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# CRS Issue Brief

## Foreign Aid: Budget, Policy, and Reform

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## Foreign Aid: Budget, Policy, and Reform

### SUMMARY

The foreign aid program is widely regarded by policymakers as a significant tool promoting key U.S. foreign policy interests. With the continuing dramatic upheavals around the world, as well as growing concern at home over a sluggish economy and domestic issues, there has been renewed focus on U.S. foreign aid and whether its current structure adequately supports American national interests.

In light of important international changes and concern for non-military threats to U.S. security interests -- such as drugs and environmental degradation -- many believe that U.S. foreign assistance should undergo a critical reassessment, the results of which may argue for a substantial shift in resource allocation among major programs and aid recipients. To some, this means a reallocation of foreign aid resources, perhaps from security assistance to programs focused on economic growth, poverty alleviation, and sustainable development. Concern over what some perceive as a declining U.S. competitive edge in the international economy has led to suggestions that foreign assistance should focus more on ways to advance American exports and trade interests. Others, however, take a more cautious approach, arguing that it is premature to abandon longstanding U.S. security interests. They point out that the United States will continue to confront security challenges in the Third World apart from those associated previously in an East-West context. A view that emerged late in 1991 is that too much is spent on foreign aid and that the funds could be more effectively used to address domestic needs. Supporters of foreign assistance warn, however, that a significant reduction in aid budgets, especially in support of the former Soviet Union, would signal a U.S. withdrawal from international leadership on a range of issues important to American national interests.

In early 1991, President Bush submitted a \$15.9 billion foreign aid request for FY1992. Although the House approved appropriations nearly identical to the President's request, Congress enacted only the food assistance portion of the foreign aid budget. When lawmakers agreed with the President in October to delay consideration of Israel's request for U.S. loan guarantees, the Senate decided to defer action on the pending Foreign Operations Appropriations for FY1992 until early 1992 and consider the Israeli loan issue as part of the Foreign Operations bill. In the absence of a regular funding measure, Congress approved a six-month continuing resolution for all foreign aid programs except food assistance. Meanwhile, the President submitted both his foreign aid budget for FY1993, plus an amendment to the pending FY1992 request adding \$150 million for the former Soviet Union. The budget amendment raised the FY1992 request (including the enacted food programs) to \$16.2 billion. (The Administration also asked Congress to include \$350 million for U.N. peacekeeping activities in Cambodia, El Salvador, and Yugoslavia -- funding that is not part of the foreign aid budget.) Consequently, over the next several months, Congress will face decisions over foreign aid funding for both FY1992 and FY1993. Since the current continuing resolution expires on March 31, Congress must either enact a regular Foreign Operations bill or extend the \$15.1 billion continuing resolution by the end of the month.

Beyond the size and composition of the FY1992 foreign aid budget, debate has also focused around three policy issues: flexibility in foreign aid management and congressional oversight, promotion of U.S. economic interests with foreign aid, and democracy programs.

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## **ISSUE DEFINITION**

With the dramatic upheavals occurring around the world, many are questioning whether the current structure and rationale of the foreign aid program adequately support American objectives overseas. In light of important international changes and concern for non-military threats to U.S. security interests -- such as drugs, terrorism, and environmental degradation -- many believe that U.S. foreign assistance should undergo a critical reassessment, the results of which may argue for a substantial shift in resource allocation among major programs and aid recipients. With concern mounting over a sagging U.S. economy and domestic problems, however, a forceful perspective emerged late in 1991 that foreign aid spending should decline in order to address what many believe are more pressing difficulties at home.

Decisions over how best to modify the U.S. foreign aid program and reallocate resources still confront the 102d Congress. Last year, the House rejected the International Cooperation Act of 1991, legislation which contained some reform measures, and the Senate decided to delay action on foreign aid appropriations until this year. With submission of the President's new budget in January, both the FY1992 and the FY1993 foreign aid appropriations measures are pending in Congress. Major issues associated with the appropriations bills are Israel's loan guarantee request, aid to the former Soviet republics, and U.S. contributions to the International Monetary Fund and to U.N. peacekeeping programs.

## **BACKGROUND AND ANALYSIS**

### **Key Issues for U.S. Foreign Assistance in the 1990s**

The United States has maintained a formal foreign assistance program since the period immediately following World War II. During this 45-year period, American economic and military aid has supported over 100 countries and totaled about \$390 billion. Policymakers regard foreign assistance as a major tool of American foreign policy that promotes a wide range of key U.S. interests. In support of these objectives, the United States channels aid resources through a series of about 30 programs serving security, political, economic, and humanitarian goals.

Although the program maintains a broad focus, throughout most of the post-World War II era the predominant characteristic of U.S. foreign aid has been its support for strategies closely linked to Cold War issues and American-Soviet confrontation in Europe and the Third World. Over the past 3 years, however, a growing consensus has developed within the American foreign policy community that the U.S. foreign aid program is long overdue for a substantial reexamination and redefinition of its major purposes and goals.

With recent reductions in East-West tensions, some argue that the premise driving foreign aid policy and resource allocation decisionmaking is no longer valid. Efforts to secure friendly countries from threats posed by the Soviet Union and its allies have given way to initiatives to stabilize the economies and promote democratization in Eastern Europe and elsewhere. Others point to the growing awareness in the United States and abroad that problems previously viewed as "domestic" issues are also

transnational in their nature and threat -- matters such as debt, drugs, environmental degradation, among others -- that cannot be solved by any single nation but which should receive greater emphasis among U.S. foreign aid goals. To some, this also means a reallocation of foreign aid resources, primarily through the shift of security assistance funds to programs focused on economic growth, poverty alleviation, and sustainable development. Concern over what some perceive as a declining U.S. competitive edge in the international economy has led to suggestions that foreign assistance should focus more on ways to advance American exports and trade interests.

Others, however, take a more cautious approach to changes on the international landscape and the extent to which U.S. foreign aid should be altered in the short term. They argue that it is premature to abandon longstanding U.S. security interests and point out that the United States and its friends will continue to confront security challenges in the Third World -- nuclear and ballistic missile proliferation and insurgencies, among others -- apart from those associated previously in an East-West context. Iraq's invasion of Kuwait and the Persian Gulf war served to remind the world that the potential for conflicts threatening U.S. interests and those of its allies has not ended and that continuing, but perhaps modified rationales remain for using foreign assistance to bolster the security of friends or support conflict resolution efforts.

Still others believe that given significant problems facing the United States at home, foreign aid resources could be better spent on domestic programs. With continuing constraints on Federal spending over the next several years, some critics call for the reduction in foreign aid budgets. This view became predominant in the final weeks before Congress recessed in 1991. In early November, Senate leaders proposed (but did not pursue) that the costs of extending benefits for the long-term unemployed could be paid for in part by freezing foreign aid spending over the next five years. Further, the House rejected the conference report on a 2-year, \$25 billion foreign aid authorization (H.R. 2508), with some Members objecting to what they regarded as excessive spending overseas at a time of problems at home. A proposal to aid the former Soviet Union Republics in securing nuclear weapons and addressing humanitarian needs also succumbed to foreign aid reduction arguments, although Congress revived a modified Soviet aid package of \$500 million before adjournment. Supporters of foreign assistance warn, however, that a significant reduction in aid budgets, especially in support of the former Soviet Union, would signal a U.S. withdrawal from international leadership on a range of issues important to American national interests. If not reduction, a growing number of observers argue that the international community needs to share the financial responsibilities in addressing global development problems, post-war economic needs in the Middle East, and other expanding demands.

### **Efforts to Initiate Foreign Aid Reforms**

In some respects the U.S. foreign aid program has taken on new directions during this recent period of rapidly changing international developments. Bilateral assistance to Eastern Europe has grown to \$370 million. The United States responded with nearly \$800 million in economic aid to the new governments in Nicaragua and Panama in 1990. Congress boosted American economic assistance to Africa in 1991 by 40%. Spending on a wide array of programs designed to reduce the production and trafficking of illicit drugs has grown from \$300 million last year to \$612 million proposed for 1992. Environment-related projects implemented by the Agency for International

Development have grown over five-fold in recent years, and were estimated at over \$550 million in 1991. The United States has also forgiven foreign aid debts of a number of African, Latin American, and Caribbean countries and extended debt relief to Egypt and Poland.

But in a broad sense, U.S. foreign assistance contains many of the same elements that have characterized the program for a number of years. Over \$1.6 billion in aid goes to countries providing the United States with foreign military bases; three of those countries are NATO members. Programs motivated primarily by security considerations continue to represent the majority of foreign aid spending. While there is recognition that some change has taken place, the source of much criticism is that none of the changes have taken place as part of a comprehensive reassessment of the U.S. foreign assistance program. For the past two years, some lawmakers have called on President Bush to provide Congress with a long-term foreign aid plan that would provide a justification of new foreign assistance initiatives within the context of changing international situations, American national security goals, and overall Federal spending. Some have been particularly critical of what they believe to be a "piecemeal approach" taken thus far by the executive branch in addressing new foreign aid requirements.

Lawmakers attempted their own effort to overhaul the foreign aid program in the last Congress. A special task force of the House Foreign Affairs Committee recommended in early 1989 that Congress rewrite foreign assistance laws, reduce earmarks, eliminate restrictions and generally enhance Presidential flexibility in managing the foreign aid program, improve foreign assistance accountability, and reduce the number of foreign assistance objectives to a small number of clear, well-defined priorities. The House approved legislation that included a number of these proposals (H.R. 2655), but the Senate failed to act on the bill. (For a detailed analysis of the task force proposal to restructure U.S. foreign assistance, see CRS Report 90-236, *Foreign Assistance: Congressional Initiatives to Reform U.S. Foreign Aid in 1989*.)

With much uncertainty surrounding a new definition of American foreign policy goals and how the foreign aid program can best serve those objectives, new efforts emerged in 1991 to take up the task of rewriting major foreign aid laws. These efforts, however, stalled in Congress. The Administration transmitted to Congress on Apr. 12, 1991 a draft bill (The International Cooperation Act of 1991, H.R. 1792/S. 956) that amends or replaces much of existing U.S. foreign assistance laws. While the draft contained a number of the task force recommendations, the predominant theme of the Administration's request was the need to broaden executive branch flexibility and to restore what the President characterizes as the "proper balance of congressional and presidential authority in the conduct of foreign policy." (President Bush's letter to Congress, Apr. 12, 1991.) The legislation, however, was not the comprehensive blueprint for a new U.S. foreign aid policy in the post-Cold War era that some had hoped the President might propose. As discussed below, the budget request for FY1992 did not make sweeping modifications to U.S. foreign assistance.

Picking up on its earlier effort, the House Foreign Affairs Committee again issued a foreign aid reform measure in 1991 (H.R. 2508). The bill, which many characterize as a modest effort at comprehensively overhauling foreign assistance, passed the House on June 20, 1991. The Senate, although granting the President increased flexibility, approved a more "traditional" foreign aid measure in July. House and Senate conferees adopted some of the House "reform" proposals, but agreed to use the Senate framework

which amended current law rather than initiating a new foreign aid act. The House, however, rejected the conference report on October 30 and the legislation's future is uncertain.

While the FY1992 foreign aid appropriations levels have still not yet been set by Congress, the President's submission for FY1993 appears to take more assertive steps in altering the composition and country allocations of U.S. foreign aid. The military aid request is \$500 million less than the submission for FY1992 and nearly identical to what the House appropriated for FY1992 in H.R. 2621. The proposal contains \$620 million for the former Soviet republics -- \$150 million of which is designated for FY1992. The budget further significantly cuts U.S. assistance to Pakistan and the Philippines, two of the largest recipients in recent years. Finally, the FY1993 request includes a \$100 million Capital Projects Fund that will finance additional infrastructure development projects overseas providing potential export opportunities for American businesses.

### **The Budget Enforcement Act and Implications for Foreign Aid Spending**

In late 1990 executive and legislative negotiators agreed to a 5-year, \$500 billion deficit reduction package. That agreement, enacted as Title XIII of P.L. 101-508 (the Budget Enforcement Act of 1990), has had a significant impact on foreign assistance funding decisions. Under the terms of the Budget Enforcement Act, international affairs, defense, and domestic programs are designated as discreet categories for which specific spending caps for both budget authority and outlays are set during each of the next 3 fiscal years. (Foreign aid makes up about 75% of the international affairs budget.) Should spending exceed the caps in any category, the President must order an across-the-board sequestration of funds for the category that violates the spending caps and bring funding levels back down to the cap ceilings. [In the aftermath of the failed Soviet coup and a significantly altered global security environment, however, some congressional leaders believe that the 1990 budget agreement is obsolete and are calling for new discussions on U.S. resource allocations.]

The budget agreement and spending limitations pose challenges to foreign aid budget allocations in three significant ways. First, the international affairs spending cap, while providing some growth, has not been sufficient to accommodate substantially higher levels for existing programs and emerging requirements, including the question of Soviet aid. Second, should policymakers decide to expand resources for current aid priorities or to undertake new initiatives beyond the caps, funds must come from other international affairs activities and involve either direct, competitive trade-offs with other foreign policy programs, or an across-the-board reduction affecting all international affairs programs. Finally, flexibility for responding with foreign assistance to rapidly developing international events has become even more difficult for the United States under the rigid ceilings of the budget act. "Emergency" spending is permitted under the budget accord, but both the Congress and the President must agree to define a situation as an emergency. Congress approved two "emergency" foreign aid appropriations in 1991, both related to the Persian Gulf war: an \$856 million aid package primarily for Israel and Turkey, and \$235.5 million for Kurdish refugee relief assistance.

## **Congressional Review of Foreign Assistance Legislation**

Once submitted, Congress reviews and regularly debates the foreign aid request in several legislative vehicles, including the budget resolution, foreign aid authorization bills, and foreign operations and agriculture appropriations acts. Congress, however, does not organize the legislation in exactly the same manner as that proposed by the President. While funding for most all foreign assistance programs have been authorized in recent years in biennial International Security and Development Cooperation Acts and appropriated by annual Foreign Operations, Export Financing, and Related Programs Acts, a few programs are considered in other legislation. Refugee aid, for example, is authorized in the State Department bill, while food assistance is appropriated in the Department of Agriculture funding measure. Moreover, some programs, like the Export-Import Bank, are included in the foreign operations bill, but are not part of the foreign assistance budget. Finally, some programs, such as food aid and multilateral development bank contributions, do not require annual authorizations and do not appear in regular foreign aid budget totals. Consequently, no single piece of authorizing or appropriating legislation will contain the entire foreign aid budget. A list of all foreign aid programs and appropriation levels is included as an appendix.

### **Foreign Assistance Request for FY1992-93 and the Congressional Response**

In early 1991, President Bush submitted a \$15.9 billion foreign aid request for FY1992. Although the House approved appropriations nearly identical to the President's request, Congress enacted only the food assistance portion of the foreign aid budget. When lawmakers agreed with the President in October to delay consideration of Israel's request for U.S. loan guarantees, the Senate decided to defer action on the pending Foreign Operations Appropriations for FY1992 until early 1992 and consider the Israeli loan issue as part of the Foreign Operations bill. In the absence of a regular funding measure, Congress approved a six-month continuing resolution for all foreign aid programs except food assistance. Meanwhile, the President submitted both a \$15.8 billion foreign aid budget for FY1993, plus an amendment to the pending FY1992 request adding \$150 million for the former Soviet Union. The budget amendment raised the FY1992 request (including the enacted food programs) to \$16.2 billion. (The Administration also asked Congress to include \$350 million for U.N. peacekeeping activities in Cambodia, El Salvador, and Yugoslavia -- funding that is not part of the foreign aid budget.) Consequently, over the next several months, Congress will face decisions over foreign aid funding for both FY1992 and FY1993. Since the current continuing resolution expires on March 31, Congress must either enact a regular Foreign Operations bill or extend the \$15.1 billion continuing resolution by the end of the month.

Examining the FY1992 request first, the \$16.2 billion foreign aid proposal seeks represents an increase of about \$100 million, or 0.7%, over amounts enacted for FY1991 (see Table 1). In terms of spending allocations, the request, with few exceptions, is largely the same as for the previous year. Many expressed disappointment at the time of submission that the budget lacked substantial shifts in resource priorities they believed to be necessary in order to realign foreign aid spending patterns with post-Cold War U.S. interests and needs.

By contrast, the \$15.8 billion funding request for FY1993, while slightly smaller than the amount sought for FY1992, includes more significant changes in program and country allocation levels and may represent a first, although modest, step in moving to setting new foreign aid spending priorities. Highlights of the FY1993 request include:

- \$470 million for the former Soviet Union
- \$450 million for Eastern Europe and the Baltics
- \$100 million for a Capital Projects Fund
- \$400 million cut from the FY1992 request for military aid
- sharp reductions in aid to the Philippines
- shift of about half El Salvador's military aid to economic

**TABLE 1. Foreign Assistance Appropriations: FY1990-1992**  
(millions of current dollars)

	1991 enacted	1992 request	92 House- passed (HR 2621)	1992 Cont Res	1993 request	93 req +/- 92 CR
Multilateral Aid	\$1,904	\$2,035	\$2,113	\$1,857	\$2,015	+8.5%
Bilateral Development Aid	\$2,137	\$2,264 <sup>a</sup>	\$2,413	\$2,150	\$2,520	+17.2%
Food Aid	\$1,010	\$1,484 <sup>b</sup>	\$1,484 <sup>b</sup>	\$1,484 <sup>b</sup>	\$1,323	-10.8%
Special Asst Initiative	\$ 550	\$ 560	\$ 680	\$ 490	\$ 530	+8.2%
Other Economic Aid	\$1,784	\$1,933	\$1,890	\$1,681	\$2,080	+23.7%
Economic Support Fund	\$3,975	\$3,240	\$3,229	\$3,229	\$3,123	-3.4%
Military Aid	\$4,788	\$4,741	\$4,236	\$4,236	\$4,237	.0%
"Adjustments"	---	---	-\$15	---	---	---
<b>Total Foreign Aid</b>	<b>\$16,147</b>	<b>\$16,257</b>	<b>\$16,030</b>	<b>\$15,126</b>	<b>\$15,828</b>	<b>+4.6%</b>

a. Includes President's Jan. 1992 \$150 million budget amendment for the Former Soviet Republics.

b. Food aid enacted for FY1992.

## Program Composition

Figure 1 illustrates the overall program composition of the FY1992 and FY1993 foreign aid budget requests while Table 1 (above) summarizes spending levels of the major programs and provides comparisons among the most recent fiscal years. Multilateral assistance would grow slightly in FY1992 and 1993 under the President's request from the amounts approved for last year. Bilateral development aid would increase more significantly -- up about \$130 million in FY1992 and nearly \$400 million in FY1993. Those proposed increases, however, are entirely the result of the additional requests for assistance to the former Soviet Union and establishment of the Capital Projects Fund -- without these new initiatives, the development assistance request for both years would fall below FY1991 levels. Food assistance, the one foreign aid category for which Congress has enacted appropriations for FY1992, would fall by over 10% in FY1993 under the President's request.

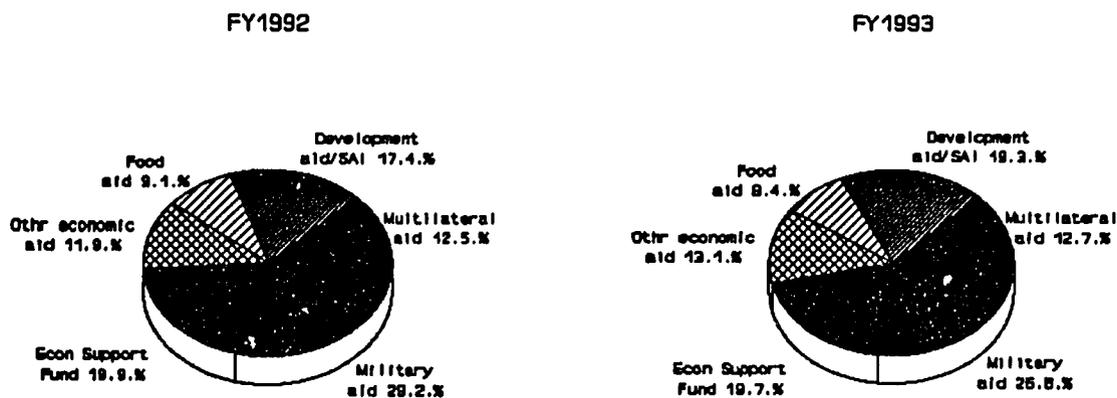
Funding for the Economic Support Fund, an economic aid channel most closely associated with U.S. political and security interests, would fall from the FY1991 level of nearly \$4 billion to \$3.2 billion and \$3.1 billion, respectively for FY1992 and FY1993,

under the request. FY1991 ESF funding, however, included \$850 million in special Persian Gulf war assistance to Israel and Turkey -- consequently the pending requests are similar to *regular* program amounts provided last year.

The FY1992 military aid request of \$4.7 billion is nearly identical to the FY1991 program. As Table 1 notes, however, the House voted to cut military appropriations to \$4.2 billion and the President has submitted a budget for FY1993 (\$4.2 billion) in line with the House action. The world-wide military aid request for FY1993 falls about 11% below the FY1992 request, but because amounts for Israel and Egypt remain the same under both proposals (\$3.1 billion combined), the reduction proposed for FY1993 would total 31% for countries other than the top two recipients.

A major new component of the President's FY1992 request and continued under the FY1993 submission, is the Enterprise for the Americas Initiative, included among both "other economic aid" and multilateral assistance categories in Table 1, and accounting for most of the increases sought in these two areas. The EAI, intended to offer debt relief, trade, and investment opportunities for Latin American countries, would receive \$304 million in FY1992 and \$286 million in FY1993 to undertake debt restructuring measures and \$100 million in each year for a U.S. contribution to an Inter-American investment fund. (For more information, see CRS Issue Brief 90130, *Enterprise for the Americas Initiative*.)

**FIGURE 1**  
**Program Composition of U.S. Foreign Aid**  
**Program Request for FY1992 and FY1993**

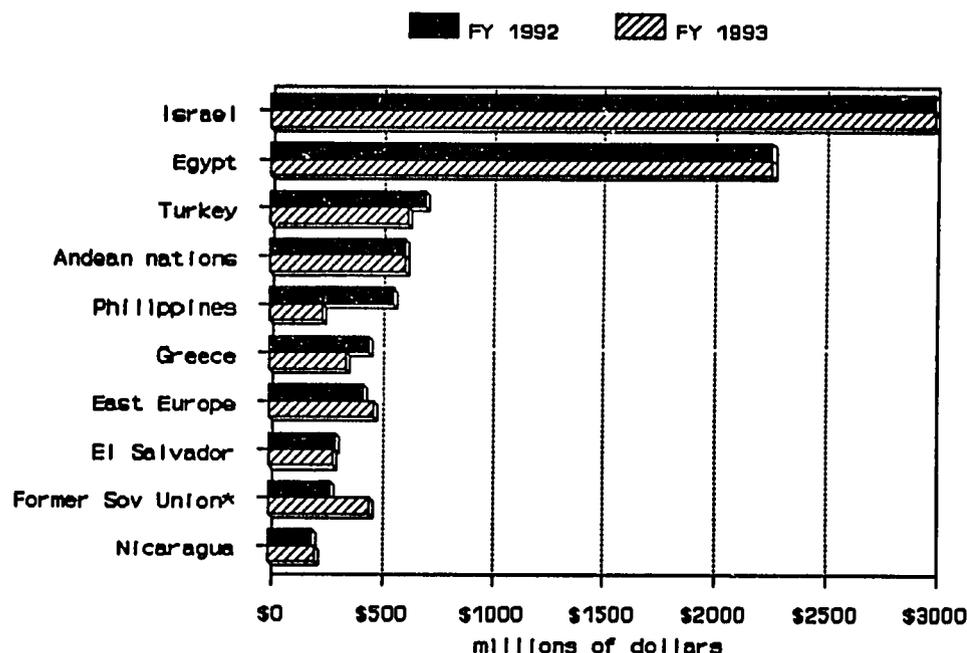


## Country Allocations

The top recipients of U.S. aid in FY1992 and FY1993, with a few exceptions, are scheduled to be generally the same as they were in FY1991. (Figure 2.) Israel (\$3 billion) and Egypt (\$2.3 billion) would continue to be the largest recipients by far in both years. The FY1992 request contains a \$150 million boost over regular aid for Turkey (excluding the Gulf War support), bringing the total to \$704 million. Turkey would receive \$622 million in FY1992. The Andean nations of Peru, Colombia, and Bolivia, all linked with U.S. anti-drug programs, would also receive a substantial increase from \$497 million in FY1991 to about \$610 million in FY1992 and FY1993. A budget amendment submitted in February 1992 adds \$150 million in FY1992 for the

republics of the former Soviet Union. (Under existing authority, the President plans to transfer an additional \$835 million to the former Soviet republics in FY1992, an amount that includes congressional approval to use \$500 million of defense department funds to transport emergency relief supplies and secure nuclear weapons.) For FY1993, the Administration plans to allocate \$470 million to Russia and other former republics.

**Figure 3**  
**Major U.S. Aid Recipients, FY1992 & FY1993**



For two long-standing major U.S. recipients -- Pakistan and the Philippines -- the budget seeks sharp reductions over the next two years. Pakistan, which received about \$600 million annually during the 1980s, is unlikely to be eligible for most U.S. aid programs due to nuclear proliferation restrictions. The FY1993 request includes only food, narcotics, and Peace Corps aid for Pakistan, totalling \$57 million. With the U.S. loss of military base rights in the Philippines, American aid is slated to drop from \$559 million this year to \$236 million in FY1993, including a 75% cut in military assistance. The remaining major recipients are scheduled for aid levels in FY1992 and FY1993 at about the same amounts they received last year. El Salvador would get just less than \$300 million, but would have about half of its regular military aid level shifted to support economic relief and reconstruction efforts.

### Policy Initiatives

Beyond the size and composition of the FY1992 and FY1993 foreign aid budgets, debate has also focused on three policy issues, portions of which represent key initiatives being advanced by the Agency for International Development.

**Flexibility in Foreign Aid Management and Congressional Oversight.** For many years Presidents have frequently complained of excessive interference by Congress in the management of foreign aid programs and country allocations. Much of the controversy has centered on executive-legislative disagreement over congressional "earmarking" of funds for both programs and selected countries deemed high-priority recipients by Congress. It is an issue that concerns both the matter of country allocation decisions as well as the much broader question of the President's control over foreign policy generally and the appropriate role of Congress.

Since the early 1970s, and at times over Administration objections, Congress has appropriated development assistance through a series of so-called functional accounts related to agriculture, population, health, child survival, AIDS, education, and energy and the environment. It also has been a common practice for Congress to selectively earmark country aid levels, particularly within security-related programs of the Economic Support Fund (ESF) and military assistance. Lawmakers view earmarking of development accounts and security aid country recipients as a means of establishing congressional priorities that the President might otherwise ignore. Executive branch officials argue strongly that earmarking, especially coming on top of overall appropriation reductions, undermines their flexibility to allocate funds in a way that most effectively serves U.S. interests and meets rapidly changing foreign policy needs.

In the Administration's draft bill for FY1992, the President asked Congress to remove a wide range of restrictions and conditions on executive branch implementation of U.S. foreign aid policy. Consistent with these efforts to enhance Executive branch flexibility, the draft bill sought a lump sum appropriation for development assistance, removing what Administration officials regard as artificial budget limits that impede efficient programming of economic aid. These officials noted that they would be guided by congressional priorities in much the same way they have held to "general" spending patterns recommended by Congress for Africa after Congress approved a lump sum approach for that region in the late 1980s. The Administration also is urging Congress to refrain to the maximum extent possible from extensively earmarking security assistance funds. Some in Congress have also called for less earmarking, a pattern Congress has followed somewhat in the past two years. Further reduction or elimination of country earmarking, however, remains highly contentious and is not likely to be achieved in the short term.

**Promoting U.S. Economic Interests with Foreign Aid.** As the search for new foreign aid priorities continues, a growing number of observers, including some executive branch officials and Members of Congress, are suggesting that the foreign assistance program should contribute more directly to American economic competitiveness and commercial interests while advancing Third World development goals. Various proposals recommend that the United States "tie" more of its aid to the procurement of American goods, that U.S. assistance fund a greater number of capital projects, a practice that would likely increase American exports, and that U.S. aid agencies broaden the use of "mixed credits" (combining economic aid grants with export credits) so as to provide the same opportunities for American businesses that are offered by the governments of leading trade competitors. In 1990, AID joined with the Export-Import Bank in launching a mixed credit program in four Asian countries using \$100 million of AID economic assistance.

Considerable attention focused during the past two years on legislation (S. 571) that would require, among other things, the United States to reduce significantly the amount of "cash transfer" assistance and increase economic infrastructure projects that would be tied to the export of U.S. capital goods. Supporters of this and other proposals argue that it is possible to combine successfully development and commercial objectives in the U.S. foreign aid program. They note that infrastructure projects, an area largely abandoned by the United States in the early 1970s, are an important element of development and should be raised as a component in the U.S. program. [Most recent (1989) data collected by the OECD shows that 5.1% of U.S. economic aid supports economic infrastructure, industry, mining, and construction projects, while the total for all Western aid donors is 26.3%.] Critics, however, contend that commercial goals would soon dominate foreign aid decisionmaking and that an aid program ruled by export motivations would not necessarily match the needs of recipients and potentially would squeeze out scarce funding for programs directed at the poor populations in developing countries.

The Agency for International Development also came forward in 1991 with its own proposal to more closely link its activities with U.S. commercial interests. AID's Partnership for Business and Development Initiative hopes to encourage greater participation of American businesses in economic development efforts funded by the agency that will prove beneficial to both exporters and to developing nations. Among other things, the initiative creates a business advisory council and offers the services of AID overseas missions to American firms seeking to do business in foreign countries. The plan also proposes a Capital Projects Fund through which to implement "developmentally sound capital projects of direct strategic relevance to U.S. trade competitiveness." The FY1993 budget requests \$100 million for the Fund.

**Development of Democracy.** The Administration's budget calls promoting and consolidating democratic values the first and preeminent foreign policy challenge. Programs in support of this objective are scattered throughout the international affairs budget function, including U.S. Information Agency programs, international broadcasting, and the National Endowment for Democracy, which are in the State-Justice-Commerce appropriation, and assistance to Eastern Europe and AID's new Democracy Initiative, activities that are part of the foreign aid program.

The cornerstone of this effort in the context of the foreign aid program is the Democracy Initiative, a plan announced by AID in December 1990 "to support the evolution of enduring Democratic Societies." The Democracy Initiative proposes focusing AID resources to (1) strengthen democratic institutions, (2) integrate democracy into the AID program by establishing the promotion of democracy as a strategic goal over the broad range of AID programs; (3) reward progress in democratization and establish democratization as an allocation criterion; and (4) establish rapid response mechanisms for democratic breakthroughs or to meet unanticipated needs. Although the promotion of democracy has been a continuing foreign aid goal, AID plans to allocate considerably more resources in the future in support of the Initiative; it is estimated that spending on democracy-related projects will grow from about \$100 million in FY1990, to \$160 million in FY1991, to over \$180 million in FY1992.

## **Congressional Response to the Foreign Aid Request**

Congress took the first of several formal steps to act on the President's foreign aid proposal for FY1992 in June 1991 when the House passed both foreign aid authorization (H.R. 2508) and appropriation (H.R. 2621) legislation. The Senate passed a companion authorization measure (S. 1435) in July, but decided to defer consideration of the appropriation until early 1992 when it was anticipated that Congress would also take up Israel's request for loan guarantees.

House and Senate conferees met in mid-September and agreed on a common **foreign aid authorization bill** (H.R. 2508). Executive branch officials, however, in reaction to congressional changes to the request, said that the President would veto the legislation because of two provisions: one that would alter current U.S. policy concerning international family planning programs and abortion and one that would require countries receiving U.S. cash transfers to spend by FY1996 an amount equal to 75% of such transfers on American goods, half of which must be shipped on U.S. flagships ("cargo preference"). Administration officials were also especially critical of earmarking, a tied-aid/capital projects provision, and military aid cuts contained in the authorization measure. Despite the veto threat, the Senate passed the conference report on October 2. The House, however, rejected the conference agreement on October 30, with opponents citing the family planning and cargo preference provisions, as well as a general dissatisfaction over foreign aid spending at a time of limited funding for domestic concerns, as reasons for turning down the legislation. House Foreign Affairs Committee Members introduced a revised bill (H.R. 4070) that eliminates the "veto" provisions; but it is uncertain whether an attempt will be made to consider the revised foreign aid authorization in 1992.

**Foreign aid appropriations.** Dissatisfied with what was perceived as an inadequate proposal by the President to effectively address recent global changes, the House Appropriations Committee recommended a number of significant modifications to the Administration's request. In passing the Foreign Operations and Agriculture Appropriations measures (H.R. 2621 and H.R. 2698, respectively), the House approved a total of \$16 billion for FY1992 foreign assistance programs, an amount similar to the President's request (the President had not yet added the \$150 million for the former Soviet republics; see Table 1 above and Appendix). Committee members, however, decided not to spend the entire amount appropriated in H.R. 2621 on foreign aid programs, and instead established a \$135 million "deficit reduction" initiative, funds that would return to the Treasury to help reduce the U.S. deficit. Consequently, total funds passed by the House in the two bills for foreign assistance reduces the level sought by the President by about \$100 million. Moreover, the bills make important changes in the allocations among various foreign aid programs. H.R. 2621, legislation that contains the bulk -- \$14.35 billion -- of appropriations for foreign assistance, shifts about \$500 million from the Administration's proposed military program and distributes it among a number of economic aid activities. Under the legislation, bilateral development assistance is set \$275 million above the request, including \$1 billion (\$200 million increase) for African programs. The House-passed bill also provides about \$680 million for refugee programs, roughly \$170 million above the request. For food assistance, a program appropriated within the Agriculture Appropriation (H.R. 2698), Congress approved \$1.49 billion, about \$200 million more than sought by the President.

Other major provisions and changes to the request included in H.R. 2621 are:

a series of **international environment initiatives**, including a \$50 million contribution to the World Bank's global environmental facility, something not recommended by the Administration.

an emphasis on development programs for **children**, allocating \$583 million, over \$100 million above the request, for various child-related activities.

a \$20 million earmark for the **U.N. Population Fund**, linked to the continuation of U.S. preferential trade status for China; this organization has been banned since 1985 from receiving U.S. funds because of its programs in China and alleged association with coercive family planning practices. The bill provides \$300 million for **family planning** programs overall, \$72 million more than the request.

a major reduction in the President's **Enterprise for the Americas Initiative**, largely due to concerns over the absence from the Initiative of commercial debt restructuring proposals; the bill provides only \$65 million of the \$304 million requested for debt relief to support primarily debt reduction for Jamaica.

a limitation on U.S. aid to European countries (**Turkey, Greece, and Portugal**) that provide the United States with military bases; the bill further decreases military aid to Turkey to \$500 million, retaining the "10:7 ratio" between military aid to Turkey and Greece, but adds \$175 million in economic aid to Turkey.

a shift of \$100 million in military to development aid for the **Philippines**.

The House appropriation bill, passed in June, does not include provisions relating to Israel's request for \$10 billion loan guarantees or new initiatives to aid the former Soviet Union. It had been expected that these and other foreign aid issues would be taken up by the Senate in early 1992. Senate leaders and the Administration, however, have not been able to work out a compromise position on the Israeli loan guarantee request and the appropriation bill remains on hold. Meanwhile, until Congress completes consideration of the regular foreign aid appropriation for FY1992, the foreign assistance program is funded at FY1991 levels or the House-passed levels, whichever are less, under a Continuing Resolution that expires on Mar. 30, 1992. Foreign aid funds made available by the Continuing Resolution are about \$900 million less than requested for FY1992 and do not address new key issues for FY1992, including the IMF quota increase, the Enterprise for the America's Initiatives, aid to the former Soviet Union, and Israeli loan guarantees.

## **LEGISLATION**

### **H.R. 2508 (Fascell)/S. 1435 (Pell)**

International Cooperation Act of 1991. H.R. 2508 rewrites much of the existing foreign aid legislation and authorizes foreign aid programs for FY1992 and 1993. Introduced and reported June 4, 1991 (H.Rept. 102-96); passed House, amended, June 20 (274-138). S. 1435 introduced and reported July 8, 1991 (S.Rept. 102-100). Passed Senate, amended, and passed H.R. 2508 in lieu of S. 1435 July 29 (74-18). Conference report filed Sept. 27 (H.Rept. 102-225); Senate agreed to conference report Oct. 8 (61-38); House rejected conference report Oct. 30 (159-262). (See H.R. 4070 below.)

**H.R. 2621 (Obey)**

Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 1992. Introduced and reported June 12, 1991 (H.Rept. 102-108); passed House, amended, June 19 (301-102). The Senate delayed consideration until early 1992.

**H.R. 4070 (Fascell)**

Foreign Assistance Authorization for FY1992/93. A modified version of the conference report on H.R. 2508, eliminating provisions over which the President threatened to veto the bill (family planning policy, cargo preference, all-grant military aid), together with other technical changes. Introduced Nov. 27, 1991; referred to Committee on Foreign Affairs.

**P.L. 102-229, H.J.Res. 157**

Dire Emergency Supplemental Appropriations, 1992. Provides emergency supplemental appropriations, including the transfer of up to \$400 million from Defense spending for U.S. assistance in dismantling Soviet nuclear weapons and the transfer of \$100 million for the transport of humanitarian aid to the Soviet Union/Republics. Passed House Feb. 28, 1991; reported by Senate Appropriations Committee Nov. 15 (S.Rept. 102-216); passed Senate (75-18) Nov. 22; House (303-114) and Senate agreed to conference report (H.Rept. 102-394) Nov. 27. Signed in to law Dec. 12, 1991.

**FOR ADDITIONAL READING**

U.S. Congress. House. Committee on Foreign Affairs. Report of the task force on foreign assistance. 1989 (101st Congress, 1st session. House. Committee print)

---- U.S. foreign aid in a changing world: Options for new priorities. 1991 (102d Congress, 1st session. House. Committee print.) Prepared by the Congressional Research Service.

---- Foreign aid: Selected references, by Sherry B. Shapiro. [Washington] July 1989. CRS Report 89-403 L

---- Foreign assistance: Congressional initiatives to reform U.S. foreign aid in 1989, by Larry Q. Nowels. [Washington] May 10, 1990. CRS Report 90-236 F

---- An overview of U.S. foreign aid programs, by Stanley J. Heginbotham and Larry Q. Nowels. [Washington] Mar. 30, 1988. CRS Report 88-282 F

See also the following country/regional specific foreign aid issue briefs and reports:

Central America (IB84075 and IB90026)

Eastern Europe (IB90089)

El Salvador (IB89122 and IB90011)

Greece and Turkey (IB85065)

Israel (IB85066);

Israel Loan Guarantees (91103)

Philippines (IB85077)

Former Soviet Union (91050)

**APPENDIX. FOREIGN ASSISTANCE APPROPRIATIONS**  
(millions of dollars)

	FY1991 Enacted	FY1992 Request*	FY1992 HR 2621	FY1992 Cont Res	FY1993 Request	FY93 +/- FY92 CR (%)
<b>Multilateral Economic Aid:</b>						
World Bank - IBRD	\$110.6	\$70.1	\$70.1	\$70.1	\$70.1	.0%
World Bank - Environment Fund	---	---	\$50.0	---	---	---
World Bank - Int. Develop. Assoc.	\$1,064.1	\$1,060.0	\$1,060.0	\$1,060.0	\$1,060.0	.0%
World Bank - Int. Finance Corp.	\$40.3	\$50.0	\$40.3	\$40.3	\$50.0	+24.1%
Inter-American Dev. Bank (IDB)	\$91.3	\$90.4	\$90.4	\$90.4	\$77.9	-13.8%
IDB Enterprise for the Americas Fund	---	\$100.0	\$100.0	---	\$100.0	---
Asian Development Bank	\$128.9	\$200.5	\$184.3	\$128.9	\$195.5	+54.1%
African Development Fund	\$105.5	\$135.0	\$135.0	\$105.5	\$135.0	+28.0%
African Development Bank	\$10.1	\$9.0	\$9.0	\$9.0	---	---
European Development Bank	\$70.0	\$70.0	\$70.0	\$70.0	\$70.0	.0%
other mult. banks	---	---	\$3.0	---	---	---
Subtotal, Mult. Devel. Banks	\$1,619.8	\$1,785.0	\$1,812.1	\$1,572.2	\$1,758.5	+11.8%
Other international organizations	\$284.7	\$250.3	\$300.7	\$284.8	\$256.7	-9.9%
<b>Total, Multilateral Aid</b>	<b>\$1,904.5</b>	<b>\$2,035.3</b>	<b>\$2,112.8</b>	<b>\$1,857.0</b>	<b>\$2,015.2</b>	<b>+8.5%</b>
<b>Bilateral Development Aid:</b>						
Development Aid accounts	\$1,313.6	\$1,277.0	\$1,376.0	\$1,313.7	\$1,285.5	-3.7%
of which:(Population)	(\$250.0)	(\$225.0)	(\$300.0)	(\$250.0)	(---)	(---)
(Health, children, AIDs)	(\$287.0)	(\$292.0)	(\$345.0)	(\$287.0)	(---)	(---)
Development Fund for Africa	\$800.0	\$800.0	\$1,001.4	\$800.0	\$775.6	-3.1%
Soviet Former Republics	---	\$150.0*	---	---	\$350.0	---
Capital Projects Fund	---	---	---	---	\$100.0	---
other Development Aid authorities/fund	\$23.0	\$37.4	\$36.0	\$36.0	\$28.6	-20.6%
<b>Total, Bilateral Devel. Aid</b>	<b>\$2,136.6</b>	<b>\$2,264.4</b>	<b>\$2,413.4</b>	<b>\$2,149.7</b>	<b>\$2,519.7</b>	<b>+17.3%</b>
<b>Food Aid:</b>						
<b>Total, P.L. 480</b>	<b>\$1,010.3</b>	<b>\$1,484.0**</b>	<b>\$1,484.0**</b>	<b>\$1,484.0**</b>	<b>\$1,323.0</b>	<b>-10.8%</b>
<b>Other Economic Assistance:</b>						
Amer. Schools/Hospitals Abroad	\$29.0	\$30.0	\$30.0	\$29.0	\$30.0	+3.4%
International Disaster Asst.	\$107.0	\$40.0	\$70.0	\$70.0	\$40.0	-42.9%
Foreign Service Retirement	\$40.3	\$41.4	\$41.4	\$41.4	\$42.7	+3.1%
AID Operating and IG Exp.	\$474.9	\$521.0	\$519.0	\$474.9	\$572.5	+20.6%
Credit programs - HG & OPIC	\$48.0	\$20.1	\$35.9	\$34.4	\$43.8	+23.7%
Ent. for the Americas Initiative/debt	---	\$304.3	\$65.0	---	\$286.0	---
African Development Foundation	\$13.0	\$15.0	\$15.0	\$13.0	\$16.9	+30.0%
Inter-American Foundation	\$25.0	\$28.8	\$28.8	\$25.0	\$31.0	+24.0%
Peace Corps	\$188.0	\$200.0	\$200.0	\$188.0	\$218.1	+17.2%
Int. Narcotics Control Program	\$150.0	\$171.5	\$150.0	\$150.0	\$173.0	+15.3%
Anti-Terrorism Program	\$12.0	\$15.0	\$15.0	\$12.0	\$15.6	+30.0%
Refugee Aid (regular & emergency)	\$663.6	\$510.6	\$680.0	\$610.6	\$570.0	-6.6%
Trade and Development Program	\$35.0	\$35.0	\$40.0	\$35.0	\$40.0	+14.3%
<b>Total, Other Economic Asst.</b>	<b>\$1,783.8</b>	<b>\$1,932.7</b>	<b>\$1,890.1</b>	<b>\$1,681.3</b>	<b>\$2,079.6</b>	<b>+23.7%</b>
<b>Special Assistance Initiatives:</b>						
Philippines--Mult. Asst. Initiative	\$160.0	\$160.0	\$160.0	\$100.0	\$80.0	-20.0%
Philippines--development aid	---	---	\$100.0	---	---	---
Eastern Europe	\$369.7	\$400.0	\$400.0	\$369.7	\$460.0	+21.7%
Ireland Int'l Fund	\$20.0	---	\$20.0	\$20.0	---	---
<b>Total, Special Assistance Initiatives</b>	<b>\$549.7</b>	<b>\$560.0</b>	<b>\$680.0</b>	<b>\$489.7</b>	<b>\$530.0</b>	<b>+8.2%</b>
<b>Economic Support Fund:</b>						
ESF Appropriation	\$3,991.0	\$3,228.0	\$3,216.6	\$3,216.6	\$3,112.0	-3.2%
ESF Deob./Recob. Authority	\$14.0	\$12.0	\$12.0	\$12.0	\$11.0	-8.3%
Philippines--MAI transfer	\$-30.0	---	---	---	---	---
<b>Total, Economic Support Fund</b>	<b>\$3,975.0</b>	<b>\$3,240.0</b>	<b>\$3,228.6</b>	<b>\$3,228.6</b>	<b>\$3,123.0</b>	<b>-3.4%</b>
<b>Military Aid:</b>						
Int. Military Ed. and Training (IMET)	\$47.2	\$52.5	\$47.2	\$47.2	\$47.5	+0.6%
Foreign Military Financing	\$4,708.4	\$4,660.0	\$4,160.9	\$4,160.9	\$4,162.5	+0.1%
Peacekeeping Operations	\$32.8	\$28.0	\$28.0	\$28.0	\$27.2	-2.9%
<b>Total, Military Aid</b>	<b>\$4,788.4</b>	<b>\$4,740.5</b>	<b>\$4,236.1</b>	<b>\$4,236.1</b>	<b>\$4,237.2</b>	<b>.0%</b>
<b>Other:</b>						
Deficit Reduction	---	---	\$135.0	---	---	---
1% cut	---	---	-\$160.2	---	---	---
<b>Total, Foreign Assistance</b>	<b>\$16,147.3</b>	<b>\$16,256.7</b>	<b>\$16,029.5</b>	<b>\$15,196.4</b>	<b>\$15,827.7</b>	<b>+4.6%</b>

\* Added as a budget amendment in Jan. 1992.

\*\* P.L. 480 program has been enacted for FY1992 purposes are enacted level. ~