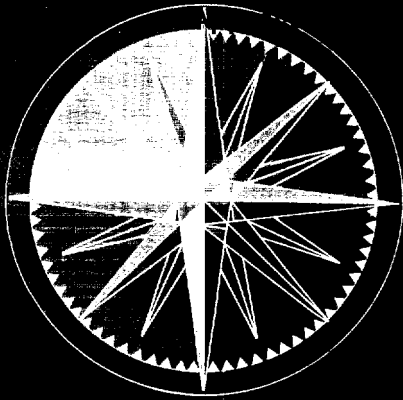


SECRET



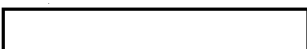
Case 2006/05/24 : CIA-RDP79-00927A004400070002-7 April 1964

OCI No. 0326/64A  
Copy No. 4

# SPECIAL REPORT

FRANCE'S FOREIGN AID PROGRAM

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE



SECRET

25X1

Approved For Release 2006/05/24 : CIA-RDP79-00927A004400070002-7

Approved For Release 2006/05/24 : CIA-RDP79-00927A004400070002-7

**SECRET**

10 April 1964

FRANCE'S FOREIGN AID PROGRAM

De Gaulle's recent visit to Mexico and the proposals France presented on 24 March at the United Nations Conference on Trade and Development (UNCTAD) in Geneva have dramatized to a world-wide audience the scope and implications of the French foreign aid program. France's record is, indeed, a good one. Testifying to this is the fact that it devotes a larger proportion of national income--about \$29 per capita--to foreign aid than any other country. Although most French aid will continue to be dispensed among countries it formerly controlled, Paris now has announced its intention to channel a larger share than in the past to countries outside the franc zone. Tight controls assure immediate trade benefits for France, but probably more important in De Gaulle's eyes is the greater international prestige and political leverage that France stands to derive from its aid program.

France's UNCTAD Proposal

The proposals Finance Minister Valery Giscard d'Estaing formally presented at UNCTAD had originally been distributed in an aide-memoire for consideration by the participating countries. The decision to adopt it as the official French position in Geneva was probably dictated by a desire to appeal to underdeveloped countries in a way which was clearly distinct from the pattern followed by the US. This was, in fact, foreshadowed by De Gaulle's promise to Mexico's President Lopez Mateos that France would present some "new formulas" in support of Latin America at UNCTAD.

The essential feature of the French plan is an attempt to help underdeveloped countries achieve progress by expanding

their trade rather than by granting them financial aid. Its basic recommendations include: (1) establishing an international pricing system for selected agricultural commodities; (2) encouraging industrialization in developing countries by giving their manufactured products freer access to the industrialized nations without reciprocity; and (3) achieving regional economic integration as a means of development.

These proposals appear to be an attempt to apply on a much broader scale the approach Paris has used in assisting its former African dependencies. Since France scarcely expects--and may not even desire--the other industrial countries to accept its recommendations, the plan probably is designed primarily to achieve certain tactical ends.

**SECRET**

**SECRET**

Both the contents of the French aide-memoire and the manner in which it was presented have strong propaganda overtones. The objective is to make a convincing case for the general applicability of the French approach in working out solutions to the problems of relations between underdeveloped and industrial countries. It also serves to identify France's interests with the needs of the underdeveloped states, including those outside the traditional French sphere of influence.

By encouraging the aspirations of the developing countries, Paris hopes it will be able to expand the French presence throughout the "third world." It is also interested in winning a number of other, more indirect benefits, including increased acceptance of French technology.

Some support for the French proposal has come from the underdeveloped nations, particularly the French African states. They may, however, come to have second thoughts when the other industrial nations begin to dissect the French position and expose its weaknesses. France's independent initiative at Geneva may, nevertheless, at least serve to promote De Gaulle as a potential mediator between the developing countries and the European Common Market as well as other international economic councils.

#### Scope of French Aid

Paris presently spends about \$1.4 billion--two percent of

France's GNP--annually on foreign assistance. By comparison, the total American public aid and private investment program amounts to 0.8 percent of the United States' GNP. Almost 90 percent of French aid, however, is concentrated in countries belonging to the franc zone where it is most likely to promote overseas French business. French aid outside the franc zone is almost wholly committed to a program of loans, extended on commercial terms, to be used for the purchase of French industrial equipment.

France's aid program differs in other respects from that of the US. Outside the franc zone, for instance, Paris is willing to extend credit for government investments in projects which Americans tend to regard as best left to private initiative. Also, in territories formerly ruled by France, the French are motivated in part by a continuing sense of responsibility for their economic and social development. In practice, this has led Paris to contribute budget support to these governments to finance the local costs of major assistance activity.

In 1962, direct governmental expenditure, largely grants, constituted 62 percent of total French aid disbursements. Grant aid covers infrastructure expenditures, principally for transportation and communication, in addition to technical assistance and outright budgetary support. Private outlays, which are roughly half as large as official disbursements, include both

**SECRET**

**SECRET**

investments and government-guaranteed, long-term (five to ten years) export credits.

France makes relatively small contributions to UN and other multilateral agencies concerned with aid. Most of what it does contribute to such organizations goes to the EEC's European Development Fund. All of the fund's resources distributed in 1962 (\$55 million) went to what the EEC calls Associated Overseas Countries. Virtually all of these are former French dependencies.

The most notable effect of the French aid program on world trade patterns has been to maintain the position of France as the dominant exporter of industrial goods within the franc zone. Contracts for aid-financed projects in this area are let only to nationals of the country concerned, and stipulate that whatever supplies are required from abroad can be imported only from France. Moreover, through preferential agreements between France and the franc zone countries, imports of French or EEC capital equipment enter at attractive duty-free prices. In order to maintain the political and economic advantages of its status as a preferred trader, France has often been willing to buy primary products from the other franc zone members at prices above the world market.

### Geographic Distribution

In 1963, the tropical French African States and the Malagasy Republic as a group received the bulk of French assistance. In the past much of this aid has been used for budgetary support and infrastructure programs. More recently, however, Paris has considered reducing budget subsidies in favor of more extensive technical assistance, and is giving increasing attention to projects for agricultural and small-scale industrial development.

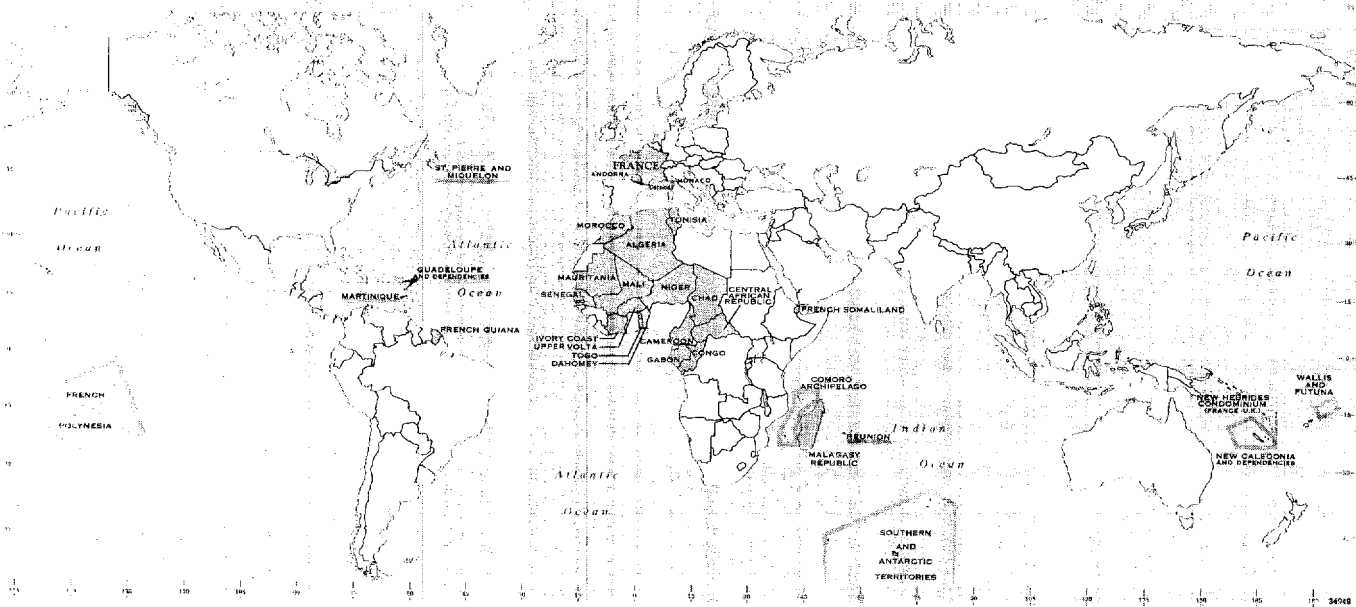
While Algeria still receives the largest single allotment of French aid, the total figure for 1963 was far less than French expenditures for economic assistance to Algeria before its independence. French assistance is expected to amount to \$190 million in 1964, slightly less than last year's outlay. A more substantial cutback is likely to occur in 1965 when a French commitment to maintain aid at the preindependence level expires.

Morocco and Tunisia also continue to get financial help from France. In 1963, Paris provided Rabat with a 20-year loan of \$42 million, along with export credits amounting to another \$20 million. French assistance scheduled for Tunisia in 1964 adds up to \$42 million

**SECRET**

**SECRET**

*The Franc Zone* - Embraces all of France's former African territories, except Guinea, plus the present Overseas Departments and Territories



in loans and export credits, all but \$5 million of which is tied to purchases from France.

French assistance outside the franc zone is increasingly being extended in the form of long-term guaranteed export credits. The best available figures --those for 1962--show that official disbursements outside the franc zone stood at \$32 million, while private investments and guaranteed long-term export credits totaled \$123.4 million. Two thirds of the \$32 million in

official aid to non-franc-zone countries consisted of technical assistance grants for South Vietnam, Laos, and Cambodia. The remaining \$10 million went to Brazil.

The 1963 statistics will reflect a further growth in both public and private expenditures outside the franc zone. Mexico, for example, received a loan package consisting of a \$30-million government loan at 3.5 to 4 percent, and \$120 million

**SECRET**

**SECRET**

in private credits at 6.25 to 6.5 percent. The credits will be good for an average of 12 years following the completion of the projects for which they are drawn. Late in 1963 France also signed an agreement with Iran providing that country with \$61 million in guaranteed private export credits.

France has also offered substantial aid to underdeveloped

countries closer to home. Spain has been granted a financial assistance program similar to the Mexican deal. It consists of a \$30-million government-to-government credit, and a \$120-million open credit to Spanish importers. Both credits are tied to French exports, Greece has been offered a \$5-million official loan along with \$10 million in export credit guarantees. A similar package has been proposed for Turkey.

FRENCH BILATERAL AID DISBURSEMENTS, 1961 - 1962\*  
(Amounts shown are in millions of US dollars)

	Year	Total Official Aid (Loans and Grants)		Net Private Loans And Investments		Total French Aid	
		Amount	% of Total	Amount	% of Total	Amount	% of Total
<b>WITHIN FRANC ZONE</b>							
Overseas territories & depts.	1961	97.5	11.2	6.0	2.0	103.5	8.5
	1962	124.7	14.2	-	-	124.7	10.0
Algeria (and Sahara)	1961	435.9	50.1	207.3	67.4	643.2	53.1
	1962	371.2	42.2	172.4	60.6	543.6	43.4
Morocco and Tunisia	1961	28.3	3.3	16.2	5.3	44.5	3.7
	1962	42.8	4.9	6.1	2.1	48.9	3.9
Members of Afro-Malagasy grouping	1961	275.7	31.7	56.7	18.4	332.4	27.4
	1962	303.5	34.5	71.7	25.2	375.2	29.9
Others	1961	6.4	0.7	-	-	6.4	0.5
	1962	4.4	0.5	-	-	4.4	0.4
<b>TOTAL FOR FRANC ZONE</b>	1961	843.8	97.0	286.2	93.1	1,130.0	93.2
	1962	846.6	96.3	250.2	87.9	1,096.8	87.6
<b>OUTSIDE FRANC ZONE</b>	1961	26.2	3.0	21.3	6.9	82.0**	6.8
	1962	32.0	3.7	34.4	12.1	155.4**	12.4
<b>TOTAL</b>	1961	870.0	100.0	307.5	100.0	1,212.0	100.0
	1962	878.6	100.0	284.6	100.0	1,252.2	100.0

\* Complete figures for data covered in this tabulation are not available beyond 1962. The level of aid to the Afro-Malagasy states has remained about the same in 1963 and 1964. However, aid to Algeria declined considerably after independence; official French aid totaled about \$210 million in 1963, and dropped to \$190 million in 1964.

\*\* Includes five- to ten-year guaranteed export credits amounting to \$34.5 million for 1961 and \$89 million for 1962.

**SECRET**

**SECRET**

French Capabilities  
For Increasing Aid

The government-authorized "Jeanneney Report on Foreign Assistance" foresees French official aid reaching \$1.69 billion in 1975. Some 15 percent of this money--\$250 million--is earmarked for spending outside the franc zone. The over-all increase in aid is based on the assumption that it will be maintained at the present ratio of 2 percent of France's GNP. The current flurry in the French press over the size of the program, however, may lead to a re-appraisal in the post - De Gaulle era.

Nevertheless the level of future foreign aid expenditures will, of necessity, be determined by the growth rate of the French economy, and in its projection of aid levels through 1975, the Jeanneney committee assumed an annual 5-percent real increase in the French GNP. This, however, may be too optimistic, because a stabilization program designed to head off inflationary tendencies in France appears already to have had some slowing effect on GNP growth.

In any event, the aid levels Paris is forecasting for 1975 are miniscule in terms of

the countries demand for credit. Moreover, few will find France's credit terms exceptionally attractive since the interest rates are likely to conform to those charged by other governments, and particularly since private French credits will be offered at commercial rates. Willingness to absorb French credit will be circumscribed by the ability of a borrowing country to pay interest at commercial rates and to liquidate development loans, or credits at commercial maturities.

The government's decision to hold the increase in over-all budgetary expenditures to the same rate as GNP growth will also hurt the French foreign aid program as the approaching presidential election encourages greater expenditures on more popular domestic projects such as schools and roads. Indeed, such pressures were probably a prime factor behind decisions to cut aid slightly in 1963 and to hold the line in 1964.

Outlook

Paris will probably bend considerable effort to expand its foreign aid program and to make it more of a global undertaking. Priority, however, will be given to those states which

**SECRET**



**SECRET**

give reasonable promise of maintaining sufficient stability to assure some return for France. Also having an inside track are countries where there is an established French cultural presence.

Nevertheless such prerequisites for French aid are by no means hard and fast. One exception to Paris' prudence appears to be the Leopoldville Congo. France has recently established an aid cooperation mission there, and a French Foreign Ministry official has asserted that France is amenable to providing technical assistance and cultural aid, including scholarships in France for Congolese students. Paris' ambassador in Leopoldville also has expressed a willingness to consider a Congolese request for military aid.

While any French aid program to Leopoldville will be modest, if for no other reason than budgetary limitations, Paris' display of interest in a heretofore largely Belgian preserve is nevertheless symptomatic of French thinking for the future. That is, it reflects a recognition that this country holds the key to the expansion of French influence in Central Africa.

France will continue its effort to bolster its image in underdeveloped countries by ex-

horting other industrial nations --chiefly the US, the UK, and West Germany--to bring the levels of their aid relative to national GNP up to that of France. The main object of this exercise will be to increase the participation of the EEC countries in financing the development of the French-oriented Associated Overseas Countries in Africa.

Outside the franc zone, a prime objective of future French aid will be to enhance French prestige through the comparatively inexpensive export of French technology. Going on the enthusiastic reception he received in Mexico and the anticipation with which South Americans are awaiting his fall trip to the western hemisphere, De Gaulle has probably been encouraged to believe that France stands to gain a great deal in extending this kind of aid.

In time, De Gaulle expects that developing nation-states will pursue more classical patterns in their foreign relations rather than be dependent on either the US or the USSR. In this environment, he believes, France would have more freedom of diplomatic maneuver and could strengthen its image as the leading spokesman for Europe. France's aid program thus represents a carefully considered investment aimed at yielding progressively greater political dividends.

25X1

**SECRET**

Approved For Release 2006/05/24 : CIA-RDP79-00927A004400070002-7

***SECRET***

Approved For Release 2006/05/24 : CIA-RDP79-00927A004400070002-7

***SECRET***