

PNABF651

COMMITTEE ON FOREIGN AFFAIRS

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JAN 27 1988

MEMORANDUM

TO: The Hon. Dante B. Pascetti, Chairman

FROM: Lee H. Hamilton
Benjamin A. Gilman

SUBJECT: HFAC Foreign Aid Review Task Force: Summary of Activities

1. Overview: The Task Force was established in January 1988 to review the entire U.S. foreign aid program; to examine what doesn't work and why; to gather information, and to provide counsel on proposed legislative, administrative and operational changes in the program; and to develop a set of issues, priorities and recommendations for the consideration of the committee, other Members of Congress, and the new administration.

The items that follow briefly describe Task Force activities, meetings, correspondence, information exchanges, and documents and analyses that have been received and developed.

2. Meetings, Panel Discussions and Correspondence with Members

(Please note that these meetings were generally informal, off the record exchanges of information, views, and opinions)

2/17/88 Members met with Alan Woods, the new AID Administrator. The HFAC Task Force review effort was discussed along with mutual expressions of cooperation and support for this undertaking.

3/31/88 Members met to offer and discuss suggestions and issues for the Task Force study.

6/1/88 Members met with panel consisting of Ralph Smuckler of Michigan State University and Bob Berg of the International Development Conference, John Sewell of Overseas Development Council, Jack Sullivan of Development Associates, and Jack Hamilton of the World Bank. Members and panel engaged in a wide-ranging discussion of major problems and

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issues, proposed objectives and restructuring suggestions, funding limitations, base rights, and the need for a congressional and national consensus.

- 6/22/88 Members met with panel which included Gen. Ernest Graves, formerly with DOD and DSAA; Harry Shaw, formerly with OMB; and Stephanie Neuman of Columbia University. Participants engaged in a broad discussion of security and military aid issues, sales, credits, base rights, planning criteria, reprogramming, and legislative concerns.
- 6/28/88 Members met with Peter McPherson, Deputy Secretary of the Treasury and former AID Administrator. The discussion included AID progress, initiatives and budgeting; leverage and action through UN agencies; accountability, objectives, PVO participation, staffing, and administrative expenses; advanced developing country relationships.
- 7/27/88 Members met with William Schneider, former Undersecretary of State for Security and International Affairs. The discussion was focused upon military and security aid and included complexity of the program, earmarking, financing methods, constraints, funding base rights under DOD, and simplifying legislation.
- 8/4/88 Members met with James Grant, Executive Director of UNICEF to discuss changes in U.S. development policy, overcoming worst aspects of poverty, child health and population improvements, restoration of growth, and more world involvement (China, Japan, Europe) in development. Also discussed were: declining resources, debt, objectives in terms of global goals, environmental implications, and organizational structure.
- 8/9/88 Members met with Stephen and Douglas Hellinger, coauthors of "Aid for Just Development", and associate Atherton Martin. The Hellingers presented recommendations for redirecting and restructuring the U.S. foreign assistance program. They described a "development gap" wherein the poor know their needs and have the capacity to develop themselves but are seldom consulted and often ignored. Discussed also were proposals for separate funding for PVOs; independent development foundations; an autonomous AID; cause of Third World instability; separation of political and security assistance from development aid; decentralization; and multiyear, untied, flexible funding.
- 9/16/88 Members met to discuss the progress of the Task Force and to provide feedback on issues and problems identified thus far. Many items were discussed including: better coordination, discretionary budget, the Africa program as a guide, funding flexibility, executive and congressional relationships, accountability, barnacles, a subcommittee on oversight,

interface with the Appropriations Subcommittee on Foreign Operations, committee jurisdiction, trade barriers, and IMF conditionality.

9/12/88 Members met with Cyrus Vance, former Secretary of State. Subjects discussed included: balance between multilateral and bilateral aid, balance between economic and security aid, country and U.S. agencies coordination, program management, base rights.

In addition, a number of Committee Members have provided very useful written input to the task force in response to invitations from Chairman Fascell and Ranking Minority Member Bill Broomfield.

3. Products Produced by the Task Force

- 2/5/88 Basic information on existing foreign aid goals, objectives, and delivery systems.
- 2/22/88 Press release: "Committee Launches Major Review of Nation's Foreign Aid Program"
- 2/23/88 Preliminary compilation of "unfinished staff thoughts" on major problems
- 3/25/88 Memorandum to Members of the Committee with:
—Paper describing "Approach for Review of Foreign Aid"
—A compilation of "unfinished staff thoughts"
- 4/88 Talking points and questions on foreign aid
- 6/9/88 Preliminary staff paper on "Military Assistance: Problems and Prospects"
- 6/21/88 Proposed questions related to U.S. security assistance programs.
- 6/30/88 Memorandum to Members of the Committee containing:
—Results of panel/Member discussions, studies underway, meetings and interviews.
—Summaries of correspondence and papers received from people in response to the May 23, 1988 letter asking for ideas and input on foreign assistance. (9 summaries)
- 7/20/88 Memorandum to Members of the Committee containing:
—Staff summaries of papers submitted in response to foreign aid inquiry letter. (26 summaries)

- 8/3/88 Memorandum to Members of the Committee containing:
- Interim staff report (7/26/88) on regarding economic assistance.
 - Staff summaries of papers submitted in response to foreign aid inquiry letter (8 summaries).
 - GAO letter (8/1/88) describing key economic aid issues and problems.
- 9/12/88 Memorandum to Members of Committee containing:
- Staff paper presenting issues and options for development assistance and the economic support fund.
 - Staff paper presenting issues and options for security assistance.
 - Staff summary of Members' meeting with Stephen and Douglas Hellinger, coauthors of "Aid for Just Development".
- 9-14-88 Remarks of the Hon. Lee H. Hamilton on the activities of the Task Force, presented at a conference of the Board for International Food and Agricultural Development.
- 12-7-88 Remarks of the Hon. Lee H. Hamilton on the activities of the Task Force, presented to the Board of the Overseas Development Council.
- 12-8-88 Remarks of the Hon. Lee H. Hamilton on the activities of the Task Force relating to security assistance, and presented to the American League for Exports and Security Assistance, Inc.
- 01-89 Various inputs to a handbook on foreign aid, provided to the Members of the Committee.

4. Meetings and Exchanges With U.S. Government Officials on Economic Assistance

During the past year staff of the Task Force has held over 40 meetings with a broad cross-section of AID officials. These meetings ranged from discussions and exchanges with present and former AID Administrators, Assistant and Deputy Assistant AID Administrators, Office Directors, Mission Directors and Deputy Mission Directors, Counselors, the Inspector General and his staff, and other AID officials and staff.

These are some of the issues and subject matters discussed;

- Cooperation with House Foreign Affairs Committee Task Force review efforts;
- Foreign Aid barnacles in the legislation and administrative directories;
- Foreign Aid problems and issues as seen by various AID officials and the AID/IG and his staff;
- AID's Task Force effort looking into foreign aid present, past, and future;
- Field programs operations, including planning, implementing and evaluation;
- Appropriate levels of accountability;
- Policy formulation and decision making;
- Country program content and performance;
- Management of procurement, personnel and contracting;
- Staffing of AID Missions and other offices overseas and in Washington;
- Operating expense budgeting and utilization;
- Generation and use of local currency;
- Cooperation and coordination with other U.S. agencies and other donors.

The Task Force also met several times with officials of the Department of State, the National Security Council, and Office of Management and Budget to discuss similar foreign problems and issues. These discussions centered on U.S. Government decisionmaking and policy setting mechanisms and procedures with respect to levels, mixes, and allocations of U.S. foreign aid.

5. Meetings and Exchanges With Individuals and Groups in the Development Community

From the beginning of its activities and continuing to the present time, staff of the Task Force has been meeting with a wide cross-section of people from non-government organizations that are concerned about and participate in U.S. foreign aid. These include people from academia, social and educational organizations, private and voluntary organizations, consultants and contractors, and authors.

The Task Force has received valuable input from these sources in the form of timely books, papers, studies, and other publications; and equally important, in the form of candid and open discussions of foreign aid issues and problems. Some of the products and inputs from this group are listed and discussed elsewhere in this report.

The Task Force is especially appreciative of the voluntary "pro bono" contributions of these people and their organizations to the review.

The closest to any one theme from the multitude of meetings and papers is the general proposition that it is time to reconsider the present structure of foreign aid, both legislatively and administratively.

The following briefly illustrate the range of issues addressed: objectives and rationale for foreign aid; U.S. Government decisionmaking process and organizational structure; accountability and coordination; levels and mixes of aid; use of nongovernment organizations in planning and delivery of assistance; role of food aid in development; accountability of resources; program and project priorities; the environment and national resource management; and new legislative proposals.

6. Meetings and Exchanges With Agency Officials and Others on Military and Security Assistance

Members of the Committee participated in two meetings on June 22, 1988 and July 27, 1988, at which important military and security issues were discussed. (See item number 3.) During the course of the year, the security assistance staff held some 20 meetings with representatives from:

- a) The Department of State's Bureau for Politico-Military Affairs, Office of Munitions Control
- b) The Department of Defense:
 - Office of the Secretary of Defense, International Security Affairs;
 - Office of the Secretary of Defense, International Security Policy;
 - Office of the Joint Chiefs of Staff;
 - Office of the Defense Security Assistance Agency;
- c) The National Security Council
- d) The Office of Management and Budget
- e) The American League for Exports and Security Assistance
- f) The private sector and academia

A broad range of ideas, issues and prospective solutions for problems in the current military aid programs was discussed at these meetings. Subjects included: separation of military aid and sales authorities; earmarking; program priorities; program goals and objectives; jurisdictional control; base rights and access agreements; alternative financing; accountability; transition from aid to sales relationships; and police training. An issues and options paper developed by the Task Force discusses these and other subjects and offers a number of recommendations for legislative and administrative changes.

7. Task Force Letters to Individuals and Organizations Requesting Input and Analyses of Responses

Beginning in February 1988, the Task Force began receiving input to its study from a variety of individuals, groups, and agency officials. On May 23, 1988, the task force sent letters to over 200 people and organizations asking for their ideas and input on foreign assistance. Comments were invited on the direction and organizational structure of the U.S. foreign assistance program, the role of Congress, appropriate objectives, allocation of resources, coordination, accountability, and

constituency for foreign aid. Over 50 substantive responses were received, for example, from former cabinet members and administration officials, international organizations, private and voluntary organizations, university leaders, and development assistance groups. Summaries of these responses were prepared by the staff of the Task Force and periodically sent to HFAC Members.

For the most part, the responses were wide-ranging and diverse, yet full of substance and thoughtfulness. More importantly, they seemed to be candid and forthright. For example, respondents urged recognition of (1) the growing interdependence of the U.S. with the rest of the world in terms of trade, debt, finance and the environment, and (2) the interdependency of U.S. security, political, economic, and development interests in individual countries. Some called for increased levels of aid to promote economic growth and strengthen security; others suggested that a better job could be done of applying and leveraging existing resource levels, using U.S. credibility, influence, and comparative advantages to guide collaborative efforts. With respect to the role of Congress, suggestions included the need to promote a better partnership with the Executive Branch, resist protectionist lobbying, educate the public as to the benefits of foreign aid, and concentrate more on broad policy direction and less on short term prescriptions.

Although a single theme was not easily identifiable, several notable and experienced respondents appeared to be of like minds in commenting on a number of issues. Among such comments were suggestions to:

- establish fewer but clearer goals and objectives emphasizing poverty alleviation, sustained economic growth, and environmental protection.
- separate development assistance from political and military aid.
- establish a cabinet committee, or a high level State Department or White House position, to direct and coordinate foreign aid policy and programs.
- eliminate or minimize earmarks, restrictions, conditions, and reporting requirements.
- channel development aid through a public foundation.
- reduce bureaucratic paperwork, planning, internal documentation.
- simplify complex procurement procedures, and voluminous budget justifications.

8. Products Produced at the Request of the Task Force

A. By the General Accounting Office and the Inspectors General

The Task Force requested selected Inspectors General and the General Accounting Office to identify issues and problems affecting U.S. foreign economic and military assistance programs. GAO was also asked to summarize and analyze its past work in the foreign assistance area. This section lists and briefly describes the responses received by the Task Force. The Task Force staff also met several times with the AID Inspector General and GAO representatives to discuss foreign aid issues and problems and possible solutions. Currently, GAO is looking into the procurement process at AID, including the effects of the Federal Procurement Regulations and other requirements on the implementation of programs overseas.

- * GAO identified a number of key issues and problems affecting U.S. foreign economic aid programs.

1. Strengthening management and administration of AID

Problems are in the areas of financial management, contracting, project management, recipient support, loan management, congressional notification process, and other management issues.

2. Improving accountability and controls

Problems with cash transfer controls, local currency generation and use, DA project monitoring and implementation.

3. Better policy direction needed

The maze of policy objectives, restrictions and requirements in the FAA do not provide clear legislative direction. Other problems in the policy area include: criteria for allocating aid, bilateral versus multilateral aid, international debt, food aid objectives, coordination, and international narcotics control.

GAO identified issues that affect the security assistance area. These include:

- controls over third-country sales of coproduction items
- the use of FMS credits for military trade offsets
- munitions export licensing
- the recovery of nonrecurring costs
- the source of funding for base access agreements
- control of commercial contracts funded with FMS credits

- * GAO response to Hon. Lee H. Hamilton. A summary and analysis of past GAO work covering development assistance, ESF, food aid, military assistance, and multilateral aid. Problems identified:

- failure of recipient governments to provide agreed counterpart funding;
- difficulties in using aid to achieve economic development and policy reforms goals;
- insufficient accountability and control over cash transfers and local currency programs;
- erosion of U.S. aid effects by the debt problem;
- unworkable development programs in narcotics-producing countries;
- profound economic and social impact of AIDS in developing countries;
- AID continuing problems in financial management, contracting, budgeting, planning, and monitoring;
- numerous objectives, conditions, restrictions, earmarking, and reporting requirements in the legislation;

Suggestions include: structuring U.S. aid in line with recipient country capabilities; developing budget strategies that minimize the pipeline problem; exploring alternatives to functional accounts; streamline reprogramming requirements; decreasing number of countries; concentrating aid resources and personnel on key countries; developing overall debt relief policy. In the multilateral aid area, there is a need to strengthen U.S. participation and the evaluation and inspection systems.

- * DOD Inspector General identification of problems in the Security Assistance Program relating primarily to accounting, pricing and administrative funding. (Request of Feb. 16, 1988)
- * AID Inspector General identification and analysis of major problems found in foreign aid program. These include: local currency; ownership, accounting for cash transfers, diffusion of AID programs, administration of centrally funded programs, control of pipeline obligations, cost sharing with recipient

countries, food aid as a development tool, financial management capabilities and practices, enforcement for conditions precedent, use of U.S. universities, and host country contracting. (Request of Feb. 16, 1988)

- * USDA Inspector General response to request of Feb. 23, 1988, noting that various food aid programs are fragmented and not always clearly defined.

Foreign Economic Assistance Issues

A GAO report, November 1988 (GAO/OCG-89-23-TR)

This summary report discusses key issues relating to AID's foreign economic assistance programs. It cites the wide range of objectives in the Foreign Assistance Act that creates confusion, contributes to a lack of consensus between Congress and the executive branch, and reduces accountability.

The report questions: (1) AID's capacity to effectively manage some 2000 projects in more than 70 countries, (2) the increasing reliance on contractors and host country nationals to carry out programs, (3) recipient governments' failure to provide agreed upon funding to help finance and maintain projects, and (4) AID's multi-billion dollar pipeline of undisbursed funds. Accountability problems include: the misuse and diversion of funds, difficulty in accounting for ESF cash transfers, and inadequate controls over local currency generation and use.

GAO proposes that AID focus programs on more manageable units by reducing the number of overseas missions, and concentrate resources and personnel on key countries and on fewer, larger projects.

Donor Approaches to Development Assistance: Implications for the United States

A GAO report dated May 4, 1983 (GAO/ID 83-23)

This report compares the U.S. development assistance approach with those of five major Western nations -- Canada, France, Sweden, United Kingdom, and West Germany. It discusses how these approaches might affect the programs administered by AID and some of the dilemmas and trade-offs of each approach.

B. By the Congressional Research Service of the Library of Congress

Required Reports to Congress on Foreign Policy

This committee print updates a 1973 report. It examines the foreign affairs reporting requirement system and assesses reports being filed in these areas: national security; foreign assistance; international organizations and global issues; regional and Department of State and USIA operations. Reporting requirements have increased from 200 in 1973 to more than 700 in 1988. Assessments made of 383 of these reports showed that 142 of them were fulfilled, expired, or of questionable utility.

Foreign Assistance Policy Studies: A Review of Major Reports and Recommendations

This committee print provides a broad examination of 33 major foreign aid studies made during the 1980s. The CRS review identifies common themes and issues. These included:

--Levels of foreign assistance. Most studies concluded that more aid resources are required. A few called for a reduction in levels of aid.

--Foreign aid programming and organization reform. A common conclusion was the need to maintain maximum flexibility in programming and administering U.S. economic and military assistance. Several calls were made to streamline project design and implementation procedures for development aid, remove growing legislative and administrative requirements, and better integration of economic and military aid programs. Nearly all authors agreed that donor coordination must be improved.

--Role of private sector. More than a third of the reports gave some attention to the private sector. They generally recommend more support for programs that promote private sector development.

--Policy dialogue and reform. Several studies cite LDC economic and social policies as subjects for change because of the negative impact they may have on the development process. Donor countries should seek to influence changes in, or adoptions of policies that are likely to achieve economic growth. Policy dialogue has long been a function of U.S. aid programs. The need for policy reform is being recognized more, along with the need to help LDCs develop their capacities to carry out reforms -- not necessarily by conditioning aid payments on policy reforms.

--Poverty focus and rural development. A number of reports assert that the emphasis of all development activities should be on programs benefiting the very poor. Few concrete proposals for doing this were put forth. In essence, the basic human needs policy adopted in the early 1970s embodies this principle. As a consequence, much of U.S. development aid has gone into the agriculture sector which many analysts agree has become a U.S. specialty, unmatched by other donors, and due principally to the expertise of U.S. universities, cooperative organizations, and the agribusiness community.

--Trade and finance. Three themes emerged from the studies on trade and finance issues: (1) encourage developed country investment in the LDCs, (2) resolve the debt crises, (3) give more attention to the value of trade to LDC growth and development. Implementation of the "Baker Plan" for addressing the debt crisis has been slow because banks appear reluctant to expand credit to debtor nations (\$9 billion from development banks and \$20 billion from commercial banks, over three years) as called for by the plan.

Four other issues that received considerable attention in the studies and continue to generate increasing debate within the foreign aid community are: Aid for:

- Sub-Saharan Africa
- Central American aid
- Women-in-development
- The environment

CRS Country Studies

These six studies covered surveys of U.S. aid programs in Bangladesh, Kenya, Morocco, Peru, Senegal, and Thailand. They supplement a number of other country studies that CRS had already prepared. Together they provide a valuable base of information and issues regarding U.S. foreign assistance activities and programs from which representative countries could be selected for possible study missions by the Foreign Aid Task Force.

Foreign Aid Handbook

This is a continuing compilation of key material on the U.S. foreign aid programs put together by CRS with input from AID, other agencies, and the Task Force staff. It includes an overview of foreign aid programs, trends and characteristics, major programs and agencies, executive and congressional organization and jurisdictions, and other material.

Foreign Assistance Reporting Requirements
(to be published as a committee print)

This CRS study of almost 300 reporting requirements relating to foreign assistance supplements the August 1, 1988 committee print entitled "Required Reports to Congress on Foreign Affairs." As requested by the Task Force, CRS focused on foreign assistance reporting requirements. CRS suggests that the 288 reports in this area could be reduced to about 150 by consolidating similar reports, repealing unnecessary or low-interest requirements, and removing fulfilled or out-of-date provisions from the legislation.

C. By Other Agencies

Department of Defense listing of statutory "barnacles" or restrictions with respect to security assistance.

Agency for International Development analysis of limitations on the use of economic assistance funds (AID "barnacles"). AID assessments of barnacles are divided as follows:

--Delete: those which should be removed from authorization legislation or discontinued in annual appropriations legislation;

--Modify: a number of these analyses provide specific suggestions for language modifications;

--Unnecessary: those which could easily be removed because they reflect internal policy or are essentially obsolete;

--Other: those causing no particular problem to date, those which because of constituency are unlikely to be removed - problem or not; non AID issues.

9. Task Force Participation at Public Meetings and Conferences

-- Members of the staff of the Task Force participated in several preliminary conferences and in the final, May 1988 Michigan State University conference on New Challenges, New Opportunities: U.S. Cooperation for International Growth and Development in the 1990's.

-- Task Force staff have participated in and spoken at a number of conferences of nongovernment institutions and private and voluntary organizations with respect to foreign aid issues such as mixes and levels of assistance, delivery mechanisms, target groups, and U.S. government organizational structure.

I. REQUESTED BY THE TASK FORCE

1. U.S. Development Cooperation and the Third World: Issues and Options for the 1990s, by the Overseas Development Council. November 9, 1988

As the United States prepares to enter the last decade of the twentieth century, it faces a policy environment unprecedented in postwar history. The U.S. economy is still the world's largest and wealthiest, but the heightened interdependence of the international system has eroded the ability of the United States to unilaterally dictate its interests. Near-term choices are highly constrained both due to the success of U.S. and European policies to foster global economic growth and progress, and due to the United States' own economic mismanagement. But contrary to much of the current discussion in this country, the 1990s will offer opportunities to promote U.S. interests in growth and progress in the developing countries -- to the benefit of both sides.

This changing environment has significant implications for U.S. foreign aid programs. The current amalgam of programs no longer responds to vitally important but changed U.S. interests in the Third World. The U.S. development cooperation program urgently needs a renewed sense of purpose and coherence in the decade ahead that will enable it to promote U.S. interests both in the middle-income countries -- the current locus of American economic interests -- and in the poorer countries, which remain the core of the world's development challenge.^[1]

The United States has interests in the developing world that are multiple, complex, overlapping, and often conflicting. Policies to further these interests need to take account of a rapidly changing policy environment with implications for the redesign of U.S. development cooperation programs. Some of the key changes in the 1990s include:

1. The Third World is now increasingly differentiated and faces gloomy economic prospects (Asia excepted) in the decade ahead. From 1950 to 1980, the developing countries compiled a spectacular record of economic growth. But while the newly industrialized countries, and a number of other middle-income countries succeeded in enhancing their status in the international economy, the low-income countries -- concentrated in Sub-Saharan Africa and South Asia -- remain producers of primary commodities and are heavily dependent on flows of concessionary resources.

2. Financial flows to the developing countries sky rocketed to \$147 billion in the five years prior to 1982, with private transfers dominating official finance. Since 1983, however, net transfers have turned negative by \$85 billion. The debt burden continues to be a key obstacle to developing-country growth. In the highly indebted developing countries, the ratio of debt to GNP climbed from 32 per cent in 1982 to

56 per cent in 1987. Low-income Africa's situation is even more desperate, with a debt-GNP ratio in 1987 of a crippling 76 per cent.

3. The sharp decline in commodity prices during the 1980s is likely to continue through the remainder of this century, with severe negative consequences for many of the poorer developing countries. Nearly one-fifth of all developing countries are dependent on one or two raw materials for over half their export earnings, and most of these countries are very poor.

4. There is a wave of political and economic liberalization sweeping through the Third World; these trends are fragile, however, and will wither unless supported from the outside. In Latin America, there has been a swing away from military regimes toward democratically elected governments. In Africa, the recognition that economic liberalization and privatization are part of the answer to the continent's development crisis is widespread, and reforms are being put into place. In Asia, people are struggling to protect and strengthen democratic values. But, political and economic liberalization in many developing countries are threatened by the harsh international environment.

5. U.S. aid flows are a declining proportion of global development assistance. The number of public and private donors on the international scene has multiplied, total aid flows have increased, and the United States is no longer the major actor in the field. The United States now ranks next to last among all OECD countries as a donor of official aid as a percentage of GNP. Japan, which is fast becoming the world's largest donor of development assistance, already transfers 0.31 of its GNP to the Third World, surpassing the U.S. effort at 0.20 per cent of GNP.

6. New Soviet attitudes toward the developing countries may reduce threats to American interests and open diplomatic opportunities for reducing tensions. The Gorbachev "revolution," with its emphasis on economic restructuring and openness to the West, has cast the evolving U.S.-Soviet relationship in a more hopeful, but still unpredictable, light. The ongoing withdrawal of Soviet troops from Afghanistan and the Soviet willingness to discuss regional conflicts are hopeful signs that the overwhelming concern on both sides with East-West confrontation in the developing world could diminish.

7. A "global agenda" of old and new interrelated problems -- poverty, environmental sustainability, rapid population growth, AIDS, and drugs -- has emerged to join growth, debt, and adjustment as central issues in North-South relations. This "global agenda," with its global repercussions, should set the agenda for the U.S. aid program in the 1990s.

8. Both developed and developing countries are on the threshold of a series of changes in industrial organization and technology that rival in magnitude the introduction of the steam engine and the discovery of electricity. These technological developments are contributing to fundamental shifts in relations between the United States and the developing countries. While this "Third Industrial Revolution" has the potential for reestablishing U.S. economic supremacy, it also threatens

to increase the gap between industrial and developing countries unless these developments are understood and anticipated by policymakers.

Implications for the United States Aid Program:

* Forecasts for the period 1987-1995 predict that developing country growth will remain restrained. But sustained and rapid economic growth in the Third World, particularly in the middle-income developing countries, is a key element in reducing the U.S. trade deficit without inducing a global recession.

* U.S. development cooperation should seek to stimulate the flow of resources needed to resume growth in the developing countries. At the same time, the developed economies must fight protectionist impulses.

* The industrial world can bolster Third World trends toward economic and political liberalization by ensuring that adequate financial flows reach developing countries so that the debt burden and the adjustment programs needed to restore balance to these economies do not threaten political and economic openness.

* A "window of opportunity" in U.S.-Soviet relations may permit the United States to reassess its security interests in the Third World, and reallocate aid funds accordingly.

* Rising aid flows from other donors and the relative decline in U.S. development assistance means that the U.S. development policy should emphasize participation in the International Financial Institutions -- thereby leveraging large amounts of lending with small amounts of cash -- and place a premium on greater donor coordination.

* The United States is the logical candidate to spearhead the multi-lateral effort to effectively deal with the nascent global agenda through renewed leadership in the international organizations.

* Aid programs need to focus on assisting developing countries, particularly the poorer ones, to strengthen their national capacity to develop and utilize new technologies for their own benefit.

2. The Bilateral Aid Programs of Other Donor Countries, by the Overseas Development Council. January, 1989.

At the outset, it must be emphasized that fundamental differences in systems of government make international comparisons of aid policies and implementation difficult, and have somewhat limited utility as models for the United States. Congress exerts much more influence on the political decisionmaking process, especially the selection of recipient countries and the fixing of country or multilateral aid levels, than the corresponding institutions in other donor countries. Moreover, in the parliamentary systems in which there is no separation of legislative and executive powers, the conflict that exists between the administration and Congress, is unknown. Nonetheless, an examination of the aid programs of other donor countries can provide U.S. observers with valuable lessons on past successes and failures that have important implications for future directions.

In Canada, the Netherlands, Sweden, and, to a somewhat lesser degree, in the Federal Republic of Germany (FRG), the national aid programs enjoy widespread support by parliaments and governments. Although important areas of disagreement do exist related to aid objectives, strategies or recipients, these pale in significance to the conflicts that plague the U.S. program. All of the major political parties in these countries agree (at least in general terms) on the need for a national aid program, the objectives of the program, and current funding levels and targets.

Development cooperation in the Netherlands, Sweden, and Canada also enjoys widespread public support and those governments are acknowledged to be among the most committed to and effective in development education. In the FRG, and to an even greater extent in the United Kingdom (UK), public support for aid is lackluster and the government plays a minimal educational role on these issues.

The more enthusiastic public perceptions of and support for efforts to assist in Third World development are significantly influenced in the Netherlands and Sweden by cultural and historical characteristics vastly different from those of the United States. Canada's very successful experience, however, does offer some useful guidelines for the United States, including a commitment to development objectives (as opposed to political or commercial interests) with which the public is in agreement, the need for significant financial commitment to public education on the issues, senior political leadership, and extensive networking through the private sector. (It is worth noting that the Canadian government's role in development education is under review; the quality of government-funded programs varies widely and too little effort may have gone into program evaluation.)

Compared to the United States, the Netherlands, Sweden, Canada, and the FRG, all devote substantially higher shares of their gross national product to official development assistance (ODA). The UK trails these four countries in aid performance, although even at 0.28 per cent of GNP, the UK's ODA effort is slightly higher than that of the United States.

USAID is guided by literally dozens of purposes and objectives laid down by successive Congresses and Administrations. In contrast, Canada recently adopted an charter which sets out four basic principles for their official aid program: helping the poorest countries and people; promoting self-reliance; development priorities must prevail in the aid program; and strengthening the partnership between the people and institutions of Canada and those of the Third World. The programs of Sweden and the Netherlands are also guided by a very few general objectives that have been the agreed upon basis of their programs for, respectively, 26 and 15 years.

As in the United States, the aid programs of Canada, the FRG, the Netherlands, Sweden, and the UK respond to some mixture of commercial, political/strategic, and developmental concerns. In contrast to the United States, however, where the debate over U.S. aid objectives tends to focus on political/strategic versus development goals, the greater policy debate over aid objectives in these five countries concerns the weight given to commercial versus development interests. Where large proportions of aid funds are allocated on political grounds (for example, the UK's emphasis on Commonwealth countries), a significant degree of national consensus about these objectives has resulted in relatively little debate.

There are significant differences between these five countries and the United States in the country allocation of aid funds. The FRG focuses the largest share of its ODA on Sub-Saharan Africa (63 per cent), and Canada, Sweden, the Netherlands, and the UK also target substantially more to this region and to South Asia than the United States, and far less to the Middle East and North Africa.

For all five of the countries examined, the promotion of national commercial interests is of importance to the aid program although the weight given to these interests vary widely, as indicated by factors such as the allocation of aid among countries, the types of projects selected, the terms of aid, and the existence of other special programs. For example, all five allocate much larger shares of their bilateral aid to capital goods for economic infrastructure and to productive investment (particularly in industry, mining and construction) than the United States, and much smaller shares to program assistance. But the five devote less to these funds of capital intensive projects than some other major bilateral donors, including Austria, Finland, Norway, and Japan.

Sweden and Germany provide more of their aid on an untied basis than any other DAC donor, and the Netherlands also ties a relatively small share of its aid. At the other end of the spectrum, the United Kingdom ties the largest share of its aid program among all DAC donors. Canada had very restrictive tied aid policies, but recent changes have considerably softened these terms.

Canada, Sweden, the Netherlands, the FRG, and the UK all have programs to promote direct foreign investment in developing countries. Only Canada, as the United States, does not provide equity capital. The UK's Commonwealth Development Corporation is unique among these agencies due to its strong overseas presence in 18 regional or country offices.

All five of the countries have some kind of program which uses aid funds to promote their national exports. Among the most aggressive and controversial is the United Kingdom's Aid and Trade Provision (ATP), which provides both mixed

credits and soft loans subsidized by official development assistance and currently claims about 16 per cent of the UK's bilateral aid budget.

As in the United States, overall responsibility for aid policymaking falls within the jurisdiction of the ministry of foreign affairs in the UK, Sweden, and Canada, with independent agencies charged with implementing bilateral projects and programs. However, while AID is a subordinate agency to the Department of State, the Canadian International Development Agency (CIDA), the Swedish International Development Agency, (SIDA), and the Overseas Development Administration (ODA) are quasi-autonomous departments which gives them more operational flexibility with respect to their foreign ministry.

In all of the countries, there is a minister for development cooperation, and in Canada, Germany, and the Netherlands this position is of cabinet rank. But only Germany has a separate ministry for aid.

Several points are worth noting with respect to the structure or responsibilities of other donors' bilateral aid agencies:

- * The Swedish, Dutch, Canadian, and German aid agencies have recently reorganized, as a result of changing assessments of national capacities, of changing needs in developing countries, and of a different global environment.

- * None of the five countries intends to replicate AID's widely admired overseas presence, but some donors have made an effort to strengthen their field capacity. For example, Canada is in the process of decentralizing CIDA's staff and decisionmaking authority covering about one-half of its activities. Since 1985, the Netherlands has assigned sector specialists to the field to bolster its technical competence.

- * The tension between functional and geographic structure exists in other countries. Recently the German and Swedish agencies both shifted from functional to regional organizational structures.

- * Discussions in the United States over AID's role vis à vis the multilateral development banks are mirrored in other countries; the Canadian aid agency has authority over the regional development banks, while the German ministry for aid has authority over all multilateral banks.

- * Private voluntary organizations play a major role in delivering Canadian and Dutch official development assistance. Significant involvement by the private sector (both for-profit and non-profit) is deemed desirable in both countries because it eases staffing restrictions, taps needed expertise, and helps to build public support for development cooperation.

Several bilateral donors have specialized agencies of potential interest to the U.S. observer:

- * The FRG is unusual because it has two separate agencies to implement, respectively, technical and financial aid. This structure has apparently worked to the Germans' satisfaction, but no other donor has sought to replicate it.

* In Sweden, SIDA is responsible for the greater proportion of the bilateral program, which focuses on countries, generally low-income, with which Sweden has established a long-term aid relationship. A separate agency implements programs and projects in more advanced or creditworthy developing countries. This structure is currently under review; changing circumstances within Sweden and developing countries have caused the government to question the efficiency and effectiveness of two separate agencies, although individually each agency is well-regarded.

* The UK's British Council promotes Britain abroad through culture, education, and technical cooperation. Since the 1960s, the British Council has served as an implementing agency for the Overseas Development Administration, carrying out technical cooperation programs, particularly in the field of education. Among its advantages as an aid provider, the Council is legally independent from--although funded by--the government which insulates its activities from political concerns.

* Most donor agencies have departments of some kind specializing in development-related research promotion, but only Canada and Sweden have established widely respected separate agencies to pursue the scientific and technical research needs of developing countries.

For the most part, coordination of development cooperation or aid policy with other foreign economic policies takes place within interdepartmental committees formed to consider specific issues, such as trade or debt policy. Two years ago, the Netherlands created a more formal structure. All issues with a potential impact on the relationship between the Netherlands and developing countries are referred to a ministerial sub-council for development cooperation, chaired by the Prime Minister.

The Netherlands also provides an interesting example of how domestic agencies' expertise can be tapped for development. Several of the Netherlands' ministries are expected to allocate some portion of their annual budget for development efforts, and all are required to allocate 5 per cent of their capacity for technical advisory services to the Netherlands' official aid agency.

3. Engineering Services in U.S Foreign Assistance Program for the 1990s

Prepared at the request of the Task Force by the International Engineering Committee of the American Consulting Engineers Council.

The paper reviews the role of capital projects in the overall development history of U.S. foreign assistance. It argues that infrastructure was a precondition to economic growth in developing countries. Capital projects constituted a relatively efficient way to transfer resources. The paper recognizes that many factors can undermine a successful capital project, such as inappropriate price policy, poor technology choice and lack of institutionalized maintenance regimes.

With the exception of Egypt and Pakistan, A.I.D. has turned away from capital projects and infrastructure (less than 3 percent) because, among other reasons, the U.S. cannot afford to do them and they do not benefit the poorest people. The paper rejects this argument, pointing out that other major donors devote considerable more of their resources to such projects. The paper states that capital projects have their place in a balanced development program. Moreover, the U.S. has a strong comparative advantage in design and engineering which would be effectively harnessed to benefit U.S. exports and better serve the needs of the countries we are assisting.

"For most countries, a valid mix of capital projects and related technical assistance and Basic Human Needs projects can readily be established," the paper states. For example, as Third World cities reach astounding proportions (50% by the year 2000) their needs for basic services such as waste and management, water supply and sanitation, pollution controls, and transportation networks, will far outstrip developing country capabilities. While foreign aid alone cannot finance this infrastructure, it could finance the feasibility and design studies necessary to develop solutions.

The paper states that the Trade and Development Program works well because it is relatively small and flexible. TDP funding should be raised from \$25 million to at least \$50 million over the next two or three years an given "no year funding" authority for more flexibility.

The paper contains other suggestions and recommendations regarding the engineering programs of the Ex-Im Bank, the establishment of trust funds and co-financing of multilateral development bank projects, and the placement of U.S. materials in MDBs.

4. An interim report on AID Planning and Reporting Requirements prepared by John T. Garrity.

This report, a pro bono, part-time effort, was directed at the question, "What would constitute a reasonable planning and reporting system between AID and the Congress?" Findings include:

--AID's planning and reporting system is outdated and out of touch with changes that have been taking place in the world.

--The P&R system is process driven to the extent that "AID is doing business with itself". The system responds mostly to administrative processes rather than management needs. AID and Hill staff seem to be always chasing projects and responding to detailed requirements.

--Potential benefits that could be derived from the experience of others include, (a) reduction of middle management, (b) reduced preplanning and more end results orientation, (c) reduced reporting and routine reviews, and (d) more focus on critical issues.

--Suggestions included (a) establish controls above the project level, (b) delegate more and focus on key issues, (c) distinguish between humanitarian and strategic aid, and (d) execute bilateral aid through a USG sponsored foundation.

5. Foreign Aid: Problems and Issues Affecting Economic Assistance
GAO report, December 30, 1988

Issues

Some of the more prominent bilateral assistance issues identified are:

- Assistance projects are often undermined by the failure of recipient governments to provide agreed counterpart funding and recurrent cost financing.
- The United States has had significant difficulties in effectively using Economic Support Fund (ESF) assistance and food aid to achieve economic development and policy reform.
- The impact of U.S. assistance is eroded by the deteriorating international debt situation.
- Development assistance programs in narcotics-producing and trafficking countries have not effectively contributed to narcotics reduction.
- Acquired Immune Deficiency syndrome may have profound economic and social impacts on developing countries and may increase the demands for U.S. assistance.

- Accountability and control over cash transfers and local currency programs are not sufficient to ensure that assistance is used for intended purposes. Also, adequate attention is not given to the financial management deficiencies of aid recipients.

The Agency for International Development (AID), which is the primary implementing agency for U.S. economic assistance, has encountered significant management problems. Difficulties have been encountered in project and financial management, contracting and procurement, program budgeting, and monitoring. Management of critical programs is complicated by AID's decentralized operations in numerous developing countries, the large number of projects, and direct-hire staff limitations. The pipeline of obligated but undisbursed funds, which has averaged several billion dollars in the 1980s, is indicative of AID's problems in effectively delivering economic assistance.

AID and Department of State officials believe that the congressional oversight and budgeting process is also partially responsible for problems in bilateral assistance delivery. Two frequently mentioned issues are the earmarking of ESF, which can affect AID's ability to promote recipient policy reform, and the funding of development assistance by functional accounts, which can result in development priorities shaped by funding availability rather than development needs. An additional factor cited by AID is the current reprogramming process which requires that AID justify to the Congress most changes in its Congressional Presentation.

Matters for Consideration

- Structure U.S. bilateral assistance according to the recipient's capability to support projects. Options include emphasizing projects that lessen the administrative and financial burden on recipients, stressing alternatives to project assistance, and making new and continued project funding contingent on recipient compliance with counterpart and recurrent cost funding agreements.
- Strengthen efforts to encourage recipient economic policy reform by clarifying specific reform objectives, establishing timeframes/milestones for achieving stated reforms, and periodically assessing reform progress and impact of U.S. assistance.
- Develop budget strategies to minimize the pipeline problem, consider alternatives to earmarking funds and to programming development assistance by functional accounts, and streamline reprogramming requirements.
- Focus AID programs on more manageable units by decreasing the total number of countries in which AID missions and field offices are located, concentrating AID resources and personnel on key countries and maintaining a limited in-country presence through U.S. embassy staff in other nations, concentrating resources on fewer and/or larger projects, and setting a minimum funding level per project.
- Develop an overall debt relief policy that determines how much aid is needed, the U.S. share, and the most appropriate mechanisms for delivery.
- Determine if AID should play a greater role in U.S. efforts to reduce narcotics production and, if so, what that role should be.

Matters on procedural, management, and operational changes in the bilateral program may be more easily addressed. Some examples include (1) upgrading accountability and control requirements for local currency accounts; (2) developing a fully integrated AID financial management system that, among other things, provides more reliable and comprehensive data on program disbursements; (3) reexamining AID contracting and procurement practices to better ensure competition, cost control, and program effectiveness; and (4) developing a long-term assistance strategy to address the financial management deficiencies of aid recipients.

In the multilateral assistance area, analysis indicates the need:

- for better management of U.S. participation in international organizations,
- to further strengthen internal evaluation systems and the Joint Inspection Unit of the United Nations,
- to further strengthen the independent evaluation systems of the multilateral banks, and
- for a reliable U.S. policy for assessed payments to the United Nations.

II. Recent Comprehensive Studies

1. Summary of Aid for Just Development (1988), by Steve Hellinger, Doug Hellinger, and Fred O'Regan

The book argues for separating development assistance legislatively and bureaucratically from political and military assistance; for channeling development assistance through a publicly chartered foundation; for a responsive, participatory mode of implementation (i.e., for giving the intended recipients (the poor) a major role in planning and implementing development assistance).

Foreign Aid, General:

-- Those countries that followed the advice of Northern aid agencies and diverted agricultural resources to produce for export and to establish a modern industrial base have seen the prices of their commodities plummet, Northern markets contract, the cost of capital-goods imports steadily increase, the price of imported oil fluctuate dramatically, balance-of-payments problems intensify, and the cost of credit needed to cover these deficits only exacerbate them.

-- Money is not a significant constraint on development. Third World agencies are overloaded with funds that they cannot effectively absorb and utilize.

-- Project success depends on local involvement. Participant control guarantees a number of factors crucial to success -- local

commitment to the long-term goals of the project, an appropriate "fit" or adaptation of economic and technical innovations, an appropriate (self-determined) distribution of economic and social benefits, a broad-based sharing of formal and informal project-related learning experiences, and reduced administrative costs through decentralization and local-level skill development.

-- AID has been moving away from projects and in the direction of using its influence at the macro level, and thereby is moving further from contact with local-level realities.

-- Development assistance should be separated from political and military assistance and channeled through a restructured AID that is an autonomous public corporation with a board of directors. As currently structured, AID is subject to U.S. foreign policy objectives, trade and investment interests, and a variety of special interests. Members of Congress could use the autonomy of AID as a basis for resisting the myriad of extraneous pressures brought to bear on them. Economic assistance provided for political/security reasons would be managed by the Department of State.

-- A government's efforts to narrow the wealth and income gaps between the rich and the poor should be the principal factor in determining the allocation of bilateral aid.

-- Aid should be available to institutions in all countries, regardless of a country's income level.

-- Aid should be freed from Buy-America requirements. Tied aid generates little in the way of permanent markets for the donor country.

-- Project vs Program assistance -- Assistance should be provided as program aid on a multi-year basis to governments which have exhibited a commitment to a form of development that directly involves and benefits the poor. Where such governmental commitment is absent, aid should move as project assistance to appropriate institutions.

-- AID, while more decentralized than other donor agencies, is still top-heavy with personnel in Washington. AID is burdened with a set of internal checks and reviews that produce a lengthy and cumbersome project cycle. AID imposes upon itself enormously complicated procedures which make it difficult for the field missions to be responsive to the poor. Projects are judged on criteria unrealistic in terms of implementation and are approved as long as they are well articulated and presented in the proper form. The length of the project-development process also leaves staff with little time at the end to observe the actual product of their efforts.

-- Functional accounts should be eliminated so AID missions can support activities truly relevant to the needs of each country.

-- A restructured AID would have one-to-three regional offices and country mission staff decentralized to facilitate contact with local communities and institutions.

-- Full-time AID staff, rather than U.S. consultants, should assume the major responsibility for development assistance functions.

-- Congress has not effectively exercised its oversight responsibilities. The Congress should enact a new Development Assistance Act, with a simple, short, unambiguous mandate. The Congress would exercise its oversight function and receive notification and summaries of all projects, but it would not involve itself in the review and approval of programs and projects.

-- An Asian and Pacific Development Foundation should be established, to join the Inter-American Foundation and the African Development Foundation.

-- Land-grant universities, consulting firms, many PVOs, and other special interests linked legislatively and/or programmatically with our aid program have chosen to focus on their own more narrow concerns rather than challenge a development and aid paradigm that has failed to involve and support the poor in their self-defined development endeavors.

-- Development criteria should be focus on the principles of equity, participation, sustainability, and self-reliance.

PVOs:

-- Are well placed, as a result of their work at the grassroots level overseas, to inform the U.S. public, program officials, and policymakers of the realities of life at that level and the impact of official assistance programs.

-- In 1984, some 2,200 Northern NGOs utilized approximately \$4 billion in assistance.

-- The work of PVOs is uneven. At their best, they are responsive to local needs and requirements. But they also can be removed from the poor, noncollaborative, and imposing of Northern priorities and agendas rather than responsive to local communities.

-- As increasing amounts of money for foreign assistance have been moved through PVOs, some PVOs have become less responsive and accountable to the poor, and less independent of governments. AID's overfunding of a number of groups have taxed their management capabilities, changed their institutional style, and made them more bureaucratic and unresponsive.

-- The U.S. should establish a PVO foundation to make grants and loans to U.S. PVOs and local counterparts in accordance with strict criteria that stress the local initiation of projects, the building of institutions, and the devolution of management to local control. A PVO should receive no more than 50% of its funding from government. PVOs must include public education among their responsibilities.

World Bank:

-- Is ill-equipped in orientation, structure, and operations to

support the types of projects, programs, policies, and organizations that truly involve and benefit the poor. Local participation has been absent in its mode of operation.

-- The focus of the Bank's (and IMF's) structural adjustment efforts has not been the poor, but instead on agricultural pricing, industrial policy, exchange rates, trade liberalization, export promotion, budgetary policy, cuts in public-sector investment, public-service user chargers, and financial and debt management.

-- The head of the U.S. bilateral aid program should be the official link to the MDBs.

-- MDBs should: shift away from an export focus to emphasis on greater regional, national, and local economic diversification and self-reliance; elicit the views of affected marginalized populations; reduce the level of lending until the absorptive capacity of relevant and effective institutions can be determined and expanded; redirect IDA funding from the poorest countries to poor people.

2. The Convergence of Interdependence and Self-Interest: Reforms Needed in U.S. Assistance to Developing Countries

A review and recommendations by the Phoenix Group; published by the International Trade and Development Education Foundation, January 1989.

The report's principal conclusions are:

-- Current U.S. foreign assistance policies and programs are targets of widespread and continuing criticism. The world is vastly changed since the basic U.S. foreign aid law was enacted nearly three decades ago. Now, with a new Congress and Administration in Washington, is the time for serious review and reform.

-- To be justified, U.S. foreign aid programs must be in the U.S. national interest. This concept is logical and evident. Aid to developing countries does serve U.S. interests. Improving their economies improves their value as trading partners. Aid targeted on their environmental concerns helps our environment. It is also a way to combat global pollution, reduce mass migration of people from one country to another and to help reduce global tensions.

-- To be effective in an age of tight federal budgets, limited U.S. foreign aid funds should focus on key Third World problem areas and not be diffused by addressing so many objectives as is now the case. U.S. bilateral assistance should concentrate on those programs in which the U.S. performs well -- in training and education, technical assistance, research, information and management, and policy guidance. Programs requiring large funds transfers should be left to international institutions.

-- Major problems facing Third World countries are in the areas of debt, food security, natural resources management and the

environment, energy, health and human welfare, population, management capabilities, and private enterprise development.

-- The U.S. foreign aid administrative structure needs a major overhaul. Military assistance should be administered by the Defense Department and charged to the defense budget. Political/security-related assistance should be charged to and administered by the State Department. For development assistance, there should be a Presidential-level council assuring adherence to priorities and government-wide coordination. An AID-successor agency organized along problem-solving lines is required for Third World problems, and most U.S. aid missions overseas must be replaced by problem-solving, results-oriented, binational task forces.

-- To undertake serious reforms, Congress should scrap the obsolescent Foreign Assistance Act of 1961 and write a new law. To aid implementation, policy direction and oversight, Congressional leaders should vote funds that are available until expended, using two-year aid appropriations bills. Congress should also link authorizing and appropriating legislation to improve clarity and consistency in the law.

The report makes specific recommendations for U.S. aid in each area.

3. Foreign Aid and American Purpose

A publication of the American Enterprise Institute, authored by Nicholas Eberstadt. December 1988.

The publication seeks to examine the consequences of development assistance and other aid policies. Questions addressed include:

-- Whether development aid policies did not at times make injurious practices and destructive policies feasible for governments that could not have sustained them without this source of financial assistance.

-- Is prosperity a necessary condition for liberal democratic rule.

American foreign aid policies, which should be used to reinforce U.S. political, economic, and moral objectives, must have two purposes:

-- First, to augment American political power throughout the world.

-- Second, to support the postwar liberal international economic order that the US helped create and is committed to preserving.

RECOMMENDATIONS:

HUMANITARIAN AID: U.S. policy should commit the United States unreservedly to the rescue of those whose lives are threatened by emergencies and disasters -- irrespective of their government's

attitude toward the United States or "human rights" or any other consideration. The only condition on such aid is that local governments not obstruct the efforts of outside agencies to act in the afflicted areas.

- Upgrade substantially the priority accorded emergency relief with U.S. foreign aid policy.
- Delineate and divide more clearly the roles of government and nominally private voluntary organizations (PVOs).
- Improve the early warning system that may alert countries to approaching famines and disasters.
- Pre-position emergency relief stocks and trim bureaucratic red tape, particularly requisitioning and payment procedures.

DEVELOPMENT AID: U.S. policy should focus on the task of encouraging self-sustaining economic growth. Assistance should be directed toward helping governments govern more productively, rather than redressing international poverty through unsustainable transnational budget transfers. Development aid should be guided by principles of entrepreneurship and comparative advantage: that is, of making the most productive use of scarce resources through key interventions. A return to providing technical assistance will be necessary.

- Remove institutional and legislative shackles impairing effectiveness of U.S. development policies.
- Review U.S. contributions to UN development policies. Programs of the UN related organizations in the name of "development" are often hostile to a free and open international economy.
- Cut back "soft" development lending.
- Return the World Bank and other multilateral development banks to their original purpose, that is, serving as the main pillar of a free international economy.
- Reform P.L. 480 to focus more on emergency or famine relief rather than a commodity-disposal project subsidizing U.S. farmer.
- Encourage statistical competence in developing nations.
- Increase technical assistance through U.S. universities.
- Expand competitive funding in support of technical innovations for developing countries.
- Develop movable "policy hospitals" made up of development specialists to educate rulers and decision-makers in developing countries about the economic consequences of chosen policies and alternative strategies.
- Help governments in developing countries make markets work.
- Encourage U.S. allies to reform their development policies.

Other Western nations must join in a commitment to the principles of the liberal international economic order and to the goal of self-sustaining economic progress.

SECURITY ASSISTANCE: Must be considered separately from humanitarian and development purposes not only because its purposes are different but also because different rules govern its effective application. The purpose of U.S. military and security aid is to apply American power internationally by strengthening the defensive capabilities of states in the American alliance structure and helping friendly nations quell internal political or military disturbances. It is uncertain that long-term transfers of money for security purposes promote self-sustaining economic growth.

- Remove ESF from AID.
- Reduce the soft lending component and raise the direct grant portion within the mixture of American security assistance funds.
- Reform the legislation governing security assistance to remove restrictions on the ability of the U.S. government to conduct foreign policy.

4. A Message to Congress on Sustainable Development in U.S. Foreign Assistance

National Audubon Society's Foreign Assistance Project, January, 1989.

The report contains these conclusions:

-- Today we are faced with a series of complex and awesome challenges. Our quality of life and the future of the planet rests on the decisions we make now and in the 1990s.

We make this prediction based on projections of current trends. It is not a question of whether the climate will change, the atmosphere will deteriorate, nonrenewable resources will be exhausted, starvation will take place, or the quality of life for many will decline. Many of these changes have started already. All the indications are present that we are wreaking havoc on our environment, and we are doing it at an extremely rapid rate.

-- Fact. There are more than 5 billion people in the world. Projections indicate another billion in ten years. By 2030 there could be as many as 10.2 billion people or more. Most of these people will live in what we call "the developing world". Brazil will have more inhabitants than the United States. Nigeria's stabilized population will be larger than the whole continent of Africa today. India will be larger than China.

-- Fact. Eighty thousand square kilometers of tropical forests are converted to nonforest use annually, with one and one-half times that

much damaged each year. At current rates twelve percent of the remaining tropical forests will be gone by the year 2000. Besides being unique, animals and wild plants from these forests form gene pools for agriculture and medicine. Twenty-five percent of all pharmaceuticals come from tropical plants, and scientists have not even named five out of six tropical plants, much less determined their potential uses.

-- Fact. There are massive declines in food reserves and daily loss of arable land worldwide. Findings in a United Nations study on agriculture and world food supply indicate that by the year 2000 more than half the total countries studied will be unable to feed their expected populations with traditional agricultural methods. High input agriculture, on the other hand, is often unavailable or expensive. Pesticides and herbicides also can contaminate groundwater and destroy the natural resource base.

Audubon advocates a U.S. effort to use the foreign assistance program to promote ecologically sustainable development. Key elements to this program include an agricultural policy that protects soil and drinking water, an increase in support of U.S. population policies, and the establishment of an energy, environment and natural resource program.

The report makes these recommendations:

I. Rewrite the Foreign Assistance Act to:

- Make it more applicable to the current economic and environmental realities in developing countries.
- Emphasize ecologically sustainable development with particular attention to agriculture, energy, environment and natural resources, and population.
- Focus the Foreign Assistance Act on those activities where the United States has a comparative advantage to help reduce the long list of objectives in the Act.
- Develop technical partnerships with donor countries, multilateral institutions, private donor foundations, and experts in developing countries.
- Create a line item for energy, environment and natural resources so the planning and implementation of these programs can be tracked.
- Reduce the number of bureaus and offices in the Agency for International Development by combining or collapsing them into new or existing structures, which have a technical emphasis.

II. Focus the Foreign Assistance Act on ecologically sustainable programs in Agriculture, Energy, Environment and Natural Resources and Population.

A. Continue the shift in U.S. A.I.D.'s agriculture policy toward ecologically sustainable methods.

- Establish an agriculture development program concentrating on:
a) working directly with farmers, b) small-scale agriculture projects and c) policy dialogue.

- Adapt systems of technology transfer to local conditions.

- Focus the policy dialogue at the macro-economic level and give particular attention to the benefits and risks of biotechnology.

B. Establish an Energy, Environment and Natural Resource program.

- Use the new Foreign Assistance appropriations account for energy, environment and natural resources projects that (a) meet energy needs in ways that are ecologically sustainable, with an emphasis on energy assistance to meet human needs while minimizing global warming; (b) conserve tropical ecosystems and biodiversity; and (c) encourage effective regulation and control of pesticides, with particular attention to protection of groundwater and drinking water supplies.

- Encourage cooperation and consultation of this program with other U.S. A.I.D. agriculture, population, and health programs.

- Assign appropriations and oversight of existing treaties that promote conservation of biodiversity to the Department of State's Bureau for Oceans and International Environmental and Scientific Programs/Ecology and Natural Resources (OES/ENR).

- Establish an Interagency Task Force on implementation of existing biodiversity treaties with Department of State, Interior, Commerce, Agriculture, and Treasury, and U.S. A.I.D.

C. Reaffirm the United States commitment to assistance for population policy and family planning services.

- Restore funding for multilateral population organizations such as the United Nations Fund for Population Activities and the International Planned Parenthood Federation.

- Remove all legislative restrictions which prevent the Agency for International Development from responding to developing country requests for population and family planning assistance.

- Encourage the recruitment of population officers for all high growth countries.

- Maintain and strengthen the technical focus provided by the Office of Population of the Agency for International Development by designating half of appropriated population funds for the central program.

- Improve the efficiency of population assistance through pilot

projects, private sector involvement, long-term sustainability, local manufacture of contraceptives and contraceptive research.

- Continue support for data collection and research on the consequences and causes of rapid population growth, focusing activities on operational policies, and building developing country capacity to conduct population programs.

III. Reorder priorities of foreign assistance appropriations (the 150 account).

- Establish sustainable development as the U.S. policy theme in the 1990s.

- Increase contributions to multilateral programs that promote ecologically sustainable development.

- Transfer a minimum of \$600 million from military assistance to bilateral development assistance in agriculture, energy, environment and natural resources, and population.

5. New Challenges, New Opportunities: U.S. Cooperation for International Growth and Development in the 1990s

Michigan State University; Center for Advanced Study of International Development; September 22, 1988

SUMMARY CONCLUSIONS OF THE PROJECT

"Cooperation for International Development," the largest and most comprehensive inquiry ever launched to advise on future U.S. economic cooperation policies with the Third World, has involved over 100 commissioned papers, 15 major symposia and a national conference. Dean Ralph Smuckler and his senior consultant Robert Berg summarize the results of the project as follows.

As the United States enters the 1990s, we also enter a time when the importance of the Third World to the United States and to the well being of the world at large is taking a more central place. More than any other nation in the world, the United States stands to gain from a global system which promotes broadly based growth, an effective attack on poverty, and an end to the degradation of the world's environment. The 1990s will be a time when the fruits of economic collaboration with the Third World will be immense.

A new Congress and a new Administration will present a real opportunity to act for our own interests and the well being of a majority of mankind. A new global vision is called for. We urge three new American initiatives:

-- To restore growth in Latin America and the Philippines and to assist the restoration of growth in Sub-Saharan Africa, a new approach is needed on Third World debt. The approach must reduce debt burdens

sufficiently to enable Third World economies to resume normal financial relations and normal growth. The political leadership of the United States and a prominent role for the World Bank are necessary for any successful comprehensive approach.

-- Because it is the right thing to do, the United States needs to reinvigorate its efforts to help accelerate growth and alleviate poverty in poor developing countries, particularly in Sub-Saharan Africa where the human prospects are dim without effective international support.

-- A new priority is needed to address global environmental problems which couples domestic and international actions. Cumulative negative environmental trends present unprecedented challenges to mankind over the next two generations. Not only must development strategies be changed, but actions over and above normal plans are necessary on a scale which may well challenge conventional economics. Inter-state cooperation also will be necessary on an unprecedented scale.

Mutually beneficial growth will be aided by sensitive U.S. trade policies and by scientific and technical exchanges with the increasingly capable Third World. Such relationships call for more mature and mutual modes of cooperation.

The U.S. also has a strong interest in the spread of human and political rights in the Third World, and here our own abilities to foster economic and political pluralism are germane.

Our own economic and humanitarian interests lead the U.S. to development cooperation relationships which, in the 1990s, are urged to emphasize four substantive areas:

- Enhancing physical well-being through improved health systems and population planning;
- Working for sustainable food supplies;
- Developing environmental programs and policies which protect natural resources and assure better energy security by emphasizing renewable energy and energy conservation; and
- Fostering sound urban development policies as urban areas have great challenges and opportunities for development in the years ahead.

There are four approaches to these substantive areas where the U.S. has particularly strong abilities and these are recommended as a basis for U.S. development cooperation: human resource development, particularly at advanced levels; cooperation in science and technology; management capacity building; and strengthening the private sector.

Regardless of the exact substantive programs chosen, the range and complexity of country situations facing the U.S. calls for improvements in the conduct of U.S. economic cooperation with the Third World. Better coordination with other donors and within the U.S. Government is essential to make better use of scarce resources. Within the U.S.

Government it is urged that coordination be facilitated by a special function within the White House. Continued, indeed enhanced support of multilateral agencies also is necessary because of their special abilities. It is in the U.S. interests to increase the effectiveness of these institutions. Taking far more fundamental consideration of gender issues will also improve the quality of economic cooperation policies and programs.

Organizing U.S. development cooperation requires an agency more attuned to a range of relationships needed, particularly to more mature programs of development cooperation. USAID might be reconstituted as the Development Cooperation Agency. There is also room for a foundation-like function to foster scientific and technologic research and cooperation.

All this calls for long-term relations and partnerships; for Congressional on broad lines; for management by highly expert personnel; for extensive work through intermediary organizations and institutions; and for new modes of cooperation.

Meaningful economic cooperation with the Third World will take meaningful financial support to better reflect U.S. interests and the behavior expected of a world power. Although sorting out of priorities is needed in the short-run, the U.S. should strive to be near the middle of the major Western donors as measured by the percent of GNP devoted to development cooperation with the Third World. Such an 80-100% increase in funding by, say, the mid-1990s, calls for Presidential and Congressional leadership. Some leeway exists in funding U.S. cooperation programs by separating military and military-related programs...and in the process some programs, such as selected base rights arrangements, could be phased out. The large Middle East program also should be separated out to allow it the independent overview it requires. Repayments of past foreign aid loans can be devoted to future economic programs, in some cases by accepting repayments in foreign currency.

In the next year a new vision of cooperation needs to be articulated by national leaders and a new national consensus needs to be forged.

III. Special Focus Studies

1. Direct to the Poor: Grassroots Development in Latin America

A collection of articles from field studies in Latin America and the Caribbean by the Inter-American Foundation; edited by Sheldon Annis and Peter Hakin.

This book suggest an ideal resource transfer with no strings, no baggage, no politics, no diversion, no waste. The book explores a novel approach to economic and social development: giving money directly to organizations that poor people themselves create and control. Direct financial assistance is intended to strenghten

the poor economically in the short run so that they can mobilize through organized collective action and confront the fundamental causes of their poverty in the long run. That is the theory and intent of grassroots development.

This very uncomplicated idea is based on a belief that, despite their poverty, poor people possess substantial resources: knowledge and understanding of their circumstances, the will and persistence to make things better, and a capacity to organize and mount collective action. Direct financial assistance allows them to "capitalize" -- put into production -- their economic resources. In small but important ways, it helps them to gain better control over their local environments, allowing them to build upward and outward from there. This kind of assistance is not a substitute for broader social change or just, competent governments.

Most development agencies, of course, do not give aid "direct to the poor." Indeed, they have not been very effective at giving any benefits, direct or indirect. The nongovernmental, antibureaucratic approach is born of frustration. It argues that public agencies are more likely to absorb than distribute resources. If so, why not circumvent the system by investing directly in institutions that the poor create for themselves?

The book is ultimately ambiguous in its answer to the basic question: Does it work? Certainly, grassroots development is not presented here as a magic solution to the problem of poverty. The book does not conclude that self-help is a substitute for just and competent governments or efficient, effective, and equitable macroeconomic policies. Self-help cannot by itself replace large-scale development projects and programs. And it does not always succeed, or at least not readily.

Yet it does work, sometimes. It has made a difference, for some people and some communities. It does start larger processes in motion, if not inexorably. This is a book about small victories.

2. "Stability With Justice" by Dr. Victor Basiuk and Colonel Robert Herrick

The theme of Mr. Basiuk's and Col. Herrick's paper is that security, political, and economic interests and development within a country are interdependent. Economic and security development are linked to political stability, which depends on the legitimacy of the political system.

Other points:

-- "...to minimize the potential necessity of becoming involved in military conflicts, the United States must place emphasis on prevention of wars, or peacetime stabilization. This, to a very large degree, requires that we assist and promote the transition of the developing nations to free and stable societies."

-- "A fundamental requisite for stable and just societies is a free, open, and vital economic system, capable of raising the standard of living for the population at large, and not just concentrating wealth in the hands of the government or a few dominant economic groups."

-- "...the ineffectiveness of Western economic assistance because of its failure to address itself to the need for systemic change." Studies show that, societies in which ostensibly free markets exists, in fact are governed by a intricate web of laws, decrees, and regulations which serve special interests and promote corruption. The evidence of this in Peru is that 39% of the gross domestic product is produced by the "informal sector" -- outside government rules and regulation.

-- The U.S. must take a holistic approach to its relations with developing countries by considering together the political, social, economic, and security dimensions of those relations.

-- "...the focus of programs should not concentrate on inputs at the national level, but on impacts at the operations/local level."

-- On the current U.S. security assistance program; the provision of equipment, small unit training, and selective education to military personnel "...is not capable of providing the flexible on-site planning and executive assistance essential for building and professionalizing a small nation's army, supporting an extensive counterinsurgency, or countering powerful narcotrafficante threats."

-- Recommends a new high-level position in the State Department to coordinate, be responsible for, and bring together the various policies and programs affecting U.S. relations with developing countries.

3. The Transition to Sustainable Agriculture: An Agenda for AID. Committee on Sustainable Agriculture. 1987.

The Committee on Sustainable Agriculture is a non-governmental coalition made up of PVOs, universities and environmental groups. It meets under the auspices of the World Resources Institute, Washington, D.C.

Sustainable Agriculture is defined in the paper as the ability of an "agricultural system to meet evolving human needs without destroying and if possible, improving the natural resource base on which it depends."

A sustainable agriculture approach emphasizes "systems of production" which maximizes use of biological interaction and minimizes use of environmentally damaging external inputs.

It is not opposed to "modern agriculture" but is opposed to use of environmentally damaging inputs. It stresses the interaction between people, land and productivity.

Recommendations to A.I.D.: A.I.D. should elevate sustainable agriculture to a central place in its overall development program. Assistance should discourage the use of non-sustainable methods and inputs.

It should help developing countries make the transition to sustainable agricultural systems.

This will require a broad-based participatory process of project and program development which emphasizes environmental sustainability. A.I.D. will need more people trained and expert in these methods. It should be U.S. policy to encourage host countries to take all necessary steps toward a sustainable agriculture regime.

A.I.D. should work closely with non-governmental groups in the U.S. which are committed to these ideals. It should focus its research support on an agenda of low-input agriculture which is responsive to the needs of poor farmers on marginal lands.

A.I.D. should seek the cooperation of other donors and MDBs in pursuing these objectives.

4. U.S. Security Assistance to Developing Countries

A study published by Interfaith Foundation and members of Interfaith Action for Economic Justice, Washington, D.C.; and authorized by Leanne Skooglund Hofford.

As has been true from the beginning, the U.S. foreign assistance program continues to respond to conflicting development and security goals. Our findings show that ESF programs and projects are designed to meet military and political objectives and are not directed toward participatory and sustainable development goals. Further, we find that military spending defeats the objective of helping poor people. The preponderance of military and security considerations over development efforts in the allocation of U.S. foreign aid funds reflects a very narrowly construed political and strategic national security of the people of the United States by helping the people of the developing countries alleviate their hunger and poverty and improve the quality of their lives.

The religious community that sponsored this study seeks to promote a U.S. foreign aid program focusing on development and support for the efforts of the world's poor people to rise out of poverty, rather than military and political purposes and concerns. Such a program would address the more urgent economic threats to U.S. and global security posed by the disparity and injustice manifested in the global economy. Therefore, in light of the findings of this study we believe that security assistance, which impedes rather than foster the goal of helping the poor in developing countries, should be drastically reduced and, instead, redirected toward assistance to participatory and sustainable development which will promote real U.S. and global security based on greater economic justice.

5. Blue Print for the Environment, issued by 18 nongovernmental groups.

Overview of the major themes and broad recommendations contained in the more than 700 detailed recommendations presented to President Bush by America's environmental community concerning actions the U.S. should take to solve the environmental problems confronting the U.S. and the world.

The report lists the environmental threats facing the world:

- Global warming of the atmosphere;
- Depletion of the stratospheric ozone layer;
- Ocean pollution;
- Environmental degradation in developing nations;
- Loss of tropical forests and other wildlife habitats;
- Population growth;
- Wasteful and environmentally harmful use of energy;
- Acid rain and other forms of air pollution;
- Water pollution;
- uncontrolled toxic substances;
- Soil loss;
- Inadequate management of federal lands;

RECOMMENDED ACTIONS WHICH ARE FOCUSED ON INTERNATIONAL ASPECTS OF ENVIRONMENTAL PROTECTION:

I. Global Warming and Ozone Destruction:

- Minimizing global warming should be a top priority of the President's domestic and foreign policy and he should ensure that global warming is high on the agendas of both the 1989 Western Economic Summit and the Global Environmental Summit meeting that he has pledged to convene.
- Work for a global treaty requiring that CO2 emissions be reduced through increases in energy efficiency and greater reliance on renewable energy sources.
- Propose that the U.S. and other nations join in a major program to halt tropical deforestation and to plant trees on a massive scale.
- Instruct the U.S. Environmental Protection Agency to take all actions necessary to phase out U.S. use of chlorofluorocarbons in five to seven years and work to achieve an equally rapid worldwide phaseout.

II. Energy:

- Increase federal support of research, development, and commercialization of energy efficiency and renewable energy sources.
- propose legislation that will increase fuel economy of new motor vehicles by the year 2000.

III. Protection of the oceans:

- Prohibit release of toxic and other contaminated wastes into the marine environment by U.S. political and industrial entities and promote domestic and international policies that give greater protection to the marine environment.
- Call for ratification of the 1982 Law of the Sea Convention.

IV. Environmentally sustainable development:

- Announce that solving environmental problems in developing nations will be a central focus of U.S. foreign policy.
- Direct that U.S. foreign assistance focus on helping nations achieve sustainable development by: Enhancing the agricultural base and promoting environmentally sound food production; conserving tropical forests and biological diversity; stabilizing population.
- Pressure multilateral development institutions to improve their environmental performance.

V. Conserving the earth's plant and animal species:

- Place such conservation on the agenda of the Global Environmental Summit meeting he has pledged to convene and support efforts to identify and protect species.
- Direct A.I.D. to strengthen its program to assist developing countries in conserving species and habitats.

VI. Population growth:

- Establish an official population policy for the United States, and encourage all other nations to do the same.
- Reassert U.S. support of population and family planning assistance including support for multilateral organizations.

The report discusses actions which should be considered immediately including: Delivering an annual environmental message to the Congress and nation; Proposing an adequate environmental budget; Providing international leadership; create a cabinet-level Department of Environmental Protection; convene a White House Conference on the Environment.

Committee on Foreign Affairs

June 30, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: George Ingram

SUBJECT: Summary and Highlights of "Stability With Justice" by Dr. Victor Basiuk and Colonel Robert Herrick

The theme of Mr. Basiuk's and Col. Herrick's paper is that security, political, and economic interests and development within a country are interdependent. Economic and security development are linked to political stability, which depends on the legitimacy of the political system.

Other points:

— "...to minimize the potential necessity of becoming involved in military conflicts, the United States must place emphasis on prevention of wars, or peacetime stabilization. This, to a very large degree, requires that we assist and promote the transition of the developing nations to free and stable societies."

— "A fundamental requisite for stable and just societies is a free, open, and vital economic system, capable of raising the standard of living for the population at large, and not just concentrating wealth in the hands of the government or a few dominant economic groups."

— "...the ineffectiveness of Western economic assistance because of its failure to address itself to the need for systemic change." Studies show that, societies in which ostensibly free markets exist, in fact are governed by a intricate web of laws, decrees, and regulations which serve special interests and promote corruption. The evidence of this in Peru is that 39% of the gross domestic product is produced by the "informal sector" — outside government rules and regulation.

— The U.S. must take a holistic approach to its relations with developing countries by considering together the political, social, economic, and security dimensions of those relations.

— "...the focus of programs should not concentrate on inputs at the national level, but on impacts at the operations/local level."

— On the current U.S. security assistance program; the provision of equipment, small unit training, and selective education to military personnel "...is not capable of providing the flexible on-site planning and

executive assistance essential for building and professionalizing a small nation's army, supporting an extensive counterinsurgency, or countering powerful narcotrafficante threats."

— Recommends a new high-level position in the State Department to coordinate, be responsible for, and bring together the various policies and programs affecting U.S. relations with developing countries.

Committee on Foreign Affairs

June 28, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Summary of response to foreign aid inquiry letter from Dr. Jack Baranson, Illinois Institute of Technology

Mr. Baranson believes that current assistance modes and mechanisms are outmoded and inadequate to our national interest needs for three reasons: (1) the evolving objectives of newly industrializing countries; (2) the economic and commercial challenge the U.S. faces from Japan; and (3) the need for American business to become more competitive abroad.

In comparing U.S. and Japanese aid to Indonesia, he describes how the Japanese are able to mobilize business, government, and financial constituents to form joint venture projects between Indonesian and Japanese groups that are commercially viable and mutually advantageous from a national economic standpoint. The Japanese foreign assistance agency, JICA, provides interest-free credit for capital expenditures (plant and equipment), a Japanese trading company provides the marketing outlet in Japan, and another Japanese partner supplies the needed technologies. According to Mr. Baranson, America has no comparable delivery system.

Mr. Baranson, as a consultant to AID in Indonesia, recommended the establishment of a technology fund for Indonesian enterprise that would provide soft loans for technical aid to firms seeking to upgrade product designs or production methods. This fund would be negotiated with an Indonesian commercial bank for onlending to Indonesian firms. He also suggests a similar fund to expand Indonesian export markets via partnership with U.S. firms, particularly in the area of food processing. The U.S. firms would profit from technology sharing arrangements. He believes such funds, as institutional mechanisms, would better serve American economic and commercial interests in an increasingly competitive world.

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Committee on Foreign Affairs

June 28, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Summary of response to foreign aid inquiry letter from Mr. Paul Streeten, World Development Institute

Mr. Streeten, a British citizen, suggests we study the Commonwealth Development Corporation which manages projects, does lending, and is decentralized. It has strong local staffs; it is acclaimed by opposing political parties, is managed mainly by people in the private sector, and has to cover its costs. It gets funds from the Treasury and capital markets, operates out of regional offices instead of national capitols, and continues to be available after projects are in place.

Mr. Streeten's comments on specific areas follow:

Role of Congress — Moderate the pressures on the aid program from narrow, sectional interests; provide enough funds; resist protectionist lobbying; and educate the public.

Objectives — Poverty eradication should be the overriding objective, and it would contribute more to America's prestige than more narrowly focussed foreign policy objectives.

Country distribution — India should get more aid under any criteria used; aid should go mostly to those with the greatest potential to improve and where aid makes the biggest difference.

Financial constraints — Concentrate on technical assistance and good management; use existing institutions, especially large corporations, to achieve poverty eradication.

Coordination — Coordinate to avoid duplication and gaps, but there are some virtues in competition.

Institutional innovation — Use caution in the idea of bringing together all assistance efforts under one umbrella. Some political clout may be lost and some departments may be freed from responsibilities for development. Also, move away from heavy-handed performance criteria and allow developing countries to monitor each other's performance.

Measures and standards — Can be inconclusive in that the good or bad

things may have happened anyway. Development is a slow process with successes often long delayed. However, project and program evaluations are useful, and if done objectively, provide a conscience.

Constituency — Promotion of national self-interests often obscure other motives. The American public responds to appeals to humanity and unselfishness. Cultivate the media, especially television. Make appeals concrete and vivid.

Other issues — (1) Program lending to debtor countries is aid to the banks, not to the poor; (2) Not only projects, but also programs and policies are fungible; (3) Program lending with policy conditions often amounts to the crystallization of premature orthodoxies; and (4) Support reform-minded leaders in developing countries.

Mr. Streeten, in a separate paper, describes how private foreign investment in Africa and elsewhere could be mobilized to encourage the growth of domestic enterprises including those in the informal sector. The large foreign firms, perhaps in joint ventures using private and public capital, would encourage small-scale family entities to produce inputs, components, spare parts, repairs, and other services for the large firms. Unproductive competition would give way to greater complementarity, elimination of discrimination and harassment of the informal sector, and gradual access to credit, information, technology, and markets.

Committee on Foreign Affairs

June 28, 1988

Memorandum

TO: The Hon. Lee H. Hamilton
The Hon. Benjamin A. Gilman

FROM: Richard Blue

SUBJECT: Summary of submission by Mr. Robert Blake of International Institute for Environment and Development

Mr. Blake, with a career in diplomacy and more recently in environmental movement, has prepared a thirteen page response to the letter on U.S. foreign assistance programs.

Mr. Blake makes the following major points:

- In an interdependent world, no major power can opt out of the development agenda without damaging its own interests.
- Because of the unique experience and commitment of the U.S., we have a comparative advantage and credibility that other countries do not possess. Even in a period of declining availability of funds, U.S. leadership can be used to influence and guide collaborative efforts.
- The U.S. will maintain a bilateral assistance program but resources will decline into the 1990s.
- The solution to declining resources is complex but has the following elements:
 1. Shift resources from Israel and the other big six countries.
 2. Focus bilateral assistance on sustainable agriculture, population, energy and resource conservation.
 3. Drop education, health, private enterprise, macro policy dialogue, and corresponding budget support.
 4. Turn AID into a field oriented technical assistance program. Eliminate or substantially reduce Washington staff.
 5. Focus more on training, research, institution building, and technology transfer. Deemphasize contact management, reporting, overly elaborate project planning, and related

paperwork.

6. Reduce substantially the number of "full service" missions, but maintain a focused program in small poor countries at one end, and a different program in middle income countries. "In countries like Brazil, Argentina and Nigeria our global and national interests call for an American contribution...Congress should change the law and authorize such programs."
 7. Rely more on the use of other sources of funding, including PL-480 and technical capability other than high priced consultants.
- Coordination is best accomplished at the field level between U.S. government agencies and least effective with other donors who have their own agenda.
 - Congress and U.S. based interest groups will have to be restrained in not imposing too many paper requirements or pressures on AID to carry out pet projects. Nevertheless, some broad earmarking is necessary to focus the Agency's attention and resources.
 - There is a constituency for foreign assistance. 27 major organizations representing five million people have joined in a Committee on Agricultural Sustainability for Developing Countries. Congress has a major role in expanding that constituency.

Committee on Foreign Affairs

June 27, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Richard Blue

SUBJECT: Summary and Highlights of submission by National Audubon Society

On behalf of the National Audubon Society Pat Baldi has produced a ten page response to the questions posed in the letter to development experts from Messrs. Hamilton and Gilman. Ms. Baldi makes the following major points:

- Congress should take the lead in rewriting the foreign assistance program, providing both greater focus and more flexibility to the implementing agencies. "Intense Congressional oversight interferes with valuable time needed for planning, developing and pushing projects forward."
- There should be three objectives for foreign assistance; stabilization of population growth, conservation of natural resources and the environment, and the institution of sustainable agriculture.
- By targeting our program on three objectives, the question of country focus becomes a function of which countries or regions have the greatest need in those areas, not just GNP or political salience.
- Of the \$13.3 billion for bilateral assistance, one half goes to Israel, Egypt and Jordan and another fourth to Greece, Spain, Turkey and politically troubled states of Philippines, Pakistan and Central America. Program funds and technical and management staff for development purposes are diffused and inadequate.
- If new resources cannot be found, then resources should be shifted from the big six to meet the development objectives of the rest of the world.
- While coordination between donors at the country level is fair to good, coordination within the U.S. government is least effective. NSC led task forces should be set up to coordinate development and security policy.

- Starting with a rewrite of the PAA to focus on the three major objectives, technical expertise must be improved and organized into functional bureaus. Collaborative linkages must be formed with centers for development expertise outside of AID. While AID must recognize the value of PVO grass roots development, PVO's must recognize the importance of public policy and national leadership.
- FMS, MAP and base rights agreements should be transferred to the Defense budget and separated entirely from economic assistance.
- Economic Support Funds (ESF) should be folded together with DA for a more flexible development program.
- Measuring development is difficult and collecting the right kinds of data for the right time periods and for different types of problems can create a growth industry in its own right. There are no "quick fixes" in development. Some sectors, such as population lend themselves to greater quantification and measurement than others.
- Lack of public support may be "more a reflection of public distrust of the Federal government and its foreign policy than lack of concern for people in other countries."
- In general, public misunderstanding of the size and direction of foreign assistance is massive. A sort of Gresham's Law focuses public attention on aid to Egypt, or to the Contras, and the less dramatic programs receive little attention.
- Congress can gain greater assurance that objectives will be carried out by playing a greater substantive role in the selection of senior staff in A.I.D.

While Ms. Baldi did not discuss macro-economic issues of markets, the private sector, trade, and economic policy, she seems to suggest that these are concerns best left to the multilateral banks.

Committee on Foreign Affairs

June 27, 1988

MEMORANDUM

TO: The Hon. Lee H. Hamilton
The Hon. Benjamin A. Gilman

FROM: Richard Blue

SUBJECT: Summary of an Evaluation of U.S. AID Program in Mexico

One of the issues raised in the concept paper produced by the Task Force is should the U.S. maintain a development relationship with Advanced Developing Countries and, if so, what should it be? One model comes from AID's Latin American experience, where there are at least five ADC programs already in place, most notably in Brazil and Mexico. In March of 1988, James Landberg of the Department of State did an assessment of the program with Mexico. The two page summary of that assessment is attached.

The highlights of the assessment are:

- The program is a "spectacular success" and receives strong support from the Ambassador and the Mexican government, private sector and PVO community.
- One AID Representative and nine locally-hired personnel administer an annual program of \$16 million in appropriate funds and \$50 million in food aid.
- The key to the program's success is brokering limited resources into programs with major multiplier effects. The AID program "serves as a facilitator, broker, and catalyst for other Mexican and American organizations...thereby leveraging direct AID inputs."
- The program is active in family planning, drug education, analysis and action on illegal immigration, entrepreneurial and small enterprise development, and an expanded role for the private sector in health delivery to rural areas.
- In this program, it appears that a highly competent and innovative AID officer has been able to transcend the edifice of false predictability, accountability, and control.

If independent analysis of other similar programs in Latin America and those few showing up in other Advanced Developing Countries such as Thailand and Portugal confirms that small, highly leveraged appropriated funds can be effectively uses, there may be a model for addressing

development relationships in the 1990s. Many of the countries receiving ESP and DA funds now will soon be in the lower middle income bracket. Others will, like Mexico, contain very large and intractable poverty problems. The U.S. development agenda with these countries is by no means finished. Right now we do not have a well thought out formula for maintaining a program.

John Sewell

John Sewell
President
Overseas Development Council

June 1, 1988

THE NEW POLICY ENVIRONMENT FOR DEVELOPMENT COOPERATION

- A. The current U.S. foreign aid program has run out of time. A fundamental reevaluation of existing programs and policies is urgently needed. Understanding the changed policy environment is the first step and is more important now than the details of organization and structure, or even funding levels.
- B. The policy environment has changed since the Congress rewrote the basic aid legislation in the early 1970s.
 1. Progress in the developing world has been marked. Until 1980, growth rates were high, and life expectancy, infant mortality and literacy all showed marked improvements. The Third World share in global production is rising [Table 1]; and developing countries have emerged as major export markets, and, in some cases, important competitors [Table 2]. Many have graduated from being aid recipients, and the better-off developing countries now should be providing various forms of development assistance.
 2. The United States is in an international economic position unprecedented since 1945. Like many developing countries, the United States has to balance its budget, expand exports and cut imports, and service a ballooning foreign debt. As a result, resources to meet American interests in the developing world will be scarce, at least until a compromise is reached on the budgetary deadlock. In addition, the manner in which the U.S. deals with its own problems may have more impact on development progress than scarce foreign aid dollars.
 3. Growth in the developing countries is essential if the next administration wants to end its first term with a manageable merchandise trade deficit. Recent ODC projections illustrate that the merchandise trade deficit will remain at a stubborn \$110-\$120 billion in 1992 unless developing-country markets for American exports grow as they did in the 1970s [Table 3]. With developing-country growth, however, the deficit could be in the \$70-\$80 billion range. The key obstacle to that outcome is the developing-country debt burden.
 4. Total financial flows to the LDCs grew rapidly in the 1970s and diversified. In the last few years, however, the net transfer of resources has been negative. Resource flows from OECD countries nearly tripled between 1970 and 1983, with all the growth coming from private commercial sources. Since 1983, however, private flows have virtually evaporated [Table 4]. Currently, the industrial countries are receiving more in repayments from past loans than they are providing in new

C. This changed policy environment has important implications for the future of the U.S. foreign aid program.

1. Selectivity and Balance. Currently the U.S. aid program is trying to do too much, in too many places, with too few resources. Choices are needed.

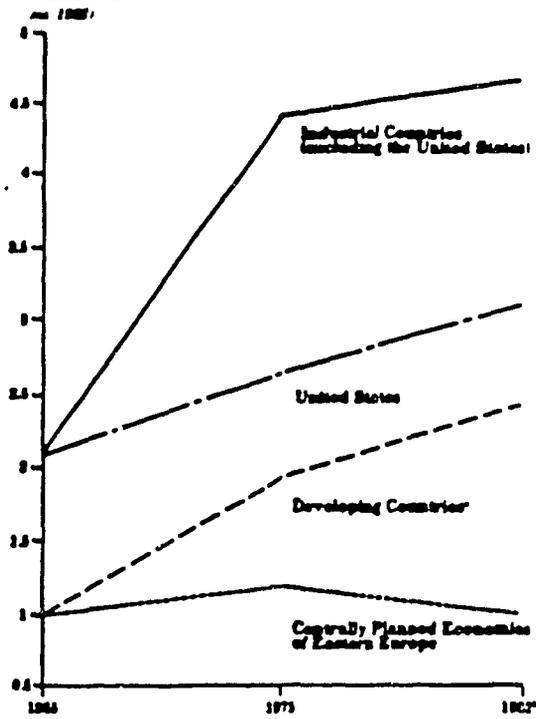
- a. Security programs are in urgent need of reevaluation in light of changing American interests in the developing world.
- b. Economic interests now predominate, particularly measures designed to restart growth in our major developing-country export markets in order to narrow the trade deficit. A new approach to the debt problem should have priority in the near term.
- c. Concern about the "global agenda" issues--poverty alleviation, environmental sustainability, and political pluralism--is reemerging and should have American support because they are congruent with our bedrock values. A reassessment of the U.S. "comparative advantage" in supporting progress in these areas is needed.
- d. Choices have to be made on country allocations. The poorer countries that do not have the same trading opportunities and do not attract investment as better-off countries need to receive the lion's share of concessional resources. This is not now the case [Tables 6 and 7]. The United States, however, will continue to have a need for programs in carefully selected middle-income countries of political importance.

✓ 2. Leverage. Resources for development will be scarce, especially in the near term, and new donors are emerging. The impact of U.S. resources can be increased by leveraging other programs.

- a. Use of government guarantees to stimulate private flows can be expanded.
- b. Methods of encouraging other donors must be explored urgently.
- c. U.S. leadership (and modest resources) can be used to shape the agendas of the multilateral development banks and the U.N. development system. But we must play an active role.

Table 1

D-4. Global Production: Third World Share is Rising
(\$ trillions, constant 1982)



Includes Asian socialist economies
Excludes USSR

Source: UNCTAD, *Handbook of International Trade and Development Statistics*, 1985.

Table 2

**A-4. Developing Countries Prominent Among
Twenty Largest U.S. Trading Partners, 1986**
(\$ billions)

The U.S. trade deficit is widely spread among its trade partners. In 1986 the United States ran trade deficits with 17 of its top 20 trade partners, nine of which are developing countries. The deficit crisis has taken its toll on U.S. Mexican trade, which dropped from third to fourth most important to the United States.

| | Total Transactions | U.S. Exports | U.S. Imports | Trade Balance |
|---|-----------------------|-----------------|-----------------|------------------|
| | (\$ billions) | | | |
| Canada | 114.0 | 66.3 | 65.1 | -23.3 |
| Japan | 112.3 | 26.9 | 65.5 | -56.6 |
| Germany Fed Rep | 86.7 | 10.6 | 36.1 | -15.6 |
| France | 80.9 | 13.4 | 17.0 | -3.2 |
| United Kingdom | 77.5 | 11.4 | 16.0 | -4.6 |
| Spain | 66.6 | 6.6 | 21.3 | -7.1 |
| Republic of Korea | 59.9 | 6.4 | 12.5 | -1.7 |
| France | 17.8 | 7.2 | 10.6 | -3.4 |
| Italy | 16.1 | 4.8 | 11.3 | -6.5 |
| Hong Kong | 15.5 | 2.0 | 9.5 | -6.4 |
| Netherlands | 12.7 | 7.8 | 4.4 | 2.5 |
| Brazil | 11.2 | 8.0 | 7.9 | -0.2 |
| Belgium and Luxembourg | 9.6 | 5.4 | 4.2 | 1.2 |
| Venezuela | 6.6 | 3.1 | 3.4 | -0.3 |
| Australia | 6.4 | 5.6 | 3.9 | 2.7 |
| China | 6.3 | 3.1 | 3.2 | -0.1 |
| Switzerland | 6.3 | 3.0 | 3.4 | -0.4 |
| Singapore | 6.3 | 3.4 | 4.8 | -1.5 |
| Saudi Arabia | 7.8 | 3.4 | 4.1 | -0.6 |
| Sweden | 6.5 | 1.0 | 4.6 | -3.0 |
| Total, twenty countries | 602.5 | 174.2 | 328.4 | -154.2 |
| Total, nine developing countries | 126.0 | 64.3 | 66.1 | -64.5 |
| Total all developing countries | 280.3 | 79.3 | 123.1 | -57.8 |
| Total U.S. Trade | 654.4 | 217.3 | 267.1 | -100.8 |

| | (percentages) | | |
|--|---------------|------|------|
| New developing countries as a percentage of total U.S. trade | 22.0 | 30.4 | 22.9 |
| All developing countries as a percentage of total U.S. trade | 34.6 | 34.7 | 34.4 |

Note: Developing countries in bold type. Export figures are L.S., import figures are U.S.
Source: U.S. Department of Commerce, *Highlights of U.S. Export and Import Trade*, December 1986, Tables B-22 and C-26.

Table 3

U.S. Trade Deficit

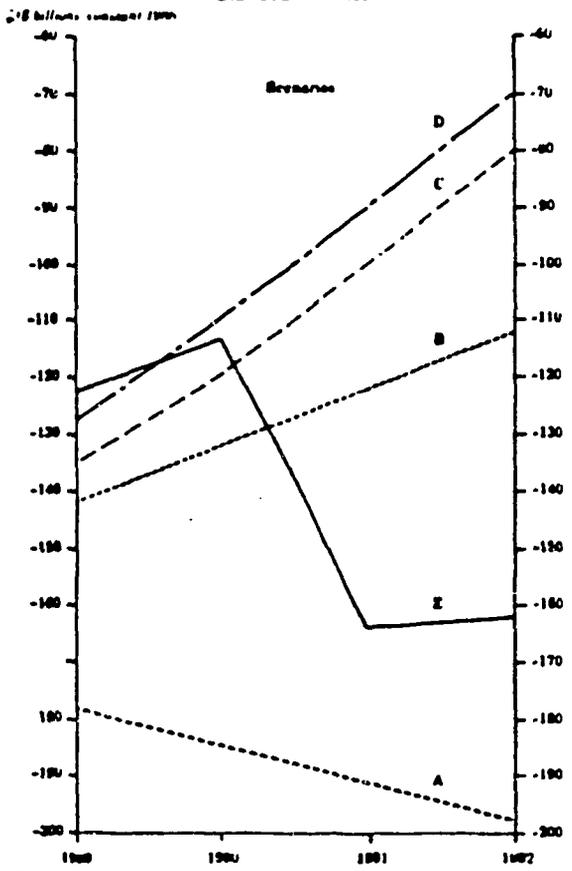
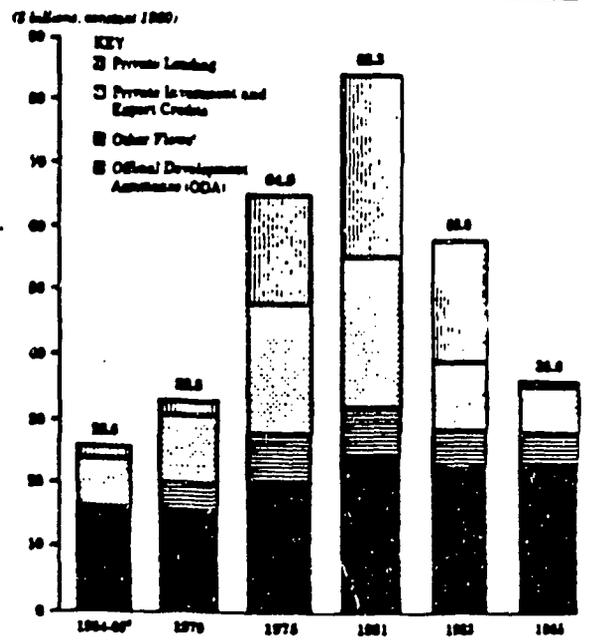


Table 4

B-2. Industrial-Country Net Transfers to Developing Countries: Sudden Decline and Change in Composition
(\$ billions, constant 1980; and percentages)

The contraction of commercial lending and private export credits in the first half of the 1980s was largely responsible for the sharp drop in industrial-country resource transfers to developing countries.



Note: Data on private voluntary grants are not available for 1964-66 average.
*Financial flows from DAC countries to developing countries and multilateral agencies included by the U.S. GNP deflator.
*Non-commercial official flows and private voluntary agency grants.
*Annual average.
Source: OECD (DAC) *Development Co-operation 1986 Report* (Paris 1987), Table 4.1984 Report, Table B.A.1, and 1973 Report, Table 17.

May 3, 1988

Memorandum

TO: Jack Brady

FROM: *R.D.*
Dick Blue

SUBJECT: Restructuring Foreign Assistance: A Paper by Caleb Rossiter,
Review #2

A number of groups seem to be calling for a separation of short term military and supporting assistance from assistance the purpose of which is to promote long term economic development, a more egalitarian distribution of income and services, human rights and political stability.

Caleb Rossiter, Arms Control and Foreign Policy Caucus, calls for the separation and much more in one of the more far-reaching analyses of "what's wrong with foreign aid." His paper, Foreign Aid After Reagan: A Proposal to Revive Development and Human Rights, argues that while overall foreign assistance levels have increased under the present Administration, development programs have suffered both quantitatively and qualitatively. AID, as the manager of the Department of State's money flows for foreign policy purposes, has in the process lost most of its credibility as an independent agency. What has not been allocated by State for political-military purposes has largely been earmarked by Congress, leaving very little flexibility to AID managers.

Rossiter calls for a complete separation of the military and supporting assistance accounts from those which he would call development and humanitarian assistance, and for the creation of a cabinet level position for the head of AID, who would chair an NSC coordinating committee. This AID would focus on basic human needs, agriculture (also managing food assistance in the field), and disaster relief programs. State and DOD would, under Rossiter's scheme, be responsible for base rights payments, cash transfers for strategic budget support (as to Greece and Turkey) and related programs.

Unless this degree of radical surgery is performed, Rossiter seems to believe that we might as well drop any pretensions to serious economic development or basic human needs goals from our purposes for bilateral aid and recognize the program for what it is, payments from the U.S. Treasury for the purpose of advancing our security interests abroad.

Another feature of Rossiter's restructuring is the removal of trade, finance, and investment considerations from the development assistance relationship. These functions would continue to be performed by Commerce, OPIC, Ex-Im, and perhaps TDP.

The benefits of this restructuring would be to give long term humanitarian and development interests a clear and equal voice in the

expression of American values overseas. It would force Congress and the executive branch to come to grips with these values, rather than the muddled, ambiguous situations which now exists, according to Rossiter.

This paper is available from our resource center.



**COOPERATION FOR INTERNATIONAL DEVELOPMENT:
U.S. Policies and Programs for the 1990s**

A Project of
**Michigan
State
University**

Center for
Advanced Study
of International
Development
(CASID)

SUMMARY CONCLUSIONS OF THE PROJECT

"Cooperation for International Development," the largest and most comprehensive inquiry ever launched to advise on future U.S. economic cooperation policies with the Third World, has involved over 100 commissioned papers, 15 major symposia and a national conference. Dean Ralph Smuckler and his senior consultant Robert Berg summarize the results of the project as follows.

As the United States enters the 1990s, we also enter a time when the importance of the Third World to the United States and to the well being of the world at large is taking a more central place. More than any other nation in the world, the United States stands to gain from a global system which promotes broadly based growth, an effective attack on poverty, and an end to the degradation of the world's environment. The 1990s will be a time when the fruits of economic collaboration with the Third World will be immense.

A new Congress and a new Administration will present a real opportunity to act for our own interests and the well being of a majority of mankind. A new global vision is called for. We urge three new American initiatives:

-- To restore growth in Latin America and the Philippines and to assist the restoration of growth in Sub-Saharan Africa, a new approach is needed on Third World debt. The approach must reduce debt burdens sufficiently to enable Third World economies to resume normal financial relations and normal growth. The political leadership of the United States and a prominent role for the World Bank are necessary for any successful comprehensive approach.

-- Because it is the right thing to do, the United States needs to reinvigorate its efforts to help accelerate growth and alleviate poverty in poor developing countries, particularly in Sub-Saharan Africa where the human prospects are dim without effective international support.

-- A new priority is needed to address global environmental problems which couples domestic and international actions. Cumulative negative environmental trends present unprecedented challenges to mankind over the next two generations. Not only must development strategies be changed, but actions over and above normal plans are necessary on a scale which may well challenge conventional economics. Inter-state cooperation also will be necessary on an unprecedented scale.

Mutually beneficial growth will be aided by sensitive U.S. trade policies and by scientific and technical exchanges with the increasingly capable Third World. Such relationships call for more mature and mutual modes of cooperation.

The U.S. also has a strong interest in the spread of human and political rights in the Third World, and here our own abilities to foster economic and political pluralism are germane.

- Association for Women in Development
- The Futures Group
- Institute of International Education
- Johns Hopkins School of Hygiene and Public Health
- West Universities Consortium for International Activities
- Overseas Development Council
- U.S. Council for International Business
- Virginia Tech College of Architecture and Urban Studies in cooperation with Washington Chapter of Society for International Development
- Winrock International Institute for Agricultural Development
- World Resources Institute
- and other leading U.S. institutions and organizations

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Our own economic and humanitarian interests lead the U.S. to development cooperation relationships which, in the 1990s, are urged to emphasize four substantive areas:

- Enhancing physical well being through improved health systems and population planning;
- Working for sustainable food supplies;
- Developing environmental programs and policies which protect natural resources and assure better energy security by emphasizing renewable energy and energy conservation; and
- Fostering sound urban development policies as urban areas have great challenges and opportunities for development in the years ahead.

There are four approaches to these substantive areas where the U.S. has particularly strong abilities and these are recommended as a basis for U.S. development cooperation: human resource development, particularly at advanced levels; cooperation in science and technology; management capacity building; and strengthening the private sector.

Regardless of the exact substantive programs chosen, the range and complexity of country situations facing the U.S. calls for improvements in the conduct of U.S. economic cooperation with the Third World. Better coordination with other donors and within the U.S. Government is essential to make better use of scarce resources. Within the U.S. Government it is urged that coordination be facilitated by a special function within the White House. Continued, indeed enhanced support of multilateral agencies also is necessary because of their special abilities. It is in U.S. interests to increase the effectiveness of these institutions. Taking far more fundamental consideration of gender issues will also improve the quality of economic cooperation policies and programs.

Organizing U.S. development cooperation requires an agency more attuned to a range of relationships needed, particularly to more mature programs of development cooperation. USAID might be reconstituted as the Development Cooperation Agency. There is also room for a foundation-like function to foster scientific and technologic research and cooperation.

All this calls for long-term relations and partnerships; for Congressional direction on broad lines; for management by highly expert personnel; for extensive work through intermediary organizations and institutions; and for new modes of cooperation.

Meaningful economic cooperation with the Third World will take meaningful financial support to better reflect U.S. interests and the behavior expected of a world power. Although sorting out of priorities is needed in the short-run, the U.S. should strive to be near the middle of the major Western donors as measured by the percent of GNP devoted to development cooperation with the Third World. Such an 80-100% increase in funding by, say, the mid-1990s, calls for Presidential and Congressional leadership. Some leeway exists in funding U.S. cooperation programs by separating military and military-related programs...and in the process some programs, such as selected base rights arrangements, could be phased out. The large Middle East program also should be separated out to allow it the independent overview it requires. Repayments of past foreign aid loans can be devoted to future economic programs, in some cases by accepting repayments in foreign currency.

In the next year a new vision of cooperation needs to be articulated by national leaders and a new national consensus needs to be forged.

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Committee on Foreign Affairs

July 20, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Summary of views and comments at Member/panel meeting on foreign economic assistance; June 1, 1988

The June 1 meeting was an off the record meeting, arranged by the Foreign Aid Review Task Force, to discuss proposals, issues, and questions regarding the restructuring of the foreign assistance program. Approximately 10 Members of the Committee participated in a wide-ranging discussion with three principal panel members and their associates.

Dr. Ralph Smuckler, Michigan State University:

Dr. Smuckler's opening remarks supplemented his summary of primary conclusions of 15 symposiums and a national conference held in May on "Cooperation for International Development." Robert Berg, his senior consultant, was also a participant. Major points covered by Dr. Smuckler included:

1. Three basic goals and objectives of development should be: to promote broadly based growth; to attack poverty; and to end the degradation of the world's environment.
2. Three new American initiatives should be: to help restore growth in Latin America, the Philippines, and sub-Saharan Africa through debt burden reduction and U.S. and World Bank leadership; to renew efforts to help accelerate growth and alleviate poverty in poor LDCs, particularly in Africa; and to prioritize and address global environmental problems with changed development strategies and unprecedented international cooperation.
3. U.S. economic and humanitarian interests in the 1990s call for development cooperation relationships which:
 - work for sustainable food supplies;
 - develop environmental programs which protect natural resources and assure energy security;
 - foster sound urban development policies.
4. U.S. Development cooperation should stress and utilize

strong U.S. abilities in:

- human resource development;
 - science and technology;
 - management capacity building; and
 - private sector development.
5. Better coordination with other donors and within the U.S. Government is essential to make better use of scarce resources. U.S. Government coordination should be facilitated by a special function within the White House.
 6. AID might be reconstituted as the Development Cooperation Agency with room for a foundation-like function to foster scientific and technological research and cooperation.
 7. The United States should strive to double its economic financial support by the mid-1990s.
 8. Military and security assistance, and the large Middle East programs should be separated out from development assistance; selected base rights arrangements should be phased out; repayments of past foreign aid loans could be devoted to future economic programs.

Dr. John Sewell, Director, Overseas Development Council:

Dr. Sewell's comments and views were based on the cited existence of a new policy environment for development cooperation. His three major premises are that: (1) a fundamental reevaluation of existing foreign assistance programs and policies is urgently needed; (2) the policy environment has changed since Congress rewrote the basic legislation in the early 1970s; and (3) this changed policy environment has important implications for the future of the U.S. foreign assistance program.

In support of premises (1) and (2) — the need to reexamine foreign aid and changes that have occurred since the early 1970s — these factors are cited, among others:

- Developing countries have improved markedly in quality of life, global production and trade, and some have graduated from being aid recipients;
- The U.S., like many LDCs, has to balance its budget, expand exports, cut imports, and service a growing foreign debt. As a result, resources to meet U.S. interests abroad will be scarce;
- LDC growth is essential to a manageable U.S. trade deficit. The key obstacle is the LDC debt burden;
- Total financial flows to LDCs grew rapidly in the 1970s, peaked in the early 1980s, and now the net transfers of resources has become negative. Industrial countries are

receiving more in repayments from past loans than they are providing in new lending;

- Aid donors have multiplied in the last decade and Japan is now the largest donor with the World Bank dominating the multilateral system;
- There has been a remarkable growth in "openness" in the developing world with more democracies, fewer dictatorships, and increasing economic liberalization;
- Global poverty remains pressing;
- Industrial technological changes — in microelectronics, communications, synthetics, management, and bioengineering — may be on the verge of sparking a "third industrial revolution."

Implications and suggestions set forth for the future of U.S. foreign assistance:

1. **Selectivity and Balance:** U.S. aid program trying to do too much with too few resources. Reevaluate security programs. Restart growth in our major LDC export markets. Support poverty alleviation, environmental sustainability, and political pluralism. Allocate more concessional resources to poorer countries.
2. **Leverage:** Use scarce resources more to leverage activities of other donors. Expand U.S. guarantees to stimulate private flows. Energize U.S. leadership role in shaping agendas of multilateral development banks and the U.N. development system.
3. **Style:** Adopt a much more collaborative style using joint programming with other donors and more and better coordination.
4. **Organization:** Develop an overall guidance mechanism for the multiplicity of policies and agencies that address U.S. interests in the developing world. Separate policies and programs that serve short-term military and security needs from those that address longer-term growth and development interests. The Departments of State and Defense should administer respective political and military programs. A new economic cooperation agency is needed.
5. **Resources:** Development assistance budgets should rise. The flow of nonconcessional resources will be more important to most mid-level LDCs than concessional sources.

Jack Sullivan, Vice-President, Development Associates:

Mr. Sullivan served on the staff of the Committee on Foreign Affairs

(1962-76), served four years in AID's Asia Bureau, and is a member of the Phoenix Group which is looking at the relevance of today's foreign assistance program. Their hope is to target a few major problems and put together an acceptable program. His comments included:

- A lack of consensus on foreign aid exists in Congress and among the American people;
- Today's foreign aid structure is essentially the same as the one created by the Foreign Assistance Act of 1961;
- Congress basically rejected the 1969 Peterson/Johnson report, except for creating the Overseas Private Investment Corporation;
- The April 1973 attempt to reform foreign assistance (16 members sent letter to President Nixon), changed the Act by mandating "new directions" and setting up functional accounts;
- The 1979 creation of the International Development Cooperation Agency (IDCA) was not successful and the new agency was never utilized;
- There are 34 major priorities in the legislation with a variety of restrictions, mandates and prohibitions, and amendments for special interest groups;
- U.S. citizens have a generally negative view of foreign aid although they are positive on the alleviation of hunger and disease.

Subsequent Member-Panel discussion elicited these additional views:

- So long as the different views between Democrats and Republicans prevail, we will have difficulties.
- The fact of limited funds and the establishment of national priorities are at the core of the major rewrite effort.
- Separating out military assistance, Egypt and Israel, or base rights funding is not easy.
- On base rights, can the EEC help in Europe and Japan with the Philippines?
- Three urgent priorities are debt restructuring, Africa, and the environment.
- An international mechanism for achieving a cooperative approach has not been suggested. A systematic way of working cooperatively with other donors may be advanced by training the recipient governments to impose a coordination structure for the aid they receive. Congress could play a

role in spearheading coordination in multilateral organizations by setting out obligations of U.S. agencies who participate in these organizations.

- Where should a coordinating mechanism be placed in the U.S. Government? Perhaps in a development agency with a Counsel in the White House.
- How can jurisdictional problems in the Congress be overcome? Money to Israel and Egypt drive the foreign aid bill. How to focus Congress on the potential effects of small percentage changes in big earmarks on poverty and other programs in smaller countries. Solve jurisdictional problems by collaboration and personal relationships; broad changes not really possible.
- U.S. should use its comparative advantages in energy conservation, etc.; e.g. most of the environmental damage in India is due to the lack of an energy policy.
- Need to make clear the linkage between foreign assistance and the domestic benefits we receive. World Bank does a better job on this. Need a mechanism outside of Congress to build a constituency. Consider using fewer resources and applying them to U.S. interests we can clearly achieve, i.e. in security, trade, environment.
- Multiplicity of objectives: they are all good but the net result in terms of achieving them is obscure. Focusing on MSU priorities of growth, poverty, and the environment leaves out issues like democracy and building political institutions.
- Real problem is with implementation and lack of trust between the executive branch and the Congress.
- How do you get accountability and not micromanage? Hold people accountable for program results. Need to free people from time consuming, paper generating processes that result in nothing becoming important. Base results on poverty decrease/growth, using social well-being indicators country-by-country but avoid the danger of indicators becoming the goal.
- Don't lose sight of costs; e.g. each American in Africa costs about \$200,000 per year to oversee \$2 million in aid.
- What is the relevance of U.S. aid to 80 or to 114 countries? Need to look carefully at this — we don't need AID missions in every country that receives aid.

Committee on Foreign Affairs

July 20, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Margaret Goodman, Staff Consultant

SUBJECT: Summary of AID interim report on urbanization in developing countries

At the request of the House Foreign Operations Subcommittee, the Agency for International Development is preparing a report on "Urbanization in Developing Countries and its Implications for Technical Assistance." The following is a summary of a near final draft of the interim report prepared by the Agency. Approval of the document within the Agency has been a slow process, presumably because of the implications of the findings challenge AID's basically rural bias.

The findings in the interim report basically parallel those in the Michigan State study on the future of foreign aid, which identified urban issues as concerns requiring increasing attention in the future.

The AID report offers a number of statistical findings on the nature of urbanization in developing countries, including:

- By 2025, the world's urban population will be approximately 60 percent of the world's total population;
- Most of the growth of urban populations will occur in developing countries; urban populations in LDCs are projected to increase from 29.2 percent of total LDC populations in 1980 to 46.2 percent in 2010;
- Seventy-three percent of total new population growth in AID-eligible countries is projected to be in urban areas;
- Between 1985 and 2000 there is estimated to be an absolute decrease in the number of households living in rural poverty and a doubling of the number of urban poverty households, so that by the year 2000, the majority of poverty households will be in urban areas.
- An estimated 60 percent of the GNP in LDCs is produced in urban areas, and this figure is expected to increase to 80 percent by 2000.

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AID's major urban program has been the Housing Investment Guarantee (HIG) Program, which operates at a guarantee level of \$125 million annually, making AID the largest bilateral donor in urban programs. In addition, other AID activities, such as health and population programs, operate in both urban and rural areas.

AID expects in the final version of this report to outline its views on the range of programmatic, budget and organizational options from which an urban assistance strategy can be developed. Among the areas addressed are: employment, emphasizing the informal sector; capacity building in local government; and policy reforms linked to investment, regulatory reform, land management.

The tone of the draft report is basically positive, emphasizing the opportunities presented by urbanization for stimulating economic growth and job creation, reducing barriers to the increased productivity of the urban poor.

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Committee on Foreign Affairs

July 20, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from George H. Axinn, Department of Resource Development, Michigan State University

— In the long-term national interest for the Congress to be proactive rather than reactive in its consideration of foreign assistance; Congress needs to maintain a longer range perspective and ensure that U.S. participation in the developing world reflects that;

— To achieve a longer term perspective, the U.S. needs to be an active supporter of the U.N. specialized agencies and should consider flowing more assistance through multilateral channels, with an emphasis on international technical cooperation;

— The U.S. does not need to spend more money on development assistance — cooperative technical programs would be far less costly than the types of programs the U.S. is now engaged in and would be more effective in furthering the goal of sustainable development;

— Recipient countries need to take greater responsibility for development; most effective development has taken place in countries that were willing and able to provide more resources for development from within;

— Disaster assistance should be separated from development assistance — both should be separated from military assistance; the U.S. should move away from cash transfer assistance and any such assistance that is provided should be done through regional development banks and the World Bank;

— Development assistance should be provided through a smaller, more dynamic branch of the State Department, staffed by more professional and technical personnel;

— Bureaucratization of development assistance has been extremely detrimental — a five-year moratorium on all foreign assistance might be healthier in the long run than a further bureaucratization.

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Committee on Foreign Affairs

July 20, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Margaret Goodman

SUBJECT: Summary of submission from Alfred P. Van Huyck, private consultant and Adjunct Professor at Virginia Tech

The following is a summary of a 16 page submission from Mr. Van Huyck, who for 22 years was president of PADCO, a small development consulting firm specializing in urban planning issues in developing countries.

— The United States has five "bundles" of policy concerns in developing countries:

1. Trade policy, as developing countries, (Mr. Van Huyck points out that it is actually cities in these countries which constitute the markets) already account for approximately 40 percent of U.S. exports, a share which will grow as GNP increase in these countries.
2. Nurturing of democratic principles, pluralism, and human rights, by working with indigenous PVOs, coops, community associations, and local governments.
3. Security interests, which need to be more broadly defined to recognize that the build up of intolerable conditions, as in El Salvador, can lead to insurgencies. U.S. policy should recognize that ideology plays little, if any, role in most cases of "structural instability" leading to coups, revolutions, etc. in the developing world.
4. Humanitarian interests, for which there is broad support in the U.S. public, and which can be best served by a foreign assistance program which addresses a long run concern with poverty alleviation and sustained development, and is separated from short run political and security interests.
5. Environmental concerns, which are increasingly defined as global issues.

The United States should develop a country-by-country typology of U.S. interests to determine which instruments of U.S. policy will most effectively further our interests in each country and in which countries

U.S. foreign assistance programs are appropriate. In addition to the Agency for International Development, other policy instruments available include State and DOD; international programs of other cabinet level departments, such as Agriculture and HUD; the Peace Corps; Ex-Im; multilateral agencies such as the World Bank; and finally, the role of the U.S. private sector in advancing U.S. interests.

The overall objective for AID should be to represent U.S. humanitarian and democratic interests in developing countries, with a commitment to assist the world's poor.

AID's technical priorities should include: the alleviation of rural and urban poverty; environmental preservation and sustainable development; support for economic productivity and job generation; support for efficient government, particularly at the local level; support for human capital formation in such areas as health, nutrition, family planning, education, and access opportunities for women; disaster assistance; and coordination with other donors.

Support for infrastructure and macro-policy dialogue should be the function of multilateral agencies.

AID should not be a "money conduit" agency, as is now the case for assistance to Israel and Egypt. Military base "rent" should be separate from development considerations.

Congress should recognize that the policy direction of U.S. development assistance is more important than the budget allocation, as there is a ripple effect through the rest of the donor community of changes in U.S. development assistance policy.

Mr. Van Huyck makes several observations about internal AID organization, based on his long-term observations of the agency as a contractor on AID projects:

- The agency overemphasizes preparation of internal documentation. It should emphasize a menu of policy and program options from which host countries can select, rather than attempting to prescribe for each country.
- AID's country missions are frequently too large. A country's project portfolio may be dictated at least in part by the presence of technical personnel, i.e., a health program because there is a health officer, not because health is the highest priority.
- Many AID contractors are development generalists with long experience in developing countries, but with limited or obsolete hard skills.
- AID's procurement system is too long and complex and discourages participation by top quality groups and individuals.

- AID's use of "cost plus fixed fee" contracts results in much higher costs per person month of actual technical assistance than the "lump sum" or "time and materials" contracts used by the World Bank and other development institutions.

Committee on Foreign Affairs

July 20, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: George Ingram

SUBJECT: Summary of Submission by Tom Carroll, President of IESC

U.S. economic assistance does benefit poor needy populations. U.S. security is strengthened by economic growth abroad, which contributes to the stability of other countries and the prospects of international peace. Prosperity overseas helps prosperity in the U.S.

Economic growth, which is the means of addressing the causes of poverty, should be the basic purpose of economic aid.

Market economies have been notably more successful in achieving economic growth than state-run economies.

More emphasis should be placed on the private sector and on practical education, information, and training.

U.S. government agencies should have a better coordinated system for their services helping U.S. businesses in foreign markets

Committee on Foreign Affairs

July 20, 1988

Memorandum

TO: Hon. Lee H. Hamilton
Hon. Benjamin A. Gilman

FROM: Margaret Goodman, Staff Consultant

SUBJECT: Submission from Joseph C. Wheeler, Chairman, OECD
Development Assistance Committee (DAC)

Mr. Wheeler spent many years in the Agency for International Development, including serving as mission director in Pakistan and as Deputy Administrator. Just before going to Paris to chair the DAC, he served as deputy director of the U.N. Environment Program in Nairobi.

Following is a summary of his 15 page response to the questions posed in your letter. In addition, Mr. Wheeler also enclosed several charts and tables comparing U.S. and other DAC member development assistance, a copy of the DAC's June 22 press release on "Financial Resources for Developing Countries," and a copy of the speech he made at the Michigan State conference on development assistance, entitled "Opportunities for U.S. Leadership in a New Development Partnership."

The United States, which accounts for about 37 percent of DAC member GNP, in 1987 provided about 21 percent of DAC member Official Development Assistance (ODA, which includes bilateral and multilateral development assistance, ESF, and food assistance.) U.S. ODA represented .20 percent of GNP, compared to the weighted average of other DAC members at .43 percent. By comparison, Marshall Plan expenditure represented about 2 percent of U.S. GNP at the time.

Mr. Wheeler advocates that the United States develop a medium-term strategy to restore balance to the DAC partnership by increasing U.S. development assistance contributions from the current level of approximately \$9 billion to \$20 billion annually in the next few years. In his Michigan State presentation, he outlined 10 areas where the U.S. could exert its leadership in an expanded program of development assistance:

1. The global environment
 2. African agriculture
 3. The use of food resources to support improved nutrition, human resources development and agricultural growth
 4. Support of the Third World private communities—new roles for American Private Voluntary Agencies
 5. Poverty in India
 6. Small enterprise development
 7. Child survival and safe motherhood
 8. Drug abuse
 9. Education
 10. Development in Latin America and the Caribbean
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Development should constitute a more central organizing theme for U.S. foreign assistance, perhaps with the creation of a subcategory in the 150 account for "Development and Humanitarian Assistance." ESF should be more clearly distinguished from development assistance. Development assistance should not be earmarked and should be provided to recipient countries only when the AID Administrator is satisfied that development criteria are being met.

Although the Foreign Assistance Act could benefit from rewriting, such an effort should maintain the thrust of the present policy articulation: alleviating poverty, achieving self-sustaining growth with equitable distribution of benefits supporting individual civil and economic rights, and encouraging integration of developing countries into an open and equitable international economic system.

At a country level, more precisely articulated sector level targets should be set out, but global targets to apply to all countries should be avoided.

U.S. development assistance needs to pay more attention to the increasing urbanization of developing countries.

On coordination within the U.S. government for foreign assistance, Mr. Wheeler suggests the creation of a permanent Cabinet Committee chaired by the Secretary of State to improve coordination among the line agencies involved.

On coordination with other donors, Mr. Wheeler urges more in-depth dialogue with Japan, who will this year emerge as the largest DAC donor, including consideration of assigning an experienced AID officer in Tokyo. He also notes the U.S. and other DAC donors need to pay more attention to issues of operational coordination at the country level, such as evolving common programming and auditing systems to relieve the burden multiple donors impose on limited host country institutions. A legislative mandate may be needed to give the U.S. necessary flexibility on these issues.

On the organization of AID, Mr. Wheeler suggests that greater prominence be given to functional areas, in order to give more attention to research and other global functions, to facilitate functional or technical level donor coordination, to encourage close working relationships among specialists, and to give constituent groups a place where their views will be heard. He notes the strong professional reputation of the AID's Office of Population, which is the Agency's strongest central functional group.

Mr. Wheeler suggests that clarifying U.S. foreign assistance objectives and more clearly defining the development and humanitarian assistance part of the budget may help to improve support for these programs. He notes the recent three year exercise in public consultation which Canada just completed before articulating their medium term strategy, including public hearings across the country, and suggests that there may be lessons in this process for the United States. (Note: Staff is looking at the new Canadian policy and its evolution)

Committee on Foreign Affairs

July 18, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Margaret Goodman

SUBJECT: Summary of submission from Ted Weihe, Executive Director,
U.S. Overseas Cooperative Development Committee

Following are the main points from Mr. Weihe's five page response;

— He sees the issue not as one of too many objectives, but of a lack of clear delineation of responsibilities for different foreign assistance agencies.

More distinction should be made between ESF, which should be considered as a security/foreign policy program, and development assistance, while the multilateral banks and U.N. agencies should provide government to government programs, and sector and structural adjustment assistance.

— The focus of U.S. development assistance should be redefined and limited to "people to people" channels, supporting specific development projects through increased use of U.S. and indigenous PVOs and cooperatives, which he claims are more cost effective delivery agents. Also, more effective development use should be made of ESF and P.L. 480 generated local currencies by channelling these funds to support PVO and cooperative projects, rather than using them in government sector programs.

— The United States should cut back on the number of full AID missions it staffs, concentrating them in fewer high priority countries and managing assistance in many countries with a limited AID staff and funds provided through U.S. PVOs and cooperatives by umbrella country grants or centrally-funded grants.

— For more developed countries, he proposes that U.S. trade promotion, scientific and technical exchange and private sector institutional development be provided outside of the usual AID government to government context through such programs as the Trade and Development Program.

— Development assistance is seen as sufficiently well analyzed and evaluated, although its successes could be better publicized. ESF and military assistance, because of their more political nature, however, are not looked at closely to determine whether they are achieving their

objectives.

— He concludes by comparing U.S. development education to the much larger public education programs in such countries as Canada, Holland, and the Scandinavian countries. He suggests that the United States increase its efforts in development education by designating a certain percentage (he suggests 10 percent) of grants to FVOs and cooperatives to public education, including bringing foreign participants to the U.S. to explain the value of assistance and to bring a Third World perspective to U.S. audiences.

Committee on Foreign Affairs

July 18, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Margaret Goodman

SUBJECT: Submission from D.A. Henderson, M.D., Dean Johns Hopkins
School of Hygiene and Public Health

Dr. Henderson was director of the WHO Smallpox Eradication Program. Following is a summary of his submission, which itself is a summary of the health colloquium of the Michigan State project:

- He notes that the different sectors in which AID works: agriculture, health, population, energy, etc. have different characteristics and problems and need to be examined separately.
- Because Congress has become immersed in very prescriptive initiatives and in mandating specific projects and quantified targets, short term projects rather than longer term programs have dominated AID's agenda.
- Congress should enunciate broader policy directions, with fewer specific mandated objectives, allowing U.S. assistance to support capacity building in health sectors of many countries through an international network of expertise and research.
- AID lacks sophisticated health professionals, and there has been little effort to develop such expertise in the United States.
- The U.S. government needs (and lacks) an overall planning and coordinating facility in international health, a deficit which is clearly visible in the current AIDS prevention and control efforts.
- A new international health strategy for the United States needs to recognize two basic groups of countries: the poorest countries, which will continue to need assistance in establishing basic infrastructures and delivering simple technologies, and the emerging group of middle-income countries which have a different set of health problems and where new long-term collaborative relationships with health

professionals need to be established to deal with problems of mutual interest.

Dr. Henderson critiques the "selective" primary health care approach typified by the child survival program. Such donor-led priorities may produce an unbalanced and fragmented health program that may be marginally relevant to major health needs of a country, may present insurmountable management problems because of a lack of infrastructure, and which may not be financially sustainable.

Committee on Foreign Affairs

July 18, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: George Ingram

SUBJECT: Summary of response to foreign aid inquiry letter from Mr. Sam Harris of Results

- Need for clear goals, focused on improvements in the quality of life for the poorest; establish means to measure the effectiveness of aid;
- Need to redress the imbalance in foreign assistance (less military, more development);
- Need greater support for NGOs;
- There is latent support for foreign assistance — assistance that reaches the poor, not assistance as currently structured.

Committee on Foreign Affairs

July 18, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: George Ingram

SUBJECT: Summary of Remarks by Peter McPherson, former Administrator of AID, before meeting of the Task Force

Mr. McPherson made six major points:

(1) **Accountability** — AID and the Congress should be held more accountable, for a series of goals. For example, set goals on ORT, and translate the goals into action. AID and the Congress should enter into a compact and agree on 3 or 4 goals. AID should set two or three goals for its programs in each country, such as economic growth, child mortality, agricultural production. Work out the goals with the host government, World Bank, Congress, private communities.

This would allow the Congress to hold AID accountable, and AID and the American people to hold the Congress accountable — and to fend off earmarks and extraneous legislative provisions. Establish agreed on plans to fend off raids on AID funds.

(2) **Leverage** — AID should be in the business of mass communications — in training on population, education, etc. AID sees itself too much as a funding mechanism, but has limited financial resources and needs to leverage its funds. AID should use more matching funds; if you get others to participate it tends to be a better project.

(3) **150 Account** — Big problem is military assistance, which is a legitimate need. Need joint jurisdiction over parts of the 150 account. For example, IMF is under joint jurisdiction in the Senate.

— **Egypt/Israel** — needs to be tackled in out-years, to be reduced by X% in 1990, 1991, etc. If forewarned and part of the decisionmaking process, Israel could be amenable. Agreement between Hill and Administration needed on possible action.

(4) **Mixed Credits** — Don't do; eats up aid budget.

(5) **UNEP** — Isn't doing the job it should; needs a mission; currently is everything to everybody and there is nothing; is a flop; needs a focus, such as the environment. UNEP (Environment Program) also lacks direction

and mission, e.g., reforestation in the Sahel. Hill should push these agencies.

(6) UNFPA — Keep the Administration's feet to the fire. China program ready to be renegotiated; renegotiation UNFPA project program in China without family planning, perhaps as a child mortality program. U.S. needs to participate, work toward program which would allow U.S. to support UNFPA again. Insist UNFPA put money into family planning.

Questions and Answers:

Write broad principles and goals into legislation, not country specific goals. Let AID procedurally start with a clean slate — AID regulations, personnel laws, contracting procedures (which are constructed for a domestic agency and are outmoded). Get away from earmarking.

Push for more World Bank leadership in coordination.

Replace functional accounts with country allocations? — No, congressional country allocation would be terrible; no flexibility; could end up with both.

Administrative costs too high? — Yes, because of large amount of paper work and regulations; could cut 8-9% of Washington staff.

AID missions in the field are AID's most important asset, sometimes more important and valuable than the ambassador's influence in a country.

Misdirected resources? — Yes, such as why ESF for Cyprus?

Move responsibility for MDBs to State? Treasury looks at MDBs as banks, not as development agencies; but need political clout of Treasury to get appropriations. Treasury provides more fiscal discipline to MDBs. Move not politically doable, so increase Treasury's developmental capacity.

Organization of AID within Executive Branch? — It's okay. McPherson reported to the Secretary of State and attended the Secretary's senior staff meeting.

Too many aid recipients? — Yes, hard to cut off.

Loans vs Grants? — Some loans are good, brings in Finance Ministry which is more cautious; sometimes fosters better decisions in recipient country.

Too many objectives? — Yes, far too many objectives; so many there is almost no accountability.

Key objectives? — Economic growth; foreign policy objectives (under State); not commercial objectives (let EX-IM do that); PL-480 - selling commodities should be part of objectives.

Let AID and USDA manage PL-480, not other agencies.

Does a large pipeline indicate management weakness or the nature of aid? — Either; with some countries it represents management weakness by the AID mission and/or the host government; with other countries the nature of the aid business. It depends on how old the pipeline is; if it is new, it does not indicate a problem.

Reob/deob authority is important; it permits ending bad projects.

Coordination — need to push World Bank to decentralize, assume more responsibility for donor coordination in-country; annual Paris meetings not sufficient for project coordination.

AID Washington vs AID missions? — 2/5ths of AID staffing is in Washington, which is the correct ratio.

AID is largely a contract agency; AID staff is in the capitol and contracts in the field.

Advanced Developing Country relationship? — Moves from development relation to a foreign policy relation.

AID should not be a giant SBA agency. Revolving funds are good. LDCs don't need capital; they need bankable projects — management skills, infrastructure, institutions. Proper exchange rate will bring in capital.

Japan — worthwhile pursuing cooperation with Japan. Japan is changing its aid attitude from just a trade promotion program.

ESF/DA relationship? — It works fine. Like ESF, don't have to worry about functional accounts. But DA does provide protection from being raided by State. Like both types of assistance.

Committee on Foreign Affairs

July 14, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from Mr. Gus Speth, World Resources Institute

- The primary focal points of foreign assistance should be the alleviation of mass poverty and stopping environmental decay, with emphasis placed in the dramatic increase in population in the Third World;
- Any new foreign assistance program should focus on the promotion of environmental protection that conserves the resource bases of the poorest countries for long-term production. Mr. Speth points to the examples of past development projects undertaken by the United States which were effective in the short-term, but due to environmental decay, have outlived any usefulness.
- Countries to receive development assistance should be chosen on the basis of severity of poverty and environmental degradation; commitment on the part of the host government should also be a factor for selection;
- Development efforts should focus on people-oriented, rather than capital intensive programs and projects; more use should be made of expertise available in the developing countries, such as NGOs;
- AID needs to reassess its organizational and personnel practices to bring in more professionals with competence in technical expertise and policy analysis; in-country missions in some cases should be cut back, but terms of service should be extended to give greater continuity to programs;
- Congress is the appropriate forum for the debate on sustainable development, but in order to achieve a program of sustainable development, Congress needs to reduce earmarking, micromanagement, and reporting requirements in any new legislation;
- In order to mobilize a foreign assistance constituency, U.S. development policy should be looked at as "burdensharing" in an environmental sense.

Committee on Foreign Affairs

July 14, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from Harold R. Matteson, New Mexico State University

— Overall goal of bilateral assistance should be economic growth and development achieved through sustainable food production, health and population programs, environmental and natural research programs, and urban development programs; Programs such as infrastructure development should be left to multilateral organizations;

— Conventional assistance is appropriate in some cases, but more collaborative relationships should be pursued in the future, including relationships with aid "graduates";

— Decentralization of development assistance under the present administration has resulted in more problems than benefits, causing inconsistency and inequities and made program coordination and uniform policy interpretation difficult;

— Congress should eliminate all earmarks, except for those with whom the U.S. has bilateral agreements (Egypt, Israel, and base rights countries); assistance should be provided only to those countries and to countries from which the U.S. can derive economic and political benefits; the Congress should also conduct annual reviews of the success and effectiveness of the implementation of foreign assistance programs.

July 14, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from Mr. James P. Grant, Executive Director, UNICEF

In his response, Mr. Grant focuses on what he feels will be the momentum to develop the political will to address global growth -- the continuing economic crisis being faced by the United States and the industrialized Western countries. Mr. Grant likens this crisis to other historical crises such as the Great Depression, World War II, and the Cold War in that out of such global upheavals have come positive actions such as the New Deal, the establishment of the United Nations and Bretton Woods systems, and the Marshall Plan. Mr. Grant believes that the economic crisis of the west has reached a boiling point because the United States cannot afford to remain "the engine of growth" for the rest of the world. He suggests that a progressive restructuring of the imbalances between the U.S. deficit and the Japanese and Western European surpluses be designed in the context of world growth, with the lesser developed world involved in a major way. Mr. Grant also points out that the Soviet Union and the socialist world are facing a similar economic crisis which could help draw them into greater participation in the United Nations and Bretton Woods institutions.

Mr. Grant feels that greater development assistance efforts on the part of the Japanese and the Western European countries, coupled with a revamped U.S. assistance program, are a necessary prerequisite for making the lesser developed world viable global actors, thereby creating new markets for the developed world. However, lesser developed countries will also have to participate in "modifying their structure to meet human needs while adapting to the new circumstances inherent in economic adjustment."

Mr. Grant also embraces the idea of a global economic summit, focusing on: the restoration of development momentum for the global community; environmentally sustainable development; a strategy for the future to overcome the worst aspects of absolute poverty; and exploitation of the linkages between disarmament and development to move toward global cooperation. He believes that such a summit should be preceded by intergovernmental consultations through organizations such as the United Nation and the OECD. In conclusion, Mr. Grant agrees with the idea of regularizing this type of global consultation through the United Nations by creating an Economic, Environmental, and Social Security Council.

Committee on Foreign Affairs

July 14, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from Charles O. Zuver, Credit Union National Association, Inc.

— Greater emphasis needs to be placed on people to people programs rather than government to government programs; development relationships should focus on lasting institutional contacts that are not subject to changes in interests and directions from one administration to the next;

— Improved coordination should be promoted through structured mechanisms or procedures which are not affected by bureaucratic changes; too often arguments over procedural issues, such as centralization vs. decentralization, in different administrations make it virtually impossible to produce results in a timely and cost-effective manner;

— Ways to stretch limited foreign assistance funds should include: increased utilization of PVOs, cooperatives, and credit unions; greater use of local currencies in order to reserve dollars for actual dollar expenses; generation of additional local currency reserves through the conversion of host country dollar currency debts to the U.S. into local currency debts; and the support of programs to leverage complementary resources to those provided by the foreign assistance program.

Committee on Foreign Affairs

July 14, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: George Ingram

SUBJECT: Summary of Responses from the Inter-American Foundation

Deborah Szekely, President

— The overriding objective of development assistance should be to assist poor people to increase their organizational and productive capacities;

— Development assistance programs should be clearly segregated from other foreign assistance programs;

— The United States should shift its thought and behavior to: cooperation among equals; sharing information and technical expertise (rather than capital transfers); working patiently; cooperating with grassroots groups carrying out their own self-help programs; and, support programs and institutions wherever substantial poverty exists (rather than just in poor countries);

— The likelihood of success of a project increases when it is designed and managed by the intended recipients. Resources applied to projects carried out by private organizations working at the local or regional level are more efficiently delivered, used, and sustained.

Charles Reilly, Vice-President

— Development cooperation does not mean mere assistance. Development occurs where poor people can organize and carry out their own projects to improve their lives. A policy environment favorable to NGOs is indispensable. Development cooperation implies partnership and shared risk.

— The FAA has been cluttered by too many incompatible objectives. Military assistance should be separated from development assistance, and ESF should apply exclusively to economic development.

— Accountability must find new forms, such as accountability to the beneficiary.

Committee on Foreign Affairs

July 14, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from George N. Axinn, Department of Resource Development, Michigan State University

— In the long-term national interest for the Congress to be proactive rather than reactive in its consideration of foreign assistance; Congress needs to maintain a longer range perspective and ensure that U.S. participation in the developing world reflects that;

— To achieve a longer term perspective, the U.S. needs to be active supporters of the U.N. specialized agencies and should consider flowing more assistance through multilateral channels, with an emphasis on international technical cooperation;

— The U.S. does not need to spend more money on development assistance — cooperative technical programs would be far less costly than the types of programs the U.S. is now engaged in and would be more effective in furthering the goal of sustainable development;

— Recipient countries need to take greater responsibility for development; most effective development has taken place in countries that were willing and able to provide more resources for development from within;

— Disaster assistance should be separated from development assistance — both should be separated from military assistance; the U.S. should move away from cash transfer assistance and any such assistance that is provided should be done through regional development banks and the World Bank;

— Development assistance should be provided through a smaller, more dynamic branch of the State Department, staffed by more professional and technical personnel;

— Bureaucratization of development assistance has been extremely detrimental — a five-year moratorium on all foreign assistance might be healthier in the long run than a further bureaucratization.

Committee on Foreign Affairs

July 13, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Summary of GAO Report (June 29, 1988) on Improving the Impact and Control of Economic Support Funds

The Economic Support Fund (ESF) provided \$3.9 billion to 48 countries in fiscal year 1987 to support U.S. foreign aid objectives and goals. This sum represents about one-half of U.S. bilateral assistance and was largely earmarked by the Congress. Cash transfers of \$2.3 billion, 60% of all ESF, went to 26 countries; 31% went for project assistance and 9% for commodity imports. GAO concluded that AID needs flexibility in choosing the ESF type which most effectively addresses U.S. and recipient country needs because the U.S. sees ESF as addressing not only economic, but also political and security objectives.

GAO also cited the following principal findings based on reviews of selected ESF programs in seven countries and other work:

- AID uses cash transfers to address balance-of-payments problems and as leverage to encourage economic policy reforms. However, AID has difficulty measuring the results of its efforts, and reform actions cannot always be directly linked to the provision of cash transfer assistance;
- Although ESF-financed commodity import programs can help provide needed imports, CIPs are sometimes inefficient in delivering assistance because AID must often subsidize the higher costs of imports from the United States;
- ESF-financed projects can advance development provided AID and host governments can effectively implement, monitor, and sustain the activity;
- AID has mixed success in encouraging policy reforms under the various ESF program types. Factors involved include (1) a recipient's political and economic situation, (2) conditioning or sometimes not conditioning the assistance on specific reforms, (3) a recipient's commitment and ability to implement the reforms, and (4) in some cases, the lack of sufficient criteria to guide policy reforms;

- AID has encountered problems in implementing legislatively mandated separate accounting for cash transfers. Some recipients initially deposit their grants into separate accounts but then transfer and spend the funds from accounts containing other money. AID can often attribute disbursements to the cash transfers but cannot directly trace the funds to their specific use when money has been commingled;
- AID makes some ESF cash grants through ESF sector grants and projects without requiring separate accounting because it does not consider them cash transfers. Although AID sometimes requires an accounting for local currencies equal to these grants, it does not require an accounting for the dollars provided;
- AID requires cash transfer recipients to retain records on separate account disbursements for 3 years and to report to AID on how they used the funds. However, AID has no plans to systematically verify these reports, even though host governments have not always been able to substantiate them in the past.

GAO makes a number of recommendations to address these problems and constraints and AID has agreed to: (1) include more specific criteria in its cash transfer program documents, (2) ensure that funds in commingled accounts were spent for authorized purposes, (3) study GAO's recommendation that all ESF cash grants be maintained in separate accounts, and (4) ensure that all cash transfer accounts are audited.

GAO is completing a separate report on ESF-financed commodity import program controls including allocation, arrival, and use of commodities, and management and control of local currencies generated from ESF funds.

Committee on Foreign Affairs

July 13, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: George Ingram

SUBJECT: Summary of "Development Cooperation: Creating a Public Commitment", by John Hamilton

Mr. Hamilton's paper calls for the development of a new rationale for foreign assistance that can attract public support.

- Current aid legislation lacks purpose, with some 33 objectives. There is no clear guiding rationale.
- Expressed in 1987 dollars, development assistance amounted to \$8.4 billion in 1952, but only \$2.44 billion in 1986.
- U.S. foreign aid historically has been provided for three reasons — ideological, humanitarian, and economic self-interest:
 - The ideological rationale is fatally flawed, as it presumes a consensus on how American values should be applied overseas. An anti-communism consensus once existed, but no longer. The anti-communism rationale cannot meet any of the likely standards for success — whether the recipient copies the U.S. political system, or winning political friends.
 - The humanitarian rationale is based on a strong U.S. tradition of voluntary giving, but that inclination has been declining and it has been impossible to prove to the American people that U.S. foreign assistance does achieve humanitarian objectives.
 - The economic rationale also has not been convincing. Many Americans do not perceive the commercial connection. The search for short-term economic payoff has consistently obscured the long-term possibilities. The argument often sounds like aid for U.S. business.
- Between 1954 and 1963 trade averaged 7.9% of U.S. GNP, but by 1987 it had risen to 26% of GNP.
- Until the Third World debt crisis began to bite in the early 1980's, the U.S. exported substantially more to developing countries than to Japan

and the EEC combined. Even so, in 1985 about ~~one~~ third of U.S. manufacturing exports went to Latin America, the four Asian NICs, and other developing countries.

● Evidence of growing interdependence of the United States with the rest of the world — trade; debt (1987 the U.S. became a debtor nation); the October 19, 1987 stock market drop had worldwide repercussions; AIDS; drugs; environmental degradation affects aid quality; American farmers depend on genetic material from seeds grown in other parts of the world; our clothes, food, music, culture, etc.

● The root of the failure of Americans to see their interdependence with the rest of the world is the lack of education on foreign affairs. U.S. education needs to be geared more toward an interdependent world.

● The United States needs a new rationale for economic cooperation, based on three propositions:

- Self-interest (but not selfish): define a set of goals that are in America's interest and in the South's interest, such as protecting the environment.
- Modest but effective: U.S. foreign assistance resources will be limited and the U.S. must be realistic about what it can achieve. A short list of bilateral development objectives: may be easier to explain to the American people, will allow the U.S. to concentrate on areas where it has a comparative advantage (such as higher education), and thereby offers a better opportunity to prove to Americans that the assistance works.
- Part of a coherent whole: part of a much larger whole that deals with the entire range of foreign relations.

Committee on Foreign Affairs

July 12, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from Mr. J. Robert Busche, Lutheran World Relief

- Economic and development assistance in a large part has not reached the very poor, but has provided substantial benefit to the non-poor;
- Foreign assistance has generally not served the long term interests of either the United States or the recipient countries, in part due to the multiplicity of objectives in the Foreign Assistance Act; legislation should be completely rewritten to address new world conditions;
- The United States, in one way or another, is the principle beneficiary of foreign assistance; until this changes foreign assistance will not accomplish its stated goals;
- One of the objectives of foreign assistance should be to strengthen the capacity of the poorer Third World countries to participate in a meaningful way in the world economy; assisting the world's poorest people in this regard will best serve U.S. long-term interests;
- The dismantling of AID and the segregation of development assistance from military/political assistance would be steps in the right direction of overhauling foreign assistance; a streamlined agency with a cabinet level director should replace the current AID structure;
- Some reduction in funding of foreign assistance would not be disastrous; participatory development of the very poor does not require large amounts of resources.

Committee on Foreign Affairs

July 12, 1988

Memorandum

TO: The Honorable Lee Hamilton
The Honorable Ben Gilman

FROM: George Ingram

SUBJECT: Summary of Aid for Just Development (1988), by Steve Hellinger, Doug Hellinger, and Fred O'Regan

The book argues for separating development assistance legislatively and bureaucratically from political and military assistance; for channeling development assistance through a publicly chartered foundation; for a responsive, participatory mode of implementation (i.e., for giving the intended recipients (the poor) a major role in planning and implementing development assistance).

Foreign Aid, General:

— Those countries that followed the advice of Northern aid agencies and diverted agricultural resources to produce for export and to establish a modern industrial base have seen the prices of their commodities plummet, Northern markets contract, the cost of capital-goods imports steadily increase, the price of imported oil fluctuate dramatically, balance-of-payments problems intensify, and the cost of credit needed to cover these deficits only exacerbate them.

— Money is not a significant constraint on development. Third World agencies are overloaded with funds that they cannot effectively absorb and utilize.

— Project success depends on local involvement. Participant control guarantees a number of factors crucial to success -- local commitment to the long-term goals of the project, an appropriate "fit" or adaptation of economic and technical innovations, an appropriate (self-determined) distribution of economic and social benefits, a broad-based sharing of formal and informal project-related learning experiences, and reduced administrative costs through decentralization and local-level skill development.

— AID has been moving away from projects and in the direction of using its influence at the macro level, and thereby is moving further from contact with local-level realities.

— Development assistance should be separated from political and

military assistance and channeled through a restructured AID that is an autonomous public corporation with a board of directors. As currently structured, AID is subject to U.S. foreign policy objectives, trade and investment interests, and a variety of special interests. Members of Congress could use the autonomy of AID as a basis for resisting the myriad of extraneous pressures brought to bear on them. Economic assistance provided for political/security reasons would be managed by the Department of State.

— A government's efforts to narrow the wealth and income gaps between the rich and the poor should be the principal factor in determining the allocation of bilateral aid.

— Aid should be available to institutions in all countries, regardless of a country's income level.

— Aid should be freed from Buy-America requirements. Tied aid generates little in the way of permanent markets for the donor country.

— Project vs Program assistance — Assistance should be provided as program aid on a multi-year basis to governments which have exhibited a commitment to a form of development that directly involves and benefits the poor. Where such governmental commitment is absent, aid should move as project assistance to appropriate institutions.

— AID, while more decentralized than other donor agencies, is still top-heavy with personnel in Washington. AID is burdened with a set of internal checks and reviews that produce a lengthy and cumbersome project cycle. AID imposes upon itself enormously complicated procedures which make it difficult for the field missions to be responsive to the poor. Projects are judged on criteria unrealistic in terms of implementation and are approved as long as they are well articulated and presented in the proper form. The length of the project-development process also leaves staff with little time at the end to observe the actual product of their efforts.

— Functional accounts should be eliminated so AID missions can support activities truly relevant to the needs of each country.

— A restructured AID would have one-to-three regional offices and country mission staff decentralized to facilitate contact with local communities and institutions.

— Full-time AID staff, rather than U.S. consultants, should assume the major responsibility for development assistance functions.

— Congress has not effectively exercised its oversight responsibilities. The Congress should enact a new Development Assistance Act, with a simple, short, unambiguous mandate. The Congress would exercise its oversight function and receive notification and summaries of all projects, but it would not involve itself in the review and approval of programs and projects.

— An Asian and Pacific Development Foundation should be established, to join the Inter-American Foundation and the African Development Foundation.

— Land-grant universities, consulting firms, many PVOs, and other special interests linked legislatively and/or programmatically with our aid program have chosen to focus on their own more narrow concerns rather than challenge a development and aid paradigm that has failed to involve and support the poor in their self-defined development endeavors.

— Development criteria should be focus on the principles of equity, participation, sustainability, and self-reliance.

PVOs:

— Are well placed, as a result of their work at the grassroots level overseas, to inform the U.S. public, program officials, and policymakers of the realities of life at that level and the impact of official assistance programs.

— In 1984, some 2,200 Northern NGOs utilized approximately \$4 billion in assistance.

— The work of PVOs is uneven. At their best, they are responsive to local needs and requirements. But they also can be removed from the poor, noncollaborative, and imposing of Northern priorities and agendas rather than responsive to local communities.

— As increasing amounts of money for foreign assistance have been moved through PVOs, some PVOs have become less responsive and accountable to the poor, and less independent of governments. AID's overfunding of a number of groups have taxed their management capabilities, changed their institutional style, and made them more bureaucratic and unresponsive.

— The U.S. should establish a PVO foundation to make grants and loans to U.S. PVOs and local counterparts in accordance with strict criteria that stress the local initiation of projects, the building of institutions, and the devolution of management to local control. A PVO should receive no more than 50% of its funding from government. PVOs must include public education among their responsibilities.

World Bank:

— Is ill-equipped in orientation, structure, and operations to support the types of projects, programs, policies, and organizations that truly involve and benefit the poor. Local participation has been absent in its mode of operation.

— The focus of the Bank's (and IMF's) structural adjustment efforts has not been the poor, but instead on agricultural pricing, industrial policy, exchange rates, trade liberalization, export promotion, budgetary policy, cuts in public-sector investment, public-service user chargers, and

financial and debt management.

— The head of the U.S. bilateral aid program should be the official link to the MDBs.

— MDBs should: shift away from an export focus to emphasis on greater regional, national, and local economic diversification and self-reliance; elicit the views of affected marginalized populations; reduce the level of lending until the absorptive capacity of relevant and effective institutions can be determined and expanded; redirect IDA funding from the poorest countries to poor people.

Committee on Foreign Affairs

July 9, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Summary of response to foreign aid inquiry letter from Dr. Michael Schechter, Michigan State University

Dr. Schechter, Assistant Dean for International Studies at Michigan State University makes the following points in response to our inquiry on the future direction of U.S. foreign assistance programs:

- The United States needs to reinvestigate the ratio of multilateral assistance to bilateral assistance and points out that Congress may have allowed the media and certain "think tanks" to define the issue of our support for multilateral assistance too narrowly;
- Any restructuring of assistance must balance support for multilateral aid vs. bilateral aid;
- The United States should not play a passive role in the regional development banks; should assess the role of these banks in our overall development assistance and cooperation efforts;
- The type of publicity surrounding congressional consideration of foreign assistance needs to be redirected to focus on the strategic purposes of foreign assistance and to those where economic and humanitarian interests predominate; Congress needs to explain to the American people the ultimate purposes of assistance such as ESP and explain the rationale behind the provision of assistance to the "richer third world countries."

January 13, 1989

DEVELOPMENT FUND FOR AFRICA

The Development Fund for Africa (DFA) is AID's title for a new account for Africa, "Sub-Saharan Africa, Development Assistance", which was first established in Public Law 100-202, making continuing appropriations for the Fiscal Year ending September 30, 1988. The account was continued in the FY 1989 Foreign Assistance Appropriations Act. The statutory language for FY 89 is unchanged from FY 88. \$500 million dollars was appropriated for the account for each of fiscal years 88 and 89; \$565 million is requested for FY 90. The \$565 figure includes \$50 million for the Southern Africa Development Coordination Committee (SADCC). In Fiscal Years 88 and 89 a separate appropriation of \$50 million for each year was provided for SADCC. Funds for the DFA are to be made available on a grant basis.

To achieve the objectives of long-term development in Africa that is equitable, participatory, environmentally sustainable, and self-reliant, two principal changes were seen as urgent: First, there must be an assured and stable source of funding. The separate funding account seeks to achieve this. Second, authority must be provided to implement programs in a more flexible fashion. To achieve this, funds may be used for any economic development assistance activities in the Foreign Assistance Act and greater flexibility is provided in the procurement of goods and services. Also, AID is expected to place greater emphasis on the role of voluntary agencies and international organizations in U.S. programs and to coordinate its programs more closely with such agencies and organizations.

It is intended that assistance focus on:

- increasing agricultural production in environmentally sustainable ways;
- maintaining and improving transportations and communication networks;
- maintaining and restoring the renewable natural resource base;
- improving health conditions, particularly of children and mothers, and including establishment of preventive care;
- increasing access to family planning services;
- improving basic literacy especially primary education systems;
- developing income-generating opportunities.

Funds within the account are not earmarked for particular uses. However it is expected that AID target the equivalent of 10 percent of the funds appropriated for each of the following: (1) maintenance and restoration of the natural resource base, (2) health activities, and (3) voluntary family planning. Also, up to 20 percent of available funds may be used for non-project assistance to support policy reform programs. an additional 10 percent may be used upon presentation of sufficient justification for such use. this authority is provided in recognition of the deleterious effect on development caused by the adoption of inappropriate economic policies.

AID'S VIEW OF THE DFA:

BENEFITS:

- FLEXIBILITY:** The elimination of functional accounts makes it much more feasible to shift resources to programs and activities which are working. as a result the program is becoming more performance-based.

- ABILITY TO SUPPORT POLICY REFORMS: Policy reform is a major requirement for development in Africa. Under DFA US programs are now more relevant to Africa's problems.
- PRIVATE SECTOR SUPPORT: Allows more support to this sector.
- PROGRAM INTEGRATION: AID is now better able to integrate project and non-project activities into a synergistic approach. Thus an agricultural research project can be accompanied with policy reform expanding farmers access to fertilizer.
- PROCUREMENT: New authority will reduce bottlenecks and facilitate project implementation.

REMAINING PROBLEMS:

- NON-PROJECT ACTIVITIES: Should remove the 30 percent cap on such activities.
- NO-YEAR FUNDS: Making funds available until obligated would enhance flexibility and eliminate hasty decisions by eliminating pressure to obligate funds within a given fiscal year.
- TARGETS: Establishing of the three current 10 percent targets will increase pressure from other constituencies to add more target areas.

IMPLEMENTATION OF DFA:

In order to implement the DFA, AID has classified country programs in Africa. Political criteria has been downplayed and development criteria weighted more heavily. Economic growth underpins the categorization. The following categories have been established:

CATEGORY I-Countries with a demonstrated commitment to sound and/or improved economic policies, good potential for economic growth, relatively large populations (over 7 million), and capability for managing serious debt or foreign exchange problems. Increased levels of DFA resources and, to the extent possible, food aid resources are envisioned for category these countries.

CATEGORY II-Generally consists of small countries which have demonstrated a commitment to adopting or continuing to implement good economic policies and/or have good records of economic growth. Includes larger countries with excellent growth potential, but are currently experiencing difficulties in implementing needed economic reform programs.

Category III-Includes remaining countries receiving bilateral assistance. AID activities will be limited to one or two areas of concentration. DFA resources to those countries which have political importance but currently face difficult growth prospects in poor policy environments will be minimized.

SUMMARY:

In summary, The DFA allows AID some flexibility in moving funds around within the broad authorities contained in the FAA. Greater flexibility is provided by removing the Africa account from limitations imposed by the functional accounts in the Foreign Assistance Act (FAA) and allowing expanded use for non-project activities. However, funds must still be used only for the purposes and within the guidelines set forth in the FAA. Further, targets are set for using at least 30 percent of the funds provided and there is a limit, 30 percent, on the amount that can be used for non-project activities.

Office of
Alexander M. Haig, Jr.

June 27, 1988

The Honorable Benjamin A. Gilman
House of Representatives
Washington, D.C. 20515

Dear Mr. ~~Gilman~~ *Ben*:

Thank you for your letter of May 23, 1988 regarding the foreign assistance program. I am glad to see that your review is bipartisan; it is certainly timely. We are long past cutting the fat in these programs and dangerously far into excising the muscle.

Please find attached my answers to your questions on the direction and organizational structure of our foreign assistance program. Let me caution, however, that there are neither shortcuts nor substitutes for adequate resources. The foreign assistance program should be considered like the defense budget -- essential to our national security. In fact, foreign assistance, along with effective diplomacy, often helps to deter conflict and to ease the burden on our military in preventing war.

Unless we reverse this pattern of cutting our foreign assistance budget (25% since FY 1985), while restricting the rest by inflexible earmarks, we are simply going to undermine our own security.

Sincerely,



Encl

cc: The Honorable Lee H. Hamilton

COMMENTS ON THE ISSUES

1. Question: What is the proper role of the Congress in directing U.S. foreign assistance program?

Answer: Congress must be the partner with the Executive if our system of balanced powers is to work. Yet it is also clear that micro-management of programs by the Congress works very poorly. The reason has not to do with the skill of individual Congressmen but the committee system and competing interests that make the Congress what it is -- a legislative body, not an Administrative body. Debate, appropriation, oversight, yes -- micromanagement, no.

2. Question: The Foreign Assistance Act of 1961, as amended, sets forth many objectives. Should there be a few, overriding objectives and what should they be? Can the program pursue multiple objectives?

Answer: The overriding purposes that dictate foreign assistance are to be found in our foreign policy, which in turn must be guided by the national interest. Each program should therefore be judged by foreign policy criteria -- not whether it benefits one district or another, or one constituency or another. Of course, realism dictates that these elements have a role in decisions on programs. My point is that they should not play the principal role.

3. Question: U.S. assistance goes to many countries and regions of the world. Are we providing the appropriate kinds of assistance to the right number of countries? For some countries, is conventional "assistance" the best way to pursue development relationships?

Question: U.S. foreign assistance financial resources are becoming more limited. Given the various objectives, programs, and countries now in the foreign assistance budget, what is the best way to deal with this financial constraint?

Question: How effective is U.S. foreign assistance coordination within the U.S. Government, with private organizations, and with other donors? How can it be improved?

Question: Are there organizational and decision-making process changes that need to be made? If so, what are they?

Answer to all of 4 above: The issues of what type of assistance, our financial constraints, etc. are all related. These are the facts: assistance has decreased by 25% since FY 1985; more than half of what remains is restricted by earmarks. So what we have done is to diminish both the total resources and our flexibility to use them simultaneously.

This is just stupid. It forces us, for example, to short critical allies, such as Turkey, for needs that we both recognize are essential to our security. Another example is our declining influence in the World Bank, which everyone recognizes plays a crucial role in development and will be significant in helping to restrict growth in the Third World -- a source of export sales for the U.S. that has been badly hurt by the debt crisis and the deterioration of developing economics.

Not having been in the government for some years now, I cannot comment from first-hand knowledge whether organizational changes need to be made. We should not delude ourselves, however, into believing that such changes will radically resolve the problem of lack of resources or Congressionally directed restraints on existing resources.

4. Question: Depending on the objectives, what measures of success and standards of accountability should apply to U.S. foreign assistance programs?

Answer: The success of foreign assistance is defined by how well it advances our general foreign policy objectives in a given area. Sound principles of accountability, however, are very difficult to apply given the tendency to micro-manage.

5. Question: It is frequently said that foreign assistance has no constituency. Is this true? If so, what if anything should be done about it?

Answer: A constituency for foreign aid is always an appendage of the constituency for a successful foreign policy. The bipartisan consensus we need for one can also serve the other. But to do this, the Executive and the Congress must constantly link both with national security -- publicly and often. If Americans themselves do not see this link, we can hardly expect their representatives to think otherwise. It cannot simply be regarded as "walking around money" for our diplomats, so that when austerity prevails, we think we are merely emptying their pockets. And it is always too late to send up a Secretary of State or a Presidential speech at the very end of the process, hoping to reverse disaster. That is why, foreign assistance must be integrated into our general foreign policy and defense approach.



Natural Resources
Defense Council

1350 New York Ave., N.W.
Washington, DC 20005
202 783-7800

June 30, 1988

Representative Lee H. Hamilton
House Committee on Foreign Affairs
2170 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Hamilton:

Thank you very much for inviting me and the Natural Resources Defense Council (NRDC) to contribute to your review of U.S. foreign assistance programs. NRDC, a national environmental organization with more than 80,000 members, has been active since 1975 in influencing U.S. foreign assistance policies. We have cooperated with your Committee for more than ten years in numerous amendments to the Foreign Assistance Act to make U.S. bilateral aid more environmentally sound and sustainable, and in oversight efforts to the same end. For the last five years, we have worked with the Congress in a remarkably successful campaign to improve the environmental performance of the multilateral banks.

Summary

Most of this letter consists of answers to the specific questions posed in your letter of May 23. However, we would like to begin with a summary to give you the gist of our thinking.

- o The Congress should establish a framework for U.S. foreign assistance encompassing all our relevant relationships with developing nations -- debt, trade, defense, and assistance -- and procedures for setting specific assistance goals within that framework.
- o The Congress should specify that the overall goal of U.S. assistance is sustainable development: economic progress that is environmentally sustainable. U.S. bilateral assistance should be required to focus tightly on three goals: (1) promoting environmentally sound food production, enhancing the agricultural resource base, and conserving biological diversity; (2) promoting environmentally sound energy development, with an emphasis on energy assistance designed to meet human needs while minimizing global warming; and (3) meeting needs for voluntary family planning services. ✓

- o The Congress should enforce these bilateral priorities by specifying, through earmarks and other methods, what proportion of the available resources should go to specific functional areas and regions of the world. Dollar earmarks often will be the least intrusive way of doing this.
- o U.S. bilateral aid should focus on on-the-ground development that is participatory and relatively small-scale. There should be a clear statutory requirement that affected people must participate in U.S.-supported development activities at all stages.
- o The priorities just recommended should apply to bilateral assistance delivered through ESF.
- o USAID or its successor should not rely so much on contractors and should employ a staff adequate to make the agency a world leader in the three priority areas listed above. The agency should rely on PVOs, NGOs, and on ex-Peace Corps personnel to save money in actual project administration.
- o The United States should continue aggressively to seek reforms in the activities of the multilateral development banks and other multilateral agencies, with the aim of ensuring that the development they support is cost-effective and sustainable. The development they support should be participatory (requiring among other things that they adopt freedom-of-information procedures), and they should avoid huge "mega-projects."
- o In view of the fact that the industrialized nations are on balance extracting capital from developing countries, the Congress should require forgiveness of official debts owed to us by the poorest nations and require that debt flows be considered in formulating foreign assistance policy.
- o The Congress should establish methods for identifying the benefits to our nation of development assistance -- economic, environmental, and strategic -- and a budget process that compares these benefits with those from other expenditures (including defense).
- o The Congress should ensure that the U.S. public is told about the overall benefits of U.S. foreign aid and its specific successes. The public constituency for foreign aid will grow substantially if these facts become known.

Campaign 2701 First Ave
To Suite 400
End Seattle WA 98121
Hunger 206 448 2445
1 800 888 8750

June 30, 1988

Representative Lee Hamilton
Congress of the United States
Committee on Foreign Affairs
House of Representatives
The Capitol Building
Washington, D.C. 20515

Dear Representative Hamilton:

While I was in Washington, D.C. for the RESULTS national conference I saw your letter to Sam Harris requesting his input into the re-write of the U.S. Foreign Assistance Act. I want to comment that I very much appreciate the acknowledgement of RESULTS that your request was.

Sam specifically asked that those of us volunteers for RESULTS who might like to respond to your request not pester you with our ideas individually, but rather write them in to the office in D.C. where they could be organized and passed on as an entire body of ideas. However, when I spoke to Michael Rigby last week it sounded as though they might not be assembling a formal, written response to you at all since they are in frequent informal contact with your staff or with others who are working on the Foreign Assistance Act.

So I can't resist contacting you with a couple of suggestions:

* Something should be said to acknowledge that although food aid is the appropriate response to a famine, it is potentially damaging to incentives for local farmers to grow food surpluses and is therefore counter-productive to establishing food self-sufficiency. Farmers and agribusinessmen, especially the latter, need to be told that the latest thinking among economists is that ultimately the South will be a better customer of U.S. agricultural products if the people of the South can become un-poor enough to qualify as consumers. To do this, they must be able to have such basic human requirements as food readily available within their own economies.

* The focus of our foreign assistance should, therefore, in our own interest, as producers of both agricultural and manufactured products, be the people of the South who are at this time so poor as to be outside the "market" altogether. We can frame this in terms of ending hunger, ending poverty, ending man's inhumanity to man, serving justice, serving our own interests, serving to better global stability, or whatever "sells" as far as I'm concerned.

I've enclosed a piece I wrote that appeared in Seattle's leading newspaper today, which bears on this subject. It mentions the possibility of including the Global Poverty Reduction Act wholesale in the new Foreign Assistance Act. I hope you will consider this possibility.

I've also enclosed a brochure from the Campaign To End Hunger, a national education effort reaching millions of Americans daily through radio and television, with which I am now working. It outlines a few reasons beyond the ones I have mentioned that it is in the interest of us all to end the grotesque poverty which still disfigures our global society.

Thank you very much for your work on the Foreign Affairs Committee. I hope you will consider using the Campaign To End Hunger as a resource in the future. We will always be delighted to hear from you and will help in any way we can.

Very best regards,

Carla Cole

Carla Cole
Director of the Campaign

GANGA KAVERI BHAGIRATHI TRUST

6326 Woodmere Court, Flint, Michigan 48504 Tel (313) 732-0115

June 27, 1988

Honorable Members of Congress
Mr. Hamilton and Mr. Gillman

The Trust thankfully acknowledges the letter from the committee on Foreign Affairs. We are very grateful to you for giving us this opportunity to express our views on the policy towards U.S. Foreign Assistance Programs.

After World War II, immigrants from different nations came and settled in the United States of America. They have become part of main stream of America. They brought with them, rich human cultural resources. They also have some affinity towards their motherland.

If U.S. Assistance Program helps the growth of such cultural resources in the countries of their origin, they certainly appreciate tremendously. They can in turn act as alien ambassadors of America when they visit their homeland. They also will have the United States interest because of their living experience of this country. Through this enrichment, the U.S. Assistance could bring economic, cultural and human development. This will be the constituency of U.S. Foreign Assistance Program (1).

There are many organizations in the United States who would like to serve their country of origin as an act of service to their home country. These organizations are more likely to render help to those who really deserve in those countries of recipients than the local organizations in those countries, or the government agencies of those countries.

The United States Foreign Assistance Program should perhaps be directed to work with those United States based organizations for effective and efficient use of limited funds available.

Our organization is constituted to study and analyse long term solutions to the extremely serious human problems in India, namely the drought and floods. The two devastating human calamities have costed thousands of human and animal lives. One-third of India is afflicted with drought. The statistical data is somewhat sketchy and incomplete. It is noted that at least \$500,000,000 worth of loss is not a surprise considering the flood damage of north eastern provinces and drought stricken western and southern provinces. Many people have become destitute inspite of possessing cultivable land.

It is our belief that the United States Foreign Aid will serve well if the funds are directed to such human needs.

Irrigation is the backbone of India and water is the power.

GANGA-KAVERI LINK FOR PROSPERITY AND INTEGRATION OF INDIA

NON PROFIT AND TAX EXEMPT ORGANIZATION

Page Two
June 27, 1988

When aid comes in time of need, there is no question of looking for a better relationship as it is an imperative act of friendship and hence, furtherance of all other mutual understanding. United States can be an influential power only when it works with agencies with dedicated people to serve human needs rather than governmental agencies who have a vested interest. In fact, many governmental agencies in many recipient countries have been ineffective in promoting human growth and United States agencies have known this.

We believe the following measures would benefit recipients and also serve the United States interests from long term point of view.

1. Direct the funds to be utilized through organizations which are formed by dedicated volunteers to serve human needs.

2. Organizations should objectively evaluate their activities and promote United States interest while human needs are being taken care of.

3. There should be a center in one or many universities who could monitor the aid and it's utilization.

4. Members of people orientated organizations based in the United States working at grassroot level will help in decision making better than organization with selfish interest.

5. United States agencies can avail the services of these United States resident organizations who are more likely to help the United States interest at the same time helping recipients.

6. The United States based agency is capable of accounting better than agencies in recipient countries.

We are sending this interim response to the inquiry to meet the deadline. We would like to communicate farther and be happy to participate in the discussion on this particular subject.

Yours Sincerely,


M. Nagaraju, M.D.
President

Committee on Foreign Affairs

August 3, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Task Force Meeting with Interaction, the American Council for Voluntary International Action, July 27, 1988

Task force staff met with 33 principal officials of U.S. private voluntary organizations (see attached list) to discuss PVO relationships with and participation in U.S. foreign assistance policy and programs. The meeting was co-chaired by James MacCrocken, Executive Director, Christian Children's Fund, and George Ingram of the Committee.

The one and a half hour meeting began with short presentations of five issues/concerns/suggestions apparently shared by all or most of the PVO representatives in attendance. These, along with subsequent comments and views, are numbered and summarized as follows:

1. A legislated mechanism or board should be established so that the PVO community would have a formal means of participating in the U.S. foreign economic policy process (not just with AID). Such a statutory role would tend to unify the PVO community and bring its expertise and grassroots capabilities into the international policy framework of the U.S. Government. It would allow dialogue, for example, on allocation of funds, approval of PVO activities, and evaluation and oversight of PVO-related programs. Something like BIFAD (Board for International Food and Agricultural Development) in Title XII of the Foreign Assistance Act, is envisioned. Other comments:

- There is a need for a sustained form of consultation with the U.S. Government. (The Advisory Commission on Voluntary Aid does not go beyond AID).
- At present PVO interaction with U.S. Government is too ad hoc.
- There is a need to meet and talk out problems and ways to address them. For example, Africa presents a different set of problems than found elsewhere.
- Need a forum to receive and filter through reports and experience from the field and to share what has been learned.
- PVOs do not contribute to the planning and designing of programs

as they should. AID/PVO talks about being part of the AID CDSS (planning) process have not been fruitful; the PVOs are talking about much broader participation in U.S. Government policy formulation. (As an example, the development impact of refugee assistance gets lost between agencies.)

- Creating a foundation for PVOs is a longer range proposal; a new entity splitting PVOs off with a piece of the pie is not what is wanted; PVOs want to be part of the overall policy dialogue, contributing their ideas.
- European states' relationship with their PVOs approximates what U.S. PVOs would like: a formalized means of consultation before the U.S. Government decides on policy and on how to spend development funds.
- PVOs want to come together as partners and Americans with the U.S. Government on what they can do in foreign aid. A partnership relationship with AID has not yet developed.

2. We need an understanding of the term "humanitarian" in U.S. foreign assistance, perhaps getting back to a more traditional use of the word. It should not be used in a cynical way.

3. Sustainable development, with strong consideration of impact on the environment, should be a U.S. foreign policy priority.

4. Greater flexibility in U.S. policy and funding for refugee relief is needed. The current budget process, even with emergency contingency funds, does not provide the flexibility needed to deal with fast-paced current events. There should be a way to get money when needed.

5. Resource allocations to PVOs need to be increased if PVOs are to be used as channels for greater assistance to people at the grassroots level. Effective microdevelopment (versus macrodevelopment) calls for the application of greater resources. The Hellinger book (Aid for Just Development) and meeting participants acknowledge a growing world movement of grass roots development fostered by local groups, and the growing effectiveness of these groups as development channels. Other comments on this subject:

- PVO's have discovered the strengths of indigenous NGOs and have no problems with micro-level NGO efforts. However, American PVOs sense peril in having relationships with indigenous NGOs because government-to-government PVO relationship may be at odds with indigenous NGO activities.

Other Comments and Views:

- Short term poverty alleviation cannot be a substitute for long term development.
- We should look at development as a sustainable integrated process with people, PVOs, and governments in partnership. Foreign aid

needs to be recast in this light.

- "Sustainable development" includes the environment, population, health, food, agriculture and energy.
- Reporting and auditing requirements imposed legislatively and by AID are time consuming and costly.

At the meeting staff observed a certain degree of unity on a variety of subjects among P/O officials, in contrast with the general perception of disunity and intense competition among PVOs. However, many of the themes discussed (need for dialogue, etc.) have been raised for at least a decade. Finally, the PVO representatives were invited to submit in writing to the Committee any further thoughts on the subjects discussed or other issues they might wish to discuss.

10/11/77

Committee on Foreign Affairs

July 28, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zanlga

SUBJECT: Summary of response to foreign aid inquiry letter from Raymond Hopkins, Swarthmore College

Mr. Hopkins' responses focused on problems of hunger and the role of food aid as carried out under P.L. 480. He points out that desirable improvements in food aid pertain to other categories of foreign assistance as well.

— Major roles for Congress are: (1) establishing priorities for the use of (150) account funds; (2) setting authorization and allocation levels; and (3) providing oversight for program execution.

— Detailed legislative language shows a tendency to micromanage executive branch activity; this results in lawyers and auditors driving up program costs with few gains in efficiency or effectiveness.

— Moving personnel every two to four years means low accountability. Few incentives exist for officials to take risks to get effective results; but incentives are high to avoid criticisms; thus, otherwise industrious people are frustrated by the system they confront. Bureaucratic sluggishness, inertia, and irresponsibility predominate executive branch activity.

— Multiple objectives, including reducing U.S. surpluses, are irrational in today's world. The overriding objectives of food aid should be development. All other domestic short-term interests such as benefiting American farmers through U.S. commodity exports, should be ancillary benefits.

— The distribution of food aid to a wide range of recipients, particularly in small amounts, might be seen as a marginal and inefficient dispersal of resources. A justification exists, however, for widely dispersing food aid. This is its role as a model program targeted on a particular problem — hunger. Unlike other forms of assistance, particularly large capital projects, food aid can provide a prototype and a symbol for enhancing the recipient countries' overall effort to alleviate hunger, targeting its resources toward those most in need.

— World Bank consultative groups and UNDP roundtables have been marginal with respect to coordinating food aid. Greater changes in the conditions of need and the lag in information on commitments and shipments of food call for substantial improvement in donor coordination and shared responsibility. Much remains to be done with respect to information systems and regularized channels of coordination among the principal officials responsible for food aid on a day-to-day basis.

— The surplus disposal and trade development elements, lodged principally in Title I, should be funded solely from reflows on earlier Title I concessionary sales. These reflows to the CCC could be authorized each year to provide an opportunity for the USDA and the State Department to allocate new concessionary sales under the Title I program.

— Immediate political and military considerations, such as human rights, base rights, and so on are rarely leveraged by food aid. Often these serve as mere justifications for expending resources from the P.L. 480 line when there are shortfalls in other parts of the foreign assistance accounts.

— The entire (150) account appropriation for P.L. 480 should go directly to grant assistance. Currently, availability of agricultural commodities and State Department diplomatic considerations are taken into account as commitments are made. This would continue but with a single, more coherent and hunger responsive food aid resource. In addition to the food grant, the very poorest of countries should receive additional help through the U.S. paying for shipping costs and providing associated development funds to make food aid projects work.

— Progress within this more focused program could be evaluated by looking directly for gains in the food system and nutrition of recipient countries over a reasonable length of time, i.e., five to ten years.

— A dedicated, sincere, and coherent program of foreign assistance can be justified on the basis of U.S. long-term interests in promoting a stable and developed system of nations in the world. When short-term military, political, and trade interests become enmeshed in the foreign assistance uses, cynicism and confusion grows among the American population generally while the interest base supporting food aid or foreign assistance becomes more narrow.

Committee on Foreign Affairs

July 28, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from William E. Lavery, Chairman, Board for International Food and Agricultural Development (BIFAD)

— The four roles of Congress in foreign assistance are defining the objectives of the programs, authorizing programs, appropriating funds, and evaluating the extent to which the goals and objectives of the program are met; agencies charged with implementing these programs should be allowed to do so with "minimal congressional oversight."

— A few overriding objectives, aimed at the U.S.'s comparative advantage as a donor, are preferable to many specific objectives; the continually changing focus of specific objectives makes the management of the foreign assistance program less effective; in addition, new units designed to handle specific issues may be created and never disbanded after the objectives have changed.

— There should be greater donor coordination, not only on specific programs, but on the overriding objectives as well.

— Objectives should include: (1) Sector emphasis on: agricultural sustainability, health, nutrition, education, population, environment and natural resources, and developing an appropriate policy framework within the recipient country; and (2) structural emphasis on: developing institutions capable of sustainable performance, and infrastructure development such as urban planning.

— Conventional assistance still appropriate for LDCs, but more cooperative programs should be developed for the ADCs.

— Some ADCs (such as Brazil, Ivory Coast and Colombia) should be added to the list of countries receiving foreign assistance; some LDCs where there is little or no chance for development assistance to be effective should be dropped from the list.

— The decisionmaking process within AID needs to be streamlined, continuing the decentralization of decisions under mission control; programming procedures within AID frequently impede implementation of development programs and projects.

Committee on Foreign Affairs

July 27, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Summary of response to foreign aid inquiry letter from Charles L. Sykes, Assistant Executive Director, CARE

Mr. Sykes offered the following observations in an 8-page response which, he reported, did not necessarily reflect the views of his organization.

Role of Congress:

- The word "foreign" should be expunged from describing U.S. relationships with other nations; use "international assistance" or "cooperation account";
- Support non-totalitarian developing nations committed to meeting basic human needs; and also support programs that develop countries financial capacities to sustain themselves;
- Recognize that economic and social assistance to developing nations strengthens mutual political and trade relations;
- Provide a policy base which not only guides our relations with other nations but also reflects the values of our society. Congress should appropriate money and oversee expenditures consistent with such policy. If the allocations of economic development assistance resources to "friendly" countries is not based on shared human values, but on strategic location, military access, and U.N. voting records, a double standard or relationships develops which undermines the political, economic, and social thrust of the U.S. international assistance program;
- Congress should structure a more results-oriented policy framework and work with the executive branch to restructure agency responsibilities for carrying out the U.S. international assistance program.

Multiple Objectives:

- Section 101 of the Foreign Assistance Act and section 712 of the International Security and Development Cooperation Act of 1981 eloquently state U.S. overriding objectives for development. Given these objectives,

the increasing militarization and politicization of the (150) account is questionable. The entire subaccount structure should be reexamined.

Mix of Assistance:

— Everything from the Peace Corps to advanced weaponry is found in the U.S. assistance programs. The issue of appropriateness is a function of the executive branch, the Congress, lobbying groups, and the recipient countries — and the poorest countries are the weakest participants in this process.

— Congress should examine the potential links between the multilateral development banks, the bilateral aid program, and the micro-development efforts of NGOs. These aid channels, along with other non-U.S. bilateral programs, point up the need for greater cooperation and consultation with respect to the appropriateness.

— When countries (like the NICs) move into a trade rather than aid relationship, U.S. resources should be shifted to other regions where greater need exists.

— "Conventional assistance" if it includes appropriate technical and resource aid, and poverty alleviation grounded in health, education, microenterprise, and self-help measures, is the best way to pursue development relationships. However, a country-by-country and region-by-region analysis of need is required to arrive at the right blend and mix of "conventional assistance."

— Should peace prevail in Afghanistan, Kampuchea, Laos, and Nicaragua, the U.S. and the Soviet Union should help clear the mines from the countryside.

Resource Constraints:

— The U.S. aid program works in watertight compartments with health, population, nutrition, agriculture, and science and technology divisions engrossed in their areas of responsibility rather than integrating their efforts. An integrated approach to development will get more mileage out of limited resources. This lack of integration is also reflected in the Congress where jurisdiction for multilateral development bank funding and bilateral program funding is in different committees.

Coordination:

— Coordination within U.S. Government needs to be expanded and final authority limited. Make AID Administrator the final authority on P.L. 480, Title II food programs, for example. Right now, the Administrator can be vetoed by OMB, State, USDA, and sometimes Treasury. Population, health, nutrition, food aid, and science and technology are separate divisions all vying for the same limited resources, with little cross-fertilization of program efforts.

— Private organizations have grown in number, complexity, and competence. They need a congressionally created institutional relationship

with the U.S. Government. A quasi-governmental institute or foundation is needed with a Board of Directors from Congress, AID, and the PVOs, charged with streamlining the U.S./PVO relationship and partnership.

— Need more institutional exchange between donors. A more important question to ask about U.S. assistance is not "is it in the national interest?" but "is it in the international interest?" Consultation and coordination with host country recipients needs improvement.

Organizational Structure:

— Clearly delegate authority, reduce multiple agency veto authority and hold people responsible for measurable results. Reduce over-reliance on hiring outside consultants and encourage sufficient full-time professional AID staffing.

Accountability:

— The Congress must insist on not only accountability, but also on results measured against clear objectives. Those programs which dispense large doses of resources to a few countries with minimal or no accounting or stewardship and marginal economic development benefits clearly need to be addressed.

Constituency:

— International assistance has a variety of constituencies, e.g. the environmentalists, the population groups, the UNA, the U.S. Committee for UNICEF, the cooperative movement, the Bretton Woods Committee, the Atlantic Council, the labor movement, the Ford and Rockefeller Foundations, the Churches, the Israeli and the Greek PACs and the PVOs.

— Roper polls suggest that "to develop a public opinion that is positive towards 'foreign' aid would require demonstrating that 'foreign' aid, in addition to what it does for 'them', does more for 'us' than if the same money were spent at home. It would also require demonstration that the money does get to the right people in the right countries and, further, demonstration that it has gained us valuable allies."

— Most of the money spent under the 'foreign' economic and military aid programs involve contracts that benefit American firms and their employees. Thus, most of the money spent on so-called 'foreign' aid never leaves the U.S. and has the effect of promoting the American economy and U.S. citizens more than it does the people of the 'underdeveloped' countries that it is ostensibly designed to benefit.

— Congress should ask CRS and CBO to do a joint in-depth analysis of the benefits accruing to the U.S., in terms of economic activity and jobs. It would also be enlightening to know how much of the international assistance budget is spent in the U.S. and how much literally moves overseas.

— However, there will never be any great enthusiasm by the public for

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the U.S. to play a central role in assisting other countries if there is a perception that we are not adequately dealing with domestic issues relating to hunger, homelessness, and other manifestations of poverty.

Committee on Foreign Affairs

July 27, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from Robert W. Mashek

Mr. Mashek, who is in the process of leaving government service, has served with the Office of Management and Budget, the Department of State, and, most recently, spent 17 years with the Inter-American Foundation.

Mr. Mashek makes the following observations:

— The current foreign assistance program needs to be completely revamped to eliminate the deadlock between competing interests that have made the program ineffective; currently, the program does little to advance development or cement long-term relationships for the U.S.

— The foreign assistance program should be based on a more cooperative approach to development; institutions of developing countries should play a more active role in development in order to assure greater sustainability.

— Programs should be designed to share information, methods, and techniques, rather than focusing on capital transfers and the implementation of massive projects; large scale lending for infrastructure development should be left to institutions like the World Bank.

— Foreign assistance should become a technical cooperation program that is diversified and flexible, is an exchange of information, people, and missions, is autonomous from short-term diplomacy, and is housed in a small U.S. agency which would act as a broker of expertise and experience.

Committee on Foreign Affairs

July 26, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Beth Ford

SUBJECT: Summary of response to foreign aid inquiry letter from Mr. Arthur B. Keys, Jr., Executive Director, Interfaith Action for Economic Justice

— Foreign aid does have a constituency, if the term foreign aid is meant to define programs which assist poor people in the Third World; however, the support for foreign aid that does exist is declining due to the perception that foreign assistance has become too militarized, development assistance programs have not achieved what they were designed to achieve, and assistance in general has benefitted the rich rather than the poor, both abroad and in the United States;

— The primary objective of U.S. foreign assistance should be the promotion of Third World self-determination and self-reliance through a process of participatory, equitable sustainable development; this objective should be achieved through greater use of local resources, skills, and technologies and greater local consultation;

— The role of poverty in creating instability in the Third World has been underestimated; links between security and development should be explored to broaden the concept of security to include economic concerns;

— There should be a substantial reduction in military assistance and a careful examination of any potential military aid recipients; also, consideration should be given to shifting military assistance from the (150) budget function to the Defense Budget;

— The fact that ESF is mostly a political form of assistance concentrated in few countries and not tied to development objectives detracts from its potential of meeting human needs; consideration should be given to eliminating ESF, creating a security assistance fund for the Middle East and the base rights countries, and merging all other ESF with development assistance in a new "international development cooperation fund";

— Greater emphasis should be placed on U.S. participation in multilateral organizations;

— With respect to organizational issues, consideration should be

given to funding PVOs through an autonomous institution and eliminating some structures which have outlived their usefulness, such as IDCA, OPIC, and BIFAD;

— There is little chance that U.S. foreign assistance will be effective unless some solution to the Third World debt crisis is found; U.S. should consider following the Canadian/French/British example of either cancelling debts, reducing them, or turning them into development grants.

Committee on Foreign Affairs

July 22, 1988

Memorandum

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Vic Zangla

SUBJECT: Summary of response from Lawrence A. Pezzullo, Executive Director, Catholic Relief Services

In commenting on the future direction and organizational structure of U.S. foreign assistance programs, Mr. Pezzullo suggests:

- The U.S. should commit its fair share of resources for a more prosperous and peaceful world community. National interests would be enhanced by shunning narrow interpretations that support special interests in and out of government;
- Resources for relief and development should be used primarily to raise the level of poor people in poor countries and to enhance their dignity, self-reliance, and equity;
- The concept of development, in addition to material sufficiency, should include respect for human rights, individual freedoms to achieve full potential, and a regard for the environment;
- In addressing poverty, developed countries must integrate into a coherent policy their actions on foreign aid, including debt, trade, private investment, and technology transfer.

Role of Congress: Establish broad policy for U.S. relations with developing countries; determine levels of resources; exercise oversight; set priorities.

Multiple Objectives: Foreign aid legislation needs complete overhaul; it is a complex, confusing, and often conflicting jumble of priorities; distinguish purposes clearly and allocate resources accordingly.

Multiple Recipients: Number of countries and right mix of aid measures should be based on a country-by-country analysis including economic data, incidence of poverty, government commitment, role of other donors, and debt and trade problems; mixing political and development priorities results in aid package not always appropriate to countries' real needs.

Financial Constraints: U.S. political leaders have lowered priority

given to foreign aid and have diluted it by mixing it with military and related programs; leadership, clear purpose, credible delivery systems, and recognition that a prosperous world serves U.S. interests will elicit popular support for expanded aid programs.

Coordination: Donor coordination through consultation groups is increasing. Red tape in AID/PVO relationships has become alarming. Mandated audit and accounting procedures require as much or more time and effort as supporting projects; no clear leadership in policy and coordination among numerous U.S. agencies with responsibility for various aspects of U.S. relationships with LDCs; need clear policy giving priority to development aid and a mandate to enforce that policy among U.S. agencies involved.

Organizational Structure: Separate U.S. political and security interest accounts from those for humanitarian and long-term development.

Accountability: Maintain reasonable standards to assure integrity and credibility of the aid programs with the American people.

Constituency: The constituency exists, but has not been well-mobilized because the message has been jaded; need a high priority and a clearly stated rationale that prosperous world neighbors increase U.S. well-being and security.

Other: U.S. foreign aid strategy should include proper balance between bilateral and multilateral channels; shift more development resources toward multilateral institutions; pursue cost-effectiveness in international development institutions through U.S. participation; food aid is important and can supplement other resources; necessary logistic costs and non-food project inputs can be financed through dollar resources and U.S. generated local currencies.

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-225870

August 1, 1988

The Honorable Lee H. Hamilton
House of Representatives

Dear Mr. Hamilton:

This letter and its enclosures are our preliminary response to your request that we identify key issues relating to the foreign economic assistance program. We did not focus on the benefits derived from foreign economic assistance; rather, in response to your request, this letter discusses various problems we have found in our work over the years. Enclosure I provides background on the assistance program and enclosure II specific details on issues/problems.

Below are some of the more prominent bilateral assistance issues we identified.

- Assistance projects are often undermined by the failure of recipient governments to provide agreed counterpart funding and recurrent cost financing.
- The United States has had significant difficulties in effectively using food aid and Economic Support Fund assistance to achieve economic development and policy reform goals.
- Accountability and control over cash transfers and local currency programs, are not fully sufficient to ensure that assistance is used for intended purposes. Also, adequate attention is not given to the financial management deficiencies of recipients.
- The impact of U.S. assistance is eroded by the deteriorating international debt situation.
- Development assistance programs in narcotics producing and trafficking countries have not effectively contributed to narcotics reduction goals.
- Acquired Immune Deficiency Syndrome may have profound economic and social impacts on developing countries and may increase the demands for U.S. assistance.

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Our analysis also indicates that the Agency for International Development (AID) has encountered significant management problems in financial management, contracting, program budgeting, project planning, and monitoring. Management of critical programs is further complicated by AID's decentralized operations in numerous developing countries, the increased number of projects, and direct-hire staff limitations.

We believe several matters deserve congressional consideration. These center on ~~whether~~ policy makers should:

- Structure U.S. assistance more in line with the capability of recipients to support projects. Options include emphasizing projects which lessen the administrative and financial burden on recipients, stressing alternatives to project assistance, and making new and continued project funding contingent on recipient compliance with counterpart and recurrent cost funding agreements.
- Develop budget strategies that minimize the pipeline problem, explore alternatives to programming by functional accounts, and streamline reprogramming requirements.
- Focus AID programs on more manageable units by addressing the cost effectiveness of programs. Options include decreasing the total number of countries in which AID missions and field offices are located, concentrating AID resources and personnel on key countries and maintaining a limited in-country presence through U.S. embassy staff in other nations, and concentrating resources on a fewer number of larger projects and setting a minimum funding level per project.
- ~~Develop~~ an overall debt relief policy that determines (1) how much aid is needed, the U.S. share, and the most appropriate mechanisms, and (2) the role of private banks and how (if at all) such aid should be linked to official assistance.

Matters encompassing procedural, management, and operational changes in the bilateral program may be more easily addressed. Examples include accountability requirements for cash transfers and special accounts and

B-225870

providing adequate verification of transactions and audit coverage; developing a fully integrated AID financial management system; and reexamining AID contracting policies/procedures/practices to ensure equity, cost control, and program effectiveness.

In the multilateral assistance area, our analysis indicates the need (1) for better management of U.S. participation in international organizations, (2) to further strengthen internal evaluation systems and the Joint Inspection Unit of the United Nations, (3) to further strengthen the independent evaluation systems of the multilateral banks, and (4) for a reliable U.S. policy for assessed payments to the United Nations.

We hope that this analysis will help the committee in its consideration of the foreign aid program. We recognize that the committee is working with AID and others to see whether modifications to the legislative framework for foreign economic assistance are needed. If we can be of any assistance in this area, please let us know.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

Enclosures - 2

Committee on Foreign Affairs

September 8, 1988

MEMORANDUM

TO: The Honorable Lee H. Hamilton
The Honorable Benjamin A. Gilman

FROM: Margaret Goodman
Vic Zargla

SUBJECT: Members and Task Force Meeting with Stephen and Douglas Hellinger, coauthors of "Aid for Just Development" (1988), and their associate Addy Martin.

On August 9, 1988 Reps. Fασcell, Hamilton and Gilman joined in an informal discussion of foreign aid based largely on the Hellingers' book¹ and their conclusions and recommendations for redirecting and restructuring the U.S. foreign assistance program. (See attached outline) The Hellingers' findings and suggestions are based generally upon the premise of a development "gap" between the realities in the Third World and how these realities are seen among development agencies. The gap also relates to how development problems are viewed in Washington as compared to how they exist in the field. It is argued that the poor know what their needs are; that they have the capability to define and carry out their own development, but that they are seldom consulted and often ignored.

Citing ten years of extensive worldwide experience with the World Bank, AID, PVOs and other aid institutions, the Hellingers and their group say that U.S. foreign aid has been generally ineffective; has been used for short-term political, security and economic objectives at the expense of long-term development objectives; has been channelled through public and private entities that do not represent the poor; and has been subjected to an entrenched aid lobby that promotes special interests and obscures local realities in the less developed countries. They feel that fully engaging local populations in the development process can achieve not only equitable development but also social and political stability.

The group makes a number of proposals: It calls for a reconstituted, autonomous AID with a board of directors and a strictly development mandate; separation of political and security assistance from development aid; decentralizing most AID Washington functions to regional offices; reducing the AID budget to match the capacity of implementing organizations with funds limited to "do-able" projects and made available on a multi-year basis; eliminating functional accounts; reducing tied aid and U.S. contractors in

¹A summary of the book, dated July 12, 1988, has been provided to Committee members.

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favor of using more Third World expertise; establishing new Asian and Pacific development foundations; and establishing an autonomous public foundation for PVOs. The group has several suggestions involving the World Bank and other multilateral development banks such as working more with bilateral institutions and local poor people, and making Bank records and reports accessible to the public and Congress for oversight and accountability.

Mr. Hamilton commented on whether the United States is helping to cause instability in the Third World in light of what has been happening some places, such as land being taken away from people and services and wages being cut. Common people are becoming ever more anxious to get a stake in solving their problems. And perhaps the State Department and others would best serve U.S. interests if multiple purposes/objectives were separated from development assistance objectives. For example, balance of payments support and base rights payments in the Philippines might possibly be set out separately from development aid. An important task is to demonstrate why helping poor people is in the United States' interest and promotes growth, stability and pluralism.

Mr. Gilman cautioned against a development institution with so much independence that it might weaken the U.S. Government's position in promoting U.S. strategic and other interests abroad. At issue is demonstrating the kind of U.S. respect and concern for the rights and ambitions of other people that would produce results in terms of serving U.S. political interests.

Mr. Fascell, in addressing proposals for separate funding for PVOs, AID and other independent foundations, emphasized the need for careful structure and clear policies, for example, on how to relate to indigenous groups operating with limited administrative abilities; how to effectively engage the 70% of people in LDCs who are outside the economic mainstream; and how to deal with the elite and governments of LDCs. He noted that a restructured AID might be able to divest itself from much of the political content of ESF assistance; however the reality of how State and Congress would exercise guidance and oversight over an independent AID must be faced. Equally important would be the setting of criteria for the allocation of funds among relatively independent bodies—perhaps through boards of directors with U.S. Government representatives and with long-term Congressional policy guidance.

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THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, INC.

The Development GAP

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**OUTLINE OF PRESENTATION TO THE FOREIGN AFFAIRS COMMITTEE
ON RECOMMENDATIONS FOR REDIRECTING AND RESTRUCTURING
THE U.S. FOREIGN ASSISTANCE PROGRAM**

Background on The Development GAP

- * not-for-profit organization founded in 1977
- * purpose is to demonstrate practical alternatives in development assistance
- * have worked in 30 countries in Latin America, the Caribbean, Africa and the Middle East
- * have worked extensively with the World Bank, AID, PVOs, IAF, ADF and other aid institutions
- * have worked with government institutions, NGOs and grassroots organizations in the Third World
- * have worked extensively with Congress, particularly the Foreign Affairs Committee, on aid policy, the Caribbean, Africa, Central America, IAF, ADF, OPIC, etc.

Need for Fundamental Departure in Aid Policy and Organization

- * U.S. bilateral and multilateral aid has been generally ineffective in fostering development, whether its focus has been basic human needs or the private sector.
- * Aid has been used to promote short-term political, security and economic interests that are not necessarily consistent with long-term development objectives.
- * Attempting to achieve both sets of objectives through the same aid program has done justice to neither.
- * Most of our aid has been channeled through public and private organizations in the South that do not represent the poor or their interests and has thus fostered economic dualism, alienation and instability.
- * Far more can be done with less aid if that aid is channeled appropriately.
- * The local realities of aid and development in the South have been obscured by the well entrenched aid lobby that promotes special interests in the North.
- * The economic crisis among the Third World poor is reaching tragic proportions and is being exacerbated by structural adjustment policies and programs promoted by aid agencies.

- * Adherence to inappropriate development models has Third World countries forever looking outward for resources, markets and solutions to their development problems rather than building upon local resources and creativity.
- * The Third World poor have the knowledge and capabilities to define their own development, but they have seldom been consulted by policymakers and the aid community.
- * The full integration of local populations in the development process can yield equitable development and achieve the long-term objective of social and political stability.

Framework for a New Aid Approach

The following principles should guide a restructuring of the U.S. foreign aid program --

- * Participation of the poor through their own organizations and those that work closely with them: aid organizations should underwrite development activities undertaken and/or supported by Third World people rather than programs that ignore or undermine these efforts.
- * Responsiveness to ongoing development activity and to the evolution of effective development institutions: to be effective, the U.S. development assistance program must be restructured to respond to the evolving capacity and needs of local populations and of those local institutions that promote equitable development.
- * Autonomy of development assistance institutions from the pursuit of short-term U.S. political, security and economic objectives: to be able to respond to Third World needs and efforts, these institutions must be structurally and operationally independent.
- * Decentralization of decisionmaking responsibility: structural autonomy enables internal restructuring and decentralization that places responsibility predominately at the field level, where decisionmaking can be informed by local reality.
- * Consultation with local populations to ensure that local knowledge and realities are reflected prominently in aid and development plans and policies: structured consultation with representative Third World organizations would help make badly needed micro-macro linkages by ensuring that local perspectives are incorporated in development programming and policy planning, as well as in project financing.

Proposals for Restructuring U.S. Economic Assistance

- * AID should be reconstituted as a streamlined, internally decentralized, autonomous institution with a board of directors nominated by the President and with a strictly developmental mandate.
- * Political and security assistance should be separated legislatively and administratively from development aid and placed under the management of the State Department.
- * Most AID functions should be decentralized to overseas staff experienced in local-level development and located predominantly at country "cluster" offices and at provincial levels within countries.
- * Program aid should be provided to governments that have exhibited a commitment to equitable development, with project aid available in all countries to effective public and non-governmental organizations.
- * Development aid should be denied to all governments not promoting equitable development or not allowing the free functioning of popular organizations, and the State Department should deny political aid to those governments that do not permit the new AID to operate in their countries.
- * The AID budget should be reduced to match overseas funding with the absorptive capacity of effective implementing institutions and should receive appropriations on a multi-year basis, with the expenditure of unutilized funds permitted in subsequent years.
- * Functional accounts should be eliminated once an independent bilateral aid institution is established, tied aid should be reduced (so as not to skew local development), and U.S. consultants, contractors and researchers should in large part be replaced by more relevant Third World expertise.
- * The reconstituted AID should build on the smaller-scale funding, institution building and learning of the Inter-American Foundation, the African Development Foundation, a newly established Asian and Pacific Development Foundation, and the U.S. PVO community.
- * Congress should establish an autonomous public Foundation for Private and Voluntary Cooperation to enable PVOs to operate independently of AID, to regain their responsiveness to local-level initiatives overseas, and to gradually relinquish control over overseas operations to the many competent Third World NGOs

that have developed over the past two decades.

- * The World Bank (and the other multilateral development banks) should build upon the work of bilateral aid institutions in helping Third World countries to make a structural adjustment to greater economic diversification, integration and self-reliance.
- * The Bank should be made more responsive to local populations through internal changes related to the project cycle, reward systems and staffing, and through a reduction of its resource base that would reduce the pressure on staff for large-scale funding.
- * IDA funds should be redirected from the poorest countries to poor people and programs that address their needs in all countries in which the Bank lends.
- * The records and reports of the Bank should be made accessible to the public and Congress so as to facilitate oversight, accountability and public discourse on Bank policies.
- * The structuring of a more autonomous development aid program through the enactment of a short and unambiguous development assistance mandate would enable Congress to limit its direct involvement to its appropriations function, to a review of annual reporting on adherence to that mandate and to intermittent field reviews of selected programs and projects.



FCNL
FEDERAL COMMITTEE ON NATIONAL LEGISLATION

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January 18, 1989

The Honorable Benjamin Gilman
Committee on Foreign Affairs
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Lee H. Hamilton
Committee on Foreign Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Representatives Gilman and Hamilton:

As you prepare your report to the Committee on Foreign Affairs on the findings of the Task Force concerning the future direction and organizational structure of the U.S. foreign assistance program, we would like to share the results of our own inquiry.

On November 18, FCNL convened a forum on U.S. foreign aid, in which members of the environmental, population, religious, and development communities as well as staff of the Task Force and the Foreign Affairs committee addressed the question, "Is there a common vision for a revamped foreign aid bill?" From the discussion that afternoon and later, several points became clear to us. In particular, we hope you will take seriously the promise of:

1) Humanitarian and development aid separated legislatively, in different bills and not just under separate titles, from military and security aid. It remains open to question whether this separation entails a risk of cutting back humanitarian and development aid, but on the principle that development requires a clear and separate mandate, we believe that it must be tried.

2) Redirected aid. The bulk of U.S. bilateral aid is currently concentrated on a few strategic allies, primarily in the Middle East. U.S. foreign aid should be directed to the reality of the world situation, particularly the needs of the poorest. Our national security interests are best served when U.S. foreign aid promotes Third World self-determination and self-reliance through a process of participatory, equitable and sustainable development.

3) More grassroots participation in U.S. development assistance efforts, in particular the participation of southern or Third World grassroots, municipal and non-governmental organizations in the design, implementation and evaluation of projects, programs and policy. People at the grassroots level are an invaluable resource of local knowledge necessary for successful development. Furthermore, the right of all people to participate in the decisions that affect their lives and their economic, social and political reality is central to the process of development, of democracy and of global peace and justice.

Olive Wilson Clerk, General Committee
Ruth Flower Legislative Secretary
Alison D. Oldham Legislative Action Coordinator

Mark Hulbert Clerk, Executive Committee
Nancy C. Alexander Legislative Secretary
David M. Boynton Associate Secretary for Administration

Edward F. Snyder Executive Secretary
Cindy Darcy Legislative Secretary
Dennis R. O'Brien Development Secretary

4) A balance between inward and outward orientation of economies. Current U.S. development assistance relies to an inappropriate degree on an export-led model of development. Theoretically, the export strategy earns foreign exchange for capital development. In practice, such a strategy makes a country vulnerable to fluctuating commodity prices. In the current environment of staggering Third World debt, countries are exporting their capital to pay debt service and interest rather than investing it to meet domestic needs. Debt- and development-driven export production for those countries dependent on agricultural and extractive resource production too often degrades the natural resource base and supplants production of food for local production and basic nutritional needs. Agricultural self-reliance should be a top priority in the development goals of U.S. foreign assistance.

5) The need to address the urgency of environment and population issues, within the context of development. Three-quarters of the world's people live in the Third World, pushed to the edge of existence. U.S. foreign aid should support a self-sustaining development process defined by local populations, rooted in the availability of productive land for subsistence farmers and in the protection and restoration of the natural resource base.

6) A reversal in policy-based lending trends. We feel that it is inappropriate for AID to engage in macroeconomic support. In our view, it has neither the staff nor the resource capacity to do so, nor is that an appropriate function for a bilateral agency. At the very least, Congress must adopt clear guidelines for policy-based lending, that emphasize long-term regeneration of economies. The guidelines for policy-based lending should be the same as those for project lending and should emphasize human welfare, environmental protection, food production, and economic diversification. To date, policy-based funding in the form of structural and sectoral adjustment programs has at times inappropriately promoted export-oriented production, often adversely affected the poorest of the poor, and neglected to involve local populations in the adjustment programs.

7) U.S. development assistance that is less directly tied to foreign policy. It must be managed through a more autonomous structure, an AID that is reorganized and institutionally autonomous from the Department of State.

8) Maintaining essential accountability regulations. The difficulties with congressional micro-management of development assistance through earmarking and accountability reporting procedures have been discussed. While red tape and resources spent on useless accountability procedures must be cut back, we must maintain some accountability in a range of areas such as local participation in all aspects of development aid, and women in development.

It is our sense that these are the principles held in common by much of the NGO community. We are anxious to hear your thinking on the points presented above, and are interested in your views on how they could be integrated into your report to the Administration and the full Committee on Foreign Affairs. Thank you for your attention.

Sincerely,



Nancy Alexander

CRS REPORT FOR CONGRESS

AN OVERVIEW OF U.S. FOREIGN AID PROGRAMS

**Prepared for the Subcommittee on Foreign Operations
Committee on Appropriations
U.S. House of Representatives**

**Stanley J. Heginbotham
Senior Specialist in American Foreign Policy**

**updated and revised by
Larry Q. Nowels
Specialist in Foreign Affairs
Foreign Affairs and National Defense Division
March 30, 1988**

ABSTRACT

Since 1946, Congress has obligated the equivalent in FY 1989 dollars of \$966 billion of foreign aid. This report provides a broad overview of where that aid has gone, both by region and by program. It also explores briefly the original rationale for foreign aid, how that rationale changed and became more ambiguous, and how disillusionment with early aid efforts led to changes in the character, scope, and mix of our aid programs.

ACKNOWLEDGMENT

This report is based on a briefing that was presented to the Foreign Operations Subcommittee of the House Committee on Appropriations on March 9, 1988. The Congressional Research Service (CRS) and the authors appreciate the permission of the Subcommittee to have it revised and presented as a CRS Report.

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AN OVERVIEW OF U.S. FOREIGN AID PROGRAMS

INTRODUCTION

This report summarizes some major issues and trends in the history of post-World War II U.S. foreign aid. Its purpose is to show--and explain--some of the major patterns and issues in the evolution of U.S. aid programs: their beginnings in Europe, the shift in focus to Asia, the major problems that arose, and the major changes in programs that were instituted in response to those problems. As a way of illustrating these patterns, the report will show how U.S. budgetary obligations have shifted across regions, by major program, and as a percent of our national wealth. The report is designed to provide perspective on, and sharpen the focus of, the dilemmas and challenges that Congress faces in reviewing current aid proposals.

ORIGINS OF POST WORLD WAR II FOREIGN AID: THE MARSHALL PLAN

First, how did it get started? Modern peacetime foreign aid began with massive assistance to the countries of Western Europe following World War II. In the years between 1947 and 1953, the value of that aid, in real terms, was greater than the total annual amount of our subsequent aid to developing countries in all but a couple of peak years. There are three things that are important to remember about this aid:

First: part of the motive for giving the aid was humanitarian and part was to contain communism. We were very much concerned at the time about the rising strength of communist parties in Western Europe. We believed that

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poverty and hopelessness bred communism; that growth and prosperity were the best antidotes to communism.

Second, this was an enormously successful foreign aid story. It showed that large-scale infusions of money and commodities could, under the right circumstances, produce growth and, it seemed, retard the spread of communism.

Third, this success was achieved in societies that had already developed the traditions, institutions, and skills necessary to produce sustained economic growth. They needed, primarily, resources for rebuilding.

THE ASIAN FOCUS: ATTEMPT TO REPLICATE SUCCESS OF MARSHALL PLAN

Where did foreign aid go after the Marshall Plan? To Asia primarily. As the scale of the threat posed by the Sino-Soviet communist bloc became clear, as the Korean War brought home to Americans the communist threat in Asia, and as the economic and security problems of emerging nations became more obvious, policymakers saw the replication of a Marshall Plan-type of strategy in Asia as an important instrument for protecting first Korea, Taiwan, and Indochina, and subsequently other Asian countries, against the expansion and infiltration of communism.

Three features of this phase of our foreign aid merit special attention:

First: Although the United States did not fully recognize the significance of the fact at the time, most of these countries had not already developed the organizational, educational and cultural infrastructure of development. Rather, they needed to undergo significant--and often slow and painful--change before economic growth and competitive politics would be possible.

Second: The threats to these countries seemed to be not only economic, but military as well. Communism was seen as expanding not only through

domestic political movements, but also through guerrilla-type insurgencies and large scale military actions. Thus, we saw the need for both economic and a growing amount of military assistance.

Third: By the late 1950s, we decided that, if our economic aid was to be persuasive in the struggle to reduce the appeal of communism, it would have to appear to be motivated by a disinterested concern for promoting growth in Asian countries, not by an American national security concern for containing communism.

TWO KEY PROBLEMS WITH SUBSEQUENT AID

These three features of foreign aid in the 1950s and early 1960s are important because they help to explain two major aspects of our subsequent aid program--confusion over the goals of the program, and disillusionment with its results.

Confusion Over Goals

As part of the strategy to counter communism on the Sino-Soviet periphery, the United States set up separate institutions to promote economic development. Those institutions, however, acquired legitimacy and constituencies of their own. They were originally designed to support economic development as a means to the end of countering the spread of communism. Once established, however, they attracted supporters who argued that we really should be supporting economic development for economic development's sake not only out of humanitarian concerns but also because, in the long run, everyone would benefit from a more developed world. We became confused, in short, by our own rhetoric. Opinion became increasingly divided as to whether support for development should be a means of containing communism or an end in itself.

Disillusionment

Americans--and Congress especially--quickly became disillusioned with foreign aid. This disillusionment spread and deepened over two decades, reaching its peak with the fall of Vietnam, where massive infusions of military aid, development assistance, and budget support were unable to promote stable and effective government or sustained economic growth, let alone provide a successful antidote to communist subversion and expansion. Why this sense of false expectation and subsequent disillusionment?

Primarily, it was because we expected foreign aid to work in Asia and subsequently in Latin America and the Middle East much as it had worked in Western Europe. Many believed that just as Western Europe had been thrown off course by World War II, Asia had been thrown off course by colonialism. They expected that our infusions of money, military support, and technical assistance, would get the new nations of Asia on their feet and able to withstand communism in only a few more years than it had taken the nations of Western Europe.

We are still coming to terms with just how wrong we were in those expectations. We are still learning just how much is involved in building the institutions, the leadership, the knowledge, and the personal beliefs that are necessary to sustain economic growth in societies with even moderate levels of political freedom.

The disillusionment had three major aspects to it:

First: whereas in Europe our aid seemed to help the people, in the under-developed world it seemed to help government leaders, often at the apparent expense of the people. We seemed to be keeping the corrupt and repressive in power by facilitating their corruption and repression.

Second, whereas in Europe our aid produced dramatic results within 5 or 6 years, in the underdeveloped world it long seemed to have little, if any, positive effects. We didn't see dramatic growth or the eradication of poverty in the short-term.

Third, whereas in Europe our aid was received with appreciation, in the underdeveloped world the reaction seemed to be suspicion about our motives, vocal criticism of our economic system, and anti-Americanism in international organizations.

RESULTING EVOLUTION IN FOREIGN AID

A number of major changes in our foreign aid programs since the mid-1950s can be understood as reactions to these aspects of our national disillusionment with foreign aid.

First, our major military, development, and commodity aid programs have been subjected to increasingly rigorous and detailed restrictions as Congress and the executive branch have tried to stem the use of aid to promote repression, corruption, and the enrichment of the already privileged.

Second, we have seen a succession of theories about how development works. Each new theory served, in part at least, to support arguments that the absence of dramatic results from past aid efforts was the product of deficient theory; that a new approach based on new theory would be more effective. An initial faith in financial transfers rapidly gave way to a focus on technical assistance, which gave way to emphasis on institution-building. All of these approaches assumed that the benefits of aid would trickle down from those with capital and entrepreneurial spirit to the poor and dispossessed. This assumption was subsequently rejected and replaced by "New Directions" programs, based on theory that called for targeting aid directly to benefit the poor and

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dispossessed. Under the Reagan Administration, attention has returned to efforts to promote macroeconomic policies aimed at encouraging private initiatives and promote economic growth.

Third, we saw a major shift away from grant military aid toward greater reliance on foreign military cash and credit arms sales in response to the argument that recipient countries should have become able to provide for their own defense. In more recent years, as recipients of American security aid have faced increasingly difficult debt problems, U.S. military assistance has once again swung back to emphasize grant aid.

Fourth, we have seen a very substantial long-term decline in overall aid levels relative to our national wealth.

REEVALUATION OF RESULTS OF EARLY AID EXPERIENCE

One final word on disillusionment. We are now in a period of reevaluation. It seems clear that our time horizons for assessing impact of aid was too short. From the perspective of 25 years, security and economic situations in a number of Southeast Asia and East Asian countries have dramatically improved from what they were in the late 1950s. That said, of course, it is not clear how much of that improvement was the result of our aid. Nor is it clear whether the returns on our aid justify the cost. This exercise makes it abundantly clear, however, as we look at problems of aid to countries in Africa, that there are no quick or easy solutions to the pervasive underdevelopment in much of that continent.

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BUDGETARY TRENDS

The trends and themes developed above can be graphically summarized in budgetary terms through charts showing regional patterns, programmatic patterns, and obligations as a share of the U.S. Gross National Product (GNP).¹

Evolution of Aid Programs Across Regions

Chart I (next page) shows the evolution of U.S. post-war aid obligations across regions of the world. In this chart, aid amounts are adjusted for inflation and expressed in terms of the real value of 1989 dollars.

You can see clearly the early emphasis on western Europe, where aid peaked at an average of about \$28 billion per year--in 1989 dollar equivalents--in 1950 and 1951. Aid for Europe shifted toward Greece and Turkey in the 1950s, countries that again began to receive greater emphasis in the 1980s.

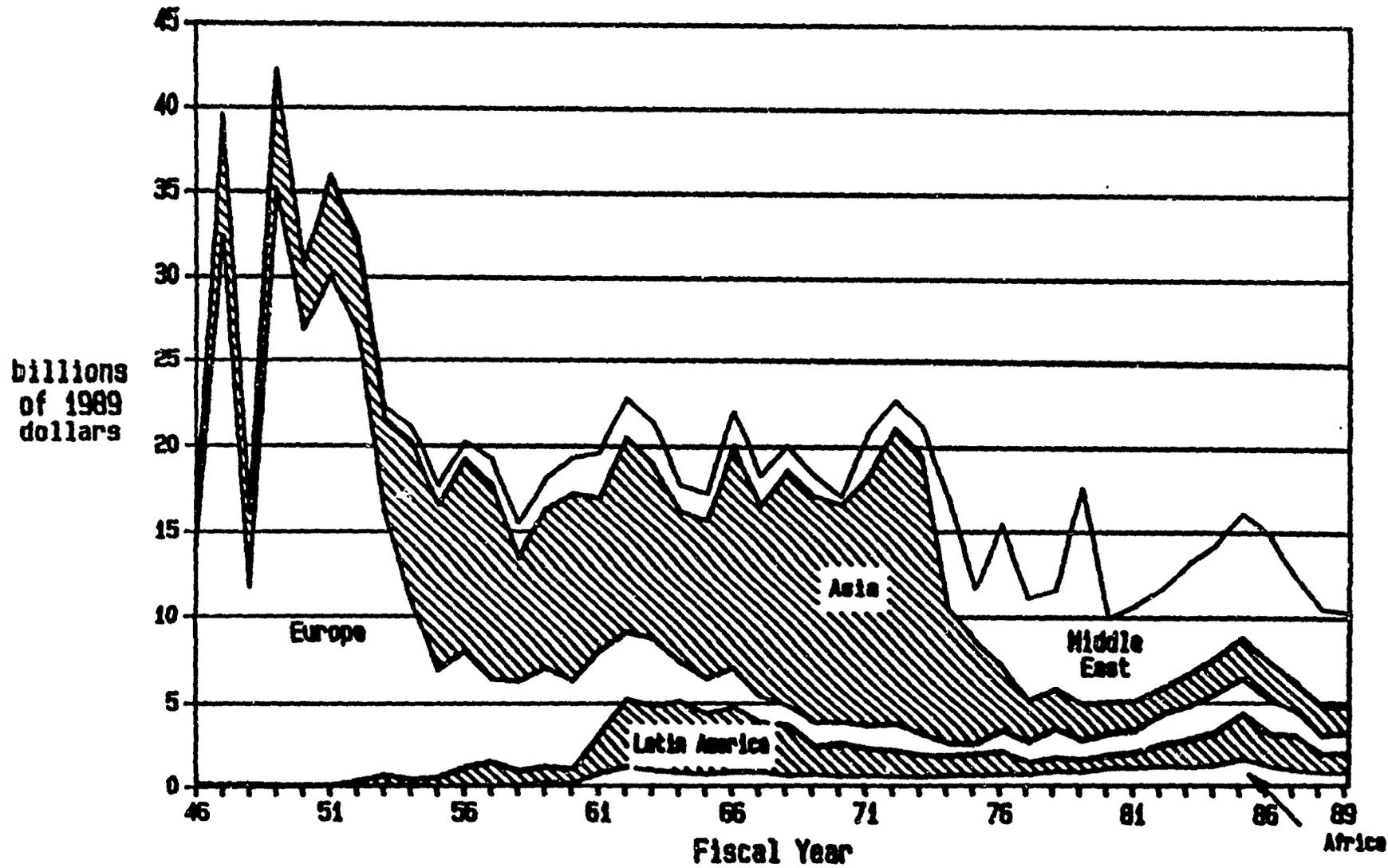
Chart I also shows that the major growth in aid to Asia occurs in the 1954-1975 period, reaching a peak in the early 1970s, with an abrupt fall-off after Vietnam.

The Middle East was a modest recipient until 1972-73. By 1976-77, however, it replaced Asia as the largest recipient, which it remains to this day. Following the 1978 Camp David Accords, aid to Israel and Egypt became a major factor in the United States aid program.

¹Data illustrated in these charts are drawn from a CRS-maintained U.S. foreign assistance data base.

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Chart I
U.S. FOREIGN AID, 1946-89, BY REGION



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We hear a great deal about Africa and Latin America, but Chart I shows dramatically the relatively small roles that both have played as aid recipients. The growth spurt in aid to Latin America associated with the Alliance for Progress in the 1962-67 period is evident, as is the reemergence of aid to Central America in the 1980s. The 40 percent reduction between fiscal years 1985 and 1988 resulted from increasing U.S. budget deficit pressure. Aid to Africa, which had begun to grow in 1976, also suffered a major cutback--a 55 percent decline between fiscal years 1985 and 1988.

An analysis of the real value of the total aid over 44 years shows three major periods that roughly correspond to the shifts in regional emphasis. Chart II (next page) displays these figures. Expressed in 1989 dollars, U.S. total assistance:

- averaged about \$32 billion per year between 1946 and 1952 when Europe was the dominant recipient;
- averaged about \$22 billion per year between 1953 and 1974 when Asian countries were the major focus of aid; and
- averaged about \$17 billion per year since 1974, while Middle Eastern countries--and primarily Israel and Egypt--have been the primary recipients.

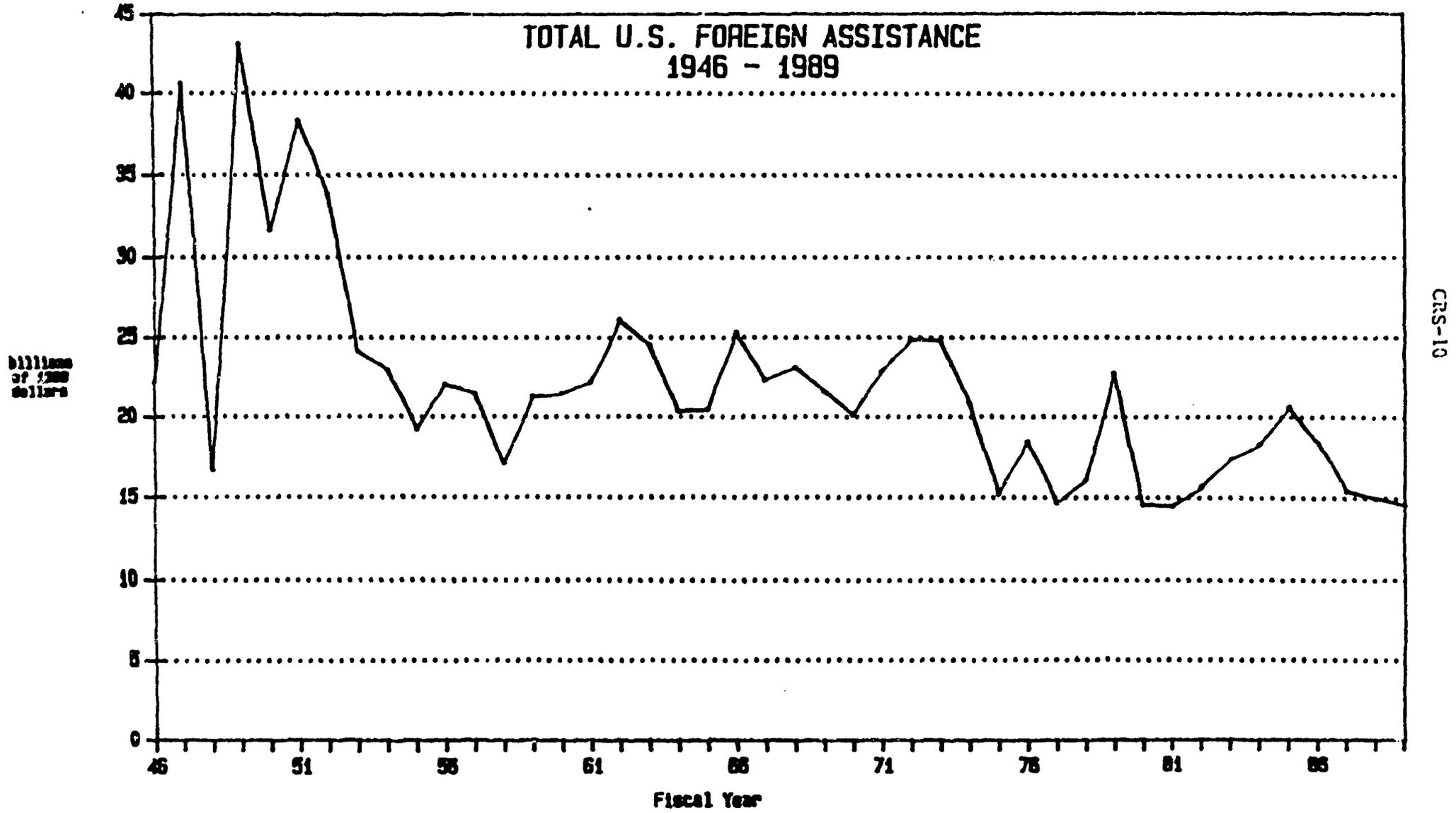
Beyond this, however, and apart from any shift in regional concentration, the extreme budget problems of the past few years have pushed average foreign aid obligations down to about \$15 billion per year since 1986.

Evolution of Aid by Major Programs

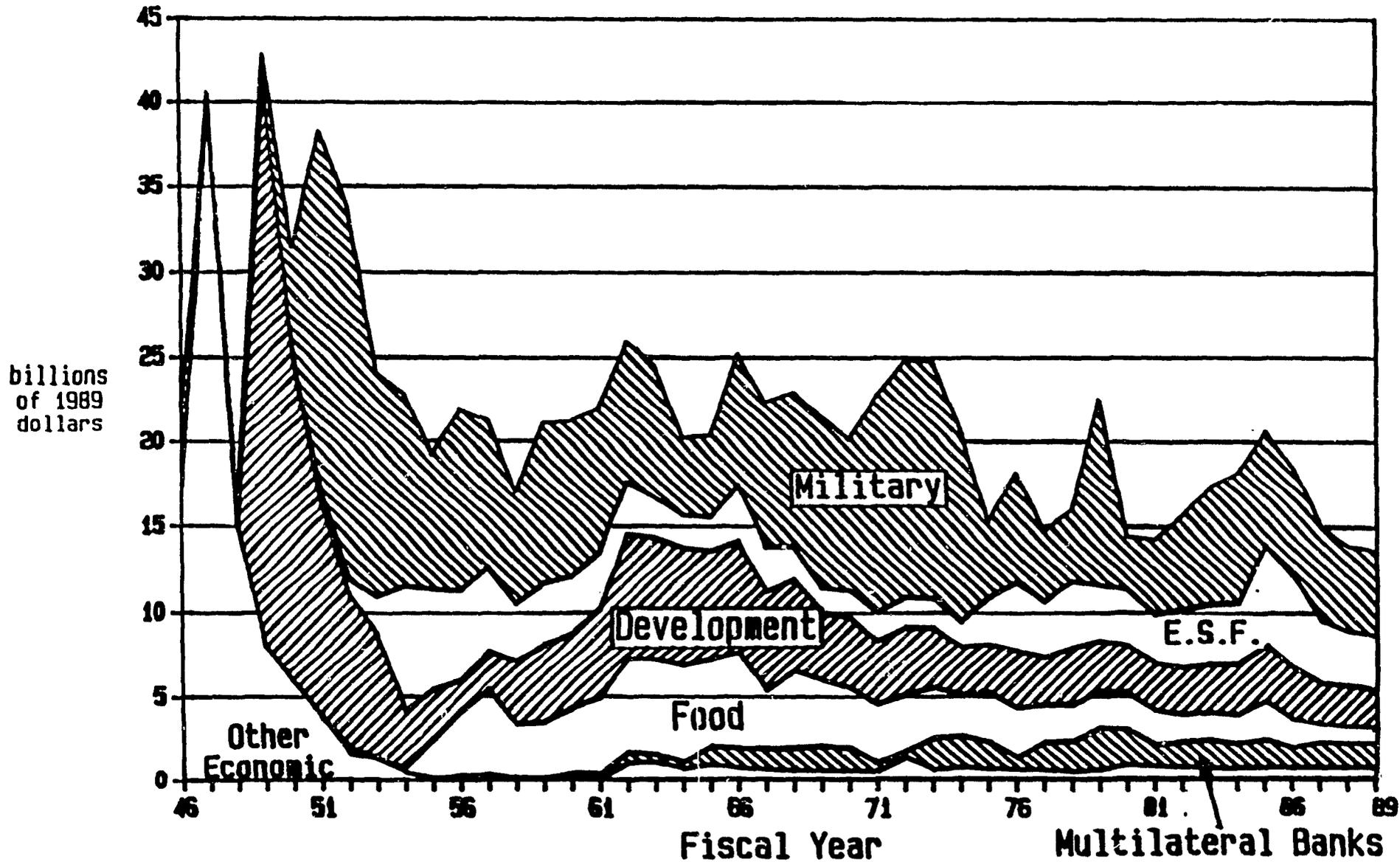
Chart III shows the major program components of this aid.

First, development aid was a major component of Marshall Plan aid, but declined in significance during the focus on security assistance in Asia in the mid-1950s. Development funding reached its peak in 1964-65 when it appealed both as a means of containing communism and as an end in itself, but declined as disillusionment with aid set in.

Chart II



U.S. FOREIGN AID, 1946-89, BY MAJOR PROGRAM



Food aid emerged as an important aid mechanism in the mid-1950s, peaking during 1962-63. The subsequent decline was even more dramatic than is apparent from the chart because steep increases in grain prices combined with lower aid levels to produce major declines in the amount of food that was transferred under this program.

Multilateral aid emerged in the early 1960s in conjunction with the "development for development's sake" view, but has never become a dominant feature in American aid.

The Economic Support Fund (ESF) and its precursor programs were substantial in the mid-1950s, but declined during the 1960s and early 1970s. ESF began to reemerge in the late 1970s as one of the few programs that can provide flexible and timely aid in support of national security goals. Israel, Egypt, Pakistan and countries of Central America are now the major recipients, but ESF is now used to provide general purpose aid to a large number of countries.

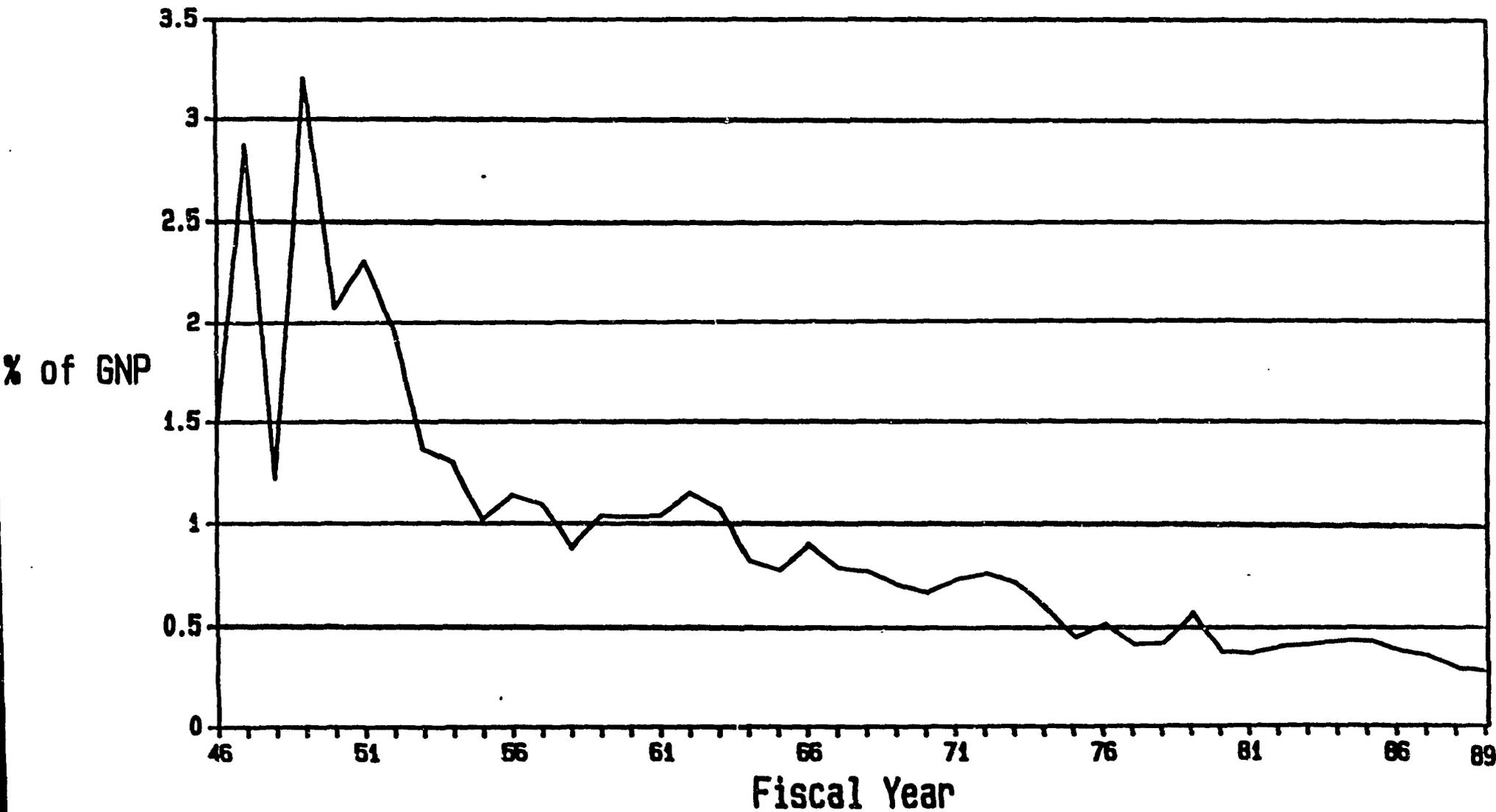
Finally, the real value of military aid has been relatively constant and has been the largest aid category during much of the post war period. Peaks appear in the early 1950s because of Greece, Taiwan, and Korea; and in the early 1970s because of Vietnam. Following a low point in 1980, it again began to grow, peaking in 1985, and falling back since.

Aid as a Percent of Gross National Product: Steady Decline Between 1951 and 1981

The final image, Chart IV (next page), plots annual obligations of foreign aid as a share of United States GNP. This is a useful indicator of national commitment to foreign aid. Aid in the late 1940s, which went primarily to Europe, ran between 2 and 3 percent of the GNP. The late 1950s saw aid at about 1 percent of GNP. The effects of disillusionment are clearly

Chart IV

U.S. FOREIGN AID, AS A % OF GNP, FY46-89



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evident in the progressive decline of aid spending as a percent of GNP over the next 20 years to a low of approximately three-tenths of one percent in 1989.

Issues for the Future

This historical overview of U.S. foreign aid provides a useful perspective on a number of the major aid issues facing Congress as it considers current aid budgets.

First is overall levels of aid. The pressures that produced the Gramm-Rudman-Hollings Act have, as this survey shows, brought aid levels, in real terms, down almost as low as they have been in the history of the foreign aid program, and have set new lows in spending relative to national wealth. The past 3 years also suggest that further real cuts in aid levels would almost inevitably be distributed inequitably among recipient countries. It would again be very hard to avoid significant cuts in program levels for many countries since funding for Israel, Egypt, and several other countries that are deemed of special importance to the United States almost certainly will be protected from cuts. Policymakers are likely to continue to confront the question: to what extent does a falling foreign aid budget, particularly as it affects those recipients not protected by earmarks, jeopardize key U.S. foreign policy interests?

Second is the relative program composition of foreign aid. Recent trends have been toward using aid to advance near-term foreign policy goals and this has produced growing emphasis on military aid and ESF. In the case of ESF, the program offers the administration great flexibility and timeliness in its use. It is not clear, however, whether the various purposes to which ESF money is being put are best achieved through this program nor whether the appropriate degree of accountability can be maintained. Some observers are asking: how

can aid resources best be distributed among all programs to address both short-term and long-term American objectives?

Third is the appropriate mix of goals for aid programs. The focus on containing communism through military and development aid has clearly waned as an articulated goal of U.S. aid policy. Promoting Middle East peace, securing base rights, and promoting regional stability through small grants to large numbers of countries have become important rationales for aid activities. The significance and function of developmental aid in this context has become increasingly unclear. How the U.S. should focus, refine, and prioritize these multiple, and at times competing, goals supported with foreign assistance is an important question for the future.

And fourth is the guiding strategy for developmental assistance. The 1975³ "New Directions" legislation, which calls for aid directly to the poor, remains on the books, and has not been formally replaced with a new strategy. But the thrust of the Reagan Administration's four pillars has been toward macroeconomic growth. The extent to which aid resources should focus on promoting growth through reliance on private entrepreneurship and market mechanisms as opposed to strengthening the resources of the dispossessed remains a key issue for debate. With the coming of a new Administration in 1989, many are asking: is it time to reassess development aid legislation and to re-state the fundamental policy guidance language that now seems to contain inconsistencies and contradictions?

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APPENDIX

TABLES OF FOREIGN AID OBLIGATIONS
1946-1989

(These data are drawn from a CRS-maintained
foreign aid data base.)

TABLE I. U.S. Foreign Aid, 1946-1989, by Major Regions
(in billions of constant 1989 dollars)

| Year | Europe | Asia | Mid-East | Africa | Latin America | Total |
|------------|--------|-------|----------|--------|---------------|-------|
| 1946 | 13.9 | 2.4 | .1 | .1 | .2 | 16.7 |
| 1947 | 32.3 | 7.0 | .1 | -- | .1 | 39.5 |
| 1948 | 11.7 | 4.2 | -- | -- | .2 | 16.1 |
| 1949 | 35.1 | 7.0 | -- | -- | .1 | 42.2 |
| 1950 | 26.9 | 3.6 | .1 | -- | .1 | 30.7 |
| 1951 | 30.0 | 5.8 | .1 | -- | .1 | 36.0 |
| 1952 | 26.6 | 4.9 | .7 | -- | .4 | 32.6 |
| 1953 | 15.5 | 5.6 | .7 | .1 | .6 | 22.5 |
| 1954 | 10.5 | 9.2 | 1.1 | .2 | .3 | 21.3 |
| 1955 | 6.4 | 9.7 | 1.2 | .1 | .6 | 18.0 |
| 1956 | 6.8 | 11.2 | 1.0 | .1 | 1.2 | 20.3 |
| 1957 | 4.9 | 11.4 | 1.5 | .1 | 1.4 | 19.3 |
| 1958 | 5.4 | 7.1 | 2.2 | .1 | .9 | 15.7 |
| 1959 | 5.9 | 9.2 | 1.9 | .3 | .9 | 18.2 |
| 1960 | 5.3 | 11.0 | 2.1 | .2 | .9 | 19.5 |
| 1961 | 5.1 | 9.0 | 2.6 | .9 | 2.1 | 19.7 |
| 1962 | 3.9 | 11.4 | 2.6 | 1.3 | 3.9 | 23.1 |
| 1963 | 4.0 | 10.2 | 2.6 | 1.1 | 3.7 | 21.6 |
| 1964 | 2.4 | 8.8 | 1.6 | .9 | 4.2 | 17.9 |
| 1965 | 2.3 | 9.1 | 1.8 | .8 | 3.4 | 17.4 |
| 1966 | 2.4 | 12.9 | 2.2 | 1.1 | 3.7 | 22.3 |
| 1967 | 1.7 | 11.2 | 1.8 | 1.2 | 2.7 | 18.6 |
| 1968 | 1.3 | 13.8 | 1.4 | .7 | 2.9 | 20.1 |
| 1969 | 1.3 | 13.5 | 1.3 | .8 | 1.6 | 18.5 |
| 1970 | 1.2 | 12.9 | .6 | .7 | 1.9 | 17.3 |
| 1971 | 1.2 | 14.8 | 2.5 | .7 | 1.6 | 20.8 |
| 1972 | 1.5 | 17.4 | 1.9 | .7 | 1.6 | 23.1 |
| 1973 | 1.1 | 16.4 | 1.8 | .6 | 1.4 | 21.3 |
| 1974 | .7 | 7.8 | 6.7 | .7 | 1.2 | 17.1 |
| 1975 | .6 | 6.1 | 3.1 | .8 | 1.3 | 11.9 |
| 1976 | .5 | 3.1 | 6.2 | .6 | 1.1 | 11.5 |
| 1976TQ | .6 | .9 | 2.0 | .2 | .3 | 4.0 |
| 1977 | 1.2 | 2.4 | 6.0 | .8 | .6 | 11.0 |
| 1978 | 1.6 | 2.4 | 5.8 | 1.0 | .8 | 11.6 |
| 1979 | 1.1 | 2.1 | 12.9 | .9 | .8 | 17.8 |
| 1980 | 1.2 | 1.8 | 4.9 | 1.2 | .8 | 9.9 |
| 1981 | 1.2 | 1.7 | 5.6 | 1.2 | .9 | 10.6 |
| 1982 | 1.7 | 1.7 | 5.8 | 1.4 | 1.3 | 11.9 |
| 1983 | 1.9 | 2.0 | 6.6 | 1.3 | 1.6 | 13.4 |
| 1984 | 2.3 | 2.2 | 6.6 | 1.4 | 1.8 | 14.3 |
| 1985 | 2.3 | 2.3 | 7.3 | 1.8 | 2.5 | 16.2 |
| 1986 | 2.0 | 2.4 | 7.4 | 1.3 | 1.9 | 15.0 |
| 1987 | 1.3 | 1.9 | 6.2 | 1.0 | 2.1 | 12.5 |
| 1988 (est) | 1.1 | 1.5 | 5.8 | .8 | 1.2 | 10.4 |
| 1989 (req) | 1.1 | 1.4 | 5.6 | .8 | 1.3 | 10.2 |
| Total | 289.0 | 314.4 | 142.7 | 30.0 | 64.2 | 840.3 |

TABLE II. U.S. Foreign Aid, 1946-1989, by Major Programs
(in billions of constant 1989 dollars)

| Year | Development Assistance | Food Aid | Other Economic Aid | Multi-lateral Development Banks | Economic Support Fund | Military Aid | Total |
|------------|------------------------|----------|--------------------|---------------------------------|-----------------------|--------------|-------|
| 1946 | -- | -- | 17.6 | 4.6 | -- | -- | 22.2 |
| 1947 | -- | -- | 39.6 | -- | -- | 1.0 | 40.6 |
| 1948 | -- | -- | 15.1 | -- | -- | 1.7 | 16.8 |
| 1949 | 33.3 | -- | 8.2 | -- | -- | 1.6 | 43.1 |
| 1950 | 19.3 | -- | 6.0 | -- | -- | 6.3 | 31.6 |
| 1951 | 12.5 | -- | 3.9 | -- | .8 | 21.2 | 38.4 |
| 1952 | 8.9 | .4 | 1.7 | -- | 1.0 | 21.9 | 33.9 |
| 1953 | 7.4 | -- | 1.4 | -- | 2.1 | 13.3 | 24.2 |
| 1954 | 3.4 | .3 | .5 | -- | 7.4 | 11.4 | 23.0 |
| 1955 | 2.8 | 2.5 | .1 | -- | 6.0 | 7.9 | 19.3 |
| 1956 | 1.7 | 4.0 | .2 | -- | 5.3 | 10.8 | 22.0 |
| 1957 | 2.3 | 5.1 | .2 | .2 | 5.0 | 8.6 | 21.4 |
| 1958 | 3.7 | 3.4 | .1 | -- | 3.4 | 6.6 | 17.2 |
| 1959 | 4.5 | 3.5 | .1 | -- | 3.6 | 9.5 | 21.2 |
| 1960 | 4.4 | 4.0 | .1 | .3 | 3.4 | 9.2 | 21.4 |
| 1961 | 5.2 | 4.6 | .1 | .3 | 3.4 | 8.5 | 22.1 |
| 1962 | 7.2 | 5.6 | 1.1 | .7 | 3.2 | 8.2 | 26.0 |
| 1963 | 7.1 | 5.6 | 1.1 | .5 | 2.4 | 7.9 | 24.6 |
| 1964 | 7.0 | 5.8 | .7 | .4 | 1.8 | 4.6 | 20.3 |
| 1965 | 6.4 | 5.1 | 1.0 | 1.2 | 1.8 | 4.9 | 20.4 |
| 1966 | 6.5 | 5.7 | .7 | 1.3 | 3.3 | 7.8 | 25.3 |
| 1967 | 5.8 | 3.4 | .6 | 1.3 | 2.7 | 8.5 | 22.2 |
| 1968 | 5.4 | 4.5 | .6 | 1.4 | 2.1 | 9.1 | 23.1 |
| 1969 | 4.0 | 3.8 | .6 | 1.6 | 1.4 | 10.1 | 21.5 |
| 1970 | 4.2 | 3.5 | .5 | 1.5 | 1.5 | 8.9 | 20.1 |
| 1971 | 3.7 | 3.6 | .5 | .5 | 1.7 | 12.8 | 22.8 |
| 1972 | 4.0 | 3.4 | 1.4 | .4 | 1.7 | 14.0 | 24.9 |
| 1973 | 3.6 | 2.9 | .6 | 2.0 | 1.6 | 14.1 | 24.8 |
| 1974 | 2.8 | 2.4 | .8 | 2.0 | 1.6 | 11.2 | 20.8 |
| 1975 | 2.9 | 2.9 | .6 | 1.7 | 2.7 | 4.4 | 15.2 |
| 1976 | 2.5 | 2.7 | .5 | .1 | 2.3 | 5.2 | 13.3 |
| 1976TQ | .8 | .4 | .7 | .7 | 1.8 | 1.3 | 5.2 |
| 1977 | 2.7 | 2.3 | .5 | 1.8 | 3.3 | 4.1 | 14.7 |
| 1978 | 3.3 | 2.2 | .4 | 2.0 | 3.9 | 4.2 | 16.0 |
| 1979 | 3.0 | 2.1 | .6 | 2.7 | 3.2 | 11.0 | 22.6 |
| 1980 | 2.8 | 2.2 | .9 | 2.2 | 3.3 | 3.2 | 14.6 |
| 1981 | 2.7 | 2.1 | .8 | 1.3 | 3.0 | 4.6 | 14.5 |
| 1982 | 2.6 | 1.7 | .7 | 1.6 | 3.5 | 5.5 | 15.6 |
| 1983 | 2.7 | 1.7 | .6 | 1.8 | 3.6 | 6.9 | 17.3 |
| 1984 | 2.9 | 1.8 | .6 | 1.6 | 3.7 | 7.7 | 18.3 |
| 1985 | 3.2 | 2.3 | .7 | 1.8 | 6.0 | 6.6 | 20.6 |
| 1986 | 2.9 | 1.8 | .6 | 1.3 | 5.4 | 6.4 | 18.4 |
| 1987 | 2.7 | 1.6 | .7 | 1.3 | 4.2 | 5.5 | 16.0 |
| 1988 (est) | 2.6 | 1.6 | .7 | 1.3 | 3.4 | 5.6 | 15.2 |
| 1989 (req) | 2.4 | 1.4 | .6 | 1.3 | 3.3 | 5.7 | 14.7 |
| | 219.8 | 113.9 | 114.8 | 44.7 | 123.8 | 349.5 | 966.2 |

TABLE III. U.S. Foreign Aid, 1946-1989
Distribution Among Development, ESF-Type, and Military Programs

| Year | Developmental Type Aid | ESF and Its Precursors | Military Aid |
|------------|---------------------------|---------------------------|-----------------|
| 1946 | 100.0% | | |
| 1947 | 97.5% | | 2.5% |
| 1948 | 89.9% | | 10.1% |
| 1949 | 96.3% | | 3.7% |
| 1950 | 80.1% | | 19.9% |
| 1951 | 42.7% | 2.1% | 55.2% |
| 1952 | 32.5% | 2.9% | 64.6% |
| 1953 | 36.4% | 8.7% | 54.9% |
| 1954 | 18.3% | 32.1% | 49.6% |
| 1955 | 28.1% | 31.0% | 40.9% |
| 1956 | 26.8% | 24.1% | 49.1% |
| 1957 | 36.4% | 23.4% | 40.2% |
| 1958 | 41.8% | 19.8% | 38.4% |
| 1959 | 38.2% | 17.0% | 44.8% |
| 1960 | 41.1% | 15.9% | 43.0% |
| 1961 | 46.1% | 15.4% | 38.5% |
| 1962 | 56.2% | 12.3% | 31.5% |
| 1963 | 58.1% | 9.8% | 32.1% |
| 1964 | 68.4% | 8.9% | 22.7% |
| 1965 | 67.2% | 8.8% | 24.0% |
| 1966 | 56.2% | 13.0% | 30.8% |
| 1967 | 49.5% | 12.2% | 38.3% |
| 1968 | 51.5% | 9.1% | 39.4% |
| 1969 | 46.5% | 6.5% | 47.0% |
| 1970 | 48.2% | 7.5% | 44.3% |
| 1971 | 36.4% | 7.5% | 56.1% |
| 1972 | 37.0% | 6.8% | 56.2% |
| 1973 | 36.6% | 6.5% | 56.9% |
| 1974 | 38.5% | 7.7% | 53.8% |
| 1975 | 53.3% | 17.8% | 28.9% |
| 1976 | 43.6% | 17.3% | 39.1% |
| 1976TQ | 40.4% | 34.6% | 25.0% |
| 1977 | 49.7% | 22.4% | 27.9% |
| 1978 | 49.3% | 24.4% | 26.3% |
| 1979 | 37.1% | 14.2% | 48.7% |
| 1980 | 53.5% | 22.6% | 21.9% |
| 1981 | 47.6% | 20.7% | 31.7% |
| 1982 | 42.3% | 22.4% | 35.3% |
| 1983 | 39.2% | 20.8% | 40.0% |
| 1984 | 37.7% | 20.2% | 42.1% |
| 1985 | 38.9% | 29.1% | 32.0% |
| 1986 | 37.5% | 28.6% | 33.9% |
| 1987 | 39.3% | 26.3% | 34.4% |
| 1988 (est) | 40.8% | 22.4% | 36.8% |
| 1989 (req) | 38.8% | 22.4% | 38.8% |
| | 51.0% | 12.8% | 36.2% |

TABLE IV. Foreign Aid as a Percent of Gross National Product
1946-1989

| Year | Aid as a Percent of Gross National Product |
|------------|--|
| 1946 | 1.47 |
| 1947 | 2.88 |
| 1948 | 1.23 |
| 1949 | 3.21 |
| 1950 | 2.08 |
| 1951 | 2.30 |
| 1952 | 1.96 |
| 1953 | 1.36 |
| 1954 | 1.30 |
| 1955 | 1.02 |
| 1956 | 1.15 |
| 1957 | 1.10 |
| 1958 | .89 |
| 1959 | 1.04 |
| 1960 | 1.03 |
| 1961 | 1.04 |
| 1962 | 1.16 |
| 1963 | 1.07 |
| 1964 | .83 |
| 1965 | .78 |
| 1966 | .91 |
| 1967 | .79 |
| 1968 | .77 |
| 1969 | .70 |
| 1970 | .66 |
| 1971 | .73 |
| 1972 | .76 |
| 1973 | .71 |
| 1974 | .59 |
| 1975 | .45 |
| 1976 | .52 |
| 1977 | .41 |
| 1978 | .42 |
| 1979 | .57 |
| 1980 | .37 |
| 1981 | .36 |
| 1982 | .40 |
| 1983 | .41 |
| 1984 | .43 |
| 1985 | .43 |
| 1986 | .39 |
| 1987 | .37 |
| 1988 (est) | .29 |
| 1989 (req) | .27 |

CURRENT FOREIGN AID TRENDS AND CHARACTERISTICS

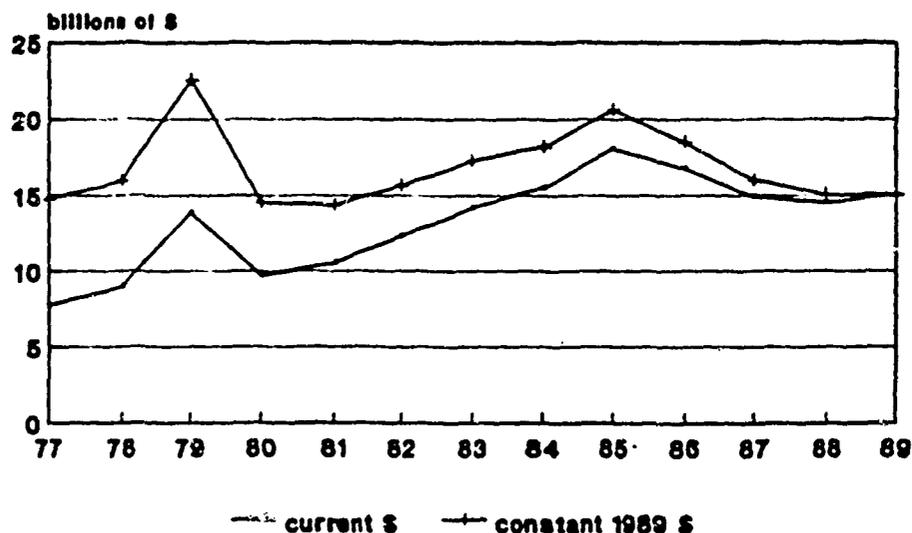
The following discussion and series of graphic illustrations focus on recent trends and characteristics of U.S. foreign assistance. This part examines aid programs between FY 1977 and the present request for FY 1989. This period covers changes in foreign assistance policy over two Administrations during a time when the program became heavily focused on the Middle East, underwent a substantial shift in program composition, and faced significant financial reductions brought on by a growing U.S. budget deficit.

Total U.S. Assistance
(Figure 1)

Over the past 13 years, total levels of U.S. foreign assistance experienced a period of rapid growth -- between FY 1981 and FY 1985 -- followed by a sharp decline since FY 1986. Figure 1 shows amounts of U.S. aid in both current and constant 1989 dollars. As it illustrates, aid levels climbed by about one-third in real terms and by almost 50% in current dollars during the early 1980s, peaked in FY 1985, and fell sharply to the FY 1989 estimated level of \$15.06 billion. In constant terms, there has been a decline of about 27% since the peak year; in current dollars, the reduction has been about 17%. The amount available for FY 1989 is about the same level as that provided in FY 1977 and is smaller than any year except FY 1980 and 1981, when examined in real terms.

Special circumstances in two years during this period are worth noting. First, the large spike in Figure 1 for FY 1979 includes a \$4.8 billion supplemental in additional security assistance provided to Israel and Egypt as part of the Camp David Peace Accords agreement. Secondly, the peak year of FY 1985 not only represented the continuing growth of foreign assistance overall during the early 1980s, but also included large economic supplementals for Israel, Egypt, and Jordan to address short-term debt problems and emergency food and development relief aid for countries of famine-plagued Africa.

Figure 1
Total U.S. Assistance
FY 1977 - FY 1989



FY88 & FY89 - estimates

Program Composition
(Figure 2)

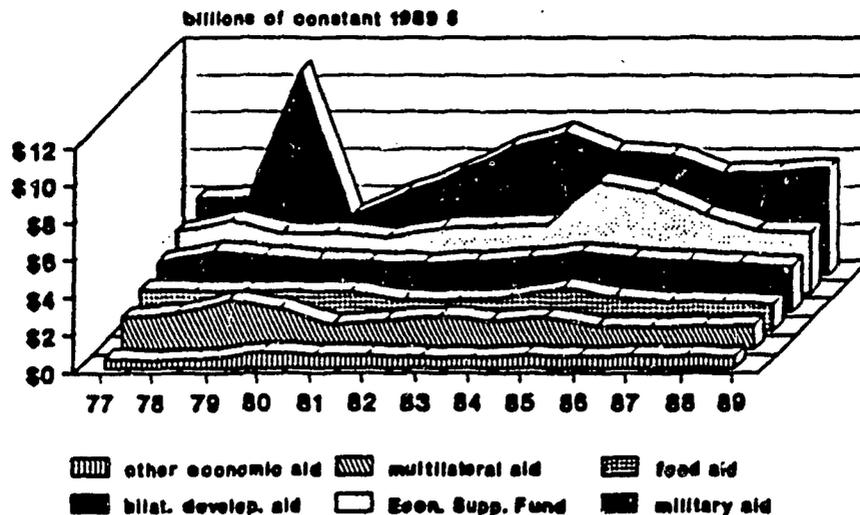
Two foreign aid programs -- military assistance and the Economic Support Fund -- showed the largest real increases during this period, although funding for both have declined as budget deficit pressures set in after FY 1985. As Figure 2 illustrates, military aid levels climbed from just over \$4 billion in FY 1977 to a high of \$7.7 billion in FY 1984 -- a real increase of 85% (discounting the Camp David-related aid in FY 1979). Amounts have fallen since to about \$5.7 billion for FY 1989, leaving military aid with a 36% increase over the entire period. While ESF money, in real terms, is about the same today as in FY 1977, it is a program that also experienced a rapid growth in the early 1980s (78% increase between 1977 and 1985).

Two other programs -- food assistance and contributions to multilateral development banks -- declined, in real terms, over the period. Except for a brief time in the mid-1980s when the U.S. responded to the African famine with large quantities of emergency agricultural supplies, food aid levels declined steadily during the past 13 years. The program for FY 1989 is about one-third below the level in FY 1977. Because amounts for multilateral assistance depend, to a large extent, on the schedule and outcome of international MDB replenishment negotiations, they are allocated on a more irregular basis than bilateral assistance, making it more difficult to assess trends over time. In general, however, funds obligated for MDB contributions, which averaged around \$1.8 billion in previous years, have fallen to an annual average of about \$1.3 billion, in real terms.

Obligations for bilateral development assistance have remained relatively consistent during this period. But like the other programs, development aid activities have been reduced since FY 1985.

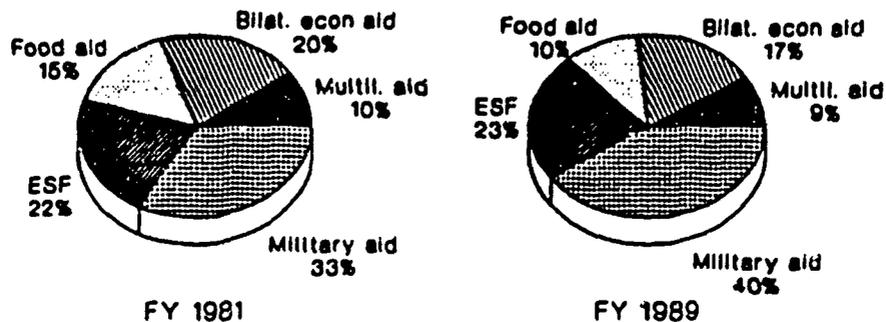
In terms of program shares of the total foreign assistance budget, a significant shift in allocations for economic and military assistance occurred during this period. In the late 1970s, developmental-related programs (development, food, and MDB support) accounted for nearly 50% of the foreign aid budget while military assistance ranged between 25% and 30%. (Economic Support Fund money made up the balance.) By the mid-1980s, however, developmental aid had declined to a share of less than 40% while military aid accounted for slightly more than 40%. For the past three years, development and military programs received an average of 39% and 37% of the budget, respectively. ESF allocations, except in a few years, have been relatively consistent at between 20% and 22% of the total. The bottom pie charts in Figure 2 compare program shares in FY 1981 and FY 1989.

Figure 2
Program Composition of U.S. Aid
 FY 1977 - FY 1989



FY88 & FY89 = estimates

Program Shares of U.S. Foreign Aid
 FY 1981 and FY 1989 Compared



FY89 = estimate

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Regional Composition
(Figure 3)

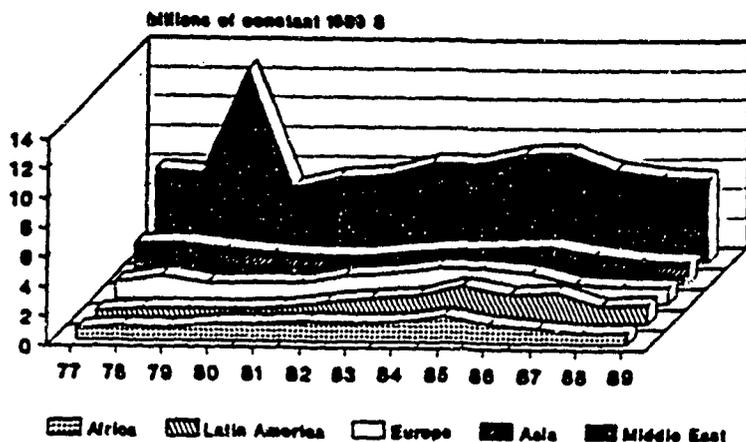
Aid to the Middle East has dominated U.S. regional aid allocations during the past 13 years. As Figure 3 shows, American assistance to that region annually ranged between \$5 billion and \$6.5 billion during the period (excluding the Camp David-related support in 1979 and the special supplemental in 1985/86). In most years, the Middle East received over half of all U.S. bilateral aid.

Asia and Europe have been regions receiving the next two largest shares of American support during this period. The United States channeled an average of a little more than \$2 billion per year (in real terms) to Asia through 1987. With the graduation of South Korea as an aid recipient and the general decline in budget levels, however, that region will receive only about \$1.5 billion this fiscal year. Aid to Europe, where most American assistance supports military base agreements, grew from about \$1.2 billion in FY 1977 and peaked in the mid-1980s at \$2.3 billion. Since then, levels have declined to just over \$1 billion, in real terms, largely due to the graduation of Spain as an aid recipient.

Latin America had been the smallest recipient of American aid at the beginning of the period -- less than \$1 billion per year. But starting in FY 1982, when U.S. assistance to El Salvador and others in Central America began to grow, aid levels rose sharply to an average of over \$2 billion per year, FY 1985-87. Budget pressures have forced amounts back down to about \$1.3 billion in FY 1989.

U.S. Assistance to sub-Saharan Africa remained relatively consistent during this period, ranging from about \$800 million to around \$1.4 billion. With the increased emphasis on African famine relief in FY 1985, U.S. assistance grew to nearly \$2 billion in that year. It has since fallen back to estimates of \$800 million for FY 1988 and 1989.

Figure 3
Regional Composition of U.S. Aid
FY 1977 - FY 1989

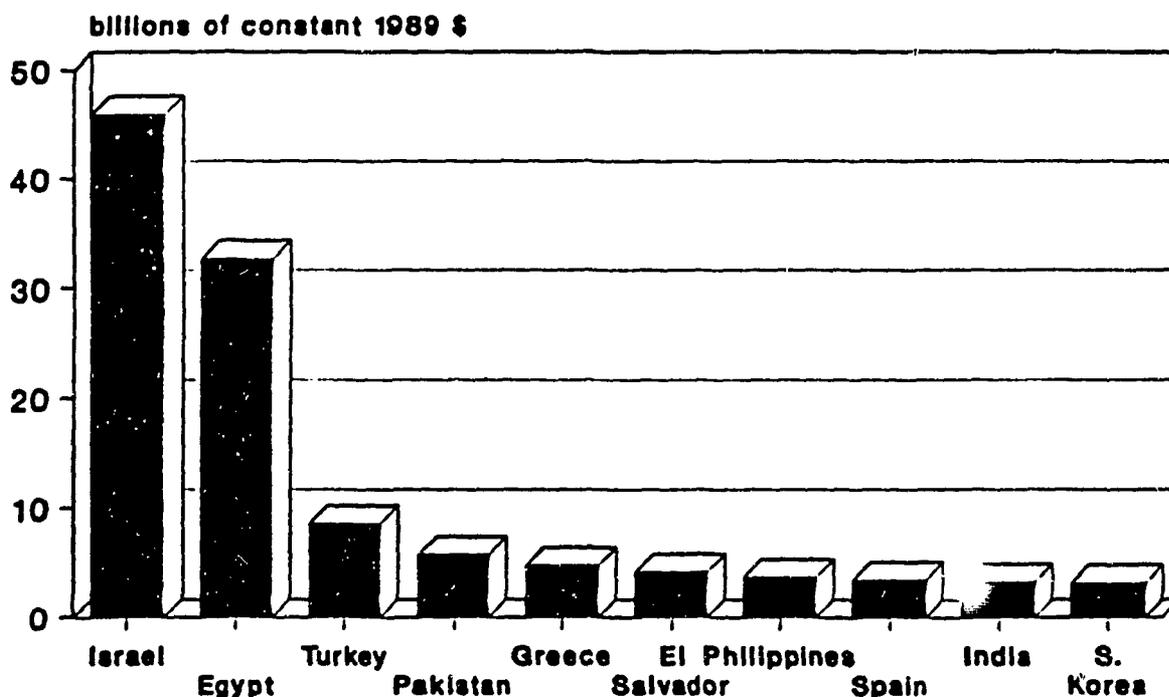


FY88 - est. FY89 - req.

Major Recipients
(Figure 4)

Israel and Egypt, by far, have been the leading recipients of American aid during this period. Combined, Israel at \$46 billion and Egypt at \$33 billion have accounted for 47% of U.S. bilateral assistance since FY 1977. Together, the ten countries set out in Figure 4 make up about 70% of all American bilateral aid during the period. With the exception of India, each of these top recipients have a strong security relationship with the United States. In several cases -- Turkey, Greece, Spain, and the Philippines, American aid is associated with military base agreements. In a more recent context, Spain and South Korea are no longer aid recipients while India receives relatively small amounts of assistance.

Figure 4
Major Recipients of U.S. Aid
FY 1977 - FY 1989

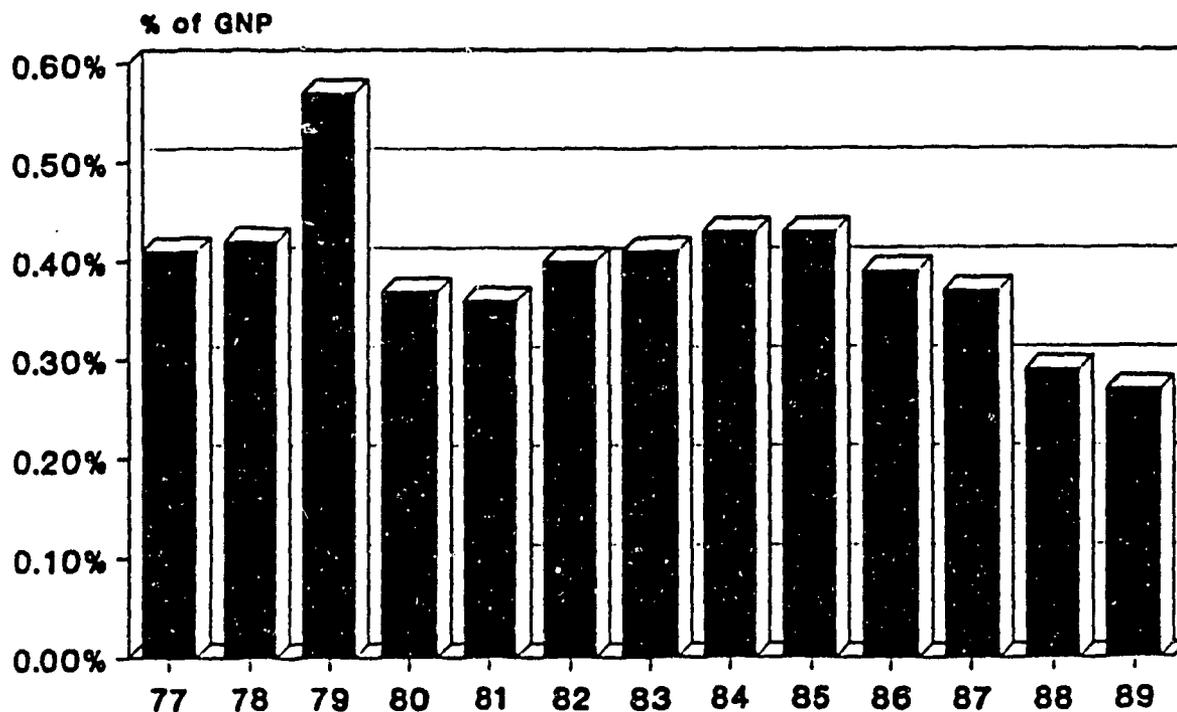


FY88 = est. FY89 = req.

U.S. Assistance as a % of GNP
(Figure 5)

As it has since the mid-1950s, U.S. foreign assistance as a percent of GNP continued to fall -- from .4% at the beginning of the period, to less than .3% in FY 1989, the lowest level ever. Within the period, however, aid levels grew in the early 1980s relative to GNP, peaking at .43%. The effects of severe budget constraints since are clearly evident in Figure 5 as the foreign aid share of GNP has fallen each year.

Figure 5
 U.S. Aid as a % of GNP
 FY 1977 - FY 1989



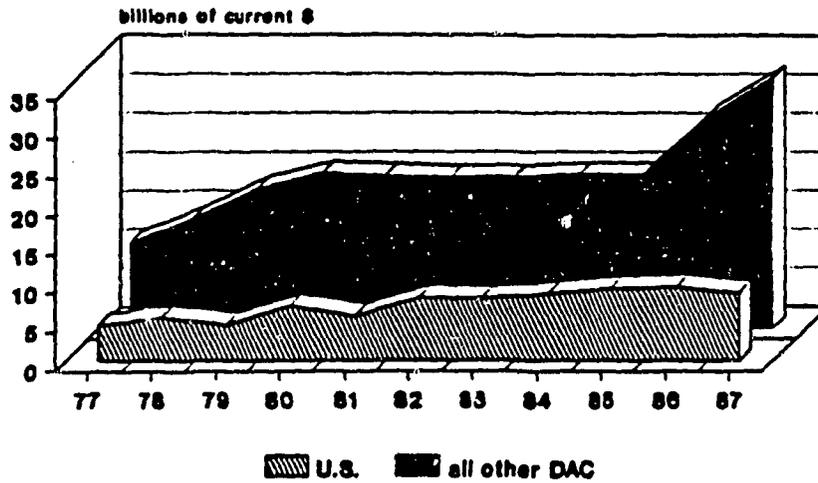
FY88 & FY89 - estimates

U.S. Economic Assistance Compared with Other Donors
(Figures 6 and 7)

Throughout the period, the United States has been the world's leading donor, in terms of dollars, of Official Development Assistance (ODA), as defined by the Organization of Economic Co-operation and Development (OECD). Figure 6 compares U.S. levels with the combined total of the other 16 western nations of the OECD Development Assistance Committee (DAC). During the period, 1977-1987, American ODA accounted for about 36% of assistance from all DAC members. As amounts from other donors, such as Japan, have climbed in recent years, the U.S. share of total ODA has fallen to just over 25% in 1987. It is estimated that in 1989, the Japanese will surpass the United States as the world's leading ODA contributor.

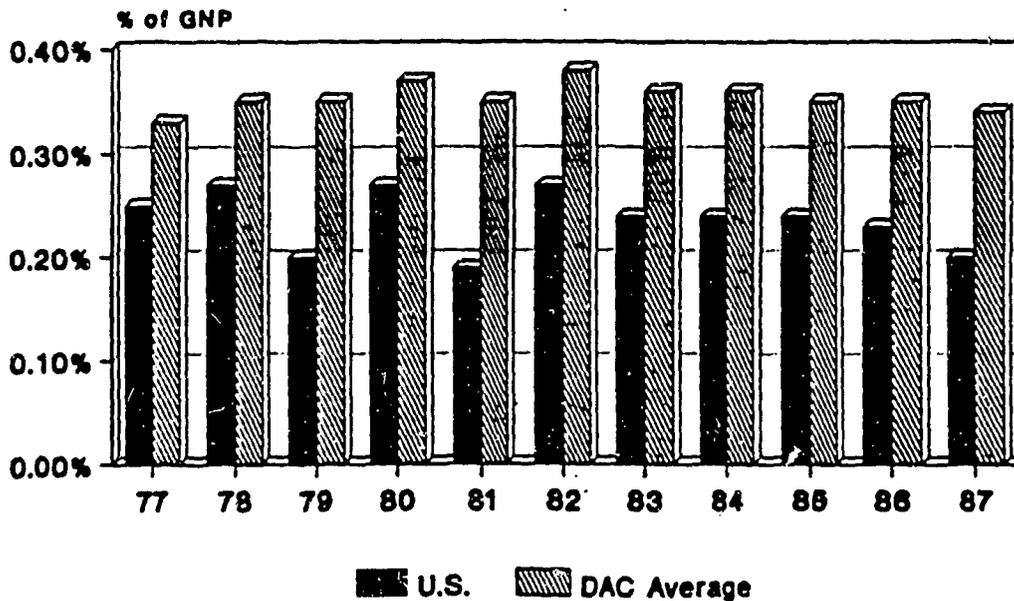
Viewed another way -- ODA as a % of GNP -- the United States falls well below the average of DAC members and is currently last among the 17 donor nations. Figure 7 compares American ODA as a % of GNP with the average for all DAC countries. As it shows, U.S. levels have ranged between .19 and .27% during the period, while the DAC average has fluctuated between .33 and 38%.

Figure 6
Major Donor Economic Assistance
1977 - 1987



1987 - estimates

Figure 7
Major Donor Aid as a % of GNP
1977 - 1987



1987 - estimates

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Composition of Bilateral Development Aid
(Figure 8)

Throughout most of past 13 years, American bilateral development assistance has been channelled through five so-called functional accounts: agriculture, population, health, education, and selected activities (projects that cut across the other four accounts).¹

As shown in Figure 8, the largest of the development programs by far has been the agriculture account. In most years, it has totalled about \$900 million and represented over 50% of total development aid spending. The share devoted to agriculture and nutrition programs has fallen to around 40%, however, in more recent years as Congress and AID have placed greater emphasis on other development programs.

Health-related programs have been the focus of increasing attention and support, particularly since FY 1984 when Congress initiated a separate functional account for Child Survival activities. In FY 1985, aid levels for these health accounts had doubled, in real terms, from the amounts provided in FY 1977. Congress created an additional health account in FY 1988 specifically for U.S. assistance to international AIDS research. There has also been added emphasis in the 1980s on the selected development activities account, especially for programs related to promoting the private sector in developing countries.

Funding for the other two accounts -- population and education -- have remained relatively consistent during the period. In most years, U.S. assistance for family planning and other population-related activities ranged between \$260 and \$300 million, in real terms. For education and human resources programs, the United States spent between \$130 and \$160 million annually, except in the case of a few years.

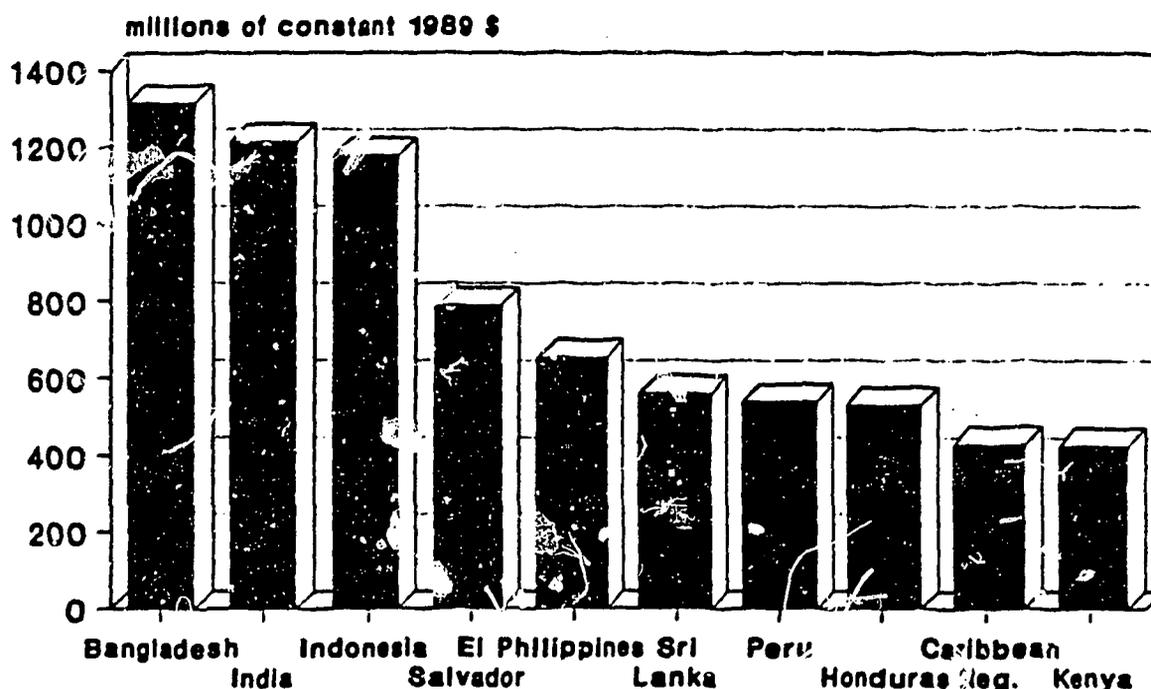
¹ While these have been the major components of development aid, the United States transfers assistance of this type through several other programs, including the Sahel Development Program (prior to FY 1988), the Development Fund for Africa (DFA) (since FY 1988) and the Peace Corps. Presently, all U.S. economic assistance for sub-Saharan Africa is channeled through the DFA instead of the more traditional functional accounts. In addition, Congress has added, in recent years, two other development aid "line items" for Child Survival Activities (since FY 1985) and AIDs programs (since FY 1988). Amounts for the Child Survival and AIDs programs are included in the health account levels shown in Figure 8. In addition, amounts illustrated in Figure 8 for FY 1988 and 1989 do not include spending for the DFA, and therefore are not comparable with the period FY 1977-1987.

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Major Recipients of Bilateral Development Aid
(Figure 9)

As Figure 9 illustrates, three Asian countries -- Bangladesh, India, and Indonesia -- have been the largest recipients of American development assistance since FY 1977. In more recent years, however, only Bangladesh remains as a leading recipient this type of aid. Central America -- El Salvador and Honduras in particular -- has been an area where increasing amounts of U.S. development assistance have been concentrated in the 1980s.

Figure 9
Major Recipients of Bilateral
Development Aid, FY 1977 - FY 1989

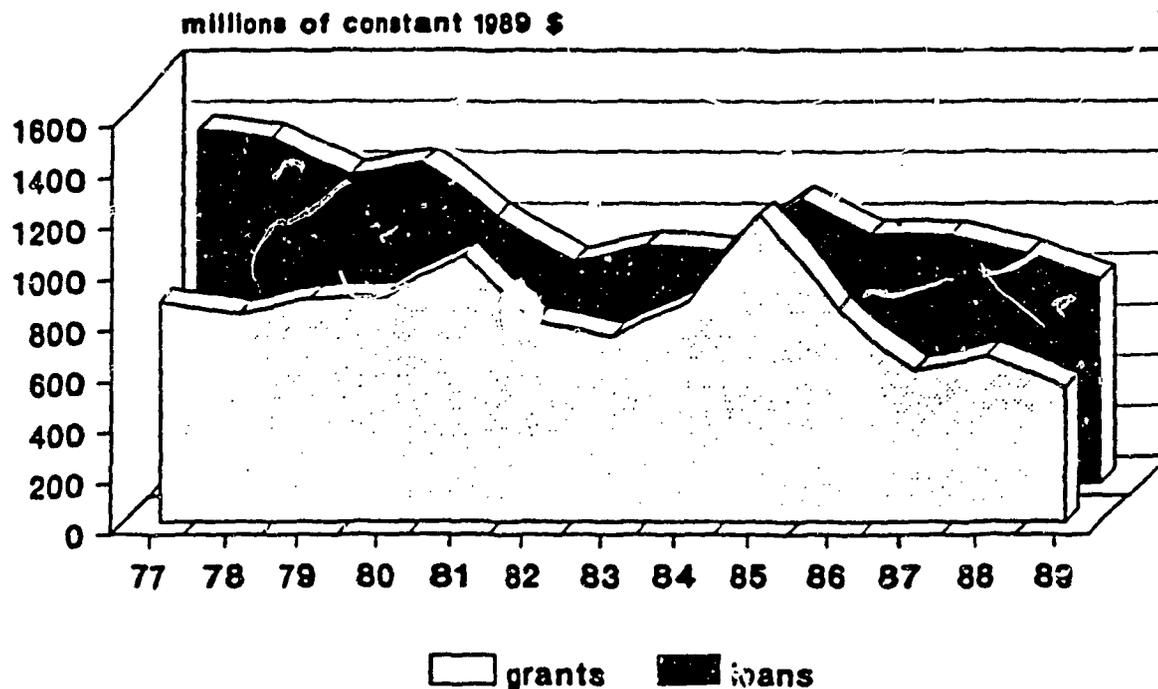


FY88 = est. FY89 = req.

Composition of Food Aid
(Figure 10)

U.S. food aid is provided both on a highly concessional loans basis (title I of the PL 480 program) and as grants (title II). Figure 10 shows the loan/grant composition of American food assistance since FY 1977. At the beginning of the period, PL 480 loans accounted for about 60% of the program. This level gradually fell as a greater share of food aid began to respond to emergency drought and famine conditions, particularly in sub-Saharan Africa. By FY 1985, food grants accounted for slightly over 50% of the program. As emergency situations subsided in some parts of Africa since, food loans once again comprised a share approaching 60% of total food assistance.

Figure 10
Composition of Food Assistance
FY 1977 - FY 1989

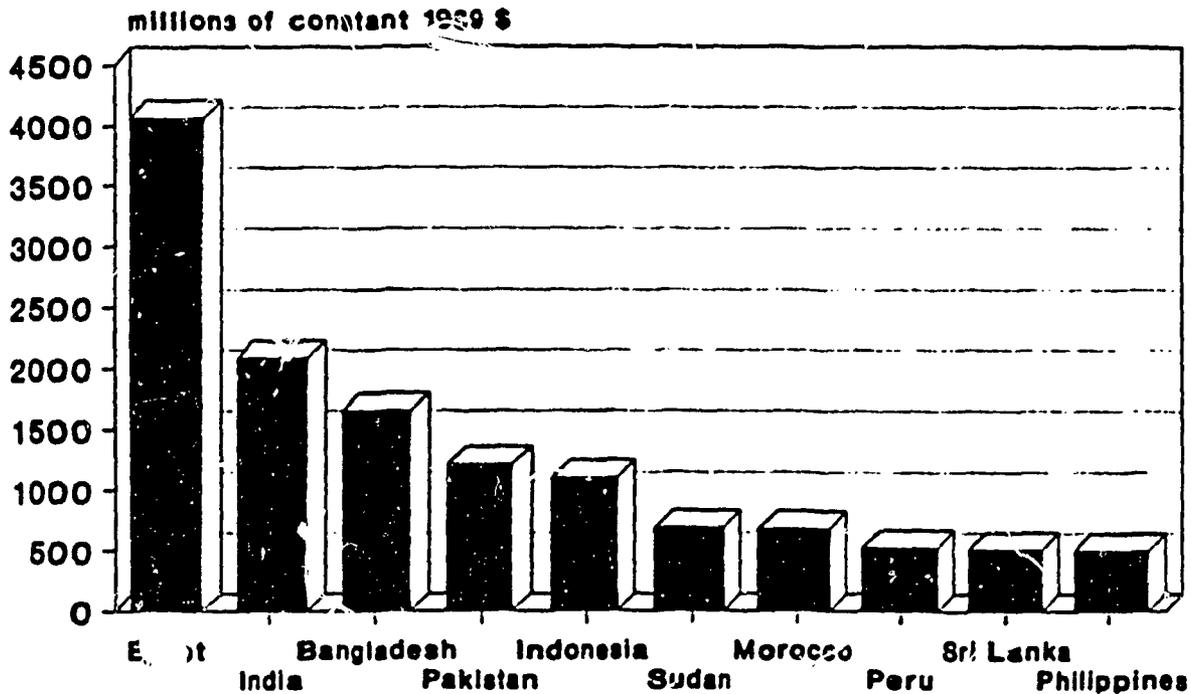


FY88 & FY89 • estimates

Major Recipients of Food Aid
(Figure 11)

As Figure 11 illustrates, Egypt has been the overwhelmingly largest recipient of American food aid since FY 1977. During this period, that country alone accounted for 19% of total food transfers, and the \$4 billion amount is nearly as much as that for all of sub-Saharan Africa combined (\$4.3 billion). South Asia has also been a focus of U.S. food assistance where India, Bangladesh, and Pakistan have been major recipients.

Figure 11
Major Recipients of Food Assistance
FY 1977 - FY 1989



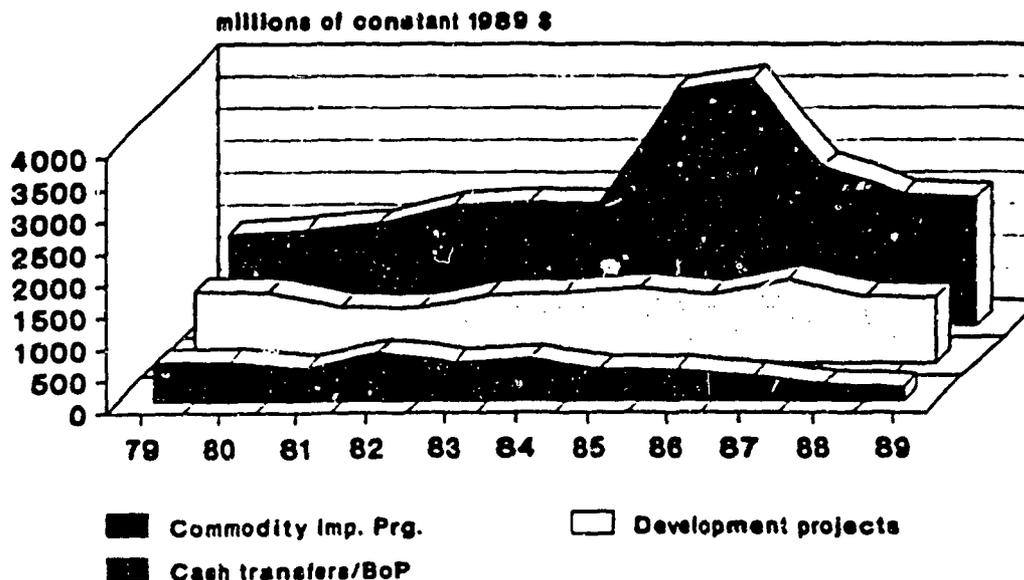
FY88 = est. FY89 = req.

Composition of the Economic Support Fund
(Figure 12)

Through the Economic Support Fund (ESF), the United States can provide economic assistance in a flexible and timely fashion in support of various American security, political, and economic goals. Because of its flexible nature and its potential for responding to multiple policy objectives, the size, scope, and accountability of ESF aid has been a continuing matter of debate in recent years. ESF assistance is programmed in three basic ways: as development project aid; as commodity import programs (CIPs); and as balance of payments support in the form of cash transfers. Congress has been especially concerned over the accountability of the cash transfer portion of the ESF program.

As Figure 12 shows, there has been a growing emphasis on the cash transfer component within the ESF program since FY 1979 (the last year that accurate data are available). At the beginning of the period, cash transfers accounted for about 45% of the total, while CIPs and development projects represented about 20% and 35%, respectively. Beginning in FY 1981, however, cash transfers became a much more significant means of programming ESF funds, climbing to over a 60% share by the late 1980s. (The large levels of ESF cash programmed in FY 1985 and 1986, illustrated in Figure 12, represent the regular program plus the special supplemental for Israel, Egypt, and Jordan.) ESF channelled as development assistance has remained relatively constant at between \$1 and \$1.1 billion annually, in terms of real dollars. Nevertheless, its share of the total program has declined somewhat -- down to a current level of about 31%. CIPs, on the other hand, fell sharply and now represent a relatively minor part of the overall program -- less than 7%.

Figure 12
Composition of Economic Support Fund
FY 1979 - FY 1989

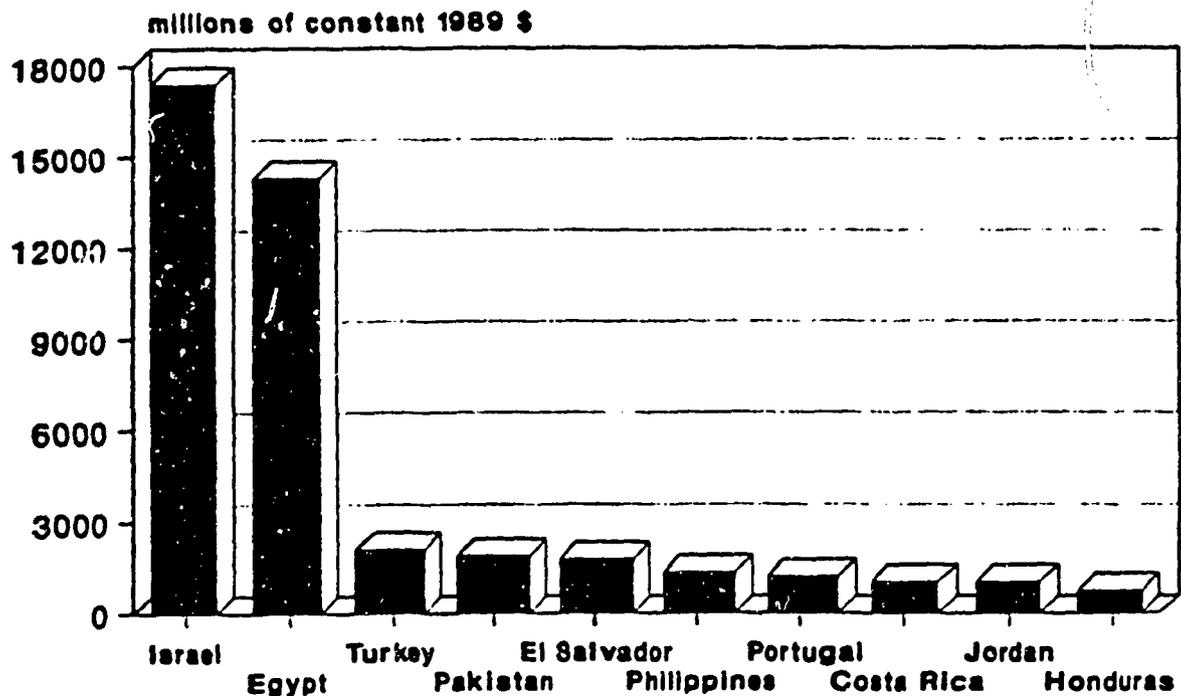


FY88 = est. FY89 = req.

Major Recipients of the Economic Support Fund
(Figure 13)

Over the past 13 years, ESF assistance has been highly concentrated in two countries -- Israel and Egypt. Combined, they have received over \$31 billion, or 64% of total ESF transfers since FY 1977. As Figure 13 shows, the other major, but far less significant, recipients are those with which the United States shares a strong security relationship.

Figure 13
 Major Recipients-Economic Support Fund
 FY 1977 - FY 1989



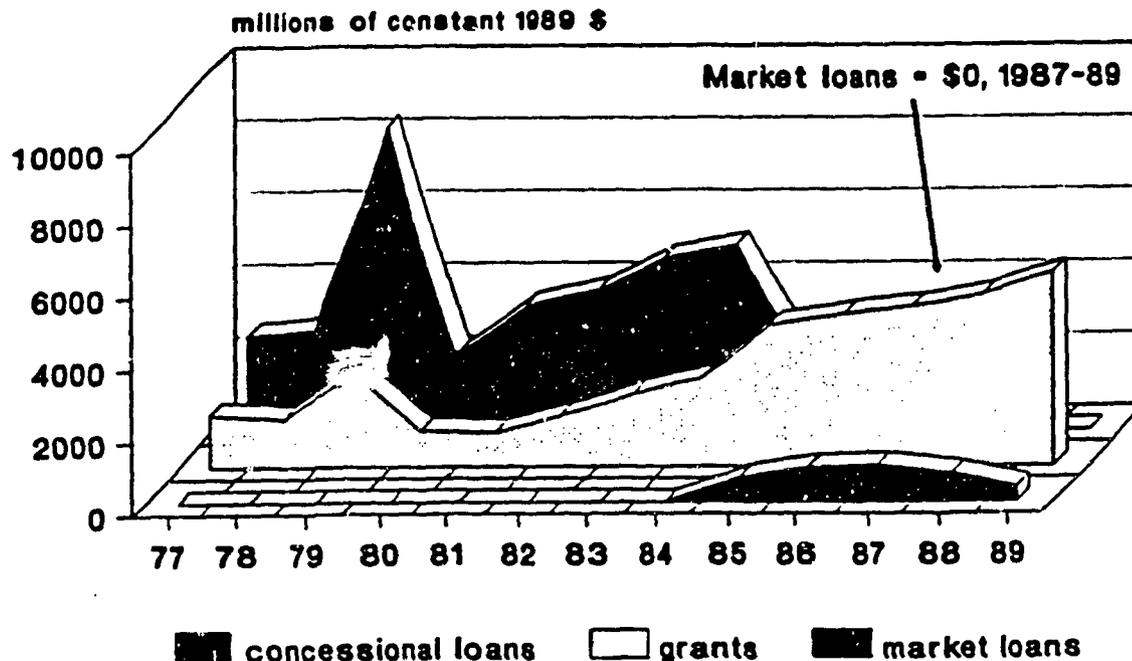
FY88 = est. FY89 = req.

Composition of Military Assistance
(Figure 14)

The United States has programmed military assistance in three general ways over the past 13 years: as loans bearing market interest rates; as concessional loans at about 5% interest (since FY 1984 only); and as grants. Figure 14 illustrates the loan/grant composition of U.S. military assistance.

In the early part of the period, the grant portion of the program was relatively small as some policymakers believed that harder loan terms might slow down the demand for increasing levels of military transfers and result in requests for what they considered only legitimate requirements. By FY 1981, grants comprised only \$952 million and less than 25% of the total, while market loans, with interest rates as high as 13%, made up the rest. With a change in the Administration and an increasing debt servicing problem on the part of many military aid recipients, the grant portion of military assistance began to grow quickly. When the United States converted all military aid to grants in FY 1985 for Israel and Egypt and began a concessional loan program, the size of market loans fell even more. By FY 1987, market loans had been eliminated entirely. For FY 1989, the Administration requested a total grant military program, but Congress continued to insist that at least a small portion remain as concessional loans. Currently, grants make up about 90% of the program.

Figure 14
Composition of Military Assistance
FY 1977 - FY 1989

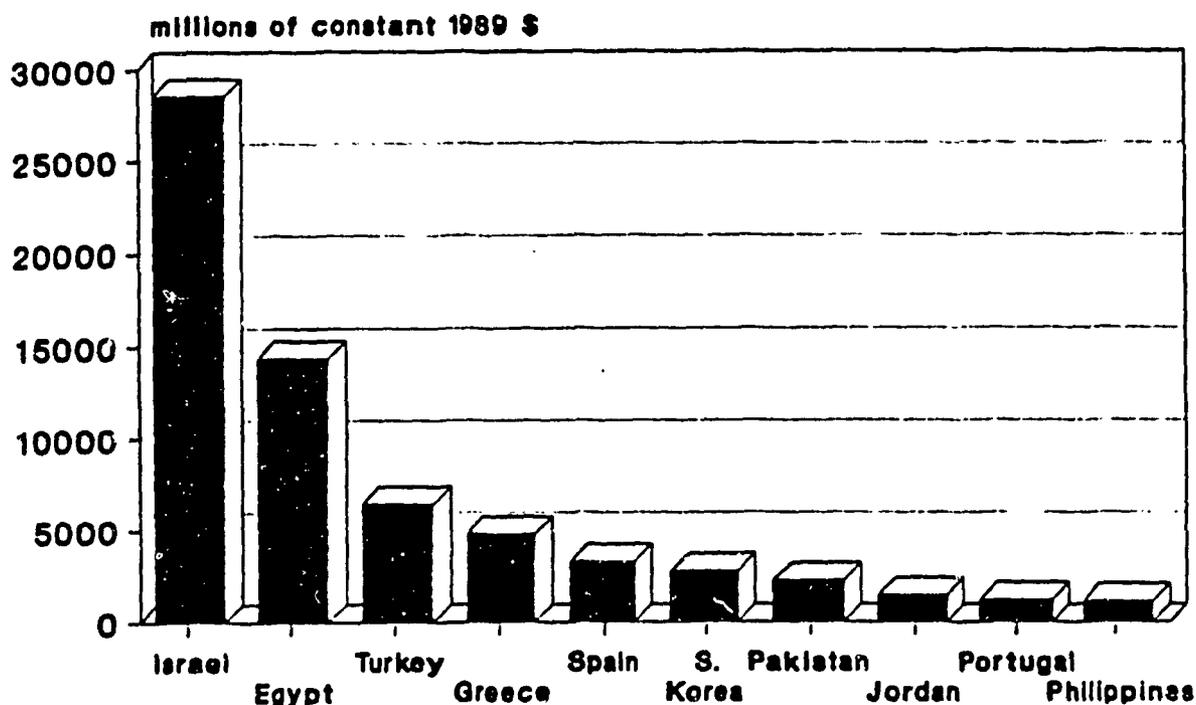


FY88 & FY89 = estimates

Major Recipients of Military Assistance
(Figure 15)

Israel has been by far the largest recipient of American military assistance since FY 1977, receiving \$28.5 billion (in real terms) and 39% of the total. Egypt has received the second highest amount, although about half the amount for Israel. The remaining major recipients largely represent countries with which the United States maintains military base agreements: Turkey, Greece, Spain, Portugal, and the Philippines. Of the countries listed in Figure 15, Spain and South Korea no longer receive American military assistance.

Figure 15
Major Recipients of Military Assistance
FY 1977 - FY 1989



FY88 - est. FY89 - req.

**TRANSFER OF U.S. RESOURCES
NUMBER OF COUNTRIES RECEIVING ASSISTANCE IN FY 1987 AND FY 1988**

| | ----ECONOMIC ASSISTANCE---- | | | NET TOTAL ECONOMIC ASSISTANCE | MILITARY ASSISTANCE | NET TOTAL ALL PROGRAMS |
|--------------------------|-----------------------------|--------|----------------------------|-------------------------------------|------------------------|------------------------------|
| | DA & ESF | PL 480 | PEACE CORPS & NARCOTICS | | | |
| FY 1987 COUNTRIES | 77 | 71 | 58 | 99 | 97 | 116 |
| FY 1988 COUNTRIES | 77 | 69 | 57 | 97 | 100 | 117 |
| CHANGE | 0 | (2) | (1) | (2) | 3 | 1 |

Note: In each column a country counts only once, regardless of how many types of assistance it may receive.

FY 1989 U.S. ECONOMIC AND MILITARY ASSISTANCE - REQUEST

AID, Congressional Presentation FY 1989

Foreign Aid Request FY 1989

| | 02-Mar-88 | DA | ESF | PL 480 TITLE I | PL 480 TITLE II | MARC'S | PEACE CORPS | OTHER ECON | FMS (CONC) | FMS (FORGIVEN) | MAP | INET | OTHER MILITARY | TOTAL |
|--------------------------------|-----------|-----------|-----------|-------------------|--------------------|---------|----------------|---------------|---------------|-------------------|--------|--------|-------------------|------------|
| BILATERAL ASSISTANCE | | | | | | | | | | | | | | |
| AFRICA | 510,000 | 81,500 | 101,000 | 46,346 | 0 | 58,543 | 0 | 0 | 0 | 73,700 | 10,105 | 0 | 0 | 881,194 |
| ASIA/NEAR EAST | 347,888 | 2,639,500 | 391,000 | 132,144 | 17,400 | 27,269 | 0 | 0 | 4,460,000 | 165,800 | 30,640 | 0 | 0 | 8,211,641 |
| LATIN AMERICA & CAR | 371,600 | 547,500 | 172,000 | 46,127 | 56,200 | 32,169 | 0 | 0 | 0 | 185,500 | 11,620 | 0 | 0 | 1,422,716 |
| CENTRAL BUREAUS | 408,012 | 0 | 148,000 | 370,383 | 27,400 | 32,019 | 0 | 0 | 0 | 42,000 | 135 | 0 | 0 | 1,027,949 |
| Disaster Reserve/Unallocated | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Subtotal: Country Programs | 1,637,500 | 3,268,500 | 812,000 | 595,000 | 101,000 | 150,000 | 0 | 0 | 4,460,000 | 467,000 | 52,500 | 0 | 0 | 11,543,500 |
| (AFRICA FUND) | (510,000) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (510,000) |
| (SADCC) | (50,000) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (50,000) |
| (REV LOAN FUND) | (8,500) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (8,500) |
| Deob/Reob | 12,500 | 12,500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 25,000 |
| Subtotal | 1,650,000 | 3,281,000 | 812,000 | 595,000 | 101,000 | 150,000 | 0 | 0 | 4,460,000 | 467,000 | 52,500 | 0 | 0 | 11,568,500 |
| ASHA | 30,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 30,000 |
| Disaster Assistance | 25,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 25,000 |
| Humanitarian Relief Transport | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Private Sector Guarantees | [100,000] | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | [100,000] |
| Housing Guarantees | [100,000] | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | [100,000] |
| Housing Borrowing Auth | 22,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 22,000 |
| Operating Expenses | 414,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 414,000 |
| Operating Expenses-IG | 23,119 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 23,119 |
| For. Serv. Ret. & Dis. | 40,532 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 40,532 |
| TCIP | [200,000] | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | [200,000] |
| Misc. Appropriations | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Misc. Trust Funds | 5,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 5,000 |
| Receipts | (415,000) | -- | (383,000) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (798,000) |
| Total AID | 1,794,651 | 3,281,000 | 428,200 | 595,000 | 101,000 | 150,000 | 341,440 | -- | -- | -- | -- | -- | -- | 6,098,851 |
| Trade & Development | -- | -- | -- | -- | -- | -- | 20,400 | -- | -- | -- | -- | -- | -- | 20,400 |
| Inter-American Foundation | -- | -- | -- | -- | -- | -- | 13,900 | -- | -- | -- | -- | -- | -- | 13,900 |
| Africa Dev. Foundation | -- | -- | -- | -- | -- | -- | 7,140 | -- | -- | -- | -- | -- | -- | 7,140 |
| Migration & Refugee Assist. | -- | -- | -- | -- | -- | -- | 340,000 | -- | -- | -- | -- | -- | -- | 340,000 |
| Emergency Refugee Fund | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Misc. Trust Funds - DOT | -- | -- | -- | -- | -- | -- | 3,695 | -- | -- | -- | -- | -- | -- | 3,695 |
| Overseas Priv. Invest. Corp. | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| (limit on dir. loans) | -- | -- | -- | -- | -- | -- | [17,250] | -- | -- | -- | -- | -- | -- | [17,250] |
| (limit on guar. loans) | -- | -- | -- | -- | -- | -- | [175,000] | -- | -- | -- | -- | -- | -- | [175,000] |
| Receipts | -- | -- | -- | -- | -- | -- | (43,695) | -- | (132,041) | -- | -- | -- | -- | (175,736) |
| Adjustments | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total: Bilateral | 1,794,651 | 3,281,000 | 428,200 | 595,000 | 101,000 | 150,000 | 341,440 | -- | -- | -- | -- | -- | -- | 6,691,291 |
| MULTILATERAL ASSISTANCE | | | | | | | | | | | | | | |
| MDB'S | -- | -- | -- | -- | -- | -- | 1,324,349 | -- | -- | -- | -- | -- | -- | 1,324,349 |
| I O & P | -- | -- | -- | -- | -- | -- | 200,000 | -- | -- | -- | -- | -- | -- | 200,000 |
| Total: Multilateral | -- | -- | -- | -- | -- | -- | 1,524,349 | -- | -- | -- | -- | -- | -- | 1,524,349 |
| TOTAL ECONOMIC ASSISTANCE | 1,794,651 | 3,281,000 | 428,200 | 595,000 | 101,000 | 150,000 | 1,865,789 | -- | -- | -- | -- | -- | -- | 8,215,640 |
| Anti-Terrorism Assistance | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 9,840 | 9,840 |
| Peacekeeping Operations | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 31,689 | 31,689 |
| Guaranty Reserve Fund | -- | -- | -- | -- | -- | -- | -- | -- | 643,196 | -- | -- | -- | -- | 643,196 |
| Adjustments | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| TOTAL MILITARY ASSISTANCE | -- | -- | -- | -- | -- | -- | -- | -- | 4,971,155 | 467,000 | 52,500 | 41,529 | 5,532,184 | |
| TOTAL ECONOMIC & MILITARY | 1,794,651 | 3,281,000 | 428,200 | 595,000 | 101,000 | 150,000 | 1,865,789 | 0 | 4,971,155 | 467,000 | 52,500 | 41,529 | 13,747,824 | |

623,263

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FY 1989 U.S. ECONOMIC AND HUMANITARIAN ASSISTANCE - REQUEST

| 02-Mar-88 | DA | ESF | PL 480 TITLE I | PL 480 TITLE II | MARC'S | PEACE CORPS | OTHER ECON | FMS (CONC) | FMS (FORGIVEN) | MAP | IMET | OTHER MILITARY | TOTAL |
|-------------------------|---------|--------|-------------------|--------------------|--------|----------------|---------------|---------------|-------------------|--------|--------|-------------------|---------|
| AFRICA | | | | | | | | | | | | | |
| AEPRP | 50,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50,000 |
| Angola | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Benin | -- | -- | -- | 1,196 | -- | 1,993 | -- | -- | -- | -- | 75 | -- | 3,264 |
| Botswana | 8,000 | -- | -- | -- | -- | 3,451 | -- | -- | -- | 4,000 | 350 | -- | 15,801 |
| Burkina | 2,500 | -- | -- | 4,272 | -- | -- | -- | -- | -- | -- | 100 | -- | 6,872 |
| Burundi | 2,500 | -- | -- | -- | -- | 835 | -- | -- | -- | -- | 140 | -- | 3,475 |
| Cameroon | 18,000 | -- | -- | -- | -- | 3,587 | -- | -- | -- | -- | 250 | -- | 21,837 |
| Cape Verde | 2,500 | -- | -- | 1,590 | -- | 324 | -- | -- | -- | -- | 50 | -- | 4,474 |
| CAR | 2,000 | -- | -- | -- | -- | 2,642 | -- | -- | -- | 500 | 180 | -- | 5,322 |
| Chad | 6,000 | 10,000 | -- | 2,601 | -- | 839 | -- | -- | -- | 10,000 | 250 | -- | 29,690 |
| Comoros | 700 | -- | -- | -- | -- | 406 | -- | -- | -- | -- | 40 | -- | 1,146 |
| Congo | 500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 40 | -- | 540 |
| Cote d'Ivoire | 500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 150 | -- | 650 |
| Djibouti | -- | 3,200 | -- | -- | -- | -- | -- | -- | -- | 2,000 | 135 | -- | 5,335 |
| Equatorial Guinea | 1,000 | -- | -- | -- | -- | 982 | -- | -- | -- | -- | 75 | -- | 2,057 |
| Ethiopia | -- | -- | -- | 5,838 | -- | -- | -- | -- | -- | -- | -- | -- | 5,838 |
| Gabon | -- | -- | -- | -- | -- | 2,376 | -- | -- | -- | -- | 200 | -- | 2,576 |
| Gambia | 3,500 | -- | -- | 928 | -- | 1,106 | -- | -- | -- | -- | 100 | -- | 5,634 |
| Ghana | 8,000 | -- | 6,000 | 4,898 | -- | 2,057 | -- | -- | -- | -- | 225 | -- | 21,180 |
| Guinea | 12,000 | -- | 3,000 | -- | -- | 965 | -- | -- | -- | -- | 150 | -- | 16,115 |
| Guinea-Bissau | 2,000 | -- | -- | 540 | -- | 881 | -- | -- | -- | -- | 50 | -- | 3,471 |
| Kenya | 30,000 | 10,000 | 5,000 | 1,283 | -- | 3,229 | -- | -- | -- | 13,000 | 1,200 | -- | 63,712 |
| Lesotho | 10,000 | -- | -- | 2,656 | -- | 2,209 | -- | -- | -- | -- | 50 | -- | 14,915 |
| Liberia | 10,000 | 7,000 | 5,000 | -- | -- | 2,711 | -- | -- | -- | 1,000 | 800 | -- | 26,511 |
| Madagascar | 11,000 | -- | 5,000 | 2,028 | -- | -- | -- | -- | -- | 1,000 | 75 | -- | 19,103 |
| Malawi | 15,000 | -- | -- | -- | -- | 1,628 | -- | -- | -- | 1,200 | 250 | -- | 18,078 |
| Mali | 12,000 | -- | -- | 2,139 | -- | 4,118 | -- | -- | -- | -- | 150 | -- | 18,407 |
| Mauritania | 3,000 | -- | -- | 2,554 | -- | 2,175 | -- | -- | -- | -- | 100 | -- | 7,829 |
| Mauritius | 1,500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 1,550 |
| Mozambique | 15,000 | -- | -- | 4,487 | -- | -- | -- | -- | -- | -- | -- | -- | 19,487 |
| Niger | 18,000 | -- | -- | -- | -- | 3,854 | -- | -- | -- | 2,000 | 250 | -- | 24,104 |
| Nigeria | 11,500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 100 | -- | 11,600 |
| Rwanda | 8,000 | -- | -- | 1,268 | -- | 411 | -- | -- | -- | -- | 75 | -- | 9,754 |
| Sao Tome | 300 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 350 |
| Senegal | 22,000 | 10,000 | 5,000 | 2,495 | -- | 2,809 | -- | -- | -- | 2,000 | 475 | -- | 44,779 |
| Seychelles | -- | 3,000 | -- | 63 | -- | 283 | -- | -- | -- | -- | 40 | -- | 3,386 |
| Sierra Leone | 500 | -- | 4,000 | 774 | -- | 3,187 | -- | -- | -- | -- | 70 | -- | 8,531 |
| Somalia | 4,000 | 23,000 | 2,000 | -- | -- | -- | -- | -- | -- | 17,000 | 1,100 | -- | 47,100 |
| South Africa | 21,600 | 3,300 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 24,900 |
| Sudan | 15,000 | 12,000 | 40,000 | 1,476 | -- | -- | -- | -- | -- | 5,000 | 1,000 | -- | 74,476 |
| Swaziland | 6,500 | -- | -- | -- | -- | 1,142 | -- | -- | -- | -- | 50 | -- | 7,692 |
| Tanzania | 10,000 | -- | -- | 616 | -- | 1,475 | -- | -- | -- | -- | 35 | -- | 12,126 |
| Togo | 3,750 | -- | -- | 2,424 | -- | 2,436 | -- | -- | -- | -- | 75 | -- | 8,685 |
| Uganda | 8,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 150 | -- | 8,150 |
| Zaire | 33,000 | -- | 16,000 | 220 | -- | 4,422 | -- | -- | -- | 10,000 | 1,200 | -- | 64,842 |
| Zambia | 7,000 | -- | 10,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 17,000 |
| Zimbabwe | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 200 | -- | 200 |
| Sahel Regional | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| S Africa Regional/SADCC | 50,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50,000 |
| Africa Regional | 63,650 | -- | -- | -- | -- | -- | -- | -- | -- | 5,000 | -- | -- | 68,650 |
| Disaster Reserve | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Local Cost Support | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total | 510,000 | 81,500 | 101,000 | 46,346 | 0 | 58,543 | 0 | 0 | 0 | 73,700 | 10,105 | 0 | 881,194 |

FY 1989 U.S. ECONOMIC AND MILITARY ASSISTANCE - REQUEST

| 02-Mar-88 | DA | ESF | PL TITLE I | 460 TITLE II | MARC'S | PEACE CORPS | OTHER ECON | FMS (CONC) | FMS (FORGIVEN) | MAP | IMET | OTHER MILITARY | TOTAL |
|-------------------------|----------------|------------------|----------------|-----------------|---------------|----------------|---------------|--------------------|-------------------|---------------|----------|-------------------|------------------|
| ASIA/NEAR EAST | | | | | | | | | | | | | |
| Afghanistan | 22,500 | 22,500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 45,000 |
| Algeria | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 100 | -- | 100 |
| Austria | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 60 | -- | 60 |
| Bangladesh | 54,500 | -- | 60,000 | 15,476 | -- | -- | -- | -- | -- | -- | 300 | -- | 130,276 |
| Brunei | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 50 |
| Burma | 7,000 | -- | -- | -- | 7,000 | -- | -- | -- | -- | -- | 260 | -- | 14,260 |
| Cambodian Resistance | -- | 5,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 5,000 |
| Cyprus | -- | 3,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 3,000 |
| Egypt | -- | 815,000 | 170,000 | 1,622 | -- | -- | -- | 1,300,000 | -- | -- | 1,650 | -- | 2,288,272 |
| Fiji | -- | -- | -- | -- | -- | 1,548 | -- | -- | -- | 300 | 50 | -- | 1,898 |
| Finland | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 60 | -- | 60 |
| Gaza | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Greene | -- | -- | -- | -- | -- | -- | -- | 350,000 | -- | -- | 1,130 | -- | 351,130 |
| Iceland | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 40 | -- | 40 |
| India | 35,500 | -- | -- | 81,567 | -- | -- | -- | -- | -- | -- | 500 | -- | 117,567 |
| Indonesia | 45,000 | -- | 10,000 | 5,627 | -- | -- | -- | -- | -- | 10,000 | 1,900 | -- | 72,527 |
| Ireland | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 30 | -- | 30 |
| Israel | -- | 1,200,000 | -- | -- | -- | -- | -- | 1,800,000 | -- | -- | -- | -- | 3,000,000 |
| Jordan | -- | 18,000 | -- | -- | -- | -- | -- | 48,000 | -- | -- | 1,800 | -- | 67,000 |
| Kiribati | -- | -- | -- | -- | -- | 394 | -- | -- | -- | -- | -- | -- | 394 |
| Korea | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,800 | -- | 1,800 |
| Lebanon | -- | 300 | -- | -- | -- | -- | -- | -- | -- | -- | 475 | -- | 775 |
| Luxembourg | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Malaysia | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,100 | -- | 1,100 |
| Maldives | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 30 | -- | 30 |
| Malta | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 50 |
| Micronesia | -- | -- | -- | -- | -- | 1,992 | -- | -- | -- | -- | -- | -- | 1,992 |
| Morocco | 12,500 | 15,000 | 40,000 | 15,000 | -- | 2,881 | -- | 40,000 | -- | -- | 1,450 | -- | 126,831 |
| Nepal | 12,000 | -- | -- | -- | -- | 2,222 | -- | -- | -- | 500 | 100 | -- | 14,822 |
| Oman | -- | 15,000 | -- | -- | -- | -- | -- | -- | -- | -- | 150 | -- | 15,150 |
| Pakistan | 50,000 | 250,000 | 80,000 | -- | 5,300 | 371 | -- | 240,000 | -- | -- | 915 | -- | 626,586 |
| Papua New Guinea | -- | -- | -- | -- | -- | 1,669 | -- | -- | -- | -- | 50 | -- | 1,719 |
| Philippines | 15,000 | 124,000 | -- | 12,658 | -- | 5,443 | -- | -- | -- | 110,000 | 2,600 | -- | 269,701 |
| Poland | 3,225 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 3,225 |
| Portugal | -- | 60,500 | -- | -- | -- | -- | -- | 100,000 | -- | -- | 2,550 | -- | 163,050 |
| Singapore | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 50 |
| Solomon Islands | -- | -- | -- | -- | -- | 1,113 | -- | -- | -- | -- | 30 | -- | 1,143 |
| Spain | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,900 | -- | 2,900 |
| Sri Lanka | 26,800 | -- | 16,000 | 194 | -- | 704 | -- | -- | -- | -- | 160 | -- | 43,858 |
| Thailand | 16,000 | 5,000 | -- | -- | 3,900 | 3,013 | -- | -- | -- | 45,000 | 2,200 | -- | 75,113 |
| Tonga | -- | -- | -- | -- | -- | 593 | -- | -- | -- | -- | 50 | -- | 643 |
| Tunisia | -- | 12,500 | 10,000 | -- | -- | 1,808 | -- | 30,000 | -- | -- | 1,450 | -- | 55,758 |
| Turkey | -- | 70,000 | -- | -- | 750 | -- | -- | 550,000 | -- | -- | 3,500 | -- | 624,250 |
| Tuvalu | -- | -- | -- | -- | -- | 70 | -- | -- | -- | -- | -- | -- | 70 |
| West Bank | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Western Samoa | -- | -- | -- | -- | -- | 1,259 | -- | -- | -- | -- | -- | -- | 1,259 |
| Yemen | 21,500 | -- | 5,000 | -- | -- | 1,461 | -- | 2,000 | -- | -- | 1,000 | -- | 30,961 |
| Yugoslavia | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 100 | -- | 100 |
| Asia/Near East Regional | 22,363 | 12,500 | -- | -- | 450 | 737 | -- | -- | -- | -- | -- | -- | 36,050 |
| South Pacific | 4,000 | 11,200 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 15,200 |
| Local Cost Support | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total | 347,888 | 2,639,500 | 391,000 | 132,144 | 17,400 | 27,269 | 0 | 0 4,460,000 | 165,800 | 30,640 | 0 | 0 | 8,211,641 |

FY 1989 U.S. ECONOMIC AND MILITARY ASSISTANCE - REQUEST

| 02-Mar-88 | DA | ESF | PL 480 TITLE I | PL 480 TITLE II | MARC'S | PEACE CORPS | OTHER ECON | FMS (CONC) | FMS (FORGIVEN) | MAP | IMET | OTHER MILITARY | TOTAL |
|--|------------------|------------------|-------------------|--------------------|---------------|-----------------|---------------|---------------|-------------------|------------------|----------------|-------------------|------------------|
| LATIN AMERICA & CARIBBEAN | | | | | | | | | | | | | |
| | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 125 | -- | 125 |
| Argentina | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 60 | -- | 60 |
| Bahamas | 7,400 | 2,000 | -- | -- | -- | 2,512 | -- | -- | -- | 500 | 100 | -- | 12,512 |
| Belize | 22,270 | 25,000 | 17,000 | 12,696 | 10,000 | -- | -- | -- | -- | 5,000 | 400 | -- | 92,366 |
| Bolivia | -- | -- | -- | -- | 1,600 | -- | -- | -- | -- | -- | 125 | -- | 1,725 |
| Brazil | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 50 |
| Chile | -- | -- | -- | -- | 10,000 | -- | -- | -- | -- | 5,000 | 950 | -- | 15,950 |
| Colombia | 12,000 | 70,000 | 15,000 | -- | -- | 3,411 | -- | -- | -- | 1,500 | 230 | -- | 102,141 |
| Costa Rica | 20,318 | 25,000 | 25,000 | 3,268 | -- | 2,358 | -- | -- | -- | 2,000 | 700 | -- | 78,644 |
| Dominican Republic | 16,720 | 9,000 | -- | 510 | 1,600 | 3,668 | -- | -- | -- | 3,000 | 650 | -- | 35,148 |
| Ecuador | 67,700 | 185,000 | 35,000 | 4,771 | -- | -- | -- | -- | -- | 95,000 | 1,500 | -- | 388,971 |
| El Salvador | 34,000 | 80,000 | 18,000 | 5,075 | -- | 3,865 | -- | -- | -- | 5,000 | 400 | -- | 146,340 |
| Guatemala | -- | -- | 4,000 | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 4,050 |
| Guyana | 25,150 | -- | -- | 6,781 | -- | 1,534 | -- | -- | -- | -- | 550 | -- | 34,015 |
| Haiti | 40,000 | 87,000 | 12,000 | 3,122 | -- | 5,694 | -- | -- | -- | 60,000 | 1,200 | -- | 209,016 |
| Honduras | 17,589 | 25,000 | 30,000 | -- | 1,000 | 2,943 | -- | -- | -- | 3,500 | 300 | -- | 80,332 |
| Jamaica | -- | -- | -- | -- | 15,000 | -- | -- | -- | -- | -- | 225 | -- | 15,225 |
| Mexico | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 445 | -- | 445 |
| Panama | -- | -- | -- | -- | -- | 2,475 | -- | -- | -- | -- | 125 | -- | 2,600 |
| Paraguay | 15,270 | 2,000 | 16,000 | 9,904 | 10,000 | -- | -- | -- | -- | -- | 560 | -- | 53,734 |
| Peru | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 50 | -- | 50 |
| Suriname | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 75 | -- | 75 |
| Trinidad & Tobago | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 125 | -- | 125 |
| Uruguay | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 125 | -- | 1,125 |
| Venezuela | 20,230 | 15,000 | -- | -- | 1,000 | 3,709 | -- | -- | -- | 5,000 | 400 | -- | 44,339 |
| Caribbean Regional | 23,600 | 10,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 33,600 |
| Central American Reg | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,100 | -- | 2,100 |
| PACAMS | 24,500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 24,500 |
| ROCAP | 24,853 | 12,500 | -- | -- | 6,000 | -- | -- | -- | -- | -- | -- | -- | 43,353 |
| LAC Regional (Inc Admin of Justice) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Local Cost Support | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total | 371,600 | 547,500 | 172,000 | 46,127 | 56,200 | 32,169 | 0 | 0 | 0 | 185,500 | 11,620 | 0 | 1,422,716 |
| (Central America) * | (209,200) | (434,000) | (80,000) | (12,968) | (0) | (15,482) | (0) | (0) | (0) | (162,000) | (3,875) | (0) | (917,525) |

FY 1989 U.S. ECONOMIC AND MILITARY ASSISTANCE - REQUEST

| 02-Mar-88 | DA | ESF | PL 480 TITLE I | PL 480 TITLE II | NARC'S | PEACE CORPS | OTHER ECON | FMS (CONC) | FMS (FORGIVEN) | MAP | IMET | OTHER MILITARY | TOTAL |
|----------------------------|---------|-----|-------------------|--------------------|--------|----------------|---------------|---------------|-------------------|--------|------|-------------------|-----------|
| CENTRAL BUREAUS | | | | | | | | | | | | | |
| S&I | | | | | | | | | | | | | |
| Agriculture | 30,500 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 30,500 |
| Education | 4,832 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 4,832 |
| Energy | 9,293 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 9,293 |
| Forestry & Envr Nat Res | 5,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 5,000 |
| Health | 67,675 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 67,675 |
| Nutrition | 9,400 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 9,400 |
| Population | 118,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 118,000 |
| Rural & Institutional Dev | 9,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 9,000 |
| Research & Univ Relations | 8,800 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 8,800 |
| Program Office | 1,900 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,900 |
| Total S&I | 264,400 | -- | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 264,400 |
| FVA | | | | | | | | | | | | | |
| Food for Peace | 5,800 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 5,800 |
| PVC | 45,100 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 45,100 |
| Biden Pell | [3,000] | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | [3,000] |
| Program Mgt Support | 200 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 200 |
| Total FVA | 51,100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 51,100 |
| PPC | | | | | | | | | | | | | |
| Economic Affairs | 400 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 400 |
| Evaluation | 4,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 4,000 |
| P DPR | 3,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 3,000 |
| Women in Development | 2,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,000 |
| Peace Corps | 2,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,000 |
| CGIARS | 40,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 40,000 |
| Israel Cooperation | 5,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 5,000 |
| Total PPC | 56,400 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 56,400 |
| PRE | | | | | | | | | | | | | |
| Housing & Urban Dev | 4,760 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 4,760 |
| Investment (Inc Rev Loans) | 9,000 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 9,000 |
| Program Review | 770 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 770 |
| Project Development | 11,020 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 11,020 |
| Total PRE | 25,550 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25,550 |
| (Revolving Loan Fund) | (8,500) | | | | | | | | | | | | (8,500) |
| OFDA | | | | | | | | | | | | | |
| Science Advisor | 8,662 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 8,662 |
| Israel Cooperation | [5,000] | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | [5,000] |
| Office of Intl Training | 1,900 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,900 |
| Other | -- | -- | -- | -- | 27,400 | 32,019 | -- | -- | -- | 42,000 | 135 | -- | 101,554 |
| P.L. 480: | | | | | | | | | | | | | |
| Reserve | -- | -- | 85,700 | 75,548 | -- | -- | -- | -- | -- | -- | -- | -- | 161,248 |
| World Food Program | -- | -- | -- | 90,427 | -- | -- | -- | -- | -- | -- | -- | -- | 90,427 |
| P.L. 480 Stock Adj. | -- | -- | -- | (21,036) | -- | -- | -- | -- | -- | -- | -- | -- | (21,036) |
| Ocean Freight | -- | -- | 77,300 | 225,444 | -- | -- | -- | -- | -- | -- | -- | -- | 302,744 |
| Initial Payment | -- | -- | (15,000) | -- | -- | -- | -- | -- | -- | -- | -- | -- | (15,000) |
| Farmer to Farmer | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| TOTAL | 408,012 | 0 | 148,000 | 370,383 | 27,400 | 32,019 | 0 | 0 | 0 | 42,000 | 135 | 0 | 1,027,949 |

MULTILATERAL DEVELOPMENT BANKS AND
INTERNATIONAL ORGANIZATIONS AND PROGRAMS

| | FY 1986 ACTUAL | FY 1987 ACTUAL | FY 1988 ESTIMATE | FY 1989 REQUEST |
|--|-------------------|-------------------|---------------------|--------------------|
| ----- | | | | |
| MDBs and International Organizations | | | | |
| MDBs | | | | |
| World Bank (IBRD) | 105,003 | 55,805 | 40,175 | 70,915 |
| Int'l Development Association | 669,900 | 830,100 | 915,000 | 955,333 |
| Spec Fac for Sub-Saharan Africa | 71,775 | 64,805 | --- | --- |
| Int'l Finance Corporation | 27,827 | 7,206 | 20,300 | 35,032 |
| Inter-American Development Bank | 36,367 | 15,417 | 31,600 | --- |
| Fund for Special Operations | 38,280 | 17,263 | 25,732 | --- |
| Fund for Special Operations/IIC | 11,197 | --- | 1,303 | --- |
| Asian Development Bank | 11,397 | 13,233 | 15,057 | 101,200 |
| Asian Development Fund | 95,700 | 91,406 | 23,000 | 44,870 |
| African Development Bank | 15,493 | 20,480 | 8,999 | 8,999 |
| African Development Fund | 59,573 | 90,427 | 75,000 | 105,000 |
| MIGA | --- | --- | 44,403 | --- |
| TOTAL | 1,142,512 | 1,207,142 | 1,205,570 | 1,324,349 |
| | | | | |
| International Organizations & Programs | | | | |
| UN Development Program | 138,115 | 107,500 | 110,000 | 112,000 |
| UN Childrens Fund (UNICEF) | 51,430 | 51,080 | 54,400 | 32,000 |
| Int'l Atomic Energy Agency | 16,953 | 20,500 | 21,854 | 24,000 |
| Organization of American States | 14,092 | 13,500 | 12,000 | 15,000 |
| UN Environment Program | 8,613 | 6,800 | 7,840 | 6,300 |
| World Meteorological Organization | 1,723 | 2,000 | 1,960 | 2,000 |
| UN Capital Development Fund | 861 | 861 | 980 | 1,500 |
| FAO/World Food Program | 1,133 | 1,918 | 980 | -- |
| UN Development Fund for Women (UNIFEM) | 239 | 219 | 220 | 150 |
| UN Education & Training Program for Southern Africa | 861 | 789 | 784 | 800 |
| CITES | 172 | 172 | 170 | 200 |
| UN Institute for Namibia | --- | 110 | 110 | -- |
| UN Trust Fund for South Africa | --- | 250 | 245 | 250 |
| UN Fellowship Program | 215 | 100 | 245 | 200 |
| UNITAR | --- | --- | --- | -- |
| UNIDO Invest. Promotion Service | --- | 150 | 150 | 500 |
| IFAD | 28,710 | 28,710 | 30,000 | 2,500 |
| UNDP TFCPHA | 1,368 | --- | --- | -- |
| UN Fund for Victims of Torture | 86 | 86 | 90 | 100 |
| ICSOC | 1,228 | 2,000 | 2,000 | 1,800 |
| UN Center on Human Settlement (HABITAT) | 383 | 400 | 400 | -- |
| World Heritage Trust Fund | 239 | 219 | 220 | 200 |
| TOTAL | 266,421 | 237,264 | 244,648 | 200,000 |
| | | | | |
| TOTAL MULTILATERAL ASSISTANCE | 1,408,933 | 1,444,406 | 1,450,218 | 1,524,349 |

ACTIVITIES OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT



Question: How many discrete functions, activities and programs does A.I.D. attempt to implement.

Answer: A.I.D.'s functions, activities and programs are intended to share American scientific, technical and entrepreneurial skills with the developing world. Today, U.S. economic aid programs emphasize four basic principles: reliance on the private sector and market forces as engines of economic growth; policy dialogue and reform; transfer of appropriate technology and institution building.

Virtually all assistance by A.I.D. is provided under one of three major appropriation accounts: Development Assistance, Economic Support Fund, and Public Law (PL) 480.

--Development Assistance (DA): The key objective of DA is the promotion of long term economic development through programs designed to help a host country improve its ability to use resources more effectively. Currently, A.I.D. supports over 1,500 DA programs in Agriculture, Rural Development and Nutrition; Population; Health; Child Survival; AIDS Prevention and Control; Education and Human Resources Development and Private Sector, Environment and Energy.

--Economic Support Funds (ESF): ESF assistance is provided based on considerations of special economic, political or security needs and is programmed in three basic ways: Balance of payments support to assist recipient countries in meeting urgent foreign exchange requirements; commodity import programs to fund commodity imports from the US and in the form of project assistance to support development projects targetted to improve the quality of life.

Major ESF programs include the continued support for economic stabilization and the peace process in the Middle East, promotion of economic growth and democratization in Central America and support for economic progress by African countries.

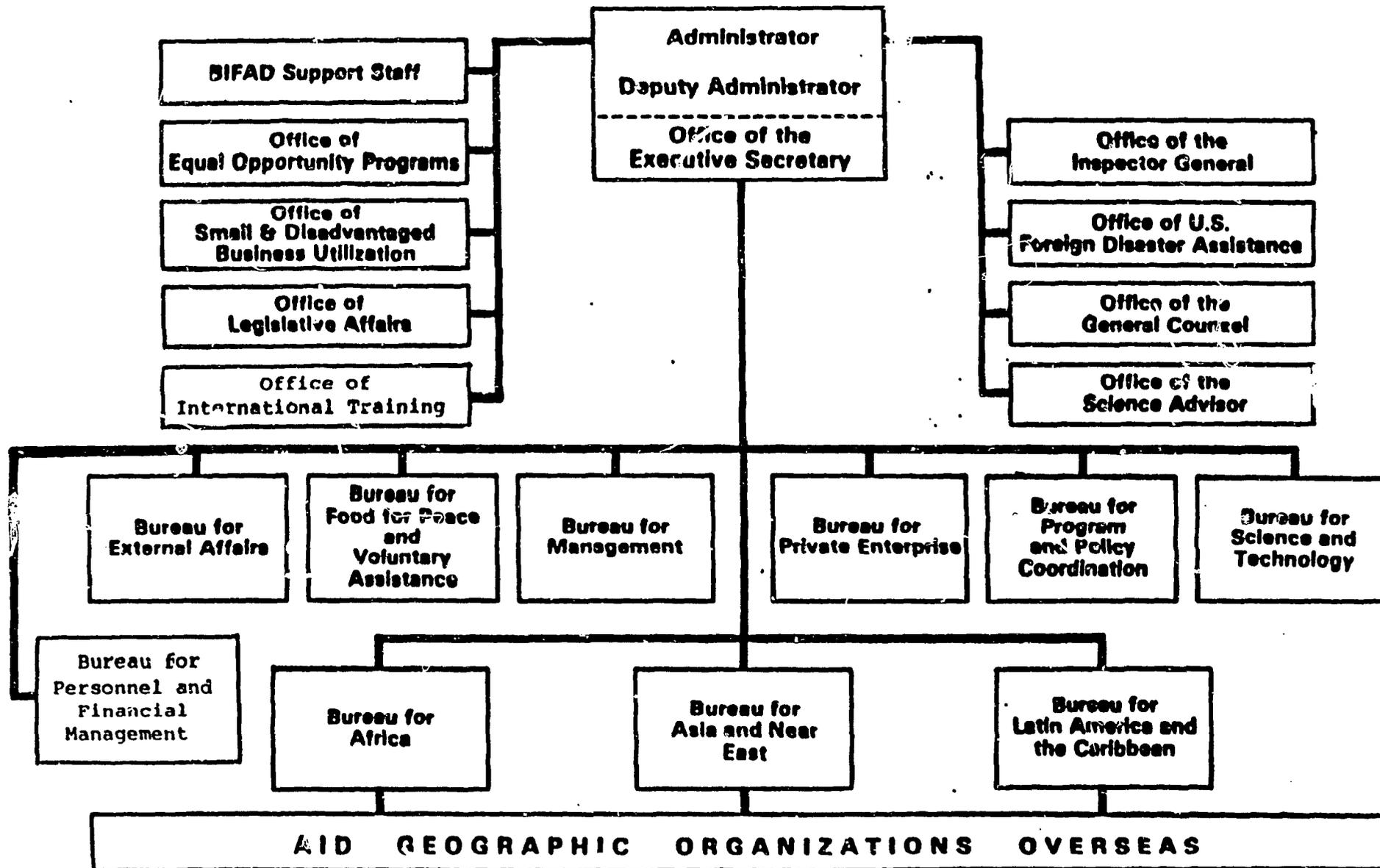
--Public Law (PL 480): Food aid is provided in close cooperation with the U.S. Department of Agriculture. Throughout the world, food aid is mostly provided through Title I concessional sales in exchange for specific self-help development activities, including food development grants under Title III. Also, food is donated under Title II for humanitarian purposes which include emergency disaster relief and helping needy people --particularly malnourished children. The Food for Peace program has delivered 303 million metric tons of food to more than 1.8 billion people in over 100 countries since 1954.

Other smaller flows allow A.I.D. to conduct humanitarian relief under International Disaster Assistance, participate in the long term program for the Sahel Development, provide grants to private US nonprofit organizations sponsoring American Schools and Hospitals Abroad, and facilitate private financing for shelter for lower income families in the developing world by guaranteeing repayment to US lenders through the Housing Guaranty Program.

Attachment: A.I.D. Organizational Chart

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Agency for International Development



Question: Can activities be sensibly divided into some broad but useful categories, such as long term development, external (including Congressional) relations, management and administrative functions, short term foreign policy operations?

Answer: A.I.D.'s activities can be divided into two major categories: A.I.D./Washington and A.I.D./Overseas. However, the Agency's functions overlap and extend far beyond its institutional limits by tapping the vast intellectual resources of the United States and sharing them with the governments and people of the developing world.

A.I.D./Washington: A.I.D. functions under an Administrator who is responsible for the overall direction of the US economic assistance program. Key management and administrative functions in AID/W include setting the policy framework; conducting Congressional relations and responding to the public; advising the Secretary of State and coordinating with Federal Agencies and other donors; allocating resources; establishing administrative, management, accountability and evaluation procedures; and managing the financial, technical and human resources as well as backstopping field activities. Also, funding research and field-support activities through central and regional projects.

A.I.D./Overseas: In general, the major functions overseas are proposing country programs and policies which include working with host-country governments and private sector institutions to define assistance and establish program priorities, and implementing programs. Also, coordinating with other aid-donors in the field; advising the Ambassador on A.I.D.'s matters and serving in an advisory capacity to AID/W and the US Congress.

A.I.D. External Functions: Environmental factors —the political, economic, social and cultural conditions in the U.S. and in the countries in which we work are central to the Agency's ability to manage its programs effectively. A.I.D.'s programs are affected by our external relations and coordination with the U.S. Congress; other Federal Agencies: State, OMB, Treasury, Commerce, USDA, GAO, Peace Corps, OPIC, etc.; US Universities and Research Centers; Private Voluntary Agencies; US Businesses; other aid-donor agencies; and the US public at large.

We can also conceptualize the foreign assistance program as addressing a sequence of objectives: immediate, short to medium-term and long-term.

Immediate: Programs that meet these objectives deal mostly with disaster assistance responding to overseas earthquakes, floods, etc. Also included are DA, ESF or PL480 programs that respond to specific situations such as famines in Africa or health problems such as AIDS.

Short to Medium-Term: ESF Programs which address economic stabilization or strategic political objectives such as securing base rights, in general, meet short-term objectives. DA or ESF assistance that create conditions conducive to helping trade, managing the debt issue and controlling narcotics, may meet medium-term objectives.

Long-Term: These are the programs that assist in creating a future world compatible with American interests —investments made today in the development of human resources and institutions for a better tomorrow. Examples are the DA Programs in agriculture, health, population and other sectors dealing with technology transfer; investment promotion; assistance to small and medium-size enterprises; training; environment and many others.

Question: How many people does A.I.D. employ in the various categories.

Answer: In 1988, A.I.D.'s workforce consists of 4,695 direct hire employees —3,525 U.S. and 1,170 foreign service nationals.

A breakdown of the various categories for full and part time direct hire A.I.D. employees is as follows:

| <u>Category</u> | <u>Full Time</u> | <u>Part Time</u> | <u>Total</u> | <u>(%)</u> |
|-------------------------------|------------------|------------------|--------------|--------------|
| Executive/Presidential Appts. | 8 | 0 | 8 | 0.2 |
| Administratively Determined | 96 | 5 | 101 | 2.2 |
| Senior Executive Service | 36 | 1 | 37 | 0.8 |
| GS/GM | 1,207 | 260 | 1,467 | 31.2 |
| Senior Foreign Service | 280 | 0 | 280 | 6.0 |
| Foreign Service | 1,543 | 39 | 1,582 | 33.7 |
| Foreign Nationals | 1,166 | 4 | 1,170 | 24.9 |
| Other | 4 | 46 | 50 | 1.0 |
| <u>Total</u> | <u>4,340</u> | <u>355</u> | <u>4,695</u> | <u>100.0</u> |

Of the 4,340 full time direct-hire employees, 1,935 (44.6%) work in A.I.D. Washington while 2,405 (55.4%) work in our Missions overseas (1,239 U.S. Nationals and 1,166 foreign nationals).

The following table and attached chart illustrate recent A.I.D. staffing trends. As shown, the total number of direct hires has declined by 21.8 percent since 1980.

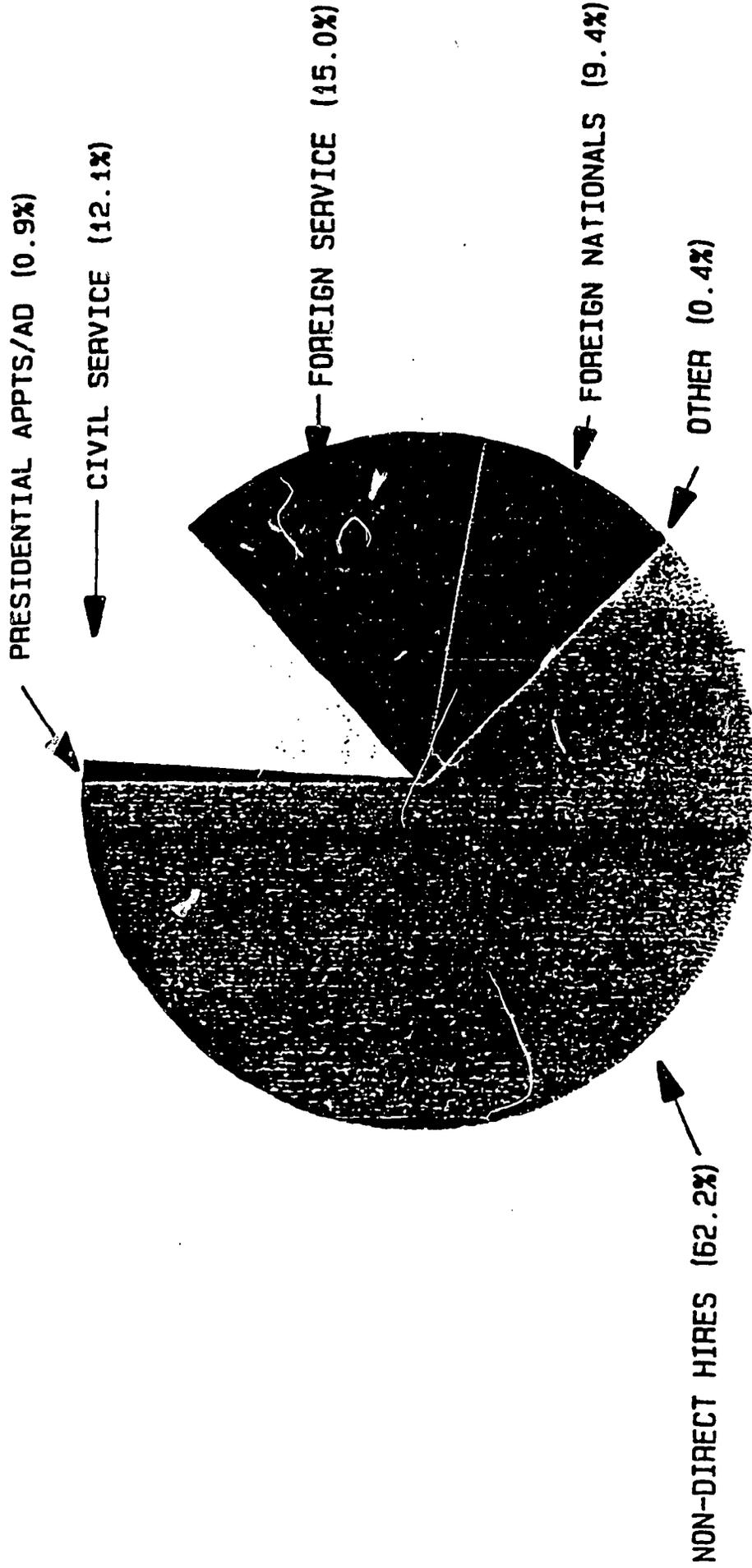
| <u>Year</u> | <u>Direct Hire</u> | | |
|-------------|--------------------|----------------------|--------------|
| | <u>U.S.</u> | <u>Foreign Nat'l</u> | <u>Total</u> |
| 1980 | 4,111 | 1,900 | 6,011 |
| 1981 | 3,925 | 1,779 | 5,704 |
| 1982 | 3,753 | 1,653 | 5,406 |
| 1983 | 3,794 | 1,479 | 5,273 |
| 1984 | 3,844 | 1,324 | 5,168 |
| 1985 | 3,623 | 1,281 | 4,904 |
| 1986 | 3,454 | 1,214 | 4,668 |
| 1987 | 3,482 | 1,185 | 4,667 |
| 1988 | 3,525 | 1,170 | 4,695 |

In addition to direct hire staff, A.I.D. currently employs 7,740 non-direct hires which include US and foreign national contractor personnel, details from other agencies and employees of other federal agencies under Participating Agency Service Agreements (PASA) and Resources Services Agreement (RSSA).

Attachments: Staffing Charts

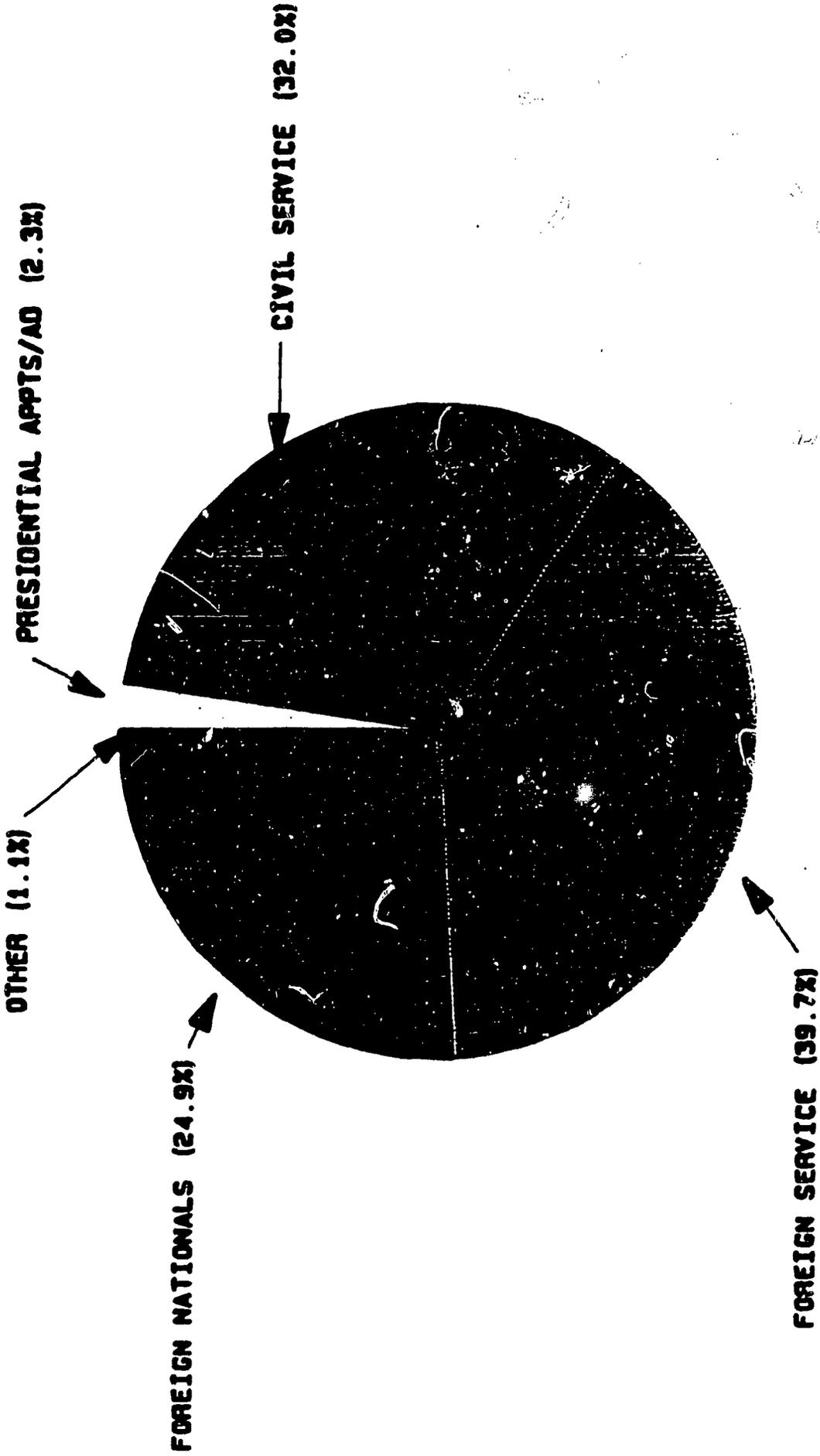
A.I.D. EMPLOYEES BY CATEGORY: 1988

(Including Non-Direct Hires)



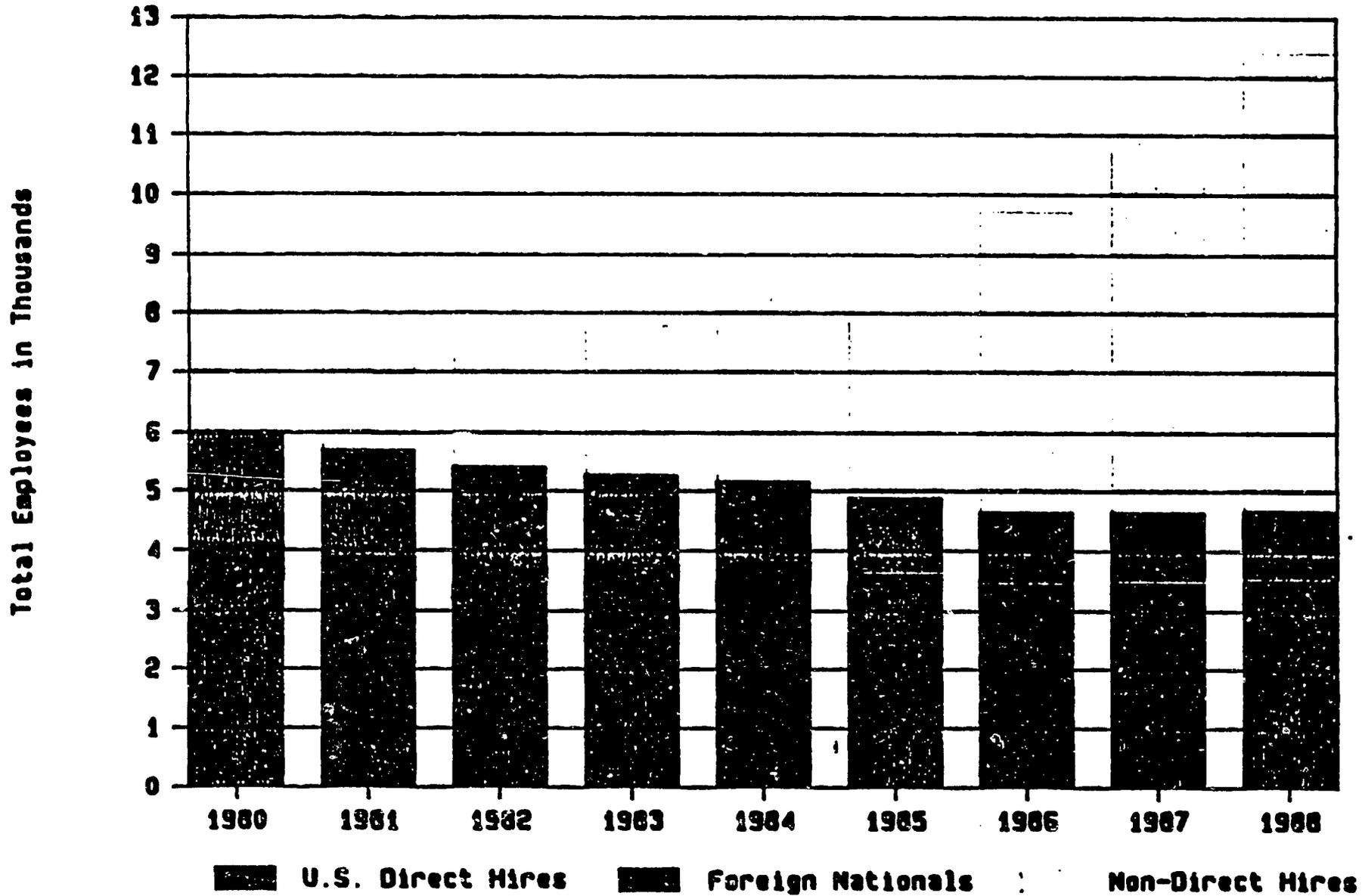
Source: Data provided by AID/PFM/PA/RP

A.I.D. DIRECT HIRE EMPLOYEES BY CATEGORY: 1988



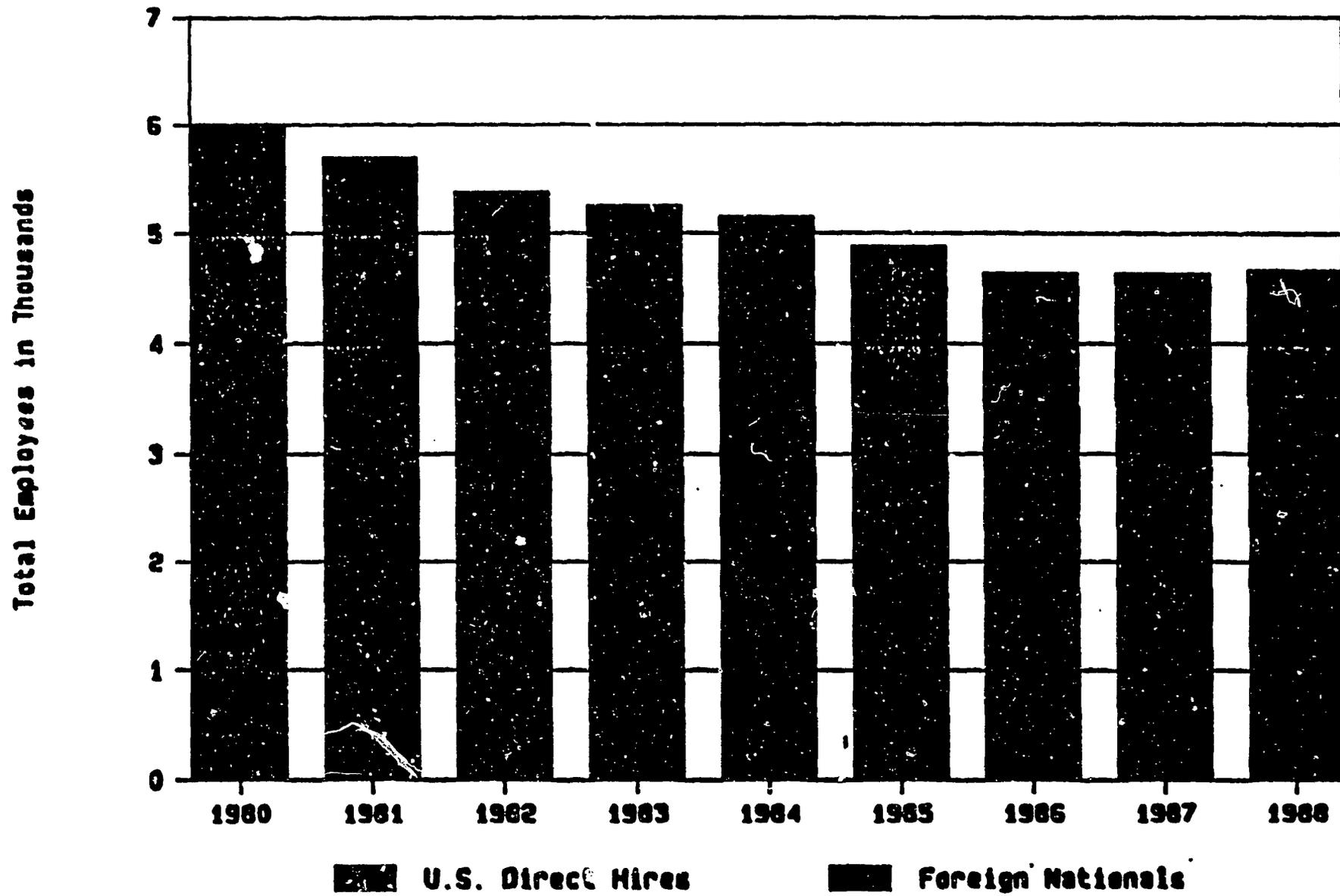
SOURCE: Data provided by AID/PFN/PN/RP

**TRENDS IN A.I.D.'S WORLDWIDE EMPLOYEES INCLUDING NON-DIRECT HIRES
(1980 - 1988)**



SOURCE: Data provided by AID/PPA/PA/RF

TRENDS IN A.I.D.'S WORLDWIDE DIRECT HIRES (1980 - 1988)



SOURCE: Data provided by AID/FFN/PN/TP

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Question: In how many countries does A. I. D.

1. Have Programs of some size
2. Have Personnel (from Rep to full Mission)

1. A. I. D. has economic assistance programs of more than \$1 million in more than 90 countries.

2. A. I. D.'s presence overseas is as follows:

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A. I. D. OVERSEAS

| <u>Region</u> | <u>46</u> USAID <u>Mission</u> | <u>23</u> A. I. D. Rep. | <u>13</u> Regional |
|-----------------------------|--------------------------------------|----------------------------|-------------------------|
| <u>AFRICA</u> | 23 | 11 | 5 |
| | Botswana | Burundi | REDSO/ESA, Kenya |
| | Burkina Faso | Cape Verde | RHUDO/E, Kenya |
| | Cameroon | Chad | REDSO/WCA, Ivory Coast |
| | Guinea | Ethiopia | RHUDO/WA, Ivory Coast |
| | Kenya | The Gambia | AFRICA Regional, France |
| | Lesotho | Ghana | |
| | Liberia | Guinea Bissau | |
| | Madagascar | Mauritania | |
| | Malawi | Togo/Benin | |
| | Mali | Nigeria | |
| | Mozambique | Sierra Leone | |
| | Niger | | |
| | Senegal | | |
| | Somalia | | |
| | Rep. of South Africa | | |
| | Rwanda | | |
| | The Sudan | | |
| | Swaziland | | |
| | Tanzania | | |
| | Uganda | | |
| | Zaire | | |
| | Zambia | | |
| | Zimbabwe | | |
| <u>ASIA & NEAR EAST</u> | 13 | 5 | 4 |
| | Bangladesh | Afghanistan* | South Pacific Reg. |
| | Egypt | Burma | Devl. Office, Fiji |
| | India | Lebanon | ASIA Regional** |
| | Indonesia | Oman | RHUDO/ASIA, Thailand |
| | Jordan | Portugal | RHUDO/NE, Tunisia |
| | Morocco | | |
| | Nepal | | |
| | Pakistan | | |
| | The Philippines | | |
| | South Pacific, Suva, Fiji | | |
| | Sri Lanka | | |
| | Thailand | | |
| | Tunisia | | |
| | Yemen | | |

*located in Pakistan

** located in Jordan, Philippines and Thailand

LATIN AMERICA & THE CARIBBEAN

| 16 | 7 | 4 |
|----------------|------------------|----------------------|
| Bolivia | Belize | ROCAP, Guatemala |
| Costa Rica | Brazil | RDOC, Barbados |
| Dominican Rep. | Chile | RHUDO/CARIB, Jamaica |
| Ecuador | Colombia | RHUDO/CA, Honduras |
| El Salvador | Mexico | |
| Guatemala | Paraguay/Uruguay | |
| Haiti | | |
| Honduras | | |
| Jamaica | | |
| Peru | | |

In addition, the Bureau for Program and Policy Coordination (PPC) maintains offices in Paris and Rome.

Question: How are various accounts allocated, e.g., ESF, DA, PL 480 and how much discretionary authority does A.I.D. have.

Answer: A.I.D.'s first and most important consideration in the allocation of ESF, DA and PL 480 resources is the size of the appropriation bill and its constraints. In recent years with the protection of the high priority recipient countries through earmarks, the US Congress has, in fact, diminished considerably A.I.D.'s discretionary authority, particularly over ESF, and recently DA to a lesser degree. PL 480 remains largely free of specific earmarks; although, certain limitations are applied.

TRENDS IN A.I.D. DISCRETIONARY AUTHORITY: DEVELOPMENT ASSISTANCE (DA)
(\$000s)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
|-----------------------|-------|-------|-------|-------|-------|
| DA Total | 1,623 | 1,555 | 1,494 | 1,698 | 1,747 |
| Total Earmarks | 159 | 126 | 693 | 761 | 857 |
| Net Unprotected Funds | 1,464 | 1,429 | 801 | 937 | 889 |
| Percent Unearmarked | 90% | 92% | 54% | 55% | 51% |

TRENDS IN A.I.D. DISCRETIONARY AUTHORITY: ECONOMIC SUPPORT FUNDS(ESF)
(\$000s)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
|-----------------------|-------|-------|-------|-------|-------|
| ESF Total | 3,826 | 3,547 | 3,550 | 3,188 | 3,259 |
| Total Earmarks | 2,136 | 2,534 | 2,079 | 3,086 | 3,200 |
| Net Unprotected Funds | 1,690 | 1,012 | 571 | 102 | 59 |
| Percent Unearmarked | 44% | 29% | 16% | 3% | 2% |

Within the flexibility to allocate unearmarked funds, decisions on DA allocation are handled primarily by A.I.D., ESF jointly with the State Department, and PL 480 through an inter-agency working group under the Development Coordination Committee (DCC). Key sequential elements of the allocation process are:

Stating the foreign policy framework; setting forth objectives; and analyzing the contribution of each program to the overall attainment of these objectives.

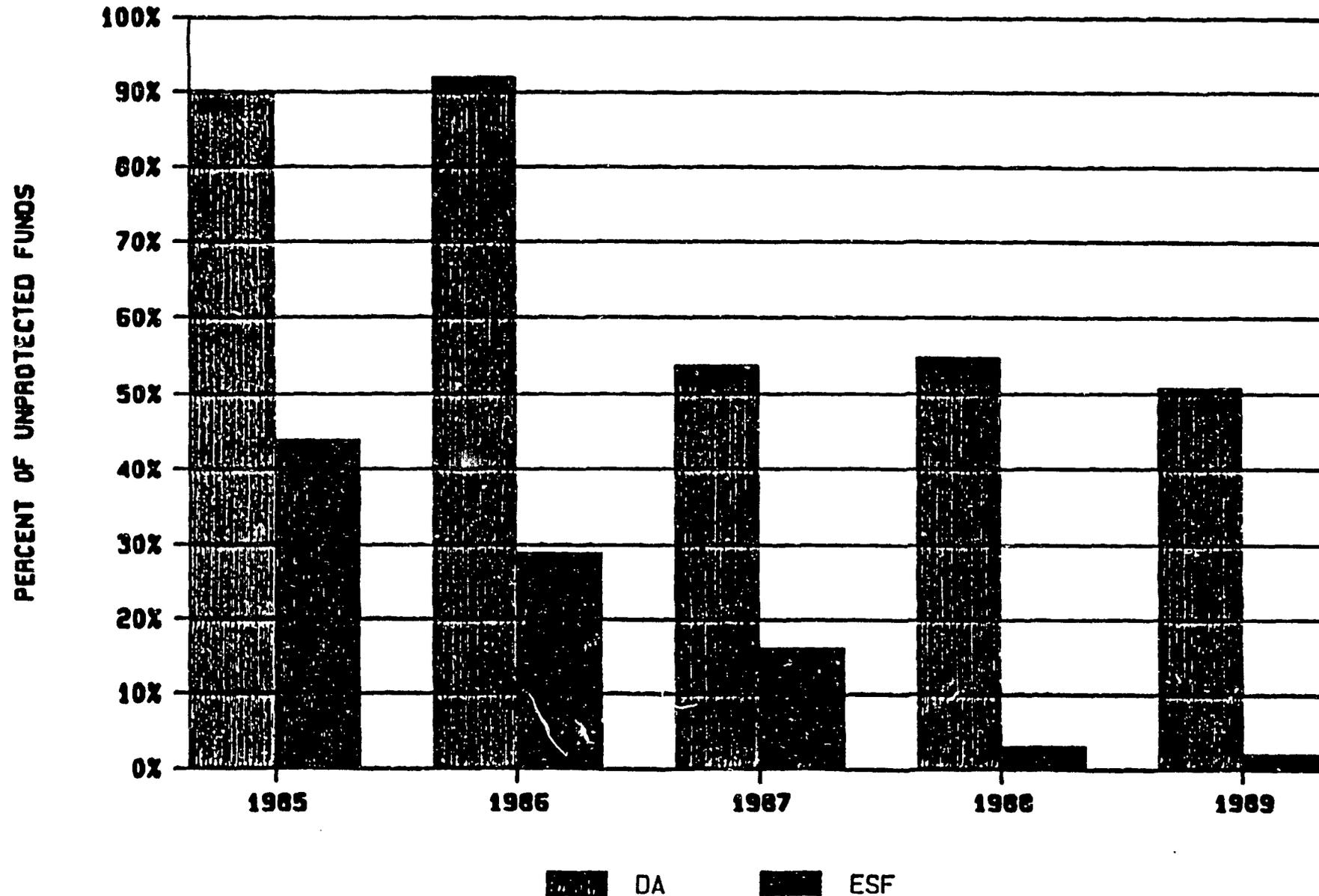
Allocating resources within the context of general US policy objectives and specific regional and country priorities as established by the Country Development Strategy Statements (CDSS) developed by each overseas Mission.

Reviewing and debating prospective aid levels.

A.I.D.'s assistance criteria for DA, PL480 and ESF, to the extent possible, includes: the country's need, economic progress and prospects and its commitment to policies that promote growth. For PL 480, there are additional criteria imposed by either legislation or interests of the other agencies involved in the decision-making process. In the case of ESF, strategic considerations and US interests are the primary determinants. Assistance criteria can also include: access to raw materials important to US industry, possibility of destabilizing conflict, presence or prospect of considerable US private investment, character of the country's overall relations with the US; human rights position and the extent of the country's efforts to acquire nuclear weapons.

TRENDS IN A.I.D. DISCRETIONARY AUTHORITY

DEVELOPMENT ASSISTANCE/ECONOMIC SUPPORT FUNDS



SOURCE: Data provided by AID/PPC.

Where Does the A.I.D. Money Go: A Look at Earmarks and Mortgages

Earmarks: \$4,057,470,000 or a little over 81% of the total A.I.D. ESF and DA operating year budget for FY 89 is earmarked or otherwise restricted by Congress for specific purposes. Nearly 80% of that amount was on the ESF account, where virtually all funds are earmarked for specific country programs. Approximately half of the DA account was earmarked in FY 89.

The extent of earmarks in the FY 89 budget is the highest in A.I.D. history; after earmarks and restrictions are taken into account, only 19% of A.I.D. funds are available for discretionary activities. A clear trend towards increasing earmarks is shown in Table 1 which traces earmarks over the past five fiscal years. In FY 85 over 90% of the DA budget was unrestricted, with 44% of the ESF budget un-earmarked; today's unearmarked budget is roughly 30% of what it was in FY 85.

Mortgages: Mortgage represents the major way that Missions and Central Bureaus assure some diversity in their project portfolios, as well as keep the amount in the obligated pipeline down. Given relatively shrinking budgets and increasing costs of technical assistance and other project components, incremental obligations to existing projects are phased over the life of the project. While current high levels of mortgage are justified on the grounds of portfolio management, it is also true that it makes for an enormous amount of existing claims against future years' obligations.

Table 2 shows current A.I.D. cumulative obligations, pipeline of active projects, and the mortgage calculated necessary to carry out existing projects to their finish. The total mortgage as of September 30, 1988, was \$10.5 billion, about equally divided between ESF and DA accounts. This is a little over twice the total FY 89 ESF and DA appropriation.

- o Mortgage on ESF is approximately \$5.6 billion, 1.7 times this year's total appropriation.
- o Mortgage on DA is \$4.9 billion, 2.8 times this year's total appropriation and 5.5 times greater than this year's unrestricted DA level.

Table 1

Congressional Earmarks of the A.I.D. Budget

(figures in \$000)

| | <u>FY 85</u> | <u>FY 86</u> | <u>FY 87</u> | <u>FY 88</u> | <u>FY 89</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| <u>Development Assistance (DA)</u> | | | | | |
| <u>DA Total</u> | 1,622,522 | 1,554,627 | 1,493,991 | 1,698,026 | 1,746,526 |
| <u>Earmarks/Restrictions¹</u> | 159,000 | 125,510 | 693,414 | 761,250 | 857,470 |
| <u>Unrestricted</u> | 1,463,522 | 1,429,117 | 800,577 | 936,776 | 889,056 |
| <u>% Unrestricted</u> | 90.20 | 91.93 | 53.59 | 55.17 | 50.90 |
| <u>Economic Support Funds (ESF)</u> | | | | | |
| <u>ESF Total</u> | 3,826,000 | 3,546,642 | 3,550,000 | 3,188,320 | 3,258,500 |
| <u>Earmarks</u> | 2,136,000 | 2,534,428 | 2,979,022 | 3,086,000 | 3,200,000 |
| <u>Unrestricted</u> | 1,690,000 | 1,012,214 | 570,978 | 102,320 | 58,500 |
| <u>% Unrestricted</u> | 44.17 | 28.54 | 16.08 | 3.21 | 1.80 |
| <u>Total DA & ESF</u> | | | | | |
| <u>Total DA & ESF</u> | 5,448,522 | 5,101,269 | 5,043,991 | 4,886,346 | 5,005,026 |
| <u>Earmarks/Restrictions</u> | 2,295,000 | 2,659,938 | 3,672,436 | 3,847,250 | 4,057,470 |
| <u>Unrestricted</u> | 3,153,522 | 2,441,331 | 1,371,555 | 1,039,096 | 947,556 |
| <u>% Unrestricted</u> | 57.46 | 47.86 | 27.19 | 21.27 | 18.93 |

¹ Earmarks are specifically written into the bill; other restrictions consist of Congressional directives and suggestions, which are not a part of the specific legislation but nonetheless followed closely by A.I.D.

Table 2

A.I.D. FINANCIAL COMMITMENTS AS OF 9/30/88

| <u>BUREAU</u> | <u>CUMULATIVE¹ OBLIGATIONS</u> | <u>PIPELINE²</u> | <u>MORTGAGE³</u> |
|--|---|-----------------------------|-----------------------------|
| AFRICA | 4,077,092 | 1,554,203 | 1,727,009 |
| ASIA/NEAR EAST | 13,531,422 | 4,869,651 | 6,310,414 |
| LATIN AMERICA/ CARIBBEAN | 4,081,514 | 1,733,888 | 1,185,585 |
| SCIENCE & TECHNOLOGY | 1,717,696 | 321,669 | 1,174,837 |
| FOOD FOR PEACE & VOLUNTARY ASSISTANCE | 834,182 | 163,189 | 60,916 |
| PROGRAM & POLICY COORDINATION | 417,440 | 41,676 | 10,510 |
| PRIVATE ENTERPRISE | 190,657 | 61,584 | 18,770 |
| OFFICE OF THE FINANCE ADVISOR | 83,079 | 27,691 | 12,618 |
| OFFICE OF FOREIGN ASSISTANCE | 40,875 | 14,563 | -- |
| TRADE AND DEVELOPMENT PROGRAM | 9,626 | 2,183 | -- |
| OFFICE OF INTERNATIONAL TRAINING | 13,250 | 1,417 | 6,549 |
| SPECIAL REQUIREMENTS FUND | 24,394 | 8,373 | -- |
| OTHER | 8,904 | 8,743 | -- |
| <u>TOTAL</u> | 25,040,131 | 8,808,830 | 10,507,208 |
| (ESF) | 12,948,205 (51.7%) | 4,706,871 (53.4%) | 5,595,778 (53.3%) |
| (DA) | 12,091,926 (48.3%) | 4,101,959 (46.6%) | 4,911,430 (46.7%) |

¹Cumulative obligations are for projects active as of 9/30/88.

²Pipeline refers to obligated funds which have not been expended for project activities.

³Mortgage refers to total authorized life of project funding minus the amount already obligated; it represents a future year commitment on Bureau or Mission Operating Year Budget allotments.

OTHER U.S. BILATERAL ECONOMIC ASSISTANCE

Public Law 480 and Food Aid

Objectives

The PL 480 program is the principal U.S. food aid program. It provides over 60 percent of the food aid received by developing countries from all sources. PL 480 resources are used in both bilateral and multilateral programs. In 1986, famine assistance to Africa continued to dominate public awareness and discussion of food aid. U.S. food aid programs accounted for shipment to Africa of over 1.7 million tons of food valued at over \$541.8 million in FY 1986, the second year of generous response that demonstrated U.S. concern for the victims of this famine. While the humanitarian/relief aspects of the U.S. food aid program continue to be important, it is the potential for assisting in longer term economic development that makes these programs a key element of U.S. bilateral economic assistance.

The major categories of U.S. food aid programs are designated by the relevant titles of the PL 480 legislation and section 416 of the Agricultural Act of 1949. These programs are described below.

PL 480 Title I provides long-term, low-interest loans to friendly developing countries for the purchase of U.S. agricultural commodities. These help relieve both chronic and temporary or unexpected food shortages while providing balance of payments support. A key feature is that recipient countries agree to undertake self-help measures to improve the efficiency of their agricultural production, marketing, and distribution or otherwise correct the conditions that created a need for aid.

PL 480 Title II provides for the donation of food commodities for humanitarian and development uses. U.S. PVOs receive many of these commodities for the feeding programs they administer. The programs are directed toward malnourished children or other nutritionally vulnerable groups. PVOs also administer small-scale food-for-work development programs and a variety of food emergency and refugee relief programs. Grant food under this title is also distributed through host government programs in some countries and by international organizations for regular feeding and development programs as well as emergency programs. The major multilateral program supported by Title II resources is the World Food Program (WFP), established with U.S. encouragement by the members of the United Nations and the Food and Agriculture Organization in 1972.

In FY 1986, eight countries--including Bolivia, Ecuador, Haiti, Sudan, Liberia, and Zaire--reported having allocated PL 480 resources to support immunization activities. Immunization projects supported by PL 480 resources are planned to reach more than 7 million children. Information on the number of children actually completing their full immunization series will be available later in 1987.

PL 480 Title III provides for multiyear commitments of food aid and forgiveness of the debt incurred through Title I-financed purchases when the resource transfer involved is demonstrably applied to implementation of a development program specified in detail in a Title III agreement.

Section 416 of the Agricultural Act of 1949. The Food Security Act of 1985 revamped subsection (b) of section 416 to authorize the Secretary of Agriculture to furnish eligible commodities for carrying out programs of assistance in developing countries through (1) Title II of PL 480, (2) the Food for Progress Act of 1985, and (3) other activities as approved by the Secretary of Agriculture. According to the legislation, eligible commodities means (1) dairy products, grains, and oilseeds acquired by the U.S. Department of Agriculture (USDA) through price support operations and (2) other edible agricultural commodities acquired by the USDA in the normal course of operations and that are available for disposition under section 416.

Background and Evaluation of Food Aid

PL 480 was enacted in 1954 in response to growing public concern over increasing U.S. agricultural surpluses in a world in which many countries had substantial food deficits. In the early 1960s, PL 480-financed shipments constituted over 23 percent of the value of total U.S. agricultural exports. The numerical importance of PL 480 as a share of U.S. exports has declined sharply as major food aid recipients have become commercial customers for U.S. exports. This is in line with the market development objective of the program. In general, commodities are not available for shipment under PL 480 if the shipment would reduce U.S. stocks below the level needed for domestic use, appropriate carryover stocks, and anticipated commercial exports.

Because U.S. food aid is development aid and administered as such, it has been an important factor affecting the shift in status of developing countries from recipients of food aid to commercial purchasers of U.S. exports. Legislative revisions in 1966 unambiguously directed that food aid be used as a tool for improving recipients' agricultural productivity and economic performance. The result has been considerable growth in U.S. commercial exports because recipients' demands for food increase faster than their food output as their productivity and incomes improve. At the same time, the composition of their food requirements also changes. Thus, because of food aid's contribution to development, U.S. exports change from an aid-financed to a commercial basis, and recipients achieve a more mature, self-reliant relationship with donors.

Food Aid's Contribution to Economic Development Through Policy Reform

A.I.D. continues to use food aid in consort with other forms of economic assistance to affect economic development by creating the policy environment necessary for achieving progress. Food aid can be used to (1) provide a secure supply of food to a country undertaking difficult policy reform, (2) provide food directly to vulnerable groups experiencing short-term difficulty in maintaining a satisfactory level of nutrition as the national government adopts structural reform measures, (3) supplement dollar-funded health and nutrition projects implemented by USAID Missions overseas, (4) undertake food-for-work programs that alleviate underemployment and unemployment and assist infrastructure development and maintenance, and (5) generate local currency that can be used to enhance the effectiveness of the food aid.

PL 480 Title I concessional sales programs continue to provide the bulk of U.S. food aid. In FY 1986 agreements were signed in 33 countries to provide 5.7 million metric tons of commodities valued at \$872.3 million. These agreements contain specific development objectives that the importing country agrees to implement.

Under PL 480 Title II in FY 1986, 1.4 million metric tons were provided for regular and emergency PVO and bilateral programs. Shipments in support of the WFP's 1985-1986 target totaled 424,100 metric tons in commodities and \$40.1 million for transportation costs. U.S. Government emergency contributions to the WFP provided an additional 319,000 metric tons valued at over \$57 million. Under section 416 availabilities, (1) 124,468 metric tons of commodities valued at \$109.5 million were provided to programs approved for regular and emergency activities; (2) over 59,000 metric tons valued at \$16.1 million were channeled through the WFP pledge; (3) 18,000 metric tons valued at \$4.8 million were authorized for Food for Progress shipments; and (4) 91,214 metric tons valued at \$16 million were authorized for shipment under sugar quota compensation programs.

Global economic conditions are making the grant form of food aid more important as a development resource. A.I.D. is implementing grant food aid programs, both bilaterally and in support of U.S. PVOs, that do more than simply provide direct feeding on a continued basis, which can create dependency. Continued direct distribution of food to vulnerable groups is important, but it must be done in ways that help the recipients achieve self-sufficiency. Bilateral grant programs such as PL 480, section 206, and the new Food for Progress program can leverage important policy reform while providing local currency resources for important development purposes.

Legislation governing U.S. food aid under PL 480 continues to emphasize the multiple objectives of food aid: humanitarian, developmental, market development, and economic support for political objectives. A.I.D. considers these objectives while maintaining development as the primary objective. Program implementation requirements include the following:

- At least 75 percent of food aid provided under Title I shall be allocated initially to countries whose per capita income is at or below the eligibility level of the International Development Association (\$790 in 1986).
- Ten percent of the amount available for Title I programs shall be conducted under authority of Title III.
- A minimum of 1.9 million metric tons of agricultural commodities shall be provided under Title II in FY 1987 and beyond, of which not less than 1.425 million metric tons shall be for regular programs of voluntary organizations and the WFP.
- Adequate storage must be available in recipient countries, and the distribution of PL 480 commodities must not result in a substantial disincentive to or interference with domestic production or marketing.
- At least 75 percent of the nonemergency minimum Title II commodity level shall be processed, fortified, or bagged.

PEACE CORPS

Twenty-Five Years of Peace Corps

The Peace Corps celebrated its 25th anniversary during 1986. For the last 25 years, the Agency has been helping countries in the developing world meet their needs for skilled manpower and promoting world peace and friendship between the American people and peoples of the developing world. Building on 25 years of experience and the cumulative efforts of 120,000 Volunteers, the Peace Corps has continued to provide person-to-person assistance to some of the poorest peoples in the developing world. Peace Corps Volunteers usually serve in rural areas where they strive to increase the capabilities of the host country's poorer citizens to improve their quality of life.

Peace Corps in 1986

The Peace Corps in 1986 is continuing a tradition of service to some of the most impoverished nations of the world. At the mid-point of its third decade, 5,913 Volunteers are serving in 63 countries. The present distribution of Volunteers by region is as follows:

| | | |
|---|--------------|------------------|
| Africa | 24 Countries | 2,585 Volunteers |
| Inter-America | 19 Countries | 1,798 Volunteers |
| North Africa, Near East Asia and Pacific | 20 Countries | 1,530 Volunteers |

The Peace Corps budget for 1986 was \$124.4 million. In addition, host countries continued to show their appreciation for the work of the Volunteers by making substantial cash and in-kind contributions to in-country operations. The single greatest area of expenditure continued to be the direct support and training of Volunteers overseas. The costs incurred in recruiting Volunteers and providing them with overseas staff support constituted the two other major expenditures. Over half of all Peace Corps staff were stationed overseas; two-thirds of these were host country nationals.

Trained Peace Corps Volunteers continue working to reduce hunger and malnutrition, infant mortality, illiteracy and limited educational opportunities, inadequate health care, inadequate food production, and the degradation of natural resources. The average age of Volunteers in 1986 was 30; 9 percent of all Volunteers were over the age of 50. The distribution between men and women was almost even, with women constituting 49 percent of Volunteers. During 1986, 2,668 trainees entered on duty with the Peace Corps.

Peace Corps Programming

In 1986, 5,913 Peace Corps Volunteers were assigned in the following program sectors according to their skills:

| | | | |
|--------------------|-------------|----------------|-----------|
| Professions | 31% (1,849) | Agriculture | 15% (875) |
| Education | 28% (1,637) | Skilled Trades | 4% (233) |
| Other/Liberal Arts | 22% (1,319) | | |

Peace Corps Collaborative Efforts

The Peace Corps maintained its policy of collaboration with other programs serving the developing world. These collaborative efforts help to avoid duplication by different organizations and to achieve cost savings. The guiding rationale for collaboration in development is that mutual benefits be derived by each party and its beneficiaries. Accordingly, the Agency continually reviews and revises these collaborative activities with other Federal, international, host country, and private voluntary organizations (PVOs). A 1985 report on worldwide PVO/A.I.D. collaboration with the Peace Corps identified over 250 organizations that are collaborating with Peace Corps Volunteers somewhere in the world. Programs addressing forestry and natural resources, fisheries, health, and nutrition received the greatest monetary support from PVOs and other organizations. Volunteer projects in agriculture, forestry and natural resources, and water and sanitation received the most financial assistance from A.I.D.

Collaboration With Private Voluntary Organizations

The Peace Corps continued its efforts to expand its relationships with PVOs in 1986. These activities included both the broadening of existing relationships and efforts to develop new collaborative arrangements with other PVOs.

Collaboration With the Agency for International Development

Cooperation between the Peace Corps and A.I.D. continues to expand, both in the field and at the interagency level. For the Peace Corps, this has meant a significant increase in its ability to target specific programs by fielding greater numbers of Volunteers and providing Volunteers with increased levels of technical support. The following Participating Agency Service Agreements with A.I.D. were in effect during FY 1986:

- **Forestry.** A joint A.I.D./Peace Corps Forestry Resource Management Initiative was established in 1980 and amended in 1985 to carry through to 1990. This initiative is delivering forestry assistance to villages while assessing opportunities for collaboration under the Food for Work/PL 480 Initiative.
- **Combating Childhood Communicable Diseases.** This program is a cooperative effort among African countries, the World Health Organization, the Centers for Disease Control, A.I.D., the Peace Corps, and other donors to address the high infant and child mortality and morbidity in Africa.
- **Child Survival.** At the end of the 1986, the Peace Corps and A.I.D. signed a new 3-year agreement on child survival programs. This arrangement will support the programming and training of Peace Corps Volunteers and counterpart staff for participation in child survival activities worldwide. Additionally, earlier agreements with A.I.D. in the areas of oral rehydration therapy and nutrition will now be administered under child survival programs. Under these programs, Volunteers have been directly involved in reducing levels of infant mortality and providing training in vegetable gardening.
- **Small Project Assistance Program.** Jointly established by the Peace Corps and A.I.D., this program has been in operation for almost 4 years. The program funds small development projects identified by Volunteers working with local community organizations in 35 countries. It has a total annual budget of \$2 million. Over 1,200 projects have been funded at an average cost of \$3,000.

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Overseas Private Investment Corporation (OPIC)

OPIC is a financially self-sufficient, government-owned corporation; and the director of the International Development Cooperation Agency (IDCA) serves as Chairman of the Board. The institution meets its operating expenses and obligations from revenues earned from the insurance and financing services it provides to American companies. An important result is that this program requires no congressionally appropriated funds.

OPIC provides political risk insurance, finance, and loan guarantees to U.S. investors in new or expanding businesses in developing countries. These investments in manufacturing, resource development, finance, food systems, and other productive enterprises are important to the countries' development. They provide local employment, increase a country's GNP and its tax revenue, earn foreign exchange, and stimulate growth in international trade. At the same time, OPIC-backed investments make positive contributions to the U.S. economy through increased exports, improvements in the balance of payments, and expanded employment.

OPIC's insurance covers a portion of the loss that a U.S. investor would incur in the event of currency convertibility problems, expropriation, war, revolution, insurrection or civil strife. Coverage is available for loans, technology transfers, contractors and exporters, and cross-border leasing arrangements as well as for equity investments. This year, OPIC introduced business income coverage. This coverage protects the income of investors in the event of damage caused by political violence which interrupts the operation of the foreign enterprise. Insurance coverage is purchased by smaller American companies, contractors and banks as well as by the larger corporations that are experienced in international business.

OPIC's direct loans and loan guarantees on commercial terms are provided to new or expanding privately-owned and operated businesses in developing countries. The business must be at least partially owned by a successful American company, or a U.S. company must be substantially at risk in the project to be assisted. As a result of this policy, businesses in developing countries are provided with access to experienced management and technology as well as to U.S. capital.

OPIC offers general services to facilitate investment overseas by American businesses. These include investment missions, where U.S. investors meet local government officials and potential private venture partners; a computerized data bank for matching investors' interests with possible joint venture partners and specific overseas opportunities; investor information services; and conferences, seminars, and other educational programs.

In FY 1987 OPIC provided insurance and financial support to 165 projects, 102 of which were in the poorest group of developing countries. These 165 projects involved a total investment of \$2.3 billion. Once in operation, these projects are expected to generate annually an estimated \$13 million net foreign exchange savings and \$100 million in tax revenues for the host countries. These development benefits are not accomplished at the expense of U.S. economic interests, however. On the contrary, the ventures assisted in FY 1987 are expected to generate 13,576 work-years of U.S. employment and about \$2.0 billion in U.S. exports during their first five years of operation.

THE TRADE AND DEVELOPMENT PROGRAM

Since its creation in 1980, the Trade and Development Program (TDP) has actively pursued its mandate to provide development assistance through promotion of international trade. As an autonomous agency under the International Development Cooperation Agency, TDP provides funds for project feasibility studies on the basis of a project's export potential for U.S. goods and services and the development impact it will have in the host country.

The underlying principle validating TDP's double mandate is that if U.S. engineers and other consulting groups are involved at the planning stage, the project's promoters are likely to seek U.S. technology and equipment during implementation. Thus, developing countries are given access to advanced planning techniques and U.S. firms obtain an edge in the stiff competition to assist developing countries in furthering their infrastructure, industrialization, and agricultural development plans. The TDP Public Sector Planning grant is the standard mechanism for providing this assistance.

The TDP is directed principally at middle-income developing countries that can finance their own development with domestic resources or international financing. TDP therefore complements the efforts of U.S. bilateral development assistance programs that, primarily through A.I.D., focus on the poorer developing countries. The program is especially useful in opening new business channels between the United States and middle-income countries that no longer receive A.I.D. assistance.

A second TDP-sponsored program provides U.S. investors with grant funds to conduct comprehensive feasibility studies to direct decision-making and design elements for their potential investments in Third World countries. These grants constitute risk capital to encourage private investment in developing countries. The investor project feasibility studies are funded on a reimbursable basis: TDP's 50-percent contribution is repaid upon investment. Again, the development impact of a project and its potential for generating a substantial level of U.S. exports are the principal criteria for evaluating proposals. For FY 1986, these reimbursable grants represent 22 percent of TDP's 94 projects. Examples of these projects include a winter vegetables project in the Dominican Republic, a furniture factory in Micronesia, and the development of photovoltaic capability in Turkey.

TDP evaluations demonstrate that the \$75 million in TDP-financed feasibility studies have led to approximately \$605 million in exports from the United States to the developing world. The prospects for additional U.S. exports are very strong because the development and implementation period for these projects extends over the next 20 years. Estimates indicate that future exports for projects already financed could be as high as \$6.3 billion over the next 5 years, with an additional \$5.9 billion anticipated over the next 5-20 years.

TDP has grown from a \$4-million program in 1981 to a high point of \$21.5 million in FY 1987. Since its inception, TDP has provided feasibility funding for over 400 projects in 74 different countries.

TDP's efforts in support of U.S. private sector interests in China have been particularly impressive. Since establishing its program in China in 1980, TDP has agreed to fund feasibility studies for 37 major Chinese development projects at a cost of approximately \$15 million. These projects, which range from airports to toxic waste disposal, offer the potential for U.S. exports valued at more than \$1 billion.

TDP is also managing a \$500,000 fund established to attract U.S. investors to the Dominican Republic's agriculture sector by providing resources for feasibility studies.

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Inter-American Foundation

The Inter-American Foundation (IAF) is a public corporation created by Congress in 1969 to support the self-help efforts of the poor in Latin America and the Caribbean. Unlike larger bilateral foreign aid programs, the IAF works primarily with private organizations rather than governments to promote the ideas and involvement of Latin America's poor in their own development at the grass-roots level. The IAF is funded by Congressional appropriations and the Social Progress Trust Fund administered by the Inter-American Development Bank.

The IAF carries out its legislative mandate through the following activities:

- Assisting the initiatives of Latin American and Caribbean organizations that provide opportunities for the social and economic development of low-income and otherwise disadvantaged groups
- Fostering the participation in community and national development of groups that are usually denied a voice in development decisions and are largely excluded from the benefits of programs
- Encouraging the emergence and growth of democratic institutions in the region
- Contributing to public understanding and debate about institutions, policies, and programs that shape and constrain economic and social change in Latin America and the Caribbean

The IAF is governed by a nine-person board of directors appointed by the President of the United States and confirmed by the Senate. Six members of the board are selected from the private sector and three are appointed from U.S. agencies concerned with inter-American affairs. The board appoints a president who serves as chief executive officer. The IAF's 67-person staff is based in Rosslyn, Virginia. The IAF maintains no overseas staff or offices; its country representatives work at the Rosslyn office but travel regularly to Latin America and the Caribbean to review current projects and new proposals.

The IAF selects projects for support from numerous proposals received in the field. The principal criteria for project selection are derived from the institution's legislative mandate, as implemented through the board's policies. The criteria applied concern both the kinds of institutions to which grants may be made and the kinds of activities eligible for support.

Program Review

Over the past 16 years, the IAF has made more than 2,300 grants for \$223 million in 30 nations throughout Latin America and the Caribbean. Many grants are made to grass-roots organizations such as agricultural cooperatives, community associations, and small urban enterprises. Grants are also extended to larger organizations that work with credit, technical assistance, training, and marketing services. The average size of IAF grants is \$65,000; however, the IAF has made grants ranging from less than \$1,000 to \$2.5 million. In FY 1986, the IAF approved approximately 320 new and supplemental grants totaling \$21 million.

African Development Foundation

The African Development Foundation (ADF), a U.S. public corporation, was established in 1984 to provide development assistance to villagers and disadvantaged urban dwellers in Africa. Congress, after considerable deliberation, authorized the creation of the ADF in 1980. The ADF's mandate and operating procedures are based on principles derived from the lessons learned in delivering foreign assistance to Africa and other parts of the Third World. The ADF was established as an agency to identify appropriate and effective methods of delivering assistance to local African communities. As an agency, the ADF is also mandated to directly fund self-defined, small-scale development projects of indigenous people. These initiatives must be managed and controlled by or substantively representative of the interests of villagers or disadvantaged urban dwellers.

Since its inception in 1984, the ADF has provided \$6.815 million in support to 90 small grass-roots development and research projects in 23 African countries (Benin, Botswana, Cameroon, Cape Verde, Egypt, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Tanzania, Togo, Uganda, Zambia, and Zimbabwe). The projects range from economic/private sector development to agricultural/food production, community development, education/training, and research.

By the end of FY 1987, the ADF will have provided approximately \$10.9 million in assistance to 190 projects in 23 African countries. Special attention will be paid to evaluating ADF-assisted projects and disseminating the lessons learned by grantees and the ADF to African grass-roots organizations, U.S. policymakers, and others interested in African grass-roots development.

OTHER U.S. GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS

DEPARTMENT OF AGRICULTURE

The U.S. Department of Agriculture (USDA) plays a key role in assisting agriculture in developing countries, working in close cooperation with A.I.D., other bilateral and multilateral assistance organizations, and the private sector. USDA's international involvement includes co-responsibility with A.I.D. for the administration of Public Law (PL) 480 food aid, reimbursable technical assistance and training programs, international research, scientific and technical exchange programs, collaborative assistance to control animal and plant pests and diseases, and technical assistance carried out as part of market development activities.

The Office of International Cooperation and Development is responsible for managing and coordinating the USDA's international programs. Although the USDA receives no direct appropriations, it provides a wide range of technical assistance and training support, carried out under participating agency and resources support agreements with A.I.D. or under reimbursable agreements with international organizations and foreign governments. To carry out these agreements, the USDA draws on the capabilities of 15 USDA agencies and services, U.S. land grant universities, and the private sector.

In FY 1986, the USDA provided roughly 760 agricultural specialists to 87 developing and middle-income countries. Over 70 percent of the specialists were drawn from USDA services and agencies. The USDA provided short-term and professional training for 2,000 agriculturalists from 110 developing and middle-income countries, both in the United States and in the countries themselves. Academic programs and technical short courses, on-the-job training, and observation study tours are specially designed to meet the needs of the international participants and the countries they represent.

In addition, the USDA sponsored nearly 700 international cooperative and binational research projects in 22 countries to help farmers in both the United States and the developing countries increase productivity and revenues and reduce losses caused by livestock and crop diseases and pests. The USDA also sponsored 116 scientific and technical exchanges with 33 countries. These allowed specialists in many disciplines to share information and genetic materials necessary for the maintenance of disease- and pest-resistant cultivars. These programs recognize that the flow of benefits is no longer unidirectional and that both the United States and the developing countries benefit. The USDA, through cooperative agreements with developing countries and international organizations, is actively engaged in programs to control and eradicate animal and plant diseases and pests, such as the Mediterranean fruit fly, screw worm, and foot-and-mouth disease in Central America and the Caribbean.

The USDA maintains a cofinanced cooperator program with approximately 50 nonprofit commodity associations in order to design and maintain jointly sponsored foreign market development activities. The associations provide technical services that enable importing countries to improve the efficiency of processing and marketing enterprises and livestock production.

DEPARTMENT OF TREASURY

The Department of Treasury's role in foreign assistance activities has traditionally been one of development and formulation of international economic and financial policies and programs relative to developing nations. To that end, the Department is active in U.S. Government and international forums relating to developing country economic and financial issues and multilateral and bilateral development assistance.

The Secretary of Treasury serves as Governor of the World Bank, the Inter-American Development Bank (IDB), the Asian Development Bank, and the African Development Bank. A significant portion of U.S. multilateral development assistance is extended through these four institutions. The Treasury Department plays a leading role in advancing growth-oriented programs of macroeconomic and structural adjustment and seeks to ensure the effective use of development funds. Treasury staff provide background support on a wide variety of issues for the U.S. executive directors serving at each of these institutions.

The International Finance Corporation (IFC), an affiliate of the World Bank, has particular interest in the growth of productive private investment in its developing country members. The Treasury Department follows issues that come before the IFC's board and provides support and advisory services for the executive director on a broad range of issues. Similarly, the Inter-American Investment Corporation of the IDB will serve as a catalyst for private sector development in Latin America.

The National Advisory Council on International Monetary and Financial Policy, created in 1945 by the Bretton Woods Agreement Act and reorganized by executive order in 1965, is chaired by the Secretary of Treasury. Its members are the Departments of State and Commerce, the International Development Cooperation Agency (IDCA)/A.I.D., the Office of the U.S. Trade Representative, the Export-Import Bank, and the Federal Reserve. The Council's Staff Committee meets weekly to coordinate U.S. participation in international financial institutions and to coordinate the policies and practices of U.S. Government agencies that extend foreign loans or engage in foreign financial exchange or monetary transactions.

Since 1978, the Working Group on Multilateral Assistance (WGMA) has had responsibility for reviewing the development aspects of proposed multilateral development bank loans and credits. WGMA, a working group of the Development Coordinating Committee (DCC), is chaired by the Department of Treasury. WGMA members include the Departments of State, Agriculture, and Commerce; IDCA/A.I.D.; the Export-Import Bank; the Office of Management and Budget; and the National Security Council. WGMA has weekly staff meetings to study proposed individual loans; to review basic policy and budgetary questions affecting U.S. participation in multilateral development banks, and, as appropriate, to identify issues for consideration by the subcommittee or the full DCC.

The Department of Treasury also has an active role in the DCC Subcommittee on Food Aid Programs. The Department of Treasury thus is involved in the extension of bilateral assistance through the PL 480 (Food for Peace) and Food for Progress programs.

The Department of Treasury is also active in various international and interagency activities, including the following:

- United Nations (U.N.) and its specialized agencies and bodies. The Department of Treasury exercises an advisory role on economic and financial issues affecting development that come before various U.N. organizations, including the General Assembly, the United Nations Development Program (UNDP), the United Nations Conference on Trade and Development (UNCTAD), and the International Fund for Agricultural Development (IFAD).
- Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). The Department of Treasury provides staff support and advice to the U.S. representative concerning the Committee's work on a wide range of issues to enhance the assistance activities of OECD countries.
- Overseas Private Investment Corporation (OPIC). The Assistant Secretary for International Affairs is a member of the board of OPIC, which facilitates the flow of foreign direct investment in developing countries.
- Development Committee. The Secretary of the Treasury serves as the U.S. member of the Development Committee, which is a joint International Monetary Fund (IMF)/World Bank committee of economics and finance ministers, who meet semiannually to exchange views on problems affecting developing countries.

DEPARTMENT OF LABOR

Since 1884, when research on foreign labor conditions became a statutory function of the "Bureau of Labor," the Department of Labor (DOL) has been an active--if sometimes little noticed--member of the U.S. foreign affairs community. DOL's foreign economic assistance activities can be traced back to 1940, when DOL began its "exchange of persons" activities with Latin American republics. DOL assistance to other nations significantly increased after Truman's Point Four program of 1949, and DOL has been a member of the Development Coordination Committee since 1961. Since then, DOL has carried out a full range of international development assistance activities--hosting foreign visitors, arranging or providing training, providing short- and long-term overseas technical advisers, and managing or implementing a variety of development assistance projects in developing nations.

DOL offers developing countries its expertise and assistance, from new techniques in collective bargaining available through the Bureau of Labor Management Relations and Cooperative Programs, prevention of work-place injuries and illness through the Occupational Safety and Health Administration, to consulting by DOL's Women's Bureau on the role of women in the work-place. An example of the range of DOL international assistance was the dispatch during FY 1986 of experts from the Mine Safety and Health Administration to Mexico City to help locate victims trapped in the debris from that city's tragic earthquake.

The technical assistance activities of the Bureau of Labor Statistics (BLS) are undertaken primarily by its International Labor Statistics Program Center, which has provided training to economists, statisticians, and other producers and users of social, economic, and labor statistics since 1946.

The BLS also arranges specialized training programs and consultations in Washington, D.C. for individual participants, based on their particular needs and requests. Such specialized programs, ranging from 1/2 day to 1 year in duration, were arranged for 372 persons during FY 1986. BLS staff also served as long-term technical advisers and as A.I.D.-financed short-term consultants to developing countries during the year.

The Bureau of International Labor Affairs organizes or provides the majority of DOL's international technical assistance under a variety of arrangements that reflect the diversity of U.S. development assistance to developing countries. The Bureau administers a large international visitors program, arranging short- or long-term U.S. training or consultations for trade unionists, labor ministry officials, vocational trainers, and others from the developing world. A large part of this visitors program is funded by A.I.D.'s Bureau for Science and Technology, and other visitors are supported by the U.S. Information Agency, the International Labor Organization, multilateral development banks, or other resources.

During FY 1986, members of DOL's International Technical Assistance Corps undertook both short- and long-term assignments at the request of A.I.D., joined with the Trade and Development Program in overseas missions under authority of section 661 of the Foreign Assistance Act, and continued DOL's program of reimbursable technical assistance to developing nations under section 607(a) of the act.

DEPARTMENT OF COMMERCE

The International Trade Administration (ITA) of the Department of Commerce carries out the U.S. Government's nonagricultural foreign trade activities. It encourages and promotes U.S. exports of manufactured goods, administers U.S. statutes and agreements dealing with foreign trade, and advises on U.S. international trade and commercial policy. Even though ITA's primary mission is to strengthen U.S. trade and increase exports, it also provides services that facilitate investment and thus contribute to private sector growth in developing countries. ITA's major units involved in servicing U.S. businesses interested in investing in developing countries are described below.

The U.S. and Foreign Commercial Service (US&FCS) offers U.S. businesses coordinated investment assistance both in the United States and abroad. Overseas, the US&FCS maintains offices in 120 major foreign cities in 63 countries and provides a full range of business, investment, and financial services. These include political and credit risk analysis; advice on market entry strategy; and major project identification, tracking, and assistance. FCS officers identify investment opportunities, including joint venture partners for U.S. firms, and supply data on country trends affecting investment and business conditions and on investment prospects for specific industries. Domestically, the US&FCS operates 47 district offices in industrial and commercial centers throughout the United States. The district offices provide U.S. companies with information on investment opportunities abroad and on economic conditions in particular countries.

The Caribbean Basin Business Information Center is a specialized unit in US&FCS charged with facilitating investment and trade between entrepreneurs in the United States and Caribbean countries.

International Economic Policy (IEP) provides commercial and economic information on a country-specific or multilateral basis. IEP country specialists provide information on specific overseas investment opportunities, foreign market conditions, commercial and investment policies, business practices, and economic and political developments. IEP country specialists also assist in resolving problems that U.S. firms encounter overseas. The IEP has sponsored a series of seminars on "Doing Business in..." and will continue to sponsor country- or region-specific seminars on trade and investment practices and policies in selected developing countries. The IEP also organizes overseas trade and investment missions to select developing countries, with assistance from ITA industry specialists. The IEP has also assisted several "reverse" investment missions from developing countries to the United States, in order to increase contacts between these countries and U.S. businesses. In the multilateral organizations involved in investment matters, the IEP is working to promote greater understanding of the economic benefits of foreign direct investment and to liberalize the international investment environment, especially in developing countries.

Military Assistance Programs

Foreign Military Sales Financing Program

The Foreign Military Sales (FMS) credit program enables allies and friends of the United States to strengthen their self-defense capabilities by acquiring U.S.-origin military articles, services, and training. For fiscally-constrained countries where security interests coincide with those of the United States, the high costs of modern defense equipment make it difficult to obtain defense equipment and related services on a cash basis. A strong national defense capability contributes to regional stability and reduces the likelihood that regional conflict will threaten U.S. interests. Thus, it is greatly to the advantage of the United States to assist friends and allies in maintaining the ability to defend themselves, by providing them the required financing for these procurements.

Given the magnitude and complexity of our global responsibilities, the United States alone cannot safeguard the free world's security interests. The FMS financing program permits friendly nations to share the burdens of collective security. By providing such financing, the United States lessens the likelihood of direct U.S. military involvement during situations of instability and conflict, thereby helping to reduce demands on U.S. military resources.

The FMS financing program was initiated in the Mutual Defense Security Act of 1954 and was continued in the Foreign Assistance Act (FAA) of 1961. In 1971, FMS financing exceeded grant assistance for the first time. In 1976, the Arms Export Control Act (AECA) consolidated existing government and commercial sales legislation. Sections 23 (direct loans) and 24 (guaranteed loans) of the Act provided authorization for the program. Because of increased emphasis on cash sales in the late 1970s, the number of grant recipients and the size of the grant program decreased steadily through FY 1981.

Almost all FMS financing in the 1974-1984 period was in the form of guaranteed loans provided through the Federal Financing Bank at interest rates that were slightly higher than the cost of many to the U.S. Treasury. In the global recession of the early 1980s, repayment of previous FMS loans with higher interest rates exacerbated many developing countries' debt service problems.

By the early 1980s, Congress and the Executive Branch, spurred by the Bipartisan Commission on Economic and Security Assistance, expressed concern that high interest rate FMS financing was contributing to recipient country debt problems. This concern prompted the FY 1985 legislative

mandate for totally "forgiven" (i.e., non-repayable) FMS financing for Egypt and Israel, and concessional (lower interest rate) loans for other selected countries.

In FY 1988, all FMS financing is in the form of either forgiven or concessional interest rate loans. (All of the credits for Israel and Egypt continue to be forgiven. At Congressional direction, part of the Turkey and Pakistan FMS credit programs are also forgiven.) The Administration believes that such a program is fully justified. By enhancing the economic value of U.S. military assistance, many countries are better able to devote more of their scarce financial resources to economically productive activities.

The Administration is requesting an all-forgiven FMS financing program in the amount of \$4.46 billion for FY 1989. By providing forgiven FMS credits, those recipients that have the bureaucratic infrastructure with which to do so will be able to apply part or all of their FMS financing to commercial purchases, a process that is not possible under the grant Military Assistance Program (MAP), which is intended strictly for government-to-government purchases. This all-forgiven initiative is consistent with the trend advocated by Congress to modify the FMS financing program in order to ease countries' debt burden.

In response to repeated requests by other countries and encouragement by members of Congress, the Administration developed several alternatives in 1987 to address the problem of heavy debt. The FY 1988 Continuing Resolution appropriation allows for refinancing of principal coming due after September 30, 1989 on FMS loans carrying interest rates of 10 percent or greater. The legislation also permits this refinancing to be carried out with a 90 percent guarantee. Under the law, the implementing regulations are prepared by the Department of the Treasury.

Many countries have expressed interest in the refinancing program. Most, however, will not make a decision on whether to pursue the program until regulations are in effect and actual refinancing proposals are formulated in conjunction with commercial banks.

Military Assistance Program

Military Assistance Program (MAP) grant funding assists allies and friends in financing procurement of defense articles and services to help strengthen their self-defense capabilities. Without grant aid, many countries would have to divert scarce domestic resources from economic development to purchase military equipment and training. Since FY 1982, MAP funds have been merged with recipient countries' funds and/or with Foreign Military Sales (FMS) financing credits in the FMS Trust Fund to pay for FMS cases.

Established under the Mutual Defense Assistance Act of 1949, MAP originally provided for the loan or grant of military equipment, materials, and services (including training) to allied and friendly nations. In line with U.S. foreign policy interests, from FY 1950 to about FY 1963, the MAP program was directed mainly toward Europe to contain the Soviet challenge. Subsequently, the United States provided MAP grants primarily to areas of the developing world where U.S. security interests were threatened.

From the mid-1960s until the mid-1970s, the East Asia and Pacific regions accounted for the greatest percentage of MAP assistance because of the war in Vietnam. Near East and South Asian countries were also important MAP recipients during this period. As a result of the generally improved global economic situation in the late 1960s and 1970s, and Congressional pressure to eliminate MAP, requests for MAP reached a low of \$104.4 million in FY 1981.

Beginning in FY 1982, and in response to the steady economic deterioration of several defense partners, the Administration increased its grant funding request. Congress provided gradual increases in MAP appropriations. Sustained Congressional support of MAP funding has partially compensated for the reductions in overall security assistance appropriations.

In FY 1988, \$700.75 million in MAP is being provided for 21 country and regional programs. The major recipients of these MAP funds are base rights countries and friends in Central America and the Middle East. In FY 1989, the Administration is requesting a MAP level of \$467 million, a reduction partly attributable to the fact that an all-forgiven FMS financing program is also being requested for FY 1989. The FY 1989 MAP request includes funding for 30 country and regional programs. The major MAP recipients in this request are strategically important countries in East Asia and Central America.

International Military Education and Training Program

The International Military Education and Training (IMET) program is a grant aid, low-cost foreign policy instrument that provides a valuable channel of communication and influence with foreign military forces worldwide. Training has long been considered to be a more cost effective force multiplier than any other form of security assistance.

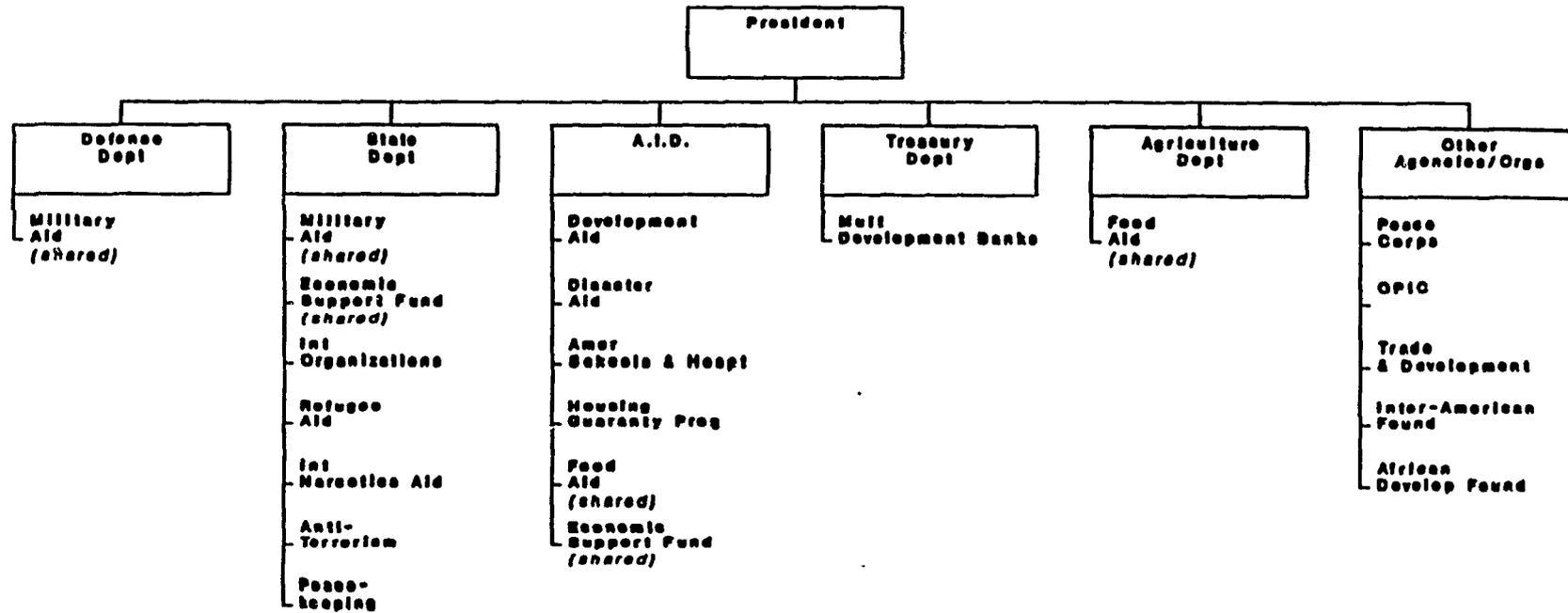
Since 1950, IMET and its predecessor program have trained more than 500,000 officers and enlisted personnel representing most countries of the free world. Training has taken place in more than 2,000 different specialties, from basic technical skills to professional military education. The training advances the efficiency, professional performance, and readiness of each nations' armed forces to support specific professional military requirements. In addition, English language training, which is essential to training in the continental United States, contributes directly to increased rapport with the United States and, in the long term, to a greater understanding of U.S. society, institutions, and ideals, and commitment to internationally recognized human rights.

The IMET program not only supplements other countries' indigenous training efforts, but also is often the only major alternative to Soviet-oriented programs. In addition to teaching military skills and U.S. military doctrine, IMET provides significant opportunities for future access to the civilian and military leadership of other countries. As in the past, a significant number of IMET trained military leaders are likely to hold positions of prominence in their countries. From FY 1979-1984, for example, over 1,540 IMET-trained personnel held such positions, including chiefs of military services, cabinet ministers, ambassadors, senior staff officers, field commanders, and commandants of senior professional military schools. This number included approximately 1,475 officers of general and flag rank.

As a long-term investment, IMET demands continuous management. As a result of extensive improvements in the administration of IMET, country programs today are more balanced. Such improvements include adherence to a consistent policy to ensure effective program implementation; issuance of precise annual training guidelines; development of multi-year country training plans; and minimizing of high cost undergraduate pilot training in favor of less costly professional military education. Emphasis on less costly professional military education and training allows for an increased number of trainees to be exposed to U.S. values of military professionalism and non-involvement in civilian government.

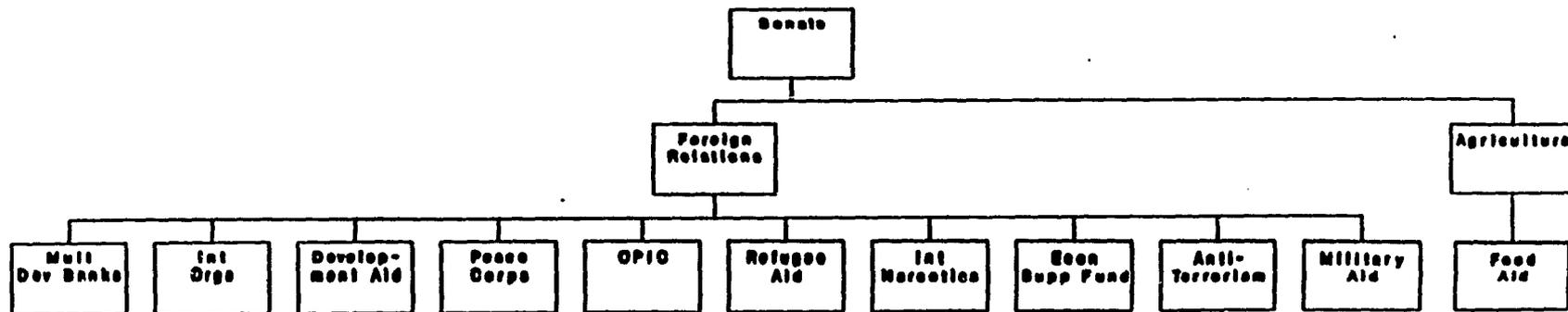
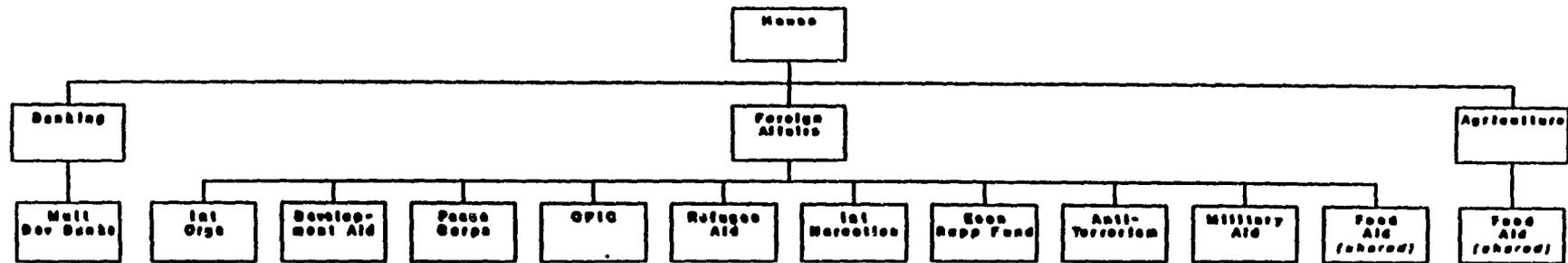
FOREIGN ASSISTANCE AGENCY AND PROGRAM ORGANIZATION

Executive Branch Organization of Foreign Assistance Agencies



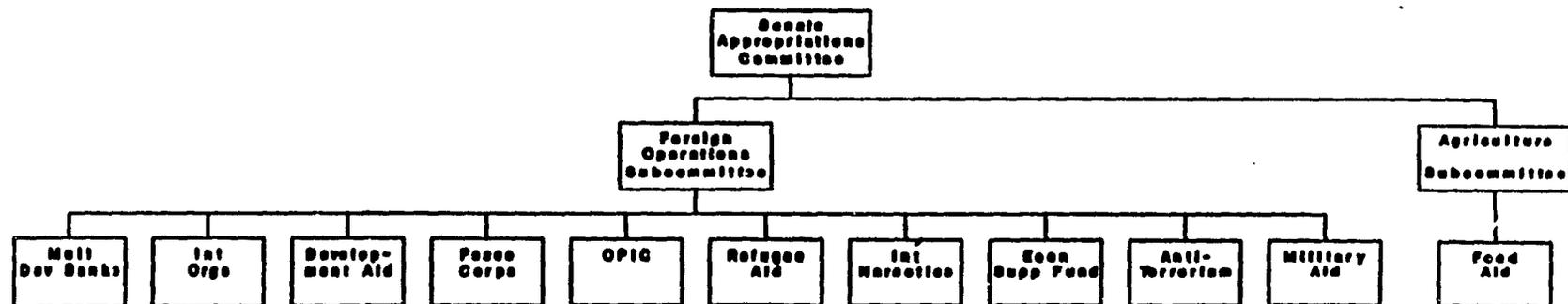
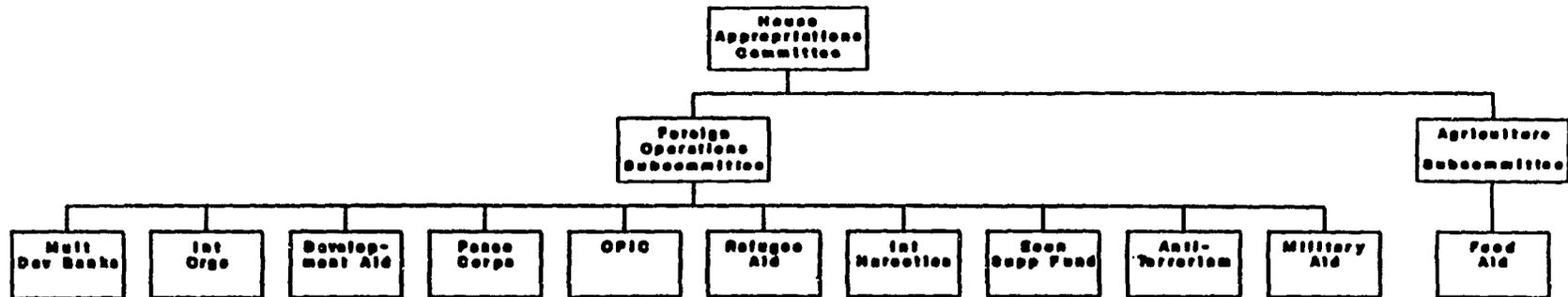
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Authorization Committee Jurisdiction of Major Foreign Assistance Programs



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Appropriation Committee Jurisdiction of Major Foreign Assistance Programs



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Interagency Coordination of Foreign Assistance Programs

The Development Coordination Committee (DCC):

In 1973, Congress directed the President (section 640B of the Foreign Assistance Act of 1961) to establish a Development Coordination Committee (DCC) that would advise the President on matters involving the coordination of U.S. policies and programs affecting Third World development, including bilateral and multilateral economic aid. The DCC is charged with carrying out these responsibilities subject to the foreign policy guidance of the Secretary of State. Once established, the DCC created a series of subcommittees (see below) which perform the actual task of interagency coordination. The DCC itself currently does not appear to meet or function.

Chairman: Director of the International Development Cooperation Agency (IDCA) — at present, the Administrator for the Agency for International Development (AID) serves as the Director of IDCA.

Members: Administrator, AID; Director, Institute for Scientific and Technological Cooperation; Under Secretary of State for Economic Affairs; Under Secretary of Commerce; Under Secretary of Agriculture; Under Secretary of Labor; Under Secretary of Energy; a Deputy Special Representative for Trade Negotiations; an Associate Director of the Office of Management and Budget (OMB); a representative of the Assistant to the President for National Security Affairs; President, Export-Import Bank; Director of the Peace Corps; and President, Overseas Private Investment Corporation.

DCC Subcommittee on Multilateral Assistance:

Like the DCC, this subcommittee does not regularly meet or function. Instead, the subcommittee established a Working Group on Multilateral Assistance that reviews development aspects of the multilateral development banks (MDBs) and the International Fund for Agricultural Development (IFAD). The Group meets weekly to discuss and act on MDB and IFAD projects and policy.

Chairman: Director of Project Review Division, Department of the Treasury.

Members: Representatives from AID, Department of State, Department of Agriculture, Department of Commerce, Department of Transportation, OMB, and the Federal Reserve.

Food Aid Subcommittee:

The Food Aid Subcommittee, chaired by the Department of Agriculture, was established to coordinate issues related to P.L. 480 programs. It meets several times a year to set out broad policy and program guidance and to settle any program disputes.

Chairman: Department of Agriculture.

Members: Representatives from AID, Department of State, Department of the Treasury, Department of Commerce, OMB, and the National Security Council.

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The day-to-day management of food assistance, however, has been delegated to two staff-level interagency bodies: the Working Group of the Food Aid Subcommittee, a council that reviews and approves all P.L. 480 programs and focuses specifically on the concessional P.L. 480 activities under Title I/III; and a Title II Subcommittee of the Working Group that reviews and recommends action on Title II food donation programs for disaster relief and other humanitarian and developmental activities. Membership on the Working Group includes:

Chairman: Department of Agriculture.

Members: Representatives from AID, Department of State, OMB, Department of the Treasury, and the Department of Commerce.

Membership on the Title II Subcommittee includes:

Chairman: Chief, Title II Division, AID.

Members: AID's Bureau of Program and Policy Coordination, AID regional bureaus, as appropriate, AID's Office of Private and Voluntary Cooperation, AID's Office of Nutrition, representatives from Department of Agriculture, OMB, Department of State and U.S. voluntary agencies.

The National Advisory Council on International Monetary and Financial Policies:

The Council, commonly referred to as the NAC, is responsible for coordinating U.S. participation in international financial institutions, including the World Bank and the International Monetary Fund, and for overseeing the policies of any U.S. agency that is involved in making foreign loans or that engage in international financial, exchange, or monetary transactions. The original NAC was created in 1945, abolished in 1965, and reconstituted in 1966 without change in membership.

Chairman: Secretary of the Treasury.

Members: Secretary of State, U.S. Trade Representative, Secretary of Commerce, Chairman of the Board of Governors of the Federal Reserve System, President of the Export-Import Bank, and the Director of IDCA (currently the Administrator of AID).

Most of the NAC's work is done through the Staff Committee, a body made up of economists and other professionals of NAC agencies. This Committee meets weekly to review international monetary and financial transactions within the scope of the NAC's responsibilities.

Security Assistance Program Review Working Group (SAPRWG):

The Security Assistance Program Review Working Group (SAPRWG) is an interagency body that is responsible for coordinating security aid budget issues. As the budget environment changed significantly in the 1980s -- first rapid increases for security assistance, followed by sharp declines -- so too did the role of the SAPRWG. During the early part of the decade, it was an active committee that met frequently to address the size and allocations of security aid. As budget levels fell in more recent years, the Group has become far less active and now meets only two or three times per year. For the most part, interagency coordination concerning security assistance is conducted on a more informal, ad hoc basis whereby groups are convened to address specific policy issues as they arise.

Chairman: Assistant/Deputy Assistant Secretary of State for Political-Military Affairs.

Members: State Department representatives from the regional bureaus, the Bureau of Economic and Business Affairs, and the office of the Under Secretary for Security Assistance, Science, and Technology; Defense Department representatives from the Defense Security Assistance Agency (DSAA), the office of the Assistant Secretary for International Security Affairs, and the Joint Chiefs of Staff; AID; OMB; National Security Council, and the Department of the Treasury.

The Economic Policy Council:

In an effort to streamline policy development and decisionmaking at the Cabinet level, President Reagan announced in April 1985 that he had established two new bodies: the Economic Policy Council and the Domestic Policy Council. These two groups replaced seven existing Cabinet Councils and the Senior Interagency Group-International Economic Policy. Under the new organization, the Economic Policy Council is charged with advising the President on all aspects of national and international economic policy.

Chairman: The President.

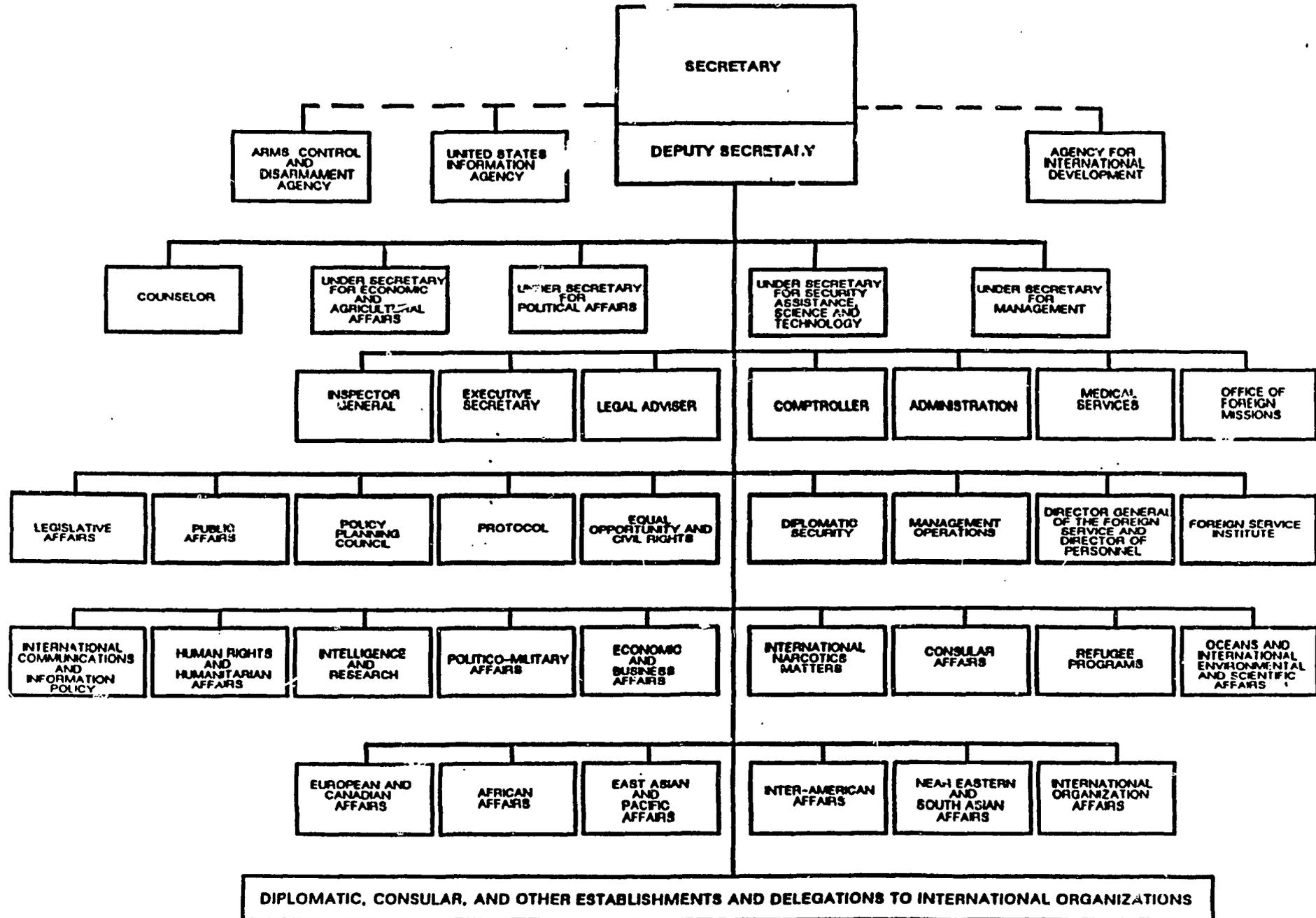
Chairman pro tempore: Secretary of the Treasury.

Members (regular): Secretary of the Treasury, Secretary of State, Secretary of Agriculture, Secretary of Commerce, Secretary of Labor, Director of OMB, U.S. Trade Representative, and Chairman of the Council of Economic Advisors.

Other Members: For issues related to international policy or budget matters -- the heads of the national security community departments and agencies and the Assistant to the President for National Security Affairs.

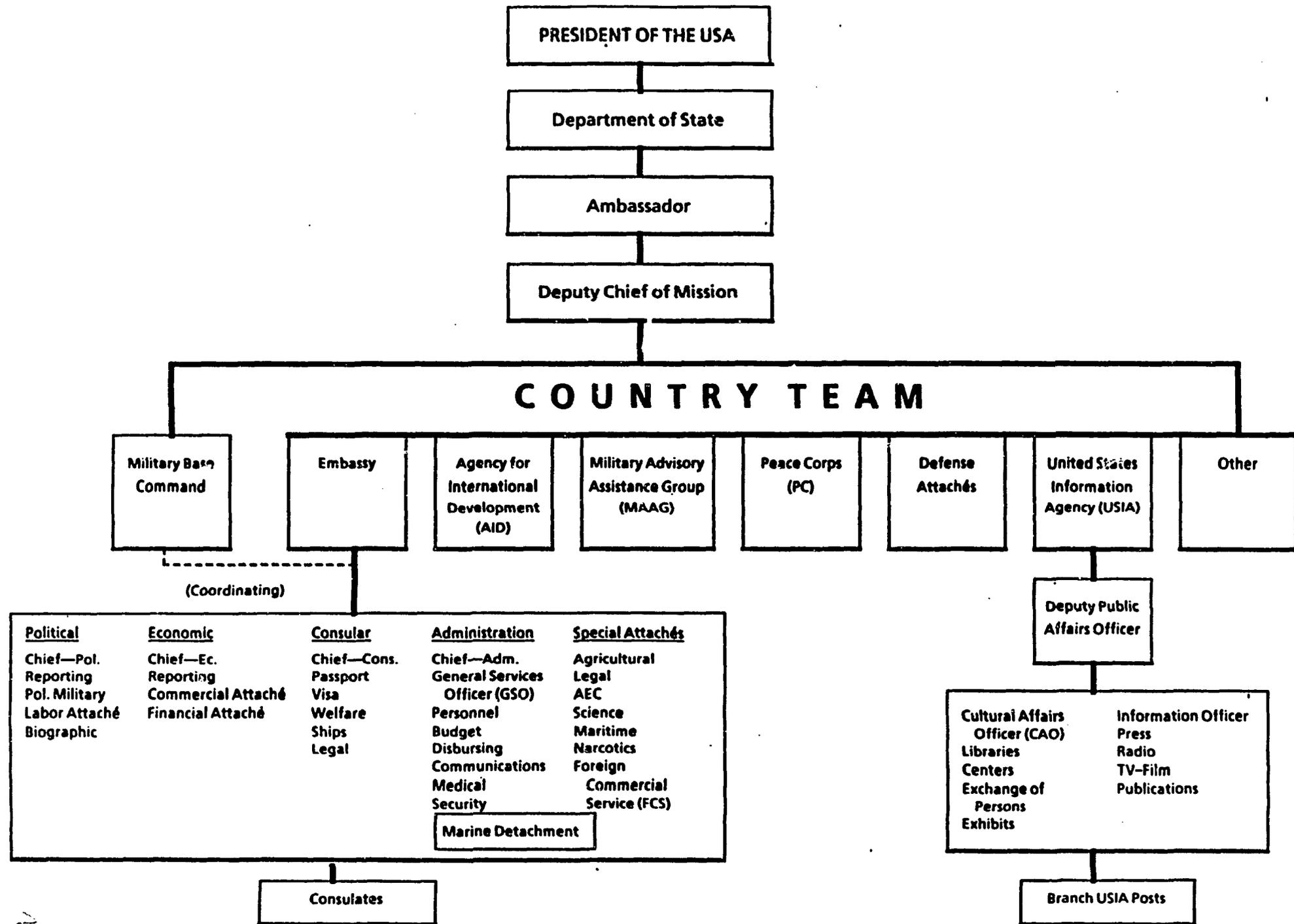
Ex Officio Members: The Vice President and the White House Chief of Staff.

DEPARTMENT OF STATE



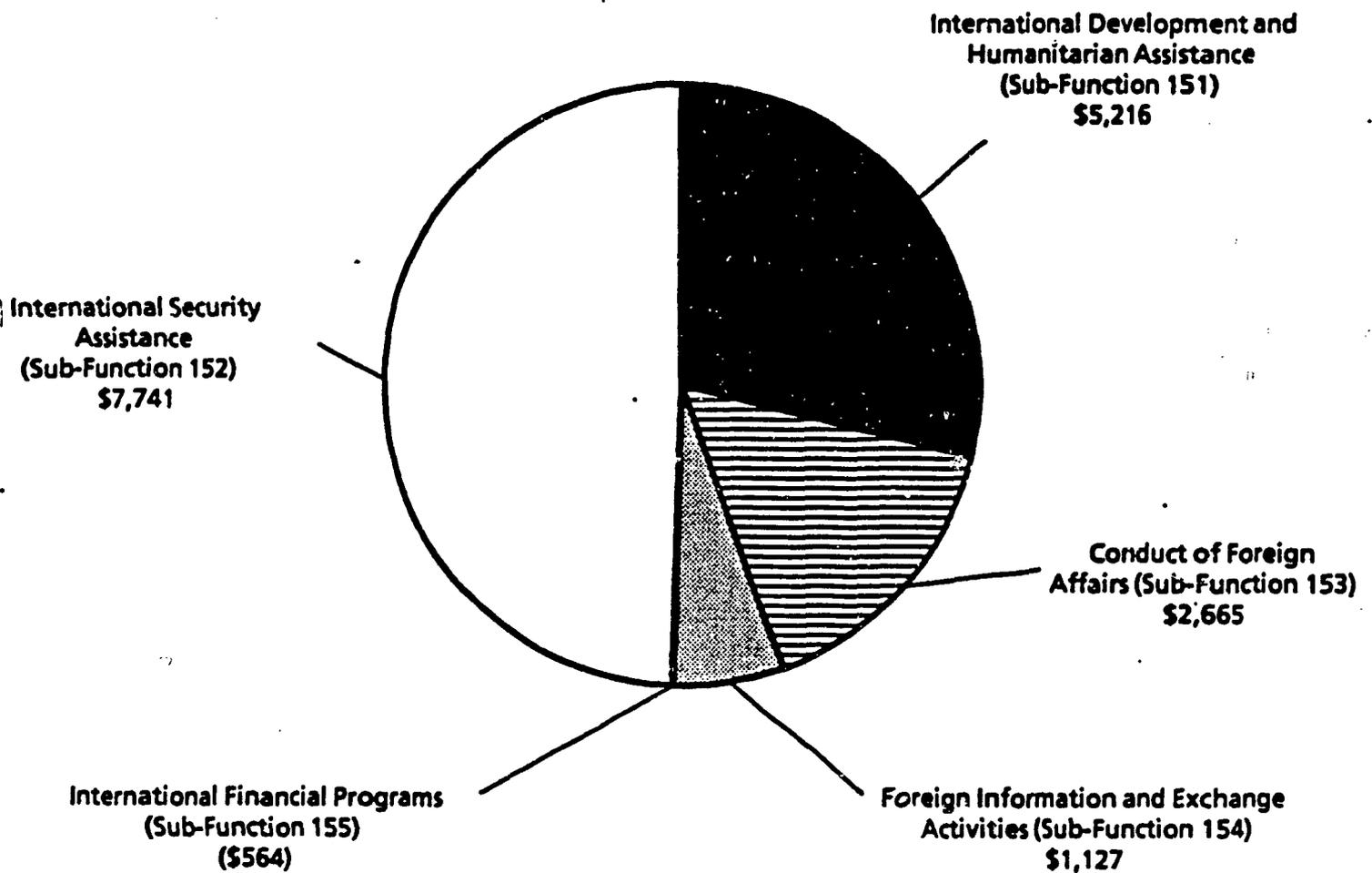
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ORGANIZATION OF A MISSION



International Affairs Budget (Function 150) FY 1989

(Millions of Dollars)

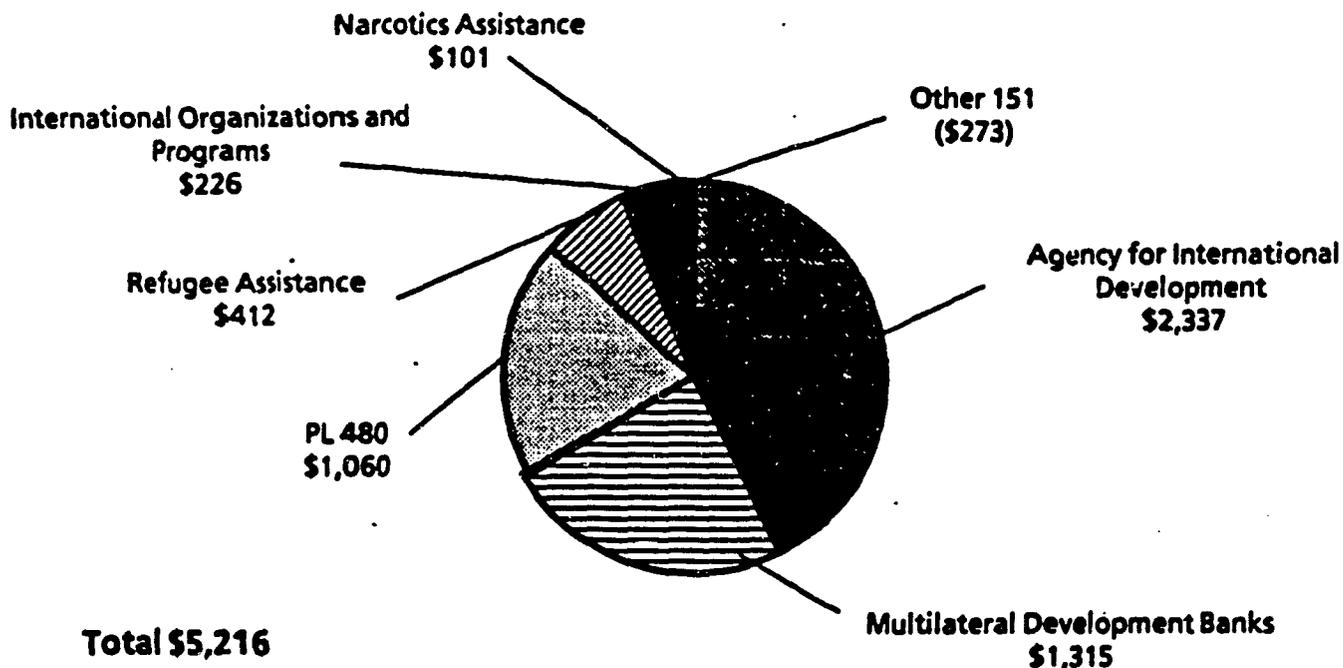


Total \$16,185

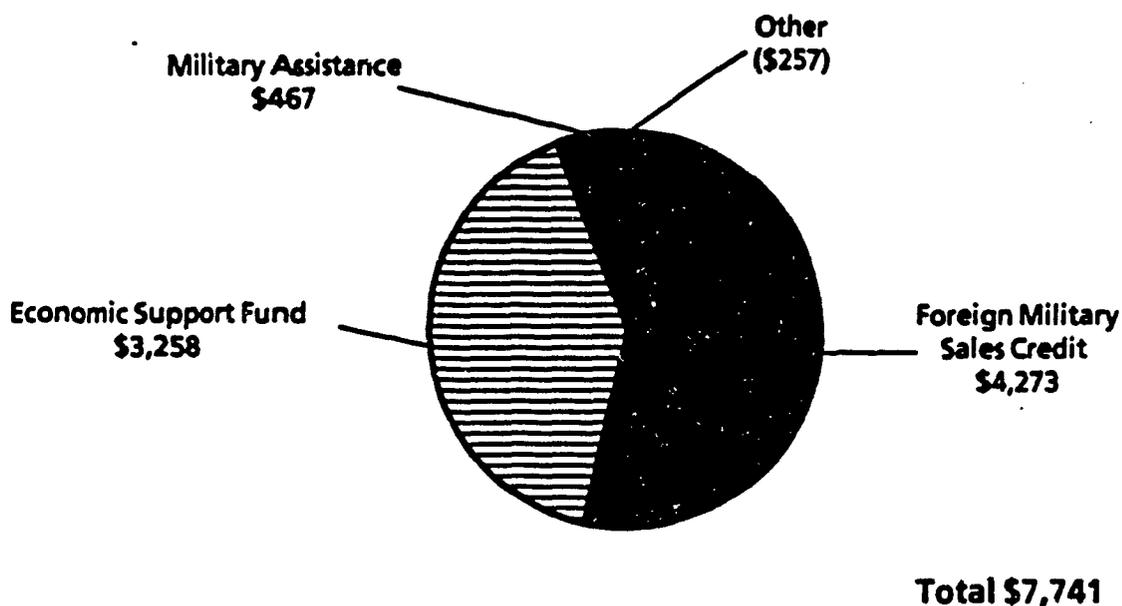
Foreign Aid Budget FY 1989

(Millions of Dollars)

International Development and Humanitarian Assistance (Sub-Function 151)



International Security Assistance (Sub-Function 152)

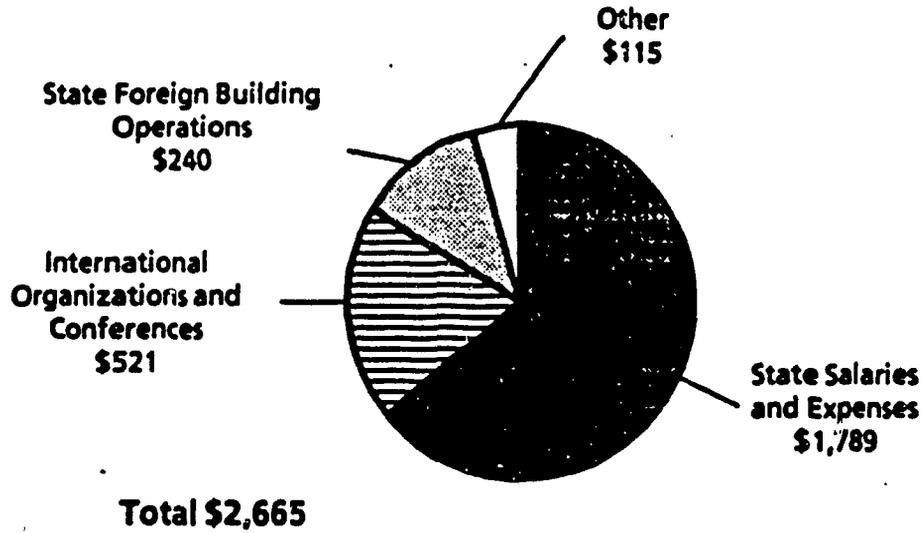


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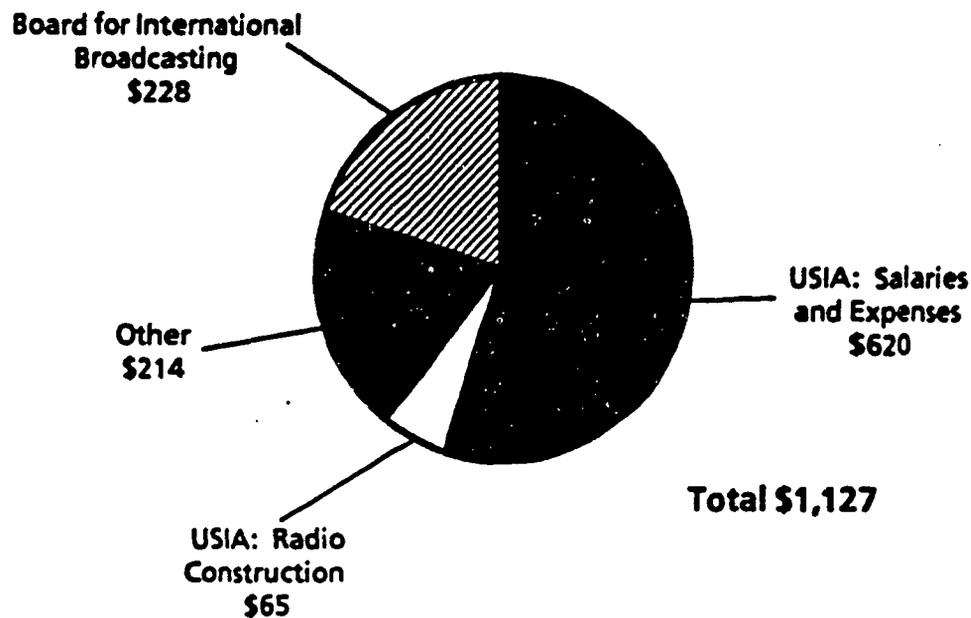
International Affairs—Non-Foreign Aid Budget FY 1989

(Millions of Dollars)

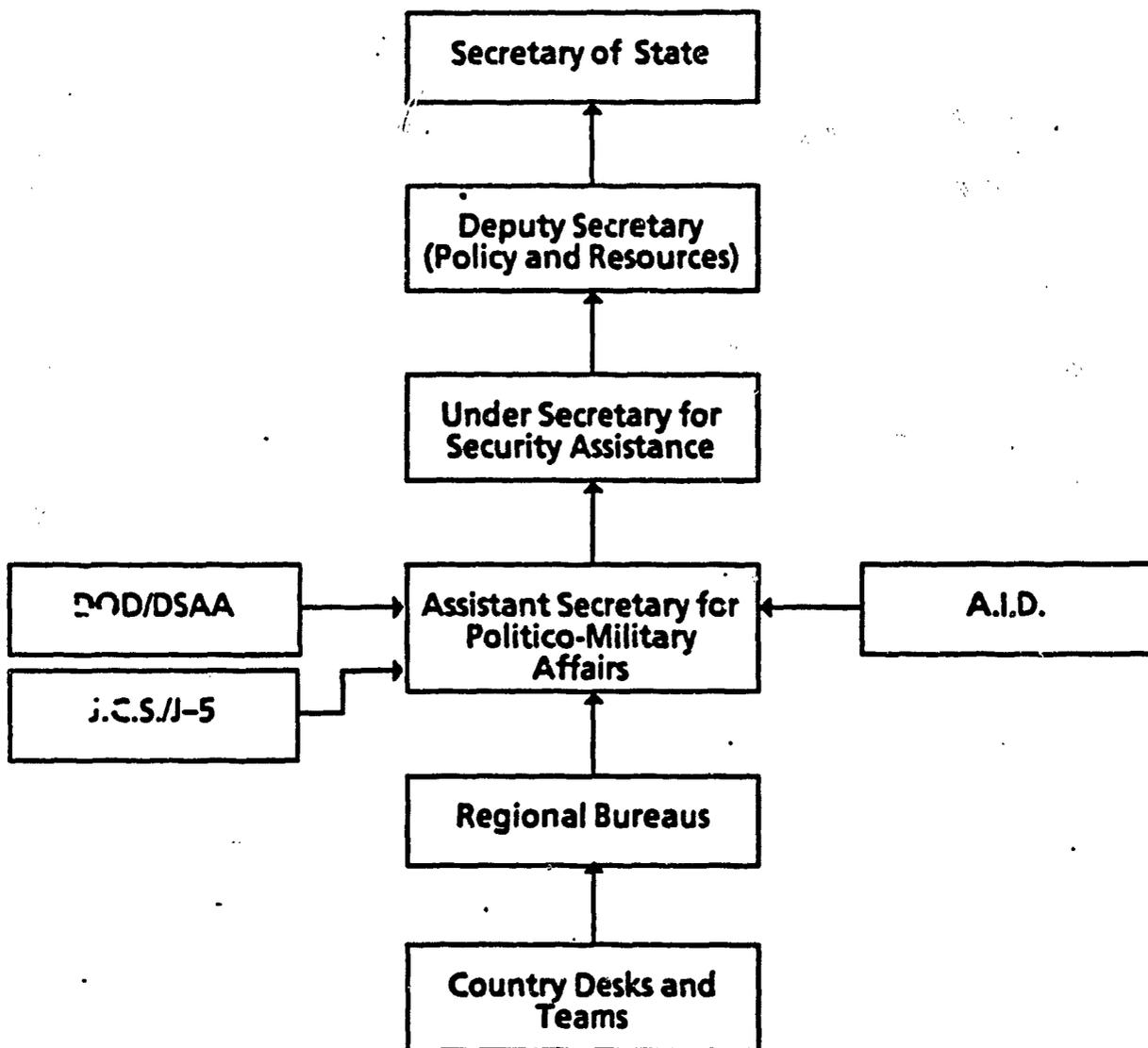
Conduct of Foreign Affairs (Sub-Function 153)



Foreign Information and Exchange Activities (Sub-Function 154)



Security Assistance Policy and Resource Coordination



SECURITY ASSISTANCE BUDGET PROCESS

Request Cycle

OMB Provides Budget guidance
to State for upcoming fiscal year

Asst. Sec. for Political-Military
Affairs requests an "Annual
Integrated Assessment of Security
Assistance (AIASA) from country teams

Country Teams assess S.A. requirements
of country and submit assessment
to State and DOD

State Regional Bureaus propose
country S.A. funding levels,
AIASA is fundamental input

Security Assistance Program Review
Group (SAPRWG) debates Regional Bureau
proposals & recommends country S.A. funding
levels to Under Secretary for S.A. ("T")
(SAPRWG members include regional & functional
bureaus at State plus AID, ACDA, DOD/DSAA,
JCS/J-5, NSC, OMB, & Treasury)

"T" Chairs meeting at the Asst. Sec.
level to finalize the S.A. proposal

Deputy Secretary reconciles unresolved
differences in S.A. and integrates S.A.
into the International Affairs budget, and
submits recommendation to SECSTATE

OMB reviews State's submission
and passes it back with changes

State negotiates with OMB over differences
and may reclama OMB passback to White
House Budget Review Board

President submits final Budget to Congress

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SECURITY ASSISTANCE BUDGET PROCESS .

Authorization Cycle

President's Legislative Proposals
Transmitted to Congress Shortly After
Budget Request

Legislative Proposals Incorporated Into
Foreign Aid Authorization Bill (International
Security and Development Cooperation Act)

Congressional Hearings Held on Authorizations

-- House Foreign Affairs Committee,
-- Senate Foreign Relations Committee

Secretaries of State and Defense
Traditionally Testify Before
Full HFAC and SFRC on Overall
Program and Legislative
Proposal

HFAC and SFRC Advise Respective Budget
Committees of Their "Views and Estimates"
(HFAC by 2/25, SFRC by 4/1)

Subcommittees Hold Hearings on Specialized
Areas of Concern (HFAC Subcommittees also
Mark-up Bill. On Senate Side, there is
no Subcommittee Mark-up.)

Congress Completes Action on First Concurrent
Budget Resolution

Full HFAC and SFRC Mark-ups

HFAC Generally Reports Bill First

House Action

SFRC Reports Bill

Senate Action

Bills are Conferenced and Sent Back to Both
Houses for Final Passage

Presidential Action

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SECURITY ASSISTANCE BUDGET PROCESS

Appropriation Cycle

Budget Committees propose BA and
Outlay ceilings for entire International
Affairs (150) Function

Concurrent Budget Resolution
establishes these ceilings to constrain
subsequent appropriation action

Appropriations Committees allocate 150
budget authority and outlays to
their various subcommittees
(known as a 302(b) allocation)

Foreign Operations Subcommittees (of
Appropriations Committees) distribute
their 302(b) allocations among the foreign
assistance accounts under their jurisdiction
(e.g., MAP, FMS Credits, IMET, etc.)

House and Senate each pass their own
version of foreign assistance appropriation
bill and have differences resolved in Conference

If an Authorization Act is in force, the
appropriators generally are constrained
by the budget ceilings and other
parameters established therein

Appropriations legislation is enacted

CRS REPORT FOR CONGRESS

DEVELOPMENT ASSISTANCE POLICY: A HISTORICAL OVERVIEW



Theodor W. Galdi
Specialist in International Political Economy
Foreign Affairs and National Defense Division

April 6, 1988

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ABSTRACT

This report sets out the beginnings and evolution of a series of U.S. development aid programs since the end of World War II. The origins and criticism of the 1973 "New Directions" changes in development policy are highlighted, as well as the continuing congressional dissatisfaction with foreign aid.

ACKNOWLEDGEMENT

This report is based on a briefing for the Foreign Operations Subcommittee of the House Committee on Appropriations on March 9, 1988. The Congressional Research Service and the author appreciate the permission of the subcommittee to have it revised and presented as a CRS report.

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| THE VARIOUS FUTURES OF FOREIGN AID | 25 |

DEVELOPMENT ASSISTANCE POLICY: A HISTORICAL OVERVIEW*

The United States has provided large-scale foreign economic aid through various programs for over 45 years. This paper will concentrate upon the beginnings and evolution of U.S. development assistance policy.

BASIC LEGISLATION AND ADMINISTRATIVE ENTITIES

Basic legislative authority for postwar U.S. economic aid programs has been derived from three bills: the Economic Cooperation Act, 1948-50; the Mutual Security Act, 1951-61, and the Foreign Assistance Act, 1961 to the present. Major revisions regarding economic assistance policy were made in the Mutual Security Act in 1954 and 1959, and in the Foreign Assistance Act in 1973 and 1975.

Since 1948, primary administrative responsibility for foreign aid has been given to a series of what were established to be special agencies, but were in fact the same agency as reorganized by successive national administrations. The Economic Cooperation Administration (ECA) administered the Marshall plan and parts of the first development assistance programs in less developed countries in conjunction with the Technical Cooperation Administration inside the Department of State. This was followed by the Mutual Security Agency (MSA)

* Portions of this paper are taken from or based upon work appearing in: U.S. Congress. House. Committee on Foreign Affairs. Soviet Policy and United States Response in the Third World. Report Prepared by the Congressional Research Service, The Library of Congress, 97th Cong., 1st Sess., March 1981. Washington, G.P.O., 1981; and U.S. Congress. House. Subcommittee of the Committee on Government Operations. AID's Administrative and Management Problems in Providing Foreign Economic Assistance. Hearing, 97th Cong., 1st Sess., Oct. 6, 1981. Washington, G.P.O., 1981.

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While Lend-Lease terminated at the end of the war, the need for commodity aid in Europe continued. Between 1945 and the start of the Marshall plan in mid-1948, a number of relief and rehabilitation programs were undertaken. These included Government and Relief in Occupied Areas (GARIOA) (approximately \$6.1 billion from 1943 to 1951); the Greek-Turkish aid program in 1947 and 1948 (\$650 million); the multilateral United Nations Relief and Rehabilitation Administration (UNRRA) from 1944 to 1947 (\$2.6 billion); and the Interim Aid program of 1947-48 (\$597 million). In addition, other programs, such as the 1946 special British loan, Export-Import Bank activities, and parts of the Marshall plan involved credits that were eventually to be repaid.

MARSHALL PLAN

The Marshall plan became necessary because the economies of Europe, some two years after the end of the war, were still suffering seriously from the dislocations of the war. It became obvious to U.S. policymakers that some form of long-term economic aid was going to be necessary in order to establish the conditions for the revival of healthy economies in Western Europe. The combination of continuing economic stagnation, extremely bad weather, labor unrest, and potential gains by Communists all impelled Congress to respond to the request by the Truman Administration to create a European Recovery Program--called the Marshall plan after Secretary of State George Marshall who proposed its outlines in a June 1947 speech. A separate agency, the Economic Cooperation Administration (ECA), was established to implement the program.

By the time the Marshall plan had been concluded in 1952, more than \$13 billion in commodities had been granted to the countries of Western Europe. These commodities consisted of the full range of raw and semifinished materials and machinery ranging from food to seeds and fertilizers, medical equipment and

At this time, Congress specifically intended to establish only a technical assistance program. In its report on the 1950 aid bill, the Senate Foreign Relations Committee stated:

Because some misunderstanding has arisen about the nature of this program, it should be made clear at the outset that it is neither an ECA (Marshall plan) for the world nor in any sense a capital investment program. Because of the limited nature of the program, it will not require the expenditure of large sums of money. Its chief cost will be for the salaries and expenses of technicians and other personnel and not, for example, to purchase machinery, food, and raw materials. [S. Rept. 1371, 81st Cong., 2d sess.]

However, because of the peculiar institutional structure created by the 1950 Act--a Technical Cooperation Administration (TCA) in the Department of State was created, while the separate Economic Cooperation Administration continued in existence in some areas--certain LDCs received technical assistance, commodity import support, and capital assistance because there were ECA missions already established. Other LDCs, with only TCA missions, received technical assistance alone. This confusion had its origins in actions taken by President Truman early in 1949.

On January 1, 1949, some 18 months before the start of the Korean war, the President gave the Economic Cooperation Administration--the agency responsible for carrying out the Marshall plan in Europe--responsibility for administering economic aid in Korea. This marked a major shift in U.S. policy toward Korea from post-World War II relief to economic development. Aid programs were also begun in Burma, Indochina, and Thailand, when the ECA suggested to Congress that funds left over from the mainland China program--and unusable as a result of the fall of the Nationalist government--be expended in the "general area of China."

This conflict in intentions and organization was highlighted in the Joint Report of the Senate Foreign Relations Committee and Senate Armed Services Committee on the Mutual Security Act (MSA) of 1951 where an elaborate six-part

Libya, Ethiopia, India, Pakistan, Ceylon, Afghanistan, Nepal, Iran, Israel, and the Arab countries.

In the Mutual Security Act of 1951, a total of \$7.8 billion was proposed for all types of aid. Of that amount, \$1.8 billion was for economic aid, including ECA "Technical Assistance and Development" in underdeveloped areas, technical assistance worldwide, and defense support. Thus, in the second year of the program, some 23 percent of U.S. aid was for a program whose purpose was not yet clearly delineated. This ambivalence as to the goals and propriety of providing development assistance was a characteristic of the first two years of the program. Nevertheless, the United States continued to provide development assistance to less developed countries. By 1953, over \$288 million in this type of aid was being provided by the United States to a small number of less developed countries.

The House Foreign Affairs Committee report on the 1953 Mutual Security Act section on Special Regional Economic Assistance set out the reasons for the aid. It stated:

Special economic aid programs are required to help the countries of the region to help themselves and to help one another in accelerating development possibilities where other funds are not available to enable basic development of the local resources to take place. They will be directed to fields where private or public investment funds are not otherwise available, such as projects for water storage, power, irrigation, transport, and the like. In addition, funds are required for general economic support to prevent privation and accompanying political unrest. Emphasis in the expenditure of such funds must be directed to benefit those countries which do not have sufficient other resources for their development.

In the recodification of U.S. foreign aid programs which took place in the 1954 Mutual Security Act, little clarification was made of the goals and purposes of the development assistance program. Title II was named "Development Assistance," and the total amount authorized, some \$299 million, was \$87 million larger than had been appropriated for the previous fiscal year. But the legislative statement in the new "Development Assistance" authorization

through economic assistance budget categories: commodity imports, cash transfers, and, to a lesser extent, technical assistance.

The original Economic Support for Defense authorization in the 1951 Mutual Security Act reflected the impact of the outbreak of the Korean war. Aid to Europe that had previously been seen as building a strong economic base on which defense capabilities could subsequently be developed, was now seen as making possible direct and immediate contribution to military strength. The following excerpts from a memorandum inserted in the Senate Report on the 1951 Mutual Security Act capture this rationale:

. . . The mutual security bill contemplates that in the future the United States will furnish two basic types of aid to Europe, military end-item aid and economic-support aid. Both of these types of aid are to be directly related to the defense efforts of the recipient countries. Inasmuch as all economic-support aid is intended to provide the basic economic strength essential to the undertaking of an adequate defense effort, it is no longer necessary or desirable to preserve a distinction between the segment of that aid which is to be utilized in direct support of military production, and the remaining segment which is designed to provide for the impact of an overall rearmament effort on the general economy

For 1951, the first year of the Mutual Security Act, Europe was the only region authorized to receive defense support. The following year, 1952, \$1.4 billion was authorized for defense support and economic aid in Europe. At the same time, Taiwan and Indochina (Cambodia, Laos, and Vietnam) were also given \$202 million in defense support. The rationale for the defense support for Taiwan included all of the economic and political elements which were later to characterize security supporting assistance.

. . . Direct support will be furnished to the U.S. military assistance program through the financing of common use imports directly required by the Armed Forces, such as petroleum, uniform, and bedding materials, food for troops, construction materials, hospital equipment, et cetera. Likewise, local costs connected with these items will be financed from counterpart funds. In addition, the strengthening of transport and power systems, assistance in maintaining livable economic conditions throughout the rural areas, and the contribution of our program to economic stabilization are basic to the success of the military assistance effort.

industrial growth, either to substitute for imports or to be sold in export markets; and rural development, which posited that economic growth in rural areas would lead to overall self-generating growth. More recently, export-oriented growth, and redistribution with growth, or growth-with-equity strategies have been the focus of attention.

It should be emphasized that only parts of these strategies were incorporated into U.S. aid policy at any one time. Actual aid policy has always consisted of a mixture of several different, and not necessarily exclusive, "strategies." This mixture was a reflection, not only of the lack of agreement among development economists, but also of the several economic and political goals of the U.S. development assistance program.

Changing Justifications for Development Assistance

The ambiguous initial justifications for the provision of development assistance remained unchanged for the first years of the program. In 1956, President Eisenhower asked Congress for authority to make commitments up to 10 years to assist LDCs with long-term development projects. There was no support in Congress for the proposal. The first coherent justifications for long-term development aid were both presented in 1957. One was a study done at the Massachusetts Institute of Technology (MIT) as part of a series of research efforts sponsored by the Senate Special Committee to Study the Foreign Aid Program. The MIT study, "The Objectives of U.S. Economic Assistance Programs," concluded that a policy of deterrence against a Soviet military threat was not in itself adequate to achieve a world environment favorable to the United States. In the view of the authors, the United States had the opportunity "in the next two or three decades" to resolve the Cold War and to promote a more congenial international environment. According to the MIT study, a sustained,

had not adequately met such needs; and evidence from a select number of countries, predominantly in East Asia, that basic needs could be met through alternative development approaches.

According to supporters of the New Directions changes, until the early 1970s, the primary development approaches emphasized economic growth as the key to overall development: "the more rapid economic growth, the faster the overall development process." Furthermore, according to New Directions advocates, it was believed that the most effective means of maximizing economic development was through capital-intensive industrial production in urban centers. Once this growth process was generated and sustained, the benefits from it would disperse, or "trickle down," throughout the economy, gradually developing great momentum. In time, the rural poor would be beneficiaries of the development process.

In certain respects, conceded by some proponents of the New Directions changes, the results of the traditional development approach in the LDCs were positive. Economic growth rates among the LDCs as a group had been quite impressive during the 1950s and 1960s. During the 1960s, the developing countries averaged a 5.5 percent annual increase in Gross National Product (GNP) and an annual per capita GNP increase of 3.2 percent.

Yet, according to supporters of the 1973 changes, accompanying this impressive economic growth was evidence that the poorest inhabitants of many LDCs had been excluded from the development process, and in some cases, adversely affected by high growth. The consensus of a number of studies which appeared in the late 1960s and early 1970s was that in many instances the gains of the conventional development approach had so far failed to trickle down. The International Labor Organization (ILO) found that despite the significant increases in per capita incomes, unemployment in various developing countries was also increasing during the 1960s. Other studies showed that not only had

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technical knowledge. These countries became a model for the development of New Directions Concepts.

REEXAMINATION OF THE BASIC ASSUMPTIONS BEHIND THE NEW DIRECTIONS CHANGES

While one of the basic assumptions behind the proposals of the New Directions policies in 1973 was that the "conventional" development process had not worked for the majority of people in the LDCs, research done after the passage of the changes cast a different light on this issue. In Twenty-five Years of Economic Development, ^{1/} David Morawetz challenged the thesis that the Third World was a great bottomless pit into which the rich countries kept throwing dollars that were used and wasted by corrupt local elites.

Morawetz demonstrated that there had been spectacular growth of GNP in the LDCs from 1950 to 1975. According to Morawetz, GNP per capita in the LDCs increased 3.4 percent per year from 1950 to 1975. This was faster than today's developed countries grew during their development, faster than the LDCs had ever grown before, and faster than anyone expected them to grow.

The growth rates differed by country and region. The Middle East, East Asia, Latin America, and Africa all had per capita GNP growth of 2.4 percent per annum or higher. Unfortunately, South Asia, with a population of 830 million and a per capita income of only \$132, only grew at a rate of 1.7 percent a year. In this region and certain African countries the really difficult, massive poverty problems continued to exist.

Morawetz' most striking findings, however, concerned indicators other than simple growth of GNP. He found that by any measure, overall development from 1950 to 1974 had been successful.

^{1/} Morawetz, David. Twenty-Five Years of Economic Development, 1950-1975. Washington, World Bank, 1977.

budget category, the Alliance for Progress was used to keep track of AID's development loans and technical assistance to Latin America.

After 1973, the basic focus of development assistance was to be on what we called the functional budget categories. Originally, these were: Food and Nutrition, Population Planning and Health, Education and Human Resources Development, Selected Development Problems, and Selected Countries and Organizations. The present basic development assistance budget structure--Agriculture, Rural Development, and Nutrition; Population; Health, Education and Human Resources Development, and Energy and Selected Development Activities--has evolved since 1973 as a result of congressional and executive branch concerns.

Responding to executive branch complaints that the functional budget categories required by the Foreign Assistance Act limited AID's operational flexibility too much, in 1987 Congress appropriated the entire amount for Sub-Saharan Africa--\$500 million -- through a single account: Sub-Saharan Africa, development assistance. The funds were to be used for "any economic development assistance activities under the Foreign Assistance Act of 1961."

DEBATE OVER THE IMPACT OF NEW DIRECTIONS PROGRAMS

Since the passage of the New Directions legislation in 1973, a number of specific criticisms have been raised about the changes. Probably the most important concerns the universal applicability of the New Directions approach. In some regions, most especially Africa, the major complaint by recipients--and AID personnel--is the pressing need for funding for infrastructure. It is argued that New Directions programs, with their focus on technical assistance,

New Directions programs can involve efforts to bypass, to a greater or lesser extent, existing political and social structures by a foreign government agency--in this case AID--to deliver services directly to the least productive group in the recipient society. While the intentions of the New Directions programs are humanitarian or development-oriented rather than political, their effects, whether the actual projects are successful or not, go directly to the basic relations among competing social and economic groups in LDC society. Further, the strategy assumes that participation in the political process by the economically disadvantaged groups will generally have a salutary political outcome. While this may well prove true over time given democratic development, the mobilization of a politically aware, economically disadvantaged group can also result in increased demands for services, increasingly unrealistic expectations, and greater instability.

Another problem that has been noted in New Direction projects is their continuing need for economic or bureaucratic support and maintenance. Many of the health programs require levels of staff and material support the host countries seem unable to provide. Neither conceptually nor administratively have New Directions projects been primarily concerned with income generation. Yet this income is necessary if the projects are to continue. The project may be a "success" in terms of delivery of services or technology, but a failure because it is not self-sustaining. Thus, projects are established, but because they are not integrated into the local economic, political, and social system, they are not continued.

While these specific criticisms have been raised about New Directions Programs, others--usually in AID--complain that the New Directions requirements and the other limitations specifically stated in the Foreign Assistance Act have made it difficult, if not impossible, to operate a flexible aid program.

private sector was urged, based upon the concepts of the efficiency of market economics and the relative inefficiency of LDC public sector agencies.

By February 1983, the Reagan Administration had identified the "Four Pillars" which were to undergird its foreign aid programs:

- 1) Policy Dialogue and Reform, seeking to agree with host country governments on the policy constraints to development and practical improvements that could be made;
- 2) Institutional Development, focusing on decentralizing institutions and encouraging reliance on private and voluntary, rather than public, institutions.
- 3) Technology transfer, such as seeking breakthroughs in such areas as biomedical research, agriculture, and family planning.
- 4) Greater use of the private sector in solving development problems.

During this initial period, the drafting of a series of AID Policy Papers designed to mesh the Administration's emerging overall development strategy with particular sectoral and functional concerns was undertaken. Between March 1982 and March 1983, 13 major AID Policy Papers were released. These were: Bureau for Private Enterprise, March 1982; Food and Agricultural Development, Private Enterprise Development, Nutrition, and Domestic Water and Sanitation, May 1982; Private and Voluntary Organizations, and Population Assistance, September 1982; Pricing, Subsidies and Related Policies in Food and Agriculture, November 1982; Health Assistance, Approaches to Policy Dialogue, and Basic Education and Technical Training, December 1982; and Institutional Development, March 1983.

THE AID BUREAU STRATEGIC PLANS AND THE 1985 AID BLUEPRINT FOR DEVELOPMENT

As the series of AID Policy Papers designed to mesh the Administration's overall development strategy with specific sectoral and functional programs was released in 1982 and 1983, the Administrator circulated a memorandum requesting

Development, the Economic Policy Initiative for Africa, a new emphasis on dealing with the problems of urbanization, and human rights. 5) The last major section, "Making Better Use of Resources," dealt with administrative matters such as the need for coordination among donors and in the U.S. Government, and the need for continuing program evaluation. An appendix set out the specific steps in each of the five areas of program focus which were to be taken as appropriate over the next year, the next two years, and the next five years.

In 1985, the administration convinced Congress to incorporate into the Development Policy section of the Foreign Assistance Act specific language recognizing much of the Blueprint for Development and the Four Pillars approach. At the present time, AID has the legislative authority to pursue either New Directions programs, Four Pillars programs, or both.

CONTINUING CONTROVERSY IN CONGRESS OVER FOREIGN AID

From the beginning, foreign aid has never been popular in Congress. The negative reactions in Congress to the post-war continuation of Lend-Lease are an early example. Except for the first 18 months of the Marshall Plan in Europe and for certain countries at specific times, there has always been significant resistance in Congress to either the provision of military aid or economic aid or both.

At congressional insistence, the first Mutual Security Act contained a three-year termination provision. The creation of Economic Support for Defense in 1951 was a device to obtain greater funding from a skeptical Congress.

The 1957 MIT study mentioned earlier was commissioned in 1956 by the Senate Special Committee to Study the Foreign Aid Program. The Special Committee itself was created because of widespread dissatisfaction with foreign aid. In 1959, partly as a response to the MIT and Fairless reports, some in

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has been high, and only one session of Congress has passed both an authorization and an appropriation foreign aid bill simultaneously--in 1981.

THE VARIOUS FUTURES OF FOREIGN AID

One reaction to the continuing congressional dissatisfaction with foreign aid has been the establishment of a series of official task forces or commissions to study the entire aid program. The Senate Special Committee to Study the Foreign Aid Program and the Fairless Commission were created in 1956.

In 1963, a report was submitted to President Kennedy on the foreign aid program by a panel headed by retired General Lucius Clay. The Clay Commission recommended a significant sharpening of the objectives of the aid program and a tightening up of its operation.

In 1972, a report to President Nixon by a task force headed by former Bank of America President Rudolph Peterson recommended, among other things, changes in aid organization, a separation of economic and military aid, greater support for multilateral aid, and increased aid funding. The Peterson task force was formed as a response to a provision of the 1968 Foreign Assistance Act directing the President to review the entire foreign aid program. Most recently, the Carlucci Commission performed a similar function in 1983.

The impact of the conclusions or recommendations of these official task forces or commissions on U.S. foreign aid policy has varied greatly. Some conclusions such as those of the 1956 Senate Special Committee to Study the Foreign Aid Program, became U.S. development assistance policy a few years later. The conclusions of others, such as those of the 1963 Clay Commission, were essentially ignored.

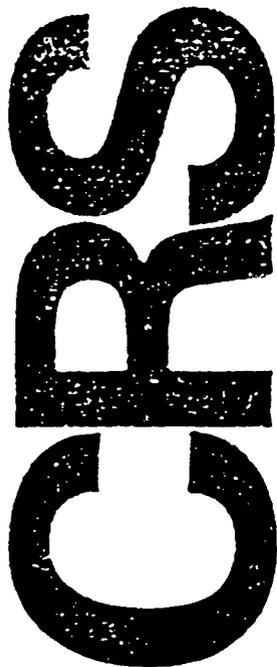
The history of development assistance is one of continuity in types of programs implemented but with significant changes in justifications,

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CRS REPORT FOR CONGRESS

AN OVERVIEW OF THE ECONOMIC SUPPORT FUND

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April 1, 1988

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ABSTRACT

The Economic Support Fund, one of the largest U.S. foreign assistance programs, is a highly flexible and, in some ways, unique aid tool that supports key security, political, and economic interests of the United States. Because of these features, questions are frequently raised over the appropriate manner in which the ESF program should be applied. This report traces the evolution of the Economic Support Fund since the 1950s and examines the extent to which the objectives and programming of the ESF have changed over time.

ACKNOWLEDGMENT

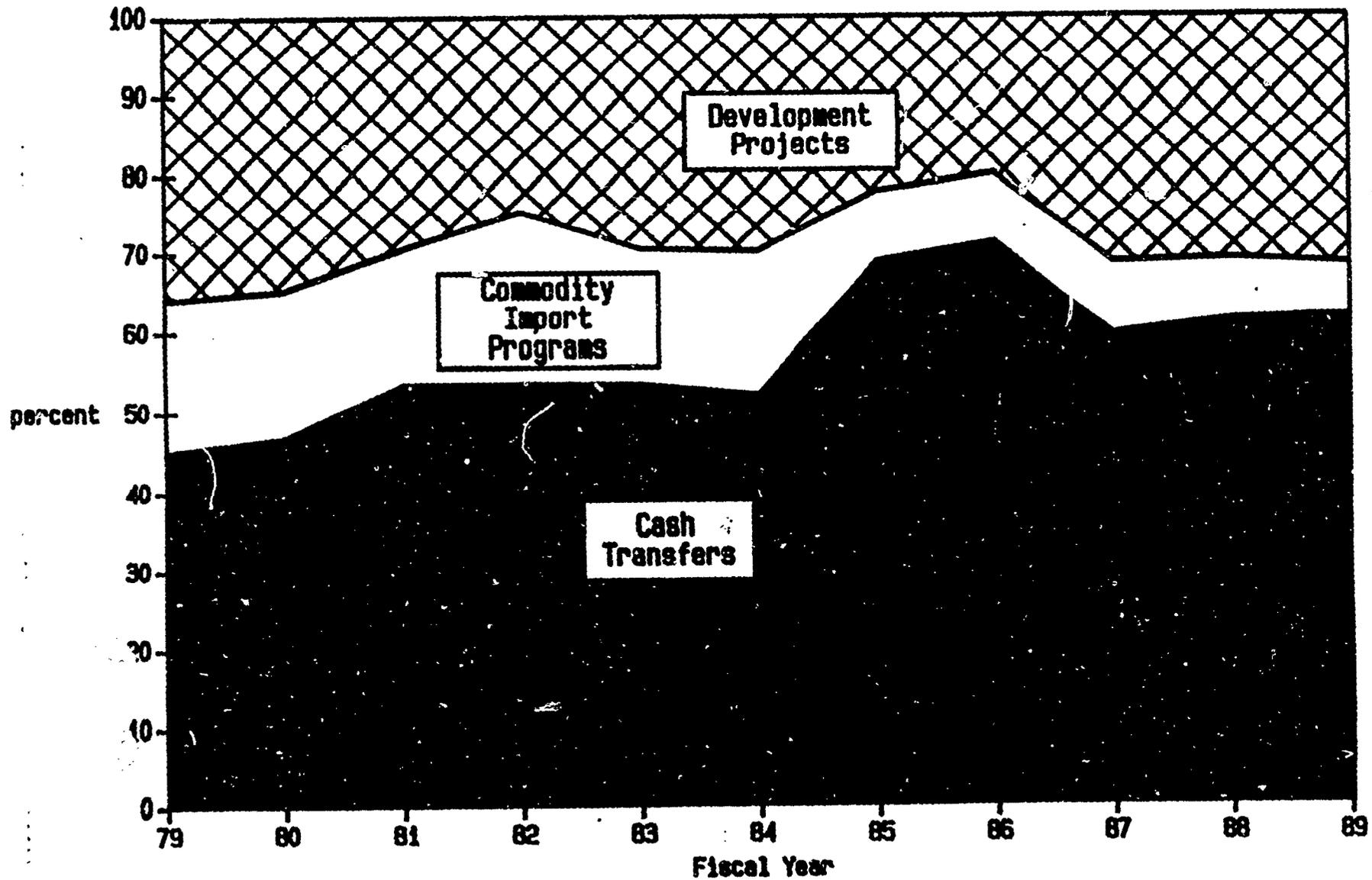
This report is based on a briefing for the Foreign Operations Subcommittee of the House Committee on Appropriations on March 9, 1988. The Congressional Research Service and the author appreciate the permission of the Subcommittee to have it revised and presented as a CRS Report.

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Figure III

Categorization of Economic Support Fund
Obligations, FY 1979-89



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Continuity and Change in Economic Support Fund Policy

Today's ESF program continues many of the same features that have existed throughout the program's history. It also contains a number of different characteristics. Significant continuing features include:

*First, the ESF continues to be primarily a foreign policy tool used to advance U.S. political and security objectives. Long-term development goals, which certain ESF programs may support, have been consistently assigned a lower level of importance in the program.

*Second, the ESF remains a very flexible instrument, largely unencumbered by conditions that apply to other economic programs.

*Third, the ESF, like its predecessors, supports activities that to a certain extent are considered ineligible or inappropriate for funding under other programs. Large infrastructure projects, for example, cannot usually be funded under the development aid accounts.

*Fourth, the ESF continues to advance U.S. access to overseas military bases. As early as 1955, Congress specified that Defense Support should be used to facilitate the construction of U.S. military bases in Spain. In recent years, so-called "base-rights" countries have received about 10 percent of the ESF budget.

*Fifth, many of the ways ESF is programmed -- budget support, financing of imports, and to a lesser extent, development projects -- can be traced to the earliest years.

In other ways, however, current ESF policy departs from earlier used of the program. Major areas include:

*First, there is less direct linkage today between ESF and a recipient's defense burden. While this is still an important consideration in some countries, a number of ESF recipients receive little or no military aid. By contrast, during the 1950s and 1960s, especially, security-related economic aid was frequently justified more for its contribution to military goals than to economic objectives.

*Second, by historical standards ESF is no longer as heavily concentrated in a single key target area. Figure I (page 4) illustrates this point. It shows that between 1954 and 1981, one specific region received over two-thirds of security-related economic aid, except for a brief period in 1962-63. During most of this period ESF-type assistance

AN OVERVIEW OF THE ECONOMIC SUPPORT FUND

INTRODUCTION

The Economic Support Fund (ESF) and its precursors have been a significant component of U.S. foreign aid programs over the past 37 years furthering both development and military aid policy. The Economic Support Fund is a unique aid tool in that it undertakes programs not appropriate for other assistance accounts. It combines features found in many U.S. aid programs and selectively applies them on a flexible case-by-case basis to support economic, political, and security policy goals of the United States. It is not intended primarily as a humanitarian or development program, although it may have important benefits in these areas for the recipient nations. Policymakers tend to see ESF aid as an essential instrument of foreign policy, and many in Congress share their view. However, there is a concern that in using ESF the executive branch seeks to avoid congressionally imposed restrictions and guidelines that govern other assistance programs. Accountability of how ESF money is spent is also a matter of controversy.

In most years, the ESF program has been a highly concentrated foreign aid tool, utilized primarily to support a few high priority aid recipients. The program underwrote part of the costs of rebuilding West European military capabilities, helped turn back Communist aggression in East Asia, focused almost exclusively on Southeast Asia during the Vietnam war period, supported efforts to build peace in the Middle East, and since 1981, has been an important aid tool in Central America. Distinctive feature of more current ESF programs, however, have been the growth in the size of the ESF budget and the expansion of objectives and policies pursued with ESF resources.

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debates over the appropriate balance between development and security assistance within the foreign aid budget. Grouping it with development programs makes economic aid appear the dominant feature of the budget. Including it with military assistance makes security aid the largest. Many regard the so-called "balance" debate as inappropriate and misleading. Nevertheless, attention continues to focus on the balance issue; and with the addition of inconsistent accounting for the ESF, this debate is further distorted.

EVOLUTION OF THE ECONOMIC SUPPORT FUND

Defense Support in Europe and Asia

Origins of the Economic Support Fund can be traced to 1951 and the emergence of a program of economic aid in support of military assistance authorized in the Mutual Security Act of that year. "Economic Support for Defense," as it was known then, was directly linked to the reestablishment of an adequate defense mobilization base for countries in Western Europe. Taiwan and the Indochina Associated States also received this type of aid in 1951. Figure I (next page) illustrates this concentration as well as the regional and country focus of the ESF program over time.

While the aid was justified on the basis of a recipient's military requirement, the actual types of assistance were much the same as those provided under other economic programs. Defense Support, as it became known, financed the imports of raw materials, equipment, and commodities, some of which in the early years directly supported the military with petroleum products, uniforms, food for troops, and the like. Defense Support also assisted in the construction of major infrastructure facilities such as roads

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and bridges and supported the development of strategic materials. It also provided specialized assistance consisting of technical and economic aid in the agriculture, health, small industry, and education sectors. In determining the amounts of Defense Support, the primary objective of U.S. policymakers was to fill the gap between a country's expected export earnings on one side, and the costs of required imports to achieve sufficient production to support defense needs on the other side. In short, it was a budget support program that reduced the economic consequences of large expenditures.

Although some European nations continued to receive Defense Support through the 1950s, the emphasis of the program shifted to Asia and attempts to bolster the economies and military capabilities of a number of countries facing Sino/Soviet aggression. During the period 1953 - 1961, key East and Southeast Asian nations, such as South Vietnam, Laos, Cambodia, South Korea, and Taiwan, received about 65 percent of all Defense Support worldwide. (See Figure 1.) While the majority of this aid financed the importation of essential goods, including petroleum products, construction materials, fertilizers, and machine tools, and supported the construction of infrastructure facilities used primarily for military purposes, some Defense Support targeted the development of agriculture, forestry, fishery, and education projects. The intent of this type of assistance was to restore and improve public services in an effort to gain wider popular support for the government. In the Philippines and Pakistan, particularly, Defense Support was aimed primarily at longer term economic development. Local currencies generated from the sale of the imported goods were used most frequently as either general budget support for the recipient country or for direct internal costs of supporting large military forces. To a lesser extent, these currencies also funded development projects.

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years South Vietnam accounted for as much as 85 percent of the program. The commodities imported with supporting assistance and the local currencies generated from their sale, assisted in a large way the war efforts of the South Vietnamese government. While this was the principal objective of the program in Southeast Asia, small parts of supporting assistance also went for economic development projects.

It was also during this period that the name of the program changed to security supporting assistance, or SSA. In 1971, Congress shifted its legislative authority from the economic part to the military part of the Foreign Assistance Act of 1961 in order to draw a sharper distinction between SSA and development assistance. Nevertheless, the general purpose of the program remained unchanged.

Emphasis Shifts to the Middle East -- Renamed Economic Support Fund

As the United States withdrew from Southeast Asia during the early to mid-1970s, the focus of SSA shifted to the Middle East. During the years 1975-81, Israel and Egypt accounted for 73 percent of the program. Jordan and Syria also received substantial sums.

While this shift occurred, U.S. aid policy for other types of economic assistance had undergone significant changes. The New Directions mandate of 1973 placed emphasis on the needs of the poorest populations in developing countries. For the most part, aid was dispersed through small, narrowly defined projects. By 1977, congressional attention turned to SSA aid as another instrument to pursue New Directions policy. Proponents sought to deemphasize budget support and infrastructure aspects of security supporting assistance and increase project aid. Congress modified the Foreign Assistance Act in 1977 so that the policy directive of the New Directions initiative would

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CONTINUITY AND CHANGES IN MILITARY AID PROGRAMS

There are two basic continuing dilemmas regarding the provision of military aid. First, military aid is generally more visible than economic aid. Consequently, the United States is usually identified with the government that receives it. If that government becomes unpopular and is replaced, there is always the potential that the United States will be blamed for perceived misdeeds of the former regime. Second, the United States sometimes finds itself in the position of arming two friendly states that happen to be hostile to each other. This can be the catalyst for ill will against the United States by either or both recipient nations.

There are also two characteristics of military assistance as an instrument in support of U.S. foreign policy goals. First, military aid is an imperfect instrument. Its use cannot guarantee outcomes that we seek to achieve. Despite massive grant military assistance to South Vietnam, the government we supported was still defeated. Despite years of grant military aid to Ethiopia, its government was overthrown by pro-Soviet forces. Despite billions of dollars in cash arms sales to Iran, the Shah was overthrown by an internal revolution. On the other hand, military assistance from the United States aided the successful containment of Soviet power in Western Europe and helped maintain the independence of South Korea; and these were no small achievements.

Second, military assistance appears to be most effective when used to support more developed nations--ones with a stable political system and an industrial base and populace capable of readily absorbing the aid provided. Problems in its use seem most likely when it is introduced into nations still coping with the pressures of political, economic and social change created by the industrial age.

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CRS REPORT FOR CONGRESS

AN OVERVIEW OF UNITED STATES MILITARY ASSISTANCE PROGRAMS

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March 29, 1988

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ABSTRACT

This report reviews the evolution of the two largest components of U.S. military aid -- the grant Military Assistance Program (MAP) and the Foreign Military Sales (FMS) cash and credit program. It also explains the relationship between U.S. foreign policy goals and the use of military assistance as an instrument in support of them.

ACKNOWLEDGEMENT

This report is based on a statement presented before the Foreign Operations, Subcommittee of the House Committee on Appropriations on March 9, 1988. The Congressional Research Service and the author appreciate the permission of the subcommittee to have it revised and presented as a CRS Report.

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OVERVIEW OF UNITED STATES MILITARY ASSISTANCE PROGRAMS

This overview focuses on the evolution of the two largest components of U.S. military aid--the grant Military Assistance Program (MAP) and the Foreign Military Sales (FMS) cash and credit program. It also examines the relationship between American foreign policy goals and the use of military assistance as an instrument in support of them. Figures which illustrate the size, regional distribution, and loan/grant composition of the aid program over time are appended to this report in Appendix A.

PRINCIPAL RATIONALES FOR PROVIDING MILITARY AID

Historically there have been three principal reasons why the United States has provided military assistance:

1. To enhance the ability of allied and friendly nations to defend themselves against external aggression or internal subversion by Communist or unfriendly forces.
2. To enhance bilateral security relationships in order to deter aggression against allied and friendly nations.
3. To express tangible American support for political actions of allied and friendly nations that the United States seeks to encourage.

The first reason is essentially a military one. The other two are both political and military in nature. An important shift in emphasis in our reasons for giving military aid has occurred over time. In the beginning, the principal rationale was deterring Soviet expansionism. In more recent years it has been to advance other political goals of U.S. foreign policy, as well as to deal with Soviet proxies and other unfriendly forces.

Assistance Act of 1949 established the authority to provide military aid to NATO members, and to Turkey, Greece, Korea, Iran, the Philippines, and Taiwan as well. (See Appendix A, Figure II, for an illustration of the regional distribution of military assistance over the past 40 years.)

The Mutual Defense Assistance Act of 1949 also created the legal basis for major military assistance program elements that exist to this day. These elements include the grant Military Assistance Program (MAP); the grant military training program (part of MAP until 1976 when the International Military Education and Training Program (IMET) was created); and the Foreign Military Sales (FMS) cash sales program. The authority for the FMS credit program was created by the Mutual Security Act of 1954.

Changing Focus of Military Aid

In the early 1950s the United States attempted to replicate the NATO treaty model in Asia by creating a number of bilateral and multilateral mutual security pacts with various Asian nations. These treaties were in partial response to the unsuccessful attempt of North Korea to overrun the government of South Korea in 1950, as well as the increasing instability in Southeast Asia generally. These treaties included bilateral ones with Japan and the Philippines in 1951, with South Korea in 1953, and Taiwan in 1955. Multilateral pacts were reached with Australia and New Zealand (ANZUS) in 1951, and with other Asian nations, including Thailand and Pakistan, through the Manila Pact, which created SEATO in 1954. As the number of mutual security arrangements increased so did U.S. military assistance to nations that were parties to them.

From the late 1940s to the early 1960s a consensus existed within the U.S. Government that the paramount need to strengthen anti-Communist forces overrode concerns of those who questioned the value of supporting repressive regimes,

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The Vietnam war, more than any other event during the period from 1964 to 1973, drove the allocation of military assistance funding. (See Appendix A, Figure II.) The greatest proportion of Vietnam-related grant military aid was provided through a special military assistance service fund (MASF) account--which was established outside of the regular MAP program account. It was authorized and appropriated through Defense Department authorization and appropriation bills for fiscal years 1966-1975. Regular Military Assistance Program (MAP) funding for South Vietnam ended in fiscal year 1966. During the key period of the MASF program's existence--FY 1966-75--South Vietnam received more than \$13.6 billion in grant military articles, services and training from the MASF account alone.

Despite the expenditure of tremendous resources by the United States in support of the South Vietnamese government, a determined foe prevailed in the end. The Vietnam war reshaped American attitudes regarding the viability of military assistance as an instrument for supporting American foreign policy goals.

The Vietnam war also dramatized an issue that had been overshadowed in the 1950s and early 1960s. Prior to Vietnam, concern with containing Communist subversion in the world superseded questions regarding the nature of governments receiving our military aid. This Cold War consensus on foreign military assistance was shattered by the Vietnam war experience. We saw vividly the use of our aid against domestic foes of the regime we were helping. We saw our military aid contribute to the rise of the military as the predominant political force in South Vietnam. In the post-Vietnam period, Congress expressed increasingly strong concerns about the wisdom of direct U.S. military involvement in conflicts in developing nations, and an even stronger aversion toward the United States assisting or becoming identified with dictatorial or undemocratic regimes no matter how anti-Communist they might be.

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peace between Israel and its Arab neighbors. The fall of the Shah of Iran in 1979, the regional instability enhanced by the Iranian revolution, and the Soviet invasion of Afghanistan, gave greater impetus to American involvement within this region. When the Soviet Union invaded Afghanistan in 1979, President Carter announced a U.S. commitment to oppose directly subversion and aggression throughout the Persian Gulf and Middle East area.

Growth in Military Aid to the Middle East

As events such as these systematically drew the United States into the security problems of the Middle East, the military assistance program allocations to this area increased dramatically. Indeed, since FY 1974 this region has consistently received the greatest share of U.S. military assistance. (See Appendix A, Figure II.)

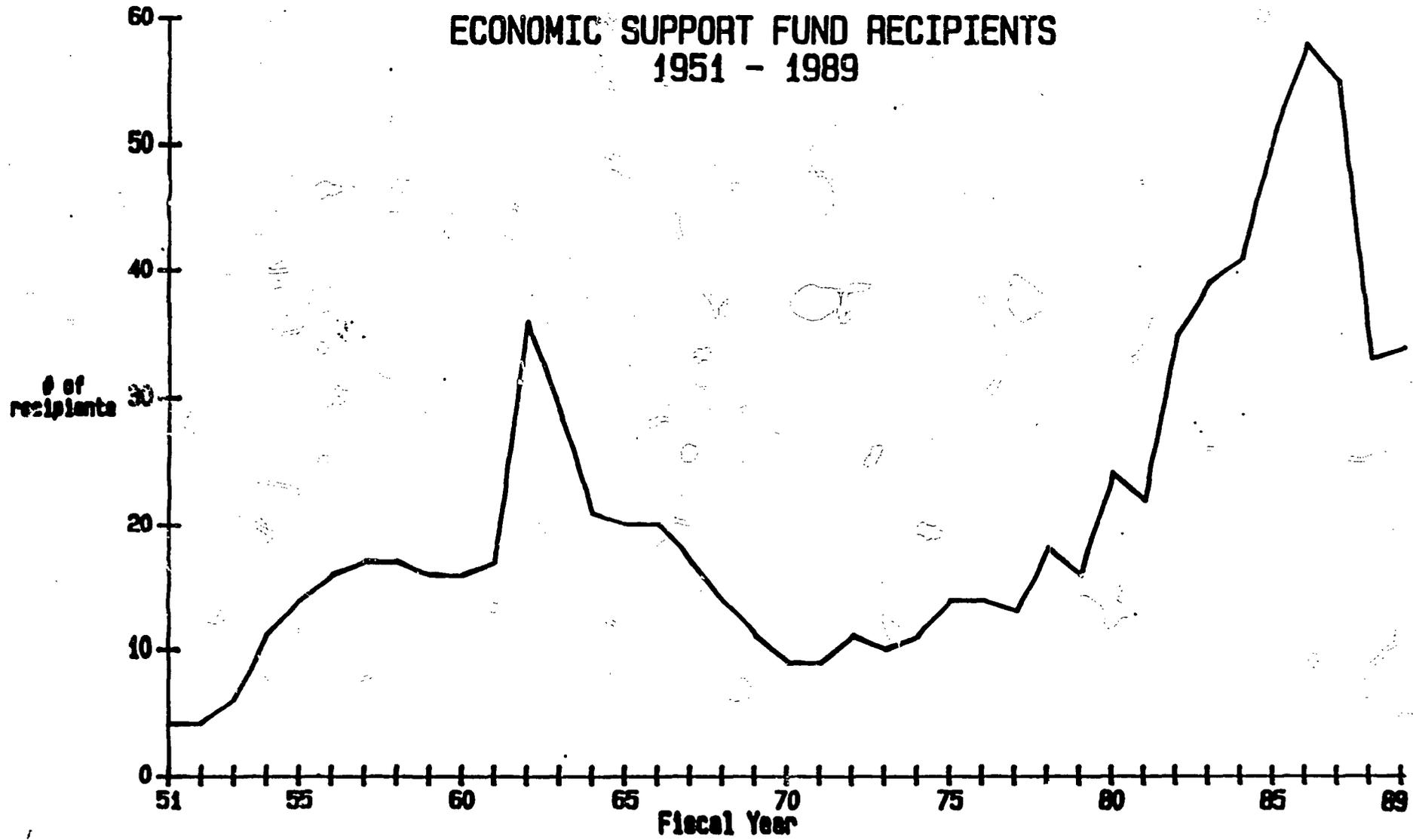
Israel and Egypt together have had the dominant share of U.S. military aid since the 1979 Camp David peace accords. The U.S. military assistance provided to these nations since they signed the accords is a key illustration of how the United States has used this instrument of policy in an effort to promote peace in the Middle East region.

Middle East nations have received the largest percentage of U.S. military aid since the mid-1970s, but a series of "base rights" countries have collectively received the next largest share in the most recent period. From the mid-1970s to the present, the United States has provided military assistance to nations in NATO's southern region--to Turkey, Greece, Portugal and Spain--and to the Philippines in Asia. This assistance has had two principal purposes: to upgrade the military capabilities of these allies and to maintain continued access to and use of important military facilities located in these countries. Pakistan, because of its assistance in carrying

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Figure II

**ECONOMIC SUPPORT FUND RECIPIENTS
1951 - 1989**



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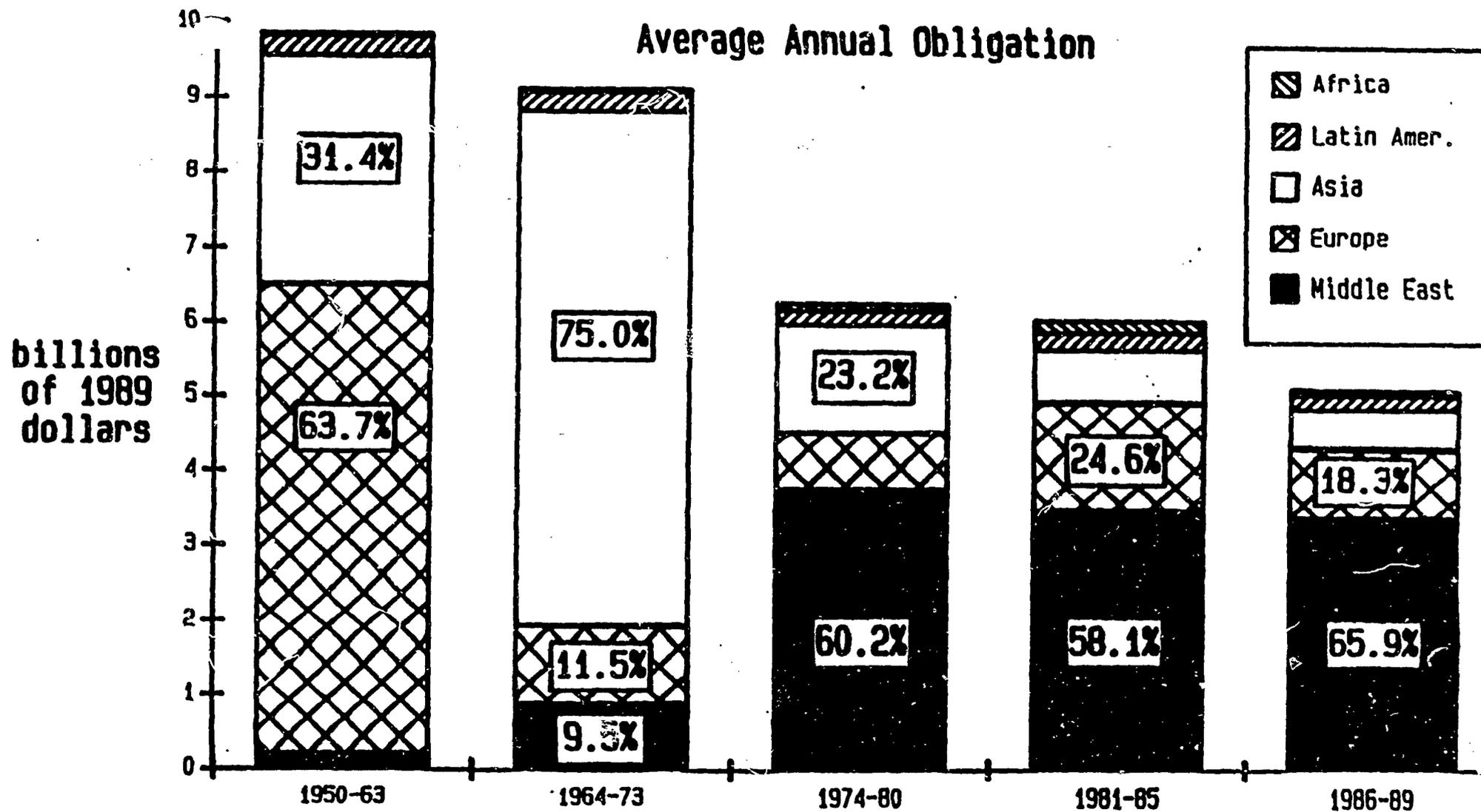
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APPENDIX A.

FIGURES OF U.S. MILITARY AID
FY 1946-1989

(Information for these figures
is drawn from a CRS-maintained
foreign assistance data base)

Figure II
U.S. MILITARY AID, BY REGION
Average Annual Obligation



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Legislative Benchmarks in the History of Military Assistance Programs

| <u>Year</u> | <u>Legislation</u> | <u>Outcome</u> |
|-------------|--|--|
| 1947 | Greek-Turkish Aid Bill (P.L. 80-75) | First major commitment of military and economic aid |
| 1949 | Mutual Defense Act of 1949 (MDAA) (P.L. 81-329) | Creates Military Assistance Program (MAP); creates authority for Foreign Military Sales (FMS) cash program |
| 1951 | Mutual Security Act of 1951 (P.L. 82-165) | Establishes authority for military and economic assistance in one legislative vehicle; establishes basis for Economic Support Fund (ESF) |
| 1954 | Mutual Security Act of 1954 (P.L. 83-665) | Establishes basis for Foreign Military Sales (FMS) credit program |
| 1961 | Foreign Assistance Act of 1961 (P.L. 87-195) | Makes major consolidation of all prior Security Assistance Programs in new legislative vehicle |
| 1968 | Foreign Military Sales Act of 1968 (P.L. 90-629) | Establishes separate legislative authority for Foreign Military Cash and Credit Sales Program |
| 1976 | International Security Assistance and Arms Export Control Act of 1976 (P.L. 94-329) | Creates Arms Export Control Act which consolidates existing legislation relating to U.S. arms sales (cash or credit), government and commercial; establishes International Military Education and Training (IMET) as separate program from MAP |
| 1978 | International Security Assistance Act of 1978 (P.L. 95-384) | Establishes Economic Support Fund (ESF) as title for program previously known as Security Support Assistance, Supporting Assistance and Defense Support |
| 1981 | International Security and Development Cooperation Act of 1981 (P.L. 97-113) | Provides authority for a Special Defense Acquisition Fund (SDAF) to facilitate procurement of high demand items in anticipation of foreign military sales to eligible nations |

Appendix B

Legislative Benchmarks in the History of Military Assistance Programs

| <u>Year</u> | <u>Legislation</u> | <u>Outcome</u> |
|-------------|--|--|
| 1947 | Greek-Turkish Aid Bill (P.L. 80-75) | First major commitment of military and economic aid |
| 1949 | Mutual Defense Act of 1949 (MDAA) (P.L. 81-329) | Creates Military Assistance Program (MAP); creates authority for Foreign Military Sales (FMS) cash program |
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| 1978 | International Security Assistance Act of 1978 (P.L. 95-384) | Establishes Economic Support Fund (ESF) as title for program previously known as Security Support Assistance, Supporting Assistance and Defense Support |
| 1981 | International Security and Development Cooperation Act of 1981 (P.L. 97-113) | Provides authority for a Special Defense Acquisition Fund (SDAF) to facilitate procurement of high demand items in anticipation of foreign military sales to eligible nations |