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FOREIGN AID FOR THE SECOND DEVELOPMENT DECADE:
AN MCPL REPORT ON THE FOREIGN AID REORGANIZATION
OF 1971

Prepared by the
Development Committee, 91st Congress
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INTRODUCTION

Profound, fundamental revolutions against the tyranny of poverty, affecting two thirds of the people of the earth will continue into the foreseeable future. The United States cannot and should not seek to prevent these political, social and economic changes it helped to unleash by its own example of revolutionary development of the last two hundred years. Although they may wish to be detached observers, Americans must understand that they will be directly affected by the struggles of the peoples of the less developed countries to radically improve the quality of their lives.

Much to the chagrin of some of its strongest supporters, American foreign assistance has frequently been an instrument of foreign policy designed to achieve short-term objectives-- objectives which often include support for an unviable status quo, a policy motivated by a fear of change rather than a recognition that rapid change is a way of life in our dynamic twentieth century world. Relatively unimportant events like coup d'etats and other unscheduled changes of governments, have overshadowed the more significant social revolution which the United States must help, rather than hinder, with its foreign aid.

Whether American participation in development efforts has such a positive influence will be determined in significant part by its foreign assistance policies. If the United States is to assist in shaping the outcome of the world-wide revolution instead of being overwhelmed by its tides of change, sophisticated, innovative,

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sometimes daring use of foreign aid will be essential.

The post-World War II experience upon which present aid programs are based has been overtaken by events and conditions of the 1960's. During this year of major review of foreign aid, the Congress will have an unprecedented opportunity to alter American foreign assistance efforts in the light of the first decade of experience with the complex problems of political and economic development of poor nations of the world. Only with the establishment of the Development Loan Fund during the Eisenhower Administration, did the United States begin to grapple with development problems of the Third World. The lessons learned during the Marshall Plan and the security-oriented assistance programs of the 1950's are only partially relevant to the more intractable problems of the Second Development Decade and beyond.

MCPL Study

The Members of Congress for Peace Through Law conducted a survey of corporate, academic, and other national leaders' opinions on the rationale and structure of foreign assistance policies. Despite all the stresses foreign aid undergoes in Congress, one remarkable finding of the survey was the conviction that aid should be continued and that the downward trend of U.S. aid contributions should be reversed during these early years of the Second Development Decade. The reasons expressed for continued aid-giving ranged from the moral to the political, from the conviction that

the richest nation on earth should assist those less fortunate, to the political judgment that international order will be impossible in a stratified world of a few rich peoples and many poor ones.

The moral commitment to American foreign assistance was clearly demonstrated by spontaneous relief efforts to assist victims of natural disasters in China, Japan, India and other parts of the world well before any formal foreign aid programs were undertaken by the government of the United States. Although political pressures often overshadow moral considerations, the belief that the world's richest nation should assist other peoples' efforts to improve the quality of their lives is deeply imbedded in the Judeo-Christian traditions of this country.

A variety of political reasons for supporting foreign assistance also appeared in the MCPL survey responses. They ranged from long term objectives for international political stability to more immediate foreign policy considerations. For long term international stability, respondents to the questionnaire recognized that the United States could not remain an island of plenty in a sea of poverty without suffering serious international challenges to its own security in the shrinking world of the twentieth century. They recognize that the disparity in income between the United States and the less developed world is widening at an increasingly rapid rate. Although debate continues over the merits of the use of

foreign assistance to secure short term political goals, sophisticated observers discount the utility of aid as a device for winning friends, securing votes at the UN or countering the Soviet Union's initiatives in less developed countries. In the long run, it was generally agreed by the respondents that aid can, if wisely used, and despite some short-term instability, help to bring about changes in less developed countries which will lead ultimately to greater prospects for future political stability. In short, there is a recognition that nothing is as unstable as meaningful social change, but these temporary dislocations should be considered in the perspective of a larger development time frame. In addition, it is widely believed that military, security and supporting assistance can also help nations defend themselves when threatened by foreign aggression if the security of those nations is important to the United States, and if it is not improperly used to suppress legitimate internal forces for change.

Some business observers in the survey emphasized that one of the immediate benefits of economic assistance to the United States is an increase in the productivity and export capacity of less developed countries which enables them to earn the hard currency with which to purchase American goods and services. Investors also recognized that only with the development of a solid infrastructure of trained personnel, transport systems, financial institutions and government facilities, do less developed countries become attractive places

for investment in non-extractive industries. As nations overcome the initial obstacles to foreign investment, the demand for American capital and technology increases. The leaders of capital importing nations are more likely to offer a hospitable climate for foreign investment, which will increase the probability of long-term acceptance, if enlightened and innovative arrangements have been made to accommodate host country participation and interests.

Respondents recognized that the debt servicing problem for less developed countries may well be one of the most important underlying factors in the success or failure of foreign assistance. A crisis in debt servicing is about to overtake all development efforts and the United States Congress must face this problem squarely. In a few years, debt repayments may equal or exceed inflows of foreign assistance. The causes of this crisis are numerous and complex. Unless a solution is found, through increased aid, debt rescheduling, or other measures, development efforts will be disastrously impeded.

It was freely acknowledged that some peoples in the United States have "development" problems and needs as severe as residents of less developed countries. It is widely recognized that the needs of American Indians, Black Americans, Spanish-Americans and other groups in need of assistance correctly receive a higher national priority than recipients of foreign assistance, but it must be clearly understood that these national and international development

goals are not mutually exclusive undertakings. They do not compete for funds only against each other; rather, their priority is established among all of the competing demands on the national budget.

New AID Proposals

The Nixon Administration has indicated that it will soon send new authorizing legislation for foreign assistance to Congress to replace the Foreign Assistance Act of 1961. The Administration will ask for the establishment of three new structures to formulate, administer, and coordinate economic assistance. Unlike the present Foreign Assistance Act, separate legislation will be presented for economic and military assistance, but the Administration will attempt to have all bills considered by the Senate Foreign Relations and House Foreign Affairs Committees. This latest series of changes in recommendations for foreign assistance is the outgrowth of reports prepared by several public and private commissions who have recently completed studies of foreign assistance.

This MCPL study identifies the most significant of these reports, surveys their basic recommendations, and examines some of the implications of those proposals for American foreign assistance efforts and for American foreign policy in the light of the experience of the past decade and the revolutionary requirements of the Second Development Decade.

It is significant to note that, although each report makes critical

comments about the present aid program, each recommends the continuation of American foreign assistance efforts and a reversal of the downward trend in American foreign aid flows. The reports did not agree on a general level for aid spending; the most prominent among U.S. domestic studies, the Peterson Task Force report to the President, specifically refraining from adhering to the one percent of GNP spending level recommended by most development assistance economists and the United Nations.

The reports did agree on the desirability of increasing the flow of American foreign aid through multilateral channels and providing bilateral aid within a framework established by international organizations in consultation with recipient nations.

Pearson Report

The most comprehensive of the recent series of aid studies is the product of a commission appointed by World Bank President Robert MacNamara, chaired by Lester Pearson of Canada and commonly referred to as the Pearson Commission. Entitled Partners in Development,¹ the report contains a series of specific recommendations and general policy guidelines for the consideration of aid donors and recipients. It is also a good, quick reference source for data on current status of the development assistance field.

The Pearson Commission recommended:

- 1- The removal of some obstacles to the exports of less

¹Lester B. Pearson. Partners in Development. New York, Praeger, 1969.

developed nations and the promotion of greater stability of conditions for direct foreign investment in order to provide a basis for an equitable, productive framework for world trade beneficial to all nations.

- 2- The establishment of a goal for development assistance aimed at helping the developing countries reach a path of self-sustained growth at a level of six percent growth per annum. A volume of aid approximately equal to one percent of the GNP of the more developed nations will be necessary to meet this goal.
- 3- Redirection of technical assistance programs to meet the demonstrated needs of the less developed countries, especially in the areas of agriculture, education, and population growth. Technical assistance also needs to be more carefully coordinated with capital assistance projects.
- 4- Strengthening the multilateral aid system through the use of international organizations as leaders in establishing the framework and channels for development assistance. The share of multilateral aid flow should be raised from its present level of ten percent to a minimum of twenty percent of the official flow by 1975.

Jackson Report

An examination of the development capabilities of the United Nations System was undertaken by a commission chaired by Sir RGA Jackson.² The United Nations Development Program maintains its own aid activities in the form of pre-investment surveys and projects. It also attempts to coordinate the development activities of the specialized agencies of the United Nations (WHO, FAO, UNESCO, etc.). The UNDP could have an extremely useful, complementary relationship with the capital lending activities of the World Bank Group and with bilateral programs, but it has been relatively ineffective. The Jackson Report:

- 1- Explains the reasons for this ineffectiveness and recommends organizational changes designed to improve operational capability.
- 2- Examines the basic causes of the UNDP's problems in delivering effective, efficient development assistance beginning with project formulation itself. Projects are often more the result of salesmanship on the part of the Specialized Agencies than rational, coordinated calculations of development priorities and needs. Coordination problems in the field and within the UN budgetary and administrative system itself, plus the normal politics of an international organization exacerbate the difficulties.

²RGA Jackson. A Study of the Capacity of the United Nations Development System. Two volumes. United Nations; Geneva, 1969.

3- States that, "The World Bank Group should be the chief arm of the UN system in the field of capital investment, while the UNDP should perform the same function for basic technical cooperation and pre-investment." The Commission proposed several basic modifications of the UNDP.

4- Suggests that, "the introduction of a programming method which would enable all inputs from the UN development system to be programmed comprehensively at one time in a program corresponding to the needs and duration of each country's national development plan." Implementation of such a suggestion would be inhibited by the sometimes conflicting interests of independent, sovereign Specialized Agencies, the political conditions of an international organization, the opinions of major donor governments and development priorities of member nations.

5- Recommended reforms which "should combine greater control at the center with maximum decentralization to the field level, where the authority of the Resident Representative should be greatly strengthened."

The UNDP is in the process of implementing some of the recommendations of the Jackson Commission. If the United States is to continue to increase its donations to multilateral organizations, UNDP reorganization efforts must be successful.

Peterson Report

In response to an Amendment to the Foreign Assistance Act, President Nixon appointed a Task Force to examine U.S. foreign economic and military assistance programs. Rudolph A. Peterson, President of the Bank of America, was chairman of the Task Force.³

The report of the Peterson Commission has provided the basis upon which the Administration has developed legislative proposals for the reorganization of American foreign assistance programs.

Task forces from the Department of State, AID and the National Security Council accepted the basic principles of the Peterson Commission recommendations and have almost completed the task of constructing organizational structures and operating directives to carry out the new aid programs.

The major recommendations of the Peterson Report are in consonance with the Pearson Report, Jackson Report, and most of the other public and private proposals concerning foreign assistance, with the notable exception of Peterson's reluctance to specify an aid target of one percent of GNP per year.

The Peterson Report affirms that:

- 1-The "U.S. has a profound national interest in cooperating with developing countries in their efforts to improve conditions of life in their societies."

³Rudolph A. Peterson. U.S. Foreign Assistance in the 1970's: A New Approach. Washington, D.C.; Government Printing Office, 1970.

2- The U.S. should not look for gratitude or votes, or any specific short-term foreign policy gains from our participation in international development. Nor should it expect to influence others to adopt U.S. cultural values or institutions. Neither can it assume that development will necessarily bring political stability. Development implies change---political and social, as well as economic-- and such change for a time, may be disruptive.

Recognition of the burdens and limitations of bilateral aid diplomacy lays the grounds for recommendations to increase the multilateral flow of the United States.

Each of the study groups and many public officials and private persons in the U.S. and the developing countries have advocated the increased use of multilateral channels for planning and administration of development assistance programs. Although there is a division of opinion about the degree to which the U.S. should give development assistance through the World Bank Group, the United Nations System and other international bodies, the Peterson Task Force recommended a new emphasis on multilateral assistance in which:

- 3- the developing countries stand at the center of international development efforts, establishing their own priorities and receiving assistance in relation to the efforts they are making on their own behalf;
- 4- the international lending institutions become the major channel for development assistance; and
- 5--U.S. bilateral assistance is provided largely within a framework set by the international organizations.

Administration Proposals

The President will recommend a large increase in U.S. multilateral aid contributions with the World Bank Group and the Inter-American Development Bank receiving the bulk of the increase. It will be necessary for other developed nations to increase their donations through these channels or the United States will be contributing a disproportionate share of the budgets of the multilateral agencies.

To implement its recommendations, the Peterson Task Force proposed a new institutional structure for American foreign assistance consisting of two new agencies coordinated by a White House Council.

An International Development Corporation offering capital development loans and related technical assistance is one of the proposed structures. Capital loans are to be given within a framework established by the multilateral agencies in consultation with recipient nations.

The Administration will seek assured sources of financing for the Corporation, including authority to borrow in the public capital market. The IDC will have:

- 1- "A range of lending terms appropriate to the development requirements of each borrowing country."
- 2- The Corporation, unlike AID, will not be a lender of last resort, but should seek more high-priority capital investments.
- 3- The IDC will have little field staff of its

own, reminiscent of the Development Loan Fund operations, and will consequently have to rely on the World Bank Field missions.

The Peterson Report also called for the establishment of an International Development Institute, "to seek new breakthroughs in the application of science and technology to resources and processes critical to developing nations." The IDI would:

- 1- Be established on a long term basis and be designed to concentrate on research, training and population problems and social and civic development.
- 2- Have both a permanent staff of the Institute and private contractors who would undertake research, training and other technical assistance activities.

The Institute will need a field staff to keep the research and development personnel in touch with the realities of the needs of developing nations.

The Peterson Report also recommended that coordination of all foreign assistance agencies, IDC, IDI and OPIC, be carried out in an International Development Council.

- 1- The chairman of the Council would be an appointee of the President and would operate under the broad foreign policy guidance of the Secretary of State, as the Administrator of Aid does under the current structure.

2- A subcommittee of the newly established Council on International Economic Policy will coordinate aid with trade, investment, and foreign policy.

The final basic change advocated by the Peterson Task Force was the separation of military and economic assistance legislation. The debate over the merits of this proposal has been going on for some time. The administration of military assistance and military sales programs will remain in the Department of Defense, while the Department of State will continue to administer supporting assistance, but unlike the Foreign Assistance Act, the new programs will be presented in two separate authorization and appropriations bills.

Some Implications of Reorganization Proposals

The recommendations of the Peterson Commission create a series of issues which Congress will need to consider as it acts upon Administration proposals.

Level of Spending for Foreign Aid

If aid budgets are reduced much more than the current levels, the organizational changes will make little difference and the viability of the institutions proposed by the Peterson Task Force would be questionable.

Multilateral Participation

The Administration proposals to shift a large portion of American aid contributions to international institutions have serious implications.

1- An international institution has, because of the sovereignty of its members, certain limitations on its activities. The Executive Directors of the World Bank and the Ambassadors to the United Nations are frequently in position to effectively object to activities which they consider to be interference in the internal affairs of their nation in violation of the Articles of Agreement of the World Bank or the Charter of the United Nations.

Recipient representatives would strenuously object to an international aid agency's attempts to demand fundamental changes in the social or economic conditions in their nation which could threaten the established government. Without overstating the case, it is not difficult to understand how an international agency could reinforce the status quo in recipient nations and become a conservative force in a revolutionary world.

On this point, the fundamental difference between a bilateral and multilateral agency is that the aid policy parameters on the bilateral donor are established by its own government's bargaining power, not by the government of the recipient.

Although, at present, the ability and willingness of some bilateral donors to foster fundamental change in recipient nations may not be as great as the World Bank's, it is necessary to carefully consider the implications of international organizations becoming

the predominant conduit for foreign assistance flows.

2- An increased flow of financial resources through the World Bank Group will change those institutions. The staff will have to be increased, a measure which may affect its quality, and important decisions about projects and programs will shift to lower levels of responsibility. Informed observers disagree about the effects of these changes on the performance of the Bank.

3- As the Bank becomes the leading, and most visible, lender, with more of its personnel in the field, it may well become the object of some of the unfavorable attention formerly reserved for U.S. AID. Its personnel will be in the position of making sometimes unpopular recommendations and demands on government officials in the less developed countries.

Given the voting structure of the Bank, the nationality of its presidents and other personnel, and its physical location, an increase in the American contributions could foster the belief that the Bank was another quasi-American organization. For this reason, and because Congress has been understandably reluctant to allow the United States to pay an unfairly disproportionate share of international organizations' budgets, the willingness of the other donor nations to increase their bank flows becomes

critical to the success of the Administration's proposals and the continued success of the World Bank Group.

- 4- As the Bank becomes a principal conduit for American aid its operations will inevitably come under much more careful Congressional scrutiny. Politically questionable or financially risky projects, bad loans, scandals and misuse of funds will provoke Congressional criticism formerly reserved for AID.
- 5- Congress has always been concerned with its responsibility to account for the use of funds appropriated for foreign assistance. When funds are given to international organizations, the ability to check on the use of the money will be severely curtailed. There may be some question about the willingness of the Congress to consistently appropriate funds for which inadequate end-use checking is available.
- 6- One other characteristic of some international institutions is the tendency for members to participate in logrolling exercises during the consideration of funding for development projects. Although this phenomenon is not confined to international political bodies, bilateral programs are not as susceptible to the particular distortions of development priorities.

7- Finally, the level of professional competence among the staff of development institutions varies greatly. The World Bank Group has a fine, professional staff, but some of the other younger regional institutions have not yet come up to the high standards demanded of professionals in the complex field of development finance and economic planning.

Coordination

Sophisticated observers of the development process have expressed grave reservations about the coordination problems which may be created by the disestablishment of a unified U.S. agency and its replacement with multiple structures. Coordination in the formulation and execution of development programs is of paramount importance if scarce resources, human and financial, are not to be wasted.

- 1- Technical and capital assistance must be carefully coordinated with investment and trade policy. In this new structure, different agencies will have jurisdiction over these parts of the whole foreign assistance system. They will have to be coordinated, whether it be through a specified structure or a series of ad hoc arrangements and informal procedures worked out by operating personnel.
- 2- It will be incumbent upon the Congress to determine, in as much detail as possible, exactly how the

new agencies will coordinate their operational research, and political activities with each other and with other agencies involved in the formation and conduct of American foreign relations. The crucial role of the Treasury, which has had a virtual veto over foreign aid expenditures, should be especially noted.

Separation of Military and Economic Assistance

Some Congressional leaders believe that economic assistance would have serious difficulty politically if it is separated from the military assistance programs; however, others argue that the recent criticisms of defense policies result in the political climate changing so as to favor a separate economic assistance proposal.

Long-Term Authorization

Proposals for long-term, as opposed to yearly authorizations, for the International Development Institute and the International Development Corporation could provoke adverse Congressional reactions. It is argued by some that multi-year funding denies to the Congress sufficient opportunity to perform effectively its oversight functions. On the other hand, it has been suggested that a long-term authorization will improve the ability of the Congress to examine and influence the operations and policies of the foreign assistance agencies.

Summary

In short, some of the most important points for the consideration of Congress are: (1) the level of spending for foreign assistance and the quality of flows from the United States; (2) the problems of coordination raised by the establishment of three agencies to administer aid programs currently undertaken by AID; (3) the implications of the changes resulting from increased multilateral contributions; (4) the possibility that separation of military and development assistance will jeopardize development assistance legislation; and (5) the effect of multi-year authorizations on Congressional oversight functions.

The Development Committee of the Members of Congress for Peace Through Law hopes that each member carefully evaluates the role of American foreign aid for the Second Development Decade and examines the effects of the Administration's foreign aid recommendations in the light of that evaluation. Foreign assistance, like many aspects of foreign affairs, does not have a large, interested voting constituency, it does not consume a substantial portion of the national budget; but foreign assistance can be a vital part of American efforts to secure a more stable, prosperous future for all peoples. It is imperative that the very real national interests that are served by an effective program of foreign assistance be conveyed to the American people. This will require the abandonment of the false rationale and short-sighted political pronouncements that have characterized the avowed

purpose of U.S. foreign assistance in the past, and replacement by a new era of enlightened educational initiatives, more effective mobilization of concerned constituencies and above all, more courageous leadership on this vital matter from both the Executive and Legislative branches of our government.

INSTITUTIONS OF DEVELOPMENT ASSISTANCE: BILATERAL AND MULTILATERAL

U.S. Agencies	Purpose	1972 Budget Estimate (millions)	Legal Authority	Committee Jurisdiction
International Development Corporation*	Concessional loans to ldc's in which U.S. has long-term interest	\$655	Pending	HCFA/SCFR
International Development Institute*	Technical assistance, research and development for application to ldc's	397	Pending	HCFA/SCFR
International Social Development Institute	Promote social and civic development through non-profit organizations	7.2	Foreign Assistance Act	HCFA/SCFR
Food for Peace	Promote U.S. agricultural exports, humanitarian relief, some development activities	962	Agricultural Trade and Development Act of 1954	Agriculture
Export-Import Bank	Export promotion by financing and guarantees	290	Export-Import Bank Act of 1945	Banking and Currency
Overseas Private Investment Corporation	Investment guarantees and feasibility studies for American investment in ldc's	---	Foreign Assistance Act of 1969	HCFA/SCFR
International Development Council	Coordinate and promote development programs	---	Pending	HCFA/SCFR
Peace Corps	Technical assistance, man-power for ldc's	71	Peace Corps Act of 1961	HCFA/SCFR

*Alliance for Progress budgets included

Multilateral Agencies	Purpose	1972 Budget Estimate (millions)	Legal Authority	Committee Jurisdiction
International Bank for Reconstruction and Development	Capital development loans	(\$246)*	Bretton Woods Act, Articles of Agreement	Banking and Currency/SCFR
International Finance Corporation	Encourage growth of productive private enterprise—loans, participations	—	International Finance Corporation Act of 1955	Banking and Currency/SCFR
International Development Association	Promote economic development by providing loans on easier terms than market or IBRD	320	International Development Association Act of 1960	Banking and Currency/SCFR
Inter-American Development Bank Social Progress Trust Fund	Promote economic development in Latin American members with loans	(\$500)*	Inter-American Development Bank Act of 1959	Banking and Currency/SCFR
Asian Development Bank	Promote economic development in Asia with loans	40	Asian Development Bank Act of 1966	Banking and Currency/SCFR
United Nations Development Program	Coordinate United Nations and specialized agency technical assistance operations and operate its own programs	100	Foreign Assistance Act	HCFA/SCFR

* Capital subscription