in for the balance of this year?

Mr. KELLOGG. It is very conceivable and could happen very easily.

Mr. LONG. That would be a factor in determining whether you would come in for more money later.

Mr. KELLOGG. That is correct.

Mr. LONG. It has been my understanding that our contribution to the Soviet refugees in Israel has been a very small part of the total cost; is that not so?

Mr. KELLOGG. That is very true.

Mr. LONG. And the overwhelming percentage, perhaps up to 80 or 90 percent, has been covered by private funds?

Mr. KELLOGG. Yes, sir.

Mr. LONG. Isn't it true that the money that is being requested here covers not just the temporary costs?

We voted some money today for Vietnamese refugees, which was for temporary costs; getting them here and the first few months of getting them housed and located, but the money being requested for Israel is long-term money trying to integrate these refugees into Israeli society and economy so that they are educated, can earn a living, and are adequately housed; isn't that so?

Mr. KELLOGG. Yes, sir.

If I might amplify, it provides care and maintenance when the refugees arrive in Vienna. It covers travel to Israel and in Israel it pays a portion of the construction of absorption centers.

Mr. LONG. Permanent housing, too?

Mr. KELLOGG. Yes, sir.

Medical facilities and mobile homes.

Mr. LONG. Also training them for occupations and professions?

Mr. KELLOGG. Yes, sir, university scholarships, retraining of artisans and technicians. It is the entire spectrum of refugee needs and requirements.

Mr. LONG. This is what is covered by the U.S. contribution and also private funds like those of the United Israel Appeal.

Mr. KELLOGG. Yes, sir.

Mr. LONG. What is the U.S. money used for?

Mr. KELLOGG. Let's take 1974 as an example. The grant to the United Israel Appeal was $30,500,000. It was allocated to the following areas: $4 million for construction or acquisition of new absorption centers and hostels; $4 million for the construction or acquisition of a technical clinic and hospital; $10 million for apartments and mobile homes; $4 million for rental payments; $2,100,000 for university scholarships; $325,000 for training and retraining of artisans and technicians; $1 million for paramedical services; $700,000 for maintenance costs for on-the-job trainees; $3,175,000 for maintenance costs at Ulpanim Absorption Centers and hostels; and $1,200,000 for youth institutions. That covers the extent of our grant in 1975.

Mr. LONG. Do you calculate that any of the money will be left over and unused?

Mr. KELLOGG. No. This sum has been expended. The facilities are in place and continue to be used.

Mr. LONG. I'm a little puzzled as the chairman was as to why the administration did not request the money when the House Foreign Affairs Subcommittee has voted $20 million. They did that on their own initiative. You in a sense are playing a neutral role. Can you give us an explanation?

Mr. KELLOGG. I cannot amplify the position taken by the Department, Mr. Long.

Mr. LONG. Those are all the questions I have, Mr. Chairman.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Mr. PASSMAN. Thank you, Mr. Long.

Mr. Secretary, if I remember in prior years or maybe I should say almost every year since I have had the privilege of chairing this committee, the Intergovernmental Committee for European Migration, ICEM, has had very strong support from the Congress, both Senate and House, and practically all committees have followed up on this support.

I believe the people who testified indicate that this is one of the most important, if not the most important program that you had in the migration and refugee setup.

Mr. KELLOGG. Yes, sir, I would agree with you.

Mr. PASSMAN. That being true, then, we go to your justifications and we see a request for the United Nations High Commissioner for Refugees. We established in the hearings this week that when you get into the U.N.—and you never hear me condemn them, because it is the only peacekeeping organization we have as such so we have to support it until some genius comes up with something better—but in the U.N. you have dictator nations and Communist nations. These people are

on the boards and when you consider the allocations of course they are involved in proving or disproving these allocations; right?

Mr. KELLOGG. I believe you are correct.

Mr. PASSMAN. We find much of it goes into Communist countries. You take the Intergovernmental Committee for European Migration, this is the United States and European nations mainly; right?

Mr. KELLOGG. It is a non-Communist organization.

Mr. PASSMAN. Why is this the only program, of all the programs submitted, that you have a reduction in?

Mr. KELLOGG. Mr. Chairman, that is because it has been determined after a great deal of careful consideration within the Department and to a large extent agreed with by the Senate, that there is one aspect of the total program where the U.S. commitment should be cut back and that is the Latin American program. Otherwise, there are increases in the other areas.

Mr. PASSMAN. I thought Secretary Kissinger took just the opposite view, that he thought it was necessary that we try to improve our relationships in all areas with Latin America. Isn't that what he said?

Mr. KELLOGG. I think you are entirely correct.

Mr. PASSMAN. This is not a personality matter; is it?

Mr. KELLOGG. In what sense, Mr. Chairman?

Mr. PASSMAN. Any sense.

Mr. KELLOGG. No.

Mr. PASSMAN. I happen to know the person who administers this program and if you ever had any place that you could put confidence in a group of men, I believe it is the people in Geneva. They are dedicated and know what they are doing.

Don't you find that true?

Mr. KELLOGG. I have known Mr. Thomas for 15 years——

Mr. PASSMAN. I'm talking about all the people, such as Mr. Frank Merrill, at one time the clerk of this committee. He has an analytical mind. Frank is very able. When I looked over their proposition for Latin America, to me it looked real good. I think you were wrong in considering the recommendations in Latin America. I hope you won't force us to write it in the bill. That is the only vehicle we have to keep you people from doing it your way.

I think it is a partnership arrangement. There is no need for you to get the money and then say "We are going to do it our way." We feel it is very, very important that this Latin American program move forward.

We are going to take that into consideration when we markup the bill, even though we may transfer it out of some of these "fat cat" programs that you have here to fill up the gap. So stand by and be ready to discuss it with us and don't make us do it the hard way, please. If you are not going to pay any attention to the people in the field, then bring them home and cancel the program.

TRANSITION EXPENSES

Mr. PASSMAN. I note you are requesting $800,000 for transition period expenses for the period July 1, 1976, to September 30, 1976. Could you please tell the committee how you are able to request such a small amount for the 3-month transition period?

Mr. KELLOGG. Because most of our programs are funded on a calendar year, rather than fiscal year, basis from moneys appropriated to remain available thru December 31, we only are requesting funds during the transition period to pay the remainder of our contribution to the International Committee of the Red Cross for 1976 ($450,000) and administrative and operational expenses for the 3-month period ($350,000).

CONSOLIDATION OF REFUGEE PROGRAMS

Mr. PASSMAN. As you will remember, in last year's House appropriations report the committee indicated it was concerned that many of these migration and refugee programs were scattered in several agencies within the executive branch, and it felt it would be more efficient to have all these programs under one office. Could you please tell the committee if any effort has been made to consolidate all these refugee programs within one office?

Mr. KELLOGG. Mr. Chairman, as I mentioned earlier, in my principal witness statement the Department has now moved to bring more order into this complex by appointing a coordinator for humanitarian affairs in the Office of the Deputy Secretary of State whose duties include supervision of refugee, prisoner-of-war/missing-in-action programs and the coordination of human rights matters. Among his functions will be broad budgetary oversight and allocation of funds in refugee and migration matters particularly.

PALESTINIAN REFUGEE AID

Mr. PASSMAN. As you know, in last year's bill we appropriated $10 million for the Palestinian refugees. Could you please tell the committee how this $10 million was allocated and what office actually was in charge of disbursement of these funds?

Mr. KELLOGG. The $10 million were given to the United Nations Relief and Works Agency (UNRWA) by my office. Submitted for the record is the exchange of letters between myself and Commissioner-General Sir John Rennie, which constitutes our agreement on the use of the funds.

[The letters follow:]

FEBRUARY 18, 1975.

SIR JOHN RENNIE,
Commissioner-General, United Nations Relief and Works Agency, UNRWA Headquarters Maseitbeh Quarter, Beirut, Lebanon

DEAR MR. COMMISSIONER-GENERAL: I am pleased to inform you that the U.S. Government will make a special contribution of $10 million to the UNRWA over and above our normal contribution for 1975.

These funds are made available to assist in assuring the maintenance of a level of services consistent with those levels provided in recent years to Palestinian refugees in the Middle East. The funds are made available to provide educational, health and supplementary feeding services to Palestine refugees during the period January 1, 1975 to December 31, 1975. It is agreed that these funds will be deposited and maintained in a separate account and that UNRWA will solicit contributions to it from other sources.

It is further understood that the United Nations Relief and Works Agency will take all possible measures to assure that no part of the U.S. contribution shall be used to furnish assistance to any refugee who is receiving military train-

ing as a member of the so-called Palestine Liberation Army or any other guerrilla-type organization or who has engaged in any act of terrorism.

I would appreciate progress reports on the program, a report on the utilization of these funds, and a letter confirming acceptance of this special contribution.

Sincerely,

FRANK L. KELLOGG,
Special Assistant to the Secretary for Refugee and Migration Affairs.

UNITED NATIONS,
March 1, 1975.

Hon. FRANK L. KELLOGG,
Special Assistant to the Secretary of State, The Department of State, Washington, D.C.

DEAR MR. AMBASSADOR: Reference is made to your letter of February 18, 1975, informing me that the U.S. Government will make a special contribution of $10 million to the United Nations Relief and Works Agency for Palestine refugees in the Near East over and above the normal contribution of the U.S. Government for 1975.

I accept this additional contribution and the terms of the offer as specified in your letter under reference. I deeply appreciate this further evidence of the U.S. Government's interest in and support for the Agency's programmes of assistance to Palestine refugees.

Yours sincerely,

J. S. RENNIE,
Commissioner-General.

VIETNAMESE REFUGEES

Mr. PASSMAN. In light of the current situation regarding refugees from South Vietnam and Cambodia, could you tell the committee if your office is getting involved in the handling of these refugees.

Mr. KELLOGG. My office is very much involved in the handling of Indochina refugees. As part of the Interagency Task Force headed by Ambassador L. Dean Brown, we are especially charged with responsibilities for liaison with the voluntary agencies which are resettling the refugees in the United States, relations with the international agencies which are assisting in resettlement around the world—UNHCR, ICEM and ICRC—and administration of funds. In addition, we contribute to policy development, we assist in advising our embassies and missions abroad, and, through them, foreign governments concerning the myriad problems arising out of the Indochina refugee flow, and a member of my staff heads the task force group answering congressional and public inquiries.

TRANSFER OF FUNDS

Mr. PASSMAN. Again this year, you found it necessary to transfer additional funds into this account totalling $10 million which was in addition to the funds appropriated for fiscal year 1975. Could you please provide details to the committee of what these funds were used for in fiscal years 1975 and from what specific account these funds were transferred to the refugee program?

Mr. KELLOGG. $5 million were used for care and maintenance in Europe, resettlement documentation, language training, transporta-

tion and reception and placement grants to voluntary agencies—in the United States—of Soviet refugees who have chosen to settle elsewhere than in Israel.

$5 million are being used for assistance to refugees from Cambodia and Vietnam. This assistance is provided through the UNHCR, ICEM, and ICRC and voluntary agencies.

(*a*). The funds were transferred from the selected development problems, development assistance, economic assistance, executive account in AID.

Mr. PASSMAN. Do you anticipate additional funds will be needed in fiscal year 1976 which will require another transfer?

Mr. KELLOGG. In each of the last 8 years unexpected urgent refugee situations have arisen after submission of the regular budget justifications to Congress that necessitated use of the transfer authority. Although we cannot look into a crystal ball to predict where refugee situations will arise in the future, there is every possibility that they will occur, and the transfer authority used to fund the U.S. share of the cost.

The State Department authorization bill for 1976–77 would amend section 2(c) of the Migration and Refugee Assistance Act of 1962 to raise the transfer authority from $10 million to $25 million. This is necessitated by the increased cost of refugee assistance and by the occurrence of many refugee emergencies each year.

Mr. PASSMAN. Could you please update the table appearing on page 130 of last year's hearings, which shows the original budget request, the amount that was appropriated, the additional amount that was transferred into the program, and indicate the grand total for the last 10 fiscal years?

Mr. KELLOGG. We will be glad to furnish this material.

[The table follows:]

10-YR TABLE ON AVAILABILITY OF FUNDS

[In thousands of dollars]

	Original budget request (including supplementals)	Available regular appropriation	Available Presidential determination	Total
1966	$7,946	$7,946	$271	$8,217
1967	6,050	6,050		6,050
1968	5,660	5,500	125	5,625
1969	5,511	5,511	5,706	11,217
1970	5,580	5,580	5,752	11,332
1971	5,844	5,706	10,000	15,706
1972	9,031	9,031	8,850	17,881
1973	9,100	9,100	4,000	13,100
1974	9,556	9,779	10,000	19,779
1975	[1] 9,493	[1] 18,420	10,000	[1] 28,420

[1] Supplemental appropriation pending for $23,000 for Federal salary increases.

AID ACCOUNTS FROM WHICH PRESIDENTIAL DETERMINATION FUNDS TRANSFERRED

Date	Amount	
1966		Records retired.
1968	$125,000	Contingency Fund.
1969	5,706,000	Alliance for Progress, Development Loans, Economic Assistance, Executive.
1970	5,752,000	Contingency Fund.
1971	532,000	Contingency Fund, Southeast Asia, Economic Assistance, Executive.
	2,468,000	Contingency Fund.
	3,437,638	Development Loan Fund, Executive.
	3,562,362	Alliance for Progress Loan Fund, Executive.
1972	2,000,000	Development Loans.
	5,000,000	Refugee Relief Assistance (East Pakistan) Economic Assistance, Executive.
	1,850,000	Contingency Fund, Economic Assistance, Executive.
1973	2,500,000	Development Loans.
	1,500,000	Contingency Funds, Economic Assistance, Executive AID.
1974	1,000,000	Selected Countries and Organizations, Development Assistance, Economic Assistance, Executive AID.
1975	10,000,000	Selected Development Problems, Development Assistance, Economic Assistance, Executive.

ADMINISTRATIVE COSTS

Mr. PASSMAN. What percentage of the total appropriation request for fiscal year 1976 will be used for administrative expenses?

Mr. KELLOGG. Of the total request for 1976, 14 percent will be used for administrative costs.

NUMBER OF REFUGEE MOVEMENTS

Mr. PASSMAN. Could you please tell the committee how many refugees you plan to move in the next year?

Mr. KELLOGG. Mr. Chairman, we estimate the movement in 1975 could reach 70,000.

Mr. PASSMAN. Would you also please supply a table which shows the refugee movements for the last 10 years?

Mr. KELLOGG. Yes, sir.

[The information follows:]

Refugee movements—1965–74, movements by ICEM

1965	37,343	1970	52,357
1966	30,452	1971	44,756
1967	35,410	1972	62,888
1968	51,070	1973	62,150
1969	59,528	1974	60,262

In addition to the above, we estimate that over 12 million refugees crossed international borders during the last 10 years. Some examples of the movements follow:

Refugees from Cuba	600,000
Refugees from East Pakistan	9,985,000
Refugees from Peoples Republic of China	150,000
Ugandan Asians expelled from Uganda	45,000
Refugees from one African country to another African country	1,500,000
Refugees from Iraq into Iran	150,000
Refugees from Chile	14,000

TOTAL U.S. REFUGEE AID

Mr. PASSMAN. Would you place in the record a table similar to the one which appears on page 171 of last year's hearings, showing the total U.S. assistance to refugees for fiscal year 1974 under the various programs?

Mr. KELLOGG. We will be happy to furnish this table.

[The table follows:]

U.S. ASSISTANCE TO REFUGEES FOR FISCAL YEAR 1974

Categories of refugees assisted	Program managed vy	Source of funds	Amount of program assistance	Value of Public Law 480 funded by Department of Agriculture [1]	Total
Refugees in Europe and elsewhere from European Communist countries	State	Foreign assistance	$2,589,000		[2] $2,589,000
Chinese refugees in Hong Kong and Macao	do	do	500,000		[2] 500,000
Refugees moved from Europe, and Near East and other areas	Intergovernmental Committee for European Migration (ICEM)-State.	do	[3] 3,460,000		[3] 3,460,000
Various categories of refugees worldwide	United Nations High Commissioner for Refugees (UNHCR)-State.	do	1,350,000		[2] 1,350,000
Refugees from the Soviet Union	State	do	38,000,000		38,000,000
Sudanese refugees returning to the Sudan	State/AID	do	10,000	$95,000	105,000
Chilean refugees	UNHOR-State	do	1,400,000		[2] 1,400,000
Exchange of Persons—Pakistan/Bangladesh	do	do	4,400,000		[2] 4,400,000
Burundi refugees in surrounding countries	AID	do		549,000	549,000
Refugees students from southern African countries in the United States	State	State	95,286		95,286
Refugees students from southern Africa in other African countries	do	Foreign assistance	300,000		300,000
Palestine Arab refugees	U.N. Relief and Works Agency for Palestine refugees in the Near East (UNRWA)-State/AID.	do	[4] 27,400,000		[4] 27,400,000
Vietnamese refugees displaced within South Vietnam	AID	do	77,000,000	995,000	77,995,000
Laotian refugees displaced within Laos	AID	do	4,113,000	3,325,000	7,438,000
Cambodian refugees displaced within Cambodia	AID	do	20,900,000		20,900,000
Various sub-Sahara Africa groups	AID	Agriculture		54,000	54,000
Refugees in Nepal from surrounding countries	AID	Foreign assistance		282,000	282,000
Displaced persons in Pakistan	AID	Agriculture		4,126,000	4,126,000
Refugees in Yeman UAR	AID	Agriculture		117,000	117,000
Cuban refugees in the United States	HEW	Foreign assistance	129,000,000		129,000,000
Total			310,517,286	9,543,000	320,060,286

[1] At commodity credit corporation costs.
[2] Includes obligations incurred in calendar year 1974.
[3] Includes national migrants to Latin America.
[4] Includes $8,900,000 in Public Law 480 commodities at world prices.

CUBAN REFUGEES FROM SPAIN

M. PASSMAN. Have all the Cuban refugees been moved from Spain into the United States that you anticipated last year?

Mr. KELLOGG. Yes. The special parole program which ended in October 26, 1974, managed to process Cuban refugees in Spain who left Cuba before October 26, 1973. Coupled with the ongoing pre-parole program which handles the entry into the United States of immediate relatives of Cubans in this country, the refugee population in Spain has been greatly reduced.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Mr. PASSMAN. The Inter-governmental Committee for European Migration (ICEM) is the first program under this item for which the fiscal year 1976 estimate is for $3,000,000, a decrease of $76,000 below the fiscal year 1975 program. What is your estimate of the number of refugee movements to be handled by ICEM this year, and how does this compare to last year?

Mr. KELLOGG. ICEM moved about 60,000 refugees in current year 1974. This year, there are fewer Cubans in Spain to be moved by ICEM. However, there are Indochinese refugees to be moved to third countries. These movements will be separately funded. In current year 1975, ICEM's refugee movements could reach 70,000.

Mr. PASSMAN. What does the U.S. contribution represent as a percentage of the total contributions received by ICEM?

Mr. KELLOGG. The U.S. percentage of member contributions to ICEM's regular budget was 40 percent in calendar year 1974. The same level is estimated in calendar year 1975, but 37 percent is estimated for calendar year 1976.

Mr. PASSMAN. What is the size of the present staff of ICEM, and how does this compare to a year ago?

Mr. KELLOGG. Calendar year 1975 ICEM staff totals 386, compared to 383 in calendar year 1974.

Mr. PASSMAN. What percent does the total administrative budget represent of the total budget of ICEM?

Mr. KELLOGG. For calendar year 1975, $4.2 million of $19.7 million, or 21 percent.

REDUCTION OF U.S. AID

Mr. PASSMAN. On page 2 of the justifications you make the following statement: "Both the ICEM and the UNHCR depend on a significant and continuing level of support and financial assistance to carry out their increasingly important refugee functions." If that is the true feeling, and a true statement by your department, could you please tell the committee why you are reducing ICEM by $76,000 in calendar year 1976?

Mr. KELLOGG. Since we are reducing our contribution to ICEM's Latin American program in fiscal year 1976 by $350,000, the $76,000 reduction in our overall contribution actually allows for an increase in our contribution to ICEM's administrative and refugee budgets of $274,000: $350,000 less $76,000.

Mr. PASSMAN. On page 4 of the justifications, you indicate that you plan a reduction of $350,000 from the Latin American program in

fiscal year 1976. Could you please tell the committee why you are reducing this program when we are now supposed to be trying to develop more favorable relationships with Latin America?

Mr. KELLOGG. We believe that the level of our contribution to this program, which in past years was in excess of 50 percent, has been inordinately high for a program which moves Europeans to Latin America, and for which the major financial burden should fall on the sending and receiving countries. We consider that 25 percent for a U.S. contribution is an appropriate fair share. Developing "more favorable relationships with Latin America," which of course we fully endorse, does not mean that we will necessarily adhere to past levels of U.S. contributions to international assistance programs for Latin America. There will be priorities; some levels will fall, and others rise.

Mr. PASSMAN. Again, I can't understand why you are reducing the budget for ICEM in fiscal year 1976 in light of the current South Vietnamese and Cuban refugee situation. Could you please explain how this is being done when there are increased uses for ICEM in these refugee movements?

Mr. KELLOGG. ICEM is indeed playing an extremely important role in the Indochinese refugee situation. This is being funded outside this appropriation request. The movement of Cubans in Spain is tapering off following the movement into the United States of the accumulation of Cuban refugees, provided for in the Attorney General's expanded parole program, and is now at a level where it can be maintained within ICEM's regular refugee budget and program.

NEED FOR INCREASED FUNDS

Mr. PASSMAN. The committee has been informed that ICEM has suffered about a $500,000 loss due to the devaluation of the dollar vis-a-vis the Swiss franc. Could you tell the committee if there has been any thought of requesting a supplemental for ICEM in light of this devaluation and in light of the current increased refugee situation with regard to South Vietnam and Cambodia?

Mr. KELLOGG. ICEM's activities for South Vietnamese and Cambodian refugees are being separately funded. ICEM, like other international organizations, is suffering severely from dollar devaluations. Later in the year, if the deficit situation still exists, we may find it necessary to request a supplemental appropriation.

Mr. PASSMAN. According to page 1 of your justification ICEM is the only program that is scheduled to be reduced in fiscal year 1976 while all the other programs are scheduled to receive substantial increases. Could you please tell the committee how you are able to reduce the ICEM contribution when the rest of the programs are increasing?

Mr. KELLOGG. The reduction is made possible by the reduction in our contribution to ICEM's Latin American program.

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)

Mr. PASSMAN. The next program is the United Nations High Commissioner for Refugees (UNHCR), for which the fiscal year 1976 estimate is $1,471,000, which is an increase of $315,000 above the fiscal

year 1975 program. Could you please tell the committee the need for this rather large increase?

Mr. KELLOGG. Mr. Chairman, it is expected that the UNHCR material assistance program will increase from about $12.5 million in 1975 to $15 million in 1976. This reflects not merely the prevailing pattern of inflation and rising costs for supplies and services, but also the fact that the UNHCR is increasingly being called upon by the nations of the world (particularly the underdeveloped countries) to help them resolve refugee problems which confront them. We believe that it is appropriate and in our foreign policy interests that the United States bear an equitable share of the increased contributions which governments must make to the UNHCR if the latter is to carry out its responsibilities effectively.

Mr. PASSMAN. Could you please tell the committee what percentage the U.S. contribution represents of the total contributions?

Mr. KELLOGG. It is estimated that total government contributions to the UNHCR program for 1976 will amount to $12.5 million. Thus, the requested U.S. contribution of $1,471,000 would comprise less than 12 percent of total government contributions, and less than 10 percent of the total expected cost of the UNHCR 1976 program.

Mr. PASSMAN. Of the total budget of the UNHCR, what percentage of this total is represented by administrative expenses?

Mr. KELLOGG. The administrative expenses for the implementation of the UNHCR material assistance program for 1976 will be at a level of approximately 10 percent of the total program budget.

Mr. PASSMAN. Could you please tell the committee how many staff people work for the UNHCR?

Mr. KELLOGG. The UNHCR has a professional staff of 156 and a supporting staff of 263.

INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)

Mr. PASSMAN. The next program is the International Committee of the Red Cross (ICRC) for which the fiscal year 1976 estimate is for $500,000, an increase of $456,000 above the fiscal year 1976 program. Could you please tell the committee why you plan to increase the U.S. contribution to the ICRC by such a substantial amount in fiscal year 1976?

Mr. KELLOGG. Under the provisions of Public Law 89–230 of October 1, 1965, the U.S. contribution to the ICRC was authorized at a level of $50,000 per year. However, under Public Law 93–312 of June 8, 1974 the authorized U.S. contribution to the ICRC was raised to $500,000. This authorized increase reflected the fact that the role of the ICRC in carrying out its humanitarian activities has been greatly and constantly enlarged in scope in recent years and also the fact that the effective performance by ICRC of its responsibilities decidedly serves U.S. foreign policy interests.

Mr. PASSMAN. With this large increase in the U.S. contribution, could you please tell the committee what percentage the U.S. contribution would represent of the total?

Mr. KELLOGG. The U.S. contribution of $500,000 would represent less than 10 percent of the projected ICRC budget for 1976 of some $5.5 million.

Mr. PASSMAN. Is the ICRC facing any serious problems at the present time, and if so, are there any efforts being made by other countries to help relieve these problems?

Mr. KELLOGG. The ICRC, particularly during the past several years, has faced serious problems in raising sufficient funds to enable ICRC to meet its responsibilities in dealing with the ever-increasing demands placed upon it. Moreover, inflation and price rises in many countries have further contributed to a steady increase of the ICRC budget. In these circumstances the ICRC has appealed to governments to raise the level of their contributions and a number of them have done so. Meanwhile, Switzerland—the host country of the ICRC—has doubled its annual contribution in recent years to a current level of over $3 million. Nevertheless, the ICRC must continue its efforts toward developing increased contributions from governments and national Red Cross societies as the size of its overall budget continues to increase.

U.S. REFUGEE PROGRAM

Mr. PASSMAN. The next item we will consider will be the U.S. refugee program (USRP) for which the fiscal year 1976 estimate is for $3,700,000, an increase of $747,000 above the fiscal year 1975 program.

I note you have consolidated three programs under this title which are the U.S. refugee program, the Far East refugee program, and the Southern African refugee education program. Could you please tell the committee what the fiscal year 1976 allocations will be for each of these three programs?

Mr. KELLOGG. The allocations are $2,800,000 for the U.S. refugee program, $500,000 for the Far East refugee program and $400,000 for the Southern African refugee education program.

Mr. PASSMAN. Concerning the Southern African refugee education program, it seems that the education of refugees is getting out of the area of refugee and migration movements. Could you please tell the committee why your office is involved in this educational program?

Mr. KELLOGG. The Southern African refugee education project (SAREP) began in 1962 under AID auspices for the purpose of providing educational and vocational assistance for refugees from Angola, Mozambique, Rhodesia, South Africa, and Namibia who were outside their homelands. Its goals were to provide a group of well-trained individuals who would be able to assume leadership roles in their homelands upon independence. This program was also intended to demonstrate continuing U.S. Government support for the principle of self-determination for the people of Southern Africa.

In 1974, SAREP was transferred to the Department of State, Office of Refugee and Migration Affairs, as part of an effort to bring all refugee related activities together under one roof. Its goals have remained unchanged. However, due to the forthcoming independence of Mozambique and Angola, no new refugee students from these two countries are being recruited. How well it has achieved these goals will be demonstrated when SAREP trained people begin returning to Angola and Mozambique.

Mr. PASSMAN. Could you please tell the committee what the size of the staff is that is involved in this U.S. refugee program?

Mr. KELLOGG. There are six Americans on our Geneva staff, four officers and two secretaries, and 10 local employees, for a total of 16. In addition there is one local employee in Hong Kong.

Mr. PASSMAN. Could you please tell the committee the need for this very large increase in fiscal year 1976?

Mr. KELLOGG. The increase in the requirement for the USRP for $797,000 above fiscal year 1975 program provides for these items:

$330,000—for wage and price increases overseas;

$50,000—for additional students for SAREP program;

$367,000—for restoration of the level of program to that supported in previous years.

The estimate provides for program increases over earlier periods of 20 students in the South African refugee education project. Wage and price increases and restoration of the previously funded level of programs will provide for the level of activities considered to be the minimum consistent with our foreign policy objectives.

FAR EAST PROGRAM

Mr. PASSMAN. Concerning the Far East refugee program, do you still retain an office in Hong Kong?

Mr. KELLOGG. We have a local employee in Hong Kong, and the Consulate General, which administers the program for us, has assigned a Foreign Service Officer the part-time responsibility of monitoring the program.

Mr. PASSMAN. I am informed that as of November 30, 1974, the Hong Kong Government has been sending refugees back to China. What effect has this policy had on the level of funding for the Far East refugee program?

Mr. KELLOGG. This has not had an effect on the level of funding of the program. There are large numbers of refugees in Hong Kong who have been there less than 7 years and therefore are eligible to apply for conditional entry and the assistance which we provide for that purpose, and there are still needs for the refugees in Hong Kong which we can help meet through our other services and major projects which our funds make possible.

Mr. PASSMAN. Could you please tell the committee just what the funds are used for under the Far East refugee program at the present time?

Mr. KELLOGG. In calendar year 1975, of the $445,000 available, $285,000 is being used for services such as vocational training and student aid, conditional entry counseling and assistance, including language training, support of the Ka Ho Leprosarium in Macau, and IRC's refugee hostel; $160,000 was expended for construction.

Mr. PASSMAN. Could you please tell the committee what large capital projects are presently being financed under the Far East refugee program?

Mr. KELLOGG. In calendar year 1975, we used our construction funds to add on to an earlier project for a new fishermen's village in Yim Tin Tsai, Taipo, New Territories, building a community center, and making possible the completion of 100 housing units. The fishermen

have also contributed to the project, which is sponsored by the Hong Kong Christian Service.

In calendar year 1974, construction funds were used to help build housing for refugees in Macau, under the sponsorship of Catholic Relief Services, and for the fishermen's housing project sponsored by Hong Kong Christian Service in Taipo, New Territorries.

Administration

Mr. Passman. This year you are requesting $1,429,000 for administration, which is an increase of $215,000 above the fiscal year 1975 amount. Could you please tell the committee the need for this increase?

Mr. Kellogg. $66,000 is required to fund mandatory wage and price increases, annualization of pay act increases, within grade salary increases, one extra day's pay, increased communications costs and a limited program of equipment replacement and the remainder is to restore full funding of the 40 positions.

Mr. Passman. How many people are involved in the administration item?

Mr. Kellogg. There are a total of 40 positions.

Mr. Passman. Could you please tell the committee how much you plan to spend on staff travel costs in fiscal year 1976 and how this compares to fiscal year 1975?

Mr. Kellogg. We have programed $40,000 for travel costs in fiscal year 1976, an increase of $5,000 over the amount budgeted for fiscal year 1975.

Mr. Passman. Do you plan to increase travel mileage in fiscal year 1976 and if so, would you please indicate what the total will be and how that compares to fiscal year 1975?

Mr. Kellogg. We anticipate approximately the same number of trips this year, both domestic and overseas, as we had last year. The additional funds are to cover increased per diem rates overseas.

Mr. Passman. Would you please provide a detailed breakdown of these administrative costs for the record?

Mr. Kellogg. Yes, sir.

[The information follows:]

American salaries and benefits	$821,000
Local salaries and benefits	165,000
Travel	40,000
Transportation of things	1,000
Rents, communications and utilities	22,000
Printing and reproduction	10,000
Other services	345,000
Supplies and materials	14,000
Equipment	11,000
Total	1,429,000

Assistance to Refugees From the Soviet Union

Mr. Passman. Would you tell the committee what the latest situation is regarding the movement out of Russia, and what the current Russian policy is on this subject?

Mr. KELLOGG. In the first 4 months of this calendar year, 3,020 Soviet refugees went to Israel via Vienna, compared with 7,245 in the same period of 1974.

Our information about the flow of Soviet refugees to destinations other than Israel does not coincide in time with the above-cited data. The U.S. Refugee program reports these people when their registrations with the voluntary agencies in Vienna are recorded in Geneva. In the first 3 months of 1975 there were 1,489 Soviet refugees so recorded who broke off their journey in Vienna. Some had probably arrived earlier than the months in which their registrations were recorded. In the same 3 months 249 Soviet refugees destined for the United States arrived directly in Rome from Moscow, and 176 were taken onto USRP rolls in other locations.

The total of all Soviet refugee registrations for the USRP caseload (including those who went to Israel) in January, February, and March 1975 was 4,263. This corresponds to an annual rate of 17,052, compared with an actual number of 22,080 in calendar year 1974.

There are independent estimates that Soviet Jewish emigration thus far in 1975 has averaged about 1,100 a month, as against last years average of about 1,700 a month.

We are unable to assess current Soviet policy on this subject beyond citing these figures. The official Soviet position is that the emigration rate corresponds to the number of applicants, and that interest in emigration is on the wane.

Mr. PASSMAN. What are your latest estimates of the number of Jews who will leave Russia in fiscal year 1975, how does this compare to the last year and what are the estimates for fiscal year 1976?

Mr. KELLOGG. We have no reliable basis for predicting how many Soviet Jews and non-Jews will leave the U.S.S.R. in May and June of this year.

It is not possible at this time to provide a reliable estimate of Soviet refugee emigration in 1976, since this depends upon a number of factors presently unknown, including what trade and credit arrangements with the U.S.S.R. might be negotiated in that year.

NO REQUEST FOR FISCAL YEAR 1976

Mr. PASSMAN. Last year we provided $40 million for this program, and this year I see no request has been made. Do you feel the appropriation made in fiscal year 1975 is sufficient to carry you through fiscal year 1976?

Could you please tell the committee why you did not request funds for fiscal year 1976 for this program?

Mr. KELLOGG. Expenditures under the Soviet program, like those for our regular programs, are made on a calendar-year basis, even though Soviet refugee funds are obligated on a fiscal year basis. The appropriation of $40 million made in fiscal year 1975, together with the Presidential determination of $5 million of November 2, 1974, will, we believe, be sufficient for calendar year 1975. These moneys will not be sufficient to provide for any expenditures in calendar year 1976.

The Department of State has no objection to the efforts of the Congress in the initiation and continued funding of assistance to Soviet refugees.

Mr. PASSMAN. Has the entire $40 million provided last year been obligated and expended as of this time?

Mr. KELLOGG. $10 million has been obligated and expended. The remainder will be obligated before the end of the fiscal year 1975 and will be expended by the end of the calendar year.

Mr. PASSMAN. Would you please outline for the committee in detail for the record what the $36,500,000 was used for in fiscal year 1974, and what the $40 million will be used for in fiscal year 1975?

Mr. KELLOGG. The table we offer for the record sets out how the $36,500,000 was allocated.

Since we have not yet obligated most of the $40 million, we are not yet able to specify how it will be used.

[The table follows:]

Use of 1974 appropriation for assistance to refugees from the Soviet Union

Grant to UIA	$30,500,000
ICEM Transportation Loan Fund	2,500,000
Contracts with Voluntary Agencies for refugees not going to Israel	3,225,000
Preparation and shipment of mobile homes	234,000
Administrative expenses	41,000
Total	36,500,000

Mr. PASSMAN. According to a newspaper article in February, the number of Jews allowed to leave the Soviet Union fell by more than 40 percent in 1974. Is this trend continuing, and if so will there be any need for funds in fiscal year 1976?

Mr. KELLOGG. In 1974 there were about 22,000 Soviet refugee departures from the U.S.S.R., compared with about 35,000 in 1973, a decrease of 37 percent. There has been a further decline in the first quarter of 1975, but the flow seems to have leveled off. However, as already mentioned it is anticipated that the funds appropriated in 1975 and those transferred by Presidential Determination will be totally expended in calendar year 1975, to meet critical needs for the care and maintenance and resettlement of refugees in Israel and elsewhere. There is no indication that emigration from the U.S.S.R. will dry up.

Mr. PASSMAN. Are all the funds turned over to the United Israel Appeal and they in turn spend the money as they see fit?

Mr. KELLOGG. The major portion of the funds is granted to United Israel Appeal, for example, $44 million of the $50 million appropriated in 1973 and $30.5 million of the $36.5 million appropriated in 1974. These funds are made available pursuant to detailed grant agreements specifying the amounts to be allotted to the various subprograms, and containing other conditions governing the use of the funds.

Mr. PASSMAN. Are the Jewish refugees going to Israel? If not, list the numbers going to each country.

Mr. KELLOGG. Our data do not segregate refugees by religion. The tables submitted for the record show the number of Soviet refugees going to Israel and those resettling in other countries in 1974 and the first 3 months of 1975.

[The tables follow:]

SOVIET JEWISH MIGRATION STATISTICS—ARRIVALS IN ISRAEL

Calendar year:	
1971 (March through December)	14,100
1972	31,600
1973	33,500
1974	16,842
1975 (through April) (average 755 per month)	3,020
Total	99,060

	1972	1973	1974	1975
By month:				
January	3,000	2,500	2,425	899
February	1,800	2,800	1,598	889
March	1,900	2,200	1,709	561
April	2,800	2,900	1,513	671
May	2,800	2,200	1,220	
June	3,100	2,200	1,340	
July	2,200	2,250	1,174	
August	2,100	2,700	1,398	
September	2,100	3,000	1,005	
October	2,900	4,200	1,439	
November	3,800	3,800	1,154	
December	3,100	3,000	867	
Total	31,600	33,500	16,842	

SOVIET REFUGEE MIGRANTS REGISTERED BY RMRC

	1973	1974	1975 (January–March)
Ex-U.S.S.R. to Israel via Vienna (and Bucharest in 1973)	33,500	16,842	2,349
Broke off trip in Vienna		3,286	1,489
3rd country program (U.S.S.R. to Rome)		882	249
Others (Beirut, etc.)		1,070	176
Total	35,000	22,080	4,263
Returned from Israel to Western Europe	NA	2,273	322

RUSSIAN RESETTLEMENTS—OTHER THAN ISREAL

	United States	Australia	Canada	Sweden	South Africa	Latin America	West Europe	Other areas	Total
January 1974	219	3	63				1	10	296
February	356		41					3	400
March	315		19	3			8	6	351
April	380	3	55			4		7	449
May	382		27				8	3	420
June	303		59	1			2		365
July	292		43				4		339
August	442		40				7		489
September	266	21	46				40	1	374
October	329		22	2			1		354
November	502		42				17	4	565
December	312	14	34			4	11	6	381
Total 1974	4,098	41	491	6		8	99	40	4,783
January 1975	357	18	55			1	2	14	447
February	210		114					4	328
March	269	11	62				18	11	371

Mr. PASSMAN. Mr. Shriver?

MOVEMENT OF PEOPLE TO LATIN AMERICA

Mr. SHRIVER. Mr. Kellogg, last June, you informed me by letter that you were planning to spend $220,000 for a pilot program for the migration of U.S. residents to Latin America. These would be people who possessed skills needed in Latin American countries. Then in December, you wrote that this program had been declared not feasible.

This sounds like just another form of technical assistance. Why would you consider spending these humanitarian funds for such a program?

Mr. KELLOGG. Funds for the Intergovernmental Committee for European Migration are authorized under Public Law 87–510, the Migration and Refugee Assistance Act of 1962, "for the purpose of assisting in the movement of refugees and migrants and to enhance the economic progress of the developing countries by providing for a coordinated supply of selected manpower." ICEM's Latin American program of moving skilled migrants from Europe to Latin America is primarily an economic development program, rather than an humanitarian one. The pilot program would have made a similar program available for Americans. It was abandoned as it was deemed inadvisable to initiate new programs that could cause further demands on public funds, and was also deemed impractical.

CAMBODIAN REFUGEES

Mr. SHRIVER. Part of your fiscal 1975 funds were to be given to the United Nations High Commissioner for Refugees for a program of assistance to Cambodian refugees in South Vietnam. There were reportedly more than 25,000 such refugees at the end of 1974. What is the status of those refugees now?

Is the United States still contributing to the UNHCR for this purpose?

Mr. KELLOGG. To the best of our knowledge, these Cambodian refugees were enveloped by Vietnamese Communist forces. We do not know their present status.

The United States is not contributing further funds for this purpose.

NATIONALITY OF REFUGEES

Mr. SHRIVER. In addition to the thousands of Vietnamese refugees now entering the United States, how many refugees from other sources would you anticipate will enter the United States under the auspices of each of these programs for which you are testifying today? You might provide a breakdown by nationality of these refugees for the record.

Mr. KELLOGG. Apart from the Vietnamese refugees it is estimated that 10,200 refugees from the Eastern Hemisphere under seventh preference and some from Latin America will enter the United States during calendar year 1975. Most of these refugees will have been supported by USRP, ICEM and to some extent the UNHCR. The nationality breakdown (estimates) of these refugee immigrants is as follows:

Albanian, Bulgarian, Chilean, Chinese, Cuban, Czechoslovak, Hungarian, Polish, Romanian, and Russian.

ICEM LOAN FUND

Mr. SHRIVER. You notified us that the funds determined not to be needed for the Latin American pilot program and the Cuban movement from Spain were allocated to the ICEM refugee loan fund. Why did that loan fund need replenishing?

Mr. KELLOGG. The ICEM refugee loan fund, although a revolving fund, receives less in repayments than it loans out, and with large refugee movements, as has been the case with ICEM in recent years, the drawdown is accelerated. This is essentially the reason why priority was given to replenishment of the fund.

SOVIET REFUGEES

Mr. SHRIVER. Last November, the President made a determination to transfer $5 million of foreign assistance funds to the migration and refugee account to assist Soviet refugees leaving the Soviet Union who did not desire to go to Israel. Tell us more about that.

Mr. KELLOGG. Because the numbers of Soviet refugees opting to settle in countries other than Israel increased very rapidly in 1974, the portion of the $36.5 million appropriated funds which was allocated to support those refugees proved to be inadequate. The $5 million made available by the Presidential determination of November 2, 1974, has been used to provide, through American voluntary agencies, care and maintenance in Europe, principally Rome, and grants of $300 per person to the same voluntary agencies for those resettled in the United States. These funds are expected to be exhausted in June 1975.

Mr. SHRIVER. What is the current picture in regard to Jewish refugees now being allowed out of the Soviet Union?

Mr. KELLOGG. The tables herewith submitted show the flow of Soviet refugees, Jewish and non-Jewish, to Israel and other destinations.

[The tables follow:]

SOVIET JEWISH MIGRATION STATISTICS—ARRIVALS IN ISRAEL, BY MONTH

	1972	1973	1974	1975
January	3,000	2,500	2,425	899
February	1,800	2,750	1,598	889
March	1,980	2,180	1,709	561
April	2,850	2,840	1,513	671
May	2,800	2,170	1,220	.....
June	3,100	1,930	1,340	.....
July	2,160	2,250	1,174	.....
August	2,100	2,700	1,398	.....
September	2,100	3,000	1,005	.....
October	2,900	4,200	1,439	.....
November	3,800	3,800	1,154	.....
December	3,100	3,000	867	.....
Total	31,600	33,500	16,842	.....

Note: Arrivals for calendar year 1971, March through December were 14,100.

SOVIET REFUGEE MIGRANTS REGISTERED BY RMRC

	1973	1974	1975 [1]
1. Ex-U.S.S.R. to Israel via Vienna (and Bucharest in 1973)	33,500	16,842	2,349
2. Broke off trip in Vienna		3,286	1,489
3. Third-country-program (U.S.S.R. to Rome)		882	249
4. Others (Beirut, etc.)		1,070	176
5. Total	35,000	22,080	4,263
6. Returned from Israel to Western Europe	NA	2,273	322

[1] January through March.

RUSSIAN RESETTLEMENTS—OTHER THAN ISRAEL

	United States	Australia	Canada	Sweden	South Africa	Latin America	Western Europe	Other areas	Total
1974:									
January	219	3	63				1	10	296
February	356		41					3	400
March	315		19	3			8	6	351
April	380	3	55			4		7	449
May	382		27				8	3	420
June	303		59	1			2		365
July	292		43				4		339
August	442		40				7		489
September	266	21	46				40	1	374
October	329		22	2			1		354
November	502		42				17	4	565
December	312	14	34			4	11	6	381
Total, 1974	4,098	41	491	6		8	99	40	4,783
1975:									
January	357	18	55			1	2	14	447
February	210		114					4	328
March	269	11	62				18	11	371

OIL-PRODUCING NATIONS' REFUGEE AID

Mr. SHRIVER. Are any of the newly rich oil-producing nations stepping up their contributions to these refugee programs?

Mr. KELLOGG. Iran has provided full support for about 150,000 Kurds from Iraq who have taken refuge in Iranian territory, and intends to integrate them into the country. We are informed that this has cost over $190 million so far. Qatar has offered to make a contribution, probably to the UNHCR, for Indochina refugees. We do not know how much that will be.

Other than this, the newly rich oil-producing countries do not seem, at least so far, to be increasing their support of refugee programs.

CUBAN REFUGEES FROM SPAIN

Mr. SHRIVER. Has the program bringing Cuban refugees to the United States from Spain now been completed? I believe it was to be accomplished by last October 25.

Mr. KELLOGG. The expanded parole program for bringing Cuban refugees from Spain to the United States has been completed. A total of 16,190 came into this country under this program and went to 39 States and the District of Columbia.

CHILEAN REFUGEES

Mr. SHRIVER. One of your reports to us—it's about a year old now—mentioned problems encountered by Chilean refugees in Argentina and Peru. Tell us more about that.

Mr. KELLOGG. Peru received about 4,000 of these refugees in transit, but has insisted that they be resettled elsewhere. The UNHCR and ICEM have been resettling some of these refugees, but a considerable number remain. On April 23, after consultations with the House and Senate Judiciary Committees, the Deputy Secretary of State sent a letter to the Attorney General asking that he use his authority to

parole into the United States up to 400 Chilean family heads who are refugees in Peru or are detainees within Chile, plus their families.

Argentina has accepted for permanent residence over 16,000 Chilean refugees. There has been some difficulty in absorbing these people, but the situation at the moment seems to be under control.

HAITIAN REFUGEES

Mr. SHRIVER. Are you now supporting the movement of Haitian refugees back to Haiti from the United States?

Mr. KELLOGG. We are still reviewing the requests for asylum of Haitians who arrive in the United States on small boats. The majority do not appear to be refugees, and once their cases are fully processed, will return or be deported to Haiti. Those who are refugees will be allowed to remain in the United States.

Mr. SHRIVER. Have any returnees suffered reprisals attributed to the Haitian Government?

Mr. KELLOGG. Not to our knowledge. We have followed up the small number who have been returned and all are well and have not been harassed or mistreated. A Canadian sociologist did a similar followup on Haitian deportees from Canada, with similar results.

COST OF RESETTLING REFUGEES

Mr. SHRIVER. Your May 1974 report also mentioned a report you were waiting for from the American Council of Voluntary Agencies for Foreign Service which was to give you better information concerning the cost of resettling refugees in the United States. I assume you have now receved that report. What were the findings, and how have you used those findings in determining the request made earlier for the Vietnamese refugees?

Mr. KELLOGG. The question which I posed to the voluntary agencies was, as you will appreciate, a very difficult one—to quantify the dollars-and-cents cost of resettling an average refugee. The responses were as disparate as the refugees themselves, and, to reply to your question as briefly as possible, ranged from a little over $400 per person to over $1,600 per person. At that, the figures used in the calculations were only those the agencies were able to identify—for instance, many of the costs incurred by local parishes, by individual parishoners, who helped refugee families become reestablished in the community, were unavailable or unrecorded. Many factors determined the cost of resettlement: the age and health of the refugee; if of work age, his work skills and the availability of employment; knowledge of the English language, et cetera.

One agency reported that to reduce its costs it only chose congregations which fitted into clusters and what are considered high employment areas, areas for which it had large constituencies, and readily available housing. To help convey the range of congregational man-hour units, for example, that go into refugee resettlement, this agency undertook an estimate which showed that a widow and six children required some 2,500 man-hour units to assist the family to become self-supporting, while a comparable family of seven required

700 man-hour units. One agency stated that the resettlement grants "saved us and the Government thousands of dollars and reduced the time required to make the refugee a contributing unit to American society". They pointed out that the reestablished refugee family, with an average income estimated at slightly more than $12,000, covers the resettlement grant through Federal taxes on earned income.

To turn to the second part of your question, the $500 per capita resettlement grant to the agencies for Vietnamese refugees, was arrived at through agreement between the voluntary agencies and our Task Force. We made $300 per capita grants in resettling Ugandan Asians in 1972. Since that time costs have, as you know, increased substantially. During the last couple of years we have also been making $300 grants for Soviet Jewish refugees being resettled in the United States. We are informed that actual resettlement costs in the United States for Soviet refugees are four to five times that amount.

So, given the facts that costs have substantially increased and jobs are harder to find, coupled with the fact that the Vietnamese refugees don't have an established constituency in the United States, we made a judgment that the least we could offer was $500 per person. Time will only tell whether our judgment is right on the button, too little or too much.

Mr. SHRIVER. What are the United Nations High Commissioner for Refugees and the Intergovernmental Committee for European Migration doing to help relocate the Vietnamese refugees in countries other than the United States?

Mr. KELLOGG. The UNHCR has sent an appeal to over 30 governments asking them to accept Indochina refugees and he is in touch also with the governments of countries of first asylum, mainly in Southeast Asia. ICEM has been canvassing its member governments. These efforts parallel our own in approaching countries around the world. Canada, France, Australia, Great Britain, Chile, Morocco and a number of other countries have responded positively, and these responses are being followed up.

At the same time UNHCR and ICEM representatives at the staging area on Guam have been ascertaining the preferences of the refugees, including the desire of some for repatriation.

In addition, ICEM has arranged the transportation of large groups of Khmer refugees from Thailand to Camp Pendleton, and of other Khmer and Vietnamese refugees from India, Singapore and other countries to countries of ultimate resettlement. It is continuing this valuable and noteworthy service.

ICEM'S ADMINISTRATIVE EXPENSE

Mr. SHRIVER. Last year, the record indicated that ICEM's administrative expenses had increased substantially in relation to their program level. In 1973, their administrative expenses were running more than 20 percent of the program level. What was it in 1974? Why is that so high?

Mr. KELLOGG. In 1973, ICEM's National Migration Program was substantially reduced, as Australia halved its ICEM movements that year, and in 1974, Australia having withdrawn from ICEM, those

movements ceased. This was reflected in the resulting increase in percentage of ICEM administrative expenditures since there had been a reduction in operational expenditures. Additionally, ICEM's Administrative Budget, which is based on the dollar, was affected by dollar devaluations as well as rising costs. In 1974, ICEM's Administrative Budget was 19 percent of total ICEM expenditures, and in 1975 it is estimated at 21 percent.

MISSING IN ACTION

Mr. SHRIVER. Is the International Committee of the Red Cross continuing its efforts to locate U.S. missing in action personnel in Southeast Asia? Would you describe those efforts?

Mr. KELLOGG. The ICRC is making continuing efforts to help account for Americans missing in connection with the Indochina conflict. Representatives of the ICRC's Central Tracing Agency have been in Hanoi before and after the fall of Saigon, and an ICRC representative has continued to work on this problem in Laos. We have also turned to the ICRC for assistance to Americans remaining in Vietnam, and in recovering the remains of the dead.

Mr. PASSMAN. Mr. Conte?

COORDINATOR FOR HUMANITARIAN AFFAIRS

Mr. CONTE. Mr. Kellogg, would you explain where the Coordinator for Humanitarian Affairs will fit into the organizational setup of the State Department? What will be the relationship between that office and your own?

Mr. KELLOGG. The Department on April 21 established the Office of Humanitarian Affairs in the Office of Deputy Secretary Robert S. Ingersoll. The new office will coordinate a wide range of humanitarian interests within the Department now located in several offices. It will also focus on human rights in foreign policy decisionmaking.

The new Office of Humanitarian Affairs will have staff responsibility for providing policy counsel on human rights matters at decisionmaking levels in the Department—and coordinating the human rights aspects of ongoing activities falling under the responsibility of different bureaus and offices within the Department.

It will also carry out assigned functions within the Department in refugee and migration programs and supervise ongoing prisoner of war and missing in action programs, and coordinating activities pertaining to these programs.

The new office will be chiefly concerned with staff—rather than operational—functions.

D/HA will provide policy guidance for human rights officers in the regional bureaus, and in other bureaus and offices. It will work closely with the Bureau of International Organization Affairs (IO), the Department's Policy Planning Staff (S/P) and with the Office of the Legal Adviser (L) in developing guidance.

The new office will also coordinate and supervise the Department's policies relating to programs of humanitarian significance, including human rights, which are the operational responsibility of other agen-

cies. In addition, D/HA will be the focal point within the Department for all humanitarian affairs matters in which the Congress manifests an interest, and among nongovernmental volunteer agencies and the general public. In these matters D/HA will work closely with the Office of Congressional Relations (H), the Bureau of Public Affairs (PA), and other bureaus.

Mr. CONTE. How will the appointment of a coordinator bring more order into the refugee program morass? Wouldn't it be easier to reduce the number of programs?

Mr. KELLOGG. We do not agree that there is what you call a refugee program morass. Even though various programs are located in different offices of State, AID, and HEW, the responsible officers do keep each other informed and consult to avoid duplication and overlapping. The function of the coordinator will be to examine the various refugee programs to insure they are in harmony with policy and good management practices. He will also make doubly sure that there is no duplication of effort and that they do not work at cross purposes. If after examination it is found that some programs are susceptible to merger under the law, then indeed such mergers will be made.

VIETNAM REFUGEE PROGRAM

Mr. CONTE. As you know, this morning we had the full committee markup of the Vietnamese and Cambodia refugee appropriation. How much of this money will go through your office? What particular steps have you taken in your office to provide for the administration of the Vietnamese refugee program?

Mr. KELLOGG. $305 million of the $405 million are being channeled through my office.

My very competent executive staff is being further strengthened temporarily to handle the increased workload. We are getting good cooperation from the other agencies which have responsibility for various parts of the program. The oversight being exercised by the GAO is helpful.

Mr. CONTE. Would you outline the role of the UNHCR and ICEM in seeking out resettlement places for Indochina refugees?

Mr. KELLOGG. The UNHCR has sent an appeal to over 30 governments asking them to accept Indochina refugees and he is in touch also with the governments of countries of first asylum, mainly in Southeast Asia. ICEM has been canvassing its member governments. These efforts parallel our own in approaching countries around the world. Canada, France, Austrailia, Great Britain, Chile, Morocco, and a number of other countries have responded positively, and these responses are being followed up.

At the same time UNHCR and ICEM representatives at the staging area on Guam have been ascertaining the preferences of the refugees, including the desire of some for repatriation.

In addition, ICEM has arranged the transportation of large groups of Khmer refugees from Thailand to Camp Pendleton, and of other Khmer and Vietnamese refugees from India, Singapore, and other countries to countries of ultimate resettlement. It is continuing this valuable and noteworthy service.

ICEM

Mr. CONTE. Would you explain the $76,000 cut in support for the ICEM? Does the fact that you can make this cut indicate that too much was contributed last year?

Mr. KELLOGG. Since we are reducing our contribution to ICEM's Latin American program in fiscal year 1976 by $350,000, the $76,000 reduction in our overall contribution actually allows for an increase in our contribution to ICEM's administrative and refugee budgets of $274,000 ($350,000 less $76,000), an increase which is necessary because of rising costs, inflation, and dollar devaluation.

Mr. CONTE. What are our auditing capabilities with regard to the ICEM? What sort of ability will we have to insure that funds given to the ICEM for Indochina refugee resettlement will not be used for other purposes?

Mr. KELLOGG. The USG does not have the right to audit ICEM's books; however, we can and do stipulate to ICEM the purposes for which funds are made available. Moreover, we can request and receive from ICEM written reports on the utilization of funds. ICEM's books are audited each year by External Auditors (Price-Waterhouse). That firm's audit reports are made available to the USG and all other member governments of ICEM.

RED CROSS

Mr. CONTE. Can you explain the increase in your International Committee of the Red Cross request? What are the increased needs that this money will cover? Will there be a corresponding decrease in other countries' contributions?

Mr. KELLOGG. Our request for an increased contribution to the International Committee of the Red Cross reflects the fact that under Public Law 93–312 of June 8, 1974, the authorized U.S. contribution to the ICRC was raised to $500,000, from the previous authorized annual contribution of $50,000 which had been in effect under Public Law 89–230 since the enactment of that legislation on October 1, 1965. The responsibilities and operations of the ICRC have greatly and continuously increased in recent years, resulting in a constant increase in its financial requirement. The U.S. contribution will be used to help meet the increased ICRC budget, in promoting effective performance by ICRC of its responsibilities in the interest of furthering U.S. foreign policy objectives. No decrease in other countries' contributions is expected. On the contrary, the ICRC is presently conducting a campaign among the principal contributing governments toward securing increased contributions from them.

TRANSFER OF FUNDS

Mr. CONTE. Was it necessary last year to transfer funds under section 2(c)? If so, how much was transferred? What for? Why are you requesting an increase in the amount that can be transferred by Presidential determination?

Mr. KELLOGG. In fiscal year 1975 it has been necessary to transfer under section 2(c) $5 million for Soviet refugees going to countries other than Israel, and $5 million for refugees from Cambodia and Vietnam.

We are requesting an increase from $10 million to $25 million in the amount that can be transferred by Presidential determination because costs of refugee assistance have increased greatly since the $10 million figure was set in 1962 and the number of unexpected and urgent refugee situations requiring such assistance from the United States has also increased. Thus, for example, the early needs for Indochina refugee assistance were much greater than could be met by the Presidential determination plus other transfers from AID, pending the special appropriation which has just been passed by the House. At the same time we received urgent requests from the UNHCR which we could not meet to assist in the repatriation and reestablishment of refugees from Guinea-Bissau and Mozambique. Fortunately, AID is able to respond positively to the Guinea-Bissau and Mozambique requests from the line item in its appropriation for Portugal and its former colonies. A similar resource might not be available in the future for other urgent refugee situations which might arise. If there should be further refugee emergencies not covered by existing appropriations during this fiscal year, we would be unable to meet them. This is a dire situation in which the United States should not find itself.

REDUCED FISCAL YEAR 1975 LEVEL

Mr. CONTE. Your justification indicates that the reduced level of 1975 funding will impair the ability of the voluntary agencies to carry on required resettlement activities. Would you tell me exactly what agencies are involved and how their activities have been impaired?

Mr. KELLOGG. This is a reduction in funds which concerns all of the agencies we deal with, not one specific agency. Counseling and resettlement services provided by the voluntary agencies will be curtailed and it is likely that refugees will arrive in the United States less well prepared to adjust to their new life because of reduced funds.

Mr. CONTE. If we provide an increase in the program for restoration to an effective level, will these funds be used to meet 1975 obligations, or be used for strictly 1976 operations?

Mr. KELLOGG. These funds will be available for calendar year 1976 operations.

REFUGEE NEEDS

Mr. CONTE. What do you estimate as predictable refugee needs for 1976?

Mr. KELLOGG. It is estimated that USRP will have an active case load of 12,000 in the European asylum areas on January 1, 1976. It is further estimated that 7,500 new refugees (non-Russian) from Eastern European countries will seek asylum and receive USRP assistance during calendar year 1976. To meet the needs of these particular refugee groups it is estimated that $2.8 million will be required for the regular USRP program for Eastern European refugees. Additionally $500,000 will be required for FERP and $400,000 for SAREP.

SOURCE OF REFUGEES

Mr. CONTE. What nations are you watching which could result in new waves of refugees? Could you outline the issues of the potentially explosive situations in those countries?

Mr. KELLOGG. There are a number of potentially explosive situations within various countries around the world which could produce new waves of refugees. Because of the sensitivity of these situations, it would not be helpful to discuss them in the public record.

ICEM

Mr. CONTE. What portion of the ICEM budget is provided by the United States?

Mr. KELLOGG. The U.S. fiscal year 1976 contribution of $3 million is 16 percent of ICEM's estimated 1976 $19,050,000 budget.

Mr. CONTE. If you haven't done so already, would you provide a list of the other contributions to the ICEM, along with the amounts they contribute?

Mr. KELLOGG. Actual contribution figures for calendar year 1975 are not yet available. Actual member government contributions for calendar year 1974 to ICEM are as follows:

Government contributions to ICEM's calendar year 1974

Argentina	$125,409	Malta	133,950
Australia	169,967	Netherlands	267,092
Austria	63,804	Nicaragua	5,440
Belgium	207,500	Norway	32,000
Bolivia	5,440	Panama	6,140
Brazil	184,026	Paraguay	5,613
Chile	68,620	Peru	21,906
Colombia	43,205	South Africa	1,113,798
Costa Rica	8,540	Spain	454,730
Cyprus	4,000	Switzerland	224,062
Denmark	38,400	United States of America	3,460,000
Dominican Republic	5,440	Uruguay	8,783
Ecuador	26,935	Venezuela	16,000
El Salvador	5,440		
Federal Republic of Germany	885,353	Total contributions	8,810,362
Greece	132,586	Special program for Chilean refugees	265,434
Honduras	5,440		
Israel	636,071	Total Government contributions	9,075,796
Italy	432,672		
Luxembourg	12,000		

Mr. CONTE. Can you tell me where the national migrants handled by the ICEM are located?

Mr. KELLOGG. ICEM's national migrants totaled 7,211 in calendar year 1974, of which 3,287 moved to Latin America, almost all under the Latin American program. Most of the rest went to South Africa and Australia. The national migrants come from Europe, chiefly from Germany, Spain, Italy, and Greece.

CHILEAN PROGRAM

Mr. CONTE. What is the status of the Chilean parolee program?

Mr. KELLOGG. On April 23, after consultations with the House and Senate Judiciary Committees, the Deputy Secretary of State sent a letter to the Attorney General asking him to parole into the United States up to 400 Chilean family heads who are refugees in Peru or detainees within Chile, plus their families. Parole would be on a case-

by-case basis, with strict regard to the security provisions of the Immigration and Nationality Act.

OBSERVER NATIONS

Mr. CONTE. What is the role of ICEM observer nations?

Mr. KELLOGG. Observer status is available to governments with a demonstrated interest in the principle of free movement of persons. They may attend executive committee and council meetings, but have no vote. Often, observer status is a stepping stone toward membership. For instance, Venezuela and Cyprus recently changed status from observer to member. Membership requires a financial contribution at least to the administrative budget of ICEM, and enables participation in ICEM's governing bodies.

NATIONAL MIGRATION PROGRAM

Mr. CONTE. Would you provide some background on the ICEM's national migration program? Why does the United States not contribute to this part of the ICEM budget?

Mr. KELLOGG. The national migration program is today a very small program, since Australia's withdrawal, with only 5,000 movements anticipated in calendar year 1976. In the early years of ICEM, at the program's height, the United States did contribute to the national migration program, when the problem of surplus populations in Europe was acute and the program served to stimulate migration from Europe to overseas countries.

Mr. CONTE. Your justification states that ICEM services could only be duplicated at greater financial or political cost by individual members. What political costs might be involved in such a program?

Mr. KELLOGG. An example of "political cost" is the movement of Uganda Asians in which ICEM played such a key role. In the political climate at that time, it would have been extremely difficult if not impossible for the United States or any other single country to effect the movement of Uganda Asians who were in peril and were being ousted from Uganda under a very tight deadline. Nations are highly sensitive on the subject of refugees which their policies may bring into being, or to whom they may give asylum. For this reason intervention by one nation to aid another's refugees is potentially abrasive. Intervention by an international organization is less contentious and, therefore, often sought or welcomed by all parties concerned. In the case of the Uganda Asians, ICEM was able to negotiate deftly with the Government of Uganda and the asylum countries, and together with the UNHCR, to move and reestablish the Uganda Asians, and successfully deal with this human problem.

UNHCR

Mr. CONTE. Where does the UNHCR operate programs where it would be difficult or unfeasible for the United States to provide direct assistance?

Mr .KELLOGG. The UNHCR operates refugee assistance programs in a number of underdeveloped countries where the United States would find it difficult or unfeasible to provide direct assistance.

Mr. CONTE. Why is American direct assistance unfeasible in such areas?

Mr. KELLOGG. Many underdeveloped countries—especially those in Africa and Asia—turn to the UNHCR not merely to obtain the benefits of UNHCR expertise and resources, but also in order to place a United Nations umbrella over their efforts to resolve their refugee problems. In so doing, some such nations seek to avoid the onus of having called upon or permitted the direct intervention of other governments in dealing with refugee problems which have decided political overtones. In this context such underdeveloped nations may be particularly concerned to avoid having direct bilateral arrangements with any of the superpowers for assisting in resolving delicate refugee problems involving sensitive relationships between the country of origin and the country of asylum of the refugee.

Mr. CONTE. Given that, is it appropriate to support these activities?

Mr. KELLOGG. It is our view that it is certainly appropriate that we support the activities of the UNHCR in underdeveloped countries in which direct U.S. assistance is not feasible, because the asylum countries concerned seek and welcome the programs of the UNHCR and they know that the UNHCR is dependent upon adequate Government contributions. By having the UNHCR umbrella over refugee assistance, the problem becomes depoliticized to the extent possible. The UNHCR stresses that his role is purely humanitarian. We are convinced that U.S. contributions to the UNHCR become known to the governments and people of these countries, and serve to build a reservoir of good will toward the United States within such countries. In this connection it should be noted that UNHCR activities are authorized and supervised by an executive committee of 31 nations including not only the United States but a number of the developing countries. Thus through the medium of the UNHCR we are participating with these countries in meeting their refugee problems and it is our conviction that this serves U.S. foreign policy interests.

RED CROSS

Mr. CONTE. What is the total budget of the ICRC? What portion is provided by the United States?

Mr. KELLOGG. The regular budget of the ICRC for 1976 is expected to be approximately $5.5 million. If our request for a $500,000 contribution to the ICRC for 1976 is approved the United States will be funding less than 10 percent of the projected ICRC budget for that year.

SOVIET REFUGEES

Mr. CONTE. How much is being requested for Soviet refugee assistance, and why?

Mr. KELLOGG. The administration is not at this time requesting further funds for Soviet refugee assistance, but has no objection if the Congress continues its initiative to provide such funds.

Mr. CONTE. What is the current Soviet position on Jewish refugees? What is the present rate of emigration, and how does this compare to historical rates?

Mr. KELLOGG. Both Jews and non-Jews are continuing the emigration with the permission of the Soviet Government, but at a lower rate than last year. In 1973 some 35,000 left the U.S.S.R.; in 1974 about 22,000; and in the first 3 months of 1975 about 4,300 (corresponding to an annual rate of about 17,000).

MISSING IN ACTION

Mr. CONTE. You mentioned that the Coordinator for Humanitarian Affairs will supervise the prisoner of war/missing in action programs. Can you tell me what those programs are? What is being done to bring about a full accounting of our MIA's? What has been, or what will be the impact of the Communist victory in Vietnam on efforts to get the full accounting?

Mr. KELLOGG. We are making continuing efforts to obtain the accounting for our missing in action personnel provided for in the Vietnam and Laos agreements. Until the fall of Saigon the formal avenue for negotiations on this subject was the Four Party Joint Military Team (FPJMT), composed of representatives from North Vietnam, the Republic of Vietnam, the Provisional Revolutionary Government, and the United States. Although the FPJMT had been instrumental in arranging for the return in March 1974 of remains of 23 Americans identified as having died in captivity in North Vietnam, the team had been virtually ineffective from June 1974 due to a boycott by the Communist side. Our Joint Casualty Resolution Center (JCRC) continues to operate from its headquarters in Thailand to accumulate information on our MIA's. JCRC teams conducted searches in GVN-controlled areas of South Vietnam until April 1975. Such searches have never been permitted in North Vietnam, Laos, or Cambodia. Although the Communist advances have set back our efforts, we are pressing forward on this subject, through diplomatic and other channels.

Mr. PASSMAN. Mr. Bevill, we are examining on the migration and refugee assistance program.

DUPLICATION OF EFFORT

Mr. BEVILL. Mr. Kellogg, in looking at this we have so many agencies that my first reaction is I wonder how much overlapping we have in these programs, the Intergovernmental Committee for European Migration, ICEM, UNHCR, ICRC, and the U.S. refugee program. That is four. Is there any overlapping?

Mr. KELLOGG. Having a business background, I can assure you that I am well aware of the advantages and disadvantages of mergers. We have considered the possibilities of merging one or more of these organizations. But I can tell you, sir, that there is no duplication and each of them carry out a different function in a different way.

As an example, ICEM is very much of a nonpolitical organization made up of 32 nations from the non-Communist world, which has operated since the crisis years following World War II. They are experts in their field of transportation and world resettlement of refugees and migrants.

Mr. BEVILL. Before you leave that, 32 nations, could you give me any judgment as to how much the other nations are contributing?

Mr. KELLOGG. Yes.

Mr. BEVILL. Just give me the totals but please put it in the record as to how much each is giving.

Mr. KELLOGG. I will be glad to. I think the easiest way of giving you that figure is to tell you that we have requested $3 million for 1976 and the total Government contributions are estimated at just over $8 million, $8,082,000 to be exact.

[The information follows:]

Government contributions to ICEM's calendar year 1974 budget

Argentina	$125,409	Malta	133,950
Australia	169,967	Netherlands	267,092
Austria	63,804	Nicaragua	5,440
Belgium	207,500	Norway	32,000
Bolivia	5,440	Panama	6,140
Brazil	184,026	Paraguay	5,613
Chile	68,620	Peru	21,906
Colombia	43,205	South Africa	1,113,798
Costa Rica	8,540	Spain	454,730
Cyprus	4,000	Switzerland	224,062
Denmark	38,400	U.S.A.	3,460,000
Dominican Republic	5,440	Uruguay	8,783
Ecuador	26,935	Venezuela	16,000
El Salvador	5,440		
Fed. Rep. of Germany	885,353	Total contributions	8,810,362
Greece	132,586	Special program for Chilean refugees	265,434
Honduras	5,440		
Israel	636,071	Total Government contributions	9,075,796
Italy	432,672		
Luxembourg	12,000		

Mr. BEVILL. We are giving $3 million out of the $8 million?

Mr. KELLOGG. Correct, sir.

Mr. BEVILL. Go ahead. You were naming the others.

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES

Mr. KELLOGG. The UNHCR is, of course, an effective agency of the United Nations. It operates within those parameters in a particularly effective way in its particular area. For example, its prime responsibility is an outcome of the Declaration of Human Rights by the United Nations, and the Convention and Protocol on the Status of Refugees which gave refugees certain inalienable rights in their country of asylum. It is the prime responsibility of the High Commissioner to see that these rights are granted so that that the refugee can have the right to work, the right to social benefits and welfare, access to the courts and most importantly that he is not returned to the country from which he fled for fear of persecution or torture.

So the High Commissioner has a different role to play in the refugee spectrum from ICEM.

Mr. BEVILL. How many countries participate in that through the U.N.?

Mr. KELLOGG. I believe it is 138.

Mr. BEVILL. Would you also furnish us the names of the countries and how much they contributed through the U.N.?

Mr. KELLOGG. Yes, sir.
[The information follows:]

Government Contributions to UNHCR Material Assistance Program for calendar year 1974

Country	Amount	Country	Amount
Algeria	$16,304	Libya	5,000
Argentina	25,000	Luxembourg	5,263
Australia	297,440	Madagascar	1,179
Austria	38,273	Malawi	353
Bahamas	3,457	Malaysia	1,500
Belgium	531,398	Malta	1,160
Brazil	10,000	Mauritius	1,024
Burundi	1,905	Mexico	10,000
Canada	567,010	Monaco	190
Central African Republic	5,000	Morocco	10,000
Chile	10,000	Nepal	2,195
Colombia	4,156	Netherlands	583,205
Congo	1,167	New Zealand	71,660
Cyprus	710	Nigeria	6,902
Dahomey	250	Norway	478,231
Denmark	587,078	Oman	4,000
Ecuador	1,000	Pakistan	2,222
Egypt	7,667	Panama	500
Ethopia	5,159	Peru	1,248
Finland	180,000	Philippines	1,250
France	521,250	Portugal	4,000
Gabon	1,477	Qatar	5,000
Gambia	301	Republic of Vietnam	1,000
Federal Republic of Germany	780,537	Saudi Arabia	8,000
		Sierra Leone	1,517
Ghana	4,000	Sudan	8,616
Greece	14,000	Sweden	1,308,554
Holy See	2,500	Switzerland	413,072
Iceland	8,500	Syria	677
India	12,755	Tanzania	3,797
Indonesia	2,000	Trinidad and Tobago	1,500
Iran	9,887	Tunsia	3,000
Iraq	11,864	Turkey	5,415
Ireland	25,000	Uganda	4,923
Israel	10,000	United Kingdom	848,837
Italy	45,385	U.S.A.	[1] 2,450,000
Ivory Coast	4,010	Upper Volta	2,358
Japan	50,000	Yugoslavia	10,000
Kenya	1,000	Zaire	4,000
Kuwait	3,000		
Lebanon	2,000	Total contributions	10,078,788
Liberia	5,000		

[1] Includes $1 million for special program for assistance to refugees in or from Chile.

Mr. BEVILL. Go ahead, sir.

INTERNATIONAL COMMITTEE OF THE RED CROSS

Mr. KELLOGG. You mentioned ICRC, International Committee of the Red Cross. It too has a very special function in alleviating the tragedies that occur around the world. For example, in wartime and in the aftermath it has a tracing service that is unique in any international organization which provides a chance for families to become reunited or to find out what has happened to lost members.

The ICRC also helps with war victims and refugees within the country where war has taken place. So they have in their own terms a very special method of operating. I should mention that 50 percent of the ICRC budget is supported by the Swiss Government and not the international community. This gives ICRC an opportunity to be totally nonpolitical and able to go into situations where other organizations cannot participate for political reasons.

Mr. BEVILL. What percent do we put in there?

Mr. KELLOGG. This year we are asking for $500,000 compared to a total budget of $5.5 million.

Mr. BEVILL. You do not mean the Red Cross budget when you say $5.5 million. You mean—whose budget is this?

Mr. KELLOGG. International Committee of the Red Cross.

Mr. BEVILL. I understood you to say 50 percent was furnished by Switzerland.

Mr. KELLOGG. That is correct. Our share is only $500,000 out of a $5.5 million budget.

Mr. BEVILL. Then 50 percent is Switzerland's. Do you have this information as to the other countries that contribute?

Mr. KELLOGG. I would be pleased to submit it for the record.

Mr. BEVILL. Please do.

[The information follows:]

Government contributions to ICRC for 1974

Country	*Amount*	*Country*	*Amount*
Saudi Arabia	$270,000	Lebanon	$5,156
Federal Republic of Germany	108,190	Liberia	4,524
Bahrein	30,000	Morocco	4,254
Colombia	2,970	Mexico	3,746
Ivory Coast	2,032	Norway	11,287
Denmark	30,452	New Zealand	21,130
Ecuador	708	Oman	5,810
Spain	2,540	Pakistan	4,206
U.S.A.	300,000	Netherlands	15,873
Finland	11,681	Poland	9,524
Greece	8,170	United Kingdom	45,318
Upper Volta	92	Sri Lanka	984
Honduras	841	Switzerland	2,380,952
Hungary	635	Syria	4,206
Indonesia	9,221	Thailand	5,714
Iraq	9,254	Trinidad and Tobago	508
Iran	9,524	Tunisia	1,270
Ireland	3,175	Uganda	1,244
Israel	14,524	Subtotal	3,380,571
Japan	24,984	Arrears payments	22,202
Kuwait	15,873	Grand total	3,402,773

U.S. REFUGEE PROGRAM

Mr. BEVILL. Then you have the U.S. refugee program which is next?

Mr. KELLOGG. Right.

With respect to that program I can call on Mr. Carlin who actually directs it for an explanation but just before he starts, I should say there are certain areas where the U.S. Government finds it beneficial to act in a bilateral way rather than multilateral.

Mr. CARLIN. Just to expand briefly, the U.S. refugee program is our own Government's effort. We operate through eight voluntary American agencies which have direct contact with the refugees and defectors. We provide care and maintenance, resettlement documentation, language training and transportation. It is a people-to-people type of program. We do this through American voluntary agencies, something that cannot be achieved through a multilateral agency.

We do meet in Geneva periodically, ICEM, ICRC, UNHCR, and our own U.S. program. We do that to avoid duplication. USRP deals with resettlement assistance.

Mr. BEVILL. How much money is put into the USRP program?

Mr. KELLOGG. $3.7 million is requested for 1976.

Mr. BEVILL. Does any other country put any other money in there or is this strictly American?

Mr. KELLOGG. It is purely United States.

Mr. BEVILL. The eight agencies of the Government that you referred to, would you put those in the record?

Mr. KELLOGG. These are eight American voluntary agencies and we can certainly insert their names in the record. They represent in the main religious and ethnic groups.

Mr. BEVILL. That covers those four.

[The information follows:]

LISTING OF VOLUNTARY AGENCIES

American Fund for Czechoslovak Refugees, Inc.
American Jewish Joint Distribution Committee, Inc.
International Catholic Migration Commission
International Rescue Committee, Inc.
Polish American Immigration and Relief Committee, Inc.
Tolstoy Foundation, Inc.
United HIAS Service, Inc.
World Council of Churches

OTHER REFUGEE ASSISTANCE PROGRAMS

Mr. BEVILL. Ambassador Brown was in here the other day on behalf of the South Vietnamese refugee program. Is this a new agency, the one Ambassador Brown is heading or is he coordinating all of the agencies?

Where does he fit into the picture?

Mr. KELLOGG. I am pleased you asked that question. The international organizations on which the international aspects of the Indochina crisis are dependent on these very same organizations, UNHCR, ICEM and ICRC. One of the important aspects as to why we are before this committee is to ask for the regular appropriations which keep these organizations going in the lean years and in the noncrisis years, so that they will be ready and able to function in situations such as we face today.

Mr. BEVILL. The Cuban Refugee Agency—does that participate with any of these in any way?

Mr. KELLOGG. No, sir. It is not part of the request that we bring to this committee today because HEW is a domestically operated and oriented agency.

Mr. BEVILL. Are there any other refugee programs in existence in our Government other than these we have talked about, to your knowledge?

Mr. KELLOGG. Yes.

The largest one that comes to mind is our contributions to UNRWA.

Mr. BEVILL. We will put that information in the record as to what other refugee agencies we have as well as just a brief statement of what function they perform.

Mr. KELLOGG. Certainly we will be pleased to do that.

[The information follows:]

U.S. assistance to refugees is given principally through three agencies of the U.S. Government—the Department of State, the Agency for International Development and the Department of Health, Education, and Welfare. The following is a summary for fiscal year 1974 of the refugee programs funded outside the scope of the Office of the Special Assistant to the Secretary for Refugee and Migration Affairs:

DEPARTMENT OF STATE

Bureau of International Organization Affairs

Contribution to the United Nations Relief and Works Agency for assistance to Palestinian refugees. Assistance includes maintenance of camps, feeding, education and vocational training of Palestinian refugees until a solution is found to the Middle East problem, $23.2 million.

Bureau of Education and Cultural Affairs

Southern African refugee students in the United States. These are programs to provide university study (primarily at a graduate level) to refugees from southern African countries, $100,000.

AGENCY FOR INTERNATIONAL DEVELOPMENT

Southeast Asian Refugees

Before the fall of Vietnam and Cambodia, the United States was assisting refugees in those countries and also in Laos. These were war-displaced persons rather than refugees in the international meaning of the word—they were within their own countries of nationality. Assistance provided included the establishment and maintenance of camps, feeding, medical services and also assistance in getting out of camps and back to settlements and villages, $106.3 million.

Public Law 480 Food Program

Of the total Public Law 480 food program the amount of $5.2 million is estimated to have been provided for refugee related problems in a number of different countries throughout the world, $5.2 million.

Cyprus

Assistance to refugees displaced by events on Cyprus was provided from AID Disaster Relief funds and special appropriations included by Congress in foreign assistance for this purpose. Funds were provided through the UNHCR and the ICRC. Data covers calendar 1974, $7.3 million.

HEALTH, EDUCATION AND WELFARE

Cuban Refugees in the United States

These funds are appropriated by Congress under the Migration and Refugee Assistance Act to HEW to help Cuban refugees in the United States. The program is designed to help in the reception, counseling and resettlement of Cuban refugees and also includes funds made available to the States for assistance with needed payments of benefits to Cuban refugees, $129 million.

Mr. LONG. We will have to take a short recess to vote.

[Brief recess.]

SOVIET REFUGEES

Mr. LONG. The committee will resume.

Mr. Kellogg, have you ever had any complaints about the way the funds for the Soviet refugees were allocated or administered?

Mr. KELLOGG. If any, certainly very, very minor, Dr. Long.

Obviously there are some Jewish organizations who have wanted to become contractors, if I can use that word, with the USG. But we have resisted on the theory that the UIA is the major organization and umbrella, with whom we have done most of our contracting.

If UIA wishes to subcontract, that is up to its judgment and its decision.

Mr. LONG. Have you had any complaints that any of the refugees were not being properly taken care of?

Mr. KELLOGG. None that come to mind, sir, no.

I might add that I have personally visited the reception center outside of Vienna and traveled with Soviet refugees on El Al between Vienna and Lad Airport near Tel Aviv, and visited all the reception centers in Israel.

Mr. LONG. You have taken a personal interest in this program?

Mr. KELLOGG. Yes; I have.

Mr. LONG. I am going to be in Vienna toward the end of this month on a visitation which is being conducted by the Department of Defense under Secretary Schlesinger. We are visiting Vienna and a number of other NATO countries. I wonder whether it would be possible for me to visit the reception center for the Soviet refugees that is near Vienna there.

Could that be arranged?

Mr. KELLOGG. My only hesitation, of which I'm sure you are aware, is that the Austrian Government has, with the full concurrence of the Jewish Agency for Israel, been trying to keep this center as low key as possible.

Mr. LONG. I have no intention of using this as a publicity gimmick or anything, but I would like to see it and talk to some of the people and get reactions.

Mr. KELLOGG. We will be glad to help you.

Mr. LONG. I would like to have my picture taken while I am there but I certainly don't intend to make publicity of it.

I certainly don't want to get a recurrence of terrorist attacks.

Mr. KELLOGG. We will try to be of help.

Mr. LONG. How do we get in touch with you on that?

Mr. KELLOGG. At the State Department. If you will let us know your dates and travel plans, we will set up the meetings in Vienna.

Mr. LONG. My office will be in touch with you.

Mr. Coughlin?

We would be happy to hear your questions.

REFUGEES IN ITALY

Mr. COUGHLIN. It is very nice to see you again.

One question that came up the other day in connection with the Vietnamese refugee situation was the refugee camp in Italy. Do you have any idea about the cost per day of maintaining a refugee at Padriciano.

Mr. CARLIN. It is under $10.

Mr. KELLOGG. From my own visits I might add that this is a pretty meager hostel; it is quite spartan.

Mr. COUGHLIN. The reception center there is not. It is quite a nice camp. I had a meal there and it was a very good meal. I was interested

in the comparison between that situation and the Vietnamese refugee situation in terms of the comparative costs.

Mr. CARLIN. In connection with that camp, the basic costs for care and maintenance for refugees arriving there are borne by the Italian Government. We come in through the voluntary agencies and provide supplementary help. That is the principal center in Italy for refugees.

Mr. COUGHLIN. I have no further questions at this time.

SOVIET REFUGEES

Mr. LONG. Thank you. I would like Mr. Kellogg and the witnesses to know that this committee takes a great interest in the question of the Soviet refugees who want to migrate to Israel and elsewhere. We hope very much that the Department of State will share our interest and that maximum encouragement will be given to the Jews in the Soviet Union who want to get out and they will be given the clear message that they will be well taken care of and that Congress wants to encourage this program, wants to further it.

Mr. COUGHLIN. Mr. Chairman, I do have one other question with the chairman's permission.

Mr. LONG. Fine, the gentleman from Pennsylvania.

VIETNAMESE REFUGEES

Mr. COUGHLIN. Perhaps it has been asked before. I apologize for not being able to get here earlier. But what efforts are being made if any through the United Nations High Commissioner to obtain assistance from other countries in the Vietnamese refugee situation or to obtain homes in other countries for Vietnamese refugees?

Mr. CARLIN. Well, let me answer that if I may.

First of all, this is part of the traditional role and expertise which he has been carrying out with marked success since the early 1950's when the office was created. Normally what happens is that a host country that has refugees lodged there for a number of different circumstances or reasons calls upon the High Commissioner and describes the problem, it has such and such refugees and it cannot for various geographical or other reasons give them a permanent home and could he assist in finding permanent resettlement for them. Then he appeals to various countries around the world to those who can provide permanent resettlement.

The High Commissioner has done this on two separate occasions so far in the Vietnamese crisis.

One appeal was issued approximately 1 week ago.

Mr. COUGHLIN. From the United States?

Mr. CARLIN. No; it was from his headquarters in Geneva. The second one was only recently issued. These are our appeals to the international community, the members of the United Nations, to examine the possibilities that each has to find permanent homes for these unfortunate people.

I'm pleased to say that positive responses are coming in now. For example, Canada has been particularly outstanding, offering homes for at least 15,000. Australia has said that it will take half of whatever Canada takes. Other countries are coming in such as France, for

example, which has been particularly responsive to those people who are French-speaking or who have relatives in France or who have other claims for permanent homes in France. This is his task, his job. I might say he is fully seized with it.

Mr. COUGHLIN. I would like to say for the record that I was disappointed in the performance of the United Nations in the course of the last days of South Vietnam. I felt that their performance, as it has been on a number of occasions, was very one-sided. I would certainly hope that we would see assistance from that source for these refugees just as they would provide assistance to the United Nations for refugees from other parts of the world.

Thank you, Mr. Chairman.

Mr. LONG. Thank you, Mr. Coughlin.

Mr. Kellogg, it must be a great satisfaction to be in charge of doing something which is genuinely humanitarian.

I cannot imagine anything worse than to be a refugee.

Mr. KELLOGG. I fully agree, sir.

Mr. LONG. I think most Americans feel that way. We don't want to waste money on the program, but we want to see that people are generously taken care of. I congratulate you on your program. I wish you good luck on it and assure you of this committee's continued cooperation.

The subcommittee is adjourned.

TUESDAY, MAY 20, 1975.

INTERNATIONAL NARCOTICS CONTROL

WITNESSES

SHELDON B. VANCE, SENIOR ADVISER TO THE SECRETARY OF STATE AND COORDINATOR FOR INTERNATIONAL NARCOTICS MATTERS

DONALD D. COHEN, DEPUTY FOR PROGRAM PLANNING

MALCOLM LAWRENCE, SPECIAL ASSISTANT TO THE SENIOR ADVISER FOR INTERNATIONAL NARCOTICS MATTERS

Program and Financing (in thousands of dollars)

	1974 actual	1975 estimate	1976 estimate
Program by activities:			
1. Country programs	20,951	25,400	31,200
2. International organization programs	2,000	4,200	4,100
3. Program support and training	4,173	5,700	5,800
4. Contingencies		7,200	1,400
Total obligations	27,124	42,500	42,500
Financing: Unobligated balance lapsing	15,376		
Budget authority (appropriation)	42,500	42,500	42,500
Relation of obligations to outlays:			
Obligations incurred, net	27,124	42,500	42,500
Obligated balance, start of year		21,961	37,661
Obligated balance, end of year	−21,961	−37,661	−42,361
Outlays	5,162	26,800	37,800

Object Classification (in thousands of dollars)

Personnel compensation: Special personal services payments		55	90
Personnel benefits: Civilian		5	8
Travel and transportation of persons		12	14
Other services	6,790	13,493	18,181
Equipment	18,334	17,550	18,697
Grants, subsidies, and contributions	2,000	4,235	4,100
Undistributed: Contingencies		7,150	1,410
Total obligations	27,124	42,500	42,500

Mr. PASSMAN. The committee will come to order. We shall continue our examination this afternoon of another facet of the foreign aid and assistance program. Today we shall consider the budget request for the international narcotics control program, and we have as witnesses Hon. Sheldon B. Vance, Senior Adviser to the Secretary of State and Coordinator for International Narcotics Matters; Donald D. Cohen, Deputy for Program Planning, and Malcolm Lawrence, Special Assistant to the Senior Adviser for International Narcotics Matters.

I would assume, Mr. Secretary, that you have a statement you would like to file in the record and then you may summarize it if that would be desirable, or you may read your statement. You have that option.

Mr. VANCE. Thank you, Mr. Chairman. I thought that it might be preferable if I endeavored to summarize it.

GENERAL STATEMENT

Mr. PASSMAN. All right; let's insert the statement in the record at this point, so all members may have an opportunity to read the statement in its entirety, and you may summarize it, Mr. Secretary.

[The statement follows:]

STATEMENT OF THE SENIOR ADVISER TO THE SECRETARY OF STATE AND COORDINATOR FOR INTERNATIONAL NARCOTICS MATTERS

It is my pleasure to appear again before this committee in support of the request for funds for the international narcotics control program of the U.S. Government. We are asking for an appropriation of $42.5 million for fiscal year 1976.

What is the current status of the problem this program was designed to help solve? The heroin firestorm, the drug subculture, the narcotic threat to our society, at crisis levels at the beginning of the present decade, led to our Government mounting an all-out effort to combat a problem bearing a cost to our society of about $10 billion annually. As the narcotics being abused in the United States were of foreign origin, we knew that we had to obtain the cooperation of foreign governments or else whatever we did would be of little avail.

When one analyzes our international narcotics control program, one is conscious of a certain schizophrenia. On the one hand, this is very clearly not a foreign assistance program. It is designed to resolve an American domestic problem which had achieved crisis proportions. Yet, on the other hand, if the governments whose cooperation we needed for a successful program regarded this problem as solely ours, rather than also theirs—which is also the case—the program could not succeed. We have recognized this from the beginning. The Department of State and our Embassies abroad have tried and will continue to try to convince foreign governments that the problem is also theirs and that, in our common interests, they should take the cooperative action needed to check international trafficking in illicit drugs, so much of which find their way to the United States. We have achieved a very considerable measure of success in this direction.

Since I last met with this committee a year ago, I have visited very nearly all of the countries which are important to our program. After consultation with our missions in those countries and talks with senior officials of those govern-

ments. I am encouraged to note that all of them now increasingly recognize that the problem is theirs as well as ours and that it is to our mutual interest to work together to try to put it under control. Progress toward that goal in each country varies, of course. It varies largely according to the extent of their knowledge of their own problem and to their capabilities. Therefore, it is important that this relatively new awareness of the universality of the drug problem be nurtured and strengthened in each country which can significantly contribute to the international control of illicit drugs.

Drug trafficking, as with other crimes like murder and robbery, are likely to be with us for some time, until humanity improves itself. We can control them, but not totally eliminate them. But an aspect peculiar to the crime of drug trafficking is that, when we have a success in one area, new problems break out in other areas. For example, in the period following the Turkish ban on growing opium poppies and the disruption of the French connection, Mexican opium poppy production spurted. According to seizures in the United States, more than half of today's heroin comes from Mexico, although we believe the total heroin available in the United States today is appreciably under what it was at the peak of the French connection. With the very energetic and commendable efforts of the Mexican Government, which regards poppy growing as illegal and seeks only to eradicate it, we are seeing very significant progress currently with regard to this source. We have been happy, of course, to assist the Mexican Government in their eradication and interdiction efforts. The Mexican Government's current year's eradication campaign, which is now coming to a close, has destroyed something like 60 percent of the poppy fields in the four major producing provinces. By next year, they, and we, hope that this figure will be very much larger.

However, even assuming much greater success in Mexico, we must be doing all we can now to address potential alternate sources which might later develop. The more obvious ones are Turkey, which has resumed poppy growing, and the Golden Triangle.

We were very disturbed that the Turkish Government decided to lift its ban. The U.S. Government made clear to the Turkish Government before this decision, and since, that while what is grown in Turkey is for the Turkish Government to decide, we were deeply concerned that this action might injure us. We, therefore, welcomed the solemn assurances of the Turkish Government that their action will not be allowed to harm other populations. We also were gratified under these circumstances that they requested the advice and assistance of the United Nations Fund for Drug Abuse Control (UNFDAC). The Turkish Government has accepted the United Nation's advice to adopt the poppy straw harvesting method which, while not foolproof, should facilitate effective enforcement. We hope, therefore, that control measures being taken will be adequate and that Turkey will not again become a source of illicit narcotics. We shall keep a close watch on the Turkish situation and do whatever we can to prevent the entry into our country of heroin from any Turkish origin opium that might, in spite of the Turkish Government's controls, leak into illicit channels.

As for the Golden Triangle, Burma is the country which supplies the largest part of the illegal opium grown in that three-country area and which enters the international traffic. We are therefore very pleased to note that the Burmese Government has begun to move very energetically against traffickers. As Burmese opium is produced in the northern part of the country, which is ravaged by insurgent groups, the Government has grave difficulty in reaching the traffickers. We were, therefore, happy when, quite recently, the Burmese Government's determination to move on this front become very clear. They are negotiating with the UNFDAC a comprehensive program relating to assistance in the enforcement, treatment and even income-substitution field. They have adopted stricter new legislation. And we are now working together on a program to increase dramatically their capability to interdict the traffickers by the provision of helicopters.

I wish to emphasize that this program is designed to resolve a domestic American problem, and one that is still critical. Therefore, it should be reviewed in this light. It is for this reason that, although the appropriation is contained in the Foreign Assistance Act, implementation has been transferred from AID to the Department of State. Our congressional mandate is to attack vigorously the important international aspects of the drug abuse problem in the United States. In this connection, it should be noted that 92 percent of all the funds we are requesting for bilateral programs will be directed to countries in which opium and its derivatives are produced, processed, or shipped.

We regard the legislative mandate as a solemn trust. We believe we are charged by the Congress to move as expeditiously as possible, prudently but forcefully. We should continuously seek new initiatives designed to respond to the highly complex and stubborn problem even though we cannot guarantee success in every project we undertake. Each project is carefully studied by the appropriate mission abroad and by an interagency regional group in Washington before the decision is made by our office. If it appears very clear to us that a particular action has a good chance to make a significant immediate contribution to reducing the flow of illegal drugs to the United States, we will approve it, even though the local government might be able to perform the job in a year or two but cannot perform it now unless we help them.

Concern has been expressed at the percentage of narcotic funds being used for vehicles. I would like to ask whether the committee would not agree that the foreign narcotics enforcement officers who we wish to see seizing narcotics destined illegally for the United States should be given equipment reasonably comparable to that available to the criminals they are facing. It seems to me evident that they must be supplied appropriate vehicles. Yet in most producing and trafficking countries, specialized naroctics units have been in existence for less than 3 years and many still lack many basic equipment tools. If their governments are incapable of supplying, now, vehicles that are needed to interdict narcotics about to enter the international traffic, I believe they should be supplied by this program, now.

With regard to the very reasonable concern that this equipment might be diverted from the narcotics purposes for which it is contributed, let me say this. I have personally reviewed each country project and I am satisfied that there is no significant risk of diversion. Almost all countries which receive narcotics enforcement equipment have special narcotics units for which the equipment is exclusively intended. We have in each case the recipient government's agreement and we also have, in each recipient country, American Government personnel who are working with the foreign government's narcotics police and would know if important diversion occurred. Moreover, we have recently been assured once again by our respective missions that all the equipment we have furnished is still being used for the purpose for which it was granted.

We are well aware of the fact that the Congress did not intend this activity to become a generalized police assistance program. I can assure the committee that this is strictly a narcotics enforcement program, just as the Congress intended.

I fully share the view that, ultimately, the only fully effective solution would be the reduction and elimination of illicit cultivation at its source. Experience is that enforcement at its best can interdict but a small percentage of drugs once they have entered into international traffic. If you can stop them from being grown, you will have interdicted 100 percent. This only can be accomplished by providing alternative income opportunities—accompanied by effective enforcement—to those farmers whose livelihood depends on these crops. We recognize the Congress did not intend that international narcotics control funds be used to finance large-scale economic development programs. Yet we believe that an investment of narcotics assistance funds could serve to demonstrate through pilot projects that it is possible to develop alternative sources of income which would result in rendering more feasible increasingly vigorous and acceptable controls over illicit production. If these pilot projects succeed, we believe that most countries would be willing to devote the financial resources, whether their own or those available to them from other sources, which would be necessary to duplicate the pilot projects throughout the illicit growing area and, at the same time, introduce more effective control measures.

To date, one of the best investments we have made is the training programs for foreign drug enforcement officials conducted by the Drug Enforcement Administration and the U.S. Customs Service. These training programs have clearly helped to build local enforcement institutions and to mobilize interest and support for narcotic control programs throughout the world. For fiscal year 1976, our training programs will increasingly concentrate on building up the capabilities of host country training facilities in order to develop self-sustaining programs.

We are mindful of the congressional concern that, to the extent possible, we must seek ways in which international organizations can play a more dynamic leadership role in convincing the international community of the drug abuse problem and in providing assistance to countries and programs where multi-

lateral approaches are more effective. Indeed, there are countries whose actions against drug trafficking are of the utmost importance but whose policies do not permit them to cooperate with us bilaterally. This capability to act effectively can be increased only through multilateral organizations, in the case of narcotics, the U.N.

For these reasons we helped create and have provided generous financial support to the United Nations Fund for Drug Abuse Control (UNFDAC). As I stated earlier, this organization is helping the Turkish Government cope with the threat of leakage from their resumed poppy production. The success of that cooperative effort is of enormous importance to the U.S. UNFDAC is also working out assistance programs designed to help the Governments of Afghanistan and Burma to reduce illicit opium production in those countries. Both of these governments have a strong preference for multilateral assistance.

Of the UNFDAC's present contributions or pledges of $18 million, we have supplied $14 million. This is a regrettably high percentage. We have on every feasible occasion urged the U.N. to make a greater effort to secure more contributions from other nations. We ourselves have urged other nations to contribute, both at U.N. meetings and in very pointed bilateral approaches. The U.N. and we can make further efforts—and I assume we will do so—but the facts are: (1) we cannot oblige other nations to give more if they do not wish to do so; and (2) if we limited our contributions to the Fund because of a concern over the percentage, we would be hurting ourselves.

Finally, I note that the committee was concerned when we last met 1 year ago, on the last fiscal year's appropriation, at the then unprogramed moneys. The problem that this program is designed to face is so complex and fast changing that we believe we should have the flexibility of some unprogramed moneys in order to permit us to take advantage of new opportunities that unexpectedly present themselves. Classic cases of such opportunities in the recent past were presented in Jamaica, Colombia, and Burma. Unexpectedly, the Government of Jamaica suddenly asked us to assist them in eradicating the commercial plantations of cannabis in the island republic which were destined to supply a large part of the American marihuana market. This traffic was attracting international criminal elements, to the understandable acute distress of the Jamaican Government. We were able, because we had some unprogramed funds, to respond promptly to this very valuable opportunity and Operation Buccaneer, as it was called, was in the eyes of the Jamaican Government, as well as our own, a great success. The Jamaicans were able to destroy about 80 percent of the island's annual marihuana crop. Another example was a decision by the new Government of Colombia, which came into power in August 1974. The new President adopted a strong policy against illicit narcotic traffic. This is particularly important to our program to check the flow of illicit cocaine. He ordered reorganization and new efforts and we were very pleased to be able to respond to the equipment needs of this new effort in that country. Finally, as I have said, we are very happy that we were able to respond to the equipment requirements of the new Burmese enforcement effort.

Let me say in this connection, that the reduction by $10 million in our funds in this fiscal year required us to postpone until the fiscal year 1976 the second phase of the equipment for Burma. This will result, even if we receive the full $42½ million which we are seeking—which I devoutly hope will be the case— in our having no unprogramed moneys in fiscal year 1976 to meet the unexpected opportunities which may very well develop then.

In conclusion, I would like to point out again that the major allocation of the $42.5 million requested for fiscal year 1976 will be directed to the most immediate serious problems of international drug control as it affects the United States. The complete details of our budget request have been submitted to the committee. You will notice that on a regional basis our bilateral programs include $17.4 million for East Asia, $8.8 million for Latin America and $3.4 million for the Near East and South Asia. On a functional basis we propose to devote $30.6 million, or 72 percent of the total program to enforcement and control activities; $4.9 million to crop replacement; $5.1 million to international organizations; $800,000 to treatment and rehabilitation and $1.1 million to program support and development.

I hope the committee will approve the full request.

Mr. VANCE. Thank you, Mr. Chairman. The first thing I should like to do is describe the current status of the problem that this program

was designed several years ago to meet. In terms of its goal the program is to reduce to the fullest extent possible and as soon as possible the flow of illicit drugs into the United States. It has been estimated that the drug problem costs our country something in the order of $10 billion a year, and I believe that this program should be viewed and examined against the goal it had set for it by the Congress and by the President.

This program is in the Foreign Assistance Act, as you said, Mr. Chairman, but it is, I think, quite different from the usual assistance program. We think, of course, on both sides of the table that assistance programs are in the interest of the United States, but this one, I believe, is very, very directly in the interest of our population and of our Government.

Second, I would like to point out that it seems to me evident that drug trafficking, like other crimes, is likely to be around for a very long time. It is not something that, however successful we are, is going to disappear totally; however, again as with other crimes, society would be overwhelmed if we abated our efforts to control this particular crime.

PROFITS FROM ILLICIT DRUG TRAFFICKING

I have spoken about what is common between drug trafficking and other crimes. I would now like to speak of one aspect of drug trafficking that is peculiar to it, and this is the extreme flexibility of the criminals engaged in this crime. I presume that this is due to the enormous profit margin that is offered criminals in this field.

Just to put some numbers on this profit margin, let me point out that we understand that on the Thai-Burma border one kilogram of opium sells for about $100. As it takes 10 kilograms of opium to make one kilogram of heroin, a trafficker at the border would pay, therefore, about $1,000 for 10 kilos of opium, which would reduce to one kilo of heroin. Then, if we followed it through all of its various stages in the trafficking circuit, and smuggle it into the United States and dilute it so that it is ready for retail consumption, we estimate this one kilo of pure heroin, which cost the trafficker $1,000 on the Thai-Burma border, would sell in the streets of New York for over $1 million dollars.

Now, I think that this also sheds some light on the nature of the problem with which we are struggling. Let me explain what I meant by the flexibility of the criminals, and this I am going into in order to explain why we must retain the greatest flexibility——

Mr. PASSMAN. I wish you would place in the record at this point the different levels that this thousand dollar package moves through before it finally gets from Burma to the arm of the end-user, the consumer, because there is bound to be several different dealers before it ever gets to the end-use. Would you place something in the record so we know at how many different levels there is a profit made?

[The information follows:]

My reference to $1,000 was the price for 10 kilograms of opium at the Burma/Thailand border, although not much of this opium now reaches the United States. After processing 10 kilos of opium would reduce to 1 kilo of heroin content and ultimately sell in street level dosages in the United States for $1 to $1.2 million. While there are many variations, the following theoretical example has been furnished by the Drug Enforcement Administration:

Sales price for 10 kilograms of opium at Burma/Thailand border	$1,000
Price for 1 kilogram of No. 4 heroin from processor at Burma/Thailand border	3,600
Price to distributer in Thailand	5,000
Sales price to export agent to Bangkok	6,000
Price paid by receiver in United States who moves it into distribution channels	40,000
Value of sales to various types of retail cutters	400,000

Street sales to users, 5 percent purity $1 million to $1.2 million. Thus, the big money is received by the U.S. receivers/distributers—wholesalers, the retail cutters, and the retailer at the street level.

Mr. VANCE. It is an illegal business, but can be analyzed as you suggest, like a legal business. There is the production, the processing, the handling, transportation, and then finally there is the distribution through the wholesaler and the retailer to the consumer. We will attempt to describe this; yes, sir.

TRAFFICKER FLEXIBILITY

To get to the examples of trafficker flexibility I wanted to put before the committee, I take the case of Turkey. In 1971, the Turkish Government banned the growing of the opium poppy. At about the same time, the French Government went all out in its effort to disrupt the manufacture of morphine base into heroin, which had been taking place in such great volume in southern France, in the Marseilles area. All of this, incidentally, is what came to be known in the movies and fiction and nonfiction as the French Connection.

At that point, in 1971, we estimated that something like 80 percent of the heroin illegally flowing into the United States was coming from Turkey through France in this French Connection.

As I just said, a considerable measure of success was achieved in this regard. After the Turkish Government banned the opium poppy, so far as we have been able to determine, there was no production of opium in Turkey.

The result for several years was a sharp reduction in the availability of heroin in the United States.

However, the producers in the neighboring country of Mexico energetically tried to respond to this opportunity. The result, based upon seizures of heroin in the United States, is that something like 60-odd percent of the heroin flowing into the United States today is coming from Mexico. We believe that very appreciably less heroin is coming into the United States than was entering at the peak of the heroin firestorm in 1970–72, but the supplying nation shifted.

MEXICAN POPPY ERADICATION CAMPAIGN

Now, the Mexican Government regards the growing of opium poppies as totally illegal. There was never any discussion by the Mexican Government or any consideration by it to recompense the farmer for being obliged to stop growing poppies or to help him find another source of income.

They have very energetically mounted eradication campaigns to destroy the poppy fields and very energetically mounted interdiction campaigns to try to bust the heroin laboratories and to interdict and disrupt the trafficking of heroin flowing into the United States.

A very heart-warming degree of success has been achieved by their efforts, which we have been happy to be able to assist. The Mexican Government is just now finishing the second intensified annual eradication campaign and they estimate they have destroyed thus far in the neighborhood of 60 percent of the existing opium poppy fields in Mexico. They are determined to improve this effort next year, and if there are ways we can be of assistance to them, we will, of course, be happy to discuss the matter with them.

POTENTIAL NEW SOURCES OF HEROIN

However, we recognize that if the Mexican Government is successful in seriously reducing the production and flow of heroin from that country, then, because of the enormous profit margin, there will probably be another shift in source.

Now, where might the new sources develop? One possibility is Turkey, which, as the committee knows, is resuming the growing of poppies this year. A second possibility is the infamous Golden Triangle, which is the part of the world where Burma, Thailand and Laos come together in very mountainous terrain and a part of the world where no one of the governments has complete or easy control.

TURKEY

We are doing our best to look ahead. Let me discuss first of all what is happening in Turkey. As the committee knows, the decision to lift the ban was being considered by the Turkish Government when we met last year. The Turkish Government decided finally on July 1 of last year to lift the ban. We had, prior to that and since that time, made clear to the Turkish Government our deep concern at the danger that this act could result in serious damage once again to our population.

The Turkish Prime Minister and subsequently other spokesmen of their government have solemnly and publicly stated to the United States, to the United Nations' bodies and to other nations not to permit, this time, the leakage of the product of the opium poppy—not to damage other populations. They have asked the United Nations specialized organizations for assistance. The United Nations sent several missions to Turkey and recommended that, in view of the fact the Turkish Government had decided to go back to the growing of the opium poppy, the best thing under those circumstances would be for it to prohibit the incising of the poppy pod and permit the harvesting of the poppies only by what is known as the straw process.

THE POPPY STRAW PROCESS

I don't know whether the committee is familiar with the distinction between those two processes. The straw process is not a foolproof one, but it greatly facilitates enforcement. What it means very, very briefly is this: The traditional method of harvesting the poppy is to permit the plant to mature through flowering, to the point where the petals of the flower fall off. Then, before the plant dies entirely—in the last 10 days or 2 weeks of its life—the farmer and his family go into the field with a small knife (like a razor) and scratch the pod. They

come back some 10 or 12 hours later and scrape the opium gum that has oozed out of this scratch. The harvest is made through the collecting of the opium gum.

As the committee can readily understand, farmers in possession of a ball of opium gum find it relatively easy to sell part of it to the trafficker at relatively fantastic prices and then sell the remainder to the government. The government comes by, knowing the farmer had been growing, and the farmer, of course, says that the remainder was all he had produced. This is how opium became readily available for the trafficker.

The straw process means that no one has a legal reason to be in the field until the plant is entirely dead. Once the plant is dead, it can no longer be incised because it is what the agriculture specialists call root pressure of the living plant that forces the gum out of the incision. Once the plant is dead, the morphine content of the pod and the top stem can be extracted only through a very complicated chemical process that requires a major chemical plant, a major installation which would not be easy to hide. The government comes by and buys the unincised pod and the police can tell whether it has been incised. If it has been, there will be a scar. As I say, this will facilitate enforcement.

So, therefore, we are hopeful that the solemn undertakings of the Turkish Government will be implemented and Turkey will not be a source of important heroin flow in the future.

THE GOLDEN TRIANGLE

Now, with regard to the Golden Triangle, the area produces something like 400 to 600 tons of opium. The largest part of that 400 to 600 tons is produced in northern Burma, and a portion of this gets into the international trafficking circles through Thailand. So Thailand is not only a producer of 100 tons or so, but is the major transit country for the product of the Golden Triangle.

Mr. PASSMAN. Burma?

Mr. VANCE. Thailand. Thailand produces around 100 tons and, in addition to that production, serves as the major transit country for opium produced in northern Burma. We estimate that about 400 tons are produced in Burma on an annual basis. Laos produces a considerably smaller amount.

Now, we believe the production in Laos is largely consumed in Laos. We believe a good part of the production in Thailand is consumed in Thailand so the country that contributes the major amount of opium to international trafficking is Burma.

BURMA

Now, we have tried to enter into cooperative arrangements with the Government of Burma for some years, but their foreign policy is such that they have been unwilling to negotiate assistance programs with us or with any other government or any one of the groupings in the world. They are not even terribly happy to deal with the United Nations on assistance matters. But within the last year or so the Burmese Government has become very concerned at their lack of con-

trol over the opium production in their country. They are beginning to feel drug abuse in their own country, among their own population.

Therefore, there has been a very sharp change in the interest of the Burmese Government in this field. They have asked the United Nations specialized agencies to come and negotiate with them a very considerable program that will look to helping the Burmese in enforcement, in the treatment of addiction and even in ways that might be appropriate to mount income substitution programs.

They have also, with their own inadequate capabilities, interdicted two major opium smuggling caravans in Northern Burma where the stuff is grown. They have negotiated with us ways of strengthening their enforcement capability. Therefore, we are implementing right now a bilateral program with the Burmese to supply them with helicopters to increase their capability of going into northern Burma and interdicting the opium caravans that are carrying this enormous amount of opium.

We also have, as the committee is aware, an ongoing program with Thailand, so that we think we are focusing not only on what our current problem is, but what it might prove to be in the future.

JUSTIFICATION MATERIAL

Mr. PASSMAN. Thank you very much. We will insert the justifications in the record at this point.

[The material follows:]

INTERNATIONAL NARCOTICS CONTROL PROGRAM

Fiscal Summary

(dollars in thousands)

I. COUNTRY PROGRAMS:

	Actual FY 1974	Planned FY 1975	Requested FY 1976	5th Quarter
Latin America	($ 6,902)	($14,724)	($ 8,848)	($ 4,674)
Argentina	347	120	80	80
Bolivia	57	577	445	67
Brazil	184	244	190	150
Chile	70	41	170	55
Colombia	257	561	800	275
Costa Rica	-	-	57	57
Ecuador	292	527	370	125
Jamaica	323	750	150	81
Mexico	5,001	11,605	6,500	3,700
Panama	26	-	-	-
Paraguay	21	16	-	-
Peru	248	200	86	84
Uruguay	24	27	-	-
Venezuela	52	56	-	-
East Asia	($13,128)	($ 6,799)	($17,425)	($ 525)
Burma	4,800	623	13,315	-
Indonesia	80	74	60	-
Laos	1,614	924	249	143
Philippines	352	356	110	30
Thailand	6,186	4,822	3,691	352
Vietnam	96	-	-	-

INTERNATIONAL NARCOTICS CONTROL PROGRAM Cont'd

Fiscal Summary

(dollars in thousands)

		Actual FY 1974	Planned FY 1975	Requested FY 1976	5th Quarter
I.	COUNTRY PROGRAMS:				
	Near East & South Asia	($ 895)	($ 290)	($ 3,372)	($ 2,575)
	Jordan	-	162	-	-
	Lebanon	2	5	-	-
	Pakistan	893	123	3,272	2,575
	NEA Regional	-	-	100	-
	TOTAL COUNTRY PROGRAM	$20,925	$21,813	$29,645	$ 7,774
II.	INTERNATIONAL ORGANIZATIONS:				
	U.N. Fund for Drug Abuse Control	2,000	5,000	5,000	-
	CENTO	16	8	-	-
	Colombo Plan	-	159	100	-
	INTERPOL	-	135	-	-
	TOTAL INTERNATIONAL ORGANIZATIONS	$ 2,016	$ 5,302	$ 5,100	-
III.	INTER-REGIONAL PROGRAMS:				
	Treatment and Rehabilitation	-	-	500	37
	Training	3,729	4,945	6,300	5,000
	TOTAL INTER-REGIONAL	$ 3,729	$ 4,945	$ 6,800	$ 5,037
IV.	PROGRAM SUPPORT & DEVELOPMENT	$ 454	$ 816	$ 955	$ 189
	PROGRAM TOTAL	$27,124	$32,876	$42,500	$13,000

International Narcotics Control Program
by Functional Activity

($ millions)

	FY 1974 Actual	% of Total	FY 1975 Estimate	% of Total	FY 1976 Proposed	% of Total
ENFORCEMENT AND CONTROL	23.2	(85.6)	24.4	(74.4)	30.6	(72.0)
CROP REPLACEMENT	0.8	(3.0)	1.6	(4.8)	4.9	(11.5)
INTERNATIONAL ORGANIZATIONS	2.0	(7.4)	5.3	(16.1)	5.1	(12.0)
TREATMENT AND REHABILITATION	0.7	(2.6)	0.5	(1.5)	0.8	(1.9)
PROGRAM DEVELOPMENT & SUPPORT	0.4	(1.4)	1.1	(3.3)	1.1	(2.6)
TOTAL PROGRAM	27.1		32.9		42.5	

Use of International Narcotics Assistance Resources to Control Illicit Drugs

(by drug category - dollars in millions)

Illicit Drug	Proposed FY 1976 Bilateral Program	As a Percentage of Total Bilateral Program
Opium & its derivatives	$27.2	92%
Cocaine	2.2	7%
Cannabis & its derivatives	.2	0.7%
Total Bilateral Program	29.6	

Note: Some countries are involved in the producing, processing or trafficking of more than one illicit drug. For this analysis, countries have been categorized by the primary illicit drug problem.

Program Objectives

The immediate objective of the international narcotics control program continues to be the interdiction or destruction of present illicit drug traffic, particularly heroin, destined for the United States. A longer-term but clearly supportive objective is,through working cooperatively with the international community in a common effort, to control illicit drug production, processing and trafficking.

While significant progress has been made over the brief period since the establishment of International Narcotics Control Program, the complex nature and stubborn persistence of the problem requires a sustained long-term effort by the U.S. and the international community.

Progress to Date

One of the major achievements of our intensified international effort has been the marked change in the earlier attitudes of other governments that the problem of drug abuse is largely unique to the United States. Increasing awareness of their own national drug problems has resulted in new or more intense enforcement programs being undertaken by many other countries, notably those in the European Community, Burma, Mexico, Colombia, Hong Kong, Bolivia, Chile, and the Philippines.

Over 40 countries have now welcomed a total of 227 agents from the U.S. Drug Enforcement Administration (DEA) to serve in a liaison and advisory role with their drug enforcement organizations. This compares to a total of 61 agents in FY 1971. In addition, over 10,000 foreign enforcement personnel have received narcotics enforcement training from DEA and the U.S. Customs Service. One measure of the benefits derived from this cooperative program is the dramatic increase of DEA/Foreign cooperative drug seizures over the past four years.

DEA/Foreign Cooperative Seizures

	FY 1971	FY 1974
Opium (lbs)	1,440	16,378
Cocaine (lbs)	346	991
Hashish (lbs)	14,406	43,919
Marijuana (lbs)	85,110	1,118,578

With the decreased drug availability resulting from more effective international cooperation and with expanded domestic treatment and rehabilitation programs, the spiralling growth at the end of the 1960s in the U.S. addict population was halted and by the end of 1973 we appeared to be finally getting the upper hand in the fight against drug abuse. Now, however, disturbing new trends in incidence and prevalence of heroin abuse no longer support this earlier hopeful assessment. Since early 1974, a clear pattern of increasing amounts and purity of heroin entering the U.S. has developed, with reports of heroin abuse spreading to smaller communities throughout the country, although the problem is far less severe than during the 1971-72 peak years. While these new trends present a difficult challenge, the achievement over the past few years graphically demonstrate the potential of American efforts, with the active cooperation of the international community, to respond to the problem.

FY 1976 Program

For Fiscal Year 1976, we are requesting $42.5 million in narcotics assistance funds. The major allocation of these resources will be directed to the most immediate and serious problems of international drug control as it affects the United States. The major programs, where we plan to commit 92% of all bilateral narcotics assistance funds, will involve countries in which opium and its derivatives are produced and processed as well as the key heroin trafficking countries. The remaining bilateral programs will include the coca producing and trafficking countries in Latin America and marijuana production and trafficking in Jamaica.

Enforcement

In structuring the FY 1976 program, the highest priority will continue to be directed towards strengthening the capabilities of the relatively new, ill-equipped and inexperienced foreign narcotics enforcement agencies. Approximately 72% of the proposed FY 1976 budget will be devoted to bilateral enforcement assistance. Two key components of the enforcement program are equipment and training.

1. Equipment: In most of the producing and trafficking countries, specialized narcotics units have been in existence for less than three years and many still lack every sort of basic enforcement tool, from vehicles and communications equipment to specialized narcotics laboratories and field narcotics testing gear. The lengthy smuggling routes, the almost inaccessible topography and the sophisticated processing and trafficking techniques which are characteristic of the narcotics control problem require sizeable amounts of enforcement equipment for mobility and communications. Yet most often this type of equipment is neither available nor affordable, given other pressing budgetary demands, in countries which are cooperating with the United States. For the achievement of our goals, it is imperative that the foreign enforcement agencies have equipment reasonably comparable to that possessed by the most sophisticated criminals today.

Almost all countries which receive narcotics enforcement equipment have special narcotics units for which the equipment is exclusively intended. In all countries, end-use reviews are carried out to assure that U.S. financed equipment is being used for narcotics enforcement purposes. The record to date, in our opinion, is excellent. We believe that continued provision of enforcement equipment in support of rapidly expanding foreign narcotics enforcement efforts is clearly consistent with, and supportive of, the immediate objectives of the U.S. International Narcotics Control Program.

2. Training

Narcotics enforcement training programs have two principal objectives. First, the training is designed to enhance the technical skills and motivation of foreign narcotics enforcement personnel as a prerequisite to the development of an effective and self-sustaining narcotics control program in each cooperating country. Secondly, the training programs help strengthen both bilateral and multilateral cooperation among all law enforcement officers involved in narcotics control activities.

In FY 1976, we are requesting $6.3 million to finance the training of 1,640 foreign enforcement personnel by DEA and 1,302 officials by the U.S. Customs Service. To assure that our training programs have a greater institution-building effect, by far the greatest portion of the training will take place in host country training facilities.

International Organizations

With encouragement and support from the U.S., international organizations have played an increasingly important role in convincing the international community of the universality of the drug abuse problem and in providing assistance to countries and programs where multilateral approaches are more effective.

In particular, the United Nations Fund for Drug Abuse Control (UNFDAC) has initiated some eighty-four projects since its establishment in 1971. Most notably, UNFDAC has responded to a request from the Government of Turkey for assistance in developing an effective enforcement program following the Turkish decision last year to rescind the ban on poppy growing. This is one of the most important programs the U.N. narcotics organizations have ever undertaken. UNFDAC also has developed a narcotics laboratory which is undertaking research to investigate papaver bracteatum as a probably less abusive source of codeine than the opium poppy.

Since August, 1973, the Colombo Plan has taken an active role in promoting regional cooperation in various aspects of drug abuse control in Asia. For example, the Colombo Plan brought together in a conference the operational heads of national narcotics suppression agencies and senior officials from treatment and rehabilitation organizations throughout the region. Among the resolutions passed by the Conference included those calling for member governments: (1) to exchange information on treatment/rehabilitation programs; (2) to appoint a panel of experts to conduct an in-depth study of drug abuse on a country-wide basis; (3) to increase the bilateral and multilateral exchange of intelligence and narcotics officers between countries in the region. The Conference also proposed a "watch list" of persons known to be involved in illicit drug trafficking or illicit drug manufacture be produced, maintained, and circulated to narcotics enforcement agencies in the region; and a Regional Narcotics Intelligence Bulletin be produced on a regular basis and circulated to member countries.

For FY 1976 we propose to contribute $5.0 million to UNFDAC and $100,000 to the Colombo Plan.

Crop Replacement

Experience has demonstrated that strengthened international enforcement effort cannot by itself solve the international drug trafficking problem. Given the size of worldwide illicit opium production -- approximately 1,200 tons -- only a small percentage needs to flow into this country to meet the U.S. addict demand of around 50-60 tons of opium (or 5 to 6 tons of heroin). Ultimately, the only fully effective solution would be the reduction and eventual elimination of illicit cultivation at its source. However, this can be accomplished only by providing for alternative income opportunities to the poppy (as well as coca and cannabis) growers accompanied by effective enforcement. This would require overall economic development and financial and organizational resources beyond the scope and purview of the International Narcotics Control Program. An investment of narcotics assistance funds, however, could serve to demonstrate in a well defined and limited geographic area that successful means of alternative income can be developed and, concomitantly, more effective controls on illicit production can be achieved. As these objectives are realized in a pilot project setting, we believe it would be possible to persuade the host government, international financial institutions, and other bilateral donors to provide for the long-term development resources, including effective control measures, needed to reproduce the model throughout the region in question.

For FY 1976, we propose to allocate approximately $4.9 million -- or 11.5% of the narcotics assistance budget -- for pilot crop replacement projects in Thailand, Pakistan, Laos, and Bolivia.

Treatment and Rehabilitation

Although much progress has been made over the past three years, some governments still fail to realize the extent to which drug abuse has a deliterious effect on their own societies. Consequently, our initial efforts to generate an international response to the drug problem were frequently seen as American attempts to enlist foreign assistance to solve a problem unique to the United States. Fully effective international cooperation requires that all parties realize that their own self-interest is involved.

It would be inappropriate to use U.S. resources to attempt to cure the addicts of the world. However, we believe it is in our interest to provide, on a selective basis, assistance in the field of treatment and rehabilitation. This is in cases where it will have the effect of increasing the recognition on the part of many countries of the extent of their own drug abuse problem and, in consequence, encouraging them to enhance their enforcement and control programs.

For FY 1976, in addition to the bilateral projects described in the project data book, we propose to allocate $500,000, which will be centrally administered, for regional and inter-regional treatment and rehabilitation programs and for the development of new bilateral projects. The funds will finance research grants, regional and international conferences, reference materials and professional exchange programs.

Program Support and Development

For FY 1976, we are requesting $955,000 for (a) 14 full-time Washington-based personnel engaged in program development, and implementation ($430,000); (b) the travel and per diem costs of personnel involved in program development, implementation and evaluation ($150,000); and (c) language and area training at the Foreign Service Institute of U.S. personnel being assigned overseas in full-time narcotics control positions ($375,000).

Latin America

The area of Latin America and the Caribbean is believed to be the source or transit route for most illicit narcotics entering the United States. By far the biggest part of the heroin seized in the United States in 1974 entered the U.S. from Mexico. Coca is produced in Latin America, principally Bolivia, Ecuador and Peru. Colombia, Jamaica and Mexico are large suppliers of marijuana. Virtually all countries in the region are now or have been significant transit points for shipment of illicit narcotics to the United States. The size of the traffic from Latin America in recent years has assumed major proportions as supplies of white heroin from Europe declined. Mexico replaced France as a major supplier of heroin, and the U.S. demand for cocaine from Latin America has multiplied several times since 1973.

Even with the best will and ample resources, this illegal traffic would virtually be impossible to stop in the short term. The proximity of the region, the lengthy coastline, and the ship and air traffic offer countless opportunities for smuggling drugs as well as other contraband. The lucrativeness of drug trafficking encourages sophisticated and well financed organizations to take advantage of these opportunities. The countries in the region had not been prepared to deal with a problem of these dimensions. To them it was largely a problem of the developed world, and only recently have most of them become aware of the serious implications for their own societies.

Conscious now of the need to combat this international traffic, governments in the region have become increasingly cooperative and seek our assistance. This is particularly true in the countries in which large amounts of opium and coca are grown. The commitment in those countries, and in most others in the region, comes from the highest level of government. Narcotics was a principal subject of the meeting between President Echeverria of Mexico and President Ford in October 1974. In Colombia, President Lopez has undertaken a substantial reorganization of enforcement agencies to improve narcotics control that has already brought a sharp rise in arrests and seizures of cocaine and cocaine laboratories. In Jamaica, the Government requested U.S. assistance in an operation that resulted in the destruction of 719,000 pounds of marijuana, the arrest of 99 suspected traffickers, and the seizure of $143,000 and 27 boats and aircraft.

The increase in commitment was made evident in other ways as well. More than ten countries passed laws or regulations to stiffen penalties for traffickers or to improve enforcement measures. Most countries have established full time narcotics enforcement units and 1490 enforcement officials will be trained by DEA and Customs during FY 1975.

Determination to combat the drug traffic was the essential first step to taking effective measures and this has largely been encouraged and developed. Still, formidable obstacles remain to achieve our goal of substantially reducing the amount of illegal narcotics entering the U.S..

In Mexico, the opium poppies that produce the major portion of the heroin entering the U.S. are grown in remote, rugged terrain. To destroy the poppies, a sizeable force of men must be stationed in advance bases and from there transported to poppy fields accessible only helicopter. To accomplish this requires a sophisticated operation involving helicopter transport, air supply and the maintenance and logistic support necessary for air operations. Yet with all the difficulties, Mexico offers the best opportunity abroad of making an immediate impact on heroin traffic in the U.S.. For this reason we are directing almost three-fourths of all Latin America regional assistance funds to the eradication and interdiction effort there. With this assistance and substantial funds from its own budget, the Government of Mexico put more than 1,600 men in the field and since January 1975, has destroyed over 4,000 acres of opium poppies (an acre yields on the average 20 ounces of pure heroin). In interdiction, more than 900 pounds of heroin, opium, opium gum, and cocaine were seized; over a dozen laboratories were destroyed and more than 1,000 arrests were made in interdiction activities in the first three quarters of FY 1975. A substantial increase in results over previous years was achieved, although it is still too early to assess the impact this effort will have on heroin availability in the U.S.. With the experience of the 1975 campaign, we anticipate further results next year in reducing the supply of heroin from Mexican sources.

The cocaine traffic presents even more difficult obstacles. The coca plants from which cocaine is produced have been grown and used for centuries by Indians living in the remote reaches of the Andes. The coca plant, unlike the opium poppy, requires very little attention. Also, it yields two to three crops a year. In the short-term, eradication is a virtual impossibility not only because of the legitimate requirements for coca but also because of the chewing of the coca leaf has been socially acceptable for generations. Crop replacement, however, could be an alternative and we have programmed funds for a pilot project and multidisciplinary study to explore this possibility. But for the short term we must direct most of our resources to interdiction of the traffic in cocaine. Thus, our program contemplates substantial support for the narcotics enforcement units in the "cocaine belt," Bolivia, Colombia, Ecuador and Peru. Colombia, as the major trafficking center for cocaine, will be the focus of the combined effort of all agencies of the executive branch engaged in narcotics control. We extended to (1) provide additional transport capability and other equipment to improve overall effectiveness and provide pre-requisite mobility for Colombian enforcement operations throughout the country; (2) improve intelligence coordination with Colombian enforcement agencies; and (3) support the Colombian Government's attempt to police more closely ships leaving Colombian ports. In the short run, however, we can only expect to minimize the rapid growth in cocaine traffic to the U.S.; stopping it will be virtually impossible without a major, and unforeseen, breakthrough in discouraging the cultivation of coca.

For FY 1976, we propose to allocate $8.8 million for bilateral narcotics assistance programs in Latin America, with 83% of the funds in support of narcotics control programs in Mexico and Colombia.

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East Asia

In the sparsely populated and contested border provinces of Burma is produced the largest portion of the world's illicit opium. Annual Burmese opium production in the insurgent areas of the Shan and Kachin States is in excess of 400 tons; opium production in Thailand's northern border area is near 100 tons. Laotian opium production in government-controlled areas is estimated not to exceed 30 tons which is about equal to its domestic consumption. While the bulk of Thai opium is believed to be consumed domestically, vast quantities of Burmese opium converge on the Thai-Burma border in elaborately organized mule caravans to exit through Thailand. There the opium is increasingly converted in clandestine refineries to heroin and morphine base for ease of handling and concealment. The opium and,more recently, heroin are then funneled throughout the subcontinent to be sold to East Asia's estimated million opium and heroin addicts. In addition, increasing amounts of Asian narcotics are transported regularly by courier to Europe, through various transit nations. Asian heroin has also appeared in several U.S.markets. The potential for Asia becoming a major source of illicit narcotics for the United States remains grave.

The reaction of the nations of the region to the production and trafficking of narcotics has changed greatly in the past several years. Where previously nations may have considered drug abuse to be solely a U.S. problem, rising incidence of drug use and drug-related deaths among local affluent youths have caused such nations to take a much more active role in international narcotics control efforts.

The Government of Burma, which adheres to a rigid neutrality in foreign affairs, has traditionally declined to accept assistance in combatting narcotics traffic within Burma. However, in 1973, Burma began negotiations for a detailed program of opium crop substitution, treatment and rehabilitation, specialized narcotics training, and enforcement assistance with the United Nations Fund for Drug Abuse Control. Agreement is expected this year. On its own, the Government of Burma has organized several highly successful assaults on drug caravans in the border highlands and has significantly stepped up its urban campaign against drug abuse. Because Burma is the largest single source of illicit opium and the Government is determined to try to solve this problem, we have agreed to increase its capabilities to do so by supplying helicopters.

Public concern and cooperation at the highest levels of the Royal Thai Government continue to be strong. Activities of the various Thai police corps in the northern border areas have caused significant disruption of trafficking patterns. Opium caravans no longer move openly into border towns; instead human porters moving at night are used to make the actual deliveries. In addition, the Thai provincial police in the Chiang Mai region have organized sixteen 5-man narcotics teams in order to provide trained and ready anti-drug personnel for the northern areas.

In working with the nations of the East Asian region we have emphasized five basic goals:

(1) the harrassment, disruption and suppression of narcotics trafficking in the opium production countries of the "Golden Triangle" in order to reduce or eliminate the area's narcotics from reaching the United States; (2) the strengthening of local narcotics interception capabilities in actual and potential "transit" countries; (3) the phasing out of opium poppy cultivation in the Golden Triangle" highlands by fostering alternate sources of income in various

pilot projects; (4) the provision of general technical support, including in-country and U.S. training of law enforcement authorities, for operational activities funded by U.S. narcotics projects; and (5) the support of rehabilitation and treatment centers, including training of personnel, for local addict populations.

In FY 1976 we propose to continue the structuring of our narcotics programs, begun in FY 1974, to concentrate our efforts where the opium originates, and thru which it initially moves, in Burma and Thailand. In fact, 97% of our projected $17.5 million budget for East Asian programs will go into anti-narcotics programs in these two nations.

The mountainous terrain and numerous insurgent groups in the Thai-Burma border areas make interception of opium caravans and suppression of heroin refineries difficult. We have therefore programmed 12 helicopters and a fixed-wing detection aircraft to the Government of the Union of Burma in FY 1976. We consider the spirit of determined attack on narcotics by the Burmese Government to be one of the major developments on the international narcotics scene.

In Thailand in FY 1976, we plan to scale down significantly vehicle and other commodity support for Thai police corps as it soon should have adequate equipment for its enforcement efforts. Customs funding remains at a high level due to the procurement of patrol boats for offshore interception. For the first time, we intend to dedicate the majority of our funds in Thailand to pilot projects in the search for alternate sources of income to opium poppy cultivation. The establishment of a highland agricultural research station and a preserved food experiment will help to support the crop substitution programs sponsored by the King of Thailand and the U.N. Fund. In addition, we plan to work with the Thai Government in a zonal development program which goes beyond crop substitution by providing a wider range of alternative sources of income through reforestation and integrated watershed projects. These projects will be designed to assure that more effective enforcement and control measures go hand in hand with the development of new income opportunities.

In Laos the Provisional Government of National Union has yet to indicate what priority it places on narcotics suppression and what assistance, if any, the Laotian Government wishes. We therefore intend to fund our ongoing projects in enforcement, agricultural redirection, and addict detoxification at, relatively low levels and initiate no new programs at this time.

In Indonesia, which is a potential transit country, we have attempted to assist in the development of national drug abuse programs. Such efforts have included training of health and education personnel, as well as selected commodity support, in order to raise the level of public and professional awareness of local drug abuse and to provide suggested means of combatting such abuse. In the Philippines as well as Indonesia, programs have been initiated to improve local law enforcement capabilities to intercept drugs in transit, through in-country and U.S. training, and limited technical support. Planned levels of training for enforcement personnel and commodity provision have, in general, been reached in the Philippines with the resulting improvement in local capabilities. The Philippines enforcement program is being phased down, while we plan to provide a limited amount of enforcement assistance to Indonesia.

For FY 1976, we are requesting $17.4 million for East Asia of which $13.3 million is programmed for Burma, $3.7 million for Thailand and $0.4 million for Laos, Indonesia and the Philippines.

Near East and South Asia

For the United States, opium trafficking in the Near East and South Asia is still a potential threat rather than a present problem. Opium is produced in large quantities in four countries within the region -- Afghanistan, Pakistan, India, and Iran. In some of these countries there is considerable production going into illicit channels. However, we have no evidence indicating significant amounts of opium or heroin are reaching the United States from this area to date, although the potential is present.

In Afghanistan and Pakistan as much as 300 tons annually come from production which is not controlled by the central governments for two reasons. Either the central government does not exercise sufficient authority over the areas in which the opium is cultivated to enforce an effective control program or the local economy is so dependent on opium cultivation that the central government has decided it cannot move to eradicate production until it can offer the farmers an economically viable substitute.

In India there are small diversions from the licensed production on whith the U.S. depends for its pharmaceutical needs. Very little leaks into the international traffic.

In Iran there is no evidence of significant diversions. Opium is cultivated only to supply the government's addict treatment program. The government has a stringent system of controls with harsh penalties, which may include execution within 24 hours after arrest while trafficking opium.

Opium from Afghanistan and Pakistan is smuggled in large amounts to Iran, which has an addict problem similar to our own, and relatively small amounts are smuggled to the lower Persian Gulf states, where it is consumed by local addicts.

The United Nations Fund for Drug Abuse Control (UNFDAC) has initiated assistance programs in Afghanistan, Pakistan and Lebanon. U.S. bilateral resources are primarily directed to enforcement and crop replacement programs in Pakistan and to training programs for enforcement officials throughout the region. We have also opened a dialogue with other Middle Eastern countries, in particular Egypt which has a serious and growing addict population, and Syria, concerning our mutual interests in narcotics and ways in which we might work together.

For FY 1976, we are requesting $3.4 million for narcotics assistance programs for the region. Of this amount $3.3 million is planned for Pakistan. In anticipation of new initiatives in Syria and Egypt, we have set aside $100,000 for planning purposes.

EUROPE

In the summer of 1969, U.S. undertook efforts to seek European cooperation at the highest political levels in combating illicit traffic in drugs, it was estimated that about 70-80 percent of the heroin consumed in the United States was produced in southern France from Turkish opium base. Until 1971 heroin processed in France was entering the United States at the rate of 8-10 tons a year, and was available on the street at purity levels as high as 15 percent.

The year 1972 marked a turning point as the intensified international police effort resulted in arrest of major traffickers, destruction of a number of laboratories in southern France, and the break up of important trafficking networks operating through South America. This effort was further enhanced by the Turkish decision to prohibit further cultivation of poppies. All these factors led to a sharp reduction in the flow of European heroin to the United States, and by 1973 the purity of heroin sold on the street dropped to 2 percent, and there was a marked decline in the estimated number of heroin addicts in this country.

With the announcement last July by Turkey that poppy cultivation would resume, and with the first new crop to be harvested this summer, French suppliers of heroin could become a more important factor in the American market, if new Turkish controls are not effective. At the present time it is believed that about 20 percent of the heroin arriving in the United States is of European and Middle East origin.

Over the past five years, partly as a consequence of the stimulus provided by the United States through diplomatic, law enforcement and drug treatment channels, and partly because of increasing domestic concern in many European countries over the spread of drug addiction, there has been a significant improvement in international cooperation in combatting drug trafficking and drug abuse, and sharing of experiences in drug treatment. This effort is pursued through our embassies or law enforcement agencies in twenty-eight countries in Europe, with special attention given to the situation in nineteen countries considered to be of key importance.

In response to the Turkish decision last year to resume poppy production we have made clear to the Turkish authorities our deep concern over the possibility of a renewed massive flow of heroin from Turkish opium to the United States. On the advice of a United Nations Mission, the Turkish Government has issued a decree prohibiting the lancing of the poppy capsule and, therefore, the production of opium. The Government has further specified that the poppy plant could be cultivated solely for the purpose of obtaining poppy seeds and poppy straw. And at the February session of the United Nations Commission on Narcotic Drugs in Geneva, the Turkish Delegate gave assurances that strict controls would be maintained over the forthcoming crop. We shall keep a close watch on the Turkish situation and do whatever we can to prevent the entry into our country of heroin from any Turkish-origin opium that might, in spite of the Turkish Government's controls, leak into illicit channels.

Cooperation in Europe over the past year placed increased emphasis on the surveillance and interdiction of movements of Asiatic heroin through Europe to the United States, and the trans-shipment of other dangerous drugs, such as cocaine and hashish, from third areas through Europe by traffickers supplying the United States market. In the coming year, we shall continue to enlarge the dimensions of our cooperation with the governments and agencies in Europe in the enforcement area. During fiscal 1976 funds will be utilized to continue the centralized training in customs and law enforcement functions for key narcotics enforcement officials in the European area.

S/NM 14 -15

Country: ARGENTINA

GRANT ACTIVITY DATA

S/NM 16

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Enforcement)	Narcotics Control	FY 76 80	5th Q. 80
NUMBER 598-11-995-080	PRIOR REFERENCE P. 4,5,6,7 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1972	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action: To expand and improve the operational capabilities of the narcotics units of the Federal Police and Border Patrol, as well as enhancing the Customs Administration's capability in detecting and suppressing narcotics trafficking and smuggling.

Progress to Date: In October 1974, the Government of Argentina enacted an amendment to the penal code which gives the Federal Police nationwide jurisdiction to make investigations and arrests in narcotics related cases. The amendment also provides for one to six-year imprisonment for simple possession and three to twelve years for production and processing of narcotics substances. An internal reorganization of the Customs Administration established a special anti-narcotic squad within the organization. The Border Patrol has established special strike force units, particularly for the far northwest where the trafficking across borders is most acute. The U.S. has provided narcotics enforcement training for all three organizations and this activity will be continued in future years.

FY 1976 Program: $53,000 to provide additional vehicles and telecommunication equipment to meet the expanded responsibilities of the National Police narcotics units and $27,000 for vehicles, communications equipment and automobile inspection equipment for the Customs narcotics units.

5th Quarter: $80,000 to equip additional Border Patrol units for the northern border including jeeps and communications equipment.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	367	20	347
Estimated FY 75	80	375	
Estimated through 6/30/75	447	395	52
Proposed FY 76	80	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	80	-	607

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	-	-	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	80	-	80	80	-	80	80	-	80
Other Costs	-	-	-	-	-	-	-	-	-
Total Obligations	80	-	80	80	-	80	80	-	80

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.

Country: BOLIVIA

GRANT ACTIVITY DATA

S/NM 17

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Enforcement)	Narcotics Control	FY 76 170	5th Q. 67
NUMBER 511-11-995-727	PRIOR REFERENCE Narcotics Control Presentation	INITIAL OBLIGATION FY: 1972	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action: Assist the Government of Bolivia control narcotics to (1) improve the operational effectiveness of the National Directorate for Control of Dangerous Substances (DNSP) and the Department of Narcotics and Dangerous Substances; (2) establish the Department of Rationalization of Coca Production to supervise the licit production and marketing of coca; (3) expand narcotics control operations within the Bolivian Customs Service and (4) provide information and guidance to the general public and legal community concerning the provisions of the National Narcotics Law. Technical advise is being provided by the resident AID narcotics advisors and DEA agents and will be complemented by U.S. and in-country training, communications and laboratory equipment and vehicles and support for local operations.

Progress to Date: A comprehensive narcotics law providing for stiff penalties for traffickers was promulgated in December 1974. The DNSP has been thoroughly reorganized and its personnel increased from 17 to 45 officers. The government has agreed to establish a 30-man Department of Coca Production Rationalization within the DNSP which will control licit production and marketing of coca (from which cocaine is derived). The Bolivian Customs Service is assigning 50 men to a specialized unit on contraband drug control. During FY 1974, 97 kilos of cocaine were seized, 22 clandestine laboratories destroyed and 114 arrests made. This is a 175% increase over the amount of cocaine seized in FY 1973.

Other Donors: The United Nations is considering providing assistance to the DNSP in enforcement and statistics.

FY 1976 Programs: U.S. Technicians: One A.I.D. narcotics advisor and short-term consultants ($45,000). Participants: to finance the intra-regional travel and support costs of a conference of enforcement officials from coca producing and trafficking countries which will be coordinated by the Government of Bolivia ($18,000). Commodities: Non-vehicular materials and equipment ($42,000). Other costs: Support for operating costs of Bolivian narcotics agencies and other local operating costs ($65,000).

Fifth Quarter: $67,000 will be needed to finance ongoing activities including the salary of one advisor and local operating support costs.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	199	123	76
Estimated FY 75	150	171	
Estimated through 6/30/75	349	294	55
Proposed FY 76	170	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	67	50	636

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	57	-	57	45	-	45	15	-	15
Participants	-	-	-	18	-	18	-	-	-
Commodities	68	-	68	42	-	42	32	-	32
Other Costs	25	-	25	65	-	65	20	-	20
Total Obligations	150	-	150	170	-	170	67	-	67

PRINCIPAL CONTRACTORS/ AGENCIES

Drug Enforcement Administration

Agency for International Development

Country: BOLIVIA

GRANT ACTIVITY DATA

S/NM 18

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Replacement of Coca Production	NARCOTICS CONTROL	FY 76 275	5th Q. -
NUMBER 511-11-995-727.1	PRIOR REFERENCE None	INITIAL OBLIGATION FY: 1975	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action: To help the Bolivian Government determine the feasibility of a long-term national program to control and reduce coca leaf production to a level that will provide only for legal uses (tea, chewing, medicines) and legal export. This pilot project which involves the participation of 200 farmers on farms in the two major coca producing areas is to determine through research and demonstration techniques: (1) which crops can be grown in substitution for coca in the principal production regions at no appreciable loss in income to the grower from that which he would have received from the production and sale of coca for legal uses; (2) what modifications to existing processing and marketing arrangements are necessary to implement a national coca crop substitution program based on those crops; (3) what are the other non-farm factors - economic, social, legal and political - which would have to be addressed in a nationwide program. The Bolivian government is expected to institute a supervision system in the project areas to assure that the participating farmers reduce the value of their coca production in an amount equivalent to the projected income resulting from the substitution crops. Also, the Bolivian government will develop and carry out a system to register and license all coca producers in the country and to the extent possible, initiate a coca production quota system.

Progress to Date: The Bolivian government in December, 1973 issued a new and stricter law on the control of dangerous drugs; concurrently the President of Bolivia requested U.S. assistance in pursuing a coca crop substitution program. Preliminary on-site studies were undertaken in 1974 by a U.S. Department of Agriculture team which led to this pilot project. A limited crop research program was initiated by the Bolivian Ministry of Agriculture upon which one of the demonstration projects will be built. The U.S. National Institute for Drug Abuse is expected to supervise the study of non-farm factors.

Related Activities: Ministry of Agriculture counterpart personnel and operational expenses assigned to this pilot project represent approximately 30% of projected costs. These are exclusive of Bolivian government investments initiated in 1974 and an as-yet undetermined input to corollary studies.

FY 1976 Program: The FY 1976 program will provide financing for the second year of this project. U.S. Technicians: Two long-term tropical horticulturists, one agricultural economist and four short-term research advisors (6 m/m) ($100,000). Commodities: Technical publications, plant seed, and research materials and supplies ($20,000). Other Costs: Logistic support for contract personnel, international and local travel, secretarial assistance, revolving credit fund ($155,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	-	-	-
Estimated FY 75	427	47	
Estimated through 6/30/75	427	47	380
Proposed FY 76	275	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	-	233	935

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct, AID	Contract/ Other Agency	Total
U.S. Technicians	-	169	169	-	100	100	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	84	10	94	20	-	20	-	-	-
Other Costs	50	114	164	123	32	155	-	-	-
Total Obligations	134	293	427	143	132	275	-	-	-

PRINCIPAL CONTRACTORS/ AGENCIES
A.I.D.
U.S. Department of Agricultural (USDA)
National Institute for Drug Abuse (NIDA)

Country: BRAZIL

GRANT ACTIVITY DATA

S/NM 19

TITLE	FUND	PROPOSED OBLIGATION ($000)	
Enforcement (Federal, State Police and Customs)	Narcotics Control	FY 76 190	5th Q. 150
NUMBER 512-11-995-322	PRIOR REFERENCE P. 10 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1974	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action: To interdict the movement of heroin and cocaine transiting Brazil by upgrading the Brazilian organizations charged with narcotics law enforcement and creating a trained corps of professional narcotics specialists able to plan, and execute their own programs against international narcotics trafficking.

Progress to Date: A DEA team assisted in the training of 60 students from the Federal and State Police and a basic narcotics course has been established at the Federal Police Academy. The special narcotics division of the Federal Police has been recently expanded and strengthened and that organization is planning a narcotics seminar for regional Latin American police officials in the spring of 1975 with the object of enhancing regional cooperation. Brazil continues to cooperate with the United States in arresting DEA fugitives in Brazil and has agreed to the extradition of one of the most wanted Latin American traffickers. Arrangements are underway for his return to the United States for trial.

A special committee of the Brazilian Chamber of Deputies produced a report on September 1974 on the causes of narcotics traffic and the use of narcotics within Brazil. This is the first attempt ever made in Brazil to collect in one document all the available data, information, and the opinions of Brazilian drug experts on the matter. The conclusions of the committee, which concern the enforcement, educational, medical, social, and juridical aspects of the problem are being examined by the Ministry of Justice. Another example of Brazil's recognition of its own drug problem is the establishment of a narcotics research center in Rio de Janeiro which will coordinate various narcotic studies presently being conducted in Brazil.

FY 1976 Program: During FY 1976 the project will continue to provide Federal and State Police with portable telecommunications equipment, narcotics test kits, binoculars and laboratory equipment ($55,000). Funds are also being requested to provide assistance to the Brazilian Customs Service including telecommunications equipment ($65,000), cameras, binoculars, narcotics test kits ($25,000), training materials and equipment ($15,000). Operational Costs for both Police and Customs ($30,000).

5th Quarter: Limited miscellaneous equipment will be provided to the Federal and State Police ($35,000), and additional telecommunications equipment and

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	184	53	131
Estimated FY 75	244	206	
Estimated through 6/30/75	428	259	169
Proposed FY 76	190	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	150	400	1,596

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	–	–	–	–	–	–	–	–	–
Participants	–	–	–	–	–	–	–	–	–
Commodities	202	–	202	157	–	157	124	–	124
Other Costs	42	–	42	33	–	33	26	–	26
Total Obligations	244	–	244	190	–	190	150	–	150

PRINCIPAL CONTRACTORS/ AGENCIES

Drug Enforcement Administration (DEA)

A.I.D.

GRANT ACTIVITY DATA

TITLE	S/NM 20 Continuation Sheet
Enforcement (Federal, State Police and Customs)	NUMBER 512-11-995-322

miscellaneous enforcement equipment will be provided to the Customs ($115,000).

Country: Chile

GRANT ACTIVITY DATA

S/NM 21

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Enforcement)	Narcotics Control	FY 76 170	5th Q. 55
NUMBER 513-11-995-270	PRIOR REFERENCE: Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action: Improve the effectiveness of the narcotic control units within the Carabineros (national uniformed police) and Investigations (national plain clothes police) in reducing international trafficking, control the illicit manufacture and use of drugs in Chile. U.S. funds will finance drug detection and analysis equipment, essential vehicles, communication gear and narcotics training in the United States and in-country.

Progress to Date: Unsettled political conditions during much of 1973 and the reorganization of Chilean narcotics effort slowed progress under the project until late 1974. Training programs and the ordering of much needed equipment were delayed. Training in both the U.S. and Chile has resumed and equipment has been ordered. The slippages which did occur have been more than compensated for by the increased effectiveness, dedication and commitment of the Chilean narcotics agencies. A new drug enforcement unit of over 50 men was created within the Carabineros. In August 1974 the National Secretariat for Youth sponsored a workshop for police, medical and educational authorities to analyze the problem of drug abuse among youth. The energetic enforcement program has been directed toward the immobilization of large cocaine-trafficking groups and the elimination of cocaine producing laboratories. The results to date have been impressive; nineteen major traffickers who have been indicted in the United States have been arrested and returned to the U.S. to stand trial. In the face of this pressure, Chilean traffickers appear to be shifting their operations to neighboring countries.

FY 1976 Program: Vehicles ($46,000), communications equipment and spare parts ($24,000), laboratory and narcotics detection equipment ($20,000), operating costs ($80,000). DEA narcotics enforcement training will be continued.

5th Quarter: Additional vehicles and communications equipment to complete the equipment requirements for the narcotics units of the Carabineros and National Police ($35,000) and local operating costs ($20,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	94	24	70
Estimated FY 75	41	81	
Estimated through 6/30/75	135	105	30
Proposed FY 76	170	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	55	-	360

OBLIGATIONS

Cost Components	Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	-	-	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	33	-	33	90	-	90	35	-	35
Other Costs	8	-	8	80	-	80	20	-	20
Total Obligations	41	-	41	170	-	170	55	-	55

PRINCIPAL CONTRACTORS/ AGENCIES

Agency for International Development

Country COLOMBIA

GRANT ACTIVITY DATA

S/NM 22

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
National Police	Narcotics Control	FY 76 300	5th Q. 103
NUMBER 514-11-995-175.1	PRIOR REFERENCE P. 14 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action: This project will strengthen and improve the National Police capability to interdict trafficking of narcotics and to deal with the illegal cultivation, processing, sale, and consumption of narcotics and dangerous drugs in Colombia. The project will also provide assistance to the Attorney General's combined Judicial Police narcotics units, composed of personnel from the National Police, Customs, and the Department of Administrative Security.

Progress to Date: In 1972 the Government of Colombia created its first full-time professional narcotics interdiction and enforcement unit within the National Police. By the end of 1972 this unit numbered fifty agents plus support staff. It now has a staff of 120 agents, 60 in the capital and 60 in regional offices. Plans are to expand this unit by another 40 agents plus increased support staff by the end of this year. The National Police have taken other steps to improve their fight against narcotics trafficking: a one week narcotics familiarization course has been instituted in all training schools; a special sub-unit of five dogs and five handlers has been created; each regional office has at least two agents trained in narcotics investigation. As a result, the National Police have doubled the number of narcotics arrests and seizures during 1974 over the previous year. The combined Judicial Police now has two units in operation at the Bogata and Cali airports and nine additional units which are to be established during FY 1976 and stationed at major Colombian ports of entry.

FY 1976 Program: U.S. Technicians: Two A.I.D. narcotics advisors for $70,000.

Commodities: Jeeps and trucks ($114,000); communications equipment ($72,000); and miscellaneous equipment including binoculars, cameras, and office equipment ($9,000).

Other Costs: Travel and per diem valued at $35,000.

5th Quarter Program: Continuation of activities carried out in FY 1976 at approximately the same rate of financing.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	429	285	144
Estimated FY 75	225	256	
Estimated through 6/30/75	654	541	113
Proposed FY 76	300	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	103	600	1,657

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians ..	50	-	50	70	-	70	24	-	24
Participants	-	-	-	-	-	-	-	-	-
Commodities	125	-	125	195	-	195	72	-	72
Other Costs	50	-	50	35	-	35	7	-	7
Total Obligations ..	225	-	225	300	-	300	103	-	103

PRINCIPAL CONTRACTORS/ AGENCIES

Drug Enforcement Administration

A.I.D.

Country: COLOMBIA

GRANT ACTIVITY DATA

S/NM 23

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Department of Administrative Security (DAS)	NARCOTICS CONTROL	FY 76 350	5th Q. 122
NUMBER 514-11-995-175.2	PRIOR REFERENCE P. 16 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action. This project will strengthen and improve the Department of Administrative Security's (DAS) capability to interdict trafficking of narcotics and to deal with the illegal cultivation, processing, sale, and consumption of narcotics and dangerous drugs with the technical advice and assistance of the A.I.D. narcotics advisors and operations assistance and exchange of intelligence with Drug Enforcement Administration officials.

Progress to Date. The atmosphere of cooperation and earnest effort in the narcotics interdiction program of DAS has noticeably improved since a new DAS chief took command last August with the inauguration of a new Colombian government. He has taken steps to upgrade the reputation and integrity of DAS by replacing DAS unit chiefs and many lesser personnel. With DAS charged with the major responsibility for narcotics control in Colombia he has established a DAS action plan for interdiction, assigned officers and personnel to a special narcotics unit of 100 people. Equipment and vehicles purchased with FY 1975 narcotics funds will enable the DAS narcotics unit to take an active role in the Colombian Government's narcotics interdiction campaign. DAS has already this year significantly increased its number of narcotics arrests and seizures as the result of new leadership and reorganization.

FY 1976 Program.

Commodities: Vehicles, boats and motors, communications equipment, laboratory test kits, office equipment valued at $330,000 will be provided to enable the new DAS narcotics unit to take full advantage of their recent training.

Other Costs: Travel and per diem valued at $20,000.

5th Quarter Program. Continuation of activities carried out in FY 1976 at approximately the same rate of financing.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	14	14	-
Estimated FY 75	245	92	
Estimated through 6/30/75	259	106	153
Proposed FY 76	350	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	122	700	1,431

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	-	-	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	195	-	195	330	-	330	115	-	115
Other Costs	50	-	50	20	-	20	7	-	7
Total Obligations	245	-	245	350	-	350	122	-	122

PRINCIPAL CONTRACTORS/ AGENCIES

Drug Enforcement Administration

A.I.D.

Country: COLOMBIA

GRANT ACTIVITY DATA

S/NM 24

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Customs	NARCOTICS CONTROL	FY 76 135	5th Q. 46
NUMBER 514-11-995-175.3	PRIOR REFERENCE P. 17 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action. This project will strengthen and improve Colombian Customs capability to interdict trafficking of narcotics and to deal with the illegal cultivation, processing, sale, and consumption of narcotics and dangerous drugs with the technical advice and assistance of A.I.D. narcotics advisors and operations assistance and exchange of intelligence with Drug Enforcement Administration officials.

Progress to Date. When a new Colombian Government was inaugurated last August the new director of Colombian Customs expressed his desire to collaborate closely with the U.S. in improving Custom's capability in narcotics interdiction. Since that time he has made every effort to do so. Although a narcotics agreement had already been signed by his predecessor, the new chief of Customs improved the plan by organizing a special unit of fifty people assigned to eight geographical districts with three or more special agents in each district. Although there has been an increase in Customs narcotics interdiction efforts and a corresponding increase in seizures by Customs agents, Colombian Customs' narcotics control efforts still will require considerable improvement if Customs is to become a major agency in the overall Colombian interdiction program. The leadership and desire are there and the equipment and financing outlined herein should enable Customs to improve considerably.

FY 1976 Program.

Commodities: Four wheel drive vehicles, boats and motors for surveillance and seizures, and communications equipment totalling $115,000 will be provided to the Customs narcotics unit.

Other Costs: Travel, per diem, valued at $20,000.

5th Quarter Program: Continuation of activities carried out in FY 1976 at approximately the same rate of financing.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	225	15	210
Estimated FY 75	61	239	
Estimated through 6/30/75	286	254	32
Proposed FY 76	135	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	46	270	737

OBLIGATIONS

Cost Components	Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	-	-	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	36	-	36	115	-	115	31	-	31
Other Costs	25	-	25	20	-	20	15	-	15
Total Obligations	61	-	61	135	-	135	46	-	46

PRINCIPAL CONTRACTORS/ AGENCIES

Drug Enforcement Administration

A.I.D.

Country: COLOMBIA

GRANT ACTIVITY DATA

S/NM 25

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Health	NARCOTICS CONTROL	FY 76 15	5th Q. 4
NUMBER 514-11-995-175.4	PRIOR REFERENCE None	INITIAL OBLIGATION FY: 1975	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action. This project will enable the Ministry of Justice and the Colombian Institute of Family Welfare to study the incidence of drug abuse in one or more major urban areas of Colombia to assess the impact of drug use on the health and welfare of the population. This information will then enable policy makers to understand and act according to the nature and seriousness of different drug abuse problems in Colombian society.

Progress to Date. The Colombian Institute of Family Welfare has an ongoing program throughout Colombia on drug abuse education. There are approximately six drug abuse rehabilitation centers throughout the country. However, a major in-depth survey of drug abuse in Colombia is badly needed. The Colombian National Narcotics Council of the Ministry of Justice together with the Family Welfare Institute will conduct this study with technical assistance and operational support financed with narcotics funds.

FY 1976 Program.

U.S. Technicians: Two technicians for one thirty day assignment each at a cost of approximately $5,000.

Participants: Ten participants for one month each to visit drug abuse programs outside of Colombia and judge their applicability to Colombian conditions at a total cost of $10,000.

5th Quarter Program. Continuation of activities carried out in FY 1976 at approximately the same rate of financing.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74			
Estimated FY 75	30	17	13
Estimated through 6/30/75	30	17	13
Proposed FY 76	15	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	4	30	79

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	–	5	5	–	5	5	–	1	1
Participants	25	–	25	10	–	10	3	–	3
Commodities	–	–	–	–	–	–	–	–	–
Other Costs	–	–	–	–	–	–	–	–	–
Total Obligations	25	5	30	10	5	15	3	1	4

PRINCIPAL CONTRACTORS/ AGENCIES

Drug Enforcement Administration

A.I.D.

Country: COSTA RICA

GRANT ACTIVITY DATA

S/NM 26

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Department of Narcotics)	Narcotics Control	FY 76 57	5th Q. 57
NUMBER	PRIOR REFERENCE	INITIAL OBLIGATION	SCHEDULED FINAL OBLIGATION
	None	FY: 1976	FY: 1978

Project Target and Course of Action: To assist the Government of Costa Rica in developing an effective drug enforcement agency which would reduce trafficking of illicit narcotics destined for North America. Assistance will be provided to the Department of Narcotics within the Ministry of Public Security to improve and expand its ability to interdict illicit drugs and traffickers.

Progress to Date: The Ministry of Public Security has assigned a higher priority to narcotics control within Costa Rica, has named a new Director of the Department of Narcotics and has expanded the Department's budgetary resources although the overall Ministry budget has not been increased. The Department has initiated several changes including the formation of a specialized investigative group and establishment of a records filing system permitting easy retrieval of information. The Department has established a close working relationship with DEA.

FY 1976 Program: Four radio equipped vehicles ($22,000); communications equipment ($8,000); miscellaneous equipment ($15,000); other costs ($12,000).

5th Quarter: Continue the expansion of the Department of Narcotics by providing additional mobile and base station communications equipment ($50,000); training equipment ($4,000); and other costs ($3,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	-	-	-
Estimated FY 75	-	-	
Estimated through 6/30/75	-	-	-
Proposed FY 76	57	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	57	75	189

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians				-	-	-	-	-	-
Participants				-	-	-	-	-	-
Commodities				45	-	45	54	-	54
Other Costs				12	-	12	3	-	3
Total Obligations				57	-	57	57	-	57

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
Drug Enforcement Administration

Country: ECUADOR

GRANT ACTIVITY DATA

S/NM 27

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (National Civil Police)	Narcotics Control	FY 76 240	5th Q. 60
NUMBER 518-11-995-114.1	PRIOR REFERENCE P. 21 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action: To improve Ecuador's ability to interdict illegal narcotics produced or processed in, or transiting that country destined for U.S. and world markets. This project provides assistance to the National Civil Police in its development of specialized narcotics control and intelligence units capable of interdicting illicit trafficking, production and processing of narcotics drugs. It also provides assistance in establishing narcotics training programs to reach all levels of the police.

Progress to Date: Under the recently approved National Police Organic Law every province will have a narcotics unit, in addition to a narcotics intelligence unit based in Quito. Staffing will total 217 officers and enlisted men. The narcotics enforcement training for the entire police force is continuing; during the first half of FY 1975 training was given to 53 officers and 370 policemen. Operational plans have been developed for provincial units to locate and destroy narcotics plantations and clandestine laboratories. Marked progress in enforcement was reported during the last half of 1974 by the National Police compared to the first half. During that period, there were 714 arrests, 4,192 coca plants destroyed, and 144 kilograms of cocaine seized. The cocaine seizures alone represented a 700 percent increase over the first half of 1974.

FY 1976 Program: Two direct hire Narcotics Advisors ($80,000), three local hire employees ($18,000), seven radio equipped vehicles ($71,000), telecommunications equipment, training aids, radio spare parts, office equipment ($33,000) and other costs ($38,000).

5th Quarter: Continuing personnel costs $21,000), telecommunications equipment ($35,000), other costs ($4,000).

U.S. DOLLAR COST (in Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	378	176	202
Estimated FY 75	270	313	
Estimated through 6/30/75	648	489	159
Proposed FY 76	240	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	60	310	1,258

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	100	-	100	80		80	21	-	21
Participants	-	-	-	-	-	-	-	-	-
Commodities	120	-	120	104	-	104	35	-	35
Other Costs	50	-	50	56	-	56	4	-	4
Total Obligations	270	-	270	240	-	240	60	-	60

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
D.E.A.

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Country: ECUADOR

GRANT ACTIVITY DATA

S/NM 28

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (National Department of Control and Inspection of Narcotics)	Narcotics Control	FY 76 5	5th Q. 20
NUMBER 518-11-995-114.3	PRIOR REFERENCE Narcotics Control Presentation	INITIAL OBLIGATION FY: 1974	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action: To improve Ecuador's capability to control licit narcotics and dangerous drugs by developing systems for control, inspection and enforcement of laws regulating the dispensation and use of legitimate drugs. This project also seeks to improve the capability for analyzing suspected narcotic substances and transmitting the results to law enforcement agencies and the courts.

Progress to Date: Laboratory facilities have been improved and additional chemists have been trained in drug analysis.

FY 1976 Program: The Agency for International Development Narcotics Advisors funded under the National Civil Police will continue to provide advisory service. Limited amounts of laboratory equipment and chemicals will be provided ($5,000).

5th Quarter: Equipment to expand inspection and control of licit drugs and analysis and safe storage of suspected illicit substance ($20,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	53	-	53
Estimated FY 75	5	54	
Estimated through 6/30/75	58	54	4
Proposed FY 76	5	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	20	10	93

OBLIGATIONS

Cost Components	Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	-	-	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	5	-	5	5	-	5	20	-	20
Other Costs	-	-	-	-	-	-	-	-	-
Total Obligations	5	-	5	5	-	5	20	-	20

PRINCIPAL CONTRACTORS/ AGENCIES

Agency for International Development (A.I.D.)

Country: ECUADOR

GRANT ACTIVITY DATA

S/NM 29

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control Customs Service)	Narcotics Control	FY 76 125	5th Q. 45
NUMBER 518-11-995-114.2	PRIOR REFERENCE P. 21 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action: To improve Ecuador's capability to suppress and interdict illicit narcotics traffic which passes through or originates in Ecuador. This project seeks to assist the Customs Service establish units responsible for inspection, operations and intelligence related to illicit drug trafficking, improve the inspection and control of passengers and cargo transiting legitimate Customs installations and institute an effective system of patrols for the interception of illicit drugs routed to avoid legitimate points of control.

Progress to Date: The Customs Service underwent a complete reorganization in 1974 and has established the nucleus of a narcotics intelligence unit and a narcotics enforcement unit. Mobile patrols have been established and are in operation. Two new buildings are nearing completion at the Quito and Guayaquil international airports to facilitate passenger and luggage control. In-country and U.S. training of customs officials is being carried out. The Customs Service budget in 1974 included funds for construction of new border stations and the acquisition of patrol boats to operate in the three main seaports.

FY 1976 Program: Two U.S. Customs personnel stationed in Quito and Guayaquil plus TDY specialists ($107,000), telecommunications equipment ($10,000), other costs ($8,000).

5th Quarter: Continued personnel costs ($25,000), miscellaneous equipment ($15,000), other costs ($5,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	264	125	139
Estimated FY 75	252	202	
Estimated through 6/30/75	516	327	189
Proposed FY 76	125	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	45	342	1,028

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	–	100	100	–	107	107	–	25	25
Participants	–	–	–	–	–	–	–	–	–
Commodities	144	–	144	10	–	10	15	–	15
Other Costs	8	–	8	8	–	8	5	–	5
Total Obligations	152	100	252	18	107	125	20	25	45

PRINCIPAL CONTRACTORS/ AGENCIES

Agency for International Development (A.I.D.)

U.S. Customs Service

Country: JAMAICA

GRANT ACTIVITY DATA

S/NM 30

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Enforcement	Narcotics Control	FY 76 150	5th Q. 81
NUMBER 532-11-995-037	PRIOR REFERENCE P. 23 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action. To eliminate the use of Jamaica as a source of marijuana and hashish imports into the United States and as a transshipment point for hard narcotics. The project seeks to develop the institutional capability of the Jamaican enforcement agencies to combat the growing of marijuana for export and the trafficking in dangerous drugs. The effectiveness of the police narcotics unit and criminal intelligence division is being increased through the provision of advisory services and training by the U.S. Drug Enforcement Administration (DEA), as well as commodities for surveillance and interdiction purposes. Customs and airport authority personnel are receiving special training in narcotics detection. Substantial commodities and technical assistance has been provided to a joint police/defense task force for the eradication of commercial marijuana cultivation.

Progress to Date. A special narcotics unit has been established within the Jamaica Constabulary Force (JCF) with primary responsibility for intelligence collection, drug seizures, and the arrest and prosecution of offenders. The unit consists of 19 police officers and will be increased to 30. The Jamaican Government is providing adequate, permanent quarters and a well equipped forensic laboratory for the unit. In April 1974 the parliament passed stringent narcotics legislation, particularly for repeated offenses. Last year 45 police, customs, and immigration personnel attended a two-week drug enforcement training course in Jamaica; and four JCF officers participated in DEA narcotics operations training in the United States. Between June and December 1974 the Jamaican and U.S. Governments cooperated in a major joint operation to interdict narcotics trafficking and eradicate marijuana production for export. $1.1 million were spent in Fiscal Years 1974 and 1975 for this campaign. As a result, 720,000 pounds of marijuana, 8,000 pounds of marijuana seed, 65 pounds of hashish, 20 pounds of cocaine, 10 aircraft, and 17 boats were seized or destroyed. One hundred suspected violators were arrested.

FY 1976 Program. In addition to technical assistance provided by the DEA staff in Jamaica, the program includes a survey of the communications and other organizational requirements of the narcotics unit. Six senior JCF officers will attend the 10-week DEA agents course in the United States. In-country, four DEA specialists will present a two-week intensive course in narcotics detection and control for 60 JCF, customs, and airport authority personnel. The narcotics unit

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	371	53	318
Estimated FY 75	750	1029	---
Estimated through 6/30/75	1129	1082	39
Proposed FY 76	150	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	81	120	1472

	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
Cost Components	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	---	9	9	---	---	---	---	---	---
Participants	---	---	---	---	---	---	---	---	---
Commodities	---	519	519	---	150	150	---	81	81
Other Costs	---	222	222	---	---	---	---	---	---
Total Obligations	---	750	750	---	150	150	---	81	81

PRINCIPAL CONTRACTORS/ AGENCIES

Drug Enforcement Administration

Agency for International Development

TITLE	NUMBER
Enforcement	532-11-995-037

will receive communications equipment ($80,000), surveillance and interdiction vehicles ($45,000), and specialized office equipment, such as high security safes ($25,000).

5th Quarter. The program will continue in the fifth quarter, with the provision of additional vehicles ($15,000) and specialized investigative and office equipment ($66,000).

Country: MEXICO

GRANT ACTIVITY DATA

S/NM 32

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Office of the Attorney General)	Narcotics Control	FY 76 5,630	5th Q. 2,915
NUMBER 598-11-995-919	PRIOR REFERENCE P. 25 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: Continuing

Project Target and Course of Action: The objective of this assistance is to cooperate with the Government of Mexico in its efforts to staunch the illicit production and trafficking of narcotics and dangerous drugs. The Attorney General is the principal authority in Mexico for control of narcotics, hence our aim is to enhance the capabilities of his office, including the Federal Judicial Police (FJP) under his command, to eradicate opium poppy and interdict the flow of heroin and other drugs to the United States. The Mexican Government has pursued a vigorous program of destroying poppy and marijuana fields and interdicting illicit trafficking for decades, but effectiveness is hamstrung by the rough and inaccessible terrain where the crops are grown and often processed, rendering use of conventional land transportation or fixed wing aircraft for ferrying eradication personnel to the growing areas virtually futile. Hence, effective and timely eradication depends on transporting Federal Judicial Police and Mexican Army eradication troops by helicopter from staging areas (forward bases) near the growing zones to the poppy fields themselves. The forward bases are in terrain accessible by fixed wing aircraft. The Mexican Government has requested U.S. Government assistance in procuring some of the necessary equipment and otherwise achieving the capability to make effective opium eradication possible. The United States has also provided assistance to improve Mexican interdiction capabilities by sharing intelligence and providing technical and operational assistance, training, and commodities.

Progress to Date: The Mexican Attorney General has improved substantially his ability to effectively utilize the police and troops available to him for interdiction of drug traffickers and destruction of opium poppy and other drugs. The Mexican Government has amply demonstrated its commitment to narcotics control and we estimate that the Mexican financial contribution, primarily in equipment and salaries of personnel involved in the eradication program, is tens of millions of dollars annually. The United States Government has supported expansion of the Mexican Government's program, and has responded to Mexican requests for training, technical assistance and grants of essential equipment. Similarly, the Mexican Government has increased its outlays commensurate with the requirements of expanded and more effective methods of narcotics enforcement. Despite severe Mexican Federal Government budget constraints, it hired more Federal Police for narcotics enforcement and doubled the size of the Attorney General's helicopter pilot and mechanic

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	6,218	4,292	1,926
Estimated FY 75	11,505	7,141	
Estimated through 6/30/75	17,723	11,433	6,290
Proposed FY 76	5,630	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	2,915	Cont.	Cont.

OBLIGATIONS

Cost Components	Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	–	1,685	1,685	55	–	55	65	1,800	1,865
Participants	–	92	92	–	–	–	–	–	–
Commodities	9,678	–	9,678	5,575	–	5,575	1,050	–	1,050
Other Costs	–	50	50	–	–	–	–	–	–
Total Obligations	9,678	1,827	11,505	5,630	–	5,630	1,115	1,800	2,915

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.

Drug Enforcement Administration

Bell Helicopter Company

Personal Services Contract

personnel for the opium eradication program. It also spent an estimated $500,000 to $700,000 in building five forward bases in the northern poppy-growing zone (Sinaloa-Durango-Chihuahua), from which troops and police are ferried by helicopter to the fields to be eradicated. This cuts down on helicopter turn-around time for the eradication effort, thereby achieving greater man-hour and flying-hour cost efficiency. Also, it has borne considerable land transportation expense for trucks, cars, etc., for the supply of accessible staging areas and for the interdiction campaign in the North and eradication programs in the South. In addition to year-round vigorous narcotics control operations, in 1974 and 1975 the Attorney General executed two well-coordinated and intensive combined eradication/interdiction campaigns in the northern zone during the winter-spring opium growing and trafficking season, with impressive results. Over 120 Mexican Federal Judicial Police, 1,200 soldiers, 77 MFJP pilots and mechanics, and dozens of support personnel, all provided by the Mexican Government, participated in the last such campaign. Since the beginning of 1975, in the northern zone alone over 3,000 acres of opium poppy has been destroyed, 96 weapons seized, 8 heroin laboratories destroyed, and there were 436 arrests as a result. Also, most of the poppy fields in the North have been photographed and mapped by means of an aerial photographic poppy detection system furnished by the United States, thus allowing better planning for future eradication operations. Equipment already furnished to the Mexican Government should be sufficient to handle existing eradication requirements of the northern Mexico poppy zone. Equipment projected for delivery during the coming four months plus that proposed for FY 1976 and the 5th Quarter should make it possible for the Mexican Government to meet most of the eradication requirements in the other major growing areas.

In another effort to curtail drug trafficking, the government passed stiffer laws requiring mandatory sentences of more than five years for all narcotics convictions. The Federal Judicial Police Academy was established in July 1974 and with narcotics funds, the United States Drug Enforcement Administration has provided training aids for narcotics enforcement and technical assistance in the first training cycle. The Attorney General has also established a central office to collate narcotics intelligence. To upgrade their professional capabilities in FY 1974 and FY 1975, 24 Federal Judicial Police Agents attended United States courses in drug enforcement varying in length from one month to ten weeks.

An important element of Mexico's drug interdiction effort is an intensive program of roadblocks at locations customarily traveled by traffickers. In 1975 four special interdiction vehicles, designed by DEA specifically for narcotics enforcement personnel to use in roadblocks against drug traffickers, are being provided. The cost of these vehicles constitutes slightly over 1% of our total FY 1975 narcotics program assistance to Mexico.

FY 1976 Program. In FY 1976 we will continue to support the Government of Mexico's eradication and interdiction effort in the northern tristate area and expansion of this program to include the producing areas in the southern states of Guerrero and Michoacan: $3.0 million for three troop-carrying helicopters, spare parts and equipment for expanding the Attorney General's helicopter maintenance facilities; $1.2 million for three short take-off and landing (STOL) aircraft needed for supplying advanced bases used by eradication teams; $350,000 for communications equipment; $200,000 for one light helicopter; $55,000 for

TITLE	NUMBER
Narcotics Control (Office of the Attorney General) (Mexico)	598-11-995-919

personnel costs; and $825,000 for expendables including fuel, individual gear, photographic materials for poppy detection system, weapons and ammunition for narcotics enforcement personnel, etc.

5th Quarter. $1.8 million for extension of contract to provide spare parts for all rotary wing aircraft, and a maintenance and logistics technical team to upgrade the Attorney General's capabilities to maintain and service the aircraft fleet; $250,000 for telecommunications equipment; $600,000 for expendables and field equipment; $200,000 for five special interdiction vehicles; and $65,000 for personnel costs.

Country: MEXICO

GRANT ACTIVITY DATA

S/NM 35

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Enforcement (Customs)	Narcotics Control	FY 76 770	5th Q. 785
NUMBER 598-11-995-919.2	PRIOR REFERENCE P. 26 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1976	SCHEDULED FINAL OBLIGATION FY: Continuing

Project Target and Course of Action. To enhance Mexican Customs capability to interdict narcotics flowing into the United States, by assisting with training and offering the material assistance necessary for maximum efficiency. This proposed project would assist Mexican Customs in improving its capability to detect smuggling at major ports of entry and would support the development of a flexible Customs force using sophisticated electronic equipment to detect and interdict unauthorized flights and other movements of narcotics smugglers.

Progress to Date. The United States has cooperated with the Mexicans to introduce new techniques to control the trafficking and smuggling of illicit drugs, such as using detector dogs. Also, 50 Mexican Customs officials attended narcotics enforcement seminars in Mexico conducted by U. S. Customs. Finally, Mexico bought equipment costing $120,000 for air-to-ground and other communications to improve the efficiency of their narcotics control operations. One of the principal challenges still confronting both United States and Mexican authorities is effective curbs on cross-border drug trafficking. It is hoped that increased use of detector dogs and more training of personnel will help. However, professional traffickers are increasingly resorting to small private aircraft which embark and discharge their illicit cargo at the hundreds of abandoned air fields or isolated dirt roads in Mexico and the southwestern United States. Much narcotics will continue to flow until both the United States and Mexico have a means to bring cross-border flights under control. The United States Federal Aviation Administration has already promulgated new regulations with a view to curbing unauthorized flights into the United States from Mexico. To effectively cooperate in this control effort, Mexican Customs will require detection and communications equipment and aircraft pursuit capability. Discussions have been held regarding United States-Mexican Customs collaboration and there will be further talks to explore the potential for additional U. S. assistance in support of Mexico's Customs efforts.

FY 1976 Program. The following allocation is proposed for FY 1976: $5,000 for grant of detector dogs and $30,000 for training in their use; $320,000 for radar and/or other aircraft detection equipment and telecommunications equipment; $350,000 for one pursuit aircraft; and $65,000 to support operational costs provide aircraft and communications spares, and provide training of Mexican narcotics agents in enforce-

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	--	--	--
Estimated FY 75	--	--	--
Estimated through 6/30/75	--	--	--
Proposed FY 76	770	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	785	Cont.	Cont.

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	--	--	--	--	--	--	--	--	--
Participants	--	--	--	--	35	35	--	50	50
Commodities	--	--	--	670	--	670	720	--	720
Other Costs	--	--	--	65	--	65	15	--	15
Total Obligations	--	--	--	735	35	770	735	50	785

PRINCIPAL CONTRACTORS/ AGENCIES

U. S. Customs

A.I.D.

GRANT ACTIVITY DATA

S/NM 36 Continuation Sheet

TITLE	NUMBER
Narcotics Enforcement (Customs)	598-11-995-919.2

ment techniques and in-country seminars.

5th Quarter. The following allocation is proposed for the 5th Quarter: $350,000 for aircraft detection and communications equipment; $350,000 for pursuit aircraft; $50,000 for pilot and mechanic training; $20,000 for aircraft spare parts and maintenance equipment; and $15,000 for operational support costs.

Country: MEXICO

GRANT ACTIVITY DATA

S/NM 37

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics - Health (Mexican Center for Drug Dependency Research)(CEMEF)	Narcotics Control	FY 76: 100	5th Q.: -
NUMBER 598-11-995-919.3	PRIOR REFERENCE P. 27 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action. To increase Mexican knowledge of and ability to deal with its domestic drug abuse problem, and to encourage bilateral cooperation in drug-related health fields. Mexico has a small but growing heroin problem plus a high incidence of inhalant and marijuana abuse. The Mexican Government spends $1.6 million annually on drug abuse treatment and rehabilitation. The purpose of this activity is to provide selective training, professional assistance, and library resources to CEMEF in order to enhance its ability to identify and treat drug abusers in Mexico.

Progress to Date. To gain insight into the nature of Mexican drug abuse, the Mexican Center for Drug Dependency Research (CEMEF) has conducted an epidemiological study with narcotics assistance funds through the U.S. Special Action Office for Drug Abuse Prevention (SAODAP). Results of this study attracted the attention of both public and professionals and highlighted the need for action by the Mexican Government to control drug abuse. CEMEF is developing the expertise of its staff and other professionals in the drug abuse field. To that end, SAODAP provided instructions in social science research methods and trained 30 Mexican professionals in techniques of drug abuse rehabilitation at its Miami Center. CEMEF surveyed the drug abuse problem along our common border with the narcotics funds through the U.S. National Institute for Drug Abuse. As a result, CEMEF plans to augment its treatment facilities there. Few books and periodicals about drug abuse epidemiology, treatment and rehabilitation are printed in Spanish, hence CEMEF requested, and the United States Government with narcotics funds provided, many books and publications about these and related topics in order for CEMEF to establish a reference library.

FY 1976 Program. For FY 1976 we will provide $10,000 for training of 20 additional Mexican professionals in drug abuse treatment/rehabilitation; $30,000 for technical assistance by U.S. drug abuse experts in establishment of drug abuse treatment centers; $5,000 for additional library materials; $20,000 for a study of the effects of heroin, methadone, and LAAM (Long Acting Methadone) on chronic, long-term heroin addicts in Mexico City; $15,000 for a study of 200,000 inhalant abusers among the young population (9 years and up); and $20,000 for a study correlating criminal behavior with drug use.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	81	39	42
Estimated FY 75	100	97	---
Estimated through 6/30/75	181	136	45
Proposed FY 76	100	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	-	100	381

Cost Components	OBLIGATIONS: Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	---	86	86	---	30	30	---	---	---
Participants	---	14	14	---	10	10	---	---	---
Commodities	---	---	---	---	5	5	---	---	---
Other Costs	---	---	---	55	---	55	---	---	---
Total Obligations	---	100	100	60	40	100	---	---	---

PRINCIPAL CONTRACTORS/ AGENCIES

Special Action Office for Drug Abuse Prevention (SAODAP)

National Institute for Drug Abuse (NIDA)

Country: PERU

GRANT ACTIVITY DATA

S/NM 38

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Enforcement)	Narcotics Control	FY 76 66	5th Q. 84
NUMBER 527-11-995-942.1	PRIOR REFERENCE P. 31 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1979

Project Target and Course of Action: The objectives of the project are 1) to improve the narcotics enforcement capabilities of the special narcotics units of the Peruvian Investigations Police (PIP) largely through assistance in improving key police communications networks and training of officers in the narcotics units; 2) to improve the Civil Guard narcotics capability by upgrading local training capability; and 3) to improve Peruvian Customs capacity to direct and interdict illicit traffic in narcotics primarily through training.

Progress to Date: Working relations with the PIP are excellent, and PIP investigations led to the seizure of 131 kilograms of coca paste, the largest narcotics seizure ever made in Peru. Participants trained through this project and support to police budget, along with excellent government-DEA cooperation, have led to important arrests, destruction of laboratories, and numerous seizures. The Government of Peru has also publicly condemned narcotics abuse as "anti-revolutionary". Moreover, Peru signed a commercial/economic agreement in 1974 with Bolivia which included a clause to work bilaterally on narcotics problems of mutual concern.

FY 1976 Program: DEA will continue its excellent working relations with PIP. The FY 1976 program, aside from funding for participants which is treated separately, will include the following elements. Other costs: $60,000 to support PIP budget; $6,000 for invitational travel.

5th Quarter: Other Costs: $48,000 for budget support to PIP, $6,000 for invitational travel. Telecommunications equipment and spare parts ($30,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	264	29	235
Estimated FY 75	200	278	
Estimated through 6/30/75	464	307	157
Proposed FY 76	66	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	84	280	894

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians ..	–	–	–	–	–	–	–	–	–
Participants	–	–	–	6	–	6	6	–	6
Commodities	140	–	140	–	–	–	30	–	30
Other Costs	60	–	60	60	–	60	48	–	48
Total Obligations ..	200	–	200	66	–	66	84	–	84

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
D.E.A.

Country: PERU

GRANT ACTIVITY DATA

S/NM 39

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Replacement of Coca Production	Narcotics Control	FY 76 20	5th Q. -
NUMBER 527-11-995-942.2	PRIOR REFERENCE None	INITIAL OBLIGATION FY: 1976	SCHEDULED FINAL OBLIGATION FY: Continuing

Project Target and Course of Action. To supplement research undertaken by the Government of Peru to determine the feasibility of reducing coca production by means of crop substitution. Research grants will be made to the Agrarian University through the Ministry of Agriculture. Based on the research fundings, the Government of Peru might consider initiating a pilot coca replacement project involving the participation of actual coca producers. This could possibly lead to an expanded second phase of this project.

FY 1976 Program. For FY 1976, $20,000 is needed to finance the research grants.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	-	-	-
Estimated FY 75	-	-	-
Estimated through 6/30/75	-	-	-
Proposed FY 76	20	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	-	Cont.	Cont.

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	-	-	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-	-	-
Other Costs	-	-	-	-	20	20	-	-	-
Total Obligations	-	-	-	-	20	20	-	-	-

PRINCIPAL CONTRACTORS/ AGENCIES

U.S. Department of Agriculture (USDA)

A.I.D.

Country: BURMA

GRANT ACTIVITY DATA

S/NM 40

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Enforcement)	Narcotics Control	FY 76 $13,315	5th Q. –
NUMBER 482-12-590-132	PRIOR REFERENCE: None	INITIAL OBLIGATION FY: 1974	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action: To support the efforts of the Burmese government to reduce the production, refining and trafficking of opium and its derivatives. Burmese opium production, estimated to be around 400 tons annually, is concentrated in the mountainous areas of the Shan and Kachin States. The bulk of the opium is moved by armed mule caravans to small processing plants along Burma's border with Laos and Thailand. Increasing amounts of opium are being refined into morphine or heroin before being distributed through the international trafficking network.

The mountainous terrain and the highly armed trafficking groups make the government's enforcement and interdiction efforts extremely difficult. Narcotics assistance funds will provide the necessary mobility, information and communications to enhance Burma's capability to interdict opium caravans, destroy opium-refining sites and break up trafficking organizations.

Progress to Date: Since 1973, the Burmese government has waged a vigorous enforcement campaign against drug abuse. In early 1974, the government enacted a new narcotics law that calls for more severe penalties for the use, sale, and marketing of illicit drugs. The government also disbanded the self-defense forces of northeastern Burma, many of whom were and remain actively involved in opium smuggling which provides financing for their activities.

Currently the Burmese and the United Nations Fund for Drug Abuse Control (UNFDAC) are negotiating the details of a multi-faceted narcotics control program including drug abuse education, treatment and rehabilitation, enforcement and crop replacement.

While the Burmese government continues to adhere to a rigid policy of political non-alignment, in mid-1974 it signed an agreement with the U.S. government for the provision of six helicopters to be used primarily for narcotics control purposes. The first three helicopters are scheduled to arrive by the end of FY 1975. The first group of a total of twenty-two Burmese technicians and pilot-instructors have received training in the U.S. for the operation and maintenance of these aircraft.

FY 1976 Program: Funds are requested for an additional 12 helicopters in accordance with the 1974 agreement ($12,000,000); for short-term technical advisors from Bell Helicopter Co. ($25,000); for spare parts and communications equipment ($290,000); and for poppy photographic detection equipment ($1,000,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	4,800	–	4,800
Estimated FY 75	623	2,583	
Estimated through 6/30/75	5,423	2,583	2,840
Proposed FY 76	13,315	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	–	500	19,238

Cost Components	OBLIGATIONS: Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	–	–	–	–	25	25	–	–	–
Participants	–	40	40	–	–	–	–	–	–
Commodities	583	–	583	13290	–	13290	–	–	–
Other Costs	–	–	–	–	–	–	–	–	–
Total Obligations	583	40	623	13290	25	13315	–	–	–

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
Bell Helicopter

Country: INDONESIA

GRANT ACTIVITY DATA

S/NM 41

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Enforcement)	Narcotics Control	FY 76 15	5th Q.
NUMBER 497-11-995-226.1	PRIOR REFERENCE p. 35 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1975	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action. To assist the Government of Indonesia through the National Narcotics Coordinating Board (BAKOLAK) in developing and implementing a program of narcotics control to present Indonesia from becoming a producer, processor or transshipment center of illicit narcotics.

Progress to Date. A comprehensive five year enforcement plan has been drawn up by the Government of Indonesia and a substantial reorganization of the police is taking place to establish a 100 man narcotic directory with the primary responsibility for the enforcement of drug laws.

Narcotics units are to be established within each of the 17 provincial police commands and specialized training of personnel for these units is scheduled to begin in April 1975. Narcotics training programs have also been initiated within other police units.

U.S. assistance has provided training in the United States and the Philippines for five police officials and an intensive narcotics enforcement course was held in Indonesia. A limited quantity of audio visual equipment has been provided for use in the police training program. Equipment for the police narcotics laboratory is planned.

FY 1976 Program. Third country training for police personnel ($4,000), narcotics test kits for the special narcotics units and additional audio-visual equipment for the police training program ($11,000).

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	-	-	-
Estimated FY 75	11	5	-
Estimated through 6/30/75	11	5	6
Proposed FY 76	15	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	-	20	46

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	-	-	-	-	-	-	-	-	-
Participants	4	-	4	4	-	4	-	-	-
Commodities	7	-	7	11	-	11	-	-	-
Other Costs	-	-	-	-	-	-	-	-	-
Total Obligations	11	-	11	15	-	15	-	-	-

PRINCIPAL CONTRACTORS/ AGENCIES

Agency for International Development

Drug Enforcement Administration

Country: INDONESIA

GRANT ACTIVITY DATA

S/NM 42

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Treatment/Rehabilitation)	Narcotics Control	FY 76 45	5th Q. -
NUMBER 497-11-995-226	PRIOR REFERENCE P. 35 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action. To assist the Government of Indonesia in the development and implementation of a national drug abuse treatment and rehabilitation program. The Ministry of Health, the Jakarta Municipal Health Service, and the National Narcotics Coordinating Boards (BAKOLAK) are the principal Indonesian agencies participating in this program.

Progress to Date. Under the coordination and direction of BAKOLAK, treatment/rehabilitation/education programs are now underway at drug dependence units in Jakarta, Bandung and Surabaya, Indonesia's three largest cities. Two of three major research studies have been completed. The first study, undertaken by the Jakarta Metropolitan Health Service, analysed the extent of drug use in the city schools. The second study by Jakarta's Drug Dependence Unit was designed to determine the effectiveness of the treatment provided to its first 100 patients. The third research grant, still in progress, involves the combined participation of the Indonesian Government and selected universities universities to analyse current government programs and practices in the treatment of drug addicts, and to propose uniform corrective measures, including new legislation, if appropriate.

Five Indonesian health and social welfare officials have attended treatment and rehabilitation programs designed by the United States National Institute of Drug Abuse (NIDA). One Indonesian participant attended the thirty-first International Congress on Alcoholism and Drug Dependence. One psychiatrist and a social worker visited Singapore to observe rehabilitation programs.

FY 1976 Program. In FY 1976, $8,000 is requested for eight motorcycles for social workers in treatment and rehabilitation, $5,000 is requested for a reference library, $26,000 is requested for the training of five health, education and social welfare officials, and $6,000 is requested to finance short-term U.S. consultants.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	103	23	80
Estimated FY 75	63	80	
Estimated through 6/30/75	166	103	63
Proposed FY 76	45	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	-	50	257

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	13	-	13	-	6	6	-	-	-
Participants	41	-	41	26	-	26	-	-	-
Commodities	4	-	4	13	-	13	-	-	-
Other Costs	5	-	5	-	-	-	-	-	-
Total Obligations	63	-	63	39	6	45	-	-	-

PRINCIPAL CONTRACTORS/ AGENCIES

Agency for International Deveolpment

National Institute of Drug Abuse

Country: Laos

GRANT ACTIVITY DATA

S/NM 43

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control	Narcotics Control	FY 76 249	5th Q. 143
NUMBER 439-11-790-084	PRIOR REFERENCE P. 37 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1972	SCHEDULED FINAL OBLIGATION FYContinuing

Project Target and Course of Action: The purposes of this project are fourfold: (1) the suppression of narcotics trafficking within and through Laos so as to reduce or eliminate illicit narcotics trafficking; (2) to provide for treatment and rehabilitation of Lao addicts; (3) to alleviate the adverse economic impact upon Lao farmers resulting from the restriction of poppy production; (4) to provide general technical support for the operational activities funded under the narcotics control project. This program involves: U.S. advisory and equipment assistance to upgrade Lao enforcement capabilities, support for treatment/rehabilitation programs centered on the work of the National Detoxification Center in Vientiane and crop replacement/income substitution programs (agricultural redirection). Long term efforts are aimed at encouraging multilateral participation in the area of opium crop replacement/income substitution.

Progress to Date: Since the inception of the project in FY 1972 the following progress has been made:

In the field of enforcement:

--Enactment of a national anti-narcotics law in 1971 prohibiting commercial cultivation, marketing, consumption, purchase or sale of opium and its derivatives.

--Expansion and strengthening of Lao police, military police and customs service enforcement capabilities.

--Specialized training, both abroad and in Laos, has been provided for 440 Lao enforcement officials.

--Customs and police inspection posts have been established in the prime production and trafficking areas of Laos.

--The Lao Government established in 1971 a special enforcement coordinating organization (Groupe Speciale d'Investigation) to get Lao enforcement efforts underway. This has now been dissolved as regular ministries have become more proficient in anti-narcotics functions.

In the field of treatment and rehabilitation:

--Approximately 1,251 narcotic addicts have received detoxification and rehabilitation treatment from September 1972 through December 1974 at the National Detoxification Center.

--Significant numbers of Lao addicts have also received treatment in Thailand under a Lao Government program supported by the United States.

--Ground was broken in February 1975 for a new larger Detoxification Center. When completed, this facility will allow for expanded treatment of addicts.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	4612	3624	988
Estimated FY 75	924	1338	
Estimated through 6/30/75	5536	4962	574
Proposed FY 76	249	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	143	Cont.	Cont.

Cost Components	OBLIGATIONS Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	60	170	230	-	107	107	-	110	110
Participants	37	-	37	25	-	25	-	-	-
Commodities	92	-	92	27	-	27	-	-	-
Other Costs	565	-	565	90	-	90	33	-	33
Total Obligations	754	170	924	142	107	249	33	110	143

PRINCIPAL CONTRACTORS/ AGENCIES

Agency for International Development

U.S. Customs Service

Drug Enforcement Administration

TITLE	NUMBER
Narcotics Control	439-11-790-084

In the agricultural field:
--Agricultural redirection experiments and training with Lao poppy growers and plants have been initiated at several centers.
--At Phou Pha Deng High Altitude Crop Introduction Center, crops such as coffee, tea, ginseng, mushrooms and also sericulture are being tested as potential plant substitutes for poppy.
--At Xieng Nguen Redirection Training Center, hill tribe poppy growers are being trained how to plant and raise a number of substitute market crops.
--In addition, several small scale land clearing and irrigation programs are being carried out so that poppy growers can be provided paddy land in order to encourage settled agricultural production.

FY 1976 Program: In enforcement, we will continue technical advisory services, specialized equipment and financial support, although on a lower scale than previous years, to the Lao National Police, and Lao Customs Service. We plan to provide the National Police with $5,000 of communications gear, and spend another $5,000 for miscellaneous operational expenses. To assist Lao Customs, we intend to fund a full-time U.S. Customs Service advisor ($34,000), and provide motorcycle supplies ($4,000) and communications equipment ($2,000). Local operational costs should be $15,000, for a total of $65,000 for narcotics enforcement.

In treatment/rehabilitation, we intend to fund a full-time public health officer ($37,000) and one short-term public health consultant ($10,000) to work with the Ministry of Public Health, send 3 Lao officials to study addict care in Thailand for three months ($10,000), provide improved hospital equipment ($1,000) and drugs/biologicals ($10,000), with local operational costs of $18,000. Total contribution to drug abuse and addict treatment will be $86,000.

In the agricultural redirection program, we plan to provide a contract agricultural advisor ($26,000) to work with the Directorate of Agriculture, fund third country training in Thailand in agriculture extension services ($15,000) and obtain agricultural supplies and provide other local costs ($25,000).
Total income substitution costs are $66,000.

General program support, mainly transportation of commodities, and other local costs, is planned at $32,000.

Fifth Quarter: Funding advisors' salaries, plus certain administrative costs, and continuing FY 1976 program at same level of support for 5th Quarter will require $143,000.

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Country: PHILIPPINES

GRANT ACTIVITY DATA

S/NM 45

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control: Enforcement	Narcotics Control	FY 76 110	5th Q. 30
NUMBER 492-11-710-250	PRIOR REFERENCE P. 39-41 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1972	SCHEDULED FINAL OBLIGATION FY: 1976 (5th Qtr)

Project Target and Course of Action: This project is designed to aid the Government of the Philippines in organizing an efficient central organization to carry out a national program of narcotics and dangerous drugs control. The project is directed at curtailing the production and illicit use of narcotics and dangerous drugs and to control the trafficking in such drugs within the Philippines. Support is given to establishment of Narcotics units within local police forces in selected cities and municipalities, the National Police Commission, Dangerous Drugs Board, cooperating agencies of the National Bureau of Investigation, Anti-Smuggling Actions Center, Constabulary Anti-Narcotics Unit (CANU), and the Food and Drug Administration.

Progress to Date: Since the inception of the project in 1972, the efforts of the Philippine Government in narcotics and dangerous drugs control and enforcement have grown substantially. The Dangerous Drugs act of 1972 has become fully operational. A Dangerous Drugs Board (DDB) was created in December 1972 to plan, organize, coordinate and direct the nation-wide program of narcotics and dangerous drug control. The DDB is an active, growing force in all aspects of the drug problem, giving close attention to regulation and enforcement, prevention and education, treatment and rehabilitation, research, and legislation. Sixty law enforcement officers have received training in the U.S. 49 five-man teams have been trained, equipped and are operational in 29 large cities throughout the country. The program has resulted in a major decrease in drug availability. In the three cities with severest problems; Manila, Olongapo and Angeles City, there have been significant increases in narcotics arrests and seizures.

FY 1976 - Due to delays in initiating this four-year program, it has become necessary to extend implementation through the fifth quarter of 1976. Program implementation began June 30, 1972 and thus will, at the end of FY 1975, have been in operation for only three, rather than the originally programmed, four years. In FY 1976 seven additional narcotics teams will be trained and support will be given to 9 regional police academies. In FY 1976, we plan to provide $38,000 for an AID narcotics advisor. Commodity inputs will consist of narcotics control equipment, laboratory equipment, training materials and equipment, and other specialized support commodities to assist in narcotics control. The cost of this equipment will be $72,000.

5th Quarter: $30,000 is requested to procure commodities required to complete the program.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	757	445	312
Estimated FY 75	356	398	
Estimated through 6/30/75	1113	843	270
Proposed FY 76	110	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	30	---	1253

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	36	---	36	38	---	38	---	---	---
Participants	---	---	---	---	---	---	---	---	---
Commodities	320	---	320	72	---	72	30	---	30
Other Costs	---	---	---	---	---	---	---	---	---
Total Obligations	356	---	356	110	---	110	30	---	30

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
Drug Enforcement Administration

Country: THAILAND

GRANT ACTIVITY DATA

S/NM 46

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
CUSTOMS IMPROVEMENT	NARCOTICS CONTROL	FY 76 1,235	5th Q. 163
NUMBER 493-11-710-239	PRIOR REFERENCE Page 43 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action:
Reduce transshipment of narcotics from neighboring countries through Thailand and reduce the export of internally produced opium products. The United States Government provides the Royal Thai Government Department of Customs (DOC) with continuous training in management, force development, and intercept strategy through the services of three U.S. Customs Advisors who work with the DOC on the most effective use and maintenance of DOC air, land, and marine resources. Funds are being provided under a Participating Agency Service Agreement (PASA) with U.S. Customs Service for advisors. Funds are also provided for participants and commodities.

Progress to Date:
Following a 1974 survey of Don Muang airport administrative and enforcement procedures by a U.S. advisory team, the Royal Thai Government established an investigation unit, initiated a dog narcotic sensing operation and sharply increased the level of personal hand baggage searches. The results have been impressive with, for example, the largest single seizure of #4 heroin (24 lbs.) occurring since Thailand began in general to step up its narcotics control efforts. A thorough survey of the Thai Customs marine fleet also caused the Thais to institute a complete overhauling of their boat operation and maintenance policies. Sixty DOC officers attended a U.S. Customs enforcement course in Thailand and some badly needed patrol craft, spare parts and communication equipment were ordered. DOC budget inputs for new equipment were substantial ($ 2.5 million) reflecting the high priority and need for upgrading the Thai Customs Service. A joint Thai-U.S. evaluation of the project in early 1975 concluded that the Advisory Team had made excellent progress in such a brief period (13 months) but recommended that the project be expanded to increase the Customs' marine interdiction capabilities primarily through the provision of high-speed pursuit craft.

FY 1976 Program:
Funds are requested for three U.S. Customs Service Advisors ($120,000) and commodities including radios, vehicles and marine vessels ($1,115,000).

5th Quarter
$163,000 is requested for continuation of Customs Advisory Support, short term third country participant training and commodities.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	563	105	458
Estimated FY 75	1,959	558	
Estimated through 6/30/75	2,522	663	1,859
Proposed FY 76	1,235	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	163	600	4,520

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	-	150	150	-	120	120	-	30	30
Participants	-	-	-	-	-	-	15	-	15
Commodities	1,809	-	1,809	1,115	-	1,115	118	-	118
Other Costs	-	-	-	-	-	-	-	-	-
Total Obligations	1,809	150	1,959	1,115	120	1,235	133	30	163

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
U.S. Customs

Country: THAILAND

GRANT ACTIVITY DATA

S/NM 47

TITLE	FUNDS	PROPOSED OBLIGATION ($000)
NARCOTICS CONTROL - Enforcement (National Police)	NARCOTICS CONTROL	FY 76 325 / 5th Q. 20
NUMBER 493-11-710-238	PRIOR REFERENCE Page 42 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1973 / SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action:
Build the capability of the Thai National Police to interdict organized narcotic traffickers, and to train effective, well managed anti-narcotic police teams. With the cooperation of the Thai Ministries of Interior and Education and the special assistance of the Drug Enforcement Administration, the United States Government plans to provide contributions of equipment to this project, which would allow the TNPD to continue to mobilize full time Police anti-narcotic teams.

Progress to Date:
With DEA assistance, the Royal Thai Government established a Special Narcotics Organization (SNO) in northern Thailand consisting of 25 carefully selected police officers at each of five major towns situated outside known narcotics trafficking routes. Three new units were established during FY 1974. In addition, the RTG set up a special Bangkok police narcotic division designed to concentrate all available resources on drug abuse detection, investigation and arrests. Forty-eight man Police Aerial Reinforcement Units (PARU) within the Border Patrol Police are being equipped and trained for enforcement operations and the Provincial Police Division in northern Thailand along the Burma border have organized ten five-man special teams to supplement the SNO. Two USG-provided helicopters were instrumental in the operations of these various narcotics enforcement units. Five more helicopters were ordered for delivery in early 1976. Extensive training of police officers -- 45 Provincial Police, 193 Border Patrol Police -- was undertaken and observation tours to the US by several senior Thai officers were arranged. The Thai also created six five-man mobile training teams.

While the 1973 narcotics seizures (17 tons of opium and several hundred pounds of heroin and other derivatives) were not equalled during 1974, Thai enforcement agencies continued to expand the scope of their activities and to sharpen their intelligence efforts. New tactics by the traffickers have called for different methods of control. An effective award system recently developed by the Thai is stimulating greater interest by low-paid police officials to seize narcotics.

FY 1976 Program:
The 1976 program will focus on training of police in the U.S., Thailand and in neighboring countries. A juvenile narcotic unit will also be trained with emphasis on juvenile addicts and identifying their drug sources. With USG provided equipment, the various enforcement teams in the Border Police, Provincial

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	5,138	1	5,137
Estimated FY 75	454	979	
Estimated through 6/30/75	5,592	980	4,612
Proposed FY 76	325	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	20	609	6,546

Cost Components	OBLIGATIONS: Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/Other Agency	Proposed 5th Q. Total
U.S. Technicians	80	-	80	80	-	80	20	-	20
Participants	32	-	32	36	-	36	-	-	-
Commodities	342	-	342	209	-	209	-	-	-
Other Costs	-	-	-	-	-	-	-	-	-
Total Obligations	454	-	454	325	-	325	20	-	20

PRINCIPAL CONTRACTORS/AGENCIES
A.I.D.

TITLE	NUMBER
NARCOTICS CONTROL - Enforcement (National Police)	493-11-710-238

Police and Bangkok Police Force will be fully operational. Production of video training tapes also will begin in FY 76. Funds are requested for a) two (2) US-direct hire personnel including a narcotic training advisor and a technical generalist ($80,000); b) participant training for 30 Narcotics officers in third regional countries ($36,000); c) commodities including vehicles, communication equipment, educational materials and equipment totaling $209,000.

5th Quarter

$20,000 is requested for direct hire salaries.

Country: THAILAND

GRANT ACTIVITY DATA

S/NM 49

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Opium Crop Replacement (Agricultural Research Station)	Narcotics Control	FY 76 $578	5th Q. $87
NUMBER 493-11-190-241.2	PRIOR REFERENCE Page 44, FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1975	SCHEDULED FINAL OBLIGATION FY: 1979

Project Target and Course of Action: To assist in identifying suitable opium crop replacement, the Royal Thai Government and U.S. Government will design and establish an Agricultural Research Station specializing in and restricted to the development of crop species adapted to the environment of mountain areas above 1,000 meters in northern Thailand. This activity provides the basic research support to the zonal development project described elsewhere in this presentation. The results of the research will be disseminated to farmers participating in the zonal development program by the Ministry of Agriculture through its extension services. Periodic evaluations of the work underway will be made to determine the viability and marketability of the crops produced. Close working relationships will be maintained with other upland crop research activities sponsored by USDA and the U.N. Fund for Drug Abuse Control in northern Thailand. The U.S. Government will provide laboratory supplies, equipment and vehicles.

Progress to Date: A four-man design team, composed of U.S. agricultural experts and working closely with their Thai counterparts, completed a study for a rural research program including the selection of a site, construction of facilities and designation of personnel. Implementation of the study was initiated and the second phase of preparing the site and planting of crops is ready to begin.

FY 1976 Program: Funds are requested for (a) four contract personnel in horticultural and agronomic research plus several short-term specialists ($230,000); (b) long-term training for eight participants and short-term training for four participants in agricultural research ($88,000); (c) commodities including farm equipment, vehicles and laboratory supplies ($220,000); and (d) other costs ($40,000).

5th Quarter: $87,000 is requested for continuation of contractual support.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	-	-	-
Estimated FY 75	478	-	
Estimated through 6/30/75	478	-	478
Proposed FY 76	578	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	87	386	1,579

OBLIGATIONS

Cost Components	Estimated FY 1975 Direct AID	Estimated FY 1975 Contract/ Other Agency	Estimated FY 1975 Total	Proposed FY 76 Direct AID	Proposed FY 76 Contract/ Other Agency	Proposed FY 76 Total	Proposed 5th Q. Direct AID	Proposed 5th Q. Contract/ Other Agency	Proposed 5th Q. Total
U.S. Technicians	-	202	202	-	230	230	-	87	87
Participants	66	-	66	88	-	88	-	-	-
Commodities	190	-	190	220	-	220	-	-	-
Other Costs	20	-	20	40	-	40	-	-	-
Total Obligations	276	202	478	348	230	578	-	87	87

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
U.S.D.A.

Country: THAILAND

GRANT ACTIVITY DATA

S/NM 50

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Opium Crop Replacement (Zonal Development)	Narcotics Control	FY 76 1453	5th Q. 50
NUMBER 493-11-710-241	PRIOR REFERENCE P. 44 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1974	SCHEDULED FINAL OBLIGATION FY: 1978

Project Target and Course of Action: The Zonal Development Project is one of a series of experimental efforts by the RTG and USG to identify, test, and install an alternative Socio-Economic System to reduce dependence on opium cultivation with the objective of eliminating illicit opium production within well defined hilltribe areas. The project is planned for initiation in two definable opium growing watershed areas (approximately 50 sq. kilometers each) in Northern Thailand in FY 197 . As alternative sources of income are developed, expand Thai National Police Department enforcement capability into these project areas.

The following activities will be undertaken in each project area:

A. Forestry activities including watershed rehabilitation and/or industrial timber plantation establishment.

B. Timber utilization activities will initially focus on small scale local forest products development and assistance in creating industrial opportunities.

C. Agriculture activities will be directed to replacing slash and burn techniques with stabilized agriculture on cash crop substitutes and food production, processing and marketing.

D. Infrastructure support to meet basic physical and social needs will be provided taking into account the requirements, capabilities and resources unique to each area.

E. Training will be emphasized to maximize hilltribe involvement in project activities and, eventually, in project management/administration.

Progress to Date: One small canning plant to process hilltribe fruit production is in the process of construction under a prior project agreement and a site has been selected for an additional plant and the location is now being improved. A forestry development program has been designed and the Public Welfare Department has been training its personnel for the Zonal Development Teams.

Related Activities: Under a related activity an agriculture research station is being established to undertake basic research in alternative crops suitable for production in northern Thailand. Results of these research efforts will be disseminated within the two

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	45	–	45
Estimated FY 75	504	45	[illegible]
Estimated through 6/30/75	549	45	504
Proposed FY 76	1,453	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	50	700	2,752

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians . .	50	130	180	100	135	235	25	25	50
Participants	25	–	25	41	–	41	–	–	–
Commodities	299	–	299	537	–	537	–	–	–
Other Costs	–	–	–	640	–	640	–	–	–
Total Obligations . .	374	130	504	1,318	135	1,453	25	25	50

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
U.S.D.A.

TITLE	NUMBER
Opium Crop Replacement (Zonal Development)	493-11-710-241

areas being addressed under the activity.

The U.N. Fund for Drug Abuse Control has a demonstration project underway in another area of northern Thailand and a number of other countries including Australia, New Zealand, Israel, and Denmark are providing bilateral assistance in the same general geographic area but with different program objectives.

FY 1976 Program: Equipment for one small cannery including an electric generator ($72,000); commodities including crawler tractors, farm implements, jeeps, plywood/veneer laboratory equipment, trucks with trailers ($465,000); U.S. personnel including one engineer advisor, agri-business advisor, two forestry experts, and short term contract consultant ($235,000); participants ($41,000); other costs including market promotion research, labor, materials, and salaries ($640,000).

5th Quarter: $50,000 to continue direct hire and PASA salaries.

Country: THAILAND

GRANT ACTIVITY DATA

S/NM 52

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
NARCOTIC CONTROL (Program Development and Support)	NARCOTICS CONTROL	FY 76 100	5th Q. 32
NUMBER 493-11-999-000	PRIOR REFERENCE Page 44 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1974	SCHEDULED FINAL OBLIGATION FY: Cont.

Project Target and Course of Action:
To design and support relatively low cost activities that represent opportunities for quick action to support Thai efforts to find viable alternatives to hilltribe poppy growing. In additon, this project finances the personnel and other costs related to the design, management and coordination of all narcotics assistance activities in Thailand.

Progress to Date:
Under this program, funds were made available to several important high impact projects, including the King's Hilltribe Project at Chang Khien in northern Thailand ($15,000), the hilltribe mint production and processing plant ($8,300), the hiring of a US forestry expert to do a special study ($7,000) and the preparation of several surveys.

FY 1976 Program:
$100,000 is requested for continuing support funds to provide program assistance for future high impact projects. This project will also finance one program officer and one secretary for overall narcotics program support.

5th Quarter
$32,000 is requested to finance salaries and related costs.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	45	10	35
Estimated FY 75	103	113	
Estimated through 6/30/75	148	123	25
Proposed FY 76	100	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	32	Cont.	Cont.

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	-	23	23	50	-	50	15	-	15
Participants	-	-	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-	-	-
Other Costs	80	-	80	50	-	50	17	-	17
Total Obligations	80	23	103	100	-	100	32	-	32

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.

Country: PAKISTAN

GRANT ACTIVITY DATA

S/NM 53

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Narcotics Control (Enforcement)	Narcotics Control	FY 76 123	5th Q. 200
NUMBER 391-11-990-396	PRIOR REFERENCE P.34 FY 1975 Narcotics Control Presentation	INITIAL OBLIGATION FY: 1974	SCHEDULED FINAL OBLIGATION FY: 1977

Project Target and Course of Action: Assist the Government of Pakistan in developing an effective enforcement mechanism to control poppy production and eventually eliminate the flow of illicit narcotic drugs within the country and across its borders. The Pakistan Narcotics Control Board (PNCB) is responsible for coordinating all narcotics control activities and enforcing the narcotics laws of the country. Following establishment in May 1973, the PNCB's first undertaking was the organization of fully-equipped Field Investigative Units (FIUs) at strategic locations in the country. The FIUs are to be the basic operational units of the Government of Pakistan's narcotics law enforcement system. Initially the activities of these units will concentrate on the interdiction of illicit trafficking in opium and other dangerous drugs; but as the units gain in experience and capability, they will be expected to move against the unlicensed cultivation of opium poppies. Each FIU with its base station supervisor will control a minimum of two sub-units, and each sub-unit will consist of a minimum of four investigative officers, other staff and equipment, including a wireless-fitted jeep.

Progress to Date: To better coordinate PNCB enforcement activities with other law enforcement agencies, the PNCB was transferred in November 1974 to the Ministry of Interior. During FY 1974, the United States provided $893,000 in enforcement equipment, including vehicles, communications equipment, photographic equipment, test kits, and related items to partially equip 25 mobile FIUs. FIUs are now in the process of being organized and staffed in central, regional and town headquarters in all four provinces of the country. Funds were programmed in FY 1975 to equip an additional 15 FIUs; however, due to delays in the organization of the units (primarily internal GOP delays in budgeting and staffing), which have now been largely resolved, FY 1975 funds are being limited to the equipping of three additional units which are planned to be operational in the near future. The equipping of the remaining 12 FIUs is programmed for FY 1976, assuming satisfactory organization and operating of the units now being organized and deployed. Narcotics enforcement training will be provided to the PNCB as it increases its professional staff. During the past 18 months it has developed from a skeleton central staff to an organization with 50-75 law enforcement officers and a total staff of 250-300. Within the next few months the PNCB plans to have another 75 officers seconded from other law enforcement agencies in order to have the first 25 FIUs operational by June 30, 1975. The Government of Pakistan has budgeted approximately $700,000 to the PNCB during the current fiscal year.

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	893	16	877
Estimated FY 75	123	877	
Estimated through 6/30/75	1016	893	123
Proposed FY 76	627	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	200	225	2068

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians . .	-	-	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-	-	-
Commodities	123	-	123	627	-	627	200	-	200
Other Costs	-	-	-	-	-	-	-	-	-
Total Obligations . .	123	-	123	627	-	627	200	-	200

PRINCIPAL CONTRACTORS/ AGENCIES

D.E.A.
A.I.D.

PAKISTAN

GRANT ACTIVITY DATA

S/NM 54 Continuation Sheet

TITLE	NUMBER
Narcotics Control (Enforcement)	391-11-990-396

FY 1976 Program: The requested FY 1976 funding of $602,000 will provide for the equipping of the remaining 12 FIUs and an additional PNCB regional headquarters envisioned under the original plan. Commodities to be supplied will include the vehicles, communications equipment, photographic equipment, test kits and related items. We will provide $15,000 for a telecommunications link with INTERPOL and $10,000 for narcotics laboratory equipment.

Fifth Quarter: Subject to a satisfactory evaluation of the FIU operation, an additional $200,000 is requested to equip additional FIUs in areas critical for the total enforcement effort.

Country: PAKISTAN

GRANT ACTIVITY DATA

S/NM 55

TITLE	FUNDS	PROPOSED OBLIGATION ($000)	
Replacement of Opium Production (Swabi Tehsil Project)	Narcotics Control	FY 76 $2,645	5th Q. $2,375
NUMBER	PRIOR REFERENCE	INITIAL OBLIGATION FY: 1976	SCHEDULED FINAL OBLIGATION FY:1977
	None		

Project Target and Course of Action: Assist the Government of Pakistan in meeting its international obligations under the 1961 Single Convention through the elimination of opium cultivation. This project will support the Government of Pakistan's efforts at opium reduction with a pilot project in Swabi Tehsil, a district of the Northwest Frontier Province (NWFP), the region in which most of the illicit cultivation occurs. Building on research and a rural development program already underway as well as the Pakistan Narcotic Control Board's (PNCB) establishment of Field Investigative Units (FIUs) for enforcement, this proposed pilot project will seek to provide alternative sources of income for producers of opium and hashish and extend law enforcement capability in the tribal areas. If the pilot effort is successful, it is expected that the Government will replicate this activity in other parts of the opium growing region through its regular rural development program and expanded enforcement capabilities.

Progress to Date: An Integrated Rural Development Program is already underway in the NWFP and Government of Pakistan plans call for the program to extend throughout the province within three years. The program is based upon involvement of villagers themselves in decision making, including project planning and implementation. Aided by a technician from the U.S. Department of Agriculture, the Government currently is intensifying its agricultural research to identify suitable crops, varieties and practices, which would be useful in a program aimed at eliminating poppy production. Discussions for this accelerated pilot project in Swabi Tehsil have been initiated and the PNCB has agreed to undertake a land survey to determine the extent of opium production within the region. Project planning will continue through FY 1975.

Related Activities: The United Nations Fund for Drug Abuse (UNFDAC) has begun preliminary survey work in preparation for a narcotics development project in Buner, another area of the NWFP. This project may involve an expenditure of $2.1 million over the next three years. The U.S. program in Swabi Tehsil will be closely coordinated with the UN effort.

FY 1976 Program: Initial activities under the project will include necessary road building which will provide alternate sources of income for many of the residents, cost shared land leveling, well drilling, extensive demonstration activities utilizing new crops and practices carried out on opium producer's own farms.

It is anticipated the following U.S. inputs will be required to launch the program: heavy equipment for road

U.S. DOLLAR COST (In Thousands)

	Obligations	Expenditures	Unliquidated
Through 6/30/74	-	-	-
Estimated FY 75	-	-	
Estimated through 6/30/75	-	-	-
Proposed FY 76	2645	Future Year Obligations	Estimated Total Cost
Proposed 5th Quarter	2375	-	5,020

Cost Components	OBLIGATIONS								
	Estimated FY 1975			Proposed FY 76			Proposed 5th Q.		
	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total	Direct AID	Contract/ Other Agency	Total
U.S. Technicians	-	-	-	-	240	240	-	90	90
Participants	-	-	-	-	-	-	-	-	-
Commodities	-	-	-	1,155	-	1,155	285	-	285
Other Costs	-	-	-	1,250	-	1,250	2,000	-	2000
Total Obligations	-	-	-	2,405	240	2,645	2,285	90	2375

PRINCIPAL CONTRACTORS/ AGENCIES

A.I.D.
U.S.D.A.
Personal Services Contract

TITLE	NUMBER
Replacement of Opium Production (Swabi Tehsil Project)	

building and well drilling ($875,000); small farm tractors and land leveling graders ($200,000); pumps and irrigation equipment ($50,000); fertilizer, seeds ($30,000); revolving farmer credit fund ($750,000); local currency costs including a portion of salary costs in labor intensive road building activities ($500,000); 6 U.S. technicians including land-leveling experts, agriculture extension agents and an irrigation specialist ($240,000).

Fifth Quarter: Acceleration of the above activities including additional credit ($1,000,000), local costs ($1,000,000), irrigation equipment ($100,000); fertilizer and seeds ($185,000); U.S. technicians ($90,000).

Mr. PASSMAN. You mentioned several times, the UN. Of course, you administer the bilateral program, not the UN; is that correct?

Mr. VANCE. Yes, sir.

FISCAL YEAR 1975 APPROPRIATIONS

Mr. PASSMAN. If I remember correctly, the appropriation for fiscal year 1975 was $17,500,000. That was the new obligational authority?

Mr. VANCE. I believe——

Mr. PASSMAN. I am going to make the record if you will answer the question.

Mr. VANCE. Yes, sir.

Mr. PASSMAN. Of course you had $15 million in unobligated funds. So it gave you $32,500,000 in new funds.

Mr. VANCE. Yes, sir.

Mr. PASSMAN. Has that been adequate to carry your program on during the year?

Mr. VANCE. I believe, sir, that it will be this year. However——

Mr. PASSMAN. $32,500,000 is the total for fiscal year 1975; $17,500,000 in new funds and you had an unobligated balance of $15 million. Was that adequate for the program that you had for fiscal 1975?

Mr. VANCE. It was, sir, but may I explain my answer at a little more length?

Mr. PASSMAN. Don't take too long, because we only take 5 minutes. We want it complete. If you have to elaborate, put it in the record. What is the answer?

Mr. VANCE. The answer is this: In order to have $32.5 million be adequate this year, we have been obliged to postpone until next fiscal year important programs that we would have otherwise funded out of this fiscal year's program. The best example, I think, is the second part of our program for Burma.

Mr. PASSMAN. What you are saying actually is that it was inadequate to carry out the program that you had planned?

Mr. VANCE. That is accurate.

Mr. PASSMAN. It couldn't be both ways. You either had sufficient funds or you didn't.

Mr. VANCE. It was sufficient only because we postponed until next year——

Mr. PASSMAN. The programs that you postponed, what would have been the cost of them?

Mr. VANCE. I believe that the Burmese program is about $6 million.

Mr. PASSMAN. Now, if we add $6 million to the $32.5 million, then, of course, it would be $38.5 million. Would that have been adequate to carry out the present programs plus those you postponed?

Mr. VANCE. So far as I can tell, to this date in the fiscal year, yes, sir.

Mr. PASSMAN. Do you anticipate a similar program in fiscal 1976?

Mr. VANCE. We are asking——

Mr. PASSMAN. I know what you are asking for.

Mr. VANCE. We can envisage the programing and obligation of the total $42.5 million we are asking for.

Mr. PASSMAN. Which means that you are going to expand on even your original planned programs; is that correct?

Mr. VANCE. Well, what has not been mentioned, sir, and that I should mention, is that we believe it is very important to have some degree of flexibility in this program, some unprogramed funds in order to permit us to take advantage of opportunities that develop during the fiscal year.

Mr. PASSMAN. I wouldn't quarrel with that position, but what we are trying to do is make an accurate record. In fact, you had money available for obligation for fiscal 1975 of $32.5 million. Had you received all the funds your requested last year, then the entire program would have only been $38.5 million; is that correct?

Mr. VANCE. Yes.

Mr. PASSMAN. This year, you are asking for $42.5 million which, I believe, according to your testimony, would give you some flexibility. You may not use that much, but you want it available in case of some emergency where you feel it is necessary to have the funds. Would that be a statement of fact?

Mr. VANCE. I would like to correct it to this extent: I do feel, as the chairman has suggested, that we should have flexibility and some unprogramed funds——

Mr. PASSMAN. You suggested it, and I didn't quarrel with it. It is not my suggestion.

Mr. VANCE. All right, sir. That was one of the points that I suggested, but we do not plan unprogramed funds for next year in the $42.5 million, and the reason we do not is because we had to defer the $6 million of the Burmese program into the next fiscal year.

Mr. PASSMAN. But if you had sufficient funds in the $32.5 million because you postponed $6 million, you still would not have obligated but $38.5 million in fiscal year 1975, according to your testimony.

Mr. VANCE. That is right.

Mr. PASSMAN. You requested $42.5 million for fiscal 1976, and you may or may not need the entire amount. You are requesting this so you will have some flexibility in the event the need exists?

Mr. VANCE. No, sir, that is the point I am trying to make and not making it very clearly. Of the $42.5 million we are seeking for the next fiscal year, we have plans to program the whole $42.5 million. There would be no unprogramed funds.

Mr. PASSMAN. So what you are actually doing is enlarging upon even your planned program for fiscal 1975?

Mr. VANCE. Yes, sir, we have what we think is a sound program for the whole $42.5 million next year, including the $6 million Burmese program that was postponed.

Mr. PASSMAN. Of course, this is a serious problem, and we recognize that, but no agency is ever satisfied to get the same amount of money they had in 1 fiscal year. Every year it is an increase until it just appears that we could be looking at a $100 billion deficit before we finish fiscal 1976. That is why we are trying to get all the information we can, and the committee, I am sure, will decide at a subsequent date just what we can afford to appropriate. We certainly know that you have a very, very serious problem.

UNITED NATIONS FUND FOR DRUG ABUSE CONTROL

You mentioned the U.N. I believe that the request under U.N. will be for $5 million?

Mr. VANCE. Yes, sir.

Mr. PASSMAN. Does that come out of this program?

Mr. VANCE. That comes out of this program.

Mr. PASSMAN. You allocate to the U.N.?

Mr. VANCE. Yes, sir.

Mr. PASSMAN. Do you think that possibly there is any duplication in your bilateral effort? Your bilateral appropriation is about six and one-half times that of what we shall allocate for the U.N.; is that correct?

Mr. VANCE. That is correct.

No; I am completely confident that there is no duplication. We work very, very closely with the U.N.——

Mr. PASSMAN. Do you work in the same area?

Mr. VANCE. We have the same overall goals, but we are very careful not to duplicate but to try, rather, to complement what each of us is doing.

Mr. PASSMAN. Does the U.N. work in the same countries, on the same borders that your people do?

Mr. VANCE. In some cases, yes, sir. To answer specifically, there are countries whose foreign policies are such that they very much prefer dealing with multilateral assistance programs rather than with bilateral ones and in some cases they will deal only with multilateral assistance.

Mr. PASSMAN. For instance, what countries?

Mr. VANCE. The classic case is Afghanistan, and until very recently, Burma. Burma is still very much more relaxed, much more prepared to work with U.N. organizations rather than with us, but they are, in view of their enormous interest at this time in this program, prepared to work with us on enforcement.

Mr. PASSMAN. Most of them get it both ways, even on our foreign aid program. Afghanistan gets aid of the multilateral and out of the bilateral programs, don't they? I believe Afghanistan is a very large recipient of the assistance under different spigots of the foreign aid program; isn't that correct?

Mr. VANCE. I am not familiar with the aid program in Afghanistan.

TURKEY

Mr. PASSMAN. Since the government of Turkey has resumed the growing of poppies, could you tell the committee if the United States experienced an increase in the amount of heroin being smuggled into this country from Turkey?

Mr. VANCE. There has been no production in Turkey from the resumed growing as yet, because the harvest hasn't occurred yet. No; we have not experienced——

Mr. PASSMAN. They are growing the poppy there?

Mr. VANCE. Yes, sir.

Mr. PASSMAN. Are they harvesting it?

Mr. VANCE. It begins the end of this month.

Mr. PASSMAN. It is not for local consumption, is it?

Mr. VANCE. No, sir.

Mr. PASSMAN. Then we assume we are going to have a problem again with Turkey.

Mr. VANCE. No; if it is controlled, it will be bought by the government and sold to the pharmaceutical companies of the world.

Mr. PASSMAN. I believe you mentioned earlier that these people have plenty of ways around that. They go in and bleed the poppy plant and later they sell the government the pod and part of the stalk. Is that the way it works?

Mr. VANCE. They cannot do both, Mr. Chairman. If they bleed the poppy pod, they cannot sell it to the government. The government would know they had engaged in trafficking, and they would be subject to very severe penalty.

Mr. PASSMAN. Thank you, Mr. Secretary. We know you have a very serious problem. This committee wants to work with you, and we hope that the funds that you recommend and the Congress approves will be spent wisely, and I am sure they will be.

SOUTHEAST ASIA PROGRAM

Could you please tell the committee if you have a narcotics program in Laos, Thailand, Cambodia, or South Vietnam? If so, could you please list the amount of funds you plan to program for each country in fiscal year 1976?

Mr. VANCE. We do not have any narcotics control programs in Cambodia or South Vietnam. For Laos, we have requested $249,000 in fiscal year 1976. In view of the recent developments in that country, our original plans are now under review and in all probability will need to be modified. For Thailand, we are requesting approximately $3.7 million in narcotics assistance funds for fiscal year 1976.

TRANSITION PERIOD

Mr. PASSMAN. Could you please tell the committee why your transition period expenses exceed a one-quarter allocation of the regular fiscal year 1976 estimate? Do you plan to start any new programs during this transition period?

Mr. VANCE. The $13 million we are requesting for the transition period will fund the essential costs of on-going programs. We do not have any current plans to initiate new programs during this time period. The level of funding exceeds one-fourth of the fiscal year 1976 budget because we anticipate certain specific funding requirements in that quarter which cannot be deferred and which would exceed normal rates of obligation. For example, based on our current estimates, the crop replacement project in Pakistan will be developed to the point that the project activities initiated in fiscal year 1976 will be at an accelerated rate and all project financing will be completed during transition period rather than extending the project into fiscal year 1977.

Mexico offers another good example in that the maintenance and logistical contract with Bell Helicopter Co. will need additional financing during the transition period so that the contract services will not be interrupted.

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CONTROL OF TURKEY'S OPIUM

Mr. PASSMAN. In a General Accounting Office report dated September 9, 1974, it was indicated that because of the rough terrain in Turkey, it would make it very difficult, if not virtually impossible, to maintain effective control over poppy production once cultivation is resumed. Could you please tell the committee if Turkey is able to maintain effective control over this poppy production?

Mr. VANCE. The nature of the Turkish terrain does not make it difficult to control poppy production. It is difficult to control illicit sales by the farmers after they have produced opium gum by incising the poppies. That is why we believe that the Turkish Government's decision to prohibit the production of opium gum by poppy farmers will make it much easier for the Turkish Government to prevent smuggling.

CROP REPLACEMENT

Mr. PASSMAN. I note you are requesting $4.9 million for crop replacement in fiscal year 1976. Could you please tell the committee how this program is progressing?

Is this really an effective part of this international narcotics control program?

Mr. VANCE. Fiscal year 1976 will be the first year that narcotics control funds will be used in any significant way to embark on major crop replacement programs. Our earlier programs have been limited to an agriculture redirection program in Laos and the beginning of a crop replacement program in Thailand. Therefore, we have not had much time to meaningfully assess the progress of these programs. However, we are reasonably confident that these programs represent a sound investment. Even with the best law enforcement efforts from U.S. agencies, we estimate that only some 10 to 15 percent of the illicit drugs that are being distributed in the United States are seized. On the other hand, if a farmer would stop growing poppies because there are alternative income opportunities available to him, we will have succeeded in stopping the flow of 100 percent of the drugs from that farmer's land.

TREATMENT AND REHABILITATION

Mr. PASSMAN. I also note that you are requesting $800,000 for treatment and rehabilitation. Could you please tell the committee why we are providing funds for the treatment and rehabilitation of addicts in foreign countries, and how this would help to stop the flow of narcotics into the United States?

Mr. VANCE. We recognize that it would be inappropriate to use U.S. resources to attempt to cure the addicts of the world, and this is not our intention. The funds we are requesting for fiscal year 1976 for rehabilitation programs represent less than 2 percent of our total budget request. These funds will be used to design programs which will have the effect of increasing the recognition on the part of many countries of the extent of their own drug abuse problem. We believe that as each country develops a greater knowledge of its own drug abuse problem, it will help to encourage an even greater effort on its part to deal with this problem by strengthening its national enforcement and control programs. This, in turn, will have direct benefit to

the United States in our effort to reduce the illicit production and trafficking of drugs which are destined for this country.

COMMODITIES

Mr. PASSMAN. By reading the justifications, it appears a great deal of the fiscal year 1976 budget request will be used for the purchase of commodities such as equipment, vehicles, aircraft, boats, helicopters, et cetera. Could you tell the committee how much of the $42,500,000 will be used to purchase commodities?

Mr. VANCE. We propose to obligate $24,869,000 for commodities for the enforcement, crop substitution, and training programs in fiscal year 1976.

Mr. PASSMAN. Are all these commodities purchased in the United States?

Mr. VANCE. Almost all of the commodities are purchased in the United States. A small amount of them is purchased abroad, however. There are very sound reasons for this; for example, to provide undercover equipment which blends into the local scene when U.S. commodities might not be appropriate.

Mr. PASSMAN. Could you supply for the record a list showing the types and numbers of vehicles, aircraft, boats, helicopters, and so forth, that will be supplied in fiscal year 1976, and to what countries they will be supplied?

Mr. VANCE. I will be happy to supply the information for the record.

[The information follows:]

ESTIMATED FY 1976 EQUIPMENT
($000)

Country Latin America	Transportation				Telecom	General
	Land	Fixed Wing Aircraft	Helicopters	Water		
Argentina	1 jeep 1 sedan				50 two-way radios	vehicle inspection equip(mirrors)
Bolivia					20 two-way radios	technical publications, seeds, res. material training equip
Brazil					70 two-way radios	lab equip. cameras, binoculars, narcotics test kits
Chile	3 sedans 5 trucks				15 two-way radios	narcotics detection equip
Colombia	41 jeeps, 7 trucks 7 motorcycles 4 sedans			6 river patrol boats	128 two-way radios	lab test kits, cameras binoculars
Costa Rica	4 jeeps				6 two-way radios	narcotics test kits, lab equip., trng. equip.
Ecuador	7 radio equipped jeeps				20 two-way radios	trng. aid, lab equip., chemicals

Latin America	Transportation					
	Land	Fixed Wing Aircraft	Helicopters	Water	Telecom	General
Jamaica	4 trucks, 4 jeeps				40 two-way radios and repeater sta.	office equip., (safes)
Mexico *		3-short take off & landing aircraft, 1 pursuit aircraft	3 Bell 212 model helicopters, 1 Bell 206 model helicopter		air to ground communications system, radar & aircraft detection equip.-including a telecomm. system	library materials, photo mat. for poppy detection, fuel, pilot flight gear, supplies for poppy indentification system, air rescue equip.

* In addition, we plan to provide limited guns and ammunition.

ESTIMATED FY 1976 EQUIPMENT

($000)

Country East Asia	Transportation					
	Land	Fixed Wing Aircraft	Helicopters	Water	Telecom	General
Burma		twin engine aircraft	12 Bell model 212 helicopters		50 two-way radios	
		aerial poppy photographic system	helicopter spare parts			
Indonesia	8 motor-cycles					narcotics test kits & audio-visual trng. equipment.
						reference library
Laos	motorcycle spar parts				5 two-way radios	drugs & hospital equipment
						agriculture supplies.
Philippines	4 jeeps				8 two-way radios	narcotics control equip., lab equip., trng materials & supplies.

ESTIMATED FY 1976 EQUIPMENT

($000)

Country East Asia	Transportation			Water	Telecom	General
	Land	Fixed Wing Aircraft	Helicopters			
Thailand	20 jeeps 6 trucks			2 high-speed ocean-going patrol boats	24 two-way radios & spare parts	narcotics lab. equipment & trng material, farm equip., agriculture lab facilities, supplies, 7 wheeled farm tractors, elec. generator, 2 crowler tractors.
						5 jeeps, 1 tractor, 7 trucks & trailer, forest products. research materials.
Pakistan	14 sedans 14 carry-alls 14 trucks				Telecommunications link, 48 walkie-talkies	narcotics lab., equipment, heavy equipment for road building & well-digging.
					20 watt mobile radio stations	small farm tractors & land leveling graders.
					2- 150 watt base stations	pumps & irrigation equipment, seeds.

WEAPONS

Mr. PASSMAN. Have any weapons been supplied, or will any be supplied under this program?

Mr. VANCE. We have supplied weapons in the past to a number of countries and in fiscal year 1976 propose to provide a limited number only to Mexico.

Mr. PASSMAN. If so, indicate numbers and types of weapons supplied, and tell the committee why the program gets into this area?

Mr. VANCE. The weapons as well as most other equipment we have provided is to strengthen the capabilities of foreign drug enforcement agencies. I would hope the committee would agree that the foreign narcotics enforcement officers who we wish to see seizing narcotics destined illegally for the United States should be given equipment, including weapons, reasonably comparable to that available to the criminals they are facing. Yet in most producing and trafficking countries, specialized narcotics units have been in existence for less than 3 years, and many still lack many basic equipment tools. If their governments are incapable of supplying, now, weapons and equipment that are needed to interdict narcotics about to enter the international traffic, I believe they should be supplied by this program, now.

The number and types of weapons supplied under this program in fiscal year 1975 follows:

Country:	Weapons:
Bolivia	42 revolvers, .38 caliber;
	8 submachineguns, 9 mm.
Ecuador	370 carbines, M–1.
	45 revolvers, .38 caliber.
	17 revolvers, .38 caliber.
Mexico	150 submachineguns, 9 mm.
	150 pistols, 9 mm.
	15 shotguns, 12 gauge.

In addition, the following weapons are proposed for procurement for FY 1975 but have not been procured yet:

Argentina: 11 revolvers, .38 caliber.
Colombia: 70 revolvers, .38 caliber.
Philippines: 121 revolvers, .38 caliber.

PROGRAM SUPPORT

Mr. PASSMAN. I note you are requesting $1.1 million for program support and development in fiscal year 1976. Could you please tell the committee how this amount compares to the fiscal year 1975 level, and indicate the number of staff people you presently have on board?

Mr. VANCE. We plan to obligate $1.1 million in fiscal year 1975 for program support and development, the same amount we are requesting for fiscal year 1976.

There are 13 people on my staff including two officers detailed from AID strictly for programing work who are being paid from narcotics control funds. Also, International Narcotics Control funds are used to finance an additional 12 positions with the Agency for International Development in Washington and six AID narcotics advisors

overseas. All of the AID advisors both in Washington and overseas are working full time on narcotics matters.

TRAVEL

Mr. PASSMAN. Could you please tell the committee how much you plan to spend for travel in fiscal year 1976, and how this compares to fiscal year 1975?

Mr. VANCE. In fiscal year 1976 we propose to obligate $150,000 for travel compared to $100,000 in fiscal year 1975.

Mr. PASSMAN. Do you plan to increase your travel mileage in fiscal year 1976, and if so, would you indicate what the increase will be over fiscal year 1975?

Mr. VANCE. In fiscal year 1976 we propose to increase travel by $50,000 over fiscal year 1975. This is primarily the result of the termination of AID's Office of Public Safety. In many countries the AID advisors had identified specific assistance requirements and had made general recommendations for future programs prior to their departure from posts. In the absence of this expertise in the field, there will be an increasing requirement in fiscal year 1976 and future years to send specialists out to evaluate the progress of narcotics activities and to assess and define in detail future assistance requirements.

INCREASE FOR MEXICO

Mr. PASSMAN. I note in your justification that you have increased the program in fiscal year 1975 to Mexico by $6,605,000 above what you indicated the program would be in last year's justification for the same fiscal year. Could you please tell the committee why you increased this program by such a large amount?

Mr. VANCE. The Mexican program is our highest priority activity and we have reallocated our resources this year in order to assist a greatly expanded Mexican effort to control the production and trafficking in opium and its derivatives. We estimate that 60–65 percent of the heroin now entering the United States comes through Mexico; large amounts of marihuana are also grown there and it is also a major transit point for cocaine. In 1975 the government of Mexico greatly intensified its efforts to identify illegal poppy fields and to move troops into the poppy growing areas to destroy them. In addition, the Mexican Government expanded its interdiction efforts both within the country and at points of entry and exit. We have assisted this increased effort primarily by providing troop carrying helicopters, the only reasonable means of transportation in the mountainous and inaccessible terrain, special interdiction vehicles, and assistance in maintaining and repairing this equipment. The program was increased in response to the increased Mexican initiative which immediately addresses the heroin problem in the United States.

TURKEY

Mr. PASSMAN. Is it not true that you have no narcotic program for Turkey this year?

Mr. VANCE. Yes; that is true.

INCREASE OF HEROIN

Mr. PASSMAN. On page 6 of the justifications, you indicate there is a clear pattern of increasing amounts and purity of heroin entering the United States. Could you please tell the commmittee what accounts for this increase?

Mr. VANCE. During 1974 and early 1975 the United States experienced an increased inflow of heroin, although the increased amounts were well under the heroin inflow at the 1970–1972 peak. While heroin of French origin was generally in short supply, an upsurge in heroin coming from Mexico occurred. The Drug Enforcement Administration reports that more than 60 percent of heroin seizures have been from that direction.

CROP SUBSTITUTION

Mr. PASSMAN Could you please tell the committee what types of crops you are trying to substitute for the growth of opium poppies?

Mr. VANCE. We have not yet moved far enough along in our crop substitution activities to specify any substitute crops. Our efforts to date have concentrated on the research and identification of these substitutes. We do know, however, that there probably is no single crop which can be substituted for opium poppies in the various areas around the world where they are grown. Rather, a variety of crops must be identified which are suitable for a specific geographic area, which provide an alternative income relatively close to that provided from poppies, and which blend into the cultural and agricultural situation of a given area. While the projects we are funding are focusing on the identification of satisfactory crop substitutes, the United Nations program in northern Thailand has had promising experiments with kidney beans, and commercial seed production.

CUT OFF OF AID

Mr. PASSMAN. Could you please tell the committee if the President has suspended economic and military assistance to any country that has not taken adequate steps to reduce the narcotic production or trafficking through the country as proposed under section 481 of the Foreign Assistance Act?

Mr. VANCE There has been no country that has not taken adequate steps to reduce narcotics production or trafficking. Therefore, the President has not found it necessary to suspend economic assistance programs to any country under section 481 of the Foreign Assistance Act.

COUNTRIES PRODUCING DRUGS

Mr. PASSMAN. Would you please list for the record what countries are involved in production of opium or any other narcotic or illegal drug, both legally and illegally?

Mr. VANCE. Legal production of opium is undertaken by India, Turkey, Iran, the U.S.S.R., the People's Republic of China and in a very limited way by Australia, Pakistan, Japan, Argentina, France, Yugoslavia, and Bulgaria. Illicit opium is cultivated in Burma, Thailand, Laos, Afghanistan, Pakistan, and Mexico. Cocaine comes from

the coca plant which grows on the western side of South America, principally in Bolivia, Peru, and Ecuador. Cannabis, from which marihuana and hashish are derived, grows in mild climates throughout the world, principally Mexico, Jamaica, Morocco, Lebanon, Afganistan, and Nepal; it is also grown in the United States.

SUCCESS IN REDUCING NARCOTIC PRODUCTION

Mr. PASSMAN. Could you tell us briefly what success you have had in trying to dry up narcotic production in the world?

Mr. VANCE. The most important success we have encountered to date relates to the Turkish decision in 1971 to prohibit any further cultivation of opium poppy coupled with increasingly effective efforts to disrupt the traffic, particularly in France. This led to a sharp reduction in the amount and purity of heroin entering the United States. More recently, the Government of Burma began sharply to intensify its campaign against opium traffickers. Since Burma is the largest single source of illicit opium, its recent decision to enlist the cooperative efforts of the U.N. and the United States in its narcotics control programs represents one of the major developments of the international narcotics scene. The action taken by the Government of Mexico in sharply intensifying its poppy eradication and interdiction campaign has also been most gratifying. Since January 1975, the Mexican Federal Judicial Police and the Mexican Army have destroyed over 4,000 acres of opium poppy as well as destroying 11 heroin labs and arresting 447 traffickers. This represents a substantial increase over previous years, although it is still too early to assess the impact this will have on heroin availability in the United States.

Mr. PASSMAN. Could you please tell the committee what countries pose the most serious threat for the importation of narcotics into the United States?

Mr. VANCE. The recent decision by the Turkish Government to resume poppy cultivation could pose a threat if effective controls are not carried out. However, the United States and the U.N. are encouraged by the Turkish Government's decision to prohibit the lancing of the poppy capsule, and, therefore, the production of opium. We shall keep a close watch on the Turkish situation and do whatever we can to prevent the entry into our country of heroin from any Turkish origin opium that might leak into illicit channels in spite of Turkish controls.

Because of its common border with the United States and the rough terrain where opium poppies are grown, Mexico continues to represent a very serious threat in spite of the extraordinary Mexican efforts. We are hoping that with the experience gained from this year's campaign, the eradication efforts next year will have an even greater impact in reducing the supply of heroin from Mexican sources.

TRAINING

Mr. PASSMAN. Is all narcotics training conducted by the Drug Enforcement Administration?

Mr. VANCE. No. The U.S. Customs Service also provides narcotics training with our financing.

U.N. FUND FOR DRUG ABUSE CONTROL

Mr. PASSMAN. Let us look at the U.N. Fund for Drug Abuse Control program for which the fiscal year 1976 request is for $5 million, the same amount as was provided last year. Could you please tell the committee what the total budget will be for the U.N. Fund for Drug Abuse Control for calendar year 1975?

Mr. VANCE. The United Nations Fund for Drug Abuse Control has budgeted $5.8 million in fiscal year 1975 for already approved and ongoing projects. In addition, the Fund anticipates that it will initiate new priority activities during 1975 which will require an additional $8.9 million. Therefore, the total amount of funds budgeted for 1975 could amount to as much as $14.7 million.

Mr. PASSMAN. Could you please tell the committee what the percentage contribution will be for the United States when compared with the total contributions, and tell the committee why this contribution is so high?

Mr. VANCE. To date the United States has contributed 78 percent of the funds to the U.N. Fund for Drug Abuse Control.

We feel very strongly that it is in our interest to continue a high level of support for the United Nations Fund for Drug Abuse Control (UNFDAC) until it is able to finance its current activities with greater support from other donors. We should not lose sight of the fact that our major purpose in providing international narcotics control assistance funds is to check the heroin flow into the United States. UNFDAC is a vital factor in achieving this goal. It is the only assistance mechanism available to work with countries which are contributing—some of them in a major way—to the illicit narcotics problem but which, for political or other reasons, we cannot work with adequately on a bilateral basis.

For example, before the Turkish opium ban, experts asserted that 80 percent of the heroin coming into the United States originated in Turkish poppy fields. Now that Turkey is going back into poppy cultivation we are limited in dealing with it bilaterally because of the problem of Cyprus and the cutoff of U.S. military assistance to Turkey. We can rely on UNFDAC to give the Turks the advice and assistance they have requested to develop and implement the best possible control system. Without UNFDAC there would be no outside assistance to the Turks in working on this problem of the most vital national interest to the United States. Although the congressional cutoff of military assistance to Turkey did not prohibit the use of our narcotics funds for that country, the Turkish Government turned to the U.N. for assistance in developing an effective control program.

Again, in Afghanistan and Burma and potentially Laos, all of which are major opium growers, it is only UNFDAC that can effectively tackle aspects of the problem where we cannot work bilaterally. In addition, UNFDAC is currently implementing 81 projects around the world, all of which should benefit us by lessening the drug problem for the United States. It plays an important role in helping convince the international community of the universality of the drug problem.

While it is thus clearly in our direct interest to continue our support to the Fund, we also agree fully that every feasible effort should be

made, by the U.N. and by the United States, to gain increased contributions from other donors.

The management of the Fund has sent money-raising missions to important potential contributors, has been in close contact with the permanent missions in Geneva of U.N. members, and carried out an advertising campaign to seek donations from the private sector. These activities have been continued and intensified in 1975. The Fund Director has written to the permanent missions in Geneva or New York of each noncontributing government requesting assistance on an annual basis. Fund officials have likewise visited the missions of all contributing governments urging an increase in contributions, the placing of them on an annual basis, and also requesting their assistance in persuading other governments not yet contributing to do so.

However, as in other aspects of international relations, we cannot always persuade other governments to do what we would like them to do.

This does not at all mean we should abandon our support for the Fund. We should keep it high because of the basic fact that it is working on a problem of the highest national interest to the United States. I believe that any effort—whether by percentage or otherwise—to limit our support for UNFDAC would be a classic case of, as we used to say in my home town in Minnesota, cutting off our nose to spite our face.

BURMA

Mr. PASSMAN. On page 40 of your justifications, you indicate you are going to provide Burma with six helicopters in fiscal year 1975, and an additional 12 helicopters in fiscal year 1976. Could you please tell the committee why we are providing Burma with such a large amount of helicopters, and how will this aid her in the problem of narcotics control? Will this be all the helicopters we supply to Burma, or do you anticipate a need above the 18 that we have now scheduled to supply her?

Mr. VANCE. Almost all of Burma's opium is produced in and transported through mountainous areas of the Shan and Kachin States, in the northern part of the country. The rough terrain and the highly armed trafficking groups in that area make the Government's enforcement and reduction efforts extremely difficult. The 18 helicopters we proposed to provide Burma should greatly enhance the Government's capabilites to interdict opium caravans and destroy opium refining sites. There are no current plans to provide Burma additional helicopters beyond the 18 that are now planned.

INDONESIA

Mr. PASSMAN. On page 42 of the justifications I note you are requesting in fiscal year 1976 $8,000 for Indonesia for eight motorcycles for social workers in treatment and rehabilitation. Could you please tell the committee why this program would supply something of this nature when it really doesn't seem to have much relationship for stopping the flow of narcotics into the United States?

Mr. VANCE. Assistance to the Government of Indonesia's national drug abuse treatment/rehabilitation programs will help Indonesia determine the nature and extent of its drug abuse problem. We believe that the problem of international trafficking of drugs can only be attacked through fully effective international cooperation which in turn, is strengthened when members of the international community realize their own self-interest is involved. In Indonesia, as well as all other producing or trafficking countries, we have been encouraged by the increased cooperation we are receiving. To an important degree, we believe that the increased cooperation results from a greater awareness of the nature and seriousness of the problem. I personally visited the headquarters of this program and was most impressed with the investment the Indonesian Government itself has allocated to it. In encouraging them to start the program which was in our interest, we agreed to make a relatively modest input.

ENFORCEMENT ACTIVITIES

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. Mr. Vance, so that we have the record straight, do you have anything to do with enforcement?

Mr. VANCE. Well, in my interagency capacity as Executive Director of the President's Cabinet Committee on International Narcotics Control, I coordinate what all of the agencies of the Federal Government do abroad, and this includes the enforcement activity of the Drug Enforcement Administration.

Mr. CONTE. Wait 1 minute. Are you going to tell me that you supply equipment to the countries?

Mr. VANCE. Yes.

Mr. CONTE. You know the question I am asking. Any enforcement is done by the Drug Enforcement Administration, is it not?

Mr. VANCE. The U.S. narcotics police abroad; yes, sir.

Mr. CONTE. I served with the chairman on another committee for years. We handled the old Narcotics Bureau, and we only had a handful of men. I went all over the world with them. We used to follow the route from Turkey down to Beirut, Sardinia, and up into Marseilles, France, where it would be made into heroin. I think we have made a grave mistake, and Mr. Passman, I believe, will join me. I fought like heck when they transferred that agency into the Justice Department. We had a handful of men then, and they did a much better job than they are doing today.

Mr. PASSMAN. They did a superb job.

Mr. CONTE. Go back and check the seizures they made in Marseilles and in our harbors here. It was utterly fantastic, and I think this Government made a grave mistake in changing that jurisdiction.

HEROIN AVAILABILITY IN THE UNITED STATES

How much heroin do you estimate comes into the United States from other countries each year?

Mr. VANCE. As the Congressman knows, these are real guesstimates because it is an illegal business and therefore the traffickers do their best to keep from us what they bring in.

At the peak of our heroin firestorm in 1970–71, we estimate that something like 8 to 12 tons of heroin were being smuggled into the United States, and we think it is about half that today.

Mr. CONTE. Could you break down the country of origin?

Mr. VANCE. According to seizures—and this is really the only basis that we have in order to answer the question—the latest figures are something like 60 to 65 percent of the seizures come from Mexico and about 15 or 20 percent come from Western Europe, and another 15 percent or so comes from Southeast Asia, by which I mean the Golden Triangle.

Mr. CONTE. What is the route in Mexico? The poppy is grown in Mexico. Where are the laboratories?

Mr. VANCE. In the western mountains and elsewhere in Mexico.

Mr. CONTE. Shouldn't you be able to control that more easily than in Turkey, Beirut, Sardinia, and Marseilles?

Mr. VANCE. They are beginning, as I suggested earlier, to have very considerable success in control. It is totally illegal, as the Congressman knows, unlike the growing in Turkey before the ban, and they have destroyed this second year of their intensified eradication campaign over 60 percent of the known fields in Mexico. These fields are in the western mountains of Mexico, very wild country.

Mr. CONTE. I have been up there.

Mr. VANCE. It is very difficult for the Government——

Mr. CONTE. Didn't we supply a lot of helicopters and airplanes for this?

Mr. VANCE. Yes, sir.

Mr. CONTE. And didn't we do some spraying?

Mr. VANCE. So far, they have been landing soldiers and Federal policemen by the helicopters we supplied in the fields and knocking the poppies down before being moved on to the next field. There have been no sprayings.

Mr. CONTE. But couldn't we spray?

Mr. VANCE. This would be a possibility if the Mexican Government wished to do it.

PROGRESS IN FOREIGN GOVERNMENT COOPERATION

Mr. CONTE. You state in your statement that the Department of State will continue to try to convince foreign governments that the problems is theirs as well as ours. Can you point to any development in the past year that manifests some progress in this area?

Mr. VANCE. Yes, sir; the efforts of the Burmese Government, for example, before we or the U.N. gave the Burmese Government any assistance at all, they greatly strengthened their laws, increased the number of narcotics police and, without helicopters, they intercepted two major opium caravans, one in March of last year, and one in December of last year. It was this series of events that encourged them and us to work out a program to supply them with helicopters so they would be able to interdict caravans more effectively in the future. That is one example.

Another one is the Government of Mexico. They have estimated that they spend upwards of $25 million a year in addition to all the manpower that they devote to the eradication and interdiction cam-

paigns. The Turkish Government is making a very major effort to control its new growth of poppies.

As I have traveled around the world in the last year, I have talked to a great many of the governments, most of the governments which have major problems, either transit or production. I believe that there is clear evidence that the fact drug abuse is the problem of all of us is beginning to be quite widely recognized now. There are governments that we hope will recognize this more clearly and implement their recognition by even greater amounts of their own resources and manpower. But there is no government that is posing a major problem, that is, performing inadequately in this respect. We think that real progress has been made in the 3 or 4 years of this program in pointing out to other governments that it is also their problem.

However, as we have also learned, we cannot oblige other governments to do what we think they should do, if they don't want to do it. In view of the tremendous importance of this program to us, to our population, we believe that even though another government could conceivably do more, could do something in two or three years that we think should be done today, if we think they are doing it now with our assistance would contribute importantly to checking the heroin flow into the United States, then we believe this effort should be made.

At the same time, we are urging other governments to exert their fullest possible efforts. But we should recognize that we are serving our own direct interest and, even though we recognize they are not doing all that, they could be doing, or in our judgment should be doing, we still should do what we are doing to check the flow of heroin.

Mr. CONTE. But they do nothing for us without being compensated for it. I take no relish in the fact that we have to pay them off. Mexico has been a great neighbor; we've helped them plenty, and now we have to go in there and shovel money and equipment and everything else to get them to stop growing poppies. And Turkey, likewise.

RELATIONSHIP BETWEEN DRUG AVAILABILITY AND CRIME

What is your response to the theory which claims that the reduction of the flow of narcotics into this country does nothing to reduce the rate of addiction but increases the price of the commodity and the amount of crime?

We get that a lot and are going to have to carry this bill on the floor of the House. How do you answer that one?

Mr. VANCE. Our experts would not agree that addiction is continued at the same rate. Our estimates—again I want to emphasize that these are guesstimate estimates—are that the number of heroin addicts in the United States is about half of what it was at the peak of the heroin fire storm in 1971. This has been an achievement due in part because of a reduction in availability, so there is less temptation.

DOMESTIC CONTROL MEASURES

Mr. CONTE. If we should take the entire appropriation, whatever appropriation necessary, and spend it all in our own country at the borders, keeping it out, could we develop a better program?

Mr. VANCE. No, sir. I think it would not be as effective a program for this reason: Again, we speak of estimates. We believe that our Government—and we think that no other government does better than we do in this field—seizes not more than 10 or possibly 15 percent of the illegal drugs that are entering the United States or already entered. In other words, seizures in the United States at our borders and in the United States, we believe do not exceed 10 to 15 percent of the illegal drugs that are circulating. Whereas, the closer we get to the production site, where physically there is a bigger percentage of stuff available in a smaller area, we increase the possibilities of success. I would like at this point to explain our programs we are beginning to mount which seek to eliminate production through income replacement. If we can eliminate a field of poppies, we have eliminated 100 percent of the heroin that will come out of that field.

NUMBER OF ADDICTS

Mr. CONTE. How many heroin addicts are there in this country?

Mr. VANCE. The best estimate we have is that there are at the present time between 200,000 and 300,000 active heroin users in the United States.

Mr. CONTE. Has that number changed at all during the past several years?

Mr. VANCE. Yes. the Special Action Office estimates that during the peak period of heroin use—1970–71—there were some 660,000 addicts and users. Thus the number has roughly halved.

AMOUNT OF HEROIN ENTERING UNITED STATES

Mr. CONTE. How much heroin would you estimate comes into the United States from other countries each year?

Mr. VANCE. During the peak years of 1970–71, something in the order of 8 to 12 tons of heroin content were illicitly entering the United States each year. We think it is about one-half of that volume today, or about 5 to 6 tons.

Mr. CONTE. What countries are sources of heroin, or cocaine, or opium who still do not perceive a problem with them?

Mr. VANCE. None of which we are aware. The availability of supply has been one of the major factors in the mushrooming of the drug problem throughout the world over the past several years. While the spread of use has been far from even, there is nevertheless a growing recognition that the drug culture, particularly among the youth element, cuts across national borders and poses a potential if not actual threat to society everywhere. In countries where drug abuse has been on the rise, Government efforts to combat the problem have been initiated.

Mr. CONTE. Can you tell me why it would be in the interest of Burma or Turkey not to grow poppies and produce opium? Isn't it actually in their interest to grow the stuff unless we come up with a better price?

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Mr. VANCE. As responsible members of the international community, Burma and Turkey are sincerely interested in reducing the extent of drug abuse throughout the world. Both countries, however, must be concerned with the well-being of the farmers who have for generations earned a large part of their livelihood through the growing of the opium poppy. Therefore, while both Burma and Turkey are taking vigorous actions to control the flow of drugs into the illicit market, they both are seeking means to assure that the law-abiding farmers have alternative sources of income.

AWARENESS OF DRUG MOVEMENTS

Mr. CONTE. What efforts, and particularly new efforts, are being undertaken to strengthen the awareness of the problems involved in illicit narcotic movements among these other countries?

Mr. VANCE. The major new efforts we are undertaking to strengthen the awareness of the problem involved in illicit movements of narcotics is through encouraging the launching of treatment and rehabilitation programs. The accumulation and exchange of information resulting from these programs hopefully will significantly increase the awareness of these countries regarding the problem of drug abuse.

MEXICO

Mr. CONTE. What specific progress is being made to eradicate the Mexican source of heroin?

Mr. VANCE. The Government of Mexico through the office of the Attorney General has mounted a major campaign to eradicate illegally cultivated fields of opium poppies and to interdict the trafficking and processing of opium gum, morphine base and heroin. In the 1975 campaign which began in January, the Attorney General's office assigned more than 125 Federal Judicial Police to work on the eradication and interdiction program. They were joined by approximately 1,200 soldiers who assisted in field eradication. To support this program the Attorney General's office doubled the size of its pilot and mechanic crews and invested between $200,000 to $300,000 in the construction of forward bases to support the eradication troops.

During the 1975 campaign some 3,500 acres of poppy fields were destroyed, 11 heroin laboratories were seized, and 447 producers or drug traffickers were arrested. It is estimated that from 55 to 60 percent of the opium poppy crop was destroyed in this operation.

Later this year and in 1976 the Mexican Government will mount an even larger campaign which will concentrate on two southern poppy growing states in addition to the four states included in the 1975 campaign. This will require the Mexican Government to make an even larger input of Mexican personnel; forward bases and equipment. We will support this program by providing troop-carrying helicopters to enable the Mexicans to move about in the inaccessible mountains where poppies are cultivated. We will also provide additional infrared photography equipment to identify poppy fields and some communications and other equipment to support the program.

Mr. CONTE. With the Turkish Government growing poppies again, how much is their assurance really worth that none of this heroin will harm other populations? Do the Turks really intend to implement such control over their crop, and do they have the ability to do so?

Mr. VANCE. The Turkish Government has solemnly assured the world publicly, in U.N. forums and otherwise, that it will not allow smuggling of opium. At the suggestion of the United Nations, it has banned the production of opium and will instead require the farmers to sell unincised poppy straw to the Government. This decision and the other enforcement measures it has adopted, some with U.N. assistance, are impressive indications of the seriousness of the Turkish Government's intention to prevent smuggling.

Mr. CONTE. Would you explain what the poppy straw harvesting method is? How does it facilitate effective enforcement?

Mr. VANCE. The straw processing or harvesting method is a technique for harvesting poppy plants in which the farmer cuts off the entire poppy pod or capsule—and a small part of the stem—when it is dry and turns it over to the government for an established price. The poppy pod or capsule is then treated through a sophisticated process in an industrial plant and medicinal opiates are extracted. The poppy straw harvesting method is contrasted to the incision process or opium gum method which the farmers once used. Under the incision method, the farmer, just before the plant dies and dries, makes a small incision in the poppy pod and returns the next day to collect the opium gum which oozes from it. The gum is collected over a period of days and after all the gum has been removed, the farmer sells the opium gum.

The straw harvesting method facilitates enforcement because it eliminates the need for opium gum which the farmers often sold to traffickers for conversion into heroin. Enforcement officials can easily see if farmers are in the fields illegally incising poppies to produce opium gum. Also, since farmers are required to sell the uncut poppy pods to the Government, when the pods are turned over to Government officials they can see if they have been illegally incised. Finally, there is little risk that drug traffickers will purchase the poppy pods from the farmers since they cannot be incised and opium gum produced after they are harvested. In addition, the process of converting poppy straw or pods to heroin is so sophisticated and complicated and requires such an extremely large investment of capital and equipment, enforcement officials could readily discover any illegal straw processing plants assuming that the traffickers could develop the technology to use this process.

Mr. CONTE. What are you going to do if Turkey does again become a source of illicit narcotics?

Mr. VANCE. I would not like to speculate on what could or what would happen. We have every hope that Turkey will not again become a source of illicit narcotics. We shall keep a close watch on the situation and trust that, with the assistance of the United Nations the Turkish Government will effectively control the new crop.

USE OF FUNDS

Mr. CONTE. I believe you mentioned that 92 percent of the funds requested for bilateral programs will be directed to countries in which opium and its derivatives are produced, processed or shipped. Where is that other 8 percent going, and why?

Mr. VANCE. Approximately 7 percent of the bilateral programs will be directed to coca producing and trafficking countries, while less than 1 percent will be directed against the trafficking of cannabis and its derivatives—hashish and hashish oil.

VEHICLE PROCUREMENT

Mr. CONTE. How much of your program funding is for the procurement of vehicles?

Mr. VANCE. In fiscal year 1976 we propose to fund $20.053 million for vehicles. This includes $1.067 million for surface vehicles, $2.550 million for fixed wing aircraft, $15.415 million for helicopters, and $1.021 million for boats. These are all of the highest priority if the foreign narcotics police we are asking to try to help reduce the flow of illegal drugs are to be reasonably equally equipped with the criminals they face.

COUNTRY COOPERATION

Mr. CONTE. What countries have policies which forbid bilateral cooperation with the United States but which are involved in drug traffic control efforts?

Mr. VANCE. There are no countries which refuse to cooperate bilaterally with the United States on narcotics control matters. However, there are certain countries which prefer multilateral assistance in improving their narcotics control programs. Afghanistan prefers narcotics assistance through the United Nations Fund for Drug Abuse Control rather than bilaterally, and more recently the Turkish Government has chosen to seek assistance in its narcotics control efforts from the Fund. While Burma has recently entered into a bilateral cooperative effort with the United States to interdict opium smuggling caravans, it is also seeking U.N. Fund assistance in the drug abuse, education, and general enforcement fields.

U.N. FUND FOR DRUG CONTROL

Mr. CONTE. Why is there so little contribution by other countries to the UNFDAC?

Mr. VANCE. Many countries, including those which may have only a small drug abuse problem or may be inadequately aware of a domestic drug abuse problem, find it difficult to realize the international nature and consequences of the narcotics problem. Consequently, they are not enthusiastic about contributing substantially to this Fund. Another reason why countries are not contributing large amounts to UNFDAC is that it was a new and hence, relatively untested organization. Countries may have been reluctant to invest in the Fund until they could see that it is a viable organization and able to undertake activities which contribute to the alleviation of the drug problem. Once the

Fund has implemented a variety of successful narcotics enforcement, crop substitution, or drug abuse rehabilitation activities, we believe that other governments will recognize the utility of the Fund and will make greater financial contributions to it.

DRUG PROBLEMS OF OTHER COUNTRIES

Mr. CONTE. Don't other countries in Western Europe, for example, have drug problems also? What kinds of problems do they have? Why don't they have the same problems and concerns that we do?

Mr. VANCE. Drug problems do, of course, exist in other countries, but the nature and scope of the problem vary. In France, for example, Government officials quickly awakened to the drug problem in their own backyard in the early 1970's as increasing amounts of heroin remained in France and were consumed by French youth. In a 5-year period, the number of addicts in France increased from 2,000 to 3,000 to an estimated 15,000 to 35,000. French Government officials have stepped up both their enforcement and treatment efforts.

Italy, which until the past year or so was mainly a transit point for heroin en route to the United States, shows signs of becoming a victim country. These same indicators apply to Spain. Government officials in both countries are displaying an increased awareness and are moving to prevent their populations from becoming further victimized.

The German Government is most apprehensive about the consumption of morphine, pills, and cannabis products, and with a view toward warding off an influx of heroin, is centralizing its attack against the drug problem.

Stiffer drug legislation is currently under consideration in the Netherlands, Belgium, and a number of other European countries.

Elsewhere in the world, where the problem of drug abuse has increased, governments are moving to take effective action. This is most noticeable in Thailand, Burma, Vietnam, Indonesia, Malaysia, and Hong Kong.

Closer to home, the Governments of both Mexico and Canada have moved toward more effective programs both internally and in cooperation with the United States, to counteract the problem.

UNPROGRAMED FUNDS

Mr. CONTE. What did you do with your unprogramed moneys this year?

Mr. VANCE. In fiscal year 1975, our presentation to the Congress included a request for $9.827 million in unprogramed funds. The fiscal year 1975 appropriations bill provided only $32.876 million, a reduction of $10 million from our request. This reduction eliminated any unprogramed funds as well as required us to postpone activities which we had planned to undertake this fiscal year. As a result, we have fully programed the full $42.5 million we are seeking for fiscal year 1976.

Mr. CONTE. Do you give any particular attention to international traffic in other illicit drugs such as amphetamines, barbiturates, LSD, and the other hallucinogens?

Mr. VANCE. While we are concerned with the manufacture and traffic of hallucinogens, our resources are focused primarily upon

heroin, the most deleterious of all illicit drugs. While we have no programs focusing specifically on the hallucinogen problem, a byproduct of many of our activities is a greater recognition of the hallucinogen problem and the improvement in other governments' capabilities to deal with it. Material on hallucinogens is included in all training courses which we finance, both domestic and abroad. Narcotics advisers abroad are prepared to assist governments in improving their enforcement capabilities to deal with hallucinogens and DEA agents abroad are concerned with this problem and regularly work cases and provide advice in this field.

We would very much like to see the approval of the Convention on Psychotropic Substances, an agreement that was drafted by some 70 countries early in 1971. The administration submitted the Convention to the Senate in mid-1971 with a request for its ratification. We are anxiously awaiting congressional approval of the proposed enabling domestic legislation that would pave the way for ratification of this essential international treaty. U.S. approval of the Psychotropic Convention would strengthen our hand in obtaining cooperation from other governments in controlling the classic narcotics substances.

DISTRIBUTION OF FUNDS

Mr. CONTE. Can you provide a breakdown showing the percentage of your funds going to each region along with the portion of the illicit supply estimated to come from each region? Do these figures roughly correspond?

Mr. VANCE. The following chart indicates the geographic region allocation of narcotics control funds—bilateral programs only—in fiscal year 1975 compared with the geographic region sources of opium and its derivatives. These correspond roughly in that 67 percent of our resources are going to Latin America—including of course Mexico—where we estimate 65 percent of the heroin entering the United States comes through. We are not investing a proportionate amount of our resources in Europe and the Middle East, because either the countries involved have sought narcotics control assistance through the U.N. fund or because they are able to finance narcotics enforcement.

	Percent of U.S. narcotics control funds obligated in fiscal year 1975	Percent of source transit of heroin entering the U. S. (based on seizure data)
Area:		
Latin America and Mexico	67.50	65
Europe and the Middle East	1.33	20
Southeast Asia	31.17	15
Total	100.00	100

PAKISTAN

Mr. CONTE. You are projecting a tremendous increase in your program in Pakistan. Why?

Mr. VANCE. The significant increase in Pakistan is due to our plans to initiate a crop replacement project in fiscal year 1976. We estimate that the project will cost around $5 million with a $2.6 million require-

ment in fiscal year 1976. It is estimated that this country produces about 150 tons of illicit opium annually.

Mr. CONTE. For the fifth quarter, you are projecting a $13 million program, or an annual rate of about $52 million. Is that what you are planning for fiscal year 1977?

Mr. VANCE. No, sir. Our plans for fiscal year 1977 are not developed yet.

MEXICO

Mr. CONTE. I think you said that Mexico was a major supplier of illicit narcotics. Yet, your justifications project an over 40 percent cut in the Mexico program. Why?

Mr. VANCE. While we are proposing a reduction in the funding level for Mexico in fiscal 1976, there will actually be a significant increase in the size of the program which we will support. Many of the items which we are providing the Mexican eradication and interdiction program require long leadtimes to procure. This is particularly true for helicopters and some telecommunications equipment. In order to obtain this equipment and have it operational in Mexico for the eradication and interdiction campaign which will begin in the summer of 1975, procurement must begin in fiscal 1975. Therefore, we are obligating funds in 1975 in order to meet the needs of the 1975–1976 campaign which will be much larger than the actual campaign this year.

Mr. CONTE. I notice that you are projecting no programs in 1976 for Panama, Paraguay, Uruguay, Venezuela, Jordan, and some others. Has the problem been beaten in those countries?

Mr. VANCE. While we are proposing no direct assistance programs to these countries, we will continue to help them develop and improve their narcotics enforcement capabilities through training programs which are funded centrally and not attributed directly to any specific country. We may also provide limited short-term advisory services to them or help in the drug treatment and rehabilitation fields, all of which is also centrally funded. We believe that with this limited assistance, these countries may be able to effectively deal with the narcotic problem and we are therefore concentrating our resources on the countries which have a greater and more direct impact on the drug problem in the United States.

LATIN AMERICA FUNDING

Mr. CONTE. Your justification says that Latin America and the Caribbean are the source or transit route for most illicit narcotics entering the United States. Yet, only about one-third of your bilateral funding is for Latin America. Why?

Mr. VANCE. In 1976 the percentage of our country program going to Latin America and the Caribbean will drop from almost 68 percent to not quite 30 percent. One of the major reasons for this is the decrease in funding for the Mexican program in 1976. This results from the need to obligate funds this fiscal year to purchase equipment so we will be prepared for an even larger eradication and interdiction campaign in 1975–1976. In addition, in 1976 we will be increasing our resources going to other countries which are also major producers of opium poppies and hence serious potential threats. We will have major

increases in our program in Burma and Pakistan in fiscal year 1976, both of which are countries where opium poppies are produced, processed, and trafficked.

If more funds are required for Mexico, which is accorded our highest priority, we would seriously consider deferring other important projects to assure that adequate funds were available for Mexico.

Mr. PASSMAN. Thank you. Dr. Long?

Mr. CONTE. Would you yield for one question?

Mr. LONG. I should be glad to yield to the gentleman from Massachusetts.

U.N. ASSISTANCE TO TURKEY

Mr. CONTE. What happens if Turkey gets irritated with our Cyprus policies and goes back to the illicit trafficking of drugs? What do we do then?

Mr. VANCE. They have turned to the United Nations for two reasons, and we have been very happy to see them turn to the United Nations for assistance rather than to us, bilaterally. The two reasons are, first, that it is easier for any government to accept advice on how it should act and to accept assistance in an area that is politically as delicate as this one, control over the country's farmers, from a United Nations organization than it is from us. Second, one of the reasons why it is said by some, that the 1971 ban was lifted is that it became a political issue in Turkey in the last election, a year ago last Fall. The parties said it was what they called the strong pressure of the United States that had led to the ban. This made a political issue that resulted in the lifting of the ban.

It is hopefully less of a political issue if advice and the assistance is coming from the United Nations, a multilateral organization.

So the Turks and U.N. were talking before the Cyprus matter developed, and we were not talking about a new bilateral program. Then, of course, when the aid cut-off occurred as a result of Cyprus, it was apparent that it was happy the Turkish Government was talking with the U.N. rather than with us because, as you suggest, it would have complicated our discussions. And it is very much to our interest to see that the Turks do control their harvest now that they have resumed. It is much more likely in view of all the circumstances that this will occur with U.N. help than if we had been helping them bilaterally.

Mr. CONTE. Thank you.

TURKISH POPPY SUBSTITUTION PROGRAM

Mr. LONG. Mr. Vance, isn't it partly true that the Turkish opium ban folded because the Turkish Government really wasn't getting the money down to the farmer and producer? The farmer was being ripped off, and he was getting far more from the illegal buyer than he was from his own government. Isn't that true?

Mr. VANCE. Well, I would certainly agree with the last part of what you said. The first part, I think, is less clear. Let me say a few words, if I may, very, very briefly about——

Mr. LONG. I hope you will make it brief. We are under the five minute rule, you know.

Mr. VANCE. The $35 million assistance program that we promised the Turkish Government when they imposed the ban had been in effect only 2 years.

Mr. LONG. Wasn't there great complaint among the Turkish farmers they weren't getting much out of this?

Mr. VANCE. They were complaining but nonetheless in 2 years' time you cannot implement much in the way of an agriculture program.

But second, one point I would like to make is that the Turkish Government at its own expense has now assumed a number of the programs we were financing, so they couldn't have been too bad.

PROBLEMS OF CONTROL

Mr. LONG. Let's go on to another question. How can you hope to control this thing at the source when there are so many different potential sources? Turkey was the place to get it, but when you began to cut down on the Turkish production, didn't other countries like Mexico and Burma begin to start producing it? Isn't it possible to produce poppies practically anywhere?

Mr. VANCE. It is possible to produce poppies in a large number of places.

Mr. LONG. Therefore, if you move in or become successful in one place, then immediately another area crops up?

Mr. VANCE. It takes experience and involves traditional——

Mr. LONG. That has nothing to do with experience. It is plain inducement, facts of life. As you cut down on the supply of opium and the price goes up and it is possible to produce it someplace else and people will move in and do it.

Now, let me raise this question, too. What is your appropriation, about $42 million?

Mr. VANCE. That is what we are asking.

Mr. LONG. This is what is going in at cutting it off at the supply. You say it is a $10 billion problem.

Mr. VANCE. It has been——

Mr. LONG. How on earth can we hope with $42 million to ever counter something that is worth about $10 billion? Don't we have a situation in which American users are outbidding their government by an enormous ratio?

Mr. VANCE. But I think we should still try to do the best we can to check and control it.

It is, as I suggested earlier, a very serious——

Mr. LONG. The more successful we are at cutting off the supply, the higher the price goes; isn't that so?

Mr. VANCE. Also the lower the availability becomes, and we think that is what contributed to cutting in half the rate of addiction in the United States.

Mr. LONG. Now, does everybody agree with you that that was the factor? Hasn't methadone been given considerable credit for this?

Mr. VANCE. This was part of the reason, improved treatment through methadone and other programs, but not altogether.

Mr. LONG. You can get people by on methadone in many ways, which is a more satisfactory product.

Mr. VANCE. That is, once they were addicted, but we believe that the sharp reduction in the availability reduced the number of new addicts being hooked.

Mr. LONG. Do you have any proof for that?

Mr. VANCE. No; we have no proof. It is very difficult to prove——

Mr. LONG. We are asked to accept something on the basis of your belief and more or less on faith.

Mr. VANCE. Not only mine, but the wide range of experts in this field. I am not an expert in it. I am quoting and citing what the experts tell us.

Mr. LONG. What bothers me is that we move in with a successful program of cutting off supplies of heroin. Increased supply then flows from somewhere else. We spend more money and cut it down there. And let's say we are reasonably successful in cutting down the supply everywhere, temporarily. Then the price goes way up on the market because there is a very inelastic demand for heroin; isn't that so?

Mr. VANCE. Yes, relatively speaking.

Mr. LONG. So the price goes up and then a tremendous financial inducement exists for people to produce more, somewhere, and maybe a year or two later then this increased supply comes on the market. I am just wondering whether this isn't a losing battle and whether cutting heroin off at the supply isn't a forlorn tactic?

Mr. VANCE. I say the alternative is even more forlorn. I think that is about what we are——

Mr. LONG. That depends on whether there aren't other ways of dealing with heroin addiction, such as methadone, such as cutting off the demand. It would seem to me that the only real hope is to cut off the demand for it.

Mr. VANCE. I think that basically is true, Mr. Congressman, but we haven't yet discovered how to do it.

FOREIGN RECOGNITION OF DRUG PROBLEM

Mr. LONG. How can you convince other countries that it is their problem as much as ours when it really isn't their problem as much as ours? They know it, and we know it, and they know we know it.

Mr. VANCE. That is one of the grave problems. The Congress has questioned us on this area each year, and the only answer that I can give is the following: Once they learn that it is a problem for them, as their people become addicted——

Mr. LONG. Do their people become addicted? In Turkey is there any real heroin addiction?

Mr. VANCE. We think it is perhaps beginning, because there was some evidence——

Mr. LONG. Maybe they think we are just a bunch of kooks. They ask themselves: "What is wrong with these Americans; why do they want this stuff?"

Mr. VANCE. Right.

SUPPLY OF DRUGS FOR MEDICAL USES

Mr. LONG. Let me ask you another question. Is it not true, that there are complaints in the medical profession that, by cutting down

the source of heroin supply for illegal use, we have actually created shortages of opium for medical uses? What is the truth to that?

Mr. VANCE. There has been a tight supply situation for about 2 years now. However, it is not a shortage. If one defines a shortage as inability of a doctor to prescribe the medicine he wants to prescribe and an inability of a patient to obtain it, that has not occurred, and we do not think it is going to occur. There is a tight supply, however. There has been, as a deliberate policy of the world antinarcotics organizations, an effort to maintain a careful balance between legally approved production and legal consumption. Excess legal production can lead to encouraging leakage. So we try to keep the thing in balance.

PRICE OF LEGAL OPIUM

Mr. LONG. Has the price of opium gone up substantially on the legitimate market?

Mr. VANCE. Yes.

Mr. LONG. How much?

Mr. VANCE. Not more than all other goods. I would have to submit for the record in order to be exact, if you would like to have me do that.

Mr. LONG. Yes

[The information follows.]

In 1974 a kilogram of Indian opium containing 100 grams of morphine sold for $32.50. Increased production costs have necessitated a substantial rise in the price. The current export price of Indian opium is $49 per kilogram with 100 grams morphine content; morphine has a fixed value of $49 per 100 grams or $490 per kilogram. Opium containing 60 grams of morphine per kilogram would be 6 percent morphine and the opium would be worth 0.6 of $49 or $29.40 per kilogram.

INVOLVEMENT OF COMMUNIST COUNTRIES

Mr. LONG. Are the Communist countries a problem in this? Are they supplying opium?

Mr. VANCE. Not to the best of my knowledge or the best of knowledge of the international organizations.

COUNTRIES CAPABLE OF PRODUCING OPIUM

Mr. LONG. Could you list what countries are capable of producing opium?

Mr. VANCE. I will try, sir.

What countries are capable?

Mr. LONG. What countries are producing opium now and what countries are capable of doing so?

Mr. VANCE. Yes, sir.

[The information follows:]

At the present time, opium is being produced in India, Turkey, Iran, the U.S.S.R., the People's Republic of China, Australia, Pakistan, Japan, Argentina, France, Yugoslavia, Bulgaria, Burma, Thailand, Loas, Afghanistan, and Mexico. Opium can be grown in many countries a moderate climate. The plant can be grown in a variety of soils but does not thrive in heavy, clayey or sandy soils. It does best in warm but not humid climates and requires only a moderate amount of water before and during the early stages of growth. Rainfall during the harvest, however, can be disastrous because it leaches akaloids from the pod.

HEROIN ADDICTION IN OTHER COUNTRIES

Mr. LONG. Could you also make a list of the countries in which statistics show that heroin addiction is an appreciable problem as it is in the United States.

Mr. VANCE. Yes, sir.

[The information follows:]

A large heroin addicted population exists in Iran, and the number of heroin addicts for Western Europe is on the increase. Estimates for heroin users in France go as high as 15 to 35,000. For the United Kingdom, a figure of 4,500 is given. An unofficial report indicates that there may be 2,500 to 3,000 heroin users in the Netherlands. In Italy, while cocaine is the only hard drug in significant use, there are indications that the use of heroin is on the rise. The Canadians report a population of heroin users in excess of 15,000. Addiction to heroin also accounts for an increasing part of the opiates consumed in Thailand, Burma, Vietnam, Hong Kong, and other parts of the Far East and Southeast Asia.

ADEQUACY OF FUNDING

Mr. LONG. Let me ask you this: If you can spend $42 million and make what you feel is a dent in the problem of controlling supply and it is a $10 billion problem which is hundreds of times, of course, the sums of money you are expending, why don't we spend more money? Why don't we have a vastly greater program? Aren't we really trying to fight a 10-alarm fire with a leaky hose?

Mr. VANCE. Well, we are trying to mount a sound program.

Mr. LONG. How can you possibly cope with a $10 billion problem with these tiny sums of money?

Mr. VANCE. It is not easy to mount effective programs in this particular field. That is the problem.

Mr. LONG. Are you recommending that your program be vastly expanded?

Mr. VANCE. No, sir. I think if we have an appropriation of $42,500,000 next year as we requested, that that will be about the maximum we can effectively spend.

Mr. LONG. I do not want to tell your agency to ask for more money but there seems to be an inconsistency here. We have a tremendous heroin problem, it is still a great problem. You still have problems of controlling the supply. The sums of money you are spending are very small in relation to the tremendous damage that is being done and the retail value of the heroin being sold.

Apparently there is no pressure or request on the agency's part to increase the scope of your activities. Wouldn't you agree that there is some inconsistency there?

Mr. VANCE. The limitations with which we are faced in operating abroad include the capability to absorb effectively our assistance, both the capability of trained manpower abroad and the physical circumstances surrounding it. So we would not suggest any program that was——

Mr. LONG. Perhaps you would want to expand your answer for that for the record. I have used up all my time.

[The information follows:]

If additional funds could possibly help more quickly solve the problem, we would seek congressional approval of a much higher appropriation level than our current request. Unfortunately, we are faced with the problem that the

foreign enforcement agencies which need the assistance do not now have the institutional capabilities to effectively absorb and utilize further assistance. We, therefore, have had to structure our program to fit within the current capabilities. The committee can be assured that we will not be bashful in requesting as much funds as we can effectively use.

Mr. LONG. Mr. Coughlin, the gentleman from Pennsylvania.

U.S. ASSISTANCE TO TURKEY

Mr. COUGHLIN. Thank you. I understand under your country programs there is now no program for Turkey, is that correct?

Mr. VANCE. We have none envisaged.

ALTERNATIVES TO THE OPIUM POPPY

Mr. COUGHLIN. I recently heard there was a new kind of hybrid poppy that was satisfactory for the production of cocaine and medical derivatives but did not convert easily to heroin, are you aware of that?

Mr. VANCE. That is correct.. I think you have reference to what is known as the bracteatum poppy.

Mr. COUGHLIN. Is there any effort to have Turkey convert to that one rather than the poppy that can be converted to heroin.?

Mr. VANCE. Very definitely. The United Nations has been conducting research into the development of the bracteatum poppy.

Mr. COUGHLIN. It is not used now.

Mr. VANCE. It is not commercially used as yet.

Mr. COUGHLIN. How far away is the use of that poppy?

Mr. VANCE. It is hard to guess in something like this, but we hope that perhaps in a year or two our research will have been conducted to the point where it might be practical.

CONTROL EFFORTS IN THE GOLDEN TRIANGLE

Mr. COUGHLIN. In terms of the Golden Triangle, really your statement reads like it did last year and I suspect the year before that. Do we have demonstrable progress there?

Mr. VANCE. We have indeed in the case of Burma, demonstrated in this way: A year ago we had just begun to negotiate successfully with the Burmese Government the first bilateral assistance program, and the U.N. had just begun to negotiate its multilateral program with Burma. That breakthrough is just a little over a year old.

Since then, both the U.N. and we and the Burmese have moved further.

We are about to deliver this month the first three helicopters in the bilateral program which will enable the Burmese Army to operate more effectively in northern Burma.

Mr. COUGHLIN. If they don't get shot down by the insurgents.

Mr. VANCE. That is true, but they were able without these helicopters to disrupt two opium caravans in March and December of 1974. This led to us being very interested in enhancing their capability.

We have arranged to give them six this year. If that is regarded by them and us as an effective contribution, we intend to give a total of 12 more if there are appropriations for it.

QUANTITIES AND SOURCES OF SEIZURES

Mr. COUGHLIN. On page 5 of your statement, you indicate the increase of narcotics seizures since 1971. Could you for the record supply a breakdown of where these drugs were seized and the quantity in each seizure for 1974?

Mr. VANCE. All right, sir.

[The information follows:]

While the U.S. Government does not maintain detailed records for each seizure by foreign government enforcement agencies, the Drug Enforcement Administration does tabulate seizures by countries in which DEA agents are assigned. The Drug Enforcement Administration has provided the attached tabulation of seizures by country for 1974:

FEDERAL DRUG REMOVALS

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Middle East:[1]			
Opium (grams)	11,861,588		11,861,588
Morphine base (grams)			
Heorine (grams)	6,227		6,227
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	26,391,595		26,391,595
Hashish Oil (grams)	61,000		61,000
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Far East:[1]			
Opiums (grams)	221,844		221,844
Morphine base (grams)			
Heroin (grams)	2,895.3		2,895.3
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish Oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
South America:[1]			
Opium (grams)			
Morphine base (grams)			
Heroine (grams)			
Cocaine (grams)	320,109		320,109
Marihuana (grams)	29,448,058		29,448,058
Hashish (grams)			
Hashish Oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Canada:[2]			
Opium (grams)	1,814.4	907.2	2,721.6
Morphine base (grams)			
Heroin (grams)	8,111.7	7,541.1	15,652.8
Cocaine (grams)	4,876.3	4,048.2	8,924.5
Marihuana (grams)	669,513.6	114,307.2	783,820.8
Hashish (grams)	41,958.0	864,792.0	906,750.0
Hashish oil (grams)	907.2	2,806.7	3,713.9
Hallucinogens (d.u.)	4,300.0		4,400.0
Hallucinogens (gross weight, grams)	907.2		907.2
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight, grams)	3,175.2		3,175.2

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Mexico:			
Opium (grams)	36,800.0	86,635.5	123,435.5
Morphine base (grams)		10,000.0	10,000.0
Heroin (grams)	1,140.0	23,605.8	24,745.8
Cocaine (grams)	7,785.0	94,221.5	102,006.5
Marihuana (grams)	886,050,000.0	128,474,000.0	1,014,524,000.0
Hashish (grams)		14,505.0	14,505.0
Hashish oil (grams)	831.0	(L)345.8	831/(L)345.8
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)		455.0	455.0
Depressants (gross weight, grams)		1,100.0	1,100.0
Stimulants (d.u.)	7,000,000.0	1,008,880.0	8,008,880.0
Stimulants (gross weight, grams)		40,694.0	40,694.0
Costa Rica:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)	3,297,000.0		3,297,000.0
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)	6.0		6.0
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)	412.0		412.0
Stimulants (gross weight)			
Puerto Rico:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)	1,050,000		1,050,000
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Netherlands Antilles:			
Opium (grams)		20,000	20,000
Morphine base (grams)			
Heroin (grams)		1,500	1,500
Cocaine (grams)		4,000	4,000
Marihuana (grams)		367,870	367,870
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Chile:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)		46,685	46,685
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Bolivia:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)	5,180	47,302	52,482
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Bolivia—Continued			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Paraguay:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)		96,200	96,200
Stimulants (gross weight)			
Panama:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)		252	252
Marihuana (grams)			
Hashish (grams)	666,792		666,792
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Ecuador:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)		43,079	43,079
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Peru:			
Opium (grams)	2,757	1,050	3,807
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)	120,718	35,431	156,149
Marihuana (grams)	37,215		37,215
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Venezuela			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)		5,500	5,500
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)	414		414
Hallucinogens (gross weight)			
Depressants (d.u.)	84		84
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Colombia:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)		118,494	118,494
Marihuana (grams)	253,522	2,500,000	2,753,522
Hashish (grams)	65		65
Hash sh oil (grams)			
Hallucinogens (d.u.)	2,466		2,466
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Uruguay:			
Opium (grams)	48.7		48.7
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)	146,276		146,276
Depressants (gross weight)			
Stimulants (d.u.)	4,648		4,648
Stimulants (gross weight, grams)		7,000	7,000
South Vietnam:			
Opium (grams)	36,091	197,300	233,391
Morphine base (grams)			
Heroin (grams)	113,830	2,150	115,980
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Laos:			
Opium (grams)	131,105	20,000	151,105
Morphine base (grams)	519	15.3	534.3
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)	348,546		348,546
Hashish (grams)			
Hashish oil (grams)	5,650		5,650
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Cambodia:			
Opium (grams)	8,240	9,100	17,340
Morphine base (grams)		1,140	140
Heroin (grams)		300	300
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Halucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Thailand:			
Opium (grams)	232,020	1,752,732	1,984,752
Morphine base (grams)	21,835	113,151	134,986
Heroin (grams)	59,969.3	127,147	187,116.3
Cocaine (grams)			
Marihuana (grams)	24,641	10,520	35,161
Hashish (grams)			

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Thailand—Continued			
Hashish oil (grams)		12,500	12,500
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)		5,413	5,413
Depressants (gross weight)			
Stimulants (d.u.)	101,970	1,019	102,989
Stimulants (gross weight)			
Hong Kong:			
Opium (grams)	6,136,788		6,136,788
Morphine base (grams)	287,318		287,318
Heroin (grams)	94,092.3		94,092.3
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Malaysia:			
Opium (grams)	279,962	1,475	281,437
Morphine base (grams)	9,223.7		9,223.7
Heroin (grams)	19,919	7,279.5	27,198.5
Cocaine (grams)			
Marihuana (grams)	90,726.1		90,726.1
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Singapore:			
Opium (grams)	90,727		90,727
Morphine base (grams)	13,200		13,200
Heroin (grams)	3,500		3,500
Cocaine (grams)			
Marihuana (grams)		100	100
Hashish (grams)	8,750		8,750
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Republic of China:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)	2,268		2,268
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Guam:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)	728		728
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Japan:			
Opium (grams)	2,194		2,194
Morphine base (grams)	166		166
Heroin (grams)	2,577		2,577
Cocaine (grams)			
Marihuana (grams)	61,312	4,475	65,787
Hashish (grams)	5,331.7	1	5,332.7
Hashish oil (grams)			
Hallucinogens (d.u.)	2,387	26	2,413
Hallucinogens (gross weight)			
Depressants (d.w.)			
Depressants (gross weight)			
Stimulants (d.u.)	2,290		2,290
Stimulants (gross weight, grams)	20,519		20,519
Japan (Okinawa):			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)	111	4	115
Cocaine (grams)			
Marihuana (grams)	1,490		1,490
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)	10		10
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Korea:			
Opium (grams)	2,978		2,978
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)	1		1
Marihuana (grams)	814,379	92	814,471
Hashish (grams)	24,699		24,699
Hashish oil (grams)			
Hallucinogens (d.u.)	9,147		9,147
Hallucinogens (gross weight)			
Depressants (d.u.)	429		429
Depressants (gross weight, grams)	1,345		1,345
Stimulants (d.u.)		500	500
Stimulants (gross weight, grams)	55,305		55,305
Philippines:			
Opium (grams)	3,020		3,020
Morphine base (grams)	4,059		4,059
Heroin (grams)	95		95
Cocaine (grams)			
Marihuana (grams)	17,878,552		17,878,552
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)	527		527
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight, grams)	300		300
Stimulants (d.u.)			
Stimulants (gross weight)			
India:			
Opium (grams)	353,200	30	353,230
Morphine base (grams)		2	2
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)	6,180,000		6,180,000
Hashish (grams)	273,400		273,400
Hashish oil (grams)		(L)11	(L)11
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Iran:			
Opium (grams)	583,000		583,000
Morphine base (grams)	15,661		15,661
Heroin (grams)	32,692		32,692
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	20,910	5,000	25,910

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Iran—Continued			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Lebanon:			
Opium (grams)	1, 615		1, 615
Morphine base (grams)	50		50
Heroin (grams)	8, 303	11	8, 314
Cocaine (grams)	2, 313		2, 313
Marihuana (grams)			
Hashish (grams)	48, 434	36, 000	84, 434
Hashish oil (grams)	(L)29/30, 595	155, 333	(L)29/185, 928
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)	39		39
Stimulants (gross weight)			
Turkey:			
Opium (grams)	27, 451	258, 452	285, 903
Morphine base (grams)	22, 304	108, 737	131, 041
Heroin (grams)		3, 191	3, 191
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	44, 913	853, 160	898, 073
Hashish oil (grams)		1, 000	1, 000
Hallucinogens (d.u.)	70	1, 300	1, 370
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Pakistan:			
Opium (grams)	408, 959	3, 076, 056	3, 485, 015
Morphine base (grams)			
Heroin (grams)	33, 084	11	33, 095
Cocaine (grams)			
Marihuana (grams)	5, 000		5, 000
Hasish (grams)	1, 095, 521	3, 349, 200	4, 444, 721
Hashish oil (grams)	41, 000	36, 670	77, 670
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Afghanistan:			
Opium (grams)	2, 549, 250		2, 549, 250
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	556, 000		556, 000
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Muscat:			
Opium (grams)		3, 175	3, 175
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Morocco:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)	500		500
Hashish (grams)	71,990		71,990
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Yugoslavia:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	386,000		386,000
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Netherlands:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)	3,000	2,700	5,700
Cocaine (grams)	1,000	800	1,800
Marihuana (grams)			
Hashish (grams)	4,587,000		4,587,000
Hashish oil (grams)	(L)12		(L)12
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Great Britain:			
Opium (grams)	13,608		13,608
Morphine base (grams)			
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	10,204,151		10,204,151
Hashish oil (grams)	5,000		5,000
Hallucinogens (d.u.)		40,000	40,000
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Belgium:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)	6,670		6,670
Cocaine (grams)		2,500	2,500
Marihuana (grams)			
Hashish (grams)	100,000		100,000
Hashish oil (grams)			
Hallucinogens (d.u.)	10,000		10,000
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)	6,370		6,370
Stimulants (gross weight)			
Luxembourg:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)	11,400		11,400
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)			

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
Luxembourg—Continued			
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Austria:			
Opium (grams)			
Morphine base (grams)	4,000		4,000
Heroin (grams)		487	487
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	30,000	259,000	289,000
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Denmark:			
Opium (grams)			
Morphine base (grams)	6,200		6,200
Heroin (grams)			
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	145,180	10,000	155,180
Hashish oil (grams)			
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Switzerland:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)	4,100		4,100
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	8,000		8,000
Hashish oil (grams)			
Hallucinogens(d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Italy:			
Opium (grams)			
Morphine base (grams)	50		50
Heroin (grams)		130	130
Cocaine (grams)		3,050	3,050
Marihuana (grams)			
Hashish (grams)	293,000	13,500	306,500
Hashish oil (grams)	(L)16/2,000	23,000	(L)16/25,200
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Germany:			
Opium (grams)			
Morphine base (grams)	6,000	10,420	16,420
Heroin (grams)	6,870	2,890	9,760
Cocaine (grams)		3,050	
Marihuana (grams)			
Hashish (grams)		47,000	47,000
Hashish oil (grams)	22,400		22,400
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			

See footnotes at end of table.

FEDERAL DRUG REMOVALS—Continued

[Calendar year 1974]

	Host country removals	DEA/cooperative removals	Total
France:			
Opium (grams)	19,000		19,000
Morphine base (grams)			
Heroin (grams)	52,800	38,790	91,590
Cocaine (grams)			
Marihuana (grams)			
Hashish (grams)	819,850	729,000	1,548,850
Hashish oil (grams	(L)2	(L)14	(L)16
Hallucinogens (d.u.)			
Hallucinogens (gross weight)			
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)			
Stimulants (gross weight)			
Spain:			
Opium (grams)			
Morphine base (grams)			
Heroin (grams)		551	551
Cocaine (grams)	5,500	1,500	7,000
Marihuana (grams)	1,929,850	298,700	2,228,550
Hashish (grams)	(L)3	(L)3/764,000	(L)6/764,000
Hashish oil (grams)		5,000	5,000
Hallucinogens (d.u.)			
Hallucinogens (gross weight, grams)		21	21
Depressants (d.u.)			
Depressants (gross weight)			
Stimulants (d.u.)	4,680		4,680
Stimulants (gross weight, grams)	7,000		7,000

[1] Country not identified.
[2] Removal reported from the DEA office in Vancouver, B.C.

ADDICTION IN OTHER COUNTRIES

Mr. COUGHLIN. Finally a question that just follows up on one that my colleague from Maryland just asked that is a puzzle to me. Apparently there is no big narcotics addiction problem in Turkey. I guess there is not one in the Soviet Union which is nearby and I would imagine in China the use of narcotics has been reduced substantially. To what do you attribute these nation's situation compared to the narcotics problem that we have in the United States?

Mr. VANCE. That is a very difficult question to answer. If we only knew the answer to it! I agree with the remarks made earlier by the Congressman that the most effective answer to our problem would be the elimination of demand. That's an American problem because it is Americans who are demanding it.

Mr. COUGHLIN. In your judgment why do they eliminate the demand and we have not?

Mr. VANCE. In the case of some countries I think it is in part at least that they function as a stern police state. One can discourage addicts if one discourages them firmly, if you follow me.

But I do not know the answer in Turkey. Turkey is not a police state. There is virtually no consumption of heroin or of any of its derivatives in Turkey. Yet they have been raising the opium poppy for hundreds of years.

Mr. COUGHLIN. And we have never looked into why this is.

Mr. VANCE. I'm sure the experts have.

I would be happy to pose that question specifically to a group of experts whose judgments I respect and submit it for the record.

[The information follows:]

I have checked with a number of experts and we have no conclusive evidence as to why there is no consumption of opium or its derivatives in Turkey.

Mr. COUGHLIN. That would be certainly interesting, because it seems to me they are not spending the kind of money that we are.

COOPERATION OF THE SOVIET UNION AND THE PEOPLE'S REPUBLIC OF CHINA

Mr. COUGHLIN. Do the Soviet Union and China contribute to any of these programs?

Mr. VANCE. No.

The People's Republic of China, the mainland Chinese government has, as you know, only recently been admitted into the United Nations. It has not yet begun to participate in the United Nations drug program. It has not refused to do so, but it has not started yet.

We understand that they have been invited by the United Nations authorities and have replied that they are studying the matter now.

The Soviet Union does cooperate. It is a member of the United Nations Commission on Narcotic Drugs and does cooperate with the International Board for Narcotics Control. It is, as I say, generally a helpful and cooperative government in this field, as are the other Communist governments of Europe.

CONTROL EFFORTS IN JAMAICA

Mr. COUGHLIN. In Jamaica you had a major operation in connection with marihuana production, Jamaica's cannabis production. Has that been almost eliminated or is there still substantial production of cannabis in Jamaica?

Mr. VANCE. The one time program with which we helped the Jamaican Government resulted, they and we think, in the destruction of about 80 percent of the commercially grown marihuana, that which was produced for export.

That was what the Jamaican Government described as its own goal. The program was designed to attack international traffic. This included what was produced in Jamaica, marihuana, and cocaine and other hard drugs that were transiting.

PERCENTAGE OF BUDGET ALLOCATED TO MARIHUANA CONTROL

Mr. COUGHLIN. What percent of your annual budget goes toward an effort to control marihuana as opposed to other drugs?

Mr. VANCE. I think there is a figure on page 4 of our submission. It is broken down by drugs there. You will see there is a little better than 92 percent of our bilateral program directed against opium and its derivatives, 7 percent against cocaine and 0.7 percent against cannabis and its derivatives. In that connection I would like to point out that there are three kinds of products from cannabis plants. There is marihuana which makes what is called the joint. That has about a ½ to 1½ percent of the hallucinogenic material. Then there is hashish which has 8 to 12 percent and then hashish oil which has 80 to 90 percent. So we are still very concerned at the trafficking on a major scale of all this, but particularly of these two much more dangerous products of the cannabis plant.

Mr. COUGHLIN. Thank you.

Mr. LONG. The gentleman from Alabama, Mr. Bevill.

SUCCESSFUL PROGRAMS

Mr. BEVILL. Thank you, Mr. Chairman. You have had some success in Jamaica and you have had some temporary success in Turkey. In what other countries did you say you have had some success?

Mr. VANCE. In Mexico. We have had some success in Thailand and we believe that we are on the eve of seeing some considerable success in Burma, all major producers.

SOURCE OF ILLICIT OPIUM

Mr. BEVILL. Is the opium coming into the United States now mostly from Mexico or is it from Turkey?

Mr. VANCE. Very little of it is from Turkey. What is coming from Turkish opium is from opium grown before the ban and held in the stockpiles of the traffickers. There has been, as far as we know, no production in Turkey after the ban, until the harvest we are about to see start now.

Mr. BEVILL. Where will they sell the opium other than through the black markets or the Mafia through the United States.

Mr. VANCE. The Turkish Government is hoping it will all be sold to the Turkish Government which will sell it to the international pharmaceutical companies.

Mr. BEVILL. What is the situation in Mexico? Most of it is coming in from Mexico.

Mr. VANCE. About 65 percent of what is seized in the United States comes from Mexico at the present time.

Mr. BEVILL. What are you doing about Mexico?

Mr. VANCE. The Mexican Government started a couple of years ago with a very determined and increasingly effective campaign. They are eradicating the poppy fields. They are now ending the second annual intensified eradication campaign. They believe that they have destroyed about 60 to 65 percent of the known fields.

Mr. BEVILL. The Mexican Government?

Mr. VANCE. Yes. They are very hopeful of improving that drastically next year. We are helping them in any way we can.

Mr. BEVILL. How did you get the Mexican Government to start destroying it?

Mr. VANCE. It is illegal in their view. They saw it as a very serious problem of ours. They wanted to be helpful to us. It is also a threat to their populations. The recognize that. There is the beginning of some heroin abuse in Mexico. They saw, with that enormous production, that there was an immediate threat to their own population.

Mr. BEVILL. So they started enforcing their own laws?

Mr. VANCE. Yes, sir, very energetically, I might add.

DRUG ADDICTION IN OTHER COUNTRIES

Mr. BEVILL. What other country in the world besides the United States has this problem on a major scale?

Mr. VANCE. The country of Iran has a bigger percentage of the population addicted to the product of opium poppy than we do.

Mr. BEVILL. Is that since they got all the oil money?

Mr. VANCE. No, this is long before this. The earlier addition was opium and morphine.

Now that Iran is becoming an affluent state, heroin, which appears to be a highly regrettable index of affluence, is beginning to be found there.

They are undertaking very strenuous measures themselves. Opium is grown in Iran but it also leaks into Iran from Afghanistan and Pakistan. It used to leak into Iran from Turkey when Turkey was producing it. The Iranians are doing their very best to be very strict. Their penalty against trafficking includes the death penalty. Over 200 major traffickers have been executed in the last 3 years.

DECRIMINALIZATION OF MARIHUANA POSSESSION

Mr. BEVILL. We have bills pending in Congress to legalize the possession of marihuanna. What is your position on that?

Mr. VANCE. It is my understanding that what is being considered is decriminalization. Do you think that it will go so far as legalization of marihuana?

Mr. BEVILL. Let's say decriminalization of it.

Mr. LONG. It is making possession of marihuana a misdemeanor, punishable by fine right?

Mr. VANCE. Well, sir, I am in the Department of State and in charge of the foreign programs so the answer to my question could appropriately only be my own personal judgment because that is not my governmental responsibility.

Mr. BEVILL. Yes; what is your own personal judgment?

Mr. VANCE. My own personal judgment is influenced by the fact that the same plant, the cannabis plant, produces, as we were saying a few minutes ago in another context, not only the marihuana leaves, which I understand would be decriminalized, but also hashish rezin and hashish oil, which respectively contain 8 to 12 percent of the hallucinogenic material and, in the oil, something like 80 to 90 percent. I would think that it would be extraordinarily difficult for us to distinguish between these three products of the same plant. Two of them, I don't think anyone suggests are other than very, very harmful.

Mr. BEVILL. So your personal position would be that you would oppose decriminalizing the possession of marihuana?

Mr. VANCE. I would hope that it would not occur. That is the view of one citizen.

Mr. LONG. Mr. Early?

ASSISTANCE TO OPIUM PRODUCING OR PROCESSING COUNTRIES

Mr. EARLY. Mr. Vance, in your statement on page 6 it appears that you say of this request for $42.5 million, 92 percent of all the funds you are requesting for bilateral programs will be directed to countries in which opium and its derivatives are processed and shipped. Do we have any foreign assistance program in which we give incentives to the countries that grow these illegal drugs?

Mr. VANCE. This fund which I help to administer is designed to help the governments' enforcement efforts to check and control the

growing of these drugs. It is for that reason we are asking for these moneys.

What is the percentage of our expenditures directed at enforcement? Seventy-two percent of the moneys we are seeking are designed to help strengthen the enforcement efforts of the governments in question.

ASSISTANCE TO VIETNAM AND CAMBODIA

Mr. EARLY. I'm sure you have long-range plans. What are the long-range plans of your particular department if Vietnam and Cambodia start to grow these illegal drugs? Are we going to aid them, too?

Mr. VANCE. I presume in view of recent history that it would be the United Nations drug organizations.

Mr. EARLY. The United Nations program has an $18 million program of which we pay $14 million. That is our expense, the American taxpayers are paying that.

Mr. VANCE. That is true, but it is designed to be expended through the United Nations. .

Mr. EARLY. But it is funded by us.

Mr. VANCE. That is true. We obviously have a great influence over it.

We would favor the use toward any program that we think would seriously contribute to reducing the flow of heroin and other hard drugs into the United States.

EFFECTIVENESS OF NARCOTICS CONTROL PROGRAM

Mr. EARLY. How is this a practical program at all? Are we saying we can control the growth in every foreign country?

Mr. VANCE. We cannot.

Mr. EARLY. So we are just throwing this $42.5 million down the drain.

Mr. VANCE. No; I don't think so because I think we have succeeded in reducing by about half the amount of heroin flowing in the United States and the amount of addicts in the United States.

Mr. EARLY. How much of this request is for Thailand?

Mr. VANCE. $3.7 million.

Mr. EARLY. How do you see this as a practical program at all if Vietnam and Cambodia grow it?

How do you expect in any way we can police it to prevent its entrance into the country?

Mr. VANCE. Thus far to the best of our knowledge neither Cambodia nor Vietnam grow the opium poppy. It is grown in that part of the world, but to a small extent, in Laos.

Mr. EARLY. You are trying to sell us on a program for $42.5 million of the taxpayers' money on a program that we can stop the growth of illegal drugs?

Mr. VANCE. No; I do not believe that we can stop it, but we can check it. If we did not expend these kinds of efforts our society would be even more overwhelmed by heroin than it is now.

Mr. EARLY. How can we check it when we have no control in countries such as Cambodia and Vietnam?

Mr. VANCE. Regarding countries like that, were they to start growing the poppies, if we were not able to deal with them bilaterally because of their political philosophy and recent history, then we would hope, if they posed a drug threat, that they could be dealt with through the U.N. That is precisely why we are supporting the U.N. fund, to achieve our goals through multilateral organizations in countries that will not permit us to operate bilaterally.

U.S. CONTRIBUTIONS TO THE U.N. FUND FOR DRUG ABUSE CONTROL

Mr. EARLY. Your statement says the U.N. has a budget of $18 million for UNFDAC of which $14 million is a contribution from the United States.

You said the Soviet Union is a member of this organization. How much do they contribute?

Mr. VANCE. I don't think they contribute anything.

Mr. EARLY. How is it a practical program for the taxpayer of the United States?

Mr. VANCE. I believe that it would be wise for the United States to support the U.N. fund for drug abuse control even if we had to contribute 100 percent of the funds.

At the same time, I deeply regret the fact that other governments do not contribute what we think they should to this fund. We are doing our level best to persuade them to contribute more, both talking to them bilaterally and uring the U.N. itself to press them to contribute.

Mr. EARLY. This program appears to be very idealistic and very unpractical. Earlier you said there were no unprogramed moneys in this request.

Mr. VANCE. That is right.

UNPROGRAMED FUNDS

Mr. EARLY. In your statement you say, "I note the committee was concerned about, last year, the problem that this program was designed to face was so complex and fast changing that we believe we should have the flexibility of some unprogramed moneys in order to permit us to take advantage of new opportunities that unexpectedly present themselves." Then you go on to justify unprogramed moneys.

Mr. VANCE. That is addressed to the problem that we had in the last fiscal year when we came to the committee a year ago.

Mr. EARLY. Excuse me. Isn't this a statement before this committee justifying the fiscal year 1976 budget?

Mr. VANCE. It is related to that.

Mr. EARLY. But you say in your statement that this is for unprogramed moneys for this budget.

Mr. VANCE. Well, if we did we certainly created the wrong impression.

Mr. EARLY. I don't know how you can draw any other impression from your last paragraph on page 11 and the entire content of page 12 if it is not for unprogramed moneys.

Mr. VANCE. We said, "Finally, I note that the committee was concerned when we met 1 year ago on the last fiscal year's appropriation

at the then unprogramed moneys." Then I go on to make the argument for programing.

Mr. EARLY. But the problem this program is designed to face is so complex and fast changing that we believe we should have the flexibility of some unprogramed moneys in order to permit us to take advantage of some new opportunities that unexpectedly present themselves. Then you just justify unprogramed moneys.

Mr. VANCE. That is right, but continue reading through that page and through to the middle of page 13, which finishes the argument that I tried to make, to which the Congressman is alluding. We were cut last year $10 million under what we had asked for in last year's appropriation. I was suggesting that perhaps one of the reasons we were cut was because we had, a year ago now, a substantial amount of unprogramed moneys. I made the argument that we should, in my opinion, have unprogramed moneys but then I wind up saying that because we were cut last year we had to defer from last fiscal year to then next fiscal year some of our program, to be specific, the second stage of the Burma program. This deferral to the next fiscal year results in our not having any unprogramed moneys in the next fiscal year.

ASSISTANCE TO INDONESIA

Mr. EARLY. That is the impression I got. Also, how do we justify to the American taxpayers the request you have in here like for Indonesia, $8,000 for eight motorcycles for social workers?

Mr. VANCE. Well——

Mr. EARLY. We cannot take care of these problems in the United States.

Mr. VANCE. We have a small amount of money in our program for what is called "Treatment and Rehabilitation." I want to assure the committee that we have no intention whatever of trying to cure the addicts of the world. However, the reasons we have a small amount of money in this program for treatment and rehabilitation are the following: One, one of our purposes, and the Congressman has been underlining this, one of our needs in this program is a greater recognition by other governments of the need for them to make more contributions to this worldwide effort.

One of the best ways of persuading them that this is their problem as well as ours is to bring to their attention that they have an addiction problem or they have the threat of one.

We have found that if we help their treatment programs with small contributions, to improve their treatment programs, then that calls the attention of their government to their own addiction problem or to a threat of one.

RESPONSIBILITY OF THE UNITED STATES TO CONVINCE OTHER COUNTRIES

Mr. EARLY. Why should we, as the United States, see it as our responsibility to tell these countries that they have a drug problem? Why shouldn't they recognize it themselves?

Mr. VANCE. In order to get them to contribute more of their own resources toward meeting the drug problem, which is both theirs and ours.

Mr. EARLY. These programs from the State Department are tough for me as a freshman legislator to fathom. We don't know our own drug problems and we want to go to other countries to tell them they have drug problems. That is ridiculous.

Mr. VANCE. We have a drug problem in the United States that is caused by drugs originated abroad.

Mr. EARLY. Which we cannot stop. We cannot control Russia and other countries.

Mr. VANCE. But we can persuade the other governments to take the necessary steps to control their own production.

Mr. EARLY. So your approach is to tell them to control, with our money.

Mr. VANCE. Sure, if need be.

Mr. EARLY. We don't have any money.

Our President is telling us we are not having any new programs and we have to watch it because we have too great a budget deficit. Then I see a department come in and ask for unprogramed moneys and an idealistic approach to a problem that can do us no good.

It is like throwing $42.50 out of that window and think it is going up. I am sure the money won't go up but I am not sure whether some of the bureaucrats from these agencies wouldn't go up.

Mr. VANCE. We have a problem in the United States of 300,000 addicts. It was once twice that bad. It is caused by the demand in the United States. That is our problem and something we in the United States should do something about.

Mr. EARLY. Your statement says we stopped the growing of illegal drugs in Turkey and some other countries and when we did, when you stopped them, Mexico began to grow it. If we control these three growers that you speak of in your statement I contend we will initiate several other countries to grow it.

Mr. VANCE. Then we will go after them as long as we have heroin flowing into the United States.

Mr. EARLY. Do you think there is no end to the pile of money the United States has?

Mr. VANCE. No.

Mr. EARLY. How long can we go after them?

Mr. VANCE. The cost to the American society of our drug abuse problem is $10 billion a year. What I am trying to do, and my colleagues, with $42.5 million is to reduce that cost. That is a pretty good degree of leverage, I believe.

Mr. EARLY. You do not think that $42.5 million is going to stop the imports. You said you were trying to stabilize it and hold it in check. If you hold it in check, you are not going to do anything to the $10 billion expense. You are just holding it in check.

Mr. VANCE. We have reduced it about half, and I think we can reduce it further.

Mr. EARLY. I have no further questions, Mr. Chairman.

FUTURE RESULTS OF NARCOTICS CONTROL PROGRAM

Mr. LONG. I think the gentleman from Massachusetts has asked some excellent questions. It strikes me that you are spitting on a fire storm.

Let me ask you this: Do you see any light at the end of the tunnel? That is a favorite expression we used for years about Vietnam.

Mr. VANCE. I regret to be asked to reply to that particular question——

Mr. LONG. You don't see any end to it so as the gentleman from Massachusetts says, we are going on having a $10 billion a year problem, plus the $42 million that we are spending to make a gesture toward controlling?

Mr. VANCE. No, sir.

I am more optimistic than that. We have succeeded with relatively modest efforts to reduce the estimated addiction rate by half. I think we can contribute to making more real progress.

Mr. LONG. Mr. Vance, we Congressmen are pretty good at claiming credit for things.

You are claiming credit for a lot of thangs that you do not know whether you had anything to do with. You cannot give us the slightest evidence that it was your work in controlling the supply, that had anything to do with controlling heroin addiction in the United States.

Mr. VANCE. The fact is that there was a very appreciable reduction. I would urge, therefore, that the efforts made by the various agencies that coincided with that reduction be continued and that the managers be urged to try to perfect them.

Mr. LONG. Do we have any hard evidence as to just how many heroin addicts there are in this country?

Mr. VANCE. I would like to reply on the record so that I can quote my colleagues who are experts on that. I am not an expert in this field.

[The information follows:]

We really do not have any hard evidence because untreated active heroin users are trying to avoid being discovered. However, our experts have come up with some estimated trends. According to the Special Action Office for Drug Abuse Prevention (SAODAP) in the peak period—1970–71—there were some 660,000 heroin users in the United States. As a result of law enforcement and treatment efforts, by the spring of 1974 there was a significant reduction in the number of addicts and users. At that time SAODAP provided a profile of the 660,000 figure, as follows:

In treatment	160,000
In prisons	100,000
Had stopped using heroin	200,000
Were untreated, active heroin users	200,000
Total	660,000

It is estimated that there are currently anywhere from 200,000 to 300,000 heroin addicts actively seeking and using the drug.

Mr. LONG. I hope you will supply it for the record. I would like to know what hard, scientific evidence you have as to what the number of heroin addicts is and how we know this is fewer than the years before. I have even heard statements made that we do not have any more addicts on opium products than we did in the 1800's; that there was a tremendous number of people at that time who were addicted to opium, morphine and all kinds of things. It has been said that people were taking all kinds of patent medicines that were loaded with opium products and that probably the percentage of addicts is not any greater now than it was then. I do think you have a real burden to try to explain how you are proposing to solve a problem of supply when the

sources of supply are almost unlimited and when you have no real ability to keep the prairie fire, in a sense, from spreading. If you feel that you can really do it and your methods are successful, then I think you have the burden to explain why you are not asking for enough money to bring an end to the $10 billion heroin problem we have in this country.

Mr. VANCE. The real reason for that is that we are limited by the capabilities of the foreign governments where this problem exists and their capacity to absorb this assistance.

Mr. LONG. Why aren't we working a little harder with them?

Mr. VANCE. We are, but we cannot replace their personnel.

Mr. LONG. You have great faith in the U.N. Do you have any evidence that the U.N. has been more effective in this area than we have been operating through bilateral efforts?

Mr. VANCE. Only in this respect, Mr. Chairman: That they are able, because they are multilateral——

Mr. LONG. This is an important area. I am asking you what evidence you have.

Mr. VANCE. If both of us are able to work on a given problem, I do not think they are more effective but they are invaluable because they can work in places we cannot work in.

Mr. LONG. As a Congressman, responsible to the American taxpayer, I have an uneasy feeling that many people prefer the U.N. because U.N. agencies somewhat are out of reach of the American Congressmen. We have no control over them. It is American money that is being spent without American congressional oversight.

Mr. VANCE. We will submit for the record a full analysis of the U.N. program funded by these $18 million.

Mr. LONG. Do we have the same type of reporting and auditing oversight over U.N. programs that we use for bilateral programs?

Mr. VANCE. We watch it very carefully. The Deputy to the Director of the U.N. fund was a year ago now my deputy.

Mr. LONG. Can the GAO, our watchdog agency, get access to U.N. records and exercise the same audits?

Mr. VANCE. Not directly, no, sir, but we are in a position to explain and report to the Congress in great detail what the U.N. Fund is doing and has been doing.

DECRIMINALIZATION OF MARIJUANA

Mr. LONG. Let me move over to the question of marihuana which Mr. Early alluded to. Of course, all Congressmen have this problem brought to their attention all the time. I have parents who come to me whose children have been arrested for possession of marijuana in situations which parents all claim are totally innocent. I have talked to high schools and have been told by the students that they regard the use of marijuana as an equivalent of having a six-pack of beer. The fact that it has continued to be a criminal offense has in the first place put a reign of terror to a lot of parents, et cetera, who get a call in the middle of the night and told their kids are being held at $1,500 bail and after they spend about $1,500 on a lawyer they get the charge reduced and thrown out. The question is why shouldn't we deal with marijuana use as an offense requiring a fine and more commensurate

with what the average American has regarded as the severity of the violation. Would you comment on that?

Mr. VANCE. As I suggested earlier, I do recognize all the points you have made.

Mr. LONG. A $50 or $100 fine would be quite an inducement not to go around smoking marihuana but at the same time such a fine does not ruin a person's life and give him or her a criminal record.

Mr. VANCE. I was referring to the difficulty of managing the enforcement.

Mr. LONG. Distinguishing between marihuana and the stronger cannabis derivatives?

Mr. EARLY. Mr. Vance, the most legitimate argument I have heard against decriminalizing marihuana was made by the Drug Enforcement Agency to another subcommittee I sit on. You stated you were involved in foreign assistance, international narcotics. DEA suggested that if the United States was to legalize marihuana, countries like Mexico would divorce themselves totally from working with us regarding narcotic drug problems. Is that true?

Mr. VANCE. That is the second point I was about to make. A number of countries, and Mexico is a good example, there are others, have a drug problem with the products of the cannabis plant where they do not have either as much of or any problem domestically as yet with heroin.

Mr. EARLY. So that if we legalize marihuana countries like Mexico and I commend Mexico because it appears in the testimony I have heard that they are trying to do something about their own drug problem, with their own money, that they would sever relations with the United States.

Mr. VANCE. They would regard such a move by us, I think, as a step backward in cooperation. They are cooperating with us with an expenditure of a lot of their money on the heroin problem and would wonder why we were apparently becoming more lenient.

Mr. EARLY. That is the best argument I have heard in opposition to the legalization of marihuana. Thank you, Mr. Chairman.

Mr. LONG. Of course, I would not favor legalizing marihuana, but perhaps it will be well to turn marihuana use into a misdemeanor and consequently an offense probably easier to enforce.

The criminal offense now is so severe and the penalties are so drastic that in actual practice the courts are not enforcing these penalties.

Mr. VANCE. May I mention one more case which like Mexico is another example the Congressman might be interested in? That is something I witnessed at the meeting this last February of the U.N. Commission on Narcotic Drugs in Geneva. Other members of the European Economic Community were attacking the Government of the Netherlands openly because they were under the impression that it was moving toward the decriminilization of marihuana. These are countries that are struggling to federate themselves, that are very, very close in their relationships. But the other members of the European community, a number of them, were going around proposing a resolution that very explicitly condemned the Netherlands Government's possible move toward the decriminalization of marihuana.

Mr. LONG. I really don't know. I am here trying to learn on this.

It seems to me that a young boy or girl being caught with marihuana may not be in some cases as serious an offender as somebody much

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older being caught for drunken driving under conditions that imperil other people's lives. We do not regard drunken driving as a criminal offense or felony at all but let drunk drivers go with a fine, et cetera. I wonder if you would comment on that?

Mr. VANCE. We are concerned in the program I am administering only with traffic. We do not direct any of our efforts against possession. So that it is only indirectly that we become involved at all in the posession factor. As I said earlier I am really beyond my sphere in commenting from my position in the State Department on this matter.

I think the appropriate agencies to speak to it would be Justice and HEW.

COCAINE

Mr. LONG. You don't offer us very much hope for the future about bringing this drug problem under control. You have problems with other drugs besides heroin and marihuana.

Mr. VANCE. I regret to say we do. Cocaine has resumed the popularity it had some years ago but had lost in the United States.

Mr. LONG. I was reading Sherlock Holmes last week; Sherlock Holmes was a cocaine addict. That was in the latter part of the 19th century.

Mr. VANCE. That is causing us increased problems. We are talking about it to the coca producing countries in Latin America. Cocaine comes from the coca plant, grown in the Andes, in Bolivia, Peru, Ecuador, Colombia, and other areas down there. It exists as coca leaves or coca paste from growing countries and then it is transformed into cocaine along the way.

Mr. LONG. This is a growing problem.

Mr. VANCE. Yes, it is an increasing problem.

Mr. LONG. Part of your funds are going toward dealing with that problem.

CONTROL THROUGH TREATIES

Mr. VANCE. This is true.

I would like to mention two forward steps we hope the world organizations dealing with narcotics will be able to take very soon. This would follow ratification around the world of two new treaties, one of which the United States has ratified, the Amending Protocol to the Single Convention. When this Protocol enters into effect, it will give the international bodies much more teeth. We look forward to that very much. The other is the Psychotropic Convention. Psychotropic is the word that describes all the manufactured drugs, ones that come out of chemistry. The barbiturates, amphetamines, the uppers, downers, LSD, et cetera.

Mr. LONG. All those drugs may be manufactured here in the United States without foreign imports?

Mr. VANCE. That is right.

Mr. LONG. You don't concern yourself with those?

Mr. VANCE. We do indeed. Because they move in international traffic. We do control them in the United States quite effectively but they move in international trade and cause problems of drug abuse to other countries.

Mr. LONG. They don't move out from the United States. Do they move from other countries into the United States?

Mr. VANCE. Sometimes they do. Lacking the international controls that this particular international convention is designed to impose, our companies can legally export psychotropic substances to a country where there are not effective controls. Then, of course, we and our producing companies lose control over the substances. Some of them can move from that country into another country or even be smuggled back into the illegal traffic in the United States. I am not accusing our pharmaceutical companies of misbehavior but we hope very much that the Psychotropic Convention will go into effect soon. The United States signed it but has not yet ratified it. Enabling legislation is pending before the Congress now.

Mr. LONG. You regard it as important for the United States to get involved in, that the United States be controlling the movement of narcotics, drugs of one kind or another from foreign country A to foreign country B, where in neither case does it move in or out of the United States?

Mr. VANCE. There are two reasons why we are. One is that other countries, for example, Turkey, other countries that produce natural drugs look at us when we come at them and say "Please control those drugs." The Government of Turkey replies to us, "What is the trouble with opium? We don't abuse it, your people do." But the industrialized world is producing these psychotropic products which are ripping off our populations.

Mr. LONG. Do they?

Mr. VANCE. They do. Turkey does suffer from addiction of these manufactured substances.

Mr. LONG. Would you put some official statistics in the record on that?

Mr. VANCE. I will be happy to.

[The information follows:]

We have no statistics on the number of Turks addicted to psychotropic substances. The Turks have complained, however, that they have a difficult time in controlling the trafficking of psychotropic substances and other manufactured drugs, many of which are made in the United States, which are controlled by the Psychotropic Convention. Since the United States has not yet ratified this convention, the Turks have asserted that the United States and other drug manufacturing countries that have not ratified the convention are concerned only with the control of drugs covered by the Single Convention on Narcotics Drugs and not with the control of manufactured substances which may be problems in other countries.

Mr. VANCE. Just to complete the point I wanted to make on the Psychotropic Convention, the United States has not ratified it. The enabling legislation is before the Congress now.

The Senate is awaiting the passage of enabling legislation before it ratifies the treaty. Hearings in both House and Senate are, we hope, to held soon.

DEMAND SIDE OF THE PROBLEM

Mr. LONG. It has been suggested for a time, and I think conceded by yourself, that the important part of the problem is demand in the United States.

Do you have any suggestions for reducing that demand, for example, by imposing stiffer penalties on drug users and drug pushers or do you regard this as beyond your purview?

Mr. VANCE. I really do. I regard it as beyond my purview because I am not an expert in the field of demand. It is certainly evident that stern measures on trafficking are required if we are going to control illegal traffic.

That would not, I believe, be the answer on the demand side. I would have to leave the discussion of that to experts in the field.

ENFORCING OUR LAWS

Mr. LONG. Could you put some statistics in the record on how many drug users and drug pushers are arrested in the United States and then escape punishment in some way, either by being released on bail and never brought to trial or acquitted, or who escape in other ways? It strikes me the problem of the United States is not the strictness of penalty. We have plenty of laws, but we don't enforce them. In my own county of Baltimore, I have statistics which show that about 95 percent of all crimes go unpunished. They are either not reported to the police, or if reported to the police, don't result in an arrest of the criminals, or if arrested criminals are not brought to trial, or if brought to trial they are not convicted. So only about 5 percent of crimes end in punishment of the guilty. So I think we have a 95-percent record to show that crime does pay in the Baltimore suburbs.

I think that is not very different from what the U.S. statistics are as a whole.

[The information follows:]

The attached chart provides data on the number of persons arrested by fiscal year for drug crimes and on the disposition of cases in the same fiscal year.

FEDERAL PERFORMANCE MEASUREMENTS

DEA Federal arrests[1]	Fiscal year—				
	1971	1972	1973	1974	1975 to March
Total[1]	2,212	4,579	5,592	6,168	5,260
Heroin		1,799	2,313	1,923	1,540
Cocaine	[2] 1,284	870	1,443	1,725	1,488
Other narcotics		77	40	39	9
Cannabis	374	877	980	1,434	1,153
Hallucinogens	309	421	350	386	340
Depressants	25	84	84	79	102
Stimulants	167	360	282	535	597
Other	53	94	100	47	31
Convictions:					
Federal	899	1,792	2,747	2,896	1,577
State	342	447	408	347	165
Acquittals:					
Federal	35	70	111	139	75
State	20	7	6	13	6
Dismissals:					
Federal	176	247	376	435	261
State	63	114	78	99	18

[1] The difference between the number of arrests and cases disposed of by conviction acquittals or dismissals is due to the fact that many cases are still in litigation and may not be disposed of in the fiscal year that the arrest was made.
[2] During FY 1971 no distribution was made between arrests for herion or cocaine.

Mr. LAWRENCE. Was that Federal only or Federal, State, and local?

Mr. LONG. This was for local entirely. We have checked into the data of other jurisdictions, and it shows that it is not very different.

Mr. LAWRENCE. I meant your request of us. Was it for Federal only or Federal, State, and local?

Mr. LONG. I think it is the local police that do most of the arresting. Somebody said not long ago in Baltimore: "A 9-year-old boy can find a drugpusher, but a policeman cannot." I have had people tell me just to come down sometime and stand on a certain corner and they can show me drugs being passed back and forth. I am convinced that this could not happen if there were not a good deal of corruption of enforcement authorities.

Do you regard that as a problem among your Federal authorities?

Mr. VANCE. My experience, of course, is dealing with the authorities abroad. Whenever you have enormous values as you do in this field——

Mr. LONG. In comparison to heroin, gold is a base metal. It is worth hundreds of times the value of gold per unit weight.

Mr. VANCE. One kilo is worth $1 million; that is 2.2 pounds.

Mr. LONG. And a kilo of gold would be worth several thousands of dollars.

There are 26 ounces. It is worth $3,000 or $4,000, then.

Mr. VANCE. Rather than $500,000.

Mr. LONG. It is awfully heavy to carry, too.

Mr. Koch asked me to submit the following questions for the record.

[The questions follow:]

FUNDING LEVELS

Mr. KOCH. The overall request for $42,500,000 for international narcotics control this year is identical to last year's request. In view of unspent funds from last year, and inflation on the other side, is it merely coincidental that this year's request is identical to last year's? Also, over the past several years the program has not spent the amount requested and appropriated. Why should we therefore appropriate the full request this year?

Mr. VANCE. We realize that over the past several years we have not spent the amount requested and appropriated. This was mainly due to the newness of the program. As our diplomatic initiatives generated increased interest in and commitments to narcotics control, we have received correspondingly increased requests for assistance. In fiscal year 1975, our request included over $9 million in unprogramed funds. In fiscal year 1976 our budget request is fully programed. Any reduction in the appropriations from our request would result in our having to cancel or defer a number of important projects. This would be most unfortunate, particularly in view of the increased commitments on the part of the cooperating countries to develop and strengthen their enforcement and control programs.

BURMA

Mr. KOCH. You are requesting $18 million for 3 years for helicopters in Burma for narcotics control. However, a subcommittee chaired last year by Representative Lester Wolff, the Foreign Relations Ad Hoc Subcommittee on International Narcotics Control, which traveled to Buma and other Southeast Asian countries, reported assertions by the Shan (Burmese resistance group) that these helicopters are really being used against their political activities. The United States has a totally inadequate number of Drug Enforcement Administration people in Burma. What therefore is our check to make certain that these helicopters are really being used for narcotics control and not political repression by the Burmese Government against its opposition?

Mr. VANCE. We have tried and will continue to try to assign some DEA personnel to Burma. When we last raised this issue with them this spring, the Burmese did not reject the idea and agreed to consider how such DEA personnel might be used. As may be known, other foreigners as well as Burmese Government personnel themselves operate under severe constraints in terms of the areas where they can travel primarily because of unsettled political conditions among the ethnic minorities, including the various Shan groups. Thus, even if some DEA personnel were permitted in the country, they probably would be subject to the same travel restrictions as other foreign diplomatic personnel.

As for use made of the helicopters, the Burmese have agreed to use them primarily for the purposes intended and to provide us with appropriate records. Our regular embassy personnel will be kept informed of how these aircraft are being used. The supply of additional helicopters under the terms of the June 1974 agreements will be conditioned upon the satisfactory utilization of the first six aircraft provided from fiscal year 1975 funds. All possible means will be utilized to insure that such a requirement has been fulfilled.

U.N. FUND FOR DRUG ABUSE CONTROL

Mr. KOCH. Your proposed budget includes $5 million for the U.N. Fund for Drug Abuse Control. This is about 76 percent of the total U.N. program for this activity—your information as to the exact figure would be helpful. In any case, why should the United States pay this disproportionate amounts and what steps are being taken to increase international participation?

Mr. VANCE. Our contributions to date to the Fund comprise 78 percent of the total resources available to it.

We believe that we should continue to provide our high level of support to the U.N. Fund for Drug Abuse Control (UNFDAC) until it is able to finance its current activities with greater support from other donors. Our major purpose in providing international narcotics control assistance funds is to check the heroin flow into the United States and UNFDAC is a vital factor in achieving this goal. It is the only mechanism available to assist certain countries which, for political or other reasons, we cannot work with adequately on a bilateral basis. UNFDAC is now implementing a critical narcotics enforcement assistance program in Turkey since the Turks have chosen to seek narcotics assistance on a multilateral basis. Also, in Afghanistan and Burma and potentially Laos, all of which are major opium growers, UNFDAC is the only effective means to help work on the narcotics problem since we cannot work there entirely bilaterally.

In addition, UNFDAC is currently implementing 81 projects around the world, all of which should benefit us by lessening the drug problem for the United States. Thus, the Fund plays an important role in helping convince the international community of the universality of the drug problem.

While it is thus clearly in our direct interest to continue our support to the Fund, we also believe that every feasible effort should be made, by the U.N. and by the United States, to gain increased contributions from other donors. We have undertaken a number of initiatives to encourage other governments to make or increase their contributions to the Fund and will continue these efforts.

The management of the Fund has sent fund-raising missions to potential contributors and has been in close contact with appropriate missions in Geneva. The Fund Director has appealed in various international conferences for broader financial support. We understand that the fund plans to expand and intensify these efforts in 1975.

While we are providing a high level of support to the Fund at this time, we believe it performs a function basic to U.S. national interest. As I pointed out to the chairman earlier, I believe that any attempt to reduce or limit our support to UNFDAC would be cutting off our nose to spite our face.

JAMAICA

Mr. KOCH. You are requesting $200,000 for cannabis control in Jamaica, and last year you seized over 1 million pounds of marihuana alone (and 43,000 lbs. of hashish). In view of other priorities, isn't this a tremendous waste of funds, manpower, and energy?

Mr. VANCE. In fiscal year 1976 we propose to invest only 0.7 percent of our resources in activities related to the control of cannabis and its derivatives. While our major priority is heroin where we propose to invest 92 percent of our resources, we are required by the Single Convention on Narcotics Drugs to control the production, trafficking and use of cannabis products. More importantly, many foreign governments are as equally concerned with cannabis controls as they are with controlling the production and trafficking in harder drugs. By cooperating with them on marihuana control, we often gain their cooperation and assistance in focusing on opium and cocaine products.

Mr. LONG. Well, since there are no more questions, I will adjourn the meeting subject to the call of the Chair.

Thank you very much.

WEDNESDAY, MAY 14, 1975.

INTERNATIONAL DEVELOPMENT ASSOCIATION

WITNESSES

CHARLES A. COOPER, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY
CHARLES W. ROBINSON, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE
HAL F. REYNOLDS, U.S. ALTERNATE DIRECTOR, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1974 actual	1975 estimated	1976 estimated
Program by activities:			
1. Investment in International Development Association	469,252	386,030	375,00
2. Investment in Inter-American Development Bank	282,301	500,000	
3. Investment in Asian Development Bank	62,063	74,127	74,127
Total obligations (object class 33.0)	813,616	960,157	449,127
Financing:			
Unobligated balance available, start of year:			
Appropriation	−2,613,947	−4,037,344	−4,067,822
Authority to spend public debt receipts	−5,715,000	−5,715,000	−5,715,000
Unobligated balance available, end of year:			
Appropriation	4,037,344	4,067,822	4,164,330
Authority to spend public debt receipts	5,715,000	5,715,000	5,715,000
Budet authority	2,237,013	990,635	545,635
Budget authority:			
Appropriation	2,991,380	990,635	545,635
Transferred to other accounts	−754,367		
Appropriation (adjusted)	2,237,013	990,635	545,635
Relation of obligations to outlays:			
Obligations incurred, net	813,616	960,157	449,127
Obligated balance, start of year	2,138,226	2,505,530	2,762,187
Obligated balance, end of year	−2,505,530	−2,762,187	−2,394,414
Outlays	446,312	703,500	816,900

Mr. PASSMAN. The committee will come to order.

We shall continue our examination of the budget request for more aspects of the foreign aid program. Today we will conduct hearings on the International Development Association.

We have as witnesses today Hon. Charles A. Cooper, Assistant Secretary for International Affairs, Department of the Treasury; Charles W. Robinson, Under Secretary of Economic Affairs, Department of State, and Mr. Hal F. Reynolds, U.S. Alternate Director, International Bank for Reconstruction and Development.

I believe all of you gentlemen have a rather lengthy statement that you would like to present to the committee on behalf of three items to be covered, namely the Asian Development Bank, the Inter-American Development Bank, and the International Development Association; is that correct?

Mr. COOPER. Yes, sir.

GENERAL STATEMENTS

Mr. PASSMAN. We will insert the statements in the record at this point.

[The statements follow:]

STATEMENT OF THE HONORABLE CHARLES A. COOPER
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
OF THE HOUSE APPROPRIATIONS COMMITTEE
MAY 14, 1975 AT 1:00 P.M. EDT

Gentlemen, I am here today to support the Administration's request for funding of the international development banks. Over the past three decades the United States has been the leading force in the development and expansion of the World Bank, the Inter-American Bank and the Asian Development Bank. We also assisted with drafting the Charter of the African Development Fund.

I will try not to overburden my presentation with statistical details in order to focus more directly on the basic rationale for U.S. support of these banks. Our Executive Directors at the IBRD, IDB and the ADB will present statements on each individual bank covering such matters as the capital structure and the number and type of loans for their respective institutions. I would like in this introduction, to discuss what the development banks are, what they do, and why it is in the U.S. national interest to support them in their activities.

Let me start off by stating very clearly that we in Treasury do not believe development of the poorer countries is primarily a matter of money. Certainly money is needed. But the key factors determining the success of development efforts are the policies each country follows and the efforts each makes to increase production. The building of sound and efficient institutions in developing countries is essential to assure a maximum development impact from whatever resources are available.

It is precisely in such areas as economic policies and priorities and institution building that the development banks play their most important role. The banks can direct their funds to support successful development efforts made by the countries themselves and thereby reinforce their technical and

policy assistance roles. We continue through our Executive Directors to stress in each of the banks that simply lending money is not enough and that the bank's role in helping improve the priorities and institution building capabilities of developing countries is fundamental.

The development banks have developed highly competent professional international staffs which help the developing countries with the complex problems of priority setting and institution building. These international staffs bring together outstanding professionals from both developed and developing countries. In both the World Bank and the Inter-American Bank there are more Americans than any other nationality and overall Americans make up about 25 percent of the development bank staffs.

From the U.S. national point of view it is clear that these banks encourage development in the poorer countries along lines which are both effective and compatible with our own economy. The development banks of course lend to countries which have a wide range of economic systems. As apolitical institutions the banks do not try to change the basic economic system a country has chosen for itself. However, within this constraint the banks stress the role of market forces in the effective allocation of resources, the development of outward-looking trading economies, the critical role of private enterprise, the importance of spreading development benefits to the poorer people. In recent years the banks have placed greater emphasis on agriculture, the family farm, and cooperatives -- an emphasis we have encouraged and supported. In short, the basic approach of the international development banks to economic development is consistent with U.S. views, including views consistently expressed by the Congress.

We of course believe that use of the market and the provision of incentives and a favorable climate for individual initiative are the most effective ways of speeding development and of sharing the fruits of economic growth among all the people. With the help of these banks a great many of the developing countries are finding, in a very practical and pragmatic way, the advantages of a market-oriented, private initiative approach. There are of course adaptations to local conditions; these are needed and desirable. The multi-national character of the banks strengthens them in assisting with such adaptations, in many cases assisting more effectively than any single bilateral donor could.

Let me take just a few examples to illustrate how the banks promote economic development that is compatible with our own economy and therefore serves our national interests in both the short and long run.

It is important to development that governments are effective in administering large procurement programs honestly and efficiently. For procurement with their financing all the development banks not only require international competitive bidding but also help teach institutions in the developing countries how to administer such bidding fairly and effectively. The borrowing countries as well as our own industry, exporters, and contractors benefit from the insistence by the banks on standard rules in this regard. The borrowers get high quality products and services at competitive prices and our firms are assured access to bank financed contracts. Open competitive bidding practices get built into the procurement systems of borrowing countries and over time they tend to be applied even on non-bank financed projects. Our exporters benefit from the wider adoption of such practices.

The development banks provide substantial support to the private sector in most of the countries where the banks have made loans. They supply capital primarily by lending to domestic development finance companies which both raise additional domestic capital and re-lend to local industry, commerce and agriculture. The banks have made loans through December 1974 aggregating more than $3 billion for this type of catalytic program. In addition, the International Finance Corporation has made a total of 332 commitments in over 50 countries for $1.4 billion to help develop the private sector. Expanding and strengthening the private sector is one way the banks help build economies in developing countries with which our economy can have compatible trade and investment relationships.

Many loans have also been directed towards enhancing the opportunities and ability of private farmers, including small holders and cooperatives, to increase their production and income. By December 31, 1974, the development banks had channeled $7 billion into the agricultural sector. The World Bank, the largest lender, had invested $5 billion, the IDB $1.7 billion, and the ADB $0.3 billion. The development of private farming, including family farms, on a widespread basis is a basic American tradition, and we strongly support the efforts of the banks in this area.

The development banks are part of an international structure in which the developed and developing countries work together on international problems. By cooperating with the other developed countries in funding these institutions we improve the effectiveness of our own efforts. Other donor countries strongly support this cooperative approach and multilateral institutions are being used for an increasing share of total non-communist development assistance.

In 1965, three percent of Official Development Assistance (funds for concessional assistance and capital subscriptions) flowed through the four international development banks (IBRD, ADB, IDB and AFDB). By 1973 their share had grown to 12 percent of ODA. In addition the banks channeled larger amounts to the developing countries through hard loans financed by their borrowing in world capital markets.

Bilateral aid remains, of course, of major importance. There are special aspects of economic assistance that require bilateral programs, especially where we have special techniques or products to impart, where we have special interests in individual projects or programs, or where security considerations are heavily involved. But U.S. support for the multilateral institutions is essential if we are to meet today's and tomorrow's challenges of improving the prospects for the millions in developing countries which our bilateral programs do not reach. By channeling part of our total economic assistance funds through the development banks we help bring forward much larger amounts of assistance from other donors and thereby facilitate faster development of the poorer borrowing countries than would be possible with our money alone. By using the banks we can avoid what could develop into a costly competitiveness among donor countries. The guarantees we and others provide in the form of callable capital, which will probably never be needed, permit the banks to mobilize very large amounts of funds from the private capital markets worldwide.

These institutions provide an effective and cooperative international approach to the economic development of the third world. They provide the developed and developing countries with an established and systematic framework for consultations on economic policies, development needs, and economic performance. The development banks are not debating societies which engage in seemingly endless rhetoric about this or that restructuring of the world economy -- they are working institutions that get things done.

So far, I have been discussing the merits of the banks as a group of similar institutions and it is reasonable to ask why our funding requests involve four banks -- why not just one? Since most of the developing countries belong to the World Bank, why the need for regional banks? Despite the greater resources and the longer period of experience of the World Bank, the regional banks have an important role to play and reflect the desires and needs of their regional members for organizations aware of and responsive to the unique problems of each region. The regional banks, drawing a large part of their staffs from the countries of the region, have expertise and understanding of local conditions, and local needs and problems which must be taken into account in the transfer of technology to these areas. Larger, more complex projects are usually directed to the World Bank initially, but even then the World Bank often collaborates with the regional banks in joint financing.

Now let me turn to the appropriations which are required to keep these institutions operating effectively in FY 1976. The lending programs anticipated by the World Bank Group, the Inter-American Bank and the Asian Development Bank in FY 1976 approximate 8.2 billion dollars. To provide the U.S. support for this level of lending we are, at this time, asking for appropriations of $820.6 million. This total compares with $1,006 million requested last year, and $619 million actually appropriated for the development banks last year. For several reasons, our contribution, on the order of 10 percent of this year's lending program, provides essential underpinning for much larger flows of assistance to poorer countries. First there is the interdependence of our contribution and those of other donor countries, i.e., we provide only a fractional part of the contribution to each bank or fund -- a third in IDA, somewhat less in the ADB, more in the IDB. Second the banks' capital subscriptions and guarantee authority support the borrowing of large sums in the private capital markets of the member countries. Finally, the repayment of loans provides funds which are then re-lent to support new projects. Japanese and European repayments on old IBRD loans, for example, are helping to finance new projects. Other countries such as Iceland and Gabon are no longer borrowing. There are substantial repayments by many countries that are still receiving loans.

The $820.6 million appropriation being requested for FY 1976 for the individual banks calls for $375 million for

IDA; $275 million for the Fund for Special Operations of the IDB; $50 million for the Asian Development Bank Special Funds, $24.1 million for the paid-in portion of Ordinary Capital of the ADB, and $96.5 million for ADB callable capital. The requested appropriations are for installments of each institution's ongoing program for their resource replenishment. These programs had been negotiated with other donor countries after consultation with Congressional committees. In these negotiations we have sought, and achieved, broader burdensharing. U.S. contributions to these replenishments are essential to insure the participation of others and the continued operation of the institutions at effective levels. The Congress has earlier authorized programs for these purposes, covering these amounts.

I should note at this point that we will later be asking for an authorization and supplementary appropriation to enable the U.S. to participate in the replenishment of the Ordinary Capital of the IDB. This request will be presented after further consultations with the Committee and after negotiations with the other members of the Bank. Also, if the Congress authorizes a U.S. contribution to the African Development Fund, for which bills are pending, we shall be requesting an appropriation for that purpose.

Let me now turn to some particular issues which I know are of interest to the Committee. First, what is the effect of our support for the development banks on our balance of payments? Excluding funds held by the development banks in U.S. financial markets, the total of all the inflows and outflows of dollars resulting from transactions involving the banks from their inception to end 1974 (nearly 30 years for the IBRD) has resulted in a net receipt of about $600 million by the U.S. In addition the banks maintain substantial investments in U.S. financial assets as a result of timing differences between borrowing and disbursement of funds. As of the end of 1974, they held about $1.8 billion in long term investments in the U.S., and they also have large amounts in short term assets.

The absolute magnitudes of the various types of flows are of course much larger -- e.g., the total net outflow of capital (subscriptions paid-in plus net sales of bonds, loan participation, etc. in the U.S.) totalled over $6-billion as of end 1974, while development bank financed purchases of U.S. goods and services and direct expenditures of the banks in the U.S. totalled nearly $7-billion. Thus, I can safely say that the net balance of payments impact of our involvement in the development banks has been very small indeed, and over time the sums made available as a result of U.S. capital subscriptions and the banks' access to U.S. financial markets have been more than equalled by purchases of goods and services in the U.S.

In addition, of course, some portion of the funds invested in the U.S. awaiting disbursement to finance ongoing development projects will also be spent on U.S. exports of goods and services. Over the years, our share of development bank financed procurement of goods and services has averaged 28 percent. This percentage has fallen off slightly in more recent years as our share of world exports has fallen. We are intensifying efforts to increase the U.S. share. In short, our assistance to developing countries through the development banks does not strain our balance of payments.

In the longer run we benefit, as the development of the borrowing countries proceeds, making them more reliable and active trading partners with which to develop our foreign commerce.

Let me turn now to the reasons President Ford and Secretary Simon decided it was essential for us to ratify the Fourth IDA replenishment. We faced a serious dilemma. In January of this year IDA had virtually exhausted its funds available for commitment. IDA had been operating for six months on advance commitments by other countries against pledges that would become fully effective only when the United States would sign up for the Fourth Replenishment. Those advance contributions were not coming forward. Without U.S. ratification of our $1.5-billion share of the replenishment, the continued use of $3.0-billion in contributions promised by other donor countries was not possible. As most IDA loans are to countries with less than $200 per capita income, the lack of further IDA financing would have slowed development in many of the poorest developing countries. Prompt U.S. ratification was imperative to avoid a situation in which the U.S. appeared to be responsible for stopping a large part of assistance from Western countries to the poorest developing countries.

On the other hand, we are keenly aware that such contributions can only be made through the normal appropriations processes and Congress had not yet considered even the first installment of our contribution to IDA IV. So, to enable IDA to continue its lending to the poorest of the developing countries, the Administration ratified the IDA IV Replenishment with the explicit notification to the IDA that "in accord with customary United States legal procedures, the U.S. contributions will be provided only after enactment of the necessary appropriations bills by the Congress". This is the first time this Committee is formally considering appropriations to IDA IV. I believe that both the burden sharing and other aspects of this replenishment meet the desires of the Committee to hold down U.S. expenditures while expanding the development effectiveness of IDA.

Last year Congressional members raised many questions about the newly rich oil-exporting countries. One of the key questions was: What are these countries doing to assist others? In 1974 the OPEC countries stepped up their aid commitments -- in the form of loans and grants -- to the tune of some $8.5-billion, up from $3-billion in 1973. Disbursements of OPEC assistance totalled about $2.5-billion in 1974. In addition OPEC countries purchased substantial amounts of World Bank bonds and loaned funds to the IMF oil facility. OPEC country aid does not make up for a more than quadrupling of oil prices and their assistance tended to be concentrated in areas close to the lending countries, but these figures do indicate that the OPEC countries are moving into the aid field in a substantial way. We are encouraging them to continue to do so and in particular to provide more of their concessional assistance through the development banks, including early contributions to IDA.

We want to expand the burden-sharing aspect of the development banks' operations by opening new relationships between the banks and capital surplus oil-exporting countries. Continued U.S. contributions are essential, however, if such new relationships are to be brought about. It is clear that others will not give more if we give less. If we maintain our support for the institutions, we can encourage others to do more.

The increased financial strength of the OPEC countries offers new opportunities for cooperation with them in respect to the development banks. Most of these countries have in the past been borrowers of the banks. Now lending to them is being carefully monitored and lending to them on concessional terms has been phased out. OPEC countries are participating in the newly formed Development Committee where new initiatives in meeting overall development needs are being studied.

Venezuela has established a $500-million trust fund, which is being administered by the IDB, thus increasing the resources available to that institution. And while we were disappointed in the lack of concessional resources in this new trust fund, the Venezuelan Government has indicated that it is seeking ways to make available additional funds on soft terms. The World Bank is discussing with OPEC countries the need for contributions to support concessional lending.

Next let me turn to the problem of earmarking. In addition to the appropriations, the Administration is requesting the removal of the "earmarking" provisions of FY 75 appropriations legislation for the Fund for Special Operations of the IDB. We agree with the underlying Congressional interest that the IDB should emphasize projects that directly help low-income groups and we are encouraging bank management in this direction. However, it is not always easy to find sound technical projects which effectively benefit the poor while increasing production or providing needed services at costs which the recipients can afford. Partly because other projects may have higher economic payoff, projects benefitting the lower-income groups may sometimes not be given the highest priority by the borrowing country.

We do not believe that earmarking is the way to approach this problem of reaching the lower-income groups. The Bank is already making substantial loans to cooperatives and will make more new loans to cooperatives this year than the earmarked amount. The Bank is also proceeding with a substantial grant to further the development of credit unions in Latin America. This technical assistance grant procedure promises to be more effective than loans in reaching the poor at this stage when many of the existing credit unions which might be borrowers are primarily urban and middle class and when the need is to spread credit union activity to rural areas and productive activities. Finally, savings and loan associations in Latin America are almost exclusively middle and upper class oriented. IDB lending to such institutions to finance housing that only the relatively well-off, urban population could afford would be inconsistent with the IDB's and our own general development thrust.

The imposition of earmarking flies in the face of the multilateral decision-making process by making the development banks merely the administrator of funds provided under restrictive conditions. If even five or six donor countries engaged in such a practice, the mangements of the banks would find it virtually impossible to support coherent development programs in borrowing countries and the multilateral process of setting priorities would be negated. And if one country insists on such a practice, we can expect others to try to impose their priorities which may or may not be in the economic

field. Where there are specific individual programs which the Congress wishes to earmark money to support, this should be done through our bilateral aid program.

We are continuously working at improving our oversight activities in regard to the banks' lending programs and project implementation. Embassy, AID and Treasury officials make visits to projects as frequently as possible. At every opportunity we encourage and facilitate project visits by members of Congress. As I stressed earlier, we believe that the basic thrust of the policies and operations of the development banks is in the right direction. We continue to seek improvements. However, given the institutional and multilateral framework in which we participate, we must accept the fact that we sometimes can get results only gradually.

The recent past provides examples of how policies in these institutions can be changed in emphasis. In the case of program loans we have seen the World Bank attaching more conditions to insure more effective economic performance on the part of the borrowing country. We see a greater emphasis on agricultural development as perceptions of the food requirements of the world are refined, largely with U.S. leadership. We see a gradual but growing emphasis on projects to benefit the poorest 40 percent of the population in borrowing countries as the question of income distribution is analyzed. In the past few years our influence has been used to introduce systems of post evaluation of loans and projects into the management systems of the banks as suggested by the Congress and we believe that considerable progress has been made. But in such efforts our influence must be used in cooperation with other member countries and within the structure of the charters of the banks in order to preserve them as effective international institutions.

Mr. Chairman, members of the Subcommittee, what we are looking at here, when we propose additional funding for the international development banks, is part of the world economic agenda -- the agenda of an increasingly interdependent world economy. We continue to be reminded in very forceful terms of the interdependence of nations and the importance of mutual economic cooperation. This part of the agenda involves economic development in the third world -- development assistance. Other areas of interdependence are on the agenda also -- international trade, international finance, energy and raw materials -- and all are closely linked to the question of providing development assistance to less developed countries.

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We seek the cooperation and participation of the less-developed countries in dealing with trade, finance, energy, raw material problems. The less-developed countries give high priority to the prospects for their own economic development and they seek to maximize the assistance which can be obtained from the developed and other more fortunate countries. The continuation of our assistance in financing their development is closely related to their ability and willingness to cooperate with us in other economic fields.

In this statement I have tried to address the matter of appropriations for the international financial institutions as a whole, but we have separate statements on each of the institutions which our Executive Directors, Mr. Reynolds, Mr. Porges and Mr. Beach, will present. I would like to submit a statement on the African Development Fund for the record.

In view of the Committee's interest in project information, we are also annexing sample data on lending in three countries. We are providing this additional material for the record for the first time this year to illustrate the role and impact of development bank lending activities in the context of individual countries. We are, of course, prepared to supply data on additional projects, countries, or additional information on the international financial institutions at your request.

Mr. Chairman, you and this committee have a difficult task in weighing the many appropriations for foreign operations. In conclusion I ask that you keep in mind the importance of the broad framework of international cooperation of which the development banks are an integral part as you consider the appropriations needed for these banks to do their job of accelerating development worldwide.

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ANNEX 1

AFRICAN DEVELOPMENT FUND

On April 17 of this year, the Administration submitted a bill to the Congress to provide for U.S. participation in the African Development Fund (AFDF). If the Congress passes this legislation authorizing a $15 million U.S. participation in the AFDF, the Administration has proposed for later transmittal a request for $15 million in appropriations, to be made available to the AFDF in three equal annual installments of $5 million each.

The AFDF is the concessional loan arm of the African Development Bank (AFDB). The AFDF was established in June, 1973, to complement the activities of the Bank by providing low-interest financing for high priority projects in the poorest nations in Africa. The Bank itself was established in the early 1960's to assist in the economic and social development of the newly independent African nations and to provide economic cooperation among them. The Bank's membership is composed of 39 African countries, with no industrialized members.

Through December 31, 1974, the African Development Bank had authorized $217.2 million for Ordinary Capital loans, mainly in the areas of transportation and public utilities. Its paid-in capital amounted to $445.4 million, and it had about $11.0 million of borrowed resources. All the Bank's loans have been made at near market terms (up to 8-1/2 percent with maturities of 10 to 20 years).

In an effort to increase the involvement of non-regional industrial nations in African development efforts the Bank undertook discussions with the United States and other countries to establish a concessional loan facility associated with the Bank. After six years of negotiations, and with U.S. assistance in drafting the charter, the Fund was inaugurated in July, 1973. The present participants in the Fund are thirteen donor countries from Europe, Brazil, Japan, and the member countries of the African Development Bank.

The Fund is legally separate from the Bank and managed by its own Board of Directors, half of whom are chosen by the Bank and half by the donor countries, six for each group. Loans are made at a 3/4 of one percent service

charge, with a fifty-year maturity including 10 years of grace. A 75% weighted vote is required for all operational decisions. The Fund uses the Bank's staff and draws upon its expertise.

Since the Fund's establishment, donor nations have pledged about $135 million in concessional loan resources and the Bank has contributed another $8.8 million.

From the beginning of its operations in mid-1973 through the end of 1974, the Fund has made 17 loans totalling $46.3 million to finance development projects and feasibility studies in thirteen countries. Seven of these loans for $18.5 million have been for long term development projects such as village wells, roads, earthen dams, and rice development in the drought-affected countries of the Sahel (Mauritania, Mali, Upper Volta, and Chad).

The proposed U.S. contribution of $15 million for the African Development Fund -- which represents about 10 percent of the contributions so far pledged -- would bring the level of total contributions to about $158 million. The United States would be the fourth largest contributor, after Canada, Japan and Germany, which have each pledged over $16 million.

Because the U.S. participated in the drafting of the Agreement establishing the Fund, we were eligible to be an "original participant" had we contributed to the Fund by December 31, 1974. This would have made our membership in the Fund automatic and entitled us to elect an Executive Director at the next election of Directors. Because we did not meet the deadline, the terms of our membership are not at this moment defined. We believe that if the proposed authorization is approved we can negotiate membership in the Fund under terms similar to the original charter conditions.

Our relations with Africa are becoming more significant as U.S. traders and investors are drawn increasingly to the continent. Participation in the Fund is consistent with our national interest in building cooperative economic relations with the African nations and would be viewed by these countries as a clear indication of our interest in their growth and prosperity. We also stand to gain access to a potential source of export earnings when we join the Fund since, under the Articles of the Fund, procurement of goods and services for projects is restricted to member nations.

In addition to these benefits which should accrue to the U.S. from a comparatively modest participation in the Fund, it should be noted that the actual budget impact of the $15 million contribution will be spread over several years. Initially, our contribution would take the form of non-interest bearing letters of credit which become budget outlays only when cashed as needed. The outlays would probably total $2 million in each of the first two fiscal years of our participation and about $4 million in each of the ensuing two years.

ANNEX II (A)

COLOMBIA

THE IMPACT OF THE IFI's

Two of the international financial institutions (IFIs), the World Bank and the Inter-American Development Bank, have had and continue to have large lending programs in Colombia. Through December 31, 1974, the World Bank had made 58 loans totaling $1,147.9 million and the IDB 70 loans totaling $620.3 million (see Table I). Loans on "hard terms" to Colombia from the IBRD and IDB (Ordinary Capital) totaled $1,447.3 million, or 81 percent of the funds approved. The remaining 19 percent of the funds on "soft terms" included 1 credit from IDA (1961) for $19.5 million and 28 loans from the FSO for $233.6 million of the IDB and 12 loans for $67.8 million from other sources, including the Social Progress Trust Fund, administered by the IDB.

Table I

Sector

Institution	Agric.	Ind.	Power	Trans. & Comm.	Health & Water Supply	Pre-Investment	Educ.	Urban	Total
World Bank									
Number of projects	8	7	19	15	5	1	3	-	58
Amount ($ million)	84.1	252.5	350.2	286.2	131.6	8.0	35.3	-	1,147.9
IDB									
Number of projects	11	8	13	7	12	7	6	6	70
Amount ($ million)	89.0	37.0	233.0	87.0	56.3	12.1	27.6	78.3	620.3
Total Number of projects	19	15	32	22	17	8	9	6	128
Amount ($ million)	173.1	289.5	583.2	372.2	187.9	20.1	62.9	78.3	1,768.2

For the most part, the IFIs have directed their efforts to production-oriented activities which carry social as well as economic benefits. Projects are developed to combine the objectives of increasing output with increases in employment and improving the incomes of the poor, particularly in the rural areas. For example, the IBRD made a $5 million loan to Colombia's Institute for Agrarian Reform (INCORA) to develop 6,000 hectares for dry farming by supplementing the flood protection and drainage works and it will extend the area being improved by another 11,000 hectares. The benefits are measured in terms of the increased employment and the production of crops and milk resulting in increased income for approximately 1,800 farm families.

Past Loans

In agriculture, for example, loans are made to improve extension services, credit for fertilizer, seed and other on-farm investments, and for farm-to-market or access roads. In addition, funds are also made available to improve marketing systems. The IBRD has financed improvements for wholesale food markets in Bogota, Cali and Medelin. The project includes not only the construction of new facilities but, more importantly, it includes introducing product grading and standardization as well as the development of price information systems. Similarly, IDB's loan to the Empresa de Energia Electrica de Bogota ($21.0 million) included funds for the extension of electricity to 15 rural communities and to 24 smaller localities involving the construction of 70 km of 34.5 kv rural feeder lines and 95 km of secondary lines. Although the extension of service is not directly profitable, it is hoped that by improving services to rural communities the migration to the overcrowded low income "barrios" of cities will be reduced.

Both IBRD and IDB have been active in the "social" sectors, particularly improving water supply and sewerage facilities. These loans are concerned directly with improving the "quality of life" by increasing the water available and extending the distribution system in the cities, particularly to low income areas. The same projects usually extend the sewer systems intended also to contribute to improving environmental conditions by raising hygienic standards and reducing pollution. The quality of life is also directly affected by the loans for education. The IBRD has concentrated on secondary education and the IDB on university education. For both institutions, the objectives are the same, namely increase the efficiency of the system by reducing the number

of drop-outs and eliminating repeaters, and redirecting the curricula along the lines required by Colombia's economic growth. The IBRD has focused on providing more diversified secondary education for 109,000 students by introducing new curricula combining practical and academic subjects geared to current economic requirements. As such, the project will contribute significantly to reducing the proportion of students in the "academically" oriented secondary schools from 70 to 55 percent. The project is also assisting a program for rural comprehensive secondary schools enrolling 7,000 students, thereby providing a lower secondary education that is now lacking in rural areas. The IDB's efforts in the universities is similarly directed but, additional attention is also being paid to encouraging students from low income groups through the use of student loan funds to attend universities thereby fostering equal educational opportunities. A great deal of attention is being given to future manpower needs particularly in engineering and agronomy, two fields directly related to economy's requirements. IDB's loan to the Industrial University of Santander is expected to facilitate an increase in the proportion of students in fields directly related to requirements from 12 percent in 1971 to 43 percent by 1975.

The historical emphasis of the Banks on infrastructure projects, i.e., power, transport and communications, stems from the need to develop and utilize Colombia's hydro-electric resources, not only to supply the growing needs of the economy, but also to substitute for the more expensive thermal systems. Moreover, the development of a transportation system is a necessary complement to other economic activities, particularly in the case of Colombia where the difficult terrain adds significantly to the cost of economic activity. Moreover, many of the transport projects are directly related to programs in industry and agriculture to eliminate the economy's dependence on coffee by encouraging other exports and lowering transportation costs.

Current Activities

Over the next several years the IFIs are expected to make an increasing contribution to agriculture and industry, with particular emphasis on projects involving small and medium size farmholdings and industrial enterprises. The other major focus of activities will be in such social sectors as education and water supply. Projects in the traditional sectors of Bank lending -- electric power and transportation -- are likely to be continued but only where the assistance is required to facilitate necessary institutional development. Nevertheless, the Banks' past as well as future

activities in these sectors provide the basic support necessary for forward progress in the more directly productive sectors such as industry and agriculture.

Economic Growth

Although it would be difficult to draw any direct relationship between the Banks' programs and Colombia's economic growth, the country has shown impressive gains in the recent past. The rate of economic growth has accelerated to more than 7 percent per annum, and the expansion of non-traditional exports has been remarkable. Exports of manufactured goods have increased from $148 million in 1970 to an estimated $829 million in 1974, an increase of more than five times. Such improvements are very much needed in order to accelerate employment generation and to raise gross national product per capita, currently $400 to a more acceptable level.

Colombia's efforts to expand exports have been amply rewarded in recent years. Total merchandise exports amounted to $1,334 million in 1973, of which over half came from non-coffee items. Allowing for price increases, this represents a fourfold increase (representing an average annual real growth of 24 percent) in non-traditional exports since 1965-67. Rapidly expanding exports accompanied by more slowly raising imports have improved the balance of payment position.

Nevertheless, Colombia also needs to spread the benefits from growth more widely in order to surmount problems of poverty and population pressures in both rural and urban areas. Concentration of land ownership, technical backwardness, and under-employment characterize most rural areas. In urban areas, pressures of population growth, compounded by heavy migration from the countryside, have generated serious unemployment and a severe housing deficit. Prospects for coping with these problems seen brighter as a result of the accelerated growth upon which the Colombian economy has embarked in the past several years.

ANNEX II (B)

REPUBLIC OF KOREA

Impact of the IFIs

The World Bank, the IBRD and IDA, and the Asian Development Bank (ADB) have been important but not the only contributors of capital resources to Korea's economic growth. Only 11 percent of gross public capital inflows for 1974 come from the International Development Banks.

Past Loans

As shown in the table below the World Bank and ADB made 46 loans totaling $946.1 million to Korea through December 31, 1974. The World Bank made 23 loans for $609.8 million, including 8 IDA credits for $107.3 million. The ADB extended 23 loans for $336.3 million. Only one of these loans, for vocational training institutes totaling $3.7 million, was from Special Funds, i.e., on concessional terms. Consequently, Korea has received very little in the way of concessional assistance from the IFIs.

Table I

Institution	Sector							
	Agric.	Ind.	Power	Tourism	Transport & Communications	Health & Water Supply	Educ.	Total
World Bank								
Number of Projects	7	4	-	1	8	-	3	23
Amount ($ millions)	130.5	95.0	-	25.0	301.5	-	57.8	609.8
Asian Development Bank								
Number of Projects	2	9	3	-	5	3	1	23
Amount ($ millions)	32.3	177.0	42.1	-	41.1	40.1	3.7	336.3
Total								
Number of Projects	9	13	3	1	13	3	4	46
Amount ($ millions)	162.8	272.0	42.1	25.0	342.6	40.1	61.5	946.1

Between 1960 and 1974 manufacturing output grew at an annual average rate of 18 percent and the export of manufacturers at an even faster rate. This expansion placed a severe strain on the transport sector, mainly because of the relatively modest amounts invested previously in this sector. Because of this deficiency and because of the large capital requirements for such projects, a significant portion of the IFI's investments were in the transport sector. For example, the World Bank made four loans to the railroads alone totaling $109 million. The benefits are in the form of lower transport costs and the avoidance of diverting bulk traffic to more expensive transport modes. Some railroad investments will also facilitate and reduce the cost of coal, whose production is being encouraged as a substitute for imported petroleum.

The IFIs are also helping Korea develop a balanced transportation network. The ADB-financed the Seoul-Inchon Expressway, an important link between the industries concentrated around Seoul and the port of Inchon. The IBRD is also helping to improve the national highway network. The roads selected for construction, improvement or paving under one project alone constitute nearly 9 percent of the entire national road system. Further, it will help establish an urgently needed maintenance system to protect the large investments already made. These road projects will help reduce the present high road transport cost by lowering vehicle operating costs and saving passengers' travel time, and they will provide year-round access to and within several relatively isolated areas. Finally, the Bank has also lent funds for port improvements at Busan and Mukho. These two projects consisted of both cost reducing and capacity increasing investments.

Both ADB and the World Bank have been active in the industrial sector, mostly by channelling funds through intermediate credit institutions (ICIs) rather than through direct loans. The ADB has made seven loans totaling $145 million and the World Bank four loans for $95 million to the ICIs. The Korean Development Finance Corporation (KDFC) has been the largest recipient receiving five loans from the Banks totaling $125 million. These funds have provided the foreign exchange needed by sub-borrowers to carry out their investment projects. The KDFC was established to assist private enterprise by providing medium and long-term financing. While these external funds are not a majority of the funds required, they are indispensable and act as a catalyst. KDFC's role and the other ICIs has been more important because

of the high professional standards maintained, particularly in appraising projects which, in turn, encourages other capital contributors to associate their capital with them.

The Medium Industry Bank (MIB), a recipient of three loans from the ADB totaling $55 million, concentrates on financing the foreign exchange cost of small and medium-sized enterprises engaged in manufacturing, mining, transportation and construction. Small and medium-sized industries play an important role in Korea; for example, in 1971 they constituted 97 percent of total manufacturing establishments, employed 45 percent of total manufacturing employment, and contributed 28 percent of total manufactured exports. The Korea Development Bank (KDB), also the recipient of three loans from the ADB totaling $60 million, concentrates its attention on medium and long-term loans. In 1973, it accounted for a little under half of all medium and long-term loans made by the banking sector; it directly financed 8 percent of total fixed capital formation and 16 percent of total fixed investment in the manufacturing sector.

The Banks' participation in agriculture is designed to increase productivity and incomes and, in general, improve the quality of rural life. For example, the World Bank is financing an agricultural credit project to help finance sub-loans for approximately 12,000 farmers for fruit orchards, seri-culture, and the breeding of poultry and swine. The Bank is also helping to finance the Yong San Gang irrigation project to irrigate 33,000 hectares in one of the most drought-prone areas of Korea. The project will not only bring about substantial increases in production, mostly through higher productivity, but production activities will shift from the traditional rice-barley sequence into higher value crops including garlic, potatoes, cabbage and fruit. ADB is also involved in agriculture and it is financing part of an irrigation system south of the Imjim River. This project is expected to increase production thereby increasing self-sufficiency in food production and saving foreign exchange totaling $2 million per year, as well as increasing income about $1,200 per farm household to an average annual income of $3,100.

The IFIs' loans in the "social" sectors consists of 7 loans for $101.6 million. The ADB is financing two projects for $34.4 million to improve and expand the potable water supply system for Seoul. The project will benefit a total population of 7 million people and it will improve the quality of the water for industrial use.

In the education sector, the IFIs have focused their lending on vocational education and training. The IBRD has financed two projects, one has been focused on the expansion and equipping of 27 technical, commercial and agricultural high schools, five post secondary higher schools and four teacher training departments. The second project was to provide equipment for extensions to buildings of 18 technical and 14 agricultural high schools; 10 higher schools/junior colleges for industrial, agricultural, fishery and nursing training; colleges of agriculture, engineering and natural sciences in nine universities and a merchant marine college. The ADB's project was to establish a series of vocational training institutes. These projects will contribute by providing the skills required by Korea's economic growth.

Current Economic Situation

Korea's economic performance over the last decade has been outstanding. In the period 1964-73, the GNP growth rate average 10 percent a year in real terms, and real per capita income more than doubled. The rapid rise of output and an appreciable decline in the population growth rate were major reasons for the rapid rise in income. A key factor in the growth of the economy has been the increase of manufactured exports from $60 million in 1964 to $2,800 million in 1973. This growth transformed Korea from an economy dependent on agriculture to one based on increasing industrialization.

Nevertheless, Korea is faced with two economic problems. There is the resource management problem resulting in the heavy reliance on external capital and the question of distributing the growth benefits, arising out of faster productivity growth in manufacturing than in agriculture. Although income distribution is generally more equitable in Korea than in other comparable developing countries, the benefits of economic growth have not been shared evenly. Furthermore, the favorable economic developments were interrupted by external developments in 1974. The sharp rise in the price of petroleum, the recession in the Japanese and U.S. economies and the high level of grain import prices combined to bring about a major change in short run economic prospects. Owing to its poor natural resource endowment and because of its economic structure and growth strategy, Korea was severely affected by these international developments. The balance

of payments position was weakened, the growth rate for output and employment slowed, and inflationary pressures increased. The Government is, however, taking the necessary policy measures to combat these problems. In general, the Government is also committed to accepting the necessary adjustment arising from the high energy and other import costs.

Future Activities

The IFIs are participating in Korea's drive to improve its economic position by shifting its focus of attention to agriculture. A recent IBRD agricultural sector mission provided the basis for a number of additional high priority agricultural projects. A second livestock project, the second stage of the Yong San Gang irrigation project, Okseo irrigation and regional development project and the Miho Cheon and Naeseong-Cheon watershed development project have been identified and are under preparation. A rural infrastructure project and follow-up projects in irrigation and agricultural products processing are also being considered. Another major emphasis in Korea's current economic plans is the development of industries such as steel, shipbuilding, and machine tools which IFIs are likely to participate in, if only indirectly through the ICIs. The further development of the industrial and agricultural sectors and of exports will require concurrent infrastructural development but the transport sector will be given relatively less emphasis than in the past.

ANNEX II C

KENYA

The Impact of the IFIs

Background

In terms of overall growth, Kenya's economic performance has been impressive in almost all respects. During the period since 1964, GDP has grown at an average rate of about 7 percent in real terms, which has allowed significant gains in per capita income despite the high population growth rate. Average per capita income had risen to $180 in 1973, which is about the median for African countries. This growth rate has been supported by a high and growing rate of investment in both the public and private sectors. In the early 1970s, fixed capital formation accounted for over 25 percent of monetary GDP, which is an exceptionally high investment rate. The role of the IFIs, particularly the World Bank, has been not only to supply capital but also technical assistance. Most of the technical assistance has gone into "institution" building and assistance in the preparation of projects suitable for external financing.

Past Loans

The IFIs active in Kenya, the World Bank and African Development Bank (AFDB), have made a total of 27 loans for $263.7 million (see Table I). In addition, Kenya has been one of the beneficiaries of nine loans totaling $205.8 million which have been extended from the World Bank for the development of common regional services (railways, ports, telecommunications and finance for industry) operated cooperatively for the three Partner States of the East African Community - Kenya, Tanzania and Uganda. Of the World Bank's direct lending, $253.6 million, almost half, $122.8 million, has been from IDA on concessional terms. This high proportion of concessional assistance is due to Kenya's low per capita income. On a sectoral basis, most of the World Bank's lending to Kenya has been for infrastructure, particularly transportation. This is also true for the AFDB which has extended three loans totaling $8.9 million for transportation. Other sectors, particularly agriculture, but also education, family planning and water supply have also received some support.

Institution	Sector: Agric.	Ind.	Power	Transport & Communications	Water Supply	Pop.	Educ.	Total
World Bank								
Number of Projects	8	1	1	9	1	1	2	23
Amount ($ millions)	52.6	5.0	23.0	139.6	8.3	12.0	13.1	253.6
African Dev. Bank								
Number of Projects	-	1	-	3	-	-	-	4
Amount ($ millions)	-	1.2	-	8.9	-	-	-	10.1
Total								
Number of Projects	8	2	1	12	1	1	2	27
Amount ($ millions)	52.6	6.2	23.0	148.5	8.3	12.0	13.1	263.7

The transport sector has received about 56 percent of the total funds lent by the IFIs to Kenya directly. One of the loans in this sector was the first World Bank loan for airports ($29 million). The funds not only helped construct the new international terminal buildings but aprons, parallel taxiways, control towers, etc. Moreover, the loan also financed assistance to improve and strengthen the new Aerodromes Department of the Ministry of Power and Communications. Kenya earns over 12 percent of its foreign exchange from tourists. The growth of tourism in recent years has made it one of the most rapidly expanding sectors of the economy. With the great majority of tourists arriving by air, the improvements to the Nairobi Airport were considered among the highest investment priorities.

The bulk of the World Bank's investments in transportation as well as the AFDB's investments are in roads directly related to agriculture. They have financed several projects for the constructon and improvement of feeder roads, tea collection roads, settlement and selected trunk roads throughout the country. The main economic benefits of these roads are the increased level of agricultural production induced by improving the infrastructure, as well as the benefits from lower vehicle operating costs. Some of the feeder and trunk roads included in the projects are extensions of roads constructed

under previous projects or improvement of such roads as a result of traffic increases. Most of the roads will ensure all weather access to factories and markets for the smallholders which, in turn, should encourage these farmers to produce perishables, particularly milk. The World Bank has also financed improvements on the major road links of Kenya; for example, it has financed improvements on the busiest section of the Nairobi-Mombasa trunk route and the international trunk road to Tanzania. Traffic on these sections is currently 10,000 vehicles per day and is conservatively estimated to double in the next ten years.

The World Bank has financed a total of 8 projects in agriculture totaling $52.6 million. Agriculture has received priority attention due to the recognition by the Bank that most of the assistance must be in the directly productive sectors and where there will be a maximum impact on new employment. For example, the Bank has lent funds to the Kenya Tea Development Authority (KTDA) to finance sub-loans to 17 factories to process tea. As a result of the project, new employment will be provided for some 2,000 workers; and it will enable some 35,000 growers to obtain, at maturity of their plantings, an average annual income of $170 after all payments to KTDA. This is appreciably more than they could obtain from the production of alternative crops in the tea areas. Moreover, the project is also expected to earn $18.0 million a year in foreign exchange as a result of the additional tea exports. Other agricultural projects include funds to help finance medium and long-term loans for on-farm investments and machinery, as well as short term loans for incremental working capital and providing improved management and technical services to individual farmers. Some of the projects are designed specifically for the smallholder. These projects extend credit to small commercial farmers, with net incomes of no more than $200 per year. One project is focused on financing smallholder farm investments in crop production (about 3,000 loans); livestock (4,000 sub-loans); poultry (700 loans) and machinery (100 loans). It is estimated that about 8,000 farmers will receive financial support providing about 7,600 full time jobs and incremental farm wages of approximately $0.3 million annually excluding any secondary employment effects.

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The World Bank has also been active in education, family planning, improving water supply systems, and sites and services. In education, the Bank has financed two projects for $13 million. The first project increased the number of places in general secondary schools, technical schools, and primary teacher training colleges. The second project concentrated on supporting agricultural education at the secondary level and assisted in establishing Kenya's first university Faculty of Agriculture.

The population project is focusing on training an adequate number of paramedical field personnel to extend family planning services; strengthening the rural health system infrastructure; and developing an appropriate institution to support family planning services. The main objectives are to improve maternal and child health and to strengthen and extend the delivery of family planning services which, by 1984, are expected to substantially reduce malnutrition and infant mortality. The program is expected to result in the recruitment of 640,000 new acceptors and avert some 150,000 births by 1979. This will reduce the crude birth rate from about 48 per thousand in 1974 to 43 in 1979, a decline in the rate of natural increase from an estimated 3.3 percent to about 3.0 percent.

The sites and services project represents a new approach to providing new, improved housing as well as city services - including water supplies, sewerage, and power - to low income citizens on a large scale. This particular project will finance 6,000 serviced lots for self-help housing together with the related on-site infrastructure and community facilities; financing for materials loans to enable allotees to construct self-help dwellings on the lots; and trunk sewerage to service the site. This particular project is one of the first of its kind the Bank has done and it is expected to demonstrate the value of this approach to alleviating housing shortages in Nairobi as well as other cities and towns. The basic advantage of the approach is the provision of housing at a lower cost than has hitherto been achieved. The project will directly assist 6,000 households in obtaining shelter, will provide self-help employment opportunities for project beneficiaries and it will stimulate the construction industry.

Current Economic Situation

In spite of Kenya's good economic performance, it is still a very poor country. Moreover, the exceptionally high investment rate has put a strain on Kenya's economic resource base and subsequently on the balance of payments, despite the fact that the domestic saving rate, about 20 percent, is one of the highest in the developing countries. Additionally, Kenya must deal effectively with unemployment and rural poverty if it is to maintain or increase its rate of economic growth. However, a number of indicators suggest that it will become more difficult to maintain the momentum gained in the past; this follows from the fact that the more obvious development opportunities have already been exploited. Capital/output ratios have been rising, savings have shown some signs of leveling off and the increasing resource gap has started to put pressure on the balance of payments.

The basic development strategy is to induce the economy to operate more efficiently, both in utilizing fewer inputs of scarce resources (particularly capital and skilled labor) and in generating greater benefits. This requires both a change in the structure of growth, with less investment in infrastructure and greater investment in agriculture and domestic, resource-based industries, and a change in the process of growth in all sectors, particularly through changes in the prices of factors of production.

Future IFI Lending Activities

In the future the World Bank intends to give even greater emphasis to agriculture and other directly productive sectors, particularly to projects which are likely to bring more immediate benefits to a large number of people and will, as much as possible, increase Kenya's foreign exchange earnings. The Bank's Agricultural Survey mission identified a number of projects that are currently being prepared. For example, a new forestry project to expand industrial pine plantations will be ready for financing soon. Other projects currently being worked on include an integrated crop production project, an irrigation project in the lower Tana River basin, and a project to augment sugar production. Yet, while the major emphasis will continue to be on directly productive agriculture, there is a need for complementary development of rural infrastructure; consequently, the Bank will finance projects for

rural water supply systems and access roads. A wildlife and tourism project is also being developed for new tourist circuits and to help spread the benefits to a larger number of rural communities. Concurrently, substantial investment continues to be required to keep public services abreast of economic growth. Consequently, the Bank is likely to become involved in a number of projects, for example, an oil pipeline project to move the increasing volumes of petroleum products from Mombasa to Nairobi and a power project to keep pace with the rapidly growing demand for electricity. It is expected that in view of the high capital cost of some of these projects, a significant amount of bilateral financing will be associated with Bank financing.

STATEMENT OF HON. CHARLES W. ROBINSON, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. Chairman and members of the subcommittee, the current world political and economic situation give these hearings on appropriations for the international financial institutions special significance and relevance. The United States has reached a point in its history where we must clearly demonstrate our continuing leadership in international political and economic forums. Our historical tradition of responsible leadership, our size, our economic strength and also our self-interest all dictate that we do so. Withdrawal in this world of interdependent nations and economies is no longer a real option.

U.S. relations with less developed countries constitute one segment of our foreign policy which currently requires positive action. A key facet of our relations with these countries is our development assistance programs.

Our development assistance effort is composed of complementary bilateral and multilateral programs. I would like to stress that these programs are not competitive. Bilateral assistance can be used as a flexible instrument of national policy focusing on countries and problems of particular interest to us. The multilateral framework enables us to share the development burden by tapping official and private capital markets of other industrialized nations. Taken together these programs permit a more efficient allocation of resources than either program by itself could achieve.

Our desire to promote the development of these nations cannot be based solely on altruism. We depend on the less developed nations to be both suppliers of many critical raw materials and important markets for our exports. Last year they purchased approximately one-third of our exports. In fact our balance of trade surplus with the non oil-producing less developed countries was approximately $5.5 billion. If these countries become more prosperous we can anticipate selling more to them and buying more of their products. U.S. investment in less developed countries has grown to over $30 billion as of last year. All these facts clearly show that economic interdependence is a reality.

In such an interdependent world, it is my judgment that the international financial institutions will be increasingly important. They will, if adequately supported, shoulder a significant portion of the international responsibility for building a peaceful and growing new world. They will play a crucial role in mobilizing the vast amounts of capital necessary for development of the world's supplies of food, raw materials, and energy. They hold promise as institutions that can help assuage conflicting economic interests between the industralized countries and the developing world. They will be able to contribute to the resolution of some specific economic problems where individual nations or companies cannot. In short, the international financial institutions can serve as one important source, among others, of the initiative and resources required to assure progressive development of the global economic order, which is vital to America.

To be more specific about the advantages of the international financial institutions to the United States, these institutions meet the objective of sharing the burden of development assistance with other industralized countries by mobilizing foreign official funds as well as tapping foreign private capital markets. The U.S. share of total multilateral aid has consistently been lower than the U.S. share of total bilateral aid. In other words, the multilateral channel attracts relatively more official foreign funding for each U.S. dollar invested than does an equivalent amount of U.S. bilateral aid. Our relative financial share in these institutions has steadily declined as other governments have been willing to contribute at a proportionally greater rate.

A major benefit, in my opinion, has been the Banks' contribution to development planning based on market-oriented economies. The country and project analyses methodology of these institutions is generally accepted in most of the developing world. It encourages borrowers to consider their priorities in a market-oriented framework. Concepts such as fiscal responsibility, rates of return, free movement of goods and capital, investment rights, and self-help are stressed. Where Government officials use these principles with the Banks there is a good chance they will apply them in other sectors of the economy as well.

These Banks enjoy the status of impartial and expert observers of development issues. They are able to offer hard economic advice in an apolitical context which is less offensive to national sensibilities. Under the guidance of these institutions, less developed countries have the opportunity to assume primary

responsibility for their development programs. Their assumption of this responsibility means that the United States is able to reduce its overseas staff. Also the Banks provide assistance to countries where we woud rather maintain a low political profile.

We must play a constructive role in the Banks. If we do not continue to provide a "fair share" in support of the development process, we will reduce the ability of those institutions to mobilize additional resources from other governments. Moreover, we will affect our own ability to obtain cooperation of other donors and developing countries in a whole series of international economic, trade, and monetary negotiations.

Continued U.S. support of the Banks will have a significant effect on the Bank's relations with oil exporting countries. We believe that the oil exporters should channel a larger proportion of their development assistance funds through multilateral institutions. We are strongly urging them to do so. The international financial institutions will help insure that oil exporters' aid funds are used efficiently and allocated in an apolitical manner to less developed countries. Investment of a sizable amount of oil exporter funds in these Banks will also help with the basic recycling problem. Within the framework of the Banks, the oil exporters and traditional donors will find they can cooperate more productively on the problems of development assistance. But, it is hard for the United States to advance these arguments if our own support for these institutions is declining. We must demonstrate concretely to the oil exporters that we believe the international financial institutions are viable Banks in which they must become major participants if they are to have an important influence on development issues.

I would like to make some observations about each Bank. First the International Development Association which provides low cost loans to the world's poorest countries. The United States must provide its fair share to the economic development of these countries whose per captia GNP is $375 or less. In many of these nations our bilateral assistance programs are either small or nonexistent. Thus our contribution to the International Development Association becomes the primary symbol of our concern for their development.

Two years ago we negotiated the fourth replenishment of the resources of the International Development Association with the U.S. share to be $1.5 billion or 33 percent of the total. The decrease from our 40 percent share in previous replenishments was made in recognition of the changed world economic picture.

The U.S. negotiating position in these replenishment talks was established after extensive consultations between the executive and legislative branches. We believe the results of the consultations are reflected in the final agreement. These hearings constitute yet another stage in the consultative process. It should be noted that the other major donor countries have proceeded with their initial contributions in anticipation of eventual U.S. participation. Without these contributions the International Development Association would have run out of funds last summer.

Were it to go out of business, the International Development Association's substantial contribution to the development needs of the poorest less developed countries would not be replaced from other sources. The International Development Association's lending record and projects are indeed impressive when one considers that they are working with countries which have very limited infrastructure and trained manpower.

I would like to strongly urge full appropriation of the $275 million still due on our pledged contribution to the Fund for Special Operations of the Inter-American Development Bank—the FSO. Mr. Chairman, you are aware that the FSO finances projects for the poorest countries, and the poorest people in those countries. The requested amount is long overdue, and desperately needed. Whether it is appropriated provides a clear benchmark of whether we take seriously our statements about the importance to us of our neighbors in this hemisphere. Latin America is carefully watching U.S. foreign policy intentions at this time. We think it important to demonstrate that the U.S. intends to meet its commitments.

As you know, contributions to FSO under the 1971–73 replenishment were to be made over a 3-year period ending in December 1973. The United States is the only nation which has not completed the terms of that replenishment.

Many of these nations which receive FSO moneys have been among the hardest hit by the dramatic increases in oil prices, and by the crises in food and fertilizer. Concessional contributions will be coming in from other countries, including a

large group of nonregional nations and for the first time, from Latin American countries, but most of these will be made only over the next 3 or 4 years. Thus the $275 million requested is needed now for the Bank to maintain its lending to those who need it most.

Secretary of State Kissinger has been meeting with Latin American representatives at the General Assembly of the Organization of American States, here in Washington. In previous meetings with them, he has stated that the executive branch would urge the Congress to maintain aid levels to the hemisphere. Your early and favorable action on this request will make our pledge for the next replenishment—at the Bank's Board of Governors meeting later this month—more credible.

I also request that you remove the requirement, imposed by Senate initiative in action of fiscal year 1975 appropriations request, for earmarking of $50 million of the funds provided under the fiscal year 1975 appropriations act for cooperatives and credit unions. Earmarking is inconsistent with the concept of multilateralism which is basic to our participation in an international development bank. And it invites others to earmark, too, so as to include or exclude—in ways which we may not favor—particular activities or countries. We recently successfully discouraged Venezuela from earmarking part of its new Inter-American Development Bank trust fund for certain purposes.

The Asian Development Bank is primarily an Asian institution which has contributed to the U.S. policy goal of encouraging self-reliance for the countries in the region. The Bank has also succeeded in obtaining nonregional capital for development purposes. The United States, Canada, and the 13 European countries as well as Japan, Australia, and New Zealand have contributed to the Bank's resources.

Our support of the institution is a concrete sign of our continued interest and concern for Asian economic development. Now, when our Asian allies are showing doubts about our commitment to them, it is of the utmost importance that we dispell those doubts by asserting our continued interest in their economic well-being. For this reason we must be forthcoming with our participation in the Asian Development Bank and make our fair contribution to it. The nations which over the past decade have received well over 75 percent of the Bank's loans are countries of critical importance to us—Korea, the Philippines, Pakistan, Thailand, Malaysia, Singapore, and Indonesia.

The proposed U.S. contribution of $121 million to the Bank's ordinary capital resources is the second of three branches. These funds will ensure that we will keep our Executive Director position and match the contributions already made by others. The $50 million being requested for the special funds is the final tranche in the Bank's current replenishment of its concessional funds resources. These funds have been used primarily for projects in the lowest income countries of the region. A good example not only of Asian Development Bank concessional financing but also of cooperation among the international financial institutions is the Ashuganj fertilizer project in Bangladesh. The International Development Association, Asian Development Bank and four national assistance agencies including AID worked together to implement this $250 million project to build a fertilizer plant. The project is designed to help meet the country's need for nitrogen fertilizer by using Bangladesh's abundant natural gas to produce it locally. Once the plant is working it will save Bangladesh $74 million a year in foreign exchange.

Mr. Chairman there is one other subject which I would like to bring to the committee's attention today.

We realize that the members of the committee will not wish to discuss in depth an appropriation for the African Development Fund prior to passage of legislation authorizing us to join that institution. I would like to point out, however, that bills authorizing our long overdue participation in this important African financial institution are pending in both the House and Senate. Our proposed contribution of $15 million, paid in over a 3-year period would be less than 10 percent of the Fund's resources. We in the Department of State attach a high priority to early passage in an appropriation for the Fund when the authorization has been enacted. The continued deferral of American membership in the African Fund not only disadvantages American businessmen, who are not eligible to bid on the Fund's projects, but has raised questions concerning our willingness to participate in a meaningful way in the process of African development. It is our view that further delay would clearly be detrimental to our long-term interests in that part of the world.

The multilateral banks have shown themselves to be efficient, effective institutions clearly meriting our continued support. Given today's economic interdependence it is in our national self-interest as well as being in the interest of the less developed countries for the United States to continue to contribute its fair share to the international financial institutions.

STATEMENT OF MR. HAL REYNOLDS, U.S. ALTERNATE EXECUTIVE DIRECTOR AT THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

The $375 million the administration is requesting in fiscal year 1976 for the International Development Association (IDA) represents the initial installment of the IDA fourth replenishment (IDA IV) which was authorized by Congress in July 1974. This compares with an average annual installment appropriated for the IDA third replenishment of $401 million which included an average annual maintenance of value payment of $81 million. IDA IV contributions will not be subject to maintenance of value adjustments.

The U.S. share of the $4.5 billion IDA IV will be 33 percent, or $1.5 billion, down from previous U.S. shares averaging 41 percent since the inception of the organization in 1960. The negotiated U.S. share of IDA III was 40 percent, or $960 million of a $2.4 billion total.

While the IDA IV agreement will support new lending commitments over the period fiscal year 1975–77, it gives donors the option of deferring their initial contribution to fiscal year 1976, and then paying in four installments extending through fiscal year 1979. The United States proposes to follow this course. Most of the other donor countries have already paid the first installment of their contributions, and thus will be paying in over a shorter period. The proposed U.S. contribution in fiscal year 1976 is essential if IDA is to operate at the lending levels contemplated under the IDA IV agreement subscribed to by a total of 25 donor countries.

The IDA provides concessional credits to the world's poorest countries which cannot afford to borrow at the near commercial terms of standard World Bank loans. Sixty-six countries of Asia, Africa, and Latin America with annual per capita incomes below $375 have received IDA credits. Currently, most credits go to countries with per capita income of less than $200. The greatest concentration of projects is in Asia and Africa which have received 68 and 25 percent, respectively, of total IDA commitments. India, Pakistan, and Bangladesh have received 54 percent of all IDA credits since 1960.

Recent changes in the world economy have had a seriously adverse impact on these developing countries. Sharp increases in the prices of oil and some foods coupled with continued inflation in the industrial countries, and more recently the effects of recession on world market prices of primary commodities, have worsened the terms of trade for many developing countries which depend on IDA. IDA funds are not used to pay bills for oil, food or other consumables. But continued financial assistance from IDA is vitally necessary if the momentum of development in the poorest of the developing countries is to be maintained—even at a reduced level. There is little disagreement that, taken as a group, the developing economies are for the present, at least, more rather than less dependent upon external assistance. The interests of the United States would be poorly served under these circumstances if we failed to join in the international effort which IDA exemplifies.

IDA credits are extended on highly concessional terms: repayment over 50 years at three-fourths of 1 percent. This is consistent with their fundamental purpose, which is to provide badly needed assistance to the borrower rather than yield a commercial rate of return to the lender. Most of the countries which borrow from IDA lack the capacity to service external debt on conventional terms, and even if they could, repayment on conventional terms would mean a lower rate of return for the borrowing country itself, and thus a smaller contribution to improved living standards and rising domestic savings and investment capacities.

Just as IDA lends to the poorest of its member countries it also seeks the reach the poorest citizens within those countries. The pattern of income distribution in most countries is a sensitive political issue; the ability of an international institution to exert influence over it depends to a very large extent on the attitudes

of national authorities. But to the fullest degree possible, IDA, and the World Bank generally, work toward the achievement of more equitable income distribution. Wherever possible, their lending activities are concentrated on projects which, in addition to contributing to economic development, have a maximum impact in raising incomes and expanding employment opportunities for the poor.

I would emphasize, though, that the purpose is not relief or make work. It is rather to expand productivity, for only in this way can lasting improvement in the lives of the poor be achieved. Toward this end all IDA projects are appraised against strict rate of return standards, in exactly the same manner as projects supported by World Bank loans on harder terms.

In testimony before this subcommittee last year, we spoke of the beginning steps which had been taken in the World Bank to carry out the initiative declared by Mr. McNamara in his 1973 annual meeting speech in Nairobi to help the poor, particularly in the rural areas. Much has been done during the past year to carry this work forward. The number of projects which in a direct and immediate sense benefit the lowest income groups has continued to move sharply upward.

IDA has recently given even greater emphasis to agricultural and integrated rural development projects in an effort to raise world food production and to stimulate economic growth in the least developed countries of the world—which are primarily agricultural nations. Whereas in the fiscal year 1964–68 period IDA committed only 14 percent of its resources to agricultural development, the corresponding amount for fiscal year 1974 was 28 percent, and to date in fiscal year 1975 it is 37 percent.

Wherever possible agricultural projects seek to increase the productivity of the small farmer. Furthermore, an increasing number of agricultural projects provide for additional components such as clinics, schools, and potable water supply.

Education and population also continue to receive major emphasis. In education a new thrust has been given in the direction of vocational and technical training. A $15 million credit was recently extended for a population project in Bangladesh. It will support a program which aims at reducing the Nation's rate of population growth by more than one-half over the next 25 years. Six countries through their bilateral programs will provide an additional $27 million. There is definitely an increasing awareness among the developing countries that improvement in human skills, and the curbing of excessive population growth, can be as important to economic development, if not more important, than the accumulation of physical capital.

Virtually every week the Board of Directors of the World Bank, with its votes weighted proportionately to financial contributions, approves IDA credits for projects making a critical contribution toward improving the living standards of the desperately poor. I will briefly mention four approved in recent months which are typical examples.

Late in April of this year, a $5 million credit was approved to help finance an integrated agricultural development project in Sierra Leone. It calls for the construction and improvement of about 300 miles of roads, 200 village wells, credit for investment in on-farm development, 17 market centers, and technical assistance. It will result in additional annual production of 10,500 tons of rice, 3,200 tons of palm oil, 750 tons of palm kernels, 550 tons of cocoa, and 1,100 tons of groundnuts. The increased production will help the country save about $500 million in foreign exchange each year. About 14,000 poor farmers and their families will directly benefit. An additional 65,000 farmers will benefit from improved communication and services.

In August of 1974, an $11 million IDA credit was approved for Paraguay to support a 3-year lending program to about 2,000 small farmers in public settlement colonies in the eastern region of that country. In addition, it will finance the construction of about 26 primary schools, 2 health centers, 3 community centers, 60 kilometers of all-weather roads and the purchase of equipment for the construction and maintenance of 250 kilometers of earth roads in the region. An estimated total of 7,000 low-income rural families, about 42,000 people, will benefit from these improvements.

A $6 million credit of the Kingdom of Jordan was approved 2 months ago to help finance a second education project, the total cost of which is estimated to be $17.4 million. Its goals are (i) expanding and reinforcing vocational and technical education; (ii) supporting rural development projects in the Jordan valley through a pilot scheme of nonformal education; and (iii) promoting quality improvements, rationalization and economy of operation in secondary education.

The project will include, among other things, the construction, equipping and furnishing of a polytechnic institute for 240 students, a technical training complex with an annual output of 400 trained workers, a rural development center with approximately 1,000 trainees per year, three comprehensive secondary schools enrolling 6,300 students, and a program of related technical assistance.

Early this year, the IDA provided $35 million for an agricultural project under India's drought-prone areas program. The project consist mainly of minor irrigation works, soil and moisture conservation works to protect 925,000 acres, pasture improvement, aforrestation, dry farming development and improved dairy production. The project will mitigate the impact of future droughts and yield an annual increase in crop production of about 58,000 tons, principally foodgrains and oilseeds. About 85,000 man-years of short-term employment will be generated over the project period, and about 20,000 man-years of permanent employment will be created. Measures to improve credit flow, research, and training will have permanent benefits. The project will improve the income of some 225,000 rural households, most of whom belong to the poorest segments of the population. (Since December 1974, the United States registered a negative vote on this and seven other IDA credits for India in accordance with an amendment to last year's IDA legislation which requires that the United States vote against IDA credits to any country exploding a nuclear device which has not adhered to the Nuclear Non-Proliferation Treaty.)

All IDA projects are subjected to rigorous technical and economic appraisal before being submitted to the Board of Directors for approval. Firm cost estimates are made; required technical and managerial assistance is provided for; and institutional reforms essential to the projects' success are insisted upon as a condition of fund disbursement.

Once a project is approved by the Board its subsequent execution is closely watched. Careful supervision is exercised at the procurement stage to assure compliance with fair international competitive bidding and the award of contracts to the lowest evaluated bidder. Funds are disbursed only against satisfactory documents evidencing progress of the project in conformity with the credit and project agreement. Progress reports are regularly received and monitored, and frequent onsite inspections are made by staff officials. Moreover, as each new credit is brought forward for approval, the Board of Directors receives a status report on all ongoing projects in the particular country involved so as to assess its capabilities for taking on further work.

Effective internal auditing and evaluation functions are also well established. The evaluation department, established a few years ago at U.S. urging, has continued to grow in stature and effectiveness. It assesses past results for the purpose of strengthening future operations. It undertakes broad country and sector program evaluations. It also evaluates all individual projects within 1 year after loan or credit funds have been fully disbursed. In the past year it was agreed, again at U.S. urging, that the evaluation unit will report directly to the Board of Directors. I have had an opportunity now to examine a number of its reports. I can assure you that they pull no punches. They are prepared and submitted with full independence.

The managerial and technical excellence of the World Bank is widely recognized throughout the world. Of the joint IBRD/IDA professional staff, roughly 27 percent comes from the United States.

A number of developing countries which once received IDA credit have now advanced economically to the point where it is no longer necessary. Moreover, three countries which borrow from the World Bank are making contributions to IDA IV. They are Spain, Israel, and Yugoslavia.

Among the oil exporting countries, only Kuwait, which has contributed to IDA since 1960, is pledged to make a contribution to IDA IV, the negotiation of which preceded the increases in oil prices which occurred in 1973–1974. The World Bank, however, is in active contact with all of the oil exporting countries to solicit their cooperation and efforts to assist the developing countries. The Bank is urging the oil surplus countries to participate in the future as contributing members of IDA. The United States strongly supports this goal. In the meantime, a number of these countries have joined with IDA in cofinancing projects. To date they have contributed $146 million to a total of nine projects. This significantly expands the scope of IDA's activities.

The administration firmly believes that IDA has been and continues to be, an effective and valuable instrument for the advancement of vital interests which the United States shares with other nations of the world. Its importance to U.S. foreign interests, both political and economic, is great.

The appropriation requested today will enable the United States to carry out its share of the IDA IV agreement negoitated among 25 governments to attack a problem common to all nations. I urge the committee to act favorably and promptly on it.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will get into the examination on the one item that we hope to dispose of today, and that is the International Development Association. We will insert the biographies of Mr. Cooper and Mr. Robinson and certain justification material in the record at this point.

[The material follows:]

BIOGRAPHY OF CHARLES A. COOPER, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

PROFESSIONAL EXPERIENCE

Assistant to the Chairman and economist, Council of Economic Advisers, 1961–63.
Economist, The Rand Corp., 1963–66.
Economic adviser to the Special Assistant to the President, 1966–67.
Associate Director USAID and Economic Counselor, U.S. Embassy, Saigon, 1967–68.
Economist, The Rand Corp., 1968–70.
Minister-Counselor for Economic Affairs, U.S. Embassy, Saigon, July 1970–May 1973.
Deputy Assistant to the President for International Economic Affairs, NSC, May 1973–July 1974.
Assistant Secretary, International Affairs, Department of the Treasury, July 1974 to present.

EDUCATION

Swarthmore College BA 1955 (Economics).
M.I.T. Ph.D. 1960 (Economics).
Russian Research Center 1957–58, Harvard University.
Languages: French, Russian.

HONORS

Phil Beta Kappa—1955.
Ford Foundation Fellow—1957–59.
AID Superior Honor Award—1968.
State Department Distinguished Honor Award—1973.

PUBLICATIONS

Editor, "Economic Development in the Middle East"—1970.
American Elsevier.
Articles in the New Republic, Journal of Political Economy, and Economic Journal.

[Press, Department of State, Jan. 3, 1975]

CHARLES W. ROBINSON SWORN IN AS UNDER SECRETARY FOR ECONOMIC AFFAIRS

Charles W. Robinson of San Francisco, Calif., was sworn in today as Under Secretary of State for Economic Affairs.

Since 1965, Mr. Robinson has served as president and manager of Marcona Corp. of San Franciso, Calif. In 1961, he became president and managing director of the Marcona Mining Co. after having served as executive vice president and general manager since 1959.

From 1952 to 1960 he was with the Utah Construction Co., serving as assistant treasurer, assistant secretary and vice president. In 1951 he was named manager of the Monterey Trading Co. in Panama. From 1950 to 1951 he was an associate with the management consulting firm of McKinsey & Co., Inc. In

1947 he was assistant to production services manager for the Golden State Dairy Products Co., serving until 1950.

Mr. Robinson was born on September 7, 1919, in Long Beach, Calif. He received his A.B. (cum laude) in 1941 from the University of California. He received his M.B.A. in 1947 from Stanford University Graduate School of Business Administration. He served with the U.S. Navy from 1941 to 1946. From 1941 to 1942 he attended the U.S. Naval Academy Post Graduate School. From 1942 to 1943 he was an engineering instructor at the U.S. Naval Academy Post Graduate School and from 1943 to 1946 he was an engineering officer (lieutenant) at sea.

He is married to the former Tamara Lindovna and they have three children.

Mr. Robinson succeeds Mr. William J. Casey, now President of the Export-Import Bank, who resigned on March 14, 1974.

INVESTMENT IN INTERNATIONAL DEVELOPMENT ASSOCIATION, TREASURY DEPARTMENT—FUNDS APPROPRIATED TO THE PRESIDENT INTERNATIONAL DEVELOPMENT ASSOCIATION

[Dollars in thousands]

Authorizations	Total, U.S. participation authorized	Appropriations	Amount
Public Law 86-565: Initial subscription	$320,290	1st supplemental, 1961	$73,666
		Foreign Assistance and Related Agencies Appropriation Act, 1962.	61,656
		Foreign Aid and Related Agencies Appropriation Act, 1963.	61,656
		Foreign Aid and Related Agencies Appropriation Act, 1964.	61,656
		Foreign Aid and Related Agencies Appropriation Act, 1965.	61,656
Total	320,290	Total	320,290
Public Law 88-310: Increase in resources	312,000	Foreign Assistance and Related Agencies Appropriation Act, 1966.	104,000
		Foreign Assistance and Related Agencies Appropriation Act, 1967.	104,000
		Foreign Assistance and Related Agencies Appropriation Act, 1968.	104,000
Total	312,000	Total	312,000
Public Law 91-14: 2nd replenishment of resources.	480,000	2nd Supplemental Appropriation Act, 1969	160,000
		Foreign Assistance and Related Agencies Appropriation Act, 1970.	160,000
		Foreign Assistance and Related Agencies Appropriation Act, 1971.	160,000
Total	480,000	Total	480,000
Public Law 92-247: 3d replenishment of resources.	960,000	Joint resolution making continuing appropriations, 1973.	320,000
		Foreign Assistance and Related Agencies Appropriations Act, 1974.	320,000
		1975 Budget esimate	320,000
Total	960,000	Total	960,000
Public Law 93-373: 4th replenishment of resources.	1,500,000	1976 Budget estimate	375,000
Total	1,500,000		

INTERNATIONAL DEVELOPMENT ASSOCIATION JUSTIFICATION FOR FISCAL YEAR 1976 APPROPRIATIONS

The International Development Association (IDA) is the concessional lending affiliate of the International Bank for Reconstruction and Development (IBRD). It was established largely at the initiative of the United States in 1960 to finance high-priority economic development projects in the less-developed IBRD member countries. It does this by providing long-term credits at a nomi-

nal service charge. As of December 31, 1974, IDA had 113 member countries and had made cumulative credit commitments of $7,800 million with $4,412 million outstanding.

U.S. membership in the International Development Association and an original capital subscription of $320 million were authorized in June 1960 (Public Law 86-565). The United States joined the Association in August 1960. The amount of the original subscription was appropriated and paid-in in five annual installments (Public Law 86-651, Public Law 87-329, Public Law 87-872, Public Law 88-258, and Public Law 88-634).

Agreements have been reached by advanced member countries to replenish the resources of IDA on four subsequent occasions. The United States has participated in all of the replenishments. The last $320 million installment to the IDA third replenishment (plus $66 million for maintenance-of-value) is being sought in fiscal year 1975.

The most recent replenishment negotiations were completed in 1973 and provide for an increase in IDA resources of $4.5 billion beginning in fiscal year 1975. In contrast to previous replenishments where the United States contributed 40 percent of the funds, the U.S. share in the fourth replenishment is $1.5 billion, or 33 percent of the total.

Under the authorizing legislation signed into law on August 12, 1974 (Public Law 93-373), $375 million is requested for appropriation in fiscal year 1976. This will be the first of four equal annual installments of the U.S. contribution to be made during the fiscal years 1976-79 period. Most other industrial country donors are making their initial contributions to IDA IV in fiscal year 1975 and have agreed to complete their replenishments by fiscal year 1977. Based in projected lending and disbursement levels, a U.S. contribution in fiscal year 1976 is necessary so that IDA can continue to commit funds for its high priority projects.

U.S. participation under IDA IV includes no provision for maintenance-of-value payments. The U.S. contribution will be made available in the form of non-interest-bearing letters of credit drawn down only as needed to meet disbursements on committed resources.

INTERNATIONAL DEVELOPMENT ASSOCIATION—MEMORANDUM RELATING TO THE FINANCIAL STATEMENTS, DECEMBER 31, 1974

Summary data on certain aspects of the Association's activities are set forth below:

1. Development credit agreements approved

	Millions
July 1 to Sept. 30, 1974	$269.20
Oct. 1 to Dec. 31, 1974:	
515 ED Bangladesh	50.00
517 ES El Salvador	6.00
518 SW Swaziland	5.00
519 MAU Mauritania	3.00
520 IN India	91.00
521 IN India	27.70
522 IN India	16.40
523 MAI Mawai	10.00
524 EGT Egypt, Arab Republic of	35.00
525 MAG Malayasy Republic	6.75
India	35.00
Subtotal	285.85
Total development credits approved in fiscal year to date	555.05

2. Development credit disbursements

Disbursements (total disbursed $4,431.2):	
Quarter ended Dec. 31, 1974	$274.2
6 mo. ended Dec. 31, 1974	504.9

INTERNATIONAL DEVELOPMENT ASSOCIATION, STATEMENT OF CONDITION, DEC. 31, 1974 AND DEC. 31, 1973

[Expressed in U.S. currency (in thousands)]

	1974	1973
Assets—Due from banks and other depositories:		
Unrestricted currencies (including interest-bearing, demand deposits $43,315—1974, $418—1973)	$399,201	$63,804
Currencies subject to restrictions	62,119	61,131
Total	461,320	124,935
Investments:		
Obligations of governments and their instrumentalities (at cost or amortized cost; face amount $163,987—1974, $365,676—1973)	162,706	349,186
Time deposits	133,242	133,404
Accrued interest	4,881	6,197
Total	300,829	488,787
Receivable on account of subscriptions and supplementary resources:		
Nonnegotiable, noninterest-bearing, demand obligations:		
Unrestricted	2,028,352	1,642,230
Subject to restrictions	170,013	174,233
Amounts due on additional subscriptions and supplementary resources	401,198	774,413
Amounts required to maintain value of currency holdings	40,794	113,183
Total	2,640,357	2,704,059
Receivables—Other:		
International Bank for Reconstruction and Development	456,374	404,688
Nonmember	1,311	2,845
Purchasers, on account of effective development credits agreed to be sold (undisbursed balance $11,401—1974, $7—1973)	11,401	50
Total	469,086	407,783
Development credits (see appendix D)	7,781,121	6,539,467
Less development credits approved but not yet effective	446,750	590,500
Effective development credits (including undisbursed balance $2,922,079—1974, $2,437,842—1973)	7,334,371	5,948,967
Accrued service charges on development credits	9,369	7,902
Other assets:		
Exchange adjustments on subscriptions and supplementary resources	49,630	95,932
Other	4,008	2,921
Total	53,638	98,903
Total	11,268,970	9,781,336
Liabilities:		
Amounts required to maintain value of currency holdings	2,580	9,533
Accounts payable and other liabilities	2,448	83
Undisbursed balance of effective development credits (see appendix D):		
Held by Association	2,922,079	2,437,842
Agreed to be sold	11,401	7
Total	2,933,480	2,437,849
Loans from Swiss Confederation	71,526	55,983
Subscriptions and supplementary resources:		
Subscriptions (U.S. dollars of 1960 $1,063,502—1974, $1,002,001—1973)	1,282,955	1,281,143
Supplementary resources (U.S. dollars of 1960 $4,377,394—1974, $4,281,943—1973)	5,280,665	5,165,518
Advance contributions	787,370	
Total	7,350,990	6,446,661
Less—Portion for which payment is not yet due	89,443	67,918
Total	7,261,547	6,378,743
Payments on account of pending subscriptions	65	24
Transfers from International Bank for reconstruction and development	915,000	815,000
Less—Grants for agricultural research and for control of onchocerciasis	5,530	2,780
Total	909,470	812,220
Contribution from nonmember	6,552	7,113
Accumulated net income:		
At beginning of fiscal year—July 1	81,781	69,930
Fiscal year to date (see appendix B)	(479)	9,840
Total	81,302	79,789
Totals	11,268,970	9,781,336

INTERNATIONAL DEVELOPMENT ASSOCIATION, STATEMENT OF INCOME AND EXPENSES, FOR THE 6 MO. ENDED DEC. 31, 1974 AND DEC. 31, 1973

[Expressed in United States currency (in thousands)]

	July 1–Dec. 31	
	1974	1973
Income:		
Income from investments	17,843	13,053
Income from development credits	15,601	12,587
Total income	33,444	25,640
Expenses:		
Management fee to International Bank for reconstruction and development	23,800	21,590
Translation adjustments as a result of currency devaluations and revaluations	10,123	(5,799)
Total expenses	33,923	15,791
Net (loss) income	(479)	9,849

INTERNATIONAL DEVELOPMENT ASSOCIATION, STATEMENT OF CHANGES IN RESOURCES AVAILABLE FOR COMMITMENT, FOR THE 6 MOS ENDING DEC. 31, 1974 AND DEC. 31, 1973—Continued

[Expressed in U.S. currency in thousands]

	July 1–Dec. 31	
	1974	1973
Resources provided:		
Net (loss) Income (See appendix B)	($479)	$9,849
Add (less)—Certain translation adjustments as a result of currency devaluations and revaluations	10,162	(5,812)
Resources provided by operations	9,683	4,037
From members:		
Subscriptions, unrestricted	6,188	1,318
Advance contributions to 4th replenishment	621,000	
Adjustment of advance contributions provided in prior fiscal year as a result of currency devaluations and revaluations	(2,523)	
Resources provided by members	634,348	5,355
Transfers from International Bank for reconstruction and development	95,275	107,020
Cancellations and refundings	6,567	33,369
Grant participations in development credits	12,200	
Repayments of development credit	4,921	3,307
Total	753,311	149,051
Resources used: Development credit agreements approved	555,050	378,350
Net increase (decrease) in resources available for commitment	198,261	(229,299)
Resources available for commitment: Beginning of period	169,896	815,026
End of period	368,157	585,727
COMPOSITION OF RESOURCES AVAILABLE FOR COMMITMENT		
Unrestricted currencies	399,200	63,804
Investments	300,829	488,787
Unrestricted receivables on account of subscriptions and supplementary resources	2,467,056	2,523,511
Receivables—Other	463,910	404,576
Receivable from accrued service charges and other assets	32,930	75,039
Subscriptions, supplementary resources and advance contributions not yet due	89,443	67,885
Less—Undisbursed development credits (including development credits not yet effective) and accounts payable	(3,375,211)	(3,037,875)
Total	368,157	585,727

LOAN REPAYMENT TERMS

Mr. PASSMAN. If I remember correctly, a few years ago when IDA started, I made the statement that from little acorns big trees grow. I recall very definitely when IDA was first presented to the committee, they wanted $61 million for 4 years. We thought it was somewhat

excessive, but the witnesses testifying stated categorically that there was no legal commitment on the part of the Congress to provide the money, but there was a moral commitment.

So we went along on the premise that the commitments had been made. It is my understanding that the credits are made available to the developing nations on a 50-year basis with a three-quarters of 1 percent service charge, with no interest at any time during the entire 50 years, and that you also give the borrower, I believe, a 10-year grace period. The second 10 years you would pay 1 percent per year on the principal. Is that still the formula?

Mr. COOPER. IDA lending terms are 50 years' maturity, including 10 years' grace, with a service charge of three-quarters of 1 percent per year.

Mr. REYNOLDS. Yes, sir.

Mr. PASSMAN. I wish we could get some of that kind of money for projects in my district which had to be suspended because we did not have the money, according to the people who administer the programs.

APPROPRIATION REQUESTS

Let that be as it may. At a subsequent date they came in and said: "We are going to have to ask you to double this. We want $104 million a year for 3 years." And I believe we gave you that; is that correct?

Mr. REYNOLDS. $312 million; yes, sir.

Mr. PASSMAN. Then you jumped it up to $160 million for 3 years and then you jumped it up to $320 million for 3 years.

Now you are trying to jump it up to $375 million for 4 years. Have I stated that correctly for the record?

Mr. REYNOLDS. Those are the appropriation requests; yes, sir.

Mr. PASSMAN. Can the people who actually administer this program appear as witnesses justifying the funds as such?

Mr. COOPER. No, sir, I do not believe, as a matter of fact, they do not appear as witnesses.

Mr. PASSMAN. Those who actually administer the program on account of being an international organization, they are not privileged to come before the committee to testify for the fund?

Mr. COOPER. That is my understanding.

Mr. PASSMAN. They have to borrow some person from State, or AID, or Treasury to do their justifying; is that a statement of fact?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. Presently there is no provision for any of the money to flow back into the U.S. Treasury. It flows back into IDA and that is where it stops; is that correct?

Mr. REYNOLDS. That is correct, Mr. Chairman, except for our equity right in the institution.

Mr. PASSMAN. You have an equity right, but what good is the equity if it goes back into the organization? There is no provision for it to feed back into the Treasury, it feeds back into IDA.

Mr. COOPER. That is correct.

Mr. PASSMAN. Now where do you people get information that leads you to believe that some of the so-called developing nations will require 50 years before they sufficiently develop to be able to get on their own?

Mr. Cooper. I do not think it is a question of requiring 50 years. We do not know how long it will be for individual countries.

Mr. Passman. It follows that you must have some information or you would not make a loan for a 50-year period, where it is understood that you will carry it for the entire 50 years, without any interest, nothing but a service charge. Why do you have such long terms?

Mr. Copper. We have long terms like that in order to minimize the debt payment burden on poor countries that would not be able to repay and would otherwise have to reschedule.

Mr. Passman. How can you look 50 years into the future and say these people are going to be struggling to pay back funds on a loan 50 years from now?

Mr. Cooper. We cannot say that.

Mr. Passman. That is exactly the terms you are asking for. What basis would you ask for 50 years? Why would you not have shorter terms?

Mr. Cooper. If economic conditions were to change drastically, there would be the question of prepayment.

Mr. Passman. Do they state categorically in each loan contract that they can renegotiate these loans and cut the terms down?

Mr. Reynolds. I do not believe so.

Mr. Passman. It is not in there?

Mr. Reynolds. It is not in there.

Mr. Passman. Of course, you know it is not in there and I know it is not too. I want to be fair about it. I represent you as well as I represent the people down in the State of Louisiana.

It is simply ridiculous that we have a Congress that would allow your people, not you but the people you represent who are not privileged to come before the committee, to get us involved in an outfit where the terms are 50 years with no interest, and a 10-year grace period while we are actually having to discontinue projects in the United States.

I believe under the budget request this year, all public works programs are frozen. We cannot permit any new construction starts, can we, under public works program?

Mr. Cooper. I think that is right, but you would know better than I would.

PREDICTABILITY OF FUTURE COMMITMENTS

Mr. Passman. I know.

You gentlemen are brilliant men, scholars. You ought to have the answers.

Of course we are not permitted to start one new construction project in fiscal 1976, in either of the 50 States, and yet you are coming along funding projects for 50 years at no interest.

As far as this committee is concerned, we know not when the project is obligated, to what country, for what purpose and in what amount until after the fact; is that not true?

Mr. Reynolds. I do not think that is true, Mr. Chairman.

Mr. Passman. All right. Where do you differ with it?

Mr. Reynolds. This money, you know, goes to the very poorest countries.

Mr. PASSMAN. I did not say anything about that.

My question is: This committee knows not when, where, what country, or in what amount these funds will be obligated until you have made the commitment?

Mr. REYNOLDS. No; we can give you a very good idea.

Mr. PASSMAN. I am not talking about ideas. I want you to cite one project specifically and tell me what date you are going to obligate funds in what amount and for what purpose; do you have it?

Mr. REYNOLDS. Not with that precision; no.

Mr. PASSMAN. That is all right, the answer is in the affirmative, you do not have the information and neither does the committee have the information. You know it is a fact that we know not when, where, how much or what country these funds will be obligated to until after the commitments have been made; then you come before the committee and we are told.

Mr. REYNOLDS. I can tell you for the next 2 or 3 months ahead.

Mr. PASSMAN. Tell me specifically what projects you are going to obligate funds for the next 3 months, to what country, in what amount and for what purpose.

Mr. REYNOLDS. I could furnish that.

Mr. PASSMAN. You do not have it with you?

Mr. REYNOLDS. No, sir.

Mr. PASSMAN. You people think you can come down and say "We want this money." You assume this committee is going to continue being soft. I do not think it is. We are going to tighten up.

U.S. CONTRIBUTION TO IDA REPLENISHMENTS

What percentage of the total are we putting up?

Mr. COOPER. One-third of the proposed replenishment.

Mr. PASSMAN. One-third. What is the closest nation to us?

Mr. REYNOLDS. The next biggest contributor is Germany, about 11 or 12 percent.

Mr. PASSMAN. Let's back up now and see. From the inception of this program up to and including 1975, we are putting up 40 percent; are we not?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. You do not even know you are going to get a dime for 1976. Let's deal with the past and present. The formula up to and including fiscal 1975 to June 30 is 40 percent?

Mr. COOPER. It was 40 percent in the second and third replenishments, 43 in the first replenishment, and 43 in the initial subscription—the reduction in the fourth replenishment was from 40 to 33⅓ percent.

Mr. PASSMAN. You are talking about one that is coming, you hope?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. I said as plain as I knew how, let's deal with the past and with the present. From the inception of IDA up to June 30 of this year, the United States has put up 40-percent, and prior to that it was more than that; it would average out about 42, would it not?

Mr. REYNOLDS. I think it averages out just slightly over 40.

Mr. PASSMAN. What do you call slightly over 40?

Mr. REYNOLDS. Between 40 and 41.

Mr. PASSMAN. It is more than a 40-percent average?

Mr. REYNOLDS. Just over 40; 40 point something.

AMOUNT OF IDA CREDITS UNDISBURSED

Mr. PASSMAN. What is the unexpended balance to the credit of IDA?

Mr. COOPER. The unexpended balance——

Mr. PASSMAN. As of the last date.

Mr. COOPER. As of December 31, 1974, there was $2.9 billion not disbursed, on loans approved. There was $369 million of remaining commitment authority.

Mr. PASSMAN. I am talking about the undisbursed $2.9 billion in the pipeline.

Mr. COOPER. Yes.

Mr. PASSMAN. How many contributing members do you have to IDA?

Mr. REYNOLDS. There are 25 countries that will contribute to this fourth replenishment.

Mr. PASSMAN. Take the second largest contributor, if not the third, that would be the United Kingdom?

Mr. REYNOLDS. On an aggregate basis, I believe the United Kingdom is the second largest contributor.

Mr. PASSMAN. He said Germany.

Mr. REYNOLDS. Germany, under the fourth replenishment, would be.

Mr. PASSMAN. We have not entered into fourth replenishment and do not bet your money you will. This committee is going to decide.

As I say, I am representing you gentlemen, not just the people down in the Fifth District of Louisiana, because our net disbursement on foreign aid has been $269 billion, not counting our military expenditures. If we take just Southeast Asia, we have dropped almost a quarter of a trillion dollars down the tube. Is that not about right?

Mr. COOPER. Yes.

Mr. PASSMAN. Bless your heart, how foolish can people be? Yet we are still trying to reform the world in our own image.

I am going to now yield around the table, and we will get back to the regular questioning.

Mr. Coughlin?

Mr. COUGHLIN. I might ask when the authorization bill comes up on the floor—are we going to recess these hearings?

Mr. PASSMAN. Are we going to do what?

Mr. COUGHLIN. Recess these hearings. We have important measures on the floor of the House right now.

Mr. PASSMAN. Just as fast as those bells ring, we are going to go down and vote. We have 27 spigots of foreign aid, and it is going to take until July or after to finish our hearings. If we suspend every time we have something on the floor, we will not get through.

We are very definitely going to the floor when there is a vote. When we adopt the South Vietnam authorization bill, and I assume we will, then we have a conference report, then we will come third.

Of course, when our bill comes up, we have no alternative, we will have to recess. You are talking about South Vietnam?

Mr. COUGHLIN. About the South Vietnam bill as well as the appropriation bill.

Mr. PASSMAN. We do not have to go down and vote.

Mr. COUGHLIN. I meant our presence on the floor for debating the bill.

Mr. PASSMAN. They are debating the bill now. We have no alternative but to proceed with these hearings, or we will never get through. From here on out until Congress adjourns, we are going to be in the same position we are here today.

I will yield to you, and when you get ready to leave, we will excuse you.

IDA LOANS TO OPEC COUNTRIES

Mr. COUGHLIN. Thank you. I would like to pursue one line of questioning that does not necessarily apply to IDA.

Does IDA make any concessional loans to any of the Arab OPEC nations or other OPEC nations?

Mr. REYNOLDS. Not currently. It may have in the past before they became as wealthy as they are at the moment. But there are no IDA loans being made now and none proposed.

Mr. COOPER. In the past I do not think it has made any to Arab OPEC nations.

Mr. REYNOLDS. If you go way back, there was one to Ecuador.

Mr. COOPER. The last loan from IDA to Ecuador was made in 1973.

Mr. COUGHLIN. I take it we will be covering——

Mr. COOPER. Indonesia got its last IDA credit in October of last year.

Mr. COUGHLIN. So that these countries are not getting any additional credits now, and none are proposed to them?

Mr. COOPER. No, sir.

Mr. PASSMAN. Would it interrupt my colleague's questioning in that connection if I asked one question about one of the nations funded?

Mr. COUGHLIN. Surely.

Mr. PASSMAN. Take Indonesia; last year they had large cash income from their petroleum and they had $1.5 billion surplus in their foreign exchange account.

What right do we have in borrowing this money, paying possibly 7 percent, and giving it to a nation when they have $1.5 billion surplus in their treasury?

I wish you would put an answer in the record for that, will you?

Mr. COOPER. Yes, sir.

[The information follows:]

Indonesia is no longer a borrower from the International Development Association or from the Asian bank's special funds, which are lent on concessional terms. Thus, no U.S. funds contributed to IDA or to the ADB special funds now go to Indonesia.

Although Indonesia still has a per capita income well below $200, that country is now creditworthy for loans on ordinary capital terms. World Bank and Asian Development Bank loans to Indonesia are made on the Banks' standard term of 20 to 25 years at 8½ percent and 8¾ percent, respectively. These funds are raised mainly in the capital markets of the world, and therefore do not represent U.S. budget outlays for funding.

As you have said, Indonesia's foreign exchange reserves totaled about $1.5 billion. These reserves, however, amount to only 3½ months' of Indonesia's imports.

BURDEN SHARING BY OPEC COUNTRIES IN CONTRIBUTIONS FOR CONCESSIONAL LENDING

Mr. COUGHLIN. I take it we will cover the other international banking institutions at a later date. I intend to ask the same line of questions to those institutions. Do you have any suggestions for us as to

steps that might be taken to assist you in using whatever leverage the United States has with the Arab OPEC countries.

Mr. COOPER. We have, of course, been actively concerned with this issue in the various international institutions. We have suggested that it was inappropriate for them to continue in those cases they were borrowing on these soft terms. We have thought that the institutions ought to look very carefully at the continuation of any lending activity, that the basic presumption should be that they should make loans to countries that need money.

At the same time, we have thought that for the richer members of the OPEC countries it would be appropriate for them to begin making contributions to the soft loan windows of these institutions. This whole subject is still under active consideration and active pursuit in these institutions.

I do not think we have yet seen the final resolution of it. Negotiations are going on between the management of the institutions and certain of the OPEC countries, and we continue to discuss the various aspects of it with the institutions.

I know Mr. Reynolds and our other executive directors have spoken at the board meetings on this issue expressing our concern, encouraging the expansion of the burden-sharing aspect of their operations by opening up new relationships between the banks and these institutions.

I hope we will be able to make more progress on it.

Mr. COUGHLIN. Is it possible for us to put strings on our contributions or enable you to limit the use, at least, of our contributions so that IDA has some leverage to exert on these countries?

Mr. COOPER. I think that the most effective thing that you can provide us is some understanding of your own views on this subject.

We need to know what Congress views are on this subject so that we can adequately reflect those in our discussions within the institutions.

Mr. COUGHLIN. Certainly, at least speaking for this Member of Congress, we should be using whatever leverage we have. I would also like to see you given whatever leverage would best serve our Nation's interests in being able to pressure these countries for a reasonable price on petroleum products that are being exported.

Mr. COOPER. I would be, I guess, a little skeptical that the question of the oil price could be handled very directly through any policies of the development institutions. That is not the kind of leverage that I think would be very effective on a problem of that magnitude.

I think what is very clear is that the policies of these institutions toward these countries should reflect the changed economic circumstances that exist. There has been progressively an adjustment in that direction, such as removing them from the soft loan windows. The situation is under constant review.

I think the institutions themselves are interested, and we do not disagree, in continuing to maintain a relation with the OPEC countries that would support their development through technical assistance and management assistance. I think that to the extent that such a relationship does not take an inappropriate financial turn, it is desirable and fully acceptable.

We are of course hopeful that these countries will make part of their contributions in support of development through these inter-

national institutions, particularly through the soft loan windows of these institutions.

Mr. REYNOLDS. One of these countries has participated in IDA since the beginning, Kuwait. Several of the others in the last year or two have lent, I think, something like $150 million on concessional terms jointly with IDA, in support of projects in other developing countries.

Mr. COUGHLIN. Saudi Arabia, for example, does not participate in IDA.

Mr. REYNOLDS. They are a member, but they have not contributed to the replenishments. We hope very much they will come in the future.

Mr. ROBINSON. If I could just add to that, I have been working very closely with the OPEC nations and participated in the prep-con which resulted in the breakdown in Paris.

One of the subjects on the agenda that we hope to have discussed at a producer-consumer conference was the ways in which we could jointly, industrialized and OPEC nations, undertake assistance programs for the most seriously affected LDC's. Part of that, of course, was to encourage a greater participation in IDA and in other institutions of that kind.

They did, during 1974, pledge a total of $8.5 billion for assistance, of which $2.5 billion was actually disbursed. They pledged $3.1 billion to the IMF oil facility, which was for this type of assistance, of which $1.9 billion was actually loaned. They are committed to the purchase of IBRD bonds to the extent of $2.1 billion, of which they have actually purchased $2 billion.

So there have been generous contributions made by OPEC. The problem is to get it in multilateral form. We are working with them in an effort to get them to share in the responsibilities for assisting the developing nations.

This is a program that is going forward.

Mr. COUGHLIN. Thank you, Mr. Chairman. I think my time has expired.

AID TO INDIA AND PAKISTAN

Mr. PASSMAN. I think we probably should add to the record at this point, for continuity and clarification. I believe both Pakistan and India are members of IDA, are they not?

Mr. COOPER. Yes.

Mr. PASSMAN. As I read the record, for each $1 India puts in, they get back $58 out of IDA; is that correct?

Mr. REYNOLDS. I cannot state that that figure is correct, Mr. Chairman. They certainly receive much more from the institution than they put into it.

Mr. PASSMAN. Will you confirm or deny or accept my word that it is correct, because we just do not come in and ask for a blank check. Take Pakistan—for each $1 they put in they get out $43.

Now if we may look at India—I like people regardless of where thye may be located, whether Indians, Pakistanis, or what have you—I believe we gave India $7.5 billion, $2.2 billion in grants and $5.3 billion in loans.

Then we turned around and made them a present I believe of $2.2 billion, did we not?

Mr. ROBINSON. We did excuse an indebtedness.

Mr. PASSMAN. What is the difference between excusing an indebted-

ness and giving it to them? It is the same difference. We said, you do not owe it to us.

Mr. ROBINSON. That is right.

Mr. PASSMAN. I am not sure they love us any more after the $8 billion in U.S. assistance than they did before. This year we started back with a fantastically high aid program in India, I think 1 million tons of wheat. Are you familiar with that?

Mr. ROBINSON. Generally. I do not recall the exact figure.

Mr. PASSMAN. We are going back in with a fantastically high aid program in India, are we not?

Mr. ROBINSON. It has been discussed.

Mr. PASSMAN. It is being disbursed and some of the ships are on the high seas, are they not?

Mr. ROBINSON. That is right.

Mr. PASSMAN. Let's not be bashful about putting the facts in the record. We have gone in, after $8 billion, with another fantastically high bilateral aid program. Now we come to multilateral, they are getting some out of this spigot too, are they not?

Mr. ROBINSON. That is correct.

Mr. PASSMAN. Thank you very much.

Dr. Long?

Mr. LONG. Thank you, Mr. Chairman.

Mr. Reynolds, first I would like to point out to you that the document you sent in which you detailed current loans, entitled "Notes to financial statements," is impossible to read, it is illegible.

Do you think you are really being fair to this committee when you submit that kind of documentation to a Congressman who really wants to do his homework?

Can you justify that kind of thing? Are you short on funds for printing or typing or something?

Mr. REYNOLDS. I am not precisely familiar with it. It looks to me like it is a standard form that was apparently used as an annex in this report. If it is not legible, we will make it legible for you.

Mr. LONG. You know we do not get very many chances to examine those programs. I sat down and tried to make sense out of this material. I hope you will not send any more material like that in the future.

On pages 6 to 8 of your statement, you mentioned four IDA credits for projects aimed at the poor and from your brief descriptions of these projects, they do seem aimed at helping the poor. But these are only four projects, whereas the World Bank and IDA will approve 150–200 projects in fiscal 1975, will they not?

Mr. REYNOLDS. Yes, roughly 175 or so, I think.

Mr. LONG. Aren't four projects a pretty small proportion?

Mr. REYNOLDS. As I say, they are just four that I selected that were approved very recently.

IMPACT OF IDA LOANS ON THE POOR

Mr. LONG. What percentage of World Bank credits are directly aimed at helping the really poor?

Mr. REYNOLDS. It is certainly a rising percentage. I would have to check. It has gone up very sharply in the last 2 or 3 years. It now amounts to a high percentage of projects.

Mr. LONG. You only mentioned four projects which seem to be aimed at the poor.

Mr. REYNOLDS. I would be happy to furnish more information on that for the record.

Mr. LONG. Yes.

[The information follows:]

On a country basis 88 percent of IDA commitments in fiscal year 1974 went to the least developed and poorest countries (those with per capita incomes below $200 per year). The estimated level of commitments to this same group of countries in fiscal year 1975 is 91 percent, rising to a projected 92 percent in fiscal year 1976. On a project basis in fiscal year 1974 44 percent of total World Bank group operations (34 percent of lending volume) was directed at projects directly aimed at raising the productivity and incomes of the poorest parts of the population. (These projects were in agriculture, education, population, urbanization, and water supply.) In fiscal year 1975 this figure is expected to rise to 54 percent (and 39 percent of lending volume). Similarly, it is estimated that this fiscal year over half of the operations in agriculture are projects focused on helping the poorest segments of the rural population. They involve commitments of over $900 million. In addition, of the 20 education projects expected to be approved in fiscal year 1975, 8 projects totaling roughly $80 million are oriented toward helping the rural poor. Furthermore, about $25 million of commitments in the transportation sector are for feeder roads. Thus, fiscal year 1975 commitments of over $1 billion are directed toward the rural poor. This amount is more than twice the fiscal year 1975 commitments for this same purpose.

Mr. LONG. We went through all World Bank group projects for fiscal year 1974 and tried to analyze them as to their impact on the poor. We gave you the benefit of the doubt in certain cases. In agriculture, for example, we assumed that all those would help the poor, although I think there is a real question whether they do in any substantial way.

Mr. REYNOLDS. I think certainly the great bulk of the agricultural projects we do now help the poor.

Mr. LONG. You have projects in industry, transportation, electric power, development finance, education, and other sectors. If you add up what I would call projects aimed directly at helping the really poor, these projects only come to about 24 percent of total World Bank group lending in fiscal year 1974.

I am just wondering, how can you justify this neglect of the really poor in view of the fact they make up about 80 to 90 percent of the population of India and Pakistan and, as a matter of fact, most of the developing world.

Mr. REYNOLDS. I do not think there is neglect, Congressman.

As I say, major effort is being made to reorient and redirect operations to projects that have an immediately beneficial impact on the poor, and the record, I think, is a very good one. If you look at the trend of the last 2 or 3 years, it is a very good one.

Mr. LONG. Does that mean you are going to stay with that record?

Mr. REYNOLDS. I would say also that many of these other projects, though not having an immediate impact on the poor, certainly do——

Mr. LONG. You mean there is a trickle down——

Mr. REYNOLDS. The projects do benefit the poor over a period of time. They may not have the immediate impact that some of these others do, but they still have an effect.

Mr. LONG. You mean there is a trickle down?

Mr. COOPER. There may even be a direct effect through employment and other ways.

Mr. LONG. Can you really justify that approach when you go out through India and Pakistan and see the same thing now that I saw a decade ago? That is, the great mass of people, totally idle, doing nothing, unemployed; and when you get to the cities, you see people sleeping on sidewalks, living under conditions that you know are horrifying.

I do not see any improvement when I go to India or Pakistan from conditions a decade ago in the direction of helping the really poor. I do see in all the developing countries great progress being made in the cities, in the urban areas. It seems to me that our development programs all over the developing world are really urban or middle class development programs. They help the bureaucracy; they help the merchant class; they help the military groups, and so on.

I do not see any real impact on the really poor—the campesino in Latin America or the peasant in India.

Now, do you have any comments on the issue raised in my separate views on aid to India, in which I described the fact that about $20 billion have been poured from all faucets of aid into India since the 1950's—I am talking now about U.S. direct, indirect, other donors—and almost all of that aid has been absorbed by either military expenditures or by population growth. So that the real GNP per capita has hardly improved at all.

In some years—it depends on the years you compare—but in some years you can actually show a decline in per capita GNP.

I concluded in this news article, and I wonder whether you read it or not, that what we need is a whole new look at this problem. Otherwise we are condemning the masses of people in India, Pakistan, and the developing world to an eternity of the horrifying conditions we see now.

Mr. REYNOLDS. I did, indeed, read your article, Congressman. I appreciated very much your sending it to me. I intend to reply to you, I want to do it as thoughtfully as I think you were in writing the article. I have not yet been able to respond to you, but I do intend to.

I think many of the criticisms you made in that article, and repeated here now, are valid to a degree. But I think we have recognized mistakes have been made; not enough attention has been devoted to the rural areas.

I think the developing countries themselves are waking up to that.

Mr. LONG. We cannot do anything to remedy the mistakes of the past, but I would hope we really are considering a new way of going at this thing.

Mr. REYNOLDS. I think that is very definitely occurring. I think Mr. McNamara in the World Bank is in the forefront of moving development efforts in that direction.

Mr. LONG. One of the things that bothers me, Mr. Reynolds—and I hope you will indulge me on this— is that when aid donors do put money into projects that they help poor people, I go out there and look and see that the beneficiaries are not poor people. I saw some projects in Pakistan, deep-well projects, where the farm being helped was a farm of 88 acres. Officials admitted the land would be worth about $6,000 an acre after the deep well was completed, which would flush out the salinity. That is not helping the poor little guy in Pakistan, is it?

Mr. REYNOLDS. Projects of that nature——

Mr. LONG. It may be a valuable project, and I thought it was valuable, but it is not helping that guy with 2 to 3 acres or the fellow who is sleeping on the sidewalk of a big city because there is no place for him to live.

Mr. REYNOLDS. It is, though, expanding food production which does benefit food consumers.

Mr. LONG. Let's concede it is better than nothing; yes, it may even be helpful. But we do, do we not, have a problem in India, for example, of nearly 500 million people who are almost superfluous. I would guess that if somehow those 500 million people were to disappear, you could produce as much in India as you do now, with some readjustments, redirection of capital, and soon.

Mr. REYNOLDS. I suspect that is true.

Mr. LONG. It is really a horrifying thought.

You know, there is nothing in this world more appalling than for a person to feel utterly useless, and most people in India must have that feeling in addition to being hungry and sick.

Mr. LONG. When will authorization and appropriation requests for the U.S. share in the OECD financial support fund (or special financing facility) be submitted to the Congress?

What amounts will be requested for authorization and appropriation for the OECD financial support fund in fiscal year 1976 and/or fiscal year 1977–fiscal year 1980?

Mr. COOPER. The questions refer to U.S. participation in the proposed financial support fund of the Organization for Economic Cooperation and Development. The support fund is not a foreign assistance device and thus differs fundamentally from the development finance institutions. It is a temporary mutual insurance or "safety net" arrangement among the advanced countries prepared to cooperate in energy. It is designed to assure individual participants that needed external financing will be available if it cannot be obtained elsewhere on reasonable terms, and thus to help prevent internationally disruptive and damaging moves toward imposition of restrictions or maintenance of inappropriately low levels of economic activity prompted by concerns about the availability of external financing. It is our hope that the facility's very existence will strengthen the operations of the private markets and other financing channels and make its use unlikely. If the facility actually makes loans, those loans will bear market rates of interest and short- to medium-term maturities, and will be associated with conditions in the general economic and energy policy areas designed to correct the borrower's external difficulties.

Legislation authorizing U.S. participation is being developed and is expected to be transmitted to the Congress by the President shortly.

INCREASED DEPENDENCE ON EXTERNAL ASSISTANCE

Mr. LONG. Mr. Reynolds, on page 3 of your statement, you say that the developing countries are "for the present, at least, more rather than less dependent upon external assistance."

Is this increased dependence due entirely to the sudden and sharp rise in energy costs?

If not, isn't this increased dependence evidence of failure of development programs and of foreign aid?

If not, what does this increased dependence show?

Mr. Reynolds. The developing countries, particularly those in the lowest income group, have relied on external assistance to increase their productive capacity and maintain their development momentum. Before the oil price increases, the very poor countries—those for which IDA resources are meant—needed foreign assistance to finance their development projects because the domestic savings level was so low. The oil price increase exacerbated the situation, by channeling what little domestic savings existed to pay for current oil consumption. The recent softening of commodity markets has further compounded the problems of the poor nations, since softening demand in the OECD countries and declining commodity prices have meant lower export earnings.

As a result of increased oil prices and lower export earnings, the aggregate current account deficit of the 33 most seriously affected countries—as designated by the United Nations—has increased from $2 billion in 1973 to $5.5 billion in 1974. The increase in oil prices and the recession in the OECD countries have combined to make the developing countries dependent on outside sources of financing to improve and expand their productive base. The present dependence of the poor countries on foreign aid is not a result of the failure of previous development programs, but the extraordinary events in the international economic scene during the last 18 months. The development lending programs of IDA, which are targeted on the poorest countries, seek to increase the total available resources for agricultural and industrial projects which will lead to self-sufficiency in the developing world.

INCOME DISTRIBUTION

Mr. Long. Mr. Reynolds, on page 3 of your statement you say that IDA and the World Bank "to the fullest degree possible . . . work toward the achievement of more equitable income distribution."

Are the efforts toward more equitable income distribution that you support approaching income distribution in the context of tearing down the wealthy? Or in the context of simply concentrating on improving the lives of the poor?

Is economic and income equality important so long as the lot of poor people improves?

Mr. Reynolds. The Bank seeks to promote more equitable distribution of income in the context of stimulating higher rates of general economic growth. In recent years it has complemented this approach by endeavoring to find projects which directly raise the productivity and incomes of the very poor. Its purpose is not to attack the wealthy. But it does, through encouragement of sound tax and other public policies, try to give impetus to the mobilization of internal resources, the fostering of strong producer and investment incentives, and the avoidance of extremes in income distribution which can be a formidable impediment to economic development.

Mr. Long. How do you measure progress toward more equitable income distribution? What measures do you use?

Mr. Reynolds. Methodologies for evaluation of income distribution and changes therein are still in the process of being developed. One

serious obstacle has been the absence of a sound data base for most of the countries where the Bank group operates. Consequently, one of the initial steps taken by the IBRD, in collaboration with other multilateral organizations, has been to assist in obtaining better data and fuller identification of poverty groups. Studies are also underway of the interaction and relationship between income distribution and growth and development.

Income distribution considerations also affect project selection. Perceived income effects are used to rank alternative investments; given equally high financial rates of return, the project with more beneficial income effects would be chosen. Income distribution concerns can also affect project design. An increasing number of projects provide for monitoring and evaluation to assess distribution of benefits and general impact on income distribution.

POPULATION PROJECT EVALUATION

Mr. LONG. How do you evaluate objectively population projects? What measures do you use?

Mr. REYNOLDS. The Bank's lending program for population projects began in 1970 and comprises only 12 projects to date. None of these loans will be fully disbursed until at least 1976. The Bank's operations evaluation department will begin a review of all population projects undertaken to date, with a view to assessing their overall effectiveness and impact. This study is expected to take about 1½ years to complete.

AID TO INDIA

Mr. LONG. Mr. Cooper, you stated in your letter of March 28 to me—after receiving the copy of my separate views on aid to India—that Secretary Simon and your deputy, Mr. Bushnell, would be visiting India in April.

What comments can you provide me on the issues I raised in my separate views on aid to India—especially on the issue of the need for a shift in development policies from heavy capital use to light capital or intermediate technology that will use the abundant resource—labor?

Mr. COOPER. Let me start by saying that I agree with your view that Indian development policies over the years have overemphasized investment in capital intensive industry. Such concentration of investment in capital intensive industries has been at the expense of investment in agriculture and in more labor intensive methods of production in the industrial sector. The United States has been expressing these concerns for many years within the context of the Aid-India Consortium. The World Bank, which chairs the Consortium, has a similar view. For instance, in its economic report on India for 1975 issued on May 1, the Bank specifically calls for a shift in India's development strategy away for the emphasis on heavy industry. The report says in part:

> Despite this nearly 10-year record of disappointed industrial ambitions, unreliable, and unusually slow agriculture progress and generally deficient economic development in relation to the needs of India and its poor, the official strategies for greater economic progress still cling very much to earlier patterns which in recent times have been found wanting.

You are quite right that increased agricultural output is the key to economic development in India, and I share your view that India ought to shift its development priorities in favor of the agricultural sector. With agriculture generating almost 50 percent of India's GNP and employing 70 percent of the work force it is essential that it receive priority treatment.

With so many people dependent on agriculture greatly increased investment in this sector could be undertaken and still make very little dent in the vast army of unemployed and underemployed people in India. Increased investment in more labor intensive methods of producing industrial goods would therefore seem an effective way of complementing a hoped-for new thrust in the agricultural sector, although even with a change in investment strategy, an expansion of productive employment will be slow. I have found your views on this matter instructive.

We shall pursue this matter with the World Bank with a view to finding ways to apply the appropriate mix of technology and policy incentives in India's development program.

Mr. LONG. Mr. Reynolds, can you provide me with any comments within the World Bank on the ideas I stated in my separate views?

Mr. REYNOLDS. Yes; indeed. I know that Mr. McNamara has commented on those views in a recent letter he wrote to you, and you may wish to insert that letter in the record. As I recall, he heartily agreed with your view that the heart of India's economic problem is food production, and he detailed in some length the steps which the World Bank has taken and is taking to assist Indian agricultural development. He pointed out that a special effort is being made to increase the productivity of the small Indian farmer. In particular, he cited, as I have done in my statement to the committee, a recent IDA credit of $35 million to increase and stabilize production in drought prone areas in four Indian states.

Mr. McNamara also explained, I believe, that a study is being undertaken by the Bank of what can be done to facilitate the adoption of more labor-intensive technology in India and other developing countries in the interest of expanding employment opportunities and obtaining the highest possible return on scarce investment capital. Agricultural credit projects, whereby small packages of capital are made available to individual farmers in kind—for example, fertilizers and seeds, are especially effective in this regard.

[The letter follows:]

APRIL 7, 1975.

Hon. CLARENCE D. LONG,
House of Representatives, Washington, D.C.

DEAR CLARENCE: Thanks for passing along your thoughtful and provocative statement on aid to India. Much of what you recommend fits closely with what I believe the Bank has been doing in recent year. But there remain some fundamental issues—How do we interpret these arguments? Do they imply that aid for India has been wasted and should now be curtailed?

There is no doubt in my mind of the continued need for organized aid flows to India. Accordingly, I would like to call to your attention some key points.

Your report notes that India has received a substantial amount of aid. This is true in absolute terms, but the figures are much less impressive when considered in relationship to India's size. For example, Korea on a per capita basis has received nine times as much in official development assistance, and Kenya has

received six times as much. India has herself financed the vast part of her investment—as much as 80 percent during the first three 5-year plans and 92 percent in the fourth. In my view, India has suffered from a deficiency rather than a surfeit of aid. It should be remembered that it contains nearly half of the population of all our LDC members.

India has recorded some real achievements in the past 25 years, especially when the compexity and size of its problem are considered. Indian national income has grown at nearly 4 percent per annum for the past 25 years. As far as we know, this is four times the rate for the preceding 50 years. There are success stories in Indian development. One of these is the ICICI operation which you visited in Bombay earlier this year.

We must also look behind gross measures of growth. It is true that the economic level per capita has not risen much, in part because of rapid population growth. But to end the analysis on that note is to overlook important development achievement—in life expectancy, from age 32 at birth in 1951 to age 50 in 1970—in literacy, from 15 percent in 1951 to 36 percent in 1970), and in establishment of a socioeconomic base which makes further growth possible. For example, fertilizer production has grown from 80,000 tons in 1951 to 1,060,000 in 1973/74; the number of villages served by electricity has tripled in the same period.

I agree with your contention that the "heart of India's economic problem is food production * * *" The Bank, since 1963, has substantially increased the volume and range of its assistance to agricultural development. Attached is a list of loans and credits which shows dramatically this emphasis. Our efforts have encouraged others to follow suit. I note with pleasure Finance Minister Subromaniam's remarks of February 28, 1975, when he said: "* * * our ability to meet the minimum basic needs of our people depends crucially on the trend in agricultural production. It is in this light that I regard the claims of agricultural growth as the first charge on our developmental resources * * *"

I would add that I feel strongly that we must meet the world food problem by increasing food production where the hungry people are. This means increasing the productivity of the small farmer—not solely for egalitarian reasons; it is good economics to seek growth by giving the small farmer a stake in increasing farm output. Many Bank/IDA projects in India are specifically aimed at increasing productivity and incomes of small farmers. A good example is a recent IDA credit of $35 million to increase and stabilize production in drought-prone areas in four states. When completed, by 1980, this project, taking into account all sources of funding, including a substantial input by the Indian Government, should increase the income of over 1 million people from the poorest segments of the population.

I would like to add that agricultural development cannot be achieved without substantial capital. Fertilizer plants, factories for the production of farm equipment and electric power are all essential.

You have raised the question of intermediate technology, or in other terms, the correct capital/labor mix. The Bank has undertaken a study of these problems, with particular focus on India and Indonesia. I am enclosing some material which you as a labor economist will find of special interest. Among the preliminary conclusions is that many forms of labor-intensive technology in India are not economic under any system of pricing one might conceive. On the other hand, there is a range of what might be called intermediate technology which can be effectively used to minimize costs while utilizing more labor than would capital-intensive technologies. Our preliminary findings, as outlined in the enclosed reports, are encouraging but I emphasize that these results are experimental and have not been applied on a large scale.

The labor/capital mix can also be determined by proper factor organization holding technology relatively constant. One of the most effective methods is through agricultural credit, whereby small packages of capital are made available to indiviual farmers in kind, i.e., fertilizers, seeds, and other inputs. This approach is particularly suitable to a financial institution such as the Bank.

As far as the Bank Group is concerned, we see ourselves not simply as transferring capital, but as a catalyst to see that the best and most enlightened forms of development are undertaken in cooperation with the Government of India. I am convinced that, when both our project formulation and capital transfer roles are considered, we are able to make a substantially positive, if inevitably small, contribution to Indian development.

You have raised some fundamental questions in the development dialog. I am grateful to you for stating these issues forcefully, and hope that in the near future we can get together for a discussion of them.

Sincerely,

ROBERT S. MCNAMARA.

Enclosures:

1. Bank/IDA Lending for Agriculture and Related Projects in India.
2. October 1, 1974, "Report on Institutions of Labor and Equipment in Civil Construction."
3. January 20, 1975, "Status Report on Phase II of this Study."

BANK/IDA LENDING FOR AGRICULTURE AND RELATED PROJECTS IN INDIA (SINCE JUNE 1969)

[In millions of dollars]

Date of loan or credit	Project	Amount	
		Bank	IDA
June 1969	Tarai seeds	13.0	
February 1970	Kadana irrigation		35.0
August 1971	Pocharmpad irrigation		39.0
June 1970	Gujarat agricultural credit		35.0
Do	Punjab agricultural credit		27.5
January 1971	Andhra Pardesh agricultural credit		24.4
June 1971	Haryana agricultural credit		25.0
Do	Tamil Nadu agricultural credit		35.0
January 1972	Mysore agricultural credit		40.0
March 1972	Maharashtra agricultural credit		30.0
June 1973	Madhya Pradesh agricultural credit		33.0
Do	Uttar Pardesh agricultural credit		38.0
November 1973	Bihar agricultural credit		32.0
August 1971	Wahat storage		5.0
January 1974	Apple processing (Himachal Pradesh)		13.0
March 1972	Bihar agricultural markets		14.0
May 1973	Karnataka agricultural markets		8.0
November 1972	Agricultural universities		12.0
June 1974	Karnataka dairy development		30.0
December 1974	Rajasthan dairy development		27.7
Do	Madhya Paradesh dairy development		16.4
June 1974	Chambal (Rajasthan) command area development	52.0	
July 1974	Rajasthan Canal command area development		83.0
December 1974	Drought prone areas (rural development)		35.0
July 1971	Cochin fertilizer		20.0
January 1972	Gorakhpur fertilizer		10.0
February 1973	Nangal fertilizer		58.0
November 1974	Sindhri fertilizer		91.0
June 1974	Trombay fertilizer		50.0
January 1975	Phulpur fertilizer (cooperative)	109.0	
February 1975	Godavari irrigation		45.0
Total (1969–75)		174.0	912.0

IDA AID TO THE REALLY POOR

Mr. LONG. Mr. Reynolds, on pages 6 to 8 of your statement you mention 4 IDA credits for projects aimed at the poor and from your brief descriptions of these projects, they do seem aimed at helping the poor.

But these are only 4 projects; whereas, the World Bank and IDA will approve about 150–200 projects in fiscal year 1975, will they not?

What proportion of World Bank and IDA credits are aimed directly at helping the really poor?

Mr. REYNOLDS. By June 30 the Bank and IDA together will have approved approximately 195 projects in fiscal year 1975. It is estimated that approximately 54 percent of these projects, constituting roughly 40 percent of the total lending volume, will be done in the fields of agriculture, education, population, urbanization, and water supply.

Predominantly they will yield direct benefits to the poor. These percentages are up markedly from a few years ago, and are expected to rise still further in the years ahead; 35 percent of fiscal year 1975 lending operations, constituting 30 percent of total lending volume, will go to agriculture alone, and within that sector increased emphasis is being placed on projects aimed at improving the productivity and income standards of the rural poor. Commitments of well over $900 million will be approved for this purpose in fiscal year 1975.

Mr. LONG. Assuming for a moment that my judgment is correct, do you think that only one-fifth to one-fourth of World Bank and IDA loans should primarily help the poor?

I undertook my own brief analysis of World Bank and IDA loans for fiscal year 1974, using the fiscal year 1974 annual report. From the information in the annual report, I identified only about 20 to 25 percent of World Bank and IDA loans as being loans that would seem to have a reasonable chance of helping poor people.

Mr. REYNOLDS. Projects which do not directly affect the poorest elements of a borrowing country's population are not bad projects. Provided they yield a high rate of economic return, as all Bank-financed projects aim to do, development projects indirectly can contribute very significantly to a general raising of income and living standards by increasing output of goods and services, widening job opportunities, raising wages, and adding to tax revenues and private savings. This has surely been the experience of the U.S. and other developed countries. There is no reason why it shouldn't be true in the developing countries as well.

WORLD BANK AGRICULTURAL PROJECTS

Mr. LONG. Please list for fiscal year 1974 and for fiscal year 1975 to date those projects in which significant funds are going to commercial and large farmers. For each project listed, please list the amount of the Bank/IDA loan the total project cost, and the amount of funds out of the total project going to large/commercial farmers.

Finally, please provide a brief statement on which of the above goals—food production, exports, and governmental revenues—are to be met by large and commercial farmers in each project.

Please list for the record the projects in fiscal year 1974 and so far in fiscal year 1975 in which "increases in output and improvements in the balance of payments" were judged to be overriding considerations so that projects were authorized where the major share of the benefits are expected to accrue to high-income groups.

Please list the project, the World Bank/IDA loan amount, and the proportion of the loan funds and the proportion of total benefits expected to go to "high income" groups.

Mr. REYNOLDS. The following table contains the information you request for projects approved in fiscal year 1974. A similar project list approved in fiscal year 1975 is currently being compiled by the Bank and will be submitted to the committee upon completion.

[The table follows:]

FISCAL YEAR 1974 LENDING FOR AGRICULTURE TO HIGHER INCOME GROUPS

[Dollar amounts in millions of U.S. dollars]

Country/Project	IBRD amount	Project cost	Beneficiaries	Proportion of total benefits expected to go to high income groups (percent)	Major goals to be met by large and/or commercial farmers in project
Uruguay—Livestock IV	$13.5	$41.1	Small/large farmers [1]	20	Increased production/balance of payments.
Nicaragua—Agriculture credit	8.5	15.8	Large farmers [2]	85	Do.
Venezuela—Agriculture credit	22.0	50.4	Medium/large farmers. [3]	60	Do.
Israel—Agriculture credit	35.0	84.0	Medium farmers [4]		Do.
Jamaica—Agriculture credit	5.5	10.8	Commercial farmers. [5]	60	Do.
Guyana—Tapakuma Irrigation	12.9	18.5	Large/small farmers. [6]	37	Do.
Ivory Coast—Oil palm III	2.6	10.9	Parastatal		Do.

[1] Of 3,600 plan borrowers under 16 projects, 38 percent are ranchers with holdings between 0 to 100 ha., 20 percent with holdings between 101 to 200 ha., 20 percent with ranches between 201 to 500 ha. and 22 percent ranchers with holdings above 500 ha.

[2] Project designed to help finance on-farm development on 5 types of production units: rainfed dairy farms, irrigated dairy farms, rainfed beef breeding and fattening ranches, irrigated pastures and beef fattening farms and irrigated crop farms.

[3] Medium sized farmers are defined as those having an annual gross income of U.S. $7,000 to U.S. $16,000 equivalent.

[4] Size of farm distorted in light of kibbutzen, average size 500 ha. and moshavin which typically consists of 50 to 150 independent farming families, each with a production unit averaging 3 to 4 ha.

[5] Farmers operating 100 to 200 ha.

[6] Large farm being above 30 acres.

LIVESTOCK PROJECT IN SOMALIA

Mr. LONG. On page 22 of the World Bank annual report for fiscal year 1974, the Trans-Juba livestock project in Somalia is mentioned. The project will include the construction of 5 markets to "give nomadic herdsmen an incentive to sell more cattle to the national Livestock Development Authority."

Last year, in response to one of my questions (page 855, part I of fiscal year 1975 foreign operations hearings) on four livestock loans to East Africa, you stated that these loans were not directed toward nomadic herdsmen still in the subsistence sector because the World Bank did "not have the additional resources to enable it to carry out the anthropological studies necessary to determine how best to draw people from the subsistence sector."

Has the situation of the World Bank changed so that it now has the resources in fiscal year 1974 that it did not have in fiscal year 1973?

With regard to the project in Somalia noted above (the Trans-Juba livestock project), how do you know that the nomadic herdsmen will sell their cattle? It is my understanding that it is often difficult to convince nomadic herdsmen in Africa to sell their cattle because (a) increased herds are a sign of increased wealth and (b) because herdsmen often live from the byproducts of living animals.

Mr. REYNOLDS. IDA expects that the Trans-Juba livestock project in Somalia will have a beneficial and far-reaching effect on the Somali nomadic peoples. These nomads are among the most market-oriented

of stock owners in East Africa. The project is concerned with improving an existing marketing authority, a livestock development agency, providing new markets, water and stock routes and fattening ranches. These capital investments, coupled with higher prices and the nomads' market orientation, are expected to increase sales and off-take of livestock significantly. The project does not attempt to change the traditional economic and social patterns of the nomads but rather to improve and expand the marketing facilities and methods which they already use. In these circumstances the availability of World Bank money to carry out anthropological sociological studies was not a factor since such studies were not considered necessary.

MALIAN RURAL DEVELOPMENT PROJECT

Mr. LONG. Does the rural development project in Mali include commitments by the Malian Government for increases in farmer prices for foodgrains? In other words, will farmers receive higher prices for their increased production?

It has been reported that most surplus food production in Mali in the past—before the height of the Sahel drought—went to neighboring countries, such Mauritania and Niger where food prices were much higher.

With regard to the Mali rural development project, what are current producer foodgrain prices—in Malian francs and dollars—and, if they will be raised or have recently been raised, what is the past or projected increase?

Mr. REYNOLDS. The Malian Government did undertake to fix no later than November 30, 1974 the producer price of millet and sorghum at not less than MF25/per kilogram—as compared to MF20 per kilogram prevailing at the time—and also to carry out a study on marketing arrangement and price structure for these products.

In accordance with this agreement farm producer prices—per kilogram, first grade—were increased as follows after June 28, 1974:

Products	Previous prices		New prices		Percent increase
	MF	United States dollars [1]	MF	United States dollars [1]	
Millet/sorghum	20	0.05	32	0.08	60
Paddy	25	.06	40	.10	60
Seed cotton	50	.13	75	.19	50
Groundnuts in shell	30	.08	40	.10	33

[1] U.S. $1 = MF400.

Note: There are indications that these prices will be further increased to offset the impact of rising input prices.

Mali was in the past a traditional grain supplier for many deficit neighboring countries, in particular Mauritania. Furthermore, there was evidence that the Government attempted to enforce unrealistically low producer prices which reduced the volume of grain available for sale in domestic markets. This encouraged a nationwide black market and smuggling to neighboring countries.

Mr. LONG. With regard to the Malian rural development project, if there will be no increase in producer prices, why do you expect the project to succeed?

Mr. Reynolds. It was because of the desire to assure effective incentives and put an end to black market and smuggling operations that IDA insisted upon the aforementioned actions with regard to raising producer prices. Without these actions the project's success would be seriously jeopardized.

LIGHT CAPITAL AND INTERMEDIATE TECHNOLOGY

Mr. Long. What experimentation is the World Bank/IDA doing, if any, with the use of light capital, or intermediate technology, in its development projects?

Mr. Reynolds. The World Bank group is very interested in developing light capital and intermediate technology in its development projects and is encouraging its borrowers to use them where they are applicable. As one effort the Bank has undertaken a broad comparative study of different technologies in civil construction, with a particular focus on road and irrigation works. It is being undertaken in cooperation with U.S. AID, Canada, the United Kingdom, Japan, Germany, Sweden, Norway, Finland, Denmark and the International Labor Organization.

Experimentation has emphasized improved quality of tools manually powered vehicles, animal-drawn devices, et cetera. Phase II of the study which began in the autumn of 1973 has focused specifically on experimentation in India and Indonesia. While many forms of labor—intensive technology have proven to be uneconomic, the preliminary findings of the study are encouraging in showing that there is a range of intermediate technology which can be effectively used to minimize costs and increase employment. As the results are evaluated, they will be progressively embodied in project operations. This has already begun with projects in Kenya and Honduras.

Mr. Long. What contacts, if any, has the World Bank had with the Intermediate Technology Development Group, Ltd. of England, with the work of Dr. Amir Khan of IRRI in the Philippines, and with others working in the area of light capital or intermediate technology?

Mr. Reynolds. The Bank has had close and fruitful contacts with the Intermediate Technology Development Group (ITDG) over the past several years. Several projects have been designed and evaluated by the Bank in collaboration with ITDG. These projects include:

1. An $18.5 million IDA credit to Egypt in 1973 to help finance a 10-year modernization program for Egypt's cotton ginning industry.
2. Small-scale fisheries projects in the People's Democratic Republic of Yemen, Indonesia, and the Philippines.
3. An $11.6 million livestock development project in the Cameroons, which includes construction of two municipal slaughter plants and the improvement of 12 retail butcher shops.
4. A $3 million cotton rural development project in the Ivory Coast which will emphasize the adoption of ox-drawn cultivation techniques.

Similarly, the Bank has a close supportive and cooperative relationship with the IRRI. Among other things, there was close cooperation between the two on a Bank loan for rice processing and storage in the Philippines. Dr. Amir Khan, who is a frequent visitor to the Bank, helped design kerosene-fired driers for this project.

Mr. LONG. Can you provide any examples of instances in which the World Bank/IDA has used, in its projects, light capital implements or processes developed by the above-mentioned groups or other groups or individuals?

Mr. REYNOLDS. I can't cite any specific examples of newly developed implements or techniques already in use beyond those mentioned in my answers to your earlier questions. Of course, all projects financed by the Bank aim to achieve maximum economy and a high rate of return, and are thus adapted to the particular economic circumstances of the borrowing countries. The equipment and processes involved more often than not are quite different than those in use in the highly industrialized countries.

Mr. LONG. What role does the World Bank/IDA see in the use of light capital or intermediate technology in furthering development in developing countries and, especially, in helping poor people?

Mr. REYNOLDS. As I have mentioned, the Bank in all its activities encourages the adoption of methods properly adapted to the economic circumstances of the borrowing countries. This means methods that tend to make use of abundant labor and to economize on use of scarce capital within the limits of achieving minimum total cost. This serves not only to increase employment and help the poor, but also to obtain the highest possible returns on capital and highest possible rate of overall economic growth. Through the technology study, and in other ways, the Bank is also trying to stimulate the development of new methods of construction and production aimed at making further use of available labor. The results of this work, while still preliminary, appear highly encouraging.

METHANE GENERATION PLANTS

Mr. LONG. What work is the World Bank/IDA doing on the possibility of providing power to rural areas—or to more densely populated areas—through small-scale methane generation plants which, I understand, produce as a byproduct a residue that can be used for fertilizer?

Do usable models of small-scale methane generation plants exist that could be provided in such projects as suggested above?

If no usable models of small-scale methane generation plants exist, what steps is the World Bank/IDA taking to encourage the development of such plants?

Mr. REYNOLDS. To date, the World Bank has not financed any project which include methane generating plants. Bank experts are familiar with such plants, but have regarded their cost for use in rural development or other projects financed by the Bank as being prohibitive at the present time. The Bank intends to follow technological developments relating to methane generation closely with a view to its possible use in future projects should this prove economical.

U.S. NEGATIVE VOTE ON IDA CREDITS TO INDIA

Mr. LONG. Mr. Reynolds, on page 9 of your statement, you refer to my amendment to the IDA authorization which has required a negative vote by the United States against IDA credits to India.

As you know, my amendment to the IDA legislation requires the U.S. Executive Director to vote against any loan to any country that

develops a nuclear explosive device and is not a party to the nonproliferation treaty.

Has the U.S. vote been the only negative vote against these projects?

Mr. REYNOLDS. The U.S. vote has been the only negative vote against these projects, except in the case of one credit which was also opposed by the Executive Director for Germany. His opposition, however, was for quite different reasons; he felt that the particular credit in that case lacked adequate economic justification.

Mr. LONG. What do you think should be the policy of the U.S. Government and the policy of the multilateral lending institutions toward those developing countries that develop nuclear weapons?

Mr. REYNOLDS. I think both the United States and the multilateral institutions should do everything they effectively can to prevent the proliferation of nuclear weapons. Certainly they should zealously guard against contributing through their lending policies to the diversion of domestic resources in the borrowing countries to nuclear weapons development. Whether or not this should be carried to the point of opposing all loans to a country which has exploded a nuclear device as India has, however, is open to question. It depends, I believe, on the precise circumstances. In the case of India, other nations have not supported the U.S. position. Others have expressed the view that Indian nuclear development is primarily intended for peaceful uses, or that the resources devoted to it are not excessive or enlarged by IBRD/IDA assistance.

EVALUATION DEPARTMENT OF IBRD

Mr. LONG. Mr. Reynolds, on page 10 of your statement, you mention the Evaluation Department of the World Bank and the excellent work that it is doing.

Will you provide me with copies of these evaluation reports?

Mr. REYNOLDS. It is my understanding that the Treasury Department is arranging to provide the chairman of the subcommittee with a number of recent evaluation reports so that members of the subcommittee will have an opportunity to examine the reports and at the same time protect their confidential nature. Additional reports can be made available from time to time if the subcommittee wishes to receive them.

The reports prepared by the Operations Evaluation Department of the World Bank are primarily on projects recently completed in borrowing countries. These reports are made available within the Bank and to its Executive Directors on a confidential basis. The Bank has felt that this classification is necessary for a variety of reasons. The Bank aims to produce high caliber reports and feels that the objectivity of the reports might be reduced if the evaluators were concerned about the potential reaction internationally or domestically in the borrowing countries. In addition, classification meets the need of the evaluators to have access to classified information.

I should also like to point out that the Board of Executive Directors earlier this year approved changes in the evaluation system which would further enhance the independence of the evaluating group. These changes are planned to become effective before the end of this calendar year. Under this revised system, the head of the evaluation

group will report directly to the Board of Directors of the Bank. We are also aiming at more limited use of classified reports in the future so that the reports will be more generally available.

LOANS TO OPEC COUNTRIES

Mr. LONG. Please provide for the record the amounts of World Bank and IDA loans in fiscal years 1974 and 1975—already approved or expected to be approved—going to any of the OPEC oil-producing countries. Please note totals by country and separate subtotals for IDA and World Bank credits.

Mr. REYNOLDS. The attached table shows the amount of IBRD and IDA loans made to the OPEC countries in 1974, the amount already approved or in the pipeline for 1975.

[The table follows:]

IBRD AND IDA LOANS TO OPEC MEMBER COUNTRIES

[In millions of dollars]

Country/purpose	IBRD		IDA	
	Fiscal year 1974	Fiscal year 1975	Fiscal year 1974	Fiscal year 1975
Algeria:				
Port development	70.0			
Power	38.5			
Railways	49.0			
Rural development		[1] 8.0		
Industrial finance		[1] 35.0		
Total	157.5	43.0		
Ecuador:				
Water supply	23.2			
Irrigation			[2] 5.5	
Total	23.2		5.5	
Indonesia:				
Railways	48.0			
Industry		50.0		
Do		115.0		
Irrigation		65.0		
Urban development		25.0		
Water supply		14.5		
Development finance			[2] 10.0	
Fisheries			6.5	
Industrial estates			[2] 16.5	
Irrigation			30.0	
Technical assistance			5.0	
Tourism			16.0	
Power		[1] 34.0		
Fertilizer distribution		[1] 60.0		
Total	48.0	363.5	84.0	
Iran:				
Industrial Credit Bank	25.0			
Industrial & Mining Development Bank	75.0			
Port development	65.0			
Power	58.0			
Urban transport	[2] 42.0			
Agriculture		40.0		
Fisheries		12.5		
Agriculture				
Rural electrification				
Total	265.0	52.5		

*See footnotes at end of table, p. 707.

IBRD AND IDA LOANS TO OPEC MEMBER COUNTRIES—Continued

[In millions of dollars]

Country/purpose	IBRD		IDA	
	Fiscal year 1974	Fiscal year 1975	Fiscal year 1974	Fiscal year 1975
Nigeria:				
Agriculture	20.0			
Port development	[2] 55.0			
Agriculture		29.0		
Do		17.5		
Do		19.0		
Agriculture (not yet signed)		21.0		
Livestock		21.0		
Agriculture		[1] 17.0		
Do		[1] 19.0		
Do		[1] 29.5		
Total	75.0	173.0		
Venezuela: Agricultural credit, total	22.0			
Grand total	590.7	632.0	89.5	

[1] Scheduled for consideration by Board of Executive Directors prior to end of fiscal year 1975.
[2] Approved during first half of fiscal 1974, before oil price increase became effective.

BANK RESOURCES FROM OPEC COUNTRIES

Mr. LONG. Please provide for each OPEC oil-producing country the amounts of resources it has provided the World Bank group through purchases of World Bank bonds or through other means. Please note the terms at which these resources were provided and the current interest rate which the World Bank must pay in the New York and other capital markets to float its bonds.

Mr. REYNOLDS. The OPEC countries have subscribed to a total of $1,317 million of IBRD capital, 10 percent of which has been paid in. They have contributed $91 million to IDA. The IBRD has borrowed $2,636 million from OPEC countries through bond sales.

Interest rates for World Bank bond issues vary according to the market, the maturity of the bond, and the precise timing of the sale in the context of constantly changing market conditions. For example, the most recent borrowings in the U.S. market, approved on December 10, 1974, yielded 7.93 percent for $300 million in 5-year maturities, and 8.15 percent for $200 million in 10-year bonds. A more recent 7-year IBRD bond issue for $24 million in Japanese yen yielded 8.64 percent.

In addition to capital contributions and bond purchases, several OPEC countries have also provided cofinancing for both IBRD and IDA projects.

[The tables follow:]

OPEC COUNTRY CONTRIBUTIONS TO IBRD AND IDA

[In millions of dollars]

	IBRD [1]	IDA
Algeria	96.5	5.1
Ecuador	21.8	.8
Indonesia	265.7	13.9
Iran	190.6	5.7
Iraq	84.2	1.0
Kuwait	83.7	54.7
Libya	24.1	1.3
Nigeria	139.0	4.2
Quatar	20.6	----
Saudi Arabia	137.9	4.5
United Arab Emirates	15.4	----
Venezuela	237.9	----
Total	1,317.4	91.2

[1] Subscribed capital, in current dollars, 10 percent of which has been paid in with the balance subject to call.

IBRD BORROWING FROM OPEC COUNTRIES

[In millions of U.S. dollars]

Country and date of borrowings [1]	Amount	Rate
Saudi Arabia:		
May 1, 1968	14.0	6 percent in U.S. dollars.
July 1, 1974	140.8	8 percent in Saudi Arabian riyals.
December 15, 1974	750.0	8.5 percent in U.S. dollars.
Venezuela:		
March 11, 1974	23.8	7 percent in Bolivaries.
September 15, 1974	102.4	8 percent in Bolivares.
August 15, 1974	400.0	8 percent in U.S. dollars.
Iran:		
April 15, 1974	200.0	8 percent in U.S. dollars.
October 15, 1974	150.0	Do.
Nigeria: December 30, 1974	240.0	Do.
Kuwait:		
September 15, 1968	42.0	6½ percent in Kuwait dinars.
November 1, 1971	91.2	7½ percent in Kuwait dinars.
April 1, 1972	61.0	6¾ percent in Kuwait dinars.
August 15, 1972	45.75	7 percent in Kuwait dinars.
March 1, 1973	84.24	Do.
December 15, 1973	84.24	7¼ percent in Kuwait dinars.
Libya:		
November 16, 1970	28.0	8 percent in Libyan pounds.
August 9, 1973	101.4	7⅝ percent in Libyan pounds.
Abu Dhabi: May 15, 1974	75.8	8 percent in United Arab Emirates dirhams.
Total IBDR Borrowing from OPEC	2,635.6	

[1] The date refers to the time the agreement goes into effect.

IDA POLICY ON LOANS TO OPEC COUNTRIES

Mr. LONG. What position does the U.S. Government take on World Bank and IDA loans to the OPEC oil-producing countries?

Mr. COOPER. I believe the World Bank should not make loans to countries which do not have a current urgent need for funds. We do not believe simultaneous purchases of IBRD bonds and new loans is an appropriate "offset." Instead of using such "offset" operations, the Bank's arrangement with OPEC countries generally should be based on reimbursable technical assistance and the "buy-back" of loans, whereby the borrowing country, in effect, repays the Bank immediately upon disbursement of the loan proceeds. The United States ex-

plained our position along the following lines at a meeting of the IBRD Board. For those richer oil exporting countries with financial resources in substantial excess of near-term development needs, the Bank should require effective "buy-back" arrangements before any new loans are made, and also require full reimbursement for technical and managerial assistance. For poorer oil exporting countries, we could envision less than full reimbursement for technical assistance. Loans to oil exporting countries which do not incorporate "buy-back" provisions should be considered on the merits of each such country's situation, and should be based on its need for financial support, taking into account its current and prospective economic situation and foreign exchange requirements. The total of any such loans to oil exporting countries should be carefully monitored, bearing in mind the pressing needs of other developing countries facing serious balance of payments deficits.

The United States does not believe there should be any link between Bank borrowing and Bank lending. Therefore, we do not believe that the transitional practice of the past year by which the Bank negotiated financial offsets through agreements providing for Bank loans on the one hand and purchases of Bank obligations on the other should continue. We believe that decisions on IBRD lending must be made independently of whether or not a country chooses to purchase IBRD bonds, and that the marketing of IBRD obligations must be independent of Bank lending policy.

The United States has made it clear that it does not support IDA lending to OPEC countries.

IFI APPROPRIATION REQUESTS

Mr. LONG. What total authorizations and appropriations are requested or expected to be required for fiscal year 1976 and for fiscal years 1977–80 for the African Development Bank (or its soft loan window) the World Bank Group, the Inter-American Development Bank and the Asian Development Bank? Please list each Bank separately and note the type of resources requested (capital subscriptions or soft loan contributions).

Mr. COOPER. The table below shows the fiscal year 1976 requests for the international development banks, and the totals of projections of U.S. contributions for fiscal years 1977–80. These projections are very preliminary as they have been made in the absence of either or both (a) international discussions or negotiations on the future level of multilateral funding for such institutions and (b) budgetary decisions by the executive branch or consultation with the Congress.

[The table follows:]

IFI APPROPRIATION REQUESTS

[In millions of dollars]

	Fiscal year—	
	1976	1977–80
IBRD (capital)		(1)
IFC (capital)		100
IDA (soft loan)	375	1,500
IDB:		
OC/IRC (capital)	240	480
FSO (soft loan)	275	800
ADB:		
OC (capital)	121	484
SF (soft loan)	50	200
AFDF (soft loan)	15	35

[1] An increase in IBRD capital resources might be associated with the increase in IMF quotas now being negotiated.

DEBT RESCHEDULINGS

Mr. LONG. What countries do you expect to require multilateral debt rescheduling this year?

Mr. COOPER. As a general policy, the U.S. Government does not consider debt rescheduling a policy instrument for providing official economic assistance. Thus, debt reschedulings are limited in number and are generally confined to cases of imminent default. For fiscal year 1975, it is expected that only one rescheduling will occur and that is for Chile. In early May this year, Chile's major creditors met under the auspices of the Paris Club to consider Chile's request for rescheduling its external debts this year. All of the creditors agreed that Chile was faced with an imminent default situation and that on economic grounds debt rescheduling was appropriate. Accordingly, a multilateral understanding was reached for rescheduling about $240 million of Chile's debt falling due this year. The U.S. share is approximately $83 million on service payments of $170 million.

Mr. LONG. What rescheduling do you expect this year of World Bank/IDA credit repayments? What reschedulings of these payments occurred in 1974?

Mr. REYNOLDS. There were no rescheduling of World Bank/IDA credits in 1974 and none are anticipated for this year.

Mr. LONG. Please provide an updating of international debt reschedulings as presented on page 510, part I, of the hearings on Foreign Operations.

Mr. COOPER. In 1974 the United States participated in multilateral debt rescheduling for India and Pakistan. For Pakistan, the U.S. share is $210 million of a total $650 million. The consolidation period is 4 years with terms equating a grant element of 62 percent. This is the last rescheduling based on the events of 1971 in Pakistan. The United States has not yet signed a bilateral agreement to implement the memorandum of understanding of June 28, 1974. With the exception of some Eximbank loans, all major bilateral issues have been resolved and we are optimistic that we will soon be able to finalize the bilateral agreement. For India, the U.S. share is $45 million of a total $194 million. The consolidation period is 1 year with terms equating a

grant element of 62 percent. The bilateral agreement was signed May 2, 1975. As required by section 4 of the Foreign Disaster Assistance Act of 1974, the agreement was transmitted to Congress, May 6, 1975, prior to implementation. A more detailed description of these reschedulings is contained in the administration's "Report on Debt Relief Granted by the United States to Developing Countries."

URBAN SLUM PROJECT IN MANILA

Mr. LONG. Would you please provide for the record any information available on a possible World Bank/IDA project to assist in the development of an urban slum—Tondo—in Manila, the Philippines?

Mr. REYNOLDS. A project is under preparation and is expected to be appraised in July 1975. On a preliminary basis it is anticipated that the following components will be included as part of the project:

Upgrading the Tondo foreshore

An area of approximately 184 hectares with 27,000 families, that is, approximately 185,000 people, which is adjacent to the port area of Manila. The upgrading proposals would include provision of water supplies, sewerage, storm drainage, roads, footways, street lighting, community facilities (such as schools, health clinics, community centers, playgrounds, and so forth), development of household and small-scale businesses and the provision of housing loans. Land tenure would be rationalized (either outright sale to squatters or 25-year leases), and relocation kept to a minimum and avoided if at all possible.

Land reclamation

Approximately 60 hectares of obsolete fish ponds would be used for the initial phase of development of a new low-income community at Dagat Dagatan (approximately 3 to 4 kilometers from the Tondo foreshores). The reclaimed land would be developed for residential and commercial/industrial purposes.

Trunk infrastructure

In order to service the land reclamation at Dagat Dagatan, it would be necessary to construct approximately 10 to 12 kilometers of 2-lane highways, sink bore holes for water supply and provide sewerage outfall facilities.

Urban transport

This component would finance signaling at 60 junctions and the provision of a line of credit for bus and jeepney purchase and/or rehabilitation.

Technical assistance

Would be financed under the loan to provide for training and for studies designed to assist in improving the system of local government financing and delivery of services in metropolitan Manila.

Mr. LONG. With regard to the above-mentioned Philippine project, what is the principal organization which would administer such a project?

Mr. REYNOLDS. The Tondo Foreshore Development Authority (TFDA) would administer the upgrading and new community com-

ponents of the project, coordinating with other agencies as appropriate, for example, the Manila Water Supply and Sewerage Authority (MWSS) for the water supply and sewerage components, the Ministry of Education for the schools component, and so forth. The urban transport component would be administered by the Project Planning and Development Office (PPDO) in the Department of Public Works, Transportation and Communications (DPWTC).

Mr. LONG. With regard to the above-mentioned project in the Philippines, what is the attitude of the Philippine Government and what sums and timetables are foreseen?

Mr. REYNOLDS. The attitude of the Philippine Government is positive. It initiated preparation work on the project in 1973 and approached IBRD as a possible source of financing. The amount of the proposed loan is undetermined as yet. However, if the full project is undertaken, the total cost could be up to $75 million, of which the Bank may finance up to 50 percent. Depending on the outcome of further pending discussions with the government, this project would be ready for Board approval by fiscal year 1977.

SOUTHWESTERN PAKISTAN

Mr. LONG. What plans is the World Bank/IDA considering regarding proposed projects to develop the southwestern region of Pakistan from the Iranian border to the villiage of Gwadar? What benefits to the stability of Pakistan would you expect to come from substantial economic development in this region?

Mr. REYNOLDS. World Bank/IDA has no specific project in its pipeline at the present time which would help develop the southwestern region of Pakistan from the Iranian border to the village of Gwadar.

World Bank/IDA sent a mission to the coastal region of Pakistan in April 1975 to conduct a Marine Fisheries Sector Review and project identification mission. As a part of its overall coastal review involving some 10 towns, this mission visited the towns of Ganz, Pishakan and Jiwani which are located between the Iranian border and Gwadar.

No specific projects have been identified as yet for this area. The main problems are:

(a) lack of development alternatives (fishing, mostly by sailing craft, is the only industry and this has been adversely affected by closing of certain territorial waters of Oman and Iran to Pakistani fishermen);

(b) lack of fresh water supplies; and

(c) relatively low population (about 25,000 in the area from Iran to Gwadar) in relation to other much more densely populated areas of Pakistan.

Mr. PASSMAN. Mr. Roush?

CHANGES IN SECTORAL EMPHASIS OF IDA LOANS

Mr. ROUSH. Mr. Chairman.

Last year during the committee hearings you told the committee that the major emphasis on loans had been in the area of agriculture and transportation. Apparently this has been the major thrust for a period

of years. Is that changing in any way, Mr. Reynolds; are there other areas of concern that seem to be coming into the picture now that have perhaps taken a back seat in prior years?

Mr. REYNOLDS. Yes, indeed.

Let me say, first of all, that as of say 3, 4 years ago, agriculture would not have shown up nearly so large as it does now. There has been much more of an emphasis on agriculture in recent years and within the areas that Dr. Long spoke of that are oriented to help the very poor. That is certainly a new thrust in the activities of the institution.

But there are new areas too, such as education, which are receiving more emphasis now than they have in the past; again, education aimed at not adding to the redundancy of classically educated liberal arts students but rather aimed at the poor, making them more productive. More of an emphasis is being placed on basic education, basic technical training, that kind of thing.

Population is certainly a new area that has come up in the last 2 or 3 years. We have not done too many projects yet, but we have done an increasing number.

Mr. ROUSH. Are you talking about birth control when you say population?

Mr. REYNOLDS. Yes, sir.

Mr. ROUSH. Do you have any idea how much money is being devoted or has been in the last year to programs devoted to population control?

Mr. REYNOLDS. I could certainly furnish it for you. It is not large in percentage terms, but in absolute amounts it is pretty significant. It has all been done in the last 2 or 3 years. It has been done in some countries where population is a particularly critical problem, like Bangladesh, Egypt, and others.

(The information follows:)

Last year IDA committed $17 million for population projects. There was a $5 million credit for a project in Egypt and a $12 million credit for a project in Kenya. To date in fiscal year 1975, IDA has provided $15 million for a population project in Bangladesh. The IBRD and IDA together have committed a total of $123 million in support of population projects since 1970.

Mr. ROUSH. Maybe we should use a more delicate term like "family planning."

Mr. REYNOLDS. It is a sensitive issue in the World Bank, that is precisely why they are referred to as population projects rather than birth control projects. But reducing the birth rate of the country is a fundamental aim of the project.

DEFAULTS AND RESCHEDULINGS

Mr. ROUSH. You have indicated there are no nations in default and there have been no reschedulings during the last year, is that correct?

Mr. REYNOLDS. Certainly no defaults, no reschedulings on IDA. No defaults on World Bank loans either. I think there have been a few instances of rescheduling of bank loans, but very few, and not recently.

PROCUREMENT

Mr. ROUSH. Of this money which is used for loan purposes, do you have any idea how much of it is spent in the United States?

Mr. REYNOLDS. Yes, you mean for procurement in the United States?

Mr. ROUSH. Yes.

Mr. REYNOLDS. I think the cumulative procurement expenditures of IDA in the United States amount to around 17 percent of total IDA procurement. I think it amounts to something like $500–$600 million in the aggregate.

Mr. ROUSH. Is that per year?

Mr. REYNOLDS. No, no, that is the aggregate, the cumulative figure since the inception of IDA.

I think the yearly figure at the moment, I would have to check to make certain, runs between $150 and $200 million a year.

Mr. ROUSH. Thank you, Mr. Chairman.

REPAYMENTS

Mr. PASSMAN. May we state for the record at this point that you could not have any arrears or any roll-overs because you did not start disbursing funds for IDA until about 1962, is that not correct?

Mr. COOPER. Yes.

Mr. PASSMAN. And you had a 10-year grace period in which they did not pay a darn nickel. That would bring you up to 1973 without anything being due. Then it would only be possibly 1 percent on the limited amount for 1 year, is that not correct?

Mr. REYNOLDS. That is correct, Mr. Chairman.

Mr. PASSMAN. Of course the chances are that there are men in this room who could put up as much as what has been due. So I do not think you had your answer quite complete, that is why I am suspicious of all these programs.

If somebody does not elaborate, it is a sure thing the witnesses are not going to elaborate. Certainly it is not due so there could not be any arrears or roll-overs.

Mr. REYNOLDS. That is precisely why I also referred to the World Bank.

Mr. PASSMAN. Let's not go to the World Bank.

Mr. OBEY?

EMPHASIS ON AGRICULTURAL DEVELOPMENT

Mr. OBEY. Mr. Reynolds, on page 5 of your statement, and this follows along somewhat the question asked you by Mr. Roush, you say: "IDA has recently given even greater emphasis to agricultural and integrated rural development projects" and "stimulating economic growth in the least developed countries of the world which are primarily agricultural nations."

The first part of that sentence, the greater emphasis to agricultural and integrated rural development projects, when you say greater, what do you mean?

What is the measurement that you use to define that? What percentage of your funds are you providing for projects of that nature, this year versus, say, 3 years ago?

Mr. REYNOLDS. I believe this year to date in both of these areas, agriculture and rural development, the total in the current year, I think, is pretty close to 40 percent, between 35 and 40 percent.

If you had looked 3 or 4 years ago, I would have to check the record, but it was substantially lower than that. We are talking about a much bigger lending level now.

Mr. OBEY. I am looking at the emphasis you placed on this. Any idea how much lower?

Mr. REYNOLDS. I would have to check.

I suspect, taking the two together, 3 or 4 years ago it was probably not more than 25, and I would guess below that.

Mr. OBEY. So you think you have increased it by approximately 40 percent over the last 3 years?

Mr. REYNOLDS. I would think something of that order.

As I say, this is with a larger lending total. So it is a substantial expansion in absolute amounts.

Mr. OBEY. I would like to know exactly what that percentage would be.

Mr. REYNOLDS. I can furnish that.

[The information follows:]

In fiscal year 1969, IDA loaned a total of $89 million, or 23 percent of its total lending in that year, for agricultural projects. In fiscal year 1974, the amount was $309 million, or 28 percent of total lending. For fiscal year 1975 (through February 1975), the corresponding figures are $341 million and 36 percent.

POPULATION CONTROL PROJECTS

Mr. OBEY. Further down on page 5, you mention again this $15 million credit was recently extended for a population project in Bangladesh. How many population projects are you asked to fund? Do you have any idea how many you were asked to fund last year, for instance, and how many you had to turn down?

Mr. REYNOLDS. I think last year we only did two, Congressman, one in Egypt and one in Kenya. This Bangladesh one is more recent; that is, in the present fiscal year.

Mr. OBEY. Do you know how many you were asked to fund?

Mr. REYNOLDS. I do not think we turned down any. Others are being developed. It takes time to work these projects out; a lot of care and thought goes into them. I do not think anyone has come with a request for credit for a population project that was turned down unless the Bank felt it was not a viable project.

There are a number being worked on now which should result in loans.

EVALUATION OF LOANS

Mr. OBEY. Could you describe for me your evaluation process for both prospective loans and existing projects?

How do you determine whether or not a project is being successful or has been successful? What measurement do you use to separate success from failure?

I know people do not like to use those terms, but I want to use them anyway.

Mr. REYNOLDS. First of all, to start at the beginning, before a loan is made, a project is very rigorously appraised and analyzed from all standpoints, technical feasibility, financial soundness, managerial capacity.

It is not until the bank is satisfied that these kinds of criteria can be met that the loan is made. Once the loan is made, the project is supervised very carefully by the Bank's staff, as it is carried out.

There are requirements for regular submissions of reports on the progress of projects, periodic inspections are carried out to make sure that the project is being implemented as it was planned, and all of the requirements that were included, covenants and so forth that were included in the loan, are being fulfilled.

Mr. OBEY. What percentage of your projects would you define as having been successful in terms of meeting their original or announced goals?

Mr. REYNOLDS. I would say it is a very high percentage.

Mr. OBEY. What is that?

Mr. REYNOLDS. I cannot state with certainty what the staff would consider it to be. It is often difficult. Many of these projects run into difficulties, they are not always all as successful as is hoped, but I think the percentage of good, successful ones is high.

Mr. OBEY. What do you mean by high; 40, 50?

Mr. REYNOLDS. I would think, if you are talking about successful in terms of the objectives, basic objectives for the project having been met, certainly way, way over 50 percent. I would say 70, 80 percent, maybe even higher than that.

We also have, I did not finish, but we certainly have a full and complete evaluation system established in the last few years, largely at the insistence of the United States.

Mr. OBEY. I would be frankly shocked if your figure was that high, because if I look at loans given in this country, if you look at the SBA, I would be darned surprised if you had a 70 percent success rate with SBA.

Mr. REYNOLDS. I am talking only about completed projects.

IDA, the World Bank, has greatly expanded its lending level in recent years. There are many, many projects now still in the implementation stage.

I am talking only about the projects that have been completed.

Mr. OBEY. That is what I am talking about, too.

I would like you to give us—because I do not have enough time to pursue this now—give us for the record in some detail what measures you do use to determine success from failure, and I would also like you to list in the record 20 or 30 projects which you would cite as being failures, projects which have not met their goals, why you think it did not happen. And I wonder if you could describe some of them to us which do not meet their goals now.

[The information follows:]

The World Bank group evaluates projects principally in terms of the degree to which they have attained their major objectives, as prescribed in the loan documents approved by the Board of Directors. Of particular importance is the economic rate of return realized on the funds invested; also the extent to which institution building goals have been achieved. Increasingly the Bank also expects to assess the income distribution effects of projects, although the methodology for doing this has not been fully developed and will require further work.

Recently, a thorough comparative review of 50 projects was carried out by the Bank's evaluation department. These were projects approved by the Board in the late 1960's for which loan disbursements were completed in the last 2 or 3 years. Based on this review, the Bank concluded that the average economic

rate of return was about 15 percent, considerably above the 10 percent rate of return which is felt to be the minimum consistent with satisfactory performance. Taking account of both economic and institution building goals, the study came to the following general conclusions regarding the success of the 50 projects evaluated:

[In percent]

	Economics	Institution-building
Poor	14	22
Less successful than expected, but satisfactory	10	30
As successful as expected, or slightly better	56	34
Much more successful than expected	20	14
Total	100	100

As this indicates, 86 percent of the projects studied were successful in attaining the economic objectives set for them. The degree of success in achieving institution-building goals was somewhat less, but this is not surprising because the difficulty encountered in changing institutional structures is often formidable.

The Bank has had very few projects which could be judged unequivocally as failures. One which can be thus considered was a potash project done in Congo (Brazzaville). This project, which was supported by a Bank loan of $30 million, was designed to assist in establishing a potash mine. The project was completed in 1969, roughly on schedule, but with a 14 percent cost overrun. It was then discovered, however, that the ore body was considerably shallower than anticipated and that a recovery level only 25 percent of that projected could be attained. As a result, the cash flow was insufficient to make the project viable. Nevertheless, the Bank loan, which like all Bank loans was made to (or guaranteed by) the government, is being repaid on schedule and will be fully repaid in 1984.

Projects which were included in the recent 50 project study by the evaluation department and were judged to have been poor include the following:

1. *Colombia: Acerias Paz Del Rio steel expansion project.*—A bank loan of $30 million was approved for this project in 1963. Delays in completing major items of the project ranged from 2 to 5 years, owing to weak management, poor relations between the company and the consulting engineer, import license delays, improper equipment specifications, and poor performance by local contractors. Particularly troublesome was the purchase of $10 million of hot rolling equipment which has been unusable because of the lack of related ancillary equipment. The rate of return over the project's life is now projected to be less than 3 percent.

2. *Jamaica: Education project.*—A loan for $9.5 million approved in 1966 was made for the construction, equipment, and furnishing of 50 new junior secondary schools. Although all schools were satisfactorily completed, there were significant cost and time overruns. Project completion took 6 years, rather than 3 as planned, due to technical difficulties and slow bureaucratic procedures. Final project costs were 54 percent higher than estimated, resulting in a cost per student of $750 rather than the projected $450.

3. *Yugoslavia: Railway project.*—A loan for $70 million was approved in December 1964 to support the railroad's investment program. Total costs of the program were estimated to be $180 million, with an anticipated completion date in 1968. It is now expected that the program will not be completed until 1976, with a 116 percent overrun. As a result, the rate of return is now projected to be no more than 9 percent and perhaps lower.

4. *Botswana: Highway project.*—An IDA credit of $3.6 million was made in 1964 for highway improvement. Although final costs were only 1.3 percent higher than estimated and there was only a 1-year delay in completion, anticipated benefits have not been realized. Locally grown cattle are sill not moved by truck transport as hoped, and the highway has not engendered the general development anticipated in the original document.

5. *Pakistan: Lahore water supply project.*—An IDA credit of $1.75 million was approved in 1967 for a pilot project to rehabilitate and expand Lahore's water system. The project was completed 1½ years behind schedule at costs 35 percent

higher than projected. Institutional improvements also fell short of expectations, so that at project conclusion 40–50 percent of water production was unaccounted for or wasted. Additionally, the water company's financial performance remained weak owing to inadequacy of water rates and shortcomings in billing, budgeting, and accounting.

6. *Sudan: Railway project.*—A $31 million loan approved in 1965 was designed to meet the foreign exchange costs of a 3-year investment program for the railroads. There was a delay of 3½ years in completing the project. In addition, traffic growth on the railroads was less than expected and operational efficiency declined during project implementation. As a result, the investment proved marginal.

7. *Sudan Roseires irrigation project.*—The Bank made a $19.5 million loan and IDA a $13 million credit to Sudan in June 1961 to assist in fiancing a large irrigation project. Included in the construction were a large dam on the Blue Nile and pump and gravity irrigation works. Subsequent studies led to the conclusion that construction of the dam was several years premature. Only a fraction of its storage space is being used owing to the lack of parallel investment in private irrigation works. As a result, the investment yields a relatively low economic rate of return of 9 percent.

Mr. REYNOLDS. I cannot right off, Congressman. I would be delighted to do this for the record.

We have had some failures. There was a potash project, I believe, in the Congo, some years ago that was a failure. We have had some others.

Mr. OBEY. The reason I ask this, I consider myself to be friendly to the type of programs bonded by IDA, but it is extremely difficult for us to really explain to people both back home and on the floor who have questions in their mind about how you are using your money, what in fact you are accomplishing, and what measurements you do have to separate success from failure.

Mr. REYNOLDS. I appreciate the concern, and let me furnish something.

Mr. ROUSH. Will my colleague yield?

Of course, the chairman was right in pointing out that it is impossible to have defaults from rescheduling. But, on the other hand, because of the fact that you have had failures, do you believe that in the near future you will have countries in default as a result of failures of projects?

Mr. REYNOLDS. All of these loans, you understand, go to the government.

Mr. ROUSH. That is the reason I put my question the way I did.

Mr. REYNOLDS. If the project fails, the loan is not necessarily defaulted. I do not anticipate a large number of defaults or reschedulings, Congressman. I do not think Mr. McNamara does either.

Mr. ROUSH. All right.

I just thought that perhaps in countries where the projects were few and the repayment was dependent upon the success of the project that perhaps a country would be somewhat reluctant to pay back money that they see no result from.

Mr. REYNOLDS. As I say, I think the results of the projects are materializing.

Mr. ROUSH. I thank my colleague.

Mr. REYNOLDS. We have some repayments on IDA, I think about $25 million.

PARTICIPATION BY OPEC COUNTRIES

Mr. OBEY. If I could ask just one last question.

I know this was covered at least partially, I heard as I came in, in response to a question from Mr. Coughlin.

Could you describe for me what efforts have been made to get the Arab countries to participate in the funding?

Could you also tell me if you are likely to have any success in that area, what steps you are taking in light of the alleged Arab blacklist problem to insure that something like that does not become a factor in the operation of your shop?

Mr. REYNOLDS. Well, on the first point, Congressman, as I stated before, there is one Arab country which has participated as a contributing member of IDA right from the beginning; that is Kuwait. The Bank hopes, certainly the United States hopes, and is doing everything it can, to get more of them into IDA. We think there are some prospects for that.

Mr. OBEY. Do you have any projects in those countries?

Mr. REYNOLDS. There is no lending to any of those countries now. There was, if you go back 10 or 15 years, in some of them, more recently in Indonesia. Now there is none in Indonesia either.

A number of these countries within the last year or 2, as I stated before, have provided loans jointly with IDA and have provided those loans on concessional terms to support development projects in some of the poorer developing countries.

The OPEC countries have also lent money to the World Bank in very substantial amounts in the last 2 or 3 years, Saudi Arabia, Venezuela, Nigeria, and others.

Mr. OBEY. How likely do you think it is you are going to be able to come back to us 2 years from now and tell us they are participating substantially?

Mr. REYNOLDS. We are certainly going to make every effort, and I hope we can come back and tell you that.

Mr. OBEY. That does not answer the question.

Mr. REYNOLDS. It depends on a lot of things.

It is difficult for me to assess here at the moment, Congressman.

PARTICIPATION BY THE SOVIET UNION AND OTHER EASTERN EUROPEAN COUNTRIES

Mr. COUGHLIN. Will my colleague yield?

I meant to ask when I was asking a series of questions on this, are any efforts being made to get the Soviet Union to participate in this, or other Eastern European countries?

Mr. REYNOLDS. The Soviet Union and the other Eastern European countries, except for two of them, are not members of the World Bank or IDA or of the International Monetary Fund.

Mr. COUGHLIN. Is any effort being made to encourage them to become members?

Mr. REYNOLDS. Perhaps Mr. Robinson can answer that.

Mr. ROBINSON. I was in Moscow about 3 weeks ago for a discussion with top officials on the whole question of the U.S.S.R. involvement in multilateral economic financial institutions.

They are evidencing a great interest, but at the moment it is in a very preliminary form. We will be exploring with them the possibilities of their becoming involved.

We are not clear in our own administration as to whether this is altogether good. We are really responding to their initiative and it is too early to tell whether this will be something that we will view as being in our interest or whether they will be prepared to go forward. But at least it is being discussed.

Mr. COUGHLIN. I thank my colleague for yielding.

Mr. OBEY. That is all.

Mr. PASSMAN. It would be good if we make this part of the record, if my good friend will bear with me.

I believe every country, maybe with one or two exceptions, where you have an IDA program, we also have a U.S. bilaterial program, do we not?

Mr. REYNOLDS. I do not think so, Mr. Chairman.

Mr. COOPER. I think there are more exceptions than that.

Mr. PASSMAN. We find two here. If you have any more, put them in the record.

[The information follows:]

The following countries receive IDA loans but no U.S. bilaterial aid: Burma, and Yemen, People's Democratic Republic of (YDR).

Mr. PASSMAN. With a few exceptions, we have also bilateral programs going on with these countries, do we not?

Mr. COOPER. Yes.

Mr. PASSMAN. Now, on a bilaterial program, any money we loan is paid back directly into the U.S. Treasury to either reduce the public debt or finance some of the American programs which have been put on ice; would that be a fair statement?

The money that is provided on a bilaterial basis comes back to the U.S. Treasury; is that correct?

Mr. COOPER. Yes, sir; except some programs from the United States are grant programs.

Mr. PASSMAN. Of course, I am talking about repayments.

Mr. COOPER. Yes, sir.

Mr. PASSMAN. You have 15 different lending agencies under our U.S. Government from the top to the bottom. I think 12 of them are bilateral.

On a bilateral loan this money is paid back to the U.S. Treasury, where we have complete control over approving the loan, collecting the loan, and disbursing any repayments, do we not?

Mr. COOPER. Yes, sir.

LOANS OUTSTANDING

Mr. PASSMAN. In fiscal 1973, your total credits were $5.009 billion for IDA, is that correct?

Mr. REYNOLDS. That sounds correct, yes.

Mr. PASSMAN. And in 1974, your total credits were $6.729 billion, is that correct?

Mr. REYNOLDS. That sounds correct, Mr. Chairman.

Mr. PASSMAN. Sounds right?

Now if you subtract $5.009 billion from $6.7 billion, that means you allocated $1.720 billion in one year, is that correct?

Mr. REYNOLDS. That sounds high for 1 year.

I know the lending level last year for IDA was $1.1 billion.

Mr. PASSMAN. It is not something I am picking out of the sky, I am looking at your own figures an page 125 of the annual report for 1974, you show that you have increased credits to $6,729,459,000. If you subtract the first figure from the second figure, you increased your outstanding commitments by $1.720 billion, did you not?

Mr. REYNOLDS. That is what the figures show, Mr. Chairman, yes.

Mr. PASSMAN. Are we supposed to take these figures to be accurate?

Mr. REYNOLDS. That is the change in the effective outstandings from 1 year to another.

Mr. PASSMAN. That is right. That is what I am trying to show, that you increased the outstanding credit by $1.720 billion, and I would assume you made that commitment out of obligations, with cash on hand.

Mr. REYNOLDS. I was thinking in terms of loans actually approved by the board during the year.

Mr. PASSMAN. I have to go by what you people submit to the committee.

Are these figures accurate or not?

Mr. REYNOLDS. Those figures are accurate.

Mr. PASSMAN. We would assume of this $1.7 billion, 40 percent of that would be accumulated U.S. dollars allocated, would it not? That has been the U.S. contribution.

Mr. REYNOLDS. Those are loans outstanding including the undisbursed portions of loans.

Mr. PASSMAN. You don't make a commitment to obligate until you have the money?

Mr. REYNOLDS. Until the money is in hand.

Mr. PASSMAN. Let's make the record on it because we are really being suckers in this deal, and we might as well make the record as long as you verify the correctness of the figures.

You people are merely filling in, testifying for a program you don't have anything to do with. That is why I am kind of reluctant to ask you these questions. Certainly I know you don't know much about it. You make it too complicated, like the figures Mr. Long brought out here. Can you read them? That is what we have to base our recommendations on, the figures are not legible. You couldn't read them.

I did cite those figures correctly for the record, did I not?

Mr. REYNOLDS. Yes, sir.

Mr. PASSMAN. Mr. Bevill?

APPROPRIATION REQUESTED

Mr. BEVILL. Thank you, Mr. Chairman.

Mr. Reynolds, are you seeking $326 million?

Mr. REYNOLDS. $326 million, Congressman.

Mr. BEVILL. $326 million, I notice, is the installment on the fourth replenishment, I believe, as you referred to it.

Mr. REYNOLDS. No, $320 million per annum, I believe, were the installment requests under the third replenishment, but they were adjusted upward over the third replenishment period by maintenance of value adjustments which will not apply to the fourth replenishment.

Mr. BEVILL. That is right; $375 million. This is requested for fiscal year 1976 for IDA, which represents the initial installment of the IDA fourth replenishment; is that correct?

Mr. REYNOLDS. That is correct.

Mr. BEVILL. This is what you are seeking now?

Mr. REYNOLDS. That is correct.

IDA PARTICIPATION, GENERAL

Mr. BEVILL. I notice that IDA has 113 member countries, and I assume they are set out here. Does that mean that many countries have borrowed money from IDA?

Mr. REYNOLDS. No.

Mr. BEVILL. These are the ones who have put money in?

Mr. REYNOLDS. That is the total membership. There are many countries, 25, who put money into IDA to support its lending operations. Then there are some countries which really neither provide funds nor borrow. They have limited equity interest in the institution; they participate in its deliberations, but they don't provide funds nor borrow. Then there are the borrowing countries.

Mr. BEVILL. So do they give you the moral support, their moral support, I suppose, but no financial support?

Mr. REYNOLDS. They put in some money intially, but it was very small; yes.

Mr. BEVILL. Just nominal?

Mr. REYNOLDS. Yes. The only countries which borrow from IDA are the very poorest countries. Virtually all of the IDA money goes to countries with per capita income of $200 a year or less.

Mr. BEVILL. Is Venezuela still getting money from IDA?

Mr. REYNOLDS. No. I am not sure Venezuela ever did.

Mr. COOPER. It never did.

IDA COMMITMENTS

Mr. BEVILL. There are commitments of $7.8 billion with $4.4 billion outstanding. I assume these are credit commitments you are talking about; this would be countries that have made commitments to put money into IDA; is that what that is?

Mr. REYNOLDS. Where is that figure?

Mr. BEVILL. There are no page numbers on this. It is the third or fourth page in the A section.

Mr. REYNOLDS. That may be the total amount of funds provided to IDA as of a certain date in the past.

Mr. BEVILL. IDA had 113 member countries and had made cumulative credit commitments of $7.8 billion.

Mr. REYNOLDS. That is the total amount of credit extended by IDA.

Mr. BEVILL. With $4.4 billion outstanding?

Mr. REYNOLDS. That is disbursed, probably. That is the amount of those credits actually disbursed. The balance still remains to be disbursed.

Mr. BEVILL. These are committed funds that have not been disbursed?

Mr. REYNOLDS. Right.

Mr. BEVILL. That is $3.4 billion. Is it that much?

Mr. REYNOLDS. That is right.

Mr. COOPER. As of December 31, 1974, the figures show $2.9 billion.

Mr. BEVILL. Most of these loans, I gather, are 50-year loans?

Mr. REYNOLDS. They are all extended for 50 years' repayment.

Mr. BEVILL. So when you say everybody is current and up to date, really you haven't had a real test yet, have you?

Mr. REYNOLDS. There has been about $20 million repaid on IDA credits.

Mr. PASSMAN. If the gentleman would yield, countries like India and Pakistan repay one day and they receive a loan the next day. There wouldn't be any reason why they shouldn't repay if they can put in $1 and get another $58?

Mr. COOPER. No, sir.

Mr. PASSMAN. Thank you very much.

REQUIREMENT OF DEVELOPMENT PLANNING BY BORROWER COUNTRIES

Mr. BEVILL. Do you have any plans with these countries to set up any target date as to when they will be on their feet or get back on their feet or become self-sustaining or any kind of a program or any kind of plan at all?

Mr. REYNOLDS. Yes, indeed. A good many countries that once borrowed from IDA no longer do. Thailand, Indonesia, Korea, Republic of China, several Latin American countries. There is a list, I think, of 10 or more countries which once borrowed from IDA which have advanced economically to the point where they no longer do.

Mr. BEVILL. Does the bank or IDA require any kind of a plan, an overall master plan, for the economy of these countries that are borrowing money from IDA?

Mr. REYNOLDS. Well, the institution, Congressman, makes a maximum effort to get these countries to formulate well-conceived development programs, and many, many of the countries receiving loans do have such programs.

Mr. BEVILL. You know they will do it if IDA says do it. You know they will do it. They will do whatever IDA says.

Mr. REYNOLDS. It isn't always that easy.

Mr. BEVILL. You let them have money at three-fourths of 1 percent?

Mr. PASSMAN. No interest at all; just a service charge. Is that correct?

Mr. COOPER. That is correct.

Mr. BEVILL. That is three-fourths of 1 percent interest, isn't it?

Mr. PASSMAN. That is the service charge. The contract says no interest. It is interest free, isn't it?

Mr. COOPER. Yes, sir.

Mr. BEVILL. Are you saying that these countries that you let have money for 50 years with a charge of only three-quarters of 1 percent interest won't bring in or work up a master plan to get their economy started?

Mr. REYNOLDS. As I say, the bank encourages that, and many of them do.

Mr. BEVILL. That is what bothers me; you use the word "encourage." If you say, "You will get the money if you work up the plan," you would get the plan, wouldn't you?

Mr. COPPER. My experience has been that development plans of that sort are seldom worth the paper they are written on. You could have those kinds of master plans worked out, and they wouldn't mean anything. I don't think that formulation of such plans is desirable for all countries. For some countries given the capability they have and the circumstances, it is entirely appropriate and should be done and is done. To require other countries to formulate such plans would be to ask them to do something which would not bring them forward at an earlier time to be able to get themselves on their feet, but which could result in a delay in their ability to improve their economic circumstances.

I would like to think that if we could just get people to sit down and write a plan that would make a direct contribution to development. We haven't found it true in this country. Many other countries found it was a misguided way to go. I am not sure that it is an appropriate line of procedure for IDA to insist on.

Mr. BEVILL. Dr. Kissinger was before this subcommittee last year, and I asked him that question, and he seemed to think it was very good to do that, and he is going to furnish us a target date on every country that receives foreign aid, which is really what you are doing; yours is just called a loan, but it is really a form of foreign aid, and I don't see any difference. It seems to me there should be a plan. You people go in and approve a dam project; you are doing it piecemeal. Congressman Long pointed out he goes to a country 10 years later and can't tell any difference. I was up to the United Nations not long ago. We can't get resolutions through.

These countries you make loans to won't vote with us. There is something wrong with the whole system that is not being followed through, and it bothers me, because we are borrowing money to give these people at three-fourths of 1 percent; we are borrowing this money you are asking for, the $375 million. The American taxpayers are borrowing the money. You know we don't have it. And when I see the effects and what is being accomplished, I disagree with you when you say it wouldn't be worth the paper it is written on. I think the countries should make plans and plan on getting on their own feet—like Taiwan did—and they can do it. I see no reason for us to just keep pouring money into these projects.

You pick out one here, no plan; pick out another one there, no plan. And we talk about the good payment record, when they haven't started paying yet. So the payment record is bound to be good. We are not getting paid; we are not getting any good will, and I am just wondering really what the American taxpayer is getting out of this whole thing.

Mr. LONG. Would the gentleman yield?

Mr. BEVILL. Yes.

Mr. LONG. The gentleman from Alabama has raised a most important point. Is there anything that forces you to lend to a country which can't come up with a plan and clear objectives? Why don't you take your resources and put them into those countries that can

come up with such a plan? If a country can't come up with a plan, then you are not very likely to do any decent job of investing the money when you get it.

Mr. COOPER. I don't think there is any problem in coming up with a plan. The question is what the plan is worth when you get it.

Mr. LONG. Exactly.

Mr. COOPER. That is much harder——

Mr. LONG. Who puts a gun in your back and tells you you have to lend to a country even though you are pretty sure their plan and objectives aren't worth anything?

Mr. COOPER. If the country's policies were good, even if its plan were poor, lending would be appropriate. I think the policies are more important than the plan. A country can have a good plan and poor policies, and you know it is not going to go ahead, notwithstanding the plan. I don't disagree with the objective you are talking about, but I am not sure that it is an effective means for implementing it.

Mr. PASSMAN. Will the gentleman yield? Let's go back to Indonesia, if we may. We have given Indonesia $1,930 million. We found at the end of last year they had $1½ billion surplus in their foreign exchange account. They had this newly acquired wealth, coming in from petroleum and other funds from their mineral deposits. We should have been trying to borrow money from Indonesia out of that $1½ billion.

We find that $123 million was provided under the bilateral aid program for Indonesia. Now we find out you people have a loan program to Indonesia, do you not?

Mr. COOPER. No, sir.

Mr. PASSMAN. Have you made any disbursements to Indonesia?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. You did say earlier you had a loan program for it. How much have you given them out of this spigot?

Mr. COOPER. $562,000,000.

Mr. PASSMAN. A half a billion dollars?

Mr. COOPER. Over the entire period.

Mr. PASSMAN. Under IDA. You have given Indonesia a half a billion dollars out of IDA?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. We put up an average of 41 percent of it, didn't we?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. We will take a brief recess.

[Brief recess while committee members vote.]

Mr. PASSMAN. The committee will come to order. Mr. Bevill, you were examining.

Mr. BEVILL. An example of a plan, I recall you mentioned Taiwan there, and I remember that Taiwan, you know, had a plan, and their plan just basically was to develop their agriculture needs first and they pointed out that it is interesting that so many countries make the mistake of trying to become sophisticated in industrial development and that sort of thing, but everything was worked out according to their master plan. Their master plan was to reach the maximum production or near the maximum production of agriculture first before they went into the industrial aspects, and I just throw this out basically because you gentlemen deal with this all the time, and I am sure you know

more about it than I do, but it seems to me some basic plan for these countries is the sensible thing for them to do if they expect the American taxpayer to furnish them money to help them get on their feet and building the dams and the public works projects in their country. I don't think that is an unreasonable request, and I hope you can change your policy and instead of suggesting, that you demand they work up a plan, if it is a 5-year plan, 50-year plan, or whatever it is, I think we in the Congress would like to have some idea how long they are going to be looking to us to help them.

I realize there are several countries together here, but I think the same thing would apply. It seems to me that all of the 25 countries that participate in putting money into IDA would want to know something about what the plans are, and we are jut not going to be living with this forever.

So if you will, I just put this in the form of a request for the record; look into it. The only way I know to put this is—certainly I don't want to make an unreasonable request, but if you can give us some target date as to when these countries we are helping might be able to take care of themselves and get off our backs, so to speak, financially, and off the backs of IDA, who is disbursing the money for us and the other countries, we would like to have it in the record. It would be very helpful to us.

[The information follows:]

A number of countries have "graduated" as borrowers of concessional resources from the international financial institutions. The following countries which have been receiving IDA credits in recent years are no longer borrowers from that source: The Dominican Republic, Nicaragua, Korea, Ecuador, Thailand and Indonesia.

In the IDB, Venezuela no longer receives loans on concessional terms from the Bank's Fund for Special Operations (FSO). FSO loans to the economically stronger countries (Argentina, Brazil and Mexico) are being phased down rapidly.

In the ADB, Malaysia, Singapore, and Indonesia are no longer eligible for loans on concessional terms; Korea, Thailand, and the Philippines are nonrecipients of concessional loans from the ADB and none of these countries will receive additional concessional assistance from the ADB unless their economic conditions deteriorate markedly.

A large number of poor countries with extremely low per capita incomes—many of which became independent since the establishment of IDA in 1960—are still receiving financial assistance from the international financial institutions. But since fewer new countries are being created, there will not be any significant growth in the number of additional borrowing countries.

Specific target dates for "graduation" of IDA borrowers is unpredictable. Economic development is a slow process and many countries just at the initial stages of development and nation-building will continue to need concessional assistance for the human and technical infrastructure necessary for sustained economic growth. In part, the phasing out of an IDA borrower is a matter of the country's luck with economic resources, such as is the case of the OPEC countries with petroleum; or in other countries with mineral resources that have a strong international demand.

The following countries (66 in total) have received IDA credits since its inception and are presently indebted to IDA:

Afghanistan
Australia (for Paupa New Guinea)
Bangladesh
Bolivia
Botswana
Burma
Burundi
Cameroon
Central African Republic
Chad
Chile
China
Colombia
Congo, People's Republic

Costa Rica
Dahomey
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Ethiopia
Gambia
Ghana
Guyana
Haiti
Honduras
India
Indonesia
Ivory Coast
Jordan
Kenya
Korea
Lesotho
Liberia
Malagasy Republic
Malawi
Mali
Mauritania
Mauritius
Morocco
Nepal
Nicaragua
Niger
Nigeria
Pakistan
Paraguay
Philippines
Rwanda
Senegal
Sierra Leone
Somalia
Sri Lanka
Sudan
Swaziland
Syria
Tanzania
Thailand
Togo
Tunisia
Turkey
Uganda
Upper Volta
Yemen Arab Republic
Yemen, People's Democratic Republic
Zaire

In fiscal year 1974 the following countries received IDA funds:

Afghanistan
Bangladesh
Bolivia
Botswana
Burma
Burundi
Cameroon
Chad
Congo, People's Republic
Dahomey
Ecuador
Egypt
Ethiopia
Gambia
Ghana
Haiti
Honduras
India
Indonesia
Kenya
Malagasy Republic
Malawi
Mali
Mauritania
Mauritius
Nepal
Niger
Pakistan
Philippines
Rwanda
Senegal
Somalia
Sudan
Syria
Tanzania
Thailand
Togo
Tunisia
Upper Volta
Yemen Arab Republic
Zaire

EXPANSION OF FOREIGN AID

Mr. PASSMAN. Thank you.

Mr. Cooper, all of you are very important witnesses. I am not trying to discriminate against any of you, but I believe you, Mr. Cooper, and you, Mr. Robinson, are the two ranking members of the team presently; are you not?

Mr. COOPER. Mr. Robinson is.

Mr. PASSMAN. We start with Robinson and you come next as far as protocol and priorities.

Mr. Secretary, what can we do to bring this ever increasing foreign aid program under control? We are not reducing foreign aid. It is increasing every year because we are getting it out into the multi-

lateral organizations where it is extremely confusing. Like Inter-American Development Bank, if you put the word "bank" on it, it sounds like it means something.

I think it is worthwhile to say for the record when this foreign aid program started back in 1947, it took a rather courageous Member of Congress, well-fortified with seniority to dare walk into the well of the House and address the Chair, "Mr. Speaker, we are now embarking upon a new program of foreign aid, called the Marshall plan. It may take us into 17 European nations. It may require 5 years to complete the plan, and it conceivably could cost $15 billion."

You could have heard a pin drop. Let's be realistic about this thing. You contrast 17 nations to 128 nations. We have gotten this foreign aid program into 128 nations of the world, Communist nations, dictatorships, socialist nations, and so-called friendly nations.

In addition to that, 5 years? No; no. Twenty-eight years and growing stronger. Fifteen billion dollars? No, sir. Almost a half a trillion dollars. If you just take aid through 1973, net, that comes to about $269 billion.

We have to add to that the U.S. military costs. We have dropped almost a quarter of a trillion dollars in Southeast Asia and other areas of the world. All of it, it appears, is down the drain, maybe with the exception of Taiwan and Korea.

Isn't that about the only two places that we can actually say that maybe in the long run they will survive? Isn't that about the story?

Mr. ROBINSON. Yes, sir.

Mr. PASSMAN. I don't like to ride you people, but who is going to do it? You people get hooked on this foreign aid. Like Indonesia. Why should we continue any kind of a foreign aid program in Indonesia when these people have this tremendous surplus in the foreign exchange account with billions of dollars coming in? I just wish some of you people who are scholars and intellectuals would come around on this side of the table and help us bring this thing under control. It is getting bigger every year because you are moving from bilateral to multilateral where we have no control over it. And it is a one-way street. It all goes out and nothing comes back. Can you understand how I would be exercised over this?

Mr. ROBINSON. I can understand this. I think we have to look at it strictly in terms of what is in our national interest.

Mr. PASSMAN. Who knows what is in our national interest? We had these people for years and years, such as Mr. McNamara and all of his brainchilds, come up here, and he said everything is going to work out fine and everybody followed him. Look what a mess we got into in Southeast Asia. What is in our national interest? Do you realize Thailand, where we have given those people about $2 billion, that today they said get your military out of here and get them out in a hurry.

Let's take Laos. They have gone Communist, haven't they?

Mr. ROBINSON. Certainly they are threatened.

Mr. PASSMAN. Yesterday, it tumbled over. The only pro-Western stepped out of the cabinet and let the communist cabinet take over, didn't they?

Mr. ROBINSON. Certainly leftist.

Mr. PASSMAN. And I will be darned if I didn't call today, and we are still disbursing funds in the Communist country of Laos. They are writing checks as fast as the machine will work.

Mr. CHAPPELL. Will you yield?

Mr. PASSMAN. Yes.

Mr. CHAPPELL. Did the gentleman say leftist or Communist?

Mr. ROBINSON. It is unclear at the moment as to where they are today. Where they are going seems to be fairly clear.

Mr. CHAPPELL. Unclear?

Mr. ROBINSON. Clear. But where they are exactly today.

IFI REPLENISHMENT NEGOTIATIONS

Mr. PASSMAN. Are any replenishment negotations presently being considered?

Mr. COOPER. Since the Inter-American Development Bank will exhaust its ordinary capital commitment authority by the end of 1975, and the fund for special operations will require further lending resources by the end of 1976, we intend to begin negotiations at the IDB annual meeting—May 19–21 in Santo Domingo—to study the resource situation and recommend a replenishment proposal for 1976–78 to the IDB Board of Governors. We intend to discuss our replenishment proposal informally with the Congress in the very near future. It would call for a total replenishment of over $3,800 million, of which the United States would account for $1,800 million consisting of $1,200 million in capital shares and $600 million for the FSO. [See attached tables for details.]

Our main objectives in the negotiations would be to obtain agreement on the part of the wealthier Latin American countries to refrain from borrowing convertible currencies from the FSO and to make meaningful convertible currency contributions to the FSO. The administration would propose to submit its request formally to the Congress in the next few months in order that Congress might hold authorization hearings and approve the request before the end of calendar year 1975.

The Asian Development Bank's concessional loan window will run out of resources by the end of 1975. The Bank management, therefore, called an initial informal meeting of present donors of the Bank's special funds/Asian Development Fund, during the April 24–26 annual meeting in Manila. A second meeting has been scheduled for this summer to continue these consultations, and we plan to consult with the Congress on the question of U.S. participation in a special funds replenishment over this summer.

AFRICAN DEVELOPMENT FUND LEGISLATION

Mr. PASSMAN. Has any authorizing legislation been introduced concerning the African Development Bank?

Mr. COOPER. On April 17, 1975, the administration transmitted to the Congress legislation which would authorize a $15 million U.S. contribution to the African Development Fund, the concessional loan window associated with the African Development Bank.

This bill was introduced as S. 1512 by Senator Sparkman on April 23, 1975. Identical legislation is expected to be introduced in the House shortly. These bills would authorize to be appropriated, without fiscal year limitation, a subscription of $15 million to be paid to the fund in three annual installments of $5 million each beginning in fiscal year 1976.

On April 22, 1975, Congressman Mitchell introduced H.R. 6241 proposing a U.S. contribution of $150 million.

The administration supports the proposed $15 million participation as the appropriate level of U.S. participation in the African Development Fund.

U.S. CONTRIBUTIONS TO IFI'S

Mr. PASSMAN. Could you tell the committee the percent the U.S. contribution represents of the total contributions to each of these international financial institutions—World Bank, International Development Association, Inter-American Development Bank and Asian Development Bank—the percent of goods and services purchased by these institutions from the United States and what has been their impact on the U.S. balance of payments over the years?

Mr. COOPER. The U.S. share of the total contributions of these international financial institutions has declined since their establishment, while procurement of U.S. goods and services has increased in recent years. The cumulative impact on the U.S. balance of payments has been positive, as shown in the table below.

[The table follows:]

CUMULATIVE THROUGH DEC. 31, 1974

	U.S. contribution share (percent)	U.S. procurement share (percent)	Balance-of-payments impact (millions)
IBRD	25	31	$3,277
IDA	38	17	−465
IDB:			
OC	41	34	14
FSO	69	68	−347
ADB:			
OC		13	160
SF	10	[1] 4	([2])

[1] U.S. suppliers only became eligible for procurement under SF financed projects in 1974 when the United States made its 1st contribution.
[2] Less than $500,000.

IDA—LAOS, CAMBODIA, AND SOUTH VIETNAM

Mr. PASSMAN. Could you please tell the committee if IDA is providing any credits to Laos, Cambodia, or South Vietnam in light of the change in the governments of these three countries?

Mr. REYNOLDS. Although these three countries have been members of IDA for a substantial period of time—South Vietnam since 1960, Laos since 1963, and Cambodia since 1970—they have not received any IDA credits nor do they have any projects under consideration for financing by IDA at present.

IDA BALANCE OF PAYMENTS IMPACT

Mr. PASSMAN. What impact has the U.S. contribution to IDA had on our balance of payments during the last year and since its inception?

Mr. REYNOLDS. The impact of IDA transactions on the U.S. balance of payments during the last year and since the inception of IDA is as follows:

[In millions of dollars]

	Fiscal year 1974	Cumulative
U.S. payments to IDA:		
U.S. subscription	230.2	1,238.6
Investment income	25.9	95.2
Subtotal	−256.1	−1,333.8
U.S. receipts from IDA:		
Procurement	87.7	580.5
Administrative expenses	39.9	172.6
Financial investments in United States	142.0	116.0
Subtotal	+269.6	+869.1
Balance	+13.5	−464.7

PROJECT FUNDING

Mr. PASSMAN. Do all IDA projects receive full funding when they are started?

Mr. REYNOLDS. Once a loan is approved by the Board, funds can be said to be fully committed. Disbursements, however, are made only as costs are incurred.

IDA CREDITS BY SECTOR

Mr. PASSMAN. Could you tell the committee what percentage of credits extended by IDA were extended for agriculture, education, industry, transportation, tourism, and public works?

Mr. REYNOLDS. Of $7.4 billion in cumulative IDA commitments as of December 31, 1974, the following amounts and percentages were loaned for projects in the specified sectors.

[The table follows:]

	Amount (millions)	Percent
Agriculture	$2,186.75	29.4
Transportation	1,675.35	22.5
Public works	770.85	10.3
Power	495.10	6.6
Water supply	185.95	2.5
Urbanization	89.80	1.2
Education	424.90	5.7
Industry	339.90	4.5
Tourism	30.20	.4

IDA TERMS AND INTEREST RATES

Mr. PASSMAN. What are the terms and the interest rates of the credits provided to the various countries by IDA?

Mr. REYNOLDS. All credits carry the same terms and charges. IDA credits are interest free, but carry a service charge of three-fourths of 1 percent per annum payable on the principal amount disbursed and outstanding.

Repayments begin after a 10-year grace period. The rate of repayment is 1 percent of the principal per year during the next 10 years, and 3 percent per year for the next 30 years.

REPAYMENT AND RESCHEDULING

Mr. PASSMAN. Could you please tell the committee if the service charge of three-quarters of 1 percent is an annual charge and is based on the current outstanding balance for each country?

Mr. REYNOLDS. Yes. The annual charge of three-fourths of 1 percent is billed semiannually on the principal outstanding.

Mr. PASSMAN. Are all credits repaid in hard currencies?

Mr. REYNOLDS. Yes, all IDA credits are replayed in the currency in which the loan is disbursed, and loans are disbursed only in hard currencies.

Mr. PASSMAN. Could you please tell the committee what has been your repayment experience of the last few years? Has it been necessary for you to reschedule any credits during the last year?

Mr. REYNOLDS. The repayment experience of IDA, as well as that of IBRD, has been excellent. In neither institution has there ever been a default. There has never been a rescheduling of an IDA loan. There have been only two reschedulings in the history of the IBRD, one for Haiti and one for India, both in the 1960's.

IDA REPAYMENTS

Mr. PASSMAN. Is there any provision which provides that any U.S. contributions to IDA will ever be returned to the Treasury?

Mr. REYNOLDS. Contributions donated by member countries are for IDA's use so long as needed and so long as IDA continues to operate. They would be returned to the treasuries of contributor countries only if IDA were to permanently suspend operations and to be liquidated. Loan repayments become part of IDA's funds available for future lending.

WORLD BANK AND IDA ADMINISTRATIVE BUDGETS

Mr. PASSMAN. Please provide for the record a copy of the administrative budgets for the World Bank and IDA for the current and the past year.

Mr. REYNOLDS. The following table shows the actual administrative expenditures for IBRD/IDA for fiscal year 1974, and the administrative budget for IBRD/IDA for fiscal year 1975. The fiscal year to which the figures apply corresponds to the USG fiscal year.

[The table follows:]

	1974	1975
Personal service cost	$88,406	$102,701
Operational travel	15,363	18,593
Representation	417	557
Consultants	7,214	9,016
Contractual services	5,198	5,260
Overhead expenses:		
Office occupancy	8,118	8,136
Communications	3,288	3,115
Other travel	5,751	7,730
Other expenses	4,301	5,335
General contingency		1,561
Price contingency		1,747
Less reimbursements	−3,856	−6,062
Total (current dollars)	138,056	157,689
IBRD	91,020	110,087
IDA	43,180	47,602
Total expenses (constant fiscal year 1975 dollars)	149,767	157,689
Annual real change percent	9.3	5.1
Annual price increase percent	12.2	11.6

LENDING SERVICES AVAILABLE TO BANK STAFF

Mr. PASSMAN. What type of loans are the staff of IDA and the World Bank eligible to receive from the organization?

Mr. REYNOLDS. Regular and fixed-term staff are eligible to receive loans for some educational expenses for dependent children, for continuing the staff member's own education while employed at the Bank and for the purchase of necessary furniture. The total outstanding balance cannot exceed 12 months' salary. These loans must be repaid with interest over a reasonable period of time not to exceed 6 years or the unexpired term of the staff member's appointment. In general, interest rates on these loans are comparable to the prevailing Bank and IMF Credit Union rate.

Regular staff qualifying as sole income earners who are likely to remain at the Bank for a substantial period of time and who have exhausted normal sources of financing may also be granted a loan for the purpose of buying a first home—in an amount not to exceed 12 months' salary or one-third of the purchase price, which ever is lesser.* These loans must be repaid within a reasonable period of time depending on the financial capacity of the staff member but in no case to exceed 12 years, and are at the prevailing FHA interest rate.

NATIONAL CONTRIBUTIONS TO IDA

Mr. PASSMAN. Please provide a table showing what each country has contributed to the association, and what percentage each amount represents of the total.

Mr. REYNOLDS. The following table lists, by country, all contributions to IDA cumulative through the third replenishment, the percentage of each country's contribution of the total amount contributed through the third replenishment, and the amount and percentage of each contributing country's share of the fourth replenishment.

[The table follows:]

INTERNATIONAL DEVELOPMENT ASSOCIATION, CUMULATIVE CONTRIBUTIONS BY COUNTRY

[Dollar amounts in millions]

Pt. I members	Through IDA III	Percent	IDA IV	Percent	Cumulative total	Percent
Australia	$135.09	2.0	$90.00	2.0	$225.09	2.0
Austria	41.69	.6	30.60	.7	72.29	.7
Belgium	93.73	1.4	76.50	1.7	170.23	1.5
Canada	367.37	5.5	274.50	6.1	641.87	5.8
Denmark	85.46	1.3	54.00	1.2	139.46	1.3
Finland	27.08	.4	25.20	.6	52.28	.5
France	436.74	6.6	253.55	5.6	690.29	6.2
Germany	574.90	8.7	514.50	11.4	1,089.40	9.8
Iceland	.66	(1)	1.35	.1	2.01	(1)
Ireland	8.48	.1	7.50	.2	15.98	.1
Italy	233.12	3.5	181.35	4.0	414.47	3.7
Japan	344.20	5.2	495.00	11.0	839.20	7.5
Kuwait	27.65	.4	27.00	.6	54.65	.5
Luxembourg	3.08	(1)	2.25	.1	5.33	.1
Netherlands	170.19	2.6	132.75	2.9	302.94	2.7
New Zealand	7.25	.1	11.74	.3	18.99	.2
Norway	59.50	.9	49.50	1.1	108.00	1.0
South Africa	24.22	.4	9.00	.2	33.22	.3
Sweden	248.78	3.7	180.00	4.0	428.78	3.9
United Kingdom	837.57	12.6	499.50	11.1	1,337.07	12.0
United States	2,499.90	37.6	1,500.00	33.3	3,999.90	35.9
Total, pt. I Members	6,226.66	93.7	4,415.79	98.1	10,642.45	95.5
Pt. II members	344.22	5.2	19.33	.5	363.55	3.3
Switzerland (nonmember)	75.73	1.1	66.18	1.5	141.91	1.3
Total	6,646.61	100.0	4,501,30	100.0	11,147.91	100.0

[1] Less than 1/10 of 1 percent after rounding. All percentages are rounded to the nearest 10th of 1 percent. Totals may not add due to rounding.

Mr. PASSMAN. Mr. Chappell?

COUNTRIES RECEIVING IDA ASSISTANCE

Mr. CHAPPELL. Mr. Cooper, I don't know who has the responsibility for this very elaborate report, but I want to commend whoever has done it for giving, in one piece, about as much useless information as I have ever seen. It is a masterpiece, whoever did that, and I am not trying to be impolite. You can't read it; you can't understand it. You have duplicated information, totally confusing. I want to commend whoever did it on doing a masterful job.

I would like to go, if I might, Mr. Reynolds, to page 2 of your statement where you state that:

> The IDA provides concessional credits to the world's poorest countries which cannot afford to borrow at near commercial terms of standard World Bank loans. Sixty-six countries of Asia, Africa, and Latin America with annual per capita income below $375 have received IDA credits.

Now, is there one place in this report where I can see altogether the list of the countries which are now receiving funds?

Mr. REYNOLDS. We could certainly provide that to you if it is not there, Congressman.

Mr. CHAPPELL. Surely it must be in this document somewhere, isn't it?

Mr. REYNOLDS. I am sure it must be.

Mr. CHAPPELL. Can you point it out to me? I have searched it through, and I can't find it. Is it or is it not in there? Does anyone know?

Let's assume for the record, then, that nobody knows whether it is in there or not.

Mr. REYNOLDS. I could certainly provide that for the record.

Mr. CHAPPELL. I think that would be helpful. I just wish you could provide it now, because I think it is a very pertinent piece of information.

Now, do you have——

Mr. REYNOLDS. I can provide you now with a list of countries that received IDA credits in the last year, if that would be of help.

Mr. CHAPPELL. I have been supplied here still another document entitled, "World Bank Annual Report of 1974." Appendix G presumes to show the countries which are now receiving funds, and I wonder if you are familiar with this document?

Mr. REYNOLDS. Yes, sir.

Mr. CHAPPELL. Can you tell me whether or not the list as reflected on this appendix G is accurate as of this time?

Mr. REYNOLDS. Can you give me the page number?

Mr. COOPER. Sir, there are two countries, I believe, listed in that list that have now been removed from IDA, not receiving credits, that is Thailand and Indonesia. They received their last IDA credits in 1974.

Mr. CHAPPELL. The rest of the information furnished on that page is accurate and up to date.

Mr. REYNOLDS. That is a list of countries that received credits in the last fiscal year. It is accurate to that extent. Whether all will continue to receive credits is unclear. Mr. Cooper said there are two that won't. There may be one or two others.

Mr. COOPER. There are two which are definitely not going to receive any IDA credits this year or in the future as far as we can foresee. There may be other countries, some countries on this list may not get a loan this year, but they may next year. Some other countries not on this list may get a loan. The list of countries getting loans each year changes a bit, but there are two so-called graduates.

Mr. CHAPPELL. All I am trying to get at, at this moment, is whether this is a complete list of those countries receiving funds?

Mr. COOPER. Of those that received funds last fiscal year. Out of the 66 countries——

Mr. CHAPPELL. This says fiscal year 1973–74.

Mr. REYNOLDS. That is the fiscal year that ended last summer. We are presently in 1974–75.

Mr. CHAPPELL. This is not up to date as the number that presently are receiving loans?

Mr. REYNOLDS. That changes from year to year.

Mr. CHAPPELL. All I am asking you is what are the countries that now, right this minute—it can't change right this minute—are receiving loans.

Mr. REYNOLDS. That as of now are receiving loans or have received loans in the past?

Mr. CHAPPELL. No; very simply the ones that are right now receiving loans.

Mr. REYNOLDS. Loans are approved on a project-by-project basis.

Mr. CHAPPELL. I understand that. Which are receiving it now?

Mr. REYNOLDS. Moneys being disbursed to them?

Mr. CHAPPELL. Let me ask it another way. Which countries in the world today owe money to this program?

Mr. REYNOLDS. Yes; we certainly can provide you with that.

Mr. CHAPPELL. Do you have a list?

Mr. REYNOLDS. That is here. Appendix D, just a few pages before, will show you all of the outstanding credits.

Mr. CHAPPELL. I am looking at the same report now, and we are talking about appendix D; this is the "World Bank Annual Report 1974." I am looking at appendix D and appendix E. Is it accurate to say that this is the total list of countries that now have had moneys loaned to them and who owe money back to IDA?

Mr. REYNOLDS. Appendix D; right.

Mr. CHAPPELL. Do you know how many countries that is? It is about 111; isn't it?

Mr. REYNOLDS. I don't think it is that high.

Mr. CHAPPELL. Well, I think you might count it. I think it is about 111.

Do you have a list of which ones of those countries are members of the United Nations?

Mr. REYNOLDS. I suspect all of them are, Congressman.

Mr. CHAPPELL. All 111 of these countries are members of the United Nations?

Mr. REYNOLDS. The membership of the United Nations is larger than that of the World Bank. I believe appendix D lists 66 countries.

Mr. CHAPPELL. Sixty-six of these countries are members of the United Nations?

Mr. REYNOLDS. There are 66 countries in that list.

Mr. CHAPPELL. Sixty-six countries you show listed in appendix D and E, right?

Mr. REYNOLDS. Right.

Mr. CHAPPELL. And how many of those are members of the United Nations?

Mr. REYNOLDS. I would suspect they all are. I can't state with certainty. You do not have to be a member of the United Nations to be a member of the World Bank.

Mr. CHAPPELL. I understand that. I asked you if you knew which ones are members of the United Nations?

Mr. REYNOLDS. The best answer I can give you is I think they all are. But I am not certain.

Mr. CHAPPELL. Do you know which ones of those countries vote with the United States? Have you done any research on that?

Mr. REYNOLDS. I personally haven't. It varies from issue to issue.

Mr. CHAPPELL. Has your department done so, that you know of?

I assume since no one answers, the answer is no.

Now, let's go on, then, to the next question.

Have you done any research to determine how many of these countries listed here are affiliated with the Third World Movement, principally as it is led by Castro of Cuba?

Mr. REYNOLDS. I can't say anything about the Third World Movement led by Castro. The countries listed here are countries which are generally considered part of the Third World. They are the developing countries of the world.

Mr. CHAPPELL. You are saying that the Third World countries and developing countries are the same thing. Is that a fair definition?

Mr. ROBINSON. Yes, sir.

Mr. CHAPPELL. The answer is yes.

All right, Now, you don't know how many or which ones of these countries are part, then, of the movement that is primarily led by Castro, do you?

Mr. REYNOLDS. I really don't know anything about the movement led by Castro. That is outside my jurisdiction.

Mr. CHAPPELL. That means the answer is no.

You say on page 3, "But continued financial assistance from IDA is vitally necessary if the momentum of development in the poorest of the developing countries is to be maintained."

What momentum are we talking about? Where is there a momentum of development that will bring them in the foreseeable future out of the status of developing countries? Can you point to one?

Mr. REYNOLDS. Congressman, virtually all of these countries are experiencing economic growth. The rate in some cases is not very high; in some cases it is quite impressive. The objective of all of them is at the earliest possible time to reach self-sustaining growth.

Mr. CHAPPELL. I understand, but you mentioned momentum. Do you feel there is a good momentum?

Mr. REYNOLDS. It varies from country to country. I think in many there is. But they are poor countries. It is going to take a long time.

POLITICAL ALIGNMENT OF BORROWER COUNTRIES

Mr. CHAPPELL. I know that, and that is clearly the purpose of the program.

Let me get down to exactly what I am getting at. I don't have any intention of voting one nickel for any one of these developing countries that has repeatedly voted against the United States or has tried to play us off against Russia.

Now I think the American taxpayer deserves better treatment than to have his money going into countries that repeatedly and continuously vote with the Communist bloc or, if they are not active in that arena, at least always play us off against the Soviets, or against Red China.

Not that my vote is going to make a heck of a lot of difference, but I intend to do what I can to make sure none of those countries are permitted aid under this kind of program.

Therefore, I would like to know which ones of those countries are for us and which ones are against us. It seems to me that is pertinent. I wonder if you might provide that for the record.

Mr. REYNOLDS. We will try, Mr. Congressman.

[The information follows:]

The developing countries including those that borrow from IDA have, for some years now, adopted the tactic of bloc voting on broad economic issues in U.N. forums. The result has been that most General Assembly resolutions dealing with international economic relations are adopted without a vote and express

the broad agreement of both the Third World countries and the United States and other industrialized countries. Where efforts at negotiating a generally acceptable text are unsuccessful and the sponsors of a given resolution push for a vote, it is standard practice for all developing country delegations to vote the same way. In exceptional cases, a few representatives of developing countries will break away from the large majority (an example is the transit rights of landlocked states), but this reflects no pattern of voting support for U.S. positions.

Mr. COOPER. We will consult with the State Department on how to answer that question.

Mr. REYNOLDS. Of course, the World Bank is an international institution, too, which I work with regularly, and we work well with the representatives of these countries.

Mr. CHAPPELL. I understand that, but in some of the other World Bank transactions, proper interest rates are charged and you are helping at least friendly people. I have no desire of fattening up an area for the Communists, frankly. I think we can put our dollars to better use. I just happen to feel that way about it, and I believe some of the members of this committee feel that way about it, and therefore I think it makes it a pertinent question.

So, to you it may seem outside your jurisdiction, but I believe it is about time we get at least the information before us so we can make a judgment, and I think it is your responsibility to have that information.

Mr. Chairman, I would like to put the gentlemen on notice from here on we are going to ask questions along that line.

Mr. BEVILL. I think it is a pertinent question, and I think it is information you should have had and considered in the making of these loans, and I am certainly endorsing everything that Congressman Chappell has said, and we want that information put in the record, if you can acquire it. If you can't, maybe we can get it from the State Department.

Mr. CHAPPELL. If you don't get it in there, I intend to get it in there, and it might be more favorable if you get it in there. I intend to get the information.

Mr. ROBINSON. I think it is important to know what are the issues we are talking about. There are a lot of issues in which the developing countries have not alined with the United States but not because they are playing us against the Russians or the Chinese, but because they feel that their growth is dependent upon a new structure of relationships. So there are many issues in the United Nations that certainly can't be put in the Communist-free democratic society conflict in terms of that.

Mr. CHAPPELL. I suppose the voting records of these countries are kept. Whether you want to make the judgment of whether they are friend or foe, the mere fact of the record itself would be information upon which we might pass judgment as to whether they are friend or foe.

Wouldn't you perceive that to be a fact?

Mr. ROBINSON. I think there are issues in which the fact that other countries have not voted with us doesn't make them automatically a foe.

Mr. CHAPPELL. I agree with that, but when there are enough of them, they are doing one of two things. They are either alined in

ideology with the Communists or they are seeking for one reason or another to play the game against both countries. This brings into play a new type of colonialism that the Communists are talking about.

Mr. ROBINSON. Well, that is something referred to, but my point is that we have to clearly distinguish between ideological conflict and sincere desire for economic gains in some of these countries which sometimes results in votes in the U.N. which happen to be on the other side.

Mr. CHAPPELL. Let me just ask you this question along that line: Can you point to one country that has very clearly alined itself with the Soviets that is receiving money?

Mr. ROBINSON. I think it is certainly safe to say, for example, India might well play the Soviets——

Mr. CHAPPELL. They are participating with them in the development of nuclear energy, aren't they?

Mr. ROBINSON. India is basing their nuclear development primarily on Canadian contribution, and I guess some European.

Mr. CHAPPELL. As a matter of fact, aren't the Russians developing the atomic bomb in concert with India and doing it under contract for India?

Mr. ROBINSON. I am not aware of that.

Mr. CHAPPELL. I think if you check into it, you will find that is true. It may be a good piece of information for us to know in view of the fact, if I understand this request correctly, India is one of the largest recipients of these funds; isn't that right?

Mr. ROBINSON. That is correct.

Mr. CHAPPELL. India, Pakistan, and Bangladesh, isn't that true?

Mr. ROBINSON. Yes.

Mr. CHAPPELL. As to those three countries, do you have any feeling as to where their allegiance stands ideologically or otherwise?

Mr. ROBINSON. I think it is clear that Pakistan has been more alined with the United States than with China, or for that matter than with Russia. India has had a closer association with Russia, and through that, of course, Bangladesh. They are seeking to serve their economic interest, and it is true that there is an element of competition, and they generate that to serve their own purposes.

PARTICIPATION BY OPEC COUNTRIES

Mr. CHAPPELL. You say on page 11, Mr. Reynolds, that:

> The Bank is urging the oil surplus countries to participate in the future as contributing members of IDA.

I didn't hear all the answers a while ago, and maybe this has been covered. But is there any country other than Kuwait that is now participating as a contributing member of IDA, that is, of the oil surplus countries?

Mr. REYNOLDS. If you are talking about this replenishment, no, only Kuwait. There are other oil countries that are members of IDA and did put a limited amount of money in when it was initially formed.

Mr. CHAPPELL. You are talking about 1960?

Mr. REYNOLDS. Yes.

Mr. CHAPPELL. That is a long time ago, isn't it? About 15 years ago. Which ones have been contacted to become contributing members?

Mr. REYNOLDS. I think virtually all of what are considered to be the capital surplus, capital exporting countries—Saudi Arabia, Venezuela, Iran, those three in particular. The ones that are expected now over long periods of time to remain capital exporters have been contacted.

Mr. CHAPPELL. Did they give a positive or negative answer, or simply make no response?

Mr. REYNOLDS. There have been no commitments certainly. It is under discussion.

Mr. CHAPPELL. Which ones of the oil surplus countries, if any, are receiving assistance under this program?

Mr. REYNOLDS. None are now receiving credits from IDA, new credits. There are credits outstanding to some of them, Indonesia being the most notable example.

Mr. CHAPPELL. The policy would be not to extend it to them, is that correct?

Mr. REYNOLDS. That is correct.

Mr. CHAPPELL. You say a number of these countries are joined with IDA in cofinancing projects. Which ones are those?

Mr. REYNOLDS. Saudi Arabia has; Abu Dhabi, Qatar, Kuwait have, and the Arab fund has.

Mr. CHAPPELL. What is the Arab fund?

Mr. REYNOLDS. I think it is a regional institution to which several of the Arab countries contribute.

Mr. CHAPPELL. You say on page 11, "The administration firmly believes IDA has been, and continues to be, an effective and valuable instrument for the advancement of vital interests which the U.S. shares with other nations of the world. Its importance to U.S. foreign interests, both political and economic, is great."

And when you say important politically and economically, which nations are you talking about?

Mr. REYNOLDS. I am talking about the interest of the United States in that statement.

Mr. CHAPPELL. Since you made that statement, it points out, doesn't it, what I was talking about earlier—the importance of knowing the political alinement of these countries? It is your wording and your point, and I think it is a good point, and I think it is important to us. I think it is doubly important to know which ones of these countries are politically advantageous to this country.

Mr. REYNOLDS. I think our relations with all of these countries are important, Congressman. They may not always vote the way we like in the United Nations, but I don't think any of them are under the control of enemies of ours. I think we have great friendship and respect in these countries. It is in the U.S. interest to participate in this organization. I believe that.

Mr. CHAPPELL. You are willing to stand on that statement?

Mr. REYNOLDS. Yes.

IDA LOANS TO AFRICAN COUNTRIES

Mr. CHAPPELL. All right. Now, what about the African countries? Which one of those, from a political standpoint—I am not saying we shouldn't help Africa like all the rest—are politically important

to the United States? There is not a one of them that I know of that can protect their own borders. That area is the least populated area perhaps in the whole world.

Which ones of them do you consider then, politically important to the United States?

Mr. REYNOLDS. It seems to me, Congressman, that the continent is important. It is a big continent; each individual country may be small.

Mr. CHAPPELL. What percentage of the world's population is in Africa altogether?

Mr. REYNOLDS. I couldn't answer that.

Mr. CHAPPELL. A very small percentage, isn't it?

Mr. REYNOLDS. I am sure it is not large, but there are a lot of people in Africa. There are some countries of political significance in their own standing, certainly Nigeria.

Mr. CHAPPELL. Of those receiving aid now, you are listing Nigeria?

Mr. REYNOLDS. No; I am just talking generally about countries in Africa.

Mr. CHAPPELL. I am trying to pinpoint this. You are making the point that these countries are politically important to the United States. I am trying to find out which ones on this list are politically important because I want to do the same thing when we come to Asia.

Mr. REYNOLDS. Egypt is certainly a country of political significance in the world. It receives IDA credits.

Mr. CHAPPELL. I agree with that. Can you name us some others?

Mr. REYNOLDS. Well, I can name the major—Zaire is a large country in Africa, of significance, I think, in the world scene.

Mr. CHAPPELL. What is its political leaning at this time according to the votes and according to its attitude?

Mr. ROBINSON. It joins with the unalined nations in pushing for economic gains for the developing role. But I think we have got to be clear that we really can't distinguish between economic and political considerations.

Mr. CHAPPELL. Then what you are saying is that the words used on page 11 would have been better not to have been said?

Mr. ROBINSON. I am merely linking the two and saying that we have economic considerations in Africa as a source of basic raw materials that are important to the future of U.S. industry, and that ultimately have political implications as well.

INTEREST IN IDA PARTICIPATION

Mr. CHAPPELL. I agree with that, and I don't discount that.

In Asia, where the masses of people are, which of those countries receiving this aid do you consider to be politically vital to the United States?

Mr. REYNOLDS. I am not sure how you are using that phrase, Congressman. I think it is in the interest of this country to maintain friendly relations with all of these countries.

Mr. CHAPPELL. So we understand.

You used the words that this aid is important to the U.S. foreign interests, both political and economic, two points, political and economic. How do you use political?

Mr. REYNOLDS. Let me say, first of all, I am talking about U.S. participation in this international institution. And it seems to me there is a vital, both political and economic, interest of this country in participating in that institution. This is true even though some of these countries receiving credits may not in all instances aline themselves with us politically on specific issues in the U.N. and elsewhere. I would say that isn't the test of whether it is in the U.S. interest to participate in this international organization.

U.S. INTEREST IN NONPOLITICAL LENDING

Mr. CHAPPELL. Let me say, first of all, I think participation is good. I am not arguing against the participation, but I am interested in seeing that the participation has the proper conditions and limitations which I think are important to the American taxpayer.

I think that is vitally important. I think you and I kid ourselves. Neither one of us is so naive as to be unable to look at the record, the long record of some of these countries and still state that we cannot tell what their political interests are and, indeed, what value they have in the world scheme so far as the balance of power is concerned. You are not that naive, and I hope I am not, so I am trying to get down to some realities.

Mr. Chairman, I have used all of my time.

Mr. COOPER. Could I make a statement pertinent to the last statement? It seems to me we do have political interest in participation in IDA, not with just the members of IDA that receive grants, but also with donor friends and allies and with other countries generally. And I think that when it comes to the distribution of IDA credits that to try to say that the United States in IDA or in the World Bank generally should vote only for credits and projects that go to countries that we feel are politically alined with us or inject this kind of political criteria into the allocation of IDA credits would be to change drastically the way both IDA and international institutions work.

And this would cut both ways because other countries have other interests and pretty soon when it came to figuring out who should receive loans or not receive loans, there would be one group of countries favoring a particular political associate. I think the apolitical character and the attempt to be technical and constructive in an economic sense that these institutions carry out is very important, and it has been very important to us.

There are cases where other countries have tried to inject political considerations into the granting of loans or assistance, and we have not thought that was appropriate.

So if we want to change the character of our participation and the character of these institutions in that direction, I think it is a very, very dangerous road to go down.

Mr. CHAPPELL. What you are saying is we have the choice of our doing it bilaterally or through the multilateral choice you talk about here. Don't you suppose the reason the Soviets are not in the picture is because they do what they do bilaterally? Do you suppose they would be granting assistance to areas they know are politically alined against them? Isn't that the reason they are not a member of this organization? I think you know it, and I know it.

Mr. COOPER. But I am not sure that adopting a similar approach on our part would be in our political interest. We have a very different role in the world and one that I think by and large has been a constructive one and one that served our foreign policy interest and our general economic and national interest well. I think it would be unfortunate to try to adopt the same posture vis-a-vis the international financial institutions that Communist countries have.

Mr. BEVILL. I don't think the intent is to try to tell anybody how they have to vote on a particular thing. We in the Congress are having to determine priorities on money that we don't have, money that we are borrowing, and we are determining priorities on that, and it would be helpful to us to know these countries that are helpful to us, or friendly to us for our information. Probably we would all be better off if most of those folks were our enemies; we would be better off as a practical matter, but I don't think that would be a fair way to put it.

I think we do need to know this, and I think by you getting in touch with our representative in the United States to tell him what you ran into and see what you get out of him and put it in the record and see what he says, and we will have something to go by. Is this right?

Mr. CHAPPELL. Yes, sir.

Mr. BEVILL. Congressman Early, the Chair recognizes you.

Mr. EARLY. Thank you, Mr. Chairman.

Mr. Cooper, I am a freshman Member of this Congress, and all of this has been very enlightening for me. I've followed the questioning of my senior members, and they seem to make the point that the United States only has so many dollars to spread around, but my initial impression of both your comments and Mr. Robinson's comments is that you both think that we can be all things to all people; that we shouldn't take into consideration who are our friends and who are not our friends. Would you comment on that, please?

Mr. COOPER. Yes, sir. First of all, I would like to say I am a freshman in the particular role of testifying before this committee, and I found it enlightening.

Mr. CHAPPELL. You are doing a good job.

Mr. COOPER. The point I was trying to make is, if we want to give aid only to countries where we believe that our political interests are served primarily, we should do that bilaterally. If we want to participate in an international financial institution, I think that that institution should continue to be governed by technical and economic criteria in the distribution of those funds.

For us to try to inject into the distribution process and the allocation process of those funds the kind of political criteria mentioned would be to change very much both the character of our participation and the character of those institutions.

I am not sure if we were successful in doing that that we would find that our U.S. interest has been well served.

Mr. EARLY. I wasn't here in 1960 at the conception of IDA, but it's my impression that its purpose was similar to some Federal assistance programs—to develop, to provide assistance to get started, and then to eventually terminate the assistance program. Wasn't that the point of IDA, to provide these countries with assistance until the point that they can stand on their own two feet?

Mr. COOPER. Yes, sir.

Mr. EARLY. In your statement, Mr. Reynolds, you state that "since 1960 we have contributed at a rate of 41 percent." Now, what is your long-range plan?

Mr. Bevill asked questions of Mr. Cooper to which he couldn't get any answers. Frankly I couldn't believe you would make a loan to any country when you couldn't obtain a long-range plan beforehand. My question is, When they don't give you an adequate long-range plan beforehand why do you approve these loans?

With regard to our participation, what was the Department's long-range plan as far as IDA? Do we expect to contract 40 percent from today to eternity?

Mr. ROBINSON. The fourth replenishment went down to 33 percent.

Mr. EARLY. You seem to be objecting to that.

Mr. REYNOLDS. It has been our objective for some time, ever since we began participating in IDA, to bring the U.S. share down gradually, and we have brought it down now to 33⅓ percent.

Mr. EARLY. But there are several statements in here that seem to imply we are not meeting our obligation. First of all——

Mr. REYNOLDS. No. All I am arguing here is that it is important that we do meet our obligations. We are an important country in the world, and this is an international effort, and I think it would be contrary to the best interests of the country not to take part in it.

Mr. EARLY. We have convinced the public that we have an obligation and that we obligated to give these moneys to these countries. I think the United States is at least entitled to a thank-you. But after listening to this testimony, one would think it is something that we are obligated to do and not only continue but also we have to increase it, and that is what the public thinks.

After listening to the testimony from the three witnesses today, it is my opinion, that this is the policy that you are implementing. Mr. Robinson's statement, "The United States has reached the point in its history where we must clearly demonstrate our continued leadership in international politics and economic forums" and it is repeated here several different times.

In your opinion, Mr. Cooper, is the United States entitled to a thank-you from these countries?

Mr. COOPER. I think we are participating in these institutions in order to serve U.S. interests as I see them; yes, sir.

To respond directly to your question, I do not know what a thank you means. I would hope and expect and I believe that the United States does receive credit and that the countries that receive IDA credits are well aware of the United States contribution that is part of them, and that they are appreciative of this.

Mr. EARLY. In one of these statements I read where several countries received 75 percent of the total. Thailand and the Philippines were two of those countries. I have read where they are reassessing their opinion toward the United States.

Are we presently reassessing our IDA loan program to those countries?

Mr. COOPER. Thailand was phased out of IDA early last year, sir, not for that reason.

Mr. EARLY. What would be your initial reaction if one of these countries receiving aid was to make the statement that they no longer

have any trust in the United States and they are reassessing their opinions of the United States; would your reaction be to continue to to offer them money through the IDA program?

Mr. COOPER. Through IDA? I think before we were to inject that kind of political criteria into IDA, we would have to think very seriously if that is the way we want to approach international institutions.

If it is a question of bilateral aid, that kind of criteria is more direct and pertinent. But it involves not just a question of whether we think such and such a country should receive money from IDA. It also involves the question of whether we want not just ourselves but other countries to say that IDA should disburse funds on the basis of political criteria, rather than in the basically apolitical way now employed in order to contribute to economic development.

We have made a basic political judgment that our political and foreign policy interests are served by participation in international financial institutions that try to promote economic development through their activities and do not use their funds to reward friends or deny people who are unfriendly to this or that country or to us or to other donors.

Mr. EARLY. But you are being very broad. I do not think in the questions that were asked by the other members they were trying to say that any country that did not support the United States in the U.N. 100 percent of the time should be discontinued. I do not think that was the idea. They were trying to make the point that, at least, someone testifying today should be aware of which countries support the United States vote in the U.N. and which countries are absolutely opposed to our arguments.

I think the taxpayers are entitled to that. You are asking the American taxpayers for another $375 million. In just my 4 months here. I have seen a foreign aid bill that amounted to a $6 billion request of the President for this fiscal year, reduced by this subcommittee to $3.5 billion, the most drastic reduction it has ever made, and it prevailed on the House floor by only a 212 to 201 vote.

The witnesses today think that we are just going to continue playing Santa Claus forever and ever. I do not think you should be called directors and assistant secretaries; you should be Santa Clauses and Assistant Santa Clauses. That is my impression as someone who is hearing it for the first time.

Mr. ROBINSON. On the question of getting this into perspective, we believe that the support of economic development in these countries is in our interest, not Santa Claus, in terms of our interest, in terms of markets for our products, in terms of the basic raw materials we are going to need to sustain our industry.

Increasingly we are dependent on foreign sources for raw materials. This is the basis on which we feel this is a good investment. We feel that there is the multilateral approach which brings us in as a participant in the developed world efforts to bring about development in an apolitical way.

Mr. EARLY. I agree with that to a point, but don't you think the American people are entitled to know that?

There just seems to be no communication between the State Department and the people.

Mr. ROBINSON. We are prepared to take criticism.

Mr. EARLY. That is the trouble. You people do it, and we the elected officials take the blame. The people are not going to accept our foreign policy. Congress is shifting. After listening to this testimony today, it looks as though we are going to continue because that is how we did it in the past.

Mr. ROBINSON. No; it is on the basis that this in our judgment represents a good, necessary investment to preserve economic development in a part of the world which is going to be fundamental to the stability and continued growth of our country.

U.S. CONTRIBUTION TO IDA

Mr. EARLY. Will you give me, you or Mr. Reynolds, the projection, the long-range plan of the United States with regard to IDA, with regard to our percentage of involvement?

You said the United States was down to 33 percent this year. Might I ask, of the State Department's requested budget, is this what it was? Did you request over the amount approved from OMB?

Mr. COOPER. No.

Mr. REYNOLDS. No; this, Congressman, is an appropriation request made pursuant to authorizing legislation that was enacted by the Congress last summer.

Mr. BEVILL. This is in the budget, this $375 million?

Mr. REYNOLDS. In the budget for 1976. It is designed to enable the United States to play its part in an agreement that has been negotiated with 25 other governments.

Mr. EARLY. Is this the amount that was requested in your fiscal 1976 appropriation?

Mr. COOPER. Yes, sir.

Mr. EARLY. You say yes?

Mr. COOPER. For IDA.

Mr. REYNOLDS. It is not part of the State Department program.

Mr. EARLY. I did not mean to say State Department.

Mr. COOPER. There was an international discussion about the replenishment of IDA, called the fourth replenishment. In those negotiations the U.S. share was moved down from 40 percent to 33⅓ percent, and it was also made possible to spread contributions over 4 years rather than 3 years. This $375 million is a request pursuant to an authorization that was made to enable the United States to participate in that replenishment along the lines negotiated.

So in that sense there is no difference between this appropriations request and what the U.S. administration was asking for.

Mr. EARLY. What were the reasons for this reduction, from the other participants in IDA, as far as agreeing to reduce the U.S. share to 33 percent?

Mr. REYNOLDS. Mr. Congressman, when IDA was formed in 1960, the world was different than it is now.

Mr. EARLY. The only thing that is the same is IDA.

Mr. REYNOLDS. The United States was much more advanced economically relative to other countries in the world, western Europe and Japan have caught up with us to a considerable extent. So we have expected them to come in with a larger share as time has progressed. That they have been willing to do.

Mr. EARLY. Could you tell the committee who picked up the roughly 8 percent drop and what other countries had an increase?

Mr. REYNOLDS. Well, the two big contributors that have increased their share significantly are Germany and Japan. There are also some additional countries that have come in as contributors to IDA.

Mr. EARLY. With new countries coming in, to participate in the aggregate, we, by percentage, might not be decreasing our amount.

Mr. REYNOLDS. We certainly decreased our share as a percentage of the total.

NEW CONTRIBUTORS TO IDA

Mr. EARLY. Not the percentage if you have other countries participating.

How many new countries are coming in?

Mr. REYNOLDS. This is an important objective, to get additional countries as they advance economically, to contribute to the institution, and some countries have increased their share.

Even if you looked just at the group of countries who were in initially, our share would have gone down, probably not quite as much as it has, taking account of the new countries, but it certainly would have fallen even on that basis.

Mr. EARLY. How many new countries are coming into IDA?

Mr. REYNOLDS. Initially we had 17 or 18 contributors, now we have 25. We have three countries which up until recently anyway have been considered developing countries in the fourth replenishment. Israel, Yugoslavia, Spain, Ireland and Iceland have come in, and New Zealand.

Mr. EARLY. Of the seven new countries, are there any OPEC countries?

Mr. REYNOLDS. Of the new countries, no. Kuwait is a member, a contributor to IDA, but has been since the beginning.

Mr. EARLY. I was interested in the other countries that are nonpaying members. That is not a bad membership.

Mr. REYNOLDS. These are by and large developing countries who have subscriptions in the institution but have not contributed to the annual replenishments.

IDA AGRICULTURAL LOANS

Mr. EARLY. Since its conception in 1960, on agricultural loans could you tell me how much IDA has contributed?

Mr. REYNOLDS. To agriculture, if you give me a moment, I can, Congressman.

Mr. BEVILL. Would it be all right if he furnishes that for the record?

Mr. EARLY. Sure.

Mr. BEVILL. So we can move along.

[The information follows:]

Since 1960 through fiscal year 1974 IDA committed a total of $1.9 billion to agriculture, forestry, and fisheries projects. This represents 28 percent of total IDA commitments over the period. Total lending to agriculture by both the IBRD and IDA has come to $4.6 billion, comprising 329 individual operations.

The Bank group is now the largest external source of funds for investment in agricultural development in developing countries. The Bank's program in agriculture has widened considerably beyond investment in irrigation to agricultural and livestock credit, storage, marketing, processing, and expansion of fertilizer productive capacity. For 38 recent agricultural projects, it is anticipated

that the average income of farmers (currently $70 per year) will rise by 7.3 percent per year; production by these same farmers will rise by 5 percent per year.

Mr. EARLY. Would you supply that for the record and would you give what was the result of the agricultural loans to these countries, as best you can?

Mr. REYNOLDS. Certainly.

Mr. EARLY. If we go to that country and see something that allowed that country to be in any which way self-sufficient?

Mr. REYNOLDS. I can give you the figures for the last 3 years; $313 million into agriculture in 1972, $436 million in 1973, and $309 million in 1974.

Mr. ROBINSON. There is approximately $2.1 billion, over $2.1 billion cumulative through December 1, 1974.

Mr. EARLY. Thank you, Mr. Chairman.

Mr. BEVILL. Thank you.

Any other questions?

Mr. Obey?

Mr. OBEY. Yes, I have a number of them.

First of all, Mr. Cooper, let me say that while I disagree with the thrust of the questions by the gentleman from Florida, and to some extent by the gentleman from Massachusetts, I certainly understand their frustration because, as a practical politician, I find it very difficult to explain to my constituents exactly what the goals of our aid program really are.

The rhetoric that is used to justify our involvement in institutions such as this seems to change depending upon what seems to be popular that year. But I do not think we really have ever effectively defined to the American people what our real goals and purposes are in the whole area of economic aid.

I do not feel especially comfortable about getting into the area of the United Nations votes. I am not always happy with the votes the United States casts in the United Nations. I think we do some pretty stupid things there. But, I think, when we evaluate whether this kind of aid is useful or not, we really just have to look at a couple of basic questions.

Either it is in our national interest to stimulate economic betterment in the underdeveloped part of the world, or it is not; either it contributes—either this program contributes to economic and political stability, or it does not.

I think the question is really not whether we are giving aid to people who vote with us in the United Nations, but, rather, does a program like this accomplish something specific for the United States?

Does it, for instance, provide us with easier access to raw materials which we need to survive in the competitive world economically?

Does this assistance really help to stabilize political situations to enable peaceful and more rational development in Africa, Asia, Latin America, you name it?

Third, does it really, and I emphasize the word "really," help the poorer people of the world whom we are supposed to be interested in, at least in an indirect way?

I would just encourage you, if you could, to sort of set out for the record what actually you see as the goals of this kind of aid. I do

not mean in general bureaucratese, which we usually get when we ask for something like this—I am not talking about your department specifically, but virtually everybody I ask this of, whether we talk about National Science Foundation grants or foreign aid, or you name it, I would really like to see you specifically respond to these questions:

How does this kind of aid contribute to political and economic stability in Africa, in Asia, in Latin America?

What are the specific goals as far as our national interests in this whole area?

I think those are some of the questions which would make it easier for people in the Congress who would like to do what is right and what is wise in this area, to do it.

[The information follows:]

Formulation of sound economic policies and systems producing a better standard of living is the key to political and economic stability in these areas. The success of any development efforts depends upon the policies each country adopts and how it carries them out. The development banks are effective, working institutions that provide both the developing and developed countries with an established and systematic framework for consultations on economic policies, development needs, and economic performance. These banks encourage development policies in these developing areas which follow the lines of U.S. economic thinking, and therefore, embody stabilizing principles.

U.S. assistance to the international financial institutions serves several specific U.S. goals. First, it provides opportunities for procurement of U.S. goods and services needed for the projects being financed. Second, since the multilateral lending institutions finance projects to build up the productive capacity, directly or indirectly, of developing countries, the sources of many commodities imported by the United States are better assured. Third, as the development process moves ahead in these countries they provide export markets for the United States. Fourth, to the extent that they build up agricultural capacity, their dependence on U.S. food aid is reduced. Fifth, the United States needs the cooperation of the developing countries in establishing policies to accommodate the many changes that have recently occurred in world trade, finance, energy, and raw materials. Through our participation in the international lending institutions, we are able to help combine the cooperative efforts of developing and developed countries to resolve problems in those fields which are of direct interest to the United States. Sixth, by channeling part of our total economic assistance funds through the development banks we help bring forward much larger amounts of assistance from other donors.

Mr. OBEY. But having given that little speech, let me just ask you a few questions so I can better understand how you work.

EFFECT OF CURRENCY FLUCTUATIONS ON IDA BURDEN-SHARING

As I understand it, if we devalue the dollar, we have to make an upward adjustment in our contribution?

Mr. COOPER. Not in IDA IV. That was true under the previous replenishments. Under the current replenishment that is not true.

Mr. OBEY. But if we would devalue, we do not have to make an adjustment in the amount for past obligations?

Mr. COOPER. Yes, sir, for past obligations under previous replenishments, to the extent they have not been disbursed, the maintenance of value provision would prevail.

Mr. OBEY. What happens if you revalue currencies upward, for instance Germany, did they reduce their commitment then? Or does it not work when you revalue upward?

Mr. REYNOLDS. I think, I would want to check to make certain, but I think they receive something back. I know they do in the case of the World Bank subscriptions. I believe that they do in the case of IDA, too. But again, that was only with respect to past contributions, not with respect to IDA IV.

PARTICIPATION BY OPEC COUNTRIES

Mr. OBEY. You indicated Kuwait has belonged since the beginning. How much do they contribute, what percentage do they contribute?

Mr. REYNOLDS. Kuwait is is relatively small country.

Mr. OBEY. But it is the richest country in the world on a per capita basis, is it not?

Mr. REYNOLDS. It may well be, but it does not have that many people. Their share has gone up but not very sharply.

Mr. COOPER. Of the fourth replenishment, Kuwait's share is 0.6 percent.

Mr. OBEY. 0.6 percent; what was it of the third?

Mr. COOPER. 0.33 percent.

Mr. OBEY. What does that mean in dollar terms?

Mr. COOPER. $27 million in the fourth replenishment.

Mr. OBEY. Versus what in the other?

Mr. COOPER. We will find it.

Mr. OBEY. It would be about $10 million.

Supply that for the record.

[The information follows:]

Kuwait contributed $10.8 million to IDA III out of a total replenishment of $2.4 billion.

Mr. OBEY. What about other OPEC countries, what approach has been specifically made to other OPEC countries?

Mr. COOPER. There have been discussions between management and other OPEC countries.

Mr. OBEY. Which ones?

Mr. COOPER. I think the ones Mr. Reynolds mentioned earlier.

Mr. REYNOLDS. Saudi Arabia, Venezuela, Iran, Kuwait, Abu Dhabi, the ones that are expected over the future to remain capital-exporting countries.

Mr. EARLY. In the World Bank you said something about the World Bank receiving contributions from the OPEC countries. Did I read somewhere that the OPEC countries contribute more to the World Bank than the United States?

Mr. REYNOLDS. Certainly not. Their share of capital is considerably less than that of the United States in the World Bank. Now they have been substantial lenders to the World Bank.

Mr. EARLY. Loans, yes.

Mr. REYNOLDS. They have lent more money recently than has been borrowed by the Bank in the United States. Bank borrowing in the United States, of course, is done on private capital markets, from individuals, not from the U.S. Government.

Mr. EARLY. So the OPEC countries loan it, we give it?

Mr. COOPER. They purchase World Bank bonds.

Mr. EARLY. Thank you very much.

Mr. OBEY. I had asked you which countries had been specifically approached. Can you tell me how you go about approaching countries like that?

Mr. REYNOLDS. This has been done by the management of the institution. Mr. McNamara has had discussions in most of these countries. His senior vice presidents have also had discussions. They have covered a range of topics: borrowing for the World Bank operations, the joint lending that I referred to a moment ago.

Mr. OBEY. Do you know when the first initiative would have been made to them to provide financing for your shop?

Mr. COOPER. It varies, as I say; Kuwait has been in IDA since 1960.

Mr. OBEY. Of the nonmember countries, would you know when the first initiative had been made?

Mr. COOPER. I think in many cases discussions were initiated with some of these countries even before the dramatic price increases of the last year or two, but certainly very quickly after that they intensified and they have been carried out regularly since then.

I would be happy to speak with Mr. McNamara and furnish something for the record on this.

Mr. OBEY. I would like to know when each country was approached, how many times if you can tell me that, and what some of the responses have been, what some of the problems are.

I just want to get a better understanding of whether or not they have any intention or not to participate.

Mr. COOPER. Sure.

Let me speak with him and provide something for the record.

[The information follows:]

In the past 15 months Mr. McNamara has had discussions at the highest level in a number of the OPEC countries. Last year, he visited Iran in March and Venezuela in August. This year he made an extensive trip to the Middle East in March on which he made calls in Kuwait, Saudia Arabia, Qatar and Abu Dhabi. In addition, his Vice President for Finance has had contacts with senior officials of most of the OPEC governments over this period both in Washington and abroad.

On all of these occasions an effort has been made to solicit the cooperation of the OPEC countries in efforts to assist the developing nations. Assistance has been offered to them in expanding their own bilateral assistance programs. They have also been urged to increase their participation in the World Bank. They have made substantial purchases of World Bank bonds, and have provided cofinancing on concessional terms for a number of IDA projects. They have shown interest in increasing their capital subscriptions to the Bank, and a few have also offered funds towards the possible establishment in fiscal year 1976 of a facility to subsidize the lending rate on Bank loans to poorer and less creditworthy countries. To date only Kuwait has contributed to IDA, but the Bank has clearly indicated that it hopes to see others with high per capita incomes and large capital surpluses become contributors at an early date. Voting rights, which up to now have been fixed in proportion to cumulative contributions, is a problem, but should be amenable to solution in connection with the next replenishment.

Mr. CHAPPELL. Point of inquiry.

Is Mr. McNamara going to appear before the committee?

Mr. BEVILL. Will the gentleman yield?

Mr. OBEY. Sure.

Mr. CHAPPELL. May I ask the staff, is there any schedule on Mr. McNamara appearing?

Mr. BEVILL. It has been pointed out that, under the International Protocol custom, he is not permitted to appear.

Mr. COOPER. The reason for that being that there are so many member countries it would be very difficult if he had to appear before the legislative bodies of each of the member countries. If they appeared before one, they would have to appear before them all.

Mr. CHAPPELL. Thank you.

Mr. OBEY. Let me ask another question——

Mr. BEVILL. Executive privilege.

SALARY LEVELS OF IDA OFFICIALS

Mr. OBEY. The Senate committee last year, on page 142, listed without comment salary levels for various officials of the World Bank, not specifically for IDA.

How many high level executives are there in IDA as defined—put it this way—how many people in IDA are paid more than $18,000 a year?

Mr. REYNOLDS. First of all, the salaries in the World Bank are set on a net of tax basis because most of the non-American members of the staff do not pay taxes.

Mr. OBEY. What I am looking at is the committee listed net salary and then gross salary. I am talking about net salary.

Mr. REYNOLDS. Over $18,000?

Mr. OBEY. Yes.

Mr. COOPER. The employees are not distinguished between IDA and the World Bank.

Mr. REYNOLDS. It is a single staff for both.

Mr. COOPER. It is a single staff.

We seem to have, over $18,000 net—this is gross, I am sorry.

Mr. REYNOLDS. We would have to provide it for the record.

Mr. COOPER. Wait a minute. We must have those. These are gross figures.

Mr. REYNOLDS. Over $18,000 the percentage would be relatively high among professionals. Of course, half of the World Bank staff is not professional and they would all be below that.

Mr. BEVILL. Supply that for the record if you wish.

Would that be all right?

Mr. OBEY. I would like to know. If they cannot find it, all right, then put it in the record.

Mr. COOPER. I am sorry we do not have the net figures.

Mr. OBEY. I would like to know how many persons in the World Bank are paid more than $18,000 a year?

Mr. BEVILL. I do not think he is asking for net. He wants to know who has a salary of over $18,000.

Mr. OBEY. I want to know how many and that is how many of the total staff.

Mr. BEVILL. On a salary of $18,000 or above.

Mr. COOPER. Net.

Mr. OBEY. I am trying to travel along the same lines that the Senate report did last year. So why do you not provide it for both, if you want to?

Mr. BEVILL. No, just salary of——

I do not know what the other column really means.

Mr. BEVILL. Gross and net.

Mr. OBEY. Provide it for both.

[The information follows:]

A total of 1,483 Bank group employees, all of whom are professional staff, are paid over $18,000 net which is equivalent to about $26,000 in normal gross salary terms. These employees comprise approximately 36 percent of total Bank group staff, and 74 percent of all professional staff. All nonprofessional staff members earn below the $18,000 net, or $26,000 gross level.

IDA ADMINISTRATIVE COSTS

Mr. OBEY. I would also like to know what percentage of money which you see is attributable to administrative costs and how does that compare with each of your budgets for the last 5 years, and to salary costs.

Mr. REYNOLDS. The budget for the current year, Congressman, is about $150 million. That is the combined budget for the Bank and IDA. I think about $110 million is allocated to the World Bank, the conventional lending operation which is much bigger than IDA, and $40 to $50 million is allocated to IDA.

Mr. OBEY. You understand what I am after.

I would like you to tell me what percentage of money spent by IDA and by the World Bank, if you can provide it both ways, is attributable to whatever you would call administrative costs, and then further delineated as to how much of that is attributable to salary costs and what were the percentages for your budget for each of the previous 5 years?

Mr. REYNOLDS. We could give you the budget numbers and the share attributed to personal service costs right now.

We would have to give you the percentages later.

Mr. COOPER. Just to give an order of magnitude, the IDA, IBRD budget level in 1975 was about $158 million compared to loans that are made of——

Mr. REYNOLDS. IDA and the Bank together will be about $5 billion this year.

Mr. OBEY. Why don't you supply all of those numbers for the record.

Mr. COOPER. Sure.

Personal services costs, however, which should be the basic salaries and so on, were $102 million.

Mr. OBEY. As compared to what last year?

Mr. COOPER. This is a budget level for 1975; $61 million in 1972, $70 million in 1973, $88 million in 1974, and about $102–$103 million in the 1975 budget.

Mr. OBEY. Put that all in the record.

[The information follows:]

The table below shows IBRD personnel costs and total administrative expenses in relation to new loan and credit commitments for the last 5 years. Between 1971 and 1975 total administrative expenses as a percentage of new lending volume declined from 3 percent to 2.8 percent; similarly personnel costs as a percentage of new lending volume declined from 1.9 percent to 1.8 percent. This occurred despite a considerable increase in the complexity of operations as the IBRD and IDA moved into new areas of lending such as population, education, and rural development.

IBRD/IDA operating costs are more than fully covered by earnings on loans and investments. Their combined profit for the current fiscal year will be approxi-

mately $283 million (exclusive of a net gain of about $28 million on changes in the valuation of foreign currency holdings).

[In millions of U.S. dollars]

	Fiscal year—				
	1971	1972	1973	1974	1975 (estimate)
IBRD/IDA administrative expenses	76	95	109	134	163
Of which personnel costs	48	58	67	62	102
Total IBRD/IDA commitments	2,505	2,966	3,408	4,313	5,737
Net income:[1]					
IBRD	212	183	186	216	265
IDA	7	−1	5	14	18

[1] Excluding gains or losses resulting from changes in currency valuations.

Mr. BEVILL. Any other questions?

Mr. CHAPPELL. I want to commend Mr. Obey on his line of questioning. I want to say that I did not intend to limit my image, my attitude toward one of these countries strictly on their vote in the United Nations, but to arrive at the same points you are getting at. I think the whole picture is important.

Mr. BEVILL. This may be overlapping with each of the questions the members have asked.

I would like you on these loans that have been made to these countries in the past 12 months to tell us why you made the loan and what the American taxpayer can expect to receive in the way of benefits for having made that loan.

That may be a little difficult in that this is a group, but you could at least give us the best you can on that, because this is what I think will overlap a little bit with what has been asked, but this is what we would like to know.

[The information appears at page 981.]

MULTILATERAL AND BILATERAL LENDING COMPLEMENTARY

Mr. CONTE. Mr. Robinson, I was pleased to hear you say that our multilateral and bilateral programs are complementary rather than competitive. One of the problems we have in selling foreign assistance is that there are so many approaches, or spigots, as our chairman likes to say, that there doesn't seem to be an overall strategy, or approach to the problems of the developing world. To begin with, I wonder if you would tell me what you perceive as the role of multilateral assistance in our overall foreign assistance program, and how it is complementary to our bilateral program?

To be more specific, what does multilateral assistance do that couldn't be done, or done as well, through bilateral assistance?

How does having both multi- and bilateral assistance permit a more efficient allocation of resources than either program by itself would achieve?

Mr. ROBINSON. I believe the U.S. participation in international development lending institutions does indeed complement our bilateral assistance programs. These lending institutions mobilize capital in foreign as well as U.S. markets, channel resources to LDC's of special

interest to the United States as well as those in which we may prefer a diminished presence. They make hard economic recommendations to LDC's in an apolitical, multilateral context, and their development strategy encourages borrowers toward a market-oriented framework. The same kind of advice from the United States would be viewed as interference in a country's internal affairs and yet the banks are giving the same kind of advice we would, and often getting it accepted. Finally, they contribute to the structure for international cooperation by providing an effective forum for constructive dialog between industralized and developing countries. Bilateral aid remains, of course, of major importance. There are special aspects of economic assistance that require bilateral programs, especially where we have special techniques or products to impart, where we have special interests in individual projects or programs, or where security considerations are heavily involved. By combining these approaches we seek to advance economic development along a broad front while permitting the United States to implement programs of particular interest to U.S. foreign policy.

U.S. EXPORTS TO THE LDC'S

Mr. CONTE. Mr. Robinson, you pointed out that less-developed countries purchased one-third of our exports. What portion of U.S. exports flowing to less-developed nations was purchased with American foreign assistance funding, or with multilateral assistance involving some American participation?

Mr. ROBINSON. Less developed countries—LDC's—purchased about $54 billion worth of U.S. exports of goods and services in 1974, out of total U.S. exports of $142.6 billion. On the other hand, U.S. Government concessional assistance for both military and nonmilitary goods and services to these countries totaled about $6.7 billion, net of repayments, or 12.3 percent of our total exports to them.

In 1974, purchases in the United States through multilateral assistance involving some American participation was approximately $425 million, or less than 1 percent of our exports to LDC's. Procurement in the United States by the major IFI's during 1974 is listed below.

1974 Procurement in United States

[In millions of U.S. dollars]

IBRD (fiscal year)	269.0
ADB (calendar year)	39.4
IDB (calendar year)	102.9

U.S. BALANCE OF PAYMENTS POSITION WITH LDC'S

Mr. CONTE. You mentioned our balance of trade surplus with the nonoil-producing less-developed countries. What was our balance of payments position with regard to these countries? Which do you think is the more meaningful figure and why?

Mr. ROBINSON. We mentioned the U.S. merchandise trade surplus with the nonoil-producing less-developed countries instead of some other balance of payments measure mainly because of the lack of other readily available and reliable statistics. Nonoil-producing less-devel-

oped countries is not currently one of the regional categories into which the U.S. balance of payments accounts disaggregate balances on merchandise trade, goods and services, current account, and basic balance. Our previous submission of merchandise trade balance was derived from Bureau of Census statistics. The balances on goods and services, current account, and basic balance would be useful, if they were available. However, the net liquidity balance and the official reserve transactions balance on a regional or bilateral basis would lack validity because liquid dollar holdings of private and official foreigners are affected not only by their transactions with the United States but also by transactions among themselves.

MULTILATERAL INSTITUTIONS IN THE WORLD ECONOMY

Mr. CONTE. How can the multilateral lending institutions mediate between the conflicting economic interests of the industrialized countries and the developing world?

Mr. ROBINSON. Multilateral institutions bring people and countries of disparate backgrounds together to work on common problems. The international lending institutions generally utilize Western economic theories and free market type approaches to development issues and and at the same time have a solid understanding of the special problems of the LDC's. Thus, ideological differences between developing and developed countries can be approached in constructive ways which serve the best interests of the developing as well as the developed countries.

Mediation by the IFI's also often consists of bringing reality into focus and showing countries what is or is not practicable. In an interdependent world economic well-being is a synergistic process, but awareness of the fact will only occur through the continual discussion and exchange of ideas which is possible within our international institutions.

The multilateral lending institutions have formal and informal ways of dealing with conflicting interests. For example, on the formal side, the International Center for Settlement of Investment Disputes (ICSID) was established under IBRD auspices to resolve differences in this field among member countries. Informally, the multilateral lending institutions are in a unique position because of their apolitical character which permits them to work effectively with member countries to seek solutions to problems between the developing and developed countries.

U.S. SHARE OF MULTILATERAL AID

Mr. CONTE. It is true that the American share of world multilateral aid has been lower than its share of total bilateral aid. But isn't this largely because our bilateral program is so large compared to other countries, and not that our multilateral program is so small?

Mr. ROBINSON. The most recent figures available show that the U.S. share of the total amount of bilateral official development assistance given by DAC countries in 1973 was 33 percent. In 1972, the U.S. share was 40 percent. The U.S. share of the total amount of official contributions made by DAC countries to multilateral institutions in 1973 was 24 percent. In 1972, the U.S. share was 27 percent.

Thus, the U.S. share of world multilateral aid is smaller than its share of bilateral aid. However, this is not because our bilateral program is so large. Although both the bilateral and multilateral programs are large in absolute amounts, the U.S. bilateral program forms a relatively small percentage of the U.S. GNP. For instance, the 1974 DAC report shows that in 1972 the total amount of official U.S. bilateral development assistance comprised one quarter of 1 percent of the U.S. GNP for that year. Ten of the remaining 15 DAC countries disbursed a larger portion of their GNP as bilateral development assistance in that year. Similarly, the United States ranks 11, tied with New Zealand, in percentage of GNP committed for official development assistance from 1970 through 1973.

U.S. POLITICAL PROFILE

Mr. CONTE. Could you name some countries which receive multilateral assistance where the United States is trying to maintain a low political profile?

Mr. ROBINSON. Some of the countries receiving multilateral assistance where we have a low political profile, on the basis of the size of our diplomatic mission, include:

Bangladesh	Costa Rica	Mali
Burma	Egypt	Singapore
Burundi	The Gambia	Sri Lanka
Chad	Malaysia	Sudan

Mr. CONTE. If we are keeping a low profile, can you tell me where the advantage lies for the United States to furnish this type of aid?

Mr. ROBINSON. A low political profile does not imply that we have no interests in a particular country. Where we may gain little politically from a high profile, we may still pursue humanitarian, economic, regional, or strategic interests. The human suffering in Bangladesh cannot just be ignored. The vital position of Burma in our fight against narcotic traffic is undeniable. The importance of Egypt to a stable Middle East is known by all. And the contribution of a dynamic Singapore to the development and openness of Asia has been significant.

While it may not always be possible to assist countries bilaterally, and as it is often cheaper administratively to assist some of them through multilateral channels, it is important that the development needs of countries not be ignored. If we leave cogs out of the wheel, the cooperative world system we are endeavoring to construct will not progress far. Markets will not grow, resentments will flourish. Where we as a Nation cannot, or do not wish to, expend bilateral resources, the multilateral agencies fill the gap. From such assistance flows all the advantages discussed in my replies to your previous questions.

APOLITICAL NATURE OF BANKS

Mr. CONTE. Mr. Cooper, one criticism of our foreign aid program is that it is somehow "Imperialist." Would you explain your statement that these Banks are "apolitical" institutions?

Mr. COOPER. The prime objective of the international financial institutions, as mentioned in the charters, is to foster economic development, thus contributing to an improved living condition for people in all developing member countries. While the Banks will make recommendations about specific monetary, fiscal and trade policies of member countries they do not require a specific form of government as a prerequisite for loan eligibility. Of course, if a political system is inimical to economic development the Bank may choose not to lend to it. For example, the IBRD charter states in article 4, section 10, "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and the considerations shall be weighed impartially in order to achieve the purposes . . ."

The Banks make loans to countries as politically diverse as Malysia and the Peoples Democratic Republic of Yemen, Chile and Yugoslavia, countries which encompass a wide range of the political spectrum. Moreover, since the recipient countries are also voting members of the Banks, they play an important role in the Bank's present and planned activities. In addition, the Bank staffs are chosen internationally, the World Bank alone has people from 96 countries on its staff.

EMPHASIS ON THE POOR

Mr. CONTE. How do these Banks stress the importance of spreading development benefits to the poorer people?

Mr. COOPER. The Banks stress the importance of spreading development benefits to the poorer people by giving increasing emphasis to projects which help the poor. For instance, from 1967 to 1973 the dollar amount of IBRD/IDA commitments doubled, and the percentage of IBRD/IDA commitments to social benefits projects also doubled. In particular, in recognition of the fact that approximately 70 percent of the population of the less-developed countries live in rural areas, and that the largest part of these people live on small subsistence farms, the President of the World Bank has announced the goal of increasing the productivity of small-scale subsistence farms by an annual rate of 5 percent by 1985. As a result, in 1973 agriculture was the largest sector of IBRD/IDA commitments. In 1974, agriculture was by far the largest sector in terms of number of projects financed, and although the amount of dollar commitments for transportation projects equalled those for agriculture projects, many of the transportation projects focused on the development of feeder roads which will increase the productivity of the small farmer. Within the agricultural sector, the World Bank gives priority to countries which pursue agricultural strategies designed to benefit the poor both by increasing small-farm productivity and by increasing employment among the poorest. Consequently, small farmers continue to participate more and large farmers continue to participate less in IBRD/IDA-sponsored agricultural projects. From 1948 through 1972, the proportion of agricultural projects involving farmers owning less than 10 hectares has increased from 27 to 67 percent, while the proportion involving farmers owning 100 or more hectares declined from 27 to 21

percent, and the proportion involving farmers owning 1,000 or more hectares declined from 17 to 4 percent. All of these trends are continuing.

The same thrust is followed by the regional banks. For example, agriculture alone accounted for 25 percent of ADB lending in 1974, and about 70 percent of ADB's agricultural loans were aimed, totally or in part, at helping the really poor. In the IDB, the percentage of concessionary loans to the poorest countries, in the category D countries, increased from 17 percent in 1970 to 54 percent in 1974, and is continuing to increase. Availablity of FSO lending to rural and urban associations of low-income people has increased to the extent that 80 percent of the Bank's agricultural credit loans, all of the loans for rural community development, and many technical assistance loans, are available to such groups. Cumulatively, $3.2 billion, or 43 percent, of the total amount loaned from its inception until December 31, 1974, has gone to social benefit projects most of which are intended to spread the benefits of development to the poor.

COMPETITIVE BIDDING PRACTICES

Mr. CONTE. Mr. Cooper, can you give me examples of where open competitive bidding practices have been built into the procurement systems of borrowing countries and have been applied to non-Bank financed projects, as stated on page 4 of your statement?

Mr. COOPER. Competive bidding is now the norm among developing countries, and is explicitly required under the general procurement guidelines used by most of them. The competitive practices required by the World Bank have served as a model for guidelines used by other assistance donors, including a growing number of Arab institutions. Funds provided by them generally call for open competition, thus providing a mechanism for "recycling" oil revenues, as well as ensuring low cost procurement by developing countries. As an example, the Government of Libya in a joint operation with the World Bank recently lent Zaire $100 million to meet part of the foreign exchange costs associated with an expansion of facilities for copper production. This money was provided by the Government of Libya for the purchase of goods under full international competition. Another example can be found in Pakistan, where Iran has extended untied loans of $580 million over the next 3 years to be used for any purpose. A substantial amount is being used under competitive bidding for the purchase of wheat and U.S. exporters have been the main suppliers. Saudi Arabia has also extended $100 million for project purposes. One project is for a polyester manufacturing facility that a U.S. firm appears to be in a good position to supply. Another is for a fertilizer plant on which U.S. firms, as well as others, will be asked to bid.

Open, competitive bidding systems are employed as a matter of practice especially on large procurements and projects, by most developing countries, whenever funds provided by outside sources are untied.

BANKS' INVESTMENTS IN UNITED STATES

Mr. CONTE. Mr. Cooper, you mentioned that the Banks hold almost $2 billion in investments in the United States. Doesn't this provide a

significant source of capital for American investments? What kinds of investments are these?

Mr. COOPER. The banks have invested billions of dollars in the United States which has indeed been a significant source of investment capital for this country. For example, the World Bank, as of early 1975, had U.S. investments of approximately $4.5 billion. Of this total almost $1 billion was in long- and medium-term obligations of the U.S. Government and about $3.5 billion in commercial bank time deposits and time certificates of deposit, and short-term Government obligations Commercial bank time deposits, which constitute by far the largest portion of short-term investments, are routinely rolled over as they mature and therefore can be considered a stable form of investment capital for the United States.

BALANCE OF PAYMENTS IMPACT

Mr. CONTE. You state that the net balance-of-payments impact of American involvement in the development banks has been small. Has it been positive or negative?

Mr. COOPER. Since their inception the development banks—IBRD/IDA, ADB and IDB—have had a positive net balance-of-payments impact on the United States. Their cumulative impact has been a positive $2.6 billion as of December 31, 1974.

PROCUREMENT

Mr. CONTE. What is being done to increase the American share of development bank financed procurement of goods and services?

Mr. COOPER. The amount of procurement the United States obtains depends fundamentally on the efforts and competitiveness of U.S. business. However, the U.S. Government does everything it can to bring opportunities to the attention of the U.S. business community. For example, the U.S. Treasury monitors IFI procurement policies and expedites the flow of information on export opportunities under bank projects. The Commerce Department's export information reference room has become a particularly useful focal point for IFI business information. In addition, Treasury has expanded its contacts with the business community through participation in various conferences and meetings and the U.S. Executive Directors continue to assist American firms in the individual banks. Our embassies abroad provide information on potential procurement possibilities on forthcoming IFI projects through the early warning system. Under this system detailed cable reports are sent to Washington on individual projects at an early stage so that the Washington agencies, particularly the Commerce Department, are in a position to inform U.S. suppliers of goods and services of export opportunities. Also, the U.S. Executive Directors in the international development banks, and Treasury officials meet formally and informally with interested U.S. business contractors and consultant associates to acquaint them with the procurement practices and opportunities in the lending programs of the international development banks. A recent example is the Hershey Conference of the International Engineering and Construction Industries Council held

in May 1975, in which the U.S. Executive Director to the ADB, representatives of the Treasury and other U.S. Government agencies participated.

DEVELOPMENT COMMITTEE

Mr. CONTE. Mr. Cooper, what is the newly formed Development Committee referred to on page 14 of your statement?

Mr. COOPER. In June 1974, the C–20 recommended the establishment of a joint ministerial committee of the Boards of Governors of the IMF and the IBRD to carry forward the C–20 working group study of the broad question of the transfer of real resources to developing countries and to recommend measures to be adopted in order to implement its conclusions. Prompt activation of such a group was urged by the United States during the summer of 1974 and the Development Committee was established at the 1974 IMF/IBRD annual meeting in October 1974.

There are 20 members, each with seven associates, representing each country or group of countries on the IBRD Executive Board. The Chairman of the Committee is Henri Konan Bedie, Ivory Coast Finance Minister. Henry J. Costanzo, an American, is Executive Secretary. Representatives of selected international organizations will participate in the Committee's meetings.

The formal mandate of the Committee is to maintain an overview of the development process; to advise and report on all aspects of the transfer of real resources to developing countries; and to make suggestions regarding implementation of its conclusions. Its first major task was to work on ways to help these LDC's most seriously affected by the rise in prices of foods, fertilizers, and petroleum.

EFFORTS TO ENCOURAGE OPEC PARTICIPATION

Mr. CONTE. What is being done to encourage greater OPEC participation in these multilateral institutions?

Mr. COOPER. The multilateral institutions are making a major effort to obtain greater OPEC participation. In the case of the World Bank, Mr. McNamara and his financial Vice President have had many contacts with senior officials of the OPEC countries over the past year and a half. OPEC has provided cofinancing on concessional terms for a number of IDA projects. In fiscal year 1975, OPEC countries provided $348 million for cofinancing projects with the World Bank. This includes $92.6 million with IDA and $255.5 million with the IBRD. Discussions are now underway looking toward an increase by the OPEC countries in their capital subscriptions to the Bank, and some of them have also offered funds to help establish a new facility—the so-called third window—to subsidize the lending rate on IBRD loans to countries with per capita income in the $200 to $375 per year category. To date, only Kuwait has contributed significantly to IDA, but the Bank is urging other OPEC countries with high per capita incomes and large capital surpluses to become contributors. Early in 1975 Venezuela provided $500 million to the IDB in the form of a trust fund which is designed to assit the IDB member countries through development loans, investment, and to a limited extent for export financing.

OPEC SHARE OF MULTILATERAL AID

Mr. CONTE. What portion of world multilateral assistance is provided by the OPEC countries?

Mr. COOPER. Up to 1974, the OPEC member countries had contributed little to the international development banks. Kuwait has contributed to IDA since its inception. The other OPEC countries except for Venezuela, Abu Dhabi, and Qatar are members of IDA, and made small contributions as part II members when IDA was established. OPEC countries have also made contributions to the ordinary capital and concessional loan windows of their respective regional banks; that is, Venezuela and Ecuador in the IDB, Indonesia in the ADB, and Nigeria, Libya, and Gabon in AFDB/AFDF.

In 1974 and early 1975 the OPEC member countries began making more substantial contributions to multilateral lending institutions. Venezuela has provided $500 million to establish a trust fund for lending by the IDB. Saudi Arabia has pledged $10 million to the African Development Fund. Discussions have begun concerning the possibility of OPEC member countries contributing to the new "third window" of the World Bank. OPEC member countries have also made contributions through Arab multilateral lending institutions.

Despite these recent increases, OPEC countries' portion of world multilateral assistance to date has not been substantial.

CONTRIBUTIONS TO IDA

Mr. CONTE. Mr. Reynolds, what has been the total of U.S. contributions to the International Development Association to date?

Mr. REYNOLDS. As its share of the initial subscription to IDA and three subsequent replenishments, the United States has contributed $2,072.3 million. In addition, the United States has contributed $280 million in maintenance-of-value payments occasioned by the devaluations of the U.S. dollar in 1971 and 1972.

Mr. CONTE. How much was put into the third replenishment for value maintenance?

Mr. REYNOLDS. The original value of the U.S. contribution to the third replenishment of IDA was $960 million. In addition to contributing this amount, the United States contributed $198.1 million in maintenance-of-value payments, as a result of the two devaluations of the U.S. dollar in 1971 and 1972. The maintenance-of-value provision has been eliminated from the fourth replenishment, and it is expected that no future IDA replenishment agreements will contain a maintenance-of-value provision.

Mr. CONTE. Would you provide a listing, if you have not already done so, of the other contributors to the fourth replenishment and the amounts they are contributing.

Mr. REYNOLDS. The attached table summarizes contributions to the fourth IDA replenishment.

[The table follows:]

INTERNATIONAL DEVELOPMENT ASSOCIATION—SUMMARY OF 4TH REPLENISHMENT CONTRIBUTIONS

[In millions]

	Amount	Percent
Total resources to be provided	$4,501.30	
Of which:		
Part I members	4,415.79	
Australia	90.00	2.0
Austria	30.60	.7
Belgium	76.50	1.7
Canada	274.50	6.1
Denmark	54.00	1.2
Finland	25.20	.6
France	253.55	5.6
Germany	514.50	11.4
Iceland	1.35	.1
Ireland	7.50	.2
Italy	181.35	4.0
Japan	495.00	11.0
Kuwait	27.00	.6
Luxembourg	2.25	.1
Netherlands	132.75	2.9
New Zealand	11.74	.3
Norway	49.50	1.1
South Africa	9.00	.2
Sweden	180.00	4.0
United Kingdom	499.50	11.1
United States	1,500.00	33.3
Switzerland (nonmember)	66.18	1.5
Part II members	19.33	
Israel	1.00	.1
Spain	13.33	.3
Yugoslavia	5.00	.1

Mr. CONTE. Can you tell me how much of the replenishment has already been contributed by other countries?

Mr. REYNOLDS. Of the $4.5 billion fourth replenishment, other countries are pledged to provide $3.0 billion. Against their pledges they have already paid in the following amounts:

[The information follows:]

INTERNATIONAL DEVELOPMENT ASSOCIATION

4TH REPLENISHMENT PAYMENTS, EXPECTED THROUGH MAY 31, 1975

Country	Amounts paid	
	Currency	U.S. dollar equivalent [1]
Australia	$A20, 270, 270. 33	$30, 000, 000. 00
Austria	S182, 468, 820. 00	10, 200, 000. 00
Canada	Can$69, 009, 300. 00	68, 625, 000. 00
Denmark	DKr102, 798, 000. 00	18, 000, 000. 00
Finland	Fmk23, 204, 160. 00	6, 300, 000. 00
France	F356, 754, 718, 00	85, 515, 000. 00
Germany	DM381, 400, 000. 00	157, 896, 915. 75
Iceland	IKr37, 710, 000. 00	450, 000. 00
Ireland	Ib1r1, 033, 356. 67	2, 500, 000. 00
Japan	¥43, 824, 000, 000. 00	165, 000, 000. 00
Kuwait	KD2, 619, 629. 667	9, 000, 000. 00
Luxembourg	Lux F26, 860, 000. 00	724, 966. 26
Netherlands	f.112, 054, 275. 00	44, 250, 000. 00
New Zealand	$NZ2, 645, 270. 33	3, 915, 000. 00
Norway	NKr86, 482, 550. 00	15, 653, 233. 54
South Africa	R2, 020, 202. 00	3, 000, 000. 00
Sweden	SKr252, 102, 000. 00	60, 000, 000. 00
United Kingdom	Ib68, 821, 560. 00	166, 500, 000. 00
United States		
Israel	Ib840, 000. 00	200, 000. 00
Spain	Ptas252, 347, 024. 67	4, 444, 333. 33
Yugoslavia	Din25, 000, 000. 00	1, 666, 666. 66
Total		852, 841, 115. 54

[1] At market rates of exchange of Sept. 27, 1973.

IDA RECIPIENTS

Mr. CONTE. Would you provide, if you have not already done so, a listing of all the countries which have received IDA credits, along with the per capita income for each?

Mr. REYNOLDS. The following table lists all countries which have received IDA credits from IDA's inception in 1960 through December 31, 1974, the per capital income of each, and the total amount of IDA commitments received by each country. Commitment figures for each country are net of cancellations, refunding, and terminations. Percentages are rounded to the nearest tenth of a percent.

[The table follows:]

INTERNATIONAL DEVELOPMENT ASSOCIATION COMMITMENTS BY COUNTRY

	Cumulative through Dec. 31, 1974	Percent of total	1972 per capita income
AFRICA			
Botswana	$14,840,000	0.2	$240
Burundi	8,251,158	.1	70
Cameroon	66,700,000	.9	200
Central African Republic	12,400,000	.2	160
Chad	24,200,000	.3	80
Congo, People's Republic of	21,539,375	.3	300
Dahomey	26,600,000	.4	110
Egypt, Arab Republic of	185,900,000	2.5	240
Equatorial Guinea	2,000,000	(1)	240
Ethiopia	189,100,000	2.6	80
Gambia, The	5,800,000	.1	140
Ghana	72,710,958	1.0	300
Ivory Coast	7,500,000	.1	340
Kenya	120,200,176	1.6	170
Lesotho	13,700,000	.2	90
Liberia	11,000,000	.2	250
Malagasy Republic	83,500,000	1.0	140
Malawi	76,600,000	1.0	100
Mali	59,000,000	.8	80
Mauritania	24,520,000	.3	180
Mauritius	20,200,000	.3	300
Morocco	36,800,000	.5	270
Niger	22,103,224	.3	90
Nigeria	35,304,820	5	130
Rwanda	22,400,000	.3	60
Senegal	59,050,000	.8	260
Sierra Leone	10,800,000	.2	190
Somalia	52,521,875	.7	80
Sudan	119,816,802	1.6	120
Swaziland	7,800,000	.1	260
Tanzania	167,559,416	2.3	120
Togo	18,400,000	.3	160
Tunisia	65,662,598	.9	380
Uganda	43,067,329	.6	150
Upper Volta	30,700,000	.4	70
Zaire	72,000,000	1.0	100
Total	1,810,027,731		
ASIA			
Afghanistan	39,977,313	.5	80
Bangladesh	336,950,000	4.6	70
Burma	73,700,093	1.0	90
China, Republic of	13,073,716	.2	170
India	3,050,073,325	41.6	110
Indonesia	561,800,000	7.7	90
Jordan	47,815,503	.7	270
Korea, Republic of	106,938,129	1.5	310
Nepal	33,700,000	.5	80
Pakistan	550,409,530	7.5	130
Philippines	32,200,000	.4	220
Sri Lanka	49,624,479	.7	110
Syrian Arab Republic	47,300,000	.6	320
Thailand	32,000,000	.4	220
Yemen Arab Republic	38,150,000	.5	90
Yemen, People's Democratic Republic of	11,060,000	.2	100
Total	5,024,772,088		

INTERNATIONAL DEVELOPMENT ASSOCIATION COMMITMENTS BY COUNTRY—Continued

	Cumulative through Dec. 31, 1974	Percent of total	1972 per capita income
EUROPE			
Turkey	178,115,987	2.4	370
LATIN AMERICA AND CARIBBEAN			
Bolivia	52,791,884	.7	200
Chile	18,997,755	.3	800
Colombia	19,500,000	.3	400
Costa Rica	4,550,242	.1	630
Dominican Republic	22,000,000	.3	480
Ecuador	36,900,000	.5	360
El Salvador	19,599,331	.3	340
Guyana	9,500,000	.1	400
Haiti	10,349,855	.1	130
Honduras	33,627,974	.5	320
Nicaragua	22,994,834	.3	470
Paraguay	37,494,648	.5	320
Total	288,306,523		
OCEANIA			
Papua New Guinea	25,159,044	.3	290
Total	7,326,381,373		

[1] Less than 0.05 percent.

IDA CREDITS SIGNED, APR. 30, 1974–APR. 30, 1975

[Millions of dollars]

Country and purpose	Amount
Afghanistan: Agricultural credit	13.0
Bangladesh:	
Telecommunications	20.0
Industrial imports	50.0
——do	25.0
Fertilizer	33.0
Consolidation[1]	31.0
Population	15.0
Irrigation	27.0
Subtotal	201.0
Botwsanna: Urban development	3.0
Burma:	
Irrigation	17.0
Forestry	24.0
Subtotal	41.0
Chad:	
Irrigation	7.5
Highways	3.5
Subtotal	11.0
Egypt:	
Fertilizer	20.0
Agricultural and industrial imports	35.0
Subtotal	55.0
El Salvador: Sites and services	6.0
Ethiopia:	
Drought rehabilitation	10.0
Agricultural development	12.0
——do	9.5
Subtotal	31.5
Ghana:	
Water supply	10.4
Livestock	2.0
Oil palm	13.6
Subtotal	26.0

[1] A consolidation of 4 previous credits to Pakistan for which liability, following the independence of Bangladesh, was divided between Bangladesh and Pakistan.

IDA CREDITS TO INDIA, PAKISTAN, AND BANGLADESH

Mr. CONTE. Can you justify the fact that over half of all IDA credits since 1960 have gone to just three countries—India, Pakistan, and Bankladesh?

Mr. REYNOLDS. IDA credits are given only to the poorest members of the World Bank. They are, in all but exceptional circumstances, given only to countries with annual incomes of less than $200 per capita. India, Pakistan, and Bangladesh together comprise 62 percent of the total population of countries with annual per capita income

of less than $200. They received 54 percent of all the IDA credits given from the inception of IDA in 1960 through December 31, 1974. From 1960, through 1974, India received $5.10 per capita in IDA credits, Bangladesh received $5.08 per capita, and Pakistan received $2.34 per capita. The average for all countries receiving IDA credits from 1960 through 1974 is $5.21 per capita.

ADVANTAGE OF IDA OVER BILATERAL ASSISTANCE

Mr. CONTE. Mr. Reynolds, IDA credits are offered on highly concessional terms. What is the advantage to the United States of giving this assistance through the IDA, rather than on a bilateral assistance basis?

Mr. REYNOLDS. I believe there are a number of advantages. As part of the World Bank, IDA is an extremely well run institution with a good record of achievement in supporting economic development. It is financed on a sound burden-sharing basis. It benefits from a blending of multinational skills, expertise and experience. It has capabilities for effectively influencing the policies of borrowing countries. Furthermore, it lowers U.S. involvement in the internal affairs of borrowing countries, and thus avoids accusations of unwarranted interference. This is not to disparage our bilateral programs. They can be quite essential as instruments for supporting security objectives and other specific U.S. goals. But when it comes to the broad U.S. interest which we share with other developed nations in providing development assistance, I think there are decided advantages in providing a part of the U.S. effort through IDA and other international institutions.

IDA EFFORTS TOWARD EQUITABLE INCOME DISTRIBUTION

Mr. CONTE. You mentioned that the IDA attempts to work toward the achievement of more equitable income distribution, a goal which I heartily endorse. Can you point to any examples of success in this area?

Mr. REYNOLDS. The Bank Group's commitment to more equitable income distribution is reflected in the increasing number of loans and credits which benefit directly the poorest 40 percent of the people in developing countries. Particularly in the agriculture sector the Bank Group has demonstrated its growing concern for the poor by financing projects designed to increase the incomes and productivity of the small farmer. In addition, education projects have increasingly emphasized vocational and skill training programs to meet the minimal needs of the rural and urban poor. Further examples of projects designed to improve income distribution are sites and services projects which provide basic infrastructure development to enable urban slum dwellers to improve their living conditions, industrial estates which benefit small entrepreneurs, and agricultural and industrial credit programs which are more frequently designed to reach the less well off.

Examples of projects with major components designed to raise incomes of the poor include the following:

1. *Malawi*—a $10.5 million IDA credit designed to assist in increasing the production of 16,300 farm families and about 1,000 fishermen.

Average net cash income of participating farm families is anticipated to rise from $11 per year to $95–$120 per year.

2. *Yemen Arab Republic*—a $10.9 million IDA credit to modernize an existing irrigation system covering 45,000 acres. Crop yields should increase 50 percent–100 percent, resulting in higher incomes and employment opportunities for 3,700 farm families and 2,500 landless farm laborers.

3. *India*—an $8 million IDA credit to improve local market facilities in the State of Mysore. The project aims to reduce congestion and product losses and to encourage farmers to enter the commercial market by improving grading standards and market information. An estimated 700,000 small farmers will benefit.

4. *Senegal*—a $4.5 million IDA credit for irrigation. Average per capita income of 10,000 farm families in the project area is expected to rise from $31 to $78 annually.

5. *Mauritius*—a $4 million IDA credit to establish an industrial estate at Coromandel. Industries established are expected to generate 8,000 jobs by 1985.

AGRICULTURAL DEVELOPMENT

Mr. CONTE. What portion of your resources do you expect to commit to agriculture development in fiscal year 1976?

Mr. REYNOLDS. It is estimated that IDA commitments to agricultural and rural development in fiscal year 1976 will amount to $440 million, roughly 27 percent of estimated total commitments for that year.

Mr. CONTE. What sort of projects do you fund to increase the productivity of the small farmers.

Mr. REYNOLDS. Primarily integrated rural development projects. These projects seek to provide on the broadest possible basis and at the most appropriate level of technology the range of inputs necessary to permit marginal farmers to increase their productivity. Usually, these projects include extension services, improved seeds, fertilizers and insecticides, and rural infrastructure. In the latter category emphasis is put on feeder roads, small schools and health clinics, and village marketplace.

In addition to these projects, many other Bank Group projects benefit the rural poor, both directly and indirectly. Projects with direct benefits would include highway projects which have feeder road components, education projects with an emphasis on rural and vocational training, and health and population projects which are frequently designed to cover broad geographic areas. Many other projects, by adding to economic growth, indirectly benefit the small farmer, both by increasing demand for his product, and by providing more cheaply and efficiently the inputs which he requires.

EDUCATION AND TRAINING PROJECTS

Mr. CONTE. Can you tell me about some of the vocational and training projects which you suggest?

Mr. REYNOLDS. The World Bank Group seeks a balanced approach to its lending for educational projects. Within this approach, how-

ever, an increasing emphasis is placed on vocational and technical training for both urban and rural populations. In addition, nonformal teaching techniques are currently being implemented and evaluated in an attempt to determine ways of reaching these target groups more efficiently than in the past. As an indication of the shift in Bank Group lending, lending commitments in support of general curricula will drop from 44 percent of educational lending in the decade 1964–1974 to 31 percent in the current 5-year program. In this same 5-year period through fiscal year 1978 lending for technical and agricultural training is anticipated to comprise almost 50 percent of lending.

In the current fiscal year the Board of Directors has approved a number of projects which try to meet the need for technical and vocational training. Examples of these projects include the following:

1. *Sudan*—a $10 million IDA credit, of which major components include 40 integrated rural education centers in the impoverished southern part of the country and the extension and improvement of a vocational training center. The rural education centers will provide primary training for children as well as skill development for adults. Programs in the vocational training center include training for carpenters, bricklayers, mechanics, electricians and metalworkers.

2. *Mauritius*—a blend of IBRD and IDA financing totaling $7 million given in support of the government's new education program. Project items include a new trade training center to provide education in tractor mechanics, light sheet metal, maintenance fitting, upholstery and cabinetmaking. Five rural education centers would simultaneously provide training in agricultural techniques, rural handicrafts and domestic science.

3. *Jordan*—a $6 million IDA credit to provide for the construction, equipping and furnishing of a polytechnic (providing courses in food and textile technology and industrial chemistry), a training complex at Aqaba specializing in mechanical training, a hotel training school and a rural development center.

BANGLADESH POPULATION PROJECTS

Mr. Conte. You mentioned a $15 million credit to Bangladesh for a population project. Don't we have one or more bilateral population projects there? Is there any duplication in this case?

Mr. Reynolds. In 1972 and 1973 AID made available $6.5 million for health facilities, manpower retraining, medical equipment, and contraceptive supplies in Bangladesh. U.S. AID is considering making an additional $8 to $10 million directly available to Bangladesh's population program by fiscal year 1977.

The U.S. Government tries to prevent duplication in the total assistance effort by requiring all development projects employing U.S. money to be cleared through one central point. This is the National Advisory Council. The IDA credit in question was approved by the NAC in February 1975, after discussions in which AID participated. It was recognized that the IDA appraisal report took into account both past and prospective U.S. AID contributions to the population sector in Bangladesh and reflected the appraisal team's satisfaction that there was no overlap among other donor activities. U.S. AID concurred that there was no overlap, and that, in fact, the programs complemented each other.

IDA CREDITS TO INDIA

Mr. CONTE. What has been the effect or impact of the United States' negative votes on IDA credits for India? Have the credits been granted?

Mr. REYNOLDS. The U.S. Director has voted against all IDA credits to India since the Long amendment became law, but all were approved by the Bank's Board of Directors. No other Director has joined the United States in opposing them because of the nuclear explosion, although other Directors joined the United States in expressing concern over the proliferation of nuclear weapons. They also called upon the Bank to guard against contributing to a diversion of Indian resources to unjustified uses. But they have generally felt that opposing IDA credits to India would endanger the nation's development efforts.

IDA GRADUATES

Mr. CONTE. Have any countries graduated from IDA assistance? In other words, has IDA assistance enabled any country to raise its standard of living above the level of eligibility for IDA credit?

Mr. REYNOLDS. The following countries received IDA credits in the past, and are no longer considered eligible as a result of strengthened economic positions or attainment of higher income levels:

Bolivia
Botswana
Chile
Colombia
Costa Rica
Republic of China
Dominican Republic
Ecuador
Guyana
Korea
Indonesia
Morocco
Nicaragua
Nigeria
Philippines
Thailand
Tunisia
Turkey

IDA PROCUREMENT IN THE UNITED STATES

Mr. CONTE. What portion of IDA credits result in procurement of American goods and services?

Mr. REYNOLDS. As of December 31, 1974, a total of $555.4 million or 17.4 percent of IDA's cumulative procurement of direct goods and services had come from the United States. This figure does not include indirect exports, that is goods and services originating in the United States but purchased outside the United States.

OPEC CONTRIBUTIONS TO IDA

Mr. CONTE. What is being done to encourage OPEC nations to contribute to IDA?

Mr. REYNOLDS. Kuwait has been a part I member of IDA since its inception. The other OPEC countries except for Venezuela, Abu Dhabi, and Qatar are members of IDA, and made small contributions as part II members when the institution was founded, but they have not up to now contributed to the replenishments. The fourth

replenishment of IDA was negotiated prior to the large rise in oil prices in 1973–74. The Bank has made clear that it hopes to see those OPEC countries with higher per capita incomes and large capital surpluses participate significantly in future replenishments as part I members of IDA. We have urged the Bank to move toward such a policy as soon as possible.

In the meantime, some of them have provided cofinancing on concessional terms for a number of IDA projects, which has effectively contributed to an immediate expansion of IDA resources. A few of them have also offered to provide funds in the next fiscal year towards the possible establishment of a new facility to subsidize the leading rate on IBRD loans to poorer and less developed countries.

IDA–OPEC COFINANCING

Mr. CONTE. How does a cofinancing project work between IDA and the OPEC countries?

Mr. REYNOLDS. Since the beginning of fiscal 1973, Kuwait, Abu Dhabi, Iran, Libya, Qatar, Saudi Arabia, and the Arab Fund for Economic and Social Development have joined with IDA in cofinancing nine projects; their contributions to these projects have totaled $146 million, about 60 percent of IDA's credits to the same projects. Their cofinancing has been provided on concessional terms varying in accordance with the circumstances of the recipient country. The interest rate in some instances has been as low as 0.5 percent. The projects are located in Sudan, Jordan, Yemen Arab Republic, Egypt, Mauritania and Bangladesh. IDA appraised the projects and is supervising their execution either alone or jointly with the colender. In a very real sense, therefore, this cofinancing effectively expands the scope and scale of IDA's activities. Other cofinancing arrangements of this nature with the OPEC countries are being actively explored.

DEFAULT RATE

Mr. CONTE. What has been the default rate on World Bank loans in general?

Mr. REYNOLDS. The repayment experience of IDA, as well as that of IBRD, has been excellent. In neither institution has there ever been a default. There has never been a rescheduling of an IDA loan. There have been only two reschedulings in the history of the IBRD, one for Haiti and one for India, both in the 1960's.

LOAN EVALUATION

Mr. CONTE. Isn't it true that the same expertise which goes into the evaluation of your hard loans goes into IDA credit determination?

Mr. REYNOLDS. Yes. The IBRD which provides hard loans and IDA which lends at a highly concessional rate share the same professional staff and subject each type of loan to the same rigorous standards and expert evaluation before it is forwarded for final approval by the Board of Executive Directors.

USE OF IDA TO EFFECT POLICY CHANGE

Mr. CONTE. To what extent are your credits used as leverage to encourage desirable economic policy change in the countries you deal with?

Mr. REYNOLDS. In selecting projects to finance, the World Bank Group carries out in-depth analyses of them in order to insure that they are economically and financially sound and technically feasible. In addition, Bank Group financing is made available only if the borrower has made, or will be making, wherever necessary, any institutional policy changes appropriate to implementation of the project. The Bank Group also exercises influence in major ways over broader questions of general economic policy. Economists and financial experts on the staff of the Bank Group constantly review economic developments in member countries. These reviews take into account not simply development planning, but also the full range of domestic economic policies, especially those designed to increase domestic savings, channel investment into highest priority fields, and improve debt management. Observations, advice and recommendations are consistently offered by Bank experts to national authorities on methods of improving their performance. The results of these reviews are periodically drawn together in the form of country economic studies. These studies are used within the Bank Group in the development of country lending programs aimed at encouraging needed policy changes. They are also sent directly to the national authorities of the recipient governments, and to other aid donors.

WORLD BANK THIRD WINDOW

Mr. CONTE. On March 3, there was an article in the New York Times about the World Bank opening a "third window" which would not depend upon American participation. What is the American position on such a proposal?

Mr. COOPER. The "third window" proposed for the IBRD is an interest subsidization plan in which the interest paid by eligible borrowers would be about 4 percentage points below the standard IBRD lending rate, which is presently 8½ percent. The subsidy on any such loans would be fully financed by grant contributions, which have been offered by some of the OPEC nations as well as by some of the industrialized countries. During preliminary discussions of the proposal, the United States has pointed out that the U.S. callable capital which helps guarantee IBRD borrowing would be an important part of the backing for the IBRD borrowing to finance "third window" loans. We also said we believe IDA should be the principal source of World Bank concessional lending and that OPEC countries should contribute to IDA as soon as possible. We have pointed out that the purposes to be achieved by the proposed third window are in fact the purposes achieved by blending IBRD loans at the standard interest rate with interest-free IDA credits, so that eligible borrowers pay, in effect, a reduced rate of interest on the total amount borrowed. Should contributions over and above needed support for IDA be available, lending

at reduced interest rates could, of course, help reduce the debt servicing problems of some of the Bank's borrowers who are not currently receiving IDA funds.

GNP AND DEVELOPMENT ASSISTANCE

Mr. CONTE. How does the United States rank relative to other industrialized nations with regard to the percentages of GNP devoted to development assistance?

Mr. REYNOLDS. The preliminary estimates for 1974 of the OECD's Development Assistance Committee indicate that the United States now ranks 12th out of 16 DAC members, tied with Japan with one-quarter of 1 percent of U.S. GNP devoted to development assistance. Ahead of the United States in descending order are Sweden, the Netherlands, Norway, France, Australia, Canada, Belgium, Denmark, the United Kingdom, New Zealand, and Germany.

BENEFITS FROM IDA LOANS

Mr. CONTE. Isn't it true that the success of the IDA has contributed to meeting the aspirations of the third world? Doesn't this help preempt the kinds of social and economic unrest which often seems to result in nationalization and expulsion of foreign interests?

Mr. REYNOLDS. We feel that to the extent IDA stimulates successful long-range development projects it is contributing to the ability of third world nations to help meet their own aspirations. Increasingly IDA credits are concentrating on agricultural and integrated rural development projects in an effort to raise world food production and standards of living among the poorest citizens of the world's poorest countries. Although it would be difficult or impossible to demonstrate quantitatively, it is our clear impression that such constructive development assistance does help to minimize social and economic unrest in the third world.

Mr. CONTE. Doesn't our contribution to IDA provide an opportunity for the United States to improve its relations with third world countries? Would you care to elaborate on that theme?

Mr. REYNOLDS. As an international and apolitical development lending institution, IDA is able to concentrate exclusively on finding solutions to the difficult economic problems related to accelerating growth in the developing countries. The governments of the 66 developing countries which have received IDA credits, as well as other countries, are well aware that the United States has contributed more than one-third of all IDA resources to date. On the practical side, the fact that the developing and developed countries work together in IDA helps provide an established and systematic framework for consultations on economic policies, development needs, and economic performance. In cases where criticism of a country's economic performance is necessary the multilateral approach of an institution like IDA provides an objective framework for discussion and corrective action thus largely avoiding the inevitable effect on political sensitivities that would be present in a bilateral framework.

The benefits to the U.S. economy of these loans vary. On most of the loans made in the past 12 months, as well as for loans made in previous years, there is a direct contribution to the U.S. economy in the form of procurement in the United States of goods and services required as components for the IDA projects. In the case of some of the IDA loans, the contribution to the U.S. economy is also a direct one in that they increase the borrowing country's productive capacity for commodities of which the United States is heavily dependent for imports; or indirectly, by enabling the borrowing country to build the necessary infrastructure required to increase production of such commodities, for example, chromium from Turkey and tin from Bolivia. In a large number of the countries receiving assistance from IDA, the projects are aimed at increasing productivity and production of agricultural products, thus decreasing the dependence of the recipient countries for food assistance from the United States.

Since the IDA loans are aimed at increasing long-term economic growth and incomes in the recipient countries, the U.S. economy benefits from increased trade and markets, and hence employment.

Although the effect is different for the various IDA loans, all of them taken together support the basic approach of the United States to economic development, that is, the projects for which IDA loans are made stress the role of market forces in the effective allocation of resources, the development of outward-looking trading economies, the critical role of private enterprise, and the importance of spreading development benefits to the poorer people. By its association with the IDA the United States also participates in an international structure in which the developed and developing countries work together on international problems. By cooperating with other developed countries in funding IDA and the other international financial institutions we improve the effectiveness of our own efforts.

Country and purpose	Amount
Haiti: Roads	10.0
India:	
Industrial imports	150.0
Fertilizer	50.0
Dairy development	30.0
Agriculture	83.0
Fertilizer	91.0
Dairy development	27.7
Dairy development	16.4
Drought	35.0
Industrial imports	200.0
Irrigation	45.0
Agricultural credit	75.0
Agricultural credit	34.0
Subtotal	837.1
Indonesia:	
Tourism	16.0
Fishing	6.5
Irrigation	30.0
Subtotal	52.5
Jordan:	
Agriculture	7.5
Education	6.0
Subtotal	13.5
Kenya:	
Livestock	21.5
Farm rehabilitation	7.5
Subtotal	29.0
Lesotho: Education	4.0
Malagasy:	
Railroads	6.0
Livestock	9.6
Forestry	6.8
Subtotal	22.4
Malawi:	
Highways	10.0
Technical assistance	2.0
Subtotal	12.0
Mali:	
Agriculture	2.6
Agriculture	8.0
Livestock	13.3
Subtotal	23.9

Country and purpose	Amount
Mauritania:	
Highways	3.0
Engineering	1.1
Subtotal	4.1
Mauritius: Education	3.5
Nepal:	
Water supply and sewerage	7.8
Settlement	6.0
Subtotal	13.8
Niger: Transportation	5.0
Pakistan:	
Ports	16.0
Telecommunications	36.0
Subtotal	52.0
Paraguay: Agriculture	11.0
Philippines: Irrigation	9.5
Rwanda: Highways	6.3
Senegal: Education	15.0
Somalia: Education	8.0
Sri Lanka:	
Dairy—Agriculture	9.0
Program	15.0
Subtotal	24.0
Sudan: Agricultural rehabilitation	10.7
Swaziland: Education	5.0
Tanzania:	
Sites and services	8.5
Highway maintenance	10.2
Agriculture	10.0
Agriculture	9.0
Subtotal	37.7
Togo: Agriculture	6.0
Upper Volta: Agriculture	8.0
Western Samoa: Highways	4.4
Yemen, Peoples Democratic Republic:	
Fisheries	1.6
Education	5.4
Subtotal	7.0
Zaire: Highway	26.0
Total	1,648.9

Mr. BEVILL. The committee will stand adjourned.

ASIAN DEVELOPMENT BANK

WITNESSES

CHARLES A. COOPER, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

PAUL REX BEACH, U.S. EXECUTIVE DIRECTOR, ASIAN DEVELOPMENT BANK

PAUL H. BOEKER, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL FINANCE, DEPARTMENT OF STATE

Program and Financing (in thousands of dollars)

Ident. code 04-12-0050-0-1-151		1974 actual	1975 est.	1976 est.
	Program by activities:			
	1. Investment in International Development Association	469,252	386,030	375,000
	2. Investment in Inter-American Development Bank	282,301	500,000	----------
	3. Investment in Asian Development Bank	62,063	74,127	74,127
10	Total obligations (object class 33.0)	813,616	960,157	449,127
	Financing:			
	Unobligated balance available, start of year:			
21.40	Appropriation	−2,613,947	−4,037,344	−4,067,822
21.47	Authority to spend public debt receipts	−5,715,000	−5,715,000	−5,715,000
	Unobligated balance available, end of year:			
24.40	Appropriation	4,037,344	4,067,822	4,164,230
24.47	Authority to spend public debt receipts	5,715,000	5,715,000	5,715,000
	Budget authority	2,237,013	990,635	545,635
	Budget authority:			
40	Appropriation	2,991,380	990,635	545,635
41	Transferred to other accounts	−754,367	----------	----------
43	**Appropriation (adjusted)**	2,237,013	990,635	545,635
	Relation of obligations to outlays:			
71	Obligations incurred, net	813,616	960,157	449,127
72.40	Obligated balance, start of year	2,138,226	2,505,530	2,762,187
74.40	Obligated balance, end of year	−2,505,530	−2,762,187	−2,394,414
90	Outlays	446,312	703,500	816,900

Mr. PASSMAN. The committee will come to order.

We shall continue our examination of the budget requests for foreign aid and assistance for fiscal 1976. Today we will consider the budget request for the Asian Development Bank.

GENERAL STATEMENT

Your statement will be inserted in the record at this point.

[The statement follows:]

STATEMENT BY HON. REX BEACH

Mr. Chairman, I appreciate the opportunity to appear before you and the other members of this distinguished committee today in support of the administration's request for fiscal year 1976 of $170.6 million as part of the U.S. contribution to the ordinary capital of the Asian Development Bank (ADB) and the second stage U.S. contribution to the Asian Development Fund (ADF). The ADF is the concessional lending arm of the Bank.

First of all, Mr. Chairman, I want to tell you and members of this committee of the Bank's positive response to congressional appropriation in March this year of $50 million of special funds for the Asian Development Bank and $24.1 million for ADB ordinary capital. I believe these appropriations emphasize both to donor countries as well as recipient members of the ADB, that the United States will continue to support the Asian Development Bank. This is a matter of crucial importance to the future of the Asian Development Bank and its effectiveness in promoting economic growth and stability in Asia.

I want to point out that the Asian Development Bank has effectively served U.S. interests in Asia. It is contributing to the economic growth and social development of many countries that are close friends and allies of the United States such as South Korea, the Philippines, Thailand, Pakistan, and Indonesia. To continue serving U.S. interests in Asia, the ADB must have adequate resources at its disposal.

Let me first discuss the fiscal year 1976 request for $120.6 million for the ordinary capital of the ADB, of which $24.1 million would be paid in, and $96.5 million in the form of callable capital. These amounts are part of the $362 million authorized by Public Law 93-537 last December as the total U.S. contribution to the ADB's first replenishment of ordinary capital.

As you know, the Congress appropriated only the paid-in capital portion—$24.1 million—of the administration's fiscal year 1975 request. The executive branch believes this congressional action reflected a desire to proceed with some subscription to the Bank's ordinary capital increase. We are therefore subscribing to additional shares but only to $120.1 million, or one-third of the authorized amount. This subscription will raise the U.S. voting power in the ADB to only about 10 percent from its present low level of 6.8 percent.

You will note that we are again requesting an appropriation of callable capital.

Of our $121 million request, 80 percent, or $96.5 million, is callable capital to be used as a guarantee against Bank borrowing in private capital markets. The circumstances in which callable capital would actually be required are unlikely in the extreme. Nevertheless, in the case of the ADB, which is still a relatively young institution, we believe it would be desirable to appropriate this callable capital in order to help the Bank in establishing its creditworthiness in the international capital markets, particularly in the U.S. market.

Twenty percent of the requested $121 million ($24.1 million) will represent a U.S. budget outlay. And, of this, only $9.68 million represents an immediate cash payment to the Bank since the remaining $14.52 million will be held by the Bank in the form of non-interest-bearing promissory notes which will be encashed over several years.

The administration's fiscal year 1976 request for $50 million for the special funds of the Asian Development Bank, would provide for the U.S. second stage contribution to the Asian Development Fund. The United States completed its first stage contribution of $100 million to the ADF this spring when the Congress appropriated a second $50 million contribution. As was the case in the past, arrangements are being made for other countries to go ahead with their second stage contributions by June 30, 1975, so that the ADB can continue its con-

cessional lending operations through the summer. For orderly lending operations to go forward to the poorest of the ADB's borrowing countries, it is important for the United States to participate in a timely manner.

Appropriation of this $50 million will bring the total U.S. contribution to the Bank's special funds to $150 million. Together with other countries contributions on the order of $567 million plus set aside resources from the ADB itself, this would provide some $775 million in special funds resources by December 31, 1975. By the end of 1975, however, the ADB expects to have committed $740 million of this total. Therefore, in early 1976, there will only be about $35 million of these concessional funds at the Bank's disposal for further commitments.

The ADB is proposing that a replenishment of the concessional resources of the ADF take place early in 1976 to provide resources for the 1976–78 special funds lending targets. ADB management has proposed a replenishment of $1 billion. At the recent ADB annual meeting, the Bank held an initial discussion with donor-member countries on the proposed Asian Development Fund replenishment. The U.S. representatives were careful to make no comments as to any level of U.S. Government participation as we have not yet consulted even informally with the concerned congressional committees. Moreover, we pointed out that in fiscal year 1976 we must concentrate on completing our contribution to the second stage of special funds replenishment.

Mr. Chairman, the Asian Development Bank is a regional bank that provides a cooperative framework for regional borrowers as well as lenders and nonregional donors to work for the economic development of Asia. An example of this cooperation is the informal agreement that India is not a borrower, thereby enabling the Bank to use its scarce lending resources for projects in the other disadvantaged regional countries.

As a regional bank headquartered in Asia, the ADB has developed an expert staff in dealing with Asia's development problems. Although a young institution, the ADB's lending in 1974 showed its ability to respond to the development requirements of its borrowing member countries. The Bank, for example, has recognized the importance of increasing food production. As a consequence, ADB financing of agricultural projects rose almost three-fold in 1974, as compared with 1973. The Bank has also been increasingly attentive to the social impact of its projects focusing on the problems of the small farmer in agricultural projects, and on the lower income groups in water supply projects. The Bank's lending and technical assistance help to increase productivity and to bring modern technology and managerial expertise to the rice fields, industrial plants, electric power systems, and farms of Asia. The $2 billion that the Bank has lent so far is modest when compared to the economic development needs in the region. I believe that the Bank has played a vital role in helping to mobilize additional capital totaling some $3 billion, which complemented ADB project financing.

Through the end of last year, the main recipients of ADB loans have been Korea which received $336 million; the Philippines, $242 million; Pakistan, $238 million; and Malaysia, $204 million. Thus the United States participates in providing assistance to its friends and allies in Asia in amounts far exceeding the total of U.S. contributions to the ADB.

In closing, I can firmly say the Bank's accomplishments in contributing to the economic growth of the developing countries in Asia warrant U.S. support. And through our active participation we can give concrete evidence of our interest in the region which is particularly important at this juncture of United States-Asian relations.

As Secretaary Simon pointed out in his speech at the ADB Annual Meeting in Manila last month, Asia has a special significance for the United States. To those nations present at the meeting and to the world, he echoed President Ford's promise that the United States would continue to work cooperatively with others in maintaining the security and in building the prosperity of the region. In an increasingly interdependent world, the United States, as a nation of the Pacific as well as the Atlantic, must remain involved. The competence of the Asian Development Bank is a strong asset in assisting our efforts to achieve these goals.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will insert Mr. Boeker's biography and the justification material in the record at this point.

[The information follows:]

PAUL H. BOEKER, DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. Boeker was appointed to his present position in the Buerau of Economic and Business Affairs in August 1974.

Born in 1938 in Missouri, Mr. Boeker received an A.B. from Dartmouth in 1960. He did postgraduate work in economics at Princeton and the University of Michigan, where he received an M.A. in economics in 1967.

Since entering the Foreign Service in 1961, Mr. Boeker has held a number of positions both in Washington and abroad including: Director, Office of Development Finance (1969–70); member, White House Task Force on International Development (1971); First Secretary, American Embassy, Bonn (1972–73); member of the Secretary's Policy Planning Staff (1974). Mr. Boeker speaks German and Spanish.

In his present position Mr. Boeker has primary responsibility for the areas of international finance and development as well as the economic policy planning staff of the Bureau of Economic and Business Affairs.

In 1969, Mr. Boeker won the Department of State's Meritorious Honor Award.

Investment in Asian Development Bank

TREASURY DEPARTMENT

FUNDS APPROPRIATED TO THE PRESIDENT
ASIAN DEVELOPMENT BANK
(DOLLARS IN THOUSANDS)

Authorizations	Total U.S. Participation Authorized	Appropriations	Amount
Public Law 89-369		Second Supplemental Appropriation Act, 1966:	
Callable Capital	100,000	Callable Capital Stock	100,000
Paid-in Capital	100,000	Paid-in Capital	40,000
		Foreign Assistance and Related Agencies Appropriation Act, 1969	20,000
		Foreign Assistance and Related Agencies Appropriation Act, 1970	20,000
		Foreign Assistance and Related Agencies Appropriation Act, 1971	20,000
	200,000		200,000
Public Law 92-245:			
Contribution to Consolidated Special Funds	100,000	Foreign Assistance & Related Agencies Appropriations Act, 1974:	
	100,000	Consolidated Special Funds	50,000
Public Law 93-537, Participation in Asian Development Bank:		1975 Budget Estimate:	
Paid-in Capital	72,331	Consolidated Special Funds	50,000
Callable Capital	289,524		100,000
	361,905	1975 Budget Amendment:	
Special Funds	50,000	Paid-in Capital	24,127
	411,905	Callable Capital	96,508
		1976 Budget Estimate:	
		Paid-in Capital	24,127
		Callable Capital	96,508
		Special Funds	50,000

ASIAN DEVELOPMENT BANK

ORDINARY CAPITAL

JUSTIFICATION FOR

FY 1976 APPROPRIATION

The Asian Development Bank (ADB) is an inter-governmental organization, corporate in form, whose capital stock is owned by its member governments. It was established in 1966 and began ordinary capital lending operations in 1968. The ADB assists in the financing of economic development projects and programs in the developing countries of Asia and the Pacific region. The Bank makes conventional loans from its ordinary capital resources which consist of (1) paid-in capital subscriptions of members, and (2) proceeds of borrowings in private capital markets which are based on members' callable guarantee capital subscriptions. As of December 31, 1974, the ADB had 41 member countries -- 27 regional countries, 3 of which are classified as developed (Japan, Australia and New Zealand), and 14 developed non-regional countries including the United States, Canada, and 12 European countries. As of December 31, 1974, cumulative ordinary capital loan commitments were $1,432 million with $389 million outstanding.

US membership in the ADB and an original capital subscription of $200 million consisting of $100 million each of callable guarantee capital and paid-in capital, were authorized in March 1966 (PL 89-369). The US joined the Bank in August 1966. The amount of the callable guarantee portion of the original capital subscription was appropriated in FY 1966 (PL 89-426). The amount of the paid-in portion of the original capital subscription was appropriated and provided in four installments -- $40 million FY 1966 and $20 million each in FY 1969, FY 1970, and FY 1971, (PL 89-426, PL 90-581, PL 91-194, and PL 91-619, respectively).

In November 1971, the member governments of the Bank approved a resolution providing for an expansion of the authorized capital by $1,792 million consisting of $1,434 million in callable guarantee capital and $358 million

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in paid-in capital. The U.S. Governor did not vote on this resolution. By November 1972, however, enough members had subscribed to bring the increase into effect without U.S. participation.

An authorization bill providing for U.S. participation in this increase was signed into law on December 22, 1974 (PL 93-537). The $362 million authorization consists of $289 million in callable guarantee capital and $73 million in paid-in capital. The paid-in portion will be paid in over a three year period, 40 percent in cash and 60 percent in non-interest bearing letters of credit to be drawn as needed to meet disbursements on committed loans.

The first of three annual installments of $121 million each has been requested as a budget amendment to the FY 75 foreign assistance appropriation. A second appropriation of $121 million is requested for FY 76. Each installment consists of $97 million in callable guarantee capital and $24 million in paid-in capital -- $10 million to be provided in cash and $14 million provided under letter-of-credit procedures for later disbursement. FY 76 budgetary expenditures resulting from the second installment are estimated to be $10 million.

This increase in the ordinary capital of the ADB is necessary to permit an orderly expansion of the Bank's conventional lending activity. In CY 1975 the ADB plans to commit $450 million in contrast to 1974 commitments of $378 million. Without full U.S. participation, ADB lending for its high priority projects could not expand during 1975-1976. U.S. participation in this replenishment will increase the U.S. voting share from 7% to approximately 16%, the original U.S. equity proportion.

ASIAN DEVELOPMENT BANK

SPECIAL FUNDS

JUSTIFICATION FOR

FY 1976 APPROPRIATIONS

In addition to its ordinary capital lending operations, the Asian Development Bank (ADB) extends loans from special funds provided by various ADB member governments. These special funds (previously termed Consolidated Special Funds) are used to finance high priority economic development projects and programs on concessional lending terms to member countries in accordance with per capita income and balance of payments criteria. As of December 31, 1974, cumulative loan commitments from these special funds totaled $493 million with $88 million outstanding.

In contrast to the International Development Association (IDA) and the Fund for Special Operations of the Inter-American Development Bank, the ADB's special funds (SF) were contributed on an unscheduled basis through bilateral arrangements made by the Bank with each contributor.

After analysis of ADB capital requirements and negotiations with other member countries, authorization for a multi-year U.S. contribution of $150 million to the ADB/SF was sought from the Congress. A contribution of $100 million to the Bank's consolidated special funds was authorized in March 1972 (PL 92-245). U.S. suppliers were not eligible for procurement from special funds until an appropriation of an initial $50 million under this authorization was provided in FY 74 (PL 93-240). The second $50 million installment is being requested in FY 75.

In FY 76 a $50 million appropriation is requested for the Asian Development Fund (ADF) -- the new multilateral fund which is replacing the Bank's Consolidated Special Funds. The ADF is now financing all the Bank's concessional loans. Authorizing legislation for this $50 million installment was signed into law on December 22, 1974 (PL 93-537). U.S. budgetary expenditures resulting from the amount requested to be appropriated are estimated to be $6 million in FY 1976. The appropriated funds, when consolidated with the previous U.S. contribution of $100 million, will permit full U.S. participation in the ADF and allow the Fund to continue lending concessional resources for high priority projects and programs.

Summary Data of Certain Activities of the Bank are set forth below:
(Amounts expressed in US$1,000)

I. Ordinary Capital Resources

A. Loans approved

1.	Loans approved in the first two quarters		106,110
2.	Loans approved in this quarter		
	186-MAL Sabah Land Development	14,000	
	187-PAK Sui Karachi Gas Pipeline II	23,510	
	188-KOR Second Highway	10,000	
	189-INO Fiber Production and Processing	13,200	
	190-PHI Manila Water Supply	51,300	
	191-THA Power Transmission System Expansion II	24,000	
	192-KOR Korea Development Finance Corporation	30,000	166,010
3.	Loans approved this year to date		272,120
4.	Loans approved in prior years		1,057,225
5.	Cumulative loans approved		1,329,345

B. Loan disbursements, sales, repayments, refundings and cancellations

		This Quarter	This Year	Cumulative
1.	Disbursements	42,608	104,367	343,356
2.	Sales	125	2,400	8,223
3.	Repayments to Bank	3,403	8,800	18,833
4.	Refundings and cancellations	2,200	2,559	38,234

C. Borrowings

1.	Borrowings outstanding - 30 June 1974		262,754
2.	Less:		
	Currency devaluations-net	6,858	
	Redemption purchases	2,049	8,907
3.	Borrowings outstanding - 30 September 1974		253,847

D. Capital subscriptions and payments

		This Quarter	This Year	Cumulative
1.	Subscriptions	-	36,371	2,761,227
2.	Instalments matured	3,181	102,902	803,027
3.	Instalments paid	3,181	102,902	803,027

E. Maintenance of value receivable or payable

1.	Amounts receivable from members		
	a. Balance - 30 June 1974		3,201
	b. Additions during the quarter		20,151
			23,352
	c. Settlements during the quarter		(447)
	d. Balance - 30 September 1974		22,905
2.	Amounts payable to members		
	a. Balance - 30 June 1974		4,146
	b. Deductions during the quarter		(1,460)
	c. Balance - 30 September 1974		2,686

II. Special Funds

A. Loans approved

1.	Loans approved in the first two quarters		9,555
2.	Loans approved in this quarter		
	193-BUR (SF) Rice Processing	6,500	
	194-BUR (SF) Fisheries Development	9,800	16,300
3.	Loans approved this year		25,855
4.	Loans approved in prior years		319,708
5.	Cumulative loans approved		345,563

B. Loan disbursements, repayments, refundings and cancellations

		This Quarter	This Year	Cumulative
1.	Disbursements	4,556	12,023	55,761
2.	Repayments	-	-	-
3.	Refundings and cancellations	373	379	624

C. Resources available

1. Technical Assistance Special Fund

a.	Contributions committed up to 30 June 1974		13,922
b.	Contributions committed during this quarter		
	Belgium	637	
	Germany, Federal Republic of	113	750
			14,672
c.	Changes in currency values		(439)
d.	Cumulative contributions committed		14,233
e.	Amounts utilized (net of income earned)		(6,233)
f.	Unutilized balance - 30 September 1974		8,000

2. Multi-Purpose Special Fund

a.	Contributed Resources		
	1) Contributions committed up to 30 June 1974		266,743
	2) Contributions committed this quarter		
	Belgium		2,549
	3) Changes in currency values		(12,640)
	4) Contributions committed - 30 September 1974		256,652
b.	Set-Aside Resources		57,434
c.	Total resources available in the Multi-Purpose Special Fund		314,086

3. Asian Development Fund

a.	Contributions committed - 30 June 1974	230,781
b.	Changes in currency values	(7,973)
c.	Contributions committed - 30 September 1974	222,808

Treasury Department

APPENDIX 1

ASIAN DEVELOPMENT BANK - ASIAN DEVELOPMENT FUND
BALANCE SHEET
30 September 1974
Expressed in United States Dollars (Note 2)

ASSETS		
CASH IN BANKS		$ 4,407,900
INVESTMENTS - Time deposits		9,366,196
LOANS (See Appendix 4)		
Loans approved $16,300,000		
Effective loans held by Bank		
Amount transferred from the Multi-Purpose Special Fund		11,331,369
ACCRUED INCOME		
On investments	$ 68,785	
On loans	38	68,823
NOTES OF CONTRIBUTORS		130,877,750
OTHER ASSETS		41,982
TOTAL		$156,094,020
LIABILITIES, UNEXPENDED BALANCES AND CAPITAL		
ACCOUNTS PAYABLE		$ 97,313
UNDISBURSED BALANCE OF EFFECTIVE LOANS (See Appendix 4)		11,320,831
UNEXPENDED BALANCES AND CAPITAL		
Amounts made available (See Appendix 5)		144,583,755
Net income (See Appendix 2)		92,121
TOTAL		$156,094,020

The accompanying notes to financial statements (Appendix 6) are an integral part of this statement.

Treasury Department

APPENDIX 2

ASIAN DEVELOPMENT BANK - ASIAN DEVELOPMENT FUND
STATEMENT OF INCOME AND EXPENSES
For the Period from 28 June 1974 to 30 September 1974 (Note 1)
Expressed in United States Dollars (Note 2)

INCOME	
From investments	$ 93,517
From loans	38
GROSS INCOME	93,555
EXPENSES	
Changes in value of currencies - net	1,434
NET INCOME FOR THE PERIOD	$ 92,121

The accompanying notes to financial statements (Appendix 6) are an integral part of this statement.

Treasury Department

APPENDIX 3

ASIAN DEVELOPMENT BANK - ASIAN DEVELOPMENT FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Period from 28 June 1974 to 30 September 1974 (Note 1)
Expressed in United States Dollars (Note 2)

FUNDS WERE PROVIDED BY		
Operations		
Net income	$	92,121
Items not requiring or providing funds	(	68,823)
Funds provided by operations		23,298
Contributions drawn and amounts transferred from the Multi-Purpose Special Fund (excluding notes of contributors)		14,066,765
Decrease in notes of contributors as a result of currency devaluation		3,767,084
T o t a l		17,857,147
FUNDS WERE UTILIZED FOR		
Loans disbursed		5,285
Decrease in contributions drawn as a result of currency devaluations		4,077,766
T o t a l		4,083,051
INCREASE IN CASH IN BANKS AND INVESTMENTS		$13,774,096
INCREASE IN COMPONENTS OF FUNDS		
Cash in banks		$ 4,407,900
Investments (excluding accrued interest)		9,366,196
T o t a l		$13,774,096

The accompanying notes to financial statements (Appendix 6) are an integral part of this statement.

Treasury Department

Mr. PASSMAN. I want to again say for the record, there is nothing personal about the way I examine these requests. This is the most disgraceful operation ever conceived by the mind of man, that is seeing just how much of our wealth that we can dissipate, and it all comes from borrowed money. It is going to be up to unborn generations to try to service this unbelievable public debt that we are building up.

I want to state again for the record, when I came here 29-years ago, we had a public debt of $259 billion. During this period there has been the greatest intake of revenue to the U.S. Treasury of any period in all the history of our great country, but yet, when you look at the public debt today, it is $517 billion. And the difference between the public debt when I came and the public debt now can be charged, every dime of it, to foreign aid. We have disbursed net in foreign aid to 128 nations of the world about $269 billion, and we have to add to that, of course, the U.S. troop expenditures in several countries, such as South Vietnam.

So much of the funds mentioned have gone to the countries that have now fallen. It looks like sooner or later we would come to our senses.

U.S. CONTRIBUTION, 1975

Your total appropriation in fiscal year 1975 for paid-in capital and the special fund amounted to $74.126 million; is that correct?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. In fiscal 1976, you have jumped it to $170.6 million; is that correct?

Mr. COOPER. Yes, sir.

POLITICAL ALIGNMENT OF BORROWER COUNTRIES

Mr. PASSMAN. All right, sir. In going over your statement, I notice that you state that ADB is contributing to the economic growth and social development of many countries that are close friends and allies of the United States, such as South Korea, the Philippines, and Thailand.

I would agree that South Korea is a friend. It would appear they are going to remain friendly. But now let's take Thailand.

I believe just a few days ago they told us to get our troops out of Thailand. Did you by chance read that?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. We have given those people almost $2 billion in bilateral aid.

Wonderful friends, are they not? I am surprised that you would have it in there. Even the Philippines are acting up. That is a very, very big disappointment.

Now with respect to the Asian Development Bank, would Indonesia fall in this general area?

ADB LOANS TO INDONESIA

Mr. COOPER. Yes, sir.

Mr. PASSMAN. Do you have a program for Indonesia out of the Asian Development Bank?

Mr. BEACH. Yes; we have, Mr. Chairman.

Mr. PASSMAN. These people are triple dipping. If we go out to Indonesia, we will find that we have given those people $1.9 billion. We found that they had $1.5 billion surplus in their foreign exchange account. We found that they are getting billions of dollars of cash income from their petroleum and other mineral deposits which is why they have that tremendous surplus.

Yesterday, we found out that poor little IDA, with those terrible terms of 50 years and no interest, has given Indonesia over $500 million. I believe that is what you told us yesterday.

Mr. COOPER. Yes, sir, over the entire period of IDA.

Mr. PASSMAN. I guess I am talking about the entire period. You could not give that much to them in 1 day.

Where are we going to stop, Mr. Cooper? This is frightening. We do not blame you. We got on this spending jag. You have some people that just will not look at the record.

We have to borrow this money. Just the interest on the money that we have borrowed to pump into our economy now is costing pretty close to $36 billion a year. And you have a true public debt of something like $2.1 trillion, that is borrowed money for statutory obligations.

Now I represent you people on this side of the table. It is time for this aid program to be stopped, and I don't know if I have the capacity to kill it. It is a new concept in foreign policy to see how much of our wealth we can give away.

Gentlemen, do you realize that we have given away a quarter of a trillion dollars in foreign aid?

Now, where are our friends? They are all gone. You cannot find them. Except for maybe Taiwan and Korea.

You ought to just check our report from last year and see for yourself how much money we have given the nations who are now kicking us in the face.

It is frightening.

ADB LENDING TO LAOS

Now, is ADB providing any loans to Laos?

Mr. BEACH. We have three loans outstanding there.

Mr. PASSMAN. How much have we given Laos?

Mr. BEACH. We have loaned $11 million to Laos.

Mr. PASSMAN. You know what happened to Laos in the last few days. Under the bilateral program, we have given that fine little Communist country $2.282 billion. This is just the bilateral.

Now we find that out of the Asian Development Bank you have given Laos $11 million?

Mr. BEACH. $11.7 million.

Mr. PASSMAN. I believe last week they told one minister to get out because they were going to accept another form of government. Now they have gone Communist.

Mr. BEACH. Well, from what I read in the paper, that is the way it is going, Mr. Chairman.

Mr. PASSMAN. You do not make your justifications to this committee on what you read in the paper, do you?

Mr. BEACH. Very true.

Mr. PASSMAN. Thank you very much.

ADB LOANS TO SOUTH VIETNAM

Now, just how foolish can we be? How much did you provide South Vietnam?

Mr. BEACH. We provided a total of $45 million to South Vietnam. We have suspended all further drawdowns of loans in that country.

Mr. PASSMAN. I believe Japan has recognized the new government there, have they not?

Mr. BEACH. Yes.

Mr. PASSMAN. And I believe the president of the Asian Development Bank is none other than a Japanese citizen?

Mr. BEACH. He is a Japanese national, that is right.

Mr. PASSMAN. Japan has already recognized the new government in South Vietnam.

Mr. BEACH. Very true.

Mr. PASSMAN. All right, sir. Under that arrangement, would you anticipate that they would be making funds available for South Vietnam?

Mr. BEACH. No, I do not anticipate that.

The Asian Development Bank I think is far different from the Government of Japan. At this point we have suspended all operations in South Vietnam.

Mr. PASSMAN. For how long have you suspended them?

Have you completely canceled out these loans to say never again shall we give them a dime, because we lost too much there?

Would it not be a disgrace to every man who made the supreme sacrifice in South Vietnam to think that one American dollar would ever get back into that country? Would you feel that way?

Mr. BEACH. I would feel greatly chagrined about it.

Mr. PASSMAN. What can we do to protect you people from your own evils?

Just to think that we are on the verge possibly of going back into these countries with an aid program. You see it in the paper, I think our State Department said they have not ruled it out. They are quite evasive about answering these questions.

You are dedicated, but in the wrong direction. I am going to yield to Dr. Long.

Mr. LONG. Thank you, Mr. Chairman.

Mr. Beach, I want to thank you for your very thoughtful response to my separate views on aid to India which I sent you. I appreciate the reactions that you gave me to the various points that I raised.

I am unhappy to say that I did not get the same considered and thorough response from the Director of the Inter-American Development Bank.

I hope that Mr. Porges will submit a more substantial reply at some later date, one that would indicate that he does have some appreciation of the points I raised and that he does attach some significance to the importance of doing something in a new direction for helping the really poor.

Mr. Beach, I would like to ask you a number of questions on the possible involvement and institutionalization of intermediate tech-

nology, or light capital technology. We must try to get away from the type of technology that has been very successful in a very high wage economy, but which has had the effect in developing countries of producing unemployment, dislocation and frustration.

What consideration would the Asian Development Bank give to setting up an office in the bank to study the development and application of an intermediate or light capital technology?

APPROPRIATE TECHNOLOGY

Mr. BEACH. My reaction would be, Mr. Long, that they would be very forthcoming with respect to such an idea. I think I indicated in my letter to you that it has been a practice of the Bank to use labor surplus efforts wherever possible and to deal with this problem you have raised as much as possible. I think they have a very positive reaction.

Mr. LONG. Would you agree that the great difficulty has been defining these technologies, making them practical, and so on?

Mr. BEACH. Very definitely.

Mr. LONG. Of course this sort of work takes a great deal of study and thought.

What would be your thoughts, perhaps you would like to get a more complete answer later on for the record on the idea that we should provide some sort of a loan to each country to which the Bank lends to enable that country to set up an institute for the study and application of light capital technology.

These institutes could be similar to the programs in the Philippines and in India. I do not think the Indian program has gone very far, but I think it is mostly from lack of encouragement.

I would think that you would have to get some sort of institution and lobby group in each country, would you not, because the very nature of intermediate or appropriate technology is that the technology must be appropriate to the problems of that particular area.

Mr. BEACH. If I could respond to that.

I think there are a couple of ways of going about that. One way would be to support some existing institutions such as the Asian Institute of Economic Development and Planning located in Bangkok, which is established for, among other reasons, projects of this nature.

There have been occasions in the past where we would support an institution based in one particular location, but that would have outreaching programs in effect in various countries. This certainly would be another way to pursue that matter.

Mr. LONG. Would you consider trying to get each government to take some interest in this problem? After all, the countries in which you are operating are countries in which 70 to 80 percent of the populations earn their living through agriculture and depend on agriculture and in which agriculture has been the conspicuous failure. Is that not true of the underdeveloped world?

Mr. BEACH. I think so.

I think we had tremendous aspirations; once we developed the miracle rice, grains and so forth. We thought that was the end of it. I think several years ago the assumption was that we had reached a

point of surplus in agricultural commodities. That certainly has not been the case.

Mr. LONG. Every time you solve a problem, a new problem develops which you must in turn solve.

It has been my understanding, for example, that the methods of the Japanese which have been conspicuously successful for Japanese agriculture just simply cannot be translated to developing countries any better than the methods we have tried to transplant from the United States.

Mr. BEACH. That is very true.

Mr. LONG. Is it not true that if there is no pressure on these governments in developing countries to begin to apply small-scale or intermediate technology to their development policies, that they will stick to their old policies?

Mr. BEACH. Well, I think that is hard for me to comment on. I suppose it is easier to stick with established habits of one sort or another.

I think, also, that pressure arising from a surplus of labor is making all of these countries become much more aware of this particular problem. Certainly the Bank has become aware of this difficulty. We try to build that consideration into our projects development.

Mr. LONG. Well, I hope that the Asian Development Bank will not only take an interest in this problem, but do what it can to institutionalize a concern for intermediate technology.

Mr. BEACH. Yes.

Mr. LONG. You, see, our own conspicuously successful economy developed not because anybody planned it, but because thousands and millions of people developed ideas and their methods spread.

It would seem to me that if you are going to get anything going in the Asian countries, it has got to be in that direction, where things develop person-to-person, by emulation, and so on.

Can you think of any organization, aside from international institutions, that would be better equipped and would have more of a natural responsibility to encourage the institutionalization of intermediate technology?

Mr. BEACH. I cannot really.

I think it is important to work through an organization that has, let's say, a regional mandate, for example, because then you are sure that you stimulate the fruits of whatever efforts and research take place in that organization itself. I think that is precisely the type of institution we have to use.

Mr. LONG. Are you yourself acquainted at all with the work of the Schumacher Intermediate Technology Development group?

Mr. BEACH. I am afraid I am not.

Mr. LONG. We wrote to this group recently and got this publication entitled "Appropriate Technology." This idea of intermediate technology has been around for a long time. The idea has never gotten any real encouragement, and in fact active discouragement from some governments of developing countries. Some governments have regarded their suggestions as affronts.

I would think if we are going to get anywhere in solving the rural poverty problem, that we have to apply the leverage that you in the multilateral banks have because you have the power of the purse and

can give the kind of leadership necessary. I hope you move in that direction.

Certainly everything else in economic development has been a failure. Whatever we have done for the developing world, I think has benefited mostly their urban societies. We certainly have not done really much for their poor people. There probably is more human misery in Asia, in India, than there ever was in history simply because there are more poor people, the populations have grown, and we have not solved their problems.

I will answer the call.

REPAYMENT OF ADB LOANS

Mr. PASSMAN. I believe in some parts of Asia they are eating better than they have eaten in 1,500 years, are they not?

Mr. BEACH. Yes, I think so.

Mr. PASSMAN. Under the bilateral program, any loans made to those countries are repaid back into the U.S. Treasury to be spent for U.S. programs or to plow into the public debt, are they not?

Mr. BEACH. That is my understanding.

Mr. PASSMAN. Whereas under so-called international organizations, any repayments are paid back into the organizations, is that correct?

Mr. BEACH. That is correct. May I make a comment about that, Mr. Chairman?

Mr. PASSMAN. I want you to answer my question. You can elaborate but I just want——

Mr. BEACH. The answer is that nothing does come back to the U.S. Treasury.

Mr. PASSMAN. Is the United States eligible to borrow money from the Asian Development Bank?

Mr. BEACH. No, it is not.

ADB LENDING IN CAMBODIA

Mr. PASSMAN. Do you have a program in Cambodia?

Mr. BEACH. We have had one loan.

Mr. PASSMAN. How much?

Mr. BEACH. $1.7 million.

Mr. PASSMAN. $1.7 million?

Mr. BEACH. It was approved in 1970.

Mr. PASSMAN. Has it been repaid?

Mr. BEACH. No, the project itself has just been completed.

Mr. PASSMAN. Pardon me?

Mr. BEACH. The project was completed roughly 2 months ago.

Mr. PASSMAN. Do you have any loan application presently pending from Indonesia?

Mr. BEACH. Yes, we have several projects in the pipeline.

Mr. PASSMAN. I did not say the pipeline. I said loans pending for consideration of funding.

Mr. BEACH. I am afraid I cannot technically answer whether we do have loans pending.

We have projects which the Indonesians have discussed with the Bank. I think, in effect, those are loans pending.

Mr. PASSMAN. If you look at Indonesia, they had a surplus at the end of the year of $1.5 billion in the foreign exchange account and billions of dollars coming in from petroleum and other resources plus they are getting money out of all these other areas, such as bilateral U.S. and IDA and ADB. Would you not think it would be time to have a good close look at these applications and maybe to turn them down?

Mr. BEACH. Well, I certainly see your point about the fact that things have turned around.

BENEFITS OF U.S. PARTICIPATION IN ADB

Mr. PASSMAN. Seeing my point does not make a lot of difference. Why should we continue putting any more of our borrowed money into Indonesia?

Mr. BEACH. Well, Mr. Chairman, I think one of the great advantages of institutions like the ADB is that getting involved in projects in Indonesia means getting involved as well in this whole process of institution building.

I think that is what has been so important a feature of the ADB itself. We lend them money, at 8¾ percent, and attempt to work with them in the context of their development program to put together projects which add to economic development.

Mr. PASSMAN. You know this year we are facing, in all probability, a $100 billion deficit in our own budget.

Mr. BEACH. Yes, sir.

Mr. PASSMAN. Which means that this money we are going to give away we are going to have to borrow; are we not?

Mr. BEACH. Yes, sir.

Mr. PASSMAN. Thank you very much.

We have programs that are overlapping; you have the Peace Corps. You have the United Nations Development Program; they, too, are out doing the same work; are they not?

Mr. BEACH. I believe they are.

Mr. PASSMAN. I believe in our U.S. bilateral program, they have a very large technical aid program, they are doing the same work.

[Discussion off the record.]

Mr. PASSMAN. Back on the record.

Sometimes we have to take the people who appear before this committee and accept them as genuine experts.

I asked Dr. Hannah on page 124 of the fiscal year 1974 hearings which program he thought was better, bilateral or multilateral and he said:

"Dr. HANNAH. As the administrator of the bilateral agency, of course I think that the bilateral program is preferable."

There are about four or five different arms of this foreign aid program doing the same work and in the same area. There have been cases where they almost got in fist-fights because one would say "That is my jurisdiction," and the other fellow would say, "The heck it is, it is my jurisdiction." You are familiar with it.

Japan recognized the new Communist regime in South Vietnam, where the spirits of 56,000 precious American lives are still hovering over the area, and billions of our resources were lost.

I wonder if Japan will recognize Cambodia and Laos? You do not think they would have any worse government than you have in South Vietnam do you?

You did answer in the affirmative, did you not?

Mr. BEACH. I said I could not think of any.

Mr. PASSMAN. God bless you for giving that answer. You know very well that if Japan quickly recognized the South Vietnamese Government, that they may move in and recognize Cambodia or Laos.

Mr. Secretary, do you have any knowledge on that?

Mr. BOEKER. No, I do not know what the intentions of the Government of Japan are.

Mr. PASSMAN. You did make a statement of fact that they recognized South Vietnam, did you not?

Mr. BOEKER. Yes.

Mr. PASSMAN. Thank you.

Mr. BOEKER. There is, of course, a distinction between recognizing a government and other relationships with the government.

Recognition on the part of Japan or any other government would not——

Mr. PASSMAN. Is that not the first step? You do not give them the money and then recognize them. You recognize them and then start giving them money, do you not?

Mr. BOEKER. Those two do not necessarily follow each other at all.

Mr. PASSMAN. Where is your proof that it does not? What government do you know of that we recognized that we do not have an aid program in?

Mr. BOEKER. Most of the governments of Eastern Europe.

Mr. PASSMAN. We had an aid program going on in those governments. Do you know of any country in Southeast Asia that we do not have an aid program?

I came here 29 years ago when they started this new foreign policy of giving our resources away. It took the older Members, well-fortified with seniority, to go down in the well of the House to address the membership, "Mr. Speaker, we are now embarking upon an aid program to feed the starving people of Europe, that may conceivably go into 17 nations, the cost may reach $15 billion and it may require 5 years to complete the program." Now you contrast 17 nations to 128 nations of the world where we finally started an aid program. We have had an aid program in about every nation of the world at one time or other.

Then we look at the amount. It did not stop at $15 billion but it is up to about $269 billion when you include the interest. We are now in the 29th year and it is getting stronger all the time.

These are the things we have to live with, Mr. Secretary.

That is really where we are getting in trouble is on the international organizations. They come in for small requests and the first thing you know these things mushroom.

EXCLUSION OF COMMUNIST COUNTRIES

I believe the international organizations are in this year for close to $1 billion.

Would it be desirable to give some thought to prohibiting aid to Communist countries?

Do you know whether or not the charter would permit that? I am trying to be completely honest. You expect the Congress to legislate, but under the arrangement could we write them out?

Mr. COOPER. I am not familiar with the charter on that point.

Mr. PASSMAN. Would you get me an answer and put it in the record.

Mr. COOPER. Yes, sir.

[The information follows:]

It would be inconsistent with the Bank's charter to exclude a member in good standing from Bank loans. Under the charter, the Bank has as one of its principal functions "to utilize the resources at its disposal for financing development of the developing member countries in the region" with "special regard to the needs of the smaller or less-developed member countries in the region." (Article 2.) The charter further provides that the "Bank, its President, vice president(s), officers, and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank." (Article 36.) Of course, any member that fails to fulfill any of its obligations to the Bank may be suspended from membership by action of the Board of Governors and, while suspended, a member is not entitled to exercise any rights under the charter. (Article 42.)

Serious difficulties would also be raised under the Bank charter if the U.S. Congress in the legislation appropriating funds for the ADB wrote in a requirement that these funds not be used in South Vietnam and Cambodia. The Bank is a multilateral institution, established and operated pursuant to the principles and procedures set forth in its charter. Thus, the Bank's charter establishes certain guidelines for the making of loans (chapter III) and a decisionmaking process whereby the Board of Executive Directors makes the determination on particular loan applications that are prepared by the Bank management. (Article 3.) The resolutions of the Board of Governors on contributions to the replenishment of the ordinary capital resources of the Bank (Resolution No. 46) and on initial contributions to the Asian Development Fund (Resolution Nos. 67 and 68) set out the particular terms and conditions under which members are to make such contributions. The above-mentioned resolutions contain no provisions limiting the use of contributions for loans to certain members.

A requirement that contributions from a member can only be used in certain countries or for certain purposes would be totally inconsistent with the multilateral framework within which the Bank operates. Moreover, if we "earmarked" funds, other countries might also follow this practice; this would eventually lead to a complete breakdown in the international cooperative character of the institution.

It should also be recognized that such an 'earmarking" provision in U.S. law would not effectively limit the Bank's ability to lend money to these countries. Other funds would still be available for lending to these countries. Even a provision in U.S. law halting any further U.S. participation in the Bank if loans to Indochina were made would not necessarily exclude such countries from further Bank lending although it would result in precluding U.S. funding for such countries.

It must be emphasized that the question of further loans to these countries might not arise for two reasons. First, these countries might decide to withdraw from the Bank. Under article 41 of the charter, any country can withdraw from the Bank. Of course, the country remains liable on any obligations which it incurred to the Bank up to the time of filing the notice of withdrawal.

Second, the conditions for the availability of additional loans might be unacceptable to these countries. Future Bank activities in these countries would depend upon the expressed wish of the concerned government for the cooperation and assistance of the Bank, as well as the willingness of the government to abide by the conditions which the Bank would place upon the loans. With regard to loans to South Vietnam and Cambodia which have been suspended, the Bank staff would need to review with the concerned governmental authorities the existing status of projects which have already been approved to determine whether implementation can be resumed under the terms and conditions previously agreed or whether additional or modified conditions would have to be agreed on. It is unlikely that any new projects would be initiated until satisfactory arrangements had been concluded regarding the projects approved previously.

Moreover, it is far from clear whether these countries will be willing to grant the Bank the necessary access to information and the necessary freedom of entry and movement in their countries. Thus members are expected to provide full information and data on their economy and to give freedom of access to project sites and project information to consultants and contractors of any nationality of any Bank member. A standard provision is included in all the Bank's loan agreements which is designed to insure that the Bank's representatives have all reasonable opportunities to visit the project site and examine relevant records and documents. It is the standard practice of the Bank to dispatch to borrowing countries periodic missions to review ongoing Bank projects to insure their effective implementation in accordance with agreed arrangements. The Bank must be given the opportunity to evaluate projects after completion.

If the governments of these countries decided to participate fully in the Bank, loans to these countries would be subject to the approval of the Board of Executive Directors. The United States could instruct its Executive Director to vote against loans to these countries, and if the Directors representing a majority of the total voting power opposed such loans, the loans would not be approved.

The above indicates that it is entirely possible that the problem of ADB loans to these countries and the consequent use of U.S. funds for such lending is not going to arise. It would, therefore, in our view, be unwise to take precipitate action. The administration is keeping the situation under review. We will communicate with you on any significant developments in this area.

Mr. COOPER. The preliminary legal advice is that it might require an amendment to the charter. We will get you a firm answer on that.

With respect to the policy, we do have a problem with writing restrictions on various countries into these multilateral institutions, as I mentioned yesterday.

I think that, unfortunately, once we start to do this other countries may also. It would then become much more difficult to maintain the character of the institutions as contributors to the economic and social objectives that we hope over the long run will promote interests.

So there is a serious policy issue involved here which I think we would have to consider very carefully.

AGREEMENT BASED ON CONGRESSIONAL ACTION

Mr. PASSMAN. I believe under the Constitution that it is the Congress who appropriates the money to fund any program.

Mr. COOPER. Absolutely.

Mr. PASSMAN. When you people go out and enter into these tentative contracts, is it predicated upon the fact that the Congress will subsequently appropriate the money?

Mr. COOPER. We make it abundantly clear.

Mr. PASSMAN. Let me go back now and be sure I get the correct answer.

I know that the people in the executive branch meet with members from other nations and they come up with some kind of a formula, percentage formula, for the contributions.

I believe you referred to it as a replenishment request, but when you people enter into these tentative agreements, it is based upon a subsequent appropriation, is it not?

Mr. COOPER. It requires a subsequent appropriation.

Mr. PASSMAN. I know it requires it. That is not what I asked. We would not be in violation of any law if we did not provide a dime, would we?

Mr. COOPER. No, sir.

Mr. PASSMAN. In other words, it would be perfectly legal if this committee should say, "We know the conditions in this country and we will only fund up to 50 percent." We would not be violating any law, would we?

Mr. COOPER. No, sir.

Mr. PASSMAN. Do these nations understand that?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. I think most of these organizations are domiciled in Washington, D.C.; are they not? With the exception of the Asian Development Bank. I believe IDA is domiciled here. The Inter-American Development Bank and the World Bank are domiciled here. So any reduction that we make they could call that board together at 2 o'clock in the afternoon, because all of them are domiciled here in Washington; are they not?

Mr. COOPER. IBRD, IDA, and IDB; yes sir.

INVESTMENT INCOME SOURCES

Mr. PASSMAN. In your justifications you indicate that you have earned over $26 million in 1974 in income from investments. Could you please tell the committee what investments you have that would earn this amount of money, and how much of these investments are in the United States?

Mr. BEACH. In 1974 the ADB had a net income of $26.4 million. It earned $32.5 million from investments and $26.7 million from its loan operations among its regional developing member countries. Against that amount of income the Bank deducted administrative and financial expenses ($32.8 million) which collectively resulted in the net income figure of $26.4 million.

As of April 30, 1975, the Bank had $592 million of short-term investments held in the form of either time deposits or short-term, government-guaranteed instruments. Of that amount, $257 million was held in the United States.

EXPLANATION OF UNDISBURSED BALANCES

Mr. PASSMAN. Also in your justification you indicate that you have effective loans out of the ordinary capital account of $1.4 billion and you have an undisbursed balance of effective loans of $863 million. Could you please tell the committee why you have such a large amount of undisbursed loans on hand and why don't you draw down this undisbursed balance before you ask for replenishment of the ordinary capital account?

Mr. BEACH. The undisbursed balance itself is not large considering the fact that many of the loans have become effective in the very recent past in view of the Bank's increased lending in recent years. After a loan becomes effective, the borrower then proceeds to engage engineering consultants to conduct the engineering design work for the project, which can frequently run from 2 to 3 years, after which construction and major disbursements commence. In fact, in 1974 alone, disbursements from ordinary capital resources amounted to $160.3 million which brought cumulative disbursements to a level of $399.3 million. Disbursements are projected to increase even more rapidly in 1975 and

should approach $215 million. I believe the Bank's disbursements are proceeding efficiently, insuring the effective implementation of ADB's loans.

The Bank does not draw down its undisbursed balances before seeking a replenishment of its ordinary capital resources since it must have resources on hand before it can make loan commitments. If it operated otherwise, the Bank could easily find itself in a position of disbursing all of its liquid assets before a replenishment became effective, thereby forcing the ADB to terminate operations abruptly until a replenishment effort could provide resources for further operations.

Mr. PASSMAN. You indicate in the special funds account that you have effective loans of $314 million, and the undisbursed balance of these effective loans is $258 million. Again, why do you have such a large amount of undisbursed loans on hand?

Mr. BEACH. With respect to the undisbursed balances of effective special funds loans, the level indicates the fact that (*a*) the Bank's lending operations from its special funds resources are increasing, and (*b*) there is a period in which the engineering design work is implemented prior to the actual construction and drawdown of funds to finance project implementation. The undisbursed balance is by no means abnormal but a consequence of the two factors mentioned above. As of December 31, 1974, the Bank had authorized $329.3 million of special funds loans of which $243 million was undisbursed.

FUNDING OF PROJECTS

Mr. PASSMAN. Do all ADB projects receive full funding when they are started?

Mr. BEACH. The project may be said to be fully funded at the time of approval by the Board of Directors in the sense that approval of a loan by the Bank commits the Bank to supply the full amount of the loan. The funds are not transferred to the borrower at the time the loan is approved, however. Disbursement takes place as the project advances and costs are incurred, and generally requires 4 to 5 years for completion.

CALLABLE CAPITAL SUBSCRIPTION AND APPROPRIATION REQUEST

Mr. PASSMAN. As you know, last year the Congress appropriated $24.1 million for paid-in capital but denied the $96.5 million in callable capital. I note in a letter dated April 23, 1975, that the administration agreed to subscribe to one-third of the U.S. share in the ordinary capital stock replenishment. Could you please tell the committee how you were able to agree to one-third of the ordinary capital stock when we only provided the paid-in portion which doesn't amount to one-third of the U.S. assessment? Would you plan to request the $96.5 million in callable capital at some later date?

Mr. COOPER. The Board of Governors' resolution on the Bank's ordinary capital increase provides for a U.S. subscription to 30,000 additional shares of capital stock ($362 million) to be made in three annual installments. The total U.S. subscription is to consist of 24,000 shares ($290 million) of callable capital and 6,000 shares ($72 million) paid-in capital.

In December of last year Congress enacted legislation authorizing a U.S. subscription to all 30,000 shares. For fiscal year 1975 the administration requested an appropriation of $120.6 million for the first installment (10,000 shares) of the U.S. subscription. Congress appropriated $24.1 million for the paid-in portion, but no funds for the callable portion of the U.S. subscription. Under the terms of the replenishment resolution, it was not feasible for us to proceed to subscribe only to the paid-in portion of the first installment. In view of the fact that a subscription to callable capital represents a higly contingent obligation and that we already have appropriations for $120.6 million of callable capital in the ADB as a result of our initial contribution, we subscribed to the callable portion of the first installment on the basis of the authorizing legislation. We realize, of course, that in the highly unlikely case that there should ever be a call with respect to the shares to which we have just subscribed, we would have to obtain an appropriation before being able to make a payment to the Bank.

In light of all the factors cited above, the administration does not plan to request the $96.5 million of the callable capital that was not appropriated in fiscal year 1975.

In the fiscal year 1976 budget, the second portion of both the paid-in and callable capital shares is being requested because, in our view, the availability of appropriated callable capital provides additional confidence to investors in ADB bonds.

EXPLANATION OF $50 MILLION SPECIAL FUND REQUEST

Mr. PASSMAN. Is the $50 million special fund request strictly a voluntary contribution on the part of the United States that does not involve any negotiations or agreements with other nations or the Bank?

Mr. BEACH. The $50 million special funds request is not strictly a voluntary contribution on the part of the United States in that the United States did agree to seek this $50 million with the understanding that the Bank's other 16 donor member countries would provide further special funds resources to the Asian Development Fund.

In a multilateral negotiation that took place in Bonn, Germany in October 1973, the other donor member countries of the Bank agreed to build around a voluntary $100 million U.S. contribution and to provide among themselves an additional $250 million, if the United States would in fact contribute the $100 million which it was at that time seeking from Congress. In addition to this arrangement, the United States indicated that it would seek a further $50 million while the other donor member countries would collectively contribute an additional $125 million.

ADB LOANS BY SECTOR

Mr. PASSMAN. Could you tell the committee what percentage of the total loans made by the Bank have been allocated to agriculture, education, industry, transportation, and urban development?

Mr. BEACH. In terms of dollar volume, 27.5 percent of all Bank loans have been in the industry and development banking sector, 23 percent in electric power, 21.3 percent in transportation and communications, 15.9 percent in agriculture, 11.6 percent in water supply and 0.7 percent in education. In terms of numbers of projects, 26 percent of all Bank lending has been in the field of agriculture, 23 percent in transportation and communications, 20 percent in electric power, 20 percent in industry and development banking, 10 percent in water supply and 1 percent in education.

CUMULATIVE U.S. CONTRIBUTIONS COMPARED TO JAPAN'S

Mr. PASSMAN. What has been the total U.S. contribution to the ordinary capital and the special funds of the Bank since its inception? What does the U.S. contribution work out as a percentage of total contributions received for ordinary capital and the special fund of the ADB, and how do these percentages compare to Japan?

Mr. BEACH. Since the Bank's inception, the United States has contributed $114.7 million of paid-in capital and $217.1 million of callable capital to the Bank's ordinary capital resources. With respect to special funds, the United States has contributed $100 million on a tied basis.

The U.S. contributions to the Bank's ordinary capital resources represent approximately 10 percent of all such contributions. Japan, by comparison, has contributed approximately 16 percent to the Bank's ordinary capital. The $100 million U.S. contribution to the Bank's special funds represents slightly more than 19 percent of all such contributions while Japan has provided 45 percent.

CUMULATIVE PROCUREMENT FROM THE U.S. AND JAPAN

Mr. PASSMAN. Could you tell the committee what percent of all goods and services purchased or contracted by ADB since its inception have been purchased or contracted from the United States and could you tell the committee what the comparable percentage figure would be for Japan?

Mr. BEACH. Since the Bank's inception, U.S. firms have won slightly more than 12 percent of all ADB contract awards while Japan's share is approximately 43 percent. However, it is important to note that the U.S. share has increased from less than 8 percent over the past 2 years while Japan's share has fallen sharply from slightly less than 60 percent.

ADB BALANCE OF PAYMENTS IMPACT

Mr. PASSMAN. What impact has the U.S. contribution to ADB had on our balance of payments during the last year and since its inception?

Mr. BEACH. The impact of ADB ordinary capital transactions on the U.S. balance of payments during the last year and since the inception of the ADB is as follows:

[The table follows:]

[In millions of dollars]

	Calendar year 1974	Cumulative
U.S. payments to ADB:		
U.S. subscription and bond purchases	3	114
Investment income	15	67
Subtotal	−18	−181
U.S. receipts from ADB:		
Procurement	19	41
Administrative expenses	14	36
Interest paid in United States	4	15
Financial investments in United States	67	249
Subtotal	+104	+341
Balance	+86	+160

The impact of ADB special funds transactions on the U.S. balance of payments during the last year and since the inception of the ADB is as follows:

[In millions of dollars]

	Calendar year 1974	Cumulative
U.S. payments to ADB:		
U.S. subscription		1.3
Investment income	1.6	3.0
Subtotal	−1.6	−4.3
U.S. receipts from ADB:		
Procurement	.3	1.2
Administrative expenses		1.3
Financial investments in United States	4.5	8.5
Subtotal	+4.8	+11.0
Balance	+3.2	+6.7

ADB EMPLOYMENT AND PERCENTAGE OF U.S. EMPLOYEES

Mr. PASSMAN. How many employees does the ADB have on board and what percentage of these employees are U.S. citizens?

Mr. BEACH. As of May 31, 1975, there were 25 U.S. nationals on the Bank's professional staff of 241, compared to 29 nationals from Japan. Consequently, the percentage of U.S. nationals on the Bank's professional staff is slightly more than 10 percent.

ADB ADMINISTRATIVE EXPENSES

Mr. PASSMAN. Could you tell the committee what the total administrative expenses amounted to in 1974, and what these same expenses were in 1973?

Mr. BEACH. In 1974 the Bank's total administrative expenses were $13.5 million, while its 1973 administrative expenses were $11.4 million.

TERMS OF ADB LOANS

Mr. PASSMAN. What are the terms of loans provided from special funds, and what are terms of loans provided from the callable capital and the interest rates charged?

Mr. BEACH. Loans are provided from the Bank's concessional lending window at a 1-percent service charge for a 40-year repayment period which includes a 10-year grace period. For loans from the Bank's ordinary capital resources, the lending rate is 8¾ percent while the average repayment is 19 years including an average grace period of 4 years.

UNOBLIGATED BALANCES

Mr. PASSMAN. Do you presently have any unobligated balances in the special funds and the callable capital accounts?

Mr. BEACH. As of March 31, 1975, the total subscribed capital of the Asian Development Bank stood at $2,770.3 million. As of the same date, the Bank had made $1,393.8 million in loans (net of cancellations, refundings and participations), on which it had received $25.8 million in repayments. This left $1,402.3 million available for commitment. The Bank projects a lending program for calendar 1975, 1976, and 1977 totaling $1,575 million. This program would exhaust the Bank's available resources at the end of calendar 1977, including loan repayments projected to total $175.6 million in the 1975–77 period.

U.S. VOTING STRENGTH IN ADB

Mr. PASSMAN. What is the present voting strength of the United States in the ADB?

Mr. BEACH. The U.S. voting share in the ADB is currently 9.5 percent compared to Japan's 15.6 percent.

COMPARATIVE CONTRIBUTIONS TO ADB

Mr. PASSMAN. Please provide a table showing what each country has contributed to the Bank, to all the windows, and the percentage each contribution represents of the total.

Mr. BEACH. Yes, sir.

[The table follows:]

1) Country Contributions
ADB Ordinary Capital

(in millions of dollars)

MEMBERS	Per Cent of Total	Par Value
REGIONAL		
Afghanistan	0.520	$ 14,415,882
Australia	9.254	256,349,375
Bangladesh	1.633	45,238,125
British Solomon Islands	0.011	301,588
Burma	0.871	24,127,000
China, Republic of	1.742	48,254,000
Fiji	0.109	3,015,875
Gilbert and Ellice Islands	0.007	180,952
Hong Kong	0.871	24,127,000
India	10.124	280,476,375
Indonesia	2.722	75,396,875
Japan	21.773	603,175,000
Khmer Republic	0.381	10,555,563
Korea, Republic of	5.008	138,730,250
Laos	0.046	1,266,668
Malaysia	2.177	60,317,500
Nepal	0.235	6,514,290
New Zealand	2.456	68,038,140
Pakistan	3.484	96,508,000
Papua New Guinea	0.150	4,161,907
Philippines	3.810	105,555,625
Singapore	0.544	15,079,375
Sri Lanka	0.928	25,695,255
Thailand	2.177	60,317,500
Tonga	0.007	180,952
Viet-Nam, Republic of	1.306	36,190,500
Western Samoa[1]	0.003	72,381
Total Regional	72.349	2,004,241,953
NON-REGIONAL		
Austria	0.544	15,079,375
Belgium	0.544	15,079,375
Canada	2.722	75,396,875
Denmark	0.544	15,079,375
Finland[1]	0.218	6,031,750
France	2.722	75,396,875
Germany, Federal Republic of	3.701	102,539,750
Italy	2.177	60,317,500
Netherlands	1.198	33,174,625
Norway	0.544	15,079,375
Sweden[1]	0.218	6,031,750
Switzerland	-0.544	15,079,375
United Kingdom	3.266	90,476,250
United States[1]	8.709	241,270,000
Total Non-Regional	27.651	766,032,250
GRAND TOTAL	100.000	$2,770,274,203

2) Country Contributions

Special Funds/Asian Development Fund

(in millions of dollars)

	Percent of Total	Amount
Australia	5 %	$27.3
Belgium	*	2.8
Canada	7	34.7
Denmark	1	5.6
Finland	*	2.6
Germany	10	50.1
Italy	*	1.6
Japan	53	266.7
Netherlands	3	15.0
New Zealand	1	4.6
Norway	*	2.8
Switzerland	2	7.9
United Kingdom	6	31.5
United States	10	50.0
	100	503.2

* less than one percent

ADB CAPITAL COMMITMENTS

Mr. PASSMAN. Have you committed all your capital at the present time?

Mr. BEACH. The Bank has uncommitted special funds balances of roughly $88 million and outstanding lending authority from its ordinary capital resources amounting to approximately $650 million.

ADB BORROWING LIMITS

Mr. PASSMAN. Are you allowed to borrow up to the total amount of callable capital subscribed to, or are you restricted to an amount of a particular country contribution?

Mr. BEACH. As a general rule, the Bank will borrow up to 75 percent of the total subscribed callable capital from its 17 donor member countries. In general, there is no particular borrowing limitation with respect to the individual amount provided by any one country. However, U.S. investors have shown great reluctance to lend the Bank more than the appropriated callable capital subscribed by the United States.

TAX STATUS OF U.S. EMPLOYEES

Mr. PASSMAN. Are the U.S. citizens employed by the Bank exempt from paying U.S. taxes? If not, do they receive any sort of relief from U.S. tax laws?

Mr. BEACH. U.S. citizens employed by the Bank are subject to the same U.S. tax provisions which apply to any U.S. national earning income outside the United States. Therefore, if U.S. nationals employed by the ADB reside abroad 17 out of 18 consecutive months, they are eligible for tax exemptions for the first $20,000 of income.

LENDING SERVICES AVAILABLE TO BANK STAFF

Mr. PASSMAN. What type of loans are made to the staff by the Bank? Would the committee be entitled to the specifics of these loans now if it should desire such a detail?

Mr. BEACH. There exists in the ADB a staff loan program for the purpose of helping new staff members locate in Manila as well as to meet any emergency needs which may arise. Any Bank employee is eligible to borrow up to 3 months' salary to be repaid over 18 months at 5 percent interest with principal and interest deducted automatically from the employee's salary.

In the past we have provided the committee with information about the staff loan program including total amounts, breakouts by professional and nonprofessional staff, and individual amounts for U.S. employees. We would be happy to provide this information once again if the committee wishes.

OUTSTANDING DEBT AND U.S. FINANCING

Mr. PASSMAN. Under the ordinary capital resources account, how much is your present funded debt outstanding and how much of this outstanding debt has been financed in the United States?

Mr. BEACH. As of April 30, 1975 the Asian Development Bank had borrowed $521 million in various private capital markets. Of that amount, the Bank had raised $125 million in the U.S. private capital market.

REPLENISHMENT DISCUSSIONS

Mr. PASSMAN. Do you presently have any replenishment discussions going forward?

Mr. BEACH. The Bank has initiated replenishment discussions with respect to its concessional lending operations. At the Bank's annual meeting in Manila in April 1975, the Bank invited its donor member countries to begin informal preliminary discussions on this subject. A second meeting has been scheduled later this year to continue these consultations. Replenishment of the Bank's concessional lending is urgent since it will completely exhaust all concessional lending resources by the end of 1975.

PARTICIPATION IN ADB BY SOUTH VIETNAM, CAMBODIA, AND LAOS

Mr. PASSMAN. Mr. Coughlin, we are on Asian Development Bank.

Mr. COUGHLIN. Thank you, Mr. Chairman.

I was not here, for the earlier discussion and I believe my next question was briefly discussed.

However, I want to have clear in my own mind what the Bank's policy is toward Laos, South Vietnam, and Cambodia at this time.

Mr. BEACH. We find ourselves in the following situation. With respect to Cambodia, we have one loan there that is fully disbursed and was approved in 1970.

In South Vietnam we suspended any further drawdown on loans that are currently active there. In fact, since we began operations there in 1969, we have disbursed about $5 million. All further drawdowns have been suspended.

In Laos we have three projects that amount to about $11 million. Two have been fully disbursed, leaving one project with about $6 million that is in the process of implementation.

Now at this point, the Bank finds itself in a rather passive position. It is not going to initiate any type of contact with Cambodia or South Vietnam, and I think we are more or less waiting and seeing what might possibly happen. Now if these governments approach the Bank about any further activity, a lot of conditions and information and requirements have to be met.

At this point we have no idea what position these countries might take. But we are not initiating anything. We have suspended operations in South Vietnam. We have a disbursed loan in Cambodia. We have one undisbursed loan in Laos.

Mr. COUGHLIN. The statement also indicated there was $41 million in the pipeline for Indochina countries. What happened to that?

Mr. BEACH. That is suspended as well.

Mr. PASSMAN. If you will yield, I know you would want to know that Japan has recognized the new government in Vietnam and the President of this Bank is also Japanese.

I say to the gentleman, we have previously established that. Thank you.

Mr. COUGHLIN. Thank you, Mr. Chairman.

What will happen now to the funds that are within the Bank that were from South Vietnam and Cambodia?

Mr. BEACH. Well, we find ourselves in this situation. We have disbursed $5 million in loans to South Vietnam. When South Vietnam joined the Bank in 1966, and when it subsequently subscribed to the ordinary capital increase, it paid in the equivalent of $4.5 million in foreign exchange. So, at this stage, it is a bit of a standoff, if nothing further happens. We have $4.5 million of paid-in capital from South Vietnam and they have $5 million of equipment with respect to projects that we funded there.

In Cambodia the situation is just about the same. We have a bit over $1.5 million in one project that has been disbursed.

In meeting its ordinary capital subscription requirements, Cambodia paid in $1.2 million in foreign exchange.

Mr. COUGHLIN. What will happen to those funds now?

Mr. BEACH. Those funds are in our control.

Mr. COUGHLIN. What will happen to them?

Mr. BEACH. They will stay there, until at some point, if it ever occurs, the current government approaches the ADB with respect to these particular funds. Should they—Cambodia and South Vietnam—ever approach the Bank then the Bank of course would raise the question of whether these governments wish to meet the obligations that they have outstanding, $5 million in the case of South Vietnam and $1.5 million, a bit more than that, in the case of Cambodia.

So should this situation ever arise, there is a question of who would meet what liabilities on both sides of the fence.

Mr. COUGHLIN. Have you received any inquiries as to the status of the funds from the new governments?

Mr. BEACH. We have had no inquiries, no overtures of any sort.

Mr. COUGHLIN. You did, if I recall properly, have an attempt on the part of the South Vietnamese Government to withdraw its deposits?

Mr. BEACH. No; we have had no such request.

Mr. COUGHLIN. On the part of the South Vietnamese Government?

Mr. BEACH. No, sir, nothing of that sort.

Mr. COUGHLIN. I read about it in the newspaper.

Mr. COOPER. You are referring to the IMF. There was a request by the previous South Vietnamese Government to receive loans from the IMF for their gold tranche and also to mobilize their special drawing rights.

Mr. COUGHLIN. But there was no inquiry to the Asian Development Bank along the same line?

Mr. BEACH. No; nothing of that sort.

Mr. COUGHLIN. In your justification you say that the special funds are used to finance high priority economic development projects and programs.

How do you determine what a high priority program is?

SECTOR PRIORITIES FOR ADB LENDING

Mr. BEACH. Well, in the Asian area, we have three high priority programs. One, very obviously, is agriculture stemming from the fact that Asia is a food deficit region.

Another high priority project or program is in the field of energy resource developments in which we use indigenous fuel supply, something like the lignite-fired powerplants, things of that nature.

With respect to agriculture the Bank has been involved in financing fertilizer plants, again to promote agricultural development in these various countries. But in any program of financing projects in particular countries, the Bank itself finances these types of individual projects within the framework of the country's own development plan.

It is up to the Bank to decide if it considers the project to be of sufficient priority and importance, and it can do that, I think, with reference to some of the basic needs in the region, and certainly with particular reference to the development program and plan of the country in question.

Mr. COUGHLIN. Thank you, Mr. Chairman.

EXCLUSION OF COMMUNIST COUNTRIES

Mr. PASSMAN. I want to say again for the record, it would be inconceivable that any person in the Congress or in the executive branch would ever feel comfortable if we should find that the Asian Development Bank is providing funds for the so-called new South Vietnamese Government after the loss of huge U.S. resources in that country.

I do not see how any American, with good commonsense, could ever make himself a party to approving any loan for a regime of the type that is now there.

I have a right to be concerned because I have seen my Government fund another government which would be overthrown on Tuesday, we would recognize them on Thursday, and start drawing checks for them on Friday. So that is just exactly what you get into in this foreign aid program.

The multilateral organizations are just growing by leaps and bounds and it is the worst type of foreign aid, because it is a one-way street.

I want to yield now to Mr. Chappell, of Florida, on the Asian Development Bank.

VOTING STRENGTH IN ADB

Mr. CHAPPELL. Mr. Beach, like the chairman, I am concerned about how we might use, at least in some way, American dollars to enhance the strength of Communist countries.

What percentage vote does the United States have in the Asian Development Bank?

Mr. BEACH. Our subscription to the first installment of the capital increase resulted in an increase of our share of the vote to 9.5 percent.

Mr. CHAPPELL. Who has the major control of the voting strength in that Bank?

Mr. BEACH. The largest vote is Japan with 15.6 percent.

Mr. CHAPPELL. Who are the others?

Mr. BEACH. Australia has about 6.9 percent, India has about 7.5 percent, West Germany is about 3 percent, United Kingdom is about 3 percent—let me just read off some of these.

Canada is 2.4 percent, Italy is 2 percent, the Philippines 3.1, Pakistan 2.9, New Zealand 2.2; that is basically it.

There are 41 member countries, but the votes are quite scattered. Most of the others are below 2 percent.

Mr. CHAPPELL. So the United States, if it chose to exercise its vote against any particular loan, would certainly not have very much control, would it?

Mr. BEACH. Well, that is very true; 9.5 percent is not a large amount.

PARTICIPATION BY COMMUNIST COUNTRIES

Mr. CHAPPELL. With your present policy, is there any developing nation in the world that a loan would be prohibited to?

Mr. BEACH. Well, we have a certain region in which we lend.

Mr. CHAPPELL. Let's take the region here.

Is there any developing country in that arena that would be prohibited, under your present policy, from borrowing money from this Bank?

Mr. BEACH. Currently there are several countries.

Mr. CHAPPELL. Which ones?

Mr. BEACH. North Korea, North Vietnam, China. We suspended lending operations in Cambodia; India is a member of the Bank but we have an agreement not to lend to India.

Mr. CHAPPELL. What does it take to be a borrowing member?

Mr. BEACH. The country must be a developing country in the region.

Mr. CHAPPELL. We are talking about strictly borrowing countries which are developing countries in the region.

Mr. BEACH. In the region, that are members of the Bank?

Mr. CHAPPELL. What is your present logic for denying South Vietnam?

Mr. BEACH. The fact is that we suspended loans. We have suspended further drawdowns on the loans that were in progress there because of what occurred in the last 3 or 4 weeks.

At this point, the Bank will take no further action to initiate anything in those countries.

Mr. CHAPPELL. Suppose an application was made?

Mr. BEACH. Well, we would have to sort out an awful lot of things if an application were made. I might list a few of them.

One, there are outstanding obligations which were incurred by the old Government of South Vietnam. If anyone were to approach the Bank, condition No. 1 is that they assume the repayment responsibilities for those loans outstanding.

Mr. CHAPPELL. Suppose they assume that responsibility, would you then lend?

Mr. BEACH. That is a question that I really cannot answer. That is the decision that has to come up to the Board of Directors and possibly even to the Board of Governors of the Bank. That is not a unilateral decision that can be made by the Bank management.

Mr. CHAPPELL. Cannot be?

Mr. BEACH. No.

Mr. CHAPPELL. How would the determination be made?

Mr. BEACH. If the current Government of South Vietnam were to approach the Bank, the Bank management would indicate this to members of the Board of Directors in Manila.

From that point on the president of the Bank would take this issue to the Board and ask how he should proceed, whether we should, in effect, enter into discussions with the current government.

Mr. PASSMAN. Would the gentleman yield there to clear up one point?

Mr. CHAPPELL. Yes, sir.

Mr. PASSMAN. I believe yesterday we established that for each $1 that Pakistan put into the International Development Association, they were able to withdraw $43. Do you remember?

Mr. COOPER. Yes; I remember that.

Mr. PASSMAN. In the Asian Development Bank, how much does Pakistan put in?

Mr. BEACH. Pakistan has subscribde a total of $96 million.

Mr. PASSMAN. But they have withdrawn $172 million, have they not?

Mr. BEACH. Pakistan has subscribed a total of $96 million.

Mr. PASSMAN. So that is not a bad deal to put in $1 and get back $2.50.

Thank you, Mr. Chappell.

POLITICAL REQUIREMENTS OF ADB PARTICIPATION

Mr. CHAPPELL. Thank you, Mr. Chairman.

What I am really driving at, is whether there is anything in the policy of this Bank that would prohibit any developing country in that whole area from having its application considered purely upon its needs and its ability to repay. There is nothing, is there?

Mr. COOPER. If it is a member of the Bank and in the event of a change of government, if it has indicated and persuaded the Bank that it intends to assume all the rights and responsibilities of membership, including providing statistics, letting Bank officials have access to information, a number of things. We do not know what the policy of the new Communist governments in Southeast Asia will be on this.

At that point they would be eligible for consideration but, as Mr. Beach has indicated, that would still raise a fundamental policy issue on which there has been at this time no decision.

Mr. CHAPPELL. Based upon yesterday's testimony from the gentleman who sits in Mr. Beach's place at this time, if I understood his testimony, and I believe yours too, Mr. Cooper, you could not consider these in any way on a political basis.

Therefore, if you follow that to its logical conclusion, there is no country in Southeast Asia, including now South Vietnam, which would be prohibited, except on the basis of need qualifications, and repayment—the assumption of present payments and so forth—from receiving a loan. Is that not correct?

Mr. COOPER. If they were a member and if they had indicated that they were willing to assume the rights and responsibilities of membership, and if Bank management and the Bank board had agreed that it was appropriate for them to continue to be a member on the basis of those obligations and so on. They would then be eligible.

Mr. CHAPPELL. Strictly need, monetary need, though, is it not?

Mr. COOPER. But there is a prior decision which is whether or not they are actually eligible for membership in the institution.

Mr. CHAPPELL. What does a country have to do to become a member of this Bank?

Mr. BEACH. To go back, any developing country in the region, as defined, is eligible.

Mr. CHAPPELL. That means that South Vietnam is eligible.

Mr. BEACH. It is eligible to approach the Bank for application for membership, that they can do.

Mr. CHAPPELL. Upon what ground could membership be denied? Political?

Mr. BEACH. No. I see your point. I do not think it could be denied on strictly political grounds.

Mr. CHAPPELL. It could not be denied on ideological grounds, could it?

Mr. BEACH. We could deny it on economic grounds, if, for instance, the country itself were, in our estimation, not prepared to meet all of the financial responsibilities and liabilities.

Mr. CHAPPELL. Therefore, if the Japanese president of your Bank, whose country has already recognized the South Vietnamese Government as a legitimate government, chose to push this, the only consideration would be strictly the basis of this country's need and its ability to repay. You could not look at it on the basis of political ideology or political policy or otherwise, if I understood what you said yesterday?

Mr. COOPER. No, sir, this is a somewhat different issue, this has to do with the eligibility for membership. What we were discussing yesterday was, once you had agreed on membership, the question was then how do you disburse the funds. The question of whether or not a new country or a new government would or could be a new member would be decided by the Board of Governors, the criteria for which I think are indeterminate.

What would determine a country's vote on that kind of question would depend on how that country assessed the issue. As I said one of the criteria is whether or not there is reason to believe that the obligations various members have, with respect to providing information and allowing access to their countries, would be fulfilled, and whether they would be willing to incur in good faith the financial obligations of membership. All of these things would be discussed as part of the consideration before the Board.

But it is not an economic decision, just being a poor developing country in the region is not by itself enough to qualify for membership. It does take a vote of the Board, at least that is my understanding.

The grounds for that are broader than purely technical and economic.

COMPOSITION OF ADB

Mr. CHAPPELL. Have you listed the donor countries in the record?

Mr. BEACH. We can do that.

Mr. CHAPPELL. Donor countries now, and I want to know the lending countries as well.

Mr. BEACH. The donor countries are: Japan, New Zealand, Australia, with Canada, the United States, the United Kingdom, Finland, Norway, Sweden, Denmark, Germany, Belgium, France, Switzerland, Italy, Austria, and the Netherlands outside the region. A total of 17.

ADB BORROWING

Mr. CHAPPELL. All right. Who are the lender countries?

Mr. BEACH. You mean the ones that borrow money?

Mr. CHAPPELL. No, who lend money to this Bank?

If I understand it, there is a difference between donor countries—we are a donor country because we give our money to the Bank—and lending countries. Whatever moneys we appropriate here are in essence a gift. Now let me follow through here just a moment.

There are countries, though, that are not donors. For example, Kuwait, if I understand it, lends to the other Bank. They lend at a good return on their investment or loan to the Bank. Is that not correct?

Mr. BEACH. Yes.

Mr. CHAPPELL. Now what countries do you have in the area and out of it that are lender countries, that lend money to it and expect and have the right under contract to receive interest on that loan?

Mr. BEACH. Can I go back a little in the process of answering this and talk about donors?

Donors do two things. They provide paid-in capital, which is cash in effect. Then they provide as well callable capital which is really a guarantee that the Bank will use to borrow money. In the past, the Bank has borrowed in major capital markets, it has borrowed in the United States, which makes us a lender, and in Japan, and so forth.

Mr. CHAPPELL. Borrowed from the U.S. Government?

Mr. BEACH. The private market, not from the U.S. Government.

Mr. CHAPPELL. I am talking about Government now.

Mr. BEACH. No, this is the private market. It has borrowed in Italy and Belgium, Luxembourg, and so forth and so on.

In recent years, in the last year and a half, we have borrowed small amounts of money from Kuwait and from Saudi Arabia. I think we borrowed about $17 million from Kuwait and $14.5 million from Saudi Arabia.

Mr. CHAPPELL. What interest rate did you pay?

Mr. BEACH. In the case of Kuwait, I think it was 7.5 percent.

Mr. CHAPPELL. Simple?

Mr. BEACH. 7.5 percent.

Mr. CHAPPELL. Simple interest?

Mr. BEACH. Correct.

Mr. CHAPPELL. What about the other one?

Mr. BEACH. In the case of Saudi Arabia, something like 8¼.

I can get this for you quickly.

GROUNDS FOR ADB ELIGIBILITY

Mr. PASSMAN. If the gentleman will yield, I want to clear one thing up.

I think the purpose of this Bank as set forth in the charter is to help the poorer nations, the developing nations, and I would assume that if we actually look at the record, that Laos, Cambodia, and South Vietnam would be considered the very poorest nations in that part of the world; would they not?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. Thank you very much.

Let's make this point now.

You told this gentleman earlier that you could not decline membership strictly on the basis of political considerations. Then you said they could decline it on the basis of the economic stability.

ADB LOAN TERMS

What are the terms of these loans normally?

Mr. BEACH. Our ordinary capital loans are 8¾ percent with about 19-year maturity.

Mr. PASSMAN. What is the maximum?

Mr. BEACH. The softest terms we have is 40-year repayment.

Mr. PASSMAN. What is the interest?

Mr. BEACH. One percent service charge.

Mr. PASSMAN. OK. Forty years at 1 percent. Is that available to the poorest nations?

Mr. BEACH. That is right.

POLITICAL REQUIREMENTS OF ADB PARTICIPATION

Mr. PASSMAN. I think you said the poorest nations were South Vietnam, Laos, and Cambodia. How could you decline any loan on an economic basis if you have already made concessionary loans to these very nations?

Now do you not think there is some inconsistency between your answer to me and your answer earlier on this? It simply means nobody would be declined?

Mr. COOPER. No, sir.

Mr. PASSMAN. Because the purpose was to make funds available to the poorest countries?

Mr. COOPER. No, sir, there are two separate issues.

One is, if a country is a full participating member of the Bank, what criteria would be used for allocating loans to it. The other is, what determines whether a country should be a full participating member. North Vietnam and North Korea are not members of the Bank.

I think now with the change of governments in Southeast Asia, the question arises as to whether those governments want to become members. Even if they want to, there is the question of whether they would be willing to undertake the obligations, not just financial, but information access, and so forth.

Then even if they were willing to, would the other members of the Bank vote to admit them?

Mr. PASSMAN. That would be political?

Mr. COOPER. That would be basically a political decision.

Mr. PASSMAN. You were moving only on the basis of the economic stability of the country. It just simply means all of them are eligible.

Mr. BOEKER. Could I comment on this point?

Mr. PASSMAN. Yes, sir.

Mr. BOEKER. It seems to me that on the other side of this transaction, that is the desire of these new governments, politics and ideology are very relevant indeed. The Communist governments of Asia up to now have taken the very clear position that in their opinion these interna-

tional development banks are ones dominated by the industrial democracies dominated by a free market, they would say a capitalist way of doing business, dominated by an international cooperative, they would say meddling, conditional approach to development cooperation.

It is very unclear that they would find it consistent with their politics and ideology to be a part of this approach to international development cooperation.

Mr. PASSMAN. Thank you very much.

If the gentleman will yield further, the Communist nations are eligible for loans from the Bank.

Mr. BOEKER. The Communist nations of Asia are not—up to now have not been members of the Bank. Look at North Korea——

Mr. PASSMAN. Are the Communist countries eligible for loans from the Bank?

Mr. BOEKER. No; because they are not members.

Mr. PASSMAN. Would you call South Vietnam a Communist member?

Mr. BOEKER. South Vietnam is a member of the Bank. Whether they will continue to be remains to be seen.

Mr. PASSMAN. Under Mr. Chappell's interrogation, they would be eligible to participate, to petition this Bank for a loan; would they not? Did he not answer in the affirmative?

Mr. BOEKER. The question is, will they be full participating members of this Bank?

Mr. PASSMAN. You are precluding South Vietnam from being eligible and you are not precluding Laos?

Mr. COOPER. Those bridges have not been crossed.

Mr. PASSMAN. You are not precluding Laos or South Vietnam or Cambodia, are you?

Mr. BOEKER. I think this is an issue that is quite open.

Mr. PASSMAN. You have given me just a half answer that you are not ruling them ineligible to apply for a loan?

Mr. BOEKER. Not ruling out their applying for a loan.

Mr. PASSMAN. Thank you very much. If you are not ruling out——

Mr. BOEKER. The attitude of the Bank would be a quite different question.

Mr. PASSMAN. But you are not saying categorically they will be precluded from making an application for a loan from the Asian Development Bank; is that correct?

Mr. BOEKER. Any member, any fully participating member would be eligible to make application.

Mr. PASSMAN. They would be eligible to apply to be a participating member of the Bank; would they not, these Communist countries?

Mr. COOPER. Yes.

Mr. PASSMAN. They could?

Mr. COOPER. They could.

Mr. PASSMAN. The same thing is true in the United Nations. You have Communists sitting on the Board who actually decide whether or not these Communist nations are going to get aid. That is a statement of fact, is it not?

In the UNDP, your Board is made up of different people, including Communists?

Mr. BOEKER. Yes, sir.

Mr. PASSMAN. Thank you. That is all I want for the record. Thank you, Mr. Chappell.

ADB LENDING TO PAKISTAN

Mr. CHAPPELL. Let me ask a couple of more questions, Mr. Beach. How much did Pakistan receive in fiscal year 1974, and fiscal year 1975, from the Asian Development Bank?

Mr. BEACH. Could I break it down on a calendar year basis?

Mr. CHAPPELL. All right.

Mr. BEACH. The total of outstanding ADB loans is $238 million. In calendar 1974, Pakistan received a total of $101 million. So far in 1975, Pakistan has not received any ADB loans.

Mr. CHAPPELL. Does Pakistan also borrow from Communist countries?

Mr. BEACH. Borrow from Communist countries? I do not really know.

Mr. CHAPPELL. Does Pakistan receive aid from Communist countries?

Mr. BEACH. I do not know. Does anybody know?

Mr. CHAPPELL. You are not going to say they do not, are you?

Mr. BOEKER. Yes; they do.

Mr. CHAPPELL. You had better believe it, and the record ought to be clear on that.

Do you have any information as to how dependent they are on Red China, how much they presently owe Red China?

Mr. BEACH. I do not think we have any figures at this time.

Mr. CHAPPELL. I wonder if that could be furnished for the record?

Mr. BEACH. It certainly will be.

[The information follows:]

Pakistan has borrowed from the following Communist countries: Bulgaria, People's Republic of China, Czechoslovakia, Poland, Romania, U.S.S.R., and Yugoslavia. This external debt totals about $350 million, with the People's Republic of China accounting for approximately $220 million.

APPROPRIATION REQUEST

Mr. CHAPPELL. How much are you asking in this request for callable capital?

Mr. BEACH. $96 million.

Mr. CHAPPELL. How much for the replenishment?

Mr. BEACH. The paid-in portion is $24 million; $96 million is for callable capital. The amount of ordinary capital requested is, all together, about $121 million.

Mr. CHAPPELL. What is the probability that we could be called on under the guarantee to pay these moneys out of pocket?

Mr. BEACH. I think the chances are extremely remote.

From what I know about these international development banks, never has any bank had to make a call on the callable portion of its capital stock.

REPAYMENT OF ADB LOANS

Mr. CHAPPELL. Do you have any outstanding indebtedness at this time; that is, any delinquent loans?

Mr. BEACH. From the borrowers, we have none at all, no delinquencies.

Mr. CHAPPELL. How many have come due?

Mr. BEACH. We have 189 projects at roughly $2 billion.

We have 27 loans for projects that are complete on which there are repayments now.

Mr. CHAPPELL. Twenty-seven projects out of how many projects?

Mr. BEACH. 189.

Mr. CHAPPELL. How many of the remainder, above and beyond the 27, are delinquent?

Mr. BEACH. None.

Mr. CHAPPELL. On those, have payments now come due under the schedule?

Mr. BEACH. Yes.

I can give you some data on that.

From ordinary capital sources we have had principal repaid that amounts to $24 million so far, collectively. The interest and so forth that we have collected on those loans amounts to $56 million.

ADB LOAN TERMS

Mr. CHAPPELL. You say your service charge is 1 percent?

Mr. BEACH. On the ordinary capital, we have an 8¾ percent interest rate. That includes the commission of 1 percent. With our special fund, IDA-type loans——

Mr. CHAPPELL. What you are saying is, there is no interest, as such, paid by the borrower, is there?

Mr. BEACH. On the IDA-type loans, Asian Development Fund loans, we have a service charge of 1 percent.

On our ordinary capital, it is 8¾ percent interest.

Mr. PASSMAN. These are as close to a grant as you can get without being an outright grant, are they not?

Mr. COOPER. Special funds are very close to a grant.

Mr. PASSMAN. Thank you very much.

Now anywhere along the way where these countries have had a high development rate or degree of recovery, do you have a right to go in and renegotiate these loans and increase the interest rates?

Mr. BEACH. Not to my knowledge.

Mr. PASSMAN. Thank you very much.

I do not want to hold up the gentleman.

Mr. CHAPPELL. I have concluded my questioning.

I would like to be excused.

Mr. PASSMAN. When we finish this we will go into the Inter-American Development Bank.

Mr. Coughlin, do you have any more questions?

Mr. COUGHLIN. Yes.

On appendix 4 of your justification, which shows the statement of cash in banks, and demand obligations, it indicates that Japan has only $40,000 worth of cash in the Bank, but $65 million worth of obligations; is that right?

Mr. BEACH. This is how this all works. This is page 4.

Mr. COUGHLIN. Appendix 4?

Mr. BEACH. Appendix 4.

What happens is that the various countries make contributions to the Bank, which include a paid-in capital portion.

The Bank in turn reinvests this money on a short-term basis. When the United States makes a payment, if the Bank does not have to immediately use that money for disbursement purposes to buy equipment for the projects, it will reinvest it.

Mr. COUGHLIN. Why does Japan have only $40,000 in cash in the Bank and the United States has $9 million in cash in the Bank?

Mr. BEACH. I cannot answer that. I do not know why that particular figure exists.

I think what happens in the case of Japan, there has been a very rapid drawdown by September 30, 1974. The cash that is kept in these banks is usually kept in anticipation of drawdown to finance procurement of goods and services.

So in this case, the $9 million from the United States may well anticipate an immediate drawdown to finance goods and services provided by United States suppliers.

In the case of Japan, it could well indicate the fact that there had been a previous drawdown leaving very little cash in the commercial banks.

PROCUREMENT

Mr. COUGHLIN. What was the value of goods and services purchased from the United States through bank-financed transactions last year?

Mr. BEACH. Can I give you a cumulative figure? There were $68 million of contract awards to date. That comes from ordinary capital operations. That is through the end of 1974. At that period of time, the total procurement awards amounted to about $645 million.

Mr. COUGHLIN. Total procurement awards were $645 million and the United States share was $68 million?

Mr. BEACH. Yes, a little over 12 percent.

Mr. COUGHLIN. So the percentage of awards going to the United States is higher than the percentage of capital contributed by the United States?

Mr. BEACH. That is right.

We have, as I say, about 9.7 percent of the capital contributions and we are getting a little over 12 percent of the procurement awards.

ADB PERSONNEL COSTS

Mr. PASSMAN. Would the gentleman yield?

Mr. COUGHLIN. Yes.

Mr. PASSMAN. Would you break the personnel costs down against the commodity export on that?

Put it in the record.

Mr. BEACH. You want the breakdown——

Mr. PASSMAN. Put in the record the commodities purchased from the United States out of the Asian Development Bank, and what part of the total goes for personnel.

Mr. BEACH. Fine.

[The information follows:]

U.S. firms have won a total of $67.7 million of contracts for ADB-financed projects. Of that amount, $10.1 million represents services, with the remaining $57.6 million going for equipment supply.

Mr. PASSMAN. In some agencies it looks like it was very favorable and we found out most of it was going for personnel.

Mr. BEACH. $10 million has gone for engineering services of that $68 million.

ADB LOAN REPAYMENT

Mr. COUGHLIN. In the Asian Development Bank, have there been any failures on payment? Or like IDA, have we not arrived at that point yet?

Mr. BEACH. On ordinary capital, 8¾-percent loans, we have had no delinquencies and repayment has proceeded on schedule. I think, as I mentioned, so far we have had repayment of principal that amounts to about $24 million.

With respect to the special funds operations, we had our first special fund loan financed in 1969, and I think that project was finished in mid-1974. We have just begun to receive repayment on the principal. I think to date we only have something like $200,000 of repayment of principal on special funds loans.

Mr. COUGHLIN. We conceded those are primarily grants.

Mr. BEACH. Well, there is a long repayment period. However, we have, with respect to ordinary capital, collected over $2 million on interest on the loan itself, separate from repayment of principal.

Mr. PASSMAN. If the gentleman will yield again?

The program is too new for there to be any arrears, is that not correct? Because you have on the concessionary loans a grace period, do you not?

Mr. BEACH. Ten years.

Mr. PASSMAN. You have only been in business how long?

Mr. BEACH. We have been in business 9 years.

Mr. PASSMAN. Nine years. So you could not have very many delinquent accounts in that category, could you?

Mr. BEACH. Let me clarify that.

Up until mid-1974 we did not have any standard repayment period. Until mid-1974, we had a grace period that varied from something like 3 to 7 years. From 1974 on, we adopted IDA-type terms.

Mr. PASSMAN. On the average, however, there are very few loans coming due at this time?

Mr. BEACH. That is right.

Mr. PASSMAN. You have not had sufficient experience to know whether or not you are going to have a good or bad record, is that correct?

Mr. BEACH. We have had little experience because of the facts you point out, that is right.

Mr. PASSMAN. You have to have more experience than you have had to determine how good or how bad the loans are; is that a fair statement?

Mr. BEACH. On repayment, I agree with that.

Mr. COUGHLIN. That is all I have, thank you, Mr. Chairman.

APPROPRIATE TECHNOLOGY

Mr. LONG. On the first page of your letter to me, you state that the ADB has progressively placed more importance on labor-intensive methods. You mention intermediate technology in the same vein. But the only example you provide is the use of surplus labor rather than larger moving equipment to build roads in the Philippines.

Could you provide further examples of how the Asian Development Bank is using light capital or intermediate technology in its projects?

Expand on this for the record, if you will.

Mr. BEACH. I would like to, if I could.

[The information follows:]

In addition to the example given in my letter, I wish to refer to two additional projects approved by the ADB in 1974 in which light or intermediate technology was employed. First of all, in the case of a fiber processing project in Indonesia, the Bank decided that, rather than import high technology equipment for a production plant, it was preferable to use local labor to rehabilitate old, rather labor-intensive production machinery, which would make the production mill serviceable. Second, in a Bangladesh jute seed project approved late in 1974, the Bank provided that an experienced mechanical engineer familiar with jute production in Asia should be retained to assist in designing a suitable seeder for jute. The option was to use a multipurpose row seeder which could easily be imported for that purpose. However, the Bank felt that it was far preferable to focus on the particular problem of developing a technologically appropriate jute seeder and has, therefore, made provisions to utilize the expert services of an individual experienced with this type of technology in Southeast Asia.

INTERMEDIATE FUEL GENERATION PLANTS

Mr. LONG. What attention is the ADB giving in its projects to the use of small-scale methane generation plants which could produce a clean-burning fuel from animal waste and other types of materials that are in abundant supply in rural areas and which also produce a residue that can be used for fertilizer?

Mr. LONG. I have here an article on methane energy as a source of the future, in the Appropriate Technology quarterly, and it goes on at some length into some of the possibilities, of small-scale methane generation plants. It sounds very interesting.

The author points out that nothing has been done on this in the past because petroleum was so cheap that there was no sense seeking a substitute, but now that petroleum has become very expensive, to underdeveloped countries especially, methane production would have great possibilities—not just in developing nations but even in the United States, I believe.

Have you given any attention to that so far?

Mr. BEACH. Not to my knowledge, and I would like to supply information for the record.

Mr. LONG. All right, very good. Thank you.

[The information follows:]

There is considerable attention given to the development of small-scale methane plants which may either be used for the purposes of providing fuel on small individual farms or for light industry. In particular, the Economic and Social Council for Asia and the Pacific (ESCAP) has a methane or biogas project currently under study and review. In April of this year, an ESCAP mission visited Taiwan, Japan, Korea, and the Philippines to discuss the benefits of further development of this type of technology. ESCAP has scheduled two regional workshops in which all interested countries and institutions such

as the ADB would be invited to participate. The first is scheduled to be held in India in July and the second in the Philippines this fall. The Bank is aware of these proposed seminars and has taken a very positive attitude about the project itself. I might add that an acknowledged expert on this type of technology in the region is Mr. Chung Po, a specialist in the Animal Industry Division of the Joint Commission on Rural Reconstruction in Taipei, Republic of China. The Bank has been in touch with Mr. Po and I look forward in particular to the Bank's reaction to this type of technology and any efforts on its part to employ the technology as one aspect of its increasingly numerous integrated agricultural development projects.

Mr. LONG. I also hope you will put in an answer on whether there is a practical technology for small-scale methane generation plants developed at this time.

What steps do you feel can be taken to encourage the development of these small-scale methane generation plants?

AGRICULTURAL LENDING BY ADB

Mr. LONG. Oil, of course, is pricing the poor countries out of the market just as it is creating a great hardship for us.

On page 2 of your letter to me, you state that about 25 percent of the Bank lending in 1974 was in agriculture. In view of the fact that over 65 percent of the labor force in Asia, and I would guess 80 to 90 percent in many of the Asian countries, is in agriculture, do you feel that 25 percent of your lending is sufficient emphasis on agriculture?

Mr. BEACH. Well, I think the point is that we feel it should be increased, and looking at projections that the Bank has, just with respect to the current year, 1975, we hope to go from 25 percent to 28 percent.

The other point that I would like to make if I could, Mr. Long, is, when you talk about these percentages, 25, 27, whatever it might be, we are talking in dollar terms. When we go back and look at the number of projects the Bank has financed, agriculture has always predominated and, if anything, is increasing as well. The point you make is one which I think the Bank is very responsive to, particularly with respect to agriculture as it affects the small producer.

Mr. LONG. Why are the agricultural projects generally of smaller dollar volume than other projects?

Mr. BEACH. The Bank finances, with very few exceptions, the foreign currency component of a project. I think this is a very good policy in general because the borrowing country has to provide the local counterpart. That means it is going to cost them something, in addition to paying back the foreign exchange, they have to, in their list of priorities, be willing to provide the local currency.

As I say, agricultural projects in general have, talking about the total project, a smaller foreign currency component and, hence, the amount of funds that we provide would be a smaller share of total project cost itself.

I think, too, when you contrast that with a power project, that just the equipment involved is of considerably different magnitude.

Mr. LONG. Is it not also partly because much hard work and creativity is required to develop agricultural projects that will help thousands of small farmers and other rural people?

Mr. BEACH. I think it is tremendously difficult.

Mr. LONG. It is much easier to spend great sums of money on heavy capital and large infrastructure projects, is it not? We are all ready to go on much of that stuff.

Mr. BEACH. Surely that is much simpler to do.

If I could make this point as well, within the Bank, the largest section we have is in the agriculture section. We have more technicians earmarked and devoted to agriculture projects than to any other project in the Bank.

Mr. LONG. I hope they will lobby hard for greater emphasis on agriculture.

Mr. BEACH. They are good lobbyists.

Mr. LONG. In your loans for fertilizer plants how do you insure that the fertilizer when produced would be available to small farmers in these countries?

Mr. BEACH. Let me just speak in general about that.

When a project comes to the Board, the loan appraisal and justification accompanying it will detail the uses and the projected users for the fertilizer itself.

There usually is a scheme outlined, arrangement, whatever you want to call it, showing how the fertilizer will be used, what the distribution channels might be, and so forth and so on. That really requires the action and implementation of the borrowing country.

The Bank has a process of following all of the loans throughout the implementation period and, subsequently, after completion.

We have recently introduced postproject evaluation to look at this very type of thing. But the major responsibility does go to the borrowing country. If I may elaborate, in recent years we have attempted to get at this problem by providing what we call integrated development projects. That means not only do we provide funds and equipment for digging irrigation ditches, creating water systems, but we provide funds as well for the provision of Agricultural Extension Service personnel, credit for rural development banks, and these banks in turn provide credit lines for small farmers to buy fertilizer.

We try to get all these inputs. I think it is a point you made in your separate views and it is critical; that if we concentrate on just one element, we miss the boat.

AGRICULTURAL LENDING-IMPACT ON THE SMALL FARMER

Mr. LONG. If you leave it to the country to take an interest in these problems, aren't we up against the fact that the little farmer in most of these countries is not a very important fellow in determining government policies?

Mr. BEACH. This varies greatly from country to country, and I think this goes back to the point you made about the development priorities of a country, how much attention they do give to economic development. And economic development projects in Asia give tremendous attention to the small farmer.

Mr. LONG. It has been my observation that economic development in Asia, as in South America and Africa has been mostly development of the cities. You know when you go into the cities in these countries they are just beautiful; in fact, they are more beautiful in many cases

than American cities—just as prosperous, automobiles all over the place, and you wouldn't know you were in an underdeveloped poor country at all when you travel around these cities.

It is when you get out in the country that all of a sudden everything falls off. I can't help but remark on the fact that in the United States the well-to-do people live in the country and the poor people in the city and in the underdeveloped countries it is the other way around. We have been very successful, I think, in our development policies in making life somewhat better for the middle-class people, the bureaucrats, military people, merchant class, by and large the urban dwellers. But we just have not touched the poor people. The thing that bothers me is that even when you make your loans to agriculture it has been my observation that these loans by and large go to the rather big farmers, by those countries' standards at least.

I visited an agriculture project in Pakistan, I was taken to where they were building deep wells to lower the salinity. They pulled the water out of the ground and then they spread it on top. That dilutes the salt and at the same time lowers the water table. It is a very effective method of restoring land.

The farm I was shown was a farm of 88 acres. I said, "How much is this land worth now that it is restored."

They said, "About $6,000."

That is about a half million dollars for that 88-acre farm. We are dealing with a country whose people are miserably poor, and that fellow is far wealthier at a half million dollars than most of the people who think they are rich in the United States, relative to the rest of the population.

If we want to get to the poor farmer, we have got to get to farmers a lot poorer than that one.

Do you have confidence in the methods we are using now to get the fertilizer and wells and irrigation out to these really poor people or to get the governments interested in doing that?

Mr. BEACH. I can't say I have any great confidence that we are really successfully dealing with the problem every day, but I do have confidence that we recognize the problem and are doing the best we possibly can to deal with it.

If I might, I would like to supply for the record a cross section of agriculture loans we have had which indicates the type of land holdings.

Mr. LONG. I would like to see some hard data on that.

Mr. BEACH. Let me do that.

[The information follows:]

Recently the Bank has approved several agricultural loans for projects in which one basic objective is that of resettling tenant farmers on land which they may ultimately own. In the case of the Pahang Tenggara project in Malaysia, which was approved in December 1974, 80,000 workers, currently landless or having uneconomically small landholdings, will be resettled on small-scale oil palm, rubber and forest estates, presently owned by the Government, for which basic infrastructure such as treated water, health services, et cetera, will be provided. A portion of the income obtained from cultivation of these estates by the resettled workers will be applied to land ownership in anticipation that the resettled workers will, over a 7-year period, obtain full ownership of land plots which will vary in size from 1 to 3 hectares.

A similar project was approved by the Bank in August 1974 in Sabah in Malaysia in which 4,300 tenant farmers will be provided with housing, treated water,

et cetera, in a new development area, again to cultivate timber and oil palm on 10-acre public lots. Each settler is also assigned a one-quarter acre lot for a house and vegetable garden. The land in question will be progressively turned over to the workers on the same basis as mentioned in the previous project.

As a final example, in November 1974, the Bank approved an East Java agricultural credit in Indonesia. Proceeds of the project loan are to be channeled through cooperatives to provide financing for pump sets, rudimentary farm machinery, et cetera, for 30,000 small farm families owning individual plots averaging 2 hectares in size. In addition to financing equipment, the project will establish workshops and training facilities as well as provide advisory services to strengthen cooperatives and hence the services which cooperatives can provide small landholders. The incomes of the small farmers involved in this project are expected to increase 20 percent as a result of the project.

These projects are typical of ADB efforts in the field of agriculture. The small farmer is definitely the target of the Bank's efforts and will benefit directly through Bank financing to permit land ownership and access to the related inputs necessary for increases in productivity.

Mr. LONG. I can't tell you how many countries I have gone to over my years in my work on this committee. In country after country, I say:

I am here, I am willing to travel, I will go to any part of your country you are willing to take me to see what is being done to help the little farmer, and I mean the little farmer.

And I could count on the fingers of one of my hands the number of projects I have seen that benefit the really poor.

This is a big world and I don't think helping the small farmer is going to be done unless organizations like yours do it. You have a marvelous opportunity to do this. You are the only agencies that can do it. You, the World Bank and, of course, the Inter-American Bank. The governments, I am convinced, don't care.

You know, in India there are 600 million people. I would guess there are about 100 million people who live in the cities and belong to the military, the bureaucracy, the merchant class, the middle class, the well-to-do and another 500 million who are in the country. I have come to the conclusion that for that 100 million the 500 million don't exist. I don't believe they even see them.

I will give you an example of that. I had dinner with a banker in Bombay. We were treated to a very magnificent dinner around a lovely pool. We don't have anything in the United States any better. And he happened to remark—I don't know whether I raised the question or he did—that only 5 percent of the population of Bombay lived in slums, and you know, I could tell he really believed it, because I don't think he really saw these poor people living on sidewalks.

My guess would have been 95 percent were in the slums, but people see what they want to see; they believe what they want to believe.

The next day on the way to the airport I tried to look at the country through his eyes and I want to tell you, I saw fine apartments, skyscrapers, beautiful hotels everywhere. You know if you wanted to avert your eyes from the people on the sidewalks and their homes it was just as goodlooking as New York. I think that is the kind of consciousness you are up against.

Do you insert specific clauses in the loan agreements for fertilizer plants or does the Asian Development Bank design fertilizer plant projects in such a way that small farmers will have access to this

fertilizer—for example by insisting that the project include a marketing arrangement whereby small farmers will be able to buy fertilizer?

Mr. BEACH. Could I supply that?

Mr. LONG. I wish you could.

[The information follows:]

The Bank has shown great concern with this particular issue. To assure that the small farmer is provided access to fertilizer the Bank has incorporated conditions either in the loan components proper or in relevant side letters on fertilizer projects which it has financed. For example, in the Multan fertilizer project, the ADB was greatly concerned that the existing fertilizer marketing system benefiited only the larger producers. Consequently, the Bank has incorporated in a side letter provisions to the effect that the borrower must, through example, demonstrate to the small farmers the benefits of utilizing phosphate fertilizers. In addition, the borrower has agreed (1) to establish an adequate network for the marketing and equitable distribution of fertilizer with particular reference to small farmers, and (2) to expand its agricultural credit program for the very purpose of providing small farmers with the means to purchase this fertilizer.

A Bank-financed urea fertilizer project in Indonesia, jointly financed with the World Bank, USAID, and the OECF incorporates similar provisions.

With respect to a recently approved fertilizer project for Bangladesh, again on a jointly financed basis involving the World Bank, no adequate marketing system currently exists. However, at the Bank's insistence, a study of the current market and distribution system is underway in which bottlenecks and constraints will be identified and removed prior to the completion of the fertilizer project itself. Hence, the Bank is concerned and is making positive efforts to insure that fertilizer produced from Bank funded projects will be distributed where it will have the maximum impact, i.e., to the small farmer.

Mr. LONG. This is terribly important. Even in this country, the difference between a successful and unsuccessful farmer has been his willingness to use fertilizer. The little guys don't use it unless they are prodded, educated, and able to get credit for it.

Mr. BEACH. If I could make a comment, in the Philippines, north of Manila, there has been something called Masagana–99 where they have attempted to encourage the small farmer to use fertilizer, and one real problem has simply been demonstrating the wisdom of borrowing money to buy fertilizer to use on the land. The demonstration has been very successful, and they have gone in and shown that if you do take the risk, borrow the money, buy the fertilizer and apply it, it is worth the risk and there is tremendous return.

Mr. PASSMAN. Elaborate and put it in the record.

[The information follows:]

Masagana is a nationwide Philippine rice production effort which is automatically applicable to all service areas included in ADB-financed irrigation projects; that is, Davao Del Norte and Agusan Del Sur Irrigation, Angat-Magat Integrated Agricultural Development, et cetera. The name "Masagana" means bountiful and "99" is the target yield in cavans per hectare which is equivalent to 5 metric tons of palay (rough rice) per hectare. M–99 is a commodity systems approach to increased yield, utilizing noncollateral supervised credit and timely delivery to rice-growers of high yielding variety (HYV) seed, fertilizer, and other needed agrochemicals.

Mr. LONG. I can't think of anything more important, more urgent than this. My view of this whole question of appropriate technology is a minority view, I know. I know that university professors have taken almost no interest in this in the past. The bureaucracy hasn't. I know foreign aid has been mainly designed to sell the products of big

business and that the poor countries are dominated by the people who are going to make some money on big power projects and heavy industry projects; therefore, those are naturally the kinds of projects that they like to have.

We have expended practically all the aid money that I think the United States is going to be willing to give. Maybe you will get a little more aid, but the idea that you can solve the problems of the poor countries by some critical mass of foreign aid that we have not yet given but can be persuaded to give, if we really believe that or follow that philosophy, we are dooming the masses of this world to a frightful future.

The only real hope for the people of this world is to try to develop some system whereby they can develop their own technology.

Mr. BEACH. Build the institutions.

Mr. LONG. Yes; and the enthusiasm and the interest to enable them to do it.

FARM-TO-MARKET ROADS

Mr. LONG. Please list for the record all ADB projects for 1974 and 1975 to date that are to provide farm-to-market roads. Please include the proportion of the loan going for feeder roads and miles of farm-to-market roads (or feeder roads) to be constructed.

Mr. BEACH. In 1974, the Bank approved three loans for preparation of farm-to-market road transportation projects. In Indonesia, the Bank financed a feasibility and a preliminary engineering study to develop a system of collector roads in the Surabaya area. At this point, the actual extent of roads to be affected is unclear, but initial estimates indicate roughly 1,500 kilometers will be involved in this project.

The Bank approved as well a $450,000 loan to Korea for the preparation of a feasibility study and the execution of detailed design for about 1,300 kilometers of farm-to-market roads in the southern part of the country. Finally, the Bank approved a $270,000 loan to Indonesia, again for a feasibility study and the preparation of a program to rehabilitate, reconstruct, and maintain 1,150 kilometers of provincial roads and 2,000 kilometers of feeder roads in Semarang-Surabaya area.

These three loans may ultimately result in follow-on construction loans from the ADB, perhaps in late 1975, amounting collectively to roughly 1,500 kilometers will be involved in the project.
creasing trend toward progressively emphasizing farm-to-market and feeder roads in ADB loans in the transportation sector.

ADB LOANS TO SMALL- AND MEDIUM-SIZED ENTERPRISES

Mr. LONG. Mr. Beach, on page 3 of your letter to me you say that national development banks to which the ADB lends "are earmarked specifically for relending to small and medium-sized enterprises."

(*a*) Could you provide for the record examples of clauses in loan agreements that earmark loans for "small- and medium-sized enterprises"? (*b*) For loans on this earmarking, could you provide a definition of "small- and medium-sized enterprises"? (*c*) What monitoring of these projects do you carry on to insure that relending is actually being done to "small- and medium-sized enterprises"?

Mr. BEACH. (*a*) The specific clause in the loan agreement which earmarks loans from development banks for "small- and medium-sized enterprises" reads as follows: "The project for which the loan is granted

is the financing by the borrower of development in making loans for productive purposes to medium- and small-scale manufacturing, mining, transportation, construction, and service enterprises which are controlled by private investors, all for specific development projects, in accordance with the policy statement and in furtherance of the corporate purposes of the borrower as set forth in the act and the bylaw." Two examples of such loans were loans to the Medium Industry Bank of Korea, and to the Bangladesh Shilpa Bank. (*b*) Small and medium industry as defined by the Medium Industry Bank, for example, and accepted by the ADB, means those firms whose total assets may not exceed $125,000 and who have between 5 and 200 employees. Sublending for construction, commerce, and services industries is targeted for firms with between 5 and 20 employees with the same limitation on the size of total assets. (*c*) As is customary with all ADB lending to national development banks, the ADB must approve all of the Medium Industry Bank's proposed subloans. In this manner the ADB is able to monitor the Medium Industry Bank's relending to assure itself that the conditions of the ADB loan are in fact being met.

PROJECT EVALUATIONS

Mr. LONG. What further progress has there been on establishment of an independent review and evaluation group for the Asian Development Bank as called for in the Foreign Assistance Act of 1973 (section 301(E)(2) of the Foreign Assistance Act of 1961, as amended)?

Mr. BEACH. In August 1974 the ADB established an independent postproject evaluation mechanism at the specific urging of the United States. The mechanism in question differs somewhat from those employed by the IBRD and the IDB. It provides, however, for retention by the ADB of independent outside firms to conduct post-project evaluation of projects selected by the Bank's board of directors which also approves the terms of reference for the evaluation, as well as the firm to undertake study. After completion of the evaluation, the report is submitted directly to the chairman of the board of directors who transmits it to all directors without comment. Finally, relevant Bank staff in the project and operations departments, as well as the executing agency in the borrowing country, are asked to comment upon the report. The report, its recommendations and suggestions, along with solicited comments, is then considered by the Bank's board of directors.

Mr. LONG. What evaluations of projects have been completed as of the present?

Mr. BEACH. In November 1974 the board of directors approved four projects for independent evaluation and has accordingly approached three independent groups—one a U.S. firm—regarding the evaluation efforts which will be initiated in the very near future. In addition to this outside independent evaluation mechanism, the Bank has conducted four in-house postproject evaluation reviews under direction of the Bank's chief economist, who is a U.S. national: the Seoul-Inchon Highway project in Korea, the Sri Lanka tea factory modernization project, the Industrial Finance Corp. of Thailand project, and the Tadjum irrigation project in Indonesia.

Mr. LONG. Can you submit to this committee copies of any of the completed evaluations and a list of evaluations completed and in progress?

Mr. BEACH. We would be happy to submit to the committee copies of completed evaluations as well as a list of the evaluations in progress. In fact, the U.S. director has supplied copies of completed evaluations to Mr. Gene Wohlhorn, Assistant Director of GAO, for his perusal. Mr. Wohlhorn did, however, indicate that he would coordinate with the U.S. Treasury Department regarding any further dissemination of the documents themselves.

PROJECTS FOR THE RURAL POOR IN ASIA

Mr. LONG. What portion of your total agricultural lending in 1974 was aimed directly at helping the really poor in Asia?

Mr. BEACH. In 1974 about 70 percent of ADB's loans for agriculture was aimed, totally or in part, at helping the really poor in Asia. Indeed the Bank has made special efforts to design its agricultural projects to benefit the rural poor. Integrated area development projects, such as the Sabah land development project in Malaysia, where subsistence farmers will be housed in settlement schemes with schools, infrastructure facilities, et cetera, provided by the government, are intended to provide the farmers with employment opportunities, agricultural training, and the possibility of future acquisition of economic land holdings.

Mr. LONG. Please list for the record those agricultural projects in 1974 that were aimed primarily at helping the really poor in Asia—the rural poor.

Mr. BEACH. Yes, sir. Afghanistan: $14 million loan for irrigation as part of the Helmland Valley development project.

Indonesia: $13.2 million loan to establish a program for small holder fiber production and agricultural research.

Indonesia: $2.7 million loan to extend credit facilities for the installation of irrigation pump sets and the provision of agricultural machinery to 30,000 farm families in East Java.

Korea: $19 million loan to finance land and farming practices, marketing and storage facilities improvement; village water supply; livestock development and reforestation.

Malaysia: $14 million loan for the development and expansion of six ongoing palm oil development schemes.

Malaysia: $18 million loan for the initial stage of a massive 2.5-million-acre land development scheme.

Nepal: $3 million loan to extend credit facilities for the development of farm level production, strengthening of rural cooperatives, storage, processing and marketing facilities.

Philippines: $5.8 million loan for irrigation, including an agricultural development program, two pilot demonstration farms, agricultural extension services and farmers' training.

Vietnam: $7.4 million loan for integrated agricultural development program including irrigation drainage system construction, feeder roads, installation of pumping plants, pilot demonstration farms, and improvement of agricultural services and farmers' organizations.

Mr. LONG. That is all I have, Mr. Chairman.

Mr. PASSMAN. In some of these Southeast Asian countries they get from three to four crops per year off their land, do they not?

Mr. COOPER. Yes, sir, in some places.

Mr. PASSMAN. I stepped off a plane in a country in Southeast Asia a few years ago and I was to be one of the speakers at a luncheon coming from the state that produced a lot of rice. My pitch was on rice you understand, and I found that we got our techniques from this Southeast Asian country. I was bragging about the yield and they said, "We get three crops per year and occasionally throw in the fourth crop in the way of vegetables."

We agreed earlier that in some parts of that country they are eating better than they have eaten in 1,500 years. I believe we agreed to that earlier.

It is true that some of these poorer countries in Southeast Asia are very large exporters of rice. Let us take South Vietnam, normally they are exporters of rice, are they not?

Mr. COOPER. They haven't been exporters for some time.

Mr. PASSMAN. Not during the war, but under normal conditions they were exporters of rice?

Mr. COOPER. They were a very large exporter of rice.

Mr. PASSMAN. Until the conflict.

All right, let us go to Thailand where we referred to them as developing country. They, too, are very large exporters of rice; aren't they?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. The same is true with Burma?

Mr. COOPER. They have had difficulties lately but normally they are a large exporter of rice.

Mr. PASSMAN. They produce food in excess of their needs and they are a very large exporter.

Isn't that a statement of fact?

Mr. COOPER. In some countries; yes.

Mr. PASSMAN. I didn't say every instance but I am talking about Southeast Asia, most of these countries are exporters and have surplus food, not a minus of food.

The very fact that we spent $155 billion in South Vietnam and sacrificed 56,000 lives, enables the Communists who have taken over that country to live better and reap the harvest; does it not to a very large extent?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. That is a fair statement; isn't it?

Mr. COOPER. Yes.

Mr. PASSMAN. And any other country that goes Communist out there—Laos or Cabodia, where we spent millions of dollars—they, too, are reaping the harvest at the expense of those who paid with their lives to support our policy; isn't that true?

Mr. COOPER. Yes, sir.

Mr. PASSMAN. Let us be careful, gentlemen. We don't have any friends in that part of the world. You know it as well as I do, maybe with the exception of Taiwan and possibly South Korea. Let us just read the record as it is.

Mr. Conte, do you have any questions?

OIL PRICES AND ADB LENDING

Mr. CONTE. Can you tell me what impact the tremendous increase in oil prices has had on the lending policies of the ADB?

Mr. BEACH. In response to the increase in oil prices, the ADB has reexamined all its projects in the power and energy fields, giving special emphasis to those projects which could draw upon indigenous fuel supplies, that is, hydropower and coal. Correspondingly, the Bank is focusing increasingly on hydroelectric projects and projects utilizing domestic coal resources such as the Mae Moh project in Thailand. In addition, the Bank has financed an energy survey for Bangladesh to determine the maximum use to which its indigenous fuel resources may be utilized in the power sector.

In the same general area, the Bank is giving increasing attention to fertilizer projects which use the natural gas resources of this borrowing member countries. For example, the Bank has recently financed urea fertilizer projects in both Pakistan and Bangladesh in which domestic natural gas resources were utilized.

FINANCING FROM OPEC NATIONS

Mr. CONTE. What success has the ADB had in attracting investment by the OPEC nations?

Mr. BEACH. The ADB has financed two projects to date in which OPEC nations (excluding Indonesia) have participated by providing joint financing, that is, the Multan fertilizer project in Pakistan and the Ashuganj fertilizer project in Bangladesh. The ADB also has in its pipeline fertilizer project in Sri Lanka in which Iran and Kuwait would provide parallel financing.

In addition to drawing upon direct financing from OPEC countries with respect to particular projects, ADB has explored with OPEC nations prospects of borrowing funds for relending purposes to its member countries. In 1974 the Bank borrowed $16.9 million from Kuwait and in 1975 it borrowed a further $14.5 million from Saudi Arabia. The Bank hopes to increase its borrowings from these countries considerably in the near future but has been prevented from doing so because of relatively unattractive interest rates on the convertible currencies which the Bank is seeking to borrow.

AMERICAN PARTICIPATION IN ADB PROJECTS

Mr. CONTE. Can you tell me what the American participation rate is in ADB-financed projects?

Mr. BEACH. As of December 31, 1974, U.S. firms won 12.1 percent of all contracts awarded for projects financed by the ADB. That level is considerably up from the 8 percent level which prevailed approximately 2 years ago.

Mr. CONTE. What percentage of ADB consulting contracts have been received by American firms?

Mr. BEACH. As of December 31, 1974, U.S. consulting engineering firms have been awarded 35 percent of all consulting engineering contracts under ADB-financed projects. In the past, the U.S. share has been, on some occasions, somewhat higher than the cumulative 35 percent level. There is, furthermore, good reason to believe that our cumulative share will be increased in 1975 as a result of contract negotiations currently in progress.

Mr. CONTE. How does this compare to the portion of the Bank's funds contributed by the United States?

Mr. BEACH. The U.S. procurement share is in excess of the relative contribution of the United States to the Asian Development Bank's ordinary capital resources—to date all U.S. contributions to ADB's special funds have been tied exclusively to provision of goods and services from U.S. suppliers. With the U.S. subscription, in April 1975, to the first installment of the Bank's ordinary capital increase, the U.S. share in the Bank's ordinary capital resources increased to roughly 10 percent—somewhat less than our cumulative share of contract awards of slightly more than 12 percent.

Mr. CONTE. Do you offer any particular assistance to American firms interested in bidding on ADB projects?

Mr. BEACH. The Office of the U.S. Director extends every possible service to U.S. firms interested in ADB projects. USADB circulates to U.S. missions in Asia, to the Commerce Department in Washington as well as to all American Chambers of Commerce in Asian capitals, copies of the Bank's "Monthly Operational Information" which lists ADB projects in the pipeline. In addition, the U.S. Director, or a member of his office, attends semiannual meetings of the Asian Pacific Council of American Chambers of Commerce. (APCAC). I want to note in this connection that the APCAC has repeatedly endorsed and supported the administration's requests for additional U.S. funding of the Asian Development Bank. Further, the U.S. Director, when traveling either in Asia or in the United States, as a matter of practice, contacts U.S. business communities to increase their interest in and awareness of ADB projects and corresponding business opportunities for the U.S. business community stemming from those projects. Finally, USADB in Manila encourages any interested U.S. equipment supplier or consulting engineer to use the facilities of its office in contacting relevant ADB officials about any and all Bank project or practices.

SPEED AND EFFICIENCY OF ADB

Mr. CONTE. Isn't it true that ADB is considered the fastest and most efficient of development banks in its processing and awarding of contracts? Why is that?

Mr. BEACH. ADB is quite efficient in its processing and awarding of contracts. It enjoys a good reputation in this respect because of the high quality of the staff dealing with procurement issues, and the Bank's proximity to the projects which it finances. This enables Bank staff to be readily available to help borrowers and contractors resolve problems of contract awards or procedures. In addition, the Bank has followed the practice of sending a member of the General Counsel's office on missions expressly to inform executing agencies in borrowing countries of the various requirements and provisions for expeditious awarding of contracts in line with ADB guidelines and provisions.

JAPANESE INFLUENCE IN THE ADB

Mr. CONTE. One complaint about ADB has been that Japan has an inordinate influence on the Bank. Is this influence decreasing at all?

Mr. BEACH. Japan's influence in the Bank is large because Japan is the largest contributor of resources to the Bank. At the inception of the Asian Development Bank, Japan and the United States contributed equal amounts to ordinary capital. Since then, Japan has fully sub-

scribed to the Bank's ordinary capital increase and has in addition provided ad hoc contributions to the Bank's special funds far in excess of those from the United States. However, if the United States does subscribe fully in fiscal year 1976–77 to the ordinary capital increase, we will reestablish U.S. voting parity with Japan.

Previously there was an imbalance in the Bank's professional staff in favor of Japan. Japan now has 29 professional staff members which is only four more than the 25 U.S. nationals currently on the Bank's staff. Even though the President of the Bank has always been Japanese, this fact does not mean that Japan controls the ADB, just as having U.S. citizens as President and Senior Vice President of the World Bank does not enable the United States to control IBRD operations.

CONTRIBUTION AND PROCUREMENT SHARES

Mr. CONTE. Can you provide a table showing the percentage contribution of each Bank member along with each member's share of ADB projects.

Mr. BEACH. Yes, sir.

[The table follows:]

ADB: ORDINARY CAPITAL AND PROCUREMENT SHARES AS OF DEC. 31, 1974

Members: Regional	Subscription share	Procurement share
Afghanistan	0.52	
Australia	9.25	1.80
Bangladesh	1.63	
British Solomon Islands	.01	
Burma	.87	
China, Republic of	1.74	.71
Fiji	.11	
Gilbert and Ellice Islands	.01	
Hong Kong	.87	.38
India	10.12	2.64
Indonesia	2.72	
Japan	21.77	42.33
Khmer Republic	.38	
Korea, Republic of	5.01	4.54
Laos	.05	
Malaysia	2.18	.13
Nepal	.24	
New Zealand	2.46	.30
Pakistan	3.48	.01
Papua New Guinea	.15	
Philippines	3.81	.01
Singapore	.54	.15
Sri Lanka	.93	
Thailand	2.18	.11
Tonga	0	
Vietnam, Republic of	1.31	
Western Samoa	0	
Austria	.54	2.53
Belgium	.54	.21
Canada	2.72	2.12
Denmark	.54	.22
Finland	.22	.08
France	2.72	2.41
Germany, Federal Republic of	3.70	6.75
Italy	2.17	4.88
Netherlands	1.20	.96
Norway	.54	.18
Sweden	.22	.69
Switzerland	.54	1.22
United Kingdom	3.27	5.33
United States	8.71	11.16
Total	100.00	[1] 100.00

[1] Shares do not add to 100 percent because of unallocated amount of procurement of 8.14 percent.

U.S. VOTING SHARE

Mr. CONTE. Isn't it necessary to increase our contribution in order to maintain our voting power in the Bank.

Mr. BEACH. It is indeed necessary for the United States to subscribe to the two remaining installments of the Bank's ordinary capital increase in order to reestablish our voting parity with Japan in the Bank. Currently the U.S. voting share is 9.5 percent while Japan's is 15.6 percent. When the United States fully subscribes to the ordinary capital increase, our voting share will once again be equivalent with Japan's.

ADB AND SMALL FARMERS

Mr. CONTE. What sorts of projects do you finance for small farmers?

Mr. BEACH. The ADB is seeking to help the small farmer meet his own subsistence needs more efficiently, and to encourage him to engage in revenue earning agricultural production. Therefore, ADB projects which impact on the small farmer have included the financing of components to provide: for example, (1) agricultural credit for the purchase of tools and fertilizer; (2) pilot schemes for the demonstration and on the spot training in farming methods, improved techniques of irrigated agriculture, and scientific water management; (3) the strengthening of governmental agricultural extension services, farmers' organizations and marketing processing facilities; (4) rehabilitation and improvement of existing irrigation systems, for example through the installation of pumping plants and drainage systems.

For example, an agricultural project affecting the small farmer directly is a $5 million loan to promote and demonstrate integrated development on a 13,000 hectare irrigable area in Northeast Thailand containing about 4,000 farms, through rehabilitation and improvement of existing irrigation systems, on-farm land development and provision and establishment of agricultural support services, and a multipurpose cooperative.

INDOCHINA DEVELOPMENTS AND THE U.S. ROLE IN ADB

Mr. CONTE. Following recent events in Indochina, wouldn't you say it is important to demonstrate our continuing interest in the security and prosperity of Asia through such institutions as the ADB?

Mr BEACH. It is of critical importance, especially in view of recent events in Indochina, for the United States to demonstrate its continuing interest in the security and prosperity of Asia. As Secretary Simon said in his speech at the Annual Meeting of the Asian Development Bank in Manila on April 24, 1975, "The United States, as a Nation of the Pacific as well as the Atlantic, must and will remain actively involved in the problems and the development of Asia." One of the clearest means of doing so is unequivocal and strong support for the Asian Development Bank. It is, therefore, crucial that the United States subscribe to the second installment of the ordinary capital increase. This is particularly true since U.S. contributions to the bank have a symbolic impact far in excess of the actual dollar amount of those contributions.

Mr. PASSMAN. The committee is adjourned.

THURSDAY, MAY 15, 1975.

INTER-AMERICAN DEVELOPMENT BANK

WITNESSES

JOHN M. PORGES, U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK
CHARLES A. COOPER, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY
PAUL H. BOEKER, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL FINANCE, DEPARTMENT OF STATE

Program and Financing (in thousands of dollars)

Ident. code 04-12-0050-0-1-151		1974 actual	1975 est.	1976 est.
	Program by activities:			
	1. Investment in International Development Association	469,252	386,030	375,000
	2. Investment in Inter-American Development Bank	282,301	500,000	----------
	3. Investment in Asian Development Bank	62,063	74,127	74,127
10	Total obligations (object class 33.0)	813,616	960,157	449,127
	Financing:			
	Unobligated balance available, start of year:			
21.40	Appropriation	−2,613,947	−4,037,344	−4,067,822
21.47	Authority to spend public debt receipts	−5,715,000	−5,715,000	−5,715,000
	Unobligated balance available, end of year:			
24.40	Appropriation	4,037,344	4,067,822	4,164,313
24.47	Authority to spend public debt receipts	5,715,000	5,715,000	5,715,000
	Budget authority	2,237,013	990,635	545,635
	Budget authority:			
40	Appropriation	2,991,380	990,635	545,635
41	Transferred to other accounts	−754,367	----------	----------
43	**Appropriation (adjusted)**	2,237,013	990,635	545,635
	Relation of obligations to outlays:			
71	Obligations incurred, net	813,616	960,157	449,127
72.40	Obligated balance, start of year	2,138,226	2,505,530	2,762,187
74.40	Obligated balance, end of year	−2,505,530	−2,762,187	−2,394,414
90	Outlays	446,312	703,500	816,900

GENERAL STATEMENT

Mr. PASSMAN. We will now consider the request of the Inter-American Development Bank, and we will insert in the record at this point the statement of Mr. Porges from the Inter-American Development Bank.

[The information follows:]

Mr. Chairman, I am happy to appear before this subcommittee and to join the administration in requesting $275 million for the Inter-American Development Bank's Fund for Special Operations (FSO). This fund is the source of lending to support projects largely in the poorest Latin American countries. The amount we are requesting represents the final installment of a U.S. contribution, totalling $1 billion, which was negotiated by the executive branch in April 1970, and authorized by the Congress in legislation enacted in December 1970, and March 1972.

I estimate that about $90 million in convertible currencies will remain uncommitted in the FSO at the end of the present calendar year. This margin would be so small as to preclude meaningful planning and processing of applications for funding in 1976. This expectation is based on projected dollar lending from the FSO of approximately $410 million in 1975, as compared with $342 million in 1974, and $315 million in 1973. The $275 million requested by the administration would provide for carryover of about $365 million at the end of 1975. This alone would not suffice to maintain lending in 1976 at the contemplated 1975 level; however, it would permit lending to go forward in an orderly fashion in anticipation of additional funds that should become available in the latter part of 1976.

The Fund for Special Operations is an extremely important part of the Inter-American Bank's structure. The FSO has financed, in all member countries, socially important and very worthwhile projects that are not, however, likely to generate a stream of income sufficient to amortize ordinary capital-type financing. Examples of sectors so financed are health, education, and rural water supply.

I want to emphasize that, in accordance with established Bank policy and at United States urging, the most developed Latin American members are receiving a declining amount of FSO resources. FSO convertible currency commitments to Argentina, Brazil, Mexico, and Venezuela dropped from $90 million in 1973 to $68 million in 1974, and are expected to be substantially lower in 1975. Venezuela voluntarily refrained from requesting any FSO (and also ordinary capital) loans in 1974 and we anticipate that the other three advanced countries also will not receive convertible currency loans from the FSO after 1975. This will enable the Bank to limit its soft-term lending to the neediest member countries and emphasize those sectors that have the greatest direct impact on low-income groups, such as agriculture, education, health, and water supply and sewerage.

In addition, the Latin American member countries contribute their own currencies to the FSO and the Bank has been using an increasingly large proportion of these resources for loans in the contributing country. Under a special four-currency agreement, the Bank also can lend currencies of its most developed member countries—Argentina, Brazil, Mexico, and Venezuela—for projects in the other member countries. In brief, the Latin American countries are financing through the Bank a greater share of their own economic development needs.

Members of the subcommittee know that the 1975 Appropriations Act requires that of the total of $225 million approved for the IDB's FSO, $50 million was approved only for specific designated uses ($15 million for savings and loan associations, $10 million for credit unions, and $25 million for cooperatives). We are sympathetic with the main thrust of Congress's desire to see that an increasing proportion of IDB lending directly benefits the low-income groups in Latin America, but we believe that earmarking is not the appropriate way to achieve this objective.

The IDB, in fact, has done a considerable amount of lending to benefit the poor. In agriculture, for example about $1.6 billion, or over 21 percent of total IDB lending, can be directly related to projects designed to help Latin America's low-income rural sector. Between a quarter and perhaps as much as a third

of the Bank's total commitments for agriculture have benefited small-farmer cooperatives and other types of small-farmer groups. Also, IDB has helped improve living standards of low-income sectors in Latin America's cities through loans totalling more than $1 billion for water and sewerage systems, housing, and urban renewal.

We agree that the IDB should be doing relatively more to help the low-income groups and I am continually pressing Bank management in that direction. Other Directors agree with this general thrust. However, it is not easy to find technically sound projects which effectively reach the poor, and in some situations, these projects may not be given the highest priority by the borrowing country partly because other projects may have higher economic payoff.

In any case, I do not believe that earmarking is the way to approach this problem. The Bank is already making substantial loans to cooperatives and is programing more for this purpose during this year than the earmarked amount. The Bank is also proceeding with a substantial grant to further the development of credit unions in Latin America. This type of assistance promises to be more effective than loans for credit unions at this juncture when many potential borrowers among existing credit unions are mainly urban and middle class-oriented. In Latin America the real need is to spread credit union activity to rural areas and productive activities, and I think the IDB grant approach is well suited to the present situation. Finally, since IDB lending to savings and loan associations in Latin America would benefit mainly the middle and upper class, such lending would be inconsistent with the IDB's and our own general development thrust.

The benefits would be far outweighed by the rigidities if earmarking were introduced in the Bank's operations. First, the potential effects could well be contrary to the multilateral nature of the Bank and to the interests of the United States. Second, the earmarking could establish a precedent for other special interests and for other governments to insist on similar special conditions. The President of the IDB has voiced serious concern that the introduction of earmarking might lead to an unmanageable operational situation in the IDB. In view of this situation, the administration is requesting, and I am supporting very strongly, the deletion of the earmarking provisions that were attached to the Appropriations Act approved by Congress in March 1975. This does not mean, however, that we disagree with the congressional mandate that the IDB should increase its efforts to do more lending aimed directly at helping the low-income groups in Latin America. As I have tried to indicate, quite the contrary is true.

Let me turn now, Mr. Chairman, to the question of ordinary capital. I expect the Bank to run out of these resources to make new commitments well before the end of 1975. For this reason, after consultations with the Congress, the executive branch will soon be engaging in talks with other member countries on the replenishment of IDB ordinary capital resources. Later this year, the administration will be seeking authorization of U.S. participation in the 1976–78 replenishment at approximately the same level—about $1.8 billion—as in the last replenishment. This will involve a request for appropriation of some funds in fiscal year 1976 for subscription to capital shares, most of which will be callable only. There is no plan to request any appropriation for the FSO in fiscal year 1976 beyond the $275 million remaining under our commitment on April 1970, and currently under consideration.

It would be helpful, at this point, Mr. Chairman, to place our current appropriations request and our ideas about future requests in the context of what we have already achieved in burden sharing. Negotiations have been completed for a group of 10 European countries, Japan, and Israel to join the IDB. Those countries have pledged themselves to contribute approximately $375 million in cash to the FSO over the 3 years 1976–78. We expect these countries to make available the first of their resources for the FSO in the latter part of 1976 after they have completed their internal government procedures and approvals for entry into the IDB.

However, burden sharing should not be limited to the industrial countries. We also look for the most advanced Latin American countries to make some of their contributions to the upcoming replenishment in convertible currencies to the FSO. These contributions would occur largely in 1977 and 1978, and would not have any impact on available commitment authority in 1976. Members of the subcommittee already know that the Venezuelan Government has established a $500 million trust fund for ordinary capital-type lending operations by the IDB. A

total of 16 million of this fund will be committed during this calendar year, but this will not entirely bridge the gap caused by our projected shortage of ordinary capital. Contributions from nonregional members and the most developed Latin American countries will reduce the financial burden for the United States. By no means, however, do they eliminate the need for U.S. funding of the IDB in the future.

The IDB supports economic and social development in a part of the world of special interest to the United States. For this reason the United States was a key supporter of the Bank's establishment in 1959. The IDB has since become a leading source of official financing for Latin America.

Drawing the bulk of its staff from Latin American member countries, the IDB has been in a unique position to apply its thorough knowledge of the region toward economic development. In many fields affecting low income groups—such as rural water supply, self-help housing, and health—the Bank has been an innovative lender. It has also assisted private enterprise in its lending through development finance companies, and to farmers by its loans through agricultural and livestock credit institutions. I have personally inspected many of these projects over the past 2 years, and can respond to the subcommittee on their importance and worthwhile character.

On the management side, the IDB has recently done an excellent job in containing staff growth and limiting administrative expense. It has been in the vanguard among development banks in establishing a group of controllers which is independent of management and responsible only to the Board of Directors. Thus far, the group of controllers has completed 13 reports which are, in fact, operational audits and which enable the Board of Directors to have close oversight of the Bank's activities.

The committee and the Congress have also been concerned about the followup on IDB loan projects. In this respect I can report an active program of inspection trips to the field covering all of the institutions. These reports on trips have yielded concrete evidence that IDB loans are contributing significantly to economic and social development in Latin America. Following the IDB's annual meeting in Santiago, Chile, last year, members of the Congress and other members of the U.S. delegation had the opportunity to inspect specific IDB-financed projects being implemented or completed. We are now organizing a similar program of project visits in the Dominican Republic during this year's annual meeting May 19–21 and in three other member countries immediately following the meeting.

To summarize, Mr. Chairman, I think the IDB is a well-run regional development bank. The burden of providing economic assistance is now being shared more equitably with prospective nonregional members and with the more advanced regional countries. The Bank is making a successful contribution to the growth and development of an area of key importance to the United States. For all these reasons, it deserves our continued strong support and I recommend that the subcommittee approve the administration's appropriations request for IDB for fiscal year 1976.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will insert justification material in the record at this point.

[The material follows:]

FUNDS APPROPRIATED TO THE PRESIDENT
INTER-AMERICAN DEVELOPMENT BANK
(DOLLARS IN THOUSANDS)

Authorizations	Total U.S. Participation Authorized
Public Law 86-147:	
Initial Contributions:	
Paid-in Capital Stock	150,000
Callable Capital Stock	200,000
Fund for Special Operations	100,000
	450,000
Public Law 88-259:	
Fund for Special Operations	50,000
Callable Capital Stock	411,760
Public Law 89-6:	
Increase in quota for Fund for Special Operations	750,000
	1,211,760
Public Law 90-88:	
Increases in resources Fund for Special Operations	900,000
Public Law 90-325:	
Increase in Callable Capital	411,760
	1,311,760
Public Law 91-599:	
Increase in Paid-in Capital Stock	150,000
Increase in Callable Capital Stock	673,520
Increase in Fund for Special Operations	100,000
Public Law 92-246:	
Increase in Fund for Special Operations	900,000
	1,423,520

Appropriations	Amount
First Supplemental Appro. Act, 1960	
Paid-in Capital	30,000
Callable Capital	200,000
Fund for Special Operations	50,000
Foreign Assistance and Related Agencies Appro. Act, 1962: Paid-in Capital	60,000
Fund for Special Operations	50,000
Foreign Aid and Related Agencies Appro. Act, 1963: Paid-in Capital	60,000
	450,000
Foreign Aid and Related Agencies Appro. Act, 1964: Fund for Special Operations	50,000
Foreign Aid and Related Agencies Appro. Act, 1965: Callable Capital	205,880
Second Supplemental Appro. Act, 1965: Fund for Special Operations	250,000
Foreign Assistance and Related Agencies Appro. Act, 1966: Callable Capital	205,880
Fund for Special Operations	250,000
Foreign Assistance and Related Agencies Appro. Act, 1967: Fund for Special Operations	250,000
	1,211,760
Foreign Assistance and Related Agencies Appro. Act, 1968: Fund for Special Operations	300,000
Foreign Assistance and Related Agencies Appro. Act, 1969: Callable Capital	205,880
Fund for Special Operations	300,000
1970: Callable Capital	205,880
Fund for Special Operations	300,000
	1,311,760
Second Supplemental Appropriation Act, 1971:	
Paid-in capital	25,000
Callable capital	200,000
Fund for Special Operations	50,000
Foreign Assistance & Related Programs Appropriation Act, 1972:	
Paid-in capital	75,000
Callable capital	136,760
Joint Resolution Making Continuing Appropriations, 1973:	
Paid-in Capital	25,000
Callable Capital	168,380
Fund for Special Operations	225,000
Foreign Assistance & Related Programs Appropriation Act, 1974:	
Paid-in Capital	25,000
Callable Capital	168,380
Fund for Special Operations	225,000
1975 Budget Estimate:	
Fund for Special Operations	500,000
	1,423,520

INTER-AMERICAN DEVELOPMENT BANK

ORDINARY CAPITAL

JUSTIFICATION FOR

FY 1976 APPROPRIATIONS

The Inter-American Development Bank (IDB) is an inter-governmental organization, corporate in form, whose capital stock is owned by its member governments. It was established in 1959 to promote economic development in the developing countries in the Western Hemisphere. It does this by extending loans for specific capital projects and loans and grants for technical assistance. It makes conventional loans from its ordinary capital resources which consist of (1) paid-in capital subscriptions of members, and (2) proceeds from borrowings in capital markets which are based on members' callable guarantee capital subscription As of December 31, 1974, the IDB had 24 Western Hemisphere member countries including the United States and Canada; the Bahamas and Guyana have applied to join and Cuba is not a member. As of the same date, cumulative ordinary capital loan commitments were $3,325 million with $1,288 million outstanding.

Charter U.S. membership in the Inter-American Development Bank and an original capital subscription of $350 million consisting of $200 million in callable guarantee capital and $150 million in paid-in capital were authorized in August 1959 (PL 86-147). The callable guarantee portion was appropriated in FY 1961 (PL 86-213). The paid-in portion was provided in three installments -- $30 million in FY 1960 and $60 million each in FY 1962 and FY 1963 (PL 86-213, PL 87-329 and PL 87-872, respectively).

Two increases in the authorized capital of the Bank totaling $2,300 million were approved by the Bank's membership during the 1960's. The U.S. participated in both of these increases through appropriation of an additional $824 million in callable guarantee capital (PL 88-634, PL 89-273, PL 90-581, and PL 91-305). These increases in the Bank's callable guarantee capital permitted the Bank to expand its private capital market borrowings and thereby to provide resources for its conventional lending program.

In 1970, the member governments of the Bank agreed to further expand the authorized capital of the Bank by $2,000 million consisting of $1,600 million in callable guarantee capital and $400 million in paid-in capital. U.S. participation in this increase -- consisting of $674 million in callable guarantee capital and $150 million paid-in capital -- was authorized in 1970 (PL 91-599). Callable and paid-in capital were to be made available over a three year period. These amounts were appropriated in FY 1972, FY 1973, and FY 1974 (PL 92-201, PL 92-242, PL 92-571 and PL 93-240).

The IDB projects a CY 1975 ordinary capital lending program of $608 million in convertible currencies compared with $600 million committed in CY 1974. Such a program is justified because several larger Latin American countries continue to require increased amounts of ordinary capital loans although their FSO requirements are reduced. However, the IDB will not even be able to carry out this CY 1975 program fully on the basis of available resources and anticipated repayments. Therefore, a replenishment of IDB ordinary capital resources is clearly needed for the period of 1976-78. Consultations will be undertaken shortly with the Congress on the details of such a replenishment, after which international negotiations will commence. Assuming successful completion of these negotiations and passage of necessary authorizing legislation, FY 1976 appropriations will be requested, as necessary, for the first installments of the U.S. subscriptions. It is anticipated that non-regional countries (10 European nations, Israel, and Japan) will make their initial contribution to the resources of the IDB in CY 1976.

INTER-AMERICAN DEVELOPMENT BANK

FUND FOR SPECIAL OPERATIONS

NO FY 1976 APPROPRIATIONS REQUESTED

In addition to its ordinary capital lending operations, the IDB extends loans from the resources of the Fund for Special Operations (FSO) in circumstances where the terms of ordinary capital financing are not appropriate. FSO loans are made on concessional terms and extended entirely from resources provided by the United States and the other members of the Bank. The FSO was established in 1959 when the IDB was created as an integral element in the Bank's lending operations. As of December 31, 1974, cumulative loan commitment from the resources of the FSO totaled $3,508 million with $1,471 million outstanding.

U.S. membership in the IDB, authorized in August 1959 (PL 86-147), provided for an initial $100 million U.S. contribution to the FSO. The amount of this original contribution was appropriated in two installments in FY 1960 and FY 1962 (PL 86-213 and PL 87-329).

Agreements were also reached among the IDB member governments to increase the resources of the FSO on three occasions in the 1960's. The U.S. has participated in all of these replenishments and a total appropriation of $1,700 million has been provided as the U.S. share of these increases (PL 88-258, PL 89-16, PL 89-273, PL 89-691, PL 90-249, PL 90-581 and PL 91-194). The U.S. percentage share of FSO replenishments has been gradually declining vis-a-vis those of the other members of the Bank.

In 1970, the member governments of the Bank agreed to a further increase in the resources of the FSO. The U.S. participated in this replenishment and agreed to contribute $1,000 million over a three year period. Authorization of a $100 million contribution was enacted in FY 1971 (PL 91-599) and the remaining $900 million amount in FY 1972 (PL 92-246). An appropriation of $50 million was provided in FY 1971 (PL 92-18) and of $225 million in FY 1973 under the continuing resolution (PL 92-571). The payment of $275 million of the U.S. contribution formally brought the 1970 agreement to

replenish the resources of the FSO into effect. A further appropriation of $225 million was provided in FY 1974 (PL 93-240).

The remaining $500 million authorized has been requested for appropriation in FY 1975. The U.S. contribution will be made available in the form on non-interest-bearing letters of credit drawn down as needed to meet disbursements on committed loans. No budgetary expenditures will result from this appropriation request in FY 1975. The amount is needed to permit the continuation of concessional lending commitments by the IDB.

Assuming that the full $500 million appropriation is enacted, there will be no request for FSO appropriations in FY 1976. It is anticipated that initial contributions by non-regional countries (10 European nations, Israel, and Japan) will be made to the FSO beginning in CY 1976.

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INTER-AMERICAN DEVELOPMENT BANK
ORDINARY CAPITAL
BALANCE SHEET
(Expressed in thousands of United States Dollars - Note A)

ASSETS	December 31, 1974		1973	
Cash				
Unrestricted				
Member currencies	$ 105,588		$ 84,118	
Non-member currencies	2,533		4,982	
Restricted (Note C)				
Member currencies	20,130	$ 128,251	20,002	$ 109,102
Investments				
Obligations issued or guaranteed by governments or issued by United States Agencies at cost or amortized cost (face amount $82,609; 1973 - $58,874) (Note A)	82,034		58,860	
Time deposits				
United States and Canadian dollars	503,438		538,625	
Non-member currencies	103,139	688,611	156,830	754,315
Loans outstanding held by Bank (Note D) (Appendix I-1)				
Total loans approved by Bank since inception, less cancellations	3,325,494		2,651,667	
Less undisbursed balance of approved loans held by Bank	(1,458,164)		(1,106,837)	
Less principal collected by Bank and loans sold or agreed to be sold	(579,235)	1,288,095	(491,299)	1,053,531
Accrued interest and other charges				
Investments	33,773		28,411	
Loans	27,177	60,950	21,213	49,624
Due from members in member currencies (Note I)				
Capital subscriptions (Appendix I-3)	167		16,085	
Non-negotiable, non-interest bearing demand obligations (Appendix I-3)	306,091		281,245	
Amounts required to maintain value of currency holdings (Note B)	82,347	388,605	102,398	399,728
Other Assets				
Land, building and improvements, at cost less accumulated depreciation $1,715; 1973-$1,411 (Note A)	12,152		10,424	
Unamortized funded debt issue costs (Note A)	10,370		11,685	
Miscellaneous (Note E)	11,462	33,984	15,607	37,716
Special Reserve assets (Notes B and F)		69,719		58,477
		$2,658,315		$2,469,493

INTER-AMERICAN DEVELOPMENT BANK
ORDINARY CAPITAL
BALANCE SHEET
(Expressed in thousands of United States Dollars - Note A)

LIABILITIES, SPECIAL RESERVE AND CAPITAL	December 31, 1974		1973	
Liabilities				
Funded debt, less unamortized debt discount (Notes A and C) (Appendix I-2)		$1,340,207		$1,253,280
Other liabilities and credits				
Accrued interest on borrowings	$ 24,442		$ 22,164	
Accounts payable and accrued expenses	4,924		6,005	
Mortgage payable	3,110		3,306	
Deferred credits (Note E)	5,648	38,124	5,010	36,485
Special Reserve (Note F)		69,719		58,477
Capital				
Capital Stock (Note I) (Appendix 1-3)				
Authorized 515,000 shares of $10,000 par value in terms of 1959 U.S. dollars				
Subscribed 493,582.4 shares; 1973 - 473,360.8	5,954,298		5,710,356	
Less callable portion	(4,981,920)		(4,778,796)	
	972,378		931,560	
General Reserve (Note K)	237,787	1,210,165	182,691	1,114,251
Commitments (Note L)				
Total liabilities, Special Reserve and Capital		$2,658,215		$2,462,493

INTER-AMERICAN DEVELOPMENT BANK
ORDINARY CAPITAL
STATEMENT OF INCOME AND GENERAL RESERVE
(Expressed in thousands of United States Dollars - Note A)

	Years ended December 31,			
	1974		1973	
Income				
From loans				
Interest	$ 71,428		$ 59,895	
Commitment fees	11,144		9,668	
Commissions	11,242		9,785	
Supervision and inspection fees	2,367	$ 96,181	2,446	$ 81,794
From investments		73,690		57,953
From other sources, principally gain on purchases of funded debt (Note M)		3,965		3,314
Gross income		173,836		143,061
Less - Commissions allocated to Special Reserve (Note F)		(11,242)		(9,785)
Gross income less allocation to reserve		162,594		133,276
Expenses				
Funded debt expenses		86,573		81,991
Administrative expenses (Note A)				
Salaries	10,198		8,428	
Other compensation and benefits (Note J)	3,574		2,829	
Office occupancy (Note L)	1,709		1,582	
Other	4,636		3,719	
	20,117		16,558	
Less - amounts charged to Social Progress Trust Fund for indirect and overhead expenses by Bank as Administrator	(221)		(143)	
Total administrative expenses		19,896		16,415
Exchange adjustments (Note A)		1,029		929
Total expenses		107,498		99,335
Income before the cumulative effect of change in accounting method		55,096		33,941
Cumulative effect on prior years of changing the method of accounting for supervision and inspection of loans (Note H)		-		3,914
Net income		55,096		37,855
General Reserve beginning of year		182,691		142,302
Special credit arising from maintaining value of currency holdings (Note B)		-		2,534
General Reserve end of year		$237,787		$182,691

INTER-AMERICAN DEVELOPMENT BANK
ORDINARY CAPITAL
STATEMENT OF CHANGES IN FINANCIAL POSITION
(Expressed in thousands of United States Dollars - Note A)

	Years ended December 31,	
	1974	1973
Source of funds:		
Provided from operations		
Net income	$ 55,096	$ 37,855
Income or expenses not (providing) requiring cash funds, net	(6,464)	(8,402)
Cash funds provided from operations	48,632	29,453
Special addition to General Reserve	-	2,534
Loan principal collections	89,890	88,690
Sales of loans to participants	11,550	3,539
Borrowings	106,315	130,432
Increase in funded debt resulting from exchange rate fluctuations	51,292	73,046
Subscriptions to "paid-in" capital	33,836	97,914
Increase in "paid-in" capital resulting from maintenance of value adjustments	6,982	101,547
Collection of capital subscriptions and maintenance of value adjustments from members	51,941	58,975
Other	4,954	631
Total source of funds	$405,392	$ 586,761
Application of funds		
Loan disbursements	$291,206	$ 224,241
Payment of loan principal collections to participants	3,355	4,833
Increase in loans outstanding resulting from exchange rate fluctuations	41,443	34,657
Retirement of funded debt	70,589	81,195
Subscriptions to "paid-in" capital and maintenance of value adjustments billed to members	40,818	201,996
Increase (decrease) in cash and investments, including increases of $8,750 in 1974 and $40,332 in 1973 resulting from exchange rate fluctuations	(46,555)	35,483
Other	4,536	4,356
Total application of funds	$405,392	$ 586,761

INTER-AMERICAN DEVELOPMENT BANK
FUND FOR SPECIAL OPERATIONS
BALANCE SHEET
(Expressed in thousands of United States Dollars - Note A)

	December 31, 1974		1973	
ASSETS				
Cash				
Unrestricted member currencies	$ 454,562		$ 433,387	
Restricted member currencies (Note C)	79,808	$ 534,370	93,331	$ 526,718
Investments				
Obligations of Governments and United States Agencies, at amortized cost (face amount $8,761;1973-$8,275)(Note A)	8,653		8,133	
Time deposits in U.S. and Canadian dollars	90,700	99,353	50,514	58,647
Loans outstanding held by Bank (Note D) (Appendix II-1)				
Total loans approved by Bank since inception, less cancellations	3,507,859		3,063,730	
Less undisbursed balance of approved loans held by Bank	(1,593,475)		(1,472,964)	
Less principal collected by Bank and loans sold or agreed to be sold	(443,585)	1,470,799	(359,278)	1,231,488
Accrued interest and other charges				
Investments	4,000		1,234	
Loans	16,028	20,028	14,002	15,236
Due from members in member currencies				
Contribution quotas (Note G) (Appendix II-2)	500,000		751,929	
Non-negotiable, non-interest-bearing demand obligations including $1,172,469 restricted (1973-$1,126,370) (Notes C and G) (Appendix II-2)	1,593,365		1,541,062	
Amounts required to maintain value of currency holdings (Note B)	325,312	2,418,677	371,250	2,664,241
Other assets		356		2,206
Total assets		$4,543,583		$4,498,536
LIABILITIES, SPECIAL FUNDS AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses		$ 2,150		$ 1,207
Special letters of credit		13,188		7,943
Special funds				
Funds held in trust (Note E)		767		963
Fund balance				
Contribution quotas authorized and subscribed (Notes C and G) (Appendix II-2)	$4,393,898		$4,393,336	
General Reserve (Note H)	133,580	4,527,478	95,087	4,488,423
Commitments (Note I)				
Total liabilities, special funds and fund balance		$4,543,583		$4,498,536

INTER-AMERICAN DEVELOPMENT BANK
FUND FOR SPECIAL OPERATIONS
STATEMENT OF INCOME AND GENERAL RESERVE
(Expressed in thousands of United States Dollars - Note A)

	Years ended December 31,			
	1974		1973	
Income				
From loans				
Interest	$ 39,702		$ 33,387	
Commitment fees	7,012		7,336	
Commissions	8,357		6,738	
Supervision and inspection fees	3,308	$ 58,379	3,513	$ 50,974
From investments		7,513		3,277
From other sources		254		274
Gross income		66,146		54,525
Expenses				
Administrative expenses (Note A)				
Salaries	12,979		11,639	
Other compensation and benefits	4,549		3,906	
Office occupancy	2,175		2,185	
Other	5,611		4,830	
	25,314		22,560	
Less-amounts charged to Social Progress Trust Fund for indirect and overhead expenses by Bank as Administrator	(281)		(197)	
Total administrative expenses		25,033		22,363
Technical cooperation expense (Note I)		2,620		1,340
Total expenses		27,653		23,703
Income before the cumulative effect of change in accounting method		38,493		30,822
Cumulative effect on prior years of changing the method of accounting for supervision and inspection of loans (Note F)		-		2,739
Net income		38,493		33,561
General Reserve beginning of year		95,087		61,526
General Reserve end of year		$133,580		$ 95,087

INTER-AMERICAN DEVELOPMENT BANK
FUND FOR SPECIAL OPERATIONS
STATEMENT OF CHANGES IN FINANCIAL POSITION
(Expressed in thousands of United States Dollars - Note A)

	Years ended December 31,	
	1974	1973
Source of funds		
Provided from operations		
Net income	$ 38,493	$ 33,561
Income of expenses not (providing) requiring cash funds, net	(3,678)	(6,659)
Cash funds provided from operations	34,815	26,902
Loan principal collections	64,774	56,284
Sales of loans to participant	23,996	34,029
Subscriptions to contribution quotas	562	109,451
Increase in contribution quotas resulting from maintenance of value adjustments	-	296,276
Collection of subscriptions to contribution quotas and maintenance of value adjustments from members	246,126	358,583
Other	1,679	-
Total source of funds	$ 371,952	$ 881,525
Application of funds		
Loan disbursements	$ 318,373	$ 306,329
Payment of loan principal collections to participant	4,463	3,039
Subscriptions to contribution quotas and maintenance of value adjustments billed to members	562	405,727
Increase in cash and investments	48,358	164,380
Other	196	2,050
Total application of funds	$ 371,952	$ 881,525

SOCIAL PROGRESS TRUST FUND
ADMINISTERED BY THE INTER-AMERICAN DEVELOPMENT BANK
STATEMENT OF INCOME AND ACCUMULATED EARNINGS
(Expressed in thousands of United States Dollars - Note A)

	Years ended December 31,			
	1974		1973	
Income				
From loans				
Interest	$ 5,954		$ 6,349	
Service charges	2,564	$ 8,518	2,741	$ 9,090
From participations (Note D)		4,389		3,704
From investments		616		342
Gross income		13,523		13,136
Administrative expenses (Note B)				
Staff salaries	223		156	
Other	19		15	
Indirect and overhead expenses charged by				
Ordinary Capital	221		143	
Fund for Special Operations	281		197	
Total administrative expenses		744		511
Excess of income over administrative expenses		12,779		12,625
Technical cooperation and other				
Technical cooperation expense (Note E)	(9,607)		(2,366)	
Adjustments in United States dollar equivalents of Latin American currencies of the Trust Fund (Note A)	(1,214)	(10,821)	6,370	4,004
Net income		1,958		16,629
Accumulated earnings beginning of year		46,228		29,599
Accumulated earnings end of year		$ 48,186		$46,228

SOCIAL PROGRESS TRUST FUND
ADMINISTERED BY THE INTER-AMERICAN DEVELOPMENT BANK
STATEMENT OF CHANGES IN FINANCIAL POSITION
(Expressed in thousands of United States Dollars - Note A)

	Years ended December 31, 1974	1973
Source of funds		
Provided from operations		
Net income	$ 1,958	$16,629
Income or expenses not (providing) requiring cash funds, net	737	-- (6,119)
Cash funds provided from operations	2,695	10,510
Loan principal collections	24,128	23,229
Collections of participations in loans of the Fund for Special Operations	4,463	3,039
Other	298	5
Total source of funds	$ 31,584	$36,783
Application of funds		
Purchases of participations in loans of the Fund for Special Operations	$ 23,996	34,029
Increase in cash and investments	7,588	2,440
Other	-	314
Total application of funds	$ 31,584	$36,783

Mr. PASSMAN. If I remember, last year you requested $500 million for your special operations fund?

Mr. PORGES. $500 million; yes, sir.

Mr. PASSMAN. And I believe the House in its wisdom, supported by the full committee, decided that we wanted to bring this program under control, and we provided $225 million; is that correct?

Mr. PORGES. That is correct.

Mr. PASSMAN. Now, you are back in this year asking the committee to give you back the $275 million that we in our wisdom took out last year; is that correct?

Mr. PORGES. Yes, it is, sir.

Mr. PASSMAN. Thank you.

I believe the Inter-American Development Bank basically is intended totally for the Latin American countries. None of the disbursements are made anywhere else?

Mr. PORGES. That is correct.

Mr. PASSMAN. And as we think in terms of our friends south of the border, we are thinking about how many nations?

Mr. PORGES. Twenty-two member countries of the bank that receive funds.

Mr. PASSMAN. Does that include Cuba?

Mr. PORGES. No, sir.

Mr. PASSMAN. So there is 22?

Mr. PORGES. Yes; this includes some new countries, like Trindad and Jamaica.

Mr. PASSMAN. Yes; these possessions that were made countries overnight. Any new ones since you were here last year?

Mr. PORGES. Guyana and the Bahamas are in the process of becoming members.

Mr. PASSMAN. When I became chairman of the committee, we had 64 nations in the world, and now I believe we have 142. We never know when a new one is going to pop up.

I believe the Latin American countries are eligible for all other spigots of aid; are they not?

Mr. PORGES. Yes.

Mr. PASSMAN. So this is a special deal for Latin America, but they likewise are eligible for all other types of foreign aid with the exception, of course, of the Asian Development Bank.

I think last year there was unexpended balances totaling $6,937,600,000 to the credit of Latin America that had been built up.

What is the total amount of unliquidated funds to the credit of the Inter-American Development Bank?

TOTAL UNDISBURSED FUNDS

Mr. PORGES. Committed but undisbursed funds?

Mr. PASSMAN. No; let's get this right. The total undisbursed funds. Of course, that is in two different categories, unobligated and obligated, but the total undisbursed funds.

Mr. PORGES. About $3 billion.

DISBURSEMENTS PER ANNUM

Mr. PASSMAN. What is the average expenditures per year of the Inter-American Development Bank, checks drawn, cashed and used?

Mr. PORGES. What we drew down——

Mr. PASSMAN. You have a loan application. You approve it. Then you start drawing checks. What was the total amount of checks drawn to applicants?

Mr. PORGES. $673 million.

Mr. PASSMAN. Last year?

Mr. PORGES. In all currencies, $531 million in U.S. dollars.

Mr. PASSMAN. And you have $3 billion undisbursed?

Mr. PORGES. We have $3 billion undisbursed.

Mr. PASSMAN. So on that basis you have about a 5-year supply of money if you just put it on the basis of expenditures. In other words, you could draw checks for 5 years at the same rate that you did last year before you liquidated the funds?

Mr. PORGES. That is right, sir.

IDB CONCESSIONARY LENDING

Mr. PASSMAN. It is a pretty sweet thing you have going.

Do you have any concessionary loans in Latin America?

Mr. PORGES. Yes; we do.

Mr. PASSMAN. What are the normal terms?

Mr. PORGES. Maximum maturities are 40 years. The interest rate varies from 1 to 4 percent per annum.

Mr. PASSMAN. What percentage of loans are made on the 40-year basis?

Mr. PORGES. I don't have the exact figure, sir. They average about 30 years, though.

Mr. PASSMAN. I am trying to get how much——

Mr. PORGES. The percentages actually, I don't have that exactly, sir.

Mr. PASSMAN. Would you say it is 75 percent?

Mr. PORGES. No.

Mr. PASSMAN. Fifty percent?

Mr. PORGES. Probably somewhere lower than 50.

Mr. PASSMAN. Forty percent? We want to find out how much.

Mr. PORGES. I would estimate lower than that.

Mr. PASSMAN. Any of the bookkeepers have it with them?

Mr. PORGES. Just going through my memory of the 50-odd loans we approved last year and doing a rapid calculation they go from 25 to 40, and I would just estimate—and I am going on memory—maybe 20, 25, 30 percent maybe for 40 years.

Mr. PASSMAN. Somewhere in that category.

Mr. PORGES. Twenty-five percent.

Mr. PASSMAN. You said 30. So you don't know, and I don't know. Put it in the record.

[The information follows:]

In 1974, 18 loans or 50 percent of the 36 concessional loans approved by the Bank were made on a 40-year basis. Such loans account for 52 percent of the total amount of funds lent from FSO in 1974. These 18 loans were made to the category D, or least developed member countries of the Bank. It has been the thrust of U.S. efforts within the Bank to direct an increasing share of concessional resources to the most needy countries.

Mr. PASSMAN. They are 40 years at 1 percent.

Mr. PORGES. The interest is 1 to 4 percent; depending on the country.

Mr. PASSMAN. What percentage of loans is the interest 1 percent?

Mr. PORGES. Those would be for the poorest countries, for example, for countries in Central America.

Mr. PASSMAN. Would you put something in the record on that?

Mr. PORGES. Yes.

[The information follows:]

In 1974, 18 loans or 50 percent of the 36 concessional loans approved by the Bank provided for an interest rate of 1 percent per annum for the first 10 years of the loan and 2 percent per annum thereafter. Such loans account for 53 percent of the total amount of funds lent from FSO in 1974. As in the case of the 40-year maturities, these loans were made to category D, or the least developed member countries of the Bank.

Mr. PASSMAN. I believe we have to pay 6 percent to borrow the money for them; is that correct?

Mr. PORGES. Yes, sir.

Mr. PASSMAN. And while we borrowed money at 6 percent to let you give it away at 1 percent, there are projects in my State that we have to postpone maybe for years because of budgetary matters. You are familiar with that; aren't you?

Mr. PORGES. Yes.

Mr. PASSMAN. I believe our public works programs in the United States provide benefits in excess of what it costs to finance the projects. In some cases the benefit-to-cost ratio is 18 to 1 which means for each $1 spent in an area, the return is $18. Do you know what the budget said this year, not one new public works construction start anywhere in any of the 50 States. Are you familiar with that?

Mr. PORGES. Yes, sir.

Mr. PASSMAN. You can imagine how it looks when you borrow this money at 6 percent, lend it at 1 percent where you may not get it back and start public works projects in those countries where not one public works project is going to be permitted in America.

You can understand my feelings, can't you?

Mr. PORGES. Yes, sir.

Mr. PASSMAN. People are fed up with Congress giving away the wealth of this country and building up obligations that unborn generations are going to have to honor.

So if you think I am making this case here to just irritate you, you are wrong. People are just fed up on it.

So if you think this is easy or a pleasant job, it is not.

Just how far are we going to go?

IDB REPLENISHMENT NEGOTIATIONS

Since the Fund for Special Operations obligation is completed and the callable capital obligation has already been completed by the United States, I guess that brings up the subject of possible replenishment negotiations. Would you please tell the committee what sort of negotiations the United States has had with IDB concerning replenishment agreements?

Mr. PORGES. While the United States is close to completing its past FSO obligation, there is still $275 million to be appropriated which we have requested in fiscal year 1976–77. The callable capital portion of the 1970 replenishment has been appropriated.

The IDB outlined its upcoming needs in a study entitled "Status of Resources" presented in the fall of 1974. We have engaged in informal discussions of this study within the Bank, but we have not yet put forth any formal proposals nor discussed possible specific levels of U.S. participation in a replenishment.

Following preliminary consultations with subcommittee chairmen regarding a U.S. replenishment, we hope to set forth our proposal at the IDB annual meeting to be held in Santo Domingo, May 19–21 of this year. We expect that a working group will be created to negotiate a satisfactory replenishment package for consideration by the Board of Governors and subsequently by the member governments before the end of calendar year 1975.

The general practice of the United States has been to push for greater burden sharing on the part of the stronger Latin American countries and a phasing out of concessional lending to these countries. We will, of course, keep the Congress informed as the negotiations progress. During all of our discussions we have made clear that any new amounts coming from the United States would be subject to congressional appropriations.

UNCOMMITTED FSO FUNDS

Mr. PASSMAN. Could you please tell the committee if the $225 million that was supplied to the fund for special operations has been completely utilized by the IDB?

Mr. PORGES. At this specific time, the $225 million for FSO appropriated by the Congress for fiscal year 1975 has not been completely utilized. However, a very substantial proportion of these funds is needed for commitment this calendar year. As indicated in my opening statement, I estimate that approximately $90 million of the $225 million will remain uncommitteed at year's end. In my view, this is too narrow a margin for realistic planning and processing of loan applications for the first half of calendar year 1976.

RECRUITMENT OF DEVELOPED COUNTRY MEMBERS

Mr. PASSMAN. Could you please tell the committee what success the Bank has had in trying to get other developed countries to become members of the IDB? Could you please tell the committee what countries have indicated an interest and the amount they might contribute to the Bank?

Mr. PORGES. The Bank has now completed negotiations to bring nonregional developed countries into its membership. At a meeting held in Madrid in December of 1974, the governments of 12 countries signed a declaration of intent to join the Bank and are now in the process of carrying out ratification procedures. The actual increase in membership is expected to take effect sometime during 1976, when the minimum requisite number of governments have deposited articles of ratification with the Bank.

Ratification by governments of countries which are already members of the Bank is needed as well. Therefore, legislation to amend the charter of the Bank to permit entry of these new members is now being submitted to the Congress, and I am hopeful of prompt action.

The total inflow of new resources over a period of 3 years would amount to about $745 million, $372.7 in cash for concessional lending, $61.5 million in cash for ordinary capital subscriptions, and $311.2 million in callable capital to provide backing for the Bank's borrowing operations. The following is a list of individual prospective member countries with a summary of their agreed upon contributions.

[The table follows:]

PROPOSED SUBSCRIPTIONS BY PROSPECTIVE MEMBERS TO INTERREGIONAL CAPITAL STOCK AND FUND FOR SPECIAL OPERATIONS

[Expressed in U.S. dollars]

	Interregional capital stock			Fund for special operations
	Paid in	Callable	Total	
Austria	832,377	4,222,201	5,054,578	5,054,578
Belgium	2,062,847	10,434,869	12,497,716	12,497,716
Denmark	892,694	4,499,660	5,392,354	5,392,354
Germany	10,410,742	52,681,009	63,091,751	63,091,751
Israel	820,313	4,173,948	4,994,261	4,994,261
Italy	10,157,410	51,438,476	61,595,886	61,595,886
Japan	11,339,627	57,385,748	68,725,375	68,725,375
Netherlands	1,544,120	7,817,104	9,361,224	9,361,224
Spain	10,157,410	51,438,476	61,595,886	61,595,886
Switzerland	2,267,925	11,484,388	13,752,313	13,752,313
United Kingdom	10,157,410	51,438,476	61,595,886	61,595,886
Yugoslavia	832,377	4,222,201	5,054,578	5,054,578
Total	61,475,252	311,236,556	372,711,808	372,711,808

IDB EARNINGS AND LOAN REPAYMENTS

Mr. PASSMAN. I note in your justifications that in 1974 the Bank earned $73,690,000 on investments in the ordinary capital account. Could you please tell the committee what these investments were and if any of these investments were made in the United States?

Mr. PORGES. The Bank's income during 1974 came from interest earned on investments in securities of member governments and deposits in time account held in various banks. According to the Bank's balance sheet, total investments from the IDB's ordinary capital account were $689 million as of December 31, 1974. Of this amount, $82 million was invested in government securities, and $607 million was invested in time deposits. Approximately 54 percent of the government securities were U.S. Government securities. Approximately 77 percent of the time deposits are in banks in the United States.

LOAN REPAYMENT INCOME AND UTILIZATION

Mr. PASSMAN. Could you please tell the committee how much the Bank plans to receive in loan repayments in 1975 in the ordinary capital account and the Fund for Special Operations account?

Mr. PORGES. During 1975, the Bank expects to receive $97 million in loan principal repayments, $86 million to the ordinary capital account and $11 million to the Fund for Special Operations. These figures include only U.S. dollars, Canadian dollars and nonmember currencies. They do not include Latin American currencies.

USE OF REPAYMENT INCOME

Mr. PASSMAN. With all this potential income flowing back to the Bank, could you please tell the committee why they don't operate off the reflow instead of requesting replenishment increases?

Mr. PORGES. The Bank does, in fact, use the reflow of loan principal repayments to finance disbursements and commitments of new loans. However, the reflow is not adequate to cover the volume of new lending activity. In 1975, for example, it is estimated that principal repayments in convertible currency will amount to $84 million on ordinary capital operations and to $12 million in the FSO. In comparison, convertible currency disbursements from ordinary capital are projected to reach $325 million and FSO hard currency disbursements $265 million in calendar year 1975. New loan approvals will be even higher, of course, and are projected to reach $608 million in ordinary capital and $409 million in FSO convertible currency. Loan cancellations of an estimated $20 million in ordinary capital and an equal amount in the FSO will help meet commitment needs but even combined with reflows will fall far short of total funds required for commitments.

UNDISBURSED BALANCES

Mr. PASSMAN. In the justifications, I note in the ordinary capital account that the Bank has approved loans on hand of $2,746 million and the undisbursed portion of these loans amount to $1,458 million. Could you please tell the committee why you have such a large undisbursed amount on hand?

Mr. PORGES. The main reason that there is a large undisbursed amount on hand is that the total amount of any particular loan is not disbursed immediately upon approval of the loan. Disbursement of IDB loans takes place only as needed to cover specific costs incurred as the project advances and generally requires 4 to 5 years to complete. Thus, at any given time, there will be a large undisbursed amount on hand, even when all projects are progressing perfectly.

Another factor affecting the amount of undisbursed funds on hand is that, unlike the World Bank, the IDB follows a procedure where certain of the terms and conditions of the loan contract are often not fully agreed upon until after the project has been approved. Once negotiations are completed, preconditions that are a part of the contract have to be met before the first disbursement is made, so that the time which elapses between approval of a loan and the first disbursement is apt to be greater than the time which elapses between subsequent disbursements. It has come to light in a study done by the Bank that this procedure contributes to cost overruns. Consequently, the United States has strongly concurred with the recommendations of the study that these preconditions be determined and fulfilled before the loan is approved.

Delays in disbursement of funds may also result from delays in project performance resulting both from unforeseen technical difficulties and from administrative problems in the recipient country. The United States has pressed the Bank management to be more aggressive in identifying loan implementation problems. The United States has also favored, when appropriate, cancellation of loans which have had extensions of disbursement periods, in the belief that the possi-

bility of cancellation is a necessary incentive for good performance. It should be borne in mind, however, that administrative and institutional difficulties are characteristic of many developing countries, and are one of the reasons why assistance is needed.

In general, the factors which affect the amount of undisbursed funds which IDB has on hand are attributable to the particular character of development banking as opposed to commercial banking. It is often necessary, in order that the benefits of development be spread to the poor countries and to the low income people who need it the most, that the IDB favor loans in areas where implementation problems are likely to occur. In such cases, the IDB can and does monitor more closely the loan implementation process. The thrust of the Bank's efforts is to engage in those loan projects which will make a good contribution to the economic and social progress of the borrowing country. It is a more difficult and somewhat longer process than the ordinary commercial bank loan.

FUNDING AFTER PROJECT CONSIDERATION

Mr. PASSMAN. Could you please tell the committee if all projects funded by the Bank are fully funded at the time they are selected?

Mr. PORGES. If the Board approves, the Bank is then committed to provide the full amount of the approved loan. In this sense, it may be said that projects are fully funded at the time they are selected for funding. However, the loan is not fully disbursed at the time the project is approved. The actual disbursements take place over a 4- to 5-year period as the project advances and costs are incurred.

UNDISBURSED FSO BALANCES

Mr. PASSMAN. In the fund for special operations account, you indicate that approved loans held by the Bank amount to $3,064 million and of that amount $1,593 million remains undisbursed. Again, it seems that you have large undisbursed balances on hand that could be drawn down before replenishment increases are requested. Would you please comment?

Mr. PORGES. So far as the FSO is concerned, I would have to give largely the same answer I gave to the earlier question on ordinary capital. The almost $1.6 billion in undisbursed loans is already fully committed to loans that have already been approved by the FSO. Disbursements always lag behind approvals since they are made over a period of several years and only as needed to cover loan project costs as they are incurred. The important factor determining the need for a replenishment of FSO resources is the projected exhaustion of FSO convertible currency commitment authority in 1976. In order for the Bank to continue orderly processing and approval of new loans the available commitment authority represented by uncommitteed contributions must be maintained through a replenishment.

LOANS TO BRAZIL, ECUADOR, AND VENEZUELA

Mr. PASSMAN. Is the Bank still supplying concessional loans to Brazil, Ecuador, and Venezuela?

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Mr. PORGES. As a result of its changed economic situation Venezuela is no longer receiving new loans of any kind from the Inter-American Development Bank. It is now a donor country. Its last concessional loan was approved by the Board of Directors in September 1973. Ecuador's last FSO loan was approved by the Board of Directors in December 1974. At that time I indicated that the policy of the U.S. Government would be to oppose the use of U.S. dollar resources for such loans to Ecuador in the future. As I indicated in my opening statement, the category A countries, including Brazil, received a declining amount of FSO resources in 1974 compared with 1973. We expect this amount to fall substantially lower in 1975 and to be eliminated entirely during the upcoming replenishment period.

IDB ADMINISTRATIVE EXPENSES

Mr. PASSMAN. How much did the Bank spend for administration expenses in 1974 and how does this compare to 1973?

Mr. PORGES. In calendar year 1974, the Bank spent $45.4 million for administrative expenses compared to $39.1 million in 1973. Given an inflationary impact of 12 percent during the year on the cost of goods and services purchased by the Bank, this difference represented a real increase of approximately 4 percent. The budget for 1975 contemplates expenditures of $51.5 million and reflects an effort under way by management to raise productivity and reduce costs during a period of inflationary pressures.

U.S. CONTRIBUTION TO CALLABLE CAPITAL AND FSO

Mr. PASSMAN. What does the percent of U.S. contribution represent of the total contributions to the Bank for the callable capital window and the Fund for Special Operations?

Mr. PORGES. As of December 31, 1974, the U.S. share of callable capital contributions amounted to 41 percent, while its share of contributions to the Fund for Special Operations amounted to 69 percent. These are cumulative figures.

PROCUREMENT FROM U.S.

Mr. PASSMAN. Could you please tell the committee what percent of goods and services purchased by the Bank have been procured in the United States in the last several years?

Mr. PORGES. The following table gives the percent of goods and services purchased by the Bank in the United States from 1968–1974, for both ordinary capital and FSO Loans.

[The table follows:]

	Percent of ordinary capital	Percent of Fund for Special Operations	Percent of total lending
1968	46.7	48.5	47.1
1969	28.4	79.3	41.2
1970	39.5	70.5	47.9
1971	28.4	65.2	41.9
1972	33.1	69.0	41.5
1973	36.9	65.5	47.4
1974	27.2	70.8	46.5

IDB BALANCE-OF-PAYMENTS IMPACT

Mr. PASSMAN. Would you please tell the committee what effects the operation of the Bank has had on the U.S. balance of payments since the inception of the institution?

Mr. PORGES. The impact of IDB ordinary capital transactions on the U.S. balance of payments since the inception of the IDB through December 31, 1974, is as follows:

	Millions
U.S. payments to IDB:	
U.S. subscription and bond purchases	$576.1
Investment income	286.9
Subtotal	−863.0
U.S. receipts from IDB:	
Procurement	321.5
Administrative expenses	128.0
Interest paid in United States	202.3
Financial investments in United States	225.6
Subtotal	+877.4
Balance	+14.4

The impact of IDB FSO transactions on the U.S. balance of payments since the inception of the fund for special operations through December 31, 1974, is as follows:

	Millions
U.S. payments to IDB:	
U.S. subscription	$1,179.1
Investment income	18.1
Subtotal	−1,197.2
U.S. receipts from IDB:	
Procurement	705.6
Administrative expenses	137.8
Financial investments in United States	6.5
Subtotal	+849.9
Balance	−347.3

UNDISBURSED FUNDS

Mr. PASSMAN. Are all of the undisbursed funds in the callable account or the Fund for Special Operations account obligated?

Mr. PORGES. No, they are not. As of the end of April 1975, the available ordinary capital commitment authority was $95 million. The projected loan approvals for calendar year 1975 exceed the projected availability of ordinary capital commitment authority for calendar year 1975 by $142 million. As of the end of May 1975, the available FSO commitment authority was $392 million. This figure includes the $225 million U.S. contribution appropriated in March 1975. It is projected that at the end of calendar year 1975, $86 million in commitment authority will remain in FSO. This margin would be so small as to preclude meaningful planning and processing of applications for funding in 1976. The $275 million requested by the administration would provide for carryover of about $360 million at the end of 1975. This alone would not suffice to maintain lending in 1976, even at the contemplated 1975 level of $410 million; however, it would permit lending to go forward in an orderly fashion in anticipation of additional funds that should become available in the latter part of 1976.

TERMS OF ORDINARY AND FSO LOANS

Mr. PASSMAN. What are the interest rates and the terms of the ordinary capital loans and the Fund for Special Operations loans?

Mr. PORGES. The ordinary capital lending rate is 8 percent per annum with maturities ranging from 15 to 30 years. Loans from the FSO are from 1 to 4 percent, depending on country and project and with maturities of from 20 to 40 years.

IDB BAD DEBTS

Mr. PASSMAN. What has been your bad debt experience since the inception of the Bank?

Mr. PORGES. The Bank has had an extremely good record with regard to bad debts. In fact, only $1.8 million on two loans to the same borrower have been written off since the establishment of the Bank in 1959. This is less than one-twentieth of 1 percent of the Bank's total loan approvals of $7.6 billion. These two loans were to an Argentine private enterprise which defaulted in 1966. In subsequent foreclosure proceedings the Bank received $954,000 of a total outstanding of $2.8 million, leaving the balance of $1.8 million which was charged against the general reserve of the ordinary capital. A private enterprise in Brazil also defaulted on two loans in 1966. Foreclosure has assured the Bank of sufficient assets to provide for timely payment of principal and interest to date and it is expected that the full amount outstanding at the time of default—$8.2 million—will be recovered on schedule by the Bank. The Bank does experience overdue payments from time to time but the delays are usually no more than a few weeks and result from procedural and administrative problems in the approval of transmission of documents.

IDB EMPLOYMENT AND PERCENTAGE OF U.S. EMPLOYEES

Mr. PASSMAN. Could you tell the committee what is the total number of staff people you presently have working for the Bank and what percent of these are represented by Americans?

Mr. PORGES. As of December 1974, the total number of staff was 1,387. Of these, 255, or 18.39 percent, were U.S. nationals.

CONTRIBUTIONS TO BANK

Mr. PASSMAN. Please provide a table showing what each country has contributed to the various windows of the Bank and indicate what percentage each amount represents of the total.

Mr. PORGES. The attached table shows the amount and the percentage of each country's contribution to the various windows of the IDB.

[The table follows:]

(in millions of dollars)
June 30, 1974

COUNTRY	PAID-IN	%	OC CALLABLE	%	TOTAL	%	FSO TOTAL	%	OC-FSO TOTAL
Argentina	$124.4	13	$585.5	12	$709.9	11.9	$ 246.3	5.6	$ 956.2
Barbados	2.6	*	6.0	*	8.5	.1	.8	.3	9.3
Bolivia	9.0	*	47.0	*	56.0	.9	22.7	.5	78.7
Brazil	124.4	13	585.5	12	709.9	11.9	254.0	5.8	963.9
Canada	48.3	05	244.5	05	292.8	4.9	73.8	1.7	366.6
Chile	34.2	04	160.8	03	194.9	3.3	71.1	1.6	266.0
Colombia	34.2	04	160.6	03	194.8	3.3	69.7	1.6	264.5
Costa Rica	4.6	*	23.5	*	28.0	.5	10.2	.2	38.2
Dominican Republic	6.0	*	31.4	*	37.4	.6	13.7	.3	51.1
Ecuador	6.0	*	31.4	*	37.4	.6	13.4	.3	50.8
El Salvador	4.4	*	23.5	*	28.0	.5	9.9	.2	37.9
Guatemala	6.0	*	31.4	*	37.4	.6	13.6	.3	51.0
Haiti	4.4	*	23.5	*	28.0	.5	11.2	.3	39.2
Honduras	4.6	*	23.5	*	28.0	.5	11.0	.3	39.0
Jamaica	6.0	*	31.4	*	37.4	.6	13.2	.3	50.6
Mexico	80.0	08	376.4	08	456.4	7.7	159.1	3.6	615.5
Nicaragua	4.4	*	23.5	*	28.0	.5	10.8	.2	38.8
Panama	4.4	*	23.5	*	28.0	.5	10.4	.2	38.4
Paraguay	4.4	*	23.5	*	28.0	.5	12.0	.3	40.0
Peru	15.0	02	78.5	02	93.5	.2	34.2	.8	127.7
Trinidad and Tobago	4.6	*	23.5	*	28.0	.5	9.9	.2	37.9
United States	361.9	37	2,047.2	41	2,409.1	40.5	3,040.4	69.2	5,449.5
Uruguay	12.0	01	62.8	01	74.8	1.3	26.5	.6	101.3
Venezuela	66.6	07	313.8	06	380.4	6.4	132.2	3.0	512.6
TOTAL	$972.4	100	$4,981.9	100	$5,954.7	100.0	$4,270.0	100.	$10,224.7

NOTES: Percentages may not add to total due to rounding.

* less than one percent

FY 1975 totals differ only in a slight increase due to currency revaluations. FY 1976 projections are not available due to the admission of non-regional members and negotiations for resource

SOCIAL PROGRESS TRUST FUND

Mr. PASSMAN. What is the present status of the Social Progress Trust Fund and what disposition is made of the loan repayments made to the fund?

Mr. PORGES. The remaining balance in the Social Progress Trust Fund is approximately $18 million. Local currency repayments and interest are expected to total $24 million in 1975. The remaining balance and the interest and loan repayments anticipated for 1975 are being programed for loan projects in the following sectors: Agriculture, water supply and sanitation, housing, and education and training. In addition, some of this amount is being allocated for use in preparation of development projects, feasibility studies for multinational projects and Inter-American Foundation projects, and technology transfer and agricultural research outreach programs. Social Progress Trust Fund repayments in local currencies are used as well to purchase participations in FSO loans.

TAX STATUS OF U.S. IDB EMPLOYEES

Mr. PASSMAN. Do U.S. citizens who work for the Bank pay U.S. income taxes or receive some sort of relief from U.S. income tax laws?

Mr. PORGES. U.S. citizens who work for the Bank in this country do, in fact, pay taxes. Their salaries, however, are quoted on a net-of-tax basis, and the institution then makes quarterly payments to the individual so that he can pay his income taxes. In this way, the U.S. Government and the State and/or local governments concerned do not experience any revenue loss and the U.S. citizen working for the Bank pays his proper share of taxes, as other citizens do.

LENDING SERVICES AVAILABLE TO BANK STAFF

Mr. PASSMAN. What type of loans are the staff of the Bank eligible to receive from IDB?

Mr. PORGES. The Bank provides financial assistance to its employees, in the form of salary advances, for the purpose of helping them when they encounter obligations of an extraordinary nature. These salary advances may be made in only certain cases; namely, for installation purposes when an employee moves to a new post of duty and for emergency purposes.

Installation loans are used to cover the many additional expenses connected with the establishing of new living quarters upon one's move to a new post of duty, usually from one country to another. The maximum salary advance that can be made is 1 month's salary. Regular employees and those full-time temporary employees with contracts of 1 year or more are eligible. Maximum period for repayment is 18 months, or in the case of temporary employees the duration of the contract if it is less. Interest is charged.

Emergency loans are granted only in exceptional and meritorious cases resulting from special situations created by extraordinary financial obligations which cannot be resolved normally through credit institutions. Examples of this are prolonged illness, death in the family, et cetera. The maximum amount and period of repayment is depend-

ent upon the nature of the case. Eligibility is restricted to regular employees, and interest is charged.

CUMULATIVE U.S. CONTRIBUTION TO IDB

Mr. PASSMAN. What has been the total U.S. contribution to the Bank since its inception?

Mr. PORGES. The U.S. has contributed $6,199.5 million to the IDB since its inception. The Fund for Special Operations received $3,265.3 million; ordinary capital received $2,409.2 million and the Social Progress Trust Fund received $525 million. The total cash contribution—that is, the total less callable capital, which up to the present has not required any cash outflow, is $4,152.3 million.

MAINTENANCE OF VALUE

Mr. PASSMAN. Could you tell the committee if any further replenishment agreement would contain a maintenance-of-value provision for the U.S. contribution?

Mr. PORGES. Contributions to the Fund for Special Operations under the proposed replenishment would be subject to maintenance of value corresponding to the current dollar. This provision would effectively eliminate maintenance-of-value obligations in the FSO for the United States, while requiring the contributors of nondollar currencies to maintain the value of their contributions in terms of the dollar. The ordinary capital contribution will still have a maintenance-of-value provision.

EARMARKING

Mr. PASSMAN. Have you had any trouble with the earmarking provision of $50 million placed on the IDB funds appropriated last year? Has IDB accepted the limitations placed on this $50 million?

Mr. COOPER. The IDB has not accepted the limitations placed on the $50 million; that is, use limited to credit unions, cooperatives, and savings and loans. The IDB agrees with the underlying intention of increasing lending that helps the poorer people directly and its program is moving in this direction as rapidly as possible. In fact the IDB plans to do more than the earmarked $25 million for cooperatives this year. The IDB is also well advanced on a $9 million operation for credit unions. However, the IDB believes, as does the administration, that initiation of earmarking would promptly undermine the multilateral character of the institution. I might note that a number of other member countries feel the same way.

We have requested the removal of the earmarking provision in the fiscal 1976 appropriation act, and I strongly urge that this committee support this provision. Initiation of earmarking would seriously erode the multilateral and apolitical nature of the IDB and the other development banks. Where there are special priorities for one country, they should be met through the bilateral program, not by attempting to turn the development banks into administrators of various funds on which each donor places its own set of strings.

Mr. PASSMAN. I want to yield to Mr. Coughlin, because he must leave and then I am going to turn it over to Mr. Long.

LOANS TO CONTRIBUTOR COUNTRIES

Mr. COUGHLIN. Thank you, Mr. Chairman.

On page 3 of your statement you indicate that the "commitments to Argentina, Brazil, Mexico and Venezuela dropped from $90 million in 1973 to $68 million in 1974."

Do you expect that the loans will continue to go down, and how soon do you expect them to be eliminated entirely?

Mr. PORGES. We expect it to go down considerably this year from 1974 and would expect to eliminate it completely after 1975. This is our plan.

Mr. COUGHLIN. Also on page 3 of the statement, you indicate that the bank is using increasingly a large proportion of the contributions of Latin American countries for loans to contributing countries. That sounds very circular to me that the Latin American countries put money in the bank and you loan it back to the same countries?

Mr. PORGES. Here we are referring specifically to the four currency arrangements where four countries, Argentina, Brazil, Mexico, and Venezuela are allowing their currencies to be used for procurement by other member countries. Latin American currencies are not convertible currencies, so under this special arrangement these four currencies can be used to finance procurement of goods and services in these four countries for projects in other member countries. In addition we are lending a considerably larger amount of each country's local currency contributions as part of individual loans.

Mr. COUGHLIN. On page 6 of your statement, you refer to earmarking provisions that were attached to the Appropriation Act of 1975. Would you refresh my recollection on those earmarking provisions?

Mr. PORGES. Yes. Of the $225 million, $175 million was not earmarked and $50 million was earmarked for loans to savings and loan associations, cooperatives, and credit unions.

PARTICIPATION BY ISRAEL IN IDB

Mr. COUGHLIN. I do recall that now.

You indicate on page 7 of your statement that you have negotiations for a group of countries including Japan and Israel to join the Inter-American Development Bank. I am particularly interested in Israel joining and contributing to IDB at a time we are contributing to Israel.

Mr. PORGES. Israel's contribution is relatively small, but the advantage of Israel—and Dr. Long may be interested in this—the advantage of having Israel as a member is that they have a considerable amount of experience in agriculture under desert conditions. They have a lot of technology which they have developed for dryfarming. So far as farming in the more arrid regions of Latin America is concerned, we think their experience would be useful to the bank. It is a question of technical expertise.

Mr. COUGHLIN. The personnel?

Mr. PORGES. Personnel which we hope we will be able to utilize, and transfer of technology which they have developed to a very high degree.

APPROPRIATION REQUESTED

Mr. COUGHLIN. And you indicate that your request for this year is $275 million for the Fund for Special Operations in your statement and in the justification you indicate that you are seeking $500 million for your FSO. Am I mixing up fiscal years?

Mr. PORGES. No; this is the remainder of the $500 million. The $275 million is what is left over, what was not appropriated last year. The $225 million from last year and $275 million we are seeking now equal the $500 million.

VENEZUELAN PARTICIPATION IN IDB

Mr. COUGHLIN. On your Social Progress Trust Fund, which you administer, I notice Venezuela was perhaps the largest recipient under that. Why is that?

Mr. PORGES. I don't have that figure. If it says so, it is so, but I didn't recall that Venezuela was the largest recipient from the Social Progress Trust Fund. They have, however, voluntarily withdrawn from all borrowing from the bank since last year. Thus, Venezuela is no longer a borrower.

Mr. COUGHLIN. How about repayment of Venezuela's existing outstanding loans; are they accelerating that?

Mr. PORGES. We are discussing with Venezuela the repayment of outstanding loans and making their contribution, both their repayments and their capital contributions, convertible. We are in the process of negotiating with them right now.

Mr. COUGHLIN. Are you in the process of negotiating with Venezuela for a larger capital contribution, a larger percentage?

Mr. PORGES. I expect that this will be part of the negotiation. It remains for each country to decide how much its capital contribution will be, but we have the special fund from Venezuela, $500 million which we received earlier this year, and we are negotiating with them for $100 million in concessionary funds, another special fund.

Mr. COUGHLIN. Thank you, Mr. Chairman. That is all the questions I have at this time.

Mr. LONG. Thank you, Mr. Coughlin.

APPROPRIATE TECHNOLOGY

Mr. Porges, as I indicated, I felt that your response to my views on foreign aid was somewhat sketchy, and I wondered whether the message that I was trying to get over was understandable to you?

Mr. PORGES. It was, and it is, Dr. Long. My answer was sketchy because I wanted to get an answer back, to be sure to get it back before I left for the Bank's meeting. I didn't intend the size of the correspondence, the length of it, to indicate the amount of interest.

May I say that intermediate technology is something I have been not overly familiar with, but somewhat familiar with in the last couple of years in the sense that I know people who are in touch with one of the British firms specializing in this area. I have talked to them, and they have come to the Bank. We have gone through the different ways they can be useful, such as in projects for building roads with

picks and shovels, rather than with expensive roadbuilding equipment, in countries where there is surplus labor population, and in integrated agriculture projects, of which the Bank has several and which have as their purpose the establishment of viable agriculture communities. Projects like these could use this type of intermediate technology, and the Bank has started on this.

Mr. LONG. When you say using picks and shovels instead of tractors, I wonder whether you really do understand the meaning of intermediate technology?

Mr. PORGES. Sir, I have read your report.

Mr. LONG. I am not sure I made it clear in the report, but I think the writings of the people who have been interested in this make it clear that by "intermediate or light capital technology" they are not talking about going back to the primitive methods of doing things but about finding some middle way in which people can make their own capital suitable to the work to be done.

Mr. PORGES. Their own tools as may be necessary for their particular level of development.

Mr. LONG. In other words, they aren't going to do without wagons altogether and haul things on their backs, but find their own way of making wagonwheels out of local materials.

Mr. PORGES. Yes. Perhaps my example was a poor one. I was thinking of the fact that in many cases loans are made for very expensive highways where perhaps in rural areas what you need are roads that will resist all weather conditions, and that these roads can be built with surplus labor using materials other than Caterpillar movers, and so on.

This was the example that I thought of, but, of course, there are others. In farming, the pioneers in our own country built their own simple tools and hammered out what they needed. This was done in our country, as you know, 100 years ago, even 50 years ago.

Mr. LONG. I am sure you recognize that intermediate or appropriate technology is something that requires outside help. People just can't be told, "all right, you can go and use your own primitive methods and find a better way than stoop labor, but don't bother us." As a matter of fact, the more I get into this, the more I realize that to develop intermediate or appropriate technology or light capital technology requires more expertise, or a rarer expertise than to develop heavy capital technology. In our society this type of heavy technology is in abundance, so much so that it has washed out the others. We have forgotten about the methods of light capital technology that we once used.

I wonder if you could put in the record a more substantial response to the thrust of my additional views?

Mr. PORGES. I shall be happy to, and if I may include some of the areas where I feel the Bank has made a beginning.

Mr. LONG. Excellent.

[The information follows:]

THE ACTIVITY OF THE INTER-AMERICAN DEVELOPMENT BANK IN THE AREA OF "INTERMEDIATE" OR "APPROPRIATE" TECHNOLOGY

I agree with the thrust of your remarks on "intermediate" or "appropriate" technology. I also note that you recognize the difficulty of finding ways to determine the right application and to acquaint and urge people in developing countries to apply them.

The IDB has begun to recognize the importance of this field of effort; it also recognizes that help is needed from the outside, as you have said. Some IDB-financed studies have dealt with technological processes and the degree of local adaptation in Latin America. Several IDB officials have participated in an appropriate technology research project of the U.S. National Academy of Science. The latter, using the results of a detailed questionnaire prepared by a number of international specialists, casts doubts on some of the most common assumptions about the use of technology in the developing nations, and about the problems in the transfer and adaptation of technology. The IDB program is a joint venture between the Bank and the Economic Commission for Latin America, involving assistance from the Government of Argentina. It will carry out a series of research studies to define criteria for technological development policies. During the initial phase, the program will concentrate its activities on the absorption, adaptation, and generation of appropriate technologies for industry, including agro-industrial processing.

It is anticipated that, in the initial phase of the program, the main topics of research will be:

(i) choice of techniques and appropriate technology in relation with employment and other socioeconomic objectives;

(ii) transfer and adaptation of technology; case studies at an industrial subsector and enterprise level;

(iii) native technological development; case studies;

(iv) native scientific development; case studies.

The research program will also deal with methodology for evaluating investment projects in the field of scientific and technological development; problems of technological forecasting in the region and the methodology for the assessment needs as these relate, for example, to the demand for energy and the use of natural resources; and, analysis of the requirements of scientific and technological manpower for the future scientific and technological development of Latin America, in accordance with different perspectives.

The program will bring together an outstanding group of technologists and economists and will be headquartered in Buenos Aires, with subprojects in several other Latin American countries. The purpose of this intensive approach is to provide a revaluation of the special technological needs of the region and to assess the ways in which each of these needs can best be handled, whether by borrowing technologies from the past, transferring from those currently available in the more advanced countries and modifying them to local circumstances, or in those cases in which the intermediate or more appropriate technologies simply do not exist, developing new ones in the countries in which they are to be used.

In the meantime, the IDB, in several of its loans, has continued, where it can, to provide appropriate technology. The Bank, for example, has in some of its loans for secondary and tertiary roads, tried to work out specifications for tools that clearly do not require highly sophisticated machinery. Similarly, in projects involving forest clearance but intended to lead to the establishment of pasture or lands otherwise not requiring the use of tractors, encouragement is given to the use of hand tool adaptations of locally made equipment rather than large land-clearing machines. The Bank is also devoting attention to projects which involve a systematic approach to the problem of intermediate or appropriate technology. One example is a program to promote artisan activity in Ecuador, Guatemala, and Bolivia. The objective of this program is to put artisans in a position to respond to bulk orders and carry on their activities on a self-sustaining basis. What the IDB is seeking are approaches which maintain the beauty and uniqueness of the products, while, at the same time, harnessing somewhat more of modern organizational techniques than used heretofore in those countries.

Mr. LONG. I wonder why the committee was not provided with up-to-date information on IDB lending. I had great difficulty finding anything beyond 1973.

Mr. PORGES. May I give you some figures or put them in the record?

Mr. LONG. I would like details on the individual projects. I was trying to get a feeling for what you are doing.

Mr. PORGES. They are all in the annual report, which has just come out.

Mr. LONG. You did not give that to us, did you?

Mr. PORGES. It should be distributed here. It has just come out. I just got my copy last night. It has just been released.

Mr. LONG. Could I take a look at it, please?

This is your annual report for 1974?

Mr. PORGES. That is right.

Mr. LONG. This goes, I believe, to the middle of 1974?

Mr. PORGES. Our fiscal year is our calendar year. It goes to December 31, 1974.

Mr. LONG. This is better than the 1973 report, but I think it would be even more helpful if you could make a list of what projects you have given so far this year, if you have any.

Mr. PORGES. We would be happy to.

Mr. LONG. Because it helps to give us some idea of which direction you are moving.

[The information follows:]

The following is a list of loan projects approved so far during 1975:

Ordinary capital:	*Millions*
1. Argentina. Export finance	$8.0
2. Uruguay. Telecommunications	28.0
3. Chile. CORFO. Industrial development	10.0
4. Mexico. FOGAIN. Small and medium industry	15.0
5. Mexico. Export finance	5.0
6. Peru. Export finance	1.0
7. Argentina. Agriculture and livestock	59.0
Total: 7 loans	126.4
Fund for Special Operations:	
8. El Salvador. Potable water for San Salvador	30.0
9. El Salvador. Feeder roads	13.0
10. Haiti. Potable water for Port-au-Prince	2.3
11. Bolivia. Hog program	2.2
12. Costa Rica. Fish program	10.0
13. Dominican Republic. Port project	35.5
14. Argentina. Agriculture and livestock	10.0
Total: 7 loans	93.0
Venezuelan trust fund:	
15. Coast Rica. Fish program	3.6
16. Uruguay. ANCAP. Cement	14.4
Total: 2 loans	18.0
Total approved: 16 loans	237.4

Mr. LONG. What research is the IDB doing to develop light capital implements and processes for use in IDB development projects? Do you have any separate organization or research unit that is working on this—taking a real interest in it?

INSTITUTION BUILDING

Mr. PORGES. I can't say that we have a specific unit devoted to light capital investment. I could describe what I know we have that might to some extent cover this point. We have our global loan program, where we lend to agriculture banks and to development corporations and they relend to the small- and medium-size farmers and to small and medium industry. We supervise this, but on a global loan basis, feeling we can reach more people through institution building and

through having the intermediate institutions go out on the numerous and small loans that we can't do ourselves.

Mr. LONG. Mr. Beach, of the Asian Development Bank, has indicated a willingness and I felt some enthusiasm about the possibilities of their working to institutionalize light capital technology or at least exploring the possibilities of institutionalizing this concept in developing countries.

Do you feel that you could indicate the same willingness and move in that direction?

Mr. PORGES. I am convinced that it is the correct approach, so I would be willing to have the Bank study it and recommend that they do.

Mr. LONG. This would include, if you followed the line of my questioning to Mr. Beach, getting an important segment of your own bank interested in this, so that in a sense you have your own internal lobby group, people who are enthusiastic about it so that you have institutionalized within the bank a commitment to intermediate technology. It is would also include, it would seem to me, getting the various countries to whom you are lending money, as a condition of lending them money and thus at the time when you have some leverage over them, to set up their own projects for exploration, research and development in this field of light capital technology. There are precedents by this time, so they would not have to start out de nova.

Such a commitment to intermediate technology would include also, it seems to me, a willingness on your bank's part to finance pilot projects, because there is a limit to what you can do in this world by research in the laboratory, you know. You really have to get out there and test your theories.

Mr. PORGES. Theory can only go so far.

Mr. LONG. That is right; you have to start a pilot project, obtain empirical results, compare those results to theory.

I would hope that you can do this. In fact, it would seem to me that a commitment to light capital technology is a real justification for the multilateral institutions as opposed to the bilateral institutions. It seems to me you can do it far better than, say, AID can do it.

Mr. PORGES. We can do it because we are close to the development banks in the countries. I have visited the development bank of the Northeast in Brazil, and they have small pilot projects. For example, they have small hand-canning operations. Formerly, the fruit in the area was wasted because there was no way of preserving it and because roads were bad and the fruit couldn't be transported. They have now set up local factories and use local sugar.

Mr. LONG. I have seen that.

Mr. PORGES. This to me is a sound way of providing employment and utilizing the resources of a particular region. This has been done, and I think we could do more of it.

Mr. LONG. I think you can find examples in the world of what I am talking about. I have seen them. They are hard to find and they are very, very small in relation to the magnitude of the problem, the challenge of it. So I think real pressure and commitment is needed. It is not the line of least resistance.

I was going to point out that the International Rice Research Institute in the Philippines, as I believe also the International Center

for Improvement of Maize and Wheat in Mexico, have substantial programs for developing agriculture machinery on a small scale.

Mr. PORGES. That is right.

Mr. LONG. And every country is going to have to have something which is appropriate to its own country. You just cannot send this out in a manual or something and say this worked in Southern Mexico and so it should work in Southeast Asia.

Mr. PORGES. Regarding research institutes, I visited one in Mexico which sends out 500,000 packets of new seed all around the world every year. The seed gets tested in accordance with local conditions. On the basis of the test reports, the institute is able to advise hundreds of countries throughout the world and to determine the genetic changes that are required to make the seed less resistant or more productive according to climate, soil, and other local conditions.

Mr. LONG. It seems to me what I am saying about technology applies equally well to education. There is so much of the education which we undertook to encourage in these countries and which they have been interested in which has not really been appropriated. We have helped train a lot of people to be teachers to teach other teachers. Usually they aren't taught very well, so that they end up with little or nothing. Training in some useful skill, such as carpentry or metal working, or agricultural extension. That makes far better sense.

Mr. PORGES. I feel, Dr. Long, that one of the real lacks in areas such as Latin America is what we had at the beginning in the United States. What they lack is an artisan craftsman class from which entrepreneurs can develop.

Mr. LONG. Exactly.

Mr. PORGES. We are very much interested in doing this, especially in the Indian countries, for example. They have forgotten what we call traditional arts and crafts, how to manufacture articles of clothing, blankets, baskets, and so on, because modern technologies tend to drive all that out. We have made loans for that purpose because they can sell them to tourists and export them. In other words, there is a multitude of applications.

Mr. LONG. I am sure you know that was the idea of Ghandi; he felt Indians should do much more in the way of cottage industries. Mrs. Gandhi has departed from those sound teachings, as she has from so much else that Mahatma Ghandi taught.

Mr. PORGES. We have a big handicraft program in the Bank for these countries, and they are pushing it.

Mr. LONG. I wonder if you could list for the record those agriculture projects funded in 1974 which are aimed primarily at helping the really poor.

Now, there again, I mean projects that get to the really poor because I just don't accept the trickle-down theory. More and more other people are questioning it. We have got to somehow work at reaching the really poor. They are hard to reach; they are invisible. So I wonder if you could make a list of those projects?

Mr. PORGES. Sure.

Mr. LONG. With a description of how they will help the rural poor.

Mr. PORGES. Yes, sir.

[The information follows:]

SUMMARY OF SELECTED 1974 IDB LOANS AND TECHNICAL COOPERATION OPERATIONS OF BENEFIT TO THE RURAL POOR

Identification Number (Country)	Purpose	Total IDB Amount	Project Amount of Benefit to Very Poo
Loans:			
278/OC and 420/SF (Mexico)	Rural Irrigation Works	$ 45,000,000	$97,200,000
407/SF (Paraguay)	Farm and Industrial Credit	8,000,000	6,800,000 a/
416/SF (Argentina)	Colonization	11,000,000	20,000,000
394/SF (Chile)	Agricultural Recovery Program	22,000,000	b/
396/SF (Panama)	Fisheries	3,500,000	4,890,000
403/SF (Mexico)	Feeder Roads	15,000,000	29,100,000
401/SF (Honduras)	Rural Water Supply	4,000,000	5,100,000
392/SF (Peru)	Rural Water Systems	4,700,000	9,400,000
393/SF (El Salvador)	Health Services	15,000,000	3,760,000 c/
406/SF (Trinidad & Tobago)	Health Services	5,300,000	2,990,000 d/
Loan Totals		$133,500,000	$179,240,000 e/
Technical Cooperation:			
ATN/SF-1275 (Paraguay)	Assistance to Crédito Agrícola de Habilitación	47,800	47,800 f/
ATN/SF-1277 (Trinidad & Tobago)	Preparation of farm development project	108,000	31,000 g/
ATC/TF (SP)-1295 (Nicaragua)	Feasibility studies and designs for feeder roads	750,000	750,000 f/
ATN/TF-1311 (Regional)	Techniques of extension and training to improve the dissemination of research results	2,000,000	2,000,000 f/
ATN/SF/TF-1319 (Regional)	Preparation of 6 projects for fishermen and rural development	689,000	689,000 f/
ATC/TF(SP)-1320 (Paraguay)	Feasibility studies for farm marketing and production in Itaipu area	234,000	234,000 f/
ATN/SF-1343 (Panama)	Rural management program to benefit farmers' organizations	223,000	223,000 f/
AT-230 (Regional)	Use of SPTF funds for social development financing by Latin American Confederation of Savings & Credit Cooperatives, through Inter-American Foundation	1,000,000	1,000,000 f/
Technical Cooperation Totals		$5,051,800	$4,974,000 f/

a/ Based on 90% of the total farm credit program.
b/ Not available; those eligible for subloans include a very large number of very poor landless workers who received land under the agrarian reform program, as well as those medium-scale farmers whose holdings according to the law were below the size of farm subject to expropriation; information is not available on the probable distribution of subloans between the two groups.
c/ Based on the proportion of the project programmed for rural health posts and small health units.
d/ Based on the proportion of the total construction cost allocated to rural health centers.
e/ Not including amounts of benefit to very poor farmers in Chile (see note b/ above).
f/ Not including technical cooperation financed by the local contributions.
g/ Based on proportion of extension and marketing services and credit for cooperatives in the draft project being prepared.

EMPHASIS ON LENDING AIMED AT HELPING THE POOR

Mr. LONG. You, yourself, say it is not easy to find technically sound projects which effectively reach the poor.

Mr. PORGES. It is hard because, as you know, the poorer and less educated people are, the more inert they are. They have to be stimulated, and we again feel working through local institutions, building the local institutions, and providing the technology is the way to reach the really needy.

Mr. LONG. If a much larger share of foreign aid and resources went to finding these technically sound projects which effectively reach the poor and especially the rural poor, don't you think the task would become easier?

Mr. PORGES. I think it is terribly important. I think our efforts aren't going to be successful unless we do.

Mr. LONG. We hope, looking in the years to come, that the Bank will do much less in the nature of roads to airports and big dams and developments and power projects. Can we put our mind to this very challenging, and I think much more important, area of getting the poor to help themselves?

Mr. PORGES. This has been our thrust in the Bank, where 22 percent of the total loans went for agriculture in 1974. We have pushed management on this point, and for 1976 they have a projection of 31 percent for agriculture. This is the thrust of what we are trying to do.

Mr. LONG. Here again, I would like to make a distinction between just agriculture—I think when you say you are putting something in agriculture, that is nice, but I think you are a long way from doing the type of thing I am talking about and projects to help the rural poor.

Mr. PORGES. I am talking about agriculture in the sense of what we do through the intermediate credit organizations in Latin America. For example, the Bank in 15 years has financed subprojects for 1 million farmers in Latin America. I don't think they have 1 million rich ones. Of those million, a lot are poor and small farmers. I think this is the type of program you have in mind, reaching out through the agricultural banks and the development banks in these countries, and we are continuing to press ahead with this.

Mr. LONG. Are you considering not only doing this for them, but to get them to do this for themselves?

Mr. PORGES. We require counterpart financing. Our $7½ billion in loans have been used to mobilize projects which total $25 billion. This is a ratio of 2½ to 1.

Mr. LONG. I wasn't talking about the countries, but the people.

Mr. PORGES. Well, the people have to learn to contribute, and this is part of the integrated agricultural project approach you mentioned, where the farmer's wife cans vegetables and sells them in the market and teaches her neighbors to do it.

Mr. LONG. And become excited about it.

Mr. PORGES. And sew on a Singer sewing machine. This is what we are doing.

Mr. LONG. I have a few more questions to ask, but I will turn the chair over to Mr. Chappell while I answer the quorum call.

PARTICIPATION BY ISRAEL IN IDB

Mr. CHAPPELL. Mr. Porges, I am not sure I am really ready to interrogate. I am sorry I missed some of the testimony. I am not sure what has been covered. Let me just ask some general questions here, if I might.

On page 7 of your statement concerning the Inter-American Development Bank, you mention negotiations with Israel regarding their possible membership in the Bank. Would you elaborate on these negotiations?

Mr. PORGES. Israel is part of a group of 12 that we have just before concluded negotiations with to become members of the Bank and bring in a total of about $750 million, half in cash for FSO and paid-in capital and the other half in callable capital. Ordinarily in the case of countries such as Israel their cash contribution is very, very small. It is the question of technology. Israel has developed an expertise in desert farming and other types of agriculture suited to their particular conditions which we think could be applied very, very usefully in arid and semiarid areas of Latin America.

So in the case of wanting Israel as a member, it is there to provide technology to assist the Bank in the transfer of expertise which they have and have developed over the last 20 years.

Mr. CHAPPELL. Let me be sure I understand. I was amused a while ago as I was interrogating to hear someone back over here to one of my questions say, "ignorance." So you will excuse me if I really show my ignorance on some of these questions, because I don't profess to know a lot about this bank system.

What is the general jurisdiction, geographic jurisdiction, of this Bank?

Mr. PORGES. It is a regional bank and lends to 22 countries south of the United States.

Mr. CHAPPELL. In other words,——

Mr. PORGES. The Western Hemisphere.

Mr. CHAPPELL. But in negotiating with Israel you are simply trying to get more money into the Bank? Is there any particular reason why you would go to that area of the world in order to get a donor or membership country? They would be a member, wouldn't they?

Mr. PORGES. Israel would be a member, but so would 11 other countries, such as Japan and Germany, Britain, the Benelux countries, Italy, Spain, countries that are going to contribute capital to the bank but will not be borrowers.

Mr. CHAPPELL. They are strictly donor countries?

Mr. PORGES. Yes; Israel will be a donor country as well.

VOTING STRENGTH IN IDB

Mr. CHAPPELL. What is the voting strength of the United States in this bank?

Mr. PORGES. Forty percent.

Mr. CHAPPELL. What is the next largest donor country?

Mr. PORGES. There are now just two donor countries in the Bank, Canada and the United States. The rest are borrowing countries.

Mr. CHAPPELL. Do any of the borrowing countries have the capacity to be lending countries?

Mr. PORGES. Venezuela, of course, is providing a $500 million trust fund to the bank, which will be for what we call ordinary capital loans.

Mr. CHAPPELL. I think I asked that question wrong. I should have said can you be both a borrowing country and a donor country?

Mr. PORGES. Up until now, no. Countries have either been donor countries, such as the United States and Canada, or borrower countries. Starting last year, Venezuela, with its new wealth, voluntarily retired as a borrower country and has become a donor country.

IDB BORROWING

Mr. CHAPPELL. Who are the lending countries, strictly those who lend to the Bank?

Mr. PORGES. I am sorry.

Mr. CHAPPELL. Don't you borrow money as well as——

Mr. PORGES. We borrow money in the capital markets of the world.

Mr. CHAPPELL. Do you borrow from any other countries?

Mr. PORGES. We borrow in the sense that we put out bond issues in the capital markets of Europe and Japan, and we borrow from the central banks of countries.

Mr. CHAPPELL. You don't borrow directly from any other country like Kuwait or some others?

Mr. PORGES. No, we have not borrowed from any of the OPEC countries up until now, except Venezuela, which has contributed the $500 million trust fund. And we have done a couple of bond issues in Venezuela, as well.

Mr. CHAPPELL. How does that work? I am not sure I understand. Are they regular bonds?

Mr. PORGES. Regular bond sales.

Mr. CHAPPELL. What is your cost normally on that? What percentage?

Mr. PORGES. Depending, of course, on the market at the particular time. If my memory serves me on the Venezuela bond issue, it was 7½ percent at the time, below the market. This year, we have done two in the United States, one at 8¼ and one at 8⅛. We have borrowed at very favorable rates in the capital markets.

Mr. CHAPPELL. When you say it is costing 8 or 8½ ——

Mr. PORGES. I am talking about the United States at this time, interest cost. Eight or 8¼.

Mr. CHAPPELL. Did you tell me Israel was not a borrowing country?

Mr. PORGES. It is not now because it is not a member of the Bank and will not be a borrower after it becomes a member.

Mr. CHAPPELL. It is strictly a donor?

Mr. PORGES. Only the countries of the Western Hemisphere can be borrowing countries by the charter of the Bank.

Mr. CHAPPELL. If it is strictly a donor country, which I think is a worthwhile endeavor, it bothers me a little that in fiscal year 1974 they borrowed from this country over $2⅛ billion and in fiscal year 1975 the appropriation for Israel aid was $324.5 million in economic aid. How much are they putting into the Bank as a donor?

Mr. PORGES. Ten million dollars. Half of it in cash. Only $10 million. But they are also going to be able to have access to procurement on the Bank loans. One of the reasons the 12 new countries are coming in is they want to sell goods and services as a result of the Bank loans, and they will be eligible for international competitive bidding to provide goods and services.

Mr. CHAPPELL. So from that standpoint it is a way of improving themselves economically; is that right?

Mr. PORGES. A way of aiding their exports.

Mr. COOPER. It is also a way of making contributions to the Bank to support its operations. It is not just that they want the procurement. The total amount of moneys are substantial, and I think eligibility for procurement was necessary as a precondition for them to make their contributions to the Bank. I don't think the motivation was just the procurement.

Mr. CHAPPELL. I don't think he was suggesting that and I was not suggesting that by my questions. This is one of the reasons that it would be attractive to them?

Mr. COOPER. Yes, it is essential to make that possible in order for them to be willing to make the contribution.

Mr. CHAPPELL. Kind of an incentive?

Mr. COOPER. That is right.

PARTICIPATION BY CUBA IN IDB

Mr. CHAPPELL. What is the status of Cuba? Is it recognized as a developing country or not?

Mr. PORGES. I don't think that the United States maintains relations with the present Cuban Government. Cuba is not an active member of the OAS, and therefore, is not eligible for a membership in the Bank. It has never evidenced any interest in becoming a member of the Bank.

Mr. CHAPPELL. Is that one of the requirements of this Bank, that you be a member of the OAS?

Mr. PORGES. Yes, sir.

UNITED STATES BILATERAL AID TO IDB MEMBERS

Mr. CHAPPELL. Let me see if this is a fair statement. As far as I can determine, there are no countries receiving loans through the Bank which do not also receive U.S. bilateral aid; is that correct?

Mr. PORGES. I am not prepared to answer whether every one of the countries receives bilateral aid.

Mr. COOPER. I don't think so.

Mr. CHAPPELL. That is not a fair statement?

Mr. PORGES. I don't have the facts about every one of the borrowing members of the Bank. There are 22 of them, and I don't know whether every one of them receives bilateral aid. I tend to feel some might not.

Mr. BOEKER. There are some that do not.

Mr. COOPER. Mexico, at least, does not receive significant aid.

Mr. PORGES. I don't think Venezuela gets any.

Mr. CHAPPELL. I guess what I am really asking is if this is true, or if most of these countries are in that category, then what is the real advantage of multilateral aid?

Mr. PORGES. Well, the advantage of multilateral aid is to further the process of development, and the regional banks feel they are in a unique position to do this. I think the bilateral aid from the United States has gone to the poorer countries in the hemisphere, to the very, very poor. Our Bank has two kinds of loans and, as we mentioned, the soft funds are going mainly to the poorer countries and the hard loans are going to the bigger, relatively more advanced countries, and they would be the ones that are not getting the bilateral aid. They are paying something, 8 percent a year, plus 1¼ percent commitment fee for their loans from the Inter-American Bank. So we are aiding the process of development through the hemisphere except that the richer countries are paying more for it.

Mr. COOPER. I might also say by channeling part of our economic assistance through the Bank, we make it possible to work cooperatively with other countries in facilitating aid flows from them as well. We are not the Inter-American Bank; we are one of the two donors, but we are increasingly hopeful that some of the other Latin American countries will also begin to move toward a donor position, and this is facilitated by participating in these kinds of multilateral institutions generally.

PARTICIPATION BY PANAMA IN IDB

Mr. CHAPPELL. What is the status of Panama right now? Of course it is a developing country, I assume.

Mr. PORGES. It is a developing country.

Mr. CHAPPELL. What is its loan status at the present time?

Mr. PORGES. Cumulatively they have received about $100 million from the Bank over the last 15 years.

Mr. CHAPPELL. I guess that is all the questions I have now. I may have a few in a few minutes.

IMPACT OF IDB LENDING ON THE POOR

Mr. LONG. Thank you, Mr. Chappell.

I was wondering, Mr. Porges, since over 40 percent of the labor force in Latin America is in agriculture, do you feel that 21 percent of bank lending, the portion that went for agriculture in 1973, is a sufficient proportion to go for agriculture?

Mr. PORGES. No; I think both the goal and the amount should be higher.

Mr. LONG. I gather from your answers and from Mr. Beach's answers that you do not regard the Bank as set in any kind of intransigent policy in its lending but rather searching for new solutions and new approaches and is quite favorable to looking for a new way to help the poor people instead of doing what I think so much of aid has done—that is, help the well-to-do.

You know, of course, there is a standard joke—it is pretty corny by this time—that foreign aid is a device whereby money goes from the poor people in rich countries to the rich people in poor countries. I am sure you have heard it a hundred times. There is too much truth in it, I think you will recognize.

Mr. PORGES. If we look at the record of our Bank, I think we have been very innovative in agriculture, in public health, and in sanitation and potable water. We were the innovators in potable water in Latin

America. Hundreds of towns that had nothing when we started 15 years ago now have sanitation systems. I think that benefits the whole population, but it is the poor who tend to suffer most from illness, so pure water and sanitation is terribly important.

Mr. LONG. Whenever you try to do anything for the poor, the rich and powerful are in there getting there first. That has been my experience. It was true of our revenue-sharing programs, which were designed to help the poor cities, but through which every town in the country got its piece before its Congressman was permitted to vote for it.

Mr. PORGES. I think a lot of us in the development banks have learned a little about this along the road. In our loan agreements, for example, when there is a new road project going through somewhere, we insist the government place an added value tax on ownership of that land so that the owners don't enrich themselves at the benefit of a project. That is an integral part of every loan document and contract, for example. We have learned from this kind of experience that you have to do something to prevent a few from benefiting from what is basically a socioeconomic project.

Mr. LONG. Aid and subsidies tend to go not to the people who need it and deserve it, from my observation, but to the people with the power and the know-how to get it. Whenever there is money to be passed out, it is amazing how quickly the influential are able to marshal their forces to get a piece of that action before anybody else gets hold of it.

Mr. PORGES. I think that is the task for the banks, and if I may say so——

Mr. LONG. That has been the great tragedy of aid.

Mr. PORGES. I think it was lack of experience in the beginning. I think in our present loan contracts in the Bank we do know how to prevent it, and we are very, very zealous about it.

ECONOMIC POLICIES OF BORROWER GOVERNMENTS

Mr. LONG. Are you able to do it? I mean it struck me that not only has our aid policy gone astray because of lack of knowledge, but it went astray precisely because of politics. For example, the people who have the power in this country to determine policies are going to make sure that businessmen, manufacturers, and so on who have products to sell are going to be able to sell those products through foreign aid. That seems to be the whole idea. We are going to sell so many American goods and the U.S. taxpayer is going to pay for them. Certain businessmen have in mind what product they were going to sell—frequently weapons, which are high profit. And in the recipient countries it is the well to do who determine the policies. I am wondering how much freedom you have at the Bank to do the right thing rather than the thing which is the result of various political forces.

Mr. PORGES. I think we have a very, very heavy voice in making sure that these projects are economically and socially useful, and we do this through our loan committee examination. When a new loan comes up, it is not usually the first of its kind, and we go back and see what was the result of the last one. How did it work out? How many new farmers were created, where formerly there were so many laborers in the area? Are you going to create farmers? How many were there?

Mr. LONG. Can you take their word for it?

Mr. PORGES. We have the reports. I go into the field. I travel during the recesses of the Board. I travel continuously visiting projects. I have the feeling we are reaching the people and are being successful. I think the task is so immense, as you know. There is so much to be done that a quantitative measure of how much good you are doing is something I think that is going to take a long time to obtain.

All we can do is insure we are doing the right thing at the right place.

Mr. LONG. You do not take the word of the governments, do you?

Mr. PORGES. No.

Mr. COOPER. I think government policies are key to all the kinds of things you have been talking about, even when it comes to the application of intermediate technology.

If the price incentives are not there and if they are not there because of an inappropriate taxation policy, it is very hard to get somebody to apply an intermediate technology that turns out not to pay because the price incentives have been distorted.

Government policies have been essential.

Mr. LONG. But you could have the choice to simply say we do not think this country knows how to use money or does not have the appropriate economic policies; therefore, we will lend the money to some other country where we think they will make better use of it.

Mr. PORGES. We have done that in the Bank. We have stopped lending in countries because we thought their taxation or other policies were not conducive to the type of project we wanted to put in.

Mr. COOPER. One of the problems we have had in working in the development area for years is that we have all learned something.

I suspect maybe our views have changed.

Certainly my views have changed. I think it is true of economists generally. I think a lot of the problems are problems we were not aware of 5 or 10 years ago. I think the kinds of policies we think are important and the importance of good policy is not something we were as sensitive to as we might have been. It is what you called the sad history of development that has called our attention to these problems.

I think we have to act on what we think we now know as best we can but it is not black or white. A country has a good policy and we will support it, or a country has a bad policy and we will not support it. It is a matter of responding to countries that we feel are seriously trying to deal with problems. The question is whether they are seriously trying to deal with problems like you have been raising and similar problems. I think it is that attitude and seriousness is the best guide we have on how to support development.

Mr. LONG. Has it been your impression that all of the countries that you have been dealing with over the years are really on the level in the sense that they take their development seriously?

Mr. COOPER. I think that differs greatly from country to country and from period to period within a single country.

Mr. LONG. I would hope that where you find a country where you don't have any real serious interests, where they pay lipservice, that you would not give them aid. What has bothered me in the 10 years

I have been on this committee, is the feeling that humanitarian aspects of our foreign aid policy were merely to give the liberals something to talk about when they stood up in the well and justified aid or something to tell the folks back home—you know, we are a rich country and it would be wrong of us to keep all our riches to ourselves and not help other, poorer countries. But the real motives of our foreign aid have not even remotely been humanitarian.

The more I see of the results of our foreign aid the more I feel that way. The purpose of our foreign aid has been to sell goods, to rent military bases, to fight communism. I could give you quite a few others. The simple needs of the great mass of poor people in developing countries have been quite evident, but seemingly these needs have not affected our aid lending or the developing countries borrowing.

Mr. COOPER. Certainly there are a lot of motivations.

Maybe this is where the multilateral institutions have a unique role to play. There are so many countries involved that it is hard for any particular country's political interest to be served in an institution in which there are a lot of other countries, donors and recipients. I think you get down to a more serious focus on the problems of economic development through the multilateral institutions than you do with a more politicized aid program. I think there is room for both kinds of approaches. I think there is a unique role for multilateral institutions in this regard.

Mr. LONG. Many of us have reservations. I have an open mind on the issue myself but I have the natural feelings of any Congressman. I deeply distrust any program that gets too far away from my oversight. It seems to me that we are responsible to the American people for the money that is spent. The charge that multilateral institutions are simply devices to remove foreign aid from the oversight of nosey Congressmen is something we have to consider. I think you are always going to be vulnerable to that charge unless very good use is made of the money.

Mr. COOPER. That is right. I think the potential for making a real contribution is there but the institutions will have to fulfill that potential if they are going to get the support.

Mr. LONG. I don't think our bilateral aid has been a great success. I know some of the weaknesses of it. But it does seem to me that there are a lot of things wrong with multilateral aid, too.

I am willing to give multilateral aid a fair chance. The things I have been talking about—appropriate, light capital, or intermediate technology—may have a future, I don't know.

I don't know whether anybody does. This idea of appropriate technology has been around quite a while. It has not really caught on yet, in the sense of becoming institutionalized or in the sense of being a factor that has produced any considerable amount of development in any country. It does seem to me you can say this about light capital technology: It is the only hope we have. Without it there is no hope for the developing world.

Anybody with any sense of economics or political awareness knows that if we have not been able to solve very much of the world's problems of poverty with the immense sums America has poured into developing countries over the last 20 years, we are not going to improve

things with more aid in the same old way. There is a weariness in the United States with aid. Maybe we can keep up the levels we have been giving in the past but we will not increase aid. I queried a fellow not long ago who was an expert on these matters. I asked him what he thought was the remedy. He said, "Well, we have just got to have vast quantities of aid, a critical mass." I said, "Do you have any conception of where those resources are going to come from and where the political support for such sums is going to come from?"

My constituents know there are immense problems in the United States. They know that what we have succeeded in doing is to export so much capital abroad that we have a scarcity here and that is why interest rates are so high. If they knew more of the facts I think they would be more opposed than they are to foreign aid.

This is a very volatile country and the thing Mr. Passman is talking about, the chain letter type of thing that is going around his district, could result in fierce opposition to aid. It is like Vietnam. People put up with a situation for a long time and then everybody wanted out. We could not get out fast enough. We could not even make a dignified exit. That is what we have to worry about on our foreign aid policies.

I think the only realistic hope you have is keeping up the same level of aid. Any hope of increasing it to anything like what anybody would call a critical mass is illusory. As I said in my separate views, I do not think there is enough wealth in the United States to solve the problems of India, particularly when as fast as we pump aid in they pour the same or greater amount of resources into some other activity like military spending.

Thus the goal of utilizing the idle time of the masses of people in developing countries—this idle time being the chief resources of the underedeveloped countries—is the only hope we have. Making use of this idle time creates real capital, after all. All capital comes from labor and a willingness to obtain from immediate consumption.

So there is where your great hope for capital for economic growth is in the future—the hundreds of billions of dollars worth of potential capital lying there in idle or ineffectively used time of the 3 billion people in the developing world. That is what we have to make use of if there is ever any hope at all of giving the people of this world a better future.

TRANSFER OF TECHNOLOGY

Mr. BOEKER. Could I comment on the subject of technology?

It does appear, I think, that the Latin Americans themselves are keenly aware of the role of technology transfer in the development process. It has been one of the very high priorities that they have raised in their continuing dialog with the United States. One of the reasons is that within the OAS they have been very anxious to set up a commission on the transfer of technology.

I think it is also clear that some of the Latin American countries and groups have a realistic view of what kind of technology is involved and others have a more romantic impression of the sibernetic factories being shipped on boats and you get them off and that is it. But we have been trying to use this interest and draw upon it to get the technology discussion down to a country and specific problem level that would include inputs from the private sector focused on specific technological problems.

I think that will be very helpful to get this really deep Latin American interest in the role of technology and development put in the most constructive focus.

The other point I want to make is that I think it is very true that technology transfer does not exist as a thing in itself. You don't do it in an envelope. It exists as part of a process. You get technology through a capital investment from a private firm.

You can transfer technology through a capital project of the Inter-American Bank where the effective utilization of new technology is part of a whole managed approach to a problem which get back I think very fundamentally to the importance of a point Mr. Cooper was making earlier, that the real objective here is not the transfer of wealth as such but contributing to a process in which the transfer of technology is made very effective, as well as other benefits such as management, institution building, and so forth.

Mr. LONG. Is there any following for the takeoff idea of Rostow?

Mr. BOEKER. I suppose theoretically one would have to say there must be some amount of money that could be pushed through any incompetent system of management and produce something but it seems to me that is a nonoperational theoretical conclusion, particularly considering the capital restraints the world is operating under these days.

Mr. COOPER. With respect to Latin America, though, we are not dealing with the most intractible part of the world. I think in Latin America all the problems you discussed exist. If you look at their economic potential in context there is certainly more reason to expect a continuation of meaningful progress that will make a difference both in an aggregate sense and a distributional sense in Latin America. I think this is an area that by and large has done better than many other parts of the developing world.

If you look ahead at what can happen in Latin America over 10 years of a worldwide expansion you are going to see some very profound changes.

The changes will not automatically come about. The kind of effects that you have expressed concern for on the distributional side, such as the spreading of development to all sections and particularly poor people, are not going to happen automatically. They are also not going to happen if there is not adequate access to capital whether through a multilateral institution or private market.

To the extent that development does not require special techniques, a lot of it can come from private institutions. A lot of these techniques are bankable. I certainly have said it in my testimony and I believe it very strongly, money is not the only requirement for development. It is important but it is not going to be what makes the difference.

In the case of Latin America, I think we have an area of the world where, based on past progress and on the current situation, we don't have to be terribly pessimistic about the future.

If we can continue to make some progress on the policy side and progress on the distributional side and on the technology side, and if they do have access to capital markets to support what we hope will be growing economies, I think we may see very real differences down there during the next decade of expansion, more than was seen in the last decade.

POPULATION GROWTH IN BORROWER COUNTRIES

Mr. LONG. Is the 3½ percent population growth rate endemic? Doesn't that bother you?

Mr. COOPER. I have noticed how quickly that changed in this country. I do not think we would have predicted the change in the population rate here. I am not sure we have to wait until a country gets the kind of situation we had here a few years ago. Population growth rate does respond to changes.

Mr. LONG. Don't count Malthus out. I remember 20 or 30 years ago telling classes that it seemed to me that Malthus had been largely discredited. He is right back in business again.

I would say our population may take a new leap forward. Mr. Conte, do you have questions to ask?

IDB COMMITMENT AUTHORITY

Mr. CONTE. It appears that you are not asking for any additional capital subscriptions for the Inter-American Bank again this year. How much commitment authority does the IDB presently have available for ordinary capital lending?

Mr. PORGES. At the moment, the Bank has less than $150 million in unused ordinary capital convertible currency commitment authority.

Mr. CONTE. When will this authority be expended?

Mr. PORGES. I expect a shortfall of ordinary capital resources during this calendar year. Even assuming use of $160 million from the newly established Venezuelan Trust Fund and counting repayments, we will run out during the final quarter. Against an estimated preliminary lending program of $608 million in convertible currencies, we have $236 million in unused ordinary capital, $104 million from additional capital subscriptions, exchange note fluctuations and repayments, projected up through 1975, and $160 million from the Venezuelan Trust Fund. Thus, we have a shortfall of $104 million for this calendar year.

IDB REPLENISHMENT

Mr. CONTE. On March 1, in Houston, Secretary Kissinger said that he would seek an American contribution of $1.8 billion for IDB replenishment. This would be the same as the 1970 replenishment which still has not been fully appropriated. Do you envision a large increase in annual appropriations for the IDB in future years?

Mr. PORGES. The 1970 replenishment authorized $1,824 million. The ordinary capital portion of $824 million was appropriated during the 4-year period fiscal year 1971 to fiscal year 1974. Of the $1 billion authorized for the Fund for Special Operations, $725 million has been appropriated to date, and we have requested appropriation of the remaining $275 million in fiscal year 1976.

The proposed replenishment would not involve a large increase in appropriations for the IDB in comparison with the past. The proposal would be in ordinary capital (all callable), $600 million in interregional capital and the FSO for 1976–79. Of this amount, $600 million would be in ordinary capital (all callable), $600 million in interregional capital ($120 million paid in and $480 million callable), and $600 million for the FSO. Since interregional callable capital would

not have to be appropriated, the total amount of actual appropriations would be $1,320 million, or approximately $440 million per year. Specifically, we would propose to request appropriations of $240 million in fiscal year 1976 ($200 million ordinary capital and $40 million paid-in interregional capital, in addition to the $275 million for FSO mentioned previously), $440 million in fiscal year 1977 and in fiscal year 1978 ($200 million FSO, $200 million callable ordinary capital, and $40 million paid-in interregional capital), and $200 million FSO in fiscal year 1979. Of this total amount, only $720 million ($600 million FSO and $120 million paid-in interregional capital) would actually involve a budgetary cash outflow.

In addition to the reduction in the amount of funds which require appropriation from $1,824 million in the 1970 replenishment to $1,320 million in 1975, it should be remembered that the dollar has declined in purchasing power by over 36 percent since 1970. Thus, the real purchasing power in the 1975 replenishment is significantly smaller than that for the 1970 replenishment. Thus, while the 1975 replenishment is about equal in size to the 1970 replenishment in nominal terms, it represents a significantly lower cost to the United States in real terms.

[The table follows:]

ACTUAL APPROPRIATIONS FOR THE 1970 REPLENISHMENT

[In millions of U.S. dollars]

	Total authorized	Appropriated					Total appropriated through 1975
		1971	1972	1973	1974	1975	
Ordinary capital	824						823.52
Paid in		25	75	25	25		
Callable		200	136.76	168.38	168.38		
FSO	1,000	50		225	225	225	725
Total appropriations		275	211.76	418.38	418.38	225	

	1976	1977	1978	1979
The proposed replenishment would be:				
Ordinary capital: Callable	200	200	200	
IRC:				
Paid in	40	40	40	
Callable	160	160	160	
FSO		200	200	200
Total appropriations [1]	240	440	440	200

[1] Interregional callable capital does not require appropriation.

SOURCE OF ADDITIONAL FUNDS FOR FSO

Mr. CONTE. You mentioned that you anticipated additional funds for the FSO becoming available in the latter part of 1976. Where do you expect these funds to come from?

Mr. PORGES. The additional funds for the FSO that I had in mind would come from the entry of nonregional members. Proposed amendments to the IDB Articles of Agreement which would allow nonregional membership in the IDB are now being submitted to the governments of both the current and the prospective members. (The U.S. executive branch expects to transmit draft legislation on this matter to Congress near the end of June 1975.) If parliamentary approvals of

all governments concerned go forward rapidly, the nonregional countries could become members during 1976. The new nonregional members would then make contributions to the FSO during the 3-year period 1976–78.

Simultaneously with contributions to the FSO from the nonregional members, the regional members will make contributions as a part of the new replenishment. We have reason to believe that for the first time the wealthier Latin American members of the IDB may make part of their contributions to the FSO in convertible currency. However, the new resources from the prospective nonregional members and the existing members will not be adequate by themselves to permit maintenance of current lending levels. Therefore, it is hoped that the United States might be prepared to make its first contribution under the new replenishment (fiscal year 1977 appropriation) before the end of calendar year 1976.

SUCCESSFUL FSO PROJECTS

Mr. CONTE. Can you provide some examples of successful projects which have been financed by the FSO?

Mr. PORGES. Projects financed by the Bank from the FSO are usually in agriculture, education, health—including water supply and sewerage projects—and housing. The emphasis is on promoting a wider distribution of the benefits of development, with particular reference to increasing incomes and living standards of the low-income groups in the rural areas.

In agriculture, for example, in 1963 the IDB provided $2.5 million to Guatemala to help finance a supervised credit program to help incorporate subsistence farmers into the monetary economy. The program was designed to reach farmers working small properties; about 90 percent of Guatemala's farms fall in this category, most of which average less than 20 acres.

In 1970, a study of the project found that 12,200 credits had been extended to 7,500 farmers and 50 cooperatives totaling $16 million, for seed, fertilizer, machinery, breeding stock and other essential inputs. While it was not possible to quantify physical gains in production at the farm level, national figures show substantial increases in grain and vegetables, an important part of which is attributable to the project. Nevertheless, the study did show average net incomes of the farmers benefited, increasing from $443 to $889 and their net worth increasing from an average of $2,263 to $3,566.

The Bank's program of concessional lending for rural water supply and sewage systems is also important and successful. Fifteen years ago it was estimated that only 40 percent of Latin America's urban population had in-house water service. Today, this figure stands at 60 percent. In rural areas, the proportion of people with access to potable water jumped from 8 to 25 percent over the same period.

In Peru for example, in 1964 the IDB provided $1.7 million to help finance the first stage of the national rural water supply plan with the long-term objective of supplying potable water to most of the rural population. The first stage cost $3.2 million, including $344,000 provided by the communities themselves in the form of materials, unskilled labor and cash. It resulted in the installation of water facilities serving 135 communities with populations under 2,000 persons. The systems supply water through public taps and residential connections.

In 1967, the IDB granted a second loan to Peru for $3.1 million to help finance the $7.2 million second stage of the plan which called for similar facilities for 300 rural communities with populations under 2,000 people. The local contribution of $4.1 million included materials, labor and cash payments by the communities to be served. This stage was later expanded to include a total of 354 localities.

Similarly, the IDB has been active in housing in the past for low-income families and in organizing mortgage credit systems in Latin America. The IDB has contributed to "institution building" through the provision of technical assistance and accompanying it with "seed capital" loans. Seed capital loans totaling some $50 million were made available to strengthen savings and loan systems and housing cooperatives in Chile, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Peru, Trinidad, and Tobago.

For example, in 1967, the IDB provided $2.3 million to the National Workers Federation of Honduras, a labor federation then having 23 affiliated unions and 22,000 members, to finance about 1,000 low-cost houses in San Pedro Sula, the country's most important industrial center. The program was carried out through a savings and loan association formed by the union members.

LATIN AMERICAN SOURCES OF FINANCE

Mr. CONTE. Would you tell me what percentage of the Bank's financing is provided by the Latin American countries themselves?

Mr. PORGES. As of December 31, 1974, the total subscriptions to the Bank's ordinary capital of $5,954 million included $3,254.4 million from the Latin American members, a proportion of approxmiately 55 percent. As of the same date and calculated on the same basis, the Latin American contribution to the $4,393.9 million in the FSO was some $1,279.7 equivalent in local currencies, or approximately 29 percent.

On a cumulative basis less cancellations, as of December 31, 1974, the Bank had approved ordinary capital loans amounting to $3,325.5 million. Of this amount $263.9 million, or 8 percent, were in local currencies which were provided by the Latin American member countries in the form of subscriptions to the Bank's ordinary capital resources. As of the same date and calculated on the same basis, the Latin American local currency portion of approved FSO loans amounted to $982.7 million, or 28 percent of a total of $3,507.9 million.

In addition, I want to emphasize that the Latin American borrower countries make local currency counterpart contributions to help pay for Bank-financed loan projects. That is to say, these contributions are part of the loan project but not part of the loan. On a cumulative basis these contributions as of December 31, 1974, amounted to $18,066 million.

IDB EFFORTS TO BENEFIT LOW INCOME GROUPS

Mr. CONTE. I would agree with you that earmarking is not the appropriate way to promote benefits for low-income groups but I wonder if you can suggest a better way.

Mr. PORGES. The best way to promote benefits for low-income groups is simply for the United States to work within the multilateral decision-making framework to influence the Bank to finance those projects most beneficial to low-income groups. The Bank is aware of the need to pro-

vide assistance to such groups, and is already making substantial efforts in the target areas designated by the earmarking provision. For instance, the Bank is already making substantial loans to cooperatives and is programing more for this purpose during the next year than the earmarked amount. The Bank is also proceeding with a substantial grant to further the development of credit unions in Latin America. Therefore, the areas which would benefit from the earmarking provision are already getting attention from the Bank. The earmarking provision creates a dangerous precedent for other countries to attach special conditions to their contributions to the Bank. The results would be unilateral, rather than multilateral, decisionmaking as to where the Bank's money should be spent, and the impossible burden of managing all of the separate funds that compliance with such conditions would require.

Mr. CONTE. What success have you had in directing the policies of the Bank in that direction?

Mr. PORGES. As I stressed earlier, we believe that the thrust of the policies and operations of the IDB is in the right direction. We continue to seek improvements. However, given the institutional and multilateral framework in which we participate, we must accept the fact that we sometimes can get results only gradually.

Mr. CONTE. What percentage of Bank credits would you estimate are for projects to directly benefit the lives of low income people? How does this compare with previous years?

Mr. PORGES. Partly as a result of efforts exerted by the United States, the Bank is giving steadily increasing attention to projects which directly benefit the poor, which can be defined as the poorest 40 percent of the population. A precise, loan-by-loan characterization by income level of beneficiaries of IDB loans is not feasible, however, for two reasons. The first is that many projects are of a multipurpose nature or are national or regional in scope. Thus, traditional infrastructure projects, such as electric power projects, which comprise a large portion of IDB lending, are often tied to irrigation for farmers, feeder roads which help low-income farmers to transport their produce, and so on. The second reason is that the IDB charter requires that all loans made by the Bank be loans which contribute to the economic development of the borrowing country. The poor benefit from these loans, even if only indirectly. For instance, the poor benefit from the expansion of production and the provision of jobs occasioned by IDB lending. It must always be remembered, in considering the impact of IDB lending on the poor, that the benefits accruing to the poor are much greater than the benefits to them accruing just from those projects specifically designed for the poor.

Some generalizations can be made, however. One of the best indicators of the attention given by the IDB to the needs of the poor is the percentage of concessionary loans made to the poorest countries, the category D countries. The percentage rose steadily from 17 percent in 1970 to 53 percent in 1974. This trend continues.

Another significant trend is the extent to which the Bank's concessional lending is made available to rural and urban associations of low income people. As a result of efforts by the United States, availability of loans for use by cooperatives has increased to the extent that 80 percent of the Bank's agricultural credit loans, and all of the loans

for rural community development, rural electrification, and many technical assistance grants are available to such groups.

Cumulatively, $3.2 billion, or 43 percent of the total amount loaned by the IDB from its inception through December 31, 1974, has gone to rural development projects, loans to fishing cooperatives, water supply and sanitation projects, and housing and other urban development projects; 68 percent of this amount has gone to rural development projects. About 79 percent of the money loaned for such projects has gone to projects directly aimed at the poor. The Bank also estimates that 75 percent of the people benefiting directly from loans to housing and urban development projects, and water supply and sanitation projects are poor. Finally, as is mentioned above, a substantial portion of the remaining 57 percent of the amount loaned by the Bank since its inception has gone for multipurpose projects, portions of which are of direct benefit to the poor. Thus, the extent to which the activities of the IDB have, since its inception, directly benefited the poor has been very substantial. A summary of some of the IDB loans which have been aimed directly at the poor are shown in the attached table.

[The table follows:]

SUMMARY OF SELECTED 1974 IDB LOANS AND TECHNICAL COOPERATION OPERATIONS OF BENEFIT TO THE RURAL POOR

Identification Number (Country)	Purpose	Total IDB Amount	Project Amount of Benefit to Very Poor
Loans:			
278/OC and 420/SF (Mexico)	Rural Irrigation Works	$ 45,000,000	$97,200,000
407/SF (Paraguay)	Farm and Industrial Credit	8,000,000	6,800,000 a/
416/SF (Argentina)	Colonization	11,000,000	20,000,000
394/SF (Chile)	Agricultural Recovery Program	22,000,000	b/
396/SF (Panama)	Fisheries	3,500,000	4,890,000
403/SF (Mexico)	Feeder Roads	15,000,000	29,100,000
401/SF (Honduras)	Rural Water Supply	4,000,000	5,100,000
392/SF (Peru)	Rural Water Systems	4,700,000	9,400,000
393/SF (El Salvador)	Health Services	15,000,000	3,760,000 c/
406/SF (Trinidad & Tobago)	Health Services	5,300,000	2,990,000 d/
Loan Totals		$133,500,000	$179,240,000 e/
Technical Cooperation:			
ATN/SF-1275 (Paraguay)	Assistance to Crédito Agrícola de Habilitación	47,800	47,800 f/
ATN/SF-1277 (Trinidad & Tobago)	Preparation of farm development project	108,000	31,000 g/
ATC/TF (SP)-1295 (Nicaragua)	Feasibility studies and designs for feeder roads	750,000	750,000 f/
ATN/TF-1311 (Regional)	Techniques of extension and training to improve the dissemination of research results	2,000,000	2,000,000 f/
ATN/SF/TF-1319 (Regional)	Preparation of 6 projects for fishermen and rural development	689,000	689,000 f/
ATC/TF(SP)-1320 (Paraguay)	Feasibility studies for farm marketing and production in Itaipu area	234,000	234,000 f/
ATN/SF-1343 (Panama)	Rural management program to benefit farmers' organizations	223,000	223,000 f/
AT-230 (Regional)	Use of SPTF funds for social development financing by Latin American Confederation of Savings & Credit Cooperatives, through Inter-American Foundation	1,000,000	1,000,000 f/
Technical Cooperation Totals		$5,051,800	$4,974,000 f/

a/ Based on 90% of the total farm credit program.
b/ Not available; those eligible for subloans include a very large number of very poor landless worker who received land under the agrarian reform program, as well as those medium-scale farmers whose holdings according to the law were below the size of farm subject to expropriation; information is not available on the probable distribution of subloans between the two groups.
c/ Based on the proportion of the project programmed for rural health posts and small health units.
d/ Based on the proportion of the total construction cost allocated to rural health centers.
e/ Not including amounts of benefit to very poor farmers in Chile (see note b/ above).
f/ Not including technical cooperation financed by the local contributions.
g/ Based on proportion of extension and marketing services and credit for cooperatives in the draft project being prepared.

CREDIT UNION GRANTS

Mr. CONTE. Would you outline the argument for credit union development grants rather than loans to existing credit unions?

Mr. PORGES. At the present stage of development in Latin America, credit union development grants are more effective than loans to existing credit unions in reaching the poor. Existing credit unions are primarily urban and primarily middle and upper class oriented. They do not finance the kinds of projects which benefit the poor, and they are not willing to take the risk of lending to the poor. Credit union grants are required for the development of credit unions oriented toward rural development and toward development projects designed to raise the standard of living of low-income people.

EARMARKING CONTRARY TO U.S. INTERESTS

Mr. CONTE. In what way is earmarking of funds contrary to the interest of the United States?

Mr. PORGES. The United States has a very strong interest in encouraging development in Latin America along lines which are both effective and compatible with our own economy. Over the last 15 years the U.S. Government, through its firm support of the IDB, has indicated its endorsement of channeling foreign assistance through multilateral industries as consistent with overall U.S. interests. Specifically it is in the interest of the United States to participate jointly with the Latin American countries in the IDB because it permits maximization of economic and technical resources through an essentially apolitical development finance institution. Clearly it is essential to the purpose of the Bank that all of the member countries participate in the formulation of the Bank's lending policies.

Earmarking is contrary to the multilateral nature of the Bank. The president of the IDB and the governments of several member countries have pointed out that it is inconsistent with the IDB Articles of Agreement. In addition, they have voiced serious concern that other countries would follow the precedent of the earmarking provision by attaching special conditions to the funds which they contribute to the Bank. Such a practice would eliminate multilateral decisionmaking as the means for allocating the Bank's resources, and would impose an impossible burden of managing all of the separate funds that would be created thereby. Moreover, such a practice would gravely threaten the apolitical nature of the Bank, opening the way for individual countries to earmark funds on the basis of political, rather than economic, considerations.

U.S. INTERESTS IN THE IDB

Mr. CONTE. What really are the interests of the United States in the IDB?

Mr. PORGES. The interest of the United States in IDB is to encourage development in Latin America along lines which are both effective and compatible with our own economy. The Latin Americans really appreciate and value their membership in IDB. U.S. participation is important in maintaining neighborly and constructive relationships in the Western Hemisphere and in promoting trade.

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Since the IDB stresses the role of market forces in the effective allocation of resources, the development of outward-looking trading economies and the critical role of private enterprise in the development process, it is encouraging growth in ways most beneficial to the interests of the United States.

The Bank also plays an important role in spreading development benefits to the poorer people. In recent years the Bank has placed greater emphasis on agriculture, the family farm, and coopeartives—an emphasis the United States has encouraged and supported. In short, the basic approach of all the international development banks, including the IDB, to economic development is consistent with U.S. views, including views consistently expressed by the Congress.

Mr. CONTE. What portion of the Bank's subscription comes from the United States?

Mr. PORGES. As of December 31, 1974, the U.S. share of the Bank's ordinary capital was 40.22 percent of the total and included $361,903,000 in paid-in capital and $2,047,213,000 in the form of callable capital to serve as guarantee for the Bank's borrowing operations. As of the same date, the U.S. contributions to the fund for special operations was $3,040 million or 69 percent of the total.

Mr. CONTE. What portion of the Bank's credits are used for procurement of American goods and services?

Mr. PORGES. On a cumulative basis, calculated as of December 31, 1974, the United States' share of ordinary capital procurement was 36.1 percent and its share of procurement from FSO loans was 64.6 percent. On a combined basis, the U.S. share from both windows was 45.2 percent.

NONREGIONAL MEMBERS

Mr. CONTE. Who are the European nations who will be joining the IDB? Will they participate in the 1976–78 replenishment? To what extent?

Mr. PORGES. The following table lists the 12 nonregional countries which have completed negotiations to join the Bank. The amounts of their agreed-upon contributions totalling $745 million, are also indicated. It is anticipated that the timing of these initial nonregional contributions will coincide with the schedule of the upcoming replenishment. The nonregional countries, therefore, will not participate in the replenishment per se. However, the nonregional exercise will involve the creation of some $134 million of capital shares that the nonregional countries are not at this time prepared to purchase. In addition, the replenishment exercise would create some $127 million of unassigned shares. The nonregional countries which are currently preparing to join the IDB and other nonregional who may decide to join will have the right to subscribe to these additional shares over the period 1976–78 up to amounts consistent with their overall 8 percent share of the Bank's capital. They would of course be expected to make corresponding additional contributions to the FSO. Thus, it is hoped that they might effectively contribute more than the anticipated $745 million during the period of the current members' replenishment. The nonregional countries also are expected to participate in future replenishments on a basis satisfactory to the other members.

[The table follows:]

PROPOSED SUBSCRIPTIONS BY PRESPECTIVE MEMBERS TO INTERREGIONAL CAPITAL STOCK AND FUND FOR SPECIAL OPERATIONS

[Expressed in U.S. dollars]

	Interregional capital stock			Fund for special operations
	Paid in	Callable	Total	
Austria	832, 377	4, 222, 201	5, 054, 578	5, 054, 578
Bigium	2, 062, 847	10, 434, 869	12, 497, 716	12, 497, 716
Denmark	892, 694	4, 499, 660	5, 392, 354	5, 392, 354
Germany	10, 410, 742	52, 681, 009	63, 091, 751	63, 091, 751
Israel	820, 313	4, 173, 948	4, 994, 261	4, 994, 261
Italy	10, 157, 410	51, 438, 476	61, 595, 886	61, 595, 886
Japan	11, 339, 627	57, 385, 748	68, 725, 375	68, 725, 375
Netherlands	1, 544, 120	7, 817, 104	9, 361, 224	9, 361, 224
Spain	10, 157, 410	51, 438, 476	61, 595, 886	61, 595, 886
Switzerland	2, 267, 925	11, 484, 388	13, 752, 313	13, 752, 313
United Kingdom	10, 157, 410	51, 438, 476	61, 595, 886	61, 595, 886
Yugoslavia	832, 377	4, 222, 201	5, 054, 578	5, 054, 578
Total	61, 475, 252	311, 236, 556	372, 711, 808	372, 711, 808

IDB STAFF

Mr. CONTE. Could you tell the committee what the total number of staff people you presently have working for the Bank and what percent of these are represented by Americans?

Mr. PORGES. The table below will provide the information on the number of U.S. citizens employed by the IDB.

[The table follows:]

NUMBER OF U.S. NATIONALS ON IDB STAFF

	Total staff			Professional staff		
	Total	United States	United States (percent)	Total	United States	United States (percent)
December 1970	960	178	18.54	452	116	25.66
December 1972	1, 042	202	19.39	520	149	28.65
December 1974	1, 387	255	18.39	818	198	24.21

U.S. INFLUENCE IN THE IDB

Mr. CONTE. There was an article in the Washington Post which indicated the IDB was attempting to attract Arab investors and reduce the influence of the United States in the Bank. Do you have any comment on some countries' desires such as Venezuela's to see a smaller role for the United States?

Mr. PORGES. Venezuela and the other members of the IDB have agreed on the proposed nonregional membership exercise, including a provision that will assure the United States of no less than 34.5 percent of the voting power unless we agree to a reduced share. This provision will sustain U.S. veto power in the FSO. The fact that Venezuela and the other members have agreed to this provision and have also expressed their intent to participate in a new capital replenish-

ment, including their first hard currency contributions to the FSO, suggests that there is no strong Latin American pressure for a reduction of U.S. influence in the IDB.

The IDB is constantly alert to opportunities to acquire financial resources in international markets at the lowest cost. Thus it has been in contact with Arab investors, as well as other potential investors. Funds acquired from such investors through the sale of bonds, however, will not affect the voting power of the United States in the Bank since the latter depends solely on the subscriptions by members to the Ordinary Capital stock of the IDB.

Nonregional membership in the IDB, as distinguished from bond purchases by nonregional countries of IDB bonds, will entail a dilution of the United States voting share but serve the burden-sharing interests of both the United States and the Latin American countries.

MOVING IDB HEADQUARTERS

Mr. CONTE. I believe at the last annual meeting in Santiago the Venezuelans also suggested that the Bank headquarters be moved from Washington to Caracas. Has any action been taken on that suggestion?

Mr. PORGES. This possibility was raised by the Venezuelans at the annual meeting in Santiago last year. So far as I know, there has been no reaction of any kind to this suggestion.

Mr. LONG. Thank you very much, gentlemen. I am encouraged by what you tell me.

The committee is adjourned.

MONDAY, MAY 19, 1975.

OVERSEAS PRIVATE INVESTMENT CORPORATION

WITNESSES

MARSHALL T. MAYS, PRESIDENT AND CHIEF EXECUTIVE OFFICER
JONATHAN C. DILL, SENIOR CORPORATE PLANNING OFFICER
EARLE A. GUMBS, CHIEF ACCOUNTANT AND BUDGET OFFICER

Program and Financing (in thousands of dollars)

Identification code 04-12-4030-0-3-151	1974 actual	1975 est.	1976 est.
Program by activities:			
Operating costs, funded:			
1. General administrative expenses	4,037	5,583	5,379
2. Investment encouragement fund (investment survey cost)	−141	500	550
3. Insurance and guaranty program:			
(a) Insurance reserves (claims paid)	23,968	40,000	17,000
(b) Guaranty reserves (claims paid)	−656	6,500	----------
Total operating costs	27,208	52,583	22,929
Capital outlay funded:			
1. Direct investment fund (loans)	5,070	4,100	14,400
2. Fixed assets and equipment	7	30	33
3. Other assets acquired	−4,984	----------	----------
Total capital outlay	93	4,130	14,433
Total program costs	27,301	56,713	37,362
Changes in selected resources (claims)	−1,329	−18,069	13,339
10 Total obligations	25,972	38,644	50,701
Financing:			
Receipts and reimbursement from:			
11 Federal funds:			
Interest revenue from U.S. Treasury securities	−10,875	−13,352	−13,175
Cooley loan administration (reimbursements)	−72	−84	−84
14 Non-Federal funds:			
Loan program	−1,447	−2,774	−4,189
Insurance program	−25,902	−23,770	−22,557
Guaranty program	−2,721	−2,942	−3,291
21 Unobligated balance available, start of year	−162,167	−202,212	−206,490
24 Unobligated balance available, end of year	202,212	206,490	199,085
40 **Budget authority (appropriation)**			
Insurance and guaranty reserve account	25,000	----------	----------
Relation of obligations to outlays:			
71 Obligations incurred, net	−15,045	−4,278	7,405
72 Obligated balance, start of year	115,070	120,625	102,556
74 Obligated balance, end of year	−120,625	−102,556	−115,895
90 Outlays	−20,600	13,791	−5,934
Distribution of outlays by account:			
Insurance and guaranty reserve account	23,312	46,500	17,000
Overseas Private Investment Corporation operating account	−43,912	−32,709	−22,934

Object Classification (in thousands of dollars)

Identification code 04-12-4030-0-3-151		1974 actual	1975 est.	1976 est.
	Personnel compensation:			
11.1	Permanent positions	2,371	2,558	2,661
11.3	Positions other than permanent	71	80	80
11.8	Special personnel services payments	94	100	110
	Total personnel compensation	2,536	2,738	2,851
12.1	Personnel benefits: Civilian	188	353	379
21.0	Travel and transportation of persons	172	284	400
23.0	Rent, communications, and utilities	314	368	414
24.0	Printing and reproduction	91	126	112
25.0	Other services	710	1,673	1,178
26.0	Supplies and materials	26	41	45
31.0	Equipment	7	30	33
33.0	Investments and loans	5,070	4,100	14,400
41.0	Grants, subsidies and contributions	−141	500	550
42.0	Insurance claims and indemnities:			
	No assets received	23,312	46,500	17,000
	Assets received	−4,984	----------	----------
	Total costs funded	27,301	56,713	37,362
94.0	Change in selected resources	−1,329	−18,069	13,339
99.0	Total obligations	25,972	38,644	50,701

Personnel Summary

Total number of permanent positions	108	130	130
Full-time equivalent of other positions	4	4	4
Average paid employment	123	125	125
Average GS grade	9.93	10.05	10.26
Average GS salary	$17,671	$17,836	$18,055
Average salary, salary established by the President, Overseas Private Investment Corporation (83 Stat. 805)	$30,074	$30,289	$30,824

Mr. PASSMAN. The committee will come to order.

We shall continue this afternoon our examination of requests for for funds for foreign aid and assistance. Today we will examine the Overseas Private Investment Corporation. We have present as witnesses Hon. Marshall T. Mays, president and chief executive officer; Mr. Jonathan C. Dill, senior corporate planning officer; and Mr. Earle A. Gumbs, chief accountant and budget officer.

Mr. Mays, we welcome you back before the committee. It appears this is going to be an extremely pleasant examination. You may proceed with your statement.

GENERAL STATEMENT

Mr. MAYS. Mr. Chairman and members of the committee, I appreciate this opportunity to report to you on the activities and financial condition of the Overseas Private Investment Corporation.

The past year has been a very important one for OPIC. During this time, we have continued our high levels of new insurance business and net income. We have also improved our outstanding claims position by settling two major claims in ways which we expect will minimize OPIC's ultimate cash payout. Our contingent liabilities relating to previous claims settlements have been reduced, and we have made sizable recoveries under arrangements with the Government of Chile on account of past claims payments.

These are all important events which, taken together, have significantly strengthened the Corporation's financial position. As a result of our present financial position and the general outlook for the program, we believe that OPIC is now operating on a self-sustaining basis and, barring any catastrophic loss, will not need appropriations in the future.

We have also made significant strides in implementing the various recommendations made by the Congress last August in extending our authority. We have made important progress toward the goals of privatizing the political risk insurance program by encouraging private U.S. insurance companies to participate directly in the program for the first time. We have also instituted programs designed to identify investment opportunities in the least developed nations, intensified our efforts to assist smaller U.S. investors, and undertaken initiatives to encourage "new mode," or nonequity, forms of investment.

INCOME, CLAIMS, RESERVES

As a result of our continuing high levels of new insurance volume and interest income, OPIC's operating income remains at very high levels, and for the entire fiscal year should be at or above the record levels achieved last year. Our administrative expenses remain low. Our earnings continue to allow OPIC to maintain a high level of reserves against future claim payments without the need for routine appropriations. Last month the OPIC Board of Directors transferred an additional $30 million of the Corporation's earnings into our reserves.

During the past year, OPIC also made progress in recovering sums which we have paid to investors in settlement of claims. As part of this effort, we reached an agreement with the Government of Chile to com-

pensate OPIC, with interest, for a claims payment made in 1972 following the expropriation of the Exotica copper mine. Under this and other agreements providing for reimbursement to OPIC, we have recovered about $7,700,000, including interest, in this fiscal year.

Since last June, foreign governments have also made payments totaling over $12 million to private investors, reducing the outstanding amounts of debts guaranteed by OPIC as part of several former claims settlements. These payments have reduced OPIC's outstanding contingent liabilities.

Recently, OPIC settled two important insurance claims, one by a subsidiary of International Telephone & Telegraph Corp., for the nationalization of its interest in the Chilean Telephone Co. and one by Reynolds Metals Co. for the nationalization of its bauxite mining operations in Guyana. Each of these settlements involved a combination both of cash payments by OPIC to the investor and OPIC's full guarantee of the payment of notes issued as compensation by the host government. By guaranteeing these notes, OPIC facilitated their sale and thus was able to reduce the amount of its own immediate cash payment required, while still providing to the investors satisfactory levels and forms of compensation. OPIC expects that these guaranteed obligations will be paid when due, thus not requiring any future cash payments by OPIC. In addition, under the provisions of these settlements, OPIC expects to recover over time the full amount of its cash payments which have been made, plus interest.

OPIC's reserves for potential losses currently total approximately $253 million. An additional $10 million of earnings will be allocated to the reserves on May 28, making the total $263 million. Although this is only $2 million higher than the reserve amount at the end of the last fiscal year, our present reserves are much stronger in relation to our potential liabilities than they were last year. The amount of compensation requested for presently pending claims is less than $3 million, and we have satisfactorily settled the ITT claim, which was pending last year, of approximately $95 million. Although we have approximately $166 million of contingent liabilities outstanding as a result of our claim settlements, we believe that these obligations will be paid when due by the respective obligors. These debts mature over the next 14 years, so it is anticipated that OPIC will be able to service them from its expected normal cash flow should any defaults occur.

As the committee is aware, in 1972 OPIC denied liability under two claims totaling approximately $154 million filed by the Anaconda Co. Anaconda has submitted these claims to arbitration under the provisions of the insurance contracts. The arbitrators have the matter under submission, and a decision should be forthcoming in the near future. This decision will be limited to the question of whether or not OPIC is liable under the contract. If OPIC is held liable, further hearings will be necessary to determine the amount to be paid. Anaconda has reached a settlement with the Government of Chile regarding their investment which will affect the nature of OPIC's possible liability.

INDOCHINA

OPIC has never operated in Cambodia. However, recent events in Vietnam will probably result in claims being filed relating to invest-

ments insured in that country. In the month preceding the fall of the Saigon Government, OPIC worked closely with its insured investors to take appropriate steps to protect and preserve assets of the insured enterprises and to reduce the amount of prospective losses.

The current amount of both our expropriation and war insurance outstanding in Vietnam is about $34 million, all but $100,000 of which was written by AID during the period 1962–66. Of this amount, however, $32 million represents insurance of investments in two branch banks, and the actual amount of these two investments may have been reduced considerably below the level of current coverage before the Government fell. As of yet no claims have been filed under our Vietnam coverage, and it will be some time before the investors and OPIC can determine the exact extent of any insured losses. OPIC's expropriation risk in Vietnam is shared by the private participants in the Overseas Investment Insurance Group and covered under OPIC's reinsurance agreements.

PRIVATIZATION AND RISK MANAGEMENT EFFORTS

Last February, OPIC reached an agreement with 12 U.S. insurance companies and Lloyd's of London to form the Overseas Investment Insurance Group. Formation of this Group is an important step in attempting to attract private insurance companies to participate in the investment insurance program and, eventually, to take over all direct underwriting of political risk insurance.

The Group will function as a combined underwriting and reinsurance pool for expropriation and currency inconvertibility insurance, issuing new insurance coverages and sharing a portion of these risks in OPIC's existing portfolio. The private insurers subscribed to a total of $6,550,000 of a $40 million per country first loss pool, with OPIC taking up the balance. OPIC, besides being a member of the Group, will act as a reinsurer for the Group's excess losses. OPIC will also act as manager for the Group for the first few years and will provide services for users of the program as it has in the past.

In addition to participation in the Group, OPIC has substantial reinsurance of its expropriation risks with Lloyd's of London and will shortly enter into a new contract with Lloyd's to provide substantial reinsurance of inconvertibility risks. OPIC has also made progress in developing a separate program for transferring to private entities its war/revolution/insurrection insurance portfolio.

THE LEAST DEVELOPED NATIONS

OPIC has intensified its efforts to spread its risks by encouraging investments in those countries which have not received much private investment to date. During the past year, OPIC undertook special investment opportunity identification and promotion missions to Central America, west and north Africa, Haiti, the Far East, and the Middle East. Based on investor reactions and indications of interest to date, these and future efforts like them should allow OPIC to broaden considerably its insurance business in these countries. This risk management objective is also compatible with our developmental goal of helping the poorest nations. I am happy to report that approximately two-thirds of the investment insured this fiscal year has been in countries with per capita incomes below $450 per year.

BENEFITS TO THE U.S.

The OPIC program continues to encourage projects which are beneficial to the United States. We review carefully every application for assistance and refuse assistance to projects which would have a significant adverse impact on the levels of domestic U.S. employment or the U.S. balance of payments. OPIC does not offer any encouragement or assistance to "runaway" industries. Our longstanding policy in this regard was codified by the Congress last year.

Our record so far this fiscal year is impressive. In the first 9 months of the year, we insured 105 projects and we expect that these investments will result in the immediate export of $223 million of U.S. capital goods and equipment for their initial procurment needs. During the first 5 years of operations, we anticipate that these projects will purchase an additional $325 million of U.S. goods and services for use in their operations. Taking both the net direct trade benefits and the net financial flows expected from these projects, they should benefit the U.S. balance of payments over this 5-year period by approximately $420 million. The indirect trade benefits which result from the host countries' increasing capacity to use and to pay for U.S. goods could result in as much as an additional $235 million of U.S. exports during this period. OPIC estimates that these project-related trade benefits should result in the creation of approximately 2,900 domestic U.S. jobs.

These benefits of the OPIC program are real and important. However, there continues to be, I believe, some considerable misunderstanding of the importance of foreign investment to the United States. Recently, we have heard speculation that if there were no OPIC program, large amounts of additional capital presumably would be available for investment here in the United States.

While it is true that OPIC insures significant amounts of U.S. investment overseas, much of this investment is in the form of non-cash transfers, such as services, know-how, technology, and equipment. A significant amount of the actual cash investment OPIC insures is in the form of local currency borrowings or Eurodollar borrowings which never flow from the United States. OPIC actually encourages the use of such foreign-source financing to protect the U.S. balance of payments. These foreign funds, while frequently used to purchase U.S.-made goods and equipment, would not usually be available for domestic capital expansion projects in this country. Additionally, much of the U.S.-sourced cash investments insured by OPIC never actually leave this country. They are immediately used to purchase U.S.-made goods and equipment, and are thus immediately put back into the domestic financial system and are available for lending to domestic industry, homebuilders, consumers, and others.

As an illustration of these points, total U.S. investment, both insured and uninsured, in projects supported by OPIC in the first three quarters of this fiscal year was approximately $358,305,000. Of this amount, only about $221,766,000 will be in the form of cash from the United States, and virtually all of this cash investment is expected to be offset by immediate U.S. procurement for these projects of $221,533,000. Additional, ongoing U.S. procurement and capital reflows from these projects during the following 5 years is expected to exceed $550 million.

Another point which should not be forgotten is that domestic investment in the United States is frequently dependent upon foreign sources of raw materials or other supplies. For example, workers in a Louisiana nickel refinery are today processing ore from an OPIC-insured mine in Botswana and workers in an Alabama aluminum smelter are processing alumina from an OPIC-insured mine in Jamaica.

In addition to its normal policy guidelines designed to protect the U.S. balance of payments and our domestic capital availability, OPIC has recently undertaken special efforts aimed at promoting "triangular" investments—the bringing together of U.S. business skills and initiative with surplus Eurodollars or petrodollars for projects in the developing nations.

EFFORTS FOR SMALLER INVESTORS

OPIC is also continuing its efforts to assist smaller U.S. companies and investors to take advantage of business and investment opportunities in the developing nations. We are continuing our successful series of regional seminars around the United States to inform these people of our programs and how they can use them to their advantage. We are increasing our efforts at project opportunity identification and project brokering to qualified U.S. investors who have the capability to undertake foreign investments, but lack the knowledge of specific opportunities.

DEVELOPMENTAL BENEFITS OF THE OPIC PROGRAM

No report on OPIC would be complete without some mention of the developmental benefits to their host countries of the projects we encourage. As I have mentioned, we are increasing our efforts to assist and encourage investors to undertake projects in the least developed nations through a series of investment missions in selected regions of the world, and to mobilize foreign sources of financing for these ventures. We are also making special efforts to encourage projects which will increase the suppy of food to the peoples of these countries because we firmly believe that private investment can and must play an increasingly important role in helping to meet the growing problem of hunger throughout the world. These and similar efforts will continue.

The cooperation which we have received and which we continue to receive in these efforts from foreign government officials, and their continuing requests for additional assistance from us, speak eloquently to our success in helping to provide their countries with jobs for their people, products to improve their standards of living, and additional tax revenues that their governments can use to provide improved social services for their people.

In recognition of this very significant role that private investment can and does play in the advancement of the poorer nations of the world, OPIC is proud to have presented the first annual "Development" Award to the Kaiser Aluminum and Chemical Co. last December. The award was given in honor of the outstanding contribution made by Kaiser's Volta Aluminum Co. affiliate to the social and economic development of Ghana.

On this very pleasant note, I would like to thank each of you for your kind attention and stand ready to answer any questions which you may have.

1975 APPROPRIATIONS

Mr. PASSMAN. It would appear that your 1975 appropriation was zero.

Mr. MAYS. Yes.

Mr. PASSMAN. You are asking for the same amount in fiscal year 1976?

Mr. MAYS. Right.

Mr. PASSMAN. Wouldn't this be a pleasant job if this could be true in all of the 27 spigots of foreign aid that may total $15 billion?

FINANCIAL STATEMENTS

We will insert certain background material in the record at this point.

[The material follows:]

OVERSEAS PRIVATE INVESTMENT CORPORATION

STATEMENT OF INCOME EXPENSES

	Fiscal year—		
	1974 actual	1975 estimate	1976 estimate
Income:			
Insurance premiums	$25,807	$22,970	$20,890
Investment guarantee	2,721	2,942	3,291
DIF interest	1,447	1,667	2,559
Interest U.S. obligations	10,011	13,352	13,175
Other income	959	1,107	1,630
Total income	40,945	42,038	41,545
Operating expenses:			
Payroll and benefits	2,724	3,091	3,230
Travel	180	319	410
Contractual	524	1,638	1,168
Printing reproduction and supplies	117	167	157
Preinvestment assistance	37	500	550
Rent, utilities, communication and equipment	339	398	447
Total	3,921	6,113	5,962
Less management fee from consortium [1]		(800)	(1,667)
Cooley loan reimbursement [2]	(72)	(84)	(84)
Net operating expenses	3,849	5,229	4,211
Additions to retained earnings	37,096	36,809	37,334
Personnel	126	130	130

[1] Based upon 10 percent of consortium revenue.
[2] Fiscal year 1973 actual includes prior year adjustments.

OPIC earnings and expenses—Fiscal year 1975 (9-month period ending Mar. 31, 1975)

Income:	
Insurance fees	$19,499,140
Investment guaranty fees	2,097,140
Direct investments fund interest	929,746
Interest—U.S. obligations	10,473,763
Interest—claims rescheduling agreement	1,693,941
Other income	198,058
Total income	34,891,788

Expenses:	
Salaries	$2,037,361
Travel	148,296
Rent, communications and utilities	264,486
Printing and reproduction	88,374
Representation	3,788
Other contractual	855,826
Supplies	50,779
Pre-investment survey	71,548
Depreciation	17,182
Total expenses	3,537,641
Net income	31,354,147

PRO FORMA BALANCE SHEET

[In thousands of dollars]

	Fiscal year ended—	
	1975	1976
Assets:		
Cash	10,519	10,400
U.S. obligations	200,527	238,000
Appropriated insurance and guaranty fund	80,000	63,000
Direct investment fund	20,000	5,600
Total	311,046	317,000
Other current assets:		
Direct investments	20,000	34,400
Assets acquired from claims settlements	121,000	138,000
Less reserve against claims-related assets	(81,914)	(98,914)
Fixed assets	101	104
Total	370,233	390,590
Liabilities, reserve and net worth:		
Unearned income (United States securities)	4,000	4,000
Accounts payable and accruals	1,968	1,991
Direct liabilities related to claims settlements	39,086	39,086
Advance payments	2,000	2,000
Fees paid but not earned	13,000	13,000
Total liabilities	60,054	60,077
Reserves:		
Insurance reserves	170,594	188,594
Guaranty reserves	79,034	79,034
Total reserves	249,628	267,628
Net worth:		
Capital stock	40,000	40,000
Retained earnings	10,551	12,885
Foreign currency	10,000	10,000
Total net worth	60,551	62,885
Total liabilities, capital and reserves	370,233	390,590

STATEMENT OF CHANGES IN INVESTMENT OF U.S. GOVERNMENT

[In thousands of dollars]

	Capital	Foreign currency	Insurance reserve	Guaranty reserve	Retained earnings	Total
Balances July 1, 1974	40,000	.....	180,594	80,534	8,742	309,870
Appropriation by Congress					36,809	36,809
Net income					(35,000)	
Transfer from retained earnings			30,000	5,000		(46,500)
Losses on claims settlements			(40,000)	(6,500)		10,000
Foreign currency allocation		10,000				
Balance July 1, 1975	40,000	10,000	170,594	79,034	10,551	310,179
Appropriation by Congress					37,334	37,334
Net income					(35,000)	
Transfer from retained earnings			35,000			(17,000)
Losses on claims settlements			(17,000)			
Balance June 30, 1976	40,000	10,000	188,594	79,034	12,885	330,513

Investment Insurance Program

Earned income, expenses, appropriation, and reserves—1949 to Mar. 31, 1975

Income:	*Millions*
Insurance program	$221.7
Finance program	16.6
Interest on premium income earned	32.2
Other	4.6
Total income	275.1
Administrative expense [1]	−20.1
Net income before claim payments	255.0
Net claim payments	−99.7
Net income	155.3
Appropriations	164.1
Reserves balances:	
Insurance	149.6
From earnings	102.8
From appropriations	46.8
Guarantee	73.5
From earnings	36.9
From appropriations	36.6
Unallocated earnings	40.1

[1] Administrative cost data not available prior to fiscal year 1970 because AID and other predecessor agencies did not segregate their administrative costs against specific programs.

OPIC INSURANCE PROGRAM

[In millions of dollars]

	Inconvertibility	Expropriation	War/revolution/insurrection
1. New insurance written, fiscal year 1975 (through Mar. 31, 1975):			
Total (number of new contracts, 128. Combined face amount, $736,300,000)	244.6	288.5	203.2
2. Insurance outstanding, Mar. 31, 1975:			
Current coverage	813.5	2,463.6	2,128.1
Maximum coverage	2,941.8	3,336.6	2,887.0

OPIC reserves

1. Reserves as of Apr. 14, 1975:	
Insurance	$174, 615, 769
Finance	78, 487, 137
Total reserves	253, 102, 906
Unallocated earnings available	10, 096, 308
2. Additions to reserves in fiscal year 1975:	
Allocation of earnings to insurance reserve	25, 000, 000
Allocation of earnings to guaranty reserve	5, 000, 000
Recoveries on claims settlements (principal only):	
Walsh Construction	194, 525
Exotica	3, 340, 436
Eximbank (Braden)	443, 056
ITT-Chitelco	103, 923
Arauco	150, 552
Braden	225, 557
Monrovia (DLF)	2, 560
Total	4, 460, 609
Additions to reserves through Apr. 14, 1975	34, 460, 609

OPIC INSURANCE CLAIMS SETTLEMENTS

[Fiscal year 1975 through Apr. 30, 1975]

	Investor	Country	Type of claim	Amount paid
1. Cash payments made:				
Date paid:				
Aug. 1, 1974	Amer. Sec. & Trust Co.[1]	Chile	Expropriation	$4, 567, 579
Aug. 2, 1974	Vinnell Corp	Bangladesh	War damage	12, 500
Aug. 16, 1974	William Atwell	Kenya	Inconvertibility	55, 917
Dec. 2, 1974	International Chemical Fibers Co	Chile	Expropriation and war damages.	128, 508
Dec. 20, 1974	Export-Import Bank[1]	do	Expropriation	4, 985, 570
Jan. 7, 1975	Int. Tel. & Telegraph Corp	do	do	34, 706, 916
Jan. 31, 1975	Amer. Sec. & Trust Co.[1]	do	do	4, 521, 790
Feb. 20, 1975	Reynolds Metals Co	Guyana	do	10, 000, 000
Apr. 15, 1975	Bank of America	Vietnam	Inconvertibility	67, 124
	Total			59, 045, 904
2. Claim settlements arranged with the backing of OPIC guaranties:				
Date of settlement:				
Jan. 7, 1975	Int. Tel. & Telegraph Corp	Chile	Expropriation	59, 384, 615
Feb. 20, 1975	Fed. Fin. Bank[2]	Guyana	do	5, 453, 699
	Total			64, 838, 314
3. Claims filed and pending, as of Apr. 30, 1975:				
Date of claim:				
Mar. 23, 1973	Belbagco, Inc	Bangladesh	War damage	762, 789
May 8, 1972	do	do	Expropriation	1, 836, 645
Nov. 1, 1972	Ford Motor Co	Chile	do	276, 000
Mar. 18, 1975	McNally Pittsburgh Mfg. Corp.	India	Inconvertibility	62, 954
	Total			2, 938, 388

[1] This is in connection with the Braden settlement in Chile and does not represent a new separate claim.
[2] This is in connection with Reynolds Metals claim.

4. Settlement of Claim by Subsidiary of ITT—Explanation.—On January 7, 1975, OPIC and International Telephone & Telegraph Corp., Sud America ("ITTSA"), entered an agreement of settlement pursuant to which OPIC and ITTSA settled claims arising out of the arbitration proceeding concerning the denial of ITTSA's $95 million expropriation claim with respect to the Chile Telephone Co. ("CHILTELCO").

In connection with the agreement of settlement, the following transactions occurred:

(*a*) OPIC purchased six promissory notes totaling $17.8 million in face amount and bearing interest at an annual rate of 10 percent. These notes were issued by CORFO (the Chilean Development Corporation) to ITTSA as part of the compensation paid on account of the expropriation of ITTSA's equity in CHILTELCO and have been guaranteed by the Central Bank of Chile. The notes mature semiannually beginning January 15, 1985, and ending July 15, 1987.

(*b*) OPIC purchased 13 promissory notes totaling $16.8 million in face amount, approximately half of which bear interest at an annual rate of 6 percent and the remainder bear interest at an annual rate of 5.6 percent. These notes had been issued by CHILTELCO to ITTSA under a 1966 loan agreement and have been guaranteed by the Central Bank of Chile. The notes mature semiannually beginning May 15, 1975, and ending on November 15, 1980.

(*c*) OPIC paid ITTSA the sum of $147,367.95 representing accrued interest through January 6, 1975 on the notes referred to in (*a*) and (*b*) above.

(*d*) OPIC paid to ITTSA the sum of $1,065,836.93 representing the amount of premiums paid by ITTSA to OPIC subsequent to the date of expropriation, with interest thereon at 6 percent per annum.

(*e*) OPIC guaranteed promissory notes totaling $59.3 million in face amount which bear interest at an annual rate of 10 percent. These notes were issued by CORFO to ITTSA as part of the compensation paid on account of expropriation of ITTSA's interest in CHILTELCO. The notes mature semiannually beginning January 15, 1975, and ending July 15, 1984.

OPIC RECOVERIES RELATED TO PREVIOUS CLAIM PAYMENTS

[Fiscal year 1975, through Mar. 31, 1975]

Project	Recovery in fiscal year 1975 (principal+interest)	Outstanding balance (principal+interest)
Braden	$1,956,238.63	$24,782,442.24
Arauco	597,735.65	5,889,683.88
Petrodow	17,537.67	683,828.17
Exotica	4,575,000.00	11,709,375.00
ITT	44,538.46	57,694,655.89
Ex-Im Bank (Braden)	509,939.25	4,408,337.11
Total	7,700,989.66	

REPAYMENTS UNDER CLAIM SETTLEMENT GUARANTIES

[Fiscal year 1975, through Mar. 31, 1975]

Project	Recovery in fiscal year 1975 (principal+interest)	Outstanding balance (principal+interest)
U.S. Steel & Engelhard	$444,444.44	$6,666,666.68
Parsons & Whittemore	703,208.80	1,782,628.63
Cerro	5,136,464.00	9,290,242.00
Bethlehem Steel	2,752,395.00	17,955,691.00
Total	9,036,512.24	

SCHEDULE OF OUTSTANDING CLAIMS RECOVERIES DUE OPIC

(Consolidated, Principal and Interest)

As of March 31, 1975

Fiscal year:	
1975	$2,761,310
1976	13,480,139
1977	13,798,665
1978	12,833,270
1979	11,769,022
1980	11,125,654
1981	7,350,126
1982	5,566,178
1983	5,449,443
1984	4,093,693
1985	5,827,814
1986	7,867,902
1987	7,274,056
1988	3,710,980
1989	593,287
Total	113,501,539

(Of which, principal: $80,306,262; interest: $33,195,277.)

MATURITY SCHEDULE FOR OUTSTANDING DEBTS GUARANTEED BY OPIC PURSUANT TO CLAIMS SETTLEMENTS

(Consolidated, Principal and Interest)

As of March 31, 1975

Fiscal year:	
1975	$1,530,328
1976	14,207,419
1977	13,955,790
1978	13,129,244
1979	4,940,004
1980	4,952,426
1981	4,900,764
1982	5,127,325
1983	4,592,263
1984	2,314,120
1985	1,282,955
1986	706,712
1987	706,712
1988	706,712
1989	706,712
Total	73,759,486

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OPIC Finance Program Activity

Fiscal year 1975 (through March 31, 1975)

Disbursements and repayments:	
DIF loan disbursements:	
Integrated circuits (Korea)	$210,000
Korea semiconductor (Korea)	400,000
Minter naval stores (Belize)	278,000
Yaqub leather industries (Afghanistan)	300,000
Total	1,188,000
Investment guaranty drawdowns:	
Marinduque Mining (Philipines)	9,500,000
DIF loan repayments—principal:	
P.T. Kayan River (Indonesia)	946,000
Seaboard Overseas (Africa)	111,111
Cargill Agricola (Brazil)	78,125
Residence Pauline (Haiti)	21,842
Total	1,157,078
Investment guaranties repayments:	
P. T. Kayan River (Indonesia)	1,740,000
Madras Fertilizer (India)	2,156,250
Nicaragua Hotel	58,000
P. T. Indonesia-Indosat	780,000
Pasa (Argentina)	829,500
Total	5,563,750
Present outstanding loan and guaranty levels:	
DIF	17,559,853
Guaranties	177,584,832

CLAIM PAYMENTS AND RECOVERIES MADE DURING FISCAL YEAR 1975

	Claims	Expected recoveries
DIF	None	NA
Guaranties:		
Siam Kraft Paper	122,250	0
TAW	6,898,750	[1] 400,000

[1] Liquidation proceedings in the beginning stage.

Note: Recoveries made on previous finance claim payments: $269,913.

OPIC FINANCE PROGRAM

OUTSTANDING INVESTMENT GUARANTIES AND DIRECT LOANS

(As of March 31, 1975)

A. Investment Guaranties

	Company	Country	Project	Amount Outstanding
1.	Siam Kraft Paper	Thailand	Pulp & Kraft Paper	$ 4,075,000
2.	Nicaragua Hotel	Nicaragua	Intercontinental Hotel-Managua	1,817,000
3.	Ultrafertil	Brazil	Fertilizer Plant	17,751,000
4.	P.T. Indonesia-Indosat	Indonesia	Satellite Communications	1,170,000
5.	Madras Fertilizer	India	Fertilizer Plant	12,937,500
6.	Grands Hotel du Zaire	Zaire	Intercontinental Hotel-Kinshasa	562,500
7.	Volta Aluminum	Ghana	Aluminum Smelter	5,850,000
8.	Freeport Indonesia	Indonesia	Cooper Extraction	48,000,000
9.	Kyung In Energy	Korea	Power & Topping Plant	41,000,000
10.	Zuari Agro Chemical	India	Fertilizer Plant	6,619,200
11.	Korea Nylon Co.	Korea	Nylon Filament Plant	3,000,000
12.	Marinduque Mining	Philippines	Nickel Extraction	17,000,000
13.	P. T. Daralon	Indonesia	Textile Mfg.	5,525,000
14.	Half Moon Bay	Antigua	Hotel	1,200,000
15.	Vanply of Liberia (Commitment Letter)	Liberia	Timber	6,600,000

B. Direct Investments

	Company	Country	Project	Amount Outstanding
1.	PICA	East Asia Regional	Private Subloans 7.39%	$ 2,000,000
2.	Korea Capital Corp.	Korea	Investments in Korea 7½-9%	125,000
3.	ADELA	Latin America Regional	Private Subloans 7.25%, convertible	3,000,000
4.	Indian Motorcycle I	Taiwan	Motorcycle Assembly 7%, convertible	37,500

Company	Country	Project	Amount Outstanding
5. P.T. United Coconut	Indonesia	Coconut Plant 12%	$ 500,000
6. P.T. Kayan River	Indonesia	Logging/Sawmill 7-9%	654,000
7. Residence Pauline	Haiti	Resort Hotel 12%	327,632
(Loan fully participated out to private banks)			
8. Cargill Agricola	Brazil	Soybean Processing 8½%	2,421,875
($1,250,000 of loan participated out to private banks)			
9. Olinkraft Celulose	Brazil	Pulp & Paper Mill 8½%	2,500,000
($1,500,000 of loan participated out to private banks)			
10. Companhia de Papeis	Brazil	Hygenic Paper Mfg.	3,500,000
($1,400,000 of loan participated out to private banks)			
11. Seaboard Overseas	Africa Regional	Subloans to Grain Mills, 8.75%	1,777,778
12. Indian Motorcycle II	Taiwan	Expansion 7%, convertible	25,000
13. P.T. Daralon	Indonesia	Textile Mfg. 7%, convertible	1,000,000
14. Ghana Tuna Fishing	Ghana	Tuna Fishing, 9¼%	615,000
15. TAW	Africa Regional	Leasing Equipment - 1% over prime or CD's, whichever is higher	2,365,700
16. Yaqub Leather Ind.	Afghanistan	Leather Tanning, 10¼%	300,000
(Additional $150,000 undisbursed)			
17. Korea Semi-conductor	Korea	Semiconductor Parts 8-9½%, partly convertible	1,300,000
(Loan to Integrated Circuits Int'l for $300,000 and loan to Korea Semiconductor for $1,000,000. $690,000 undisbursed.)			
18. Minter Naval Stores	Belize	Naval Stores, 12%	278,000

Mr. PASSMAN. Mr. Mays, in the Overseas Private Investment Corporation Amendments Act of 1974 it was stated that "No appropriations shall be made to augment the insurance reserve until the amount of funds in the insurance reserve is less than $25 million." Is that correct?

Mr. MAYS. Yes, sir.

OPIC'S INSURANCE RESERVE POSITION

Mr. PASSMAN. Could you please tell the committee what the present insurance reserve balance is of the Overseas Private Investment Corporation of the latest date?

Mr. MAYS. Yes, Mr. Chairman.

In April the OPIC Board made an allocation to the insurance reserve of $25 million from earnings which brought the balance to $174,615,769.

Mr. PASSMAN. That is the cash reserve?

Mr. MAYS. Yes, sir.

Mr. PASSMAN. Now what is your contingent liability?

Mr. MAYS. Our contingent liabiilty under claim settlements is $166 million.

Mr. PASSMAN. Would this $166 million, if the claims had to be paid, have to work out of the figure you just gave me?

Mr. MAYS. The $166 million would be payable if there are defaults and it would be over the next 14 years; not all at one time.

Mr. PASSMAN. I think you missed my point. Any time you have something on an installment basis it doesn't lessen the responsibility. You mentioned a figure a moment ago, before this last question, of $175 million; did you not?

Mr. MAYS. Yes, sir, $174 million.

Mr. PASSMAN. And if these claims should have to be paid, then the $166 million would work out of the $175 million then?

Mr. MAYS. That is correct.

Mr. PASSMAN. You would really only have $9 million net if you should place in the reserve acount the claims pending?

Mr. MAYS. That is true, Mr. Chairman.

Mr. PASSMAN. Now you talk about paying these claims over a 14-year period. Have those filing the claims admitted they have a valid claim and you are merely paying them out on installment plans?

Mr. MAYS. These are guarantees by OPIC of foreign government obligations to pay, Mr. Chairman.

Mr. PASSMAN. That have defaulted?

Mr. MAYS. No, sir, that have not defaulted.

Mr. PASSMAN. You are not assuming, then, that you would have to pay out $166 million in claims?

Mr. MAYS. No. We are assuming that we will not, but we are carrying those as contingent liabilities on the possibility that there could be defaults.

Mr. PASSMAN. Are all of your guarantees a contingent liability?

Mr. MAYS. Yes.

Mr. PASSMAN. What would be the amount of loans that you have actually guaranteed on investments abroad? What is the grand total?

Mr. MAYS. We have total exposure, worldwide, of $3.4 billion

Mr. PASSMAN. $3.4 billion?

Mr. MAYS. Yes, sir.

Mr. PASSMAN. Now, we referred to exposure. That simply means these are investments made abroad that we have guaranteed?

Mr. MAYS. Guaranteed and insured.

Mr. PASSMAN. Against this $3-plus billion there are claims pending of $166 million. Do these fall in the doubtful category?

Mr. MAYS. The $166 million are claims that have been settled on the basis of using OPIC's guarantee. There is an additional $3 million of claims pending that have not been resolved.

Mr. PASSMAN. I must admit that I am confused. Are these claims money that we owe under the guarantee program and that we will in the next 14 years pay that money out?

Mr. MAYS. No, sir, it is a contingent liability.

Mr. PASSMAN. All of it is a contingent liability. Anytime you guarantee anything it is a contingent liability. I am trying to break it apart, so I will understand the $3-plus billion. I can understand that; that is your total exposure.

Mr. MAYS. The face amount of the insurance; yes, sir.

Mr. PASSMAN. Then you have this $166 million. What does that represent?

Mr. MAYS. The $166 million represents insured investments where claims were filed.

Mr. PASSMAN. Wait, now. Where claims were filed against OPIC?

Mr. MAYS. Against OPIC.

Mr. PASSMAN. Those claims are pending?

Mr. MAYS. No, sir, those claims are no longer pending, because settlements were reached with the governments that nationalized those investments for compensation.

Mr. PASSMAN. All right. What I am trying to find out, of the $166 million claims that were filed, you say they are a contingent liability. Are they a liability to be paid? Why are they just a contingent liability?

Mr. MAYS. Because they are obligations of governments to pay these private investors and OPIC guaranteed those obligations.

Mr. PASSMAN. I see what you mean. What you have done, you are holding the governments responsible?

Mr. MAYS. That is correct.

Mr. PASSMAN. Rather than possibly the borrower? I can't understand where foreign governments get into it. Usually these loans are made to Americans and others who invest abroad, are they not? How do the governments get into it?

Mr. MAYS. This was insurance against expropriation without compensation.

Mr. PASSMAN. Let me see if I can follow you here. Let's say you are the lender; you are A, the borrower is B. In this country the Government confiscated the assets of creditor B, therefore you could not any longer hold the claim against the borrower but against the government who expropriated the properties?

Mr. MAYS. That is correct, sir.

Mr. PASSMAN. I see.

CLAIMS FILED ON INSURED INVESTMENTS

Could you place in the record a list of the governments whom you are holding responsible for the $166 million, the names of the governments and the amounts?

Mr. MAYS. Yes, sir, we can.

I believe they are detailed in the tables attached to my statement. Chile is the most prominent of these.

Mr. PASSMAN. All right. Let's name them for the record.

Mr. MAYS. Claims settled in the last year——

Mr. PASSMAN. Let's get the ones pending. I am not interested in the ones that are settled.

BANGLADESH

Mr. MAYS. Those claims pending as of April 30, are a claim in Bangladesh.

Mr. PASSMAN. Did they expropriate the property of some company in Bangladesh?

Mr. MAYS. They did.

Mr. PASSMAN. Did they agree to pay the claim?

Mr. MAYS. No; but negotiations are in process.

Mr. PASSMAN. What is the amount of that claim?

Mr. MAYS. $1.8 million is the amount claimed by the investor from OPIC. The claim of the investor against the government of Bangladesh is probably in excess of that amount.

Mr. PASSMAN. You are responsible for $1.8 million?

Mr. MAYS. We have not yet determined the amount of OPIC's liability. The $1.8 million is the amount claimed by the investor.

Mr. PASSMAN. Why does not Bangladesh acknowledge that they owe the claim?

Mr. MAYS. They have acknowledged an obligation to pay but the exact amount that they would pay has not been negotiated between the government of Bangladesh and the private investor.

Mr. PASSMAN. Is this an obligation they assumed from East Pakistan when it was part of Pakistan?

Mr. MAYS. No; this was nationalized after the independence of Bangladesh.

Mr. PASSMAN. I see. What are the other countries?

Mr. MAYS. Mr. Chairman, I might further explain. Under the contract terms of our expropriation insurance, the expropriation must continue for 1 year before OPIC becomes liable. This allows a year for the investor to negotiate with the expropriating government for compensation.

Mr. PASSMAN. In other words, it is the investor who must reach agreement with the government as to what their responsibility may be?

Mr. MAYS. Right.

Mr. PASSMAN. And after they have reached the agreement with the government does it mean you hold the government responsible and the investor, or just the government that expropriated the properties?

Mr. MAYS. The government.

Mr. PASSMAN. The government. Then, if the claim is in excess of what the government agrees to pay, then you have a liability to the investor for the difference?

Mr. MAYS. That is right.

Mr. PASSMAN. What other claims do you have?

Mr. MAYS. We have a claim for $762,000 by the same investor in Bangladesh for war damage. There is still pending a claim in Chile by Ford Motor Co., for expropriation of $276,000, and there is a claim pending in India by McNally-Pittsburgh Manufacturing Corp., on inconvertibility of Indian rupees.

Mr. PASSMAN. Is that because of revaluation rather than expropriation?

Mr. MAYS. It is because of the blockage of the conversion of rupees into dollars.

Mr. PASSMAN. I follow you.

Mr. MAYS. That is for $62,954.

Mr. PASSMAN. Put the details in the record.

[The information follows:]

CLAIMS FILED AND PENDING AS OF APR. 30, 1975

Date of claim	Investor	Country	Type of claim	Amount of claim
Mar. 23, 1973	Belbagco, Inc	Bangladesh	War damage	$762, 789
May 8, 1972	do	do	Expropriation	1, 836, 645
Nov. 1, 1972	Ford Motor Co	Chile	do	276, 000
Mar. 18, 1975	McNally Pittsburgh Mfg. Corp	India	Inconvertibility	62, 954
	Total			2, 938, 388

Mr. PASSMAN. What are the other nations?

Mr. MAYS. That is all in the pending category.

Mr. PASSMAN. That doesn't add up to $166 million.

Mr. MAYS. No; it does not. Additionally, claims paid and settled since——

Mr. PASSMAN. You have $166 million that we have to think of as a liability, or if we want to be charitable, call it a contingent liability, where nations have expropriated properties. You are looking to several governments to pay the $166 million. We would like to have a list of those governments in the record at this point and the amount.

[The information follows:]

Foreign government obligations guaranteed by OPIC pursuant to claims settlements and outstanding as of May 15, 1957

Government of Chile	$146, 390, 646
Government of Bolivia	7, 111, 111
Government of Guyana	9, 926, 593
Total	163, 428, 350

NOTE.—Total is less than $166,000,000 due to the recent prepayment of certain principal installments by the Government of Chile and the concomitant reduction of future interest installments.

Mr. PASSMAN. Could we mention one or two others?

Mr. MAYS. Yes; I can, Mr. Chairman, because I have some of them listed here, but the whole $166 million are not detailed. But these are the largest: Braden Co.——

Mr. PASSMAN. I want to know the name of the countries. You can put the detail in.

CHILE

Mr. MAYS. Substantially all of these were in Chile, Mr. Chairman.

Mr. PASSMAN. Chile.

Mr. MAYS. Braden, which was a subsidiary of Kennecott, Arauco, which was owned by——

Mr. PASSMAN. That is good. Now the total amount of claims that you have against the Government of Chile.

Mr. MAYS. I don't have it broken out in that way.

Mr. PASSMAN. That makes up the majority of the $166 million, does it?

Mr. MAYS. Yes.

Mr. PASSMAN. How much of the total is in Chile?

Mr. MAYS. $146 million.

Mr. PASSMAN. Provide the detail for the record showing the companies and the amounts of the claims.

[The information follows:]

OUTSTANDING OPIC CONTINGENT LIABILITIES RELATED TO CHILEAN CLAIMS SETTLEMENT GUARANTIES (AS OF MAY 15, 1975)

Date settled	Investor	Amount of settlement	Current OPIC liability (principal plus interest)
January 1972	Bethlehem Steel	$17, 365, 721	$17, 955, 691
June 1972	Parsons & Whittimore	3, 259, 365	1, 782, 629
December 1972	Braden Copper Co	66, 900, 000	61, 468, 969
March 1974	Cerro Corp	12, 070, 850	8, 698, 742
January 1975	ITT Corp	59, 384, 615	[1] 56, 484, 615

[1] Principal only.

Mr. PASSMAN. Now, what is Chile's position on these claims against them?

Mr. MAYS. Chile is having difficulty servicing its international debt. There was a meeting of the Paris Club of Chile and creditors in Paris earliers this month. There was an earlier agreement to reschedule debts which were due in 1975. We have, however, received substantial payments from Chile within the last year.

Mr. PASSMAN. Of the $140 million-plus in Chile, does the Government of Chile assume the responsibility and admit that is the correct figure that they owe?

Mr. MAYS. They do, Mr. Chairman, and these debts are generally guaranteed by the Central Bank of Chile.

Mr. PASSMAN. Then that could really qualify for a contingent liability; in all likelihood if this government should possibly be strengthened, it could pay these claims?

Mr. MAYS. It could. We anticipate that it will.

Mr. PASSMAN. Thank you.

ACHIEVING OPIC'S GOALS

Now then, in OPIC's Authorization Act, there were several targets set for OPIC to attain throughout the coming years, most of it applies to the Corporation exerting a greater effort to place its business in the private market.

Could you outline for the committee in detail just what these targets were and how OPIC has tried to reach these targets?

Mr. MAYS. I will be glad to, Mr. Chairman.

[The information follows:]

OUTLINE OF TARGETS ESTABLISHED BY CONGRESS FOR OPIC AND HOW OPIC HAS MET THESE GOALS

The Overseas Private Investment Corporation Amendments Act of 1974 expressed the intention of Congress that the Corporation achieve participation by private insurers of at least 25 percent in insurance contracts issued on and after January 1, 1975, covering the risks of expropriation and inconvertibility.

In achieving these goals, the Corporation was able to obtain the highest level of risk sharing by private insurers through combining both the old insurance portfolio and new insurance for these two risks, and by augmenting the participations by the private insurance companies through the newly formed Overseas Investment Insurance Group with reinsurance by Lloyd's of London.

In all countries of the world where the Corporation's programs are operative the Group participation in new policies covering expropriation risks amounts to 16.4 percent, and the Lloyd's reinsurance participation in such policies amounts to 35.6 percent, for a total private sector share of 52 percent.

The Corporation's expropriation risks on the old portfolio are reinsured by both the Overseas Investment Insurance Group and Lloyd's to the extent of 52 percent, with the exception of Jamaica, Ethiopia and the Dominican Republic where the reinsurance is available only from Lloyd's and amounts to 45.6 percent.

For inconvertibility risks, participation by the Group and Lloyd's in new policies amounts to 30.5 percent. In the case of the old portfolio the reinsurance by the Group and Lloyd's also amounts to 30.5 percent, with the exception of Jamaica, Ethiopia and the Dominican Republic where reinsurance is available only from Lloyd's and amounts to 14.1 percent.

Whether or not the Group and Lloyd's participate as insurers or reinsurers, and irrespective of whether or not the coverage relates to the old portfolio or new insurance, the liability of the private sector is limited to their percentage of one pool per country having a loss limit of $40 million per year, and a worldwide pool having a loss limit of $80 million per year (except Lloyd's, wihch has a liability limit of $120 million per year). Any losses greater than these two limits in any one year will be borne by the Corporation. In only 1 year since the inception of the political risk insurance program in 1948, in 1971 during which the bulk of the Chile claims arose, have the losses for inconvertibility and expropriation risks exceeded $40 million, and even the losses of that year may ultimately be less than $40 million due to recoveries being received by the Corporation on claims incurred at that time.

The Overseas Private Investment Corporation Amendments Act of 1974 also expresses the intention of Congress that the Corporation achieve participation by private insurance companies or others of at least 12½ percent of war risk insurance issued on and after January 1, 1976. The Corporation is proceeding with the establishment of a new entity to underwrite war risks and expects to be able to comply with this goal early in 1976. The achievement of private participation in war risks is made especially difficult because of the historic refusal of private insurance companies and Lloyd's of London to under write land war risk. This necessitates the development of another vehicle to underwrite this risk.

OPIC'S BORROWING AUTHORIZATION

Mr. PASSMAN. Now, in the same authorization I note that it granted authority for OPIC to borrow not to exceed $100 million from the U.S. Treasury. Could you tell the committee if the Corporation has borrowed any money from the Treasury as of the present time?

Mr. MAYS. We have not borrowed any, Mr. Chairman, and have no plans to borrow any.

Mr. PASSMAN. Why did you ask for that authorization, or did you ask for it?

Mr. MAYS. We did, and the reason for it, Mr. Chairman, was that with $175 million of reserves, if we were to have claims in excess of that in 1 year, we wanted to be able to make our payments promptly.

Mr. PASSMAN. Payments to whom?

Mr. MAYS. To the investors.

Mr. PASSMAN. I see.

Mr. MAYS. That would permit us to borrow up to $100 million for 1 year.

Mr. PASSMAN. Do you have to maintain a reserve equal to that of the claims?

Mr. MAYS. There is not a requirement in the statute.

Mr. PASSMAN. You have $175 million to work out of?

Mr. MAYS. Right, and we would not request an appropriation to supplement that until it worked from $175 million down to $25 million.

Mr. PASSMAN. You don't anticipate that you are going to have $150 million in claims losses, do you?

Mr. MAYS. No; we certainly hope we will not.

Mr. PASSMAN. I certainly hope you would not. If you should borrow from the U.S. Treasury, it is on a 12-month basis, is it not, at the current rate of interest?

Mr. MAYS. Yes, sir.

Mr. PASSMAN. I want to say this, Mr. President, you have done a very superb job, that certainly goes for your officers in putting OPIC on the basis where I can support it. At one time I had some difficulty embracing the policies of OPIC because you are in the moneylending business and I thought you should be in the insurance business. Much to your credit, you put it on a business basis. I wish more of the people in government would look to your record of putting the operation on a sensible basis for guidance.

Mr. MAYS. Thank you, Mr. Chairman.

Mr. PASSMAN. At this time do you anticipate that OPIC will ever have to ask Congress for additional appropriations?

Mr. MAYS. No, Mr. Chairman. And if we succeed in getting increased private participation the chances become even less.

INCREASED PRIVATE PARTICIPATION IN OPIC

Mr. PASSMAN. Do you also anticipate OPIC will eventually go out of existence and all this insurance and guarantee coverage could be handled by the private markets?

Mr. MAYS. I think it is too early to make that judgment, Mr. Chairman. I hope by 1977 to be able to make a better estimate.

Mr. PASSMAN. I would certainly look long and hard at any proposal to transfer this over to private companies, even though I am a product of the free enterprise system and like to support the free enterprise system. You people developed this type of program. You had to stand the risk and take the chances to establish just what it could do. I am not too sure that I would want to just pass this over to free enterprise until we had a good, long look at it.

Mr. MAYS. There will be a role for OPIC as a reinsurer beyond 1980 because contracts written, for example, in 1969 by AID will not expire until 1989.

Mr. PASSMAN. You mean, some of the loans made by other agencies, such as the Agency for International Development?

Mr. MAYS. No, sir. We would only be reinsuring this private group of insurance companies.

Mr. PASSMAN. Why shouldn't you take it and let the private group go about their business? What you are actually doing is just taking a slice and cutting the slice in two, aren't you?

Mr. MAYS. They are insistent upon our continued participation in this way in the 3-year experiment which they have entered with us, Mr. Chairman.

CLAIMS

Mr. PASSMAN. Would you submit a list of your claims activity since last year's hearings?

Mr. MAYS. We would would be happy to submit a list of our claims to the committee for the record.

[The information follows:]

OPIC INSURANCE CLAIMS ACTIVITY, MARCH 1974–MAY 15, 1975 (A. CLAIMS RESOLVED BY OPIC CASH PAYMENT)

Date paid	Investor	Country	Type of claim	Amount paid	Recoveries to date
Mar. 29, 1974	Bank of America	Vietnam	Inconvertibility	$70, 751	$71, 576
June 13, 1974	do	Chile	do	463, 207	[1] 67, 053
June 18, 1974	do	do	do	2, 633, 816	[1] 300, 261
Aug. 1, 1974	American Security and Trust Co.[2]	do	Expropriation	4, 567, 579	[1] 380, 455
Aug. 2, 1974	Vinnell Corp	Bangladesh	War damage	12, 500	
Aug. 16, 1974	William Atwell	Kenya	Inconvertibility	55, 917	56, 818
Dec. 2, 1974	International Chemical Fibers Co	Chile	Expropriation and war damage	128, 508	
Dec. 20, 1974	Export-Import Bank[2]	do	Expropriation	4, 985, 570	[1] 1, 245, 774
Jan. 7, 1975	International Telephone and Telegraph Corp.	do	do	[3] 34, 706, 916	[1] 1, 873, 685
Jan. 31, 1975	American Security and Trust Co.[2]	do	do	4, 521, 790	[1] 357, 220
Feb. 20, 1975	Reynolds Metals Co	Guyana	do	[4] 10, 000, 000	[1] 5, 453, 699
Apr. 15, 1975	Bank of America	Vietnam	Inconvertibility	67, 124	67, 803

[1] Full recovery expected over time pursuant to rescheduling or compensation agreements.
[2] This is in connection with the Braden settlement in Chile and does not represent a new separate claim.
[3] OPIC received notes in exchange for this payment.
[4] OPIC received notes in exchange for a portion of this payment.

Note: Recoveries do not include amounts received since March 1974 related to previous claims settlements.

B. CLAIMS SETTLED BY OPIC GUARANTY

Date of settlement	Investor	Country	Type of claim	Amount of settlement	Current OPIC liability (principal only)
Mar. 8, 1974	Cerro Corp	Chile	Expropriation	$12,070,850	$6,560,208
Jan. 7, 1975	International Telephone and Telegraph Corp	do	do	59,384,615	56,484,615
Feb. 20, 1975	Federal Finance Bank [1]	Guyana	do	5,453,699	[2] 9,926,593

[1] This is in connection with Reynolds Metals claim.
[2] Includes interest capitalized at 8½ percent.

C. TOTAL ACTUAL CLAIMS FILED AND PENDING, AS OF APR. 30, 1975

Date of claim	Investor	Country	Type of claim	Amount of claim
Mar. 23, 1973	Belbagco, Inc	Bangladesh	War damage	$762,789
May 8, 1972	do	do	Expropriation	1,836,645
Nov. 1, 1972	Ford Motor Co	Chile	do	276,000
Mar. 18, 1975	McNally Pittsburgh Mfg. Corp	India	Inconvertibility	62,954

D. Claims denied by OPIC: None.
E. Claims withdrawn by investors: None.
OPIC finance claims activity, March 1974–April 1975:
A. Claims paid:

Company	*Amount paid*
Prudential Insurance Co.—TAW project	$6,898,750
Bank of America—Siam Kraft paper project	122,250

B. Recoveries made: Recoveries totaling $840,592 were all related to previous claims settlements.

CONTINGENT LIABILITIES

Mr. PASSMAN. Could you please tell the committee what the total contingent liability outstanding is that OPIC presently has?

Mr. MAYS. We have several types of what might be called contingent liabilities. I will mention each separately.

We have a normal insurance liability connected with our outstanding insurance policies. These liabilities are currently spread over some 77 countries and would become actual liabilities only after some political action by a foreign government triggered the claim provisions of the contracts. As with all casualty or risk insurance policies, the chances of all these insurance policies actually developing into claims are infinitesimal. The amount of our maximum contingent insurance liability outstanding on April 30, 1975, under our present authority was $2,426 million. Contracts issued under the program's previous authority before the organization of OPIC and still outstanding on April 30 had a maximum contingent insurance liability of $3,333 million.

We also have a contingent liability arising out of claims which we have settled by guaranteeing notes issued by foreign governments as compensation to expropriated investors. These notes mature over the next 14 years, and, if the host governments default, OPIC would become liable for payment of the installments as they mature during that period. The governments which have issued these notes formally recognize their obligations to make payment under these notes. We

expect that they will meet these commitments and that OPIC will not have to make any payments under these guaranties. To the extent that the governments do not service these debts at maturity, OPIC would still expect to make an ultimate recovery over time of any payments which we would have to make under our guaranty agreements. At present, our maximum contingent liability under all of these outstanding guaranty agreements is $166 million.

We also have contingent liabilities arising out of our finance program which guarantees repayment of loans made to projects in the developing countries. On April 30, we had about $178 million of outstanding guaranties and an additional $7.8 million in guaranties on loans which had not yet been drawn down by the investors.

I might add, Mr. Chairman, that OPIC also has outstanding what might be called contingent "recoveries." These are amounts which foreign governments have agreed to reimburse OPIC as a result of claims payments we have made to former investors in their countries. OPIC expects over the next 15 years to receive about $114 million in recoveries and interest under existing agreements of this type.

Mr. PASSMAN. What is the probability of all contingent liability coming due and OPIC having to pay the entire amount?

Mr. MAYS. The chances of such a total and overwhelming worldwide upheaval occurring in the foreseeable future are too small to calculate. To date, OPIC has witnessed a satisfactory record of foreign governments meeting both their obligations to us and their obligations to former investors which we have guaranteed, and we expect that this will continue.

ANACONDA CLAIM

Mr. PASSMAN. You indicate you have a $154 million claim under arbitration at this point. Could you please tell the committee what type of decision you expect from this arbitration?

Mr. MAYS. It is difficult to anticipate the decision of a distinguished panel of arbitrators. However, we have been advised by our outside counsel that OPIC has no liability under Anaconda's claims and we expect a favorable decision from the arbitrators.

SOUTHEAST ASIA OPERATION

Mr. PASSMAN. You indicate that OPIC has never operated in Cambodia but that you do have a possibility of liability in Vietnam. Could you please tell the committee if OPIC operates in Laos and Thailand?

Mr. MAYS. OPIC's programs were reinstituted on a limited basis in Laos at the same time they were reopened in Vietnam. At this time, however, we have no contracts or exposure outstanding in Laos. Our programs are operative in Thailand. Currently, we have about $57 million of insurance outstanding in that country and one loan of about $4 million in our finance portfolio.

Mr. PASSMAN. What is the size of the possible liability in Vietnam?

Mr. MAYS. As I mentioned in my opening statement, Mr. Chairman, we do not know at this time how much, if anything, our liability will be in Vietnam. Our current level of insurance exposure is about $34 million, but I doubt very much that we will actually incur any loss of that magnitude for the reasons I mentioned earlier.

CLAIMS FILED

Mr. PASSMAN. Could you tell the committee the total claims that have actually been paid, the total claims that have actually been filed, the total claims you feel will be filed in the future, and total claims that could possibly be filed at a later date?

Mr. MAYS. OPIC has paid or settled 50 claims of the 63 claims filed since OPIC began operations in January 1971. Of the total claims filed, eight have been withdrawn by the investors. Four claims have been denied without contest by the investors. It is impossible to predict what claims will or may be filed at a later date.

LOAN PROGRAM

Mr. PASSMAN. How much of the $40 million provided to the capital account by transfer from AID has now been obligated to finance loans?

Mr. MAYS. On March 31, our outstanding loans were $18,974,853.

Mr. PASSMAN. Could you please tell the committee what the average interest rates and terms of these loans are,

Mr. MAYS. It is very difficult, Mr. Chairman, to arrive at a simple mathematical average for something like this. Our direct loans are made at interest rates basically comparable to what long-term commercial rates would be at the time of the loan negotiation. However, our loans have been negotiated and made over the past several years when commercial lending rates have varied a great deal. Our rates have thus varied considerably. Our rates also vary to give consideration for the possible inclusion of a convertible feature in the loan instrument which will, we hope, maximize OPIC's net profit on the loan in the long term.

But to try to answer your question, our loan rates have ranged from 7 percent to 12 percent. Recently, over the past year or so, our rates have been in the 9 percent to 12 percent range, or 8 percent for a convertible.

The terms of the loans generally range from about 7 to 12 years and may include a short grace period when the project is getting started. OPIC is usually a senior lender, and we require the investor to structure the project with a debt-equity ratio we feel will provide sufficient protection to OPIC should anything go wrong.

Mr. PASSMAN. Have you entered into any more loans similar to the loan you made last year to a luxury hotel in Haiti?

Mr. MAYS. No, sir, we have not. We are aware of the recommendation in the committee's report made after our hearings last year.

INSPECTOR GENERAL'S REPORT ON LOAN PROGRAM

Mr. PASSMAN. In an Inspector General's report dated October 15, 1974, it was stated that most of the loans made from the direct investment fund had been used to finance projects for subsidiaries of large U.S. corporations and other companies that did not need OPIC direct loan funds or had been used for loans to private international finance corporations where control of the ultimate use of the funds was not exercised by OPIC. The report concluded that financial assistance was given to projects that were not suitable for U.S. funding, and the continued need for direct loan authority could not be justified. Would you please comment on these allegations?

Mr. MAYS. We disagree with these conclusions of the Inspector General's report, and have discussed this matter with him.

We do not feel that this report takes into consideration OPIC's congressional mandate to make special efforts to assist smaller U.S. businesses and investors. Our Direct Investment Fund is one of our most important tools for doing just this.

Currently, OPIC has 18 direct loans outstanding. Three of these are to relending organizations. Of the remaining 15, 8, or more than 50 percent, are to small businesses or investors. Two of the others are to companies that barely made it into the Fortune list of the top 500 U.S. industrial companies, Nos. 476 and 493. Two additional loans were to companies which did not have a great deal of experience overseas and did not feel themselves able to undertake, by themselves and without considerable financial protection, risky ventures in two of the poorest and least developed nations on the Earth. That's a total of 12 out of 15.

Clearly, Mr. Chairman, OPIC is not using its direct loan program solely, or even mainly, to finance projects for the subsidiaries of large U.S. corporations.

A second problem in the Inspector General's report concerns the nature of OPIC's loans to private relending companies. In the two biggest loans of this type, totaling $5 million, OPIC included provisions in the loan agreement stipulating that the projects for which these funds would be used would involve expenditures for the procurement of U.S. goods and services at least equal to the amount of the OPIC loans. These loans to these companies are very important for another reason, too. OPIC is a development agency, but we simply do not have the time or the staff personnel to service all the needs of the small companies and investors in all the developing nations. By lending some of our capital to these companies, we were able to magnify the impact of our program. These relending companies are all highly reputable organizations with private U.S. participation, and they do a fine job of complementing our own efforts. We have even subsequently participated jointly with two of these companies in other projects.

The really egregious error in the Inspector General's report, however, is to state that the continuation of the direct loan program cannot be justified. The direct loan program is essential if OPIC is to provide truly meaningful incentives to many small U.S. investors. Currently, we have under consideration many inquiries and applications from small businessmen for direct loans. Without OPIC financial participation in their projects, these small investors would not be able to take advantage of foreign business opportunities and, in many cases, expand their domestic businesses and employment as a result.

In alleging that the direct loans are not needed, the Inspector General's report states that OPIC could use its financial guaranty authority in its place. But this is not the case. The cost of a guaranty agreement is disproportionately high for a small investor—too high. Also, with a guaranty agreement, the investor and OPIC have the problem of finding a lending institution to provide the capital. This is frequently impossible to do for projects which need long-term money at fixed interest rates and probably an initial grace period on top of that. In addition, unlike the guaranty, the direct loan program allows OPIC, through the use of a convertible debenture, to keep the interest rates

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lower for the project in the initial years while at the same time increasing OPIC's overall income from the project. Furthermore, the OPIC convertible feature can also be used to help investors meet local requirements for increasing local participation or ownership in a project, as OPIC can sell these convertibles to local investors.

Finally, the direct loan program is important to OPIC in its efforts to conduct its financing operations on a self-sustaining basis as required by our authorizing legislation. By making a direct loan, OPIC earns 9 percent to 12 percent interest. If it used a loan guaranty, OPIC earns no more than a 2½ percent to 3 percent fee, while accepting the same risk.

NUMBER OF COUNTRIES INVOLVED IN OPIC

Mr. PASSMAN. In how many countries are you presently operating programs administered by OPIC?

Mr. MAYS. We currently have insurance outstanding in 77 countries, and our finance program is active in several others, mainly through its assistance to regionally oriented companies. The OPIC programs are no longer offered in a few of these countries, however, and the outstanding insurance contracts are ones executed in previous years by OPIC's predecessor agencies.

Mr. PASSMAN. Could you please provide a list for the record listing each country separately and showing what OPIC programs you have going in the particular country, and in what amounts?

Mr. MAYS. We would be happy to do so.

[The information follows:]

OPIC PROGRAM ACTIVITY (AS OF APR. 30, 1975)

[In millions]

Country	Insurance outstanding (maximum coverage)			Financing outstanding
	A	B	C	
Afghanistan	$0.4	$4.1	$4.1	$0.5
Africa, regional	4.4	4.4	4.4	4.1
Angola	2.7	.6		
Antigua				1.2
Argentina	158.8	79.2	57.6	
Asia Regional				2.0
Bangladesh	3.1	4.6	4.6	
Belize	2.2	2.2	2.2	.3
Bolivia	4.7	8.2	2.5	
Botswana		15.4	3.6	
Brazil	346.4	373.5	269.7	26.2
Cameroon	1.2	1.2	.7	
Chad	.1	.1	.1	
Chile	67.3	49.2	46.4	
China (Taiwan)	131.7	145.1	132.5	.1
Colombia	61.3	61.4	49.5	
Congo	.2	.2		
Costa Rica	30.9	25.3	19.2	
Dahomey		4.1	4.1	
Dominican Republic	304.3	310.9	301.4	
Ecuador	20.0	23.0	16.3	
El Salvador	5.7	6.9		
Ethiopia	.2	.2	.2	
France [1]	4.3			
Gabon	2.1	2.1	1.5	
Germany [1]		1.3		
Ghana	70.2	93.2	57.2	6.5
Greece	59.6	52.2	49.2	
Guadeloupe	.8	.8		
Guatemala	2.8	4.8		
Guinea	101.2	94.7	64.6	
Guyana	3.1	3.5	3.4	
Haiti	1.3	2.5	1.6	.3

See footnotes at end of table.

OPIC PROGRAM ACTIVITY (AS OF APR. 30, 1975)—Continued

[In millions]

Country	Insurance outstanding (maximum coverage) A	B	C	Financing outstanding
Honduras	15.6	19.4	14.1	
Hong Kong [1]	.4			
India	144.9	126.2	101.1	19.6
Indonesia	190.3	201.5	155.8	56.8
Iran	94.4	66.8	58.4	
Israel	34.9	43.6	56.3	
Italy [1]	.3	4.3		
Ivory Coast	8.4	9.1	7.7	
Jamaica	46.2	491.5	489.6	
Kenya	65.8	62.4	60.8	
Korea	321.7	296.0	332.8	46.0
Latin America, regional				3.0
Liberia	2.9	18.7	2.9	6.6
Malawi	1.0	2.8	1.9	
Malaysia	11.2	14.2	13.9	
Martinique	.8	.8		
Morocco	11.8	12.1	9.1	
Netherlands Antilles	.6	.6		
Nicaragua	9.1	14.8	11.9	1.8
Nigeria	8.7	9.3		
Pakistan	32.5	36.3	31.5	
Panama	34.6	37.1	32.4	
Paraguay	.3	.2	.1	
Peru	19.3			
Philippines	244.2	227.6	160.1	17.0
Portugal [1]	5.6	5.6		
Rwanda	.1	.1		
Senegal	1.3	1.9	1.2	
Sierra Leone	3.7	2.8	2.8	
Singapore	33.7	48.3	46.8	
South Rhodesia [2]	6.0			
Sri Lanka	1.4	1.2	1.2	
Surinam	.3	.3		
Tahiti [1]	5.8	5.8		
Tanzania	3.0	4.0	4.0	
Thailand	57.3	57.1	51.3	4.1
Togo	1.3	1.3		
Trinidad and Tobago	38.9	38.1	36.2	
Tunisia	8.8	8.0	7.0	
Turkey	36.8	29.0	11.7	
Uganda	.6	.6		
Venezuela	59.2	59.6	43.4	
Vietnam	9.3	51.6	50.8	
Western Samoa	2.0	6.0	6.0	
Yugoslavia	27.4	21.2	20.9	
Zaire	14.9	13.9	12.5	.6
Zambia	2.6	2.2	2.2	

[1] Program terminated.
[2] Program suspended.

Note: Coverage A—Currency inconvertibility; coverage B—Expropriation; coverage C—War/revolution/insurrection

NET INCOME

Mr. PASSMAN. What was OPIC's net income earned in fiscal year 1974, and how does this compare to the estimate for fiscal year 1975?

Mr. MAYS. OPIC's net income in fiscal year 1974 was $37.1 million. Our most recent estimate for fiscal year 1975 is $40.75 million.

FUTURE CLAIMS

Mr. PASSMAN. Do you see any large claims on the horizon that you may have to pay at some future time and that would seriously reduce your present insurance reserve or guarantee reserve?

Mr. MAYS. It is impossible to predict what claims will be filed in the future. We do not foresee any large claims in Vietnam, Portugal, or elsewhere, that would seriously reduce our $175 million insurance or our $88 million guaranty reserves.

It is not possible to determine at this time whether the arbitrators of the $154 million dispute between OPIC and Anaconda will decide that OIPC is liable to Anaconda.

TRAVEL EXPENSE

Mr. PASSMAN. I note that you plan to increase your travel expense from $180,000 in fiscal year 1974 to $410,000 in fiscal year 1976. Could you please tell the committee why you have such a large increase?

Mr. MAYS. This increase is primarily due to our greatly increased efforts to provide special programs to assist the least-developed nations of the world. We have instituted a program under which we send some of our staff to these countries to work closely with representatives of the local government and U.S. investors in an attempt to identify investment opportunities. We also have an expanding program of cooperating with the Agribusiness Council and potential U.S. investors to develop projects to supply the world with more food. This program, too, involves increasing amounts of travel overseas by our people.

We are also continuing our program of regional seminars and meetings throughout the United States to inform American businessmen and investors of how we may be able to assist them. And, of course, the cost of air fares and hotels are increasing rapidly.

Mr. PASSMAN. By what amount do you plan to increase your travel mileage in fiscal year 1976?

Mr. MAYS. I couldn't give you a figure on mileage, Mr. Chairman. However, we will send our repersentatives to many countries throughout Africa, Asia, and Latin America. We do attempt to combine several assignments on each person's trip, if possible, in order to avoid unnecessary travel expense.

CASH RESERVES

Mr. PASSMAN. You indicate that you plan to have on hand $10,400,000 of cash as of the end of fiscal year 1976. Could you please tell the committee why you have such a large amount of cash on hand?

Mr. Mr. MAYS. We do not, Mr. Chairman, normally keep very much cash on hand. Our cash revenues are quickly invested in U.S. Treasury obligations in order to earn interest. At the end of June, however, many insurance and finance fees are due and many loan repayments are made. Consequently, there is the probability that we may have a considerable amount of cash on hand on June 30, but I assure you that it will be invested in Treasury bills or notes by July 1.

PUBLIC INFORMATION

Mr. PASSMAN. In a General Accounting Office report, it was indicated that many U.S. construction and engineering companies are unaware or did not fully understand some types of Government assistance which they can use when competing with foreign contractors. Could you please tell the committee what OPIC is doing to inform American business of what type of coverage is available or programs are available through OPIC?

Mr. MAYS. OPIC maintains a strong public information program, Mr. Chairman. We have sponsored and continue to sponsor a series

of informational seminars in major business centers throughout the United States. We make special efforts to attract all types of prospective investors to these meetings, including construction and engineering companies. Each seminar includes a thorough description of our special program for these companies. We have a special member of our staff with long experience in the international construction industry whose sole purpose is to promote our construction program and work with these companies. Our annual reports and our newsletter, Topics, contain descriptions and stories about our construction program and these are mailed to thousands throughout the country, including many construction and engineering firms.

Mr. PASSMAN. I want to say again, Mr. Mays, you have done a superb job. Any liability you have is from insuring investors abroad where they are making investments; is that true?

Mr. MAYS. Yes; loan and equity investments. And thank you, Mr. Chairman. I would like to say that we have an excellent staff and they deserve a lot of the credit.

Mr. PASSMAN. You share the credit with them because you have done an excellent job. I am now going to yield to Mr. Long.

We are examining on OPIC, Mr. Long. Their appropriation for fiscal 1975 was zero and they are asking for the same amount in fiscal 1976.

Mr. LONG. I don't think we are going to have too much trouble.

Mr. PASSMAN. Will you take over at this point?

Mr. LONG. Mr. Mays, I think this is probably one appropriation request that we are not going to have too much trouble accommodating.

PROFIT, CLAIMS, LIABILITIES

Mr. Mays, you are showing a very comfortable profit. But whether there is a profit will depend, I think you will agree, on whether the claims against OPIC continue at the comfortable levels that they have so far, isn't that true?

Mr. MAYS. That is true.

Mr. LONG. There are roughly what, three to four billion dollars' worth of liabilities or potential liability, $3.4 billion?

Mr. MAYS. $3.4 billion coverage outstanding.

Mr. LONG. Things have not been going very well for the U.S. overseas commitments.

I wonder whether this $3.4 billion in potential liability couldn't result, some day, in a very large actual liability?

CHILE

Mr. MAYS. We did succeed in withstanding very substantial claims coming out of Chile which were originally estimated to be as much as $400 million. But we were able to assist the U.S. companies there in the negotiation for compensation by the Government of Chile, which resulted in our being able to manage these claims without large cash outlays. But as we previously explained in the testimony, there are contingent liabilities growing out of these settlements of approximately $146 million in Chilean claims but the Government of Chile is making payment on those obligations.

Mr. LONG. I wonder if you could provide for the record a list of the accounts in which the political situation, is somewhat precarious and give us the OPIC coverage in those areas. Would you do that?

Mr. MAYS. We would be glad to.

[The information follows:]

MAXIMUM OPIC INSURANCE OUTSTANDING IN INDOCHINA AND OTHER COUNTRIES MENTIONED BY CONGRESSMAN LONG, AS OF APR. 30, 1975

[Dollars in millions. Cov. A: Currency inconvertibility; Cov. B: Expropriation; Cov. C: War/Revolution/Insurrection]

Country	Cov. A	Cov. B	Cov. C
Laos	0	0	0
South Korea	$321.7	$296.0	$332.8
South Vietnam [1]	4.3	34.1	33.3
Thailand	57.3	57.1	51.3

[1] Amount of current insurance.

Note: Program does not operate in Cambodia.

Mr. LONG. Would you say off hand this is a fairly large sum of money at this time?

Mr. MAYS. No, it is not. I think the one giving us the most immediate concern is Vietnam.

CAMBODIA

Mr. LONG. Do we have much in Cambodia?

Mr. MAYS. We had none in Cambodia. The programs did not operate there.

THAILAND

Mr. LONG. What about Thailand?

Mr. MAYS. We have some $57 million in Thailand, approximately $57 million.

REPUBLIC OF KOREA

Mr. LONG. What about South Korea?

Mr. MAYS. South Korea is quite a concentration. It is a little above 10 percent of our worldwide exposure. That would run $332 million.

Mr. LONG. That would be a problem if the North Koreans did what I think they are considering doing—that is, invading the South.

Mr. MAYS. If I may insert an observation, Dr. Long, the risk in Vietnam was perceived to be a war risk 2 months ago. Now it is likely to be more of an expropriation or inconvertibility risk.

Mr. LONG. Do you think you should be insuring war risks?

Mr. MAYS. Yes, I think it is very important for the success of the program because this is not available from other sources.

INVOLVING PRIVATE INSURANCE COMPANIES

Mr. LONG. That raises a question. We do have organizations, insurance syndicates such as Lloyds, who provide insurance for all kinds of unusual risks, many of them nonactuarily based. Why can't somebody like Lloyds handle this type of thing instead of the U.S. Government involving itself?

Mr. MAYS. We have tried to persuade them to do so but Lloyds has a longstanding policy of refusing to accept land-based war risks.

Mr. LONG. They just won't accept them?

Mr. MAYS. No, they won't accept them.

Mr. LONG. There is no other insurance outfit in the world that would?

Mr. MAYS. There is not.

Mr. LONG. In spite of the very fine profit record that you have?

Mr. MAYS. That is right.

Mr. LONG. Wouldn't that indicate even more that the profits OPIC has made are somewhat illusory?

Mr. MAYS. We hope it will persuade private insurers to come into this field. Of course, we have until January first of next year to share our war risk with the private sector. We are working on a plan to try to accomplish that.

Mr. LONG. I think they should be invited to come in and make all these rich profits you are making. You are making $30 million a year.

Mr. MAYS. Over our administrative expenses and all of this has been added to our reserves.

OPIC AND THE FULL FAITH AND CREDIT OF THE UNITED STATES

Mr. LONG. How much money has the U.S. Government appropriated for OPIC?

Mr. MAYS. I believe the figure is about $164 million. Those were largely appropriations made in the 1960's to the program when it was administered by AID.

Mr. LONG. Is this the extent of our liability, the money that we have already put in? Is this the extent of our potential loss or is there an implied commitment that the United States stands behind the entire $3 or $4 billion?

Mr. MAYS. There is a specific commitment of the full faith and credit of the United States behind the entire amount, sir.

Mr. LONG. The entire amount?

Mr. MAYS. Yes, sir.

Mr. LONG. So that is what we ought to look at—these large commitments totaling $3 to $4 billion for which we may have to take some action to protect.

Mr. MAYS. A significant experience is that in Chile a number of the claims were settled with the Allende government as opposed to the present government in Chile.

Mr. LONG. That is reassuring, so far as Chile is concerned. We don't have too much reason to suppose that Communist countries of Asia and elsewhere are going to follow their example, do we?

Mr. MAYS. We haven't had sufficient experience yet to know.

EXPORT OF CAPITAL MISCONCEPTION

Mr. LONG. I notice that you answer the argument that OPIC encourages the export of real capital. I think you are familiar with the worry that many Congressmen have that the United States has been exporting very large quantities of capital through various programs and that this export of capital is responsible in part for the very high interest rates in this country. Your answer to that is that we are only sending

the money over and that the money comes back here and buys goods, is that correct?

Mr. MAYS. That is correct.

And the figures bear that out.

Mr. LONG. Have you had any really good economists consult with you on that?

Mr. MAYS. I think we have had a good look at it, sir.

Mr. LONG. I would be interested to know which economists gave you that version of what capital is.

Mr. MAYS. We haven't used outside economists, outside of our staff.

Mr. LONG. Your staff economists tell you that?

Mr. MAYS. Yes, sir.

Mr. LONG. I would like to know a little about what your staff economists are and what their credentials are as economists.

Mr. MAYS. I am not personally familiar with their background but I would be glad to supply that for the record.

Mr. LONG. I wish you would.

[The information follows:]

BACKGROUND INFORMATION ON OPIC STAFF ECONOMISTS

Jonathan C. Dill, A.B., Princeton University, 1967 (history, economics), M.A., University of Texas at Austin, 1971 (economics). Joined OPIC January 1973. Previous experience as an educator.

Robert E. Svensk, B.A., Wesleyan University, 1968 (economics, political science); M.B.A., Harvard University Graduate School of Business, 1972. Joined OPIC September 1974. Previous experience in private industry.

Mr. LONG. I don't think any good economists—of course, a good economist is one who agrees with you—I don't think a good economist would feel that capital was money. The capital that we are concerned about is real capital—tractors, trucks, earthmoving equipment, and so on—which is sent abroad. So the very fact that money comes back and buys American capital, real capital—including technology, machinery, et cetera—which goes abroad is the process that makes real capital scarce in the United States.

You see, we can always make up for the loss of money by printing more, but that is inflation.

Do you see what I am driving at?

Mr. MAYS. I think I do. As you know, I am not an economist.

Mr. LONG. Let's ask you next time to please get a verdict on this from some economist who I think would have a little more standing in the world of economists.

Mr. MAYS. I might make this observation, which I think is pertinent to that point, that we are trying to get funds from sources other than the United States, wherever possible, to find the larger investments, whether they are petrodollars or Eurodollars or from whatever source.

Mr. LONG. I don't imagine that you are going to be increasingly successful in view of some of the events of the last year or so. That is not going to be very reassuring, the loss of Vietnam, Cambodia, and concerns about Korea, and so on.

POSSIBILITY OF TRIANGULAR INVESTMENTS

Do you think there is going to be very much interest by other countries in joining with you in this OPIC venture?

Mr. MAYS. Yes, sir, I think there will be. We have found considerable interest in joining with U.S. companies in partnerships, what we call triangular investments.

Mr. LONG. These are national governments, though——

Mr. MAYS. Private parties as well as governments.

Mr. LONG. Private parties?

Mr. MAYS. Yes, sir.

OPIC AIDING FOOD PRODUCTION

Mr. LONG. On page 9 of your statement, you say OPIC is making special efforts to encourage projects which will increase the supply of food to the peoples of development countries.

I wonder if you would list for the record those projects which you encouraged in 1974 and so far in 1975, projects which will increase the supply of food.

Mr. MAYS. We will be pleased to.

[The information follows:]

PROJECTS ENCOURAGED BY OPIC WHICH WILL INCREASE WORLD FOOD SUPPLY

[Fiscal year 1974 to present]

Investor	Country	Project
Agricola Metals	Chad	Gum Arabic plantation.
Arbor Acres	China (Taiwan)	Poultry farm.
Bamerical International Finance	Iran	Large-scale farming operation (2 investments).
Cargill	Indonesia	Poultry farm (2 investments).
Castle & Cooke	Thailand	Pineapple growing.
Cay Rica Cattle Co	Costa Rica	Cattle ranch.
Central Overseas	Zaire	Flour mill.
Central Soya	Brazil	Manufacture animal feeds.
CPC International	Kenya	Maize processing.
Del Monte	do	Pineapple growing.
Dow Chemical	Indonesia	Manufacture herbicides and pesticides.
Di Giorgio	do	Fruit processing, packaging.
Foremost-McKesson	do	Dairy products.
W. R. Grace	Trinidad and Tobago	Manufacture fertilizer (2 investments).
Gurrentz International	Dominican Republic	Cattle ranch, meat processing.
Hormel International	Philippines	Food processing, canning.
King Ranch	Venezuela	Cattle ranch.
Miller, Wm. E	Thailand	Canning shrimp and crab meat.
Morrison, Inc	Honduras	Seafood processing.
Oceanography Mariculture	Dominican Republic	Fish farm.
Ralston Purina	Brazil	2 Animal feed mills (3 investments).
Do	Korea	Manufacture animal feeds.
Rohm & Haas	do	Manufacture pesticides and herbicides.
Skelly Oil	do	Manufacture fertilizer.
Star-Kist International	Ghana	Tuna fishing.
Swift Chemical Co	do	Manufacture fertilizer.
Universal Foods	KOREA	Yeast products.

Mr. LONG. And provide a brief description of the nature of each project and whether any of these projects will directly help small farmers and the rural poor in the host countries. Please list those that will help these groups and explain briefly how each will do so.

Mr. MAYS. Sure.

We are preparing a supplement to our annual report on this subject which will be available shortly after the end of the fiscal year. However, I will provide a brief response for the record at this time.

Mr. LONG. I would appreciate that very much.

[The information follows:]

The projects encouraged by OPIC which increase world food production assist small farmers and rural poor in developing countries in several ways.

The manufacturing of fertilizers increases supplies to the domestic market and reduces high fertilizer prices and shortages. The small farmer utilizes the fertilizer-based agricultural technology which increases food production. The rural poor benefit by the jobs and increased income created through increased agricultural production, as well as by additional food supplies.

The manufacturing of herbicides and pesticides assures stable and secure supplies to small farmers. Plant protection methods produce higher yields and prevent production fluctuations.

The development of livestock and fisheries, as a supplement to agricultural activities, adds to incomes, creates additional employment and diversifies the local diets of small farmers and the rural poor. Many such farmers own small tracts of land which only yield minimum incomes. Livestock can increase the value of the farm's output by providing additional quantities of meat, skins, feathers, and manure for the farmer's own use and/or sale. Increasing supplies of fish can add a high quality protein component to the rural diet.

The development of agricultural processing and storage industries aids the small farmer and rural poor by providing means of transforming cereals and perishables, which otherwise may go to waste, into storable products; e.g., tomatoes into paste, fresh fruits into canned fruits, wheat into flour. Large centrally located processing facilities in the rural areas also increase the demand for local farmers' production and assist overcoming problems in marketing farm output in the cities. These facilities frequently assist local farmers to learn and implement better agricultural techniques, quality control, and other procedures. Since some processing and storage will be done on the farm, new employment for the rural poor will be created.

The small farmers and the rural poor are aided further by the diversification of the rural economy. OPIC-encouraged projects further rural development by diversifying and expanding the nonagricultural opportunities such as fisheries, animal husbandry, and horticulture.

Mr. LONG. Mr. Roush?

OPIC'S OPERATING EXPENSES

Mr. ROUSH. I observe under "Operating expenses" that your travel expenses continue to go up. I also observe that your contractual expense goes down.

First, let me ask: What is contractual, what does that encompass?

Mr. MAYS. Any service for which we contract outside of our own staff.

There have been considerable amounts for legal defense of claims in the last 2 years and that will continue to decrease. On the travel portion, Congressman, it shows our actual expenses for travel. We were unable to make all of the trips that we thought were needed abroad. You see, we have no one stationed overseas. It requires travel by our Washington-based staff.

A good bit of travel is required for that purpose. I think we are now more effective in getting our people into the field.

Mr. ROUSH. I thought perhaps there was a relationship between the reduction of the contractual services and the increase in travel, in other words, I thought perhaps you were doing more in-house type thing and that would account for the increase in travel but apparently it is just other needs; is that correct?

Mr. MAYS. It is other needs. We have recently had people going out in Africa and Central America to some of the poorest countries where there are a limited number of investment opportunities, with the idea of identifying these opportunities and bringing them to the attention of smaller U.S. businessmen.

This does require an increase in our travel.

Mr. ROUSH. Thank you, Mr. Chairman.
Mr. LONG. That was a short 5 minutes. Mr. Obey?
Mr. OBEY. Thank you, Mr. Chairman.

VALUE OF OPIC'S OPERATION

Mr. Mays, I frankly have some doubts about the need for your operation at all. I know that that is not decided by this committee. But I wonder what you do? What is it that you do that is so important, that the continued existence of OPIC is justified?

Mr. MAYS. Mr. Obey, the value of the services that we render to U.S. private investors, I think, is evidenced——

Mr. OBEY. I don't care about the value to private investors. What I want to know is what is the value to the U.S. Government?

Mr. MAYS. All right, sir. The value to the U.S. Government is in terms of foreign assistance programs and using private capital as a supplement or as a replacement for official foreign air funds.

Mr. OBEY. What evidence can you point to to show that investment which has taken place because of your insurance, would not have taken place under other circumstances? Have you any hard evidence to show this?

Mr. MAYS. Yes; we do from specific companies that have made statements to that effect. It is also a factor in where an investor will locate an investment. They generally have a choice of many countries. If we want them to go to some particularly poor country that the U.S. Government is seeking to assist, this can be a real factor in their selection.

Mr. OBEY. I can understand any company at any time saying "Doggone it, fellows, we just wouldn't have gone there unless we had your insurance."

I can also understand why it is in their interest to say that.

I frankly don't believe it. I want to know outside of the word of the companies whom we are insuring, what evidence do you have—what independent evidence do you have that what you are doing is worth it?

Mr. MAYS. I think that the best evidence is perhaps the companies' statements, themselves.

Mr. OBEY. I frankly think that is the worst possible evidence you could point to because they have a vested interest in saying that what you are doing is worthwhile.

Mr. MAYS. One additional piece of evidence are those cases where we have refused to insure and the investment has not taken place. These tend to be in the category of the runaway industries, or the one that has a bad effect on U.S. balance of payments, something of that sort, where we deny the insurance. In many of these cases the investment does not take place.

Mr. OBEY. That still does not answer the basic question of what investment which is in the interest of the U.S. Government to be made overseas would not have been made if you were not insuring. I would like to just for the record have you supply what you think is the best backup you have which would justify the continued existence of your question based on the questions I have just asked.

[The information follows:]

EVIDENCE TO INDICATE THAT OPIC DOES PROVIDE EFFECTIVE INCENTIVES FOR FOREIGN INVESTMENT WHICH IS BENEFICIAL TO THE UNITED STATES

Private direct investment by Americans in the developing nations furthers the interests of the United States in two major ways. It helps this Nation achieve its long-standing goal of assisting friendly nations to improve the standards of living of their people and, in the course of doing so, realize greater social justice and, hopefully, stability in the world. Not only does foreign private investment provide these countries with employment, technology, business skills and organization, tax revenues, and foreign exchange earnings or savings, but it does so without cost to the U.S. taxpayer while reducing these countries' needs for government-to-government grants and loans. Foreign private investment also directly benefits the United States by developing foreign sources of raw materials for use by U.S. industry, by developing foreign markets for U.S. exports and stimulating domestic U.S. employment, and by returning to the United States far greater financial amounts than it sends out, thus further helping our balance of payments.

The OPIC program is an investment incentive program designed to encourage foreign investment projects which further these goals. The program has stringent eligibility criteria which preclude the offering of its incentives to projects which will result in an adverse impact on the U.S. balance of payments or levels of domestic employment.

It is a widely recognized fact that in the investment decisionmaking process the assessment of political risk is frequently of equal importance to the assessment of commercial viability of the proposed project. Two surveys by independent organizations have been made on this specific subject to the knowledge of OPIC, and the results of these surveys underscore the importance of political risk insurance in the decision to make an investment.

A Business International Corp. survey of 391 companies in 1971 inquired whether those companies would consider political risk insurance an important precondition to making an investment in a developing nation. Of this cross-section of American business, 45.8 percent said that political risk insurance would be a "necessary" precondition to such an investment and an additional 47.6 percent said that it would be desirable but not essential. Only 5.9 percent said that investment insurance was not an important consideration. A survey of some of its members by the Council of the Americas in 1974 found similar results. The companies responded strongly that OPIC insurance was important to their decision to invest in developing nations. The results by region were:

	Percent
Asia	73
Africa	68
Latin America:	
Andean region	69
Central America	68
Other Latin America	65

The information below is designed to illustrate the operations of the program and the benefits which it brings to the United States. The information is presented in two parts: (1) examples of investments which would not have been made without OPIC insurance, indicating that the OPIC program is in many cases a sine qua non for foreign investments, and (2) examples of the selectivity of OPIC in not encouraging any project which might be harmful to the United States. In accordance with the wishes of the subcommittee, voluminous statements by investors to OPIC of the importance of the program to their decisions to invest have not been included in these examples.

In other sections of this hearing, examples have been provided which illustrate specific projects which benefit the United States directly by supplying domestic industries with raw materials, and projections regarding the increased levels of U.S. domestic employment, increased U.S. exports, and benefits to the U.S. balance of payments to be derived from new projects insured during recent months.

I. Evidence of the importance of OPIC political risk insurance in encouraging foreign investments.

A. Examples of proposed investments which were not made following a refusal by OPIC to grant political risk insurance to protect the investments:

Project	Proposed investment	Country
Loans to credit institutions	$17,000,000	Venezuela.
Grain warehousing	5,500,000	Thailand.
Diamond mining	3,000,000	Lesotho.
Construction of port facilities	3,000,000	Malaysia.
Meat packing	600,000	Malagasy Republic.
Cattle ranch	250,000	Brazil.

B. Examples of projects which were dependent upon the receipt of OPIC political risk insurance:

Company: CPC International; *country*, Kenya. Investment agreement with joint venture partner stipulated that the agreement would not enter into force until CPC had received OPIC insurance on its proposed investment. CPC also changed the proposed source of its investment financing from the United States to Eurodollars in order to satisfy OPIC eligibility requirements which protect the U.S. balance of payments.

A major U.S. chemical Company, Korea. The company's board of directors stipulated that the proposed investment will not be made unless OPIC insurance is available. [Since the project is still in abeyance pending a decision by OPIC, the company does not wish publicity.]

Hilton Hotels, Kenya. The executive committee of Hilton approved the investment subject to the availability of OPIC insurance.

Hytronics, Honduras. The investor could not obtain U.S. bank financing until he had received OPIC insurance. The project was actually delayed for a period until the insurance was issued.

Freeport Minerals, Indonesia. Because of its experience in Cuba, Freeport was unwilling to make a large investment without OPIC insurance.

General Telephone & Electric, Israel, others. G.T. & E would not disburse funds for investments in Israel, the Philippines, Taiwan, or India without first having executed OPIC contracts.

Kaiser Aluminum and Crocker National Bank, Ghana. Kaiser's equity investment and Crocker's consideration of debt financing for the expansion of this project were absolutely dependent upon the receipt of OPIC insurance. Financing negotiations were delayed until receipt of the insurance.

Cluett-Peabody, Indonesia. Cluett-Peabody refused to make any equity investment in a textile project because of the unavailability of OPIC insurance. The company modified its investment plans to include only technical assistance to the foreign enterprise.

General Tire, India. Technical assistance agreements between the investor and the foreign enterprise included a proviso that General could terminate the agreement after 90 days if OPIC insurance had not been obtained by that time.

Alcoa, Costa Rica. Alcoa did not sign grant of performance until it was assured of an OPIC contract.

Brown Bros. Harriman, Philippines. Insurance contract was required prior to the closing for the investment.

Pfizer, Korea. Pfizer's board of directors made the obtaining of an OPIC contract a precondition to their investment.

Englehard Minerals, Bolivia. Commitment to the Government of Bolivia was withheld until OPIC insurance contracts were executed.

Falconbridge, Dominican Republic. Falconbridge lawyer represented that they would not be able to go forward if insurance was not available. In connection with the very large debt for the project, lending institutions insisted on insurance.

C. Other evidences of the importance of OPIC insurance as an investment incentive:

As an integral part of its investment agreement with the Government of Chad, Agricola Metals had the Government of Chad state that it was permissible for Agricola to insure its investment with OPIC.

Informed that OPIC insurance was not available in Saudi Arabia, a Midwest agribusiness firm canceled a proposed investment in Saudi Arabia and agreed only to supply management assistance on a contract basis.

Other types of assistance that OPIC renders to investors are recognized in the following:

Regarding the negotiations to settle an expropriation claim: "The integrity and good will shown by the Bolivian Government of President Banzer, and the important role played by OPIC were essential to the succesful settlement." United States Steel's Annual Report to Shareholders, 1972.

"Were it not for the availability of OPIC programs we would not be involved in five developing nations. As a medium-sized company, we have utilized OPIC services to research, finance, and project our investments in Nigeria, Liberia, Sierra Leone, Guyana, and Ecuador." /s/ Richard Myers, E.V.P., Seaboard Allied Milling Corp.

II. Evidences of the selectivity exercised by OPIC in not encouraging potential projects which would be detrimental to the United States.

—Inquiry by a U.S. cement manufacturer proposing to build a plant in a Central American country to produce substantially for the Southeastern U.S. market. Rejected.

—Application by a U.S. electric goods manufacturer to produce radios in Singapore in order to retain a share of the U.S. market formerly served by its U.S. plant, which had closed because its costs were uncompetitive with imports. Rejected.

—Application by a U.S. publisher to produce an encyclopedia in Isarel for sale in the United States. Rejected.

—Inquiry of a U.S. electronics firm planning to ship an already closed-down plant to Yugoslavia to manufacture circuitry for European and probably also U.S. markets. Rejected.

—Inquiry by a U.S. manufacturer planning to produce children's clothing in several Central and South American countries, partially to serve the U.S. market. Rejected.

—Request for approval in principal of projects to undertake labor-intensive parts of production of shoes in Taiwan or Brazil, for ultimate sale in the United States. Rejected.

—Application of a recreational vehicle manufacturer to produce components in Taiwan for final assembly and sale in the United States. Rejected.

—Application of a U.S. investor to revive a U.S. motorcycle company, which had been put out of business years ago by imports, by setting up a plant in Taiwan to produce lightweight motorcycles for the U.S. market. Approved, because its U.S. sales would be entirely in competition with imports from Japan, there being no U.S. production of lightweight motorcycles and no possibility of competitively producing them in the United States; and because the investment would contribute developmental benefits to Taiwan and dividend earnings for the United States which otherwise would go to Japan.

—Inquiry by a U.S. garmentmaker proposing investment in a project to transfer the sewing and finishing of a line of ladies garments from the United States to El Salvador, to serve the U.S. market. Rejected.

—Application for insurance on a project to assemble ladies handbags in the Dominican Republic for sale substantially in the United States. Rejected.

—Application by a U.S. textile manufacturer to invest in an Indonesian company to produce textiles exclusively for the Indonesian market (which cannot be reached competitively by U.S. textile exports). Approved, with a covenant absolutely barring any exports by the company to the United States, with severe financial penalties for violation of the covenant.

OPIC'S PROJECTS IN THE LEAST DEVELOPED COUNTRIES

Mr. OBEY. Let me ask something else. Do you really go into the countries who most need it? You say on page 6 that two-thirds of the investments insured this fiscal year has been in countries with per capita income of below $450 per year. Where has the rest of it gone, which countries?

Mr. MAYS. Into other countries with more than that per capita.

Mr. OBEY. Could you supply for the record a list of the countries outside of these countries with per capita incomes below $450, where the rest of the investments went this fiscal year?

Mr. MAYS. Yes.
[The information follows:]

OPIC-INSURED INVESTMENT IN COUNTRIES WITH PER CAPITA GNP IN EXCESS OF $450 PER YEAR

[Fiscal year 1975 through March; dollars in thousands]

Country	Per capita CNP (1972)	Number of OPIC-assisted projects	Total project investment	Total U.S. investment
Dominican Republic	$467	2	$8,060	$3,460
Iran	488	3	40,942	4,785
China (Taiwan)	489	9	37,429	20,341
Brazil	530	12	98,380	70,621
Costa Rica	631	2	5,032	4,202
Jamaica	808	1	646	623
Yugoslavia	808	6	31,286	17,952
Panama	880	1	28,000	28,000
Trinidad and Tobago	972	1	118	118
Singapore	1,297	4	11,772	6,715
Israel	2,614	3	6,046	5,916
Total		44	267,711	162,733

U.S. COMPANIES USING OPIC

Mr. OBEY. Who are you underwriting, what companies?

Mr. MAYS. They are all majority U.S.-owned companies.

Mr. OBEY. Give me some examples.

Mr. MAYS. There are something like 190 projects. We tend, I think, to remember the larger ones which tend to be also the larger companies.

Mr. OBEY. What percentage of your investment goes to companies which make the Fortune 500 list?

Mr. DILL. It is a little bit difficult to say, Mr. Congressman, because the Fortune 500 list is strictly industrial corporations. We do a lot of business with trading corporations, service corporations, banks, and so forth. Many of the banks, in turn, supply money to other ventures, lend money to perhaps small businessmen going overseas.

Generally it runs about 40 percent to the non-Fortune 500 or similar type, similar size companies.

Mr. OBEY. I would like to see if you could also supply for the record a list of the companies you do underwrite and what their worth is.

Mr. MAYS. We will be glad to provide that information.

[The information follows:]

INVESTORS INSURED BY OPIC—FISCAL YEARS 1974–75 (TO DATE)

Abbott Laboratories
Abex Corp.
Agricola Metals Corp.
Air Products & Chemicals
Albert Elia Building Co.
American Micro-Systems
American Shear Knife
Amoco International
Arbor Acres Farms, Inc.
Armco Steel
Arvin Industries
Avis Rent-a-Car System
The Badger Co.
Bamerical International Finance
Bank of America NT & SA
Bechtel Inc.
W. F. Belote
Berkley & Co.
Berlitz School of Languages
Black & Decker
Borden Inc.
Boundsgreen Co.
Bristol Myers
Cabot Corp.
Cargill Inc.
Carrier Corp.
Castle & Cooke
Cay Rica Cattle Co.
Celanese Corp.
Central Overseas Corp.
Central Soya
Champion Spark Plug Co.

Chase International Investment
Chase Manhattan Bank
Chemstrand Overseas
Chemtex Fibers
Chesebrough Ponds
Clinton Electronics
Cluett, Peabody
Coca Cola Export Co.
Coilcraft Inc.
Colt Industries, Inc.
Comco International Inc.
Continental Bank
Continental International Finance
Cooper Industries, Inc.
Cornell Dubilier Electric Co.
Corning Glass Works
Corn Production Systems
CPC International, Inc.
Crocker National Bank
Crocker International Development
Cummins Diesel International
Dana Corp.
Danly Machine Corp.
Darlington Self Service
Dart Industries
Del Monte Corp.
Designatronics Inc.
DiGirogio International
Digital Equipment Corp.
Dow Chemical Co.
Dresser Industries
Eaton Corp.
Emerging Economies Co.
Envirotech Corp.
Equibank
ESB Inc.
Fairchild Camera & Instrument
Fairchild Semiconductor
Fidelity Bank
Firestone Tire & Rubber Co.
Fishbach & Moore
First National City Bank
Five Pillars Investment Co.
Foremost-McKesson
H. B. Fuller Co.
GATX Oswego Corp.
General Electric Co.
General Instrument Co.
General Resistance Inc.
General Time
General Tire & Rubber Co.
Genesco, Inc.
The Gillette Co.
Globe Union Inc.
Golconda Corp.
B. F. Goodrich Co.
Goodyear Tire & Rubber Co.
Gould International
W. R. Grace & Co.
Grove International Corp.
GTE International Inc.
Gulf & Western Industries
Gurrentz International Corp.
Gypsum Carrier Inc.
Hanna Mining Co.
Harris Semiconductor
Morris Heller & Sons
Hercules, Inc.
Hilton International
Hooker Chemical Corp.
Hormel International
Hyster Co.
Hytronics Corp.
Illinois Tool Works
Import-Export Corp. of Baltimore
Intercontinental Hotels
International Electronics
International Flavors & Fragrances
International Standard Electric Corp.
International Wood Products
Interterra Developers Ltd.
ITT Sheraton
Johns Manville Corp.
Jeep Corp.
S. C. Johnson & Son, Inc.
Kaiser Aluminum & Chemical Corp.
Kaiser Development Co.
Kimberly Clark Corp.
King Ranch, Inc.
Don N. Lamb
Levi Strauss
Lord Corp.
Metal Litho Corp.
Midtex Inc.
Milchem International
Miles Laboratories
William E. Miller
Mine Safety Appliances
Monsanto
Morgan Guaranty International
J. P. Morgan Overseas
Donald E. Morris
Morrison Inc.
Morrison Knudsen
Motorola Inc.
Mundi-International Ltd.
Nancy Nam Shiu Yih
National Semiconductor
Newmont Mining
Oberg Manufacturing Co.
Oceanography Mariculture Industries
Oculus Contact Lens
Olinkraft Inc.
Owens Corning Fiberglas
Pacific Basin Investment
Petit-Mouillage Development
Phelps Dodge Corp.
Philippines Geothermal
Pope Evans & Robins
Potlatch Corp.
PPG Industries Inc.
Production Machinery
Ralston Purina Co.
Ray-O-Vac International
RCA International Ltd.
Refripartes Inc.
Renaissance II Art Co.
Rexnord Inc.
Reynolds Metals
Riegel Textile Corp.
R. J. Reynolds Tobacco Co.
Antonio Rodriguez Diaz
Rohm & Haas Co.
Rosario Resources

SCM Corp.
Sante Fe International Corp.
St. Regis Paper Co.
Security Pacific Investment Corp.
Sheller Globe Corp.
Simplot Industries, Inc.
The Singer Co.
Skelly Oil
Milton Slotkin
Soule Steel Co.
Springs International
Star-Kist International
Superscope Inc.
Swift Chemical Co.
Sylcon Inc.
Tandy Corp.
W. L. Tatum
Texaco
Nello L. Teer Co.
Trans World Airlines
Travenol Laboratories
Union Carbide Corp.
Uniroyal
United California Bank
United States Steel
Universal Foods
Universal Leaf Tobacco
Veeco Instruments Inc.
Vinnell Corp.
Wanskuck Co., Inc.
Warner Lambert
Weyerhaeuser

Mr. MAYS. I would like to add to that at this point, the larger companies are those who have had more experience overseas and are making more effort to expand their international markets. So it is natural that they will fall into that category. That makes it important for us to exert special effort to assist the smaller companies which we are doing.

Mr. OBEY. I would like to see that list because the charge has been made often that all this operation really is is a subsidy to big capital. I don't know whether that is true or not. I would like to see what submission you provide for the record will actually show in that regard.

Mr. MAYS. The big companies are the biggest users of our program. Of course, they are paying for it. So it is not a subsidy in that sense.

OPIC, U.S. GOVERNMENT IN INVESTMENT DISPUTES

Mr. OBEY. How do you answer the argument that what OPIC really does is to get the U.S. Government involved in local affairs from time to time that they would better be removed from by, in fact, making us a party to some of those negotiations?

Mr. MAYS. That has been a common misconception of the OPIC insurance program, that it would involve the Government in investment disputes.

The fact has been that investors insured by OPIC and AID before have been successful in negotiating compensation between the investor and the government which nationalized the property.

The types of cases where we had the problem were those that were uninsured, such as the IPC case in Peru.

Mr. OBEY. What is the need for your operation, if that is true? Unless I misunderstood your comment.

Mr. MAYS. The need for the operation is that with insurance, the investor, in a business climate, is able to negotiate compensation rather than a politicized climate, which occurred in the case of uninsured investors such as IPC in Peru.

Mr. OBEY. I frankly do not see what you mean.

Mr. MAYS. Our insurance provides that if the expropriation continues for 1 year OPIC becomes liable for a certain amount, not necessarily the whole. This 1 year gives a period for negotiations between the investor and the host government.

OPIC can be of some assistance to the investor during this period of time. We have been successful in that period in helping the inves-

tors negotiate satisfactory compensation. If I may illustrate by a specific case, I will take one of the first cases in Chile, which was Bethlehem Steel, which had an investment there with a book value of approximately $22 million. It had been insured by AID for $18 million.

Bethlehem undertook to negotiate compensation with the Government of Chile. They were offered book value for their investment but payment over a term of 30 years with 3-percent interest.

We advised Bethlehem that we thought the terms, themselves, were confiscatory and we did not want to accept this as a precedent for other cases to follow in Chile.

At our request they went back and negotiated further and were able to negotiate 5¾-percent interest which was a better rate and payment over 16 years. Sixteen years we thought was a long term but we insisted that they receive a substantial portion of the principal payment in the first 7 years. So it is front end-loaded to give payment in essentially 7 years. We thought this was an acceptable amount.

Now Bethlehem would have preferred to have $18 million in cash, obviously, rather than payment over time. But we said we would guarantee $^{18}/_{22}$ of each installment of this debt and that enabled Bethlehem to accept those terms from the Government of Chile, rather than to press their claim against us.

Mr. OBEY. Mr. Chairman, I have several other questions but I will await the second round.

Mr. LONG. Mr. Obey has raised a very interesting question. Now is it my understanding that you do plan to provide the names of all of the 190 companies that OPIC is guaranteeing?

Mr. MAYS. Yes, we will.

Mr. LONG. With the sum of money for each?

Mr. MAYS. Yes.

[The information follows:]

INVESTORS INSURED BY OPIC
(FY 1975 through April)

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands Total Project	Total U.S. Inv.	1/ Total Investor
Abbott Laboratories	Jamaica	Mfg. of pharmaceuticals	$ 374,000	$ 501,920	646	623	623
Abex Corp.	India	Mfg. of cast steel tubes	225,000	225,000	2,625	425	425
Agricola Metals Corp.	Chad	Gum arabic plantation	67,500	135,000	75	75	75
American Shear Knife	India	Mfg.of industrial steel knives	135,000	135,000	750	150	150
Armco Steel Corp.	Philippines	Mfg. of steel grinding balls	5,000,000	5,000,000	7,200	6,200	6,200
Arvin Industries Inc.	Brazil	Manufacture of auto parts	2,450,001	2,946,875	4,063	3,950	2,950
The Badger Co.	China	Engineering Company	94,987	189,974	106	106	106
Damerical Int'l Finance	Iran	Agribusiness project	337,500	337,500	3,942	814	375
Bank of America	Philippines	Commercial bank	15,300,000	15,300,000	17,000	17,000	17,000
Bank of America	Philippines	Commercial bank	4,374,481	8,748,960	12,427	4,861	4,861
Bechtel Inc.	Indonesia	Engineering company	220,500	441,000	500	245	245
Berlitz School of Languages	Thailand	Instruction in languages	75,600	151,200	84	84	84
The Black & Decker Co.	Yugoslavia	Manufacture electric power hand tools	722,700	1,445,400	1,640	803	803
Boundsgreen Co.	Indonesia	Mfg. of textiles	2,000,000	2,000,000	6,650	4,600	4,600
Cabot Corp.	Brazil	Mfg. of carbon black	2,271,150	2,271,150	12,500	6,643	2,523

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands Total Project	Total U.S. Inv.	Total Investor
Cargill Inc.	Indonesia	Production of poultry feeds	$ 540,000	$ 540,000	900	810	600
Cay Rica Cattle Co.	Costa Rica	Cattle ranch	250,000	500,000	702	702	702
Central Soya	Brazil	Manufacture of livestock & poultry feed	2,250,000	2,250,000	2,500	2,500	2,500
Chase Manhattan Bank	Dominican Republic	Commercial bank	1,608,000	1,608,000	1,680	1,680	1,680
Chemtex Fibers Inc.	China	Technical services-fibers and films	23,747	47,494	53	26	26
Chemtex Fibers Inc.	Indonesia	Manufacture of nylon & polyester fibers	1,836,000	1,836,000	19,800	9,600	6,000
Chemtex Fibers Inc.	Philippines	Mfg of polyester fibers	1,000,000	2,000,000	21,333	17,333	1,670
Chemtex Fibers Inc.	Thailand	Mfg. of nylon fibers	480,192	960,384	10,740	6,717	1,080
Chesebrough Ponds	Kenya	Manufacture of toiletry products	214,200	428,400	238	238	238
Clinton Electronics	China	Mfg. of cathode ray tubes	1,632,922	1,667,859	1,814	1,814	1,814
Cluett, Peabody & Co.	Thailand	Manufacture of textiles	720,000	800,000	1,300	800	800
Coca Cola Export Co.	Korea	Manufacture soft drink bases	990,000	1,980,000	1,100	1,100	1,100
Coilcraft Inc.	China	Manufacture electric coils & transformers	282,318	474,637	467	467	467
Continental Ill.Nat'l Bank	China	Branch bank	450,000	450,000	500	500	500

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands Total Project	Total U.S. Inv.	Total Investor
Continental Ill. Int'l Finance	Philippines	Commercial Bank	$ 5,208,969	$10,417,937	5,788	5,788	5,788
Corn Production System Inc.	Yugoslavia	Agribusiness project	1,960,000	3,920,000	4,000	1,960	1,960
Cornell Dubilier Electric	China	Manufacture electronic capacitors	499,724	904,724	928	823	823
Crocker National Bank	Ghana	Aluminum smelter expansion	18,000,000	36,000,000	see Kaiser		20,000
Dart Industries	Brazil	Manufacture plastic housewares	8,750,000	11,193,644	10,000	10,000	10,000
DiGiorgio International	Indonesia	Manufacture of packaged fruits & pharmaceuticals	120,000	240,000	400	120	120
Digital Equip. Corp.	China	Manufacture electronic products	1,200,000	1,575,000	2,600	2,200	2,200
Dow Chemical Co.	Indonesia	Manufacture of pesticides & herbicides	1,350,000	2,700,000	4,988	4,988	1,496
Dow Chemical Co.	Yugoslavia	Manufacture of polystryrene granules	12,117,000	18,234,000	23,900	12,117	12,117
Eaton Corp.	Yugoslavia	Manufacture of appliance controls	2,000,000	1,500,000	7,050	3,320	2,200
Emerging Economies Co.	Korea	Manufacture of human rehabilitation devices & equipment	90,000	180,000	204	150	100
Fairchild Semiconductor	Korea	Manufacture of electronics & components	7,110,000	8,400,000	7,900	7,900	7,900
Fidelity Bank	Costa Rica	Construction of condominiums	2,250,000	3,440,525	4,330	3,500	3,500
Firestone Tire & Rubber Co.	Thailand	Manufacture of tires	818,175	818,175	1,653	909	909

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands Total Project	Total U.S. Inv.	Total Investor
First National City Bank	Kenya	Full service bank	$ 1,260,000	$ 1,260,000	1,400	1,400	1,400
Fischbach & Moore	Afghanistan	Construction of hydroelectric project	1,500,000	1,500,000	11,166	8,140	1,500
Five Pillars Investment Co.	Indonesia	Construction of office park	1,175,000	1,525,000	2,450	2,150	2,150
General Time	Korea	Assemble clock radio timers	56,290	56,290	138	63	63
General Tire Int'l Co.	India	Manufacture tires & accessories	1,755,000	1,950,000	26,950	1,950	1,950
General Tire Int'l Co.	India	Manufacture tires & accessories	1,575,000	1,750,000	26,750	1,750	1,750
General Tire Int'l Co.	India	Manufacture tires & accessories	1,772,100	1,969,000	26,969	1,969	1,969
Genleather, Inc.	Afghanistan	Leather processing facilities	181,715	363,430	783	632	182
Gillette Co.	Yugoslavia	Manufacture of razor blades & tape measures	270,758	541,516	1,504	301	301
Gillette Co.	Kenya	Manufacture of razor blades	248,968	497,936	627	249	249
B.F. Goodrich Co.	Iran	Manufacture of poly-vinyl chloride, caustic soda, and benzene	934,144	1,868,286	12,000	1,471	1,471
Goodyear Tire & Rubber Co.	Malaysia	Manufacture of tires & related products	3,729,000	6,479,625	17,471	7,879	4,729
Goodyear Tire & Rubber Co.	Morocco	Manufacture of rubber products	900,000	900,000	1,000	1,000	1,000
W.R. Grace & Co.	Trinidad & Tobago	Expansion-ammonia, urea production	106,200	106,200	118	118	118

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands Total Project	Total U.S. Inv.	Total Investor
GTE Int'l Inc.	Thailand	Manufacture of fluorescent lights	$ 392,365	$ 784,730	890	890	436
Gulf & Western Industries	Dominican Republic	Hotel	2,250,000	2,250,000	7,100	2,500	2,500
Hanna Mining Co.	Brazil	Petrochemical complex	3,000,000	3,000,000	28,183	7,074	5,996
Hercules Inc.	China	Manufacture of polypropylene resins	5,075,600	8,215,200	27,045	12,684	5,444
Hooker Chemical Corp.	Brazil	Manufacture of film & sheeting	2,838,456	2,838,456	3,798	3,795	2,838
Hormel Int'l Corp.	Philippines	Expansion - food processing	147,707	295,414	717	280	148
Intercontinental Hotels	Indonesia	Hotel	700,000	700,000	28,274	2,500	2,500
International Electric	Haiti	Manufacture mica & film capacitors	450,000	468,000	500	500	500
Jeep Corp.	Korea	Assembly of jeep vehicles	1,350,000	2,700,000	3,000	1,500	1,500
Johns Manville Corp.	Brazil	Manufacture of asbestos free calcium products	225,000	225,000	450	225	225
Johns Manville Corp.	Singapore	Manufacture of fiber-glass insulation	858,000	1,716,000	3,503	3,503	3,503
Kaiser Aluminum & Chemical Corp.	Ghana	Expansion - aluminum smelter	9,600,000	9,600,000	70,000	66,000	16,000
Kimberly Clark Corp.	Malaysia	Manufacture of facial & sanitary tissue	294,000	438,000	934	310	310
Levi Strauss International	Philippines	Manufacture of wearing apparel	478,000	478,000	828	828	828
Milchem Int'l	Indonesia	Manufacture drilling fluids & equipment	1,166,520	1,542,540	2,795	2,675	2,675

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands Total Project	Total U.S. Inv.	Total Investor
Miles Laboratories	India	Manufacture of medical test systems & equipment	$ 296,100	$ 412,200	1,021	329	329
Monsanto Co.	Indonesia	Manufacture of diodes	400,000	400,000	2,400	400	400
Morgan Guaranty International	Indonesia	Merchant bank	243,783	487,565	752	271	271
Morgan Guaranty Int'l Finance Corp.	Singapore	Discount bank	604,420	1,208,840	1,919	672	672
Morgan Guaranty Int'l Finance Corp.	Singapore	Merchant bank	1,530,000	3,060,000	4,250	1,700	1,700
Morrison Inc.	Honduras	Seafood processing	77,625	102,690	99	93	86
Morrison Knudsen	Dahomey	Road construction	4,100,000	4,100,000	11,019	6,344	4,675
Motorola Inc.	Israel	Manufacture communications equipment	2,550,000	3,757,526	3,000	3,000	3,000
Mundi-International Ltd.	Israel	Manufacture pharmaceutical products	695,238	1,220,238	2,080	1,950	1,950
Newmont Mining	Indonesia	Nickel mining	2,166,840	2,166,840	see U.S. Steel		2,167
Oculus Contact Lens Co.	Yugoslavia	Manufacture of contact lenses	77,143	77,143	186	86	86
Phelps Dodge Corp.	Iran	Manufacture of copper and aluminum electric products	4,550,000	6,800,000	25,000	4,800	4,800
Philippines Geothermal	Philippines	Develop geothermal energy project	37,000,000	37,000,000	105,800	82,700	82,700
Ralston Purina Co.	Brazil	Manufacture of animal feeds	1,178,077	1,178,077	1,763	1,311	1,310
Ralston Purina Co.	Korea	Manufacture of animal & poultry feeds	91,800	91,800	490	392	102

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands		
					Total Project	Total U.S. Inv.	Total Investor
RCA Int'l	Brazil	Manufacture TV modules	$10,000,000	$10,000,000	28,000	28,000	28,000
RCA Int'l	China	Manufacture black & white TV picture tubes	1,175,000	1,175,000	4,600	2,300	2,300
RCA Int'l	China	Manufacture electronic components	4,719,500	8,293,500	5,255	5,255	5,255
Rohm & Haas Co.	Yugoslavia	Manufacture emulsions, oils & resins	263,520	527,040	510	293	293
Rosario Resources Corp.	Dominican Republic	Mining of gold & silver	4,320,000	8,640,000	46,200	9,600	4,800
SCM Corp.	Brazil	Manufacture of coatings & resins	8,625,000	8,625,000	8,625	8,625	8,625
Security Pacific Invest. Corp.	Panama	Banking	900,000	1,800,000	1,750	1,000	1,000
Security Pacific Overseas Invest. Corp.	Philippines	Merchant bank	608,182	1,216,364	2,999	675	675
Simplot Industries Inc.	Dominican Republic	Mining of gold & silver	4,320,000	8,640,000		see Rosario	4,800
Singer Sewing Machine Co.	Vietnam	Manufacture of sewing machines & parts	58,880	117,600	728	74	74
Skelly Oil Co.	Korea	Expansion-fertilizer plant	1,350,000	2,700,000		see Swift	1,500
Milton Slotkin	Malaysia	Manufacture wooden furniture	508,500	947,000	2,350	565	565
Soule Steel Co.	Indonesia	Mfg. of aluminum extrusions	70,000	70,000	350	140	140
Swift Chemical Co.	Korea	Expansion - fertilizer plant	1,500,000	3,000,000	24,550	19,550	1,500
Sylcon, Inc.	Haiti	Assembly of metal & plastic elect. comp.	855,000	500,000	950	950	950

Company	Country	Project	Size of Insured Investment	Largest Single Maximum Coverage	$ Thousands Total Project	Total U.S. Inv.	Total Investor
Tandy Corp.	Korea	Manufacture electronic & acoustic equipment	$ 900,000	$ 1,800,000	1,000	1,000	1,000
W.L. Tatum	Dom. Rep.	Poultry breeding	314,100	628,200	1,686	349	349
Nello L. Teer Co.	Malawi	Road constr. project	1,775,000	1,775,000	10,110	2,000	2,000
Texaco	Korea	Expansion oil refinery	3,500,000	7,000,000	7,000	7,000	7,000
Texaco *	Panama	Expansion of oil refinery	23,800,000	30,622,667	28,000	28,000	28,000
Travenol Laboratories	Israel	Manufacture health care products	869,048	1,738,096	966	966	966
Union Carbide Corp.	Thailand	Tin mining	814,284	924,212	11,449	1,013	1,013
Uniroyal Inc.	Turkey	Manufacture tires & tubes	4,901,100	5,306,857	8,200	5,680	5,680
United California Bank	China	Commercial banking	759,894	759,894	844	844	844
U.S. Steel	Indonesia	Mining of nickel	6,210,880	6,210,880	8,378	8,378	6,211
Universal Foods Corp.	Korea	Manufacture yeast & allied products	180,000	360,000	800	200	200
Universal Leaf Tobacco Co.	Thailand	Growing & processing of leaf tobacco	701,699	779,665	2,400	780	780
Vinnell Corp.	Bangladesh	Site preparation for fertilizer plant	4,000,000	4,000,000	8,583	6,883	4,000
*Transvac Electric	Haiti	Production & sale of cassettes	112,950	144,810	126	126	126

[1] Information relating to invests of investor in a project country which are not insured by OPIC is not available to OPIC.

Mr. LONG. Could you put it in such case what percentage that is of their investment there?

Would you have that?

Mr. MAYS. I think we can provide that as well.

[Information unavailable from companies.]

OPIC'S INSURANCE CRITERIA

Mr. LONG. Do you in most cases insure 100 percent or some fraction?

Mr. MAYS. Under the present law we can only insure up to 90 percent. Frequently it is a smaller percentage.

Mr. LONG. Ninety percent of what?

Mr. MAYS. The net investment at cost.

Mr. LONG. It is a cost investment.

Mr. MAYS. Yes.

Mr. LONG. So there is no allowance for inflation?

Mr. MAYS. No; there is not.

Mr. LONG. So that in itself involves a considerable loss for the company?

Mr. MAYS. Yes.

Mr. LONG. These are all U.S.-owned companies?

Mr. MAYS. Yes.

Mr. LONG. Do you insure any non-U.S.-owned companies?

Mr. MAYS. No, sir, they are not eligible under the statute.

Mr. LONG. What is your definition of a U.S.-owned company?

Mr. MAYS. More than 50-percent owned by U.S. nationals.

Mr. LONG. More than 50 percent? Very good.

Could you make a list of those investments that were not made because you refused to insure them?

Mr. MAYS. I am sure I can give some examples, but I don't know that I could give you a complete list.

Mr. LONG. Give as complete a list as you can, please.

Mr. MAYS. Yes, sir.

[The information follows:]

LIST OF PROPOSED INVESTMENTS WHICH WERE NOT MADE FOLLOWING REJECTION OF REQUEST FOR POLITICAL RISK INSURANCE

Project	*Country*
Loans to credit unions	Venezuela
Grain warehousing	Thailand
Diamond mining	Lesotho
Constructon of port facilities	Malaysia
Meat packing	Malagasy Republic
Cattle ranch	Brazil
Chemical manufacturing	Korea
Flour milling	Saudi Arabia
Textile manufacturing	Indonesia

NOTE: OPIC does not normally have contact with potential investors regarding projects which have been refused political risk insurance subsequent to that refusal, and therefore is not normally aware of which rejected projects are or are not ultimately undertaken. Nor does OPIC keep formal records of this type. The above list is merely those investments which were not made and of which OPIC personnel happen to be aware at this time.

Mr. MAYS. Many times we will not know what the investor has done after we have refused.

In a few cases we have checked to see. Those are the ones we will be able to supply.

Mr. LONG. Do you ask the company to give the reasons why they did not make the investment?

Mr. MAYS. This was not a standard question and I don't know exactly how it was put.

Mr. LONG. If they did not invest after you had refused to insure, you would not necessarily be sure that was the reason?

Mr. MAYS. That is true. There could have been other reasons involved.

Mr. LONG. Thank you.

Mr. Bevill?

Mr. BEVILL. Thank you, Mr. Chairman.

Mr. Mays, I too want to congratulate you and your staff for obviously a very fine record. Anybody who comes in here not seeking money makes us give you particular attention.

DIRECT AND INDIRECT BENEFITS FROM OPIC PROJECTS

Getting back to the line of Mr. Obey, I, too, have reservations about the overall program, the way it was set up, the purposes for which it was set up. I think I am taking his question just a bit further: Where does the American taxpayer benefit from guaranteeing these claims? That is what we really need to know.

Mr. MAYS. Principally, in the foreign policy of the United States in terms of assisting friendly, developing countries. That is the stated purpose of OPIC. But, incidentally, from the U.S. economy in terms of stimulating U.S. exports.

Mr. BEVILL. All right.

Now, would you insure, for example, the oil companies in these foreign countries, such as down in Venezuela where we have Shell Oil Co., and many other oil companies, do you insure them against expropriation?

Mr. MAYS. No, sir. We have a very limited program for petroleum. It is used only by the small companies. The extent of that is their movable drilling equipment, and things that can be removed from the country.

Mr. BEVILL. Now what advantage would that be to the American taxpayer to have their drilling equipment insured down in Venezuela, where do we benefit from that?

Mr. MAYS. This has been a longstanding policy of excluding other types of petroleum exploration; that is, the intangible costs which are the large costs. As I said, the large companies have not availed themselves of this coverage because it is small. But it has helped the smaller companies. Many of them are going abroad for the first time to try to widen their business.

I think the fact that they are earning money abroad is of some benefit to the United States.

To the extent they discover oil in a developing country then that helps that country, of course, a great deal, particularly today in reducing the cost of imported oil.

Mr. BEVILL. Actually, that country is the one that really gets the benefit, isn't it, of that company coming in there and drilling and discovering new oil.

Mr. MAYS. They do. That is the foreign policy benefit.

Mr. BEVILL. Really, those loans we have there—really, this is a foreign aid program we have there, we are helping the foreign country and not helping the American taxpayer.

Mr. MAYS. We think we are helping both, but the primary purpose is to help the developing country.

Mr. BEVILL. So basically your program is a foreign aid program, is it not?

Mr. MAYS. It is.

Mr. BEVILL. It is not necessarily a benefit to the American taxpayers?

Mr. MAYS. It is a secondary benefit.

Mr. BEVILL. Of course the oil companies, you are aware in some of these foreign countries they are getting them to change their royalty payments so they won't have to pay any tax in the United States. You know this is their standard procedure. So actually, the American taxpayer is not getting any benefit, I would say—or very little benefit from these oil companies' foreign operations.

Mr. MAYS. Not being involved with the oil companies, we have not followed that closely, but we know that there is a desire on the part of the governments to put their tax on U.S. investors in a form which would make it eligible for a foreign tax credit on the U.S. income tax.

Mr. BEVILL. So anytime OPIC aids the oil companies locating in foreign countries, the company is getting out of paying taxes in the first place, which is the main reason they go to that foreign country anyway, I would say.

Mr. MAYS. I think they go to make a profit.

Mr. BEVILL Then here is the American taxpayer going to guarantee them against anybody taking their equipment down there, they don't have to worry about that, they have all these tax advantages, I would say it is a pretty good deal for them.

Now this $3.4 billion you mentioned, is this the amount of claims outstanding?

Mr. MAYS. Oh, no, sir. That is the face amount of insurance outstanding.

Mr. BEVILL. Is that what the American taxpayer is guaranteeing? I don't mean any appropriations, but we are guaranteeing $3.4 billion.

Mr. MAYS. We are insuring that amount against certain specific risks.

Mr. BEVILL. In other words, if you lose everything the American taxpayer would lose $3.4 billion.

Mr. MAYS. In the likelihood of 77 countries expropriating everything insured by OPIC at one time.

Mr. BEVILL. And no payments.

Mr. MAYS. No payments.

Mr. BEVILL. Then the American taxpayer would lose $3.4 billion.

Mr. MAYS. In that unlikely event.

Mr. BEVILL. That is right, that is right, very unlikely. Is this set out by statute, the statute that created OPIC? Is there any limit whatsoever?

Mr. MAYS. There is a limit of $7.5 billion on our insurance-issuing authority.

Mr. BEVILL. How many years have you been in operation?

Mr. MAYS. We were formally organized in January of 1971. The act was passed in December of 1969.

Mr. BEVILL. 1971 is when you made your first guaranty?

Mr. MAYS. Yes.

Mr. BEVILL. You have been in operation about 4 years?

Mr. MAYS. Right.

Mr. BEVILL. You have reached nearly half of your authorization.

Mr. MAYS. Most of that was previous insurance issued by AID which administered the program before OPIC was organized.

Mr. BEVILL. I know my time is about up, but if I may ask one more.

Mr. LONG. Yes, Mr. Bevill.

Mr. BEVILL. I would like to know how this helps the export business? I am sure there must be some way it helps it, but I cannot quite follow that. I see no advantage to us. As you very frankly pointed out, the primary advantage is to the foreign country.

I see no particular advantage to the American taxpayer to have this program, because actually the investment is in the foreign country, it is not in this country, not creating any employment in this country. Unless you could say it is encouraging export, this is the thing that interests me, how does it do that?

Mr. MAYS. When a U.S. company begins exporting abroad they may sell only to middlemen or merchants.

They will subsequently, as their market increases, probably build warehouses abroad and then provide servicing abroad. They may ultimately be required to do certain assembly abroad.

So there is an increasing amount of investment as you develop a market abroad. In some countries they will insist upon a certain amount of local manufacture, a certain percentage of the components may have to be manufactured locally. So there is an increasing amount of investment.

As the jobs are created in the country and they begin to earn money, of course they buy other U.S. goods as well, which is an indirect benefit, an increase of U.S. exports.

Mr. BEVILL. Yes; that is pretty indirect. You are saying that you get them to earn money and they make more money, then the chances are they can buy more from the United States.

Mr. MAYS. Yes, sir.

Mr. BEVILL. And that is the—is that what you refer to as——

Mr. MAYS. As the indirect portion of the benefit. But all of this time——

Mr. BEVILL. What is the direct? Do you have any direct?

Mr. MAYS. The direct is the sale of goods, parts, services, and that type of management for the operation abroad, the profits that come back from that, the interest on the repayment of loans, all of this tends to give us a positive U.S. balance effect from our programs as a whole.

Mr. BEVILL. That would be a direct benefit. I follow you.

That is all.

Thank you, Mr. Chairman.

Mr. LONG. Thank you, Mr. Bevill.

Of course, as they make more money, they can also spend that money in other countries, too, they don't have to spend it back in the United States only.

Mr. MAYS. That is true. They tend to expand their operations out of earnings abroad.

OVERSEAS INVESTMENTS COVERED BY OPIC

Mr. LONG. Could you tell me what proportion of U.S. corporate overseas investments are so guaranteed?

I gather that there are a lot of American companies that operate overseas that do not ask for insurance from you and don't pay this fee?

Mr. MAYS. This is a little difficult to determine from gross statistics that are available because we are operating only in developing countries, not the developed countries such as Western Europe, where the bulk of U.S. investment has been made.

Also, it excludes the petroleum investment. So I think we estimate that of the amount of investment abroad that would be eligible for our insurance, we are insuring about 60 percent.

Mr. LONG. So about 40 percent of corporate investments in the developing countries operate without your insurance.

Mr. MAYS. Yes.

Mr. LONG. Do you have any idea why some choose to take the insurance and others do not?

Mr. MAYS. Some of those that are not taking it may be doing so for various reasons, such as having a local partner, or being incorporated in a country where they are not eligible. But they still show up in the raw statistics of gross U.S. investment. There could be other cases where they simply feel that the risk in a particular country is not great enough to justify the substantial premium which we charge.

Mr. LONG. Right.

So that really the companies that are going to ask for guarantees are the ones that figure they have a fairly high risk there, so you are getting a self-selected risk, right?

Mr. MAYS. It tends to be an adverse selection. But most companies seem to feel that they should buy wherever it is available.

Mr. LONG. I am just wondering why, if this is such a good thing, that you don't use the same principle of social security and make everybody carry it? Of course, if we used the voluntary principle for social security the whole social security program would fall apart. Only the poor people would want social security and would want to pay and the ones who could do better at a private insurance company would not want it; is that right?

Mr. MAYS. Yes, sir.

OPIC AND RISK MANAGEMENT

Mr. LONG. I'm just wondering, is this a very good principle to let companies choose to go into a very risky setup and then ask you to bear the costs and allow other companies to get a free ride?

Mr. MAYS. That is a very good point, sir. We have reviewed whether or not we would sell the insurance to a company in one country and allow them not to take it in another country.

Mr. LONG. Right.

Mr. MAYS. We have not gotten to that. But we did something that was quite significant in changing the way the program had been administered by AID.

AID would write a 20-year contract and allow the investor to make an annual decision as to whether or not they wanted coverage for the following year, paying what they called a standby premium, instead of the higher current premium.

We thought that that type of adverse selection would make it impossible to make this a real insurance program. So we changed our contract to require that the investor carry on current and pay the higher premium for the amount he had at risk that year. However, during a construction period when the investment is being made, he only has to carry what is at risk at that point. He does not have to carry what we call the maximum coverage under the contract.

OPIC AND PRIVATE INSURANCE COMPANIES

Mr. LONG. Have you ever had anybody, any group, come in and make an analysis of what your program is, the ultimate liabilities and everything, just to see how actuarially sound your program might be, what possibility there was of the U.S. Government's having to pay out claims in excess of your earnings and appropriated funds?

Mr. MAYS. This has been done a couple of times in years past in AID. We think the best test of that now is the willingness of the private insurance companies to participate in the program with us because they have excellent actuaries on their staff.

Mr. LONG. How many private insurers do you have?

Mr. MAYS. Twelve.

Mr. LONG. What is the amount of their participation?

Mr. MAYS. $6½ million dollars is their share of the $40 million first loss pool. So they have about 16 percent.

Mr. LONG. What is the extent of their liability?

Mr. MAYS. I don't have a figure on that.

Mr. LONG. Could you find it and put it in the record?

Mr. MAYS. There are very few countries in which we have more than $40 million. This group we have organized will take the first $40 million of loss in any one country. They have 16.4 percent of that $40 million.

Mr. LONG. Perhaps you could put into the record what this adds up to as a proportion of ultimate liabilities which would otherwise have to be assumed by the United States and which have been taken over by private insurance companies.

Mr. MAYS. Yes, we will do that.

[The information follows:]

OUTLINE OF PROPORTION OF ULTIMATE LIABILITIES OF THE U.S. ASSUMED BY PRIVATE INSURERS

In all countries of the world where the Corporation's programs are operative, the Group participation in new policies covering expropriation risk amounts to 16.4 percent, and the Lloyd's reinsurance participation in such policies amounts to 35.6 percent, for a total private sector share of 52 percent.

The Corporation's expropriation risks on the old portfolio are reinsured by both the Overseas Investment Insurance Group and Lloyd's to the extent of 52 percent, with the exception of Jamaica, Ethiopia, and the Dominican Republic where the reinsurance is available only from Lloyd's and amounts to 45.6 percent.

For inconvertibility risks, participation by the Group and Lloyd's in new policies amounts to 30.5 percent. In the case of the old portfolio the reinsurance by the Group and Lloyd's also amounts to 30.5 percent, with the exception of Jamaica, Ethiopia, and the Dominican Republic where reinsurance is available only from Lloyd's and amounts to 14.1 percent.

Whether or not the Group and Lloyd's participate as insurers or reinsurers, and irrespective of whether or not the coverage relates to the old portfolio or new insurance, the liability of the private sector is limited to their percentage of one pool per country having a loss limit of $40 million per year, and a worldwide pool having a loss limit of $80 million per year (except Lloyd's which has a liability limit of $120 million per year). Any losses greater than these two limits in any one year will be borne by the Corporation.

On the basis of the foregoing risk sharing, private insurers could incure maximum expropriation and inconvertibility losses of $59.9 million in a single year. While this is only a small percentage of the Corporation's $2.7 billion potential liability for these two coverages, the private risk sharing is against first loss. In only 1 year since the inception of the insurance program, in 1971 during which the bulk of the Chile claims arose, where losses of such magnitude that the Corporation's losses under such a risk sharing arrangement would have been greater than the losses borne by private insurers. Even under the circumstances of that year, recoveries being realized on claims incurred would cause the private insurers to end up carrying about half of the ultimate losses.

OPIC'S MAXIMUM CONTINGENT LIABILITY

Mr. KOCH. Did I understand that your authorizing legislation would permit you to enter into $4 billion in addition to the current guarantees you now have?

Mr. MAY. Yes; that is correct.

Mr. KOCH. Is there no limitation at this point? Can you just simply do that immediately without any further authorization by the Congress?

Mr. MAYS. There is a limitation on that, Congressman. I cannot tell you right now exactly what it is.

Mr. KOCH. I think it is very crucial because if we don't do something about that, you are placing the United States in a position where it is guaranteeing an additional $4 billion. I suspect there are very few agencies that have that authority.

Mr. MAYS. Our applications are not in that order of magnitude.

I think our performance in the last 4 years of our existence shows our discretion in exercising that, sir.

Mr. KOCH. Well, as you know, we have a good deal of legislation which permits contract authority in a number of agencies, for example, Secretary of Transportation.

The Appropriations Committee has always, in that particular agency and others, too, imposed some kind of restriction as to what the agency could do in terms of expanding the outstanding obligation. Would you have any objection to this committee imposing some reasonable restriction so as to make certain that OPIC would not go ahead and authorize an obligation of $4 billion in addition to what is presently on the books?

Mr. MAYS. I would like to consider that a little further, Congressman. I would make this observation off hand, we may get as much as $1 billion of total insurance this year, adding the three risks together, inconvertibility, expropriation, and war. Of course, it is practically an

impossibility to have a loss on all three. You will have one or another, but not all three. It could possibly have an adverse effect in our attempts to get the private insurance companies to share with us in our risks to limit the size of the program in terms of their ability to expand it and to want to take it over.

Mr. KOCH. But you are going to advise us as to whether a reasonable limitation which would place some restrictions on your ability to enter into a $4 billion obligation, in fact should take place.

You are going to give us some comment.

Mr. MAYS. I will be glad to.

Mr. KOCH. I think we should.

[The information follows:]

EXISTING LIMITATIONS ON THE GROWTH OF OUTSTANDING OPIC INSURANCE VOLUME

OPIC currently feels very strongly that any further limitations which are placed on the investment insurance program might make it very difficult to attract further private participation in the program and would be counterproductive to the intent of the Congress and OPIC that the program be gradually turned over completely to private underwriters. OPIC also feels strongly that there are a number of limitations already incorporated in the program which fully protect the Government and tend to restrain any prospective undesirable growth of insurance volume. These existing limitations are the following:

(1) A $7,500 million limit on the allowable maximum contingent liability of insurance which the Corporation may issue under its existing authority.

(2) A constant flow of reductions and terminations of previously existing contracts which tends significantly to offset the issuance of new insurance by OPIC. These reductions and terminations usually are the result of the repayment of loans which had been insured previously.

(3) OPIC's internal risk management principles and the risk management principles of the private insurance underwriters participating with OPIC. OPIC's authorizing legislation states that the Corporation is to conduct its operations "on a self-sustaining basis." One of OPIC's principal policies is, therefore, to avoid any overconcentration of its insurance risk in any one country or group of countries. The spreading of one's risks is also a cardinal principle of the private insurance industry.

Due to the nature, amount, and direction of U.S. private investment flows to the developing nations, the issuance of excessive volumes of new insurance would probably require the acceptance by OPIC of a major overconcentration of insurance in a small group of countries. Neither OPIC management, its Board of Directors, nor the private insurance industry participants in the program would be willing to accept such a departure from our policies and our legislative directives.

(4) The Congress and OPIC intend to convert OPIC ultimately into solely a reinsurer of private underwriters of political risk insurance. Congress last year revised OPIC's authorizing legislation to both direct and permit this conversion. In this legislation, the Congress placed very definite limitations on the growth of OPIC's future insurance and reinsurance volumes. The legislation stipulates that after certain dates OPIC will not directly underwrite any political risk insurance, and will thenceforth act solely as a reinsurer. The legislation further stipulates that the amount of reinsurance liabilities which the Corporation may issue "shall not exceed $600 million in any one year."

CONGRESSIONAL MANDATES FOR OPIC

Mr. KOCH. Second, you just appeared, if I am correct, before the Senate subcommittee, Senator Church.

Mr. MAYS. Yes, sir.

Mr. KOCH. Could you in a very brief way summarize the additional objections that that committee had. It is my understanding that they want to phase OPIC out over a 5-year period. Isn't that so?

Mr. MAYS. They want the private insurance companies to join in the program so that OPIC would become a reinsurer.

Mr. KOCH. Were there any additional arguments the Senators posed to you that we have not discussed?

Mr. MAYS. Yes, by referring back to an earlier question concerning the idea that OPIC insurance of an investor, when he was expropriated, could unnecessarily involve the U.S. Government in a confrontation with the host government. We think that the history of the program clearly shows that OPIC insured investors have been able to work out compensation without calling on the U.S. Government to take sanctions against the foreign government to obtain compensation.

Mr. KOCH. Is that the only additional argument against OPIC that was advanced at the Senate level?

Mr. MAYS. I think that was the principal one, sir.

FOREIGN INVESTMENT AND EMPLOYMENT

Mr. KOCH. The next question I have is: Would you agree with me that in some sense we are exporting jobs through you?

Mr. MAYS. No, sir, we are not.

Mr. KOCH. Let me pursue that. Let's take shirt companies, for example, do you insure any shirt companies overseas?

Mr. MAYS. I cannot recall one, but I will tell you how we would examine an application from one.

Mr. KOCH. Yes, fine.

Mr. MAYS. We have had a longstanding policy of refusing coverage to runaway industries, that is where you close U.S. production and move it abroad for export of the product back to the United States. This was codified last year and put into the law. It had been OPIC policy before that time.

We make a very careful analysis of the U.S. employment effects of each investment before we insure it.

Mr. KOCH. I am really appreciative of the fact that you would not support a runaway industry. But how about an industry that expands? How about an industry that keeps its current production but goes overseas to make the same product and ships it back to the United States, Is that something that you would support?

Mr. MAYS. I think it is likely that an investment of that type, relying on export of the product to the United States would not meet our balance-of-payments test as well. We are supporting investments abroad for markets abroad essentially and these are increasing markets abroad. We think it is important that U.S. companies participate in them.

Mr. KOCH. If I understand you correctly, you would not support a situation where you would have financed a company which expands its business overseas to the point where the product of that company is ultimately shipped back to the United States. You don't have such a situation?

Mr. MAYS. I am not sure I can say that as a blanket statement.
Mr. KOCH. Would you look into that and let us know?
[The information follows:]

SUPPLEMENTAL INFORMATION REQUESTED BY CONGRESSMAN KOCH

OPIC has insured some projects which are foreign expansions of a company's operations and which export some or most of their output to the United States. OPIC insured these projects only after finding upon careful analysis that they were beneficial both to the U.S. balance of payments and levels of U.S. employment. There are four categories of such projects:

The first type of project is one which secures foreign sources of raw materials or products which are not available in the United States. The investor in this type of project is able to meet increased U.S. demand for products and to increase his domestic operations as a result of the foreign operation. The foreign project will also usually purchase significant amounts of U.S. equipment and supplies for its own use.

The second type of project is one which establishes a foreign affiliate of a U.S. company to supply the investor with products which prior to that time had been purchased from other, nonaffiliated foreign sources. These imports simply replace other imports from other countries or companies. These projects help the U.S. balance of payments and levels of domestic employment by purchasing U.S.-made equipment and supplies for their construction and operation and by paying dividends and interest to U.S. investors which had previously been earned by foreign investors.

The third type of project is one which is established to undertake operations which are uneconomic to do in the United States. While not runaway plants, these projects do supply the domestic operations of the investor. However, OPIC will only insure or encourage such an investment if the foreign investment operation will result in an increase in the domestic U.S. employment of the investor. This increase would result from increased amounts of U.S. exports sent to the new foreign operation, usually for some type of assembly, and increased levels of U.S. employment related to further processing, assembling, or working with the items received from abroad. OPIC requires investors of this type of project to document and represent to OPIC its employment and other data which support its concurrence with OPIC policy guidelines. OPIC will not, in any case, assist projects of this type which are in activities which will result in the unrestricted export to the United States of such items as textiles, garments, shoes, or leather handbags.

The fourth type of project is one which is established overseas primarily to serve foreign markets. Some of the output of this type of project may be sent back to the United States for use in the investor's domestic operations, but the bulk of the project's production is sold in the local foreign market or third country foreign markets. In this type of project, the increased U.S. exports of materials and equipment to the new foreign operation greatly exceeds the value of the product returned to the United States.

Taken in the aggregate, these four types of projects represent a relatively small percentage of OPIC's total insurance business. For example, in the first 9 months of fiscal year 1975, OPIC insured investments in 105 projects. Of this total, only 20 projects will export any of their output to the United States. These 20 projects, by type mentioned above, are:

Projects

Type	*Number*
1. Foreign sources of materials or goods not available in the United States	5
2. Replacing other foreign suppliers	11
3. Increase in domestic U.S. employment based on foreign operation not economic in the United States	2
4. Project primarily serves foreign markets and results in increase of net U.S. exports	2

Mr. KOCH. Do you have situations where a company that manufactures an item in this country goes overseas and expands production for the purposes of export elsewhere, not the United States.

Mr. MAYS. Yes.

Mr. KOCH. Could you give us a report on that, indicating, if the information is available, how many people are employed in the factory or concern overseas and the nature of the product that they are manufacturing?

Mr. MAYS. I think I can give you an analogy now. My associate here has just shown me a list of eight or nine textile projects abroad for which we have denied coverage for the proposed investments. So we are not supporting them.

We have supported a textile investment in Indonesia. There were no U.S. companies there. It was supplied mainly by the Japanese. It is a big market of 125 million people. There is a big opportunity for American companies to make money there.

Presented with that application, we determined that we would insure it, we would make a loan, in fact, but we also provided that the insurance would be terminated if there were any export of textiles from that project back to the United States. Similarly, the loan we made would be accelerated if there were any exports to the United States. So we put some teeth in the agreement.

OPIC'S POLICY OF NONDISCRIMINATION

Mr. KOCH. There is a report in the Washington Post that OPIC, along with one other governmental agencies, and I quote, "had asked a corporation doing business in the Mideast to withdraw a Jewish vice president and to send a non-Jew instead." Are you familiar with that charge?

Mr. MAYS. Yes.

Mr. KOCH. Could you tell us what the facts are?

Mr. MAYS. I will be glad to do that. We have done it before other hearings here. There was no basis in fact for that. This was the result of a misunderstanding in a telephone conversation in mid-December. The conversation concerned the matter of getting a visa for Saudi Arabia. We had asked the 25 businessmen who participated in this mission to get their own visas. To our knowledge none were denied visas.

The misunderstanding in the telephone conversation in December did not come to our attention until the press conference, I believe, in mid-February.

Mr. KOCH. What is the misunderstanding?

Mr. MAYS. As to whether or not OPIC would or would not accept the Jewish vice president as a member. We would have been delighted to have had him. The misunderstanding arose from the matter of his getting a visa. We would even have been willing to try to get the visa for him if he were unable to get it himself.

Mr. KOCH. So that that charge is totally baseless?

Mr. MAYS. Right. If we had known about it earlier we could have remedied the situation, I am sure.

Mr. KOCH. Do you finance any operation that would engage in a discriminatory practice of that kind?

Mr. MAYS. We do not.

Mr. KOCH. Would you make an effort to ascertain whether in fact that takes place since we know there are boycotts going on? Do you simply wait for a charge to be made?

Mr. MAYS. We have not had occasion to insure any business in Saudi Arabia as yet so I am not sure whether it would arise or how it would arise.

Mr. KOCH. I am not just talking about Saudi Arabia or simply about Jewish vice presidents. I'm talking about the question of the law of this land and the statement made by the President that he would not tolerate discriminatory practices.

In matters like this you are an extension of the Government. My question is: Can I rely on the fact that you would not permit the financing by your agency of an operation which would permit discriminator practices of that kind?

Mr. MAYS. Yes; you can.

The OPIC Board of Directors recently has reiterated our policy on that point.

Mr. KOCH. Thank you.

Mr. LONG. Thank you, Mr. Koch.

OPIC AS A GOVERNMENT AGENCY

Are you a private corporation?

Mr. MAYS. No; we are a Government corporation.

Mr. LONG. Are you held to the same salary levels as Government officials?

Mr. MAYS. We are, yes.

Mr. LONG. What is the salary of the top two or three officers?

Mr. MAYS. $36,000 is the effective top. We have two positions in excess, $38,000 and $40,000.

EFFECTIVENESS OF THE DIRECT INVESTMENT FUND

Now I am reading here from a report of the Inspector General. I am going to read a number of recommendations which are pertinent to some of the remarks which some of the other Congressmen have asked, "It is our opinion that OPIC's Direct Investment Fund projects cannot be justified as it has been operated up to the time of our inspection." They recommend the abolishment of the program completely.

This we believe is the most logical course of action for the following reasons:

1. We saw no case where OPIC's loan guarantee could not be substituted for direct loans.
2. A number of other international lending institutions in existence, such as the International Finance Corporation, dwarf OPIC's program in comparison.
3. The dissolution of OPIC's direct loan program would not disrupt international development financing, due to the relatively small size of the activity.
4. There has not been a great deal of demand for OPIC direct financing as evidenced by the fact that little over one-half of its $40 million authority had been used between the inception of OPIC in January 1971, and the time of our inspection in mid-1974. It is evident from congressional hearings that no legislative change would be necessary for OPIC to stop its direct investment program.

Legislation would apparently be required to dispose of the funds in alternative ways such as investment in U.S. Treasury securities.

I wondered whether you would want to comment on that. Perhaps you would comment in brief here and perhaps at length later on.

Mr. MAYS. I will be glad to.

[The information follows:]

FURTHER COMMENTS BY OPIC ON THE INSPECTOR GENERAL'S REPORT ON THE OPIC DIRECT LOAN PROGRAM

OPIC disagrees with the conclusions of the Inspector General's report. The report does not consider significant aspects of the direct loan program and does not give any recognition to OPIC's congressional mandates to give special consideration and assistance to smaller U.S. investors and the least developed nations. The direct loan program is a vital instrument by which OPIC can assist smaller projects and smaller investors. It provides greater flexibility for OPIC as well as greater income.

Turning to the specific allegations mentioned by Congressman Long, the report stated that the investigators "saw no case where OPIC's loan guarantee could not be substituted for direct loans." This conclusion is in our view erroneous. The loan guaranty is disproportionately expensive for small amounts of capital. As such, it cannot be utilized by small investors undertaking small projects. Additionally, even if the cost could be borne by the project, the investor and OPIC still have the problem of finding a financial lending institution which is willing to lend long-term funds at fixed interest rates and to include a reasonable grace period until the project becomes productive. This task is a very difficult, and frequently impossible, one. The use of a direct loan also gives OPIC the flexibility to include a convertible feature in the loan terms. Such a feature allows OPIC to lower the initial interest rate to the project while at the same time maximizing the ultimate profit to OPIC. By selling the convertible to local investors, OPIC can also assist the U.S. investor in complying with local laws which require increasing local ownership of foreign investment projects. The OPIC direct loans also provide OPIC with greater income than do the guaranties, thus helping OPIC to comply with its congressional directive to operate its overall finance program on a self-sustaining basis. By making a direct loan, OPIC earns 9 percent to 12 percent interest. If it used a loan guaranty, OPIC would earn a 2¼ percent to 3 percent fee, while accepting exactly the same risk.

The second specific allegation is that a number of other international lending institutions dwarf OPIC's program in comparison. This is true, but the other bigger financial institutions are not interested in giving special investment assistance to smaller U.S. investors, as is OPIC. Nor are they frequently interested in the smaller projects assisted by OPIC. OPIC's smaller size and specific attention to the needs of U.S. investors is one of the best arguments why OPIC should not leave the field to the huge international institutions.

The third allegation is that the dissolution of OPIC's program would not disrupt international development financing due to its small size. While this is true in a general sense, OPIC's ability to promote small but highly developmental projects involving smaller but highly skilled U.S. investors in the poorest countries is nevertheless an important contribution to the overall development effort which should not be idly tossed aside. Eliminating OPIC's program would also, again, eliminate much of OPIC's ability to involve the small U.S. investor in the development process, and this small investor doesn't really have any place to turn except to OPIC.

The fourth specific allegation is that there has not been a great deal of demand for OPIC direct financing. This demand has been increasing, and OPIC has recently expanded its staff to offer greater service to potential investors. OPIC's special investment opportunity missions, our regional and foreign seminars to better publicize the availability of our programs, and our work with special consultants and groups such as the Agribusiness Council are greatly increasing the demand and need for OPIC direct loans.

Mr. MAYS. Briefly here, the Inspector General, I think, intends to take another look at the program based upon the more recent experience of operating the program. It has indeed been small. In fiscal 1974 there were only six loans made, but the importance of the program is this: In the poorest countries where there are the fewest opportunities for the investment and fewer U.S. companies interested, the investor is not likely to make an investment with insurance alone. He needs more encouragement than that. The direct loan program is a way of doing it.

With regard to the other observations of the Inspector General of foreign assistance, using the guarantee as opposed to the loan, the guarantee is a little more awkward when you are guaranteeing a private lender. The private lenders only want to make larger loans. The cost of the guarantee makes it too expensive for a small loan. We generally use our loan guarantee if it is $2 million or more and the direct loan if it is less than $2 million because we can do it with less expense.

So the loan program is important for that reason and we use it for smaller companies.

If we continue to stress the poorer countries and the smaller U.S. companies the loan program is important. It serves another very good purpose in addition to the developmental purpose in serving the poorer country. That is that it helps us get a spread of our insurance business. We have concentrations in some countries like Korea, but we want more insurance business in the many, many poor countries.

To the extent we succeed in getting that spread over more countries with our insurance business, it will be a more attractive proposition for private insurers to share because they want a more equal spread of risk. So it serves both purposes. We think when the Inspector General takes another look at it they may agree with us at that time.

HAITI

Mr. LONG. Last year I queried you on the OPIC loan to the luxury hotel in Haiti. There was quite a bit of brouhaha at the time because of the very high daily rates. I think they ran around $100 a day or something like that.

The language used by the promoters to describe the hotel was "decadent." They were inviting people to come there and live in a decadent way.

Tell me, that was a direct loan?

Mr. MAYS. Yes, sir.

Mr. LONG. Can you justify that direct loan for us and would you make such a direct loan again for that type of thing, a luxury hotel in a poor country where people are living so miserably? I believe Haiti is rivaled only by India or Bangladesh in the misery in which most of its people live.

Mr. MAYS. On the good side, the loan is being serviced on time and so it is a commercial success.

I realize your concern about the other problems which do concern us as well, the contrast between the rich and the poor. I think the effect of that contrast is something that would give us grave concerns on doing it again. The thing that was totally unexpected was this rather tasteless advertising that the hotel undertook.

Mr. LONG. Yes.

That certainly put it in a very bad light, but it seemed to me that it deserved to be put in a bad light.

Mr. MAYS. Dr. Long, the GAO made a careful investigation of this at Congressman Aspin's request and issued their report shortly after the hearing we had last year which you would probably find of interest if you have not already seen it. In their report, the GAO said the project was justified on developmental terms, not just because of the

project alone, but due to the fact that it has advertised Haiti and other investment has taken place in moderate priced tourist facilities and agricultural projects and things of that sort.

The Government officials in Haiti have praised the project.

Mr. LONG. I guess everybody has a different philosophy, but I have been in many countries in the world now where we have one way or another financed luxury tourist projects. You can always find a justification for anything. Many criminals justify their stealing on the ground that they put money into circulation. I would hope very much that you would alter your policy entirely. I think the trickle-down theory that you can put a lot of money into luxury things and somehow this is going to benefit the people of the country is going to have a far more disastrous impact on the foreign-aid program and organizations like yourself than it will ever have a beneficial effect on the country.

Mr. MAYS. We would certainly give different weight to that consideration if it appears again.

Haiti is the poorest country in this hemisphere.

Mr. LONG. There must have been many things money could have been loaned for in Haiti—education, agriculture—and so that would have been better investments.

Mr. MAYS. We did not have applicants for that kind of investment at the time, unfortunately.

Mr. LONG. Mr. Roush?

Mr. ROUSH. I have no further questions.

Mr. LONG. Mr. Shriver?

Mr. SHRIVER. Mr. Mays, even though OPIC is now operating on a self-sustaining basis, and you are to be congratulated for your efforts in this direction, you will continue to appear before this subcommittee in connection with our oversight responsibilities, will you not?

Mr. MAYS. Thank you, Mr. Congressman, for your kind words. In answer to your question, OPIC will continue to cooperate with the members of this subcommittee and to appear before it whenever we are asked to do so.

ADMINISTRATIVE EXPENSES

Mr. SHRIVER. You mention that your administrative expenses are low. How much are you spending for administrative purposes, and what percent of your program level would that represent?

Mr. MAYS. In fiscal year 1974, OPIC had revenues and other income totaling $40,945,322. Our total administrative expenses in that year were $3,848,987. That amounts to about 9.4 percent of our gross income. In the first 10 months of this fiscal year, our gross income was $37,896,282 and our administrative expenses were $3,372,184 or about 8.9 percent of our gross income.

CHILE CLAIMS

Mr. SHRIVER. Tell us more about your negotiations with the Government of Chile in regard to several business interests OPIC had insured there. Can you give us your best estimate on how much OPIC will eventually have to pay out due to these investments in Chile?

Mr. MAYS. OPIC has engaged in direct negotiations with the Government of Chile in two instances, that is, pursuant to the Paris

Club Agreements and in respect of the compensation of OPIC for its payment to the Chile Copper Co. on account of the expropriation of the Exotica copper mine.

The Paris Club, of which the Government of the United States is a member, is a group of the principal creditor nations of Chile which nations agreed in April 1972 to reschedule debts due them between November 1, 1971, and December 31, 1972, and again in March 1974 to reschedule debts due them between January 1, 1973, and December 31, 1974. Certain of the claims which OPIC had paid with respect to insured debt obligations were included under the Paris Club Agreements.

In regard to the Exotica negotiations, in December 1974 the Government of Chile agreed to pay compensation to OPIC for OPIC's payment to Chile Copper Co. by issuing promissory notes in the principal amount of $13.7 million with interest at 8.3 percent per annum from December 24, 1974, through December 1979. The notes are payable in six equal annual installments, the first of which was paid in December 1974 and the last of which will be paid in December 1979. OPIC has recovered, thus far, $4,575,000 and expects that the remaining sums will be paid when due.

RECOVERY PAYMENTS

Mr. SHRIVER. You mention several times in your statement that OPIC will get back or recover cash payments issued under settlement agreements, and that you will be paid interest on these amounts. What is the rate of interest, and how was that rate determined?

Mr. MAYS. Pursuant to the settlement with the Government of Chile with regard to OPIC's payment to the Chile Copper Co. on account of the expropriation of the Exotica copper mine, the Government of Chile agreed to pay OPIC $13.7 million with interest at 8.3 percent per annum from December 24, 1974, through December 1979. This rate of interest was negotiated between OPIC and the Chilean Government.

Pursuant to the letter agreements dated January 30, 1974, and June 19, 1974, under which the Government of Chile agreed to reschedule certain debts of three expropriated companies which had been paid by OPIC, the Government of Chile will pay interest to OPIC at the rate of 6 percent per annum. This rate was negotiated between the U.S. Government and the Government of Chile and approximates the rate of interest paid by Chile on debts to other creditor nations who are members of the Paris Club.

ANACONDA CLAIM

Mr. SHRIVER. Would you discuss the agreement which has been reached between Anaconda and the Government of Chile? What effect will this have on OPIC?

Mr. MAYS. In July 1974 The Anaconda Co. and the Government of Chile reached a settlement whereby the Anaconda subsidiaries, Chile Exploration Co. and Andes Copper Mining Co., received a cash payment of approximately $65 million and promissory notes in the face amount of $188 million issued by the Chilean Copper Co., guaranteed by the Central Bank of Chile and payable in equal semiannual installments over the 10-year period commencing February 1, 1975.

In the event the arbitrators now considering the dispute between OPIC and Anaconda decide that OPIC is liable to Anaconda, OPIC would succeed to an appropriate portion of the proceeds of the Chilean settlement.

VIETNAM

Mr. SHRIVER. Explain further the situation in South Vietnam as it affects OPIC.

Mr. MAYS. OPIC has covered investments in South Vietnam by the International Dairy Engineering Co., CALTEX, The Chase Manhattan Bank, and the Bank of America. OPIC's current exposure for inconvertibility claims is $4,252,477; for expropriation claims is $34,123,794; and for war claims is $33,334,131.

OPIC has been in constant contact with the insured investors to assist them in taking steps both to preserve assets and to reduce the amount of any losses which might be suffered.

RUNAWAY INDUSTRIES

Mr. SHRIVER. What does your new authorizing legislation require of you to prevent aid to "runaway" industries?

Mr. MAYS. Our new legislation absolutely prohibits any assistance or encouragement either through our insurance or finance programs to any "runaway" industry. If we have any reason to believe that a proposed investment might be a runaway, we will require of the investor sufficient information to make a determination. Such information would include, for example, past and projected U.S. employment data for the type of operation proposed for OPIC assistance, data about the complete or partial closing of any domestic facility, and the marketing projections for the proposed foreign investment. This information is given to OPIC in the form of legal representations so that any false statements would lead, at the least, to a canceling of any insurance or financing should the falseness come to our attention. Our statute also requires us to monitor an investor's conformance with the representations we used in making our determination. In this monitoring process we would look at such things as the foreign plant's actual sales and marketing results and compare them with the previous representations.

We do not, however, rely only on our runaway determinations to protect the levels of U.S. domestic employment. In those industries which are particularly sensitive to import competition, such as textile, shoes or leather handbags, we take further measures. For example, if a plant is to be established overseas to make garments for uncontrolled export to the United States we simply do not want to have anything to do with this type of operation, and we don't. We turn them down flat, often at the stage of the very first telephone inquiry. If an investor wants to establish a textile plant in a very distant foreign market which we believe will have no effect on the U.S. industry, we will assist it; but we will also include in the contracts provisions which bar the export of the plant's output to the United States. The investors must report to us each year whether or not they have exported to the United States, and will lose any OPIC insurance or financing if they have violated their contracts. Generally, however, these operations are

in very distant markets, such as Indonesia, or in African countries which have special tariff concessions for exporting to the European Common Market.

TRIANGULAR INVESTMENT PROGRAM

Mr. SHRIVER. Explain to us how this "triangular" investment program works. Give us some examples, if possible.

Mr. MAYS. The "triangular" investment program is one which attempts to generate mutual interest on the part of U.S. investors and the oil-rich nations of the Middle East to combine U.S. technology and management expertise with surplus petrodollars in investments in the developing world.

OPIC recently participated in its first "triangular" investment mission to five Middle Eastern and north African countries—Egypt, Jordan, Tunisia, Kuwait, and Saudi Arabia. Twenty-five U.S. business men and women made the trip and met with top government and business officials in each of the countries visited. Judging by the initial results of this trip, we think it was an outstanding success. We plan to organize similar missions for investments in Africa and Central America.

REGIONAL SEMINARS

Mr. SHRIVER. Where have you held regional seminars during the past year or two where small businessmen can find out about the types of assistance available from OPIC? I know there would be businessmen in my area who would be interested in this.

Mr. MAYS. In the past 15 months we have held full-day seminars in Pittsburgh, New York, San Francisco, Chicago, Dallas, Miami, and Atlanta. In planning and publicizing our regional seminars, we have had good cooperation from branch offices of the Commerce Department. For example, their Detroit office coordinated with us in support of our Chicago seminar. In addition to these formal seminars, OPIC personnel appear before conferences of bankers or other groups to discuss the OPIC program in such cities as Denver, Kansas City, Honolulu, and Omaha.

We plan to continue our regional seminars and to appear in more cities. Our next seminar is already planned for Boston in June.

Mr. SHRIVER. Tell us more about what OPIC has been doing to promote food production in those countries which are short of food.

Mr. MAYS. OPIC assigns a very high priority to projects which assist world food production. These projects range from the actual growing and processing of food to the production of fertilizers and other types of projects which are designed to assist farmers in increasing their production.

Besides its regular programs, OPIC has three special programs designed to offer special encouragement to increasing food production. One of these is our program of cooperation with the Agribusiness Council. The Agribusiness Council is a nonprofit organization whose members are many of the major U.S. organizations in the fields of food growing, processing, and marketing. OPIC and the Agribusiness Council have a joint program of working with U.S. investors and foreign governments to identify and promote agribusiness-related investment opportunities overseas. The Agribusiness Council either directly

or through its contacts supplies valuable technical expertise and advice and OPIC stands ready to assist an investor through its finance and insurance programs, as well as to assist in the contacts with foreign governments. As an example, OPIC and the Agribusiness Council have sponsored investment opportunity missions for potential U.S. investors to Haiti, the Ivory Coast, Jordan, and other countries in conjunction with local governments. This is particularly important for small investors who have little or no prior experience working overseas.

The second special effort of OPIC is to identify and promote investment opportunities on its own. In this effort, OPIC hires special consultants to undertake investment opportunity missions to selected countries and then to make these opportunities known to potential U.S. investors. For example, such a mission was undertaken with emphasis on the cattle industry in Africa, particularly in Botswana. OPIC also sends its own staff personnel to foreign countries and throughout the United States on similar missions.

Our third major effort to assist world food production is to give projects in the food chain high priority in conducting our regular programs. For example, in some countries we are currently having to ration new insurance because of potential overconcentration of our portfolio in those countries. Rather than operate our rationing on a strictly first-come/first-served basis, we give preference to projects in the food chain, and make sure that our insurance and finance incentives are available to them.

Mr. SHRIVER. What types of commodities have you supported in this regard?

Mr. MAYS. We have supported a wide variety of commodities in the past. Among these have been poultry, dairy products such as milk and ice cream, seafood of all types, cattle, and pineapples. We have also assisted two general field crop projects designed to serve local markets. We have also assisted numerous projects which produce fertilizers, herbicides, pesticides, or animal feeds or which engage in flour milling or corn processing.

One type of project we will not encourage are those designed to export to the United States commodities which are in surplus in this country.

CLAIMS SETTLED

Mr. LONG. Mr. Conte?

Mr. CONTE. Mr. Mays, in your statement you mentioned that two major claims were settled this year. Which claims were these, and how will the settlements minimize your ultimate cash payout?

Mr. MAYS. In January 1975 OPIC settled the approximately $95 million expropriation claim of the International Telephone & Telegraph Corp., Sud America ("ITTSA") and the $10 million expropriation claim of Reynolds Metals Co. ("Reynolds").

ITTSA's $95 million claim against OPIC on account of the expropriation of the Chile Telephone Co. ("Chiltelco") by the government of Chile was denied by OPIC and the dispute was submitted to arbitration. Following the decision of the arbitrators in November 1974 holding OPIC liable, OPIC and ITTSA reached a settlement in January 1975. This settlement was consummated after ITTSA and the government of Chile had reached an earlier agreement whereby the Chilean Government was to pay compensation over 13 years for

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the expropriation. OPIC and ITTSA agreed that OPIC would purchase from ITTSA for their face amount approximately a $17.8 million portion of the new notes issued as compensation by Chile and approximately $16.8 million of existing obligations owed by Chiltelco to ITTSA. Additionally, OPIC paid to ITTSA about $147 thousand for accrued interest on these notes and $4,065,836 representing a return of premiums paid subsequent to the date of expropriation plus interest. OPIC satisfied its obligation to ITTSA by guaranteeing the payment of the remaining notes issued as compensation by Chile totaling $59.3 million in face amount. The guaranteed notes mature semiannually beginning January 15, 1975, and ending July 15, 1984. It is OPIC's expectation that these notes will be paid by the government of Chile when due and that OPIC will not be required to make payments under its guaranty. Further, it is also expected that payments will be made by the government of Chile on the notes which OPIC purchased from ITTSA.

Reynolds' $10 million claim against OPIC was on account of the expropriation of Reynolds Guyana Mines Ltd. by the Government of Guyana in January 1975. The Government of Guyana, Reynolds, and OPIC reached a settlement agreement whereby compensation was to be paid by the Government of Guyana over time. Upon the insistence of the Government of Guyana the notes were made payable to OPIC, which agreed to pay Reynolds $10 million in cash. OPIC sold a portion of these Government of Guyana notes backed by OPIC's guaranty to the Federal Financing Bank, and $5.436 million of the proceeds of the sale were paid to Reynolds. In addition, OPIC paid Reynolds approximately $4.564 million from OPIC's insurance reserve in order to arrive at a total payment of $10 million. It is OPIC's expectation that these notes will be paid by the Government of Guyana when due and that OPIC will recover the full amount of its payment to Reynolds.

CHILE CLAIM

Mr. CONTE. Would you outline recoveries made from the Government of Chile? How much will you eventually have to pay out from Chilean operations?

Mr. MAYS. OPIC expects to recover a total of approximately $85 million on the $83,122,000 payments made to date on account of both expropriation and inconvertibility claims filed by investors in Chile. In addition, OPIC will receive interest on amounts payable by the Government of Chile over time.

	Amount paid	Amount recovered to date	Additional amounts to be recovered
Inconvertibility claims	$4, 162, 000	$1, 475, 000	$2, 730, 000
Expropriation claims	78, 970, 000	14, 204, 000	66, 640, 000
Total	83, 122, 000	15, 679, 000	69, 370, 000

It is not possible at this time to determine whether OPIC will be required to make any payment to the Anaconda Co. on account of the matter in arbitration.

POSSIBLE NEED FOR APPROPRIATIONS

Mr. CONTE. You said that you do not expect to need appropriations in the future, barring catastrophic loss. What magnitude loss would necessitate further appropriations?

Mr. MAYS. At present, Mr. Congressman, we have insurance reserves of about $175 million. We are constantly augmenting our reserves from our operating income and the recoveries we make against previous claims we have paid. Our legislation stipulates that we cannot ask for further appropriations until such time as our insurance reserves are reduced to less than $25 million. Thus, such a catastrophe would have to be at least $150 million or more, which is a sum far greater than the total of claims paid to date in the entire 27-year-history of the program.

Mr. CONTE. Can you imagine any circumstance which would lead to a loss of that magnitude?

Mr. MAYS. No, sir, not really. Even in our worst experience to date, in Chile, we did not exhaust our reserves which were then far less than they are now. We have also developed very effective measures to assist investors and host governments in arranging compensation for nationalizations, compensations which reduce OPIC's potential for any loss.

CONTINGENT LIABILITY

Mr. CONTE. What is the amount of your outstanding contingent liabilities?

Mr. MAYS. Our outstanding contingent liabilities are our claims settlements guaranties, which are all related to previous claims settlements. At the moment, these total about $166 million.

Mr. CONTE. What are your potential liabilities?

Mr. MAYS. You are now referring to our normal insurance liabilities. At present, we have about $3 billion to $3.4 billion of insurance outstanding for each type of political risk. Our maximum potential liability arising from this insurance is about $5.8 billion.

RESERVES

Mr. CONTE. What are your reserves to cover potential losses?

Mr. MAYS. We currently have about $174 million in our insurance reserve and about $78 million in our finance program reserve.

Mr. CONTE. Do you consider this an appropriate reserve-to-liability ratio?

Mr. MAYS. I think our insurance reserve is at about the minimum adequate level or somewhat below that. Our reserve should really be equal to about 10 percent of our worldwide exposure, or currently about $350 million. This amount would be the most that we would stand to lose under the most serious conceivable circumstances. We are currently building our insurance reserve up to this amount through the dedication of the bulk of our net income and our recoveries made against previous claims to this reserve.

Our finance program reserve level at this time is adequate. As you know, we are required by legislation to keep at least a 25 percent reserve for our finance programs, and we are currently above this level.

ANACONDA CLAIM

Mr. CONTE. Would you explain why OPIC denied liability in the 1972 Anaconda claims? What sort of settlement has Anaconda reached with the Government of Chile? When you you expect an arbitration decision on these claims?

Mr. MAYS. In September 1972, concurrently with OPIC's payment of Anaconda's claim with respect to its equity investment in the nationalized Exotica mine, OPIC denied claims which had been submitted by the Anaconda Co. and its subsidiary, Chile Copper Co. (Anaconda), with respect to their former Chuquicamata and El Salvador mining properties in Chile. These latter contracts were issued by AID in 1967 with respect to proposed new investments by Anaconda in the Chuquicamata and El Salvador mines. The contracts provided, by means of standard AID contractual provisions, an option by which Anaconda, by paying certain specified premiums on each contract anniversary date, might obtain current insurance coverage against expropriatory action by the Government of Chile. For each of the first 2 contract years (December 1967 through December 1969), Anaconda chose not to put any current insurance into effect. In 1969, while no insurance was in force, Anaconda was confronted with the choice of either submitting to nationalization by Chilean legislation or attempting to negotiate and in 1969 entered into a nationalization agreement whereby Anaconda sold to the Chilean Government its equity interests in, and lost management control of, the Chuquicamata and El Salvador mines. Before entering into this nationalization agreement, Anaconda was informed by AID that such nationalization would extinguish all rights to future coverage under its contracts and that AID could give no assurance that it would agree to issue any new coverage with respect to the compensation rights provided to Anaconda under the proposed nationalization agreement.

After the nationalization, AID rejected premiums tendered by Anaconda for future coverage and denied Anaconda's request that OPIC agree to contract amendments that would have provided partial coverage of Anaconda's rights under the 1969 nationalization agreement. On February 10, 1972, Anaconda submitted to OPIC claims for $154 million under its contracts. These claims alleged that Anaconda's equity investments had been nationalized or expropriated by virtue of the Chilean constitutional amendment of July 1971. OPIC has denied these claims on the grounds that: (1) The fundamental event ("expropriatory action") which the contracts were designed to insure against occurred when the Chuquicamata and El Salvador mines were nationalized in 1969, when no insurance coverage was in force; (2) the events of 1969 extinguished Anaconda's rights and interests which could have been insured under the contracts and the coverage asserted in the Anaconda claims (based on the Chilean Government's repudiation of the terms of compensation provided by the 1969 nationalization agreement) is fundamentally different from that which was agreed to by the parties and provided under those contracts; and (3) Anaconda violated fundamental contractual covenants in 1969 by transferring ownership and control of its Chuquicamata and El Salvador mining properties to the Chilean Government, without the contractual consent of OPIC, and such violations give OPIC the absolute right to deny any claims asserted under the contracts in question.

OPIC expects a decision by the arbitrators of the dispute between OPIC and Anaconda in the near future.

In July 1974, Anaconda and the Government of Chile reached a settlement. The Anaconda subsidiaries, Chile Exploration Co. and Andes Copper Mining Co., received a cash payment of approximately $65 million and promissory notes in the face amount of $188 million issued by the Chilean Copper Co., guaranteed by the Central Bank of Chile and payable in equal semiannual installments over the 10-year period commencing February 1, 1975.

VIETNAM

Mr. CONTE. You mentioned that OPIC's expropriation risk in Vietnam is shared with private participation. What portion of that risk is assigned to OPIC itself?

Mr. MAYS. Approximately 48 percent of the first $40 million of OPIC's expropriation risk in Vietnam is borne by OPIC itself. OPIC would bear any expropriation risk in excess of $40 million, but at the moment we have only about $34 million of expropriation insurance on current coverage.

OVERSEAS INVESTMENT INSURANCE GROUP

Mr. CONTE. What sort of services does OPIC provide to the Overseas Investment Insurance Group?

Mr. MAYS. OPIC is the manager of the group, for which we are reimbursed by the private members. Our management responsibilities include all the normal insurance program procedures, such as issuing new contracts and settling claims. OPIC also reinsures the private members of the group for their excess liability over their worldwide and per country stop losses. OPIC receives a reinsurance fee from the group for accepting this liability. Other than these two items, OPIC does not provide any services, as such, to the group. We do, however, have an active interchange of ideas with the private insurers in order to learn from each other's background and experiences.

LLOYD'S OF LONDON

Mr. CONTE. What portion of your appropriation risk is reinsured by Lloyd's of London?

Mr. MAYS. Lloyd's of London's total participation in OPIC's expropriation risk amounts to 45.6375 percent of the first $40 million loss in any one country per year up to three times that amount in the aggregate per year. The Lloyd's participation is derived from two sources—35.6375 percent by reason of OPIC's reinsurance agreement with Lloyd's and 10 percent by reason of Lloyd's participation in the Overseas Investment Insurance Group.

USE OF PRIVATE INSURERS

Mr. CONTE. Wouldn't you have the same level of participation by private insurers without OPIC? The profits would be the same, wouldn't they?

Mr. MAYS. No, sir, we would not have the same level of private participation without OPIC. The private companies have never been in the political risk insurance business before. It is a new field for them. They need the benefit of OPIC experience and expertise in managing the program, the availability of which has been a key factor in attracting private insurers to participate at all. In addition, the private companies would not participate at all without a broadly based or widely dispersed portfolio of risks. Thus, the participation in the overall OPIC portfolio is vital to them. But they cannot assume this portfolio without OPIC reinsuring them for losses which they feel are beyond their ability to assume at this point. And since this program is very new for the private companies, what they also need is a trial period in order to learn what this type of insurance is about and to recognize the profit potential in it.

COUNTRY PROGRAMS

Mr. CONTE. I believe you mentioned that two-thirds of the investment you insured this year has been in less developed countries. Would you provide a listing of countries and amounts insured in each this year, along with the per capita income of each of those countries?

Mr. MAYS. All the investments insured by OPIC are in the less developed countries. I mentioned in my opening statement that so far this fiscal year, two-thirds of the investment insured by OPIC has been in the least developed countries, which are defined in our statute as those countries with per capita GNP's less than $450. We would be happy to provide the listing you mentioned.

[The information follows:]

OPIC ACTIVITY IN THE LEAST DEVELOPED COUNTRIES[1]

1ST 3 QUARTERS, FISCAL YEAR 1975

Project countries	1972 per capita GNP[2]	Number of OPIC-assisted projects	Total project investment (thousands)	Total U.S investment (thousands)
Malaysia	$430	3	$19,755	$7,401
Turkey	369	1	8,200	5,680
Honduras[3]	320	1	99	93
Korea	305	9	43,494	36,242
Ghana[3]	297	1	70,000	66,000
Morocco	269	1	1,000	1,000
Philippines	221	8	162,626	123,999
Thailand	217	7	28,513	11,209
Vietnam	171	1	728	654
Kenya[3]	170	3	2,265	1,887
Haiti[3]	127	2	1,076	1,075
India[3]	110	6	85,065	6,573
Dahomey[3]	106	1	11,019	6,344
Malawi	97	1	10,110	2,000
Indonesia	90	11	68,678	29,579
Chad[3]	84	1	75	75
Afghanistan[3]	82	2	11,949	8,772
Subtotal (17)		59	524,652	308,583
Other countries (11)		44	267,711	162,733
Total (28)		103	792,363	471,316
Percent LLDC (61 percent)		57	66	65

[1] Least-developed countries defined as those with per capita GNP less than $450.
[2] Source: World Bank. 1973 figures not yet available.
[3] U.N. classified MSA (most seriously affected) countries.

Mr. CONTE. I think that many of the arguments we make for the Export-Import Bank in terms of promoting balance of trade and jobs are applicable to OPIC. I wonder if you might outline how your operations differ from those of Eximbank?

Mr. MAYS. There are several differences between OPIC's and Eximbank's operations and philosophies. First, Eximbank finances only U.S. exports whereas OPIC provides and insures local cost financing as well. Second, OPIC's programs are available only in less-developed countries whereas Eximbank's services are available worldwide. Third, OPIC lends its resources at long-term commercial interest rates and not, as Eximbank, at lower short-term money rates. Lastly, Eximbank's resources are much larger than OPIC's. Consequently, it can participate in much larger projects than OPIC is able to.

TRIANGULAR INVESTMENTS

Mr. CONTE. Can you tell me more about your efforts at promoting triangular investments? What are you doing to encourage Eurodollar and petrodollar investments in developing countries?

Mr. MAYS. In response to your first question, Mr. Congressman, in March of this year OPIC led its first "triangular" investment mission to five Middle Eastern and North African countries—Egypt, Jordan, Kuwait, Saudi Arabia, and Tunisia. Twenty-five U.S. businessmen and women comprised the mission group and met with top government and business officials in each of the countries visited. OPIC's objective in organizing this mission was to generate mutual interest on the part of the U.S. business community and the oil rich nations of the Middle East to combine U.S. technology and management expertise with surplus petrodollars in investments in the developing world. In terms of accomplishing our objective, I would consider our first such mission to be an outstanding success. We plan to organize similar missions for Africa and Central America.

In response to your second question, OPIC's authority to insure Eurodollar and other offshore dollar investments is a strong incentive for U.S. businesses to utilize these sources of funds for investment in the developing world whenever possible. During the first three quarters of fiscal 1975, approximately 18 percent of the total U.S. investment in projects insured by OPIC was in Eurodollars and an additional 19 percent was in other offshore dollar funds.

SMALL BUSINESS

Mr. CONTE. What are you doing to assist small business in taking advantage of foreign investment opportunities?

Mr. MAYS. OPIC is continuing, through its regional seminars and target promotional campaigns, to inform smaller U.S. businesses that opportunities in the developing world do exist for them and that OPIC stands ready to make its insurance, finance, and preinvestment assistance programs available to them. Additionally, in our project brokering efforts—identifying U.S. firms to undertake projects identified by host governments—special efforts are made to locate, if appropriate, a smaller U.S. investor who might be willing to undertake the project. In addition to a full-time small business officer, the entire

OPIC staff has been sensitized to fulfilling our statutory mandate to encourage smaller U.S. firms to invest in the developing world.

Mr. CONTE. What portion of your activities last year involved small business participation?

Mr. MAYS. In calendar year 1974, 55 percent of the industrial projects insured by OPIC were sponsored by non-"Fortune 150" size firms and 26 percent were sponsored by non-"Fortune 500" size firms. Additionally, 60 percent of the loans to industrial projects in our direct investment fund portfolio are to non-"Fortune 500" size firms. We are quite proud of this record.

Mr. CONTE. What can you do to increase that amount?

Mr. MAYS. OPIC management is currently reviewing our programs for smaller U.S. firms with the goal of improving our services to this group of investors. Under review is our small business survey loan program, the investment counseling OPIC provides smaller firms, and our financial terms for projects sponsored by smaller businesses. All decisions management takes with respect to this and other programs are consistent with our mandate to be self-sustaining.

Mr. CONTE. One criticism which is sometimes made of OPIC is that because its insurance is backed by the full faith and credit of the Federal Government, foreign policy decisions may be made out of concern for protecting these investments rather than some overriding national foreign policy interest. In other words, the tail may be wagging the dog. Would you care to comment on that criticism?

Mr. MAYS. In response to that allegation let me say that OPIC, in paying or settling its expropriation claims, has not once involved the U.S. Government in a dispute with a foreign government by virtue of that payment or OPIC's subrogation to the rights of the insured investor. The allegation that OPIC has a deleterious impact on U.S. foreign policy is therefore at best merely theoretical, and to date without any basis in fact.

We have observed that in those investment disputes which have adversely affected U.S. relations with foreign governments in recent years, either the investment was not insured by OPIC or the amount of OPIC insurance was minor. Nor did the OPIC insurance cause the bilateral problems arising from the disputes. This demonstrates that the basis for U.S. Government involvement in such disputes is quite separate from and independent of OPIC insurance.

Moreover, there is no reason to expect that OPIC will cause the U.S. Government to be an unwilling party to such disputes in the future. By law, OPIC operates under the foreign policy guidance of the Secretary of State. In handling insurance claims, if OPIC's specific interest were ever to run contrary to the overall U.S. foreign policy interest, the Secretary of State could and doubtless would exercise his power to require OPIC to subordinate its goals to overall U.S. policies. This guidance is reinforced by the diversity of public and private interests represented on OPIC's Board of Directors.

We believe, based on actual case histories, that OPIC has and can continue to benefit the U.S. national interest in ameliorating and settling investment disputes. Moreover, we are strongly committed to the objective of good coporate citizenship by U.S. investors and responsible behavior by host governments. Our insurance contracts and bilateral agreements will bear these last two points out.

VENEZUELA

Mr. CONTE. Earlier this year Venezuela nationalized its iron mines, which were operated by subsidiaries of Bethlehem Steel and United States Steel. Was OPIC involved in that transaction?

Mr. MAYS. No, sir. These investments were not insured.

MIDDLE EAST

Mr. CONTE. What is the extent of OPIC involvement in the Middle East?

Mr. MAYS. OPIC currently offers its programs in Israel, Egypt, Jordan, and Iran. We do not operate our programs in Lebanon, Syria, Iraq, Libya, or the Sudan. An agreement to authorize a limited insurance program in Saudi Arabia has been signed but is not in effect at present.

We have about $56 million of insurance outstanding in Israel. We do not have any insurance contracts outstanding in Egypt, Jordan or Saudi Arabia. We have about $94 million of insurance outstanding in Iran.

Mr. CONTE. Do you insure petroleum facilities in that area, and, if so, for whom and how much?

Mr. MAYS. According to our policies, we generally do not insure facilities or investments related to the production of petroleum, and we do not have any insurance covering such investments in the Middle East. We do have insurance outstanding covering several chemical and petrochemical investments in Iran by B. F. Goodrich, Allied Chemical, and Amoco International. These contracts are mostly 5 to 10 years old and represent about $35 million of insurance.

INDONESIA

Mr. CONTE. Has OPIC insured anything in Indonesia?

Mr. MAYS. Yes, sir.

Mr. CONTE. What has been the record of the Indonesia Government in paying claims on expropriated holdings?

Mr. MAYS. OPIC and its predecessors have never had a claim relating to an investment in Indonesia. In regard to uninsured investments, the Indonesia Government has settled the major claims and most of the minor claims for expropriation of foreign property during the Sukarno era. These include, for example, the expropriations of the Shell and Stanvac refineries, and the Goodyear and Uniroyal rubber plantations.

Mr. CONTE. Are there any claims outstanding by American firms upon Indonesia?

Mr. MAYS. No investor in Indonesia insured by OPIC currently has a claim outstanding. We are aware of only two outstanding claims by U.S. companies against the Government of Indonesia involving the expropriation of uninsured property: the Sea Oil and General Corp. claim covering the expropriation of five rubber and tea estates on Java held in the name of P. T. Baud Indonesia, and the Manhattan Securities Co. claim covering a Java rubber estate held in the name of Lebak Plantation co. Ltd. The Sea Oil claim has been escalated from $6.1 million to $22.7 million since 1972 and is still being negotiated with the

Indonesian Government. The Manhattan Securities Co. is reportedly claiming $750,000 and is apparently also in negotiation.

U.S. BENEFITS FROM OPIC

Mr. CONTE. I believe you have quarterly reports on the employment effects of the projects you support. Would you include a copy of your last report for the record, or at least see that I get a copy?

Mr. MAYS. We would be happy to do both, Mr. Congressman.

[The information follows:]

ANNEX (A)—U.S. BENEFITS AND IMPACT OF OPIC-INSURED PROJECTS, JANUARY–MARCH 1975

In the third quarter of fiscal 1975, OPIC insured new U.S. investment totaling $106 million in 34 projects in 17 developing countries. The total amount of new U.S. investment in these projects will be about $189 million.

Twenty-one of the projects are in the manufacturing sector and will produce, among other things, fertilizers, herbicides, contact lenses, tires, health care products, cutting tools, and drilling fluids. Two of the projects are agribusiness projects and two are construction projects. One natural resource project (geothermal energy), five banking operations, and three other service organizations were also insured.

Particularly noteworthy this quarter is the fact that OPIC insured its first project in Dahomey—a highway construction project. Also, OPIC insured a major nonequity service contract to develop geothermal energy in the Philippines. Over its life, this contract is expected to result in net capital reflows to the U.S. of over $30 million and in U.S. exports over $50 million.

Both the U.S. balance of payments and employment levels will benefit from these projects. Excluding the geothermal project mentioned above, the projects will cause initial export sales of about $51 million of capital goods and other equipment from domestic U.S. sources. During the first 5 years after startup, the investors estimate these new enterprises will purchase U.S. production goods and services worth an additional $98 million. The projects are also expected to remit $62 million in loan repayments, interest, dividends and fees to the United States during the next 5 years. Of further benefit to the U.S. balance of payments is the fact that seven of the investments by U.S. participants involved noncash outflows in the form of technology, or machinery and equipment and that nine of the projects involved the use of Eurodollars or other foreign sources of captial.

Taking into consideration both the estimated net direct trade benefits and net financial flows, these investments should benefit the U.S. balance of payments by some $115 million during the next 5 years. Indirect export stimulation, resulting from the projects' developmental effects on their host economies, could result in as much as an additional $57 million in U.S. exports. Including the estimated indirect trade benefits and the long-term service contract, 685 new U.S. jobs will be created as a result of these investments.

Only 4 of the 34 projects will export any of their output to the U.S. In no case will U.S. employment levels be reduced. Three of the projects will export to the U.S. products which are currently sourced from other foreign based companies. The fourth project will generate new U.S. exports to the project equal to more than two times the expected U.S. imports from the project.

Five of the 21 manufacturing projects this quarter were sponsored by smaller U.S. companies not on the Fortune 1,000 list of the U.S. industrial firms.

Of special interest this quarter is the continued strengthening of a trend for U.S. investors to seek joint venture partners in their overseas enterprises. Local capital is participating in 23 of the 24 projects. Additionally, there are provisions in six of the projects for gradual phase-outs of U.S. equity positions. Third countries are participating in four of the projects and the International Finance Corp. in two of them. U.S. investors will ultimately own 50 percent or less of the equity in 17 of the projects.

Mr. CONTE. How many domestic jobs would you estimate were created by OPIC activities during the past year?

Mr. MAYS. Our estimate for the first 9 months of this fiscal year is 2,900 new jobs for American workers.

EXPANSION OF OPIC

Mr. CONTE. At the end of 1973, 75 percent of OPIC's investment had gone to seven countries, and nearly 50 percent to three nations—Brazil, Korea, and Indonesia. What has been done to expand the number of countries involved in OPIC activity?

Mr. MAYS. We have done a great deal, Mr. Congressman. Of particular importance has been our program of investment opportunity identification and promotion in selected countries of low national income and low OPIC exposure. This program includes sending OPIC teams to countries in Central America, West and North Africa, and the Middle East. Some of this work is done in connection with special groups such as the Agribusiness Council in New York and in some cases OPIC hires specially qualified consultants to undertake specific assignments. We have expanded our efforts to assist the U.S. construction and engineering industries which frequently have opportunity to bid on contracts in the least developed nations.

We are also continuing our efforts to offer our programs in countries where we have not offered them before.

Mr. CONTE. Would you provide a listing of the 10 countries which hold the greatest amounts of OPIC-supported investment, along with the percentage of total OPIC investment for each country?

Mr. MAYS. We would be happy to provide that information.

[The information follows:]

COUNTRIES WITH GREATEST AMOUNTS OF OPIC-SUPPORTED INVESTMENT

ACTIVE CONTRACTS WRITTEN SINCE JANUARY 1, 1971, AS OF APR. 30, 1975

Country	Investment Protected	Percent of Total
Brazil	$183,450,098	17.50
Indonesia	125,567,198	11.98
Korea	122,833,740	11.71
Subtotal		41.19
Philippines	115,605,882	11.03
China, Rep. of (Taiwan)	80,457,474	7.67
Israel	44,233,572	4.22
Botswana	37,500,000	3.58
Kenya	37,095,680	3.54
Iran	32,625,030	3.11
Singapore	31,460,565	3.00
Subtotal		77.34
All countries	1,048,542,300	100.00

ROLE IN NATIONAL RESOURCE POLICY

Mr. CONTE. What role can OPIC play in our national resource policy in terms of developing overseas sources of mineral and energy resources.

Mr. MAYS. OPIC has a very important role to play in our national resource policy. As you are well aware, Mr. Congressman, the development of mineral and energy resources almost always requires very

large and capital-intensive investments. The investors in these projects are able to recover their investment only over many years, and they face very serious political risks and possible losses during this period. Increasingly, the United States is having to turn to the newly emerging countries for its present and future sources of minerals, and frequently these are the countries in which the political processes and society are the least stable and in which a potential investor faces the greatest risk of loss. OPIC's political risk insurance is a very important mechanism by which a potential investor can protect himself against this risk. We have in the past and will continue to encourage and facilitate U.S. investors in developing new sources of minerals and energy in countries which have never produced these materials before.

Mr. LONG. There being no further questions, the hearing is adjourned until 1 o'clock tomorrow.

APPENDIX

BENEFITS DERIVED FROM IDA LOANS

(Response to question at page 754)

In the case of each IDA operation in the past 12 months (see attached list), the loan was made to contribute to the long-term economic development and growth of the recipient country. In each case, the loan included, as an essential purpose, the improvement of human resources through institution building.

The benefits to the U.S. economy of these loans vary. On most of the loans made in the past 12 months, as well as for loans made in previous years, there is a direct contribution to the U.S. economy in the form of procurement in the United States of goods and services required as components for the IDA projects. In the case of some of the IDA loans, the contribution to the U.S. economy is also a direct one in that they increase the borrowing country's productive capacity for commodities of which the United States is heavily dependent for imports; or indirectly, by enabling the borowing country to build the necessary infrastructure required to increase production of such commodities; for example, chromium from Turkey and tin from Bolivia. In a large number of the countries receiving assistance from IDA, the projects are aimed at increasing productivity and production of agricultural products, thus decreasing the dependence of the recipient countries for food assistance from the United States.

Since the IDA loans are aimed at increasing long-term economic growth and incomes in the recipient countries, the U.S. economy benefits from increased trade and markets, and hence employment.

Although the effect is different for the various IDA loans, all of them taken together, support the basic approach of the United States to economic development; that is, the projects for which IDA loans are made stress the role of market forces in the effective allocation of resources, the development of outward-looking trading economies, the critical role of private enterprise, and the importance of spreading development benefits to the poorer people. By its association with the IDA the United States also participates in an international structure in which the developed and developing countries work together on international problems. By cooperating with other developed countries in funding IDA and the other international financial institutions we improve the effectiveness of our own efforts.

IDA credits signed—Apr. 30, 1974–Apr. 30, 1975

Country and purpose	*Amount (millions of dollars)*
Afghanistan: Agricultural credit	$13.0
Bangladesh:	
Telecommunications	20.0
Industrial imports	50.0
Industrial imports	25.0
Fertilizer	33.0
Consolidation [1]	31.0
Population	15.0
Irrigation	27.0
Subtotal	201.0
Botswanna: Urban development	3.0

[1] A consolidation of 4 previous credits to Pakistain for which liability, following the independance of Bangladesh, was divided between Bangladesh and Pakistan.

IDA credits signed—Apr. 30, 1974–Apr. 30, 1975—Continued

Country and purpose	*Amount (millions of dollars)*
Burma:	
Irrigation	$17.0
Forestry	24.0
Subtotal	41.0
Chad:	
Irrigation	7.5
Highways	3.5
Subtotal	11.0
Egypt:	
Fertilizer	20.0
Agricultural and industrial imports	35.0
Subtotal	55.0
El Salvador: Sites and services	6.0
Ethiopia:	
Drought rehabilitation	10.0
Agricultural development	12.0
Agricultural development	9.5
Subtotal	31.5
Ghana:	
Water supply	10.4
Livestock	2.0
Oil palm	13.6
Subtotal	26.0
Haiti: Roads	10.0
India:	
Industrial imports	150.0
Fertilizer	50.0
Dairy development	30.0
Agriculture	83.0
Fertilizer	91.0
Dairy development	27.7
Dairy development	16.4
Drought	35.0
Industrial imports	200.0
Irrigation	45.0
Agricultural credit	75.0
Agricultural credit	34.0
Subtotal	837.1
Indonesia:	
Tourism	16.0
Fishing	6.5
Irrigation	30.0
Subtotal	52.5

IDA credits signed—Apr. 30, 1974–Apr. 30, 1975—Continued

Country and purpose	*Amount (millions of dollars)*
Jordan:	
Agriculture	$7.5
Education	6.0
Subtotal	13.5
Kenya:	
Livestock	21.5
Farm rehabilitation	7.5
Subtotal	29.0
Lesotho: Education	4.0
Malagasy:	
Railroads	6.0
Livestock	9.6
Forestry	6.8
Subtotal	22.4
Malawi:	
Highways	10.0
Technical assistance	2.0
Subtotal	12.0
Mali:	
Agriculture	2.6
Agriculture	8.0
Livestock	13.3
Subtotal	23.9
Mauritania:	
Highways	3.0
Engineering	1.1
Subtotal	4.1
Mauritius: Education	3.5
Nepal:	
Water supply and sewerage	7.8
Settlement	6.0
Subtotal	13.8
Niger: Transportation	5.0
Pakistan:	
Ports	16.0
Telecommunications	36.0
Subtotal	52.0

IDA credits signed—Apr. 30, 1974–Apr. 30, 1975—Continued

Country and purpose	*Amount (millions of dollars)*
Paraguay: Agriculture	$11.0
Philippines: Irrigation	9.5
Rwanda: Highways	6.3
Senegal: Education	15.0
Somalia: Education	8.0
Sri Lanka:	
Dairy—agriculture	9.0
Program	15.0
Subtotal	24.0
Sudan: Agricultural rehabilitation	10.7
Swaziland: Education	5.0
Tanzania:	
Sites and services	8.5
Highway maintenance	10.2
Agriculture	10.0
Agriculture	9.0
Subtotal	37.7
Togo: Agriculture	6.0
Upper Volta: Agriculture	8.0
Western Samoa: Highways	4.4
Yemen, Peoples Democratic Republic:	
Fisheries	1.6
Education	5.4
Subtotal	7.0
Zaire: Highway	26.0
Total	1,648.9

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