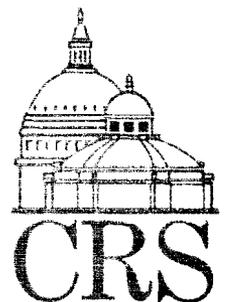


CRS Report for Congress

Foreign Aid: Answers to Basic Questions

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FOREIGN AID: ANSWERS TO BASIC QUESTIONS

SUMMARY

This report provides brief answers to frequently asked questions about the U.S. foreign aid program.

It discusses the different types of U.S. foreign aid -- bilateral development assistance, multilateral development assistance, food assistance, the Economic Support Fund, and military assistance. It looks at the foreign aid budget and puts it in the context of the Federal budget and as a percent of GNP. It also looks at growth of foreign aid relative to growth in the Federal budget.

The report provides information on the recipients of U.S. assistance, by country and by region. It discusses the goals and objectives of the aid program. It looks at how the United States benefits economically from the aid program. It examines the proportion of aid that is loans and grants. It depicts the rank of the United States vis-à-vis other donors. Finally, the report describes the congressional committees having jurisdiction over the aid program and the executive branch departments and agencies charged with implementation of the aid program.

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NOTE

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FOREIGN AID: ANSWERS TO BASIC QUESTIONS

The U.S. foreign assistance program is a fundamental component of the international affairs budget and is viewed by many as an essential instrument of U.S. foreign policy. Each year, it is the subject of extensive congressional debate and legislative initiatives. In the post-Cold War era, many are proposing a significant change in the size, composition, and purpose of the program. This report addresses a number of the more frequently asked questions regarding the present overall U.S. foreign aid program.¹

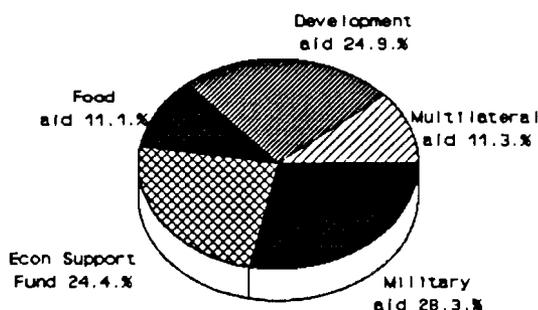
1. What are the different types of U.S. foreign aid?

There are five major types of foreign assistance:

Bilateral development assistance. Development assistance programs are designed chiefly to promote equitable economic growth in developing countries. In FY 1991, the United States obligated \$4.2 billion in such assistance. This accounted for 24.9 percent of total aid obligations in that year. These funds are primarily used in long-term projects in the areas of agriculture, population, health, education and human resources, the environment, and private sector development. Other forms of bilateral economic assistance, often categorized separately from development assistance, are for distinct programs supporting refugees, international narcotics, and trade, and for distinct institutions, such as the Peace Corps, the Inter-American Foundation, and the African Development Foundation (see question 11 below). A relatively new category of development assistance is the Special Assistance Initiatives which include the Multilateral Assistance Initiative of aid for the Philippines and the regional program of aid to Eastern Europe.

Multilateral development assistance. In FY 1991, the United States obligated \$1.9 billion for development assistance programs implemented by multilateral organizations, including international organizations like the United Nations Development Program (UNDP) and the United Nations Children's Fund (UNICEF), and multilateral development banks (MDBs), such as the World

Figure 1
PROGRAM COMPOSITION FY 1991

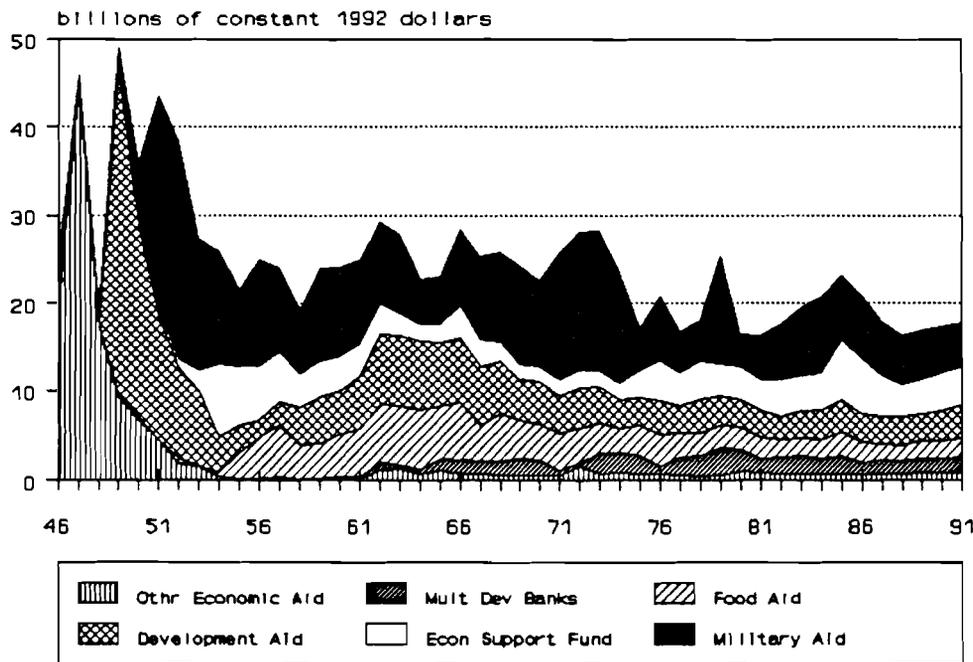


¹ The report uses FY 1991 data as much as possible, because this is the most complete and available data at the time of publication.

Bank. Multilateral assistance accounted for 11.3 percent of total obligations in FY 1991.

Food assistance. The food aid program, generically referred to as P.L. 480 or the Food for Peace program, provides U.S. agricultural commodities to needy countries. There are currently three main programs. Food aid with a market-development focus is provided commercially under long-term, low interest loan terms (title I of the legislation). Grant food aid is provided for humanitarian relief or development-oriented purposes to private voluntary organizations (PVOs) or through multilateral organizations, such as the World Food Program (title II). Finally, grant aid is provided bilaterally to least developed governments meeting certain poverty or food deficit criteria (title III). Total food aid accounted for 11.1 percent of aid obligated in FY 1991 (\$1.87 billion, of which 25 percent, \$483 million, was in the form of loans and the rest was grants).

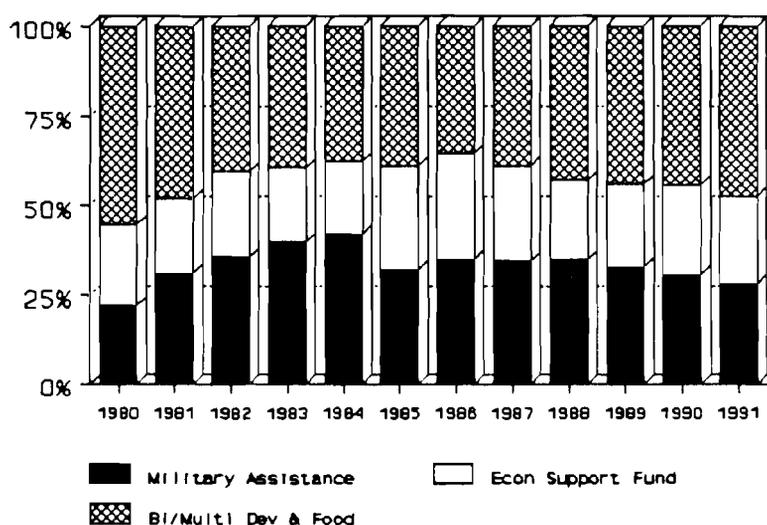
Figure 2
U.S. FOREIGN AID, 1946-91, BY PROGRAM



Economic Support Fund (ESF). The Economic Support Fund provides economic aid based on the special economic, political, or security interests of the United States. Although funds can be used to support development projects or to pay for imports of U.S. goods through the Commodity Import Program, most ESF is provided in the form of cash grant transfers (63 percent in FY 1991) used to help countries improve their balance of payments. The \$4.1 billion in ESF obligated in FY 1991 accounted for 24.4 percent of total obligations. ESF, together with military aid, form the security assistance portion of the U.S. foreign aid program.

Military Assistance. The United States obligated \$4.8 billion in military assistance in FY 1991, 28.3 percent of total U.S. foreign aid in that year. Military assistance is provided to U.S. friends and allies to help them acquire U.S. military equipment and training. There are two main programs. Foreign Military Financing (FMF) is mostly a grant program (roughly 9 percent of total budget authority was in the form of concessional loans) that enables governments to buy equipment from the U.S. Government, or, can be used to purchase equipment directly through U.S. commercial channels. The International Military Education and Training program (IMET) offers military training on a grant basis to foreign military officers and personnel.

Figure 3
SHIFTS IN PROGRAM EMPHASIS, FY 1980 - FY 1991



As figure 2 indicates, there have been significant shifts in program emphasis over the past four decades. Figure 3 shows the pattern of program changes during the period from 1980 to 1991. Although a comparison of program composition for the first and last year in this period shows relatively little change, major fluctuations in aid priorities occurred during the course of the decade. Reflecting the use of aid as a strategic and political tool by the Reagan Administration, military aid rose dramatically from 22.2 percent of total U.S. assistance in FY 1980 to a high of 42 percent in 1984 before declining to 28.3 percent in FY 1991. ESF, which began the decade at 22.6 percent, rose to almost 29 percent in FY 1985, before leveling off at 24.4 percent by FY 1991. Multilateral assistance dropped from 18 percent in FY 1980 to a low of 10.5 percent in FY 1985, before rising to 11.3 percent in FY 1991. Largely as a result of the new aid program for Eastern Europe, development assistance, which had declined from 22.3 percent of FY 1980 assistance to 17 percent in 1985, rose to 24.9 percent in FY 1991.

2. How large is the U.S. foreign assistance budget?

For fiscal year 1991, Congress appropriated \$16.148 billion in new budget authority for foreign assistance, including both regular program funds and "emergency" supplemental aid. This amount represented two percent of total appropriations for all Federal programs approved by Congress for FY 1991.

Foreign assistance outlays -- the amount of money actually spent in fiscal year 1991 -- totalled \$14.453 billion, accounting for 1.09 percent of total U.S. Government outlays during this period (\$1.3 trillion) (Figure 4). Foreign assistance outlays represented 0.25 percent of U.S. gross domestic product in FY 1991, similar to levels in recent years but far less than historical amounts (Figure 5).²

Figure 4
U.S. BUDGET OUTLAYS -- FY 1991

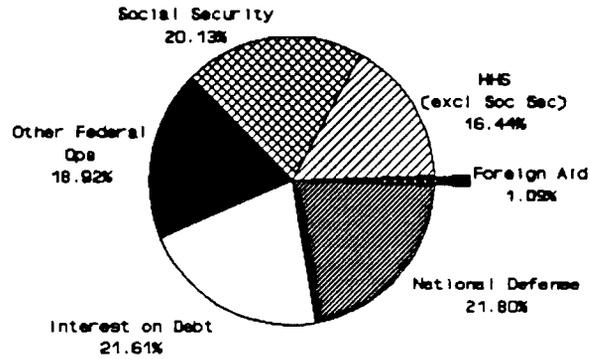
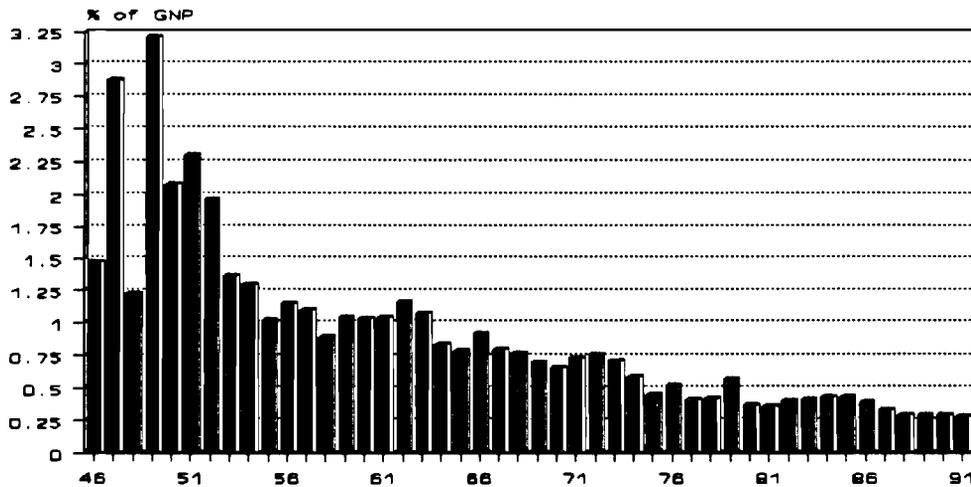


Figure 5
FOREIGN AID AS A PERCENT OF U.S. GNP
FY 1946 - 1991



² Beginning in 1991, the Commerce Department adopted GDP, in place of GNP, as the summary measure of the level of economic activity in the United States. The difference between the two figures, however, is too small to affect the comparison of foreign aid as a percentage of GNP contained in figure 4.

3. Have foreign assistance expenditures grown proportionately with overall Federal spending?

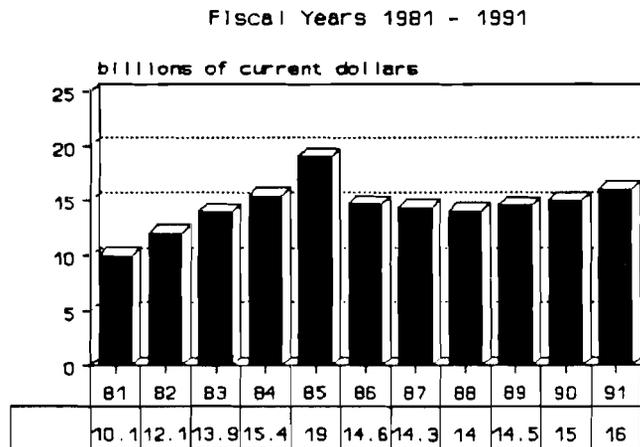
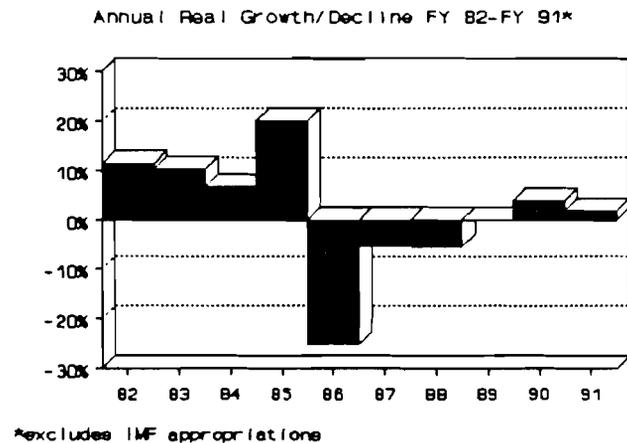
In real terms (using constant 1991 dollars), foreign assistance outlays grew 6 percent between FY 1981 and FY 1991. This compares with overall budget outlay growth, again in real terms, of 43 percent during the 1981-1991 period.

As a further point of comparison, outlays in the Department of Defense military budget grew in real terms by 11.4 percent between FY 1981 and FY 1991. The Agriculture Department budget grew by 37.8 percent in the same period.

4. What are the trends in foreign aid spending in recent years?

As Figure 6 shows, foreign aid appropriations grew steadily in the early 1980s. However, passage of the Gramm-Rudman-Hollings Act and other efforts to control the budget beginning in mid-decade first led to a decline and then a leveling off of foreign aid appropriations. From year to year, foreign aid increased significantly in the first half of the decade -- by as much as 20 percent in FY 1985 alone. This trend was followed by a 25 percent decrease in 1986 and small fluctuations in the percentage of increase and decrease thereafter.

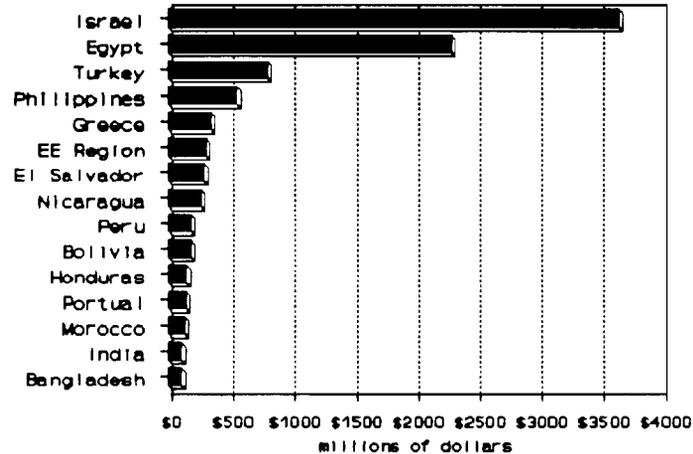
Figure 6
FOREIGN ASSISTANCE APPROPRIATIONS



5. Which countries receive U.S. foreign assistance?

In 1991, the United States provided some form of foreign assistance to more than 125 countries. The top 15 recipients of U.S. foreign assistance in FY 1991 were:

Figure 7
TOP RECIPIENTS OF U.S. AID, FY 1991
(current \$ millions of obligations)



Israel	\$3,650.0	Nicaragua	263.6
Egypt	2,300.2	Peru	183.7
Turkey	804.0	Bolivia	182.1
Philippines	555.1	Honduras	151.3
Greece	350.6	Portugal	143.6
E.Europe Region ³	304.9	Morocco	133.8
El Salvador	291.6	India	108.6
		Bangladesh	107.5

U.S. foreign assistance, although provided to many nations, is concentrated heavily in certain countries, reflecting the priorities and interests of United States foreign policy. The top 10 recipients of aid in FY 1991 accounted for 53 percent of total U.S. assistance obligated worldwide in that year and 72 percent of all assistance allocated to specific countries.

Most of the top 15 recipients of foreign aid in FY 1991 are long-time recipients of U.S. aid and also appear in Table 1 which shows the top 20 recipients of aid from 1982 to 1991. Nicaragua, Eastern Europe, and the Andean countries of Peru and Bolivia are new entries, reflecting a recent shift in priorities and international circumstances. Similarly, some major recipients

³ Most data on aid to Eastern Europe are not disaggregated by country. Poland, however, accounts for roughly two thirds of the amounts obligated to date, and, would therefore appear among the top fifteen recipients.

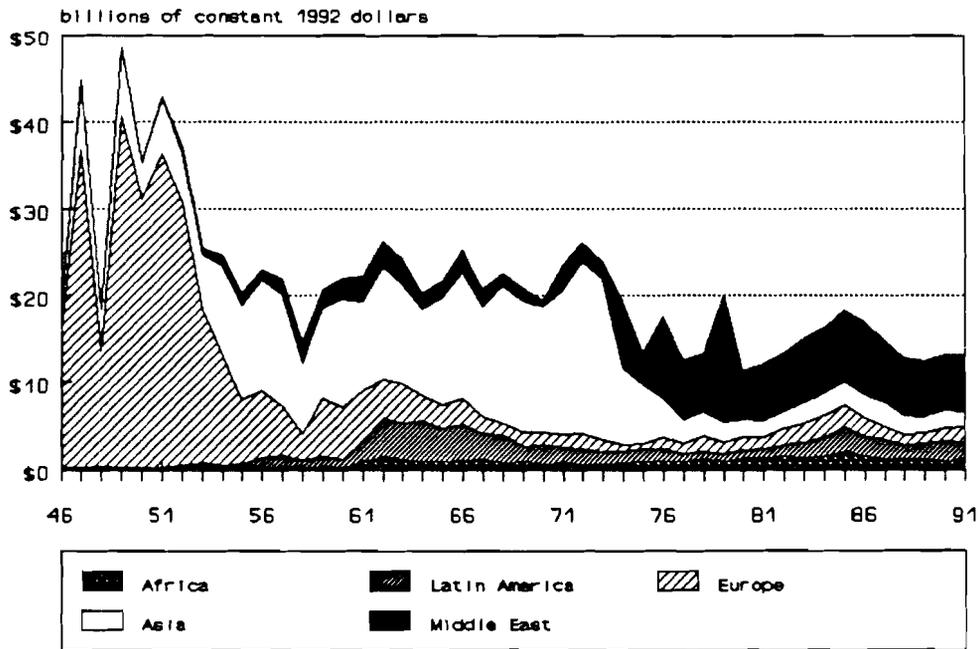
in the past -- Pakistan, Spain, Sudan, and Korea -- do not appear on the FY 1991 list. Korea, "graduated" as an aid recipient, Spain no longer asks for aid in exchange for military base rights, Pakistan cannot be certified as not possessing a nuclear explosive device, and Sudan cannot receive aid until it returns to democratic government.

The top 10 recipients of foreign aid during the ten year period shown in Table 1 represent 69 percent of total direct aid provided on a country basis in those years.

Table 1
TOP 20 RECIPIENTS OF U.S. FOREIGN AID: 1982-1991
 (current \$ millions in obligations)

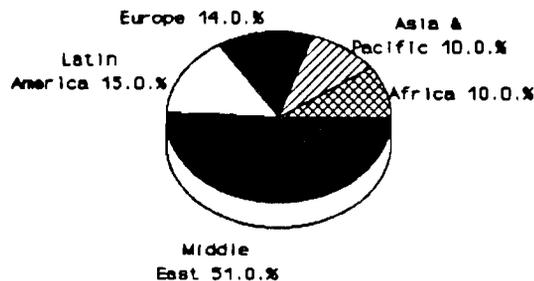
Israel	\$29,909.1	Bangladesh	1,654.3
Egypt	23,237.0	Sudan	1,481.0
Turkey	6,874.3	Portugal	1,450.3
Pakistan	5,351.8	Costa Rica	1,404.8
El Salvador	3,994.5	Morocco	1,369.2
Greece	3,736.0	Indonesia	1,139.6
Philippines	3,488.1	Jamaica	1,109.9
Spain	1,914.3	Jordan	1,076.6
Honduras	1,881.9	Guatemala	995.6
India	1,747.2	Korea	989.7

Figure 8
U.S. FOREIGN AID, 1946-91, BY REGION



On a regional basis (Figure 9), the Middle East and North Africa received the bulk of U.S. foreign assistance in FY 1991 -- 51 percent. Latin America and the Caribbean received 15 percent; Europe, 14 percent; Africa, 10 percent; and Asia and the Pacific, 10 percent. Figure 8 shows the fluctuations of aid to various regions during the period from 1946 to the present.

Figure 9
REGIONAL COMPOSITION FY 1991



Another indication of priorities is a ranking of recipients by their per capita income level. Although per capita income is an inaccurate measurement of development and, as defined by the World Bank, the cut off point between lower, lower middle, upper middle, and high income may seem arbitrary, a breakdown by income does provide some comparative sense of aid priorities. Of the fifteen top recipients of U.S. aid in FY 1991, only two -- India and Bangladesh -- are in the low income category. One -- Israel -- is ranked a high income country.⁴

6. What are the goals and objectives of U.S. foreign assistance?

Foreign assistance supports a great many objectives. Among the more prominent during the past decade have been: support for peace in the Middle East through assistance to Israel and Egypt; access to military bases overseas through assistance to Portugal, Greece, Turkey, and the Philippines; support for countries on the front lines in the struggle against communism, including El Salvador and Pakistan; fostering democratization and market development in Eastern Europe, Nicaragua, and other countries; suppression of international narcotics traffic through assistance to Andean and other countries; and alleviating famine and generating economic growth and political stability through assistance to sub-Saharan Africa.

Generally speaking, different types of foreign aid support different objectives. Focusing on any one part of the aid program would produce a different sense of U.S. objectives. For example, according to the 1989 Hamilton Task Force on Foreign Assistance, there are 33 objectives for economic assistance noted in the Foreign Assistance Act.⁵ As many as 75 priorities for economic assistance have been listed in Agency for International Development documents.

⁴ World Bank, World Development Report 1991, p. 204-5.

⁵ U.S. Congress, House, Committee on Foreign Affairs, Report of the Task Force on Foreign Assistance. Washington, G.P.O. 1989. (101st Congress, 1st Session. House. Report no. 101-32).

Overall, foreign aid is a tool of U.S. foreign policy. As the foreign policy of the United States is currently in a transitional state, many expect that a new rationale for foreign aid may eventually emerge. During the past few years, the aid program has already begun to incorporate new initiatives making it more supportive of democracy, the environment, and U.S. trade interests. Others are likely to follow.

7. How much of foreign aid dollars are spent on U.S. goods? How does this compare with other nations' programs?

Most U.S. foreign aid is used for procurement of U.S. goods and services, although amounts of aid coming back to the United States differ by program. No exact figure is available due to difficulties in tracking procurement item by item, but some general estimates are possible for individual programs, though these may differ year to year.

In FY 1991, roughly 90 percent or \$4.3 billion of **military assistance** was used for procurement of U.S. military equipment and training. The remaining 10 percent were funds allocated to Israel for procurement within that country.

Although **food assistance** commodities are purchased in the United States, the expenditures for shipping those commodities to recipient countries do not go entirely to U.S. freight companies. Until 1985, half of all food aid was required to be carried on American bottoms. At present, three fourths must be shipped by U.S. carriers. On this basis, a rough estimate suggests that more than 90 percent -- at least \$1.7 billion in FY 1991 -- of food aid expenditures are used in the United States.

Because U.S. contributions to **multilateral institutions** are mixed with funds from other nations and the bulk of the program is financed with borrowed funds rather than direct government contributions, it is possible for the U.S. share of procurement financed by MDBs to exceed the amount of the U.S. contribution. The Treasury Department estimated FY 1990 MDB procurement in the United States at \$2.3 billion, 157 percent of that year's U.S. contribution.

An examination of FY 1989 **bilateral development assistance** by the Agency for International Development found that 51 percent of these funds were spent in the United States. Most development assistance is for projects carried out in developing countries, but the services of experts and project management personnel and much of the required equipment can be procured from the United States. Some observers, however, question whether the AID figure is accurate and are pressing AID to re-evaluate its procurement data and practices to insure that funds are spent in the United States on U.S.-produced products.

The AID estimate of **Economic Support Fund** data indicated that 30 percent was returned directly to the United States. This low figure is due to the fact that at least half and sometimes more than two-thirds of ESF assistance in the past decade has been in the form of a cash transfer. Although some of these dollars may be used to purchase U.S. goods directly, there is no requirement that they be used in this manner.

Some argue that a greater proportion of U.S. foreign aid than is currently the case should be used for procurement of U.S. goods and services. Room for improvement is most likely to be found in the bilateral development assistance and ESF types of aid where estimated levels of U.S. procurement are relatively low. A 100 percent level of reflows, however, is unlikely. Projects carried out in the developing world require a degree of spending within the recipient country -- for local hire personnel, local building materials, and other operational expenses. Although proponents of greater U.S. procurement suggest that other donors are more successful at tying their aid to purchases within their countries, available comparative statistics indicate that the United States is not far from other key donors. According to the OECD, 45 percent of U.S. aid in 1989 was tied, whereas 48 percent of France's aid, 45 percent of Germany's, and only 18 percent of Japan's was tied to donor procurement.⁶ In practice, however, levels of procurement may be considerably greater than is indicated by tied aid requirements.

Many argue that the foreign aid program brings significant indirect financial benefits to the United States in addition to the direct benefits derived from reflows of aid dollars. First, it is argued that provision of military equipment through the military assistance program and food commodities through P.L. 480 helps to develop future, strictly commercial, markets for those products. Second, as countries develop economically they are in a position to purchase more goods from abroad and the United States benefits as a trade partner. In the 1970s U.S. trade with the developing world grew faster than with its traditional industrial country trading partners. The economic stagnation of the developing world as a result of the debt crisis of the early 1980s severely curtailed U.S. exports. They fell from \$144 billion in 1981 to \$93 billion in 1986 (in 1991 dollars).

Although the United States may benefit from developing country growth, some believe that foreign aid can play only a limited role in that growth. Still others argue that aid is counterproductive -- that it has retarded growth by providing handouts that allow the public sector to reject necessary reforms that might stimulate private sector activity.

8. Why do some countries receive grants while others receive loans? How much of foreign aid loans have been repaid? What incentives do foreign aid recipients have to repay U.S. loans?

Under the Foreign Assistance Act of 1961, the President may determine the terms and conditions under which most forms of assistance are provided. In general, the financial condition of a country -- its ability to meet repayment obligations -- has been an important major criterion for the decision to provide a loan or grant. Some programs -- such as humanitarian and disaster relief programs -- were designed to be entirely grant activities.

⁶ Organization for Economic Cooperation and Development, Development Cooperation, 1991 Report, Paris, December 1991, p. 206.

Loan/Grant Composition. In more recent years, nearly all foreign aid - military as well as economic -- has been provided in grant form. Between 1962 and 1986, loans represented 34 percent of total military and economic assistance. This figure declined substantially beginning in the mid-1980s, until by FY 1990, loans represented only 7 percent of total aid. The shift in the U.S. foreign aid program from loans to primarily grants is largely a response to the debt problems of developing countries. Both Congress and the executive branch supported the view that foreign aid should not add to the already existing debt burden carried by these countries.

Loan Repayment and Debt Forgiveness. Between 1946 and 1990, the United States loaned a total of \$97.3 billion under the foreign aid program. Of that amount, \$56.8 billion had been repaid as of the end of FY 1990, leaving \$40.5 billion outstanding. In the past year, the United States has forgiven roughly \$11.4 billion in outstanding loans. It has been able to forgive these loans using legislative authority provided specifically for Egypt and Poland loan forgiveness; legislation allowing forgiveness for AID economic aid loans for relatively least developed countries; allowing forgiveness for food aid loans; and allowing reduction in the food aid debt owed by Latin American countries.⁷

Debt Repayment Incentives. Both Section 620(q) of the Foreign Assistance Act of 1961 and the Brooke-Alexander amendment -- first passed in an appropriations bill in 1976 and appearing in the FY 1991 bill as Section 518 of the Foreign Operations Appropriations -- provide incentives for borrowing countries to repay their loans on schedule. Pursuant to Section 620(q), if a country falls six months behind on U.S. debt payments, it is ineligible for further U.S. economic and military assistance unless, as is often the case, the President waives the restriction by notifying Congress that such aid is in the national interest. Under the Brooke-Alexander amendment, if a country falls into arrears for longer than a year, all non-humanitarian assistance will be cut off. Examples of countries currently ineligible for U.S. aid because of the Brooke-Alexander amendment are Liberia and Ethiopia.

9. How does the United States rank as a donor of foreign aid?

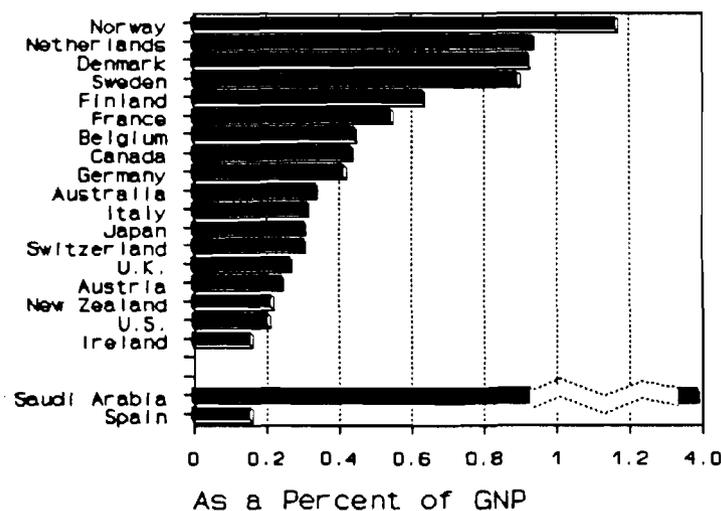
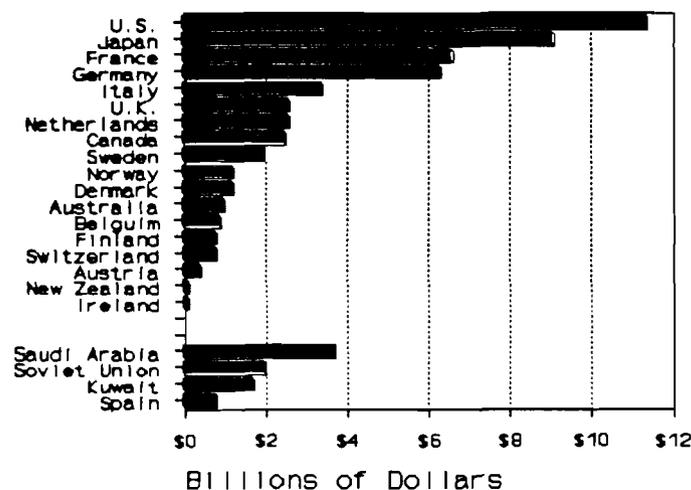
For decades, the United States ranked first among the developed countries in net disbursements of Official Development Assistance (ODA).⁸ In 1989, for the first time, the United States was supplanted in this predominant position by Japan. However, in 1990, the United States returned to first place with

⁷ Respectively under Secs. 592 and 572 of the FY 1991 Foreign Operations Appropriations; under Sec. 572 of the Foreign Operations Appropriations Act, 1989; under Sec. 411 of P.L. 480, as amended in 1990; and under the Enterprise for Americas Initiative, Title VI of P.L. 480, added in 1990.

⁸ Official Development Assistance is concessional aid provided by governments with the promotion of the economic development and welfare of developing countries as its main objective.

transfers of \$11.366 billion.⁹ The second largest donor was Japan at \$9.069 billion. France and Germany were third and fourth with \$6.571 billion and \$6.320 billion, respectively.¹⁰

Figure 10
ECONOMIC AID PROVIDED BY
MAJOR DONORS IN 1990



⁹ It should be noted that the \$11.366 billion figure includes \$1.2 billion associated with forgiveness of Egyptian debt by the United States.

¹⁰ The cluster of donors at the top of each chart in Figure 10 are developed countries which make up the membership of the Development Assistance Committee (DAC) of the Organization of Economic Cooperation and Development (OECD). Those listed underneath are non-DAC donors, including OPEC states.

When 1990 aid transfers are calculated by percent of gross national product, however, the United States is among the last of the developed countries at .21 percent of GNP. Norway ranks first at 1.17 percent of GNP, while France's aid is .55 percent, Germany .42 percent, and Japan .31 percent. At 3.86 percent, Saudi Arabia provides the highest amount of aid as a percent of GNP among all nations.

10. What congressional committees have jurisdiction over the foreign aid program?

There are several committees with responsibility for authorizing legislation establishing programs and policy and for conducting oversight of foreign aid programs. In the Senate, the Committee on Foreign Relations, and in the House, the Committee on Foreign Affairs, have primary jurisdiction over bilateral development assistance, ESF, military assistance, and non-bank international organizations. Food aid is a concern of the Agriculture Committees in both houses, but shared with the Foreign Affairs Committee in the House. U.S. contributions to multilateral banks are the affair of the Senate Foreign Relations Committee and the House Banking Committee.

Appropriations of funds for foreign aid programs is done entirely through the Appropriations Committees in both the House and Senate. Almost all foreign aid appropriations are approved in the annual foreign operations appropriations bill that is reported by the Foreign Operations Subcommittee of each committee. Food aid programs, however, are appropriated under the agriculture appropriations bill approved by the Agriculture Subcommittees.

Other committees may have some input into various aspects of the aid program through the hearing process. The House Select Committee on Hunger, in particular, has conducted extensive hearings on subjects related to the humanitarian and development needs of developing countries.

Authorizing legislation for international organizations and refugee programs are usually contained in the Foreign Relations Authorization bill; food aid programs in the Farm bill, usually re-authorized every five years; and multilateral development banks in an International Development and Finance Act. The primary legislation for international bilateral development, economic support fund, and military assistance programs is contained in the Foreign Assistance Act of 1961, as amended (P.L. 87-195) and the Arms-Export Control Act. In the past, the primary vehicle for amendment of these bills or additional policy language has been an "international security and development cooperation act." No authorizing bill has been enacted by Congress since 1985. However, authorizing language is often enacted in the foreign operations appropriations bill.

11. What executive agencies are chiefly responsible for administering major foreign aid programs?

The bulk of the U.S. bilateral economic aid program is administered by the Agency for International Development (AID). AID is responsible for most development assistance, for Titles II and III of the food aid program, and, in conjunction with the State Department, ESF. In FY 1991, AID had roughly 4,309 staff members -- 1,107 of whom were foreign nationals -- working in 86 country mission and representational offices. These personnel oversee the implementation of hundreds of projects undertaken by thousands of contractors, consultants, and NGOs.

Most military assistance is administered by the Department of Defense in conjunction with the Office of Politico-Military Affairs in the State Department. The Defense Security Assistance Agency is the primary body responsible for foreign military financing. Other parts of the Department of Defense participate in planning and oversight of training, peacekeeping, anti-terrorism and related activities.

A number of other government departments play more narrow roles in administration of the foreign aid program. The Agriculture Department oversees implementation of Title I of the Food for Peace program. Assistance to multilateral development banks is funneled through the Treasury Department, whose Assistant Secretary for International Affairs manages U.S. participation. Presidentially appointed U.S. executive directors at each of the banks represent the United States point of view. Assistance to non-bank international organizations is funneled through the State Department. Refugee problems are handled by the Office of Refugee Affairs in the State Department.

Other important government agencies which play a role in implementation of foreign aid programs are the Peace Corps, the Trade and Development Program (TDP), and the Overseas Private Investment Corporation (OPIC). The Peace Corps, an autonomous agency with a FY 1991 budget of \$186 million, supported more than 7,000 volunteers in 80 countries. Peace Corps volunteers work in a wide range of educational and community development projects. TDP finances trade missions and feasibility studies for private sector projects likely to generate U.S. exports. Its budget in FY 1991 was \$35 million. OPIC provides political risk insurance to U.S. companies investing in developing countries and finances projects through loans and guaranties. It also supports investment missions and provides other preinvestment information services. It has been self-sustaining, but new credit reform rules now require a relatively small appropriation to back up U.S. guaranties.

Two independent agencies, the Inter-American Foundation and the African Development Foundation, also administer U.S. foreign aid. Both organizations emphasize grassroots development by providing financial support to local private organizations in developing countries. In FY 1991, Congress appropriated \$25 million and \$13 million, to the Inter-American Foundation and the African Development Foundation, respectively.