

CRS Issue Brief

Foreign Aid Budget and Policy Issues for the 104th Congress

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Foreign Aid Budget and Policy Issues for the 104th Congress

SUMMARY

Even before the end of the Cold War, there was broad agreement that the United States foreign assistance program was in need of a major overhaul to establish a new rationale more attuned to U.S. interests. As a foreign policy tool predominately used in the past to support strategic objectives -- often related to Cold War tensions -- foreign aid and its supporters have come under increasing pressure to demonstrate the program's relevance to the growing U.S. concerns of bolstering a stronger economic base at home, promoting democracy and free market economies abroad, stabilizing international crisis, and dealing with transnational problems, among others. A central issue is whether the program goals and the results achieved justify the current expenditure of about \$14.6 billion annually.

The upcoming foreign aid debate will likely focus on three areas: program goals, budget priorities, and organizational questions. The principal economic aid objective of the Clinton Administration's foreign aid blueprint is the promotion of sustainable development. But critics question whether these represent more than a re-packaged set of old goals or whether they represent the right set of strategies that serve the highest U.S. interests.

From a high of \$19 billion a decade ago, foreign aid spending is set at \$14.6 billion for FY1995, representing about 1% of the Federal budget. Foreign aid proponents argue that the budget is at such a low point that it is impossible to meet emerging needs where clear U.S. interests are at stake--in Haiti, South Africa, and the Middle East, for example. Critics assert, however, that further cuts are possible by reducing aid to countries that are less important to direct U.S. interests, that are more advanced economically, or that mismanage aid resources.

The Agency for International Development (AID) administers by far the largest portion of U.S. aid -- about \$6.5 billion in FY1995. In the past, the agency has been heavily criticized as being poorly managed and unable to demonstrate impact of its programs. Since 1993, however, AID officials say they have taken steps to correct past problems. Nevertheless, some argue that these actions have not gone far enough, and that other organizational options should be considered. Among suggested alternatives are to merge AID into the State Department or to direct some of the agency's responsibilities to other U.S. Government institutions.

On February 6, 1995, President Clinton sent to Congress a \$15.2 billion foreign aid request for FY1996. The proposal is nearly \$800 million, or 6%, higher than current spending on U.S. foreign assistance. The recommendation also includes a \$402 million foreign aid supplemental for FY1995, as well as a \$143 million rescission of previously appropriated funds for food aid.

As the foreign aid agenda for the 104th Congress begins to take shape, it appears that there will be several opportunities for direct and indirect debate on foreign aid issues, perhaps early in the year: FY1995 rescission/supplemental; FY1996 budget resolution; foreign aid authorization legislation; and FY1996 Foreign Operations Appropriations.

Prior to the convening of the 104th Congress, Senator McConnell, chairman of the Foreign Operations Appropriations Subcommittee, issued draft legislation containing his position on foreign aid policy, budget, and organizational issues.

MOST RECENT DEVELOPMENTS

On Feb. 10, 1995, the House Appropriations Committee voted to rescind \$172 million of previously appropriated foreign aid funds, including \$110 million for Russian military officer housing and \$62 million for U.S. contributions to the African Development Fund (H.R. 889).

On Feb. 6, 1995, President Clinton sent to Congress a \$15.2 billion foreign aid request for FY1996. The proposal is nearly \$800 million, or 6%, higher than current spending on U.S. foreign assistance; it includes a \$402 million foreign aid supplemental for FY1995, as well as a \$142.5 million rescission of previously appropriated funds for food aid. The request follows statements by nearly all of the new Republican chairmen of congressional foreign policy committees and appropriation subcommittees that the foreign aid program will come under intense scrutiny early in the 104th Congress.

Senator Helms released on February 14 the outlines of a broad reorganization initiative that would abolish the Agency for International Development (AID) and consolidate a range of foreign aid and foreign policy agencies under the State Department. In mid-January, the White House reviewed -- and rejected -- a similar proposal for merging several foreign affairs agencies, including AID, into the State Department. Chairman McConnell of the Senate Foreign Operations Appropriations Subcommittee issued on December 12 the first specific legislative proposal that would link foreign aid closely to U.S. national security interests, concentrate resources in the Middle East and Europe, and reduce overall bilateral budget allocations by at least \$1.1 billion. He also supported the consolidation of AID into the State Department.

BACKGROUND AND ANALYSIS

Even before the end of the Cold War, there was broad consensus that the United States foreign assistance program was in need of a major overhaul to establish a new rationale more attuned to U.S. interests. As a foreign policy tool predominately used in the past to support strategic objectives -- often related to Cold War tensions -- foreign aid and its supporters have come under increasing pressure to demonstrate the program's relevance to the growing U.S. concerns of bolstering a stronger economic base at home, promoting democracy and free market economies abroad, stabilizing international crises, and dealing with transnational problems, among others. A central issue is whether the program goals and the results achieved justify the current expenditure of about \$14.4 billion annually.

Following several unsuccessful attempts by Congress to enact a revised set of guiding principles of U.S. foreign assistance, the Clinton Administration submitted draft legislation -- the Peace, Prosperity, and Democracy Act -- in early 1994 to establish a new statutory framework around which it hoped to develop consensus for new foreign aid program objectives. Congress, however, in the absence of aggressive support by the White House and with an agenda focused on domestic issues, did not act on the bill. Nevertheless, the Clinton Administration is using a number of the objectives outlined in the Peace, Prosperity, and Democracy Act to shape its current foreign aid policy.

With a change in the majority party in Congress, the Administration's foreign assistance goals and rationales are being increasingly challenged. In mid-December

1994, Senator McConnell, chairman of the Senate Appropriations Foreign Operations Subcommittee, released his blueprint for an alternative foreign aid policy framework, with program and budget priorities at odds, in some instances, with those of the President. Senator Helms, chairman of the Senate Foreign Relations, outlined on February 14 his plans to abolish AID, place overall policy direction of U.S. foreign aid under the State Department, and draw more extensively on private organizations to implement American aid programs. Other plans will undoubtedly follow early in the 104th Congress as budget and authorizing committees review the Administration's foreign aid request for FY1996. Key issues in upcoming congressional foreign aid debates cluster around three areas: program goals, budget priorities, and organizational questions.

Program Goals

A frequent criticism, especially of economic aid, has been the excessive number of program objectives that lack focus, provide no sense of priority, and spread resources too thin to achieve results. Aid programs are guided by legislation first enacted nearly 35 years ago -- the Foreign Assistance Act of 1961 -- that has been amended frequently, but not overhauled comprehensively to reflect the profound global changes of recent years. In response to the charges of a program lacking adequate focus and direction, the Clinton Administration sent to Congress in early 1994 what it characterized as a comprehensively restructured post-Cold War foreign aid budget and policy framework. The proposal abandoned the traditional budget structure based on a series of foreign aid programs, contributions to international organizations, and operating costs of U.S. foreign affairs agencies. Instead, the President's request was organized according to six major objectives of the Administration's foreign policy:

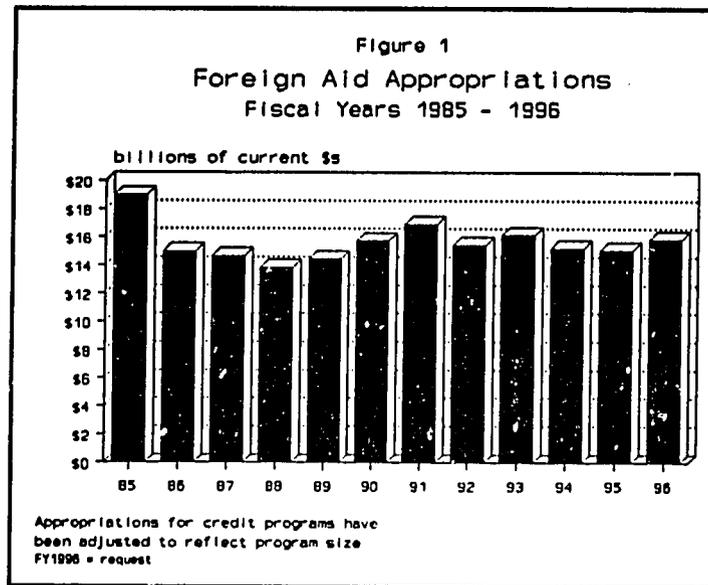
- Promoting U.S. prosperity through trade, investment and employment
- Building democracy
- Promoting sustainable development
- Promoting peace
- Providing humanitarian assistance
- Advancing diplomacy.

These six new budget categories matched the organizational framework of the Administration's legislative initiative -- called the Peace, Prosperity, and Democracy Act of 1994 (H.R. 3765/S. 1856) -- to replace the Foreign Assistance Act of 1961 with a new foreign aid rationale and policy goals. (For an assessment of the initiative, see CRS Report 94-23 FAN, *Foreign Aid Reform Legislation: Background, Contents and Issues.*)

The principal economic aid objective of the Clinton Administration's foreign aid blueprint is the promotion of sustainable development, a concept that has been subject to various interpretations. Sustainable development is characterized by the Agency for International Development (AID) (the primary agency implementing bilateral economic aid) as "economic and social growth that does not exhaust the resources of a host country; that respects and safeguards the economic, cultural, and natural environment; that creates many incomes and chains of enterprises; that is nurtured by an enabling policy environment; and that builds indigenous institutions that involve and empower the citizenry." AID has developed four core program strategies for pursuing sustainable development that it says replaces the 33 goals outlined in current foreign aid laws:

- Promoting economic growth
- Protecting the environment
- Advancing democratic participation
- Stabilizing world population growth.

But critics question whether these represent more than a re-packaged set of old goals and whether AID remains encumbered by multiple priorities that will continue to obstruct efforts to focus activities and achieve results. Some also challenge whether these are the right set of strategies that serve the highest U.S. interests. Senator McConnell, for example, proposes to concentrate U.S. assistance in the Middle East and Europe in support of three principal foreign aid goals: the protection of U.S. security, the promotion of American economic interests, and the preservation of regional stability.



Budget Issues

From a high of \$19 billion a decade ago, foreign aid spending is set at \$14.4 billion for FY1995, representing about 1% of the Federal budget. Even without a comprehensive reform of program objectives, foreign aid budget priorities have shifted substantially since 1989:

- Instead of using aid to counter Cold War rivals, East Europe and the former Soviet Union are among the largest recipients of foreign aid (\$1.25 billion in FY1995);
- Congress boosted American economic assistance to Africa in 1991 by 40%, a level sustained in the past four years even as the overall foreign aid budget fell;
- Environment-related projects implemented by AID have grown significantly, currently exceeding \$500 million.
- Population and family planning funding (about \$600 million in FY95) has risen by 80% in three years;

- Disaster and refugee relief funds (\$1.7 billion in FY95) have grown by 42% since FY90, and now consume nearly 12% of total foreign aid spending;
- The United States has forgiven foreign aid debts of a number of African and Latin American countries, and extended debt relief to Egypt, Poland, and Jordan;
- Pakistan, Central America, and the Philippines--large aid recipients of the 1980s--no longer receive substantial amounts of U.S. assistance.
- Spending on security programs has fallen from 50 to 40% of total foreign aid; Israel and Egypt receive nearly all U.S. security assistance;
- Turkey and Greece have "graduated" as recipients of concessional military aid and receive assistance through loans at market interest rates.

Foreign aid proponents argue that the budget is at such a low point that it is impossible to meet emerging needs where clear U.S. interests are at stake--in Haiti, South Africa, and the Middle East, for example. Critics assert, however, that further cuts are possible by reducing aid to countries that are less important to direct U.S. interests, that are more advanced economically, or that mismanage aid resources. Some also call for reduced U.S. contributions to multilateral institutions, yet others argue for shifting more aid through multilateral channels where the resources of other aid donors can be leveraged. Whether foreign aid could be more effectively used to deal with domestic problems or reduce the deficit is also a focus of debate.

Although cutting the foreign aid budget is expected to be a central theme of congressional deliberations throughout the year, there appears to be a relatively solid consensus both within the Administration and among congressional leaders to maintain current levels of assistance for Israel, Egypt, Eastern Europe, and the former Soviet Union (although with tightened restrictions on Russian aid). With nearly half of all foreign assistance allocated to these high priority recipients, a significant overall budget reduction would fall disproportionately on the remaining, countries and programs. Under Senator McConnell's proposal, for example, bilateral economic assistance outside the Middle East and Europe, would fall from \$4.56 billion to \$3.1 billion. Further earmarks by Senator McConnell protecting funds for refugee and emergency programs would result in a 40% cut for remaining bilateral economic assistance. U.S. assistance for Africa, Latin America, and Asia, totalling about \$1.7 billion in FY1995, and global population and environment programs would be areas most affected. U.S. contributions to multilateral development banks (MDBs) are other possible targets for funding cuts, especially the International Development Association, the arm of the World Bank lending to the poorest countries, which receives about \$1.2 billion annually from the United States.

Organizational Questions

Five major agencies and a number of other organizations manage U.S. foreign assistance programs. AID administers by far the largest portion of U.S. aid -- about \$6.5 billion in FY1995. In the past, the agency has been heavily criticized as being poorly managed and unable to demonstrate the impact of its programs. Since 1993, however, AID officials say they have taken steps to correct past problems by reorganizing the agency and participating as an "experimental laboratory" in the Vice

President's Reinvention of Government initiative. AID also points to its decision to close 23 overseas aid missions, terminating relations with governments that are poor development partners, and establishing a results-oriented accountability system against which the agency and Congress will be able to measure impact.

Nevertheless, some argue that these steps have not gone far enough, and that other organizational options should be considered. Among suggested alternatives are to merge AID into the State Department or to direct some of the agency's responsibilities to other U.S. Government institutions. Some also advocate drawing more heavily on U.S. export promotion agencies, such as Export-Import Bank, that play a dual role of advancing U.S. commercial interests and assisting foreign governments. Those advocating consolidation of AID into the Department of State make the point that foreign aid, as an instrument of U.S. foreign policy, can better serve U.S. interests if it is directly coordinated by the primary U.S. foreign affairs agency. Some, like Senators Helms and McConnell, believe that along with AID, other organizations -- such as the Arms Control and Disarmament Agency and the U.S. Information Agency -- should be folded into the State Department for reasons of better foreign policy management and cost efficiencies. (See *ACDA: Abolition, Reorganization, Cost, & Other Issues*, CRS Report 93-443, Apr. 22, 1993.)

Early in the Clinton Administration, a task force headed by the Deputy Secretary of State considered either integrating AID into the State Department or dispersing its functions to other organizations. But the task force rejected the idea, proposing instead a wide range of management reforms at AID. Critics of merging AID with State believe that the long-term horizon for achieving success in development programs would be jeopardized by short-term State Department priorities and the temptation to divert foreign aid funds for immediate political crises. The Administration once again studied the matter as part of Vice President's Gore directive in early January 1995 for each agency to examine its organization and report ideas for streamlining operations. The State Department proposed merging AID, as well as ACDA and USIA, into the Department. After reviewing the proposal, however, the White House rejected any organizational changes. Senator Helms, however, has stated that he intends to pursue a plan similar to that of the State Department during the Foreign Relations Committee debate on the Department of State authorization legislation.

A "Snapshot" of the Current U.S. Foreign Aid Program

At about \$14.4 billion, foreign assistance represents slightly less than one percent of the U.S. budget in FY1995. The United States disperses overseas aid through more than 30 programs that can be grouped into seven major categories, as shown in Table 1. Assistance provided through multilateral channels represents about 16% of current foreign aid spending, the same share allocated for bilateral development programs. Food assistance, a declining element of foreign aid resources, receives about 9%. Security-related economic aid, primarily for Israel and Egypt, is extended through the Economic Support Fund (ESF) and accounts for around 16% of spending. Military assistance, also concentrated in the Middle East, consumes roughly 23% of foreign aid.

Although the United States maintains some type of foreign aid program in nearly 100 countries, specific allocations are heavily concentrated in a handful of recipients. As illustrated in Figure 2, Israel and Egypt, at \$3 billion and \$2.1 billion, respectively,

account for more than one-third of total foreign aid appropriations in FY1995. Russia (\$381 million) and Ukraine (\$180 million) have emerged as leading recipients in the past three years. Turkey (\$539 million) and Greece (\$255 million) continue as large recipients, although most U.S. aid is extended as military loans at market interest rates. In response to recent political change in South Africa, Haiti, and West Bank/Gaza, the United States has roughly doubled aid levels, making these programs among the leading aid recipients.

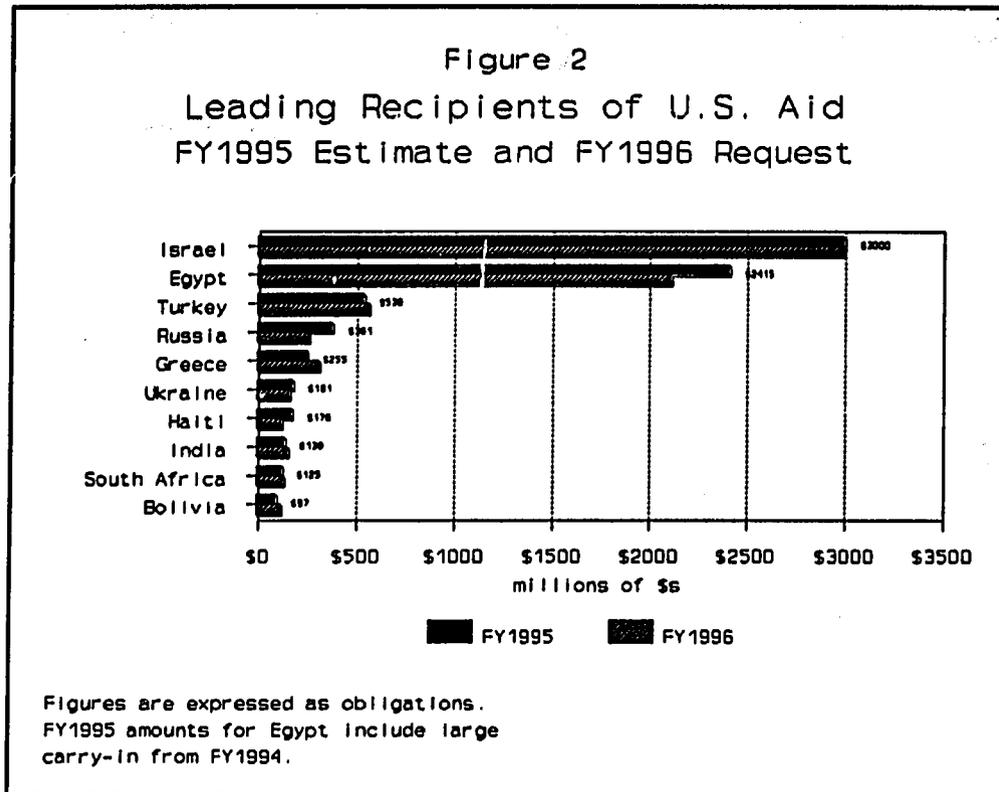
Table 1. Foreign Aid Budget - FY1995 and FY1996 Compared
(in millions of dollars)

	FY1994 Enacted	FY1995 Enacted	FY1996 Request	'96 Request +/- '95
Multilateral aid	1,841	2,302	2,754	+19.6%
Bilateral Development aid	2,166	2,311	2,383	+3.1%
Food aid	1,446	1,246	996	-20.1%
Former Sov Union/E Europe	1,858	1,209	1,268	+4.9%
Economic Support Fund	2,365	2,349	2,466	+5.0%
Other Economic aid	1,917	1,698	1,869	+10.1%
Military aid	3,293	3,312	3,492	+5.4%
Rescissions (not above)	-470	---	---	..
Total, Foreign Aid	\$14,416	\$14,427	\$15,228	5.6%

Note: Figures do not include FY1995 supplemental request of \$18 million development aid, \$82.3 million Economic Support Fund, and \$27.2 million military aid. They also exclude an FY1995 rescission request of \$142.5 million for food aid.

President Clinton's FY1996 Request

Secretary of State Christopher characterizes the entire FY1996 foreign policy budget request, including foreign aid, as the "bare minimum we need to defend America's vital interests" and represents a "critical test of our leadership" to provide the necessary resources to support U.S. interests at home and abroad. Critics, however, including some in Congress, are certain to disagree, arguing that the budget submission does not represent a rigorous assessment of U.S. national interests and proposes to continue spending on low priority activities.



The \$15.2 billion proposal is about \$800 million, or 5.6%, higher than current spending on U.S. foreign assistance. Much of this increase falls in two primary areas: U.S. contributions to the World Bank and other multilateral development banks (MDBs) and on military assistance and other national security-related programs. For the MDBs, the President seeks a \$400 million (20%) increase, primarily to pay off a portion of U.S. arrears owed to the Banks. (See Table 1.) In the area of security assistance, the request adds about \$390 million for military assistance, peacekeeping, non-proliferation, narcotics control, and security-related economic aid. Much of the increase (\$85 million) will support countries in East Europe and the NIS participation in NATO's Partnership for Peace initiative and help prepare them for eventual membership in the alliance. The budget also broadens the size and number of recipients for two security assistance programs -- Foreign Military Financing and the Economic Support Fund -- accounts that in recent years have shrunk in size and been largely programs for Israel and Egypt. Other highlights of the budget include:

- Virtually no overall budget change in bilateral development assistance, including aid to Africa, but a revised program emphasis on population (+\$53 million) and environment (+\$24 million) programs and a reduction for economic growth activities (-\$87 million).
- Significant increase in debt reduction programs (+\$35 million) for low-income countries and debt-for-nature swaps.
- Sizable increase for Eastern Europe (+\$120 million, +34%), with half of the increase slated for reconstruction efforts in Bosnia.

- Substantial rise in narcotics control aid to the Andean nations of Bolivia, Colombia, and Peru (+\$59 million, +75%).
- Transfer of a DOD-funded activity to combat nuclear smuggling and strengthen export controls in the former Soviet Union, raising the Non-Proliferation and Disarmament Fund request from \$10 to \$25 million.
- Sharp increase in the military training program (IMET) (+\$14 million, +56%).
- Large reduction in non-emergency food assistance (PL 480), dropping \$225 million (-50%).

The FY1996 proposal will not alter significantly the current list of leading recipients of U.S. aid (see Figure 2). Israel (\$3 billion) and Egypt (\$2.1 billion) continue at the same levels for FY1996. Turkey and Greece are scheduled for \$450 million and \$315 million, respectively, in market interest rate military aid loans that the Administration says will end after next year. Turkey would also receive \$100 million in economic aid, about double the allocation for FY1995.

FY1995 Supplemental and Rescission Request. Also accompanying the President's FY1996 budget was an FY1995 supplemental and rescission request that included several foreign aid programs. FY1995 supplementals total \$402 million for two items. First, the Administration seeks \$275 million to complete the forgiveness of U.S. loans owed by Jordan. In recognition of Jordan's participation in the Middle East peace process, Congress, at the President's request, approved \$99 million in the FY1995 appropriations bill to forgive part of what Jordan owed the U.S. Government. The second supplemental element consists of \$127 million in development aid, ESF, and peacekeeping funds to replenish accounts from which the Administration drew in 1994 to increase assistance for Haiti. Turkey, Bolivia, and other countries had their FY1995 aid allocations reduced as a result of the requirements in Haiti. Off-setting somewhat these supplementals for FY1995 is a \$142.5 million rescission request for non-emergency food aid programs. This continues a pattern set over the past several years of declining resources allocated for both the PL 480 Title I concessional loan program and the Title III, Food for Development element.

Possible Congressional Agenda and Early Foreign Aid Initiatives

As the foreign aid agenda for the 104th Congress begins to take shape, it appears that there will be at least four opportunities for direct and indirect debate on foreign aid issues, perhaps early in the year:

- FY1995 rescission and supplemental;
- FY1996 regular budget resolution;
- Foreign aid authorization legislation; and
- Foreign Operations Appropriations for FY1996.

Rescission/supplemental -- FY1995

In order to reduce spending to pay for aspects of the Contract with America, congressional Republican leaders have announced intentions to consider early in the 104th Congress a revised budget resolution for FY1995 and/or a rescission of current spending. The result of either action would be the cancellation of previously appropriated, but unexpended funds. As noted above, the Administration has requested a small rescission for food assistance. The House Appropriations Committee took the first step in considering FY1995 rescissions on February 10 during discussion of a Defense Department supplemental bill (H.R. 889). The Committee approved two foreign aid rescissions to off-set some of the additional funds for DOD: a \$110 million cut in a U.S. aid project for Russia that is providing housing for Russian military officers who are returning from the Baltics; and a \$62 million rescission in U.S. contributions to the African Development Fund.

The \$402 million foreign aid supplemental will also be reviewed by the Appropriations Committees and could be taken up at the same time as the Committee considers further rescissions separate from the DOD supplemental bill, or at a later date.

Budget Resolution -- FY1996

More certain is congressional action during early 1995 on a budget resolution for FY1996. Within the budget resolution, Congress will approve the broad framework of U.S. foreign policy spending as part of the international affairs budget function 150. Foreign aid makes up about 70% of the total international affairs budget. Although the budget resolution will not set precise funding levels for foreign aid, decisions made on the international affairs account will have a considerable impact on how much funding is available for foreign assistance in FY1996. Should Congress make sharp cuts for function 150, for example, authorization and appropriation committees likely would apply much of the overall reductions in foreign aid.

Foreign Aid Authorization

Legislation authorizing foreign aid programs, which once was an annual or bi-annual congressional event, has not been approved since 1985. Policy controversies, difficulties in comprehensively re-writing a 30-year old law, and a congressional agenda emphasizing domestic issues have repeatedly blocked efforts to enact broad foreign assistance authorizing bills. Instead, foreign aid funding and policy matters have been directed largely by annual Foreign Operations Appropriation measures for ten years. Under normal congressional procedures, nearly all foreign aid programs would be authorized first in a single bill falling under the jurisdiction of the House International Relations and Senate Foreign Relations Committees. Authorization for U.S. participation in World Bank and other multilateral development bank programs, however, is handled in the House by the Banking Committee. Food aid programs, which will be reviewed in 1995 as part of the Farm bill, come under the jurisdiction of the House and Senate Agriculture panels.

Both of the primary authorizing committees have announced plans to mark-up foreign aid authorization bills early in the session. Neither committee is expected to consider an exhaustive re-write initiative. Rather legislation likely will authorize

foreign aid programs, update existing foreign aid law, set spending ceilings for FY1996, and incorporate other selected policy and legislative issues that have been included in appropriations bills in recent years. The Administration may also re-submit its Peace, Prosperity, and Democracy Act for committee consideration.

Foreign Aid Appropriations

The annual Foreign Operations appropriations bill frequently is characterized as the "foreign aid" spending legislation. While Congress appropriates most foreign assistance programs within this statute, the bill includes one activity -- the Export-Import Bank -- that technically falls outside the "foreign aid" budget, and it also excludes funding for food aid programs. Food assistance, or PL480, is funded under the Agriculture Appropriation measure. Tables 4 and 5, appended to this issue brief, display funding trends for both the Foreign Operations and PL480/Agriculture appropriations. Totals listed in these tables will differ somewhat from those shown above in Table 1 because of small differences in program configuration under the Foreign Operations and Agriculture appropriations bills. Congressional consideration of appropriation bills, which normally originate in the House, likely will begin shortly after passage of the FY1996 budget resolution.

Other Foreign Aid Legislative Initiatives

Beyond the work of the committees of primary jurisdiction, it is further anticipated that other foreign aid legislation will be introduced in 1995. As noted above, the first formal proposal to emerge came from Senator McConnell, chairman of the Senate Appropriations Foreign Operations Subcommittee.

The McConnell Initiative

In a press conference of December 12, 1994, Senator McConnell issued his plan -- the International Partnership and Prosperity Act of 1994 -- that would replace the Foreign Assistance Act of 1961 with a substantially reduced and streamlined authorization for U.S. foreign aid programs. Senator McConnell offered his bill for consideration by the Senate Foreign Relations Committee, but noted that if Congress did not enact an authorization statute in 1995, he would incorporate as much of the legislation as possible in the Foreign Operations Appropriation measure in his role as subcommittee chairman.

Policy issues. Senator McConnell's initiative directs foreign aid to support three overarching goals: protecting U.S. security, promoting American economic interests, and preserving political and regional stability. Within bilateral economic aid programs, the legislation authorizes assistance to promote economic reforms and contribute to the efforts of countries making the transition to market economies and democracy, to address refugee and humanitarian needs, and to confront transnational threats. Unlike the Administration's main goal of sustainable development, the McConnell proposal makes no explicit mention of environmental protection or stabilizing world population growth as priorities. Transnational threats, which can include an array of global problems, are not defined. Security assistance programs would follow traditional policy goals of helping friendly countries meet their defense requirements and participate in collective security activities, combatting threats posed by narcotics trafficking and terrorism, and promoting democratic transition, among others. Reflecting the

importance to U.S. interests Senator McConnell places on the Middle East and Europe, the draft bill includes separate titles authorizing aid programs specifically for these two regions. Assistance for other countries and regions would be funded out of the general economic and security aid programs with no explicit assignment of priority. The legislation, for example, would not continue the current separate authority and funding line item for Africa that has been in place since 1988.

Budget Issues. Budget priorities endorsed by Senator McConnell match the importance placed on policy goals outlined in the legislation. Aid levels for Israel and Egypt would remain the same. Amounts for Eastern Europe and the former Soviet Union (FSU) would fall by 9%, but with higher priority placed on programs on Ukraine, Armenia, and Georgia. Tougher conditions would apply to Russia. The legislation would boost funding for trade promotion programs and security assistance, and maintain current levels for disaster/humanitarian activities. Other economic assistance would take substantial cuts -- collectively totalling \$1.43 billion, or 39% -- affecting primarily world-wide development aid, population programs, the Africa Fund, Peace Corps, voluntary contributions to international organizations, and small regional aid foundations. Senator McConnell did not identify funding levels for a few accounts, including U.S. payments to the MDBs that currently amount to \$1.9 billion. For those portions of the foreign aid budget addressed in the bill (about 80% of the total budget), Senator McConnell proposes a \$1.16 billion, or 10% cut for foreign assistance.

Organizational Issues. The McConnell initiative consolidates aid implementing agencies in two ways. First, the bill abolishes AID and places its responsibilities under the Secretary of State. The Director of the Peace Corps would also report directly to the Secretary of State. Secondly, the legislation merges the Overseas Private

Table 3
Foreign Aid Budget/McConnell Compared
(millions of dollars)

	FY1995 Approp.	McConnell Proposal	McConnell +/- FY1995
Middle East:			
Israel	\$3,000	\$3,000	---
Egypt	2,115	2,115	---
Peace Fund	---	75	---
Subtotal	5,115	5,190	+2%
Europe:			
FSU	850	750	-12%
(Ukraine)	(158)	(200)	(+27%)
(Armenia)	(41)	(75)	(+83%)
(Georgia)	(25)	(50)	(+100%)
East Europe	359	355	-1%
Subtotal	1,209	1,105	-9%
Economic aid:			
Disasters	170	170	---
Refugees	721	721	---
Other Econ*	3,637	2,209	-39%
Subtotal	4,528	3,100	-31%
Security aid**	291	400	+37%
Trade	827	1,025	+24%
TOTAL***	11,970	10,820	-10%

* Includes development asst fund, population, intl organizations, Africa Fund, other ESF, operating expenses, Peace Corps, Inter-American and African Foundations.

** Includes military training, peacekeeping, narcotics, terrorism, and Greece/Turkey military loans.

*** Includes only accounts specified in McConnell bill and not total foreign aid.

Investment Corporation (OPIC) and the Trade and Development Agency (TDA) -- two agencies with dual export promotion/aid objectives -- into a single entity that would receive increased funding.

Administration and Other Responses to Congressional Proposals

A clearer picture of executive-legislative positions and areas of disagreement on foreign aid reform will take shape when committees of jurisdiction began their formal work on the President's FY1996 budget request. Meanwhile, some executive branch officials and outside supporters of foreign aid--largely from the non-government organization (NGO) community--have come out in strong opposition to positions outlined in the McConnell proposal and other foreign assistance initiatives being developed in Congress. AID Administrator Brian Atwood argues that the dismantlement of his agency will erode U.S. leadership within the international development community and jeopardize efforts to marshal collective efforts to confront significant threats to U.S. interests, such as environmental degradation. He further takes exception with calls to substantially cut foreign aid spending, a move that would undermine efforts to deal with the conditions that create instability and practice preventive diplomacy and crisis management. NGO representatives argue that if the United States further reduces its commitment and funding for development assistance, other donors will follow the lead with similar cuts, thereby reducing an already declining source of aid resources.

103rd Congress Appropriations Law

P.L. 103-306, H.R. 4426. Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 1995. Reported by House Appropriations Committee May 23, 1994 (H.Rept. 103-524). Passed House, amended, May 25 (337-87). Reported by Senate Appropriations Committee June 16 (S.Rept. 103-287); passed Senate July 15 (84-9). Conferees reached agreement on July 29 (H.Rept. 103-633). Conference report passed House Aug. 4, 1994 (341-85); passed Senate Aug. 10 (88-12). Signed into law Aug. 23, 1994.

LEGISLATION

H.R. 889/Livingston

Emergency Supplemental Appropriations and Rescissions for the Department of Defense. Includes the rescission of \$172 million in foreign aid funds. Introduced Feb. 10, 1995; ordered reported by the House Committee on Appropriations on the same day.

TABLE 4. FOREIGN OPERATIONS APPROPRIATIONS

(millions of dollars)

	FY1992 Enacted	FY1993 Enacted	FY1994 Enacted	FY1995 Enacted	FY1996 Request	FY1996 +/- FY1995 (%)
Multilateral Economic Aid						
World Bank - IBRD	69.1	62.2	27.9	23.0	28.2	+22.6%
World Bank - Int. Development Assc.	1,044.3	1,024.3	1,024.3	1,235.0	1,368.2	+10.8%
World Bank - Int. Finance Corp.	39.7	35.8	35.8	68.7	67.6	-1.6%
World Bank - Environment Facility	--	30.0	30.0	90.0	110.0	+22.2%
Inter-American Dev. Bank (IDB)	85.1	166.7	151.3	124.6	146.8	+17.8%
Asian Development Bank	124.9	100.5	75.5	168.0	317.8	+89.2%
African Development Bank/Fund	112.8	103.9	135.0	124.4	127.2	+2.3%
European Development Bank	69.0	60.0	.0	69.2	81.9	+18.4%
North American Development Bank	.0	.0	.0	.0	56.3	--
IMF-Enhanced Struc. Adjust. Fac.	.0	.0	.0	25.0	25.0	--
Other international organizations	280.5	310.0	360.5	374.0	425.0	+13.6%
Total Multilateral Aid	1,825.4	1,893.4	1,840.5	2,301.9	2,754.0	+19.6%
Bilateral Development Aid						
Development aid accounts	1,039.6	1,037.5	811.9	853.0	800.0	-6.2%
Population assistance	246.3	350.0	392.0	450.0	500.0	+11.1%
Development Fund for Africa	788.2	800.0	784.0	802.0	802.0	--
International Disaster Asst.	69.0	149.0	146.0	170.0	200.0	+17.6%
Debt reduction (Lat Am & Africa)	--	50.0	7.0	7.0	42.0	+500.0
Housing/other credit programs	64.7	30.2	25.3	29.3	38.5	+31.4%
Total Bilateral Development Aid	2,207.8	2,416.7	2,166.2	2,311.3	2,382.5	+3.1%
Economic Initiatives						
Economic Support Fund	2,984.0	2,670.0	2,364.6	2,349.0	2,465.7	+5.0%
Econ Support Fund Rescission	--	--	-203.0	--	--	--
Former Soviet Union	194.0	1,107.0*	1,487.8*	850.0*	788.0	-7.3%
Eastern Europe	364.2	400.0	390.0	359.0	480.0	33.7%
Philippines--Mult. Asst. Initiative	78.5	40.0	(20.0)	--	--	--
Ireland Fund	19.7	19.7	19.6	19.6	29.6	51.0%
Total, Economic Initiatives	3,640.4	4,236.7	4,039.0	3,577.6	3,763.3	+5.2%
Other Economic Aid						
Amer. Schools/Hospitals Abroad	28.6	30.0	--	--	--	--
Foreign Service Retirement	41.4	42.7	44.2	45.1	43.9	-2.7%
AID Operating and IG Expenses	511.3	551.3	543.9	556.6	568.1	+2.1%
African Development Foundation	12.8	16.9	16.9	16.9	17.4	+3.0%
Inter-American Foundation	24.6	31.0	31.0	31.0	31.8	+2.6%
Peace Corps	197.0	218.1	219.7	219.7*	234.0	+6.1%
Int. Narcotics Control Program	147.8	147.8	100.0	105.0	213.0**	+102.9%
Anti-Terrorism Program	11.8	15.6	15.2	15.2	15.0	-1.3%
Refugee Aid (regular & emergency)	670.0	670.0	720.0	727.0	721.0	+0.8%
Non-Prolif. & Disarmament Fund	--	--	10.0	10.0	25.0	+150.0%
Rwanda emergency (supplemental)	--	--	50.0	--	--	--
Jordan Debt Relief	--	--	\$99.0	--***	--	--
Total Other Economic Aid	1,645.3	1,723.4	1,849.9	1,726.5	1,869.2	+8.3%
Military Aid						
Foreign Military Financing/FMF grants	3,992.3	3,300.0	3,149.3	3,151.3	3,262.0	+3.5%
FMF loan subsidy	50.1	149.0	46.5	47.9	89.9	+87.7%
<i>[FMF program size]</i>	<i>4,396.3</i>	<i>4,155.0</i>	<i>3,918.8</i>	<i>3,770.9</i>	<i>4,027.0</i>	<i>+6.8%</i>
Intl Military Ed & Training	44.6	42.5	21.3	25.5	39.8	+66.1%
Military to Military Contact	.0	.0	(10.0)	12.0	--	--
Peacekeeping Operations	27.6	27.2	75.6	75.0	100.0	33.3%
Total Military Aid	4,114.6	3,518.7	3,292.7	3,311.7	3,491.7	+5.4%
Export Aid						
Export-Import Bank	641.0	786.2	993.6	782.1	780.4	-0.2%
Trade and Development Agency	34.5	40.0	40.0	45.0*	67.0	+48.9%
Overseas Private Investment Corp	17.9	17.9	16.6	-93.4	-96.5	--
Total, Export Aid	692.6	844.1	1,050.2	733.7	750.9	+2.3%
Special Defense Acquisition Fund	--	--	-266.0	-282.0	-220.0	-22.0%
Rescissions not included above	--	--	-262.2	--	--	--
Total Foreign Operations	14,126.1	14,633.0	13,710.3	13,680.7	14,791.6	+8.1%

* FSU totals for FY1993 and FY1994 include portions of a \$1.609 billion FY1993 supplemental. For FY1995, Congress appropriated \$850 million for the FSU, \$130 million of which was subsequently transferred to other programs, including Peace Corps (\$11.6 million) and Trade and Development Agency (\$17 million). The net FY1995 FSU appropriation is \$719 million.

** FY1995 narcotics control program level does not include \$34 million in economic and military drug-related aid for Bolivia, Colombia, and Peru that is included in the FY1996 request.

*** President has requested \$276 million supplemental for Jordan debt forgiveness.

TABLE 5. AGRICULTURE APPROPRIATIONS -- P.L. 480 FOOD AID
(millions of dollars)

	FY1992 Enacted	FY1993 Enacted	FY1994 Enacted	FY1995 Enacted	FY1996 Request	FY1996 +/- FY1995 (%)
PL 480 Food Aid						
Title I-loan subsidies/ocean freight	442.3	389.8	331.4	267.7*	150.0	-44.0%
(Title I-program size)	(563.8)	(555.3)	(377.0)	(320.3)	(177.9)	-44.4%
Title II-emergency & private grants	710.1	810.0	880.1	821.1	795.7	-3.1%
Title III-Food for Development grants	333.6	333.6	233.0	157.4*	50.0	-68.2%
Debt restructuring	--	40.0	--	--	--	--
Total, PL 480	1,486.0	1,573.4	1,444.5	1,246.2	995.7	-20.1%

* The Administration has submitted a rescission proposal for FY1995 that would reduce Title I by \$50 million and Title III by \$92.5 million.