

PRESENTATION OF THE TASK FORCE ON FOREIGN ASSISTANCE

TO

THE HOUSE FOREIGN AFFAIRS COMMITTEE

Table of Contents

I. Overview of Foreign Assistance	
A. The Current Program	page 1
B. Organization	3
II. Trends in U.S. Foreign Assistance	
A. Total Assistance	5
B. Composition by Program	8
C. Regional Composition	12
D. Composition of Bilateral Development Aid and Major Recipients	17
E. Composition of Food Aid and Major Recipients	20
F. Composition of the Economic Support Fund and Major Recipients	21
G. Composition of Military Assistance and Major Recipients	23
III. Principle Findings of the Task Force Review	25
IV. Recommendations	
A. Economic Assistance	31
B. Military Assistance	40 -

Summary of Findings and Recommendations

During the second session of the 100th Congress, Chairman Dante Fascell established a task force to conduct a review of U.S. foreign assistance programs and activities. The task force was chaired by Reps. Hamilton and Gilman, with all Members of the Committee invited to participate in the review, which included extensive meetings with executive branch officials and non-governmental experts. The process also included a review of pertinent studies and reports and written submissions requested by the task force.

The following is a summary of the principal findings and recommendations of the task force:

Findings:

The task force concluded that foreign assistance is vital to promoting U.S. foreign policy and domestic interests, but that the program is hamstrung by too many conflicting objectives, legislative conditions, earmarks, and bureaucratic red tape.

Recommendations:

Economic Assistance:

The Committee should consider the:

- enactment of a new international economic cooperation act to replace the existing Foreign Assistance Act and sundry amendments thereto;
- creation of a restructured foreign aid implementing agency to replace AID;
- identification of four principal objectives (economic growth, environmental sustainability, poverty alleviation, and democratic and economic pluralism);
- provision of greater flexibility in the implementation of assistance programs;
- provision of more effective accountability focused on results rather than on allocations alone;
- improving coordination with other U.S. international economic policies, with other donors, and within country programs.

Security Assistance:

The Committee should consider the:

- separation of the grant and concessional military assistance from cash sales authorities;
- creation of a new defense trade and export control act to replace the Arms Export control Act;
- establishment of one military assistance account;
- provision of more effective accountability, again focused on results;
- phasing out over a five year period of military assistance as a quid pro quo for base access rights.

DRAFT

PRESENTATION OF THE TASKFORCE ON FOREIGN ASSISTANCE
TO
THE FOREIGN AFFAIRS COMMITTEE

I. OVERVIEW OF FOREIGN ASSISTANCE

A. The Current Program

For Fiscal Year 1989, total U.S. economic and military aid is about \$15 billion. The major components are:

-- Development Assistance, (DA) accounting for 15.9% of the total. The aim of DA is to promote long term economic development through programs that help a host country use its resources more effectively. Currently, the Agency for International Development (A.I.D.) administers over 2000 projects in the fields of: Agriculture; Rural Development and Nutrition; Population; Health; Child Survival; AIDS Prevention and Control; Education and Human Resources Development; and Private Sector, Environment and Energy.

-- Economic Support Fund, (ESF) accounting for 23.9% of foreign assistance. It is allocated according to special economic, political and security needs. It is programmed in three ways: as cash transfers to provide balance of payments and budget support to countries facing urgent foreign exchange requirements; as commodity import programs to fund imports from the U.S; and as project assistance, supporting development projects.

The ESF program is currently focused on the promotion of economic stability and political security in the Middle East and Central America.

-- Food Aid, accounting for 9.9% of foreign assistance. Under Public Law 480, surplus American agricultural goods are transferred to needy countries through low interest loans and direct donations. The bulk of food aid is provided under Title I, as concessional sales in exchange for specific self-help development activities. Under Title II, food is donated for humanitarian purposes, including child nutrition and emergency disaster relief. Since 1954, the Food for Peace program has delivered 303 million metric tons of food to more than 1.8 billion people in over 100 countries.

-- Military Aid, accounting for 35.8% of total assistance. It comprises grants and some concessional rate loans for equipment, and military training, provided to friendly nations.

-- Multilateral Assistance, accounting for 9.9% of all assistance. It includes contributions to multilateral development banks, such as the World Bank, and Inter-American Development Bank, and contributions to economic and development programs of international organizations, such as specialized U.N. agencies working in health, food, agriculture, and the environment.

-- Other aid flows include International Disaster Assistance, funding for the Peace Corps, the Trade and Development Program, Migration and Refugee Assistance, the Inter-American Foundation, the African Development Foundation, and the American Schools and Hospitals Abroad program.

The real dollar amounts for these programs during the most recent three-years are shown in Table 1.

Table 1

U.S. Foreign Assistance, 1987-1989, by Major Program

	FY 1987	FY 1988	FY 1989	FY 1990
	(billions of constant 1989 dollars) *			
Development Assistance	\$ 2.4	\$ 2.5	\$ 2.4	\$2.3
Economic Support Fund	4.2	3.2	3.6	3.2
Food Aid	1.6	1.5	1.5	1.4
Military Aid	5.5	5.5	5.4	5.7
Multilateral Assistance	1.6	1.5	1.5	1.8
Other Economic Aid	.7	.6	.7	.9
TOTAL	\$ 16.0	\$14.8	\$15.1	15.3

* requested.

B. Organization

The Agency for International Development is the principal U.S. bilateral aid agency. It is responsible for the implementation of most Development Assistance and Economic Support Fund programs. The geographical allocation of ESF is decided by the State Department in conjunction with A.I.D. The geographic allocation of development assistance is proposed by A.I.D., with State Department concurrence.

A.I.D. was established in 1961 as a relatively autonomous agency under the State Department. The A.I.D. Administrator has the rank of Under Secretary of State. Currently 90 countries host A.I.D. economic assistance programs of over \$1 million. There are A.I.D. missions in 46 countries, representational offices in 23, and 13 regional development offices abroad. In 1988 A.I.D. had 4,700 employees, down from 6,000 in 1980 and 17,500 in 1968 at the height of A.I.D. activity in South East Asia. About 52% of AID employees are stationed overseas, of which slightly less than half are foreign nationals. In carrying out its projects, A.I.D. also employs about 7,700 contractor personnel and detailees from other federal agencies.

The Department of Defense is responsible for most military assistance. Within DOD, the Defense Security Assistance Agency administers the Foreign Military Sales and Credit Programs and the Military Assistance Program. Other branches of DOD participate in planning and oversight of military aid, and in training and peacekeeping activities. The State Department approves military sales proposals to friendly countries, and is in charge of assistance for anti-terrorism and peacekeeping operations, which come under military aid.

Responsibility for Food Aid is shared by A.I.D., the Department of Agriculture, the Department of State, and the Department of the Treasury. USDA has principal responsibility for determining quantities, selection, procurement, and shipping. A.I.D. is responsible for administering the program in the field, including negotiating food aid agreements and allocating grants. The Department of State plays a major role in country allocation. The Treasury Department oversees credit arrangements. Food aid is coordinated through an inter-agency committee, the Development Coordinating Committee subcommittee on food aid, which operates on a consensus basis.

Responsibility for Multilateral Assistance is shared. The Treasury Department shapes U.S. policy toward multilateral development banks, including nominating and supervising the U.S. executive directors. The State Department leads in policy-making and budget determination concerning the United Nations and other international organizations. In addition, A.I.D. is involved in the developmental and technical assistance activities of the U.N. specialized agencies. Other U.S. agencies are involved in the work of appropriate multilateral agencies. For example, USDA participates in the work of the Food and Agriculture Organization, and the Environmental Protection Agency in the activities of the U.N.

Environmental Program.

Many of the programs counted under Other Economic Aid, such as the Inter-American Foundation, Peace Corps, and the Trade and Development Program are autonomous or semi-autonomous. International narcotics programs are the responsibility of the Department of State, and the Drug Enforcement Agency. Refugee assistance programs are handled by the Department of State.

The following table shows the number of countries receiving U.S. assistance in 1987 and 1988:

Table 2

Number of Countries Receiving U.S. Assistance in FY 1987 and 1988

	----Economic Assistance----					Total
	DA & ESF	PL 480	Peace Corps & Narcotics	Net total Economic	Military Assist.	All Programs
FY 1987	77	71	58	99	97	116
FY 1988	77	69	57	97	100	117

Note: In columns including two types of assistance, each country only counts once even if it receives both types of assistance.

II. TRENDS IN U.S. FOREIGN ASSISTANCE

A. Total Assistance

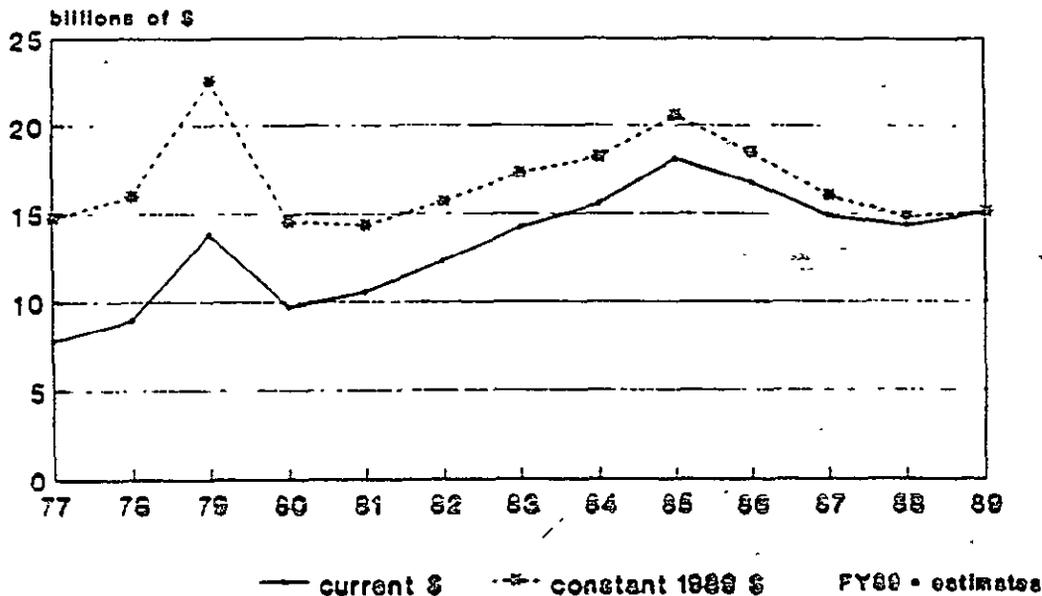
The level of total U.S. foreign assistance has fluctuated considerably over the past 13 years. In constant 1989 dollars, the program shrank from \$22.6 billion in FY 1979 to \$14.6 billion in 1980. It then rose again to \$20.6 billion in FY 1985 before declining to the current level of about \$15.1 billion in FY 1989.

(Note: all figures used will be in constant 1989 dollars, unless otherwise noted and amounts represent obligations of U.S. assistance except for FY 1989, which are estimates.)

Figure 1 depicts levels of total foreign assistance, in nominal and real terms for the period FY 1977 to FY 1989.

Figure 1

Total U.S. Assistance FY 1977 - FY 1989



Special circumstances in the two peak years, 1979 and 1985, are worth noting.

-- The \$22.6 billion for 1979 includes a \$4.8 billion supplemental in additional security assistance, provided to Israel and Egypt under the Camp David Peace Accords.

-- The \$20.6 billion in 1985 reflects the growth of overall funding during the early 1980s, but also includes large (economic) supplementals for Israel, Egypt and Jordan, to deal with short-term debt problems, and emergency food and relief for famine-stricken countries in Africa.

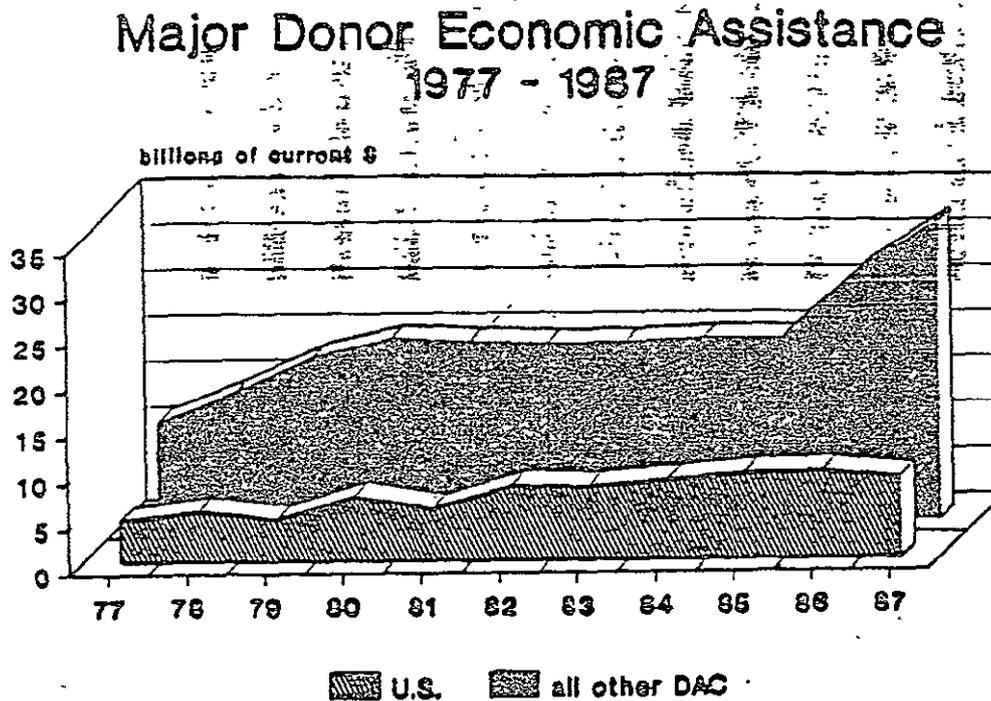
Severe budget constraints have influenced the decline in aid levels in the last four years, bringing the total available for 1989 back down to the level of aid provided in 1977.

As a percentage of Gross National Product U.S. foreign assistance has declined steadily from between 2 and 3 percent of GNP in the late 1940s, to 1 percent in the late 1950s, down to less than three tenths of one percent today. Within the last 13 years, aid levels as a percentage of GNP follow a similar trend to that of dollar levels: peaking in 1979 and 1985, and steadily decreasing since 1985. The percentage figure for 1989 will be an all-time low.

A comparison with other donors reveals that the U.S. has been the world's leading donor of economic assistance, in terms of dollar amounts of Official Development Assistance (as defined by OECD). However, as aid from other donors rises, the U.S. contribution as a percentage of all ODA [Official Development Assistance] is falling.

Figure 2 compares U.S. aid levels with the combined total of the other 16 Western nations of the OECD DAC [Development Assistance Committee]. During the period 1977-1987, American ODA accounted for 36% of assistance from all DAC members. In 1987 it accounted for 23.7% of all ODA. It is estimated that in 1989 Japan will surpass the U.S. as the world's leading ODA contributor.

Figure 2



B. Composition by Program

Table 4 shows dollar levels of major components of U.S. aid since 1977.

Table 4

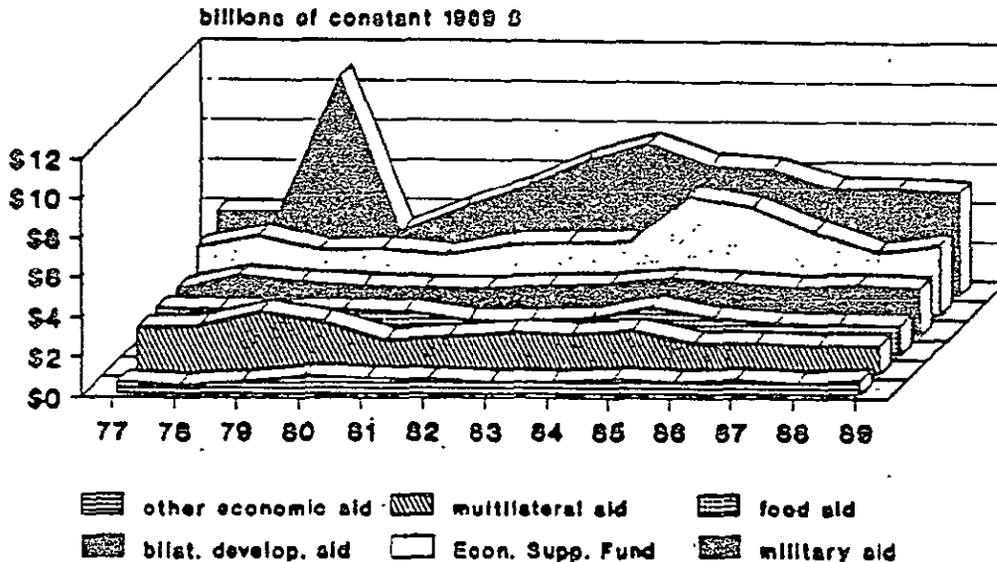
U.S. Foreign Aid, 1977-1990, by Major Programs
(in billions of constant 1989 dollars)

Year	Development Assistance	Food Aid	Other Economic	Multi lateral Asst.	Economic Support Fund	Military Aid	Total
1977	\$2.2	\$2.3	\$.5	\$2.3	\$3.3	\$4.1	\$14.7
1978	2.9	2.2	.4	2.4	3.9	4.2	16.0
1979	2.6	2.1	.6	3.1	3.2	11.0	22.6
1980	2.4	2.2	.9	2.6	3.3	3.2	14.6
1981	2.3	2.1	.8	1.7	3.0	4.6	14.5
1982	2.3	1.7	.7	1.9	3.5	5.5	15.6
1983	2.4	1.7	.6	2.1	3.6	6.9	17.3
1984	2.5	1.8	.6	2.0	3.7	7.7	18.3
1985	2.8	2.3	.7	2.2	6.0	6.6	20.6
1986	2.6	1.8	.6	1.6	5.4	6.4	18.4
1987	2.4	1.6	.7	1.6	4.2	5.5	16.0
1988	2.5	1.5	.6	1.5	3.2	5.5	14.8
1989(est)	2.4	1.5	.7	1.5	3.6	5.4	15.1
1990(req)	2.3	1.4	.9	1.8	3.2	5.7	15.3

These shares and trends are portrayed in Figure 3.

Figure 3

**Program Composition of U.S. Aid
FY 1977 - FY 1989**



In terms of aid as a percentage of GNP, the U.S. ranks lowest among DAC members. Table 3 gives the 1986-7 levels of ODA in dollars and as a share of GNP for all DAC members. The table also shows that U.S. ODA accounts for a significantly higher share of ODA going to low income countries than of ODA going to lower-middle and upper-middle countries.

Table 3

AID PROFILES OF OECD DEVELOPMENT ASSISTANCE COMMITTEE MEMBERS
Net Disbursements; 1986-87 average

	Total ODA (\$)	ODA as % of GNP	Share of Total DAC ODA (%)	Allocations (%) of ODA to:			
				Multilaterals	LICs*	LMICs**	UMICs***
Australia	\$690	.39%	1.0%	24.0%	15.6%	39.7%	10.7%
Austria	\$197	.19%	.5%	24.7%	39.5%	9.1%	43.1%
Belgium	\$616	.46%	1.6%	21.2%	65.0%	9.4%	5.6%
Canada	\$1,790	.47%	4.6%	35.4%	50.0%	11.1%	3.3%
Denmark	\$777	.62%	2.0%	60.9%	65.6%	10.2%	3.3%
Finland	\$375	.46%	.9%	59.6%	66.2%	7.9%	3.0%
France	\$3,815	.73%	14.9%	11.5%	36.6%	11.9%	37.3%
Germany	\$4,112	.41%	10.5%	18.6%	54.9%	16.2%	14.0%
Ireland	\$57	.24%	.1%	24.0%	59.7%	8.9%	9.5%
Italy	\$2,509	.37%	6.4%	23.7%	71.6%	10.2%	5.0%
Japan	\$6,544	.30%	16.7%	39.5%	64.6%	16.0%	8.5%
Netherlands	\$1,917	.99%	4.9%	24.4%	64.6%	10.5%	9.7%
New Zealand	\$81	.27%	.2%	21.6%	29.6%	20.0%	11.1%
Norway	\$666	1.13%	2.2%	60.4%	63.6%	8.0%	3.0%
Sweden	\$1,234	.67%	3.2%	32.1%	61.2%	8.2%	3.1%
Switzerland	\$465	.30%	1.2%	26.5%	61.9%	7.9%	6.7%
United Kingdom	\$1,891	.29%	4.6%	24.9%	63.1%	8.0%	9.1%
United States	\$9,255	.21%	23.7%	21.1%	63.6%	16.7%	19.9%
TOTAL DAC	\$39,077	.35%	100.0%	23.6%	53.9%	13.7%	15.3%

* LICs = Low Income Countries with per capita income in 1983 of below \$700.
Includes imputed multilateral ODA.

** LMICs = Lower Middle-Income Countries with per capita income in 1983 between \$700 and \$1,300.

*** UMICs = Upper Middle-Income Countries with per capita income in 1983 of more than \$1,300.

SOURCE: OECD Development Cooperation Report, 1988.

Figure 3 highlights the sharp fluctuations in military aid, and, more recently, in ESF, compared to fairly steady levels of other programs. Military aid rose from just over \$4 billion in FY 1977 to a high of \$7.7 billion in FY 1984 -- a real increase of 85%. Amounts have fallen since to about \$5.4 billion for FY 1989, leaving military aid with a real increase of 36% over the entire period from 1977.

ESF money is now only slightly higher than in FY 1977, but this follows a rapid increase of 78% between 1977 and 1985.

Funding for bilateral development assistance has remained fairly steady over this period. But like other programs, funding has been reduced since FY 1985.

Two programs -- food assistance and contributions to multilateral institutions -- have declined in real terms since 1977. Food aid has declined steadily each year, except for a brief period in the mid-1980s when the U.S. responded to the African famine with large quantities of emergency agricultural supplies. Funding for 1989 will be one third below the 1977 level.

Trends in multilateral assistance are more difficult to assess because funds are allocated irregularly, depending on the schedule and outcome of international bank replenishment negotiations. In general, however, funds obligated for multilateral contribution have fallen from an earlier annual average of around \$2.2 billion to around \$1.5 billion during the past 4 years.

Program Shares

The share of the total foreign assistance budget going to development-related programs (development, food and multilateral development bank support) has decreased from nearly 50% in the late 1970s to less than 40% today. Military assistance, which previously took 25% to 30% of the budget, increased to over 40% in the mid-1980s, and has been running at 36% of the budgets during the past three years. ESF obligations have ranged between 20% and 25% of the budget.

Figure 4 (over) portrays the changing composition of the foreign aid program over a broader 43-year period. Some interesting developments can be seen.

Food aid emerged as an important aid mechanism in the mid-1950s, peaking during 1962-66. The subsequent decline in the volume of food transferred was even more dramatic than is apparent from the chart because grain prices were increasing sharply at the time.

Multilateral aid emerged in the early 1960s in conjunction with the "development for development's sake" view, but has never become a dominant feature in American aid.

ESF and its precursor programs were substantial in the mid-1950s, then declined during the 1960s and early 1970s. ESF began to re-emerge in the late 1970s as one of the few programs that could provide flexible and timely aid in support of national security goals.

U.S. FOREIGN AID, 1946-89, BY MAJOR PROGRAM

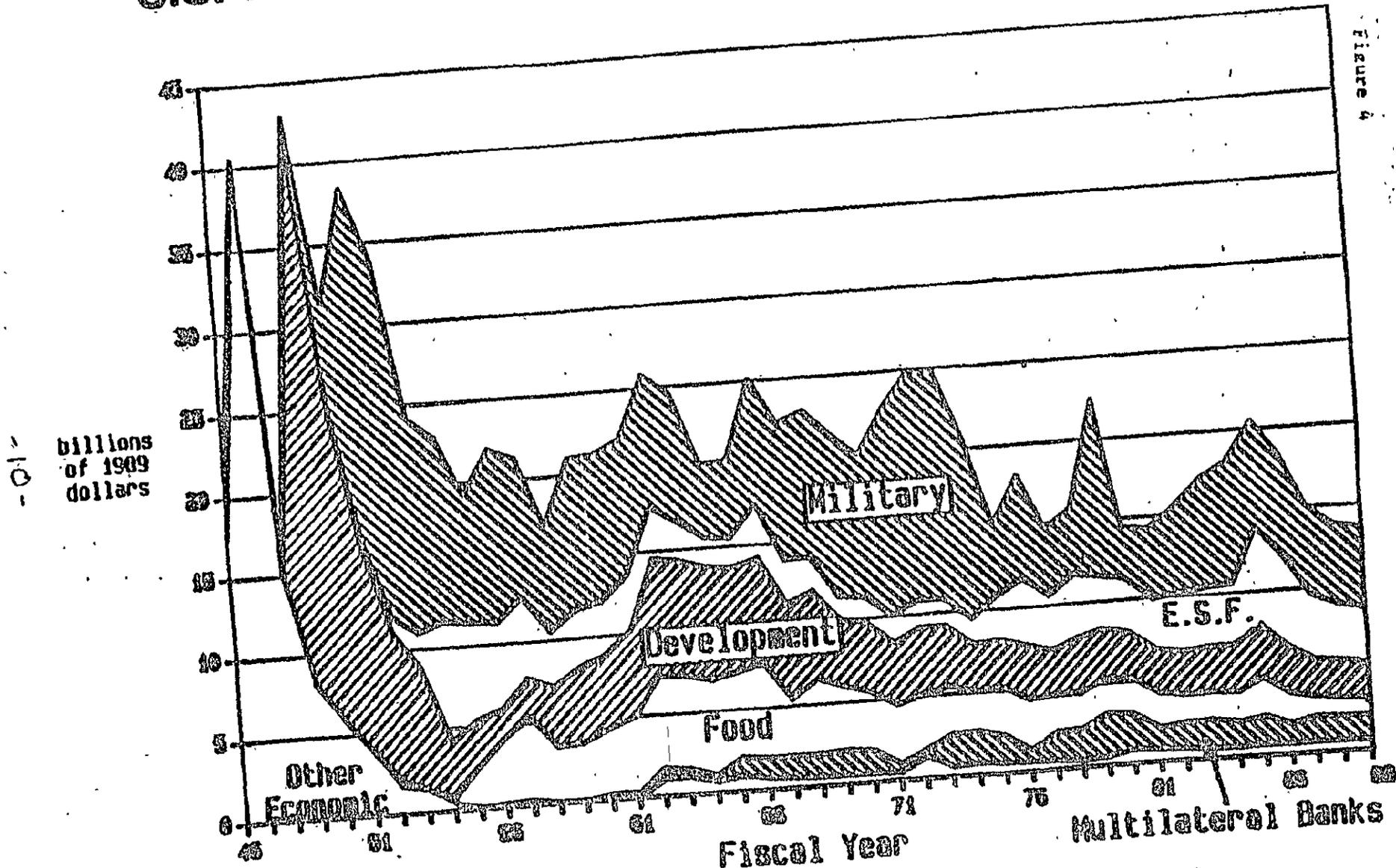


Figure 4

NOTE: The Development category includes U.S. voluntary contributions to international development organizations and programs.

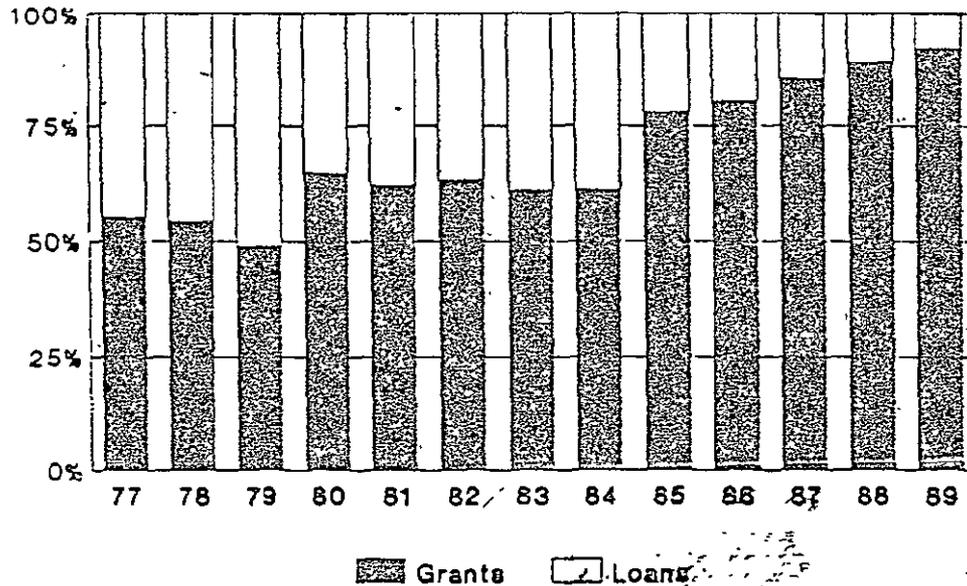
Finally, military aid has been the largest aid category during much of the post-war period. Peaks appear in the early 1950s because of Greece, Taiwan, and Korea, again in the early 1970s because of Vietnam, and the most recent peak occurred in 1985.

Grants versus loans

In the 1970s, approximately one half of the total U.S. assistance program comprised grants, and the other half loans. Today, over 90% of the program is grant, largely in recognition of the growing world debt crisis. In particular, military aid has switched from being mostly loans in the 1970s to nearly all grants today. Figure 5 illustrates this trend since 1977.

Figure 5

Grant/Loan Composition of U.S. Aid FY 1977 - 1989



FY89 - estimates

Regional Composition

Figure 6 shows the regional composition of U.S. aid.

The Middle East has dominated U.S. regional allocations during the past 13 years, as Figure 6 shows. U.S. assistance to the region ranged between \$5 billion and \$6.5 billion annually, excluding the Camp David-related support in 1979 and special supplemental in 1985/6. In most years, the Middle East received over half of all U.S. bilateral aid.

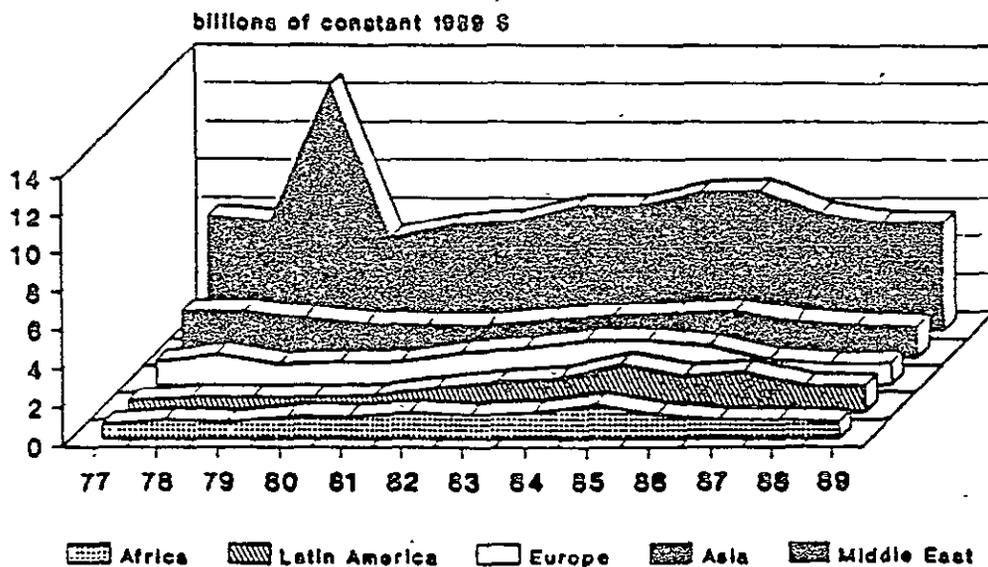
Asia and Europe have received the next two largest shares of U.S. aid during this period. Aid to Asia was a little over \$2 billion a year up to 1987. With the graduation of South Korea as an aid recipient, along with the general decline in budget levels, the region will receive only about \$1.6 billion in fiscal year 1989.

Aid to Europe, where most U.S. assistance supports military base agreements, grew from about \$1.2 billion in FY 1977 to a peak in the mid-1980s of \$2.3 billion. Since then, it has declined to just over \$1 billion, largely due to the graduation of Spain as an aid recipient.

Latin America had been the smallest recipient at the beginning of the period, with less than \$1 billion a year. But in FY 1982, aid to El Salvador and others in Central America began to grow. By 1985, total aid to the region averaged over \$2 billion. Budget pressures have forced amounts back down to about \$1.4 billion in FY 1989.

Sub-Saharan Africa has received between \$800 million and \$1.4 billion in U.S. assistance annually since 1977. Famine relief in 1985 pushed the total up to nearly \$2 billion for that year, but it fell down to about \$900 million by FY 1989.

**Figure 6 Regional Composition of U.S. Aid
FY 1977 - FY 1989**



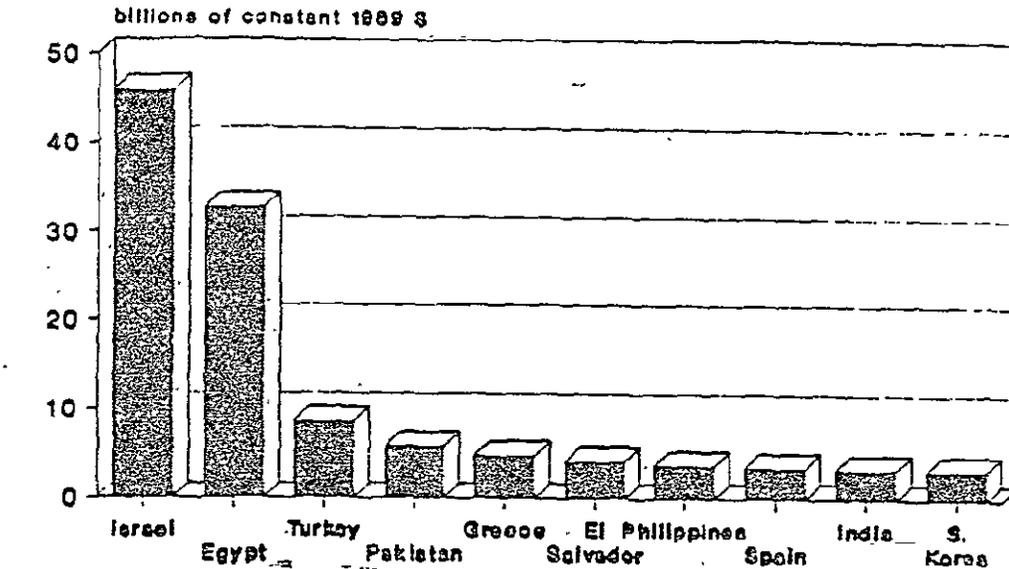
-12-

FY89 • estimate

The ten individual countries receiving the largest amounts of aid since 1977 can be seen in Figure 7. Israel and Egypt have been by far the leading recipients, accounting for 47% of all bilateral assistance over the period. Together, the ten countries have received about 70% of all American bilateral aid since 1979. With the exception of India, all have a strong security relationship with the United States. In the cases of Turkey, Greece, Spain and the Philippines, this includes military base agreements.

Figure 7

Major Recipients of U.S. Aid FY 1977 - FY 1989

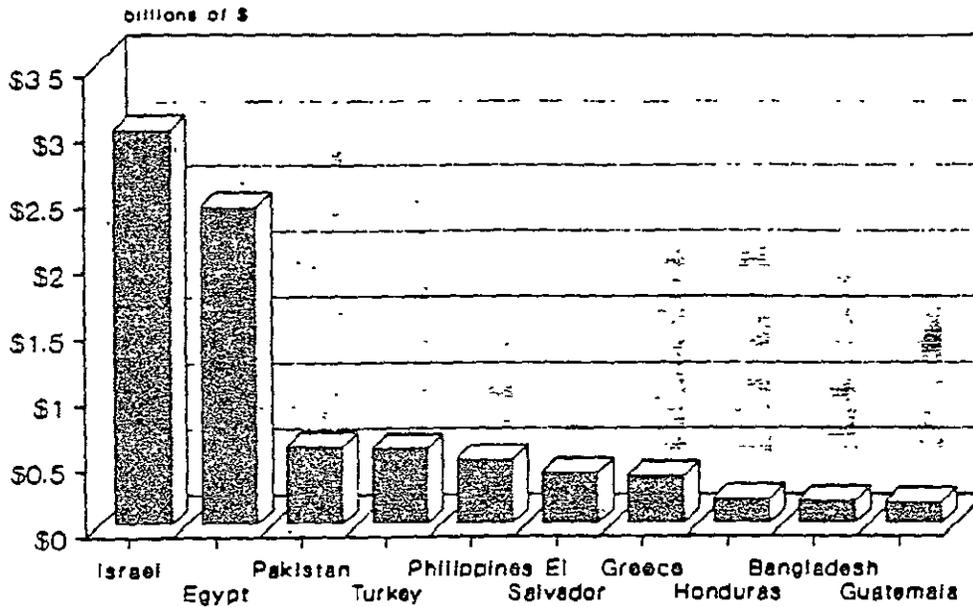


FY89 - estimate

Table 8 shows the current major recipients. Israel and Egypt feature even more strongly, while Spain and South Korea are no longer aid recipients, and India receives relatively little aid now.

Figure 8

Major Recipients of U.S. Aid FY 1989



estimates

Figure 9 (over) shows the changing regional composition of U.S. post-war assistance.

The early focus on Europe is evident. In 1989 dollar equivalents, aid to Europe peaked at around \$28 billion per year in 1950 and 1951. The emphasis on Greece and Turkey increased in the 1950s, as it did again in the 1980s.

Asia was the major recipient in the 1954-75 period. Aid peaked in the early 1970s, then fell off abruptly after Vietnam.

The Middle East was a modest recipient until 1972-73, but has been the largest recipient since 1976-77. Since the 1978 Camp David Accords aid to Israel and Egypt has been a major factor in the U.S. aid program.

Figure 9 also clearly shows the marginal roles of Africa and Latin America as aid recipients, although aid to Latin America grew during 1962-67 under the Alliance for Progress, and during the 1980s with the re-emergence of aid to Central America.

An analysis of the real value of total aid over 44 years shows three major periods that roughly correspond to the shifts in regional emphasis. In 1989 dollars, total annual assistance:

-- averaged about \$32 billion between 1946 and 1952 when Europe was the major recipient;

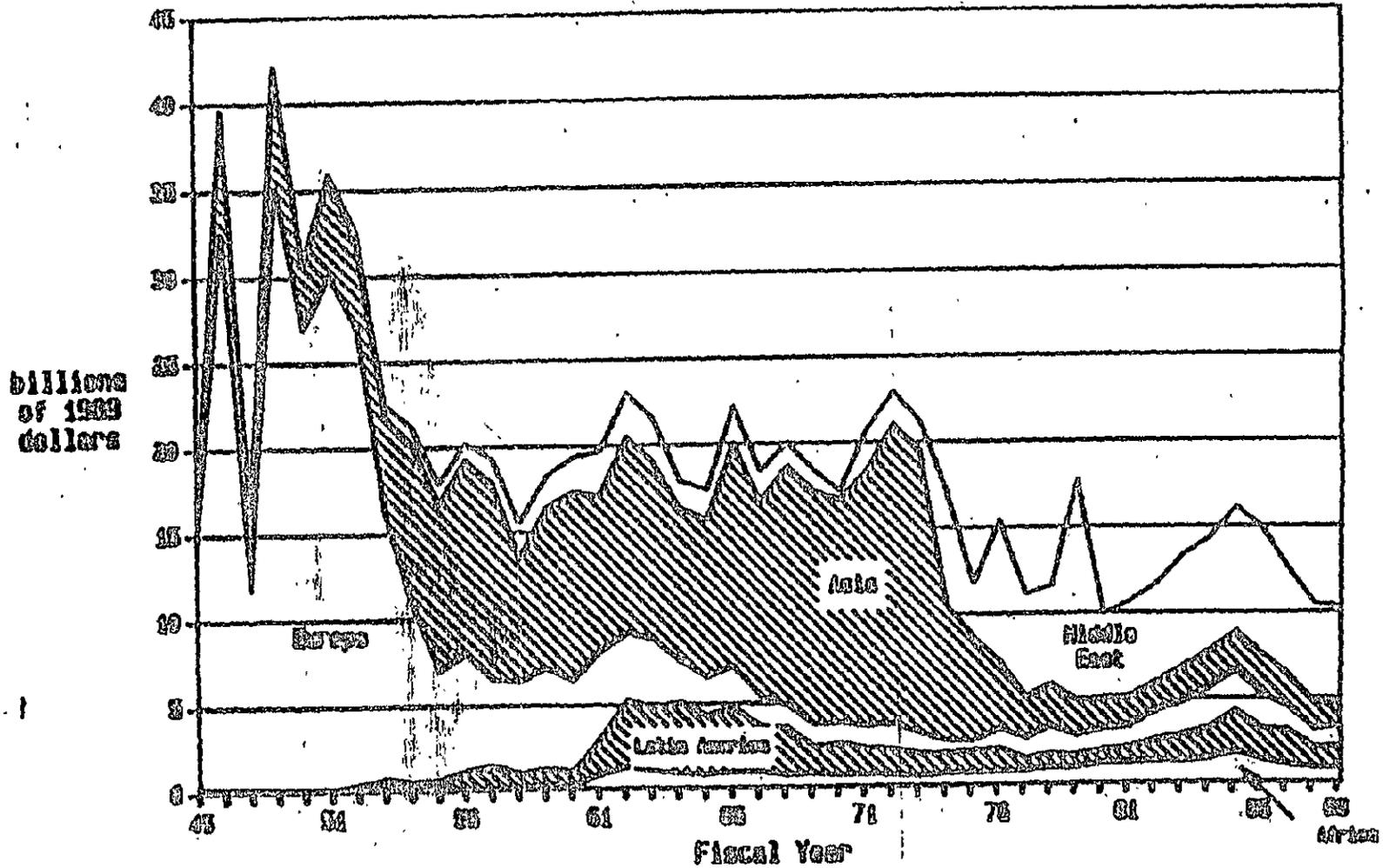
-- averaged about \$22 billion between 1953 and 1974, when aid was focused on Asia;

-- averaged about \$17 billion since 1974, while the Middle East, primarily Israel and Egypt, have been the primary recipients.

Currently, the focus on the Middle East continues, but budget pressures have pushed the annual budget down to \$15 billion since 1986.

U.S. FOREIGN AID, 1946-89, BY REGION

Figure 9



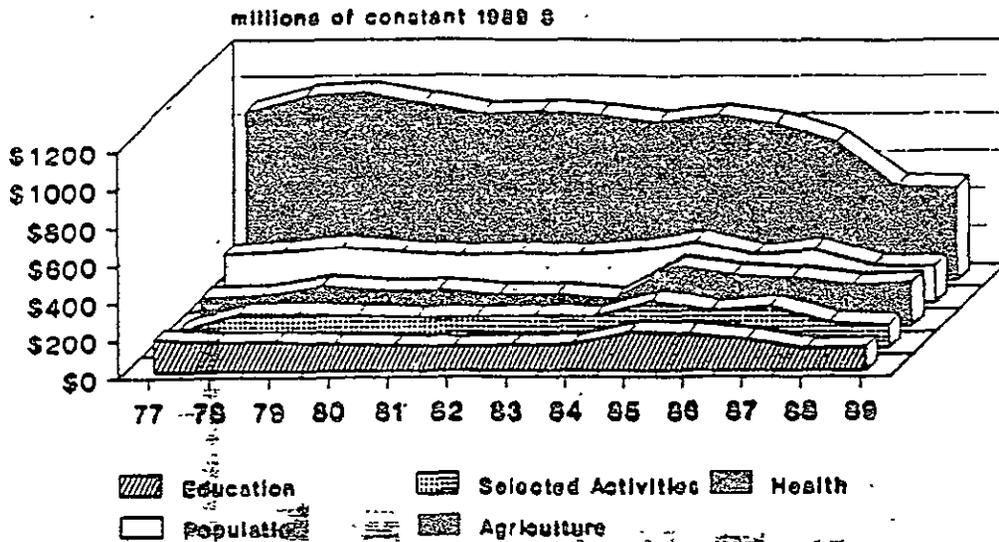
-16-

D. Composition of Bilateral Development Aid and Major Recipients

Most U.S. bilateral development assistance is channelled through five functional accounts: agriculture, population, health, education, and selected activities (projects that cut across the other four accounts, such as science and technology). Funding for these five accounts is shown in Figure 10.

Figure 10

Program Composition of Bilateral Development Aid, FY 1977 - FY 1989



FY89 - estimates.

Notes: 1. Funding for Child Survival Activities (since FY 1985) and AIDS programs (since FY 1988) are included in health account levels shown.

2. Amounts illustrated for FY 1988 and 1989 do not include spending for the DFA (Development Fund for Africa), and therefore are not comparable with earlier years.

Agriculture has been the largest program, totalling about \$700 million annually -- over 50% of total development spending. More recently, as emphasis on other programs has increased, agriculture's share has fallen to around 40%.

Population programs has been the second largest account for most of the period. Family planning and other population-related activities have been steadily funded in the range of \$200 to \$250 million.

Health-related programs have received increasing support. In FY 1984 Congress created an additional functional account for Child Survival Activities. In FY 1985 funding for the two accounts was

double the health budget in FY 1977, and overtook funding for population programs in FY 1986. Another health account was created in FY 1988 to assist international AIDS research.

The Selected Development Activities account has also been the focus of greater attention, especially programs promoting the private sector in developing countries.

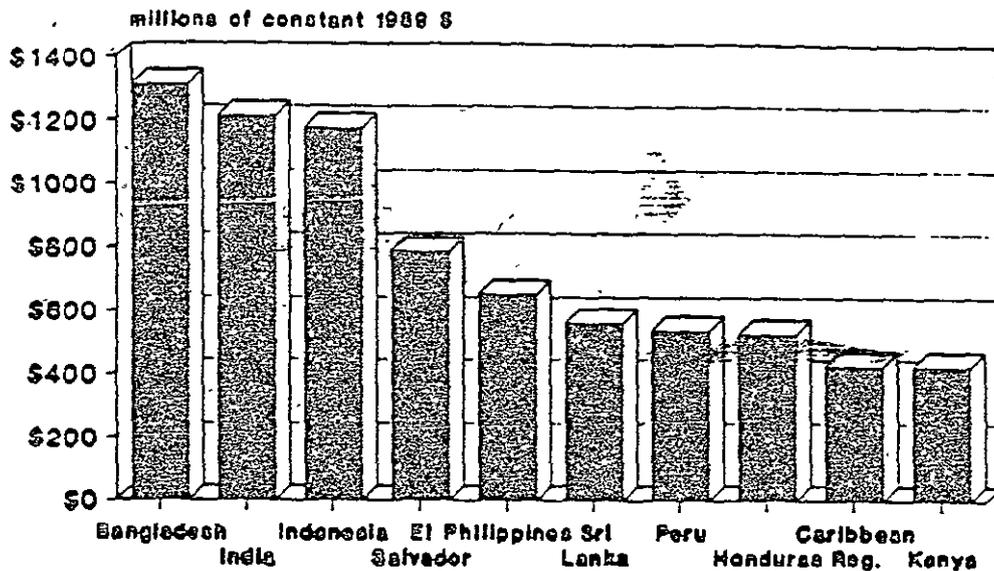
Education and human resources programs have received between \$130 and \$160 million annually, except in the case of a few years.

Programs that are not channelled through these five accounts include Peace Corps, and, since FY 1988, the Development Fund for Africa through which all economic assistance for Africa is channelled.

Major recipients of U.S. bilateral development assistance since 1977 have been Bangladesh, India, and Indonesia, although currently only Bangladesh continues as a major recipient. The ten major recipients during this period are shown in Figure 11. In the 1980s development assistance has increasingly focused on Central America, particularly El Salvador and Honduras, as can be seen in Figure 12, showing FY 1989 recipients.

Figure 11

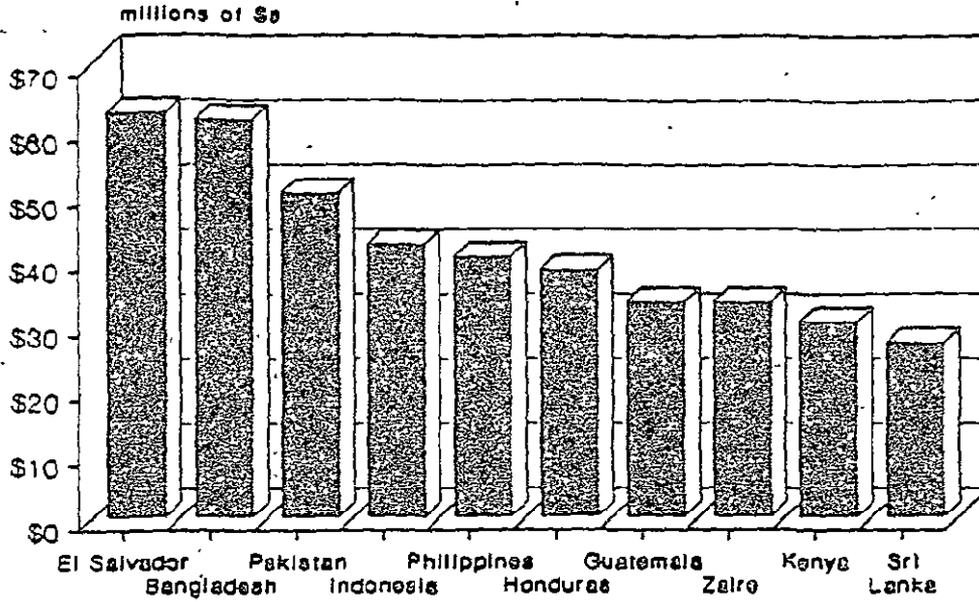
Major Recipients of Bilateral Development Aid, FY 1977 - FY 1989



FY89 - estimates

Figure 12

Major Recipients of Development Aid FY 1989



estimates

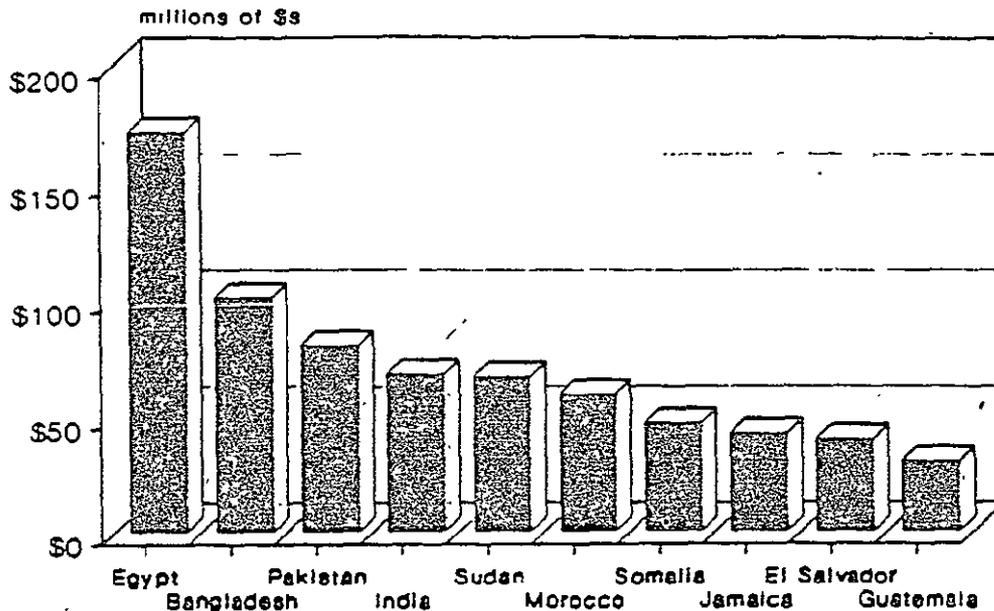
E. Composition of Food Aid and Major Recipients

The share of food aid channelled as loans fell from about 60 per cent of the total in 1977 to just over 50 per cent by 1985, as grants increased in response to emergency drought and famine conditions. In recent years, as emergency situations subsided in some parts of Africa, loans once again neared 60 per cent of the program.

The major recipient of food aid has been Egypt, during the period FY 1977 to 1989. Egypt's \$4 billion share accounts for 19% of total food transfers since 1977, and is nearly as much as that for all of sub-Saharan Africa combined (\$4.3 billion). South Asia has also been a focus of U.S. food assistance, where India, Bangladesh and Pakistan have received the second, third and fourth largest shares. Other countries in the top ten recipients are Sudan, Morocco, Peru, Indonesia, Sri Lanka, and the Philippines. Among the current, FY 1989 recipients shown in Figure 13, Somalia, El Salvador, Guatemala and Jamaica have replaced Indonesia, Peru, Sri Lanka and the Philippines.

Figure 13

Major Recipients of Food Aid FY 1989



estimates

F. Composition of the Economic Support Fund and Major Recipients

The size, scope and accountability of ESF has been a continuing matter of debate in recent years, because of its flexible nature and potential for responding to multiple policy objectives. In particular, Congress has been concerned over accountability of the cash transfer portion of ESF.

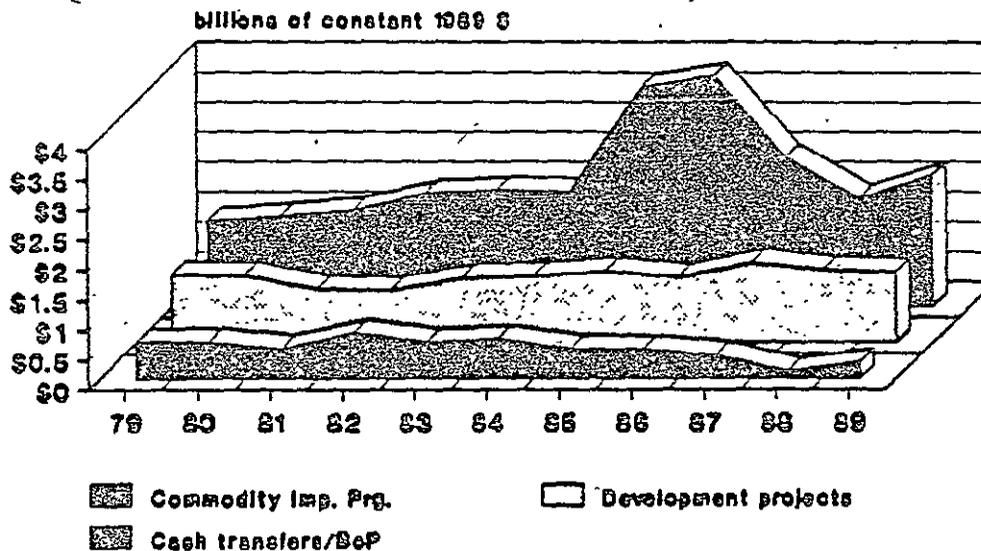
Figure 14 shows the division of ESF funds according to use: cash transfers for balance of payments support, commodity import programs, and development project aid. It shows a growing emphasis on the cash transfer component since FY 1979 (the first year for which accurate data are available). The share of ESF programmed as cash transfers increased from 45% of the total to about 60% by the late 1980's. (The even larger share in FY 1985 and 1986 include the special supplemental for Israel, Egypt and Jordan).

The share of ESF going to development projects has remained at between \$1 and \$1.1 billion annually, in terms of real dollars, but its share of the total program has declined from 35% to about 32%.

Commodity Import Programs, which used to account for about 20% of ESF, have declined sharply and now represent less than 4% of the overall program.

Figure 14

**Composition of Economic Support Fund
FY 1979 - FY 1989**



FY88 - estimate

Major recipients of ESF since 1977 are shown in Figure 15. During this period, ESF has been highly concentrated in Egypt and Israel. Combined, they have received over \$31 billion, or 64% of total ESF transfers. The other major, but far less significant, recipients, are those with which the U.S. shares a strong security relationship. Today, as figure 16 shows, Israel and Egypt remain the largest recipients, although the shares of the Philippines, Pakistan and El Salvador have increased.

Figure 15

Major Recipients-Economic Support Fund FY 1977 - FY 1989

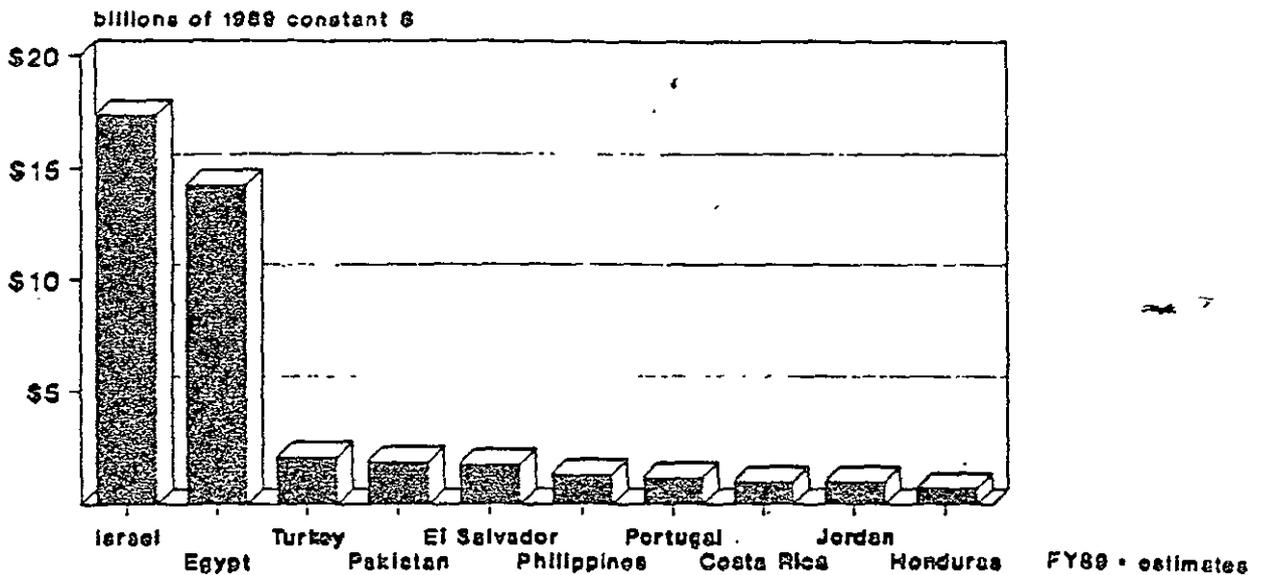
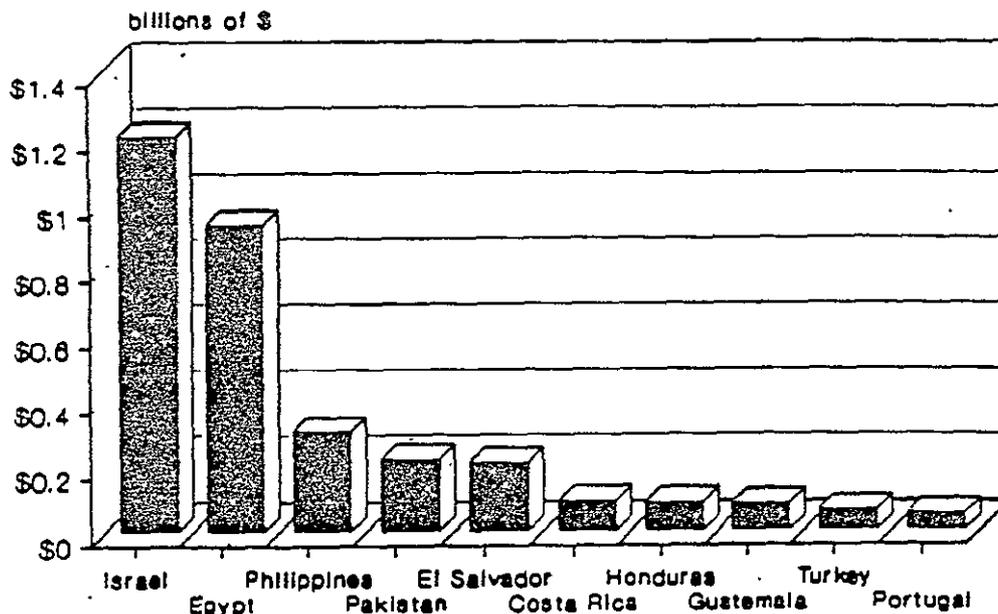


Figure 16

Major Recipients of the Economic Support Fund -- FY 1989



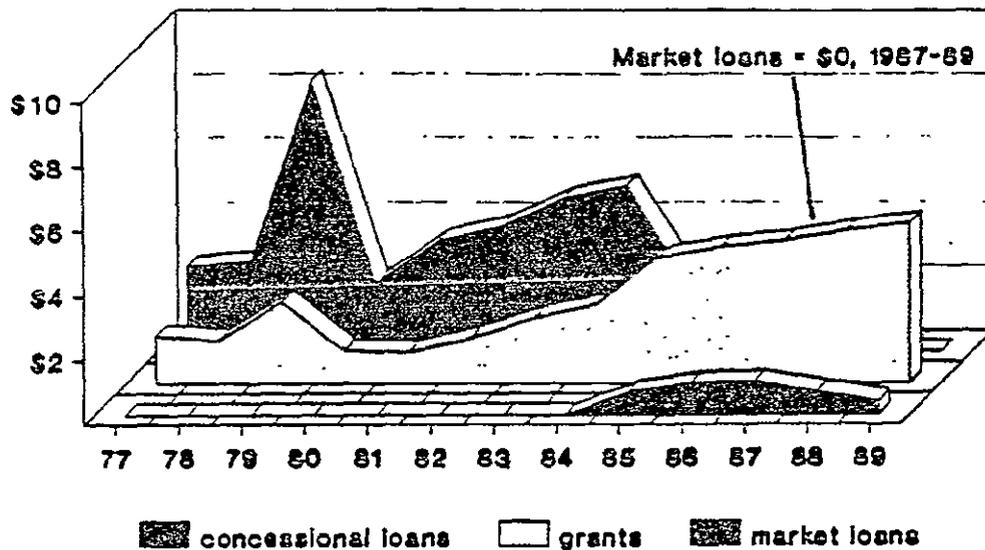
G. Composition of Military Assistance and Major Recipients

Most military assistance has been programmed in three ways: as loans bearing market interest rates; as concessional loans at about 5% interest (since 1984 only); and as grants. Figure 17 illustrates the division of funds between these three components since 1977.

In the early part of the period, the grant portion was small, comprising less than 25% of the total in FY 1981. Market loans, with interest rates up to 13% made up the rest. Harder loans were preferred by some policymakers, to discourage the growing demand for military transfers. In 1981, as the debt servicing problems of many military aid recipients increased, the grant portion began to grow quickly. When all military aid to Israel and Egypt was converted to grants in FY 1985, and a concessional loan program began, the share taken by market loans fell even more. By FY 1987 market loans had been eliminated entirely. For FY 1989, the Administration requested a grant-only military program, but Congress continued to insist that at least a small portion remain as concessional loans. Currently, grants make up 91% of the program.

Figure 17

Composition of Military Assistance FY 1977 - FY 1989



FY89 - estimates

The major recipient of military assistance has been Israel. During the period FY 1977 to FY 1989, Israel has received \$28.5 billion, or 39% of the total. Egypt has received the second largest amount, although half that of Israel. The remaining major recipients since 1977 have been largely those with which the U.S. maintains military base agreements -- Turkey, Greece, Spain, Portugal and the Philippines. Major recipients of military assistance over the past 13 years are shown in Figure 18. Of these, Spain and South Korea no longer receive assistance. As can be seen in Figure 19, showing FY 1989 recipients, El Salvador, Morocco and Honduras have joined the list.

Figure 18

Major Recipients of Military Assistance FY 1977 - FY 1989

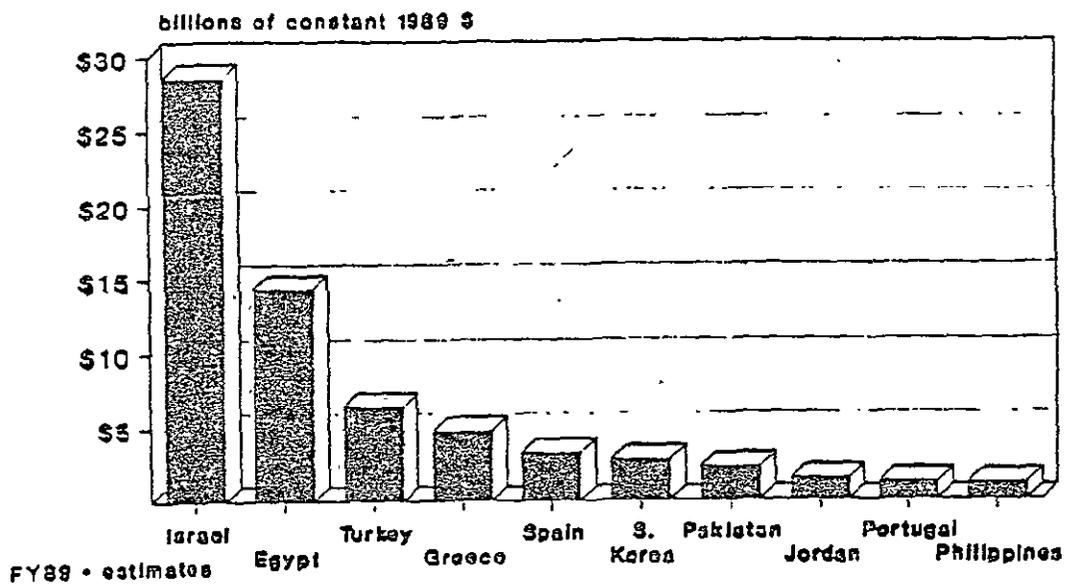
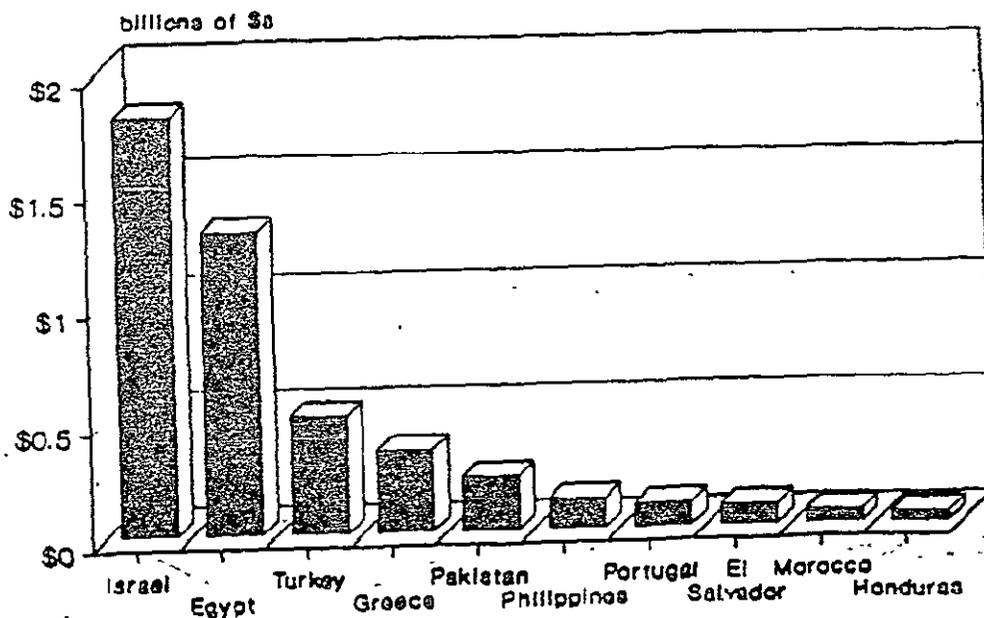


Figure 19

Major Recipients of Military Aid FY 1989



III. PRINCIPAL FINDINGS OF THE TASKFORCE REVIEW

1. U.S. FOREIGN ASSISTANCE IS IMPORTANT

The U.S. foreign assistance program is an important element of U.S. foreign policy. It serves U.S. foreign policy objectives by promoting the political and economic stability of nations important to U.S. interests. It supports U.S. national security by helping allies maintain adequate defense capabilities and stable economies. It serves U.S. economic interests by stimulating economic reform and growth overseas. It promotes U.S. long-term national interest by sustaining partnerships with other countries and enhancing their capacity to cooperate on issues of global importance. It responds to U.S. humanitarian concerns by helping alleviate suffering from disasters and poverty and by helping to promote more equitable and just societies.

U.S. leadership, expertise, and experience are of great value. Even with limited resources, the program still achieves significant results and contributes much to U.S. development interests and to U.S. relationships with recipient countries. The U.S. foreign assistance program has a positive record of accomplishment, management, and expertise in development. A.I.D.'s overseas missions are a unique asset.

2. THE FOREIGN AID PROGRAM OPERATES IN A CHANGING WORLD

* The United States is, and will continue to be affected by development, or lack of it, in other countries. Environmental degradation, deforestation, depletion of the ozone layer, trade deficits, drugs, international debt, immigration, over-population, AIDS, mediterranean fruit fly ... all affect the well-being of the United States. These problems pose a challenge to U.S. national interests, and must be addressed.

* Global tensions have changed. The lessening of tensions between the superpowers and the possibilities for settlement of some regional conflicts create new challenges and opportunities for peace and development.

* Economic issues increasingly dominate the international agenda. The budget and trade deficits are priorities for the United States. Non-market economies are focusing on economic reform and efficiency. Developing countries are striving to deal with external debt while promoting domestic growth. The international economic system is being revolutionized by rapidly changing technology, massive international capital flows, and instant communication.

* The developing world has become increasingly divergent. For most of Africa, and much of Latin America and the Caribbean, the 1980s has been the "lost decade". Countries in Asia and the Near East have made significant progress. Meanwhile, newly industrialized countries -- Taiwan, Korea, Brazil, Singapore -- have gained affluence and

become world economic actors.

* Increasing institutional and technical capacity in Third World countries facilitates collaborative programs among U.S. and developing country institutions. Even where GNP per capita remains low, institutional growth enables developing countries to be partners in development cooperation, rather than recipients of aid transfers. A.I.D. is beginning to develop collaborative programs in public policy, science, technology and enterprise development. However, A.I.D. procedures and management systems do not encourage collaborative efforts.

* Urbanization in developing countries is accelerating. During the next twenty five years, urban populations will increase by 1.2 billion in countries currently eligible for U.S. economic assistance. This growth will have greatest impact in low income countries. By 2000, a majority of the world's poor will be in urban areas. For example, Kenya, with a current urban population of 4.5 million, can expect an additional 38 million urban dwellers by the year 2025. This growth creates both opportunities for more diversified patterns of growth, as well as enormous problems of shelter, sanitation, and transportation. Unmanaged urbanization in the developing world has serious consequences for the global environment, international health, and political stability.

* Aid is only one part of complex relations with developing countries. Other economic issues are increasingly important. For example:

- The major obstacle to development at present is the external debt burden of much of the Third World. The resources that are siphoned away from domestic investment into debt payments far outweigh aid flows. Their transfer inhibits development and economic growth, and therefore is beginning to threaten political stability and receptivity to market-oriented policies.
- Trade and investment are increasingly important in relationships between the United States and developing countries.
- The objectives driving military sales have evolved over time so that they are now an element of export promotion.
- Policies on trade, debt, investment, and other issues sometime conflict with, rather than complement, the objectives of the U.S. aid program.

* U.S. foreign assistance is a declining world resource. The United States is no longer the major donor country -- Japan is surpassing us as the largest donor of bilateral economic aid. Total foreign assistance has declined from 3% of GNP at the height of the Marshall Plan, to 1% in the late 1950s, to less than three tenths of one percent of GNP today* -- the lowest level of any OECD member.

* Two tenths of one percent of GNP based on DAC figures, which exclude military assistance.

* U.S. institutional and technical resources are highly relevant to current development issues. U.S. strength lies in private enterprise, education, science and technology, and in non-governmental organizations. For developing countries, access to U.S. markets is critical to economic growth. The United States is still the country of choice for students seeking advanced education in science, medicine, and management. Collaborative ventures in science and industry between the United States and developing countries are of mutual benefit, and are necessary to tackle current problems.

* The world is increasingly receptive to market-oriented policies. The economic policies being promoted by donor organizations and being adopted by developing countries have become increasingly market-oriented over the last decade, even in non-market economies. This trend widens opportunities for U.S. economic relations and influence.

3. THE ROLE OF THE U.S. AID PROGRAM HAS CHANGED

* The theory behind the program has evolved. The program began with an emphasis on large resource transfers during the Marshall Plan, shifted toward technical assistance during Point Four, to infrastructure during the 1960s, to basic human needs during the 1970s, and finally to the role of markets and policy reform during the 1980s. Clearly there is no one path to development. U.S. assistance should focus on those types of assistance which the U.S. can provide most effectively, and which meet the existing development needs of a country.

* U.S. foreign assistance is highly concentrated on a few strategically important countries. The major strategic recipients, Israel, Egypt, Pakistan, Turkey, the Philippines, El Salvador, and Greece receive 72% of the \$11 billion provided to countries, military, food, and development assistance. Israel and Egypt alone receive 50% of this total.

* The focus of foreign assistance has changed. Over the past decade, the balance has shifted towards the Middle East, to military assistance, to grants rather than loans, and to bilateral rather than multilateral assistance. ESF is increasingly favored by the Executive branch because of its greater flexibility and faster disbursement.

4. THE DOMESTIC CONTEXT OF THE AID PROGRAM HAS CHANGED.

* Budget constraints conflict with increasing demands on the aid program. In FY 1990, the budget deficit must be reduced by \$35 billion. Yet there are increasing demands on the foreign assistance program: there is the prospect of major new commitments in Afghanistan, Namibia, Philippines, the Middle East, to U.N. peacekeeping forces, and payment of arrears to the U.N. and MDBs. As the pie shrinks, Members of Congress, interest groups, departments and agencies will each fight to protect their particular interest. In sum, the United States will have to do more with available resources.

* 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. There is evidence that the public would support development programs focused on key problems affecting the well-being of the United States.

5. **CURRENT AID LEGISLATION AND ADMINISTRATION IMPEDE EFFECTIVENESS.**

* There are too many objectives. Scattered through the Foreign Assistance Act are 33 objectives. An A.I.D. document lists 75 priorities for economic assistance. Most, if not all, of these objectives are probably worthy, but they are so numerous that they cannot provide meaningful direction or be effectively implemented. In the field of military assistance, while there are relatively few stated objectives, those objectives are overly politicized, leading us to expect too much in foreign policy terms from what is being provided or sold. Mixing security, military, development, and humanitarian objectives makes evaluation and Congressional oversight difficult.

* The program is hampered by numerous reporting requirements, earmarks and restrictions:

-- Foreign aid legislation contains 288 individual reporting requirements to advise Congress of both one-time and continuing activities. GAO reports that AID's reporting requirements on the \$5 billion program it manages is second only to the Defense Department with over \$300 billion. These could be substantially reduced, by consolidating similar reports, repealing unnecessary or low-interest requirements, and removing fulfilled or out-of-date provisions.

-- Earmarks, mostly in the form of specified country allocations in legislation, have increased to unprecedented levels. For FY 1989, 92% of military aid, 98% of ESF, and 49% of development assistance is earmarked. In recent years, the protection of high priority recipients through legislative earmarks has considerably diminished executive branch agencies' discretionary authority over foreign aid allocations. This problem is likely to get worse as budget pressures tighten.

-- Congress receives over 700 notifications of project changes each year. This level of notifications focuses Congressional attention on project changes, which are inevitable, rather than on policies and programs.

-- In addition, there are numerous directives, restrictions, conditions, and prohibitions in the foreign aid legislation, and in committee and conference reports, that must be adhered to by implementing agencies and recipients of U.S. aid. The result is an aid program that is driven by process rather than by content and substance.

What all this means is that accountability of U.S. foreign assistance is extensive but ineffective. Accountability is focused on anticipating how assistance will be used, rather than on how effectively it is and has been used. It can take two-and-a-half years to plan and approve a project, by which time conditions have changed, and plans need to be revised. The burden of excessive Congressional and A.I.D./Washington accountability keeps mission staff at their desks rather than in the field, creates a complex bureaucratic process that prevents flexible programming, and turns attention away from the important task of program evaluation. It leaves both Congress and A.I.D. staff focussing on plans not results.

Military assistance also suffers from accountability problems. Accountability has been divested to various services of the military, resulting in recurring problems in accounting for cash sales and monitoring equipment sold to foreign countries.

* The aid program is spread too thin. Military assistance has followed a recurring pattern in which a number of small programs are proposed, then eliminated or drastically reduced due largely to earmarking after the budget cycle is complete, creating raised expectations and ineffective implementation. A.I.D. has 2000 projects in 90 countries. In addition to programs in developing countries, A.I.D. manages programs in Northern Ireland, Poland, Portugal, Cyprus, Italy, and Oman; it manages American Schools and Hospitals Abroad, and special tasks such as humanitarian aid to the Nicaraguan Contras. With 16 disaster relief operations in October and November of 1988, disaster relief alone is a major responsibility. The wide range of foreign operations undertaken by A.I.D. diverts attention from development objectives. In essence, the aid program tries to achieve too much.

* There is little coordination of U.S. economic, security, and development policies. As a result, many foreign policy decisions, for example, on tariffs and trade, defense cooperation, debt, environmental protection, science and technology, public health, and immigration, do not take developmental and security considerations into account. The Development Coordination Committee (DCC) seldom meets at a high level, and then principally only for ceremonial purposes. The International Development Cooperation Administration (IDCA) exists in name only. Coordination of policy for economic and military assistance is insufficient. At the field level, the rising coincidence of U.S. international economic interests with development goals requires greater program integration and coordination.

* The contribution of non-governmental organizations is important. PVOs (Private Voluntary Organization), universities, cooperatives, research institutions, and other non-governmental organizations have much to contribute to U.S. economic assistance policies and programs. Their expertise, field experience, ability to reach certain target populations, and the diversity of their capabilities and operating modes complement the resources of A.I.D. Some 15% of development assistance and projectized ESF is channeled through PVO's. The research capabilities and developmental and

technical expertise of U.S. universities are valuable resources that need to be utilized to deal effectively with today's development issues. The participation of businesses from both host and donor country in development programs can be effective and mutually beneficial. Effective means are needed to ensure that these organizations can be heard by policy makers.

IV. RECOMMENDATIONS

A. ECONOMIC ASSISTANCE

- 1. REPEAL THE FOREIGN ASSISTANCE ACT OF 1961 AS AMENDED.
ENACT A NEW INTERNATIONAL ECONOMIC COOPERATION ACT OF 1989.**

Changes in the international environment and the position of the United States, the emergence of global challenges to U.S. well-being, domestic budgetary pressures . . . and the loss of public and Congressional support for the aid program all demand major changes in foreign aid legislation. U.S. foreign assistance needs a new premise, a new framework, and a new purpose to meet the challenges of today. It is time to start anew.

A fresh start is unlikely if Congress simply revises and adds yet more amendments to an already cluttered act. The current 500 pages of foreign assistance legislation, developed over the past 28 years, are strewn with obsolete, ambiguous and contradictory policies, restrictions and conditions.

For example;

- inconsistency -- There is no consistency in the way the Act deals with other foreign policy concerns which affect foreign assistance, such as human rights, terrorism or narcotics. Procedures vary for different concerns and different regions, as do procedures for Presidential waivers and Congressional reviews of those waivers.

- ambiguous -- Section 531 of the Act provides authority to the President to promote "economic or political stability." However, section 531(e) prohibits the President from using funds for military or paramilitary purposes. It is not clear whether nations receiving support under this section are prevented from using those funds to repay United States loans for purchase of military hardware.

- obsolete -- Section 614(b) authorizes the President to use ESF funds for Germany, including West Berlin. This section may have been relevant before Germany became a major foreign assistance donor.

The numerous inconsistencies have increased with each new foreign assistance bill. The difficult task of bringing some coherence to legislation and creating a targeted and effective aid program, that enjoys wide support, requires a new International Economic Cooperation Act.

- 2. THE NEW INTERNATIONAL ECONOMIC COOPERATION ACT WOULD SPECIFY FOUR MAIN FOREIGN ECONOMIC POLICY OBJECTIVES**

- (i) GROWTH -- encouragement of broad based economic growth.
- (ii) ENVIRONMENTAL SUSTAINABILITY -- improved environmental, natural resource, and agricultural management.

- (iii) POVERTY ALLEVIATION -- human resource development aimed at improving the well-being of the poor and their capacity to become productive citizens.
- (iv) PLURALISM -- promotion of political, social and economic pluralism.

These four objectives would focus U.S. foreign assistance on four discrete but flexible priorities, which serve the interests of both the United States and recipient countries. They would clarify the purpose of the program. Experience and understanding of the new challenges indicate that these priorities will maximize the benefit to be gained by recipient and donor.

GROWTH: Economic growth and development in other countries serves U.S. interests by promoting political stability as well as expansion of trade and investment opportunities. Growth is necessary to improve the living standards of the poorest and to enable the developing world to progress out of today's debt, environmental and population problems. Growth must be broad-based to reach the poor; narrow, unbalanced growth is politically and economically unstable. Growth must be subject to the efficiencies imposed by open markets. U.S. policy can encourage the creation of more efficient, more participatory, and more open economic systems.

ENVIRONMENTAL SUSTAINABILITY: Global environmental and natural resource problems have become too obvious and too urgent to ignore. In the developing world, deforestation, pollution, and soil erosion ceaselessly diminish the capacity for sustainable agricultural production. Deforestation and desertification are depleting the ozone layer and threatening the entire world with global warming. The rapid depletion of energy resources will affect the availability and price of future energy worldwide. These are pressing problems which will require international cooperation. The U.S. can assist in the development and implementation of improved policies, technologies, and management systems necessary for more efficient and sustainable systems of agriculture and resource management. Environmental concerns should be integrated into every program. Environmental and other policies must be finely tuned to balance the needs of growth with the sustainability of the resource base.

POVERTY ALLEVIATION: Although much progress has been made in reducing the worst conditions of poverty through improved public health, better food production and distribution systems, and expanded literacy and family planning programs, the fact remains that a staggering 2 billion people still live in poverty, increasingly in urban areas. Thirty years of development experience tell us that people can rise from poverty if they are healthy and educated and have the opportunity to participate in the economy. Such investment in human capacity requires careful targeting and long term commitment. It can result in personal well-being, a more productive economy, and a more pluralistic and stable polity. These benefits, along with the additional consequences in terms of better public health, more stable population, and expanded international markets, all promote the

interests of the United States.

PLURALISM: The United States stands for political and economic freedom. U.S. foreign assistance promotes these values both explicitly and implicitly. This can be achieved through many institutional forms. The advancement and protection of these freedoms require responsive local government, and a well-informed and active citizenry. Internationally-oriented American PVOs and citizens' groups in the Third World increasingly are pursuing the expansion of choice and participation to those traditionally least involved. It should be U.S. policy to encourage the growth of both non-governmental capacity and of effective national and local government.

These four objectives are interrelated and mutually reinforcing. In pursuing them the United States can be true to U.S. values and interests, without imposing preconceived solutions on others. The key to progress in meeting these objectives is to recognize that they will require time, flexibility, and a system of problem solving based on genuine cooperation and reciprocity of benefits between nations. Foreign assistance must be coordinated with other policies in pursuing these goals and encouraging others to pursue them.

Identifying these four basic objectives for U.S. foreign economic assistance does not mean that the 33 objectives currently in the Foreign Assistance Act are to be rejected. Many of them are subsumed under these four priorities; for example, biological diversity is one principle of improved environmental policies. Others indicate the preferred modes of operation and manner in which these ultimate objectives are pursued; for example, concern for the role of women in development becomes an integral part of all development programs. A.I.D.'s reporting of program results would include explanations of how biological diversity was affected, and why or why not women participated and benefited.

3. THE NEW ACT WOULD DRAW CLEAR DISTINCTIONS AMONG VARIOUS TYPES OF ECONOMIC ASSISTANCE

The lack of a clear distinction between development assistance and ESF causes a confusion of objectives and responsibilities and makes evaluation more difficult. In keeping with the aim of clarifying the purpose and key objectives of the economic assistance program, the new act would provide a clear distinction between development assistance and ESF. Where currently one type of assistance is used for the purpose of the other, the funds would be transferred into the other account.

ESF would be allocated to countries to support immediate U.S. political, economic, and security interests. After initial allocation decisions are made, ESF should be programmed so as to support the four objectives of economic assistance.

The allocation of development assistance would be justified in terms of the four policy objectives, reflecting the increased importance of these objectives in supporting U.S. national interests.

DA should be made a more flexible instrument.

4. THE ACT WOULD ALLOW MAXIMUM FLEXIBILITY IN DEVELOPING STRATEGIES AND PROGRAMS FOR PURSUING THE FOUR OBJECTIVES

The new act would set down operational and policy parameters for U.S. economic assistance programs and policies. It would avoid most of the conditions, restrictions, directives, and earmarks of the current act.

- Congressional notifications would be required for changes in country levels but not for project changes.
- Reporting requirements would be kept to a minimum.
- Appropriation of DA funds would not be divided into functional accounts.
- Funds would be appropriated on a no-year basis, thereby removing pressure to obligate funds hurriedly at the end of the fiscal year.

The agency would inform the Congress about specific country programs and strategies it proposes, and demonstrate to the satisfaction of the responsible committees why those strategies have been selected.

It is probably unrealistic to expect to eliminate all restrictions, conditions, and directives from the bilateral aid program. However, the present system is unworkable and increasingly irrelevant. If every worthy condition and directive that is proposed is accepted, as in the past, the result is confusion, ambiguity and bureaucratic gridlock. The cumulative impact is a program that simply does not work.

The present system results in a program that focuses on process, on meeting legislative and administrative deadlines and filing forms and reports, not on the substance of activities. Currently, administrators must find a distribution of development assistance funds that fits in with country, functional, and special program earmarks, and still bears some relation to the needs and circumstances of each particular country. ESF is earmarked almost completely on a country basis. Earmarks deny the flexibility needed to respond to changing needs during the fiscal year. They reduce U.S. policy leverage because recipients know that funds will eventually be forthcoming. With extensive earmarking, A.I.D.'s experienced and committed personnel do not have responsibility for the program, and cannot utilize their talent and creativity. In contrast, given today's new challenges, the premium should be on ideas, leverage, and long-term problem-solving. This requires flexibility, better use of talent, and concentration on central, long term, issues.

5. THE ACT WOULD REQUIRE AN ACCOUNTABILITY SYSTEM BASED ON THE MEASUREMENT AND EVALUATION OF PROGRESS TOWARDS THE ACHIEVEMENT OF THE LEGISLATIVE MANDATE

Accountability would be based on careful Congressional oversight and Executive evaluation of the impact and result of U.S. foreign

assistance rather than on compliance with a multitude of restrictions, directives, and earmarks.

The present Congressional and bureaucratic system focuses on how much, where, and how, the executive branch plans to spend economic assistance dollars. Just as the requirements are too extensive to give effective direction to A.I.D, so the reports are too voluminous to be read by Congress. The accountability burden turns attention away from what has and has not been achieved. In spite of 1300 pages of Congressional presentation, over 700 Congressional notifications annually, and innumerable reports, Congress does not know what actual progress is being made towards the solution of serious global problems. Congress must be freed from dealing with near-term operating activities, in order to focus on critical issues of national priority, program balance, and post-appraisal of results.

There are three elements to a new system of accountability.

- (i) Clear and realistic objectives must be established.
- (ii) Reporting must be results-oriented and appropriate for assessing policies and programs.
- (iii) Both Congress and the Executive branch must know who is responsible.

This will require the administrating agency to give greater priority to evaluation of projects and programs. In addition to ongoing evaluation by A.I.D. and GAO, a full country review could be undertaken periodically, (perhaps every five years) by a team composed of agency evaluation personnel and other experts from government agencies (such as GAO [General Accounting Office] and OTA [Office of Technology and Assessment]) and from outside government. Such a review would cover all U.S. assistance activities in a country.

Responsibility should be concentrated at the level of the head of the U.S. mission in a country, the head of particular programs, and the agency administrator.

For its part, Congress must engage in more rigorous oversight. The House Foreign Affairs Committee's oversight responsibility could be centered in a **Foreign Assistance Oversight Subcommittee** or an ad hoc group with a strong staff dedicated solely to the task of oversight. The subcommittee or group would be the key point for oversight of foreign assistance programs and policies, and for legislative changes, working closely with subcommittees of the House Foreign Affairs Committee and with other committees that have authorizing and appropriating responsibilities for the foreign assistance program. It would also consult extensively with the executive branch. The Congressional-Executive consultations over the implementation of the Africa Development Fund offer the beginnings of a model of a more collaborative relationship.

6. THE ACT WOULD ESTABLISH A NEW ECONOMIC COOPERATION AGENCY TO ADMINISTER U.S. ECONOMIC COOPERATION PROGRAMS

The most effective way to remove the bureaucratic cobwebs and

take up the new mandate is to create a new entity to allocate and administer economic assistance. The more precise and flexible mandate of the International Economic Cooperation Act requires an appropriate structure -- an Economic Cooperation Agency (ECA), as the successor to A.I.D.

There is no one ideal structure that will resolve the numerous organizational and administrative issues. Various organizational models have been proposed. These should be discussed during committee deliberations and in extensive discussions with the executive branch.

There are, however, key requirements which should guide the design of a new structure:

- (i) operational flexibility and decentralization of responsibility to encourage innovative, responsive programs that seek long term progress on development priorities.
- (ii) authority and flexibility to allocate and implement assistance in order to maximize achievement of the four objectives of economic assistance.
- (iii) credible and strategically focused evaluation systems to assess, analyze, and communicate progress toward the four objectives to the Agency and the Congress.
- (iv) the need to attract talented personnel into the aid program, both as permanent staff and in short-term positions.
- (v) greater opportunities for collaboration in working toward resolution of global problems. For example, technical institutes could be set up, each focusing on a major issue such as resource management, and comprising experts from relevant government and private entities in the U.S. and developing countries. They would deal with global issues, in tandem with the field missions' country-specific strategies. This would bring in the technical capability necessary to problem-solving, and encourage the cooperation and support of individuals and organizations outside the government. They would also support selected long-range research programs.
- (vi) recognition of the important role of PVO's, universities, cooperatives, and other non-governmental organizations in the U.S. economic cooperation program. Officials responsible for economic assistance should have regular and easy access to the expertise and experience of such organizations, and be able to draw on their capabilities in implementing programs.
- (vii) administration of a portion of the U.S. cooperation program through regional foundations such as the Inter-American Foundation and the African Development Foundation, which focus on grassroots community development.

7. THE ACT WILL REQUIRE GREATER COORDINATION

Coordination is required at three levels:

(i) **International Coordination:** U.S. assistance should be coordinated with programs of other international donors. This becomes increasingly important as the internationalization of development problems continues, and as other donors expand their assistance programs. The U.S. share of worldwide economic assistance is large enough to be important to efforts to coordinate international programs. U.S. development experience is a valuable asset for collaboration with newer donor countries, such as Japan and Korea.

(ii) **Policy Coordination:** U.S. assistance should be coordinated with other aspects of U.S. policy. Given the increasing complexity and inter-relation of international problems, coordination of policies on aid, trade, Third World debt, drugs, the environment, international financial stability, and fiscal and monetary policy are essential. None of these issues can be dealt with in isolation.

The most commonly proposed solution is to locate responsibility for coordination in the White House. The various proposals include: a special Presidential Advisor with a small staff; a Deputy National Security Advisor; reestablishment of the Council on International Economic Policy; a Presidential advisor who chairs an International Development Cooperation Council with oversight over all agencies and programs involved in foreign economic cooperation.

Alternatively, coordination could occur at the cabinet level, through a cabinet committee, or by giving one cabinet department overall responsibility. Or, a new foreign economic cooperation administering agency could be given the role. Whatever the new structure, the Administrator of the ECA would be closely involved in coordination.

There have been many failed experiments at coordination. The important issue is not how, but that coordination occur. Success will ultimately depend on the commitment of the Executive branch and the officials involved. The new coordination structure must be formulated jointly by Congress and the Administration, and mesh with the organizational structure of the new Administration and the ECA. The new legislation must identify a clear coordination authority which can be held accountable by the Congress and the President.

(iii) **Field Coordination:** U.S. programs and policies should be coordinated at the field mission level. For example, coordination could be improved between A.I.D. private sector programs, the Foreign Commercial Service, the Trade and Development Program, and the Overseas Private Investment Corp, and between A.I.D. agricultural programs, P.L. 480 assistance, and the work of the agricultural attache.

8. THE ACT WOULD REQUIRE A SIMPLER PROCUREMENT REGIME FOR THE ECONOMIC ASSISTANCE PROGRAM.

U.S. economic assistance programs are covered by federal acquisition regulations. These regulations are designed for agencies which operate in the United States, not overseas. Exemption for particular procurement is possible but only through a time-consuming paperwork process. The cumbersome procurement process discourages some individuals from participating in U.S. development assistance programs and makes it more difficult for A.I.D. to work jointly with other donors and institutions.

A simpler, more flexible system, designed for an agency which operates overseas, would enable a more timely response to existing needs and conditions, thereby increasing the effectiveness of the foreign assistance program.

9. THE ACT WOULD REQUIRE MODES OF OPERATION THAT MAXIMIZE AID EFFECTIVENESS IN TACKLING TODAY'S PROBLEMS

Key principles in increasing the effectiveness of the economic assistance program are:

(i) Focus on global problem-solving -- dealing with problems common to many countries. It is in the primary interests of the United States to focus on easing problems which affect many nations, such as environmental degradation, AIDS, rapid urbanization, arid agricultural production, and barriers to market forces. Therefore, while much foreign assistance would continue to be carried out on a bilateral basis, the program would aim to deal with constraints to the achievement of key objectives. This approach rests on cooperation and reciprocity of benefits, rather than one-way transfers of aid.

(ii) Utilize U.S. comparative advantage. The impact of U.S. assistance is maximized by drawing on those areas in which the United States has most to offer: education and training, research, public and private management expertise, technical assistance, agricultural development and food aid, and private enterprise.

(iii) Emphasize project sustainability. Too often development projects stop the day that foreign donor funding and participation end -- or before. To maximize U.S. impact on development problems, the act would require A.I.D. to focus on program and project sustainability, particularly by seeking the broadest participation appropriate, in both design and implementation. To further encourage sustainable projects, the new organizational structure must provide the necessary degree of flexibility for projects to adapt to local conditions.

(iv) Use economic assistance, both development assistance and ESF, to promote sound economic policies. To ensure that U.S. assistance is used effectively to mutual benefit, the Act would

require that it be programed to promote appropriate economic policies at all levels. Economic assistance should serve as a vehicle for joint policy dialogue, and as a means of improving the technical and administrative capacity of governments to devise and implement suitable policies.

In addition, the act would require that the ability and willingness of the recipient to use assistance efficiently be taken into account in deciding where and how funds should be programmed. Countries willing to adopt necessary policies should be supported. This requires the establishment of specific criteria to measure country performance, as under the Fund for Africa.

If U.S. assistance is used wastefully, siphoned off by corruption, or used to support bad and inefficient policies, it cannot achieve the purposes for which it was intended. This is more likely to hinder economic growth and to be economically and politically destabilizing, and therefore be antithetical to U.S. economic and political interests and objectives.

(v) Adapt the foreign assistance program to the debt situation. Success in pursuing the four objectives of U.S. economic assistance depends on the resolution of the debt crisis. The debt burden has stymied economic growth and brought considerable economic and social adjustment and suffering. Continued economic stagnation and adjustment threatens not just economic stability but also political stability, particularly in countries with nascent democratic institutions.

There is no single solution, but foreign assistance can contribute towards easing the problems caused by the debt burden. U.S. assistance should be provided on a grant basis, as has been the case in the last several years. In keeping with this policy, reflows from previous foreign assistance loans should be allowed to be redirected into development activities in the debtor country, rather than returned to the U.S. Treasury. Such use of reflows should be used to reward countries which implement necessary domestic policy reforms.

Authority should also be given for the use of U.S. economic assistance funds to purchase debt at discount, with the local currencies then used for development projects which require local expenditures.

U.S. government officials should be encouraged to work with host country officials, other donors, international organizations, U.S. commercial banks, and with various non-governmental organizations that are seeking innovative mechanisms to reduce the debt burden of developing countries.

9. **THE ACT WOULD AUTHORIZE COOPERATIVE DEVELOPMENT RELATIONSHIPS WITH ADVANCED DEVELOPING COUNTRIES (ADCS)**

Advanced developing countries, such as India, Morocco, Jordan, and Costa Rica, are approaching the point where they may no longer require concessional assistance. Others, such as Taiwan, Korea, Brazil, and Argentina have already "graduated" from the U.S. aid program. However, many have important development problems and their participation is important in solving global problems. For example, deforestation cannot be dealt with without the cooperation of Brazil; the U.S. cannot seek regional cooperation on drugs and immigration without working with Mexico. Continued cooperation with potential aid graduates, such as India and Thailand may lead to breakthroughs in health and agricultural science.

It does not serve U.S. interests to spend 20 to 30 years building up development relationships with a country, and then to suddenly drop them when concessional assistance is no longer required. This means cutting those links just when the other country is most able to contribute to the partnership, and when U.S. benefits from governmental, university, and private sector are increasing.

The Economic Cooperation Agency would be authorized to develop new ways to sustain and nurture those well-developed relationships. This could be done through bilateral commissions, science and technology foundations, or joint working groups focused on key development issues. The development of relations with ADCs is an important part of the shift that the United States must make from "foreign aid" to cooperation with developing countries.

B. MILITARY ASSISTANCE

1. CONSOLIDATE MILITARY ASSISTANCE INTO ONE FUNDING SOURCE.

Consideration of military assistance will be more focused if the Foreign Military Sales (FMS) Financing and the grant Military Assistance Program (MAP) share the same funding source. At present, cash arms sales and FMS financing are contained in the Arms Export Control Act (AECA). The grant MAP program comes under the Foreign Assistance Act.

There is no compelling operational or political need for two separate military assistance accounts, particularly as both are now almost completely grant programs. One funding source would allow clearer analysis of the aid request and the conditions attached to military aid for each country. Putting FMS with MAP would separate sales that use assistance dollars from cash arms sales. Under the merged account, terms, conditionality, and eligibility for credit and grant countries would be clearly established. Standards would be set based on economic conditions and ability to repay. The single account would better enable Congress to separate countries that need grants from those that only need credits.

2. REPLACE THE ARMS EXPORT CONTROL ACT WITH A NEW DEFENSE TRADE AND EXPORT CONTROL ACT

A new Defense Trade and Export Control Act would complement the consolidation of assistance funding. Creation of a new act recognizes that cash arms sales which are consistent with foreign policy and national security objectives should be removed from the political linkages attached to military assistance and should be part of an overall export promotion and control effort. This approach would be more appropriate to expanding trade and defense cooperation activities with our NATO allies and other friendly nations. The new act would remove unnecessary restrictions and simplify the licensing procedures under the International Traffic in Arms Regulations, so as to reduce export delays.

This approach would not take the lid off arms sales. The act would retain all the appropriate arms export control aspects of the AECA, as well as requirements to give prior notification of arms sales to Congress. In addition to the current purpose of restraining arms races, the new act would focus on military objectives, including close cooperation with our allies in arms research, development and production. It would clarify U.S. policy for providing defense equipment to friendly countries consistent with national interests.

3. CLARIFY THE GOALS OF THE MILITARY AID PROGRAM

The military assistance program should meet political and strategic objectives but it should also promote military goals, such as enhanced training and equipment utilization, pre-positioning of

U.S. stocks for use in crises, and joint research and development of defense systems. Military assistance and sales are frequently oversold on political grounds. What is needed is judgements about how military assistance and sales programs fulfill military objectives.

Focusing program goals and Congressional oversight on narrower military objectives would help provide a basis for improved accountability on the uses of military assistance. Clearly the political and foreign policy goals of the military assistance and sales programs cannot and should not be entirely eliminated, but Congressional oversight has often focused on unrealistic political linkages, particularly when the amount of assistance is small, or recipients are attempting to buy arms for cash. A return to traditional oversight of how money is being spent, and whether military objectives are being advanced would increase the effectiveness of the program.

4. IMPROVE ACCOUNTABILITY FOR THE USE OF MILITARY ASSISTANCE

Past experience and current practices suggest that accountability needs to be improved dramatically. The Defense Department is unable to account for hundreds of millions of dollars in cash sales in its multiple service-based accounting systems. There is inadequate tracking of third-country transfers arising out of licensing and co-production agreements. Action is seldom taken even when illicit transfers are discovered. Corruption is endemic in dealing with agents and firms designated by Third World countries to transact arms sales.

Reform of the system should include:

- (i) Establishment of a genuinely centralized accounting system within DOD for military sales. Full accounting of all expenditures requires a system that accesses data from all three accounting systems in the military services and that serves as a authoritative data source for accounting and information on military sales.
- (ii) Greater monitoring of military assistance and sales assets in foreign countries. In recent years, military advisory groups have increasingly focused on providing information on U.S. produced systems and promoting other military objectives, but program monitoring has suffered. In some instances this has resulted in illicit third-country transfers of U.S.-supplied equipment.
- (iii) Establishment of appropriate sanctions for illicit third-country transfers by recipients of military assistance and sales, and participants in weapons co-production agreements. The detection of such transfers requires improved controls, management, and intelligence. Effective sanctions are necessary to deal with violations, as diplomatic protests have often been ineffective. These sanctions should include suspension of co-production agreements or other pending arms sales.

(iv) Prohibition of the use of military assistance funds for direct or indirect offsets, and negotiation of bilateral or multilateral agreements concerning the range of permissible direct and indirect offsets involving military assistance and sales. Trade offsets, a problem for many years, are only likely to increase, given that they are a major reason for many countries' purchase of American-made defense articles. While commercial offsets may in many instances be a fact of life, U.S. government funds should not be used to promote the business interests of one company over that of another.

(v) Tighter controls on the selection and use of private individuals and companies receiving military assistance funds designated for foreign governments. When foreign governments designate their own freight forwarders and purchasing agents for military assistance transactions, more stringent eligibility standards, and fiscal and accounting controls are necessary.

(vi) Requirements that American companies use Federal Acquisition Regulations (FAR) regarding price, profit, quality assurance, and payment, if their commercial arms sales involve FMS credits. Currently, commercial contracts financed with FMS credits are not governed by the FAR, as government to government FMS sales are, and controls over these sales need to be improved.

5. REDUCE, IF NOT ELIMINATE EARMARKING

Currently, 98% of the FMS account and two thirds of the MAP account are earmarked. The inflexibility created by earmarking hampers the program in several ways: first, it limits the ability to meet contingencies and to implement programs smoothly. Secondly, it undermines attempts to influence recipients through military assistance, as they are assured of the level of aid they will receive. Therefore, as a means for Congress to secure some political leverage, it is ultimately self-defeating. Thirdly, the inflexibility created by earmarks, along with general budget pressures, results in the expectations of smaller recipients being raised and then dashed, because their programs are squeezed out by the big earmarks. Removing earmarks would enable more effective Congressional oversight, because Congress could focus on program results rather than relying on earmarks and associated prohibitions, conditions and reporting requirements.

Limiting earmarking requires discussions among legislative and executive branch leadership, to establish an informal understanding that politically inevitable earmarks will go forward, in exchange for holding the line on other earmarks. Along the lines of the bipartisan budget agreement, Congress should meet early on with the new administration to reach a foreign policy leadership agreement to resist earmarking.

6. REPLACE SMALL MILITARY AID PROGRAMS IN INDIVIDUAL COUNTRIES WITH AN UNEARMARKED REGIONAL CONTINGENCY FUND

Operational requirements in less vital countries could be met from a flexible regional contingency fund. This would create the flexibility necessary to fund specific needs in regions such as Africa or Latin America, while avoiding spreading funds and across many small countries. Small case-by-case requests could be met without establishing a country program. This would be far preferable to the present situation in which small programs are cut altogether due to earmarking for large recipients and overall budget cuts. A contingency fund would provide the Executive branch with flexibility to meet the needs of smaller countries, while still ensuring fiscal discipline through the authorization and appropriation of such contingency funds, and through prior notification to Congress of the use of such funds. The needs of smaller countries could be met without sacrificing fiscal and policy oversight by the Congress.

7. ESTABLISH A SEPARATE BASE RIGHTS ACCOUNT .

A base rights line item in the military aid budget could fund existing commitments on a one-time multi-year basis, of say, five years, while making it clear that such military assistance would end after that period. This type of agreement was established with Spain and appears to be satisfactory.

Congress has confronted growing shortfalls in military aid appropriations for base rights countries. A number of base rights agreements in the early 1980s resulted in a doubling and tripling of this aid.

After the five year funding period, the ending of assistance given specifically for base rights could be eased through other forms of non-appropriated assistance, such as a revolving fund using cash sales receipts, the use of the Special Defense Acquisition Funds (SDAF), grants of excess DOD stocks, or increased ESF. Military assistance programs not linked to base rights could be continued.

The United States should also consider establishing a multilateral base rights fund with NATO for bases in Europe, and with Japan for bases in the Philippines. The relationship with NATO should be considered in the light of the larger alliance-wide regional security framework, with base rights access being a legitimate element of burden-sharing.

A separate account with clear funding limits is an important step in the U.S. strategy for securing base rights access. The U.S. must, over time, develop defense relationships that are not based on economic or military assistance, or "rent", but on mutual security concerns.

8. CREATE A SEPARATE LINE ITEM FOR POLICE TRAINING

A separate line item for police training would enable the legislative and executive branches to establish appropriate objectives and guidelines for police training.

Separate funding would segregate military training for police forces from civilian training, leaving the latter to agencies other than DOD and State. Currently, the prohibition on the use of assistance for police training (Section 660 of the Foreign Assistance Act) is accompanied by numerous exceptions. Such an approach is misleading, and hinders effective legislative oversight as to what type of support for police training is appropriate and under what circumstances.

9. ENCOURAGE AID GRADUATION

Military assistance concessional sales and credit programs should permit and encourage graduation to a fully cash sales relationship.

For this to occur, it is essential that a credit component remain in the authorization process, so that countries near the graduation point in economic development can make a gradual transition to cash arms sales. Portugal, Greece, and Turkey are currently approaching this point, and Spain and Korea recently graduated.

In addition, military assistance funds should be used for licensing and co-production agreements, including offshore procurement of low and medium technologies. This would enable recipients to establish a rudimentary defense industrial base, while protecting and controlling more sophisticated technology.

10. EXAMINE ALTERNATIVE FINANCING

The establishment of an alternative system for financing military assistance should be considered, although the evidence of the efficiency of such financing is mixed and the political obstacles are significant. As with the economic assistance program, the likelihood of shrinking funds requires creative uses of alternative financing to stretch available resources.

There are many possible alternatives that can be explored. For example, the prohibition in the Arms Export Control Act on the use of Ex-Im-Bank financing for military sales is outdated and does not appear to be serving any apparent "fiscal watchdog" function. In addition, the use of private credit markets has already begun. The Foreign Assistance appropriations law for fiscal year 1988 authorizes the blending of government and commercial credit to refinance past FMS credit. We should explore this option of blending credit for future FMS financing. Finally, some in the Executive branch have advocated a return to the use of government-guaranteed loans to finance military sales.

11. COORDINATE MILITARY ASSISTANCE WITH OTHER FOREIGN POLICY

Military assistance should be included within the new structure

designed to coordinate foreign policies, mentioned under recommendations on economic assistance. At present, the military assistance program is not adequately coordinated with other aspects of U.S. policy towards recipient countries. U.S. embassies and military advisory groups do not coordinate. The Departments of Defense, State and A.I.D. do not formulate a comprehensive coordinated strategy that integrates economic and military assistance.