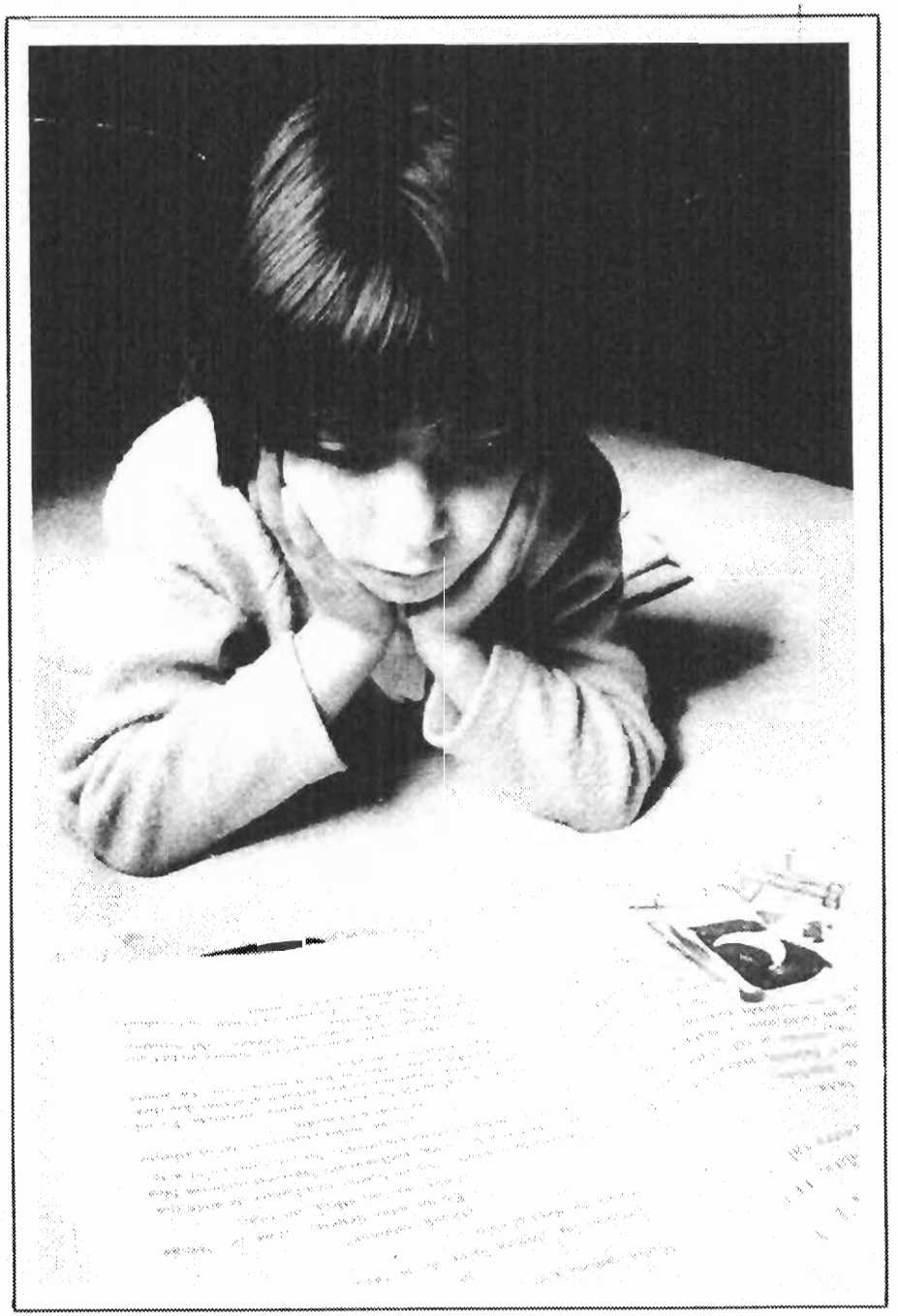
AGENCY FOR INTERNATIONAL DEVELOPMENT

Introduction to Program Presentation to the Congress

PROPOSED FY 1971 PROGRAM



I. WHY DOES THE UNITED STATES PROVIDE FOREIGN AID?

The United States provides foreign aid for two fundamental reasons--simple humanity and national self-interest.

The first is easily enough understood -- the moral quality of this nation does not permit us to close our eyes to want and deprivation.

Burgeoning population threatens to cancel out even the substantial gains in food production now being achieved in the developing world. Without prompt action thousands will either simply starve to death, or they will die because their diet is so inadequate that it cannot protect them from some easily preventable disease. Millions more will be physically and mentally handicapped for life by malnutrition.

Unemployment in the developing world averages well over 10%, and very high rates of underemployment are common. In Latin America, for example, a quarter of the labor force has either work which does not pay a living wage or no job at all.

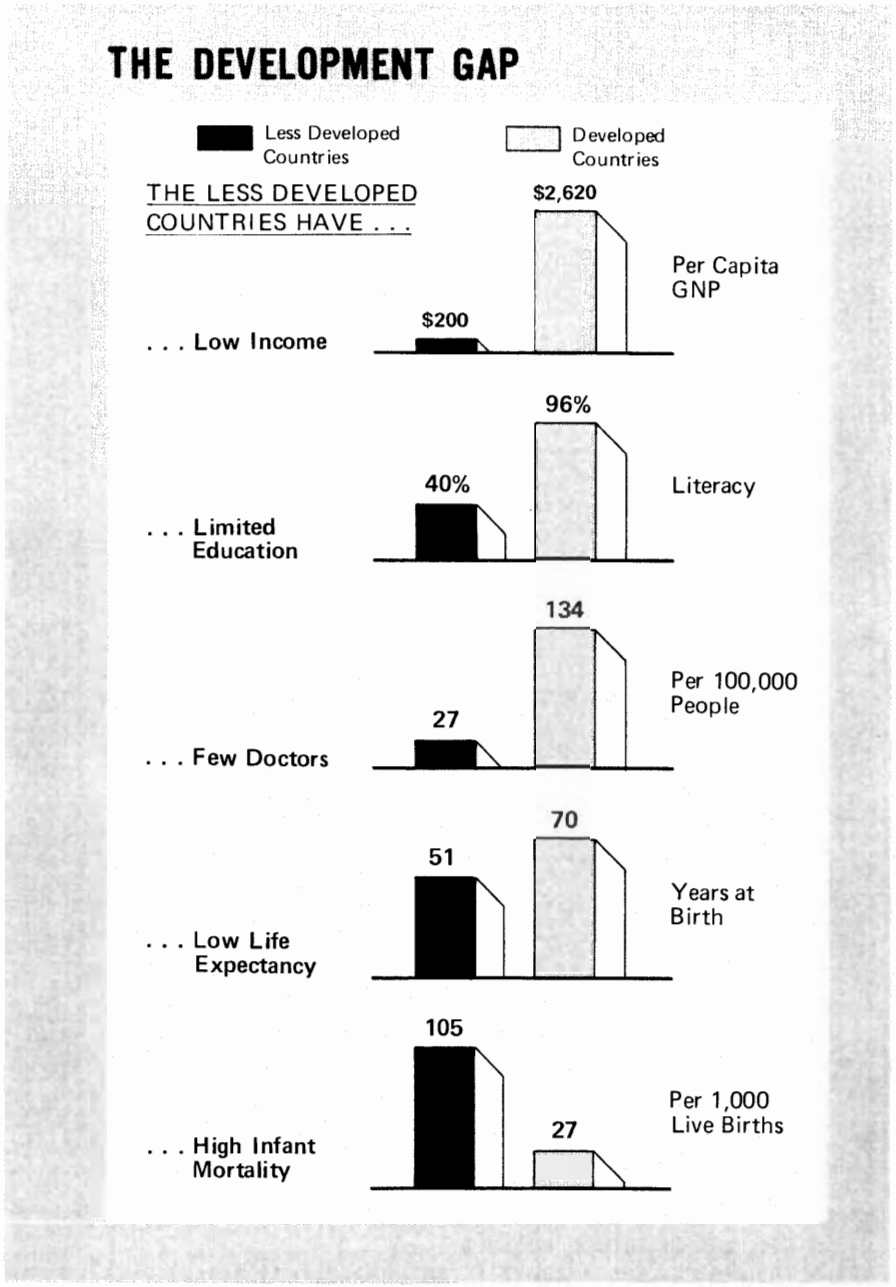
This is a measure of the human devastation and frustration that go hand-in-hand with underdevelopment.

In the spirit of our best religious and ethical traditions, the United States has inspired a broad international aid effort to help the poorer countries meet the critical problems of development. Without development, most of mankind cannot hope to rise above poverty and despair.

The second reason for providing foreign aid is often less well understood. Some Americans have wrongly tested economic development assistance against a goal of buying friends or securing our short-term political objectives. Some of our foreign aid, particularly Supporting Assistance, which is concentrated in Southeast Asia, can indeed be used effectively to achieve short-term security or political purposes. But the long-term investments and mutual undertakings which characterize development assistance cannot achieve short-term U.S. objectives. Development aid does, however, contribute to the peace of the world and the security of the United States by helping those poor countries willing to help themselves to achieve faster economic and social progress.

The reasons why development is necessary for world peace and U.S. security can be expressed in a number of ways --

--Development is not a luxury, but a driving necessity which absorbs the attention, energy and resources of more than half the nations of the world in which over two-thirds of the world's people live. We cannot disassociate ourselves



FY 1971 REQUEST AND PROPOSED PROGRAMS UNDER THE FOREIGN ASSISTANCE ACT
(In millions of dollars)

Assistance Category	FY 1971 Proposed Program a/	FY 1971 Authorization b/	FY 1971 Appropriation Request (NOA)
ECONOMIC ASSISTANCE			
Development Loans	691.1	350.0 c/	570.0
Technical Assistance	198.5	183.5	183.5
Alliance for Progress	(545.2)	428.3	(428.3)
Development Loans	449.1	(337.5)	337.5
Technical Assistance	96.1	(90.8)	90.8
Supporting Assistance	474.3 d/	414.6	414.6 d/
International Organizations e/	122.6	122.6	122.6
Arab Refugee Vocational Training (UNRWA)	1.0	1.0	1.0
Indus Grants	5.8	7.5	5.8
Indus Loans	8.0	(8.0) f/	8.0
American Schools and Hospitals Abroad	8.9	12.9	8.9
Contingency Fund	17.0	15.0	15.0
Administrative Expenses - A.I.D.	57.4	51.1	51.1
Administrative Expenses - State	4.2	(4.2) g/	4.2
TOTAL A.I.D. ASSISTANCE	2,134.1	1,586.5	1,813.0
OVERSEAS PRIVATE INVESTMENT CORPORATION	h/	(37.5) i/	37.5
GRANT MILITARY ASSISTANCE	392.0	350.0	350.0
TOTAL	2,526.1	1,936.5	2,200.5

Note: Detail may not add to totals due to rounding.

a/ The FY 1971 proposed program is the total amount of funds that would be available to carry out programs under the Foreign Assistance Act. The proposed program consists of the new appropriations requested and additional funds available for use in FY 1971, such as repayments on prior loans, reimbursements, and uncommitted or deobligated funds from prior years.

b/ Authorized by the Foreign Assistance Act of 1969 unless otherwise noted.

c/ Under Section 202(a) of the Foreign Assistance Act of 1961, any unappropriated portion of the amount authorized for Development Loans for any fiscal year during the period FY 1967-FY 1971 may be appropriated in any subsequent fiscal year during that period. As the authorized but unappropriated balance currently amounts to $300 million, the total amount of Development Loans authorized to be appropriated for FY 1971 is $650 million.

d/ Does not include tentative amount of $100 million included in the President's budget subject to review and possible transmittal to the Congress for authorization and appropriation.

e/ Excludes $19.3 million proposed for UNRWA and the UN Force in Cyprus funded from Supporting Assistance.

f/ No new authorization is needed since the Foreign Assistance Act of 1967 authorized the appropriation of $51.22 million for Indus Basin Loans. The amount shown is the appropriation request.

g/ The Foreign Assistance Act contains permanent authorization for appropriation of "such amounts as may be necessary." The amount shown is the appropriation request.

h/ The appropriation request is to provide additional reserves to back investment insurance and guaranties issued by the Corporation.

i/ The Foreign Assistance Act authorizes the appropriation of "such amounts as may be necessary." The amount shown is the appropriation request.

from this drive. Change is inevitable; the question is whether the United States will play a role to support constructive change.

--We have learned at home that neglect of the poor and underprivileged can have explosive effects. It is clear that this lesson must be applied to a world which is steadily more interdependent and is in danger of becoming divided between a very rich minority and a bitterly frustrated majority of poor countries.

--If the rich countries do not supply the critical margin of assistance, the resulting frustration is certain to be exploited politically to the detriment of our national interests.

--We cannot afford to let the world situation be determined by others while we stand by. If the United States is not to become isolated by the choice of others, it must make it clear that it is a good citizen in the community of nations.

--Building a prosperous world will benefit our own economic well-being and go far to determine the future competitive position -- economic and political -- of the United States among the other nations of the world.

In sum, our development assistance is an investment in making better neighbors and better markets by helping break the cycle of poverty and violence which afflicts so much of mankind. Our goal is to help develop a community of free, independent and dynamic nations fully able to meet the needs of their people so as to help assure a peaceful world.

President Nixon, in his recent State of the World message, laid the foundation for "a durable structure of international relationships." The effort of economic development must engage all nations -- in a partnership. "The goal. . .should be to create a community of independent, self-reliant states linked together in a vital and useful association. . . Responsibility has to be shared for the progress to be real." For the 70's, the most effective contribution the United States can make will be to support developing countries within the framework of their own initiatives.

A country's determination to make progress is the most important single element in its development. Without it, aid from others is wasted. With it, outside aid can provide the critical extra margin of resources needed to accelerate growth:

--first, by concentrating development aid in countries which have shown by past actions that they are making the sacrifices necessary for development to succeed and are making good use of aid from others as well as their own resources;

--second, by providing aid to countries pledging to undertake specific self-help steps such as contributing to the project being financed and mobilizing and allocating their total resources more efficiently.

Reappraisal of Foreign Aid Program. The foreign aid program this year is at a turning point. The request for funds to carry on the program during FY 1971 reflects the fact that a major reappraisal is now under way.

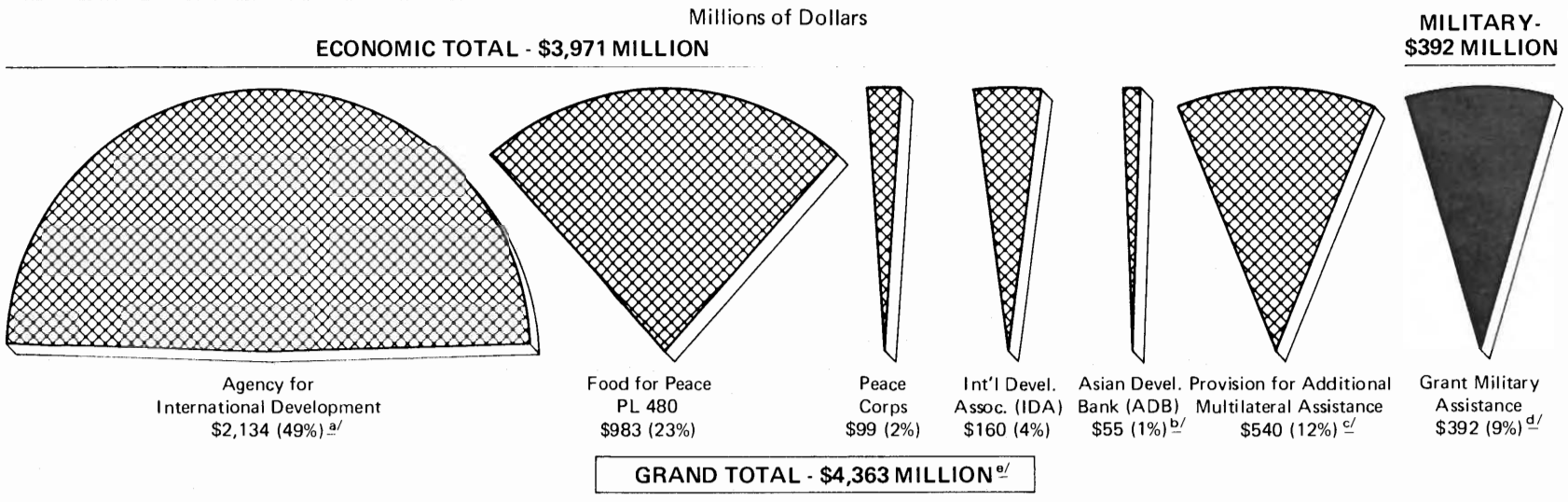
In 1968, the Congress directed the President to conduct a thorough study of all U.S. foreign assistance programs with a view to submitting recommendations for reform and reorganization in the Spring of 1970.

The Peterson Task Force Report. This past September, the President appointed a task force of private citizens headed by Rudolph A. Peterson of the Bank of America to provide him with "comprehensive recommendations concerning the role of the United States in the whole area of assistance to the less developed countries in the 1970's." The President specifically directed the Task Force to "focus on the underlying rationale of the U.S. aid effort and its relationship to overall U.S. foreign policy."

The Peterson Task Force report and the President's recommendations on the future shape of U.S. foreign aid programs are expected to be discussed with the Congress and with the American people this Spring and Summer. These discussions will help form the basis of the proposals the President will make to the Congress for its consideration in 1971.

During this period of discussion and consultation on the future shape of U.S. foreign aid programs, the existing programs must be carried on. In this interim, we cannot afford to slacken our effort and lose momentum built up over the years. Our foreign aid programs need to remain intact and undamaged so that the new programs which emerge are founded on a solid base.

U.S. ECONOMIC AND MILITARY ASSISTANCE PROGRAMS
PROPOSED PROGRAMS FOR FY 1971



a/ EXCLUDES AN ESTIMATED $100 MILLION OF SUPPORTING ASSISTANCE FUNDS WHICH WAS INCLUDED IN THE PRESIDENT'S BUDGET, SUBJECT TO REVIEW AND POSSIBLE TRANSMITTAL TO THE CONGRESS FOR AUTHORIZATION AND APPROPRIATION.

b/ INCLUDES $20 MILLION FOR CAPITAL SUBSCRIPTION AND $35 MILLION FOR CONTRIBUTION TO SPECIAL FUND.

c/ AMOUNT INCLUDED IN PRESIDENT'S BUDGET; SPECIFIC PROPOSALS TO BE TRANSMITTED TO THE CONGRESS AT A LATER DATE.

d/ DOES NOT INCLUDE FOREIGN MILITARY SALES.

e/ DOES NOT INCLUDE A PLANNED $40 MILLION TOTAL CAPITALIZATION OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) WHICH WILL BE AVAILABLE FOR LENDING DURING FY 1971 THROUGH THE CORPORATION'S DIRECT INVESTMENT FUND.

II. HOW MUCH FOREIGN AID DOES THE UNITED STATES PROVIDE?

What is Foreign Aid?

The economic assistance program carried out by the Agency for International Development is about half of the total U.S. foreign assistance. Its primary purpose is to help less developed countries make more rapid economic and social progress.

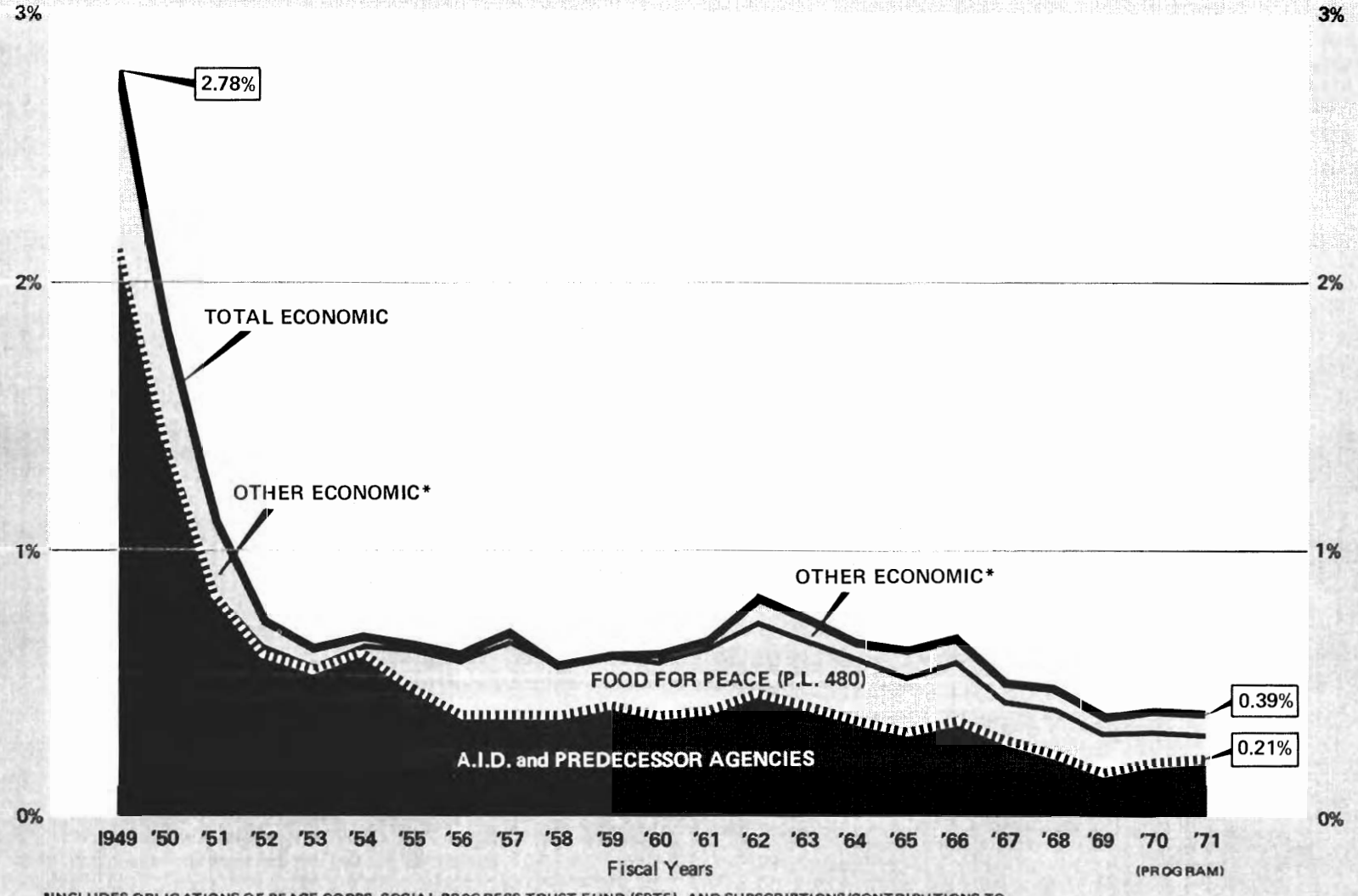
Other parts of foreign aid are the Food for Peace (P.L. 480) program, the Peace Corps, subscriptions and contributions to multilateral lending agencies, and military assistance grants.

Other overseas programs, such as Export-Import Bank loans and guaranties and the Foreign Military Sales program, permit other countries to buy American goods on credit not available commercially. They are, therefore, part of the total package of financial tools serving various U.S. domestic and foreign policy interests. But they are not foreign assistance in the sense of concessional aid at a cost to the Treasury.

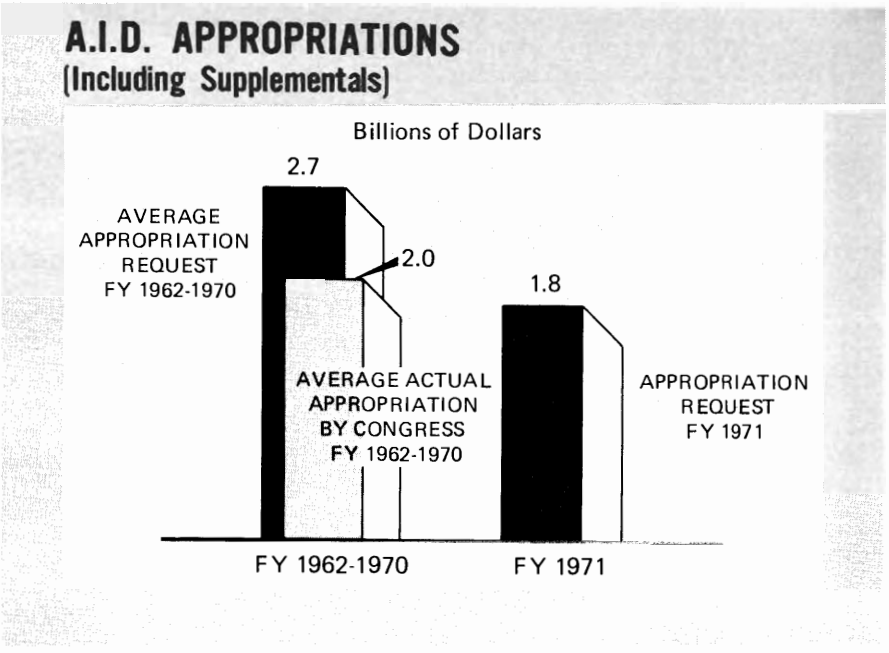
The amount of foreign aid being provided by the United States is modest compared to this country's economic capacity and to the efforts of other economically developed countries.

U.S. ECONOMIC ASSISTANCE as a PERCENT OF GNP

Net Obligations and Loan Authorizations



*INCLUDES OBLIGATIONS OF PEACE CORPS, SOCIAL PROGRESS TRUST FUND (SPTF), AND SUBSCRIPTIONS/CONTRIBUTIONS TO INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD), INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA), INTER-AMERICAN DEVELOPMENT BANK (IDB), AND ASIAN DEVELOPMENT BANK (ADB).



The A.I.D. Program

The $1.8 billion appropriation request for the A.I.D. program for fiscal year 1971 is the lowest in 15 years -- $400 million below the level requested for FY 1970.

It amounts to

-- less than 1% of the Federal Budget;
-- only about 1/5th of 1% of our Gross National Product (GNP).

This year's request is higher than the amount appropriated last year -- when the request was cut by over one-third -- but it is less than the amounts actually appropriated by the Congress, after all cuts had been made, for any year during the decade from FY 1959 through FY 1968.

The Foreign Assistance Act

Appropriations for FY 1971 are requested under the Foreign Assistance Act for the economic assistance program administered by A.I.D., the Military Assistance Program carried out by the Department of Defense, and insurance and guaranty reserves for the new Overseas Private Investment Corporation (OPIC). The total appropriation sought for FY 1971 for these programs -- $2.2 billion -- is by far the smallest ever requested since the U.S. foreign aid program began over 20 years ago.

The Total U.S. Foreign Aid Program

The total U.S. foreign aid program proposed for FY 1971, including the A.I.D. program, P.L. 480 agricultural commodities, the Peace Corps, contributions to international banks and military aid, amounts to less than $4.4 billion. This is about 2% of the Federal budget and less than 1/2 of 1% of our GNP (compared to 11.5% of the budget and almost 3% of GNP for economic aid alone in FY 1949 during the Marshall Plan).

How the United States Compares with Other Countries

The economically developed countries in the non-communist world coordinate their aid efforts through the 16-member Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).

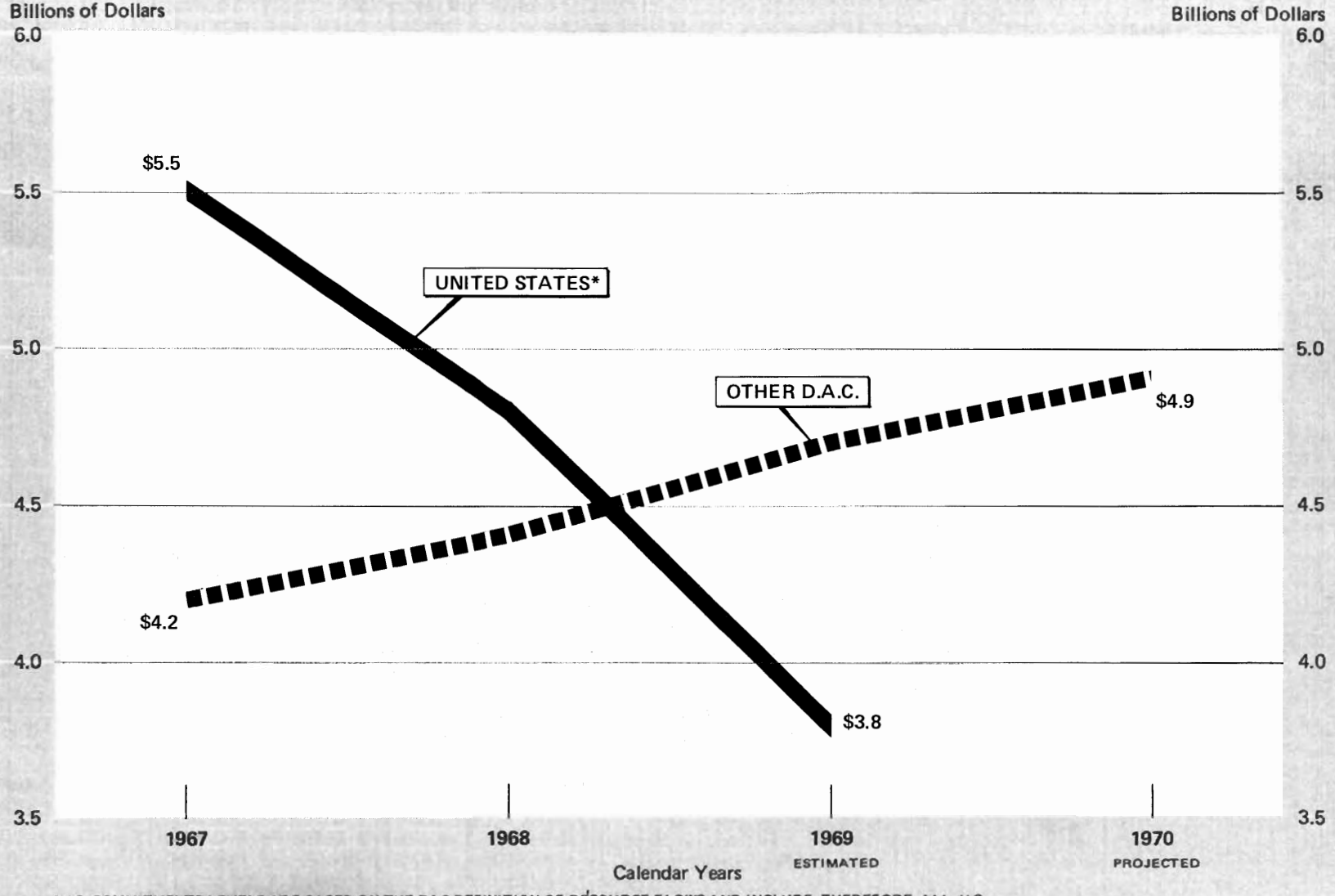
--Among DAC members the United States ranked 9th in 1968 in terms of official financial resource flows to the less developed countries and multilateral agencies measured as a percent of GNP -- falling for the first time below the DAC average.

--While some of the other members are moving toward or have surpassed the DAC goal of 1% of GNP in combined official and private resource flows to the less developed countries, the United States is expected to drop even further below this target in 1970.

--As for relative softness of terms of aid, the United States dropped to 11th place among DAC donor countries in 1968.

The United States -- with a GNP greater than all the other DAC members combined -- now contributes substantially less than half the financial resources going to less developed countries and multilateral agencies, with other countries' contributions expected to continue rising into the 1970's.

U.S. AND OTHER DONORS' COMMITMENTS OF FINANCIAL RESOURCES TO LESS DEVELOPED COUNTRIES AND MULTILATERAL AGENCIES



*U.S. COMMITMENTS LEVELS ARE BASED ON THE DAC DEFINITION OF RESOURCE FLOWS AND INCLUDE, THEREFORE, ALL U.S. ECONOMIC ASSISTANCE PROGRAMS (A.I.D., P.L. 480, PEACE CORPS AND CONTRIBUTIONS TO MULTILATERAL BANKS) PLUS SUCH OTHER RESOURCE TRANSFERS AS EXPORT-IMPORT BANK LOANS.

III. WHAT DOES THE A.I.D. PROGRAM DO?

Food Production and Population

A.I.D.'s top priority is to help developing countries increase food production and reduce population growth. As a result of efforts by the less developed countries, assisted by the United States and other wealthy nations, recent predictions of widespread famine by 1980 are giving way to cautious optimism in the face of two crucial developments:

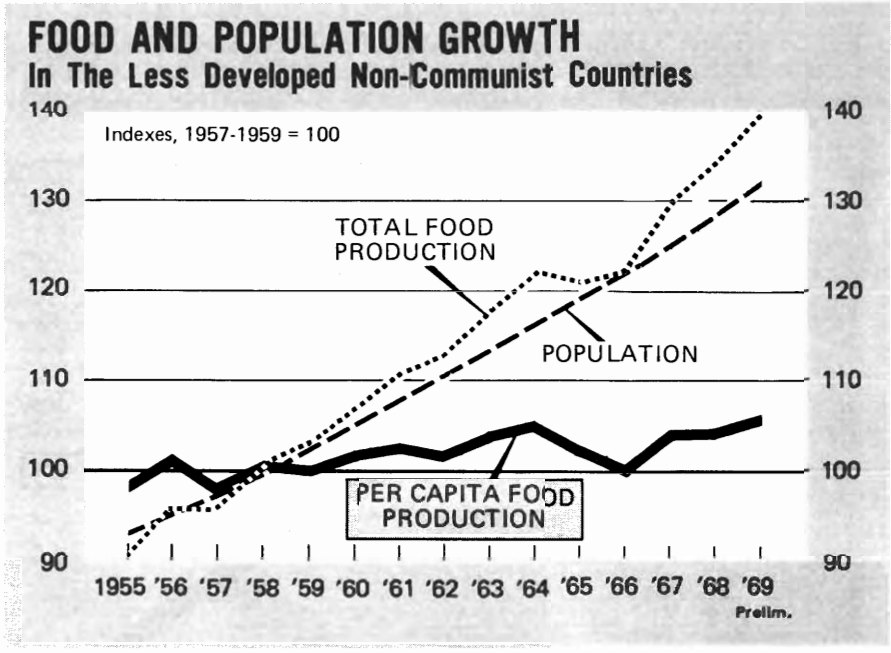
-- Gains in grain production in the developing nations are outrunning the rate of population growth. In South and East Asia and parts of the Near East, yields of new varieties of wheat, rice and other grains are doubling and tripling previous output. In 1961, with a population of 1.4 billion, the developing nations of the non-communist world produced 268 million tons of grain. In 1969, with a population more than 23% larger, the same countries harvested almost 31% more grain -- 350 million tons.

-- The threat of runaway population growth is stimulating developing countries to take action to limit births. Family planning programs are now under way in 36 countries receiving A.I.D. assistance.

Food Production and U.S. Assistance

Today, accelerated progress is possible on the farmlands of the developing world. But whether the poor countries make this progress will depend on the integration of numerous factors, such as availability of adequate quantities of fertilizer and pesticides, adaption of modern technology to particular climates and soil conditions, progress of agricultural education and training, expansion of credit facilities, accessability of markets, and agricultural pricing and general economic policies.

New Policies and Outside Aid. The big policy switch in the developing world has been to agriculture, which today has top priority in many of the developing countries. Governments have applied their nations' resources, administrative energy, political credit and outside aid to the expansion and modernization of food production. Outside aid, particularly A.I.D. Development Loans, has been instrumental in shifting economic priorities in key developing countries.



Underpinning the agricultural revolution are new relationships and institutions which A.I.D. is supporting.

-- With increased demand for chemical fertilizer, new industries to produce and distribute it have come into being.

-- To get food from the farmers to consumers, processing, storage and transportation facilities are being developed.

-- Increasing demand for farm credit has stimulated lending institutions.

-- The new agriculture has required the training of extension workers at institutes A.I.D. has helped establish.

-- Ministries of agriculture charged with coordinating and speeding up the growth of the new agriculture are being streamlined.

Development Loans play a vital role in this process by

-- supplementing the developing country's foreign exchange reserves, permitting it to relax import controls and price ceilings and other constraints on economic expansion;

-- facilitating greater general reliance on the initiatives of the market to supply agriculture and industry, and on price incentives to stimulate farm production; and

-- financing the import of American commodities needed for agriculture or for general economic modernization.

More than anything, the much publicized "miracle seeds" opened the way to the new, more abundant agriculture. A.I.D. financing has supported introduction of the new varieties and A.I.D. technical assistance has helped develop the skills to grow them.

But the term "miracle seed" is a misnomer. The new high-yielding varieties require higher investments in water, chemicals, fertilizer, soil management, and skill than their less productive predecessors. A.I.D. provides a broad range of assistance to make the new seed varieties productive and otherwise directly support modernization of agriculture. Some of these are --

Education. The cultivation of new seed varieties is relatively sophisticated work -- U.S. economic assistance to less developed countries has stressed technical agricultural education from the first.

Fertilizer. A dollar's worth of fertilizer will grow more than $4 worth of food -- and make the difference between starvation and a barely adequate diet for one person for one year.

Credit. A.I.D. has supplied technical assistance in credit management as well as some $250 million in U.S.-owned local currency for the expansion of agricultural credit facilities.

Pesticides. Expenditures from A.I.D. loans for pesticides and other farm chemicals have more than quadrupled in four years -- from $4 million in FY 1965 to $18.8 million in FY 1969.

Irrigation. Emphasis is now being placed on small irrigation works of immediate benefit to the individual farmer, such as the installation of over 3,700 tubewells to irrigate 2.7 million acres in West Pakistan.

Marketing and Storage. A.I.D. has helped establish marketing cooperatives, provided assistance to construct storage facilities and financed surveys to correct deficiencies in grain storage.

FY 1971 Program. Of the total proposed FY 1971 A.I.D. program, one-quarter -- well over half a billion dollars -- is proposed for assistance to agriculture. Of that amount about $150 million will finance exports of U.S. fertilizer.

Research and Institutional Development Grants. The goal is first to relieve hunger, then to end malnutrition. As more grain becomes available, livestock and dairy industries and the manufacture of blended high-protein foods can be encouraged. A.I.D. uses research and institutional grants to develop future resources needed to cope with the food and nutrition problems we expect to face three to five years hence. Grants to U.S. institutions for development of personnel and facilities to meet future needs for technical assistance are made under Section 211(d) of the Foreign Assistance Act. Eleven such grants have been made for agriculture, and more are planned.

The central research program of A.I.D. gives priority attention to agriculture and food production. A major portion of the $10 million appropriation requested for research funding in FY 1971 would finance agricultural research. To date, $24.5 million has been invested in the 23 active projects dealing with agriculture and 11 with nutrition which constitute half the total active projects in A.I.D.'s central research program.

Reducing Population Growth

The pressure of mouths to feed in the less developed countries has been mounting yearly. When the excess of live births over deaths reaches 2%, a country's population doubles in 35 years. In the less developed world as a whole, net population growth is 2.6%, and individual country increases of 3% or more are not uncommon.

Higher rates of population growth are closely associated with lagging development. Typically, population pressures are greatest in areas that can least afford them. The flight from the farm intensifies the problems created by excessive population growth; school, health and social service budgets in urban areas are all overburdened, and illiteracy, unemployment and malnutrition increase. A larger percentage of the population consists of non-productive consumers -- children and unemployed.

No single measure can lower the high birth rates of the developing world. But a combination of events can turn the tide.

--General economic growth and social progress is one such development.

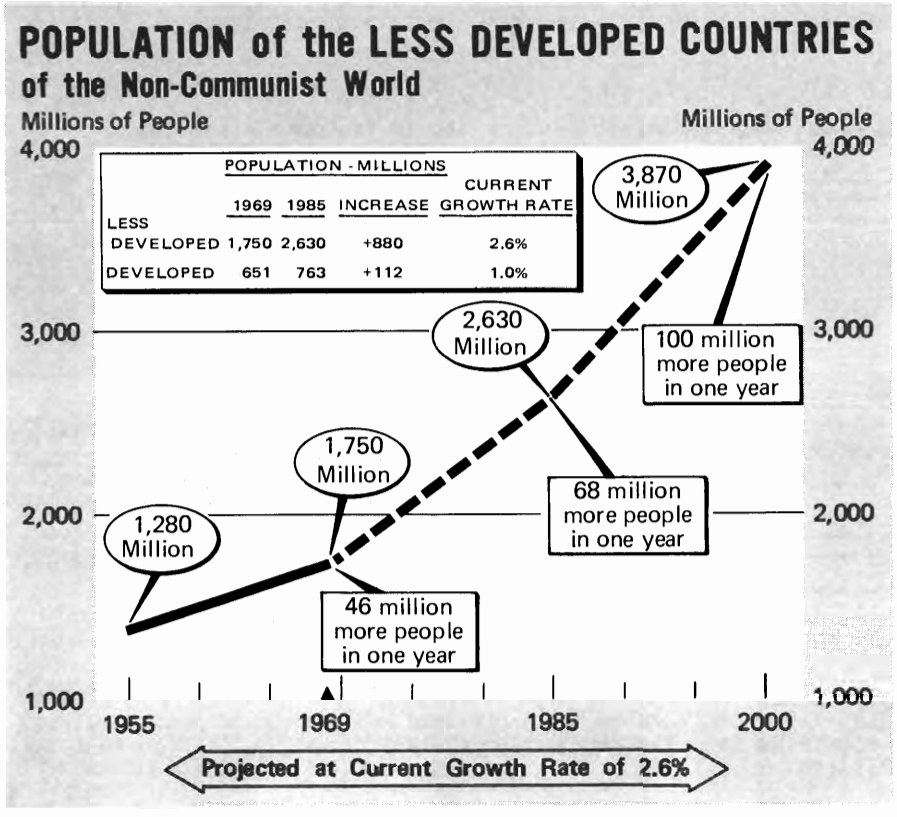
--Rising per capita output, along with greater assurance for parents that their children will survive to care for them in their old age, gives parents the confidence they need in order to bear fewer children.

--Development of the agricultural sector -- where the majority of the population in the developing world still lives -- is particularly important.

--Finally, rational and humane population policies can promote voluntary steps to limit family size.

A.I.D. gives first priority to assistance to population and family planning programs, along with aid to food production, as essential elements in economic and social development.

Compulsion has no place in A.I.D.'s approach to this problem. The United States provides family planning and population assistance only on request, and only to programs in which individual people are free to participate or not. At the same time, the United States does encourage the governments of all countries with population problems to regard population growth as one of the most important factors retarding their nations' development and



to recognize its harmful effects on the health and welfare of their people.

Funds used for population activities have grown from about $4-$5 million in FY 1966 and FY 1967 to $35 million in FY 1968 and over $45 million in FY 1969. A.I.D. has programmed $53 million in FY 1970 and $75 million in FY 1971 and is now working to reach the levels earmarked for population in the authorization legislation passed last year -- $75 million for FY 1970 and $100 million for FY 1971. In order to accomodate these additional increases within a sharply reduced budget, A.I.D. is having to make extensive use of the authority provided by Title X of the Foreign Assistance Act to fund most of the population program on a grant basis from Development Loan and Alliance for Progress Loan funds.

In addition to A.I.D. dollars, foreign currencies owned or controlled by the United States are increasingly being used where possible to fund the local costs of population programs.

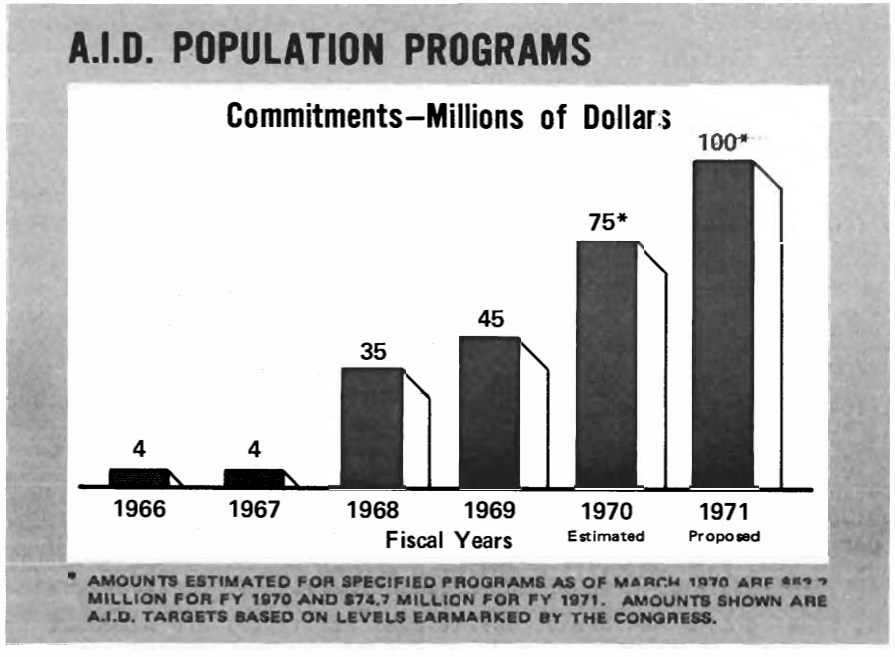
The severity and nature of the population problem -- and the opportunities for progress -- vary drastically from country to country. Some countries -- Taiwan is an example -- have already recorded significant success with family planning. Others agree in principle on the need to take action, but are stymied by the practical difficulties of getting started. Still others tend to neglect population problems because of religious beliefs, association of more people with national power and prestige, lack of understanding, or other reasons.

A.I.D. assistance must be carefully designed to suit the problems and attitudes in each country. Often the best way to start aid in this area is to assist in assessing a country's population problem with demographic surveys and statistical analyses of its population growth. In other cases, modest programs supported by private groups, and concentrating initially on maternal and child health care, are all that is possible. Where official family planning programs are in operation, A.I.D. can supply a broad range of support such as providing contraceptives and vehicles, establishing training programs for family planning workers, and constructing and equipping clinics doing family planning work.

Of the 44 countries for which regular A.I.D. programs are proposed in FY 1971, 25 have given some support to official national family planning action programs and 11 have begun population surveys, pilot demonstration clinics or similar experimental programs. Even in countries where religious or national objections inhibit government efforts, there are increasingly fewer obstacles to non-governmental family planning programs, and official encouragement of private programs is common.

Research and Institutional Development Grants. Twelve research projects in population totalling $7.9 million currently are under way in an effort to develop improved contraceptive methods, including a safe, acceptable, inexpensive and easily administered contraceptive; more effective methodology for family planning programs; and greater knowledge of the causes and effects of high fertility rates. More knowledge is urgently needed. The FY 1971 appropriation request includes $13.4 million for population research.

To improve the talent and facilities in this field, A.I.D. has made institutional development grants to several U.S. universities to strengthen their capacities in research and training. They are expected to become major forces in population work. An additional $500,000 for these grants in population is being requested for FY 1971.



Health

Disease and debilitation hinder development. Millions of children in the developing countries suffer brain damage because of malnutrition; other millions are incapacitated by curable diseases. High incidence of infant mortality pressures parents into bearing more children. A.I.D. concentrates its health programs in the inter-related areas of population and family planning, disease control and eradication, environmental health, nutrition, maternal and child health care and research. Almost all these programs are coordinated with the activities of international organizations, such as the World Health Organization, Pan American Health Organization, and the United Nations. A.I.D. plans to use over $70 million for health programs during FY 1971, above and beyond the amounts provided for population and family planning.

Disease Control and Eradication. A.I.D. supports malaria eradication programs in 18 countries. In these countries, more than 900 million people live in areas formerly plagued by malaria.

The measles control and smallpox eradication program covers 20 countries in Central and West Africa where over 105 million people have been vaccinated against smallpox and about 17 million children vaccinated against measles, a disease which killed 10% of the children infected.

Environmental Health. Lack of safe water and sanitary sewerage systems creates a serious health problem which is aggravated by the high rate of population increase and the constant movement of people to urban centers. To lessen the danger of diseases caused by pollution, A.I.D. is continuing to emphasize assistance in managing, operating and maintaining water and sewerage systems.

Nutrition. Nutrition is a key to better health. It affects all aspects of social and economic development. In most diets in the less developed world, protein deficiency is the major nutritional problem. As many as two-thirds of the children of most less developed countries now suffer from some degree of malnutrition. As part of its nutrition program, A.I.D. distributes high protein foods to more than 28 million children around the world and sponsors research to improve the protein quality of wheat, rice, corn, other grains and bread. Nutritional activities are aimed at increasing health awareness through education and are often coordinated with family planning efforts. Particular emphasis is given to older infants, pre-school children, and pregnant and lactating mothers.

Research. A.I.D.'s research effort in health is concentrating on developing new approaches to the control and eradication of epidemic and endemic diseases and investigating the major causes of death in infancy and childhood.

Education

A single statistic -- 300 million school age children not attending school -- highlights the education plight of the less developed countries.

Population growth compounds the education problem. The school-age population in the less developed countries increases about 15% every five years. The corresponding effect on education costs is staggering.

During the past fifteen years, education expenditures in the developing countries have steadily become a larger portion of national budgets. Education growth has exceeded even the population explosion.

However, mere growth is not enough. A classical education does not prepare students for a technical and technological labor market. Educational systems must be changed substantially to provide the skills required to satisfy the changing manpower needs of the developing world.

A.I.D. Assistance. For FY 1971, A.I.D. proposes about $175 million to provide both technical and financial assistance to the developing countries to improve and expand their systems of education. A.I.D. is providing most of its support to higher education, secondary and vocational education, and teacher training. About 900 A.I.D.-financed experts overseas are working in these educational activities in some 40 countries.

A project in Southeast Asia provides an example of A.I.D.'s assistance to higher education. A.I.D. is helping seven Southeast Asian nations establish regional educational centers offering courses in a particular speciality such as agricultural research, science and mathematics teacher training, tropical medicine research, and the use of modern technology in education. Some existing institutions will be adapted and new ones created for the use of all the countries participating in the project.

Secondary education, particularly vocational education, receives substantial direct assistance through A.I.D. programs to provide the less developed countries with sub-professional trainees, technicians and skilled workers.

Shortages of qualified teachers and lack of sufficient institutions in which to train them are critical bottlenecks to educational progress in the less developed countries. Therefore, teacher training continues to be an A.I.D. priority.

Today, there are 180,000 students enrolled in teacher-training institutions in 38 countries receiving A.I.D. assistance. About 500,000 teachers have graduated from these colleges and schools.

Without minimizing attention to conventional educational materials, less developed countries, with the assistance of the United States and other donors, are focusing more on educational television and radio to compensate for teacher shortages and bring education to greater numbers of people.

Feasibility studies have begun on the potential use of communication satellites to increase the quality and quantity of education in the less developed countries.

A.I.D.-financed training, whether in the United States or a third country, generally emphasizes advanced technical training not available in the host country. It is usually designed to complement other A.I.D. projects in a particular country. Those who apply must guarantee that they will return to their own countries once their study is completed.

Industrial Development

Self-sustaining economic growth cannot take place without a great many factors, such as availability of capital and commodities, application of technical knowledge, and creative management. What is required is a rational approach to the production process within a competitive environment.

Through the A.I.D. program the United States provides assistance directly to help recipient countries meet human needs for good food, education, housing and health which have an immediate impact on the achievement of a decent standard of living. It also contributes to a better life by helping countries achieve economic growth through such means as availability of commodities needed for industrial production and growth, efficient management of growing industries capable of competing in the world markets, full utilization of natural resources, adequate transportation and communication and a fully utilized and trained work force.

A.I.D. uses Development Loans to build supporting infrastructure needed for industrial growth and to provide commodities and advanced management and know-how not available locally. A.I.D. loans help provide scientific equipment for universities, hydroelectric plants, dams and power transmission lines, fertilizer, coal processing, rolling stock for railways, land reclamation and salinity control, highways, and harbor development.

A.I.D. has also furnished technical and financial assistance for management training centers, business schools, engineering schools, productivity institutes, industrial research centers, quality control and technical standards agencies, handicraft centers, small industry development centers, cooperative organizations, professional, trade and manufacturing associations, investment promotion organizations and credit institutions.

Substantial amounts of A.I.D. assistance have gone to create intermediate credit institutions. This method was chosen as a prime instrument to channel financial resources to private enterprise.

A.I.D. also furnishes assistance in a number of other fields. For example --

Science and Technology. A.I.D. is encouraging both the governmental and non-governmental scientific and technological communities to get involved in the task of adapting and applying modern methods to developing nations. The transfer of the products of high-cost technologies such as space, atomic energy and computers to a low-cost environment is a new area that is poorly understood and requires study. Areas of high investment which could profit immediately from applied research and more effective use of modern technology include power generation and distribution, transportation and communication, and construction. Chemistry, biology, hydrology, meteorology, geology, oceanography, electronics, metallurgy and petrochemistry are also areas of particular relevance to economic development.

Taxation. Under arrangements with the host governments and the U.S. Treasury, A.I.D.-financed tax experts are helping work out more efficient systems of taxation in many less developed countries. A.I.D. teams help to strengthen enforcement activities, modernize tax forms and procedures and increase the proportion of revenue brought in by income and profit taxes, particularly from taxpayers with substantial incomes. When such aid was provided to the Philippines, collections by the Philippine Bureau of Internal Revenue increased by 14 percent over the previous year. New legislation was passed to substantially increase internal revenue collections. In Bolivia, an A.I.D.-financed team of private fiscal experts was instrumental in the introduction of legislation which will give Bolivia a coherent budget system, improved accounting systems and a reorganized and more effective National Treasury.

Public Administration. A.I.D. provides advice and technical assistance in financial administration -- accounting and budgeting procedures, customs administration and the like -- community services training, central government administration, civil service reorganization and recruiting, automated data management systems, and training and research in local government. Economic policy planning is also strengthened by A.I.D.-financed advisors assigned to government ministries and A.I.D.-supported training programs.

Labor. A.I.D. assists trade union development in the less developed countries by helping to establish apprenticeship training programs, trade cooperatives, commodity distribution centers and credit unions, and by helping to improve labor-management consultation practices and labor dispute settlement procedures. A.I.D. also provides industrial relations training services and advice as well as helping to develop effective manpower planning capabilities in government Labor Ministries.

Tourism. A.I.D.'s assistance to programs to promote tourism helps countries increase their foreign exchange earnings. Activities include airport improvement, national parks development, feasibility studies, provision of training in tourist services, and short-term advisory services and promotion of tourism infrastructure.

Transportation. Adequate transportation of goods and services, within a country and on a regional basis, is essential to development. A.I.D. finances transportation studies, loans for roads and other infrastructure, and assistance in port management, as well as training programs to increase the number of skilled workers able to maintain and utilize heavy construction equipment.

IV. HOW DOES THE A.I.D. PROGRAM AFFECT THE U.S. ECONOMY?

Most foreign aid does not consist of giving money to other countries.

Loans

A large percentage of foreign aid is in dollar-repayable loans -- which are being repaid. About half the A.I.D. program proposed for FY 1971 consists of loans. Most of the remainder is for technical assistance and for security-oriented aid to Vietnam, Laos and Thailand.

U.S. Procurement

Today's A.I.D. program does not usually send money abroad--for the most part it sends U.S. goods and services. The result of tied procurement policies is that most of A.I.D.'s dollars remain in this country to buy goods from over 4,000 American companies or to pay some 1,000 private institutions, firms and individuals in all 50 states for technical and professional services to carry out projects overseas.*

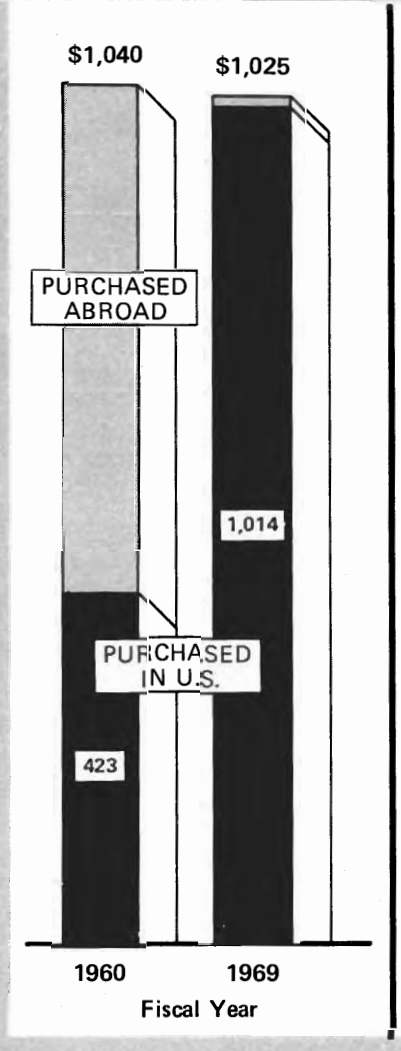
-- Commodity procurement. In FY 1960 A.I.D. predecessor agencies (ICA and DLF) bought $423 million worth of U.S. goods--only 41% of their total financing of commodities. In FY 1969 A.I.D. funds bought $1,014 million worth from all over the United States, accounting for over 99% of A.I.D.-financed commodity procurement.

*Since November 1, 1969, Latin American firms have been eligible to compete with U.S. firms for procurement financed by Alliance for Progress Loans. Experience has been too limited to estimate accurately the balance of payments effect of this change in procurement policy.

A.I.D.-FINANCED COMMODITY EXPENDITURES

MAJOR COMMODITIES PURCHASED IN U.S.

FY 1969 vs. FY 1960 – Millions of Dollars



Major U.S. Purchases	FY 1960	FY 1969
Chemicals	$18	$140
Iron & Steel Mill Products	14	130
Industrial Machinery	19	103
Fertilizer	9	96
Motor Vehicles	41	79
Electrical Machinery	11	66
Nonferrous Metals	10	54
Petroleum & Products	17	40
Pulp & Paper	3	39
Agr. Equipment & Tractors	8	35
Engines & Turbines	4	26
Rubber & Products	4	26

-- Technical services contracts. As of June 30, 1969, A.I.D. had 1,329 active technical service contracts with private institutions, companies and individuals valued at $602 million.

-- University contracts. Of these, 125 American colleges and universities held 291 contracts worth $202 million.

In addition, American carriers earned about $90 million in FY 1969 transporting A.I.D.-financed products to the less developed countries.

Balance of Payments

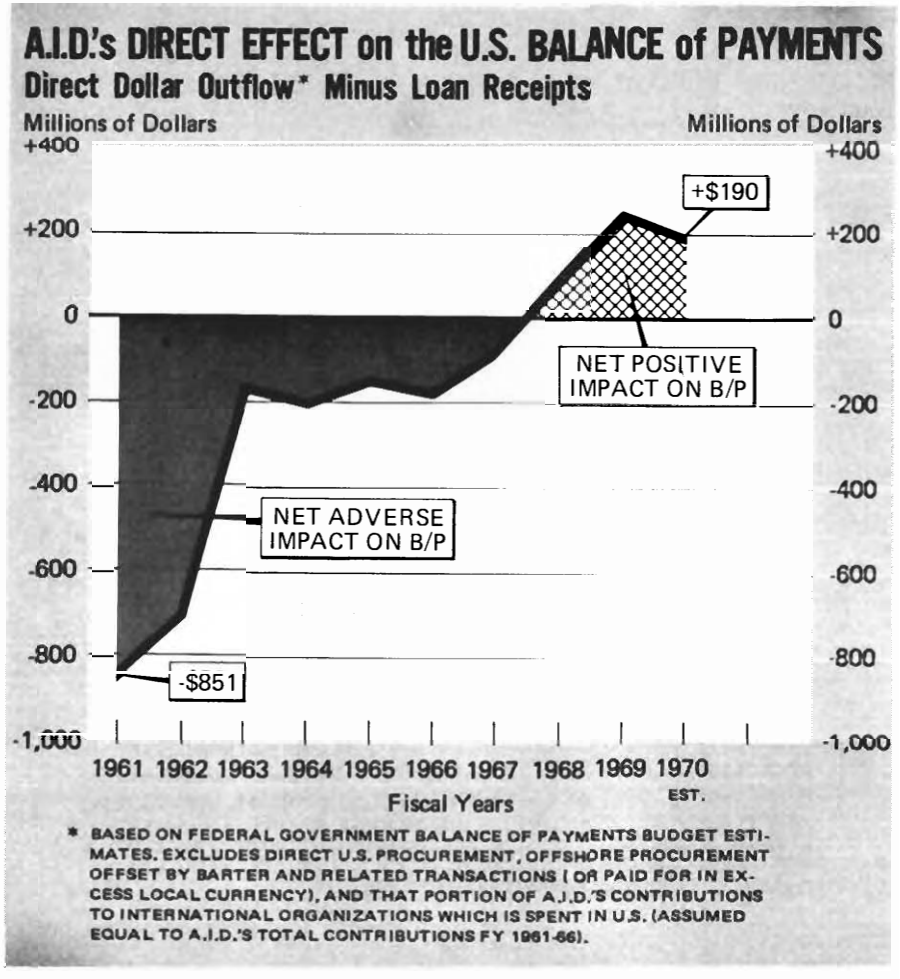
This nation's balance of payments and gold outflow problems result primarily from our large defense expenditures and tourist spending overseas--not from the foreign aid program. In fact, the A.I.D. program now has a positive direct impact on the U.S. balance of payments. In FY 1961 the program was responsible for a net outflow of $851 million. In FY 1970 we estimate that there will be a net inflow of $190 million. This net inflow is expected to decline during FY 1971 because of partial untying of aid to Latin America.

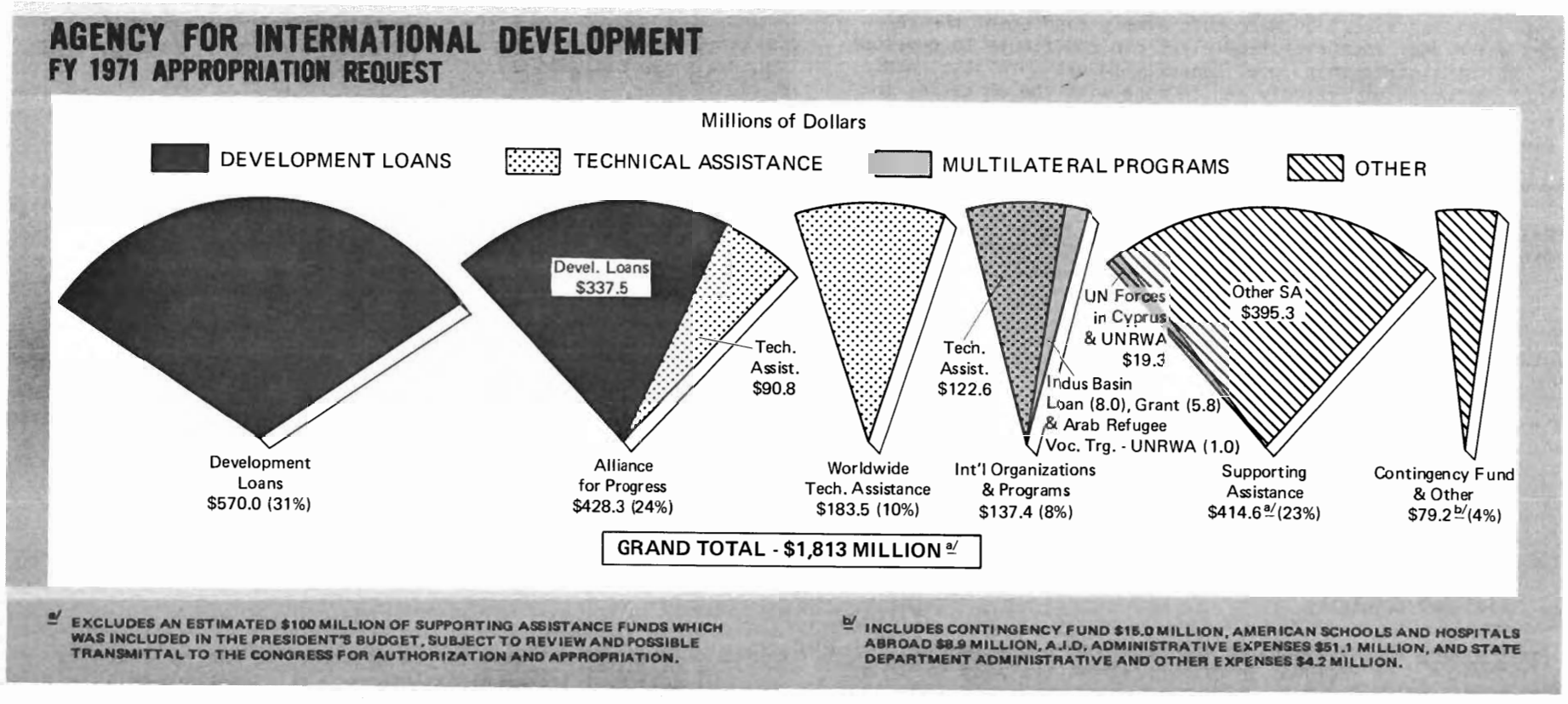
Creating Future Markets

The A.I.D. program helps build long-run demand for U.S. exports.

-- A.I.D. strengthens countries economically, making them better customers for U.S. exports.

-- U.S. products often are imported into aid-recipient countries for the first time through A.I.D. financing, paving the way for later commercial sales of these products.





V. WHAT TYPES OF ASSISTANCE DOES A.I.D. PROVIDE?

The A.I.D. program is made up of a number of different kinds of assistance.

Technical Assistance

Technical Assistance adapts and applies American technical and professional expertise to the needs of the people of the developing countries.

Begun under the Point IV program in 1950, Technical Assistance continues today to be a critical requirement for efficient use of a developing country's own physical resources or resources from abroad. Technical Assistance is a major means of helping people to combine their resources in more productive and satisfying ways to make a better life for themselves.

Modern technology and scientific knowledge are required to solve development problems.

-- Unless a farmer knows modern farming methods or a government official is aware of the importance of such factors as crop prices and supplies for farmers, new high-yield seeds or fertilizer or modern equipment will do little to increase food production.

-- Unless a businessman has the effective support of financial and training institutions, his plant will not produce at reasonable cost the capital and consumer goods needed for development.

External assistance must do more than simply supplement the resources which poor countries themselves can contribute to development. Aid must strengthen local capacity to use both local and external resources effectively and to cope with the obstacles to modernization and progress, which will continue long after outside aid stops.

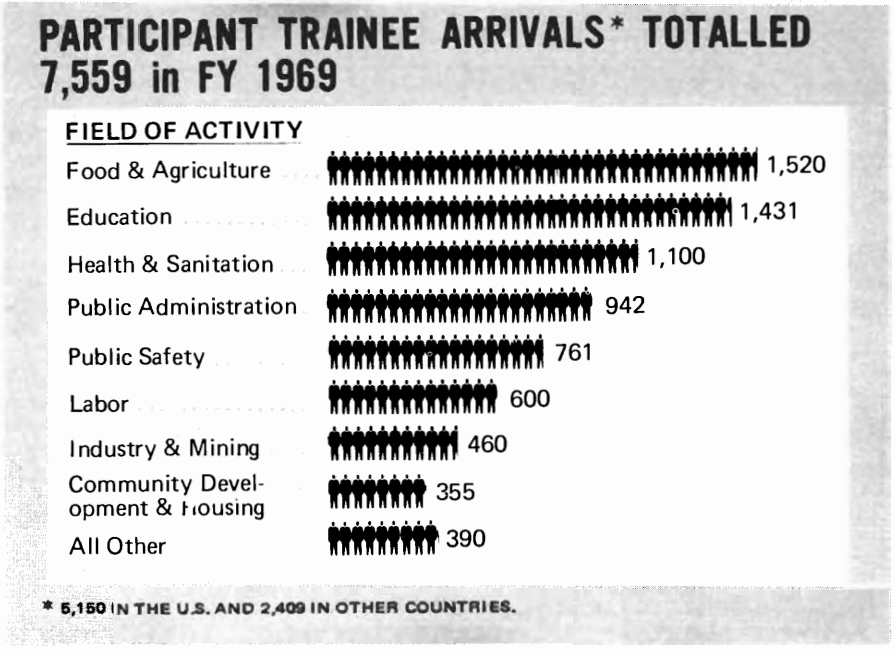
In providing Technical Assistance, therefore, A.I.D. not only supplies scarce technical skills, but seeks to catalyze changes in host societies which modernization demands and to build institutional capacity to solve development problems. Technical Assistance can be the key to whether the recipient country's development programs, as well as the whole range of external support which A.I.D. and other donors provide, really take hold.

Technical Assistance has three main functions:

-- Knowledge and techniques of applying knowledge must be transmitted from advanced countries to developing ones. But experience clearly shows that knowledge cannot be effectively exported and applied abroad without adapting it to meet the local situation. A.I.D. specialists and educators are effective to the extent they adapt what they know to the needs and circumstances of the developing nations, in collaboration with their colleagues from the assisted countries.

-- Training is investment in the people of a developing country. It includes formal education, training in skills from crop spraying to accounting, and accumulation of all kinds of experience in modern ways of doing things. Technical Assistance is most effective if it enhances the capacity not only of people who receive direct training, but also of others to whom they pass on their new abilities.

The training of foreign nationals in the United States and third countries makes them effective agents of change. In the last 15 years, more than 123,000 of these "participants" have received technical training under the U.S. economic assistance program. In FY 1969 the total was over 7,500; about the same number is expected in FY 1970. When they return to their own countries, they contribute to modernization by using their new knowledge and skills and transmitting them to others.



-- Institution building is the most lasting and far-reaching function of Technical Assistance. It is not accomplished quickly. But American advisers, overseas training for foreign nationals, organizational insight, imagination, and time can help developing countries establish new institutions or improve existing ones. If successful, the institutions develop momentum and a capacity to evolve and renew themselves; they become able to respond to new problems.

Training and research in agriculture and family planning are among the most important Technical Assistance activities. But Technical Assistance must also be provided to help the poorer nations solve other problems that can stifle development -- inadequate educational opportunities, debilitating diseases, poor administration of government ministries and private industries, and low levels of popular participation in development.

A.I.D. draws heavily on U.S. universities, private organizations and other Federal government agencies to carry out technical assistance activities in the less developed countries and provide other support in the United States. In fact, only about one-third of the A.I.D.-financed advisors working abroad are direct employees of A.I.D. Thus, it is possible for A.I.D. to tap the best American talent available for the life of a particular project.

Improving Knowledge and Capacity to Carry Out Technical Assistance. Development is a complex process requiring a large and continually evolving body of information. Less developed countries differ greatly from industrialized countries -- not only socially and economically and in their institutions and understanding of technology, but also in their geography, climate and ecology. Because of these differences, research is required to adapt advanced technology to the particular conditions of the developing nations.

A.I.D. has financed a total of 129 research projects since 1962. As of December 31, 1969, 67 projects were in an active status and 62 had been completed. The 67 active projects were being conducted with the help of 27 American universities and 10 American research institutions, as well as other U.S. Government agencies. Of the active projects, 43 concern agriculture, health and nutrition and are designed to solve such problems as food production, low-cost protein supply and malaria eradication.

For FY 1971, A.I.D. proposes $10 million for general development research and an additional $13.4 million for population research.

Many of the problems that arise in overseas development are unique to particular situations or regions, making it necessary to develop special expertise and combinations of skills which have never before existed. Section 211(d) of the Foreign Assistance Act authorizes A.I.D. to make grants to American institutions to enlarge their capacity to support economic and social development overseas. Since this program began in FY 1968, 17 institutional development grants amounting to $13.5 million have been made to expand capacity of U.S. universities in such fields as population, popular participation in development, agriculture, marine resources and modernization of legal systems. Because of sharp reductions in appropriated Technical Assistance funds, only $4 million is expected to be used for this program in FY 1970; however, A.I.D. proposes to use an additional $7.5 million in FY 1971.

Technical Assistance Bureau. A.I.D. has revised the structure of its Washington Technical Assistance organization to strengthen further its professional competence and increase the Agency's emphasis on technical and professional considerations in programming and operations. A new Technical Assistance Bureau has been established to concentrate on mobilizing the best available American talent to address the most pressing problems of development, and on raising the quality of professional services financed by A.I.D.

The FY 1971 appropriation request for A.I.D.'s Technical Assistance programs includes $183.5 million for the worldwide Technical Assistance account and $90.8 million for Alliance for Progress Technical Assistance. (Multilateral Technical Assistance is discussed below under "International Organizations"). In addition, the proposed FY 1971 program includes $96.3 million in Development and Alliance Loan funds for technical assistance purposes for population programs under Title X of the Foreign Assistance Act.

Development Loans and Alliance for Progress Development Loans

Development Loans provide less developed countries with the commodities and technical services necessary for such facilities as schools, clinics, irrigation works and roads. They finance the imports of fertilizer, farm and industrial equipment, raw materials and spare parts from the United States needed for agricultural and industrial development.

In addition, Development Loans are A.I.D.'s primary means of encouraging borrowing countries to take the self-help steps needed for their own development -- steps which often profoundly affect the whole economy or a significant sector of it. For example, Development Loans have been provided to countries which have liberalized import restrictions, increased tax collections, allocated more of their budget to agriculture or education, taken specified steps to reduce inflation, or undertaken other actions designed to help them make faster development progress.

Development Loans are of three types -- project loans, production loans and sector loans.

Project loans finance a specific undertaking such as a fertilizer plant, a power dam or a road.

Production loans (also called "program loans") finance U.S. goods such as fertilizer, machinery, raw materials and spare parts needed for industrial and agricultural development, and are usually associated with fiscal, monetary or import reforms or with other self-help steps affecting the overall economy.

Sector loans are a type of Development Loan assistance used in recent years which closely integrates capital and technical aid

to spur the development of a particular sector in a country, such as agriculture or education.

Only a handful of countries receive substantial amounts of Development Loans. In FY 1971, just 8 countries are scheduled to receive 83% of Development Loan country aid.

Development Loans are repaid with interest in U.S. dollars. Interest rates charged to the borrowing country on Development Loans are lower than commercial interest rates. If they were not, the loans would not be aid at all.

Formerly 3/4% for the life of the loan, interest is now 2% during the grace period and 3% thereafter. If the borrowing country relends to local entrepreneurs, however, it is usually at commercial rates.

The burden of debt of the less developed countries, caused in part by past loans with relatively high interest rates and short maturities, has grown rapidly over the past several years. Debt service for all the developing countries, including service on export credits, amounted to an estimated $4.5 billion in 1969, about one-third of the total new aid they received that year from all donors.

The FY 1971 appropriation request includes $570 million for worldwide Development Loans and $337.5 million for Alliance for Progress Development Loans. The worldwide Development Loan request includes $350 million specifically authorized to be appropriated for FY 1971 and $220 million authorized but unappropriated in prior fiscal years and available for appropriation in FY 1971 under Section 202(a) of the Foreign Assistance Act of 1961.

Because of the low ceiling placed on FY 1971 Technical Assistance appropriations by last year's authorization act, some $96 million of Development Loan and Alliance Loan funds is expected to be used in FY 1971 for grants for population programs under Title X of the Foreign Assistance Act.

Contributions to International Organizations

Technical Assistance. Multilateral Technical Assistance is carried out through a number of programs administered by the United Nations and related agencies.

The bulk of the U.S. voluntary contributions to these activities -- $100 million out of $126.6 million -- is for the United Nations Development Program (UNDP), to which other countries contribute over 60% of the funds. The UNDP Special Fund carries out surveys and other types of pre-investment work necessary to attract capital to the areas involved, while UNDP Technical Assistance provides experts and fellowships for up-grading the human resources of the participating countries.

The rest of the funds requested for FY 1971 are for the UN Children's Fund (UNICEF), which provides supplies, equipment and training to operate programs in behalf of children and mothers in 119 countries, and 8 other programs.

Indus Basin Development Fund. The Indus Basin Development Fund, established by international agreement and administered by the World Bank, finances the construction of two dams, canals and barrages to provide an equitable division of the waters of the rivers of the Indus Basin between India and Pakistan. Started in 1960, the project has helped to remove a serious source of friction between the two countries and is providing water for irrigation to over 50 million people in the area.

The United States and eight other donors (Australia, Canada, Germany, India, New Zealand, United Kingdom, Pakistan and the World Bank) contribute to the Fund. The total commitment to the Fund amounts to $1.5 billion, of which the U.S. share is 44%.

On the basis of the latest World Bank estimates, the United States plans to contribute for FY 1971 $5.8 million in grants and $8 million in loans.

Arab Refugee Vocational Training. A $1 million additional contribution to the UN Relief and Works Agency (UNRWA) for vocational training of Arab refugees is being requested for FY 1971 under an authorization created by the Congress last year.

Supporting Assistance

The bulk of the A.I.D. program -- Technical Assistance, Development Loans and Alliance Development Loans, and most Contributions to International Organizations -- is development assistance.

But A.I.D. also provides Supporting Assistance to help a few threatened countries maintain economic or political stability. In some cases Supporting Assistance finances programs where using Development Loans or Technical Assistance is inappropriate.

As recently as FY 1962, Supporting Assistance was furnished to 41 countries, in many cases to help them sustain extraordinary security burdens. Most of these countries are now econmically and politically able to make good use of development assistance, and some are no longer in need of any kind of aid. Since FY 1961 Supporting Assistance to countries other than Vietnam has fallen from $653 million to the $70.7 million proposed for FY 1971.

Supporting Assistance in Korea is scheduled to terminate in FY 1970. For FY 1971, therefore, we propose to furnish Supporting Assistance to only 5 countries -- almost all of it for Vietnam, Laos and Thailand. The balance of the FY 1971 program will be used for relief, rehabilitation and reconstruction in Nigeria, a small malaria eradication program in Haiti, small assistance grants for regional activities in Africa and East Asia, and inter-regional activities.

In addition, $19.3 million will support UN peacekeeping and refugee programs in Cyprus and the Middle East.

Because of expected increases in financing requirements for commercial imports for Vietnam resulting from Vietnamization, the FY 1971 Supporting Assistance authorization passed last year -- $414.6 million -- is not expected to provide enough Supporting Assistance funds to carry the Vietnam program through June 30, 1971 and finance other essential programs in Southeast Asia.

The President's Budget therefore contains an estimated $100 million additional Supporting Assistance for this purpose. When the additional economic support requirement for Vietnam is determined, and if it cannot be met by other means, a request for authorization and appropriation of additional Supporting Assistance funds will be transmitted to the Congress.

Other Funding Categories

The balance of the A.I.D. appropriation request is for the Contingency Fund, American Schools and Hospitals Abroad, and Administrative Expenses.

The Contingency Fund, for which $15 million is requested, provides assistance for needs which are unforeseen or cannot be accurately defined at the time the proposed program is prepared and submitted to the Congress. It is used primarily for urgent relief from disasters, such as earthquakes and floods, and for situations of major security interest to the United States.

The program for American Schools and Hospitals Abroad helps finance construction and operating costs for a small number of schools and hospitals abroad which were founded or sponsored by Americans. Among these are the American University of Beirut, Robert College in Turkey, and Project HOPE. $8.9 million is requested for FY 1971.

The $51.1 million requested for Administrative Expenses is required for the salaries and related expenses of running the A.I.D. program. An additional $4.2 million will be used for expenses of the State Department in carrying out certain activities related to foreign assistance.

VI. WHERE DOES A.I.D. ASSISTANCE GO?

A.I.D. assistance goes to less developed countries in the non-communist world.

Many of the countries which were aid-recipients at one time since 1946 have not received aid for years. For example, there is no longer an A.I.D. program in any European country. And no communist country receives any kind of foreign aid from the United States (P.L. 480 Title II food donations to the people of Poland by private American voluntary agencies such as CARE ended in FY 1970).

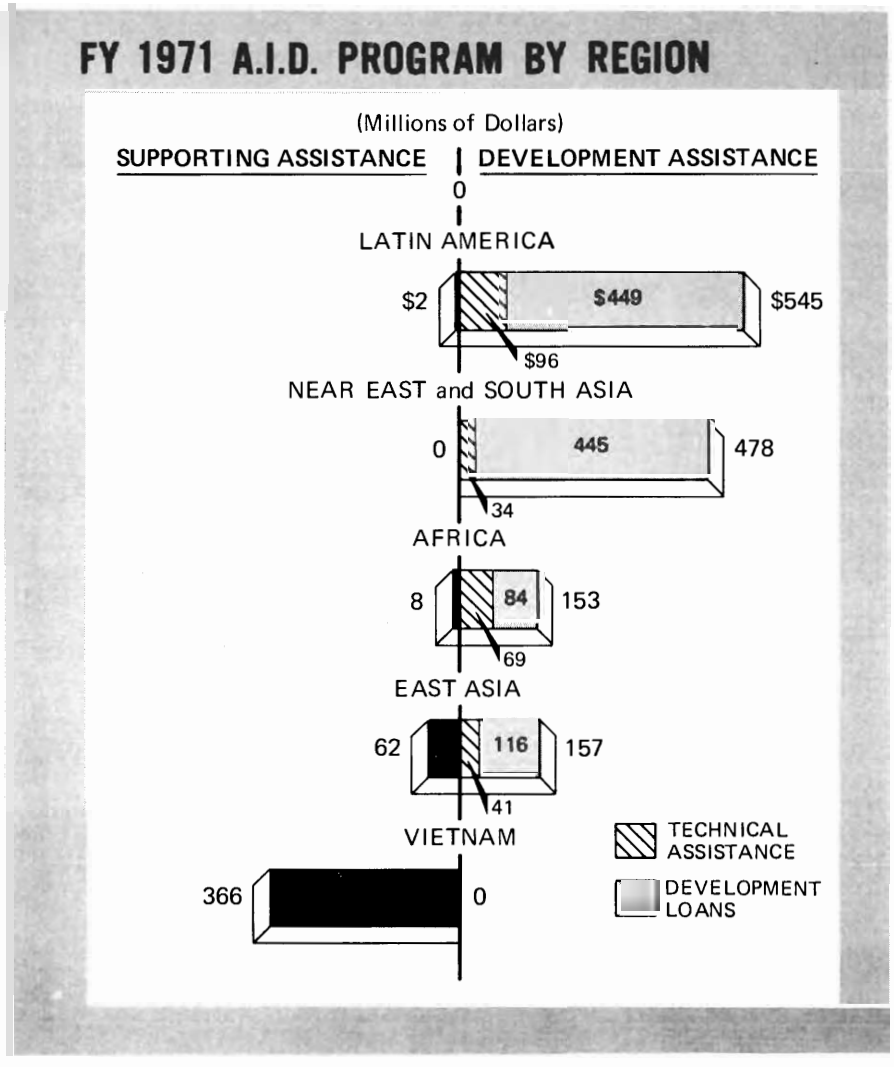
Program by Region

Most of A.I.D.'s funds are used directly for the five regions in which A.I.D. has programs.

Latin America. The FY 1971 program proposed for Latin America amounts to $547 million. Of this sum, $404 million, or 74%, is proposed for Brazil, Colombia, Central America and inter-American and regional activities. Almost $100 million of the total program will be used for new Presidential initiatives in the areas of export promotion, capital market development, tourism promotion and scientific and technological exchange.

Near East and South Asia. The proposed FY 1971 program for the Near East and South Asia is $478 million. Three major countries--India, Pakistan and Turkey--where two-fifths of the people in the non-communist developing world live, will receive over 95% of these funds.

Africa. The proposed program for Africa for FY 1971 is $161 million. Bilateral activities are proposed for FY 1971 for continuing programs in ten African countries and for planned phaseout activities in one country. Twenty-five others will be eligible for regional and multidonor aid (for which $41 million or 25% of the program is proposed) and for self-help funds, ranging normally from $25,000 to $100,000 apiece, to be applied to one-time contributions to local projects.



East Asia. $218 million is proposed for East Asia for FY 1971. The Development Loans are for Indonesia and Korea, and the Supporting Assistance is for Laos and Thailand.

Vietnam. The $366 million now proposed for Vietnam for FY 1971 comes entirely from Supporting Assistance. It will be used for program needs and to cover administrative expenses of the expanded Vietnam program. This amount does not include funds for additional requirements for which an estimated $100 million of Supporting Assistance was included in the President's Budget, subject to review and possible transmittal to the Congress for authorization and appropriation.

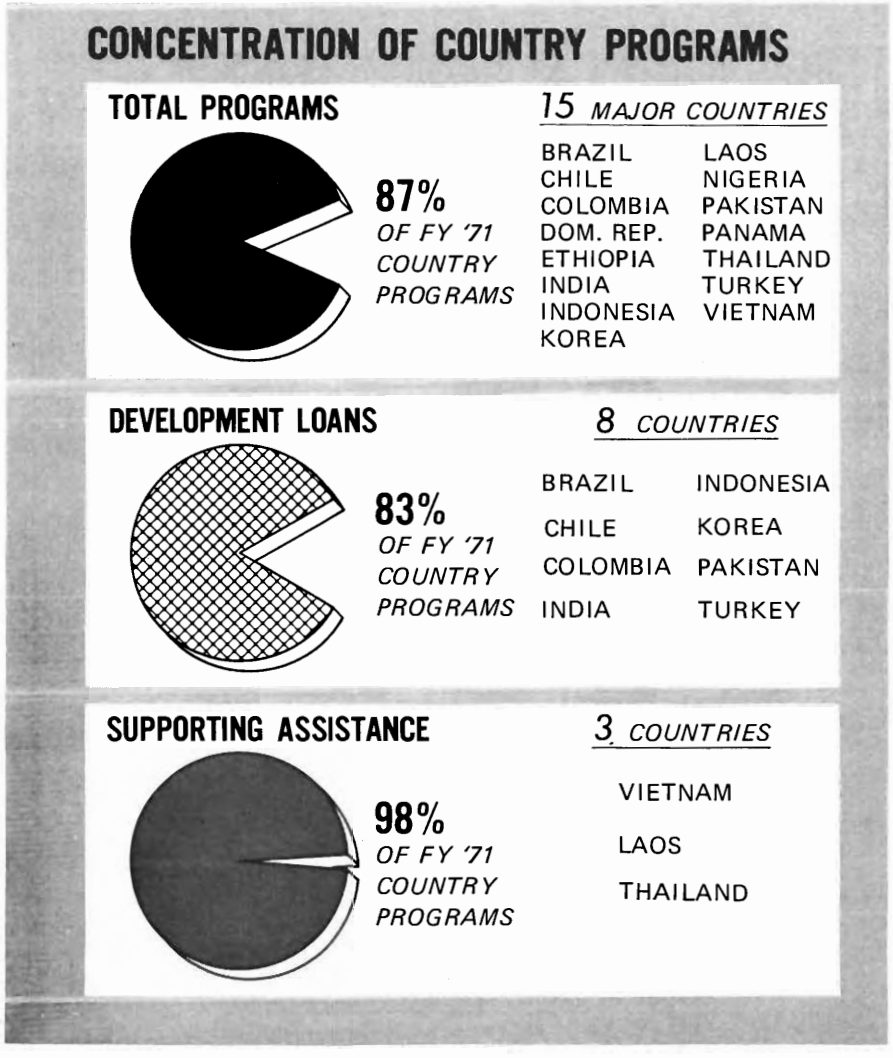
Other. In addition, some A.I.D. funds are used for activities not directly connected with a particular country or region. These include contributions to worldwide multilateral organizations, administrative expenses and program activities such as research and support for private U.S. organizations involved in overseas development or relief work.

Concentration of Country Programs

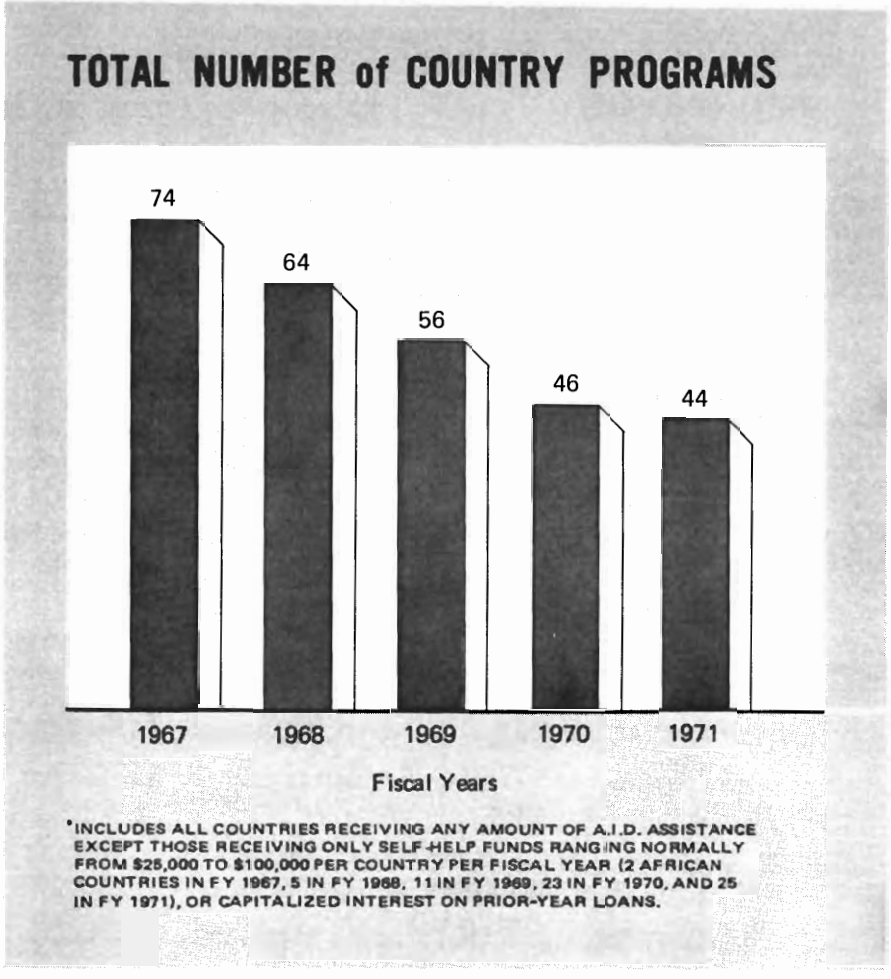
While small amounts of foreign aid, especially P.L. 480 food, are provided to most of the less developed countries, the bulk of the funds goes to just a few countries. The A.I.D. program in particular is highly concentrated in a small number of key countries, to make the most effective use of the limited funds available.

In FY 1971 87% of country programs* is proposed for only 15 countries. Eight of these countries--Brazil, Chile, Colombia, India, Indonesia, Korea, Pakistan and Turkey--are scheduled to get 83% of Development Loan country programs in FY 1971. Supporting Assistance is even more concentrated, with 98% of country aid to go to three countries--Vietnam, Laos and Thailand.

Some of these major countries, such as Turkey and Korea, will reach self-sustaining growth in the next few years. Others such as Taiwan and Iran no longer need A.I.D. assistance.



* Country programs exclude regional programs as well as interregional activities such as contributions to multilateral programs, administrative expenses, program support costs and the central research program.



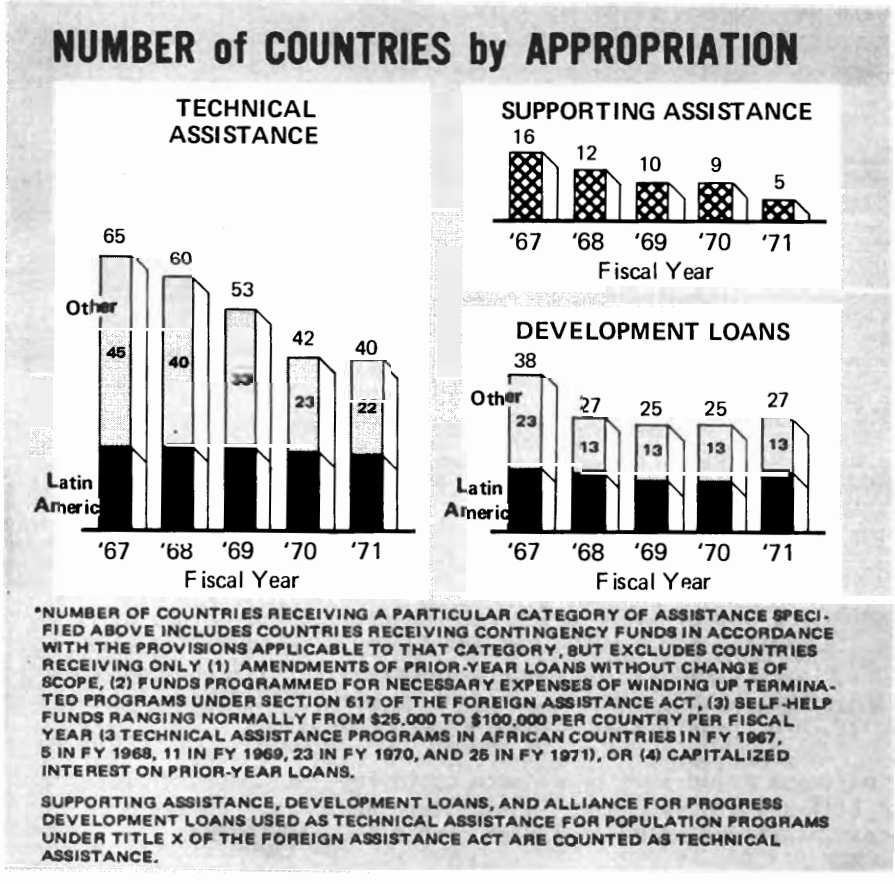
Number of Countries Receiving Aid

The total number of countries receiving some form of assistance from A.I.D., no matter how limited, will drop from 76 in FY 1967 to 69 in FY 1971. But 25 of the 69 remaining countries--over one-third of the total--will not have regular bilateral A.I.D. programs in FY 1971. They are all African countries which, apart from regional programs, will be eligible for self-help funds ranging normally from $25,000 to $100,000 apiece.

As a result of phasing out regular programs in the smaller African countries, the number of countries in which A.I.D. has regular bilateral programs will drop from 74 in FY 1967 to 44 proposed for FY 1971.

Regular Technical Assistance programs will have dropped during the same period from 65 to 40 (45 to 22 outside Latin America). Development Loan programs will have gone from 38 in FY 1967 to 27 in FY 1971 (23 to 13 outside Latin America).

Over the same period Supporting Assistance programs will have dropped from 16 to 5.



VII. WHAT IS A.I.D. DOING TO HELP PRIVATE ENTERPRISE?

Private resources and individual energies must be applied to the task of development. Progress has been greatest in countries which have allowed private enterprise to flourish and have enabled the individual to participate actively in the development process.

The new Overseas Private Investment Corporation will seek to increase the amount of U.S. private investment available for development. Created by Congress last year, the Corporation is expected to begin operations around July 1, 1970.

The A.I.D. program itself also helps strengthen local private initiative in a number of ways. For example --

--Development Loans are used to encourage sound government policies which liberalize import and other restrictions hampering private economic growth and create a favorable climate for private investment.

--Development Loans also finance the importation of U.S. goods needed by private businessmen and farmers; help build the power plants, roads, dams and other basic facilities required to support expanding private activity; and provide resources for intermediate credit institutions which are an important source of capital to businessmen, farmers and homeowners in recipient countries.

--Technical Assistance helps strengthen individual skills and knowledge and equips the individual to participate more effectively in the development process; it also helps private enterprise more directly through projects in, for example, management training, small industries development, tourism and development of local credit institutions.

--In addition, Technical Assistance supports private U.S. groups such as the International Executive Service Corps (IESC) and a number of U.S. cooperatives and other associations which provide technical, advisory and other services to private businesses and organizations in developing countries.

A.I.D. is currently exploring ways to make its program even more effective in strengthening private enterprise in the less developed countries.

VIII. HOW DOES A.I.D. FURTHER POPULAR PARTICIPATION IN DEVELOPMENT?

Title IX of the Foreign Assistance Act emphasizes the importance of increasing popular participation in the development process through the encouragement of democratic private and local government institutions.

For many years A.I.D. has assisted the development of organizations for participation, such as cooperatives and labor unions. Since the passage of Title IX, A.I.D. has analyzed these efforts more closely in relation to A.I.D.'s total effort. This analysis has led to more emphasis on broad sectoral programs, including loans and technical assistance, to help such groups as small and tenant farmers participate more effectively in the development process.

For example, A.I.D. has approved a $3.5 million agricultural loan to Panama to help the government achieve a more equitable distribution of income by increasing the net cash income of 10,000 small, marginally commercial farmers. Programs under the loan will emphasize local institution building, such as extension services and farmers committees, and production credit and will aim at bringing the farmers more into the decision-making process. A similar program is being planned in Guatemala. In Ecuador, a $3.6 million loan has been approved which will guarantee private, voluntary sales of land to low income farmers and help in a program of supervised production credit and technical assistance to help assure that the purchasers will be able to pay for their land and prosper on it.

A.I.D. is seeking to maximize generally the broad participatory potential of the new grain varieties associated with the "Green Revolution." In the Philippines, introduction of new varieties was accompanied by revitalization of credit facilities for small owner and tenant farmers, plus private distribution facilities for fertilizer, to give small as well as large farmers a chance to benefit from the new seeds. A.I.D. is aware that the Green Revolution could have serious side-effects, exacerbating inequalities of rural income and creating social tension. Accordingly, A.I.D. in the spring of 1969 undertook a major review of these problems. Together with experts from interested foundations and universities, individual missions are working with host countries like India to avoid or overcome such problems as the new seed varieties become more widely used.

During FY 1970, A.I.D. also developed several new Title IX program emphases designed to help further the growth of democratic institutions as part of the development process. These will be institutionalized and placed on a long-range basis in FY 1971. For example --

--Assistance to legislative processes is being increased, and broader programs are planned in FY 1971 to strengthen staff support, research and operational effectiveness of elected legislatures, so that they can contribute the force of popular views and interests to nations' development policies and programs. A.I.D. is also planning assistance to public policy education and research institutions in host countries.

--Assistance is being provided for development of legal systems through cooperative research and training between American and host country universities and law schools. For example, in Korea in FY 1970, A.I.D. began assisting the development of Korean legal research and educational institutions through the International Legal Center, and providing on-the-job U.S. training of lawyers and other members of the legal profession.

Last year Congress created an Inter-American Social Development Institute (ISDI) to help promote social and economic development objectives in Latin America, particularly Title IX objectives, through better and more direct use of private resources and agencies. Plans for ISDI's formal establishment are now being made, and A.I.D. is studying the appropriateness of similar techniques for other parts of the world.

IX. WHAT IS THE ROLE OF MULTILATERAL ASSISTANCE?

Multilateral cooperation in providing development assistance to the less developed countries continues to be a major policy objective of the United States. The U.S. commitment to multilateralism reflects the principles that the industrialized countries must share the responsibilities and costs of the development effort, and that pooling or coordinating use of resources and ideas can increase the effectiveness of aid.

Accordingly, a substantial portion of U.S. economic assistance is furnished in a multilateral framework. Multilateral cooperation takes four main forms:

1. Multilateral consultation among donors. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) is the main mechanism for general coordination of all free world aid. It is the principal organization with which the United States has worked in the successful effort to encourage other wealthy nations to expand development assistance.

2. Multilateral coordination of aid to recipients. Consortia, consultative groups and other aid coordinating groups, normally led by the World Bank or other multilateral agencies, are the coordinating mechanisms for external aid to most major development aid recipient countries. These coordinating groups review recipients' development plans and policies and work to harmonize all external aid for maximum effectiveness.

3. Multilateral banks. The United States contributes directly, under separate legislation, to international financial institutions, such as the International Development Association (IDA), the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB), which pool contributions from member countries to provide capital assistance to developing countries under independent international management.

4. Multilateral assistance through the United Nations. The United States and other UN members make voluntary contributions to support a broad program of technical assistance activities carried out by the UN Development Program and other UN agencies.

Multilateral assistance in these various forms has certain advantages for the United States. Sharing assistance responsibilities among the rich countries is promoted both by the established

sharing formulas for contributions to multilateral banks and UN programs, and by the continuing process of consultation within the framework of the DAC. Multilateral aid coordination can heighten efficiency, minimize overlap and strengthen integration of aid from many sources to a particular recipient. It also helps strengthen international institutions which are essential factors in a more peaceful and progressive world order.

Multilateral Consultation Among Donors

The 16 members of the Development Assistance Committee (DAC) of the OECD provide over 90% of total worldwide official aid. The members consult frequently on volume, terms, methods and criteria, and review each other's aid programs every year. The United States strongly supports the DAC and actively participates in its work.

Other DAC members, in part as a result of U.S. encouragement, have substantially expanded and improved their aid programs during the 1960s. Five DAC countries now provide at least 1% of their national income in official and private flows to less developed countries. Seven DAC members have five-year plans for expanded flows, most leading to the DAC target of 1% of GNP by the early 1970s. Most of the other DAC countries have eased aid terms by lowering interest rates or extending maturities and grace periods.

Multilateral Aid Coordination

The donor countries and multilateral aid agencies are attempting to coordinate their aid programs in individual recipient countries to assure that they are supporting consistent development goals and that aid resources are used efficiently. These coordination groups provide a framework to assess the problems, requirements and performance of particular developing countries.

Such groups have been established for 17 less developed countries and one regional group. They have proved useful in linking bilateral and multilateral financial assistance, but have had limited concern with technical assistance. The World Bank is a member of all the groups, while the International Monetary Fund (IMF), the UN Development Program (UNDP), the European Economic Community (EEC) and the regional development banks participate as appropriate.

The coordinating groups have varying forms and procedures. The Indian Consortium and the Pakistan Consortium under the sponsorship of the World Bank and the Turkey Consortium under the auspices of the Organization for Economic Cooperation and Development (OECD) are highly-structured groups. As a coordinating body, a consortium assesses the development plans and foreign exchange requirements of

FLOW OF FINANCIAL RESOURCES FROM DAC COUNTRIES TO DEVELOPING COUNTRIES AND MULTILATERAL INSTITUTIONS IN 1968

DAC Country*	Per Capita GNP (Dollars)	Total Net Official Flow (Million Dollars)	Net Flow as Percent of GNP		Concessional Element
			Official	Total Official and Private	As Percent of Face Value of Total Commitments
1-2 France	$2,510	$855	.68%	1.17%	81%
1-2 Portugal . . .	540	35	.68	.94	56
3 Australia. . .	2,330	157	.56	.67	100
4 Netherlands. .	1,980	134	.53	1.09	74
5 Japan.	1,410	659	.46	.74	70
6-7 Belgium. . . .	2,150	93	.45	1.17	98
6-7 Germany. . . .	2,190	595	.45	1.26	59
8 United Kingdom	1,850	428	.42	.75	82
9 United States.	4,380	3,605	.41	.66	74
10 Canada	3,000	214	.34	.49	91
11 Sweden	3,230	71	.28	.50	93
12 Norway	2,360	23	.26	.64	97
13 Austria. . . .	1,550	28	.24	.65	64
14 Denmark. . . .	2,540	29	.23	.59	90
15 Italy.	1,360	150	.20	.73	43
16 Switzerland. .	2,790	19	.11	1.41	90
Total DAC Average.	2,770	7,095 (Total DAC)	.42	.77	75

*Ranked by Net Official Flow as a percent of GNP (Column 3).

the recipient and obtains from donor members indications of levels and kinds of assistance. Consortia have also been effective in focussing both donors' and recipients' attention on the development policies of the recipient government. The consortium for India played an active role in rescheduling that country's heavy external debt and in coordinating emergency food aid during the drought of 1965 to 1967.

Consultative groups are less formally structured than consortia and do not require donors to indicate the amount of assistance to be provided. Consultative groups have been established under World Bank sponsorship for nine less developed countries and one three-country region -- Colombia, East Africa (Kenya, Uganda, Tanzania), Korea, Malaysia, Morocco, Nigeria, Peru, Sudan, Thailand and Tunisia. Some of these groups have not been expecially active recently for a variety of reasons, while others have met regularly.

The Indonesia aid coordination group has some of the features of a consortium. Chaired by the Netherlands, it receives staff support from both the World Bank and the IMF.

Multilateral Institutions

Multilateral institutions which operate on either a worldwide or regional basis are playing an increasingly active role in providing capital assistance. These institutions now supply over a fifth of total official aid commitments of non-communist donor countries.

The World Bank Group of financial institutions -- the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and International Finance Corporation (IFC) -- is the largest multilateral channel for aid.

IBRD loans made on hard terms increased substantially from $569 million in 1967 to $1.4 billion in FY 1969. The IBRD hopes to be able to borrow enough to expand its loans to an annual rate of about $1.6 billion in the next few years.

COMMITMENTS BY INTERNATIONAL AID INSTITUTIONS TO DEVELOPING COUNTRIES, CY 1962-1968

(In millions of dollars)

	1962	1963	1964	1965	1966	1967	1968
World Bank (IBRD)	507	636	574	822	603	569	1,043
International Development Association (IDA)	187	210	425	190	457	64	116
International Finance Corp. (IFC)	23	14	22	21	54	37	45
Inter-American Development Bank (IDB)	125	212	213	322	396	496	431
Asian Development Bank (ADB)	-	-	-	-	-	-	42
African Development Bank (AFDB)	-	-	-	-	-	3	3
European Development Fund (EEC/EDF)	178	46	59	225	146	139	133
European Investment Bank (EEC/EIB)	-	23	19	52	49	71	39
United Nations Agencies a/	212	234	240	249	304	301 b/	329 b/
Total	1,232	1,375	1,552	1,881	2,009	1,680	2,181

a/ Expenditures or authorizations
b/ Estimated

The third and last $160 million annual installment of the U.S. contribution to the second IDA replenishment is being requested in FY 1971. Over the three-year period, 1969-1971, IDA resources will be increased by a total of $1.2 billion. The U.S. share is $480 million, while other countries will contribute $720 million.

IDA credits, only $116 million in 1968 because of the delay in the second replenishment, rose in FY 1969 to the highest volume ever -- $385 million. World Bank transfers to IDA from net income amounted to $71 million in FY 1969.

If the U.S. balance of payments problem persists, IDA will call on the U.S. contribution to finance purchases only from the United States through June 1971 and for as long thereafter as permitted by the state of IDA resources.

The Inter-American Development Bank (IDB), involving the 21 Latin American Republics and the United States, committed $632 million for Latin American economic and social development in 1969.

The IDB provides capital and technical assistance from its ordinary capital operations mainly through sales of IDB bonds in the private market in the United States and other developed countries. Since 1960, the United States has subscribed $818 million in callable capital as backing for these bonds, but none of it has ever had to be spent. The remaining installment of $206 million is expected to be requested for FY 1970.

The IDB's Fund for Special Operations (FSO) makes loans on flexible terms to member countries whose balance of payments situations will not sustain loans on conventional terms, or for projects of high social importance with a delayed or indirect rate of economic return. Of the $632 million committed by the IDB to Latin American countries in 1969, $413 million was from the FSO. Since 1960, the United States has contributed $1.8 billion for the FSO. Discussions are now under way for future contributions to the Fund.

The Asian Development Bank (ADB) has 20 Asian regional members and 13 non-regional members, including the United States. The United States will make its fifth installment of $20 million of paid-in capital in FY 1971.

Authorization has been requested for a $100 million, three-year U.S. contribution to the Bank's Special Fund for concessional lending. Appropriation of the first tranche of $25 million is being

requested in FY 1970 and the second tranche of $35 million in FY 1971.

The African Development Bank (AFDB) has a membership of 31 African countries. By the end of 1969 the AFDB had made nine loans totalling $13 million. The United States is currently considering making a contribution to the AFDB from which loans could be made on concessional terms.

The President's FY 1971 budget also contains provision for $540 million of additional multilateral assistance. Specific proposals, including an increase in the U.S. subscription to the capital of the World Bank and multilateral programs for Latin American development, will be formally transmitted to Congress at a later date.

Multilateral Assistance through the United Nations

The major UN development activities are --

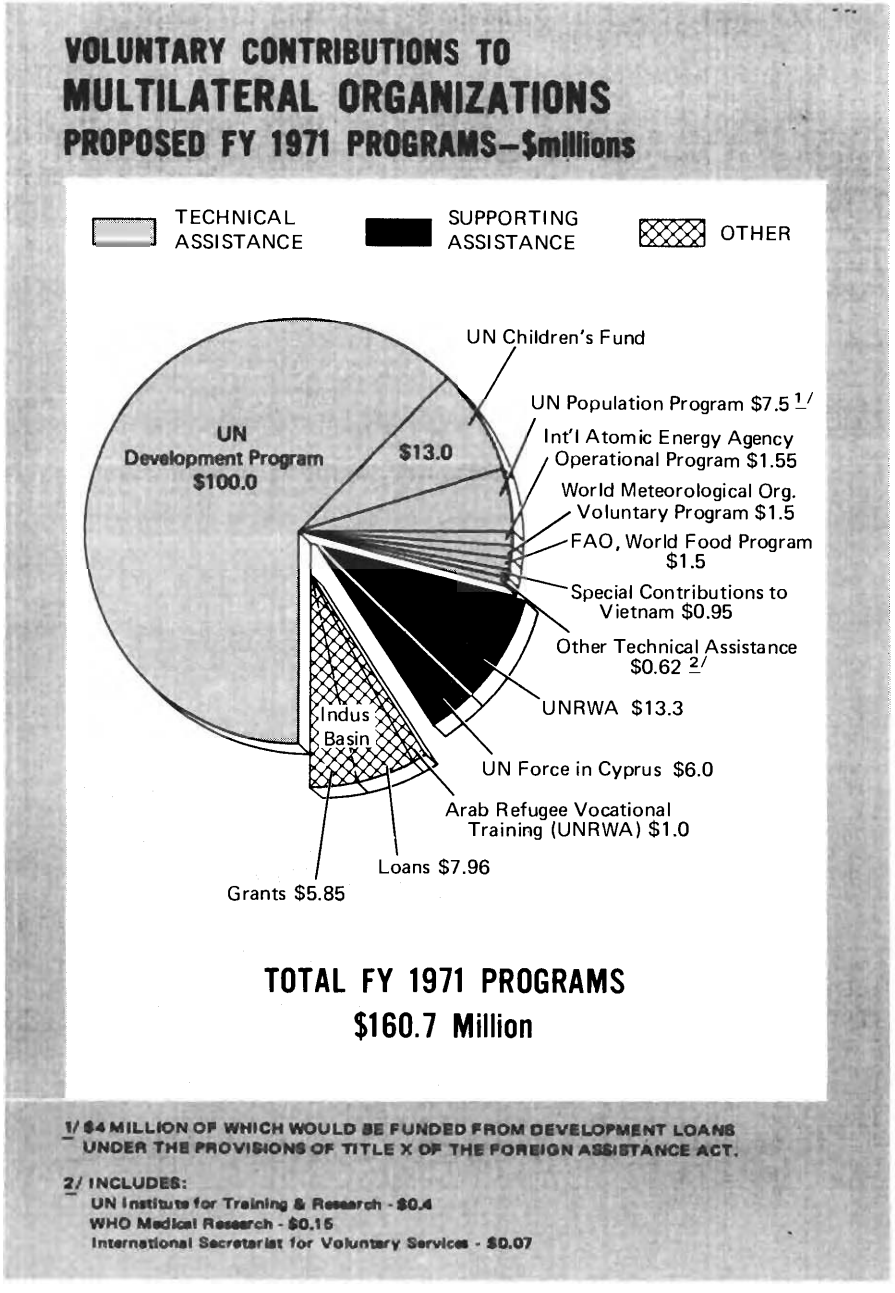
--UN Development Program (UNDP). The UNDP is the major UN program for assisting developing countries through surveys necessary to attract investment capital, through aid in the development of institutions for economic and social growth, and through technical advice.

--UN Children's Fund (UNICEF). UNICEF provides assistance to children and mothers in developing countries primarily in the fields of health, nutrition and education.

--UN Fund for Population Activities (UNFPA). The goals of the UN population program are to provide assistance to countries desiring aid in assessing and coping with their population problems, to promote awareness of the implications of rapid population growth, and to help other UN agencies provide more effective population assistance to UN member countries.

--UN-FAO World Food Program. The World Food Program uses food aid to stimulate economic development, improve nutrition and meet emergency needs.

During the past decade the annual rate of commitments by the UN development agencies has more than tripled. At the same time contributing nations, particularly members of the Development Assistance Committee (DAC), have substantially increased their share of support relative to the United States.



1/ $4 MILLION OF WHICH WOULD BE FUNDED FROM DEVELOPMENT LOANS UNDER THE PROVISIONS OF TITLE X OF THE FOREIGN ASSISTANCE ACT.

2/ INCLUDES:
UN Institute for Training & Research - $0.4
WHO Medical Research - $0.15
International Secretariat for Voluntary Services - $0.07

X. WHAT IS A.I.D. DOING TO OPERATE MORE EFFICIENTLY?

Personnel

Employment of American U.S. government personnel working on all A.I.D. programs has dropped steadily since a peak of about 10,000 in 1967. Estimated employment by the end of FY 1971 will be within 8,600 -- a reduction of 15%. This reduction allows for a planned transfer of about 100 positions to the new Overseas Private Investment Corporation.

Some of this reduction is attributable to Vietnam-related employment, which will go from a peak of almost 3,000 U.S. national employees in 1968 to a planned level of about 2,200 in 1971 -- a reduction of 27%.

These reductions of American employees would have been even greater, but A.I.D. had to absorb an increase of about 200 new positions in recent months in order to

--provide additional positions both in Washington and overseas to handle the Agency's expanded population program and to staff the new Bureau for Technical Assistance; and

--staff the Office of the Auditor General and improve financial analysis capabilities.

A comparable reduction has been made in direct-hire foreign nationals supporting A.I.D. efforts, from almost 9,300 in 1968 to under 7,200 in FY 1971 -- a drop of 23%.

Improved Management

Over the past several years, a number of significant changes have been made to improve the management and execution of A.I.D. operations. Some of the more important are

--better techniques for ensuring compliance and integrity of operations;

--improved audit, investigation, inspection and security operations;

--reorganization of the excess government property program;

--tighter management of commodity procurement and shipment;

--centralized personnel operations and reduced staff;

--advanced information management techniques;

--improved program evaluation techniques; and

--reduced cost of administrative services and management.

Organizational Changes

By the end of FY 1971, A.I.D. will have made four major organizational changes.

--A Technical Assistance Bureau has been established, creating an expanded, centralized staff emphasizing the identification and solution of problems impeding economic development in the less developed countries.

--An Office of the Auditor General has been created, bringing under central direction all of the Agency's audit, investigations and inspections, compliance, and security operations.

--First steps have been taken to establish the Overseas Private Investment Corporation, which will become fully operational as a separate entity during FY 1971.

--The Inter-American Social Development Institute, which is expected to become operational late in FY 1970 is currently being organized.

XI. WHAT IS THE A.I.D. PIPELINE?

Unexpended funds, or pipelines, consist of those funds appropriated to a government agency, committed by the agency for specific purposes, but not spent by the end of a fiscal year.

Many government agencies have pipelines. The total estimated pipeline for all U.S. Government agencies at the end of fiscal year 1969 was about $126.5 billion. The A.I.D. pipeline at that point was $3.4 billion, or about 2.7% of the total -- down $574 million from the previous year and the lowest balance in six years.

Why do pipelines build up? It may take five years or more to complete a hydroelectric project, for example. Thus A.I.D. funds loaned for such a project to buy American equipment and pay American engineers will remain in the A.I.D. pipeline until the last generator or transformer has been delivered and installed, and the final payments have been made to the American manufacturers and engineers.

Pipelines often give rise to the question: "Why can't pipeline funds be used to run the foreign aid (or defense, or space) program, instead of new appropriations? Why can't the program live off its pipeline?"

The funds cannot be used, very simply, because nearly all of them are already tied up in ongoing projects or activities. If these funds were pulled out of the pipeline to be used for other purposes, it would mean breaking international agreements, and leaving projects unfinished, wasting the initial expenditures. American businesses would have to take losses on equipment partially completed or orders for other supplies, such as fertilizer, partially filled, for which there is suddenly no customer.

A small amount of funds is recovered from the pipeline for new use each year. Whenever funds are not needed to complete a project or a project is not carried through according to plans, the funds are "deobligated", or recovered for new use.

Such recoveries total no more than 3-5% of the total A.I.D. pipeline during any one year. Each year A.I.D. estimates the anticipated recoveries and subtracts that amount from its request to the Congress for new funds.

ECONOMIC ASSISTANCE - SUMMARY OF PROGRAMS BY AREA AND COUNTRY - PROPOSED FY 1971 PROGRAM

(In Thousands of dollars)

LATIN AMERICA – TOTAL	547,000
Contributions to Inter-American Organizations	23,000
Regional Programs	33,340
Argentina	408
Bolivia	3,698
Brazil	167,711
Central American Economic Community: Regional Office of Central America and Panama (ROCAP)	43,685
Costa Rica	12,993
El Salvador	10,000
Guatemala	10,200
Honduras	13,123
Nicaragua	12,000
Chile	22,920
Colombia	77,995
Dominican Republic	19,996
Ecuador	10,000
Guyana	10,100
Haiti	1,780
Jamaica	730
Panama	18,300
Paraguay	9,670
Peru	3,700
Uruguay	7,439
Venezuela	650
Eastern Caribbean Regional Programs	350
Program Support, Inter-regional Activities	24,733
Undistributed Population Grants	8,479

AFRICA – TOTAL	161,358
Africa Regional Programs	(47,632)
Regional Programs	40,892
East Africa Regional Activities	(6,740)
Development Emphasis Countries	
East Africa	(18,606)
East Africa Regional	6,740
Kenya	2,994
Tanzania	5,119
Uganda	3,753
Ghana	17,304
Tunisia	7,679
Ethiopia	19,998
Liberia	4,815
Morocco	15,944
Nigeria	20,520
Congo (Kinshasa)	12,000
Other Bilateral Aid Countries	
Somali Republic a/	1,950
Other African Countries b/	
Botswana	-
Burundi	-
Cameroon	-
Central African Republic	-
Chad	-
Dahomey	-
Equatorial Guinea	-
Gabon	-
Gambia	-
Guinea	-
Ivory Coast	-
Lesotho	-
Malagasy Republic	-
Malawi	-
Mali	-
Mauritania	-
Mauritius	-
Niger	-
Rwanda	-
Sierra Leone	-
Sudan	-
Swaziland	-
Togo	-
Upper Volta	-
Zambia	-
Self-Help Projects b/	1,650

NEAR EAST AND SOUTH ASIA – TOTAL	478,307
Afghanistan	6,728
Ceylon	7,000
India	276,550
Jordan	1,886
Nepal	2,591
Pakistan	125,147
Turkey	54,220
CENTO	606
Regional Programs	3,579

EAST ASIA – TOTAL	218,120
Indonesia	86,516
Korea	29,300
Laos	46,098
Philippines	8,823
Thailand	34,083
Regional Programs	13,300

VIETNAM – TOTAL	366,300
Country Programs	353,000
Expanded Vietnam Program:	
Administrative Expenses	5,800
Program Support and Interregional Activities	7,500

INTERNATIONAL ORGANIZATIONS AND PROGRAMS – TOTAL	160,730
Multilateral Organizations (Technical Assistance)	(126,620) c/
International Atomic Energy Agency - Operational Program	1,550
International Secretariat for Voluntary Services	70
Special Contributions for Vietnam	950
UN Children's Fund	13,000
UN Development Program	100,000
UN Food and Agriculture Organization World Food Program	1,500
UN Institute for Training & Research	400
UN Population Program	7,500 c/
World Health Organization - Medical Research	150
World Meteorological Organization-Voluntary Assistance Program	1,500
Other Programs	(34,110)
UN Force in Cyprus	6,000
UN Relief and Works Agency	13,300
Arab Refugee Vocational Training (UNRWA)	1,000
Indus Basin Development, Loans	7,960
Indus Basin Development, Grants	5,850

OTHER PROGRAMS	202,260
AMERICAN SCHOOLS AND HOSPITALS ABROAD	8,895
ADMINISTRATIVE EXPENSES A.I.D	57,375
Regular Expenses	(55,075)
Reimbursable Costs	(2,300)
ADMINISTRATIVE AND OTHER EXPENSES, STATE	4,200
DEVELOPMENT RESEARCH	10,000
INSTITUTIONAL GRANTS, SEC. 211(d)	7,500
PROGRAM SUPPORT AND INTERREGIONAL ACTIVITIES	112,705
FUNDED FROM ALLIANCE FOR PROGRESS FOR PROGRAM SUPPORT, INTERREGIONAL ACTIVITIES, RESEARCH AND SEC. 211(d)	-24,733
FUNDED FROM VIETNAM FOR PROGRAM SUPPORT, INTERREGIONAL ACTIVITIES AND RESEARCH	-7,500
UNDISTRIBUTED:	(42,297)
Population Grants	(25,297)
Worldwide	16,818
Alliance for Progress	(8,479)
Contingency Fund	17,000

ECONOMIC ASSISTANCE – TOTAL FY 1971 2,134,075

a/ Includes $50 thousand Self-Help funds that are excluded from Self-Help Projects total.
b/ Self-Help funds only, ranging from $25 - 100 thousand each, for all countries listed under "Other African Countries."
c/ Includes $4 million from Development Loans for population programs under Title X of the Foreign Assistance Act.

IF peace and freedom are to endure in the world, there is no task more urgent than lifting up the hungry and the helpless, and putting flesh on the dreams of those who yearn for a better life.

Richard M. Nixon
PRESIDENT of the UNITED STATES
October 31, 1969