

organizations for the purchase of the equipment or other imported commodities associated with the projects to be financed by the loans. External lending agencies are ordinarily not in a position to make a large number of small loans because of the administrative costs and also because they do not have resident offices in the developing countries.

One of the criticisms of our development lending in the past is that a disproportionate share of the external financing has gone to government projects and to large concerns that are able to borrow directly abroad or have close connections with governments. Small- and medium-sized industrial firms and farms are thus often starved for capital or must pay enormous rates of interest, while Government agencies and a few large firms obtain capital on terms even more favorable than private borrowers in industrial countries. In order to deal with this problem, international lending agencies have been promoting the creation of, and making loans to, national development banks which in turn reloan to medium and small enterprise in the developing country. Greater attention needs to be paid to the use of local development banks for channeling more capital into the private sector of the economies of developing countries, but as will be pointed out below, administrative and other difficulties have prevented a wider use of this technique.

Since the purpose of long-range development assistance is to promote a balanced growth of the economy for meeting both internal demands and for expanding the export sector so as to enable a country eventually to meet its import requirements from foreign exchange earnings, the financing of individual projects should not be considered apart from long-range development plans which provide a system of investment priorities and a picture of the interrelationship between the growth of various sectors of the economy. Also for most developing countries, there is a need for technical assistance in combination with financial assistance in promoting long-range development goals. In the past a principal shortcoming of our development assistance, at least for most countries, has been the failure to coordinate the financing of individual projects and various technical assistance programs in relation to the long-range development requirements of the country. Projects have been regarded more or less in isolation and as ends in themselves by the individual agencies undertaking their financing.

Growth targets and foreign aid.—Long-range development assistance constitutes an important element in any program for raising per capita output in developing countries. Most developing countries have stated their economic goals in terms of increasing their per capita output by a certain percentage—say, 2 percent per annum—over a period of years, and they have tended to regard the amount of external capital assistance as perhaps the most important factor in determining their ability to achieve these growth targets. Thus, if a country is currently investing 6 percent of its national income in productive facilities and its capital-output ratio is estimated at 3-to-1,¹ total output will rise by about 2 percent per year. If population is increasing at a rate of 2 percent per annum, output per capital would

¹ A 3-to-1 capital-output ratio means that for every \$3 worth of investment in a country, there will result an increase of \$1 in its annual output.