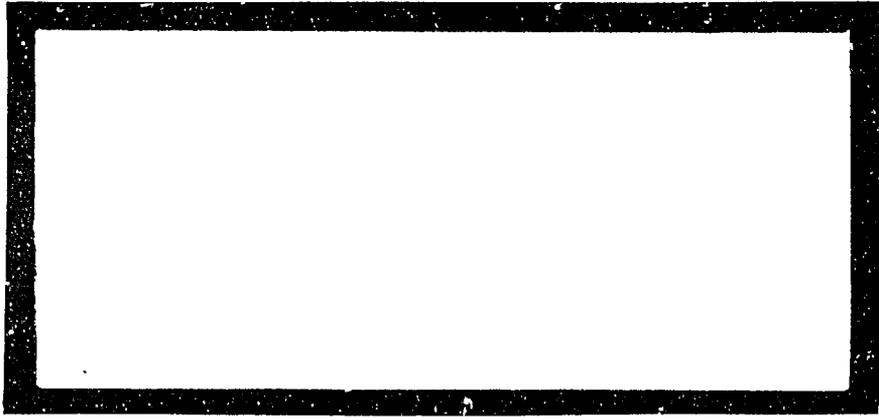


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**A Review of  
"U.S. Organization for Development Cooperation -  
Institutional and Policy Responses**

**by  
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## U.S. Organization for Development Cooperation – Institutional and Policy Responses

Maurice Williams

### OVERVIEW

For each of the areas underlined below, Williams reviews "changes which should be made by the United States in the organization of development cooperation to respond to the changing foreign policy and international economic requirements of the 1990s." The paper is concise and is easily summarized in the following section. The section on Restructuring the Agency for International Development offers brief ideas on the mechanics of this reorganization.

### HIGHLIGHTS OF PAPER

Need for a Broader Vision of National Security. To exercise its leadership effectively, the U.S. will have to "adopt a national security vision which is broad enough to encompass global economic, social and environmental problems as well as concerns for military security." In Williams' view, the latter has been overemphasized.

Clarifying the Criteria for Security Programs. Clearer distinctions are needed between the several forms of aid within the foreign assistance legislation. In particular: (1) remove military assistance from the U.S. Foreign Aid Budget and incorporate it within the Defense Budget; (2) clarify the ambiguity governing allocations of Economic Support Funds (ESF). In reality, these funds are allocated by the State Department almost solely on security and political grounds. Williams calls for stringent periodic evaluation of the political benefits achieved and the relative costs in alternative economic development terms.

U.S. Development Objectives and the Multilateral Banks. The banks can: (1) maximize burden sharing of industrial countries to meet the important capital requirements of the developing countries; and (2) "influence countries in market-oriented, western directions." Williams states that since any good will generated from multilateral assistance must be shared with other donors, the bilateral development assistance program is important. It should also support important long-term U.S. economic and foreign policy interests.

Focus on Human Resource and Technology Development. American comparative advantage for development in these areas lies with its private agencies. Their expanded engagement should limit the need to sustain large bureaucratic structures for managing these development assistance efforts.

Restructuring the Agency for International Development. AID should be bifurcated into two organizational units: geo-political and development. (pp. 6-8).

More Purposeful U.S. Direction of United Nations Programs. The importance of the United Nations to U.S. political and strategic interests is recognized. However, the value of U.N. economic assistance programs to the U.S. needs to be better assessed in Williams' view (p.8).

Overall Coordinating of U.S. Economic Assistance. This should be done most effectively from the White House. The appointed Coordinator of international economic policy and assistance, who would be on the President's executive staff, should chair an inter-agency committee concerned with these issues.

Need for New Foreign Assistance Legislation. The Foreign Assistance Act should be greatly simplified and reduced to clarify relationships between "the politically-driven E/SF and the technology-driven development assistance." (See p. 10 for more objectives of the rewrite.).

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U.S. Organization for Development Cooperation -  
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Introduction

The purpose of this paper is to review changes which should be made by the United States in the organization of development cooperation to respond to the changing foreign policy and international economic requirements of the 1990s. The paper draws on and is part of a series of conferences and related papers undertaken by the Michigan State University Project on Cooperation for International Development: U.S. Policies and Programs for the 1990s.

Need for a Broader Vision of National Security

U.S. foreign policy and economic assistance programs have over-emphasized the military and geo-political dimensions of national security, at the expense of the economic and other aspects of national security. In part, this is the result of over-concentration on a successfully large military build-up and relative neglect of the economic underpinnings of our nation's position in the world economy.

Military strength will remain important in the years ahead but there is a point of diminishing returns at which continued overemphasis on military expenditures will result in less rather than more security, a fact which provides a creditable basis for carefully negotiated arms reductions between the U.S. and the U.S.S.R. But beyond the military balance between the two super-powers, military instruments for projecting national power and influence in other regions of the world are much less usable today than they were in an earlier time.

What is needed is a fundamental rethinking of national security especially in relation to the Third World countries of Asia, Africa, and Latin America, one that will achieve a better balance between military and related security assistance, on the one hand, and social and economic development assistance on the other. The very nature of current U.S. spending on foreign assistance, with two-thirds allocated to military and security objectives, shows that it is short-term military and geo-political criteria which drive U.S. assistance programs. There has been a relative neglect in U.S. assistance of longer-term social and economic development problems.

In some ways the United States has been drawing back from

broader international responsibilities, but the U.S. remains the leading nation in the world with immense capabilities. If its leadership is to be exercised effectively, then its will be necessary to adopt a national security vision which is broad enough to encompass global economic, social and environmental problems as well as concerns for military security. This is necessary not only as an instrument of foreign policy but also as a means of strengthening the United States as well. For it is by a reemphasis on economic development objectives, both for its own economy and in its relations with the Third World, that U.S. leadership can best be exercised in the decade ahead.

#### Clarifying the Criteria for Security Programs

The means for shifting the balance in favor of development within the foreign assistance program are relatively limited in the next four years. A substantial increase in funds for development will prove difficult given the severe U.S. budgetary constraints. Nor is there wide scope for redirecting funds from the security accounts to economic development given the high political priority for the large assistance programs to Israel and Egypt, a priority which security objectives will almost certainly continue to require.

Within these constraints, however, there are several actions which could clarify the often confused and misleading criteria which govern security and development assistance programs. In particular, it would be helpful to make clearer distinctions between the several forms of aid within the foreign assistance legislation.

First, the approximately \$5 billion annually for direct military assistance and foreign military sales should be removed from the U.S. Foreign Aid Budget and incorporated within the Defense Budget. The provision of military equipment to foreign governments should be more clearly related to judgments concerning U.S. defense concerns.

Second, the ambiguity governing allocations of Economic Support Funds (ESF) should be clarified. The alleged rationale that the ESF provides economic development assistance "to the maximum extent feasible" has become thoroughly misleading. The reality is that the Economic Support Fund of \$3.7 billion in 1987 is economic aid almost solely allocated on security and political grounds.

For example, the ESF compensates foreign governments for U.S. access to military bases and other facilities, solidifies politically the Camp David accords between Israel and Egypt in the Middle East, and bolsters governments friendly to the United States. These are valid objectives, but they are largely

short range political objectives, and their benefits to the United States should be judged in these terms, rather than on hypothetical economic and development grounds.

ESF support is delivered to governments primarily through fast dispersing sector or balance of payments allocations. AID is to be commended for its efforts to maximize the possible development impact of the security-driven ESF country programs. Some beneficial development effects undoubtedly have been achieved, but generally there has been a strong tendency for AID to overstate the development results of ESF programs. This blurs a better understanding of the true costs of short-term political aid and the resulting weaker economic performance than might otherwise have been achieved. Such distortion tends to hide the adverse economic effects of overly large political and security aid for developing countries over the mid- to longer-term.

Further, when the criteria of performance between ESF and development assistance programs are confused, the standards of performance for U.S. economic assistance as a whole tend to be weakened.

The State Department completely controls the allocation of the ESF on political and security grounds. That fact should be more clearly recognized in the foreign aid legislation and provision made for more stringent periodic evaluation and accounting of the political benefits achieved and the relative costs in alternative economic development terms.

#### U.S. Development Objectives and the Multilateral Banks

Given that budgetary pressures are likely to persist for several years, the U.S. will naturally seek to maximize burden sharing among the advanced industrial countries in order to meet the important capital requirements of the developing countries. This can best be done through the multilateral development banks, comprising the World Bank and the three regional banks for Asia, Latin America and Africa.

The foreign economic objectives of the United States require the mobilization of large capital financing for developing countries. These include seeking to restore financial stability and equitable economic growth in middle income countries such as Mexico, Venezuela, Brazil, the Philippines and Nigeria. Over the long run the economic success of these countries will depend heavily on world markets and investment capital from both public and private sources.

A second and related priority is the financing of economic policy reforms, in ways that support broadening democratic

participation and equity, both among the middle income and poorer developing countries. External capital financing is an essential element of achieving these reforms.

Treasury Secretary James Baker in his 1987 Congressional testimony pointed out that the ability of the multilateral development banks (MDBs) to leverage member's contributions meant that for every \$1 million appropriated by the United States, other country contributions and private market borrowing enabled the MDBs to generate over \$200 million in financing.

Active U.S. participation in the MDBs has been a key element of international economic policy for several decades and is likely to remain so in the 1990s. The current administration initially called for a shift away from the multilateral banks in favor of bilateral aid mechanisms for capital assistance, but recently has abandoned that position in favor of the traditional U.S. support for the banks.

The World Bank is currently lending about \$15 billion annually. With the U.S. decision to seek a capital increase for the World Bank the Bank's role is likely to become even more important in the future.

In addition to facilitating burden sharing, the multilateral banks help to influence countries in market-oriented, western directions. Changes away from inefficient state planning policies are frequently a condition of receiving financial assistance. Almost certainly the next U.S. administration is likely to support expanded U.S. contributions to the MDBs as the best means for leveraging U.S. influence over their policies.

At the same time, it must be recognized that the U.S. cannot control each loan of the MDBs and that any good will generated from multilateral assistance must be shared with other donors and the banks themselves. For this and other reasons the U.S. bilateral development assistance program is important.

#### U.S. Bilateral Economic Development Assistance.

U.S. bilateral economic development assistance has been squeezed for funding between the high priority security assistance programs governed by the Department of State and U.S. support and appropriations for the important programs of the multilateral development banks. Yet the bilateral development assistance program meets important U.S. international economic policy objectives. The programming and administration of the development assistance program should be strengthened and autonomously separated from that of the foreign security and military assistance programs.

Of the almost \$13 billion of U.S. Foreign Aid Budget authority in 1987, AID received only about \$2 billion for development assistance. This does not include PL-480 which added another \$1 billion.

U.S. development assistance is expected to meet the long-term economic interests of the United States - with both middle income and poorer developing countries - for institution building, training and generating applicable technologies in agriculture, education, health, family planning, energy, natural resources and protection of the environment. These are areas in which the United States has real comparative advantages for development assistance and which address important U.S. objectives for poverty alleviation and developing country economic growth.

It is growth in developing countries which holds promise for future development of U.S. exports and investment. For the Third World is one of the most important export markets for U.S. business and labor. Stimulating economic growth in developing countries will mean more foreign sales, more profits and more jobs in the United States. Achievement of these objectives is not simply a matter to be remedied through specific aid projects, but encompasses coordinated action through trade, financial and monetary policies.

#### Focus on Human Resource and Technology Development

The focus of concentration for the United States technical and economic development assistance should be that of human resources and related technology development in developing countries, including education, health, management, institution building, and food, nutrition and agricultural development. It is through enhancing their human resource capacities that developing countries will gain the skills and flexibilities to manage and accelerate the growth of their their own economies.

In each of these human resource sectors it would be helpful to set goals for achievement by the end of this century. Goals such as progressive reduction of infant mortality, higher proportion of children in school, reduction of malnutrition, progress in control of infectious diseases, asset formation for rural families below the poverty line, job creation both in the formal and informal sectors, soil and forest conservation, water quality control and sanitation, adaptation of management training systems. All these are important areas for setting realistic goals for developing countries to undertake in cooperation with United States development assistance and that of other donor countries and international agencies .

The essential point is that such goals will only be meaningful if they are formulated and fully supported by the people of developing countries in cooperation with their development partners.

The U.S. development assistance agency, in mobilizing for a concerted campaigns in support of technology and human resource development, should expand the engagement of American private agencies, especially for research and training by American universities, private companies and consulting firms for management training. and the unique participatory capabilities of non-governmental organizations. It is in these institutions that American comparative advantage for development lies. Properly programmed and managed such a development assistance program would greatly enhance the effectiveness of American assistance to achieve long-run economic and foreign policy objectives. Nor should it be necessary to sustain or build large bureaucratic structures for managing these development assistance efforts.

#### Restructuring the Agency for International Development

Some believe that a new development assistance agency is required. For example, John Sewell and Christine Contee in their article on "Foreign Aid and Gramm-Rudman" (Foreign Affairs, Summer 1987) state that: "Now is the time to incorporate AID into a new agency which more carefully targets development programs to address poverty in low-income countries and selected middle income countries." and that "One valuable effort would be to better utilize science and technology both for human welfare and industrial progress". They believe that such a "new agency could operate rather like a public foundation".

The idea of an independent public foundation for development assistance is not entirely new. A similar proposal for an Institute of Science and Technology for International Cooperation (ISTIC) was made by the Peterson Commission in 1970 and widely debated at that time. The model of a more purposeful application of science and technology in development assistance has been applied by the successful Canadian International Development Research Corporation.

In many ways the public foundation is an attractive proposal for achieving longer term development objectives while minimizing the influence of short-term political and security distorting influences. It is an option which should be seriously considered by the next Presidential administration.

However, others may argue that U.S. foreign assistance programs are already overly fragmented, that creating new agencies is a

highly disruptive process, and that similar objectives could more readily be achieved by restructuring the present Agency for International Development (AID).

In any case, the essential reform should be an administrative bifurcation of the AID program into an assistance component for short-term geo-political and security objectives and a separate organization for longer term development assistance with a more purposeful application of science and technology in its programming and implementation. These two organizational units geo-political and development, would each have their separate Policy Planning and Coordination staffs, Each would be structured to effectively carry out its respectively assigned objectives.

For example, the geo-political assistance organization would incorporate much of the geographic regional structure of AID, although this could be more sharply concentrated on a small number of countries which were politically and strategically important to the U.S. The governing criteria for assistance would be largely well defined political interests which could clearly be furthered by fast dispersing economic aid. The assistance organization's role would be entirely that of implementing State Department political decisions through reasonably rational economic means, while recognizing that development considerations would be entirely secondary.

The economic development assistance organization would be organized functionally, building on the present lines of the Bureau for Science and Technology with a greatly enhanced planning capability to tailor assistance programs for countries at three levels of development, namely the newly industrializing countries (NICs), the lower middle income developing countries, and those countries identified as least developed. Implementation would be largely through American private agencies and institutions.

This organizational bifurcation of the present AID also would mean a restructuring of AID staffs, both in Washington and in field missions. For example, staffs concerned with geo-political assistance would be more closely integrated with the regional bureaus of the State Department in Washington and with U.S. diplomatic missions abroad.

In contrast the economic development assistance organization would require relative autonomy from the State Department, while following broad foreign policy guidelines within the context of its longer-term economic development objectives.

Generally, U.S. bilateral assistance programs would leave to the World Bank those things that the Bank does best, namely financing capital infrastructure projects and structural

adjustment programs based on policy dialogue. American aid in the development area would concentrate mainly on sectoral programs in the application of science and technology for training and institutional building.

#### More Purposeful U.S. Direction of United Nations Programs

The United States needs to reach a decision on the nature of its interests in the United Nations, and the budgetary contributions it is prepared to sustain to that organization.

The Security Council of the United Nations provides an important political capability for dealing with difficult political and security problems, as is being demonstrated by negotiations to wind down the Iran-Iraqi war and facilitate the withdrawal of Soviet troops from Afghanistan. These are important political and strategic objectives which have reaffirmed the importance of the United Nations to the United States.

However, some 90 per cent of the budget of the United Nations is for technical and economic assistance activities by the central staffs of the United Nations and its specialized agencies. It is questions about the value of UN economic activities which have undermined U.S. Congressional support for the assessed financial contributions to United Nations entities and organizations. Some believe that the U.S. contribution at 25 per cent of the UN budget is too high, and that a reduction may be in order.

What is required, however, is a better assessment of the value of U.N. economic assistance programs to the United States in the realization of its global objectives, and a better articulation of how the programs of the United Nations can relate more closely to U.S. bilateral assistance activities. Such a process would be facilitated by transferring responsibility for U.S. guidance and support of U.N. economic assistance from the International Organization Bureau in the State Department to a restructured U.S. economic development assistance organization, which could more effectively assess and coordinate U.N. economic programs more closely in line with U.S. development assistance activities and objectives.

#### Overall Coordinating of U.S. Economic Assistance

There is need for an overall coordinating mechanism within the U.S. Government to insure policy and program coherence among the several instruments which provide economic assistance. As previously mentioned these include U.S. resources to the multilateral development banks backstopped by the U.S. Treasury, United Nations economic agencies backstopped by the

International Organization Bureau of State, PL 480 food aid administered by the Department of Agriculture, the politically driven Economic Support Fund governed by the State Department regional bureaus, and U.S. economic development assistance presently within AID.

Additionally, there is need to orchestrate these assistance programs in relation to U.S. trade, finance and investment policies toward developing countries.

Effective inter-agency coordination is less likely to be sustained when the responsibility for coordination is lodged within one of the participating or interested agencies. This was the recent experience with the recent International Development Coordination Agency (IDCA), which was lodged in the Department of State and which mainly focused its efforts on attempted coordination of the internal economic assistance programs of State and AID. The effect was that of adding an additional level of bureaucratic responsibility without achieving improved coordination, a problem which was finally solved by assigning IDCA's responsibilities to the AID Administrator.

In the current administration the Treasury Department has been the lead agency for providing some guidance for overall foreign economic policies and programs, particularly in relation to the multilateral agencies and the debt problems of Third World countries.

It is clear that policies and programs as diverse and complex as those affecting important U.S. interests with the developing countries should most effectively be coordinated from the White House by a senior official of outstanding reputation and experience. Most important is the designation of a person who has broad experience with international economic policies and programs and who has access to and confidence of the President of the United States. Henry Owen came close to filling this role in President Carter's administration, although Owen's responsibilities focused heavily on U.S. preparation for the economic summits of the seven industrial countries.

An international economic policy and assistance coordinator on the President's executive staff is highly desirable. Should this prove possible the Coordinator should be the chairman of an inter-agency committee concerned with international economic policies and programs and be assisted by a very small staff of highly competent senior professionals, covering the areas of multilateral agencies, international economic development, food aid, trade, and political/ military assistance.

Need for New Foreign Assistance Legislation

In order to facilitate this redirection of U.S. assistance policies and programs the U.S. Foreign Assistance act would have to be rewritten in such a way as to provide clear policy guidance as to uses of political aid and the separate uses of development aid while eschewing detailed programming by legislation. This means that the act which presently covers 235 sections and 366 pages could be greatly simplified and reduced. A new foreign assistance bill should be concerned with the "legal esthetics" and clear away many of the ambiguities and unnecessary legal constraints on innovative programming and implementation.

In clarifying relationships between the politically-driven ESF and the technology-driven development assistance, the new bill should provide for broad priorities with limited transferability between accounts, while avoiding detailing too many objectives. This would provide maximum flexibility to the restructured U.S. assistance administration to tailor programs to changing economic development and security needs in the best interests of the United States.

As John Sewell point out in Foreign Affairs (ibid), the current budget crisis provides an opportunity and a catalyst for a major overhaul of the aid program. Policy makers in Congress and the executive branch will need to use scarce resources to stimulated trade and capital flows to those countries which should no longer receive concessionary resources, reallocate resources from security to economic programs. decide how to use existing funds more effectively, and identify ways to support development that do not draw heavily on the federal budget. A refocused development assistance program, and related U.S. economic policies, which concentrated on global growth and on environmentally sensitive development to alleviate peverty and promote social equity, has the potential for contributing to expanded U.S. exports and attracting the sustained support of the American people.

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