finance the local costs of their defense budget out of domestic revenues plus the local currency proceeds of our agricultural surplus programs." [5]

In addition to supporting assistance related to our military objectives in certain countries, there will always be crises such as the political eruption in the Congo, earthquakes in Chile, and floods in the Philippines, which will require, for both humanitarian and foreign policy reasons, U.S. assistance. Ample resources should be available in the President's contingency fund for dealing with emergencies of this kind. However, apart from immediate relief needs, assistance from the contingency fund should be made available for well-conceived programs which fit the development plan and potentialities of the recipient country.

B. TYPES AND CONDITIONS OF FOREIGN AID

1. Specific project versus general purpose loans or grants

A major issue in the field of development assistance has been that between financial assistance specifically designed for individual projects, and general purpose loans for financing a broad range of commodities for use in a number of investment projects either in a particular sector of the economy or for development projects generally. For example, a loan might be made to cover the direct foreign exchange costs involved in building a particular steel mill or a section of a highway; or a development loan may be made to finance highway development in general. Alternatively, a country may obtain a loan to finance imports of capital goods for a wide variety of investment projects set forth only in the most general terms in the loan agreement. From an examination of hundreds of loans made by our public lending agencies, the distinction between specific project loans and general purpose development loans is often unclear and many loans seem to fall someplace in between the two concepts. Moreover, a "project" itself is not well defined; it may be anything from a few locomotives or a dozen tractors for a tractor pool, to a gigantic hydroelectric dam and irrigation system.

What is fundamentally significant in this whole field is the relationship of the lending (or granting) authority to the overall development programs and policies of the recipient country. It is much more important for our development assistance agencies to influence, and maintain a continuous review of, the development plans and economic and social progress of a country, sector by sector, than it is to make sure that a certain proportion of funds allocated for a particular section of a highway is spent for bulldozers or shovels which meet agreed specifications.

Project type loans are frequently favored because it is said that only in this way can we be sure that external funds are used for productive projects. But of course what is really important is how a country allocates its total investment expenditures, whether derived from internal or external sources. On the other hand, the project approach to development assistance does have a very definite advantage in that it provides the lending or granting authority an opportunity to review in detail proposed projects in relation to alternative uses of capital and for its officials to involve themselves more deeply in the development

[5] Ibid., p. 84.