DEVELOPMENT ASSISTANCE COMMITTEE

Annual Aid Review 1971

(Statistical Tables will be circulated Later)

MEMORANDUM OF THE UNITED STATES

Office of International Assistance Coordination
Bureau for Program and Policy Coordination
Agency for International Development
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U. S. ANNUAL AID REVIEW - 1971

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Introduction

There were several encouraging developments in U. S. foreign assistance programs during the past year. Specifically the U. S. has:

- reversed the downward trend in appropriations for development assistance
- Halted the decline in official disbursements
- rapidly increased investments, thus raising the total flow of resources to the developing countries
- made all developing countries eligible sources for procurement under U. S. development loan financing
- agreed to a substantially increased IDA
- agreed to increases in the IDB regular capital and the FSO.

Also, during the year work was completed on aid reorganization and proposals were submitted to the Congress.

Trends In Resource Flows

In September 1970 President Nixon sent a message to the Congress on "Foreign Assistance for the Seventies". In it he reaffirmed the strong support of the United States for the international development process and reiterated our commitment to reverse the downward trend in the volume of aid. There was considerable progress toward this objective during 1970. Total flows increased by $655 million; A.I.D. appropriations for Fiscal Year 1971 were up by $309 million, including a 14.5 percent increase in "Development Assistance." Total resource flows to developing countries in 1970 were 0.56 percent of GNP compared to 0.51 percent in 1969.

	Net Disbursements ($ millions)		
	1969	1970	Change
Official Development Assistance	3,163	3,119	-44
Other Official	165	168	+ 3
Total Official	3,328	3,287	-41
Private Flows a/	1,459	2,155	+696
Total Flows	4,787	5,442	+655
% of GNP			
Total Flows	.51	.56	
ODA	.34	.32	

a/ Including reinvested earnings of $507 million in 1969 and an estimate of $550 million in 1970.

Gross ODA disbursements were almost unchanged in 1970. Gains in disbursements to multilateral agencies almost offset declines in Peace Corps and Social Progress Trust Fund expenditures. A.I.D. disbursements increased slightly, while Food for Peace shipments were almost unchanged from the 1969 level. An increase in amortization receipts accounted for the drop of about 1 percent ($44 million). Appropriations for A.I.D. increased in both FY 1970 and 1971 and disbursements will reflect this in 1971 and 1972.

A.I.D. Appropriations (in millions of dollars)

FY	Development Assistance	Supporting Assistance	Total Economic Assistance
1969	1,015.6	365	1,380.6
1970	1,029.9	395	1,424.9
1971	1,164.3	569.6	1,733.9

In the "Other Official" category, Export-Import Bank loans increased substantially in 1970 (11 percent) and CCC commercial sales programs doubled in volume. However, amortization payment also rose sharply in these programs holding the increase in net disbursements to only $3 million.

Private flows increased sharply in 1970 by almost $700 million. While full details are not yet available, a substantial part of the increase was in private purchases of World Bank and other international agency bonds. There also was a marked increase in private export credits.

Factors Affecting Aid

Competing national priorities, domestic economic problems, substantial Free World defense obligations, and the Vietnam war pose major constraints upon the volume of U. S. foreign aid.

While the rate of domestic inflation moderated somewhat in the second half of 1970, it remained a prime economic problem. Efforts to curb inflation required continued limitations on public expenditures, including those for aid in 1970.

In addition, the United States balance of payments deficit continued to be a serious problem. One important element is the level of defense expenditures abroad, but the problem is much broader. The competitive position of U. S. business in domestic and foreign markets has weakened and the differences in interest rates provide incentives for the outflow of capital. The balance on current account plus capital flows is inadequate

to offset the large expenditure arising from our military commitments abroad, and from government grants and net capital outflows. Measures to improve the balance of payments will remain of high priority. These may include seeking improvements in military burden sharing arrangements and more equitable treatment of U. S. products in international markets.

The issue of national priorities has seized public attention in the U. S. and there has been increasing popular and Congressional scrutiny of all budgetary requests including foreign aid. What the results of this debate will be is as yet uncertain but there is recognition that the U. S. continues to have a major stake in the international development efforts. The proposed separation of development and security assistance will help to coalesce this constituency.

Congressional reaction to the President's FY 1971 annual budget request for economic assistance was more muted than in previous years. In large part, this was a result of the two-year authorization which Congress had granted in 1970. Since Congressional debate was limited to the appropriations request, there was less discussion of the overall program than in prior years.

Assistance Strategy for the 1970's

The Presidential message on "Foreign Assistance for the Seventies," (circulated to DAC members as an Annex to the 1970 Memorandum) proposes a major transformation in U. S. foreign assistance programs. The President's proposals were based on the March 1970 Report of the Task Force on International Development which was chaired by Rudolph Peterson of the Bank of America. The President summarized the reforms as follows:

"- Distinguish clearly between our security, development and humanitarian assistance programs and create separate organizational structures for each...

"- Combine our various security assistance efforts...into one coherent program, under the policy direction of the Department of State...

"- Create a U. S. International Development Corporation and a U. S. International Development Institute to replace the Agency for International Development...

"- Provide adequate funding for these new programs to support essential U. S. foreign policy objectives in the years ahead."

The reform of the bilateral assistance program must be seen in the context of total U. S. assistance policy. While creating a strong bilateral assistance organization, the U. S. will channel an increasing share of its development assistance through multilateral institutions as rapidly as practicable. We would also rely increasingly on the international organizations to monitor performance, assess requirements and negotiate necessary policy changes.

The U. S. bilateral development assistance agencies will operate increasingly within a policy framework established by the multilateral institutions, rely more heavily on the initiatives of the lower income countries, be concentrated in countries of special interest to the U. S. and in areas of special U. S. competence, and be implemented where feasible through the private sector with concommitant reduction in the number of U. S. Government employees overseas.

New Policies and Developments

United States support for multilateral development institutions is indicated in the increases proposed for by the President's contributions to the international development banks. Legislation has been submitted authorizing $960 million, over a three-year period, for the U. S. share of the replenishment of the International Development Association. Separate legislative proposals provide for a $1 billion 3-year replenishment of the Inter-American Development Bank's Fund for Special Operations plus ordinary capital contributions to IDB of $824 million for three years, of which $150 million would be paid in and the rest callable. An authorization of $100 million is being sought for the Special Fund of the Asian Development Bank.

In line with the President's proposals for a new aid strategy, a number of actions were taken during 1970 to implement changes in the U. S. aid philosophy, designed to increase the effectiveness of this aid. One of the most important was the President's decision to extend procurement under A.I.D. loans from Latin America to other LDC's. This move was a further demonstration of our intention to seek reciprocal untying of all donor assistance programs. In addition, the U. S. action was designed not only to improve the quality of our assistance but to encourage trade among developing countries. Other developments in 1970 included an undertaking by the U. S. of debt rescheduling negotiations with four countries (India, Indonesia, Ghana and the UAR). The agreement with India rescheduled $8.6 million in 1970 and the agreement reached with Indonesia in 1971 rescheduled $215.6 million.

In addition to the above, A.I.D. took several measures during the year to improve the quality of its assistance and to ease the transition from

from present administrative structures to the reform proposals recommended by the President. During 1970 A.I.D.:

- Improved its capacity for undertaking assistance activities in the field of export development. A new office was established in AID/W to assist field missions in drawing up, together with their local country counterparts, comprehensive integrated programs in this area. A major emphasis was placed on cooperation with multilateral aid organizations (such as UNIDO, FAO, UNCTAD-GATT, International Trade Center, CIPE, ECAFE, etc.). Extensive discussions were held with these organizations and with UNDP on development of a coordinating mechanism.

- Drew up plans to increasingly centralize development loan functions in Washington and overseas regional loan offices.

- Installed in all missions an improved system for planning and evaluating technical assistance projects, emphasizing the creation of a process useful to decision-makers and subordinating the reporting function. (Work has also begun on the possibility of devising an evaluating system for Capital Assistance.)

- Finally during 1970 the Administrator of A.I.D. conducted two special "Spring Reviews" on population and on land reform. The population review was attended by 225 participants including representatives of 28 A.I.D. field missions, 17 other U. S. Government agencies, 16 universities and private institutions and representatives from several Congressional offices and international agencies. The land reform review drew 300 participants. Land reform experience of 30 countries was examined.

I. Development Assistance Policy

A. A New U. S. Assistance Policy for the 1970's

In the two decades since the U. S. first undertook foreign assistance under the Marshall Plan, the emphasis of the U. S. assistance programs has moved from reconstruction of Europe to development in Asia, Africa and Latin America. The objectives of U. S. programs during this period evolved as economic and social development become intertwined with security objectives. Through the 1960's U. S. foreign assistance appropriations declined, reflecting in the main, an obscuring of foreign aid purposes brought on by rapidly changing world conditions.

In recognition of the need to reappraise the purposes of foreign assistance President Nixon in late 1969 appointed a task force under the chairmanship of Mr. Rudolph Peterson, to make comprehensive and detailed recommendations on U. S. foreign assistance. On the basis of the recommendation of the Peterson task force and subsequent analysis by the National Security Council, the President in a message to Congress on September 15, 1970 proposed far-reaching changes in U. S. Foreign Assistance Policy. The President's message emphasized the conditions affecting the development process had changed greatly over the past two decades:

-- The less-developed countries have made impressive progress and can now stand at the center of the international development process.

-- The international development institutions and an increasing number of bilateral donors are expanding their aid programs.

-- An international donor community is emerging which increasingly is more effective in coordinating donor response to the initiatives of the LDC's.

The President also noted the need to clearly identify the separate purposes of U. S. assistance and to establish separate organizational entities for security assistance and development assistance. Following extensive deliberations within the Executive branch of government, consultation with the U. S. Congress, and with various sectors of the American public, the President on April 21, 1971 submitted to the Congress proposed new legislation which would translate the last year's studies and deliberations into a new U. S. foreign assistance program.

The proposed legislation contains a statement of new U. S. development policy for the 1970's which reflects the U. S. interest in international

cooperation for development. The statement notes that a basic goal of the U. S. is to improve economic and social conditions in all developing countries of the world, primarily through the efforts of the developing nations themselves assisted by the technology and resources of the more developed nations. Six basic principles on which U. S. development assistance is to be provided are set forth.

1. The developing countries themselves should stand at the center of the international development effort, establishing their priorities and receiving assistance in relation to the efforts they are making in their own behalf. Assistance from the United States shall be used in support of self-help efforts.

2. United States direct assistance should concentrate on problems the solution of which will make developing countries more productive and self-reliant and enable their people to share more fully in the benefits of technological and economic advance.

3. The United States should help to make development a truly international effort, by supporting multilateral institutions and by coordinating United States direct assistance, wherever feasible, with that of other countries and with assistance provided through multilateral institutions.

4. United States assistance shall be responsive to and facilitate regional cooperation by developing countries in the solution of common problems.

5. United States international development policies should seek to widen the use of private initiative, promote skills and private resources in developing countries.

6. United States assistance must proceed from the recognition that development is more than economic growth and includes the building of such social, labor and civic institutions as may be needed to assure wide participation in the development process and dispersion of the benefits of economic advance.

The development assistance policies set forth in the new legislation reflect the general U. S. endorsement of the objectives of the International Development Strategy for the Second United Nations Development Decade. In his message to Congress of April 21, 1971 President Nixon noted that the international development institutions have continued their progress toward leadership in the international

development process and called on the Congress to support his request for additional funds for the Inter-American Development Bank and the Asian Development Bank. He also noted that he would submit legislation to authorize the U. S. to double its contribution to the International Development Association and to authorize U. S. participation in the system of generalized tariff preferences for the developing countries to improve the market for their exports.

B. A New U. S. Structure for Bilateral Assistance

In his message to the Congress on the "Reorganization of U. S. Foreign Assistance Programs", the President proposed two new pieces of legislation to clearly define distinct U. S. aid objectives--an International Security Assistance Act and an International Development and Humanitarian Assistance Act.

The International Security Assistance Act is designed to cover grant military assistance, foreign military credits, public safety assistance, and economic supporting assistance. As has been the case in the past, the function of economic supporting assistance will be to assist friendly governments to maintain economic and political stability. The President's request for funds under the new Security Assistance Act includes $778 million for Economic Supporting Assistance and $100 million for a contingency fund which will be available not only for "security assistance" but for disaster relief and other programs under the International Development and Humanitarian Assistance Act.

The International Development and Humanitarian Assistance Act would provide a comprehensive program of development assistance through technical cooperation, development lending, housing guaranties, voluntary contributions to international organizations and programs, and a coordinated program of humanitarian assistance. The bill would give the President authority to establish separate new organizations to replace the Agency for Internation Development.*

The two organizations the President proposes to create would be:

-- An International Development Corporation (IDC) to provide loans to finance development projects and programs in the lower income countries.

* The Congress had indicated that it will need time to consider the President's proposals. Consequently, it may extend the Foreign Assistance Act for another year.

-- An International Development Institute (IDI) to seek research breakthroughs on key problems of development and to administer our technical assistance programs.

These would join two created by the last Congress:

-- The Overseas Private Investment Corporation (OPIC) to promote the role of private investment in the development process.

-- The Inter-American Social Development Institute (ISDI) to provide special attention to the social development needs of Latin America.

1. The U. S. International Development Corporation

The new IDC would administer the U. S. bilateral lending program. The authorities sought for IDC and the operating style contemplated would make a major change the U. S. approach to development lending.

The U. S. Government believes the growing capacity of the developing countries and the expanded network of international development institutions make it desirable that the United States draw more fully on these expanded capacities to assume an increasing leadership role in an international system for development. This implies that U. S. bilateral development lending should be provided to the maximum extent possible within a framework set by the international financial institutions. This will require that the international financial institutions accept greater responsibility for assessing requirements, for monitoring a borrowing country's performance and for defining country policy issues and suggesting change.

a. Operative Procedures and Techniques

In its lending activities, the IDC will stress those areas and countries in which the United States has a long-term interest. It will give priority to programs and projects endorsed by international aid coordinating groups of which the United States is a member.

Total annual lending to any particular country will be the result of

-- the quality of loan proposals presented by the country

-- the availability of assistance from other sources

-- the need for external assistance and

-- the performance of the country, based on the assessment of the international financial institutions wherever available.

Unlike the present program, the IDC will not seek to determine aggregate country lending levels in advance.

The IDC will employ a range of lending techniques--including project loans, sector loans, loans to intermediaries and program loans. It will select whatever technique is most appropriate to the financing proposal under consideration. As a general rule, IDC program lending will be to those countries where the international financial institutions have negotiated the policy framework and have recommended such lending. Over time it is also to be expected that the proportion of program lending in IDC will decline both because of an increase in such lending by the international financial institutions and because IDC, as a matter of policy, will not be a residual lender. In addition, IDC will seek to increase its lending to development banks and other financial intermediaries in order to strengthen local private enterprise; would undertake, wherever feasible, joint financing with the international financial institutions; and will have authority to lend to private entities, normally with a Government guaranty, but without one when conditions make a public guaranty either unnecessary or undesirable.

As a lending institution the IDC will be prepared to make loans for technical services, particularly in the more advanced developing countries, provided such services are relevant to the decision-making process for development investments. In addition, services closely related to its lending operation, including services to assist in project identification, project preparation, project implementation and sector studies. IDC will rely to the maximum extent possible on contractors and other intermediaries rather than develop its own technical services staff.

b. Management and Organization

The IDC will have a Board chaired by the Coordinator of Development Assistance and including two private members, the Secretaries of State and Treasury, and the Presidents of the IDC and the IDI. The Board will serve to approve loan proposals and provide direction on all aspects of policy to the Management. The internal organization of the IDC will reflect the centralization of loan operations in Washington and will be designed to assure

-- objective and consistent judgements of country creditworthiness;

-- uniform application of loan criteria; and

-- close coordination with international financial institutions.

These objectives will be assured by funneling all loan proposals through a single, high-level loan committee, centralizing consideration of country creditworthiness, and organizationally separating the consideration of creditworthiness from the decisions on the merits of the projects.

In the field IDC staff will serve under the guidance of the Ambassador. However, IDC field representation will be kept to a minimum. Whenever practicable, IDC will use visiting teams to obtain necessary project information and supplement general analytical data. Where regional organizations exist, or where there are a large number of small borrowers, regional offices may be appropriate.

c. Funding Authorities and Loan Terms

The IDC will be financed from three sources: appropriated funds, authority to borrow on the capital market or from the Treasury, and interest and amortization payments due on outstanding loans. To insure continuity and stability of operations, a three-year authorization is requested. For the three-year period, an authorization of $1.5 billion in appropriated funds and $1 billion in borrowing authority will be sought. The illustrative annual operating level of the Corporation would be a billion dollars, which would slightly imply a loan level above the present AID loan availability ($850 million). This $1 billion fund would also finance administrative costs and a small amount of grant technical assistance.

The Board would have authority to decide on loan terms appropriate for specific cases. There would be two basic categories of loan terms: (1) for the more advanced developing countries, loan terms with a ceiling about two percentage points less than the cost of the Corporation's cost of borrowing, i.e., 4-5 percent and (2) for other developing countries, the interest rates would vary from 1 to 3 percent. The grace period also could vary up to a maximum of 10 years, as could the maturity period up to a maximum of 40 years. The decision on loan terms appropriate to a specific country

should take account of that country's per capita income, its long-term foreign exchange earning prospects, and its medium to long-term debt service burden. Lending terms should be set on country prospects, not on project circumstances.

The receipts of interests on past loans would be used in part to cover any difference between the cost of borrowing to the IDC and the lending at below market rate. Borrowed funds would be used only to finance the higher-interest loans.

2. The U. S. International Development Institute

The new IDI would administer a reorganized bilateral technical assistance program which would focus U. S. scientific, technological and managerial know-how on the problems of development.

The Institute would engage in four major types of activities:

-- It would apply U. S. research competence in the physical and social sciences to the critical problems of development, and help raise the research competence of the lower income countries themselves.

-- It would help build institutions in the lower income countries to improve their own research capabilities and to carry out a full range of developmental functions on a self-sustaining basis, with particular emphasis on strengthening agricultural and educational institutions.

-- It would help train manpower in the lower income countries to enable them to carry out new activities on their own.

-- It would help lower income countries, particularly the least-developed among them, to finance advisers on development problems.

a. Operational Procedures and Techniques

The Institute would finance projects in response to proposals made by the lower income countries. Like the Corporation it would not budget funds in advance by country, since it could not know in advance how many acceptable projects would be proposed by each. It would look to these countries to select candidates to be trained under its program. Its research activities would be located in the lower income countries, rather than in the United States, to the greatest extent feasible. With its stress on institution building,

it would seek to ensure that each program could be carried on after U. S. assistance is ended.

Most importantly, the Institute would seek to assure that all projects which it helps finance are considered essential by the lower income country itself. To do so, the Institute would require that the recipient country make a significant contribution to each as evidence that it attaches high priority to the project and is prepared to support it financially after U.S. assistance ends. The U. S. would finance a project for only a definite and limited period of time, and would want assurance that the host country would then carry it on.

b. Relation to International Organizations

Since the international organizations are less advanced in research and technical assistance than in development lending, the Institute would be unable to function as fully within an international framework at this time as would the Corporation. However, it would work to help improve the capabilities of these organizations, especially the United Nations Development Program, and would seek to cooperate with them whenever possible. In fact, one of its objectives would be to help create an international framework for technical assistance comparable to the framework which has developed over the past decade for development lending.

c. Areas of Concentration

The Institute would concentrate more effort on the application of research and technology to the problems of development--a key feature of our new bilateral program which would distinguish it markedly from the present approach. In its advisory, institution building, and training programs, the Institute would also concentrate on the most critical problem areas of development in which the U. S. has a capacity to respond effectively to LDC requests. Such concentration is necessary if it is to achieve the "critical mass" necessary to make real breakthroughs where they are most needed, and to attract the top cadre of experts and managers who can achieve such breakthroughs.

The areas of concentration would evolve in response to the requests of the lower income countries and would undoubtedly

shift over time. Experience suggests that limiting population growth, increasing agricultural production and training manpower would be among the concentration areas at first. Unemployment and urbanization problems could be early additions to the list. The IDI would also be conscious of the special problems of the least-developed countries--most of which are in Africa--which will continue to need the more traditional operational types of technical assistance.

d. Financial Terms and Management

While the Institute would provide grant financing, it would vary the effective terms of its assistance by varying the shares of the total cost of particular projects that the recipient must finance itself--ranging from a small percentage in the least advanced countries to most of the cost in the most advanced. In addition, the Institute should have authority to provide advisers on a completely reimbursable basis to countries which no longer need concessional aid at all.

The Institute would carry out its projects largely through the private sector. The President has proposed that the Institute be governed by a Board of Trustees including outstanding citizens from the private sector, the Secretary of State and the Presidents of IDI and IDC. It would stress evaluation of past projects to determine their payoff and to help guide future project development.

To achieve these goals, the IDI should have financial continuity. The Administration has therefore proposed that the Congress authorize an appropriation of $1,275 million for a three-year period.

3. Overseas Private Investment Corporation

The new International Development Corporation and International Development Institute would join two development assistance institutions already created by the Congress: the Overseas Private Investment Corporation and the Inter-American Social Development Institute.

OPIC is already at work promoting the role of private investment in the international development process. The record of economic development shows that successful growth is usually associated with a dynamic private sector, and we therefore look to private investment--primarily domestic but foreign as well--to play an increasing role in the development process. OPIC contributes to this process by providing insurance and guarantees for U.S. investment in those lower income countries which encourage such investment. In this way, OPIC serves effectively the interests of both the U.S. investor and the host countries. Its early

activities suggest that an independent corporation, directed by a joint public-private Board of Directors, can effectively manage a development assistance program.

4. Inter-American Social Development Institute

The Inter-American Social Development Institute has also begun to develop its programs, which seek to promote the social development of the Latin American and Caribbean people. Working mainly through private organizations and international institutions, it represents a new channel in seeking to promote solutions to basic economic and social problems in these areas. The President has proposed that this organization be renamed the Inter-American Foundation, to characterize more accurately its proposed style of operation.

5. Humanitarian Assistance

U. S. humanitarian assistance programs cover a wide spectrum of human needs: disaster relief and rehabilitation; famine; refugee and migration relief and assistance. They aim to help people in a variety of emergency situations. In the past year alone, such help has been extended to refugees from civil war in Nigeria and Jordan, earthquake victims in Peru, flood victims in Romania and Tunisia, and cyclone victims in Pakistan.

These activities rely heavily for program implementation on private voluntary agencies. In the past year alone, U. S. voluntary agencies registered with the Advisory Committee on Voluntary Foreign Aid contributed $370 million of their own resources in over 100 countries.

At present, humanitarian assistance programs are carried out through several offices in the U. S. Government. Under the new arrangement responsibility for coordinating all humanitarian assistance programs might be centralized under a new Assistant Secretary of State. This new approach would also improve our capability to respond quickly and effectively through better contingency planning, additional stockpiling and training, and the maintenance of closer and better coordinated relationships with the United Nations, other donor countries, and the private voluntary agencies.

The principal components of the new program will be:

a. Disaster relief. U. S. disaster relief assistance in FY 1970 totalled about $60 million. The principal components

are PL 480 food aid grants $30 million; AID resources about $18 million (mostly contingency funds and supporting assistance), and private voluntary agencies $12 million. In 1970 assistance was given to victims of 51 disasters in 36 countries.

b. Refugee and Migration Assistance. The Migration and Refugee Assistance Act of 1962 (PL 87-510) authorizes United States action on an indefinite and flexible basis in the provision of assistance to refugees. The Act additionally authorizes the President to utilize up to $10 million in any fiscal year of contingency funds. Although this program will be a major component of the unified humanitarian assistance program, no new authorities regarding refugees are requested in the Development and Humanitarian Assistance Act of 1971.

c. Liaison with Private Voluntary Agencies. The administration of humanitarian assistance will continue to rely heavily for program implementation on private voluntary agencies. Eighty-two private agencies are presently registered with the Advisory Committee on Voluntary Foreign Aid, making them eligible to apply for ocean freight payments for supplies donated by them. The Advisory Committee, and the funding of ocean freight--which totalled over $5 million last year--will become part of the new humanitarian assistance program.

6. Food Aid. The PL 480 program presents special problems for the overall reorganization of our foreign assistance programs since there are four separate objectives which often become interrelated: export market promotion, economic development, security assistance and humanitarian concerns. Certain parts of the PL 480 program, such as disaster, famine, and refugee food grants, are clearly humanitarian in character; other parts--food grants for maternal and child feeding, for example--also have an important humanitarian motivation, although at the same time they are related to development programs. The new humanitarian assistance program will be closely coordinated with all grant food aid programs (Title II) and PL 480 sales (Title I) will continue to be related to the other development programs.

7. Internal Coordination. The new development legislation also proposes that program and operational coordination of the various elements of development assistance will be accomplished through a Coordinator of Development Assistance who would be appointed by the President and confirmed by the Senate.

The Coordinator of Development Assistance will have two major functions:

--He will be responsible to the President for assuring program and operational coordination of U. S. development assistance programs.

-- He will be the chief Executive Branch spokesman, short of the President, for those programs and, as the President's principal delegate for development assistance, will serve as a focal point for accountability to the Congress for the plans and performance of the overall U. S. development assistance effort.

His coordination function will be based on his delegation of authority and responsibility from the President and on his position as:

-- Chairman of the Boards of the U. S. International Development Corporation (IDC), the U. S. International Development Institute (IDI), and the Overseas Private Investment Corporation (OPIC); and

-- Member of the Board of the Inter-American Social Development Institute (ISDI), proposed to be renamed the Inter-American Foundation.*

He will also chair an executive committee whose membership will consist of the chief executive officers of the IDC, IDI, OPIC and ISDI. This committee will function to help assure operational coordination.

The Coordinator will carry out his functions within the general foreign policy guidance of the Secretary of State. In this connection, the State Department will have representation on the boards of the four agencies.

Coordination with foreign economic policy will be achieved through the Council on International Economic Policy (CIEP); the Coordinator will speak for U. S. bilateral development assistance activities on the Council when development assistance policy is discussed.

Coordination with national security policy will be through the National Security Council (NSC).

To support him in the conduct of his functions, the Coordinator will have a Deputy and will have staff for assistance in:

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* The responsibility for the operations of each entity will, of course, reside with the respective Boards of Directors.

a. Policy development, program and operational coordination, and budget review: Participation in the development of policies respecting development assistance; liaison with the State Department, the Treasury Department, the CIEP, and the NSC; assurance of effective coordination among the development agencies in the analysis and execution of assistance proposals and programs; liaison with the Departments of State and Agriculture on PL 480 food programs; review of budget and program plans of the development assistance agencies; participation in the preparation of U. S. positions on development matters before international and regional assistance organizations and in multilateral country assistance consortia.

b. Administrative coordination: Review of administrative and personnel practices of the IDC and IDI and development of common policies as appropriate; and the provision of internal audit of the IDC and IDI.

c. Congressional presentation: Preparation of testimony and other materials for the Congress. Development of guidance to the development assistance agencies with respect to their congressional materials and coordination of agency testimony on development assistance. Collection and dissemination of information on U. S. development assistance programs.

II. A. Volume of Aid

1. By Category - Text Table 1

Disbursements

Total Official Disbursements--Gross official disbursements amounted to $4,235 in 1970 an increase of $110 million over 1969. All of the increase occurred in the "other" official programs. ODA gross expenditures were almost unchanged. However, a sharp rise in amortization receipts brought about a small drop in net official disbursements.

-- Official Development Assistance net disbursements at $3,119 million, as may be seen in text table 1, were virtually unchanged in 1970, down some 1 percent from the 1969 level. The small drop was centered in the Social Progress Trust Fund (reflecting the depleted pipeline) and Peace Corp programs. A.I.D. and Food for Peace program disbursements were virtually unchanged, while disbursements to international organizations increased moderately.

-- Other Official Flows - Gross disbursements of programs in this category increased by 20 percent in 1970, from $609 million to $732 million. This was due to a substantial increase in Export-Import Bank loan disbursements, and to a doubling of shipments under the CCC short term credit sales program. Amortization received is large and increasing in these programs, however, and net disbursements amounted to only $168 million, a gain of only $3 million over 1969.

Commitments

-- Total Official Commitments increased in 1970 by more than $225 million from the artificially depressed level of $3,962 million in 1969, but were still much lower than the level in the last three preceding years. Most of the gain in total official commitments occurred in Export-Import Bank loans authorized, which increased to $651 million in 1970 from $526 million in 1969, plus gains in CCC commercial sales programs mentioned earlier.

-- ODA Commitments were almost unchanged from the level of last year, as decreases in Food for Peace and multi-lateral agency commitments just about offset the sharp rise in A.I.D. commitments.

2. Volume by Agency - Text Table 2

A.I.D. Programs - Gross expenditures by A.I.D. for bilateral programs stabilized in 1970 at $1,761 million only $2 million

below the 1969 level. This small decline in A.I.D. expenditures was concentrated in Vietnam (down $36 million) with Pakistan also showing considerably smaller disbursements. Latin America recorded a modest increase in expenditures in 1970, as did India, Indonesia and non-regional programs.

TEXT TABLE I

OFFICIAL COMMITMENTS AND DISBURSEMENTS
(millions of dollars)

	Disbursements					Commitments				
	1966	1967	1968	1969	1970	1966	1967	1968	1969	1970
Official Development Assistance										
Bilateral - Total	3,715	3,643	3,332	3,185	3,110	4,004	3,913	3,540	2,762	2,903
Grants	1,452	1,480	1,313	1,360	1,393	1,713	1,656	1,457	1,522	1,499
Grant-like	977	843	633	442	320	827	744	218	240	192
Loans	1,286	1,319	1,386	1,383	1,397	1,464	1,513	1,862	1,000	1,213
(of which debt relief)	-	-	-	(18)	(18)	-	-	-	(10)	(18)
Multilateral Total	-24	310	252	330	393	495	694	444	608	507
Total Official Development Assistance: Gross	3,691	3,953	3,584	3,515	3,503	4,499	4,607	3,984	3,370	3,410
Amortization Received	61	81	66	96	121	-	-	-	-	-
Grant and Grant-like Recoveries	171	304	215	256	263	-	-	-	-	-
Total Official Development Assistance: Net	3,459	3,563	3,303	3,163	3,119	-	-	-	-	-
Other Official Flows: Gross	406	487	701	609	732	492	943	804	592	779
Bilateral Loans	406	487	701	609	732	492	943	804	592	779
(of which debt relief)	(65)	(11)	(39)	(7)	(39)	(48)	(29)	(18)	(23)	(57)
Amortization Received	341	332	397	444	a/ 564	-	-	-	-	-
Total Other Official Flows: Net	65	155	304	165	168	-	-	-	-	-
Total Official Assistance: Gross	4,097	4,440	4,285	4,124	4,235	4,991	5,550	4,788	3,962	4,189
Amortization Received	402	413	463	540	685	-	-	-	-	-
Recoveries	171	304	215	256-	263	-	-	-	-	-
Total Official Assistance: Net	3,524	3,723	3,607	3,328	3,287	-	-	-	-	-

Source: U.S. Department of Commerce, Office of Business Economics - May 14, 1971.
a/ Includes $31 million of outstanding indebtedness to Germany.

A.I.D. bilateral commitments, as opposed to the trend in expenditures, rose sharply in CY 1970. In part, this reflected the abnormally low level recorded for CY 1969, due to bunching of loans for India, Pakistan and Turkey in 1968 mentioned in last year's memorandum. However, it also reflected two other factors: the substantially higher level of funds available in FY 1970, and the fact that most of the available funds were obligated. At the end of FY 1970, AID carried forward only $28 million of unobligated funds, considerably less than the two previous fiscal years.

The increase in commitments, was, of course, most pronounced for India, Pakistan and Turkey. The following table shows the distortion in A.I.D. commitments for these three when computed on a calendar year as opposed to fiscal year basis.

A.I.D. Commitments
($ millions)

	Calendar Year		Fiscal Year	
	1969	1970	1969	1970
India	$53	$197	$203	$224
Pakistan	33	124	104	124
Turkey	2	69	44	44
Total	88	390	351	392

TEXT TABLE II

U. S. COMMITMENTS AND DISBURSEMENTS BY AGENCY OR PROGRAMS
(millions of dollars)

Program	Disbursements 1966	1967	1968	1969	1970	Commitments 1966	1967	1968	1969	1970
Official Development Assistance: Total	3,691	3,953	3,584	3,515	3,503	4,499	4,607	3,984	3,370	3,410
Bilateral - Total (gross)	3,715	3,643	3,332	3,185	3,110	4,004	3,913	3,540	2,762	2,903
Social Progress Trust Fund	74	64	64	86	26	4	4	4	4	4
Other Foreign Assistance Act	2,116	2,113	1,884	1,763	1,761	2,330	2,255	2,320	1,299	1,787
PL 480:	1,383	1,308	1,228	1,162	1,163	1,509	1,498	1,038	1,292	946
Sales for Foreign Currencies	845	746	558	346	303	827	745	218	240	192
Long-term Credit Sales	244	199	361	499	500	293	301	467	580	384
Donations	294	363	309	317	360	389	452	353	472	370
Peace Corps	109	108	110	105	88	120	104	110	100	90
Other	33	51	46	69	71	41	52	68	68	77
Multilateral - Total	-24	310	252	330	393	495	694	444	608	507
Foreign Assistance Act	60	103	112	121	138	107	111	110	105	128
Capital Subscription Payments - Total	-100	194	127	194	233	374	570	320	480	355
IDA	-	119	53	58	58	104	-	-	160	160
IDB	-110	65	64	126	165	250	550	300	300	150
ADB	10	10	10	10	10	20	20	20	20	20
IBRD	-	-	-	-	-	-	-	-	-	25
PL 480	11	10	10	10	18	9	9	10	19	20
Other	5	3	3	5	4	5	4	4	4	4
Other Official Assistance - Total	406	487	701	609	732	492	943	804	592	779
Export-Import Bank	406	487	655	543	604	492	943	759	526	651
CCC Sales Program	-	-	46	66	128	-	-	45	66	128
Total Official - Gross	4,097	4,440	4,285	4,124	4,235	4,991	5,550	4,788	3,962	4,189

Source: U. S. Department of Commerce, Office of Business Economics - May 14, 1971.

Apart from these three countries, commitments increased in 1970 in every A.I.D. region, with a particularly pronounced gain in Latin America, where commitments in CY 1970 were $401 million, as against $288 million in 1969.

Food for Peace Programs

Shipments under PL 480 Food for Peace programs were unchanged from the 1969 level. Increased donation programs offset the diminishing Title I sales for local currency program. Shipments under Title I dollar sales programs were almost identical with the level of a year ago.

PL 480 shipments were prevented from showing an increase by a drop in wheat shipments to India. Total PL 480 shipments to India fell by almost 30 percent in 1970--from $311 million to $225 million. This decline more than offset increases recorded for Pakistan, Vietnam, Indonesia and other countries.

Commitments under the various PL 480 programs also declined, and much more sharply than expenditures. Sales for dollars dropped by almost $200 million in 1970 from 1969, and smaller commitments were also recorded for donations and, of course, for sales for local currencies. However, a good part of the decrease in commitments is attributed to the fact that a $150 million sales agreement with India was not signed until April 1971, rather than in the last quarter of the calendar year, as has been the case in the past. This resulted in India recording no Title I PL 480 commitments in calendar 1970, an obvious distortion of actual trends. Apart from the Indian situation, large declines in new dollar sales agreements were also recorded in Indonesia, Korea, Bolivia, Chile, Tunisia and Ceylon. Countries recording substantial increases in dollar sales agreements included Pakistan, Israel, and Colombia.

Shipments under the donation programs were moderately above last year, but commitments declined from the unusually large 1969 total of $472 million. The decline occurred both in Voluntary Relief Agency programs (down 14 percent) and in A.I.D. Title II programs (down 29 percent). While the decline in voluntary relief agencies was fairly evenly distributed by region and country, there were fairly substantial shifts in the Title II program administered by A.I.D. Substantial drops were recorded in Far Eastern countries, notably Vietnam, Indonesia and Korea, and Brazil dropped from the very high figure of $42 million in 1969 to only $3 million in 1970. The decrease in Brazil really reflects multi-year funding in 1969. These declines were partly offset by a gain of more than $50 million in Title II programs in India and Pakistan.

Peace Corps

Both commitments and expenditures continued their slow decline of recent years, reflecting the lower number of volunteers overseas. Increased emphasis continues to be placed on the use of skilled Americans, such as farmers, mid-career professionals and skilled craftsmen.

Social Progress Trust Fund

A considerable part of the decline of the ODA bilateral expenditures in 1970 was accounted for by the Social Progress Trust Fund. Expenditures dropped from the level of $86 million in 1969 to $26 million. This is due to the practical exhaustion of the pipeline in this program.

3. Contributions to Multilateral Agencies

Capital contributions to international lending agencies recorded a decrease of $125 million in 1970. While at first glance this seems contrary to the Administration's intention of increasing the volume of aid through international agencies, the drop merely reflects the fact that the first year of a three year commitment to the Inter-American Development Bank (IDB) was set at only $150 million, with the two subsequent years expected to be at the level of $500 million each year. This contrasts with the previous level of $300 million annually for 3 years. A pledge of an additional $25 million for paid-in capital to the IBRD was also made in 1970, the first increase since 1946 in contributions to the paid in capital of that institution.

Multilateral expenditures increased moderately in 1970--from $330 million to $393 million. Such expenditures are expected to gain increasing momentum in the future.

4. Other Official Flows

Export-Import Bank loans authorized amounted to $651 million in 1970, up $125 million from the 1969 level. A large part of the increase was concentrated in Brazil, where loans amounted to $111 million in 1970, as against only $22 million in 1969. The largest Brazilian loan was for $31.5 million to expand in ore mining facilities, with $26 million for jet aircraft purchases, and another $26 million for lending by Brazilian intermediate credit institutions. Other countries with substantial increases in Export-Import Bank loans were Ivory Coast, Iran, Pakistan, Spain and the Philippines.

Export-Import Bank disbursements increased by some $60 million to a total of $604 million, the second highest level in the last six years.

CCC commercial short-term credit sale more than doubled in 1970. Much of the increase was accounted for by sales of wheat to the Philippines and Morocco.

B. Source of Funds, Appropriation Categories, etc.

Appropriations for official Development Assistance* are expected to increase approximately $700 million between FY 1970 and FY 1971 -- from $3.5 billion to $4.2 billion. Of this total, approximately $300 million represents increases in A.I.D. appropriations. Assuming passage of Supplemental Appropriation requests for International Financial Institutions, that category is expected to rise by about $300 million as well. The remainder is largely due to a slight increase in the Food for Peace program.

TEXT TABLE III

Profile of Official Development Assistance
($ millions)

	FY 1970	FY 1971
Agency for International Development	1,425	1,734
International Financial Institutions	686	973 a/
Peace Corps	98	90
Food for Peace	1,252 b/	1,338 b/
Migration and Refugee Assistance	11	7
Inter-American Highway	-	5
Ryukyu Islands	21	6
Total	3,493	4,153

a/ Includes proposed Supplemental Appropriations.
b/ Represents shipments. Appropriations are not indicative of program level.

A.I.D. appropriations after significant declines in the late 1960s bottomed out in FY 1969. From an FY 1969 low of $1.381 billion, A.I.D.

* Not all "official development assistance" is appropriated, as in the case of food aid.

appropriations have risen to $1.425 billion in FY 1970 and $1.734 billion in FY 1971. In 1970 carryover funds, deobligations and other receipts added $452 million for a total program level of $1.877 billion. In FY 1971 appropriations were higher but carry-over funds were lower so that only $203 million were added to appropriations. As a result the FY 1971 program level was $1.937--only $60 million higher than the previous year.

For FY 1972, the President is proposing appropriations totaling $2.098 billion for programs presently administered by A.I.D. When combined with loan receipts, deobligations of prior-year funds, and similar funds availabe, this will support a total program level of $2.446 billion.

The following table shows actual and estimated appropriations and total program levels for A.I.D. for the period FY 1969 - FY 1972. For comparability, the appropriation categories for FY 1969 - FY 1971 have been modified to conform as closely as possible to the changes in appropriation structure the President has proposed for FY 1972.

TEXT TABLE IV

A.I.D. Appropriations and Total Program
($ millions)

	FY 1969 Actual		FY 1970 Actual		FY 1971 Estimate			FY 1972 Proposed		
	Approp.	Total Program	Approp.	Total Program	Approp.	Add-On	Total Program	Approp.	Add-on	Total Program
Development Loans	555.0	722.2	555.0	863.6	707.5	149.8	857.3	655.0	280.5	935.5
Technical Coop.	263.1	286.0	274.2	292.7	262.5	20.4	283.0	392.6	19.1	411.7
Contributions to International Organizations	138.0	138.2	113.5	113.5	116.7	7.1	123.8	168.0	.1	168.1
Supporting Assistance	365.0	470.1	395.0	522.8	569.6	7.2	576.8	778.0	47.0	825.0
Contingency Fund	5.0	13.9	12.5	21.0	22.5	4.8	27.3	100.0	1.3	101.3
Administrative Expenses:										
A.I.D.	51.0	55.6	51.0	58.9	51.0	13.5	64.5	a/	a/	a/
State	3.5	3.6	3.7	4.0	4.1	.3	4.4	4.4	-	4.4
Other	-	.2	20.0 b/	.2	-	-	-	-	-	-
Total	1,380.6	1,689.8	1,424.9	1,876.7	1,733.9	203.1	1,937.1	2,098.0	348.0	2,446.0

a/ Included in Development Loan, Technical Cooperation, and Supporting Assistance accounts above.

b/ $20 million appropriated for Israel Prototype Desalting Plant now expected to be programmed through FY 1972.

In using the above table it should be kept in mind that A.I.D. population programs over the period FY 1969 - FY 1971 were funded from accounts other than Technical Cooperation, whereas in FY 1972 population programs appear largely in the Technical Cooperation account. Adjustments therefore need to be made in order to make individual account totals comparable. Population program funding over the period FY 1969 - FY 1972 is as follows:

Population Programs: FY 1969 - FY 1972
($ millions)

	Total	Technical Cooperation	Development loans	Supporting Assistance	Contrib. to Int. Orgns.
FY 1969 actual	45.4	-	13.3	31.1	-
FY 1970 actual	74.6	-	56.4	18.2	-
FY 1971 estimate	100.0	-	96.3	.2	3.5
FY 1972 proposed	100.0	90.0	-	2.5	7.5

Taking into account the above adjustments for population programs, and with smaller adjustments in administrative expenses and other items, the President's FY 1972 budget request for programs presently administered by A.I.D. provides for the following in relation to FY 1971:

-- An increase of about $150 million for Development Loans to support increased efforts by the proposed International Development Corporation.

-- Approximately the same level of Technical Cooperation funds to continue programs at a steady state pending a reshaping of activities by the International Development Institute.

-- An increase of about $25 million in contributions to international organizations, primarily to provide modest increases for the United Nations Development Program and the Indus Basin Development Fund.

-- An increase of about $250 million in Supporting Assistance, primarily to meet increased requirements in Southeast Asia.

-- An increase of about $75 million in Contingency Funds.

New trends are hopefully occurring in Congressional attitudes toward A.I.D. appropriation request. From a low in FY 1969, the Congress

has in FY 1970 and FY 1971 appropriated larger amounts for A.I.D. programs.

TEXT TABLE V

Trends in A.I.D. Appropriation Requests and Congressional Actions
($ millions)

Fiscal Year	Appropriation Request	Amount Appropriated by Congress	Percent Cut
1966	2,704.5	2,463.0	9
1967	2,469.0	2,143.5	13
1968	2,630.4	1,895.6	28
1969	2,498.5	1,380.6	45
1970	2,210.0	1,424.9	36
1971	2,008.0	1,733.9	14
1972	2,098.0		

In part this Congressional action may result from the more modest appropriation requests made by the President in recent years. Requests made to the Congress trended downward over the period FY 1968 - FY 1971, roughly the same period during which the Congress was granting some increases. The President's request for FY 1972 reverses the downward trend of requests over the past few years. We are hopeful, that the upward trend in appropriations will be sustained in FY 1972.

In addition to the annual appropriation requests, certain other funds ("add-ons") are available for A.I.D. programs. The major elements are:

-- Interest and amortization payments on loans made by A.I.D. and predecessor agencies from 1954 onward. These payments are estimated at $171 million in FY 1971.

-- Recoveries of obligations made in prior years ("deobligations"). These occur in several accounts and are estimated at $125 million in FY 1971.

-- Caryovers of funds unobligated at the end of the previous fiscal year. The Congress mades such funds available in the case of loans by appropriating the funds on a no year basis and in the case of

grants by reappropriating unobligated balances. The amount of unobligated carryover varies considerably from one fiscal year to the next. The FY 1971 estimate is $28 million.

C. Change in Pipeline

The pipelines of the various aid programs continued to decrease, with the notable exception of multi-lateral agencies. While gross A.I.D. commitments in CY 1970 exceed expenditures by a slight margin, deobligations of prior year commitments had the effect of reducing the A.I.D. pipeline by more than $100 million.

Food for Peace shipments substantially exceeded the level of new commitments, with pipelines in these programs now at relatively low levels.

The pipeline of undisbursed commitments to international agencies, however, is still quite large, particularly for IDB. This presages a considerable increase in future expenditures, as loans by those institutions reach the implementation stage.

D. Estimates for 1971

Official Development Assistance

Gross disbursements for ODA programs are expected to increase moderately. Most of the increase will be concentrated in the multi-lateral agency programs.

A.I.D. expenditures may show a modest gain, but it will not be large in view of depleted pipelines.

Amortization receipts and recoveries under PL 480 are expected to continue to increase, so that the increase in net disbursements will be smaller than in gross.

Commitment levels are also expected to increase in 1971, particularly in contributions to international organizations, and possibly also in Food for Peace programs.

Other Official Assistance

It is difficult to forecast Export-Import Bank activities to the LDC's but in view of the Bank's expanding operations, it is reasonable to assume that commitments and disbursements will both increase somewhat in 1971 from the fairly high 1970 level. CCC commercial sales credit may continue at the high levels set in 1970.

E. Medium-term Prospects: Probable trends in Volume

In line with the President's proposal that the downward trend in U.S. contributions to the development process be reversed, and in light of his proposals for reshaping development assistance programs to meet the needs of the seventies, we expect that U.S. development assistance will rise over the next several years. The downward trend in A.I.D. appropriations during the late 1960s bottomed out in FY 1969, and the Congress has provided increased sums in FY 1970 and FY 1971, the expenditure effects of which are not yet apparent. Over the next few years, we would expect

-- multilateral development assistance to rise.

-- bilateral development assistance to rise modestly.

-- bilateral Food for Peace assistance to remain near or at about the level of the past two years of around $1 billion or slightly higher.

The following table shows the authorization requests of the Executive Branch under the proposed new International Development Assistance Act of 1971:

Technical Cooperation and Assistance	
Authorization Request for July 1, 1971 through June 30, 1974	$1,275,000,000
American Schools and Hospitals Abroad	
Authorization Request for July 1, 1971 through June 30, 1974	35,000,000
Development Lending	
Authorization Request for July 1, 1971 through June 30, 1974	1,500,000,000
Borrowing Authority Authorization Request for July 1, 1971 through June 30, 1974	1,000,000,000
Housing Guaranties	
Guaranty Authority Increase Request for Fiscal Year 1972	100,000,000
International Organizations and Programs	
Authorization Request for Fiscal Year 1972	141,000,000
Indus Basin Development Loans	
Authorization Request for Use beginning in Fiscal Year 1972	33,000,000
Indus Basin Development Grants	
Authorization Request for Use beginning in Fiscal Year 1972	72,000,000
Humanitarian Assistance	
Authorization Request	Funds as necessary to carry out such programs

III. Terms and Conditions.

A. Financial Terms of Official Assistance in 1970.

1. Steps taken to meet DAC terms objectives:

In 1970 the United States continued to meet the DAC terms objective in all respects except grant test, falling below the level of 70 percent set as a norm in the 1969 DAC Terms Recommendation. In 1970 grants and grant-like assistance formed 65 percent of ODA commitments, compared with 53 percent in 1968 and 70 percent in 1969.* Based on preliminary data, average terms of new ODA loan commitments in 1970 were fractionally softer than for 1969, but still harder than 1968 when loans represented a larger share of ODA than either year since.

Text Table VI
Terms of U.S. Official Programs

Grants, Loans and Grants as Percent of Total Commitments

($ millions)

	Commitments		Total Grant	Grant as % of Commit.		Loans	
	Total	ODA	ODA	Total	ODA	Total	ODA
1969	3,962	3,370	2,370	60	70	1,592	1,000
1970	4,126	3,386	2,191	53	65	1,935	1,195

Text Table VII

Average Loan Terms by Agency

	Maturity		Interest		Grace Period	
	1969	1970	1969	1970	1969	1970
ODA						
AID	38.9		2.6		9.9	
PL 480	31.5		2.7		7.8	
ODA Total	35.0	36.0	2.7	2.7	8.7	8.9
Ex-Im Bank	12.6		6.0		4.3	
CCC Credits	2.5		6.3		1.0	
Total Official	26.0		3.9		6.9	

* The 70 percent figure reached in 1969 was the result of an atypical situation in which several large loans were grouped at the end of 1968, thus lowering the 1969 loan component, and correspondingly raising the grant test percentage for 1969.

With a somewhat lower proportion of grants in 1970, grant element for total ODA commitments was slightly lower than the 89 percent in 1969, but grant element for ODA loans was the same as in 1969.

Preliminary data on terms of Other Official Flows for 1970 indicates that aggregative terms are very close to those recorded in 1969. Average Export-Import loan terms remained steady at 6 percent and 12 years maturity, but the overall rates available to users of export credits improved significantly during the last half of 1970 owing to an easing of the tight money situation prevailing in the U.S. market in 1969 and early 1970.

No new steps to improve terms can be reported for 1970, but greater flexibility is proposed under the new aid legislation now pending before Congress (see Section III C below on future trends).

2. Steps taken to harmonize terms in connection with consortia and consultative groups:

The U.S. supports the principle of harmonization of terms as a high priority objective for consortia and consultative groups. Since U.S. terms to countries assisted by consortia and consultative groups are already among the more favorable offered by donors, the U.S. has not taken special steps to improve them further. However, the debt servicing capacity of recipient countries is continuously under review, and terms of lending are reconsidered as conditions dictate. The U.S. participates in two consultative groups, Ceylon and Guinea, where there is no A.I.D. bilateral U.S. assistance program. In these instances official U.S. flows are limited to food aid under PL 480 and Export-Import Bank credits, which may, especially in the case of the Bank, be on somewhat harder terms.

B. Untying of Assistance.

1. Changes in U.S. Policies:

During the OECD Ministerial Meeting last May, Deputy Undersecretary of State for Economic Affairs, Nathaniel Samuels, announced that the United States was prepared to join in a common effort with DAC members to reach an agreement on the multilateral untying of bilateral assistance. Discussions of an agreement to untie on a reciprocal basis bilateral development loans and to establish policy regarding contributions to multilateral institutions are now in process in DAC. The importance this government attributes to the successful conclusion of a truly reciprocal agreement was underscored by the President in his message to Congress Foreign Aid Policies for the Seventies of September 15, 1970, and his Second Annual Review of U.S. Foreign Policy of February 25, 1971

The President announced on September 15, 1970, that we would henceforth permit procurement in the lower income countries under the U.S. bilateral lending program -- an expansion of the initial step taken for Latin America

a year earlier. The U.S. believes that in addition to improving the quality of assistance, untying could also have the effect of expanding trade among the developing countries.

2. Changes in Procurement Regulations Following Untying of A.I.D. Loans for LDCs:

Componentry. Previously no more than 10 percent of the cost of an A.I.D.-financed commodity could consist of components originating outside the U.S. or eligible developing countries. This has been increased to 50 percent.

Shipping on carriers of eligible source countries will be eligible for A.I.D. financing. However, the requirement that 50 percent by volume of A.I.D.-financed cargoes must be in U.S. carriers continues in force.

Costs of marine insurance obtained on a competitive basis from insurance firms in any eligible source country will be financed under A.I.D. loans provided that claims under such insurance are payable in fully convertible currencies and provided the cooperating country does not discriminate against U.S. marine insurers.

Sales Agents' Commissions. A.I.D. will finance in dollars eligible commissions of sales and service agents including local and third-country agents.

3. Proportion of A.I.D. Programs which are Untied:

Development loans, which account for about 50 percent of A.I.D. bilateral aid programs in fiscal year 1971, are untied for procurement in less developed countries. Of these development loans, perhaps as much as 15 percent may be used for purchase of local currencies to finance program activities within the recipient countries; there are no restrictions on the subsequent use of these dollars.

A.I.D. Technical Assistance and Supporting Assistance funds may be spent only for purchase of U.S. goods and services, except in special circumstances. U.S. contributions to the Fund for Special Operations of the Inter-American Development Bank may be spent in any independent Latin American country (except Cuba). Recent U.S. contributions to the IBRD and IDA are untied.

A.I.D. has not as yet had sufficient experience with bilateral loans untied for procurement in developing countries to guage the volume of such procurement which is likely to result.

C. Trend of Terms in 1971.

There are no significant differences in terms in 1971 from those of the preceeding year. In 1972, however, if the President's proposed aid

reform is accepted by the Congress, the impact of the reorganization should begin to be reflected in new lending commitments under the International Development Corporation. These loans will be financed not only by newly appropriated funds, but also by funds raised from the U.S. capital market with interest receipts on past loans used to make up the difference between the cost of borrowing and lending. A key element of the new system will be greater flexibility in tailoring loan programs to the capabilities of individual recipients, so that the burden of any hardening of terms would be borne by the more advanced LDCs, which will pay an interest rate of 4-5 percent. For other developing countries, interest rates will vary from 1 to 3 percent, with maturity up to 40 years and grace periods up to 10 years. This will mean softer terms for the least developed than the U.S. currently offers.

D. Export Credits.

New measures introduced by the Export-Import Bank in 1969 began to have an impact on export credit terms in 1970. The most significant measure, described in last year's aid memorandum, concerned "participation financing", an arrangement whereby the Export-Import Bank extends a direct credit in conjunction with credits by private lenders (both U.S. and foreign) for the same project on a 50-50 basis. In many cases the Ex-Im Bank also guarantees the loan from the private lender. This scheme gave rise to a large volume of export transaction, many of them providing resources to the developing countries, which would not be possible without the participation of the Export-Import Bank. The effective interest rate paid by the borrower is a composite of the Ex-Im Bank's rate of about 6 percent and the rate of the private lender.

IV. Geographic and Sectoral Distribution of Aid

A. 1. Geographical Distribution - 1970

A.I.D.

As measured by disbursements, there was relatively little change in A.I.D. geographical distribution of aid in 1970. Expenditures declined modestly in most regions, and particularly in Vietnam, but disbursements to Latin American countries and to East Asian countries other than Vietnam actually increased slightly in 1970.

The geographical distribution of A.I.D. commitments in 1970 is distorted by the bunching of loans for India, Pakistan and Turkey in 1969 mentioned earlier. Apart from this situation, however, commitments increased in every region, with a particularly large gain recorded for Latin America. Within Latin America, Costa Rica, Guatemala, Brazil, Colombia and ROCAP (Regional Office of Central America and Panama) all recorded much higher commitments in 1970 than in 1969.

Food for Peace

With the exception of a sharp drop in shipments to India, there was relatively little change in the geographic distribution of PL 480 shipments in 1970. A substantial decrease was recorded by Korea, but larger shipments were shown for Pakistan, Indonesia, Israel and Vietnam.

Other Official Flows

The only substantial change by region in Export-Import Bank disbursements and CCC commercial sales shipments was shown in the Near East and South Asia countries, where Iran, Israel, India and Pakistan all showed substantially larger disbursements in 1970 than in 1969. Argentina, Brazil, Morocco and the Philippines also showed good increases in 1970, while Chile, Taiwan and Malaysia recorded considerably lower disbursements.

2. Geographic Distribution - Estimates 1971

Although the general trend in geographic distribution of A.I.D. programs remained the same in FY 1970 and FY 1971, certain changes are expected to occur. The present estimate of geographic distribution is as follows:

A.I.D. Program by Region
($ millions)

	FY 1970 Actual	FY 1971 Estimate
Latin America	421.7	343.4
Near East/South Asia	404.8	363.6
Africa	155.2	164.4
East Asia	191.5	283.7
Vietnam	354.4	386.0
Non-regional	349.1	396.0
Total	1,876.7	1,937.1

The significant elements of the FY 1971 program as compared to FY 1970 are as follows:

-- Latin America is down about $80 million, primarily as a result of lower requirements for development lending throughout the region.

-- Near East/South Asia programs are down approximately $40 million, reflecting somewhat lower lending levels in India and Pakistan offset in part by increased lending to Turkey.

-- East Asia programs are up about $90 million, reflecting primarily the initiation of an economic assistance program in Cambodia. Some increase occured in lending programs for Korea and Indonesia.

-- Vietnam is up about $30 million reflecting increased requirements for general imports.

-- Non-regional activities are up about $45 million. The major elements are increases in non-regional population programs (about $15 million), increases for the Indus Basin Development Fund (about $5 million) and the inclusion of population funds as yet not programmed against specific activities (about $25 million). A portion of the unprogrammed population funds may eventually be used for the geographic regions. Except for the inclusion of Cambodia, mentioned above, the countries receiving A.I.D. assistance in FY 1971 are about the same as in FY 1970.

B. 1. Distribution of Aid by Purpose and Sector

1970 Trends

ODA - The distribution of Official Development Assistance Commitments by type in 1970 was remarkably similar to that of 1969, despite

rather wide shifts by agency. Capital projects continued to account for only a small part of total ODA commitments, about 10 percent, as against 8 percent last year. The great bulk of aid was in the form of non-project commodities, which accounted for about 66 percent of total ODA commitments in 1970 as against 65 percent last year. Only Technical Assistance projects showed a decline, holding to 21 percent of total commitments as against 24 percent last year. The decline in TA projects primarily reflects a curtailment of projects in Vietnam, as well as a continuing decline in Peace Corps activities.

Other Official - Export-Import Bank Capital projects continued to account for the bulk (84 percent of Other Official commitments, but CCC non-project commercial sales increased from 11 percent of OOF commitments in 1969 to 16 percent in 1970. There were quite substantial shifts in the composition of Export-Import Bank loans in 1970. Power and energy projects which accounted for almost half of all capital projects in 1969, fell to 17 percent of the total in 1970, with particularly large offsetting gains recorded for mining and industrial development banks, as well as in transportation projects.

2. Sectoral and Purpose Distribution - 1971 Estimates

The A.I.D. program by sector of activity did not change significantly between FY 1970 and FY 1971.

Text Table VIII

A.I.D. Programs by Sector
($ millions)

	FY 1970 Actual	FY 1971 Estimate
Agriculture and rural development	368	400
Population and health	178	175
Education and manpower training	228	205
Industrial and urban development	700	650
Other (Program support, unallocated grants, etc.)	403	507
Total	1,877	1,937

A small increase occurred in agriculture and rural development, reflecting the continued high priority of this sector in development. Population and health programs remained about the same and education and manpower training programs declined slightly. Some decrease also occurred in the industrial and urban development sector. The increase of approximately $100 million in the "other" category reflects primarily certain contributions to international organizations and similar program grants that by their nature cannot be broken by sector.

C. Trends in Criteria for Aid Allocation

The allocation of A.I.D. resources during 1970 continued to be governed by the programatic and managerial techniques and development policies which have evolved over the past two decades and which have been described in previous U. S. Memoranda to the DAC. Allocation reflects a particular continuation of economic, humanitarian and political considerations with emphasis on development objectives.

As was noted last year these criteria have been under vigorous scrutiny and have led to the six basic principles incorporated in the President's proposed reform of the U. S. foreign assistance program (see section I). These principles are:

1. Development priorities to be set by the developing nations.
2. Assistance to be concentrated on critical problems areas.
3. Programs to be coordinated with and complementary to activities of multilateral institutions.
4. Facilitate regional cooperation among developing countries.
5. Widen the use of private initiative, private skills and private resources.
6. Assure wide popular participation in the development process.

During 1970 continuing efforts were made to conform existing practices to these principles. In fact, the President's message of September 15, 1970, "Foreign Assistance for the Seventies" included a directive to the A.I.D. Administrator to take steps to conform to existing development programs as much as possible to the new concepts and approaches outlined for the eventual reform of the foreign assistance program. In accordance with this directive the Administrator took steps to begin to centralize A.I.D. loan operations in the Regional Bureaus in Washington, and to review all existing technical assistance activity. The centralization of the loan activity was designed to meet the objective of reducing the number of Americans stationed abroad and afford an opportunity for better utilization of scarce resources.

The review of all Technical Assistance programs by field missions and by the A.I.D. Deputy Administrator was designed to conform TA activities to the proposed structure of the

International Development Institute. Missions were instructed to apply higher standards in judging the quality of projects, the assistance provided, status of host country participation and the degree of management effort needed. The objective was to identify weak projects for quick termination as well as those that were suitable for continuation by international organizations, private groups, or continued U. S. funding through private contracts and Participating Agency Agreements (PASA's). As a means of putting the LDC's at the center of the development process, Missions were instructed, as feasible, to modify the aid relationship by moving in the direction of acting primarily as a financer of technical assistance rather than a participant.

In identifying quality projects for continued support, Missions were asked to measure projects against the following criteria:

-- Does the project address a high priority development need for which the U. S. is capable of offering superior assistance.

-- Are the objectives and means of assessing the success of the project clearly defined.

-- Are objectives reachable at a cost and within a time schedule appropriate to the significance of the objectives.

-- Has the host country recognized the need for the project and requested it on its own volition.

-- Has the host country shown a willingness to support the project within its capabilities.

Meanwhile, A.I.D.'s traditional focus on country programming continued, but for the FY 1973 program cycle no comprehensive country field submission was requested. While this in some measure reflected the uncertainties of the transition period, it also reflected U.S. desire to encourage greater dependence on international agency analysis to identify assistance needs and to create the analytical base for allocating assistance.

The Washington review process continued to be an important programming element with the regional bureaus themselves conducting most of the country reviews. Administrator reviews were limited to selected countries, regional programs, and issues cutting across country and regional lines. A unique feature of the Administrator's review in 1970 was a "Review of Development Performance" of major A.I.D. recipients with a view to relating development performance trends, including inter-country differences, to differences and changes in

certain host country policies. Other features of the review process have remained unchanged--A.I.D. programs continue to be submitted to the President via the Office of Management and Budget (formerly the Bureau of the Budget), and to the Congress via the annual Congressional Presentation.

V. Assistance Administration in Transition

A. Administrative Organizations

Structure and resources of the agencies responsible for the planning and implementation of assistance programs.

1. A.I.D.

Current. The structure and functional relationships of the Agency, as shown in the organization chart and summary narrative statement (Annex B), are substantially as set forth in the 1970 U.S. Annual Aid Review. Exceptions are the addition of an Office of Housing and an Office of Private Overseas Programs and the deletion of the Office of Private Resources, as described in (2) below.

The financial resources of the Agency are outlined in Section II of this Review. FY 1971 personnel resources, in terms of full-time permanent employees, directly hired by the Agency include approximately 6,600 U.S. nationals (Washington and overseas) and 7,200 foreign nationals overseas. A.I.D. contracts for technical services with the U.S. public and private sectors covered an additional 2,400 people in FY 1971.

The Overseas Private Investment Corporation and the Inter-American Social Development Institute, as described in the 1970 Review, are now in operation.

Proposed. As noted in Section I of this report, legislation was submitted to Congress in April 1971 which would authorize the President to establish a new institutional framework for U.S. foreign assistance. The major institutions proposed for development assistance are:

-- A U.S. International Development Corporation to administer bilateral lending operations.

-- A U.S. International Development Institute to bring advances in U.S. science and technology to bear on the problems of development.

The President has emphasized the importance of international organizations in development assistance and anticipates that the United States will channel an increasing share of its efforts through multilateral institutions and that bilateral assistance will be coordinated wherever feasible with bilateral assistance of other donor countries through consortia and consultative groups under the leadership of international institutions.

2. Peace Corps.

New Directions for the Peace Corps of the 70's were initiated in CY 1969. A reorganization of the Washington staff, designed to facilitate response to overseas needs, was accomplished. The bi-national characteristic of Peace Corps programming received increased emphasis. The need for more volunteers with specialized skills was recognized and programs to recruit, train and place such volunteers were begun. Preparations were made for the beginning of a pilot program utilizing specially skilled married persons with families as volunteers. Prospects for greater Peace Corps participation in multi-national or multi-lateral development programs are explored. The trend toward more training of volunteers in their countries of service was continued and increased. During CY 1971, 70 percent of new volunteers entering the Peace Corps will possess a professional or technical skill.

3. Administration of Food Aid.

No structural changes took place in 1970 in the administration of PL 480. Food for Peace commodities provided under PL 480, which has now been extended to December 31, 1973, are financed by the Commodity Credit Corporation of the Department of Agriculture out of its appropriation and borrowing authority and within annual outlay ceilings established in the President's budget.

Most of the authorities under PL 480 are given to the President, who has delegated functions to several U.S. agencies. All functions are subject to the responsibilities of the Department of State with respect to foreign policy. The Department of Agriculture has the leadership role, in consultation with other agencies, for carrying out Title I sales programs. A.I.D. is responsible for administering Title II donation programs. For both Titles I and II, the Department of Agriculture determines the kinds and amounts of commodities available for PL 480 programming.

An Inter-Agency Staff Committee, under the chairmanship of the Department of Agriculture and including representatives of State/A.I.D., Treasury, Office of Management and Budget and other agencies, coordinates the review and approval of proposed Title I and II commodity programs.

Congressional approval of the legislation which the President has submitted authorizing him to establish a new institutional framework for U.S. foreign assistance would necessitate some rearrangement among new aid agencies of responsibilities for PL 480.

4. Export-Import Bank.

The Export-Import Bank of the United States underwent a reorganization in July 1970 in order to permit it to assume an expanded

role in assisting in the financing of exports. The new organizational arrangements are now on a functional rather than geographic basis, and with a modest expansion in staff, have increased the case handling capacity of the Bank. The system of issuing preliminary commitments initiated in 1969 to facilitate exporters in negotiating for export sales abroad has resulted in a sharp increase of such commitments.

Commitments issued in the first half of 1970 totalled $1.6 billion as compared with commitments issued in the second half of 1970 totalling $3.1 billion.

In addition, a cooperative financing arrangement was introduced in 1970, whereby the Export-Import Bank shares with private institutions abroad, the financing of U.S. exports.

B. Measures Adopted or Anticipated to Strengthen the Effectiveness of Aid Administration:

-- A.I.D. has established an Office of Housing to administer the greatly expanded, world-wide housing guaranty program authorized by the Foreign Assistance Act of 1969. The centralization of program direction will render it more efficient and less costly than would have been the case if split among the Regional Bureaus.

-- A.I.D. has established an Office of Private Overseas Programs which handles functions of the former Office of Private Resources remaining after transfer of insurance and guaranty programs to the Overseas Private Investment Corporation. These include providing leadership and a central point of contact with A.I.D. for the U.S. private non-profit community (except universities and labor organizations) to promote maximum U.S. private participation in overseas development, especially in technical assistance programs.

-- A.I.D. is beginning to centralize development loan functions from field missions either into Washington or in overseas regional loan offices serving blocks of countries.

-- A.I.D. continues to progress in the more effective use of its computer facilities. A number of new automated reporting and information systems are in operation or being developed, some of which are cited below:

-- A major portion of all personnel documentation has been automated, effective in October 1970, strengthening central personnel operations and administration through simplified forms and procedures and reduced response time on transactions.

-- An automated inventory of all audit findings, including those of external organizations having to do with the Agency, is now being developed. This inventory will be used to track actions taken on outstanding audit recommendations and will reduce slippage on compliance with findings and recommendations.

-- A loan accounting information system is being developed which will provide periodic reports on the current status of all A.I.D. funded loan activities.

Trends in Administrative Expenditures:

Funds from the administrative appropriation in the Foreign Assistance Act are for the direction and supervision of the A.I.D. program as described in the 1970 review. The amount of the FY 1971 A.I.D. Administration Appropriation is $51 million, the same as in FY1970. (This excludes reimbursements, carryover, and funds for services performed by U.S. embassies for the Agency).

C. Coordination of Aid Programs:

Foreign policy of the United States is coordinated through the National Security Council system. Chaired by the President and comprising top officials of the Executive Branch, the National Security Council provides a focus at the highest level of the U.S. Government for discussion and development of policy on national security issues.

The Under Secretaries Committee, chaired by the Under Secretary of State, links the process of policy formulation to the operations of the Government. Through interagency review and coordination, it helps to insure that decisions are carried out consistently with policy and uniformly through the foreign affairs community.

In January 1971, the President created a Council on International Economic Policy to provide a clear, top level focus on international economic issues and to achieve consistency between international and domestic economic policy. The Council is chaired by the President and comprises top officials of the Executive Branch. An operations Group, chaired by the State Department, has also been established to follow up on decisions reached by the Council, coordinate U.S. Government actions where necessary, and review operating problems arising out of actions of other governments, or outstanding international economic developments.

Development assistance matters are considered by the above groups, with A.I.D. participation as appropriate. In addition the following interagency groups are responsible for coordinating various aspects of the U.S. foreign aid program, with participation by A.I.D. and other appropriate U.S. Government agencies:

-- The National Advisory Council on International Monetary and Financial Policies coordinated inter-agency consultation on Eximbank

loans, Food for Peace credits, and A.I.D. policies. It also coordinates inter-agency positions on U.S. voting in international financial institutions.

-- The Development Loan Committee coordinates inter-agency approval of A.I.D. dollar loans, and housing guarantees, and establishes standards and criteria for A.I.D. lending.

-- The Inter-Agency Staff Committee coordinates food sales and grants of food for emergency use and specific projects under the Food for Peace Program.

-- The Symington Inter-Agency Committee reviews defense expenditures in countries receiving economic and military assistance and Food for Peace sales to determine actions to take in those cases where defense expenditures appear to be high or rising.

Role of Advisory Bodies:

-- High Protein Food Studies Committee - Reviews and makes recommendations on proposals from private food companies for the development of high protein foods.

-- Advisory Committee on Voluntary Foreign Aid - Coordinates governmental and private programs in the field of foreign relief, accredits American voluntary groups with overseas programs in foreign assistance and approves their programs, and offers guidance in the appropriate use of voluntary contributions for foreign aid.

-- Advisory Committee on A.I.D. University Relations - Provides a forum to the academic community in which mutual interests and goals can be explored, grievances aired and reforms proposed. The committee is primarily concerned with A.I.D. programs and methods of implementing projects in the fields of technical assistance, training and research.

-- A.I.D. Advisory Committee on Research - Advises on research development and the mobilization and direction of research groups toward Agency needs. Reviews and recommends A.I.D. approval of specific research projects.

-- Advisory Committee on International Health - Advises on A.I.D. policies and programs related to health manpower, and on programs for improving health conditions as a part of economic and social development.

-- Labor Advisory Committee on Foreign Assistance - Advises on labor programs and policy and recommends courses of action in problem areas.

-- The Advisory Committee for the Export-Import Bank represents the private sector and provides policy and operational advice on request to the President of the Bank.

Representation in the Recipient Countries:

The Agency for International Development operates overseas through a variety of organizational modes. It has separate bilateral missions or offices in 40 countries, as well as a number of regional offices--three in Africa serving 24 countries, one in Latin America serving seven countries, and several smaller such offices. Twenty-five of the countries served by these regional offices are in addition to the 40 countries with regular bilateral representation. In addition, in several countries, where A.I.D. programs are small, residual or terminating, responsibilities are carried out by embassies under delegation of A.I.D. authorities to the Ambassador.

D. Coordination with Other Donors:

The President's Message last September proposed as the foundation for our development assistance "a new partnership among nations in pursuit of a truly international development effort." The President said "Cooperation among the industrialized nations is essential to successful support for the aspirations of the low income countries." An increasing proportion of our assistance is to go through multilateral institutions and the remaining bilateral assistance is to be coordinated "wherever feasible with the bilateral assistance of other donor countries, through consortia and consultative groups under the leadership of the international institutions..." This policy reinforces our long-time interest in coordination at all levels--multilaterally in the DAC, in coordinating groups, through the UN Development System and in the field with bilateral and multilateral donors, and bilaterally with DAC members.

As far as DAC is concerned, we favor intensification of efforts to coordinate and to standardize aid policies and procedures with less emphasis on matters not concerned with program coordination, perhaps through a new working party. We are also willing to pursue such objectives bilaterally with interested donors.

Bilaterally in 1970 and early 1971, we met with Germany on Africa and Latin America, and with France, Japan and Canada on Africa, in addition to numerous ad hoc meetings on a variety of subjects. We hope in the next year to broaden the communication at the bilateral level with general talks in order to assure priority problems are examined and an appropriate division of labor considered. We are in the process of organizing our information on other donors in order to

make it more accessible to our field, regional and technical officials planning programs in LDC's, and would welcome the cooperation of members in exchange of data, not provided through DAC, between Washington and other donor capitals.

We support rationalization of country level coordination as between consultative groups and field mechanisms, and hope a successful division of responsibilities can be quickly reached. We believe the primary focus of any field mechanism is to stimulate recipient countries to plan and coordinate their own development programs, and to maintain centralized records.

The U.S. is also paying increased attention to the UN Development System. During the past year we have widened our areas of cooperation in the UN in the fields of Population (UNFPA), industrial development (UNIDO) and education and agriculture. Following the recommendations of the Jackson Capacity Study the U.S. is encouraging the UNDP to undertake substantial reform in its operation. The U.S. expects that as the capacity of the UNDP grows, it will want to channel additional technical assistance funds into the UN development system. We have instructed our field missions to cooperate fully with UNDP programs in the field and to enhance cooperative efforts with the UNDP, the host countries, and other donors.

VI. Technical Assistance.

Introduction - The Technical Assistance Bureau mentioned in last year's report is continuing its special emphasis on problem identification and solution seeking in established program areas such as agriculture, education, development administration, health and nutrition. The key problem area techniques is a useful means of concentrating technical assistance and avoiding scatteration of effort. Other parts of the A.I.D. are using another means of concentrating effort and reducing management problems. In several of the regional bureaus, assistance to particular countries is limited to one or a very few sectors, such as agriculture or education, rather than providing small amounts of assistance in many sectors.

A(1) Trend in Qualification of Experts and Steps to Recruit Experts.

The number of U.S. experts directly on the rolls of A.I.D. (direct-hire personnel) is declining steadily and is expected to decline even further. There is increasing use of experts under contract from universities, foundations and private firms and experts provided by other U.S. Government agencies. The role of A.I.D. direct-hire personnel will be limited to planning and monitoring projects run by recipient country and contract or grantee personnel. The quality of project planning and mangement will be sustained by use of A.I.D. staff time virtually exclusively for these purposes rather than in part in advisory roles.

A.I.D. has already begun to rely more heavily on private firms and non-profit institutions to supply highly skilled manpower. Greater use of both contractors and grantees is building up a corps of non-government experts in technical assistance. The U.S. feels that this technique of obtaining staff and carrying out projects has significant advantages. It simplifies recruitment, provides for greater unity of background of team members and makes it possible to recruit highly specialized talent for 2 to 4- year periods while protecting their career rights in a university or firm as well as permitting them to retain their professional status.

2. The role of Volunteers is covered in V A 2.

3. Criteria for Selection of A.I.D. Participants.

A.I.D. stresses the cooperative aspect of selection between the USAID Mission and the host government. In a number of instances, joint committees perform the selections with due representation from the host government and the technical and training sections of the USAID Mission.

Candidates for participant training are nominated by the government of host country of which the nominee is a citizen. The nomination is reviewed by the USAID Mission technical advisor, by the Training Officer, and other appropriate Mission officials to assure compliance with A.I.D. personal and technical selection criteria. Personal qualifications stress maturity, leadership, and career potential. Technical criteria include a good understanding of the country's problems in the propsed area of train-

ing and a sufficient background of training and experience to benefit adequately from the training program indicated. The candidate should also be specifically involved in a particular country development project or an important development activitiy field. In addition, he or she must fulfill any language proficiency requirement for which training is required and be physically fit.

Candidates proposed for a second training experience under A.I.D. auspices are accepted only after a two year on-the-job interval and even then under carefully prescribed criteria; the training must be of an advanced nature in the participant's field or in a different field to which he is being transferred.

4. Third Country Training.

President Nixon in his Report to Congress on U.S. Foreign Policy for the 1970's placed heavy emphasis on the developing nations themselves playing a larger part in their own development. Third Country Training uses the developing countries themselves on a regional self-help basis and therefore is in harmony with basic aid operating principles.

It is in fact AID policy to give preference to third country training in the following situations:

-- When a particular kind of training cannot be given as effectively, or is not available in the United States because of dissimilarity of climate, problems, techniques, language or customs.

-- Where adequate institutions and facilities of the required types are available, particularly those that have been developed with AID assistance.

-- For participants at a middle-level of scientific and professional skills and accomplishments or who meet minimum academic requirements for specialized or advanced training in a given trade or profession. Refresher courses, special workshops, observation tours, academic training, special subject area conferences, and similar in-service training techniques are used to increase the competence and attainments of persons in these categories.

-- Where the Host Training Country has adequate facilities for certain training and can provide this training at a lower cost than the cost of similar training in the United States.

-- Where local currencies are available that may be used to finance training within the country.

In order to support and encourage more third country training, during FY 70, AID prepared and published two catalogues of regional resources: one for the Near East South Asia Region and the other for the East Asia

Region. It is hoped that information concerning the many resources within these regions will help to offset the downward trend in the numbers currently being trained in third countries: 2,633 in FY 70 in contrast to 2,771 in FY 1969 and 3,365 in FY 1968. The current trend is due to a number of factors: declining numbers of AID overseas technical staff to plan the sending of participants to other countries, the preference of the foreign participants themselves to be trained outside their own Region, and the work entailed both for AID and Host Country staffs in administering the training program in the country where training takes place.

In accordance with the recommendations of the Pearson Commission Report, AID would be willing to work with other DAC member countries presently sponsoring third country training, or those considering doing so, in the interest of encouraging greater use of regional resources.

B(1) New Measures adopted to ensure a more effective alignment of technical aid with the requirements of recipient countries.

The measures described below to ensure a more effective alignment of technical aid with the requirements of recipient countries are not new but represent an intensification of previous efforts.

(a) Concentration of resources on key areas such as uncontrolled population growth and the inadequacy, qualitatively as well as quantitatively of the food supply in developing countries;

(b) Greater use of contractors and grantees for project execution;

(c) Increasing reliance on the less developed countries to define their priorities and identify their needs.

(d) Fuller exploitation of opportunities for adapting modern science and technology to the problems of developing countries;

(e) Improved coordination with other donors;

(f) Greater emphasis on research; incorporating new ideas and skills in sound host country institutions (institution building); the training of operational and training personnel in the assisted countries; provision of operational and advisory personnel selected and partly financed by the developing country.

2. Relation between Technical and Capital Assistance.

The integration of technical assistance with capital is essential to insure financial and physical success. Technical assistance may be a component of project, sector or program loans. In addition to standard financial analysis, A.I.D. requires that technical and institutional obstacles to the success of the project be analyzed. If warranted, funds may be included in the loan for technical or other assistance to overcome these obstacles.

A.I.D. sector loans usually involve a package of technical and financial assistance which may be part of a coordinated effort to overcome complex development problems that would require consideration of required sectoral financial resources and procedural and/or institutional changes. The field staffs are required to identify clearly the sectoral linkages between technical and financial assistance and how they are related to total available resources and programs.

Closely related to this is the program loan which provides external resources that would help provide the total level of development resources. However, technical assistance under this type of loan might be limited to consulting services to improve say, supply management associated with commodities to be financed under the loan.

The provisions for technical assistance within the three types of loans are flexible and depend to a large extent on the specific needs and conditions of the borrowing country.

3. Pre-Investment Studies.

A.I.D. finances pre-investment studies with both technical assistance and loan funds. These studies are used to justify capital assistance projects financed by A.I.D. and others, as indicated below:

There were 34 AID/financed project loans authorized in FY 1970 and FY 1971 induced by such studies, of which 32 were financed by AID and 2 by another source:

Funding Source for Study	Number of Resultant AID Loan Projects	
	FY 1970	FY 1971 (Est. thru 6/30)
Technical Assistance	12	15
Development Loans	1	4
Non-AID Funds	2	-
Totals	15	19

In addition there were 7 Non-AID project loans authorized in FY 1970 and FY 1971, which were induced by AID/financed pre-investment studies:

Funding Source for Study	Number of Resultant non-AID Loan Projects	
	FY 1970	FY 1971 (Est. thru 6/30)
Technical Assistance	-	2
Development Loans	3	2
Totals	3	4

Six pre-investment studies financed by AID during FY 1970 did not or are unlikely to result in project loans, whether financed by AID or another funding source. One study falls into that category in FY 1971.

C. Technical Assistance in Research.

1. General:

A.I.D.'s support of research activities has increasingly been geared to applying U.S. skills in science and technology to critical development problems. During FY 1970 about $21 million was funded specifically for research activities--$8.3 million for research in developing countries under Section 241(a) of the Foreign Assistance Act, over $7 million for population research under Title X, and $5.4 million under Section 211(d) which authorizes research grants to U.S. institutions. The actual amounts spent on research, however, may be higher, since as noted in last year's memorandum, not all funds spent on "research" are clearly identifiable since many such research components of institution building activity traditally financed by A.I.D. are not always reflected in statistical tabulations.

2. Aid to LDC Institutions:

There has been increasing collaboration of A.I.D. research contractors with research institutions of the less developed countries, and with the many scientists of those countries educated in the United States, many under A.I.D. sponsorship. A.I.D. has encouraged the creation of international research networks, involving one or more research entities from both the United States and the less developed countries. Such networks have taken different forms depending on the subject matter. In Colombia, for example, the national agricultural research entity has added staff and budget to work in collaboration with A.I.D. research contractors in weed control, in vertebrate pest control, and in irrigation. In another emerging network, A.I.D. is contracting with the University of Makerere in Uganda to do research in prostaglandins, a field in which it has research collaboration with several U.S. entities. Under another A.I.D. contract to improve the protein quality of wheat, researchers have established an international network including 26 countries and the International Center for Wheat and Corn Improvement in Mexico to test the entire world stock of winter wheat genetic materials.

The research program has had its heaviest concentration in agriculture both because of the importance of agriculture in economic development and because of the extensive experience the U.S. agricultural scientific community has had in problems of development. Some of the fields of research in agriculture have included (1) plant breeding with emphasis on increasing protein content; (2) pest control with emphasis in weed, vertebrate pest, and tsetse fly research; (3) water and soil resources, especially tropical soils management; (4) livestock production with attention to special problems of cattle nutrition and disease in the tropics, and (5) economic

problems of agriculture including income distribution and employment effects of increased grain production. One notable result of this research in agriculture was the development in Brazil of a fertilizer system that has increased grain production four-fold in an area of Rio Grande do Sul that had previously been a declining agricultural area.

Areas of activity other than agriculture in which A.I.D. supports research include health, nutrition, population and demography, and education and manpower development.

Notable activities have been as follows:

In health - A.I.D. funded research has placed heavy emphasis on supporting the worldwide malaria eradication program by seeking alternatives to DDT control, developing a vaccine against malaria, and studying the ecology of mosquitoes and the role of migration in the spread of malaria.

In nutrition - A.I.D. supported research has concentrated heavily on the protein fortification of basic cereals such as corn, wheat, and rice. Formulas have been developed for greatly enriched native foods, such as breads and cakes, which can be accomplished without important changes in taste and appearance. The corn-soy milks, which have been marketed in several countries as high-protein alternatives to conventional soft drinks have also resulted from A.I.D. sponsored research.

In Population and Demography - A.I.D. research is attempting to improve fertility control methods, through a variety of techniques including foams and medications which also have disease control capabilities. As outlined in detail last year A.I.D. is giving strong support to demography and population dynamic activities of the less developed countries. Also in collaboration with WHO A.I.D. is supporting operation research techniques to determine present practices of limiting population growth, attitudes toward family planning measures, and the organization and administration of national family planning programs.

In Education and Manpower Development - A.I.D. is encouraging more sophistication in this area, moving from relatively limited areas such as teacher training methods, and curricular reform, to studies emphasizing communications technology in education, and the best utilization of LDC resources for organizing educational systems.

3. Grants to U.S. Institutions:

As noted previously, Section 211(d) of the Foreign Assistance Act authorizes the Agency to make grants to U.S. universities to strengthen their capacity to participate in the planning and execution of economic development programs. It is a companion piece to the A.I.D. research program. The latter mobilizes for the Agency the existing talents of the universities in accomplishing research tasks aimed at producing information needed for a specific end. The grants program on the other hand,

enables the Agency to stimulate the development of new talent and new institutional resources for long-term collaboration in the development process.

Grants are made to universities which have demonstrated a commitment to achieve a capability in a particular area. Usually this capability is heavily oriented to domestic problems. Examples are Auburn University in fish production and the University of Wisconsin in land tenure. The grant enables the university to add an international economic development dimension to its outstanding domestic capability. Because of this university commitment and the convergence of interest between the university and the agency, grants are made for a period of five years.

As with aid to LDC institutions, agriculture is the largest area of concentration of the grants program accounting for about 70 percent of all obligations. Other areas include health, population, nutrition and education.

Some examples of new activities are:

-- Grants for work on livestock problems in the tropics, with an eye not only to animal problems but also to the economic and social framework within which livestock is produced and marketed;

-- Grants to help a U.S. university to develop a leadership capacity in the field of educational technology and new educational systems for the less developed countries.

This type of activity indicates a new direction for A.I.D.-university collaboration which enlists the universities as partners, fully committed to participate in the task of development, rather than merely as contractors for specific tasks. The A.I.D. research program reflects A.I.D. interest in developing a more meaningful collaboration with overseas institutions, with the aim of helping make the universities and research institutions of less developed countries fully committed collaborators with their governments in economic development.

D. Evaluation.

1. Improvements in Evaluation Systems:

The system for evaluation of non-capital projects described in previous reports to DAC included a Project Appraisal Report (PAR) which was a detailed checklist intended to facilitate thorough self-evaluation by project personnel in field Missions. Although the PAR was the outgrowth of extensive consultation within and outside the Agency, its design and use were necessarily experimental. Accordingly, an outside consultant group was engaged to evaluate the effectiveness of the PAR document and of Mission project evaluation practices and to propose improvements.

During 1970, the consultant group visited 16 Missions in four geographic regions where they interviewed many A.I.D. and host country staff officers and studied a sample of 63 projects. They also participated in five AID regional program evaluation conferences and analyzed data from 321 PARs, using computer techniques. The recommendations of the consultant's group were modified by AID, field tested, and further refined. They have been adopted by the Agency.

Installation of the modified approach started with a series of regional conferences attended by senior Mission representatives in the autumn of 1970. At these conferences, the system's concepts were introduced by lecture and demonstrated in workshops. Then visits to every Mission by joint teams of an AID officer and a consultant were undertaken to assist in actual evaluation of selected Mission projects. As of the end of 1970, 6 country Missions had received installation training. The remaining Mission installation visits should be completed by June 1971.

The new system emphasizes the creation of a Mission-useful process and subordinates the reporting of evaluation findings to AID/W. The key elements of the Mission process are:

a. A logical framework in which the field Mission (i) clarifies the project design by defining inputs, outputs, project purpose and sector or program goal, (ii) establishes indicators for measurement or objective verification of progress toward the defined outputs, purposes and goals. Evaluation then consists of determining whether or not the project outputs were produced, whether such production in fact achieved the project purpose, and finally whether this achievement made a significant contribution to the higher sector or program goal. By focusing on the causative linkages between steps in the framework, evaluation avoids extraneous questions and looks for possible improvements.

The logical framework permits a clear separation between manageable interests and those factors which appear to be beyond managerial control. The manageable interests, which are the joint responsibility of the Mission and of the host government, consist of combining inputs to produce outputs. Beyond that stage, we become social scientists who test the hypothesis that producing those outputs will achieve the project purpose and will contribute to a sector or program goal.

b. A group review - An interactive process among interested people is essential for reaching the best evaluation conclusions and deciding about future actions. Therefore, formal reviews are being scheduled. The desired approach is a collaborative effort rather than a judicial inquiry. The attendance at these reviews varies with the project and the Mission, but includes such people as the Mission Director, contract party chief, Program Officer and project manager. Frequently, the reviews also include representatives from the host country, other donors, or from Washington.

c. A process manager - Each Mission has designated someone to serve as Evaluation Officer (usually part-time) whose responsibility is to help project personnel analyze their projects in accordance with the logical framework and to organize and preside over the group reviews. To help him, guidelines and worksheets have been provided.

d. A simplified Project Appraisal Report - This is conceived as a low-cost byproduct of the evaluation process which will show headquarters that rigorous evaluation has occurred.

2. Administrator's Spring Reviews - The Administrator of the Agency for International Development held a Spring Review on Population April 11-13, 1970, which was attended by 225 people, including representatives from 28 field Missions, 17 other U.S. Government agencies, 16 universities and private institutions, and several Congressional offices and international agencies. At the sessions, attendees exchanged information about population programs based on their experience and on some 16 country papers and four analytical papers.

The magnitude of the problem was dramatized at the outset by Administrator Hannah with projections showing that if a net reproduction rate of one were achieved by the year 2000, the age structure of today's population is such that world population would not stabilize until the year 2070 when population would be more than double today's total. The Review concluded that population programs have had a phenomenal growth but that a broader range of socio-economic forces must be brought to bear since evidence is not convincing that improved delivery service for contraceptive devices can solve the population problem alone. For wider delivery services, use of non-medical personnel should be looked upon as a goal, not an expedient.

A Review on Land Reform was held June 2-4. It was attended by more than 300 people from the same types of agencies as attended the Population Review. Papers had been prepared on experience in 30 countries, with analytical papers then dealing with 12 issues. The most important single finding was that the social and political goals of wider distribution of opportunity, power and employment among farm people need not be in conflict with, but can be consistent with, increased agricultural production and efficiency. In other words, equity and productivity tend to be mutually supporting objectives of land reform. Urbanization or settlement of new lands are not adequate alternatives to land reform. When a dominant indigenous political will for land reform exists, external assistance may be constructively applied on many aspects of the reform.

For 1971, the Administrator has decided to limit the scope, content and staff resources devoted to each evaluative study but to undertake more studies. Seven topics have been selected:

a. Participant Training - Criteria and practices in programming training in the United States or third countries for people from developing countries. This is a different approach than previous evaluations about experience of individual trainees.

b. LDC Universities - The contribution of selected universities in developing countries to national development.

c. Program Intermediaries - Experience with various types of developing country organizations as means for transmitting technical assistance and mobilizing local action.

d. Agricultural Research - Case studies of the development of effective agricultural research institutions in developing countries.

e. Technical Assistance Research - An evaluation of the extent to which results of A.I.D.'s past research program have been used and consideration of the most effective ways for disseminating research findings.

f. Loan vs. Grant-Funded Technical Assistance - Effect of type of funding on decision making, efficiency in use of resources, and achievement of results.

g. Capital Projects - Case studies to discover ways for better planning and execution.

3. Special Field Evaluations :

Some thirty AID Missions engaged in approximatley 100 in-depth evaluations during the fiscal year 1971 (data not available on a calendar year basis) of major projects, sectors, or problem areas. The three sectors most actively evaluated were public administration, including popular participation aspects, agriculture and education. The evaluations were carried out with combinations of Mission personnel, private consultants, staff from AID/W and other U.S. agencies and from host governments.

4. Evaluation of Population Programs:

As part of its technical assistance activities in the field of population, the Agency for International Development is providing training and advice to officers from less developed countries about techniques they can use for evaluation of family planning programs. Fellowships are awarded for study at one of several universities in the United States which offer special courses in population evaluation. In addition, A.I.D. has several contracts to help develop practical evaluation methodology. Each contractor also makes short-term consultants available to countries requesting them. Some of these contracts are briefly described below:

a. Evaluation Methodology - At Columbia University a reexamination is being made of the entire spectrum of family planning program operation, from inputs to ultimate effects, in order to identify points where management would be served by qualitative or quantitative analysis of an activity and its results. Methods are then devised to perform the evaluative analyses indicated. Columbia University will also prepare an annotated bibliography of evaluation. The University of Chicago will review current evaluation activities in LDC programs in order to borrow from the best experience available now. The Battelle Memorial Institute is producing a generalized computer program generator of sufficient flexibility and simplicity to make its use possible for central processing of routine service statistics in any LDC.

b. Short-term Training - The Census Bureau is preparing manuals which will teach the technical use of the computer program generator referred to above, but more importantly, manuals to show when, where, and how the system can serve program management. These manuals will provide the textbooks of training workshops to be held overseas and in Washington.

c. Creating Evaluation Units in LDCs - The Columbia University group has worked with family planning programs in several Central American countries to help organize Evaluation Units. This not only serves the individual countries, but also permits practical testing of new or modified methodologies. It is expected that assistance of this sort can be provided to additional countries.

5. Other Headquarters Evaluation Studies:

a. Participant Training - Exit interviews were held with about 60 percent of the trainees departing from the U.S. An annual report, "Participant Assessment of AID Training Programs", was issued in July 1970 which contained information about ways the quality of training might be improved. A computer data bank was established to permit retrieval of the information obtained from the exit interviews. By December 31, 1970, information was available for over 7,000 trainees. With computerization, special reports can be made quickly concerning such topics as experience with trainees from certain countries, with specific training facilities and with participants studying certain disciplines.

Special evaluative studies have also been made of the effectiveness of several training institutions which complement the regular training programs.

b. Agricultural Extension - A member of the Evaluation staff analyzed the Agency's efforts to help build agricultural extension institutions in Central and South America. The study covers the period 1940-1970, and examines both the effectiveness (were viable institutions

built?) and the significance (have the institutions helped improve farm productivity?) of the U.S. assistance projects. Research on the study started in 1967; publication is expected in early 1971.

c. Educational Television - El Salvador is one of the few countries in the world attempting to build an educational system with general reliance on use of television, rather than as a supplement to traditional methods. Because of the general interest in this national experiment, A.I.D. has arranged for scientific evaluation through an A.I.D. contract with the Academy for Educational Development, utilizing experts from Stanford, Harvard and Drexel Universities, and from the Educational Testing Service. This effort represents one of the most thorough evaluations ever conducted of an educational innovation. It includes the following aspects:

(i) testing of educational results in terms of student learning in mathematics, science, and social studies, and changes in the behavior of teachers and students--particularly whether work changes from rote repetition to active individual student participation are occurring.

(ii) assessing the changing attitudes and aspirations of students, teachers, and parents.

(iii) recording a history of the administrative growth of the project and its attendant problems.

(iv) analyzing comparative costs, both capital and operating.

Together these analyses will provide a cost-effectiveness comparison of the new and old systems, together with some indication of any special contribution of television per se. Further, these analyses are already providing a better understanding of the factors critical to the success and limitations of projects which use educational technology as a catalyst for educational reform.

6. Supporting Activities for Evaluation Work:

a. Information Systems - The A.I.D. Reference Center ("Memory Bank") has increased its collection of evaluative documents, has up-dated its cataloguing, issued several bibliographies, and has removed marginal materials. It is now reaching the point that it can do quite well at providing answers to questions. Last year it received about 2400 visitors, answered 3000 telephone queries and circulated 12,000 documents. The National Archives and Records Service surveyed A.I.D.'s records system and recommended that it be a more centralized system, with closer linkages with systems of other national and multilateral agencies.

b. Progress Indicators - A listing of indicators of progress in the education sector, which was compiled from a search of literature and an analysis of Agency documentation, contained illustrative project and sectoral level indicators and program goal statements for use of Missions.

c. Evaluation Contract Services - The Latin America Regional Bureau contracted with several consultant firms on a stand-by basis for the evaluation of subsectoral and sectoral activities. The firms are able to respond promptly to task orders originating in the Latin America Missions and to provide professional services tailored to the specifications submitted for each study.

d. AID Evaluation Handbook - An Evaluation Handbook was published by AID during 1970. A first printing of 1600 copies was quickly exhausted and a second printing of 1500 copies was ordered. The Handbook discusses the concepts and operation of program evaluation in AID, provides guidance on the design and conduct of evaluation studies and gives examples of baseline techniques, output and performance indicators, performance standards, etc. Recommended readings and an annotated bibliography are included.

VIII. Private Sector

A. Flow of Private Capital

General: Total private flows to LDC's in 1970 are estimated at about $2.2 billion, almost $700 million higher than in 1969, with increases in all components.

Direct Investment increased by $310 million in calendar 1970 over 1969. Most of the increases were in investment in LDC's in the Western Hemisphere. Approximately $310 million of this increase occurred in the Caribbean area. Other significant increases in direct investment are attributable to spending by petroleum affiliates in Venezuela and manufacturing affiliates in Argentina and Mexico. Direct investment increased by $100 million in Spain. These increases were partially offset by negotiated liquidations in Chile. Investment in Asia and Africa remained at about the same level as in 1969.

Private capital flows in the form of bilateral portfolios decreased by about $50 million, mainly in LDC's in the Western Hemisphere. Multilateral portfolio investment increased by $224 million. This included new issues of $241 million for the IBRD and $95 million for the IDB. These amounts are offset by redemptions and trading.

Reinvested earnings - Complete data are not yet available but this category is estimated at roughly $550 million compared to about $500 million in 1969.

1. Restrictions on Private Capital Outflows - The Foreign Direct Investment Program, established in January 1968 to assist the U. S. balance of payments by imposing certain restraints on direct investment abroad, continues in effect. Direct investors may elect one of several alternative methods of calculating their annual "allowables" or quota ceilings. The "historic allowable" is a percentage of the base period (1965-1966) average investment. For developing (Schedule A) countries, the amount is 110 percent. The "earnings allowable" is a percentage of the previous year's earnings. In 1970 the amount was 30 percent and in 1971 will be 40 percent for all three schedules, including Schedule A. Direct investors, however, may elect a worldwide minimum allowable of $2 million ($1 million in 1970), or one of $6 million providing that at least $4 million is invested in developing countries. Additional investment in excess of allowables may be made in Schedule A by "downstreaming" all or part of the allowables in the other two schedules, or by utilizing offshore financing, i.e., the Eurobond or Eurodollar markets.

TEXT TABLE IX.

U. S. PRIVATE CAPITAL FLOWS TO LDC'S
(Millions U. S. dollars: inflows (-))
Preliminary

	1966	1967	1968	1969	1970
Total LDC's					
Direct Investment	656	790	1,248	750	1,060
Other Long-term Capital	235	867	595	202	545
Total excl. reinvested earnings	891	1,657	1,843	952	1,605
Reinvested earnings 1/	460	270	499	507	550
Total Including Reinvested Earnings	1,351	1,827	2,342	1,459	2,155
Latin America					
Direct Investment	308	296	677	344	555
Other Long-term Capital	98	222	-45	45	152
Total excl. reinvested earnings	406	518	632	389	707
Other LDC's					
Direct Investment	342	494	571	406	505
Other Long-term Capital	136	389	375	118	130
Total excl. reinvested earnings	478	883	946	524	635
International Agencies					
Direct Investment	-	-	-	-	-
Other Long-term Capital	1	256	265	39	253
Total excl. reinvested earnings	1	256	265	39	253

1/ Data on Reinvested Earnings which are included in the "F" tables of the Statistical Annex are not available by region for 1970.

Source: Department of Commerce, Office of Business Economics.

TEXT TABLE X.

DIRECT INVESTMENT FLOWS[1/]
(Millions U.S. Dollars)

Year	Total Direct Investment to all Countries	Flows going to LDC's	Percent of Flows to LDC's
1965	3,468	872	25.1
1966	3,661	656	17.8
1967	3,137	790	25.2
1968	3,209	1,248	38.9
1969	3,070	750	24.4
1970	3,967	1,060	26.7

1/ Data on Reinvested Earnings which are included in the "F" tables of the Statistical Annex are not included in the text tables in that comparable data for 1970 are not available. For earlier years Reinvested Earnings amounted to: 1965, $399 million; 1966 $460 million; 1967, $270 million; 1968, $499 million and 1969, $507 million.

Source: Department of Commerce, Office of Business Economics

The guidelines issued by the Board of Governors of the Federal Reserve System to restrain foreign credits by financial institutions have been described in previous U.S. memoranda. Banks and other financial institutions are again asked to give priority to export financing and to developing countries for loans and investments.

2. New Measures to Encourage Flow of Private Capital to LDCs - The Foreign Assistance Act of 1969 created the Overseas Private Investment Corporation (OPIC) to "....mobilize and facilitate the participation of the United States private capital and skills in the economic and social progress of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States." The Corporation was formally established by Presidential Executive Order on January 19, 1971, following the appointment and confirmation of its President, Executive Vice President, and Board of Directors.

With a joint private-public Board of Directors, OPIC will reorganize and operate selectively, on a business basis, U.S. Government incentives to the investment of American private capital and know-how in projects which contribute to development. A detailed introduction to the Corporation, outlining its objectives, authorities, policies and organization, was submitted last year.

-- Investment Insurance - As of December 1970, outstanding amounts under the three coverages offered were: Inconvertibility, $3.65 billion; Expropriation, $3.85 billion; War, Revolution and Insurrection, $3.2 billion. These figures represent an increase of 60%, 82% and 162%, respectively, in the past three years. In Calendar 1970 the political risk insurance was instrumental in assisting U.S. private investment of $740 million in developing countries. Historically, since the beginning of the program in 1948, $4.3 billion of U.S. private investment has been so encouraged.

OPIC is now, in light of the new statutory requirements, closely examining and evaluating its (1) own principles of risk management, (2) exposure in large and sensitive projects including natural resources projects, and (3) criteria for determining the effect of private investment in LDC development. These assessments may lead to changes in program administration which will, of course, be reported to the Secretariat in future memoranda.

The major change to date is the increase in fees charged for insurance protection. As of March 10, 1971, the fee for convertibility insurance is 3/10%; for expropriation, war, revolution and insurrection 6/10%. Fees for standby coverage are 1/4% in each case.

3. Pre-Investment Assistance - OPIC will normally share up to 50% of the cost of making pre-investment surveys if the company decides not to make an investment. Formerly known as the Survey of Investment Opportunities program, it has been described in earlier memoranda. To date 52 surveys have resulted in decisions to invest approximately $104 million. Activity in this program for 1970 was much lower than in prior years, and only six Survey Agreements were signed, having a possible total investment of $2.2 million.

   OPIC authority now permits sharing in a higher percentage of total survey costs for projects which the Corporation especially wishes to promote. OPIC will: finance project surveys in stages, allowing for periodic review and requiring positive decisions before proceeding to the next phase; tailor OPIC's financial exposure to the various phases of the survey; select companies with operating experience in the project to be surveyed, and with financial resources sufficient to make an appropriate investment if the proposal looks commercially attractive; require repayment, with interest, of OPIC's portion of the financing in the event a project results; and favor that kind of survey which would lead to a project for which OPIC would be willing to provide investment guaranties or investment insurance.

   Earlier memoranda described the A.I.D. (now OPIC) agreement with the Agribusiness Council (A.B.C.) to participate financially with U.S. companies in surveys of food processing, distribution and marketing. As of February 1971, A.B.C. had signed 16 Phase I (preliminary reconnaissance survey) agreements and 5 Phase II (detailed feasibility study) agreements with American firms. One reconnaissance and one feasibility survey have resulted directly in determination to invest; two reconnaissance surveys have resulted in negative decisions, and the outlook for investment appears favorable in six others.

4. New Double Taxation Agreements - There is no new activity to report.

5. Joint Public-Private Projects - OPIC continues to welcome joint public-private participation in development projects. Local participation in equity ownership may be desirable and, under certain circumstances, host country government participation in project ownership is acceptable, provided that operating control remains in private hands. No public-private projects were assisted during the past year.

6. Trend of Activities of Development Corporations - The OPIC Board of Directors meets monthly, and has so far held three regular meetings. Among actions taken by the Board to date, are:

   -- Establishment of review procedures for all political risk insurance projects of $25 million or more and all investment guaranties and Direct Investment Fund loans.

-- Adoption of guidelines placing particular emphasis on not only the financial and commercial soundness of each project to be assisted, but also its social and economic developmental impact including, for example, its effects on host country revenues, foreign exchange, employment and ecology.

-- Following the statutory mandate to manage the insurance program with due regard to the principles of risk management, slightly higher fees are being charged on all investment insurance contracts issued after March 10, 1971. This increase merely reinstates the fee level back to that charged from 1948 to 1966. The effect of this small increase over a period of time may, in part, reduce any possible requests for additional appropriated reserves to pay claims, while maintaining the incentive nature of the program. (See Investment Insurance, paragraph (2).)

The Fiscal Year 1970 Annual Report detailing activities carried out under each of OPIC's authorities (as then administered by A.I.D.) may be obtained from the U.S. delegation.

7. Placement of LDC Bond Issues - LDCs, including public authorities and private corporations, are exempt from certain U.S. interest equalization taxes on securities sold in the U.S. capital market. However, all foreign as well as domestic firms must, of course, register with the Securities and Exchange Commission.

B. Private Non-Profit Flows

1. Trends - The 1970 overseas development programs of U.S. private, non-profit organizations indicate a downward trend when compared to prior years. For example, the dollar value of the international programs of U.S. foundations declined from $93 million in 1968 to $75 million in 1969 and to $59 million in 1970. A.I.D.'s Advisory Committee on Voluntary Foreign Aid reports that the total dollar income of 82 registered U.S. voluntary agencies active in international development exceeded $557 million in 1970. This amount, while $166,000 more than the total 1969 registered voluntary agency income reported (due to an extraordinary income contribution of $192.7 million reported by the United Jewish Appeal for Israel), was 17% less than the $672 million U.S. voluntary agency income reported in 1968.[1/]

1/ Voluntary Foreign Aid Programs - Reports of American Voluntary Agencies registered with the Advisory Committee on Voluntary Foreign Aid - 1970, 1969, 1968.

The above figures for the Christian-Judaic organizations include amounts of direct support allocated to their religious functions and activities traditionally defined as "technical assistance." The construction, staffing, operation, and direction of hospitals, schools, family planning units, and other socio-economic community-oreinted activities are examples of the types overseas technical assistance sponsored by U.S. religious organizations. The U.S. private profit corporations overseas also pursue active programs to better their relationships within the host country.

4. Voluntary Agency Program Trends - Partially offsetting what is expected to be a short term reversal in the amounts allocated by the U.S. non-profit sector to overseas development activity is the growing awareness and willingness of the U.S. registered voluntary agencies to give more attention and emphasis to developmental programs. In addition to their traditional role of giving succor and relief, American voluntary agencies demonstrate an expanded interest in community development and people-to-people programs which focus on basic socio-economic gaps in health, education, and agriculture.

5. A Prospective New Program - AID's Office of Private Overseas Programs is considering providing support to a consortium of 10-12 U.S. organizations engaged in overseas development programs. These organizations are presently endeavoring to form a consortium that would provide for (1) increased professionalism in program planning, management, and evaluation, (2) a systematic interchange of information, and (3) an improved fund-raising capability.

6. Cumulative A.I.D. Grants and Contracts - FY 1970 Agency for International Development reports indicate $632 million as compared with $602 million in FY 1969 as the cumulative amount obligated (contracts and grants) for technical services by the U.S. private sector. A.I.D. also reports cumulative obligations of $213.6 million for grants and contracts with non-profit, non-governmental organizations and $3.4 million with non-profit government agencies through June 30, 1970.

7. Current Private Non-Profit Programs Funded by the Office For Private Overseas Programs

   a. The Asia Foundation, a privately-managed, non-profit organization whose goals emphasize social and institutional development which works with individuals, community and professional groups, private and public agencies to foster development in: education, legal studies and administration, book and library programs, science, science teaching, rural development, and Asia regional collaboration. The FY 71 grant of $3.75 million also assisted the Asia Foundation technical assistance efforts in the problem areas of manpower and unemployment.

2. Registered Voluntary Agencies - The U.S. registered voluntary agencies continued to receive substantial U.S. Government support in 1970:

a. Private

		Amount
(1)	Donations received (commodities/equipment)....	$ 71,117,680
(2)	Dollar contributions (and other income).....	$ 292,640,739

b. U.S. Government

(1)	Overseas P.L. 480 Freight.....	$ 45,402,673
(2)	Contracts and grants.....	$ 20,650,006
(3)	Excess Property.....	$ 732,383
(4)	P.L. 480 donated food.....	$ 126,509,006
	Total.....	$ 557,052,871

3. Total Flows - The U.S. Department of Commerce officials estimate a $656 million (cash and kind) outflow of U.S. institutional remittances overseas for CY 1970. However, measurements of the total value of overseas remittances and programs by U.S. private, non-profit organizations are, at best, rough estimates due to the innumerable private organizations and individuals engaged in activities characterized by combinations of religious and technical assistance efforts, and the inevitable gaps in reporting.

Given these statistical difficulties and reporting gaps an attempt to arrive at a reasonable estimate of total U.S. private support for 1970 results in the following source data:

Organization	Amount (Millions)
Registered Voluntary Agencies 1/	$ 557
Foundations 2/	59
Protestant 3/	228
Catholic 4/	50
Jewish 5/	225*
	$ 894

*(Non-Additive due to partial duplication of reporting)

1/ Voluntary Foreign Aid Programs - Reports of American Voluntary registered with the Advisory Committee on Voluntary Foreign Aid - 1970, 1969, 1968.
2/ American Association of Fund Raising Council Representatives.
3/ North American Protestant Ministries Overseas Directory, 1970.
4/ No report available. Estimates by Catholic Religious Sources in Washington.
5/ USDC Revised Report 1970 includes USDC estimates covering non-reporting Jewish activities.

b. The International Executive Service Corps (IESC) received an FY 71 $3.2 million grant to assist in providing short term guidance to a variety of business (agro-business, food processing, manufacturing marketing, transportation, insurance and banking, hospital management, etc.). A roster of over 6,000 volunteer businessmen serviced over 750 requests from 45 countries thereby assisting 525 organizations in 1970.

c. Volunteers for International Technical Assistance (VITA) with a roster of over 7,000 U.S. volunteer scientists, engineers educators, and businessmen serviced over 2500 technical assistance inquiries received by mail from most of the LDC's worldwide. Technical responses range from plans for a village bridge to the complex design and on-site advice for a small respiratory disease hospital. The U.S. government gave a grant in the amount of $85,000 for 1970.

Additional examples of U.S. private, non-profit programs receiving U.S. dollar support are (1) the Council for International Progress in Management whose activities help to establish and develop local private institutions for training managers and support private business development and (2) the U.S. cooperatives.

In the latter category, the Agricultural Cooperative Development International (ACDI), with membership of 26 major U.S. Cooperatives, has coop-type programs in Hondurus, Guatemala, Thailand, the Philippines, Nepal, Uganda, and Vietnam; the Credit Union National Association (CUNA) has fostered credit union programs which have resulted in 933,000 members in Latin America and an African regional program to develop and service credit unions in 19 African countries; the Cooperative League of the U.S.A. (CLUSA) provides U.S. know-how through members in Chile, Ecuador, Panama, Peru and India. Functional assistance is being given in consumer cooperatives, agri-business, insurance, and management; the National Rural Electric Cooperative Association (NRECA) taps the technical capabilities of its 1,000 U.S. member organizations to develop rural electric cooperatives in LDC's -- projects are presently underway in Afghanistan, Bolivia, Nicaragua, India, and the Philippines.

8. Current Private Non-Profit Programs, Funded by the Technical Assistance Bureau, A.I.D. - The Technical Assistance Bureau also funds the on-going program of private non-profit organizations (exclusive of universities) in a variety of fields: agriculture, education, health, nutrition, science and technology, population and family planning. Examples would include the:

-- International Maize and Wheat Improvement Center (CIMMVT),

-- International Rice Research Institute (IRRI),

-- International Institute for Tropical Agriculture (IITA),

-- International Center for Tropical Agriculture and Livestock (CIAT)

-- Agricultural Development Council.

-- League for International Food Education,

-- Population Council.

-- International Planned Parenthood Federation,

-- Pathfinder Fund,

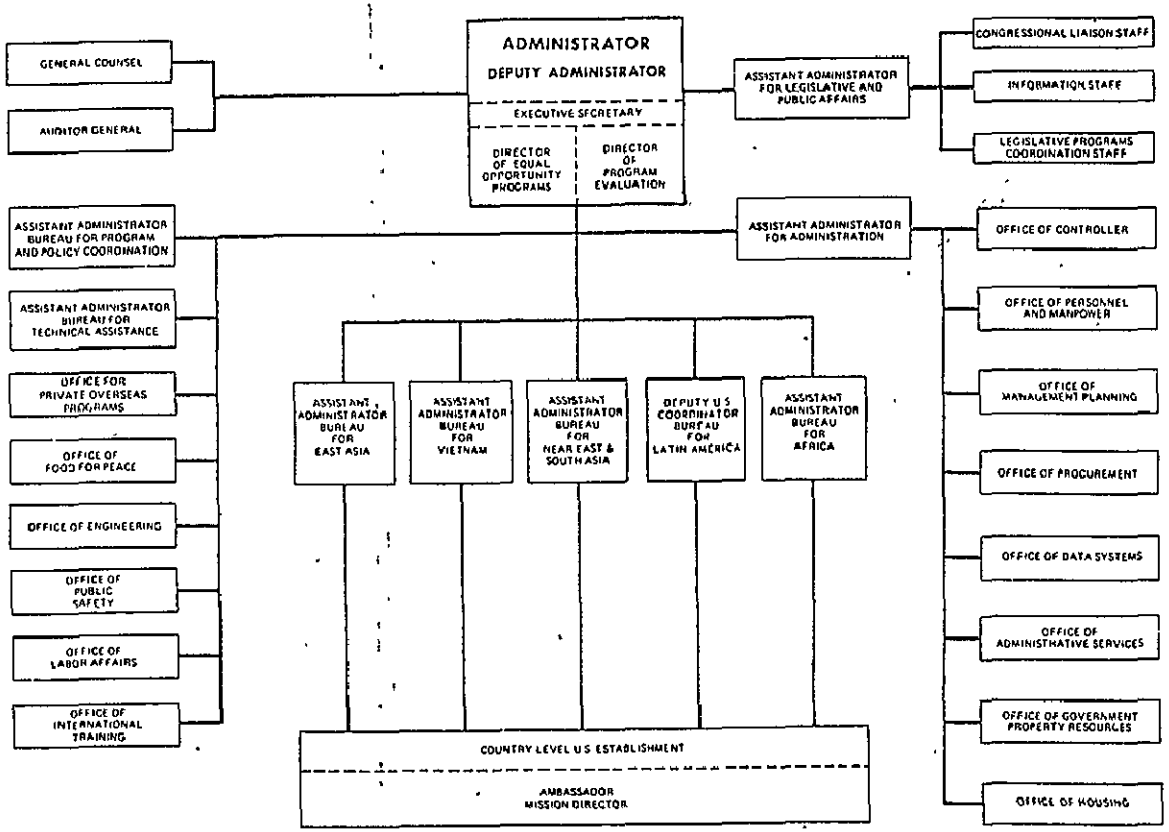
-- World Education, etc.

This partial list is reflective of present program dimensions not only in the Technical Assistance Bureau but also in the geographic regional bureaus of the agency. Such institutions have received intermediary substantial A.I.D. project and institutional grants and contracts over the years.

The result has been the evolution of a diverse range of relevant and in some instances unique international development capabilities in a number of these institutions. They represent a constructive resource for the developing world.

ANNEX A

AGENCY FOR INTERNATIONAL DEVELOPMENT



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A/MP

SUMMARY FUNCTIONS OF A.I.D.

I. THE OFFICE OF THE ADMINISTRATOR

The Administrator plans, directs and coordinates the operations of the Agency. He is responsible, subject to the approval of the Secretary of State, for the formulation and execution of U.S. foreign assistance policies and programs in accordance with the Act for International Development. He supervises and directs the activities of all personnel of the Agency in the United States and overseas. The Administrator's office includes the Deputy Administrator, an Executive Secretariat, and an Office of Equal Employment Opportunity, and an Office of Program Evaluation which manages the Agency's program evaluation system. The following organizations report to the Office of the Administrator.

II. STAFF OFFICES

A. General Counsel - Provides legal advice and service to all elements of the Agency; interprets the basic statutes under which the Agency operates; and develops legal standards governing the transaction of Agency business.

B. Auditor General - Plans and directs the execution of a comprehensive management audit, inspection and security program, covering all phases of Agency operations including A.I.D./W and all overseas activities. The program includes: in-depth appraisals of the Agency's operations methods; audits of program and administrative activity; determination of suitability of personnel for employment and the issuance of security clearances; maintenance of physical security of Agency facilities and records; and investigations of allegations of fraud, criminality, malfeasance or nonfeasance on the part of A.I.D. personnel, contractors and others engaged in A.I.D.-financed programs.

C. Office of Legislative and Public Affairs - Plans and coordinates activities which respond to Congressional and public inquiry on the nature and conduct of A.I.D. programs. Under the direction of an Assistant Administrator this program is conducted by three staffs:

1. Congressional Liaison Staff - Maintains liaison between the Agency and Congress; answers Congressional requests for information on Agency operations; and provides information on pending legislation to all elements in the Agency.

2. Information Staff - Develops public information policies, and prepares and disseminates information about the foreign aid program to the U.S. public.

3. Legislative Program Coordination Staff - Coordinates the preparation and presentation of legislative proposals for foreign aid authorization and appropriation bills, providing staff support to Administration witnesses who testify on behalf of these proposals.

III. THE REGIONAL BUREAUS

There are five Regional Bureaus: East Asia, Viet-Nam, Near East and South Asia, and Africa, each under an Assistant Administrator and Latin America under the U.S. Coordinator Alliance for Progress.

The Regional Bureaus are the principal line offices of the Agency with responsibility for program planning and execution of U.S. Economic Development programs within their respective regions. Regional programs are administered in accordance with policies and standards established by the Administrator assisted by A.I.D. headquarters program and management offices and staffs.

IV. THE PROGRAM OFFICES

A. Bureau for Program and Policy Coordination - Under the direction of an Assistant Administrator, develops capital, trade and economic assistance program policies, coordinates Agency budget requests, recommends allocation of resources, provides guidance to Regional Bureaus in development planning and provides guidance on Title IX and LDC private enterprise development. Assures coordination of U.S. aid programs with development assistance activities of multilateral and interregional organizations and other donor governments. Provides statistical support services to the Agency's Bureaus, Offices and Staffs.

B. Bureau for Technical Assistance - Under the direction of an Assistant Administrator, identifies and seeks solutions to major problems impeding the modernization process in LDCs in the areas of agriculture and fisheries, development administration, education and human resources, health, nutrition, population, science and technology, and urban development. Formulates strategies and methodologies for the application of technical assistance to cultural characteristics of LDCs. Acts as the Agency's focal point for all dealings with universities and U.S. government agencies in pertinent technical areas. Provides leadership in improving the quality of Agency professional services. Coordinates the Agency's research program and administers institutional grants under Section 211(d). Administers interregional technical service projects.

C. Office of Private Overseas Programs - Provides leadership and a central point of contact with the Agency for the U.S. private non-profit community (except universities and labor organizations) to promote maximum U.S. private participation in overseas development, especially in technical assistance programs. Coordinates foreign disaster relief activities.

D. Office of Food for Peace - Provides leadership for the Agency's Food for Peace activities including the use of food resources to combat hunger and malnutrition and to support economic development, family planning, nutrition programs, private enterprise, agricultural production and development, and Title IX activities. Acts as the Agency focal point for all dealings with the Department of Agricultural and other U.S. Government agencies concerning the P.L. 480 program. Administers food grant assistance for disaster relief.

E. Office of Engineering - Provides guidance on engineering policies, standards and practices for capital projects and technical assistance programs under loans, grants, or guarantees; as requested, reviews major projects for engineering feasiblity; and monitors engineering operations.

F. Office of Public Safety - Has primary responsibility for public safety programs; develops policies, standards and programs in public safety assistance; coordinates public safety programs and operations with other appropriate agencies and A.I.D. offices; administers participant training in public safety; evaluates public safety activities.

G. Office of Labor Affairs - Develops Agency-wide guidelines and policies to govern the labor aspects of country programs and projects and provides general Agency liaison and coordination with the U.S. trade movement, the International Labor Organization and the U.S. Department of Labor.

H. Office of International Training - Provides support and service to the Regional Bureaus and overseas missions by developing participant training policies and standards and by arranging for implementation of approved participant training projects.

V. THE ASSISTANT ADMINISTRATOR FOR ADMINISTRATION

The Assistant Administrator for Administration assists the Administrator by planning and directing the fiscal, personnel, management, procurement, excess property, and administrative support operations of the Agency. His office also administers the American Schools and Hospitals Abroad program. The following management offices report to the Assistant Administrator for Administration:

A. Office of the Controller - Provides the financial management tools for the execution of the Agency's mission by setting standards, establishing controls and conducting accounting and budgeting operations and providing financial analysis services.

B. Office of Personnel and Manpower - Counsels and represents management with respect to personnel administration; develops and administers policies and standards governing foreign service personnel and applies government-wide standards to civil service personnel; designs and installs personnel management and manpower planning systems; recruits, assesses, refers, and appoints new employees; reassigns foreign service employees and rotates them to the United States; trains and counsels employees and maintains a program of career development and of employee-management relations; administers wage and salary, position classification, employee evaluation, promotion, and selection-out systems.

C. Office of Management Planning - Provides management consulting services to Agency officials in the areas of management policy and operational problems analysis; manages Agency's manpower and organization planning and control systems; and, through research and training, promotes improved management practices in the Agency.

D. Office of Procurement - Formulates policies, standards and procedures governing procurement of commodities and services including the negotiation and execution of inter-regional contracts financed from grant funds; provides technical knowledge on industrial products; negotiates ocean liner freight rates; approves charters and monitors 50/50 shipping regulations; provides advice and assistance to the Regional Bureaus on all aspects of supply management; and encourages the participation of U.S. small business in export supply activities of the Agency.

E. Office of Data Systems - Administers paperwork management control systems (directives, forms, reports, records); provides systems development, and computer systems analysis for Agency offices; manages the Agency's data processing facility and provides support to Agency offices in data automation.

F. Office of Administrative Services - Provides the Agency with general office services and provides guidance to the overseas missions on administrative support logistics.

G. Office of Government Property Resources - Develops policies, procedures and programs directed toward maximum effective utilization of U.S. government-owned domestic and foreign excess personal property resources in support of A.I.D. projects and programs; and develops procedures and practices for the acceptance and utilization by A.I.D. of property donated by U.S. commercial firms.

H. Office of Housing - Develops overall procedures for the A.I.D. world-wide housing guaranty program. Solicits, analyzes, and negotiates project proposals; conducts feasibility studies; supervises the implementation of approved projects; supervises contractors engaged by the Agency to assist in the program; maintains a central point of contact for sponsors and investors; and provides centralized direction.