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THE AGENCY FOR INTERNATIONAL DEVELOPMENT:  
AN ASSESSMENT OF THE AGENCY OPERATIONS AS  
A RESULT OF CHANGES IN THE FOREIGN ASSISTANCE  
ACT of 1973

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### Objective of the Paper

This paper will attempt to examine what specific changes have occurred in the Agency for International Development as a result of changes in the Foreign Assistance Act of 1973 and the shift in agency emphasis from large scale economic, capital intensive foreign aid programs to small scale, labor intensive, rural development programs geared toward poor majorities living in developing nations.

This paper will assess the changes in Foreign Assistance legislation since 1973 and some of the procedures and techniques employed by the Agency for International Development administration in responding to these new Congressional requirements. It will discuss how AID shifted earlier program objectives and goals in order to address the new emphasis stressed in foreign aid and development assistance programs. It will not, however, assess the issue of economic development and the current controversy surrounding this topic.

INTRODUCTION

Foreign economic assistance is broadly defined as the transfer of food, manufactures, expert services, technology, and other services in the form of grants and/or long term low interest bearing loans. Foreign assistance grants are used to support specific economic development efforts designed to assist the poorest people in less developed and developing countries; to provide immediate emergency assistance as in the case of natural disasters; to assist non-governmental agencies and institutions in development and humanitarian activities; to finance research in the United States and developing countries; and, to expand competence of American institutions such as colleges and universities in the field of development. Foreign assistance loans are low interest bearing and provide program financing that is designed to direct attention to key sectors of a developing country's economy such as agriculture, education, health, and urban or rural development.

The United States was the only nation offering foreign economic assistance as a national policy twenty five years ago. However, today almost all developed nations, and some developing ones, maintain various forms of international aid and economic assistance programs. The United States ranks 12th among the non-communist, developed countries providing foreign economic aid.

Other non-communist countries that provide such aid are:

TABLE 1<sup>1</sup>

<u>DONOR COUNTRY</u>	<u>PERCENT of GNP</u>
SWEDEN	.82%
NETHERLANDS	.75%
NORWAY	.66%
FRANCE	.62%
AUSTRALIA	.61%
BELGIUM	.59%
DENMARK	.58%
CANADA	.58%
NEW ZEALAND	.52%
GERMANY	.40%
UNITED KINGDOM	.37%
UNITED STATES	.26%
JAPAN	.24%
SWITZERLAND	.18%
FINLAND	.18%
AUSTRIA	.17%
ITALY	.11%

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Economic aid for the United States, as a tool of foreign policy, can be traced back to the post World War Two period and the Marshall Plan. American participation in bilateral and multi-lateral organizations such as the United Nations Relief and Rehabilitation Administration, aid to Turkey and Greece in 1947, and, the Institute of Inter-American Affairs helped establish a precedent in overseas assistance.

In 1949, President Truman began the Point IV Program which was an innovative method to provide technical assistance to developing

nations.<sup>2</sup> Later this effort evolved into the Food for Peace Act of 1954. This program used America's agricultural abundance to help feed hungry people throughout the world, and is still in existence.

In the 1950's, the Development Loan Program was created which gave less developed and developing countries the opportunity to obtain direct capital assistance. By the 1960's, foreign economic assistance activities had increased and, in 1961, Congress authorized the Agency for International Development to assume administration of most foreign assistance programs and agencies that were in operation at that time. Congress also authorized and appropriated funds to AID, but restricted it's activities to non-military, foreign, economic and humanitarian assistance programs.

The United States also provided foreign economic assistance through other programs such as the Food for Peace, the Peace Corps, and by direct contribution to international financial institutions such as the International Bank for Reconstruction and Development (World Bank), the Export-Import Bank (EXIM Bank), and the Inter-American Development Bank (IDB).

American food, technology, materials, services, and personnel in foreign aid programs over the past twenty five years have helped millions of people in foreign lands become more productive while improving education, health, and employment opportunities for people

of less developed and developing nations.

In today's world, the overriding reality recognizes that, "There are no separate futures for rich and poor."<sup>3</sup> Events of the recent past have made it clear that few of today's problems are without international consequences. For example, the 1973 Middle East War, while limited in territory, and directly involving only three countries, had global significance. In Europe and the United States, motorists waited for hours to purchase gasoline; farmers in Asia experienced fertilizer shortages needed to grow rice and wheat crops; and, the pace of economic growth and development was curtailed in Latin America for non-petroleum producing countries.

#### United States Dependence on the Third World

The United States imports between 50 and 100 percent of many vital raw materials such as silver, natural rubber, cobalt, aluminum ore, tin, tungsten, nickel, manganese, asbestos, platinum, and mercury. Substantial quantities of these important commodity imports come from less developed or developing countries. The interdependence of U.S. industry for a variety of imports from developing countries expressed as a percent of consumption is:

TABLE 2<sup>4</sup>

<u>COMMODITY</u>	<u>PERCENT of CONSUMPTION</u>
TUNGSTEN	42%
MANGANESE ORE	51%
BAUXITE	93%
TIN	76%
NATURAL RUBBER	100%
COBALT	40%
MERCURY	42%
IRON ORE	20%
COPPER	15%
CHROMITE	26%
PETROLEUM	29%
SILVER	35%

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American companies are also discovering new markets and investment opportunities in developing countries. Almost 60 percent of all new American investment abroad in 1976 went to developing countries; a four-fold increase since 1973. This growing global interdependence makes assistance to developing countries a major component of United States foreign policy.

The Third and Fourth Worlds number more than 100, with approximately 70 of them having gained their independence since 1950. Over three billion of the earth's four billion people live in developing countries, and their living standards are markedly different in comparison to industrialized nations. Between 400 million to 500 million Third and Fourth World inhabitants suffer from malnutrition;

for over a billion people, average per capita income is about \$150.00 annually and in some countries it is as low as \$80.00 annually. Infant mortality strikes one out of every five children under the age of five; health services, where available, are extremely limited and rudimentary; and the average life expectancy is only 52 years of age.<sup>5</sup>

Over the last 10 years the economies of developing countries have experienced rapid rates of growth averaging nearly 6 percent per annum due, in part, to foreign aid. However, high population growth rates, inflation, increasing energy prices, and energy related shortages have slowed economic gains in many countries and reduced the 6 percent growth rate to a per capita net growth rate of 3 percent.<sup>6</sup>

The poorest nations of the Third and Fourth World are still unable to feed their people, educate their children, improve health and living standards, or provide employment. Recent changes in international economic conditions have necessitated new approaches to foreign policy and foreign economic and humanitarian assistance. Present United States foreign aid programs have changed drastically in relation to past aid activities. International development policies and foreign assistance now take into account such factors as trade, investment, foreign private sector development, international finance, and population growth rates.

Previously, the United States dominated the field of foreign assistance because other industrial countries were doing very little, or concentrated their efforts on special areas of interest to themselves. The International Bank for Reconstruction and Development had not begun to lend to low-income countries, and regional institutions did not exist or, if they did, had not undertaken major lending activities. Further, many developing countries were newly independent and had no formally organized economic programs. The pressing need for these nations centered on internal and external coordination of investment resources.

The Agency for International Development initiated programs to coordinate U.S. foreign assistance activities and investments from other foreign donors. These early programs were aimed at developing effective self-help mechanisms while monitoring the use of U.S. funds to avoid waste and/or duplication. Industrial nations were encouraged to provide more and varied forms of assistance by working with the World Bank in its activities regarding developing countries. United States foreign assistance programs were government oriented and designed on the assumption that the transfer of U.S. technology, personnel, and capital would bring about immediate development improvements similar to experiences under the Marshall Plan in post World War Two Europe.

It was later realized, however, that modernization is a long-term, complex process which required more than the infusion of resources, capital, and personnel. Modernization was not as simple a process as the reconstruction of war-damaged industrial economies. Barriers to development such as unresponsive social and political systems, severe deficits in the level of technical skills of foreign nationals, non-existent or poorly organized internal markets, inappropriate public policies, severe poverty, and lack of a developed infrastructure tended to exacerbate many early development efforts.

In today's changing environment the U.S. and its foreign assistance programs have been required to assume significantly altered roles. Many developing countries now have the capacity and experience to establish their own priorities, goals, and objectives in relation to their economic needs. They have assumed an active role in utilizing and managing internal resource investment and have developed a cadre of well trained professionals and technicians.

Secondly, assistance programs of other nations have been steadily expanding over the years and are now working in conjunction with other programs to improve all segments of a developing country's economy, rather than one segment of it. This has created, in part, the need for closer coordination of assistance programs on the part of industrialized nations.

Also, international financial institutions and their multilateral development loan programs have achieved greater prominence in their development activities by providing extended assistance to developing countries.

The impact of new trade markets and a stronger international monetary system in the 1970's has enhanced the competitiveness of Third World manufactured goods. This reduced many restrictions imposed on resources in developing countries caused by limitations of balance-of-payments and/or fluctuating national currency in the international money markets.

Finally, developing countries are paying more attention to their national debt burden in order to continue development, investment, and imports. Export credit that is unrealistic for developing countries to meet, lack of attention to development of export markets, excessive spending on unneeded military hardware, and the need for better financial management are problems that developing countries are beginning to address in concert.

Early U.S. assistance programs were geared toward large scale, capital intensive efforts and often required transfers of equipment to meet many program objectives. Capital intensive programs were, generally, the order of the day. However, AID's development strategy is now aimed at concentration of funds in three key sectors:

1. Food and Nutrition
2. Population Planning and Health, and
3. Education and Human Resource Development.

AID worked with the problem of food supply and population growth, but realized a new approach was needed. In 1973, Congress called for substantial revisions of the Foreign Assistance Act and AID's economic assistance programs and policies. Changes in legislation state that, "United States bilateral development assistance should give the highest priority to undertakings submitted by host governments which directly improve the lives of the poorest of their people and their capacity to participate in the development of their country."<sup>7</sup>

More than seventy six percent of AID's assistance now goes to countries where per capita income is less than \$300.00 per year with the focus of this assistance directed toward those populations and groups which are most disadvantaged and have been, in the past, largely excluded from the development process in their respective country. One of the major objectives of AID's present policies and programs is to insure that the benefits of growth and development are shared on an equitable basis, and that the needs of the poorest majority are met. For this reason, AID requires that within developing countries economic assistance programs should benefit those groups whose income, food, and health levels fall below certain prescribed levels.<sup>8</sup>

Increasingly, AID's programs have shifted toward a people-oriented approach and topics of interest now cover such areas as food and nutrition, population planning and health, education and human resource development, participant training, disaster relief, Food for Peace activities, the integration of women in development efforts, cooperatives, housing, research, international foreign assistance coordination, as well as the activities of private and voluntary international organizations.

To understand why AID shifted its policy and program emphasis from capital intensive programs based upon a trickle-down development strategy to small scale, people-oriented programs based upon a development strategy directed toward the poorest majority in a developing country, one must examine the administrative body that controls AID's funding and oversees the agency's operations--namely Congress.

#### EXTERNAL AGENCY ENVIRONMENT

##### House Action

On July 26, 1973 the House passed by a narrow 188-183 roll call vote a bill, HR 9360, to authorize foreign assistance for fiscal year 1974 and 1975 and foreign military assistance for fiscal year 1974.<sup>9</sup> The narrow margin of passage for the foreign assistance program was considered to be an omen that disenchantment with foreign aid spending was now beginning to develop in the House. The Senate had long been an opponent of foreign aid, but now the House, traditionally an ally, had been affected by recent economic bouts with inflation, the U.S.

currency devaluation, Federal cutbacks in domestic programs, unemployment, and the rising cost of living.

The House mood reflected opposition to programs that were considered by some to be "give-away."<sup>10</sup> There were repeated attempts to cut the recommended assistance authorization levels, even though most of these attempts failed. During discussions, the House considered 29 amendments in all and rejected a proposal that was thought to be a major component of the Foreign Affairs Committee's plan to revamp the aid program by stressing the mutuality of foreign assistance.

The proposal for an Export Development Credit fund to assist developing countries in their efforts to purchase United States goods was soundly defeated. Proponents for this new approach to foreign aid argued that repayment from outstanding development loans would have been used to subsidize the interest rates on export credits to developing countries, with the fund authorized to operate at approximately \$1 billion annually for a five year time period.<sup>11</sup> They insisted that export credits would create new jobs and make United States exports more attractive in low income markets of developing countries. This portion of the new program would, in the words of Paul Findley (R.-Ill.), "...present the opportunity for the most direct benefits to the American people."<sup>12</sup>

However, Wayne L. Hays (D.-Ohio) attacked the proposed new foreign assistance act as, "...a sort of soft-loan window of the Ex-Im Bank. Now, the soft-loan window, translated into English, means that you do not pay it back."<sup>13</sup> Other opponents, such as H.R. Gross (R.-Iowa), stated that American citizens had been taken on too many foreign aid joyrides and introduced five amendments to reduce, or delete, over \$93 million dollars for social and economic development programs in such areas as transportation and power, industry, urban, and export development.

The House Foreign Affairs Committee, by a 31-9 vote, passed new legislation aimed at restructuring foreign assistance. The committee recommended that, "The time has come to take a new approach in our foreign aid programs", and approved reforms aimed at economic rather than military assistance changes.<sup>14</sup> The new programs were designed to reach the poorest segments in developing nations with economic assistance. Bilateral assistance, aid given directly from one country to another, would concentrate on sharing American technical expertise, farm commodities, and industrial goods required for development, while large scale capital transfers would be left to multilateral assistance efforts, aid funneled through international groups such as the United Nations and the World Bank. Old categories of technical assistance and development grants, loans, and Alliance for Progress funds were dropped and new functional categories, aimed

at specific problems such as food, population planning, and education were developed. Alliance for Progress funds were to be utilized within one or more of these specific sectors.

The committee went on to criticize opponents of foreign assistance by stating that, "While the multilateral organizations have a definite place in the development picture, it is clear from their performance to date that they cannot be expected to substitute entirely for bilateral assistance. They tend to concentrate their efforts on massive industrial projects rather than on problem solving, people-oriented efforts which this bill emphasizes."<sup>15</sup>

#### Senate Action

In the Senate, foreign assistance critics belittled the House Foreign Affairs Committee reforms as merely cosmetic, but others praised these reforms as basically a new approach for grappling with the problems of developing countries.<sup>16</sup> The changes appeared to satisfy many senators who, after a two-day debate, voted 54-42 for the foreign economic assistance bill in excess of \$2 billion dollars. This amount was the lowest ever voted by the Senate for foreign economic assistance and, with a prior history of Senate defeats, continuing resolution funding, eroding Congressional support in the House, cutbacks in domestic program funding, inflation, and higher imported petroleum prices, foreign economic assistance proponents had little choice but to redesign the foreign aid program.

On a limited basis, cutback attempts were successful in the Senate. Senator Frank Church (D.-Idaho) argued that, "...I do not agree that domestic programs should absorb all of the cuts for budget balancing purposes, as the President proposes. Foreign aid should bear its fair share of the burden of bringing our financial house in order."<sup>17</sup> Church was successful in eliminating a proposal for reflow authority for the Agency for International Development, whereby development loan repayments could have been reverted to the agency and used for further foreign aid loans (see prior discussion, House Action, Export Development Credit, pages.11-13).

Senate Foreign Relations Committee chairman, J.W. Fullbright (D.-Ark.), also felt the bills reforms were superficial, but Senator Hubert H. Humphrey (D.-Minn.), the Senate's chief architect of the reform program, insisted the changes were not cosmetic and the revamped program would direct aid to the poorest segments of the world.

Jacob K. Javits (R.-N.Y.) argued along with Humphrey that refusal to fund the foreign assistance program would, "...eliminate in one pen stroke any effort to bring the foreign aid program into areas where it must go after a maturation of such a long period of years. It eliminates the opportunity for us to reach what we consider to be its best constituent population-namely, the very poor."<sup>18</sup>

#### Final Action: New Congressional Requirements

On December 5, 1973 Congress finally cleared S1443 which authorized

\$2.4 billion for foreign economic assistance and military aid for fiscal year 1974 and \$922 million for economic aid for fiscal year 1975. The foreign economic assistance program had a new look and emphasis aimed at directing past program activities while trying to gain support for foreign assistance programs on Capitol Hill.

House and Senate defeats, resolution funding, and conference disagreements had signaled increasing disenchantment with the foreign aid bill in the House and Senate from both liberal and conservative members. In prior sessions, the Senate had twice defeated foreign aid bills and, as a result, passage of the regular appropriations bill had been stymied. Funding for fiscal year 1973 for foreign economic assistance had to be provided by a continuing resolution. Foreign aid proponents were forced to redesign the emphasis and direction of the foreign assistance programs or watch the bill die in House and Senate committees.

The central thrust of the reforms were aimed at the poorest segments of developing nations and replaced old categories of development loans, grants, and technical assistance programs with new categories for specific problems in the areas of nutrition, population planning, health, education, and human resource development.

Included in the new Foreign Assistance Act of 1973 were changes in appropriation levels for the State Department, U.S. Information Agency, the Arms Control and Disarmament Agency, Action, the Overseas

Private Investment Corporation, and the Agency for International Development. Despite attempts in the House and Senate to reduce or, in some cases, eliminate funds for foreign economic assistance, the bill was signed and approved for funding. However, even with the restructured aid program, many Democrats and Republicans still remained disenchanted with the new programs.

#### INTERNAL AGENCY ENVIRONMENT

##### Agency for International Development: Present Functions

Responding to new appropriation mandates from Congress, changes within AID occurred almost immediately. Development assistance programs were re-directed to focus on critical problems in specified functional areas. Sectors which affected the lives of the poorest majority of people living in developing nations received the greatest attention. To understand how AID administrators implemented new policy goals and objectives of the Foreign Assistance Act of 1973, an examination of changes in AID's operations is necessary.

The Foreign Assistance Act of 1973, 75 Stat. 424; U.S.C. 2381, as amended, authorized the President to exercise his duties under the act through "such agency or officer" of the U.S. Government as he may direct. Further, executive order 10973 dated November 3, 1961 gave the Secretary of State the authority to set forth in the Foreign Assistance Act of 1961, the power to establish an agency in the Department of State known as the Agency for International Development.

Under this authority, AID is structured to perform its functions through an administrator who reports to the Secretary of State and the President, and has the responsibility for directing U.S. foreign economic assistance programs. The agency consists of central headquarters staff located in Washington, D.C. with a number of overseas missions and offices. AID carries out assistance programs designed to help the people of certain less developed nations improve their economic and human resources, increase productive capacities, and improve the quality of human life while promoting economic and political stability in friendly countries. Under the Foreign Assistance Act of 1973, AID now operates in functional areas rather than through broadly defined categorical programs. The major areas and activities of the agency now concentrate on:

1. Food and Nutrition:

AID focuses on the alleviation of starvation, hunger, and malnutrition by improving agriculture through rural development programs. It strives to enhance a developing country's economy and self-help efforts by concentrating on countries having the lowest per capita incomes which are most seriously affected by increases in worldwide commodity prices.

By developing local institutions, AID hopes to stimulate small, labor intensive rural operations, expand small scale rural infra-

structures and utilities, and establish equitable and secure land tenure arrangements. Prior to 1973 and program revamping, assistance was in the form of large scale capital intensive transfers for major land reclamation projects, collective farm development, and machinery transfers.

## 2. Agricultural Research:

Here AID assesses small farmer needs to determine research priorities in order to conduct investigations into the interrelationships of technology, institutions, economic, social, and cultural matters that influence small agriculture in order to adapt research to local conditions. Earlier, research tended to focus on problems of collective farming or larger scale agricultural development.

By focusing on smaller-farm operations, AID now provides the type of self-help assistance needed to generate small scale agricultural resources on a broader scale.

## 3. Population Planning and Health:

AID tries to increase the motivation and opportunities for family planning and reduce the population growth rate, combat disease, and provide health services for the majority of people in developing nations. The emphasis in the health sector is now on the provision of low-cost, integrated health and family planning delivery systems geared especially to rural areas through community outreach programs.

Earlier, family planning efforts were in existence but the need

for developing governments to institute their own programs on a voluntary basis limited the efforts of AID in this area. Health programs were geared for facility construction, technician transfer and training. The outreach concept, while not new to AID, is an innovative approach to the problems of health service delivery in rural areas. As an intermediate approach, it proves to be less expensive to train technicians for field work than to construct roads, hospitals, clinics, train doctors, nurses, etc. for all the areas where they are needed, especially if the needy people are nomadic or live in sparsely populated areas. The present concept is designed to train technicians to go where they are needed most and can serve the rural populations best.

#### 4. Education and Human Resource Development:

In an effort to increase literacy, extend basic education to rural populations, and improve manpower training in skills related to a developing country's needs, AID now places emphasis on activities designed to expand and strengthen non-formal education methods and direct formal education systems to the needs of poor people. AID aims to strengthen the management capabilities of institutions which hopefully will encourage the poor to participate in development.

Previously, AID's efforts focused on the formal aspects of the education process and, to a lesser degree, on the participant training concept which stressed training for indigenous population members to work in specific development related areas. Today the participant training concept is central to AID's strategy of reaching the poorest

majority population in developing countries since it trains and uses these population members as important actors in the development effort.

5. Technical Assistance, Energy, Research, and Selected Development Problems:

In an increasing effort to foster technical cooperation in the development area, particularly by the use of grants, loans, and contracts with private voluntary, regional, and international development organizations, AID stresses assistance to developing countries that helps alleviate some energy problems by increasing energy production and conservation.

Attention is directed to research concerned with the process of economic development, rebuilding programs following natural and manmade catastrophes, and programs concerning the improvement and development of the activities of the urban and rural poor.

6. Intermediate Technology:

AID concentrates efforts to broaden private development activities and dissemination of technologies that are relevant to the needs of (a) developing country's requirements for economic growth and improvement of indigenous population lifestyles and standards. It seeks to prevent famine by improving land grant and other university efforts to perform teaching, overseas extension work, research, and program-building activities of a regional, national, and international scope

in developing countries.

The use of development loans that stress long-term planning programs designed to develop economic resources, productive capacities, and technical cooperation such as development grants that emphasize human resource development, AID hopes to increase U.S. research efforts aimed at improving technical and educational facilities in U.S. institutions, school, and hospitals abroad. Development loans go toward use by private, registered, U.S. voluntary agencies for reimbursement incurred for international transportation costs on supply shipments for humanitarian relief and rehabilitation. Guaranty programs for housing, agriculture, production credits, and self-help community development programs are also included in this phase of the agency's operations.

In addition, loans and grants are provided to foreign governments, the United Nations, U.S. foreign non-profit organizations, hospitals, universities, and voluntary health organizations that encourage integration of women in a developing country's economy. Countries involved in human rights violations are not eligible for assistance unless it benefits directly people living in the country.

AID's present activities have not changed drastically in this area in relation to earlier activities and the emphasis of present programs has been modified to conform to Congressional mandates of the Foreign Assistance Act of 1973. That is, AID's focus is now on

rural poor populations stressing people-oriented programs rather than directing money to developing countries in order to stimulate the trickle-down effect of earlier development programs. The present programs are designed to help the poor majority of developing countries....imediately.

7. Reimbursable Development Programs:

These programs allow friendly countries to obtain U.S. technical services, commodities, training, etc. through country financed arrangements. They are given to developing countries where U.S. concessional aid programs have been completed, or where natural resources are of interest to the United States.

8. Security Supporting Assistance and Middle East Assistance:

Under these programs, AID administers economic assistance provisions to friendly countries, organizations, and eligible bodies in an effort to support and/or promote economic and/or political stability. Presently, the principal recipients of this assistance are the Middle East countries.

Included under these programs is the Middle East Special Requirements Fund which is used to develop peaceful and lasting solutions to divisive issues that have created conflict and tension between Middle East nations. These programs are designed to foster mutual respect and security while developing a conducive climate for economic development.

#### 9. International Disaster Assistance:

Working with the United Nations and other international organizations and private donor programs, the agency coordinates famine and disaster relief assistance to foreign countries in support of urgent humanitarian and other disaster needs abroad.

Under these programs, the Foreign Assistance Act of 1973 granted special authority to drought-stricken nations of Africa and, in particular, the Sahel region. AID's activities in this area have not changed except for the special focus given the Sahel region or other international problems that restrict development.

#### 10. Latin America Development:

Through the Alliance for Progress, AID administers programs for human and economic resource development to foster regional and hemispheric cooperation and development. This program came about due to the passage of the Latin American Development Act of 1960 and has maintained its Latin American orientation to the present day.

#### 11. Food for Peace:

AID, in conjunction with the Department of Agriculture, assists in the sale of agricultural commodities on concessional terms, covered under Title I of Public Law 480, to combat hunger, malnutrition, and for other special reasons. Title II permits AID to administer agricultural commodity donations for urgent relief needs

and non-profit school lunches for needy children and pre-school feeding programs administered outside the United States. The provisions for this program are covered under the Agricultural Trade Development and Assistance Act of 1954, as amended, Public Law 480 and have changed little as a result of Congressional requirements imposed on AID in 1973.

LEGISLATIVE REFORM: ISSUES FOR CHANGE

The legislative reforms to the Foreign Assistance Act of 1973 necessitated that AID revamp its development assistance strategy from past efforts. AID enumerates the changes in the strategy as follows:

"By concentrating our aid in the three key sectors of food and nutrition, population planning and health, and education and human resource development, we seek to help developing nations increase their capacity to meet basic needs of their people.

Projects and programs are especially directed toward reaching the poor majority within the population of these nations. We urge recipient governments to design policies and programs to assure that the benefits of economic growth accrue to all the people and not a select few. Influencing LDC (Less Developed Countries) institutions, policies, and systems are indirect but essential means of assuring that benefits reach the broadest group within the poor majority.

Private and voluntary organizations (PVO's) are increasingly

active, with AID support, in planning, implementing, and evaluating development programs which draw upon their unique capacities to reach directly large numbers of poor people.

AID is stressing the importance of integrating women into the development effort.

Moreover, while it is slow going, we are emphasizing programs which involve the poor as active participants in the development process itself, avoiding any suggestion of a handout."<sup>20</sup>

While the current approach to development assistance is new, AID personnel have worked for years with the problems of the developing countries. Many older projects were aimed at some of the problems Congress mandated AID to address in 1973. What is new regarding the approach is the total commitment to concentrate development efforts on the poor majority by encouraging and engaging the poor to participate in the development process.

Recipient governments, mindful of AID's new direction, are now required to make individual decisions on their development strategy and the use of AID sponsored programs, projects, and funds in meeting these particular needs. AID has made directed, targeted efforts to inform key officials at all levels in developing countries of the new legislation's meaning and intent. Some of the projects that were sponsored for AID mission funding, either formally or informally, but were not funded because they were inconsistent with the main thrust of new Congressional legislation are:

TABLE 3<sup>21</sup>AFRICA:

Cameroon: Trans-Cam railroad (third Stage)  
 Ghana: Hyrdoelectric dam and wood porcessing plant  
 Liberia: expansion of telecommunications loan  
 Malawi: Pulp/paper production  
 Malawi, Botswana, Swaziland, Lesotho, et cetera: roads  
 Mauritius, Senegal, and Mali: Hydro and irrigation dams  
 Rwanda: conservation project  
 West Africa: telecommunications project

LATIN AMERICA:

Bolivia: medium-large farmer project  
 Honduras: urban development

NEAR EAST SOUTH ASIA:

Bangladesh: shallow tubewells (benefit larger farmer)  
 Pakistan: bread factories in big cities (upper income group was primary beneficiary)  
 Tunisia: national engineering school

EAST ASIA:

Indonesia: Trans-Java highway  
 Bandung power distribution  
 East Kalimantan power generator  
 Gresik cement (second expansion)  
 Luwu regional development (airstrip, harbor sections, medical hospital,  
 and major dams )  
 Thailand urban health centers

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AID program changes have also occurred since the new approach began in 1973. This is evidenced in the table (page.28) which shows the shift in program concentration over the past 3 years.

TABLE 4<sup>22</sup>

Development Assistance Function Programs  
Fiscal Years 1973 through 1976  
(Dollar amounts in million)

	<u>1973</u>	<u>1974</u>	<u>1975est.</u>	<u>1976proposed</u>
1. Food Production and Nutrition	\$225.4 26%	\$274.4 35%	\$410.3 54%	\$582.3 61%
2. Population Planning and Health	\$154.1 18%	\$181.1 23%	\$166.0 22%	\$201.5 21%
3. Education and Human Resources	\$88.4 10%	\$89.0 12%	\$79.6 11%	\$95.3 10%
4. Selected Development Problems	\$229.2 26%	\$119.7 15%	\$60.0 8%	\$46.8 5%
5. Selected Countries and Organizations	\$177.8 20%	\$113.7 15%	\$38.6 5%	\$31.9 3%
*TOTAL:	\$874.9 100%	\$778.4 100%	\$754.5 100%	\$957.8 100%

NOTE: \*For purpose of comparability, fiscal year 1973-1975 data exclude operating expenses. In fiscal year 1976, operating expenses are proposed as a separate account.

MAJORITY POOR: AID'S DEFINITION

AID developed a series of categories that, when combined, represented the characteristics associated with the majority poor of developing nations. AID developed this set of "benchmark" indicators of poverty and anyone falling short of these indicators is placed in the majority poor category as defined by AID standards.<sup>23</sup> The benchmarks used within the agency are:

- (A). Per capita income below \$150.00 per annum;
- (B). Daily diet less than 2,160 to 2,670 calories depending on the country; and,
- (C). Health indicators that show life expectancy at birth below 55 years of age, infant mortality over 33 per 1,000 births of children between 0 and 1 year old, birthrates over 25 per 1,000 births per population, and access to broadly defined services unavailable for more than 40% of the population.

Even though AID financed programs are now directed toward the poor majority in developing countries, AID's primary target group may often be a select portion of this poor majority in each country depending upon it's economic and social conditions; it's goals and objectives; and other considerations which will facilitate the development assistance programs yielding the most favorable and impressive benefits with the least cost.

Programs are also designed to produce secondary benefits to assist as many poor as possible without worsening the circumstances of a developing country's poorest inhabitants. This is done by directing attention to developing countries that have policies geared to use AID's assistance

effectively; concentrating on key sectors that affect the well being of the majority poor broadly defined; provide development packages that offer, with other bilateral and multilateral donors, benefits designed to involve and affect broad segments of a particular country's population; and, support selected pilot programs that test new approaches within a given sector with the potential to affect many people and increase spread effects of other development programs, or advance the art of development.

AID assistance reaches the poorest majority by the indirect efforts of public and private intermediary institutions within the U.S. and/or developing country, or by providing advice to developing countries regarding development policies and strategies.

AID has also developed a set of categories that are used to describe participation and develop standard criteria for agency staff use. As defined by AID, participation for a developing country means:

"-Economic benefits are widely and significantly shared by the poor with the objective of narrowing the relative income gap between rich and poor, for example, the co-op which benefits small farmers.

-Decisions concerning the activities to be carried out are made, preferably, by those benefited (for

example, the poor), or if not, at least with effective consultation and substantial acceptance by those benefited.

-The Activity in which they participate is, ideally, a learning experience for benefited persons, which increases their technical skills and/or their capacity to organize for common purposes and for greater access to the benefits of development.

-The poor make a significant contribution in effort and resources to the activities from which they benefit, for example, through personal savings, or serving as members of local planning or project implementation committees, or through actual project implementation.

-The participation and contribution of women should be explicitly taken into account under the above-mentioned considerations, for example, and any of the above or other examples when the participants are women."<sup>24</sup>

#### POLICY CHANGES

AID's assistance programs now seek to develop support programs that contribute to a broad-based view of development on the part of the developing countries involved in bilateral

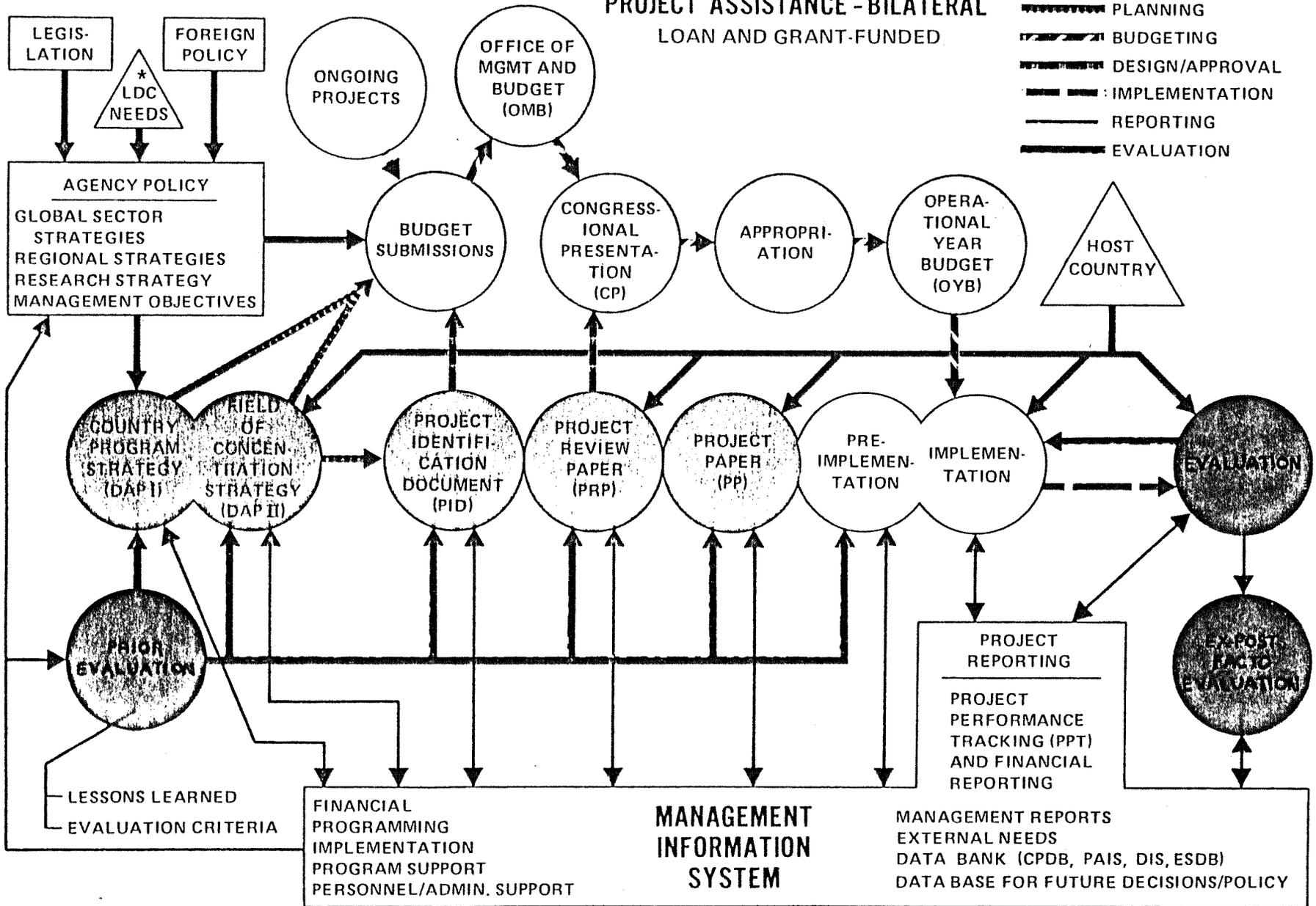
and multilateral assistance efforts. The small-farmer development strategy is consistent with AID's policy objective of increased food production and greater equity for rural populations tending to be rural, small, and/or nomadic cultures.

AID's efforts to help small farmers close the gap between food and production has concentrated on increasing small farmer agricultural production supported through donor financing of required agricultural inputs like fertilizer or pesticides. Rural development, agriculture, health, sanitation, and education programs that deal with nutrition, either directly or indirectly, are being used in a comprehensive effort to formulate an effective nutrition development strategy using elements from each of the aforementioned categories.

#### NEW PROCEDURES

AID policy changes have affected the entire agency in one way or another and have resulted in changes in internal agency procedures. In early 1972, AID developed a systematic and comprehensive set of mechanisms used to affect the programming process, but the new legislative mandates brought about improvements in the system. With rapid changes in the agency over the past three years and modifications of earlier policies and procedures, a new means to assure agency compliance with objectives and the development assistance approach have been provided. The chart (refer to page.33)

# INTERACTION OF MAJOR AGENCY PROCESSES



\* Less Developed Country

entitled Interaction of Major Agency Processes illustrates the agency changes and, "...the restructuring of AID's planning, budgeting, project design, review and approval, implementation, financial, evaluation and information systems."<sup>26</sup> Many of the new changes are essential to efficient program management geared to the new legislation.

#### Programming

Forces within AID integrated agency resources and improved the analysis of development programs and projects. By examining social and environmental soundness pre-planning activities, project implementation, and historical evaluations, if any, associated with the project, AID sought to increase implementation rates for projects while reducing errors and program failures.

As a result, project evaluations and design, have been used to set targets, identify indices relevant to stated project objectives, and determine if the proper objectives are being met.

Long-term planning is now used within the agency to define the development problems, major projects necessary to meet these goals, and set priorities in project selection. This process, known as the Development Assistance Program (DAP), is done for 3 to 5 year cycles and examines the country situation, the macro situation of growth, financial stability, and major national development problems. Sectoral assessments of agriculture, health, and education problems that might limit development are examined and alternative procedures

developed.

### Project System

The Project System, as an alternative to project problems, is a unified system employed for all agency projects consisting of three steps. The first is the Project Identification Document (PID) which addresses the issue of project consistency and long-term development efforts. It is linked to the agency budget presentation to the President and, as such, is extremely important.

Should approval be granted the PID, the Project Review Paper (PRP) is examined during the Congressional presentations. The PRP tells Congress AID's project intent and serves as a commitment in principle, or intent, to the developing country's government.

The third and final stage is the presentation and processing of the Project Paper (PP) which results in project funding and development of implementation plans for the project.

### Project Analysis

The Project Identification Document contains an economic analysis of each project and begins the procedure which involves the project analysis. Social soundness analysis, done for every project, examines the social impact of development assistance efforts on the target group and the majority poor outside the target group.

An environmental analysis is then used to determine the best development plan and strategy that will preserve the social and physical heritage of the developing country, or region. A technical soundness examination determines the appropriate use of technology consistent with the project intent.

The financial soundness assessment examines the financial plan of the project to see if it will enhance the economic well-being of the poor. Implementation, a pre-planned process, determines what organization(s) will administer the project(s), the range and scope of the project (old versus new institutional capacities and organizations), and preliminary work necessary for the start of the project.

Project evaluation is woven into the project design and becomes important in relation to project intent and the long-term planning objectives. It establishes the project purpose over the long-term development effort, the targeted group(s), and baseline project requirements. AID used project evaluation in the past as a method to assess the merits of a project by averaging the projects cumulative results in analysis; that is, weighing the positive development effects against the negative ones. However, AID now uses project evaluations as a means of sequencing the analysis by looking first at policy issues, then economic, social, and environmental factors.

The information from these procedures is then used to develop detailed information about a project's design, finances, and analysis so that implementation planning can occur. These procedures comprise the new project system currently used by AID to designate a starting point, a range of achievable objectives, and a set of goals consistent with the project intent. Goals are, according to AID, conceptually linked statements about a series of causal relationships which establish an implementation plan geared toward mutual development.

The system modifications now in place within AID use these procedures to administer foreign assistance programs. AID also recognized the need for clear policy guidance for various elements of the agency and provided new policy statements, definitions, and conceptual framework papers that support implementation of the Congressional mandates. Project management at all levels of AID in Washington, D.C. and the field are, or have been, briefed by the agency's management information system leaders and staff.

AID states that, "All of the above enumerated changes in AID's system should impact significantly on our ability to assure that the considerations which are central to a participation strategy of development are integral in every aspect of AID operations."<sup>27</sup>

### MANAGEMENT TOOLS

Agency administration and project managers developed, with the assistance of various consultant and agency personnel, procedures designed to assist in the development of foreign assistance programs aimed at the involvement of the poor majority in developing countries. Some of these tools are:

Logical Framework (Log Frame)- This is a planning device used for re-examination of the original design of on-going projects as a prelude to evaluation. By setting the evaluation standards, the log-frame determines and validates whether or not desired objectives are being met; whether these objectives are useful to achieve the project purpose; and, whether the achievements are making significant impacts toward higher order goals.

The log-frame defines project inputs, outputs, purposes, and higher sector/program/project goals in verifiable terms; hypothesizes the causative linkage between inputs, outputs, purpose, and goals; articulates the assumption (external influences and factors) which will reflect causative linkages; and, establishes the indicators which will permit verification of defined outputs, purpose, and goals.<sup>28</sup>

Project Evaluation Guidelines- This instrument is used to

examine the elements of the project design and attempts to assess progress.<sup>29</sup> Evaluation results may then be used to change project designs when, and where, necessary. This allows the original project design to serve as the framework for the evaluation process as determined by the evaluation officer.

The evaluation process consists of providing a set of field tested principles that will be of value in improving project design, evaluation, and adaptation; creating and clarifying the project design; analyzing the log-frame linkages; examining the project progress, and providing follow-up information.

A booklet is now used in AID to describe, in detail, the evaluation process, provide a glossary of terms, and lists standard worksheets used in the evaluation process. Evaluation Handbook- The handbook is used by AID personnel in planning, implementing, and evaluating projects and seeks to answer three basic questions for programs of assistance at all agency levels.

One question deals with project effectiveness. That is, are targets for outputs and purposes being achieved? What are the reason(s) for success or failure? Another question asked by evaluation deals with program and project

significance. Will the project targets contribute to economic development or other higher goals beyond the project purpose? The last question addresses project efficiency. Do the benefits justify the costs? Are there more efficient means of achieving the same targets?

The handbook covers other areas such as the AID evaluation system; the annual evaluation process; evaluation studies; design of evaluation studies; measurement, data collection, and analysis; and, issues in program evaluation. It also contains an appendix covering a glossary of terms, illustrative baseline measures, selected output, suggested "social indicators", indicators for evaluating Alliance for Progress funds, performance standards with an annotated bibliography and charts for the log-frame project, or comparison study designs.

30

Program Evaluation and Review Techniques (PERT)- This tool has been used within AID to help management identify, coordinate, and control different elements of large, loosely defined programs, for example, sales campaigns, surveys, or economic development projects. It is a systematic way of planning, statistically estimating,

and monitoring components of complex programs against a common time framework.

Developed in 1958 by Navy personnel, the Booz Allen & Hamilton company, and Lockheed for use by the Navy's Special Projects Office to manage the Polaris Program, it has been adapted in a number of programs and projects where end objectives can be defined, and dependency and interrelationships exist among working elements.<sup>31</sup>

Some of the advantages in using PERT systems include: improved communications, better planning, assists in time, money, manpower, and other required resource estimations, makes plans easily understood, provides a basis for realistic scheduling, permits rapid overall program analysis, links present conditions to future events, supplements other management aids, and assists in evaluating targets, risks, and rewards in Incentive Contracting.

Critical Path Method (CPM)- This procedure is similar to the PERT technique and is used with the management of well defined projects such as highway construction. It provides, basically, the same advantages as PERT, but is activity oriented rather than event oriented. The principle

difference between PERT and CPM is in the cost-management approach. In CPM, direct costs are calculated for each activity as well as time.<sup>32</sup>

This gives management a sound basis for optimizing time/cost tradeoffs.

Ex Post Facto Analysis (POFAC)- This is a systematic technique for reviewing and reconstructing a project after it has been completed. This is done to evaluate how actual implementation varied from the original plan.

POFAC, developed by Kenneth F. Smith in April, 1965 while a staff member of the U.S. Government Interagency PERT Organization and Training Center, is used for: post mortems on projects, contract reviews for potential claims against contractors or damages against customers, determining time extensions and authorized money, preparing legal briefs, analyzing opposition witness testimony, presenting rebuttal of that testimony, cross examination, witness preparation, and reducing hearing time for further study.<sup>33</sup>

POFAC uses a network as the standard against which all data are correlated and, from this data variances from the schedule can be analyzed to determine the impact

of deviation on the total project.

Line of Balance (LOB)- This is used for mass production management rather than single item tasks and is helpful in establishing, monitoring, and adjusting mass production lines and assemblies with varying lag, lead, and process time, such as housing development projects or agriculture projects.

Line of Balance allows the manager to determine production capability for planning purposes over a given time period. Its advantages are the same as PERT plus it provides: progress against goals for Multiple Repetitive Projects and permits time-unit production cost calculations. That is, the time required to produce "N" items for mass production operations can be determined.

Participant Training- This is geared to the development of the labor potential of developing countries. It has been the central thrust of new AID assistance programs for involving the majority poor in the development process by transmitting skills and knowledge in the areas of education, health, agriculture, nutrition, and engineering.

Each participant receives training directed to the

specific requirements of his country, while AID attempts to make trainee experiences relevant to personal talents and national needs. This is done by on-the-job, academic, specialized, and observation training.

In observation training, a developing country national observes activities of their American counterparts in such areas as business, industry, government administration, or science. The program is a cooperative one where AID, along with 35 other governmental agencies and bureaus, assists in training program participants.

Once a participant finishes training and returns to his native country, AID encourages the individual to continue developing professional talents and leadership skills.

The program stresses the approach AID has been required to follow by directly involving the majority poor population members from developing countries in the development process. While this is not new to AID, the approach has shifted its focus to the majority poor residents of developing countries.

Project Design and Evaluation Methodology- The following is a brief summary of AID's procedure for designing and assessing development projects.

The required components suggest that one:

- Use the Logical Framework,
- Apply the Design Methodology,
- Build evaluation elements into the project design,
- Use the Project Evaluation Process,
- Know the characteristics and limitations of the development project,
- Know the logical structure of a development project, and
- Use the Logical Framework Matrix for the development project.<sup>36</sup>

#### A NEW DIRECTION

Combined with an increased emphasis on internal, coordinative mechanisms in re-directing it's programs, AID placed greater emphasis on such internal units as Program Policy and Coordination (PPC), the Operations Training Branch of the Development Studies Program, Manpower Development, and certain agency personnel such as Evaluation Officers.

PPC was assigned, with other units in the agency, the task

of training and implementing the logical framework procedures on an agency wide basis by instructing Foreign Service Officers stationed in Washington, D.C. and those returning from their respective field assignments about the new program requirements. The agency has made plans to have all elements of the new system, "...fully operational not later than fiscal year 1977."<sup>35</sup>

Over 60 policy statements and conceptual framework papers, designed to explain the agency plans to support and implement legislative mandates were identified as necessary. To further augment this effort, meetings, conferences, and seminars were also employed to explain the new program intent and AID's objectives.

AID has also made improved use of the Administrator's Advisory Council, which concentrates on substantive program policies in an effort to identify and analyze policy issues, and improve foreign assistance policies, concepts, and approaches.<sup>36</sup> The Senior Operations Group (SOG) advises on important management and operating problems and sponsors staff studies. Further, AID's Management Improvement Plan for 1975 brought about new programs for improvement and innovation in AID operations.

Agency improvements resulted in new systems for project identification, review, and approval; better project design and increased effectiveness for project management by the use of new management tools and procedures. Better management systems

have been installed and improvements have occurred in the project evaluation process, program operations, and management techniques. Automatic data processing services supporting program management activities have expanded, and the agency's Geographic Bureaus have been restructured to integrate capital and technical assistance, and develop uniformity in approaching assistance activities, while increasing communication among personnel.<sup>37</sup>

#### CONCLUSION

Since 1973, the Agency for International Development has actively developed and instituted innovative new programs in the foreign assistance area to comply with Congressional mandates. It has improved professional, managerial, and operational capacity in order to respond to amendments in the Foreign Assistance Act which stressed a new direction in foreign assistance efforts for the agency.

While much has been accomplished, much has yet to be done. With AID's aggressive and concerned role in international development, an improved and sensitive administration, and new foreign assistance focus, the success of future foreign assistance development efforts will continue to reflect the interests of highly skilled, well trained professionals dedicated to addressing the needs of the industrialized nations and the Third and Fourth World nations for the improvement of mankind throughout the world.

FOOTNOTES

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