THE PRESIDENT'S COMMISSION ON THE MANAGEMENT OF A.I.D. PROGRAMS

Critical Underlying Issues-Further Analysis

DECEMBER 22, 1992

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December 22, 1992

The Honorable Lawrence Eagleburger
Secretary of State
Department of State
Washington, D.C. 20520

Dear Mr. Secretary:

I am pleased to transmit a staff report on further analysis of the underlying issues as identified in the Commission's Report to the President - An Action Plan.

In that report, the Commission identified four major policy and organizational issues which needed to be resolved for the U.S. foreign assistance program to work effectively. This report provides further support on three of the issues:

- *There needs to be a completely new foreign assistance act.* As background support we are providing a comparative analysis of other donor programs.

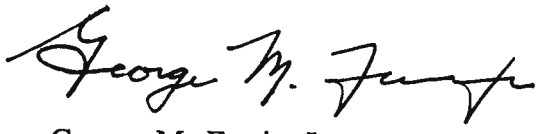
- *AID should be merged into the State Department.* We detail two options, one for minimal change and the other for basic reform.

- *There needs to be a formal coordinating committee on foreign assistance.* Here, we review past coordination efforts and support a recent recommendation by a joint commission of the Carnegie Endowment and the Institute for International Economics.

The fourth issue, making a clear distinction between ESF and DA monies, we felt could be handled easily by agreement between the Administration and Congress and did not require further discussion.

We have appreciated the opportunity to be of service and hope that this report is useful to you.

Sincerely yours,



George M. Ferris, Jr.
Chairman

NOTE

This report was prepared by the staff of the Commission based on requests from Congress and the Administration to Chairman Ferris for further analysis of some of the recommendations contained in the Report to the President - An Action Plan.

No public hearings were held nor were there any meetings of the Commissioners regarding the contents of this report. Thus, it does not represent a formal finding of the Commission. Rather, it is staff work offered as further background for use by those who will be dealing with the future of U.S. foreign assistance.

George M. Ferris, Jr.
Chairman

ACRONYMS

ADC	Advanced Developing Country
AID	U.S. Agency for International Development
AID/W	Agency for International Development, headquarters in Washington, D.C.
AIDS	Acquired Immune Deficiency Syndrome
ATP	Aid and Trade Provision, United Kingdom
BMZ	Federal Ministry for Economic Cooperation, Germany
CDIE	Center for Development Information and Evaluation, AID
CIA	Central Intelligence Agency
CIDA	Canadian International Development Agency
COO	Chief Operating Officer
CRS	Congressional Research Service
DA	Development Assistance
DAC	Development Assistance Committee of the OECD
DCC	Development Coordination Committee
DEA	U.S. Drug Enforcement Agency
DIA	Defense Intelligence Agency
DOD	U.S. Department of Defense
EC	Economic Council
EDF	European Development Fund
EEC	European Economic Community
EEO	Equal Employment Office
EPA	Environmental Protection Agency
ESF	Economic Support Fund
EXIM	Export-Import Bank of U.S.
FHA	Bureau for Food and Humanitarian Assistance
FBI	U.S. Federal Bureau of Investigation
FM	Office of Financial Management, AID
FSI	Foreign Service Institute
FY	Fiscal Year
GC	Office of the General Counsel, AID
GS	General Schedule
GTZ	German Agency for Technical Cooperation
HHS	U.S. Department of Health and Human Services
HRDM	Office of Human Resources Development and Management, AID
IDCA	International Development Cooperation Agency
IG	Office of the Inspector General, AID
IMF	International Monetary Fund
INR	Intelligence and Research Bureau, Department of State
IRM	Information Management Resources, AID
ISTC	Institute for Scientific and Technological Cooperation
JICA	Japan International Cooperation Agency
KfW	Reconstruction Loan Corporation, Germany
LEG	Bureau for Legislative Affairs, AID
LDC	Less Developed Country
NIS	New Independent States
NGO	Non-governmental organization
NSA	National Security Agency
NSC	National Security Council
ODA	Official Development Assistance
OECD	Organization for Economlc Cooperation and Development
OECF	Overseas Economic Cooperation Fund, Japan
OFDA	Office of Foreign Disaster Assistance, AID
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
R&D	Bureau for Research and Development, AID
SEC	Securities and Exchange Commission
SIDA	Swedish International Development Authority
TDP	U.S. Trade and Development Program
UN	United Nations
UNDP	United Nations Development Program
USG	United States Government
USIA	United States Information Agency
XA	Office of External Affairs, AID

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Executive Summary

The President's Commission on the Management of AID Programs issued its basic report in April 1992, titled Report to the President - An Action Plan. It made twenty-five specific management recommendations and framed four critical underlying issues that needed to be dealt with to make the U.S. foreign assistance program effective and ready to play its role in the post-Cold War foreign policy arena. In September, 1992 A Progress Report was issued which reviewed AID's implementation of the twenty-five management recommendations. The President then extended the Commission to December 31, 1992.

This report provides further elaboration on the critical underlying issues. **The first and most basic recommendation was that the mission and objectives of foreign assistance needed to be defined anew. There needs to be a completely new foreign assistance act.** To do this a new consensus should be built between the Executive Branch and Congress. The time is right to do this with the beginning of a new administration.

To help the process along, this report presents a **comparative analysis of foreign assistance programs of selected other donors.** In this we compare the different approaches and strategies adopted by donor countries to deliver their aid programs, with a view to understanding how they have adapted to the various priorities and pressures they face. Donor aid agencies differ significantly in their institutional infrastructures, client countries, mix of aid outputs, terms and conditions, and in their response to domestic political pressures. However, at a broader level, there is clearly an international "foreign assistance industry" which is relatively homogeneous in its objectives, delivery mechanisms and outputs.

The second critical underlying issue is AID's organizational status and location within the Executive Branch. We felt that status and location should flow from a newly defined mission. If the mission is to support U.S. foreign policy, then **AID belongs fully merged within the State Department.** We offer two options for merging AID into State. One is minimum change in organizational structures; the other calls for basic reform of both and a completely new merged organization.

The third issue on which we expand is the need to establish a formal coordinating committee on foreign assistance. The number of Executive Branch agencies involved in foreign assistance is growing. Senior-level coordination is weak. The Executive Branch runs a real danger of losing control over the priorities and roles of various agencies in foreign assistance and the allocation of funds. Here, we support a solution that has been recently recommended by a joint commission of the Carnegie Endowment for International Peace and the Institute For International Economics.

The fourth underlying issue was that the Administration and Congress should make a clear distinction between ESF and DA funding. We believe this could be quickly and simply agreed upon by the two branches and does not need further elaboration.

Part I: A Comparison of Donor Approaches to Development Assistance

Part I: A Comparison of Donor Approaches to Development Assistance

Section 1: Introduction

The United States is no longer the major donor in the world nor in most recipient countries. In the 1960s, the United States provided about 60 percent of all foreign aid to developing countries, most of it on a bilateral basis. Today it provides less than 20 percent of all donor assistance, and one-fifth of that is in the form of contributions to multilateral organizations such as the World Bank. Of the remaining bilateral portion, the United States gives over one-half to just two countries, Israel and Egypt.

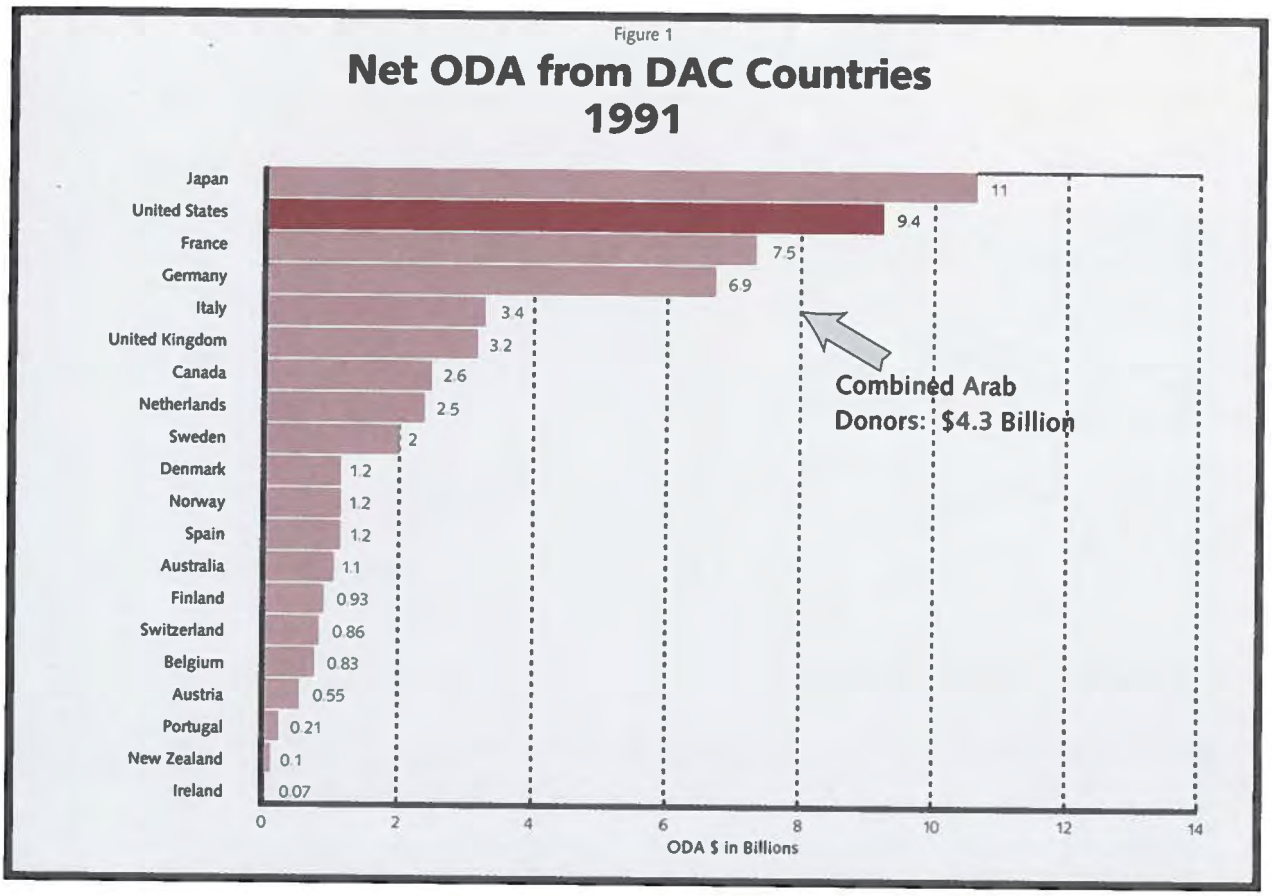
Over the past 30 years, a number of other countries have become major donors and the multilateral organizations have grown in both size and influence. Also, it is now apparent that U.S. and other donors' policies on trade, debt and investment have far more impact on developing countries' economic growth than foreign aid does.

In preparing a new U.S. Foreign Assistance Act, there are lessons to be learned from how other donors justify, organize and operate their aid programs. We looked at how Canada, Germany, Japan, Sweden and the United Kingdom have dealt with the following six elements of their foreign aid programs: (1) history, (2) objectives, (3) organization, (4) types of assistance, (5) major recipients and (6) trends.

Section 1 provides some background information and presents an overview of some of the key characteristics of the U.S. aid program and those of the five donors we selected for comparison. Section 2: Summary Observations, notes some of the key issues related to foreign aid and the range of options that donors use in addressing them. Section 3: Donor Profiles, provides more detailed information about each of the five donors in our sample.

The Donor Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) is the primary source of the statistical data we used in this study. DAC member countries meet periodically to review the amount and nature of their contributions to bilateral and multilateral aid programs and consult with each other on aspects of development policy. The twenty countries that are members of the DAC and the amount of Official Development Assistance each provided in 1991 are shown in figure 1. In 1991, DAC members together provided $57 billion in net Official Development Assistance (ODA) which, along with an additional $4 billion provided by Arab donors, accounts for virtually all economic aid to developing countries provided by donor governments. The United States and the other five donor countries we examined are DAC members. In 1991, these six donors provided about two-thirds of the total amount of official development assistance.

Official Development Assistance (ODA) is the term used by the OECD to uniformly describe aid. For the flow of foreign aid to be counted as ODA it must be provided (1) by the government of the donor country to a country on the DAC list of less-developed countries or to a multilateral institution that provides development assistance to such countries (currently the list does not include newly-independent countries in Eastern Europe and the former Soviet Union); (2) with the main objective of promoting economic development or welfare; and (3) at concessional financial terms



(if a loan, it must have a grant element of at least 25 percent).

ODA includes both bilateral and multilateral aid and is usually discussed in terms of net disbursements. ODA excludes grants, loans and credits for military purposes. In 1992, DAC members agreed not to count the forgiveness of military debt as ODA, but to record it in the data DAC publishes. The United States forgave $1.2 billion in military debt in 1990 and $1.86 billion in 1991. Some DAC tables include these amounts in total net disbursements for the United States, others do not. DAC documents note that 1990 through 1992 data is preliminary and subject to revision. When military debt forgiveness is included, the United States ranked first among DAC donors in 1991 with $11.26 billion in net ODA. In table 1, we did not include these amounts. As a result, for 1991, we show Japan ranked first with $11 billion and the United States ranked second with $9.4 billion.

The Donor Sample: The five donors we selected for review are among the top ten DAC donors each year. They have large aid programs, ranging from $2 billion to $11 billion in 1991. Each donor provides assistance to many countries and has set up different ways in which it manages that assistance.

We found that how donors acted often depended on the history of their aid program, the objectives they are trying to achieve and their basic orientation towards the developing countries. The following section provides an overview of some of the key characteristics of the U.S. aid program and those of the five donors we selected for comparison. We are aware of significant differences among these donors' programs and the limitations of direct comparisons. Nevertheless, we feel it is enlightening to examine their various philosophies and approaches.

Donor Overview

United States:

— largest program in terms of aid staff and field offices, vies with Japan as largest program in dollar terms;
— program shaped by Cold War concerns with the spread of communism;
— ODA includes over $3 billion ESF, the primary purpose of which is political and security goals, not development;
— allocations extensively earmarked by Congress;
— over 50 percent of bilateral aid is concentrated on Israel and Egypt;
— strong emphasis on AID and recipient accountability;
— low public support;
— trying to develop and apply criteria to measure recipient policies and performance as a guide to allocating funds; and
— funds are virtually all grants.

Canada:

— aid strategy adopted in 1988 emphasizes sustainable development over Canadian commercial concerns;
— aid objectives are not detailed in legislation;
— strong public support;
— decentralizing planning and implementation activities to the field;
— trend toward less control and accountability based on view that control costs money and stifles creativity;
— aid allocations are based on formulas, total ODA is based on a percentage of GNP;
— effort to focus program by specifying that 75 percent of bilateral ODA will go 30 countries;
— 1988 eligibility criteria based on political, human rights and economic factors;
— some shift from extensive use of Canadian technical advisers to local expertise;
— 5-year country planning figures are not made public.

Germany:

— embassies handle foreign aid matters in-country, few government aid staff in the field, highly centralized system;
— positive public support;
— 35 percent of aid is loans;
— funds high-tech projects in public utilities and industries run by German experts with minimal follow-up;
— 50 percent of aid is tied to procurement in Germany;
— widely dispersed program with 75 countries receiving aid on regular basis;
— two aid agencies were reorganized in 1987-88 to shift focus from individual projects to country programs;
— new 1991 criteria for determining eligibility includes human rights and level of military spending;
— substantial commitments to Eastern Europe and former Soviet Republics is outside of and in addition to the regular aid program; and
— despite the cost of unification, the Gulf War and other events, government says it will maintain aid to developing countries.

Japan:

— currently largest donor in terms of dollar amount—but employs very small aid staff and field presence;
— highly centralized system;
— broad public support;
— believes recipient is responsible and donors should avoid meddling;
— uses ODA to promote commercial and economic interests, blends aid loans and grants with export credits, emphasizes major infrastructure projects;

— 70 percent of bilateral aid is loans;
— aid strategy integrates trade, private investment and development finance;
— new 1992 eligibility criteria include environmental concerns, level of military spending and human rights; and
— no aid legislation, Japanese Diet plays very limited role in allocations.

Sweden:

— concentrates on 19 program countries;
— commits a 2-year amount for each country; recipient proposes how to spend funds at a later point;
— provides all ODA in grant form;
— emphasizes recipients' responsibilities rather than expanding Swedish field presence;
— funds program aid, large-scale industrial and infrastructure projects implemented by Swedish firms;
— simple procedures facilitate management by recipients and reduce Swedish involvement;
— motivated by altruism and the spirit of the NGOs which began the aid program;
— 150 NGOs implement 30 percent of bilateral ODA; SIDA pays 100 percent of some NGO budgets;
— reduced 1993 ODA by 10 percent for budget reasons, despite strong public support;
— uses the leverage and power of the Nordic Bloc, especially in the multilaterals;
— reorganized in 1991 to better work with the Swedish private sector to promote industrial development.

United Kingdom:

— three-fourths of bilateral ODA goes to Commonwealth countries;
— provides aid to 120 countries, but concentrates on 10 "program" countries;
— does not have strong public support;
— highly centralized system, Overseas Development Administration has few staff overseas, primarily in 5 regional offices;
— relies on embassies, British Council, Crown Agents to negotiate and manage aid programs in-country;
— compensates for limited staff—contributes 40 percent ODA to multilateral organizations, bilateral focus is on infrastructure and nonproject aid;
— only pays up to 50 percent of a project's cost when working through an NGO;
— ties 80 percent of aid to procurement of goods and services in UK;
— Aid for Trade Provision mixes ODA with credits and loans and accounts for about 6 percent of bilateral aid;
— new "good government" eligibility criteria includes economic policies, democratic accountability and respect for human rights.

Section 2: Summary Observations

History

Foreign aid as we know it today grew out of the post-World War II experience with the Marshall Plan and other reconstruction programs and coincided with the end of colonialism. In general, donor countries began providing aid in the 1950s to the newly independent countries in Asia and Africa. The donors we studied established government aid agencies in the early 1960s.

Beyond these similarities, the size and orientation of each foreign aid program are determined by many factors, including the extent of public and political support for aid, historical links with developing countries, the importance of developing countries as economic markets and suppliers of raw materials, and foreign policy and national security concerns.

For example, Japan's aid program evolved from its payment of post-war reparations in the form of commodities to Asian countries. The program is still concentrated in Asia and reflects Japan's commercial interests and need for natural resources. The United Kingdom provides three-fourths of its bilateral aid to Commonwealth countries and still uses colonial institutions like the Crown Agents to implement its aid program. The U.S. aid program was shaped by Cold War political and security concerns with instability in the Middle East and the spread of communism in the Third World. Sweden's aid program was shaped by the spirit of the NGOs who began the program in the 1950s and implement about one-third of it today.

Objectives

The donors we studied have multiple objectives which are stated in a similar fashion—for instance, poverty alleviation, economic growth, environmental preservation and inclusion of women in the development process. In general, there appears to be a broad consensus among donors on the basic objectives of sustainable, participatory economic and social development and on the policies required to achieve these objectives, including reliance on market forces and good government. This similarity in stated objectives also reflects the fact that donors coordinate development policy in various fora, including the DAC.

In addition to their formally stated objectives, donors have other objectives that may not be articulated publicly, but which may in fact be more influential in shaping their aid programs than the formal objectives. Typically, the unstated objectives relate to commercial, economic and security goals.

Legislation: U.S. foreign aid objectives are contained in authorizing legislation, the Foreign Assistance Act of 1961, as amended. Other donors use other instruments to codify foreign aid objectives that are more flexible and more easily changed than a law. For example, Japan issued a White Paper in 1992 which sets its new directions for aid. Canada revised its entire aid strategy and organization based on a series of parliamentary reports issued in the last half of the 1980s. Like the United States, other donors have appropriations legislation, but the appropriations do not generally earmark specific amounts for countries and programs.

The U.S. government structure based on checks and balances and the recent history of different parties controlling the executive and legislative branches

have contributed to the U.S. tendency to write into legislation very specific concerns of legislators. Conversely, in the parliamentary systems of other donors, the same political party or parties run the executive and legislative branches of the government. Legislators are thus unlikely to feel the need to specify such details in legislation.

In part because aid objectives and allocations are legislated, the Agency for International Development is under great pressure to prove empirically that aid programs work. However, AID faces a serious conceptual gap when it tries to measure performance. For example, legislation specifies that ESF is provided for economic and security objectives and that a certain percentage of it must also be used for development objectives. In its first report, the Commission noted that it was unreasonable to expect that ESF would also have optimal development impact and recommended that Development Assistance and ESF be dealt with separately. Despite the rhetoric of their formally stated objectives, other donors appear to be far less concerned with determining through evaluations and audits if those objectives are actually being met.

Another factor that seems to drive the level of detail in U.S. foreign aid legislation and U.S. efforts to prove that foreign aid programs work is that public support for foreign aid is very low in the United States and relatively higher in the other donor countries. As a result, U.S. legislators feel the need to justify foreign aid expenditures to the public.

Public Support: Low U.S. public support for foreign aid was evident this year when one of the early candidates for the U.S. Presidency rose in opinion polls when he proposed eliminating foreign aid and concentrating U.S. resources on domestic problems. Further public outrage was expressed in September when the media reported that U.S. aid contributed to offshore job flight. Despite the undercurrent of neo-isolationism, U.S. contributions to NGOs with international programs are high and the readiness of the American people to help in emergencies is well-recognized.

In Sweden and the other Nordic countries, there is a high level of public support. A DAC analysis suggests that this reflects genuine sympathy for the poor and a collective sense of responsibility, coupled with the belief that government can promote social justice through public programs. The level of public support may also reflect the Nordic countries' relative isolation from international political conflicts and relative freedom from racial, religious or language tensions.

Some governments have active public education initiatives which may contribute to the level of public support for foreign aid. Sweden spends about 50 cents per capita annually for public information on development issues. The United States and United Kingdom spend about 1 cent per capita. As a point of interest, the UK's Aid and Trade Provision of 1977 was and is an effort to maintain public support for the foreign aid program by emphasizing how it benefits the British economy.

Finally, there are indications that all donors may be facing "aid fatigue" for a number of reasons. These include current economic problems, domestic needs ranging from U.S. urban problems to the costs of unification for Germany, government budget constraints, and competing demands for aid to Eastern Europe and the former Soviet Union. Added to these concerns is a general feeling that aid has not met expectations for development, political stability nor the creation of new markets for donors.

Organization

Each donor government is organized differently to manage the same types of ODA activities. Within the U.S. system, several agencies are involved in managing ODA. For example, the Department of the Treasury manages U.S. contributions to the international financial institutions such as the World Bank and International Monetary Fund; the Department of State manages U.S. contributions to the UN system, other international organizations and humanitarian relief; the Peace Corps is the U.S. overseas volunteer service; and the Agency for International Development manages development activities, foreign disaster assistance and, with the Department of Agriculture, food aid.

Other donors divide up the same types of ODA activities in different ways. For example, the Canadian aid agency manages a large part of multilateral assistance, as well as all bilateral aid.

The United States has by far the largest organization for delivering aid. It has AID offices in over 80 countries staffed by 2,000 U.S. and foreign national direct hires, 5,000 personal services contractors and an estimated 10,000 more in the "extended workforce" of contractors, NGOs and others who implement U.S. aid activities. An additional 2,000 people work at AID headquarters in Washington, D.C. The U.S. system is highly decentralized with substantial authority to make operational decisions delegated to the field offices. The United States is virtually unique in the extent to which it holds both its aid agency and the recipient government accountable for the use of funds and program results. Its elaborate procedures and large aid staff both at headquarters and overseas reflect this factor.

In contrast, the other donors we studied had highly centralized programs and very few aid staff stationed overseas. For example, Japan relies on its embassies and diplomatic personnel, rather than separate aid offices and staff to manage its program which was about $2 billion larger than the U.S. program in 1991. The UK aid agency operates out of London with a small number of technical experts stationed in five regional offices. In addition to the aid agency, other British institutions including the diplomatic missions, British Council and Crown Agents help manage and implement the program overseas.

A donor's basic philosophy toward foreign aid and developing countries tends to shape the organizational structures it establishes for delivering assistance. Japan and Sweden feel strongly that the recipient country is responsible for its own development. As a result, neither country feels the need to have large numbers of aid staff in-country to manage the programs they fund. In addition, Sweden is noted for its simple procedures and flexibility in responding to donor needs. Donors like Germany that use domestic firms to implement large infrastructure projects tend not to have large aid staffs in-country either. However, Germany retains some control through elaborate requirements and procedures.

Unlike the other donors, Canada has recently decentralized the management of its foreign aid program and increased the number of aid staff overseas. Due to the high cost of maintaining staff overseas, the United States and many other donors have decreased the number of aid staff overseas, even as their overall aid budgets have increased.

Types of Assistance

Aid Categories: About 20 percent of the total ODA provided by DAC members is channelled through multilateral institutions, 80 percent is spent on bilateral programs. The United States and Japan reflected the DAC average with a 20:80 split. Germany and the United Kingdom are both members of the EEC. When their contributions to the EEC are factored in, the muliti/bi ratio for Germany is 30:70 and for the UK 44:56.

Since the mid-1980s most donors have provided 100 percent grant aid to the least developed countries. The DAC norm for the grant share of bilateral ODA is 86 percent. Japan has the lowest grant share of any DAC donor at 27 percent. Germany is also below the DAC norm at 65 percent. The United States and the other donors in our sample ranged from 94 to 100 percent grants.

Aid Sectors: Donors are guided by different objectives, aid philosophies and aid delivery structures in distributing their aid. In 1990, 25 percent of the total contributions from DAC members was spent for economic infrastructure which includes energy, transport and communication; 24 percent was for social infrastructure activities which include education, health, population and water supply; 11 percent was for agriculture; 11 percent was for program assistance; 10 percent was for industry, mining, construction and other production activities; and 3 percent was for food aid. The remainder was for unspecified "other" activities.

Program Assistance: Program assistance is a cash or commodity transfer to offset balance-of-payments problems in recipient countries. It is usually tied to policy reforms at the macroeconomic level. Most U.S.

program assistance is ESF-funded. In 1990, 16 percent of U.S. ODA, 19 percent of Japanese ODA, and 13 percent of UK ODA was provided in the form of program assistance. Canada, Germany and Sweden provided less than 10 percent of their ODA for program assistance. Except for the United States, donors provide program assistance primarily in conjunction with World Bank/IMF structural adjustment agreements.

Project Assistance: Except for the 11 percent of donor aid provided as program assistance, the 3 percent provided as food aid and certain other categories, donors provide most bilateral aid for projects. Projects may have one or many components. A complex project might include training, construction, institution building, agricultural production, research and credit components. There is no standard definition or way of counting the number of projects, nevertheless, donors fund thousands of them. *The DAC has expressed concern that (1) donors tend to work with isolated projects that do little to contribute to the sustainable development of recipients; (2) multiple donors impose an administrative overload on local officials; (3) donors compete for projects; and (4) donor accountability requirements and financing arrangements complicate the recipient's public accounts systems.*

Tied Aid and Mixed Credits: Tied aid is ODA that must be spent on goods or services in the donor country. It is a form of export promotion. During the 1980s donors developed new mechanisms to promote commercial objectives through their aid programs. Described collectively as "associated financing" by the DAC these instruments blend ODA with commercial loans to improve the competitiveness of domestic firms in the Third World. One form of associated financing is mixed credits. With mixed credits the concessional and commercial portions of a loan are blended into a single financial package. Some donors, such as Japan, then report the entire loan as ODA. The UK Aid and Trade Provision which accounts for 6 percent of UK bilateral aid is also an example of how a donor mixes credits.

In 1992, DAC members approved new rules regarding tied aid and mixed credits and what can be counted as ODA in the future. Basically, the new rules say that if a project is commercially viable at market rates it is not eligible for concessional ODA. The intent is to limit aid and trade distortions and to target more aid to countries with little or no access to market financing. As discussed in the profile of Germany, these rules may change how some donors do business and what they can count as ODA.

Debt Forgiveness: Servicing official debt owed to foreign governments is a significant financial problem for many developing countries. Most donors forgave ODA debts owed by the least developed countries in the late 1970s or 1980s. In the past two years, the United States and others have restructured debts and forgiven official debt for some African or Latin American countries, Egypt and Poland. Japan opposes debt forgiveness schemes in the belief that they subvert disciplined economic management principles.

In 1992, DAC members agreed not to count the forgiveness of military debt as ODA, but to record it as "non-ODA debt" relief. Debt relief data for 1990 and 1991 is skewed by the large amounts of military debt relief related to the Gulf War. The United States forgave $1.2 billion in military debt in 1990 and $1.86 billion in 1991. Some DAC tables include these amounts in U.S. totals, others do not. When non-ODA debt is included, debt relief accounted for 57 percent of U.S. commitments in 1990 and 23 percent of all DAC ODA.

Major Recipients

Except for emergency relief, the geographical distribution of ODA is primarily determined by historical and commercial links between donor and recipient. While nearly all developing countries receive some development assistance, the distribution of aid is largely independent of the relative need of these countries. For instance, in 1991, the top five recipients of bilateral aid from all DAC countries were, in descending order, Egypt, Indonesia, China, Israel and Bangladesh. Of these, only Bangladesh is among the 42 countries recognized by the United Nations as "least developed."

Regional Distribution: Figure 2 shows how much aid the United States and the five donors we studied provided to each region in 1991. As shown, the United States gave nearly 60 percent of its bilateral ODA to the Middle East, primarily Egypt and Israel. Japan gave over 50 percent of its aid to Asian countries. The other donors gave a significantly larger percentage of their ODA to Sub-Saharan Africa.

Figure 3 shows the total amounts of bilateral aid each region receives from the United States and the five other donors we studied. In general, the European Community, the Nordic countries and Canada concentrate their aid on Sub-Saharan Africa. Sub-Saharan Africa is almost totally dependent on official aid flows to meet its basic foreign exchange needs, most domestic requirements and increasingly, recurrent costs.

Trends

Objectives, Policies, Strategies: The end of the Cold War created new opportunities and challenges in the developing countries, as well as in Eastern Europe and the former Soviet Union. In response, the donors we studied are rethinking their aid programs, priorities and strategies. Among other things, donors are requiring that recipients take the steps they can to help themselves, to mobilize domestic resources and to use them productively through effective policies and institutions.

The United States and four of the donors we studied have developed "eligibility criteria," also called "donor conditions," for determining which countries will receive their aid and how much. Over the past 2 years, the United States has been working on various approaches to what it calls performance-based budgeting. It developed criteria for rating potential recipient countries but has not allocated funds based on the ratings. Germany announced new criteria in 1991 and subsequently cut country allocations for five of its ten largest recipients. If Japan applies the new conditions it announced in 1992, some of its major recipients are also likely to suffer cuts. The end of the Cold War and the Iraqi invasion of Kuwait have focused attention on how much developing countries spend for military purposes. Germany, Japan and some other donors take the amount and trends in military spending into account in their new aid allocation criteria.

Donor countries are dealing with weak economies; concerns about the effectiveness of aid; competition for aid resources due to rapid changes in the world; and growing uncertainty as to the context and rationale for development assistance in the post-Cold War world. The search for a new rationale is underway in most DAC member countries. Typically, donors are looking not only at traditional development needs, but also at transnational problems such as the environment, AIDS, narcotics and migration.

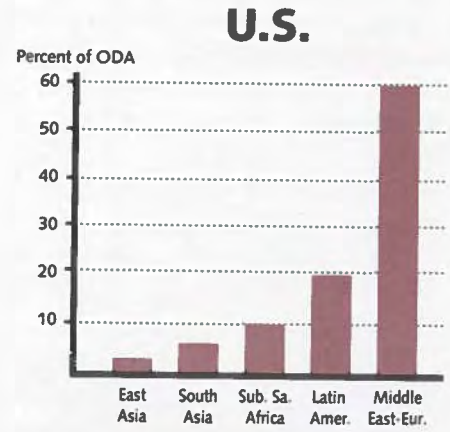
Funding Levels, Types of Aid: Over the past ten years, the total volume of DAC ODA in real terms grew at a rate of about 3 percent annually. Despite major shifts in how much each donor provided, total DAC ODA as a percentage of DAC members' GNP has remained surprisingly stable at about .33 percent. However, total volume is unlikely to increase much in the foreseeable future because donor countries are experiencing domestic problems and budget constraints.

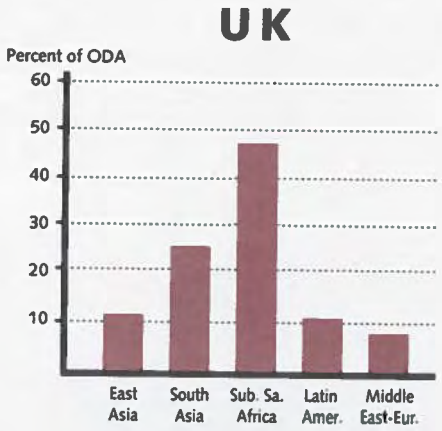
There are also new and competing international demands for ODA resources. Some donors treat aid to Eastern Europe and the former Soviet Union outside of ODA structures and in addition to the ODA budget. To date, DAC members report that such aid has not been diverted from developing countries. However, DAC is considering adding some of these new countries to the DAC list. In addition, the advent of peace in such countries as Angola, Cambodia, Ethiopia and Nicaragua has led to new requests for assistance in rehabilitating basic infrastructure and social services.

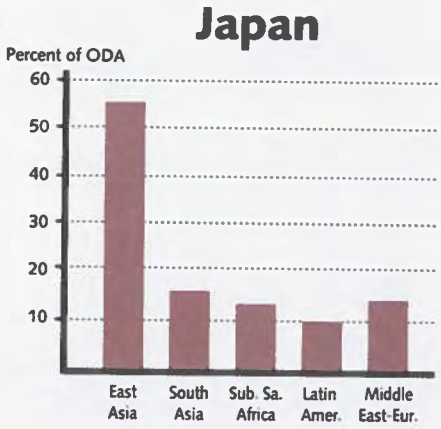
The early 1970s saw a major expansion in the role of multilateral aid with large increases in contributions to the IMF, United Nations Development Program, EEC programs and others. In the 1980s, the proportion of DAC ODA channelled through multilateral programs declined. The decline was particularly pronounced for large donors such as the United States and Japan. With increased interest in multilateral action in, for instance, the Gulf War and Somalia, there may be a shift back towards multilateral aid.

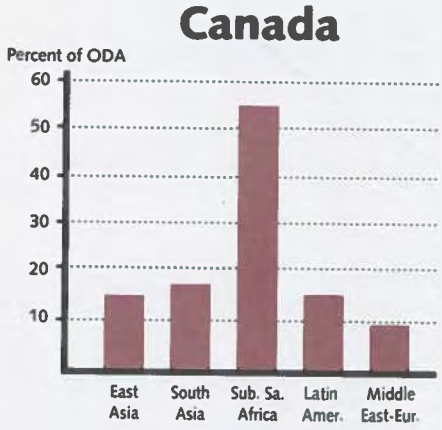
Regional Distribution of Donor Assistance

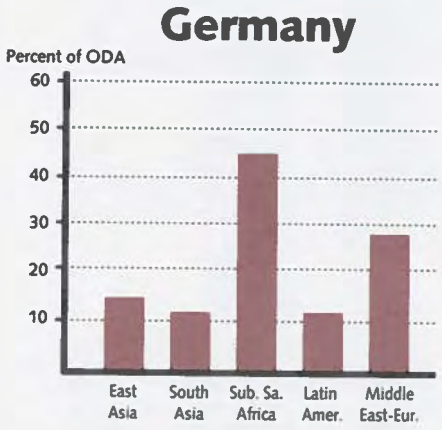
Bilateral ODA-1991

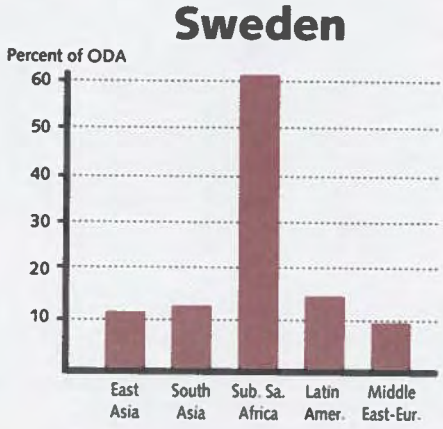












To promote their commercial interests and to get around GATT liberal trade rules, donors increased their use of tied aid and associated financing mechanisms such as mixed credits during the 1980s. During the same period there was a shift from project aid towards more program assistance, primarily in conjunction with World Bank/IMF structural adjustment agreements with recipient countries. This trend reflects (1) evolving development theory which now emphasizes the importance of recipient government policies; (2) donors' limited capacity for administering aid; and (3) the debt crisis.

Organization, Management: All donors are concerned with the rising costs of delivering aid. For all, the cost of maintaining staff overseas rose sharply during the 1980s at the same time that telephone, fax and airline communications with developing countries improved. Except for Canada, which increased its overseas staff, donor countries have generally limited the number of aid staff stationed overseas, even as aid budgets grew.

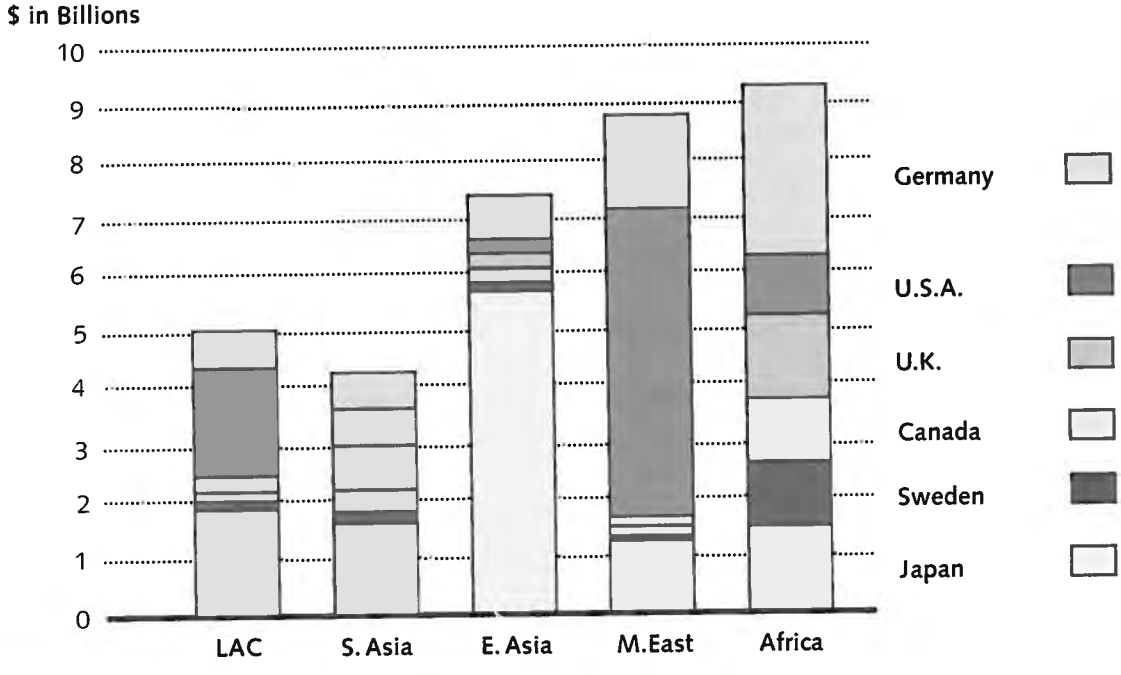
The United States and the other donors we studied rely heavily on consultants to implement projects. *The United States appears to be the only donor which is requiring its aid agency to exercise more control over expenditures.* Canada is moving towards less control, which it sees as costly and as inhibiting flexibility to respond to needs. Sweden and Japan feel development is the recipient's responsibility and that donors should not intrude.

Important shifts in the orientation of aid programs occurred during the 1980s as donors became involved in supporting political and economic reform efforts which are critical to sustainable development progress. In recognition of how important the recipient government's policies and institutions are, the donors we studied are beginning to emphasize a country-focus and to attempt integrated country programming.

Figure 3

Distribution of 1991 ODA Assistance

Regional Contributions of Six Major Donors



Section 3: Donor Country Profiles

CANADA

Amount of ODA 1991: $ 2.6 Billion
DAC Rank Based on Amount: 7th

History

Canada's bilateral aid program began with the 1950 Colombo Plan when Canada joined other donors in providing assistance to the newly independent nations of India, Pakistan and Sri Lanka. In the late 1950s Canada extended aid to the Caribbean and in 1960 to Africa. Canada's aid program reflects its historical background and self-image as a multi-cultural society. About 65 percent of bilateral ODA is provided to Commonwealth and French-speaking African countries. Canada has also used its aid program to build its relationships and markets in the Third World and to present itself as a mediator between North and South.

Objectives

In 1988, Canada adopted a new aid strategy. The strategy paper, Sharing Our Future, lays out an ODA Charter based on four principles and six priorities. The four principles are: (1) put poverty first, (2) help people to help themselves, (3) development is the primary concern in setting aid objectives, and (4) partnership between Canada's people and institutions and those of the Third World. The six priorities are: poverty alleviation, structural adjustment while taking account of its human impact, women in development, the environment, food security and energy availability.

In 1991, Canada's aid agency adopted the following mission statement: "The mission of the Canadian International Development Agency is to support sustainable development in developing countries." The agency has developed a "sustainable development framework" which identifies five "pillars" or types of sustainability—environmental, economic, political, social and cultural—and five key characteristics: sustainable development (1) takes a long time, (2) respects diversity and pluralism, (3) uses an integrated approach, (4) requires equity and justice, and (5) relies on participatory approaches.

Legislation: This strategy, together with other policy statements, establishes the framework for Canada's aid. Legislation does not play a role as in the United States.

Public Support: A 1991, government-sponsored poll indicated that a majority of Canadians believed that international development assistance is not only necessary, but also a responsibility of wealthier countries such as Canada. 68 percent of respondents thought the amount of money Canada devoted to assisting developing countries was either the right amount (35 percent) or not enough (33 percent).

Organization

Government: The Department of External Affairs, headed by a Secretary of State, is responsible for foreign policy, development cooperation and foreign trade. Within the Department, the Minister for External Relations, to whom the Canadian International Development Agency (CIDA) reports, is responsible for development aid. CIDA plans and

manages all bilateral and much of the multilateral aid. The Department of Finance is responsible for contributions to the World Bank. In practice, key aid policy decisions are taken through consultations among the Departments of Finance and External Affairs and CIDA.

Legislature: As a parliamentary system with government by the majority party in the House of Commons, the legislature automatically approves government decisions. Accordingly, the aid policy framework is established by the 1988 strategy and other policy statements, not by legislation. Sharing Our Future evolved out of several parliamentary reports on aid between 1985 and 1987.

Types of Assistance

Aid Categories: Canada spends about 70 percent of its $2.6 billion ODA on bilateral activities and 30 percent on multilateral contributions. All bilateral assistance is provided as grants. Under the 1988 strategy, the distinction between bilateral and multilateral aid was replaced by the allocation of 50 percent of ODA to "National Initiatives" and 50 percent to the "Partnership Program." The National Initiatives portion finances projects and programs which the government selects and implements directly. The Partnership Program funds development activities of Canadian NGOs, universities and businesses and of multilateral institutions such as the UN and World Bank.

Aid Sectors: In 1990, Canada spent 18 percent of its ODA on social and administrative infrastructure activities, particularly education; 13 percent on economic infrastructure activities, especially transport and communication; 8 percent on agriculture; and 8 percent on food aid. Smaller amounts were spent on a wide variety of activities.

Program Assistance: In 1990, 6 percent of Canadian ODA was used for program assistance. Canadian aid may not be used for direct budgetary support for governments, except for lines of credit and local cost financing for Canadian projects.

Project Assistance: Traditionally, Canada has provided aid on a government-to-government basis and its bilateral programs tended to be largely a collection of thousands of projects with little attempt to address broader economic and development problems. Canada has a strong tradition of staffing projects with a large number of Canadian experts and closely managing its project and counterpart funds to ensure fiscal and technical integrity and thus promote public confidence in the aid process. Under the 1988 strategy, CIDA should move from its former style which was reactive and project-based, to a more pro-active and policy-based approach.

Tied Aid: In the past, 80 percent of bilateral aid was tied to Canadian procurement. Under the 1988 strategy, the proportion of tied aid was reduced to 50 percent for Sub-Saharan African countries and 67 percent for other developing countries. Food aid, which amounts to about 5 percent of ODA, is tied.

Debt Forgiveness: Canada forgave all ODA loans to the least developed countries in 1977 and has provided all assistance on a grant basis since 1986. It has cancelled ODA debts owed by thirteen Commonwealth and Francophone countries in Africa, deferred the debt of Commonwealth Caribbean countries and agreed to cancel part of Egypt's ODA debt. In 1990, debt relief was only .2 percent of Canadian ODA.

Major Recipients

The top six recipients of Canadian aid in 1990-1991 were, in descending order, Cameroon, Bangladesh, India, Pakistan, Sri Lanka and Tanzania. Canada gave 52 percent of its aid to Africa, 27 percent to Asia, 13 percent to Latin America and the Caribbean, and about 8 percent to the Middle East and North Africa. The 1988 strategy states that 75 percent of ODA will go to 30 countries of "principal focus." Additional countries may receive some types of aid, such as lines of credit or assistance delivered by NGOs, but they are not eligible for traditional project assistance.

Trends

Objectives, Policies, Strategies: The 1988 strategy identified a set of approaches to program delivery. *These included (1) eligibility criteria to identify a portfolio of recipients, (2) human rights to determine appropriate allocations and channels for Canadian aid, (3) decentralization to improve program delivery, and (4) human resource development as a central programming thrust.*

Traditionally, Canada financed capital-intensive infrastructure projects and tied a large percentage of its ODA to Canadian procurement. The 1988 strategy and 1991 CIDA mission statement are intended to shift the aid program towards human resource and long-term sustainable development. However, Canada has actually increased its offers of tied aid credits since 1988 (from US$614 million in 1988 to US$681 million in 1991). In addition, funding for CIDA's Industrial Cooperation Program is targeted to double to four percent of ODA by 1993, the largest percentage increase of any single program under the 1988 strategy. This program finances feasibility studies and technical assistance and is designed to foster ties between Canadian and developing country entrepreneurs and to allow the private sector to play a greater role in development.

Funding Levels, Modalities: Despite severe budgetary restraints in 1990, ODA increased slightly. However, it is unlikely to increase much over the next several years. In 1990, there were about 6,000 Canadian ODA-funded personnel serving in developing countries, most of which were recruited and managed by Canadian firms, universities or NGOs. With the decentralization of many programs, CIDA is using more local expertise and fewer Canadians overseas and more short-term rather than long-term technical advisers. CIDA believes this is cost-effective, benefits the local economy and gives CIDA-funded programs access to expertise based in the local cultural and social context.

Organization, Management: The 1988 strategy required that CIDA be reorganized along lines which would facilitate the integration of policy and operational perspectives in the decision-making process and shift initiative, programming and implementation to the field. A five-year plan for implementing decentralization and increasing staff overseas was adopted in 1988. Administratively, aid personnel were brought under the head of mission, who became the chief executive of the aid program in the country. CIDA staff no longer report to CIDA in Ottawa, but to the head of mission. The head of mission negotiates the program with CIDA's policy branch in Ottawa, not with the country desk, which is now reduced in scale and scope and serves as an agent of the field missions. In the past, field missions tended to be the agent of the country desk.

Unique Characteristics

1. Beginning in 1990, the government assigned 50 percent of ODA to the National Initiatives Program and 50 percent to the Partnership Program, as foreseen by the strategy adopted in 1988. Canada has also established other overlapping targets for allocating its bilateral aid. For example, starting in 1992-1993, it will allocate 37 percent of its bilateral aid to Asia and 18 percent to the Americas. 75 percent of aid will go to the 30 largest recipients; however, 0.15 percent of GNP will go to the least developed countrie; and the cost of administering aid will decline from 7 percent of ODA in 1990-1991 to 5.6 percent in 1994-1995.

2. CIDA conducts an annual survey of Canadian public opinion to track public views on the Canadian aid program.

3. Canada has increased financing for NGOs and cooperation with the Canadian business sector. An increasing part of its assistance for NGOs is multi-year or "block" funding. Under this arrangement, CIDA commits funds to an NGO for up to three years. These funds can be used for "all programs" as opposed to a project-by-project approach.

GERMANY

Amount of ODA 1991: $ 6.9 Billion
DAC Rank Based on Amount: 4th

History

West Germany began its aid program in the 1950s, in part in response to pressure from other countries to share in development assistance responsibilities. In 1961, the Federal Ministry for Economic Cooperation (BMZ) was established and the Minister for Economic Cooperation became a member of the cabinet to coordinate development policy with economic and foreign policy. West Germany's first twenty years of post-war economic assistance were aimed largely at preventing recognition of East Germany. In the 1970s commercial interests gained roughly equal weight with political objectives.

The East German aid program sponsored a large number of advisors and teachers working in developing countries and provided training for students from developing countries at East German universities and technical schools. Since unification in 1990, the number of experts working in developing countries and scholarship holders decreased dramatically, but united Germany absorbed many of the former East German projects. *Unification did not change the organizational structure or basic policies of the former West German aid program and the government has stated its commitment to maintaining the current level of aid to Third World countries.*

Objectives

United Germany adopted the BMZ's 1986 "Basic Guidelines for Development Policy" which said that the approach towards helping the poor should be one of self-help and stressed support for market economies, the private sector, cooperation with NGOs, policy dialogue, aid coordination and the involvement of women in planning and implementing projects. It set priorities on basic needs, food security and rural development, environmental protection, energy supply, small-scale industry, education, training and population activities. In 1991, the Minister for Development Cooperation said poverty alleviation, environmental protection and education were the top priorities.

Legislation: The Basic Guidelines for Development Policy are not mandated by legislation.

Public Support: Three-fourths of the respondents in a 1987 government-sponsored poll were in favor of the aid program. However, recent reactions against the economic burdens resulting from unification and recent immigration patterns may affect public support for aid.

Organization

Government: The German aid program separates policy-making and implementation. The Federal Ministry for Economic Cooperation (BMZ) is responsible for aid policy and the budget. It uses several other agencies for implementation. The Reconstruction Loan Corporation (KfW) implements BMZ's "financial cooperation" program of grants and concessional loans with terms that vary according to the recipient. KfW provides capital to increase the production potential of recipient countries and promotes the establishment of German companies and commercial applications of new technologies in developing countries. The German Agency for Technical Cooperation (GTZ) implements BMZ's "technical cooperation" activities. BMZ also funds projects implemented by smaller agencies, foundations, voluntary organizations and NGOs. Few government aid personnel work in recipient countries. In most countries, German embassies handle foreign assistance matters.

Legislature: In Germany's parliamentary system, the budget is determined within the cabinet and submitted to the parliament for approval. Parliament is generally supportive of the aid portion of the budget.

Currently, there is a general consensus among the government and opposition parties on the emphasis given to poverty reduction and the environment. The Green Party parliamentary faction is particularly active in raising aid-related questions.

Types of Assistance

German bilateral aid has traditionally concentrated on promoting public utilities and industries in developing countries. These tend to be high-technology projects that permit quick involvement and withdrawal with minimum follow-up. This type of project generally needs technical experts for the life of the project rather than long-term, in-country aid specialists and lends itself to contracting and consultants. It also places responsibility on the recipient countries which are expected to provide counterpart personnel and services and to finance local costs.

Aid Categories: Germany spends about 70 percent of its $6.9 billion ODA on bilateral activities and 30 percent on multilateral contributions, including contributions to the EEC. About 65 percent of bilateral ODA is provided as grants. However, German aid to the least developed countries is all in the form of grants. About 60 percent of bilateral aid is "financial cooperation" which consists of concessional loans and grants. The remaining 40 percent is "technical cooperation" provided on a grant basis. These grants fund short- and long-term technical advisers, supplies, equipment, buildings and studies.

Aid Sectors: In 1990 Germany spent about one-fourth of its ODA on economic infrastructure activities, which include energy, transport and communication; one-fourth on social and administrative infrastructure activities, which include education; and most of the rest on industry, mining, construction and agriculture. Education and physical infrastructure, particularly in transport and electrical power supply projects, receive the largest amount of funding.

Program Assistance: Traditionally, program assistance has played a minor role in the delivery of German aid. However, program assistance as a percent of bilateral ODA rose from 5 percent in 1989 to 13 percent in 1990, in part for co-financing the World Bank's structural adjustment programs for Sub-Saharan Africa.

Project Assistance: If a project is funded with "financial cooperation" funds, Germany makes a specific financial commitment in the form of an intergovernmental agreement with the recipient country. If a project is funded with "technical cooperation" funds, no specific financial amount is committed. However, the agreement will specify what actions, specialists and facilities both Germany and the recipient will provide.

Tied Aid: Over 50 percent of German bilateral aid is tied to procurement in Germany A major part of tied ODA is provided under a system of mixed financing in which Germany blends funds from its aid budget with resources raised by the KfW on the capital market. The financial package is then provided as a single ODA loan. This type of mixed financing accounts for about 15 percent of German bilateral ODA in recent years. The German approach to mixed financing does not meet the new 1992 DAC rules for mixed credits and tied aid. For example, Germany recently committed $450 million ODA to 11 countries that are no longer eligible for tied aid credits because they have a GNP per capita above the level set by the 1991 guidelines which was $2,465. It is not yet clear how the new rules will effect the German program.

BMZ decides, on a case-by-case basis, whether or not to tie aid. In some cases Germany requires "advance bidding." Under this practice, a financial aid commitment is made for a specific project. However, if a German firm does not win in an international tendering process, the commitment will be reallocated to another project on which both Germany and the recipient agree. *In practice, German suppliers are quite successful in winning aid-financed contracts, even when funding is not tied.*

Debt Forgiveness: Beginning in 1978, West Germany converted all loans to grants for the least developed countries. Debt forgiveness, which the DAC records as ODA grant funds, is typically a small part of German aid. However, in 1990 it

amounted to one-third of bilateral assistance—$1.4 billion. The main beneficiaries were Ethiopia, Kenya, Madagascar and Zaire.

About 5 percent of the $4 billion developing countries owed to the former East Germany was ODA debt. United Germany and the relevant debtor countries have not yet agreed on how these debts will be handled.

Major Recipients

Germany provides aid to about 140 developing countries. Of these, BMZ provides official financial and technical assistance to 75 countries based on regular country programs. The remaining countries receive ODA through other channels, such as other federal ministries, state governments and NGOs. In 1990-1991 the top five recipient countries were, in descending order, Kenya, Turkey, Egypt, Zambia and Ghana. In 1990-1991 Germany gave 43 percent of its ODA to Africa, 25 percent to the Middle East and North Africa, 22 percent to Asia, 10 percent to the Americas.

Trends

Objectives, Policies, Strategies: New criteria for determining country aid allocations were announced in 1991. The criteria are respect for human rights, participation of the population in the political process, guarantee of legal rights, setting up of a market-oriented economy, and development-oriented government action, which addresses such things as the level of military spending and willingness to participate in international disarmament efforts. There are indicators for each of the five criteria that are used to measure country performance. These criteria were applied for the first time in the 1992 financial plan and will lead to cuts in financial allocations for five of Germany's ten largest recipients—China, India, Indonesia, Morocco and Pakistan. Other recent trends include increased coordination of financial and technical cooperation, especially in the field of environmental protection and greater cooperation with the private sector and NGOs in the recipient countries.

Funding Levels, Modalities: Central and East European countries and the former Soviet Republics are not eligible to receive financial cooperation under the traditional aid program. However, Germany has strong ties to these countries and has committed substantial amounts of financing through other channels, primarily through the Ministry of Economics and contributions to the European Community budget. There is ongoing discussion about the extent to which the roles of the BMZ and GTZ should be expanded to provide aid to these countries. In 1990, the BMZ budget was increased to fund technical cooperation in Central and East European countries. Because of emergency assistance for countries affected by the Gulf War, Germany's 1990 ODA increased by 17 percent. This assistance continued in 1991. However, future increases are unlikely because of the government's efforts to reduce the public deficit arising from the huge outlays related to unification, the Gulf War and other recent events.

Organization, Management: Both the Ministry of Economic Cooperation and GTZ were reorganized in 1987-1988 to strengthen the country focus of the aid program. In BMZ, the regional departments were strengthened and a department for cross-cutting issues, such as women in development, was added. The intent was to focus aid on economic and social policies and problems rather than individual projects. GTZ was reorganized along regional rather than technical lines and increased its staffing in institutional and human resource development and public and private grassroots cooperation.

Unique Characteristics

1. The German assistance program depends on frequent missions rather than on a field staff with delegated authority. To compensate for the absence of in-country staff and to offset the effects of its depen-

dence on the recipient government for implementation, Germany tends to set strict requirements and procedures.

2. Germany provides funds to independent organizations to carry out their own programs which in other countries would be performed by the government assistance agency. NGOs receive about 10 percent of the BMZ budget. However, BMZ does not finance NGO administrative costs—only a share of project costs.

3. German NGOs involved in development fall into three categories: secular, technical NGOs; church-related NGOs; and foundations of the five parties represented in the Bundestag, which is the popularly elected chamber of parliament. In addition to their regular activities supporting the political parties, these foundations receive public funding for development activities.

4. Germany is the largest donor to the European Development Fund (EDF), which provides assistance to African, Caribbean and Pacific countries. The German share is 26 percent of the EDF. The European Community also provides grants and food aid to developing countries in Latin America, Asia and the Mediterranean through its central budget. Germany also pays the largest share of the central budget—28 percent.

5. Germany's new criteria for country aid allocations appears similar to AID's Performance-Based Budgeting efforts.

JAPAN

Amount of ODA 1991: $ 11 Billion
DAC Rank Based on Amount: 1st

History

Japan began providing financial assistance to other countries in 1955 when it entered into reparations agreements with Southeast Asian countries. Paying wartime indemnities in the form of goods and services opened markets to Japanese suppliers in Southeast Asia and set Japan's pattern of concentrating on Asian countries. Early statements of aid policy assigned high priority to developing Japanese industry and supporting Japanese economic prosperity through aid. During the 1960s, a period of rapid economic growth, Japan used foreign aid to develop export markets. With the oil crisis in the 1970s, Japan became concerned with its growing dependence on imported natural resources and moved to strengthen its ties with Middle Eastern and African countries. Thus, ensuring stable supplies of energy and other natural resources were added to Japan's traditional aid objective—export promotion. Later, security concerns and the responsibilities of global economic power came to play increased roles in Japan's aid rationale.

Objectives

On June 30, 1992 the Japanese Cabinet adopted the "ODA Charter" which set out the philosophy and principles of the Japanese aid program. Aid will be provided in accordance with the principles of the UN Charter, especially sovereign equality and nonintervention in domestic matters, as well as the following four principles:

1. Environmental conservation and development should be pursued in tandem.
2. Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
3. Full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms so as to maintain and strengthen international peace and stability and from the viewpoint that developing countries should place appropriate priorities in the allocation of their resources on their own economic and social development.
4. Full attention should be paid to efforts for promoting democratization and the introduction of a market-oriented economy and the situation regarding the securing of basic human rights and freedoms in the recipient country.

If applied, these conditions would represent a marked change for Japan's aid program and could have significant implications for its $1 billion aid program for China, as well as for its large programs in India and Pakistan.

Legislation: There is no formal aid legislation such as the U.S. Foreign Assistance Act. However, as the ODA budget ballooned in the late 1980s, certain Diet members tried unsuccessfully to pass legislation that would have increased the role of the Diet in setting aid policy.

Public Support: Foreign aid has broad public and political support. The Japanese view it as a price Japan can afford to pay to enhance international stability and peace. However, neither the Diet nor media devote much attention to aid.

Organization

Government: Four ministries are responsible for development cooperation: the Ministry of Foreign Affairs, Ministry of Finance, Ministry of International Trade and Industry, and the Economic Planning Agency. The Overseas Economic Cooperation Fund (OECF) and the Japan International Cooperation Agency (JICA) are the two implementing agencies.

The Ministry of Foreign Affairs sees itself as Japan's development aid ministry because it sets the tone and direction of aid policy and has more staff working on development cooperation than the other ministries. The Ministry of Foreign Affairs supervises JICA, which provides technical assistance, and is responsible for all grant aid and contributions to UN agencies. The Ministry of Finance is responsible for contributions to international financial institutions. The Ministry of International Trade and Industry views aid from the perspective of private business and in relation to international trade and investment. The Economic Planning Agency supervises the Overseas Economic Cooperation Fund which is responsible for loans.

Legislature: The Diet plays virtually no role in the aid decision-making process. It has not used its annual budget allocation authority to examine aid programs. The aid budget is simply a set of allocations to the relevant ministries which leaves the bureaucracy to determine countries, levels and specific activities. For high-profile economic cooperation issues, top level political involvement establishes the framework for policy and the bureaucracy fills in the specifics. The Policy Affairs Research Council of the ruling Liberal Democratic Party makes the policy decisions.

Types of Assistance

Japan's stated policy is to allow recipients to identify projects and programs on their own. Visiting missions review proposals and transmit them to Tokyo for approval. This is supposed to create self-reliance. In the same vein, Japan imposes few guidelines on how project aid is to be implemented, which is also supposed to remain in the hands of the recipient governments. However, despite the rhetoric of reliance on recipient governments, Japanese firms are encouraged to get involved. They are frequently very active in identifying projects for financing and inducing recipients to request them. They participate in both design and contract award and generally seek to ensure that they will be selected for implementation.

Aid Categories: Bilateral ODA was 80 percent of the 1991 total of $11 billion. This amount was allocated as follows; grants—14 percent, technical assistance—17 percent, loans—50 percent. Contributions to multilateral institutions represented the remaining 20 percent of ODA. On the average, DAC donors provide about 70 percent of their bilateral ODA in grant form. Japan only provides 27 percent of its bilateral ODA in grants. Of all the DAC donors, Japan provides the lowest amount of ODA in grants and the highest amount in the form of loans.

Aid Sectors: Japan spent 41 percent of its 1991 ODA for economic infrastructure activities, which include transport, communications and energy; 22 percent for basic human needs activities; 17 percent for production activities, which include agriculture, industry, mining and construction; and 12 percent for social infrastructure activities, which include such things as education, health and water supply.

Program Assistance: Traditionally, Japan preferred project aid and has been reluctant to extend program assistance. However, this form of aid as a percent of Japan's ODA has increased steadily in recent years. Japan reported that it committed $1.6 billion in loans for program aid in 1989. In addition, in 1990, Japan launched a three-year $600 million program of nonproject grant aid to Sub-Saharan Africa in support ot structural adjustment efforts.

Project Assistance: Two fundamental principles of Japan's aid policy are that it provides support to the self-help efforts of developing countries in response to requests from recipient governments. The Japanese believe that these principles ensure that aid is not imposed on recipients and that the projects funded will be assigned high priority. These elements are difficult to reconcile with country programming which is not a significant part of the Japanese approach, which tends towards multiple projects that are not necessarily coordinated.

Tied Aid: Although Japan reported that 82 percent of its 1990 ODA was untied, it programs more of its assistance for major infrastructure projects than any other donor. This practice provides significant bene-

fits to Japanese exporters. In addition, Japan blends aid loans and grants with export credits that assist Japanese businesses to compete more effectively in Third World markets. In 1990, the United States launched a $500 million mixed credit program, largely to counter what were regarded as unfair Japanese tied aid credit initiatives in four Asian countries.

Debt Forgiveness: Japan has consistently opposed debt forgiveness schemes in the belief that they subvert disciplined economic management principles. In fact, Japanese legislation and regulations do not permit debt foregiveness as such and Japan makes use of "equivalent action" when extending debt relief which accounted for about 4 percent of ODA in 1990.

Major Recipients

In 1991, Japan was the largest donor for 28 countries. The top five recipients were, in descending order, Indonesia, India, Egypt, China and the Philippines. Traditionally, Japan gives over 50 percent of its bilateral aid to Asian countries. In 1990-1991, it gave about 69 percent to Asia, 12 percent to Middle Eastern countries, 11 percent to Africa and 8 percent to Latin American countries.

Trends

Objectives, Policies, Strategies: As Japan plays a more active role in international aid policy debates, differences between Japan and other major donors have surfaced. In particular, the United States and others are concerned with how Japan links foreign aid and commercial interests and its reluctance to place conditions on aid and to forgive Third World debts.

Funding Levels, Modalities: Although Japanese aid more than doubled during the 1980s, it remained steady when viewed as a percent of Japan's gross national product. Since 1979, Japan's ODA has been about .3 percent of GNP in any given year. Under pressure from the United States and other donors, Japan has recently increased grant aid, humanitarian assistance and aid to recipients outside of Asia.

Organization, Management: The Foreign Ministry rejected a 1986 proposal to require audits of all overseas contracts funded from Japanese assistance. Many Diet members believe that Japan should have no interest in how a recipient uses aid funds unless corruption has occurred.

Unique Characteristics

1. The loan share of Japanese bilateral ODA is about 70 percent compared to the DAC average of 30 percent. This may in part reflect Japan's concentration on Asian middle income countries, which can pay for loans.

2. *Japan considers efforts to influence recipient policy to be meddling in domestic affairs.*

3. With Japan's traditional emphasis on central administration and centralized procedures, only very low levels of project approval have been delegated to the field.

4. The Japanese government has tended to maximize aid volume and minimize the number of aid personnel. Because there are few aid staff in the field and they tend to be inexperienced, recipient governments turn to the Japanese private sector for assistance.

5. Aid policy decisions take into account Japan's total economic relationship with the recipient and Japan's development strategy integrates trade, private investment and development finance.

SWEDEN

Amount of ODA 1991: $ 2 Billion
DAC Rank Based on Amount: 9th

History

The Swedish aid program began in 1952 when a group of Swedish NGOs created a central committee which financed development projects through fund-raising activities. In 1962 the government established an agency for international assistance and took over many of the activities the NGOs had initiated. As a result, the aid program had clear public support from the start. *Through the years, Swedish aid continued to be motivated by altruism, reluctant to impose conditions or exert political influence and flexible and responsive to recipient needs and concerns.* Furthermore, the program never had to deal with a colonial legacy.

Objectives

The overall objective of Sweden's international development cooperation is to promote an increased standard of living and enhanced quality of life for the poor people in the world. Swedish development assistance should contribute to the following five specific objectives: (1) economic growth, (2) increased equality, (3) political and economic autonomy, (4) democratic development, and (5) a sustainable use of natural resources and protection of the environment. Recently, Sweden has also emphasized protection of human rights, support for economic reform programs and cross-cutting issues such as women in development and AIDS.

Legislation: The first four objectives listed above were set forth in the 1962 Act on Development Aid and were restated by Parliament in 1978. Resource management and environmental protection were added by Parliament in 1988.

Public Support: Aid is generally viewed favorably by the Swedish public. According to a 1988 poll, 85 percent of the general public supported Swedish aid at current levels or higher. However, recently public support for Swedish aid to developing countries has declined somewhat because of popular interest in increasing assistance for neighboring East European countries.

Organization

Government: The Minister for Development Cooperation at the Ministry for Foreign Affairs is responsible for bilateral and multilateral aid policies and budgets and is assisted by the Department for International Development Cooperation.

The Swedish International Development Authority (SIDA) implements most bilateral programs, disaster relief and aid to refugees. SIDA is administratively subordinate to the Foreign Ministry, but in fact is an independent agency. It is administered by a fourteen-member board of directors appointed by the government and representing the parliamentary political parties and major NGOs.

A new agency, SWEDECORP, was founded in 1991 to promote industrial development in developing countries in cooperation with the Swedish private sector and to promote investment and trade. It merged SWEDFUND, which provided technical and financial support from the aid budget for the promotion of Swedish direct investment, with the Import Promotion Office for Products from Developing Countries (IMPOD) and parts of the Industrial Division of SIDA.

Legislature: The Foreign Ministry's Department for International Development Cooperation coordinates the aid budget with the Ministry of Finance and argues the case for the budget proposal before the Parliament. Typically, there is considerable debate on the budget in the Parliament, but little change in proposals. However, Parliament is currently considering new procedures aimed at increasing its influence in the geographic allocation of aid, which has become somewhat fragmented.

Types of Assistance

The Swedes believe that planning, implementation and evaluation of projects and programs are the concern and responsibility of the recipient country and that donors ought to resist the temptation to take over and run projects. Simple requirements and procedures facilitate the transfer of resources and reduce SIDA staff requirements. SIDA makes disbursements in advance, very little tying of aid is required and procurement follows the rules of the recipient wherever possible. With its nineteen "program countries," Sweden typically negotiates two-year agreements for financing. The aim of this country programming is to enable recipients to integrate external assistance into their long-term overall development strategies rather than to support isolated projects. One criteria Sweden uses in allocating funds is how efficiently the recipient country has managed prior assistance.

Aid Categories: Sweden spends about 70 percent of its $2 billion ODA on bilateral activities and 30 percent on multilateral contributions. Since 1986, all bilateral assistance has been in the form of grants.

Aid Sectors: In 1990, Sweden spent 24 percent of its ODA on social and administrative infrastructure activities, which include education, health and water supply; 24 percent on economic infrastructure activities, which include energy and transport and communication; and 20 percent on agriculture, industry, mining and construction. The remainder was spent on a wide variety of activities.

Program Assistance: A high percentage of Swedish ODA is provided as nonproject aid. Although some nonproject aid is allocated to sectors, a considerable amount—especially in Asia—is used to finance current imports. This concentration on import financing and program rather than project aid partly reflects ideology. The Swedes attempt to integrate assistance as much as possible into the plan of the recipient. It also responds to administrative imperatives - with its small staff, SIDA has been forced to find less time-consuming techniques.

Project Assistance: Unlike most donors, Sweden commits funds for each of its program countries, and then the recipient proposes projects at a later stage. Health care, public administration, rural development, energy and manufacturing are areas of emphasis in bilateral ODA.

Tied Aid: All bilateral aid, except associated financing, is on grant terms; most of it is also untied. The Swedish Agency for International Technical and Economic Cooperation (BITS) administers the concessionary credit scheme. Funds borrowed from the capital markets together with ODA appropriations, are extended on concessionary terms, to finance Swedish goods and services, mainly in energy, communications and industry.

Debt Forgiveness: Loans to the least developed countries have been forgiven. In 1990, debt relief accounted for about 2 percent of ODA.

Major Recipients

Traditionally, Sweden has concentrated on a number of "program countries," currently nineteen, with which it has long-term cooperation agreements. However, since the 1980s increasing amounts of aid have been provided outside the plans for these program countries—primarily in the form of regional aid, support for democratization, disaster relief, humanitarian assistance and aid channeled through NGOs. As a consequence, efforts are underway to reform the system of planning and implementing Swedish aid, country programming is evolving and Parliament is seeking a stronger voice in the allocation process.

In 1990-1991, the top five recipient countries were, in descending order, Tanzania, Mozambique, Zambia, India and Vietnam. Sweden gave 60 percent of its aid to Sub-Saharan Africa; 21 percent to Asia; 12 percent to Latin America and 7 percent to the Middle East and North Africa.

An essential part of Swedish foreign policy is to support the struggle against the apartheid system in South Africa and the oppression by white minority groups. Consequently two-thirds of the main recipient countries are in Africa.

Trends

Objectives, Policies, Strategies: The new government which came into office in October 1991 continues Sweden's commitment to aid volume and objectives. However, there are some changes in emphasis. For example, the 1992-93 budget bill reorients development cooperation policy to provide substantially stronger support for democracy, market-oriented economies and respect for human rights. Sweden is trying to transfer more responsibility for implementation to the recipient-country authorities.

Funding Levels, Modalities: Due to general budget cuts, Sweden's 1993 development cooperation budget was cut by about 10 percent. However, this will not affect the one billion Swedish kroner allocated for cooperation with Central and Eastern European countries, mainly technical assistance, from 1990 to 1993. During the 1980s Sweden increased balance-of-payments support and added environmental protection as an objective.

Organization, Management: Like AID, SIDA staff resources have decreased over time, while program funds have increased. The shortage of staff and need for expertise in specialized areas has led SIDA to rely heavily on consultants.

In 1992, the government took steps to better use the experience gained by Swedish agencies and companies who have dealt with developing countries in their special fields. It is expected that, in the future, official aid agencies, such as SIDA, will merely act as broker between these specialized Swedish institutions and recipient countries. In addition, the government intends to strengthen the role of the Foreign Ministry in coordinating the increasing number of executing agencies and relations between headquarters and field offices. Swedish embassies are likely to play a more active role in coordinating Swedish agencies in-country.

Unique Characteristics

1. The Swedes believe that the recipient government should be in charge of its own programs and donor involvement in the implementation of projects should be limited. They also believe that donor agencies should not "hijack" development activities and carry them out on their own terms rather than those set by the host government.

2. With its small staff, SIDA tends to fund less staff-intensive approaches, such as program assistance, import financing, large-scale industrial and infrastructure projects implemented by Swedish firms and to rely on NGOs.

3. About 150 NGOs participate in the Swedish aid program. Some NGOs depend on SIDA for a large proportion of their budgets, up to 100 percent in some cases. About 30 percent of Sweden's bilateral ODA is channeled through NGOs, primarily church groups. NGOs provide disaster relief and humanitarian assistance, administer the national overseas volunteer service and implement aid projects in health, training and rural development.

4. Unused funds may be carried over into the next fiscal year with virtually no restrictions. The pipeline of undisbursed aid funds for both bilateral and multilateral activities has nearly equaled the annual appropriation

5. The Nordic countries have a tradition of close cooperation in the field of development assistance. They jointly finance some projects and coordinate their positions in international organizations. This increases Sweden's leverage.

6. Sweden and the other Nordic countries channel a significant proportion of their aid resources through UNDP as the central source of finance for technical assistance via the UN system. Although most donors pledge contributions annually, Sweden's pledges cover a three-year period to facilitate long-term planning of programs.

UNITED KINGDOM

Amount of ODA 1991: $ 3.2 Billion
DAC Rank Based on Amount: 6th

History

The British aid program is largely shaped by its colonial legacy and its Commonwealth connections. Three-fourths of its bilateral aid goes to Commonwealth countries. The Crown Agents which provide contracting, procurement and accounting services for many recipient countries and the large number of British technical advisors also reflect the colonial experience. Although Britain has provided grants and loans to developing countries since the Colonial Development Act of 1929, the modern era of British aid dates from the late 1950s. Aid policy formulation and management were consolidated in 1964 with the creation of the Overseas Development Ministry, which is now the Overseas Development Administration.

Objectives

The purpose of the British aid program is to promote sustainable economic and social development and to reduce poverty in developing countries. In pursuing this overall objective, Britain focuses on economic policy reform, issues of good government and participatory development, the environment and population. Good government includes sound economic policies, democratic accountability and respect for human rights.

Legislation: The Overseas Aid Act of 1966 and the Overseas Development and Cooperation Act of 1980 give the Secretary of State the authority to provide financial and technical assistance to promote development. However, aid policy is not generally a matter for legislation. The last major public statement on British aid development policy was issued in 1974. Currently, broad policy is established in the government's annual Aid Strategy Paper.

Public Support: The aid program does not have strong public support.

Organization

Government: The Overseas Development Administration is responsible for planning and managing development cooperation as well as for much of its implementation. It is part of the Foreign and Commonwealth Office and the Minister for Overseas Development reports to the cabinet-level post of Foreign Secretary.

The Overseas Development Administration has five overseas regional offices, known as Development Divisions, but few positions in recipient countries. It relies heavily on other government entities, such as the British Council, which administers scholarship programs, sends English teachers to other countries and implements most technical cooperation programs in the education sector. Since most diplomatic missions do not have aid specialists, regular diplomatic personnel are responsible for the aid program and involved in negotiations, programming and general program monitoring. The system is highly centralized and most decisions are made in London. The Crown Agents for Overseas Governments and Administrations act as financial and commercial agents for the aid program, as well as for some 100 governments. They administer and disburse all bilateral aid on behalf of the Overseas Development Administration and provide many services, such as procurement, quality control and transport, on behalf of the recipient.

The Commonwealth Development Corporation is Britain's official development finance institution. It provides loans based on commercial criteria for projects that are selected for their development value.

Legislature: Aid policy theoretically rests in the hands of the Cabinet. Parliament approves annual levels of funding based on requests from the

Chancellor of the Exchequer, but these are specific only as regards multilateral aid, institutional funding, and research and development. Parliament knows little of the current bilateral projects and nothing about new projects to be funded. Parliament seldom debates issues related to foreign aid.

Types of Assistance

The composition of the British bilateral aid program is determined by its limited administrative resources, as well as by recipient needs and aid objectives. Britain channels a high percentage of its ODA through multilateral institutions and a large portion of its bilateral aid consists of infrastructure and non-project aid. Responsibility for implementation rests with the recipient country or with consultants. Arrangements for monitoring—including visits from the diplomatic Mission, Overseas Development Administration staff, or consultants—are made by the Overseas Development Administration headquarters.

Aid Categories: The United Kingdom spends about 60 percent of its $3.2 billion ODA on bilateral activities and 40 percent on multilateral contributions, including those to the EEC. British aid is highly concessional with a grant element of 99 percent. Aid to the least developed countries is 100 percent grant aid.

Aid Sectors: Over half of British project aid goes to the energy, transport and communications, and education sectors.

Program Assistance: The British define program assistance as policy-related non-project aid in support of import financing to assist countries with particularly acute balance-of-payments problems. Most British program aid is structural adjustment assistance to Sub-Saharan African countries in support of World Bank/IMF programs. About half of program aid is used for direct procurement of commodities, either through the Crown Agents or another procurement agency. Program assistance as a percentage of bilateral ODA increased from 5 percent in 1984 to 17 percent in 1989.

Project Assistance: Project aid decreased from 51 percent of total bilateral aid in 1984 to 35 percent in 1989.

Tied Aid: Over 80 percent of British aid is tied. This is one of the highest tying ratios among DAC members. The "Aid and Trade Provision" shapes a part of the United Kingdom's tied aid. In 1977, in response to the belief that other countries were using ODA to give their nations' businesses an unfair advantage in developing country markets, the government established the Aid and Trade Provision (ATP), which in effect helps subsidize British exports. Typically, a British firm will apply to the Department of Trade and Industry for aid finance to support an export contract. If the request meets the Department's commercial criteria, it is sent to the Overseas Development Administration for an assessment of its development content.

Currently, ATP assistance can be in the form of direct credits, mixed credits or soft loans. In the 1980s the Aid and Trade Provision absorbed an average of six percent of British bilateral aid annually. It is highly concentrated on procurement from a relatively small group of sectors and firms. For example, between 1978 and 1988, 97 percent of ATP commitments went to mechanical, electrical, shipbuilding and marine engineering firms.

Debt Forgiveness: Since 1975, Britain has written off more than a billion pounds in aid loans to the poorest aid recipients; one-third of the total was due from Sub-Saharan African countries. Debt relief accounted for about 5 percent of ODA in 1990.

Major Recipients

The United Kingdom provides aid to over 120 countries. More than 50 percent of aid goes to the 50 poorest countries, with a special emphasis on Sub-Saharan Africa. Most of the Commonwealth coun-

tries are also among the world's poorest. At least half of British bilateral aid is concentrated on ten "program" countries, although not the same ten all the time. In 1990-1991, the top five recipients of British aid were, in descending order, India, Bangladesh, Kenya, Malawi and Zambia. During the same period, 48 percent of British aid went to Sub-Saharan Africa, 37 percent to Asia, 8 percent to Latin America and the Caribbean, and 7 percent to the Middle East and North Africa.

Trends

Objectives, Policies, Strategies: The United Kingdom is increasingly concerned with "good government" in developing countries and sees aid as a lever to encourage the trend towards better government and more respect for human rights. Britain is prepared to cut off aid as a last resort where human rights and other "good government" concerns are repeatedly ignored. Although British aid officials are outspoken on the issue of good government, they are struggling to define and implement it as a development aid policy. As a result of environmental concerns, the United Kingdom recently announced plans to increase funding for bilateral population activities.

Funding Levels, Modalities: A growing proportion of bilateral aid is provided as program assistance, particularly to Sub-Saharan Africa. Recently, some development experts have questioned the value and volume of program assistance and advocated hybrid combinations of project and program aid aimed at policy reform. Technical cooperation expenditures, the number of students and trainees, and the extent to which aid is tied to procurement of British goods and services increased in the 1980s. Disbursements for NGOs have been a small portion of British aid, but they are growing. Geographically, through the 1980s more British aid went to Africa and less to Asia. Economic assistance to Eastern Europe and the former Soviet Republics is separate from and additional to the overseas aid program for developing countries.

Organization, Management: Given the wide geographical dispersion of Britain's aid program and the introduction of new development concerns related to good government, the Overseas Development Administration has been reviewing its aid management and organization to determine where certain tasks should be located—at headquarters, at the regional level with one of the five Development Divisions or with other field posts. The number of technical advisers overseas has declined as costs for in-country personnel have increased.

Unique Characteristics

1. The United Kingdom only provides program assistance to countries that have World Bank/IMF structural adjustment agreements. In some cases, it provides this assistance bilaterally, in others it combines its resources with those of the World Bank/IMF, which is called co-financing. The decision to co-finance or enter into a separate bilateral agreement depends on convenience and how much confidence the United Kingdom has in the recipient's ability to implement the reform program. If the recipient government has had problems implementing previous policy reform programs, the United Kingdom is more likely to co-finance.

2. Overseas Development Administration staff are part of the British civil service rather than the diplomatic service. The British civil service system stresses administration by generalists who are recruited through a central procedure for all ministries and departments. Although the staff has a reputation for administrative efficiency and professionalism, they lack development expertise and experience overseas where there are very few positions available to them.

3. The Overseas Development Administration has five regional offices known as the Development Divisions. They are located in Barbados for the Caribbean region, Fiji for the Pacific, Malawi for the southern part of Africa, Kenya for East Africa, Bangkok for Southeast Asia. Each division is staffed by an 8-12 person team including advisers in such

fields as natural resources, economics, engineering and education. The Development Divisions only have advisory functions. Most decisions are made at headquarters.

4. The Overseas Development Administration helps finance some development work by NGOs. In such cases, the government will generally pay one-half of the project's cost and the NGO must pay the rest.

5. In addition to official British aid presence overseas, there are many British advisers and specialists assigned to recipient governments and universities. The British often subsidize the salaries of these "British supplemental officers."

Part II: AID's Organizational Status and Location in the Executive Branch

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In its April 1992 Action Plan, the Commission concluded that AID's organizational status should ideally flow from its assigned mission. Although the Commission believed security assistance, economic assistance and humanitarian activities would continue to be in the U.S. interest and therefore aspects of U.S. foreign policy, these functions needed redefinition. The Commission recommended that this redefinition be effected by a new foreign assistance act.

The Commission agreed that - whatever new legislation might specify - the basic purpose of foreign aid should be to support U.S. foreign policy. This led to the recommendation that *AID should be merged with the Department of State and headed by an Under Secretary for Foreign Assistance.*

This latter recommendation was intended to give AID more of a voice in decision making, increase its chances of attracting effective leadership and open the door to efficiencies by integrating similar State Department and AID elements, such as Country Desk Offices, administrative functions, International Organization liaison and emergency relief/refugee programs. Gradual blending of overseas activities was likewise envisioned. The merger could also set the stage for more effective coordination of U.S. Government activities and strengthen links between foreign assistance and evolving security and U.S. commercial interests overseas.

The recommendation to merge AID into the State Department was based on several assumptions, e.g.:

- State would be the principal coordinator of overall foreign policy and responsible for directing U.S. Government activities in a particular country;

- While perhaps changing in character and emphases, the three historic elements of foreign assistance: security programs, trade/financial matters and socioeconomic development activities, would continue to be relevant in the changing world;

- Certain transnational issues: environment, diseases, population growth, narcotics will persist. These issues will demand attention and a better organizational response by U.S. foreign affairs participants; and

- Foreign assistance will need to have more carefully measured objectives and output-oriented programs to make scarce resources produce desired results. The State Department and other USG elements will therefore have to be much more focused and businesslike.

The Commission recognized that a State-AID merger, while posing some irritations, could be effected without a great deal of fuss or cost. AID and its programs would gain more visibility and probably be better protected from special-interest groups. State would hopefully give more attention to the management of commercial and economic opportunities and foreign investment issues. It would benefit from AID's operating experience and professional and technical expertise.

There are some noteworthy merger risks (different employee outlooks and values, defective administrative systems, weak management) that might influence which integration model would be preferred.

In this section, Options "A" and "B" assume a new Foreign Assistance Act and a mandate to change the organization and Executive Branch status of AID. Merger options are then looked at in terms of closer ties between operations and policy, capacity to accomplish new objectives, ease of implementation, improved management and potential downsides of proceeding.

The Department of State

The Department of State is responsible for foreign affairs policy formulation, diplomatic functions and coordination of U.S. Government activities abroad. It also manages some program functions, such as consular services, democracy initiatives and narcotics suppression. Its headquarters in Washington employs approximately 7,000 Civil Service employees, 3,300 Foreign Service members, 600 people in other categories and a supporting group of contractors and consultants.

As indicated in the following organization chart, State's headquarters is organized into thirty-plus bureaus or major units, all "reporting" to the Office of the Secretary of State. Besides the Secretary and Deputy Secretary, there are four Under Secretaries, approximately thirty-five Assistant Secretaries and about 125 Deputy Assistant Secretaries. These senior Washington officials are supported by approximately 400 Senior Executive or Senior Foreign Service Officers and about 800 GS-15 or equivalent staff who direct State's overall Washington workforce of 11,000.

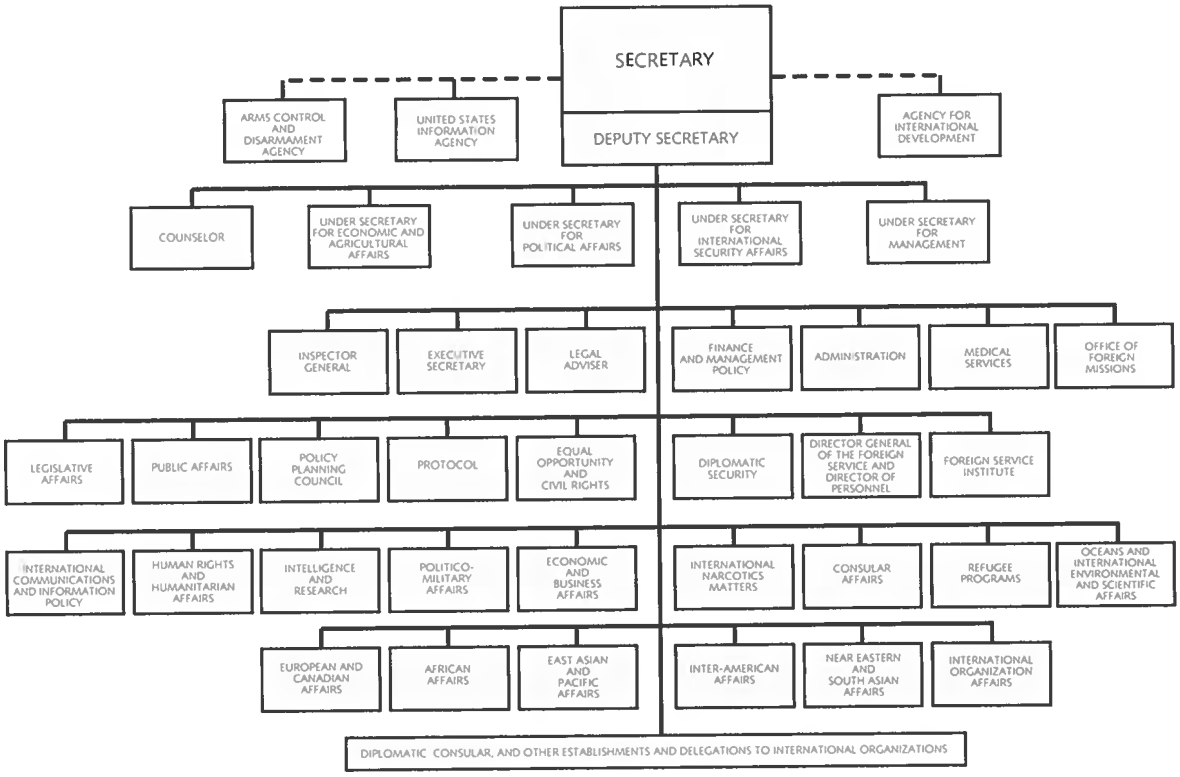
The Department has approximately 16,000 Direct Hire employees overseas (5,500 U.S. Foreign Service, 9,500 Foreign Service Nationals, and about 1,000 others), excluding contract supporting staff. It operates in approximately 175 large or mid-size embassies or consulates and another 100 or so small units or offices. Its budget is about $3.3 billion per year of which roughly twenty-five percent is for program-type activities in narcotics control, refugee work and consular affairs. Although not directly responsible for other obligation actions, State also directs the allocation and/or use of several billions of dollars in annual USG appropriations for security-related activities, assistance to former Soviet Bloc countries and contributions to multilateral institutions. State also basically decides how much funding goes to each foreign assistance recipient, although the Agency for International Development remains responsible for obligating and implementing the funded activities. The total Foreign Affairs or "150 account" appropriation is about $15 billion each year.

The State Department has a challenging range of responsibilities and its performance in traditional functions is generally well regarded. However, the change from historic East-West ideological confrontations to unpredictable regional conflicts and economic competition issues has caught much of the Department off guard. The entry of more U.S. Government departments and agencies into the international and foreign assistance arenas complicates State's leadership and coordination functions. The Department's organization, operating style and workforce will need to make significant adjustments to handle these new conditions and relationships.

As State faces the changing international scene, its management and operational effectiveness have been increasingly questioned. Several studies have noted that the Department should have better planning and accountability. The Department also needs to upgrade and diversify its staff resources to operate effectively in the world of rapid technological change and economic competition.

The current State organization chart (See below) could be viewed as a marvel of fashionable "flat" corporation theory, with its thirty-odd units all reporting to the Secretary. Unfortunately, such a broad span of control is usually only successful in highly focused, purposeful organizations. The current organization is perhaps an adequate "political" construct,

U.S. DEPARTMENT OF STATE



but one which has increasing difficulty producing results and living within its not insignificant annual operations budget. *Rearranging the Department into a few manageable "groups" and making them and their Under Secretaries responsible for specific objectives might be a way to balance some of the discordant features of State's political and short term orientations*[1].

1. We are aware of an internal State study (State 2000 Report) which has some detailed recommendations in these regards.

The Agency for International Development (AID)

As noted in the Commission's April 1992 Report to the President - An Action Plan, AID needs legislative, structural and operational revitalization. It also needs effective leadership and management. Although historic responsibilities and the Agency itself might be significantly altered by new legislation, the Commission concluded that many current Agency functions would likely reappear in a new foreign assistance "mission" statement. If these functions are to be better managed by AID and aligned with U.S. foreign policy, AID/Washington should be restructured as recommended by the Commission and merged into the U.S. State Department. A brief review of the Agency's Washington headquarters and the Commission's rationale for reshaping it will be a backdrop for considering models for merging AID into the State Department.

AID has a Washington headquarters operation that employs about 1,400 Civil Service personnel, 500 Foreign Service members and 100 other direct hire staff. These 2,000 Washington employees are supported by approximately 1,000 full-time or intermittent contractors. The Agency provides assistance to about a hundred countries overseas and has field Missions or Offices in about seventy-five locations. AID's overseas workforce is composed of approximately 1,200 Foreign Service members, 1,000 Foreign Service National employees and 6,000-7,000 contract support staff. This combined workforce oversees roughly 1,800 projects or activities with a total "pipeline" of about $10 billion in undisbursed funds. Agency staff obligate and/or disburse about $6.5 billion a year in financial, technical and food assistance activities.

AID Shortcomings:

The Commission believes AID has too many "voices," objectives and duplicative functions in Washington. Coupled with weak management oversight, this increases program and operating costs and dilutes accountability. Each of AID/Washington's regional bureaus behaves as if it is a separate agency - making its own policy and pursuing independent agenda. Bureaus' preoccupations with policy, annual funding levels and "turf" matters almost totally eclipse their obligations to oversee, direct and support field assistance programs.

This competition for resources and currying favor with Congressional elements and external support groups results in each bureau becoming involved in too many activities in too many places. Program effectiveness is declining and operating vulnerabilities are increasing. AID's State Department colleagues occasionally amplify this problem by being more concerned with the political "optics" of a recipient's annual funding level, instead of the relevance and quality of the AID assistance programs and expenditures.

To neutralize these budgetary, assistance-level competitions and sharpen AID's strategic focus, the Commission recommended that AID/Washington's five geographic bureaus be realigned into three bureaus that would each be responsible for a single category of assistance. These bureaus would be complemented by a Special Situations Bureau and a Technical Support Bureau. This recommendation arose from the expectation that future assistance rationales will primarily be based on whether a recipient is of security, trade, economic development or humanitarian interest to the U.S. Regrouping bureaus by category of assistance allows AID to clarify its country program strategies, realign staff and concentrate on helping recipients "graduate" from assistance dependency at the earliest possible date. Restructuring AID program management units makes even more sense within the merger context, because joint State-AID Country Desks would be expected to make needed policy-political-regional information inputs into resource allocation and operating decisions.

The Department and AID/Washington are comprised of many "support" functions that are similar in nature or operationally compatible. Beyond obvious administrative/management unit combina-

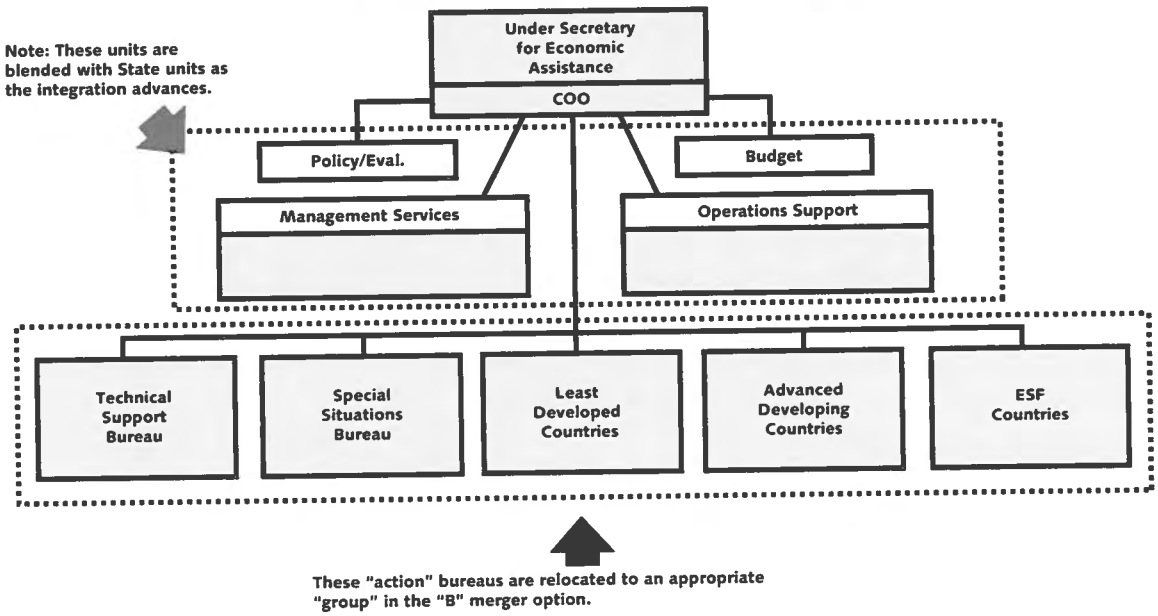
tions (finance, personnel, information services, procurement, property management, training, communications), State has "program" or service-delivery functions (refugees, narcotics and overseas schools) which could be combined, streamlined and strengthened by the infusion of some of AID's more experienced program planners and managers. These merger combinations might take time to arrange and complete, but they would free up substantial Washington resources that could be used to staff chronically vulnerable functions and changing overseas responsibilities.

The following organization chart diagrams how AID/Washington should be structured to improve its performance and to prepare it for a merger with the State Department. The diagram following this chart indicates elements of AID that would be blended with State units in merger models.

In option "A", some elements of AID would be blended with comparable State offices, but restructured AID "program delivery" bureaus and components would remain intact. This operation would be headed by an Under Secretary for Economic Assistance. In the second merger option, which is felt to be the most productive of two over time, we assume a significant remolding of State itself. In this latter option, AID elements approach complete integration within the recommended State groupings, either as separate units or as combined offices or functions.

Notwithstanding the advantages of options A or B, AID cannot be merged with the State Department unless there is a strong commitment, starting with the Secretary of State, to improving management throughout the new organization. Neither State nor AID can afford to carry organizational weaknesses or duplications into an era of heightened performance expectations and competition from other Departments for scarce resources. Expectations about foreign assistance cost-effectiveness and program results also need specification if State and AID are to overcome accountability problems.

Restructured A.I.D. Organization



Integration of State-AID Functions
Merger Candidates

State Units	AID Units
Legal Advisor	General Counsel
Comptroller	Financial Mgmt.
Public Affairs	External Affairs
Legislative Affairs	Legislative Affairs
Personnel	Human Resources
Foreign Service Institute	Training Staff
EEO-CR	EOP
Information Mgmt.	Information Mgmt.
Admin.-Opns. Services	Mgmt.-Procure. Services
Refugee Programs	Food/PVO/Emer. Assist.
Country Desks	Country Desks
Science and Technology	Technical Staff- (R&D)
INR & Policy Research	R&D Research-Policy/CDIE
International Organizations	Donor Coordination
Foreign Buildings/Opns.	Overseas Mgmt. Support
Overseas Schools	Am. Schools & Hospitals
Econ-Business Affairs	Private Ent.-Trade & Devel.
Ocean/Environ/Fisheries	Environ/Fisheries- (R&D)

Merger Options:
Option A: Putting AID into State with Minimal changes in either organization

Option A assumes that the prime concerns in a merger of AID and State are to minimize disruption and to do it quickly.

Current programs of AID would become the responsibility of the new Under Secretary for Economic Assistance. Obvious State-AID functional combinations such as country desks, information services and administrative management, that fit many merger options, would begin quickly.

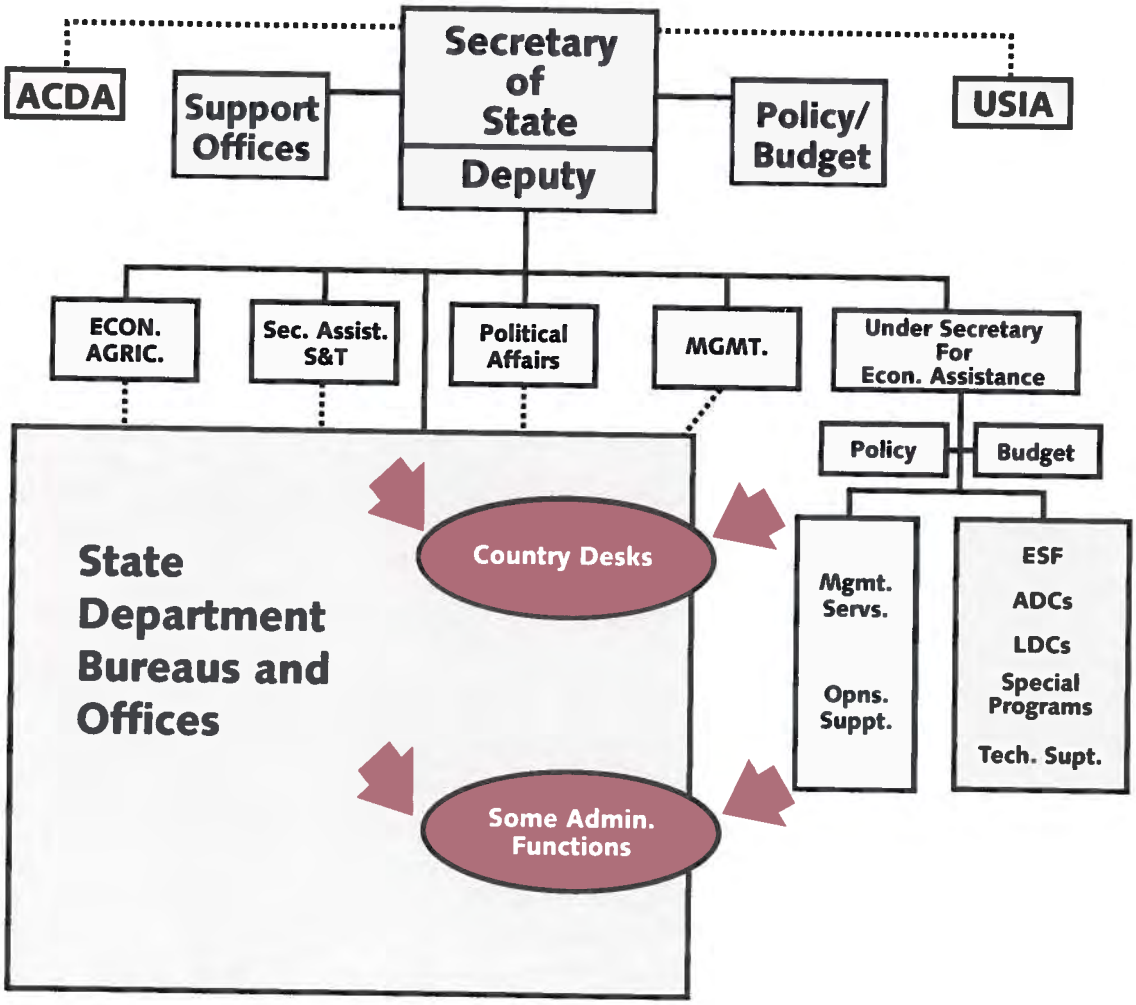
Pros and Cons: The principal advantages of a "minimal change" merger would be ease and speed of implementation and continuity of ongoing activities and responsibilities. This approach would also preserve both organizations' options in case subsequent decisions (when foreign policy adjustments are finally hammered out) require a breakout and transfer of functions out of State or AID.

To the extent State would pay more attention to and be held accountable for foreign policy-based funding or program decisions, AID would be better off. One would also expect dialogues with OMB and Congressional sources about the foreign affairs "150 account" and economic assistance to become more substantive. Because program direction would come from the Secretary's Office and reflect U.S. Government priorities, inappropriate actions of maverick AID offices and influences of special interests and Congressional staffs would be moderated.

Arguments against a "minimal" merger would be lower payout (staff and cost savings, program efficiencies) and little improvement in organizational accountability. The State Department would not get the full benefit of professional and technical expertise that many AID staff possess. AID's necessary mid- to long-term focus could be overwhelmed by short-term, politically based decision making.

The Option A, "minimal" merger proposal could be briefly diagramed as follows:

Option "A" - Minimal Integration



Merger Options:
Option B: Integrating AID into a new State structure

Option B assumes adequate support for quickly reforming foreign assistance and the conduct of U.S. foreign policy - and to do this with the best possible organizational structure.

Without prejudging specific outcomes, it is envisioned that more emphasis would be given to economic, trade and technology matters. With a shift in security emphases from global to regional, there will be opportunities to remold the role(s) of the U.S. military. Successfully handling "transnational" issues, such as disease, migration, illicit substances and the environment, will also be essential.

To operate successfully and maintain leadership in such an environment, State will have to change. Its historically reactive operating style and short term focus will have to be tempered with strategic planning, especially in subjects such as transnational issues and long run positioning of U. S. interests in a global economy. With resources becoming scarce and domestic needs on the rise, State will be held more accountable for efficiency and results that reflect positively on the U.S.

To date, U.S. activities in the international arena have not been well orchestrated. Getting agreement on U.S. objectives, devising successful strategies and coordinating expanding U. S. Government efforts abroad give the State Department an attractive leadership challenge. State is positioned to lead these activities, but it must be organized and managed more effectively. Restructuring the Department along the lines of these responsibilities or "focus groups" would improve Washington's management and backstopping of country activities and staff utilization and development. Adding some of the more action-oriented AID resources to that new organization would accelerate a successful transformation.

Pros and Cons: Placing State and AID resources into several definitive "focus groups" would be a positive move away from budget rituals and "process" and toward measurement and accountability. Decreasing the Secretary's span of control and making Under Secretaries' responsible for explicit goals, objectives and "business plans" would improve cost and outcome management. Embassies' support of U.S. interests could be more measurable because these interests would have increased local specification and be complemented by agreed upon resource flows and timetables.

While traditional embassy functions will remain important, there is a whole new agenda emerging. Country teams will need to adjust staffs to reflect new functional areas. "Geographic" emphases will probably give way somewhat to topical foci. Having the Department in Washington organized along these topical "action" lines would improve backstopping of field units and management oversight.

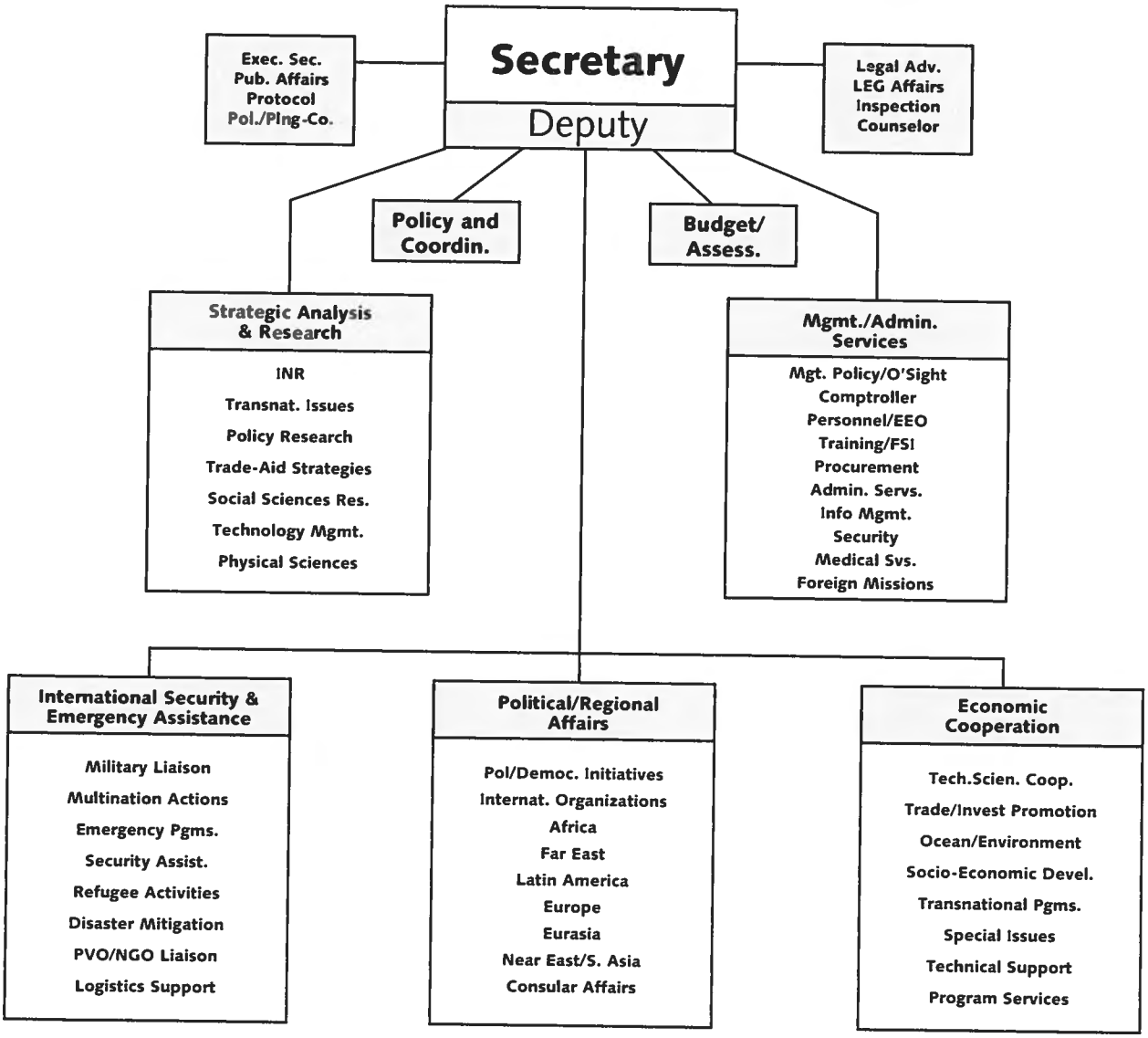
Possible risks of reorganization are many. Both AID and State lack effective operating systems and

suffer from weak management and accountability. State's and AID's common weaknesses may, however, be the best justification for exacting change: produce a combined organization that clarifies responsibilities and sharpens focus. By streamlining overall responsibilities and cutting back on program duplications, one can increase the probability that staffing and systems improvements catch up with the organizations' weaknesses.

Many arguments can be offered to reinforce the pros or cons of Option B. However, from the standpoint of simultaneously reforming the management of foreign assistance and improving State's operations, Option B poses the best risk-to-payout index. *The real issue for carrying out such a reform is the high level commitment to do it.*

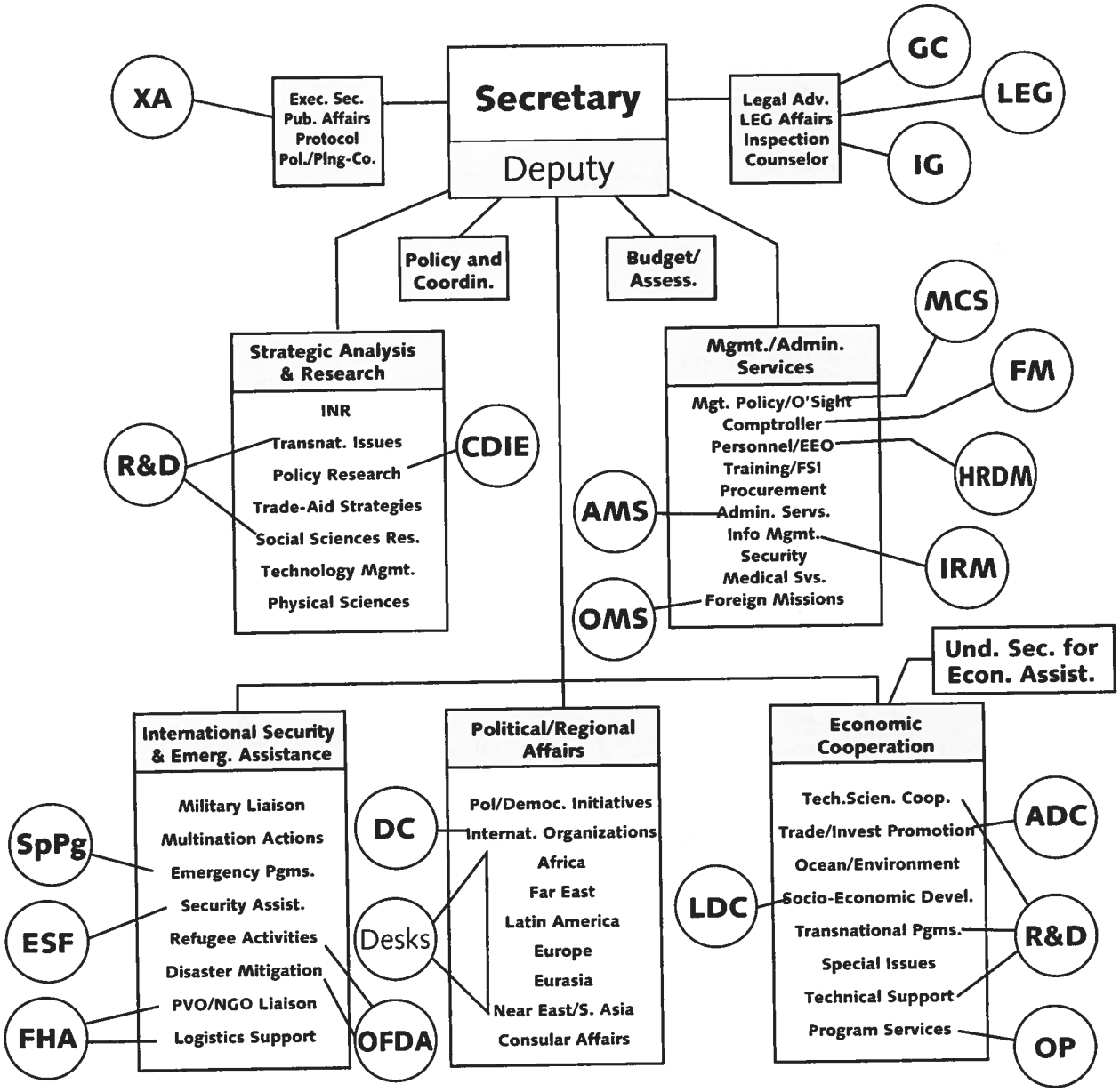
The following diagram is one possible version of this alternative.

Option "B" - Integration + New State Structure



OPTION "B" - Integration + New State Structure

Location of AID Units in New State Structure



Part III: Foreign Assistance Coordination

Part III: Foreign Assistance Coordination

With rapid change in foreign policy requirements and an increasing number of actors, the Executive Branch runs a real danger of losing control over the priorities and roles of various agencies in foreign assistance and the allocation of funds.

The Commission recommended that the Executive Branch establish and activate a formal inter-Agency coordinating committee on foreign assistance to be chaired by the Under Secretary for Foreign Assistance.

Introduction

It has been fourteen years since the Development Coordination Committee formally met to consider strategy, plans and interagency interests in U.S. foreign assistance. During that period, eight additional government agencies have begun running their own significant foreign assistance programs. Each new program has been initiated without government-wide guidance, strategic direction or coordination.

AID, Agriculture, Treasury, State, Defense, EXIM, OPIC, TDP, Peace Corps, USIA, Commerce, Labor, EPA, Energy, Interior, Transportation, Education and others, all operate foreign assistance programs.

GAO, Inspector General, investigative journalism and anecdotal evidence abounds describing U.S. foreign assistance failures resulting from lack of coordination among the agencies involved. Even todays' most focused and well coordinated foreign assistance effort, aid to Eastern Europe, is beset with challenges. For example, Program Officials for the East European Assistance Program were not aware that specialists at the SEC were running a $25 million program to develop a stock exchange in Poland. When foreign governments rely on U.S. government representations from several different agencies, none talking to the other, diplomatic and economic confusion is inevitable. With confusion come problems.

The Congressional Research Service (CRS), in a 1989 report, documented the programs of *78 U.S. Government entities engaged in activities yielding benefits to foreign governments.* CRS found that "no single office supervises, tracks or even keeps a list of the agencies or activities involved." CRS concludes that the U.S. Government cannot "avoid duplication, set priorities, maintain agency jurisdictions, or ensure that the activities being conducted with foreign countries are consistent with U.S. foreign policy, national security policy, and economic policy."

The lack of coherence, cohesion and coordination of foreign assistance programs through the nineteen U.S. government agencies with the largest assistance programs is not peculiar to foreign assistance, *it is the story of modern government.* But that does not excuse it nor make it acceptable. The war against drugs and export trade promotion are other examples of interagency programs which have coordination difficulties.

How can the many conflicting interests served by the U.S. foreign assistance programs be rationalized and coordinated?

A Well Documented Problem

In fiscal year 1992, the U.S. government spent $14.2 billion on foreign assistance programs. However, funding for the nineteen executive branch agencies involved in foreign assistance is not made on the basis of an explicit government-wide strategy or set of priorities. Without an overall rationale and guidance, it is not clear whether foreign assistance resources are being channeled effectively.

The Foreign Assistance Act of the United States contains thirty-three objectives, many in fundamental conflict with each other. Separating each bureaucratically or centralizing under a cabinet rank "Czar" is appealing to certain interest groups, but is an obviously impractical solution. The multiplication of independent agencies, adrift without direct Executive Branch guidance and accountable to 535 Congressmen, is a trend that needs to be reversed.

This debate need not be an "either or" proposition. We believe that an approach proposed by the Carnegie Endowment for International Peace and Institute for International Economics Commission on Government Renewal (Joint Commission), Harnessing Process to Purpose, is elegant in its simplicity and, if imposed and enforced by the new President, would solve many major organizational problems.

History of Foreign Assistance Coordination

During the past 50 years, Congress legislated several foreign assistance coordinating mechanisms.

- In 1945, Congress created the National Advisory Council on International Monetary and Financial Policies (NAC) in the legislation authorizing U.S. participation in the World Bank and International Monetary Fund. The NAC was created to insure that the administration had a formal mechanism for reviewing different U.S. international loan programs.

- In 1973, Congress created the Development Coordination Committee (DCC) in order to require the administration to give more attention to the way different U.S. foreign aid, trade and commercial policies affected developing countries.

- In 1974, the Council on International Economic Policy was established by law as part of another effort to improve the coordination of U.S. activities in the broad area of international economic policy.

- In 1978, the late Senator Hubert Humphrey proposed legislation to consolidate most U.S. foreign aid-related organizations in a single agency - the International Development Cooperation Agency (IDCA). It was signed into law in 1979 along with the Institute for Scientific and Technological Cooperation (ISTC), which was designed to coordination R&D development for the Third World. *ISTC, IDCA and the DCC are still listed in current legislation.*

- During the Reagan Administration, a series of NSC coordinating councils called Policy Coordinating Committees (PCC) were created. A PCC with oversight of U.S. foreign assistance, called Resources for International Affairs Programs and headed by the Under Secretary of State for Management, *never met.* It was subsequently abolished in 1989 by President Bush.

In Search of Successful Models of Coordinated Government

As much as U.S. foreign assistance programs have been castigated for lack of coordination, one is hard pressed to find a workable model elsewhere in government to emulate. Only two are consistently mentioned:

- The intelligence community's Non-Proliferation Center, headquartered at the CIA, is cited as one success. It effectively coordinates the government's efforts to stem international weapons

proliferation through NSA, Energy, DIA, CIA and State. However, the issues are well defined and the control of money and resources are not major considerations as they are in foreign assistance.

The Office of National Drug Control Policy (ONDCP) is cited for its "budget certification" authority. This statutory authority to impact the budgets of Customs, DOD, HHS, Coast Guard, FBI and DEA is a powerful tool, but ONDCP's ability to influence is still primarily based on the personal political clout of its director.

Carnegie Endowment - Harnessing Process to Purpose

We endorse the government coordination recommendations of the Joint Commission. A central tenant of their thinking is the need for a more powerful and leaner White House staff that is charged with formulating strategy and policy and actively coordinating interagency issues. The emphasis is more on coordination than reorganization.

Harnessing Process to Purpose recommends, "to make the government work effectively, it is essential to break down the bureaucratic walls still separating increasingly interrelated issues... policy challenges almost never fall within the purview of a single department or agency. No matter how strong a cabinet team is, White House leadership in formulating strategy and policy is essential."

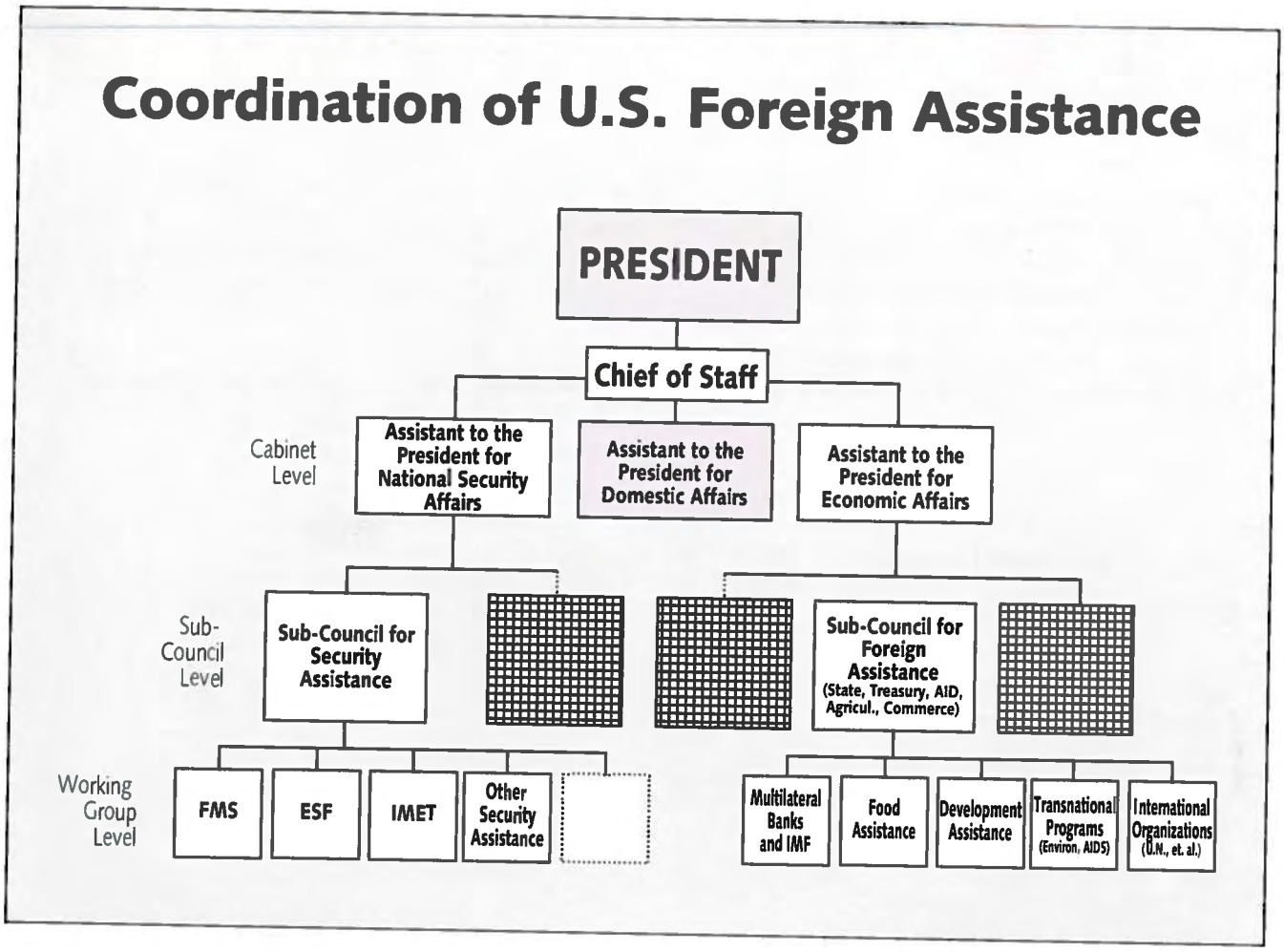
The Joint Commission is promoting "a system that manages interagency policy-making from the White House but brings the Cabinet departments into policy discussions early. The President would establish and preside over three co-equal Councils - the National Security Council, the Economic Council, and the Domestic Council. Three co-equal senior Assistants to the President - for National Security Affairs, for Economic Affairs, and for Domestic Affairs."

The White House staff should not "cross the fine line between strategy and implementation, between policy formulation and operations."

An essential difference from past practice is that formulation of interagency policy would be coordinated by the relevant White House Council staff, who work for the President, and not by any one department.

In case of disagreements -which are inevitable- over which Presidential Assistant or which Council staff has responsibility for an issue, the Chief of Staff should make the decision, with the President's involvement only if necessary.

Major issues would be focused on by designated Sub-Councils. Attendance would be at the Deputy Secretary level. Specific components of those issues would be handled by Working Groups, with membership at the Assistant Secretary level.



Effective Coordination of Foreign Assistance

With the new post-Cold War era emphasis on economic security, we recommend that *most foreign assistance programs should move from the purview of the NSC to the new Economic Council.*

There should be a Sub-Council of the Economic Council (EC) for Foreign Assistance, which would be chaired by the new Under Secretary for Foreign Assistance. It would have a standing membership of State/AID, Agriculture, Commerce, Treasury, Defense and OMB. EXIM, Peace Corps, OPIC, Commerce, CIA and others would be invited on a issue specific basis.

The many components of foreign assistance would be addressed at the Working Group level. These include the issues of food aid, disaster and refugees, multilateral banks, the UN, environment, Eastern Europe and the NIS, development assistance, transnational issues (population, AIDS) and private sector development. Security Assistance, Foreign Military Sales and Economic Support Funds would be coordinated under the NSC.

Coordination without influence over funding has proven to be a exercise in futility. OMB should perform an initial cross-cut survey of current foreign assistance funding levels throughout government. When additional or new budget requests are made, OMB would insure prior clearance by the Chairman of EC Sub-Council for Foreign Assistance, before allowing the request to go forward. *Budget certifica-*

tion authority, as currently practiced by the Office of National Drug Control Policy, is key for successful coordination.

A fundamental policy question: will all agencies of government with foreign assistance funding and programs be coordinated or *are some to be kept off limits?* To work, all must brought to the table together. Therefore the President must direct his new team to accept this arrangement and work within the new coordination structure. This will bring the multilateral banks and United Nations programs to the table with development, food aid and technical assistance.

Policy, People and Top-down Coordination

The Joint Commission recommended that the President-Elect first determine his policy priorities before choosing his people. We strongly agree.

This does not require a wholesale restructuring of government, but rather the restructuring of White House coordination of government. The structure of government should not be continually rationalized to fit every new policy initiative. Structure should follow good management tenets and effectiveness will depend on personalities, political clout and the relative importance of the issue.

What is important is effective top-down coordination of the government structure.

The Joint Commission coordination model is based on sound management tenets and reflects the way government actually works. For AID and the nineteen agencies involved, it will bring accountability and cohesion to an otherwise eclectic collection of foreign assistance programs.

In Summary

Foreign assistance historically requires a significant amount of money, involves many disparate interests and is run by a multitude of agencies. It is time foreign assistance was coordinated in the most intelligent manner possible. Both the bottom-up consensual and the laissez-faire coordination approaches used in the past have not worked. *A top-down White House directive to the new appointees and the bureaucracy, along with funding control, is required to launch this overdue initiative.*

Glossary

Associated Financing - Ways in which donors blend Official Development Assistance with commercial loans to improve the competitiveness of domestic firms in the Third World.

Bilateral assistance - Economic assistance provided by a donor country or entities thereof directly to a recipient country.

Country Assistance Categories - The Commission recommends that AID/W's five geographic bureaus be replaced with four bureaus organized according to the type of assistance AID provides. Overseas Missions and offices would be in one of the following categories: ESF Countries, Advanced Developing Countries, Less Developed Countries, or Special Situations.

Country Program - The total package of assistance AID provides to a specific country.

Development Assistance Committee (DAC) - One of the specialized committees of the OECD. DAC members periodically review the amount and nature of their contributions to bilateral and multilateral aid programs and consult each other on aspects of their development assistance policies. In 1991, DAC members provided $57 billion in Official Development Assistance. The 20 DAC member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The Commission of the European Communities is also a member.

Development Assistance (DA) Funds - Assistance under Chapter 1 of the Foreign Assistance Act primarily designed to promote economic growth and equitable distribution of its benefits.

Earmark - Funding for specific countries or types of activities directed by legislation. The major earmarks are for ESF recipients and the functional Development Assistance accounts.

Economic Support Fund (ESF) - The objective of the ESF program is to support U.S. economic, political and security goals in countries of strategic interest to the United States, in some cases related to military base rights or access rights agreements. The United States provided about $4 billion in Economic Support Fund assistance to about 50 countries in 1991. The ESF appropriation account represents about one-half of the U.S. bilateral economic assistance program. Currently, the major recipients are Israel, Egypt, Central America and Turkey. The Department of State directs ESF country allocations and handles policy matters; AID administers the program.

European Economic Community (EEC) - The European Economic Community was founded in 1957 and currently has twelve members: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and United Kingdom. Its goal is to create a single trade market within the twelve member countries that allows a free flow of capital and people.

Foreign Assistance - In this report, the term refers to economic assistance which is designed primarily to benefit the recipient country's economy. Includes both multilateral contributions through international institutions such as the World Bank and bilateral assistance given directly by a donor country to a recipient country. It does not include military assistance. Also called foreign aid.

Foreign Assistance Act of 1961, as amended - AID authorizing legislation.

General Accounting Office (GAO) - The investigative arm of Congress charged with examining all matters relating to the receipt and disbursement of public funds. GAO conducts audits and evaluations of government programs and activities.

Host Country - A country to which AID provides assistance. The terms "host government," "recipient" and "recipient government" are also used in this report.

Mission - AID maintains offices in 48 countries where the AID program is large and involves multiple types of assistance. As used in this report, the term also includes other types of AID offices overseas.

Mixed Credits - A form of associated financing whereby the donor mixes concessional and commercial portions of a loan into a single financial package.

Multilateral assistance - Aid channelled through a multilateral organization like the World Bank and UN Agencies.

Official Development Assistance (ODA) - Grants or loans provided by a donor government with the main objective of promoting economic development or welfare. Loans must include at least a 25 percent grant element. DAC statistics for ODA **exclude** grants, loans, and credits for military purposes.

Organization for Economic Cooperation and Development (OECD) - Pursuant to the 1990 Convention signed in Paris, the 24 members of the OECD have agreed to promote policies designed to (1) achieve the highest sustainable economic growth, employment and a rising standard of living in the member countries, while maintaining financial stability and contributing to the development of the world economy; (2) contribute to sound economic expansion; and (3) the expansion of world trade. Also see DAC.

Program Assistance - Funding, usually a cash or commodity transfer, to offset balance-of-payments problems in recipient countries. Program asssistance is usually tied to policy reforms at the macroeconomic level. U.S. program assistance is usually ESF-funded.

Project Assistance - Funding used to address specific development goals in mutual agreement with host countries. Projects may have one or many components. A complex project might include training, construction, institution building, agricultural production, research and credit components.

Technical Cooperation - A form of aid which is almost entirely grants to nationals of developing countries for education or training at home or abroad, and for the costs of teachers, administrators, advisors and similar personnel serving in developing countries.

Tied Aid - Official Development Assistance that must be spent on goods and services in the donor country.

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