

RE-ALLOCATION OF UNITED STATES BILATERAL ASSISTANCE,
1985 - 1987¹

by

B. Lane and E. Lucas²

INTRODUCTION

Objective of the Study

In 1986, the Gramm-Rudman-Hollings (GRH) budget deficit reduction law was enacted by the United States Congress. This law requires a five year phased reduction of the federal budget deficit until a balanced budget is attained in 1991. The principal instrument for reducing the deficit is through reduction in government outlays. Faced with decreasing resources, management of the Agency for International Development (A.I.D.) had to make tough decisions and establish funding priorities among the several competing countries, regions and functional accounts.

¹Presented at the Economists' Conference sponsored by the Agency for International Development, Williamsburg, VA., Nov., 1987. The opinions and conclusions are those of the authors and do not necessarily reflect the position or policies of the Agency for International Development.

²Agricultural Economists, Agriculture and Rural Development Division, Office of Technical Resources, Bureau for Africa, Agency for International Development.

The purpose of this study, is to summarize the results of the re-allocation process by estimating the magnitude and direction of budgetary cutbacks among functional accounts and among countries. The results indicate the priorities and the development philosophy of A.I.D. in a period of continuing austerity.

The Data

Data were obtained from the 1988 Congressional Presentation, an annual publication of A.I.D. which lists the annual authorized funding level for each country by functional account. The three year period, 1985 - 1987 was used to capture the changes in A.I.D.'s funding levels immediately before (1985) and after (1987) the GRH came into effect in 1986.

The data are classified into eleven functional accounts, (Agriculture, Rural Development and Nutrition; Population; Health; Child Survival; Education and Human Resources Development; Selected Development Activities; Sahel Development Program; Others; PL 480 Title I; PL 480 Title II; and Economic Support Fund) in eighty-seven countries and eleven regional offices.

The data exclude funding for the central bureaus (Bureau for Science and Technology, Bureau for Program and Policy Coordination, and Bureau for Private Enterprise Development) due to the difficulty in identifying their assistance levels by recipient countries and by functional accounts.

ANALYTICAL PROCEDURE: SHIFT SHARE ANALYSIS

Shift share analysis was used to estimate the magnitude, direction and components of change in selected economic variables over a discrete time period. The analysis is similar to a zero-sum game in that the net losses in one region or functional account are equal to the net gains in other regions or functional accounts. Thus, the sum of gains and losses among countries, regions and functional accounts is equal to zero.

Computational Procedure

Let there be eleven functional accounts in A.I.D.'s development program ($i = 1, 2, 3, \dots, 11$) in ninety-eight recipient countries and regional offices ($j = 1, 2, 3, \dots, 98$). Also, let Y_{ij} and Y_{ij}' be the funds allocated to the i^{th} functional account in the j^{th} country for 1985 and 1987 respectively. From the above symbols, the following notations are established:

$$Y_{i.} = \sum_j Y_{ij} = \text{total funding for the } i^{\text{th}} \text{ functional account in 1985,}$$

$$Y_{i.}' = \sum_j Y_{ij}' = \text{total funding for the } i^{\text{th}} \text{ functional account in 1987,}$$

$$Y_{..} = \sum_i \sum_j Y_{ij} = \text{total A.I.D. funding for 1985,}$$

$$Y_{..}' = \sum_i \sum_j Y_{ij}' = \text{total A.I.D. funding for 1987.}$$

From the above notations, the following ratios are established for computational purposes:

$r_i = Y_{ij}'/Y_{ij} = 1987/1985$ funding ratio for the i th functional account in the j th country,

$R_i = Y_{i.}'/Y_{i.} = 1987/1985$ aggregate funding ratio for the i th functional account

$R_a = Y_{..}'/Y_{..} = 1987/1985$ AID aggregated funding ratio.

The change in funding for the i^{th} functional account in the j^{th} country (Y_{ij}) is obtained by taking the difference between the 1985 and the 1987 funding levels. This difference is then disaggregated into three growth components, namely, the Proportional Growth (PG), the Program Mix Growth (PMG), and the Regional Share Growth (RSG) components. These growth components are estimated respectively in the first, second and third terms of Equation 1.

$$1. Y_{ij}' - Y_{ij} = \frac{Y_{ij}'}{Y_{ij}} - 1 = Y_{ij}(R_a - 1) + Y_{ij}(R_i - R_a) + Y_{ij}(r_i - R_i)$$

The change in funding for the j th country is obtained by taking the sum of Equation 1 over the i th index as shown in Equation 2.

$$\begin{aligned}
 2. \quad \frac{Y_{i.}'}{Y_{i.}} - \frac{Y_{i.}}{Y_{i.}} &= \frac{Y_{i.}}{Y_{i.}} = Y_{i.} (Ra-1) \\
 &+ Y_{i.} (Ri-Ra) \\
 &+ Y_{i.} (ri-Ri)
 \end{aligned}$$

Similarly, the change in funding for the i^{th} functional account is obtained by taking the the sum of Equation 1 over the j^{th} index as shown in Equation 3.

$$\begin{aligned}
 3. \quad \frac{Y_{.j}'}{Y_{.j}} - \frac{Y_{.j}}{Y_{.j}} &= \frac{Y_{.j}}{Y_{.j}} = Y_{.j} (Ra-1) \\
 &+ Y_{.j} (Ri-Ra) \\
 &+ Y_{.j} (ri-Ri)
 \end{aligned}$$

Interpretation of the Model

The Proportional Growth applies uniformly to all countries, regions and functional accounts at the same proportional rate. In general, this growth is affected directly by macro economic policy decisions such as budgetary cuts, taxes, interest rates, employment and other economic variables that affect the economy in a general way. In this study, the Proportional Growth is the direct result of the Gramm-Rudman-Hollings (GRH) budget deficit reduction law which caused an across the board reduction in A.I.D funding by 21.67 percent from 1985 to 1987. In the discussions that follow, the Proportional Growth will be used inter changeably with the GRH effect.

The Program Mix Growth (PMG) reflects the funding priorities of A.I.D. The direction (algebraic sign) and magnitude of PMG depends on the mix of protected and unprotected accounts in a Mission's program or project portfolio. The protected functional accounts are accounts that have experienced absolute budgetary increases such as Child Survival and PL 480 Title II and those that have experienced budgetary cutbacks less than 21.67 percent such as Agriculture, Rural Development and Nutrition; Education and Human Resources Development and Others. A Mission's program or project portfolio consisting mostly of protected accounts tends to increase funding or minimize cutback of A.I.D. assistance for that country. The unprotected functional accounts are those which experienced budgetary cutbacks greater than 21.67 percent such as Population, Health, Selected Development Activities, Sahel Development Program, PL 480 Title I and ESF. A Mission's program or project portfolio consisting mostly of unprotected accounts tend to decrease A.I.D. assistance level for that country. Therefore, other things being equal, a country with predominance of protected accounts as shown by positive Program Mix Growth can compete more effectively for increased funding, or has a better chance of protecting its current funding level during periods of budgetary cutbacks than those countries with unprotected accounts which exhibit negative PMG.

The Regional Share Growth (RSG) reflects special non-development U.S. interests in that country.

Non-development considerations that influence the level of funding include humanitarian concerns as in the case of Ethiopia, Mozambique and Bangladesh; strategic concerns as in the case of Israel, Egypt, Pakistan, Philippines and El Salvador; historical concerns as in the case of Ireland; political, economic and commercial concerns as in the case of South Africa. A positive RSG reflects a special U.S. interest in that country that results in increased funding. Other things being equal, countries with positive RSG tend to draw A.I.D. funds away from countries with negative RSG.

Net Shift (NS) is the sum of PMG and RSG. It reflects the overall effects of A.I.D. program priorities and special non-development interests.

REGIONAL AND FUNCTIONAL SHIFTS

Regional Shifts

As shown in Table 1, the Gramm-Rudman-Hollings budget deficit reduction law has caused a \$1720.8 million or 21.67 percent reduction in A.I.D. funding from a high of \$7942.8 in 1985 to \$6221.9 million in 1987. This reduction was not applied uniformly among regions, countries and functional accounts. For example, Asia and the Near East (ANE) experienced a cutback of \$1199.9 million or 23.67 percent of which \$1094.0 was due to GRH effect, \$45.5 million to negative PMG, and \$60.4 million to negative RSG.

Africa experienced a cutback of \$295.0 million 27.52 percent of which \$232.1 was due GRH, \$117.7 million to negative RSG which was partially offset by a positive PMG of \$54.9 million.

Latin America and the Caribbean experienced a \$225.9 million decrease (12.40 percent) of which \$394.7 million was due to GRH; and \$9.4 million to negative PMG which was partially offset by a positive RSG of \$178.1 million.

The differential application of the budget cuts altered the relative share of each region. From 1985 to 1987, ANE's share declined from 64 percent to 61 percent, Africa's share declined from 13 percent to 12 percent and LAC's share increased from 22 percent to 25 percent.

Table 1: Components of Change in U.S. Bilateral Assistance, 1985 - 1987, by Regions, in Million Dollars

Region	1985	1987	Change	GRH	PMG	RSG	NS
ANE	5049.5	3849.6	-1199.9	-1094.0	- 45.5	-60.4	-105.9
LAC	1821.6	1595.6	- 225.9	- 394.7	- 9.4	178.1	168.7
Africa	1071.7	776.7	- 295.0	- 232.1	54.9	-117.7	- 62.8
TOTAL	7942.8	6221.9	-1720.8	-1720.8	0.0	0.0	0.0

Functional Shifts

Similarly, as shown in Table 2, the budgetary cutback triggered by the GRH was not applied uniformly across

functional accounts. The Economic Support Fund (ESF) which was reduced by \$1297.8 million (24.76 percent) was the most severely affected, compared to the reduction in DA of \$240.8 million (16.54 percent); and reduction in PL 480 of \$182.0 million (14.61 percent). As a result, ESF share was reduced from 65.97 percent to 63.36 percent; DA has increased from 18.33 percent to 19.53 percent and PL 480 has also increased from 15.68 percent to 17.10 percent. See Table 2.

Table 2: Components of Change in U.S. Bilateral Assistance, 1985-1987, by Functional Accounts, in Million Dollars

Funct.Accts	1985	1987	Change	GRH	PMG	RSG	NS
DA	1456.1	1215.3	- 240.8	- 315.7	74.7	0	74.7
PL 480	1246.0	1064.0	- 182.0	- 269.9	88.0	0	88.0
ESF	5240.3	3942.5	-1297.8	-1135.3	-162.5	0	-162.5
TOTAL	7942.4	6221.8	-1720.6	-1720.6	0.0	0	0.0

Table 3 shows the components of changes in U.S. bilateral assistance by regions and functional accounts from 1985 - 1987. A closer examination of the data shows that there are accounts which have not been affected by GRH due to offsetting increases in PMG and RSG. For example, funding for the Child Survival account has increased by \$39.5 million from 1985 to 1987, of which about 53.13 percent was allocated to LAC, 27.85 percent to Africa and 18.98 percent to ANE. Funding for

"Others" has also increased by \$23.2 million, most of which was allocated to LAC. PL 480 Title II has increased by \$71.1 million, of which, 69.9 percent was allocated to Africa, 19.55 percent to LAC and 10.55 percent to ANE.

Agriculture, Rural Development and Nutrition (ARDN), experienced a cutback of \$111.3 million (18.48 percent). Of this \$99.8 million and \$22.2 million came from LAC and ANE respectively while Africa gained \$10.7 million. Education and Human Resources Development (EHR) suffered a cutback of \$28.4 million or 16.73 percent. Of this, about 80.63 percent came from LAC, 13.02 percent from ANE and 6.33 percent from Africa.

Population, Health, Selected Development Activities, Sahel Development Program, PL 480 Title I and ESF have suffered budgetary cutbacks in excess of their proportional share under GRH. Selected Development Activities was reduced by \$67.2 million or 39.43 percent. Of this, about 57.73 percent came from LAC, 36.45 percent from ANE and 5.80 percent from Africa. Population experienced a \$29.7 million or 24.36 percent cutback mostly from ANE while Africa gained a slight increase. Funding for Health has declined by \$66.9 million or 38.36 percent, of which about 58.00 percent came from LAC, 29.75 percent from Africa and 12.56 percent from ANE. PL480 Title I experienced a decrease of \$253.1 million or 25.28 percent of which 65.39 percent came from ANE, 18.73 percent from Africa and 15.88 percent from LAC. Economic Support Fund, has, by far suffered the biggest cutback of \$1297.8 million or 24.77 percent. Of

this, about 67.55 percent came from ANE, 16.65 percent from LAC and 15.80 percent from Africa.

Table 3: Components of Change in U.S. Bilateral
Assistance, 1985-1987, by Regions and
Functional Accounts in Million Dollars

<u>Funct.Acct/Region</u>	<u>1985</u>	<u>1987</u>	<u>Change</u>	<u>GRH</u>	<u>PMG</u>	<u>RSG</u>	<u>NS</u>
ARDN:SUBTOTAL	602.1	490.8	- 111.3	- 130.5	19.1	0	19.1
ANE	290.6	190.8	- 99.8	- 63.0	9.2	-46.1	-36.9
LAC	183.3	161.1	- 22.2	- 39.7	5.8	11.7	17.5
AFR	128.2	138.9	10.7	- 27.8	4.1	34.4	38.5
POPULATION:SUBT	121.9	92.2	- 29.7	- 26.4	- 3.3	0	- 3.4
ANE	79.7	51.6	- 28.1	- 17.2	- 2.2	-8.7	-10.9
LAC	27.2	22.2	- 5.0	- 5.9	.7	1.7	.9
AFR	15.0	18.4	3.4	- 3.3	.4	7.0	6.6
HEALTH:SUBTOTAL	174.9	107.5	- 66.9	- 37.8	- 28.9	0	-28.9
ANE	51.7	42.8	- 8.9	- 11.2	- 8.6	10.9	2.3
LAC	76.1	38.1	- 38.0	- 16.5	- 12.6	-8.8	-21.4
AFR	46.6	26.6	- 19.9	- 10.1	- 7.7	-2.1	- 9.8
CHILD SURV:SUBT.	11.5	51.0	39.5	- 2.5	42.1	0	42.1
ANE	5.0	12.5	7.5	- 1.1	18.3	-9.7	8.6
LAC	3.0	24.0	21.0	- .6	11.0	10.7	21.7
AFR	3.5	14.5	11.0	- .8	12.8	-1.0	11.8

EHR:SUBTOTAL	169.7	141.3	- 28.4	- 36.8	8.3	0	8.3
ANE	26.5	22.8	- 3.7	- 5.7	1.3	.7	2.0
LAC	107.8	84.9	- 22.9	- 23.4	5.3	-4.8	.4
AFR	35.4	33.6	- 1.8	- 7.7	1.7	4.1	5.8
SDA:SUBTOTL	170.4	103.2	- 67.2	- 37.1	-30.4	0	-30.4
ANE	40.4	15.9	- 24.3	- 8.7	- 7.2	-8.5	-15.7
LAC	109.9	71.1	- 38.8	- 23.8	-19.6	4.5	-15.1
AFR	20.1	16.2	- 3.9	- 4.6	- 3.6	4.0	.4
OTHERS:SUBTOTAL	206.1	229.3	23.2	- 44.6	67.8	0	67.9
ANE	7.5	0.0	- 7.5	- 1.6	5.6	-11.0	-5.9
LAC	29.1	151.4	122.3	- 6.3	21.5	107.1	128.7
AFR	66.2	5.3	- 60.9	- 14.3	49.0	-95.6	-46.6
AFR(SDP)	103.3	72.6	- 30.7	- 22.4	-8.3	0	8.3
<u>TOTAL DA</u>	<u>1456.1</u>	<u>1215.3</u>	<u>-240.8</u>	<u>-315.7</u>	<u>74.7</u>	<u>0</u>	<u>74.7</u>
PL 480/I:SUBT.	1001.1	747.9	-253.1	-216.5	-36.2	0	- 36.1
ANE	558.0	392.5	-165.5	-170.9	-20.2	-24.4	-44.6
LAC	260.6	220.4	- 40.2	- 56.5	- 9.4	25.7	16.3
AFR	182.4	135.0	- 47.4	- 39.5	- 6.6	- 1.2	- 7.8
PL 480/II:SUBT	245.0	316.1	71.1	- 53.0	124.2	0	124.2
ANE	152.5	160.0	7.5	- 33.0	77.3	-36.6	-40.5
LAC	39.5	53.4	13.9	- 8.5	20.0	2.5	22.5
AFR	53.0	102.7	49.7	- 11.5	26.9	34.3	61.2
<u>TOTAL PL 480</u>	<u>1246.0</u>	<u>1064.0</u>	<u>-182.0</u>	<u>-269.9</u>	<u>88.0</u>	<u>0</u>	<u>88.1</u>

<u>TOTAL:ESF</u>	5240.3	3942.5	-1297.8	-1133.3	-162.5	0	-162.5
ANE	3837.5	2960.5	- 876.7	- 831.4	-119.0	73.7	- 45.3
LAC	985.0	768.9	- 216.1	- 213.4	- 30.5	27.8	- 2.7
AFR	417.8	212.8	- 205.0	- 90.5	-13.0	-101.5	-114.5

Regional and Functional Shifts

Table 4 shows the Net Shifts by regions and functional accounts. The Net Shift is the sum of PMG and RSG. It summarizes the combined effects of the Program Mix and Regional Share growths independent of the effects of GRH. The result shows that ANE experienced a net loss of \$105.9 million due to budgetary cutbacks in DA (ARDN and Population) and ESF. Africa also showed a net loss of \$62.8 million due to cutbacks in Health, Sahel Development Fund and ESF. Only LAC experienced a net increase of \$168.7 million most of which was allocated to its "Other" functional account.

Table 4: Net Shifts in U.S. Bilateral Assistance,
1985-1987, by Regions and Functional
Accounts, in Million Dollars

<u>Functional Accounts</u>	<u>ANE</u>	<u>LAC</u>	<u>AFRICA</u>	<u>TOTAL</u>
ARDN	-36.8	17.5	38.5	19.2
POPULATION	-10.9	.9	6.6	- 3.4
HEALTH	2.3	-21.4	- 9.8	-28.9
CHILD SURVIVAL	8.0	21.7	11.7	42.0
EDUC. & HUM. RES. DEV.	2.0	.4	5.8	8.2
SP. DEV. ACCOUNT	15.7	-15.0	.4	-30.3
OTHERS	-5.9	128.7	-54.9	67.9
SUBTOTAL:DA	-56.8	132.7	- 1.6	74.6
SUBTOTAL:ESF	-45.3	-2.7	-114.5	-162.5
SUBTOTAL:PL 480	4.1	38.8	53.3	88.0
<u>GRAND TOTAL</u>	<u>-105.9</u>	<u>168.7</u>	<u>- 62.8</u>	<u>0.0</u>

In addition to the regional re-allocation of A.I.D. funds, there has been also substantial re-allocation among functional accounts. The cutbacks in ESF, Special Development Accounts, Health and Population have been used to increase the funds for ARDN, Child Survival, Education and Human Resources Development and Others.

Worldwide Concentration of A.I.D. Assistance

Table 5 shows that the budgetary cutbacks have caused a slight de-concentration of A.I.D. assistance. In 1985, the five biggest recipient countries were Israel, Egypt, El Salvador, Pakistan and the Philippines. Together, they received 53.08 percent of total U.S. assistance of \$7943 million. The same countries received 51.86 percent of the total \$7943 million in 1987. Similarly, the ten biggest recipient countries including the above plus Honduras, Sudan, Costa Rica, Bangladesh and India received 65.73 percent of the \$6222 million total A.I.D. funding in 1985. Their share has decreased to 63.04 percent in 1987.

The above figures suggest that the budget cuts have caused a more equitable allocation of resources in favor of smaller countries. It is not certain, however, whether this trend will continue in the future or whether it will apply uniformly to all regions.

Table 5: Ten Leading Recipient Countries of U.S.
Bilateral Assistance, 1985 and 1987

Country	1985			1987		
	<u>\$ Mil.</u>	<u>Share</u>	<u>Cum.Share</u>	<u>\$Mil.</u>	<u>Share</u>	<u>Cum.Share</u>
Israel	1950	24.55	24.55	1200	19.28	19.28
Egypt	1303	16.40	40.95	1004	16.13	35.41
El Salvador	425	5.35	46.30	411	6.60	42.01
Pakistan	309	3.89	50.19	341	5.48	47.49
Philippines	223	2.81	53.08	272	4.37	51.86
Honduras	217	2.73	55.81	194	3.11	54.97
Sudan	214	2.69	58.50	73	1.17	56.14
Costa Rica	202	2.54	61.04	156	2.50	58.64
Bangladesh	198	2.49	63.53	137	2.20	60.84
India	175	2.20	65.73	137	2.20	63.04
<u>Sub-Total</u>	<u>5216</u>	<u>65.73</u>		<u>3926</u>	<u>63.04</u>	
ROW*	2727	34.33		2297	36.96	
<u>TOTAL</u>	<u>7943</u>	<u>100.00</u>		<u>6222</u>	<u>100.00</u>	

* ROW = Rest of the World consisting of 75 countries and 14 regional offices.

AFRICA

Functional Shifts

Table 6 presents the components of U.S. bilateral assistance to Africa, 1985 - 1987 by functional account. The total assistance for Africa has decreased by \$295.0 million or 27.53 percent, from \$1071.7 million in 1985 to \$776.7 million in 1987. About 31.27 percent of this decrease came from DA and 69.50 percent from ESF. There was a net increase of \$2.3 million in PL 480 as a result of the substitution of Title I for Title II.

The Development Assistance showed a decrease of \$92.2 million or 22.05 percent. This reduction is due to negative RSG in Health, Sahel Development Program and Others. Although there were also decreases in Human Resources Development and Selected Development Activities, these functional accounts did not suffer the full impact of the budget cut due to offsetting increases in PMG and RSG growth components. On the other hand, Agriculture, Rural Development and Nutrition increased by \$10.69 million; Population, by \$3.3 million; and Child Survival by \$14.5 million. The increase in Child Survival is due to positive PMG while the increases in ARDN and Population were due to positive RSG.

Of the \$205.0 million decrease in ESF, \$90.5 million is attributable directly to GRH, \$12.1 million due to negative PMG and \$101.5 million to negative RSG.

The funding for PL 480 showed a net increase of \$2.3 million resulting from an increase of \$49.7 million of Title II and a decrease of \$47.4 million of Title I.

Table 6: Components of Change in U.S. Bilateral Assistance
in Africa, 1985-1987, by Functional Accounts
in Thousand Dollars

Func.Accts.	1985	1987	Change	GRH	PMG	RSG	NS
ARDN	128230	138925	10695	-27782	4069	34408	38477
POPULATION	15023	18373	3350	- 3255	- 408	7013	6605
HEALTH	46569	26652	-19917	-10090	-7746	- 2082	- 9827
CHILD SURV.	3500	14500	11000	- 758	12780	- 1022	11758
EHR	35419	33599	- 1820	- 7674	1732	4122	5854
SDA	20133	16210	- 3923	- 4577	-3586	4025	439
SAHEL D.P.	103300	72621	-30769	-10593	-8298	0	- 8298
OTHERS	66250	5300	-60950	-14435	49037	-95634	-46596
<u>SUBT:DA</u>	<u>418424</u>	<u>326180</u>	<u>-92244</u>	<u>-79083</u>	<u>47580</u>	<u>-49169</u>	<u>- 1589</u>
<u>SUBT:ESF</u>	<u>417839</u>	<u>212824</u>	<u>-205015</u>	<u>-90528</u>	<u>-12961</u>	<u>-101546</u>	<u>-114507</u>
PL 480/I	182400	135000	-47400	-39518	-6601	- 1281	- 7882
PL 480/II	53046	102737	49691	-11453	26800	34304	61184
<u>SUBT:PL 480</u>	<u>235496</u>	<u>237737</u>	<u>2291</u>	<u>-51011</u>	<u>20279</u>	<u>33023</u>	<u>53302</u>
<u>GRAND TOT.</u>	<u>1071709</u>	<u>77672</u>	<u>-294988</u>	<u>-220622</u>	<u>54899</u>	<u>-117693</u>	<u>-62794</u>

Country Shifts

Table 7 presents the components of change in U.S. bilateral assistance to Africa by selected countries, 1985 - 1987. Despite the pervasive effects of GRH, sixteen countries gained funding from 1985 to 1987. These countries are Tanzania, Benin, Cameroon, Comoros, Cape Verde, Equatorial Guinea, Ivory Coast, Guinea Bissau, South Africa, Sao Tome, Ghana, Ethiopia and Lesotho. These increases are due primarily to positive PMG and/or RSG which have more than offset the effects of the GRH cut.

Countries that experienced budget cuts in excess of their proportional share under GRH are the Congo, Liberia, Niger, Sudan, Malawi, Mali, Zambia, Zimbabwe, Mauritius, Mozambique and Somalia. Other countries suffered budget cutbacks less than their proportional share. These include Senegal, Kenya, Gambia, Lesotho, Chad, Uganda, Zaire, Swaziland, Mauritius, Madagascar, Africa Regional, Djibouti, Rwanda, Botswana, Burkina Faso, Sahel Regional and Burundi. For these countries, the full impact of GRH has been mitigated by positive PMG and/or RSG.

In summary, Africa lost \$295 million in A.I.D. funding from 1985 to 1987. Of this, \$232 million was attributable directly to GRH and the remaining \$62.8 million was lost to LAC because of negative PMG and RSG growths.

Table 7: Components of Changes in U.S. Bilateral
Assistance to Africa, 1985 - 1987
in \$1000

Concentration of Assistance

Table 8 shows that there has been a significant de-concentration of assistance in Africa resulting from budgetary cutbacks in Sudan, Somalia and Liberia. In 1985, these three countries received 32.57 percent of the total \$1071.7 million. The same countries received only 21.11 percent of the \$776.7 million in 1987. The five biggest countries which include the above plus Zaire and Kenya received 42.52 percent in 1985. Their share in 1987 was reduced to 32.53 percent.

This trend reflects a re-ordering of priorities. Much of the reduction, as noted earlier came from the ESF which was partially offset by a significant increase in grant food aid.

Table 8: Share of Five Leading Recipient Countries in Africa, 1985-1987
in \$1000

<u>Country</u>	1985			1987		
	<u>\$Mil.</u>	<u>Share</u>	<u>Cum.Sha.</u>	<u>\$Mil.</u>	<u>Share</u>	<u>Cum.Share</u>
Sudan	214	19.97	19.97	73	9.42	9.42
Somalia	71	6.60	26.57	52	6.67	16.09
Liberia	64	6.00	32.57	39	5.02	21.11
Zaire	54	5.07	37.64	45	5.79	26.90
Kenya	52	4.88	42.52	44	5.63	32.53
<u>Subtotal</u>	<u>455</u>	<u>42.52</u>		<u>253</u>	<u>32.53</u>	
<u>ROAFR*</u>	<u>616</u>	<u>57.48</u>		<u>524</u>	<u>67.47</u>	
<u>TOTAL</u>	<u>1071</u>	<u>100.00</u>		<u>777</u>	<u>100.00</u>	

*ROAFR = Rest of Africa consisting of 37 countries and 4 regional offices.

ASIA AND THE NEAR EAST

Functional Redistribution

Table 9 shows the components of change in U.S. bilateral assistance in Asia and the Near East by functional accounts for 1985 and 1987. A.I.D. funding for Asia and the Near East has decreased by \$1199.1 million or 23.75 percent; from \$5049.5 million in 1985 to \$3849.6 in 1987. About 13.77 percent of this decrease came from DA, 73.11 percent from ESF, and 13.18 percent from PL 480. As a result, the share of DA has decreased from 9.93 percent to 8.73 percent, ESF has slightly increased from 76.00 percent to 76.91 percent and PL 480 has also slightly increased from 14.07 percent to 14.35 percent. Of the \$165.1 million reduction in DA, \$108.6 million was a direct result of GRH and \$72.1 million due to negative RSG. Similarly, the \$158.0 decrease in PL 480 is due to GRH. The reduction in ESF of \$876.7 million is due to GRH cut of \$831.4 million, negative PMG of \$119.0 million which was partially offset by a positive RSG of \$73.7 million.

A closer examination of the Development Account shows that Child Survival increased by \$7.5 million. Education and Human Resources Development and Health did not suffer the full impact of GRH because of their positive PMG and RSG.

On the other hand, ARDN, Population, Selected Development Activities and Others all have experienced budget

cuts in excess of their proportional share under GRH because of the combined effects of their negative PMG and/or RSG.

Table 9: Components of Changes in U.S. Bilateral Assistance
in Asia and the Near East, 1985-1987, by Functional
Accounts in Thousand Dollars

Func.Accts	1985	1987	Change	PG	PMG	RSG	NS
ARDN	290639	190799	- 99840	- 62969	922	-46093	- 36871
POP'N	79711	51586	- 28125	- 17270	-2166	-	- 10855
HEALTH	51666	42780	- 8886	- 11194	-8593	10901	2308
CHILD SUR.	5000	12500	7500	- 1083	18257	- 9674	8583
EHR	26517	22780	- 3737	- 5745	1297	712	2008
SDA	40359	15873	- 24486	- 8744	- 7188	- 8554	- 15742
OTHERS	7556	1	- 7555	- 1637	5593	-11511	- 5918
<u>SUBT:DA</u>	<u>501488</u>	<u>336319</u>	<u>-165129</u>	<u>-108643</u>	<u>1642</u>	<u>-72108</u>	<u>- 56486</u>
<u>SUBT:ESF</u>	<u>3837520</u>	<u>2960790</u>	<u>-876730</u>	<u>-831429</u>	<u>-119032</u>	<u>73731</u>	<u>- 45301</u>
PL 480/I	558000	392500	-165500	-120895	-20194	-24411	- 44605
PL 480/II	152522	159978	7456	- 33045	77287	-36786	40501
<u>SUBT:PL</u>	<u>710522</u>	<u>552478</u>	<u>-158044</u>	<u>-153940</u>	<u>57094</u>	<u>-61197</u>	<u>- 4104</u>
<u>GRAND.TOT.</u>	<u>5049480</u>	<u>3849587</u>	<u>-1199103</u>	<u>-1094012</u>	<u>-45516</u>	<u>-60374</u>	<u>-105891</u>

Country Shifts

Table 10 indicates changes in U.S. bilateral assistance for Asia and the Near East by selected countries for 1985 and 1987. Asia and the Near East consists of twenty-nine countries and four regional offices. Of these, nine countries including Afghanistan, Bhutan, Cambodia, Fiji, Pakistan, Philippines, Poland, Ireland, Jordan and Asia Regional gained funding despite the budget cuts required under GRH.

There were also twelve countries and three regional offices including Bangladesh, Egypt, India, Sri Lanka, Indonesia, Israel, Lebanon, Maldives, Nepal, Thailand, Turkey, West Bank, South Pacific Regional, Asia Regional and Near East Regional which experienced budget cuts that exceeded their proportional share under GRH. These countries had negative PMG and RSG growths.

Countries which experienced budget cuts less than their proportional share under GRH are Cyprus, Gaza, Oman, Portugal, Spain, Morocco, Tunisia and Yemen. In most cases, their positive RSG have partially offset the effects of the GRH cuts.

In summary, ANE lost a total of \$1199.9 million of which \$1094.0 million is due to GRH and \$105.9 million lost to LAC due to negative PMG and RSG. See Table 10.

Table 10: Components of Change in U.S. Bilateral
Assistance to Asia and the Near East,
1985-1987 in \$1000

Concentration of Assistance

A.I.D. funding for ANE is concentrated to Israel and Egypt. Together, they account for 64.43 percent in 1985 and 57.25 percent in 1987. The other big recipient countries are Pakistan, Philippines and Bangladesh, which if combined with Israel and Egypt account for 78.88 percent in 1985 and 76.72 percent in 1987. While this indicate, on the surface, a move towards a more equitable distribution of development assistance as a result of reduce funding for Israel, there are reasons to believe that the opposite may occur in the future as shown by the increased share of the next biggest four countries. See Table 9.

Table 10: Share of the Ten Leading Recipient Countries
in Asia and the Near East, 1985-1987 in
\$1000

<u>Country</u>	1985			1987		
	<u>\$Mil.</u>	<u>Share</u>	<u>Cum.Sh.</u>	<u>\$Mil.</u>	<u>Share</u>	<u>Cum.Sha</u>
Israel	1950	38.62	38.62	1200	31.17	31.17
Egypt	1303	25.81	64.43	1004	26.08	57.25
Pakistan	309	6.12	70.55	341	8.85	66.10
Philippines	223	4.41	74.96	272	7.06	73.16
Bangladesh	198	3.92	78.88	137	3.56	76.72
<u>Subtotal</u>	<u>3983</u>	<u>78.88</u>		<u>2954</u>	<u>76.72</u>	
ROANE*	1066	21.12		895	23.28	
TOTAL	<u>5049</u>	<u>100.00</u>		<u>3849</u>	<u>100.00</u>	

*ROANE = Rest of Asia and the Near East including 24 countries and 4 regional offices.

LATIN AMERICA AND THE CARIBBEAN

Functional Shifts

Table 11 presents a change in U.S. bilateral assistance to selected countries in Latin America and the the Caribbean for 1985 and 1987 by functional accounts. Funding for Latin America and the Caribbean was reduced by about \$225.9 million or 12.40 percent from \$1821.5 million in 1985 to \$1595.6 million in 1987. This reduction is due primarily to GRH cut of \$394.6 million and a negative PMG of \$9.4 million mostly from the ESF account. There has been a substantial decrease in the level of PL 480 Title I as Title II increased, reflecting a trend towards grant food aid over concessional sale.

Development Assistance showed a slight increase of \$16.4 million or 3.06 percent increase from the 1985 level. This is due mainly to positive PMG and RSG components in Agriculture, Rural Development and Nutrition; Child Survival; and Others. Population, and Education and Human Resources Development have experienced reduced funding at a rate less than their proportional share under GRH. On the other hand, Health, Selected Development Activities, and PL 480 Title I suffered budget cuts that exceeded their proportional share under GRH.

Table 11: Components of Change in U.S. Bilateral
Assistance to Latin America and the
Caribbean, 1985-1987 by Functional
Accounts in Thousand Dollars

Func.Accts	1985	1987	Change	PG	PMG	RSG	NS
ARDN	183314	161099	-22215	-39716	5817	11685	17501
POP'N	27192	22238	- 4954	- 5891	- 739	1676	937
HEALTH	76093	38148	- 37954	-16486	-12656	- 8803	-21049
CHILD SURV.	3000	24000	21000	- 650	10954	10696	21650
EHR	107822	84900	- 22922	-23360	5272	- 4835	438
SDA	109941	71071	- 38870	-23820	-19580	4530	-15050
OTHERS	29075	151442	122369	- 6299	21521	107145	128666
<u>SUBT:DA</u>	<u>536437</u>	<u>552898</u>	<u>16461</u>	<u>-116223</u>	<u>10589</u>	<u>122095</u>	<u>132684</u>
<u>SUBT:ESF</u>	<u>985025</u>	<u>768873</u>	<u>-216152</u>	<u>-213414</u>	<u>-30553</u>	<u>27815</u>	<u>- 2738</u>
PL 480/I	260600	220400	- 40200	- 56461	- 9431	25692	16261
PL 480/II	39517	53462	13945	- 8562	20024	2482	22507
<u>SUBT:PL480</u>	<u>300117</u>	<u>273862</u>	<u>- 26255</u>	<u>-65023</u>	<u>10594</u>	<u>28174</u>	<u>38768</u>
<u>GRAND TOT</u>	<u>1821579</u>	<u>1595633</u>	<u>-225946</u>	<u>-394660</u>	<u>-9371</u>	<u>178085</u>	<u>168714</u>

Country Shifts

Among the three regions, Latin America and the Caribbean experienced the least budget cut in absolute and relative terms. Compared to ANE and Africa whose funding have declined by 23.70 percent and 27.52 percent respectively, the budget cut for LAC was only \$225.0 million or 12.40 percent. This is because of a positive RSG, which, to a large degree has offset the effect of GRH.

A more detailed examination (Table 12) shows that of the fifteen countries and four regional offices that comprise LAC, seven countries and one regional office including El Salvador, Guatemala, Bolivia, Paraguay, Uruguay, LAC Regional and Guyana showed absolute funding increases despite GRH. Most of these countries have positive RSG.

On the other hand, eight countries and one regional office including Belize, Costa Rica, Dominica Republic Grenada, Ecuador, Peru, Panama, ROCAP, and Central America Regional experienced budget cuts in excess of of their proportional share under GRH. Most of these countries have negative PMG and RSG growths.

Table 13: Components of Change in U.S. Bilateral
Assistance to LAC, 1985-1987, in
\$1000

Concentration of Assistance

Table 13 presents the five leading A.I.D. recipient Latin American and Caribbean countries for 1985 and 1987. In 1985, El Salvador, Honduras, Costa Rica, Dominican Republic and Guatemala received 60.67 percent of the \$1822 million of assistance. In 1987, the same countries received 68.01 percent of the \$1595 million assistance for that year. This indicates a growing concentration of assistance to fewer countries. This is due mainly to increasing levels of assistance to El Salvador and Guatemala.

Table 13: Share of Five Leading Recipient Countries
Latin America and the Caribbean, 1985-1987,
\$1000

<u>Country</u>	<u>1985</u>			<u>1987</u>		
	<u>\$Mil.</u>	<u>Share</u>	<u>Cum.Sh.</u>	<u>\$Mil.</u>	<u>Share</u>	<u>Cum Sh.</u>
El Salvador	425	23.32	23.32	510	31.97	31.97
Honduras	217	11.91	35.23	194	12.16	44.13
Costa Rica	202	11.08	46.31	156	9.78	53.91
Dom.Rep.	167	9.16	55.47	69	4.32	58.23
Guatemala	94	5.16	60.67	156	9.78	68.01
<u>Subtotal</u>	<u>1105</u>	<u>60.67</u>		<u>1085</u>	<u>68.01</u>	
<u>ROLAC*</u>	<u>717</u>	<u>39.37</u>		<u>510</u>	<u>31.99</u>	
<u>TOTAL</u>	<u>1822</u>	<u>100.00</u>		<u>1595</u>	<u>100.00</u>	

*ROLAC = Rest of Latin America and the Caribbean consisting of 14 countries and 2 regional offices.

SUMMARY AND CONCLUSIONS

The Gramm-Rudman-Hollings (GRH) budget deficit reduction law led to a reduction of U.S. bilateral assistance by \$1720.8 million, or 21.67 percent from \$7942.8 million in 1985 to \$6221.9 million in 1987. This reduction was not allocated uniformly among the regions, countries and functional accounts. This is because there are factors other than the GRH that determine bilateral assistance level which either mitigate or aggravate the effects of GRH. These factors are the Program Mix Growth (PMG) and the Regional Share Growth (RSG).

Therefore, in addition to the effect of the GRH, U.S. assistance has been re-allocated among regions, countries and functional accounts. For example, the ANE and the Africa regions lost about \$105.9 million and \$62.8 million respectively, for a total of \$168.7 million to the LAC region from 1985 to 1987. Similarly, a re-allocation has occurred among functional accounts. Funding losses in ESF, SDA and Health were used to fund increases in ARDN, Child Survival, Others, PL 480 and EHR.

The budgetary cutback has slightly changed the concentration of assistance to selected countries. The five biggest recipient countries including Israel, Egypt, El

Salvador, Pakistan and the Philippines, in that order, continue to receive slightly over half of the total assistance package, while the ten biggest recipient countries continue to receive slightly less than two-thirds of total assistance. This leaves the remaining 75 countries and 14 regional offices to share less than one-third of the total U.S. bilateral assistance.

One positive result of the GRH is a more focused program towards development purposes. ARDN, Child Survival and EHR have been spared the full effect of GRH indicating a concern for the promotion of agricultural technology and human resources development. Another positive trend is the substitution of PL 480 Title II to PL 480 Title I. This change recognizes the increasing difficulty of LDCs to purchase food even on concessional terms. A third change, reduced ESF funding, represents an increasing recognition of the importance of long term sustained development efforts through the projectized Development Assistance accounts.

In the face of continuing budgetary austerity, A.I.D. must design programs which use DA and PL 480 accounts that are not staff intensive, quick disbursing, and easy to manage.

6668Q