USAID History

Summary

On September 4, 1961, the Congress passed the Foreign Assistance Act, which reorganized the U.S. foreign assistance programs including separating military and non-military aid. The Act mandated the creation of an agency to administer economic assistance programs, and on November 3, 1961, President John F. Kennedy established the U.S. Agency for International Development (USAID).

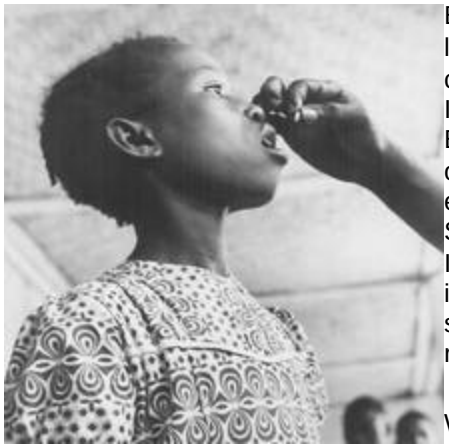
USAID became the first U.S. foreign assistance organization whose primary emphasis was on long-range economic and social development assistance efforts. Freed from political and military functions that plagued its predecessor organizations, USAID was able to offer direct support to the developing nations of the world.

The agency unified already existing U.S. aid efforts, combining the economic and technical assistance operations of the International Cooperation Agency, the loan activities of the Development Loan Fund, the local currency functions of the Export-Import Bank, and the agricultural surplus distribution activities of the Food for Peace program of the Department of Agriculture.

While some could argue that the creation of USAID simply represented a bureaucratic reshuffling, the agency, and the legislation creating it, represented a recommitment to the very purposes of overseas development. USAID was established to unify assistance efforts, to provide a new focus on the needs of a changing world, and to assist other countries in maintaining their independence and become self-supporting

Historical Perspective

The 1961 reorganization of America's foreign aid programs resulted from an increasing dissatisfaction with the foreign assistance structures that had evolved from the days of the Marshall Plan, to which USAID and U.S. foreign assistance policy traces its roots.



By the end of World War II, Europe had suffered substantial loses, physically and economically. Responding to Europe's calls for help, the international community established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank) on December 27, 1945. On April 2, 1948, through the enactment of the Economic Cooperation Act, the United States responded by creating the Marshall Plan. While the IMF and the World Bank were created as permanent institutions, the goal of the Marshall Plan was specific: To stabilize Europe, not as a permanent program for European recovery but as an emergency tool of assistance.

When the Marshall Plan ended on June 30, 1951, Congress was in the process of piecing together a new foreign aid proposal designed to unite military and economic programs with technical assistance. On October 31, 1951, this plan became a reality when Congress passed the first Mutual Security Act and created the Mutual Security Agency.

In 1953, the Foreign Operations Administration was established as an independent government agency outside the Department of State, to consolidate economic and technical assistance on a world-wide basis. Its responsibilities were merged into the International Cooperation Administration (ICA) one year later.

The ICA administered aid for economic, political and social development purposes. Although the ICA's functions were vast and far reaching, unlike USAID, ICA had many limitations placed upon it. As a part of the Department of State, ICA did not have the level of autonomy the USAID currently maintains. At the time, multilateral donors (such as those affiliated with the United Nations and the Organization of American States) were playing a greater role in foreign assistance.

The Mutual Security Act of 1954 introduced the concepts of development assistance, security assistance, a discretionary contingency fund, and guarantees for private investments. The Food for Peace program was implemented that year, introducing food aid.

Congressional approval of a revised Mutual Security Act in 1957 lead to the creation of the Development Loan Fund (DLF), which acted as the ICA's lending arm. The DLF's primary function was to extend loans of a kind that the Export-Import Bank and other donors were not interested in or prepared to underwrite - those repayable in local currencies. The DLF financed everything other than technical assistance but was most noteworthy for financing capital projects.

Neither the ICA nor the DLF addressed the need for a long-range foreign development program. That led to the creation of the U.S. Agency for International Development.

The 1961 Foreign Assistance Act

By 1960, the support from the American public and Congress for the existing foreign assistance programs had dwindled. The growing dissatisfaction with foreign assistance, highlighted by the book The Ugly American, prompted Congress and the Eisenhower Administration to focus U.S. aid to developing nations, which became an issue during the 1960 U.S. presidential campaign.

The new Kennedy Administration made reorganization of, and recommitment to, foreign assistance a top priority. It was thought that to renew support for foreign assistance at existing or higher levels, to address the widely-known shortcomings of the previous assistance structure, and to achieve a new mandate for assistance to developing countries, the entire program had to be "new."

In proposing a new United States foreign assistance program in 1961, President Kennedy provided a justification based on three premises: (1) then current foreign aid programs, "America's unprecedented response to world challenges", were largely unsatisfactory and ill suited for the needs of the United States and developing countries, (2) the economic collapse of developing countries "would be disastrous to our national security, harmful to our comparative prosperity, and offensive to our conscience", and (3) the 1960s presented an historic opportunity for industrialized nations to move less-developed nations into self-sustained economic growth.

Today, when foreign economic assistance programs are under scrutiny, it is worth quoting President Kennedy's remarks at length:

> "For no objective supporter of foreign aid can be satisfied with the existing program--actually a multiplicity of programs. Bureaucratically fragmented, awkward and slow, its administration is diffused over a haphazard and irrational structure covering at least four departments and several other agencies. The program is based on a series of legislative measures and administrative procedures conceived at different times and for different purposes, many of them now obsolete, inconsistent, and unduly rigid and thus unsuited for our present needs and purposes. Its weaknesses have begun to undermine confidence in our effort both here and abroad.
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> "Although our aid programs have helped to avoid economic chaos and collapse, and assisted many nations to maintain their independence and freedom--nevertheless, it is a fact that many of the nations we are helping are not much nearer sustained economic growth than they were when our aid operation began. Money spent to meet crisis situations or short-term political objectives while helping to maintain national integrity and independence has rarely moved the recipient nation toward greater economic stability."

Why, then, should the United States continue a foreign economic assistance program?

> "The answer is that there is no escaping our obligations: our moral obligations as a wise leader and good neighbor in the interdependent community of free nations--our economic obligations as the wealthiest people in a world of largely poor people, as a nation no longer dependent upon the loans from abroad that once helped us develop our own economy--and our political obligations as the single largest counter to the adversaries of freedom.
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> "To fail to meet those obligations now would be disastrous; and, in the long run, more expensive. For widespread poverty and chaos lead to a collapse of existing political and social structures which would inevitably invite the advance of totalitarianism into every weak and unstable area. Thus our own security would be endangered and our prosperity imperiled. A program of assistance to the underdeveloped nations must continue because the Nation's interest and the cause of political freedom require it."

The Foreign Assistance Act of 1961 that was enacted as a result of the legislative process begun by President Kennedy was a relatively concise document that recognized the economic and political principles expressed in the President's transmittal message. Development assistance consisted primarily of two programs: (1) a Development Loan Fund whose primary purpose was to foster plans and programs to "develop economic resources and increase productive capacities" (i.e., a significant amount of capital infrastructure), and (2) a Development Grant Fund, to focus on "assisting the development of human resources through such means as programs of technical cooperation and development" in less developed countries.

Three other significant economic assistance programs were included in the new FAA: (1) a guaranty program (now the Overseas Private Investment Corporation) to provide protection assuring United States business against certain risks of doing business overseas, (2) a "supporting assistance" program (now the Economic Support Fund program) to support or promote economic or political stability, and (3) an appropriated contingency fund.

The new directions most emphatically stressed were a dedication to development as a long-term effort requiring country-by-country planning and a commitment of resources on a multi-year, programmed basis. The new focus of development was to achieve economic growth and democratic, political stability in the developing world to combat both the perceived spread of

ideological threats such as communism and the threat of instability arising from poverty. The economic development theory of W.W. Rostow, which posited "stages of economic development," most notably a "takeoff into growth" stage, provided the premise for much of the development planning in the newly-formed U.S. Agency for International Development.

In the final analysis, the greatest achievement of USAID and the Foreign Assistance Act of 1961 was that they addressed the goals of setting up country-by-country planning and long-term development planning mechanisms through solving the organizational problems in the then-existing foreign assistance programs.

Fowler Hamilton, who was appointed as USAID's first administrator, assumed his primary goal was to establish an agency founded on good, strong organizational principles that would stand the test of time.

One of the first programs undertaken by the fledgling USAID was the Alliance for Progress. Conceptually set-up in the fall of 1960 by the Act of Bogota and confirmed by the Charter of Punta del Este (Uruguay) in early 1961, the Alliance was a hemisphere-wide commitment of funds and effort to develop the nations of the Americas. The Alliance became the basis for USAID's programs in Latin America throughout the 1960s. President Kennedy promoted the Alliance in trips to Colombia and Venezuela in 1961.

In Asia, USAID's first emphases were on countering the spread of communism, particularly the influence of the People's Republic of China. This quickly ballooned into a large program of assistance based on counter-insurgency and democratic and economic development in Vietnam, which lasted until the withdrawal of American troops in 1975. In Africa, USAID focused on such initiatives as the education of the leadership of the newly-independent countries and meeting other economic and social imperatives.

Post-1960s Efforts to "Reform" Foreign Assistance

The Foreign Assistant Act (FAA), as originally enacted in 1961, contained very few restrictions on how assistance may be provided, and contained only general prescriptions on the kinds of factors that were to be taken into account (e.g., the extent to which the recipient has taken effective self-help measures) prior to the provision of assistance.

In the early 1970s foreign aid fell on hard legislative times to the point that, in 1971, the Senate rejected a foreign assistance bill authorizing funds for fiscal years 1972 and 1973. The defeat of the 1971 bill represented the first time that either House had rejected a foreign aid authorization since the program was first initiated as the Marshall Plan after World War II. Several themes merged to cause the defeat of the bill: (1) opposition to the Vietnam War, (2) concern that aid was too concerned with short-term military considerations, and (3) concern that aid, particularly development aid, was a giveaway program producing few foreign policy results for the United States.

Attempts to reform the foreign assistance program -- particularly the economic assistance program -- were led by the House Committee on Foreign Affairs. Assistance for the poorest sectors of developing nations ("basic human needs") became the central thrust of the reform. To extend assistance directly to the recipient nation's population, Congress replaced the old categories of technical assistance grants and development loans with new functional categories aimed at specific problems such as

agriculture, family planning, and education. The aim of bilateral development aid was to concentrate on sharing American technical expertise and commodities to meet development problems, rather than relying on large-scale transfers of money and capital goods, or financing of infrastructure. The structure of the FAA remains today pretty much the way it was following these 1973 amendments.

Attempting to address concerns similar to those raised in 1961 by President Kennedy, legislation drafted at the request of Senator Hubert Humphrey was introduced in 1978 to reorganize the foreign assistance management structure. In the Humphrey bill, an International Development Cooperation Agency was established to coordinate foreign assistance activities as they related to bilateral programs administered by USAID, multilateral programs of international lending institutions then under the purview of the Department of the Treasury, voluntary contributions to United Nations agencies then administered by the Department of State, food programs then administered by USAID, and the activities of OPIC. An International Development Institute would be established within IDCA to address, among other things, private and voluntary organizations and with one of the Institute's constituent parts being the Peace Corps.

The Humphrey bill was not enacted into law. Bureaucratic obstacles within the Executive branch and in Congress operated to limit the statutory impact of the bill to changes in the policy statements contained in the FAA and less sweeping administrative changes.

The IDCA, however, was established by Executive Order in September, 1979. Up until that time, all authority to administer FAA programs had been vested in the Secretary of State by delegation from the President. The establishment of IDCA changed this relationship. With the establishment of IDCA, FAA authorities were delegated in part to the Director of IDCA (those dealing with the provision of economic assistance), most of which were redelegated to the Administrator of USAID. Generally, those authorities dealing with security assistance were delegated to the Secretary of State. (The Economic Support Fund is the point at which the development and security programs "meet", so that the Secretary is empowered to determine what countries receive ESF assistance and the amounts, the USAID Administrator implements the ESF programs.) To give effect to some of these changes, the President submitted a reorganization plan (Reorganization Plan No. 2) which delegated certain economic assistance functions to the Director.

IDCA, to be charitable, was not the coordinating mechanism envisaged either by Senator Humphrey or, in all likelihood, President Carter. The only entity it coordinated was USAID and, since it was staffed with fewer than 75 people, could make only a marginal impact on overall bilateral and multilateral assistance policy. In the Reagan Administration no staff were provided to IDCA and, functionally, it faded quickly from the scene. The Executive Order creating IDCA remained intact, however, defining some of the lines of authority in the administration of foreign assistance. Some of the other coordinating functions that had been expected to be exercised by IDCA (but not contained in the Executive Order) were initially exercised instead by USAID, but over time the functions fell into disuse.

At the same time that IDCA was established, President Carter also attempted to give new life to the Development Coordination Committee (DCC). Organized into subgroups (e.g., multilateral assistance, food assistance), the DCC was an effort at inter-agency coordination on a consensus basis of all foreign assistance activities. This effort also failed. The DCC rarely met as a whole, and only two of its subcommittees ever functioned. Today, it exists only as an unimplemented provision in the FAA.

Beginning in late 1988, the House Committee on Foreign Affairs (HFAC) began an examination of the foreign assistance program generally and, in particular, the continued relevance of the Foreign Assistance Act. At the same time, numerous outside interest groups also began a similar review. The product of the HFAC review was a report (the so-called "Hamilton-Gilman report")

which contains certain findings and recommendations. The findings restate many of the same themes that President Kennedy had raised almost thirty years earlier in his transmittal of the first Foreign Assistance Act:

- Foreign assistance is a valuable foreign policy tool in terms of promoting U.S. security interests and its economic interests.
- The interrelationship and interdependence of Nations means that the United States will continue to be affected--for good or bad--by economic and political events in other parts of the world and, increasingly, economic issues dominate the international agenda.
- Moreover, the world is changing to become more urbanized and with an increasing recognition of the value of market-oriented solutions to social and economic problems.
- But the program does not enjoy broad public support. ("U.S. public support for helping poor people remains strong, but the public does not view the aid program as doing this effectively. The public has very little concept of the aid program as an instrument of foreign policy, used to advance U.S. interests.")
- Foreign aid legislation and administration impede the effectiveness of the program thereby confirming the public's view of the value of these programs: there are too many objectives in the FAA, so numerous in fact that they "cannot provide meaningful direction or be effectively implemented"; too many earmarks, reporting requirements, and restrictions hamper the effectiveness of programs and forces the Executive branch to focus on "anticipating how assistance will be used, rather than on how effectively it has been used"; the economic assistance program is spread out over too many countries in too many projects; there is little coordination of U.S. economic, security, and development policies. The DCC seldom meets at a high level and then principally for ceremonial purposes, and IDCA "exists in name only"; non-governmental organizations have a lot to offer to the foreign assistance process, and their value is increasing over time.

The report's major recommendation was to repeal the FAA and start fresh with an act that was far more focused than current law. The legislation that was drafted (although not immediately introduced) by the Committee to address the report's findings, had as its major economic assistance themes economic growth, poverty alleviation, environmental sustainability, and promotion of political pluralism, which were designed to give focus to the economic assistance objectives of our foreign assistance programs. The bill also attempted to be more results-oriented in its approach by streamlining congressional notification procedures and encouraging a more active role for program evaluation. However, even as originally drafted the bill contained a considerable process or input-directed orientation. Authorities to enhance flexibility in program administration (an improvement over current law but, of course, not nearly as flexible as the FAA as originally enacted in 1961) were included in the draft bill, as was encouragement to better coordinate foreign assistance activities among the many agencies of the United States Government doing business overseas.

The draft legislation was vetted informally with the Executive branch which, although leery about the ultimate outcome, did not discourage the process from continuing. Unfortunately, Chairman Fascell and Hamilton were unable to sell the product to the rest of the Committee. The bill wound up as a hodgepodge of certification requirements, earmarks, and micromanagement, bearing little resemblance to the draft bill first reviewed informally with the committee and offering no inducement for the Administration to continue its support for the authorization process. This effort at a rewrite was unsuccessful, but the flame still flickered.

While efforts were made the next year, and failed, to rewrite the FAA, a more serious attempt was made in 1991. In April, 1991, the Bush Administration transmitted to the Congress its comprehensive rewrite of the Foreign Assistance Act. The bill attempted to return the legislative framework of the program, to a considerable extent, to the early years of the Foreign Assistance Act. Some elements in Congress, however, criticized the effort for providing the Executive branch with too much discretion, and it was not seriously considered.

However, the HFAC again renewed its quest for a new FAA by merging its earlier efforts with some of the initiatives proposed in the Administration's bill to yield a product that the Administration thought, from its perspective, would offer more in the way of flexibility than it took away. The Administration actively pursued the issue with the Senate Committee on Foreign Relations which produced a product with a far greater number of the "flexibility items" (e.g., greater authority to waive provisions of law and to transfer funds, reduction in the number of statutory limitations on the provision of assistance, etc.) than it had requested in its own bill.

The conference on the bill produced a product that the Administration threatened to veto due to provisions not central to the overall restructuring of the FAA (e.g., abortion-related provisions and provisions expanding merchant marine subsidies). It was hoped that the bill, once passed and vetoed, would be re-passed without the offending provisions and sent to the President for signature. The conference report, however, although passed in the Senate was defeated in the House. There were many reasons: a "free" vote against foreign aid given the President's outstanding veto threat and the economic circumstances in the United States at the time of the House vote were only two of these.

Subsequently, the Clinton administration took its hand to rewriting the FAA. In 1994, the Peace, Prosperity, and Democracy Act (PPDA) was introduced which would have repealed the FAA and substituted in its place a radical new account structure for foreign assistance programs. Based on program objectives, its authorizations would have merged previously separate programs into the same account. Thus, development assistance and those international organizations with a development focus would have been funded from the same account. Considerable flexibility was provided in the way in which assistance could be provided and legislative limitations overcome. The bill was never introduced in the Senate and never reported out of committee in the House.

No further efforts to rewrite the FAA wholesale have been attempted.

New Compact for Development

In the first major Presidential address concerning foreign assistance since the Kennedy Administration, President George W. Bush announced the ;"New Compact for Development;" at the Inter-American Development Bank. During the speech, President Bush said that combating poverty is a moral imperative and that he has made it a U.S. foreign policy priority. To meet this challenge, the President has proposed increased accountability for rich and poor nations alike, linking greater contributions by developed nations to greater responsibility by developing nations. The President announced that the United States will increase its core development assistance by 50% over the next 3 years, resulting in a $5 billion annual increase over current levels. These

additional funds will go to a new Millennium Challenge Account that will fund initiatives to help developing nations improve their economies and standards of living.