

# Report for Congress

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## **Foreign Aid: An Introductory Overview of U.S. Programs and Policy**

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# Foreign Aid: An Introductory Overview of U.S. Programs and Policy

## Summary

Foreign assistance is a fundamental component of the international affairs budget and is viewed by many as an essential instrument of U.S. foreign policy. This report provides an overview of the U.S. foreign aid program, by addressing a number of the more frequently asked questions regarding the subject.

There are six major categories of foreign assistance: bilateral development aid, economic assistance supporting U.S. political and security goals, humanitarian aid, non-emergency food assistance, multilateral economic contributions, and military aid. Economic aid for security and political purposes, primarily supporting peace in the Middle East and emerging democracies in Eastern Europe and the former Soviet Union, is the largest category of U.S. assistance.

By nearly all measures, the amount of foreign aid provided by the United States has declined in recent decades. The roughly \$16.8 billion obligated for each of the past two years, representing less than 0.2% of U.S. GNP, was the smallest amount in the last half-century when calculated in constant dollars.

In 2000, the United States provided some form of foreign assistance to more than 140 countries. Most aid, however, is concentrated in a few countries – the top 10 recipients accounted for 76% of bilateral aid allocated to individual nations. Leading aid recipients have changed significantly during the past decade. Israel and Egypt continue as they have since the late 1970s as the largest recipients. Several of the top current recipients, however – Colombia, Ukraine, Kosovo, Russia, Armenia, and Georgia, among others – have replaced countries such as Pakistan, Turkey, Greece, El Salvador, and the Philippines who were leading aid recipients in the 1980s. Over half of U.S. assistance goes to the Middle East while the proportion allocated to Asia and Latin America has fallen significantly during the past 10 years.

The United States is currently the second (behind Japan) leading international economic aid donor in terms of dollars, but is the smallest contributor among the major donor governments when calculated as a percent of GNP.

The House International Relations and Senate Foreign Relations Committees have primary congressional responsibility for authorizing foreign aid programs while the House and Senate Appropriations Foreign Operations Subcommittees manage bills appropriating most foreign assistance funds. Within the executive branch, the Agency for International Development (USAID) manages the bulk of bilateral economic assistance, the Treasury Department handles most multilateral aid, and the Department of Defense (DOD) and the State Department administer military and other security-related programs.

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# Foreign Aid: An Introductory Overview of U.S. Programs and Policy

U.S. foreign aid is a fundamental component of the international affairs budget and is viewed by many as an essential instrument of U.S. foreign policy.<sup>1</sup> Each year, it is the subject of extensive congressional debate and legislative initiatives. Since the end of the Cold War, many have proposed significant changes in the size, composition, and purpose of the program, several of which have been adopted.

This report, generally using a question-and-answer format, addresses a number of the more frequently asked queries regarding the U.S. foreign aid program, its objectives, costs, organization, the role of Congress, and how it compares to those of other aid donors. In particular, the discussion attempts to not only present a current “snap-shot” of American foreign assistance, but also to illustrate the extent to which this instrument of U.S. foreign policy has changed from past practices, especially during the last decade and the end of the Cold War. Data presented in the report are the most current, reliable figures available, usually covering the period through FY2000 or, where possible, the most recent year. Dollar amounts are drawn from a variety of sources, including the Office of Management and Budget (OMB), U.S. Agency for International Development (USAID), and from annual Foreign Operations and other appropriations acts. As new data become obtainable or additional issues and questions arise, the report will be modified and revised.

## Foreign Aid Goals and Programs

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

Foreign assistance supports a great many objectives. Among the more prominent during the past decade have been: support for peace in the Middle East through assistance to Israel, Egypt, Jordan, and, more recently, the West Bank and

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<sup>1</sup> Other tools of U.S. foreign policy are the U.S. defense establishment, the diplomatic corps, informational and cultural programs, and trade policy. American defense capabilities, even if not employed, stand as a potential stick that can be wielded to obtain specific objectives. The State Department diplomatic corps are the eyes, ears, and often the negotiating voice of U.S. foreign policymakers. Informational and cultural programs, such as U.S. Information Agency-run exchanges like the Fulbright program and Radio Free Europe, project an image of the United States that may influence foreign views positively. U.S. trade policy – provision of most favored nation treatment and use of the Export-Import Bank, for example – are viewed as carrots by recipient nations that affect the presence of U.S. business in those countries. Foreign aid is probably the most flexible tool – it can act as both carrot and stick, and is a means of influencing events, solving specific problems, and projecting U.S. values.

Gaza; fostering democratization and stability for countries in crisis, such as Bosnia, Haiti, Rwanda, and Kosovo; facilitating democratization and free market economies in Central Europe and the former Soviet Union; suppression of international narcotics traffic through assistance to Colombia and other drug-producing countries; and alleviating famine and mitigating refugee situations in places throughout the world.

Foreign aid is a tool of U.S. foreign policy. Arguably, from the end of World War II until the early 1990s, the underlying rationale for providing foreign aid was the same as that for all U.S. foreign policy – the defeat of communism. U.S. aid programs were designed to promote economic development and policy reforms, in large part to create stability and reduce the attraction to communist ideology and to block Soviet diplomatic links and military advances. The programs also supported other U.S. policy goals, such as reducing high rates of population growth, promoting wider access to health care, and expanding the availability of basic education in the developing world, advancing U.S. trade interests, and protecting the environment. If these secondary goals were also achieved, U.S. aid programs could be promoted as delivering “more bang for the buck”. With the end of the Cold War, no consensus has emerged over what should be the new overarching rationale for U.S. aid programs. Consequently, many of these secondary objectives of foreign assistance are more vulnerable to challenge. Some may ultimately be discarded; while others are being incorporated into new initiatives, representing emerging foreign policy priorities.

Since 1994, the Clinton Administration has emphasized the promotion of “sustainable development” as the new, post-Cold War main strategy of those parts of the foreign aid program under the aegis of the U.S. Agency for International Development (USAID). To attain sustainable development, USAID works toward five inter-related goals – achievement of broad-based, economic growth; building of democratic systems; stabilization of world population and protection of human health; sustainable management of the environment; and meeting of humanitarian needs. Ultimately, USAID argues that an effective sustainable development objective advances broader U.S. foreign policy goals – including the promotion of U.S. economic prosperity through the creation of new markets and the prevention of crises that might otherwise require large U.S. military expenditures to resolve.

Generally speaking, different types of foreign aid support different objectives. Focusing on any single element of the aid program would produce a different sense of U.S. objectives. But there is also considerable overlap between categories of aid. Multilateral aid serves many of the same objectives as bilateral development assistance, although through different channels. International financial institutions have become the predominant players in Central Europe and the former Soviet Union, serving U.S. economic and security objectives in those regions. Both military assistance and economic security assistance serve U.S. objectives in the Middle East.

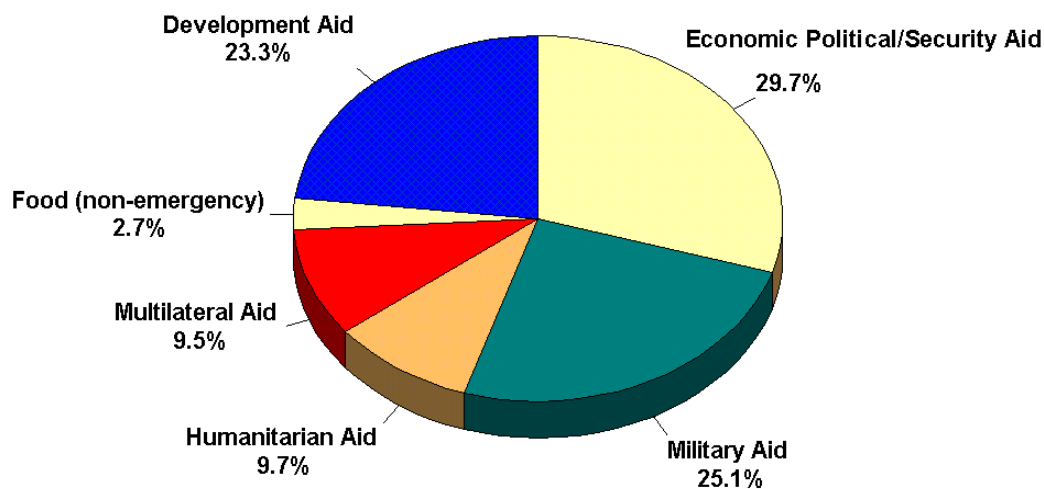
## **What are the different types of foreign aid and how much do they cost?**

There are six major categories of foreign assistance, illustrated in Figure 1 below:

**Bilateral development assistance.** Development assistance programs are designed chiefly to foster sustainable broad-based economic progress and social stability in developing countries. For FY2001, Congress appropriated \$3.5 billion in such assistance, an amount accounting for 23.3% of total foreign aid appropriations. Most of these funds are managed by the Agency for International Development (USAID) and are used for long-term projects in the areas of economic reform and private sector development, democracy promotion, environmental protection, population and human health. Other bilateral development assistance goes to distinct institutions, such as the Peace Corps, the Inter-American Development Foundation, the African Development Foundation, and the Trade and Development Agency. Another development activity gaining more prominence the past two years has been debt relief for the poorest nations, mostly in Africa

**Economic aid supporting U.S. political and security objectives.** In FY2001, Congress appropriated \$4.44 billion, 29.7% of total assistance, for five major programs whose primary purpose is to meet special U.S. economic, political, or security interests. The bulk of these funds – \$2.3 billion – are provided through the Economic Support Fund (ESF), an aid category designed to advance American strategic goals with economic assistance. Since the 1979 Camp David accords and especially since the end of the Cold War, most ESF has gone to support the Middle East Peace Process. ESF funds can be used for development projects (usually about 30% of the total), or to pay for imports of U.S. goods through the Commodity Import Program (less than 10%), or, in the form of cash grant transfers (about 60% of the total) to help countries stabilize their economies, service foreign debt, and implement economic policy reforms.

**Figure 1. Program Composition of Aid - 2001**



Economic/Political Security Aid includes Middle East Peace, Eastern Europe, and former Soviet Union.

Source: House and Senate Appropriations Committees and CRS calculations.

With the demise of the Soviet empire, the United States established two new aid programs which met particular strategic political interests. The SEED (Support for East European Democracy Act of 1989) and the FREEDOM Support Act (Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992) programs were designed to help Central Europe and the new independent states of the former Soviet Union (NIS) achieve democratic systems and free market economies. In FY2001, SEED countries are allocated \$676 million while the NIS receives \$810 million in appropriated funds.

Several other global issues that are considered threats to U.S. security and well-being – terrorism, narcotics, crime and weapons proliferation – have received special attention from the foreign assistance program. Each of these programs provide a range of law enforcement activities, training, and equipment. In FY2001, the anti-narcotics and crime program accounts for \$325 million in foreign aid appropriations, anti-terrorism programs add another \$42 million, and weapons proliferation-related activities are funded at \$250 million.

**Humanitarian economic assistance.** Unlike, development assistance programs, which are often viewed as long-term efforts that may have the effect of preventing future crises from developing, three programs are devoted exclusively to the immediate alleviation of humanitarian emergencies. The bulk of humanitarian assistance goes to the refugee program administered by the State Department. It supports, with about \$715 million in FY2001, a number of refugee relief organizations, including the U.N. High Commission for Refugees and the International Committee of the Red Cross. The Offices of Foreign Disaster Assistance (OFDA) and Transition Initiatives (OTI) in USAID provide relief, rehabilitation, and reconstruction assistance to victims of manmade and natural disasters, activities totaling \$350 million in FY2001. Supplementing both programs is USAID- administered emergency food assistance (about \$390 million in FY2001) under P.L. 480, Title II. In total, Congress appropriated \$1.46 billion for humanitarian economic assistance for FY2001, including a special supplemental for victims of floods and typhoons in southern Africa representing 9.7% of total aid obligations. Because of the unanticipated nature of many such disasters, humanitarian aid budget allocations often increase throughout the year as demands arise.

**Food aid (non-emergency).** The food aid program, generically referred to as P.L. 480 or the Food for Peace program, provides U.S. agricultural commodities to developing countries. Until recently, the United States has maintained three different elements. Food aid with a market-development focus has been provided commercially under long-term, low interest loan terms (Title I of the legislation). Because of its increasing export focus, the Clinton Administration shifted Title I out of the foreign assistance account beginning with FY1998. Title II grant food aid is provided for humanitarian relief, as noted above, or development-oriented purposes to private voluntary organizations (PVOs) or through multilateral organizations, such as the World Food Program. Title II funds are also used to support the “farmer-to-farmer” program which sends hundreds of U.S. volunteers to provide technical advice and training to farm and food-related groups throughout the world. Finally, with the purpose of encouraging agriculture-related policy reforms, grant aid prior to FY2000 was provided bilaterally to least developed country governments meeting certain

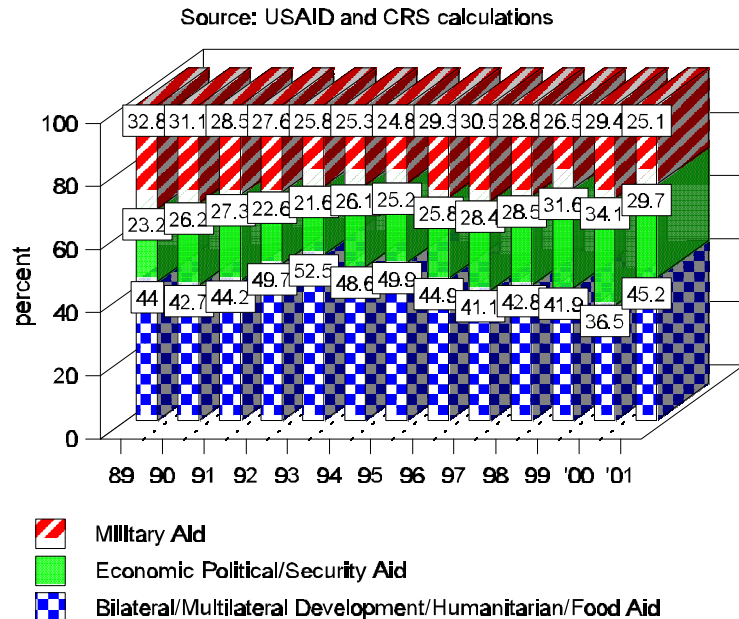


poverty or food deficit criteria (Title III). Total non-emergency food aid accounts for 2.7% of aid appropriated for FY2001 (about \$400 million).

**Multilateral assistance.** A relatively small share of U.S. foreign assistance – 9.5% in FY2001 – is combined with contributions from other donor nations to finance multilateral development projects. For FY2001, Congress appropriated \$1.43 billion for such activities implemented by international organizations, like the United Nations Children’s Fund (UNICEF) and the United Nations Development Program (UNDP), and by multilateral development banks (MDBs), such as the World Bank. The United States, however, is behind in its scheduled payments to several of these organizations, with a current outstanding arrearage of about \$212 million. Under a three year plan initiated by the President in FY1998, Congress has appropriated nearly \$1 billion the past three years to clear the majority of U.S. overdue payments. On average, U.S. contributions represent about 20% of total donor transfers to the MDBs.

**Military assistance.** The United States provides military assistance to U.S. friends and allies to help them acquire U.S. military equipment and training. Congress appropriated \$3.76 billion for military assistance in FY2001, 25.1% of total U.S. foreign aid. There are three main programs. Foreign Military Financing (FMF), \$3.58 billion in FY2001, is mostly a grant program that enables governments to buy equipment from the U.S. government or to purchase equipment directly through U.S. commercial channels. Like ESF, most FMF grants (\$3.28 billion) support the security needs of Israel and Egypt. The International Military Education and Training program (IMET), \$58 million, offers military training on a grant basis to foreign military officers and personnel. Peacekeeping funds (\$127 million in FY2001) are used to support voluntary non-U.N. operations and training for an African crisis response force.

**Figure 2. Shifts in Program Emphasis, 1989-2001**



As Figure 2 indicates, there have been some gradual shifts in program emphasis during the past decade. Military assistance as a share of total aid obligations continued declining through FY1995, a trend that began after military aid peaked in FY1984 at 42%. In FY1996-97, it rebounded from 24.8% to about a 30% share, not because military assistance grew in absolute terms, but because other categories of foreign aid fell significantly while military grants, especially for Israel and Egypt, remained constant. The proportion of aid represented by military programs declined further in FY1999 to roughly 26%, mainly due to the “graduation” of Greece and Turkey as military aid recipients. Military assistance rose again in FY2000 (to nearly 30%) largely because of one-time Middle East peace supplemental for Israel and Jordan.

Economic strategic and political aid remained fairly stable over the decade, but climbed to over a 30% share in FY1999 and FY2000 due to the special Middle East supplemental and an FY2000 counternarcotics initiative for Colombia and other countries in the region. The proportion of foreign aid appropriated for this grouping dropped to just below 30% in FY2001, reflecting somewhat the impact of a continuing ten-year plan to reduce economic aid to Israel and Egypt.

Development-related assistance, including humanitarian, food aid and contributions to multilateral institutions, steadily grew from the 44% share in FY1989 to over 52% by FY1993. The growth, especially in FY1994-95, of more politically-driven economic programs in Central Europe and the former Soviet Union, plus sizable cuts to development aid in FY1996/1997, and Middle East and counternarcotics supplementals the past two years, drove the share of its allocation down to 37% by FY2000. Funding rebounded in FY2001 due to special emphasis on HIV/AIDS programs and debt relief for the world’s poorest nations.

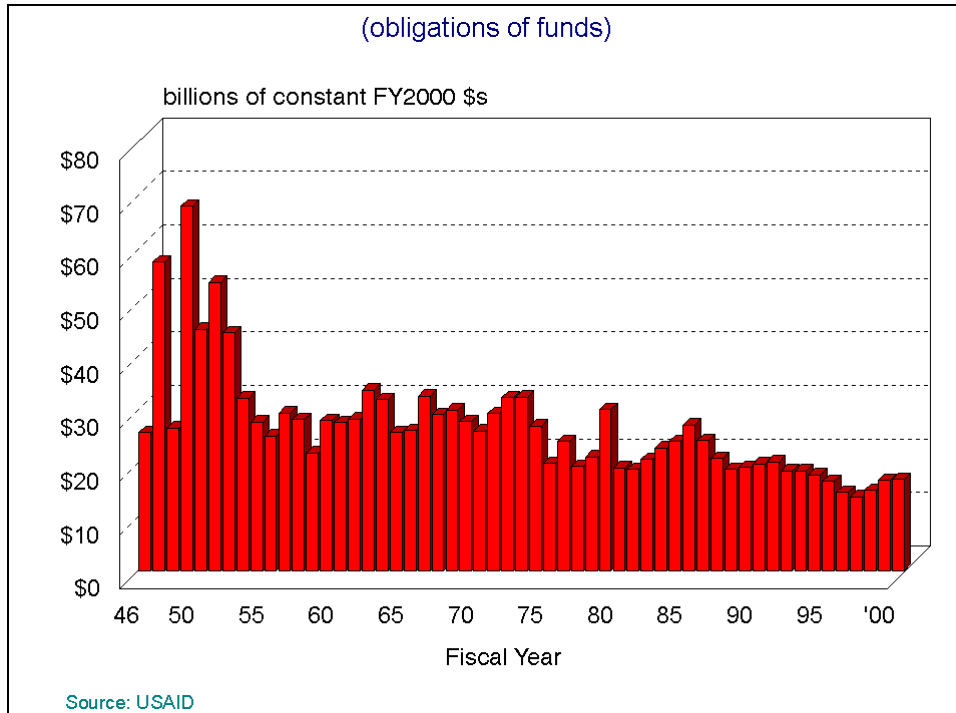
## **Foreign Aid Spending**

### **How large is the U.S. foreign assistance budget and what have been the historical funding trends?**

There are several methods commonly used for measuring the size of federal spending categories such as foreign assistance. Amounts can be expressed in terms of budget authority (funds appropriated by Congress), outlays (money actually spent), as a percent of the total federal budget, as a percent of discretionary budget authority (funds that Congress directly controls, excluding mandatory and entitlement programs), or as a percent of the gross domestic product (GDP) (an indication of the national wealth allocated to foreign aid).

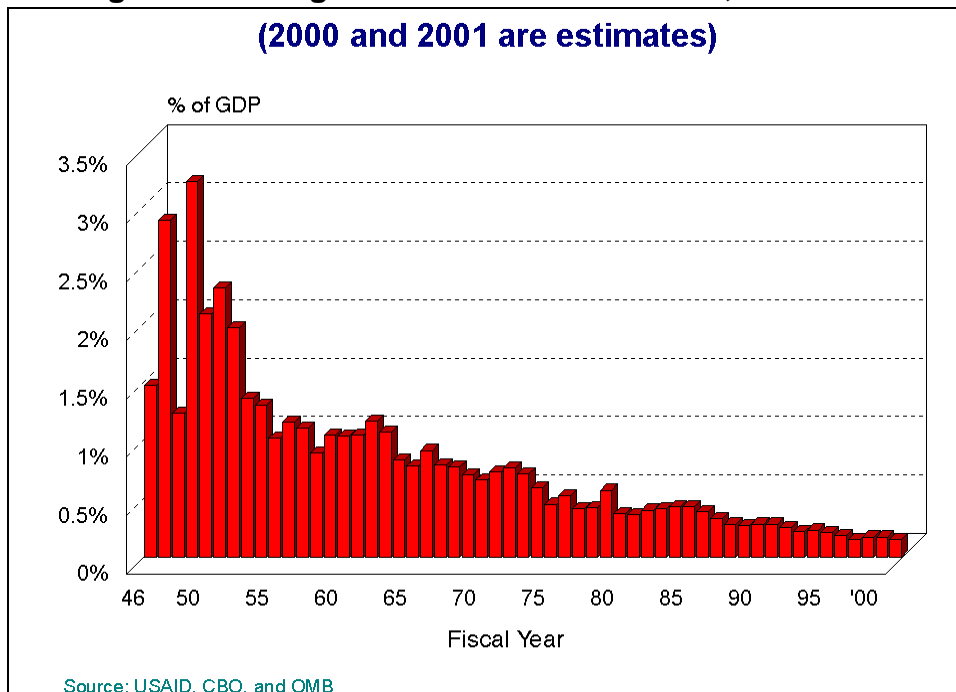
**Figure 3. U.S. Foreign Aid, FY1946 - 2000**

(obligations of funds)

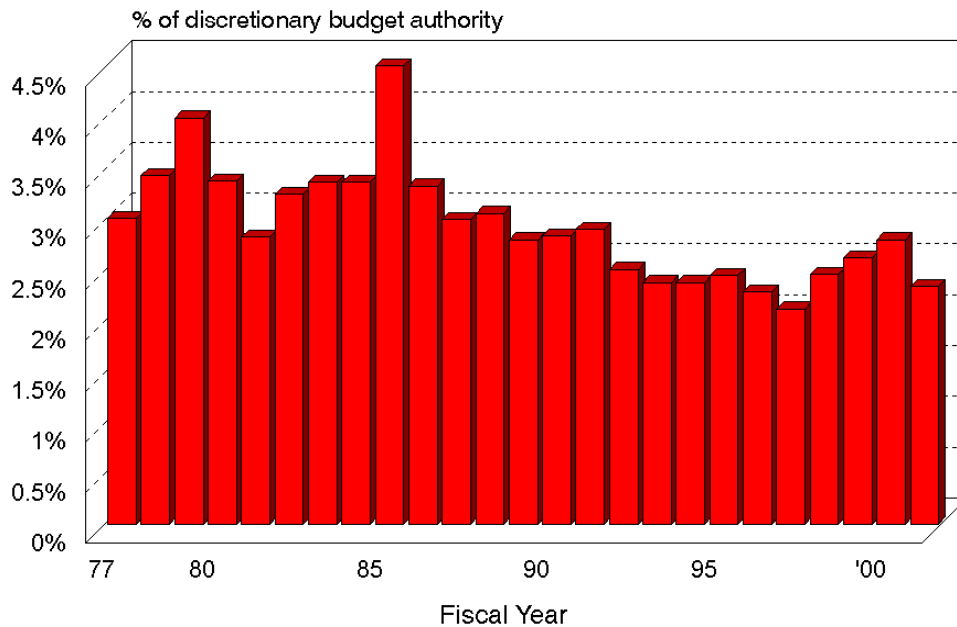


**Figure 4. Foreign Aid as a Percent of GDP, 1946-2001**

(2000 and 2001 are estimates)



**Figure 5. Foreign Aid as a Percent of the Budget, 1977-2001  
(FY2000/2001 are estimates)**



Source: OMB, CBO, and CRS calculations.

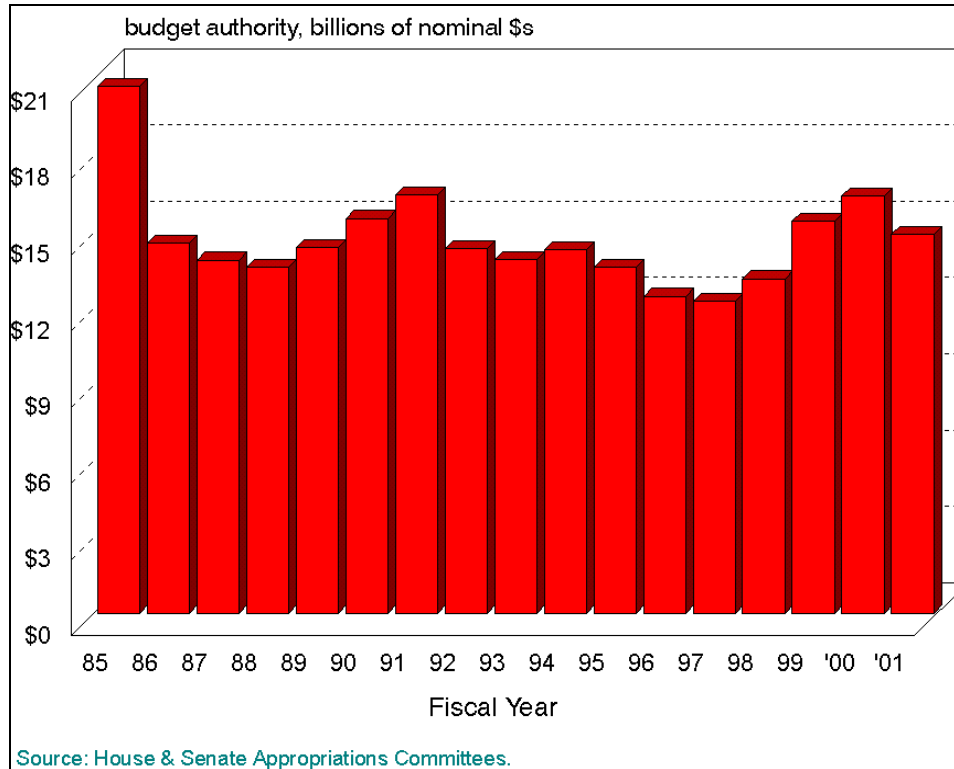
By nearly all of these measures, as shown in Figures 3-6, foreign aid resources have been falling for over a decade, and by some standards FY1996 levels were the lowest during the entire post-World War II period. The FY1996-98 annual average obligation of about \$14.4 billion for foreign aid programs, representing under 0.2% of U.S. GDP, was the smallest in the last half-century. Funding levels rose in FY1999 and FY2000 – to around \$16.8 billion or so – largely because of unanticipated international contingency operations, such as those for Kosovo relief, Central American hurricane assistance, Plan Colombia, and Middle East peace. Nevertheless, foreign aid as a percent of U.S. GDP has remained well under 0.2%, with the 0.15% estimate for FY2001 representing an all time low (Figures 3 and 4).

Foreign aid spending has declined, likewise, as a share of total federal discretionary budget authority.<sup>2</sup> From peaks of 4% and 4.5% of the total budget, respectively in FY1979 (Camp David assistance) and FY1985 (special Middle East aid and Africa famine relief), foreign aid's share of the budget has fallen steadily, dropping to under 3% since the mid-1980s and falling to its lowest amount in over 20 years – about 2.2% in each of FY1996-97. Foreign aid increased in FY1998 through

<sup>2</sup> Discretionary spending represents the portion of the federal budget that Congress controls through enactment of annual appropriations measures. It excludes mandatory spending activities, such as entitlement programs. Currently, discretionary budget authority represents about 32% of total federal budget authority.

FY2000 faster than other discretionary budget programs, growing to 2.8% last year. Due to sharp increases defense and some domestic discretionary spending for FY2001, the share of foreign aid this year is estimated to have fallen back to about 2.3% (Figure 5).

**Figure 6. Foreign Operations Appropriations, 1985-2001**



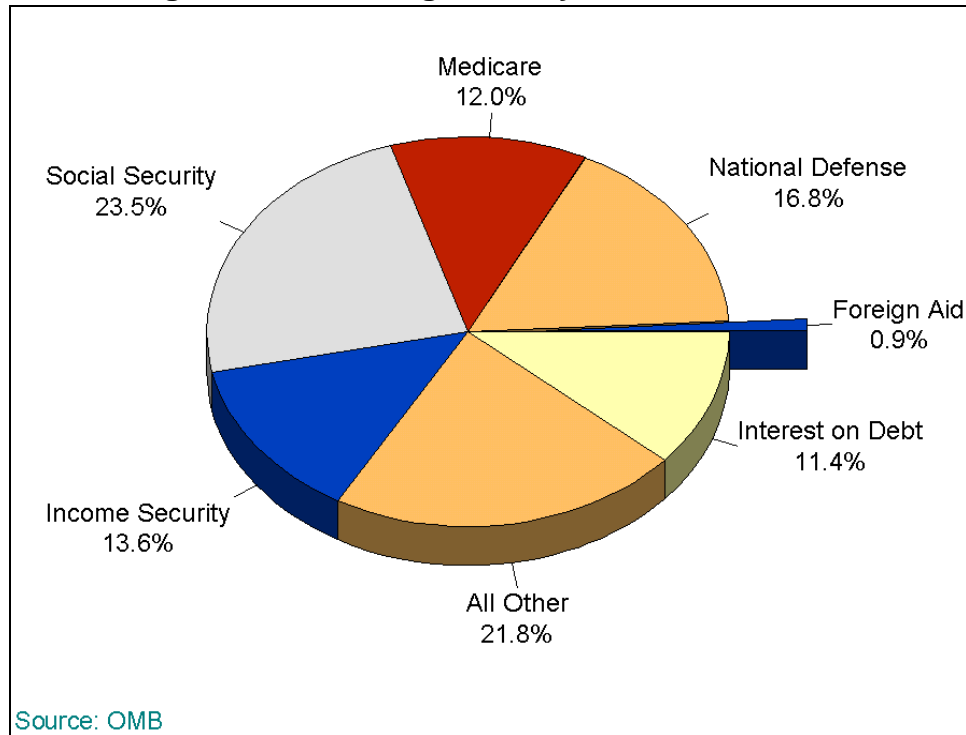
Congress appropriates most foreign aid money through the annual Foreign Operations appropriations bill. Each year it represents the most direct congressional action on foreign assistance spending decisions, although small amounts of foreign aid are funded in other legislation. Similar to the other measures of how much the United States spends on foreign assistance programs, the \$12.4 billion Foreign Operations appropriations for FY1997 was the smallest funding level in over a decade. Congress reversed this trend, however, for FYs 1998-2000, passing \$13.15 billion, \$15.4 billion, and \$16.4 billion measures, respectively. While these are still well below the nominal amounts approved in most Foreign Operations bills since the mid-1980s, the amounts are significantly higher than for the previous two years. Absent special supplementals that drove up appropriations in FY1999 and 2000, the current FY2001 level falls back to \$14.9 billion, an amount, however, that could rise as the year goes on (Figure 6).

### How does foreign aid spending compare with other federal programs?

As illustrated above in Figure 5, foreign aid spending is relatively small compared with other discretionary programs funded by Congress. Within the context of total federal spending – discretionary programs, entitlements, and other mandatory

activities – foreign aid consumes an even smaller share of federal dollars – less than 1%. Figure 7 compares foreign aid outlays for FY2001 with those of other major U.S. government spending categories.

**Figure 7. U.S. Budget Outlays, 2001 Estimates**



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

Most U.S. foreign aid is used for procurement of U.S. goods and services, although amounts of aid coming back to the United States differ by program. No exact figure is available due to difficulties in tracking procurement item by item, but some general estimates are possible for individual programs, though these may differ year to year. (See Figure 8.)

In FY2000, roughly 87% or \$4.8 billion of **military aid financing** was used for procurement of U.S. military equipment and training. The remaining 13% were funds allocated to Israel for procurement within that country.

**Food assistance** commodities are purchased wholly in the United States and most expenditures for shipping those commodities to recipient countries go entirely to U.S. freight companies. Under current legislation, three-fourths of all food aid must be shipped by U.S. carriers. On this basis, a rough estimate suggests that more than 90% – at least \$720 million in FY2000 – of food aid expenditures were spent in the United States.

Because U.S. contributions to **multilateral institutions** are mixed with funds from other nations and the bulk of the program is financed with borrowed funds rather than direct government contributions, the U.S. share of procurement financed by MDBs may exceed the amount of the U.S. contribution. For example, the \$2.66 billion in World Bank procurement from American sources for investment and adjustment loans in FY1999 was over three times the \$800 million U.S. contribution to the IBRD and IDA, the Bank's two largest facilities. The United States accounted for about 18% of all World Bank foreign procurement in FY1999, the largest of any country. Japan (12.6%) Germany (7.9%), France (5.5%), and Italy (4.6%) followed.<sup>3</sup>

Most **bilateral development assistance** and the **NIS and SEED components of economic political and security assistance** support programs in developing countries and the new European democracies, respectively. Although a small proportion of funding for these programs results in transfers of U.S. dollars, the services of experts and project management personnel and much of the required equipment is procured from the United States. According to USAID, 63% of total USAID procurement between October 1998 and September 1999 under these programs came from U.S. sources.

Although some might argue that a greater proportion of U.S. foreign aid than is currently the case should be used for procurement of U.S. goods and services, a 100% level of reflows would be difficult if not impossible to achieve. Projects carried out in the developing world by their nature require a degree of spending within the recipient country – for local hire personnel, local building materials, and other operational expenses.

Many argue that the foreign aid program brings significant indirect financial benefits to the United States, in addition to the direct benefits derived from reflows of aid dollars. First, it is argued that provision of military equipment through the military assistance program and food commodities through P.L.480 helps to develop future, strictly commercial, markets for those products. Second, as countries develop economically, they are in a position to purchase more goods from abroad and the United States benefits as a trade partner. In 1999, developing countries represented 41.6% of U.S. exports – up from 34.6% in 1990.<sup>4</sup>

## **Recipients of U.S. Foreign Assistance**

### **Which countries receive U.S. foreign aid?**

In 2000, the United States provided some form of foreign assistance to more than 140 countries. Figure 9 illustrates the top 15 recipients of U.S. foreign assistance estimated for that year. Assistance, although provided to many nations, is

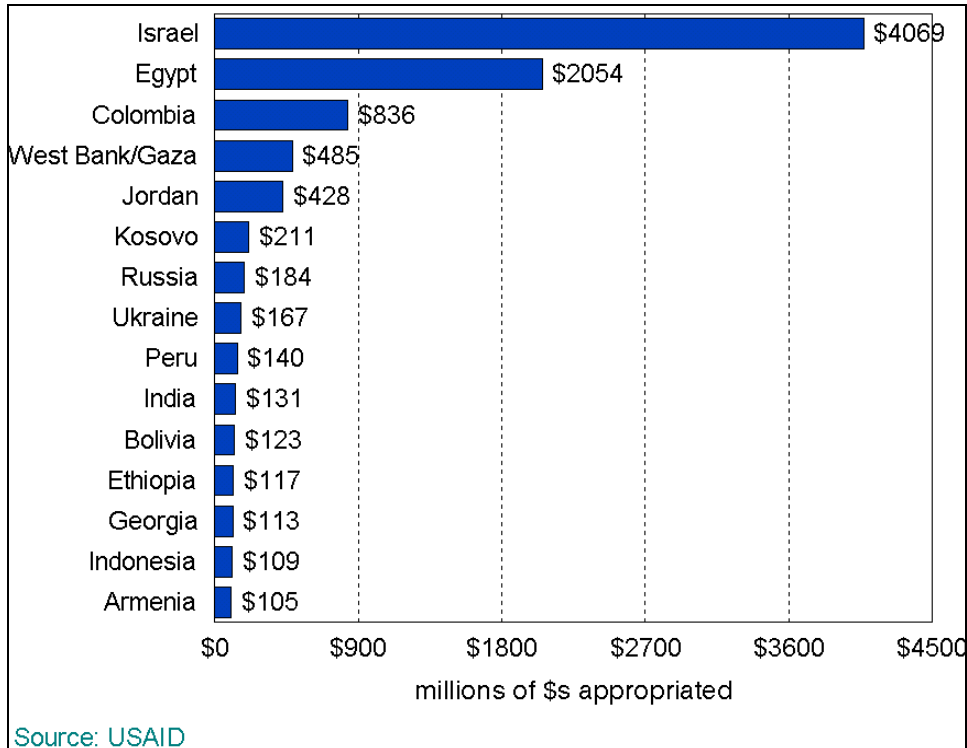
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<sup>3</sup> World Bank Annual Report, 1999. Pages 212-216.

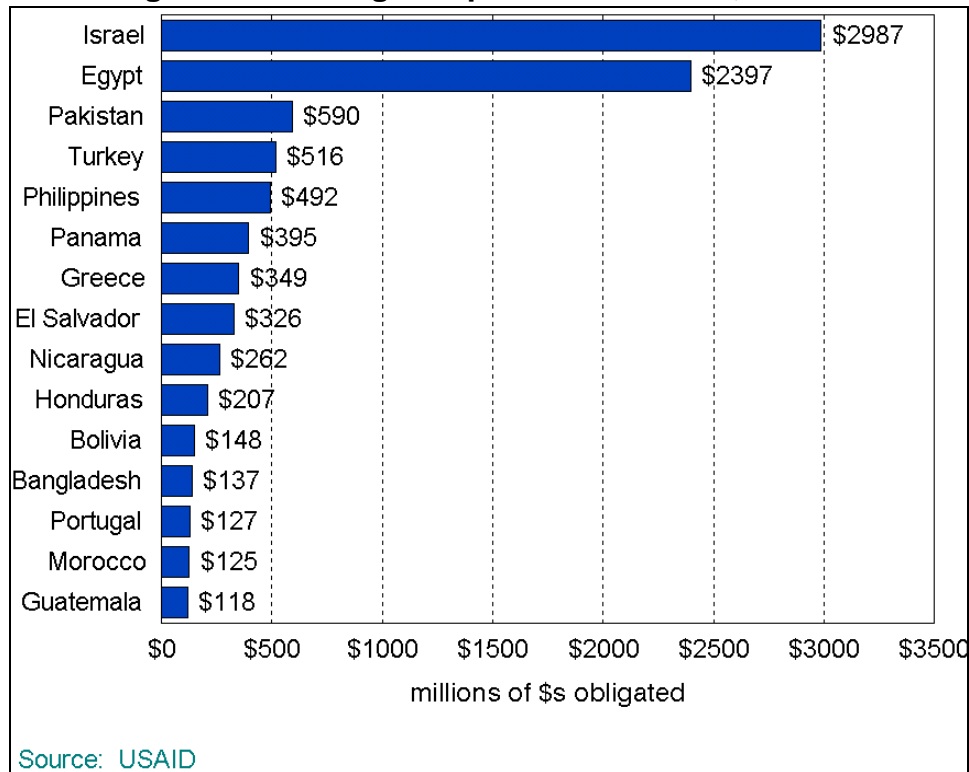
<sup>4</sup> *U.S. Foreign Trade Highlights*, U.S. Department of Commerce, International Trade Administration. Found at [<http://www.ita.doc.gov/SmappFrameset.html>].

concentrated heavily in certain countries, reflecting the priorities and interests of United States foreign policy. The most consistent thread connecting the top aid recipients over the past decade has been continuing U.S. support for peace in the Middle East, with by far the largest programs maintained for Israel and Egypt. The top ten recipients of aid in FY2000 accounted for 52% of total U.S. assistance appropriated worldwide in that year and 76% of all assistance allocated to individual countries.

**Figure 8. Leading Recipients of U.S. Aid, FY2000**





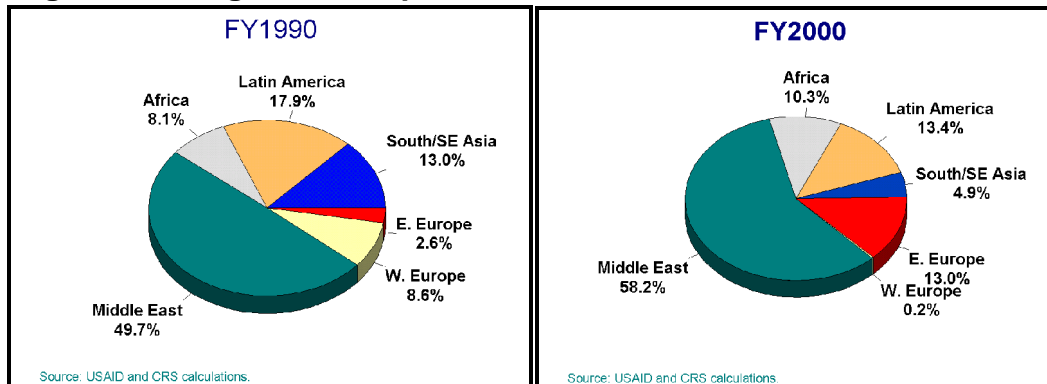
**Figure 9. Leading Recipients of U.S. Aid, FY1990**

Demonstrating a dramatic shift in priorities and international circumstances, most notably the end of the Cold War, only 3 of the top 15 recipients of foreign aid in FY2000 were on a similar list compiled for FY1990 (Figure 10). Four of the new entries – Russia, Ukraine, Georgia, and Armenia – have only received assistance since FY1992 following the dissolution of the Soviet Union. Kosovo represents a large-scale U.S. response to ethnic conflict, and the West Bank/Gaza a response to the Middle East peace efforts. The departure from the list of four Central American countries – Honduras, Nicaragua, El Salvador, and Guatemala – illustrates the conclusion of conflicts in those places that dominated U.S. interest in the 1980s. Providing substantial amounts of aid to countries allowing U.S. access to military bases on their soil– Turkey, Greece, Portugal, and the Philippines – has also largely ended. Using foreign aid to counter more highly prioritized security concerns, including narcotics interdiction and weapons proliferation, has elevated the rank of drug producing countries, Colombia, Peru and Bolivia, among leading recipients, while evidence of Pakistan’s development of a nuclear capability led the United States to suspend most assistance.

On a regional basis (Figure 11), the Middle East and North Africa received the bulk of U.S. foreign assistance in FY2000 – 58%. Eastern Europe and the former Soviet Union received 13%; Africa, 10%; Latin America, 13%; and Asia and the Pacific, 5%. The level for Latin America was especially high in FY2000 due to a special one-time counter-narcotics initiative for Colombia and neighboring states. Western Europe, previously a large aid recipient, received negligible amounts last year. As Figure 11 suggests, however, during the past ten years there have been some significant shifts in regional allocation priorities. The Middle East proportionate share

remained dominant, while the allocation to Africa grew modestly. As aid levels to Cold War allies in southern Europe and the Mediterranean – Spain, Portugal, Greece, and Turkey – fell significantly in the 1990s, countries in Central and East Europe and the former Soviet Union have now become to represent the second largest area of regional concentration. Asia's shares decreased by nearly two-thirds.

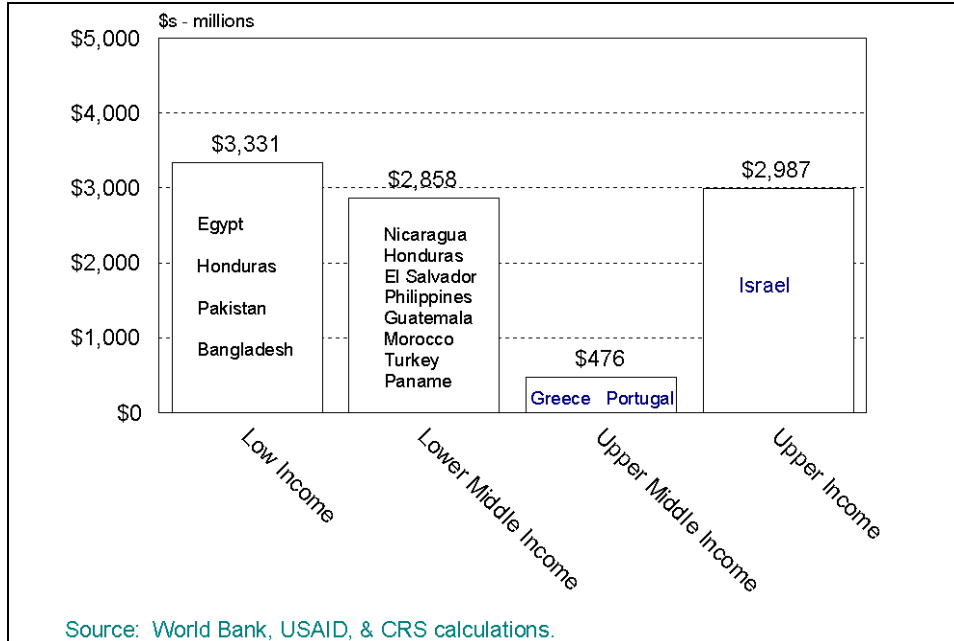
**Figure 10. Regional Composition**



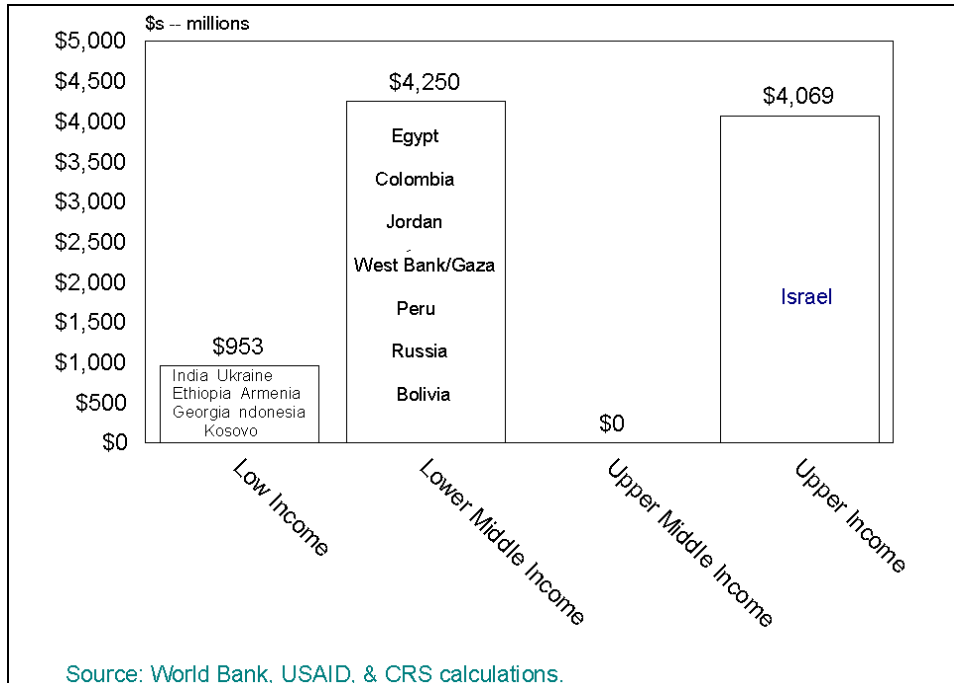
U.S. aid priorities are also indicated in a ranking of recipients by their per capita income level (Figure 12). Although per capita income is an inaccurate measurement of development, and, as defined by the World Bank, the cut-off point between lower, lower middle, upper middle, and high income may seem arbitrary, a breakdown by income does provide some comparative sense of aid priorities. Of the fifteen top recipients of U.S. aid in FY2000, fourteen were in the low or lower middle income category. In FY1990, when U.S. aid had a more clearly strategic focus, only four countries were in the lowest category. Likewise, in FY1990, three of the top recipients were classified as upper or upper-middle income nations, a number that had fallen to one by FY2000.<sup>5</sup>

<sup>5</sup> World Bank, World Development Report 2000, and World Development Report 1992.

**Figure 11. Assistance by Income Level: FY1990**



**Figure 12. Assistance by Income Level: FY2000**



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

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

**Loan/grant composition.** During the past decade, nearly all foreign aid – military as well as economic – has been provided in grant form. Between 1962 and 1988, loans represented 32% of total military and economic assistance. This figure declined substantially beginning in the mid-1980s, until by FY2000, loans represent less than 2% of total aid appropriations. The de-emphasis in the amounts of foreign aid loan programs came largely in response to the debt problems of developing countries. Both Congress and the executive branch supported the view that foreign aid should not add to the already existing debt burden carried by these countries.

**Loan repayment.** Between 1946 and 1998, the United States loaned about \$105.7 billion under the foreign aid program. Of that amount, \$74 billion had been repaid as of the end of FY1998, leaving \$31.5 billion outstanding.<sup>6</sup> Most recipients of U.S. loans remain current or only slightly in arrears on debt payments. For over two decades, U.S. foreign aid law (the so-called Brooke amendment) has prohibited new assistance to any country that falls more than one year past due in servicing its debt obligations to the United States. Afghanistan, Liberia, Somalia, and the Democratic Republic of Congo are current examples of countries that are more than one year in arrears. Selected humanitarian aid programs and drug producing countries, however, are exempt from this debt payment requirement.

**Debt forgiveness.** The United States has also forgiven debts owed by foreign governments and encouraged, with mixed success, other foreign aid donors and international financial institutions to do likewise. In total, the United States forgave or reduced about \$14.5 billion owed by 38 countries between 1990 and 1998.<sup>7</sup> In some cases, the decision to forgive foreign aid debts has been based largely on economic grounds as another means to support development efforts by heavily indebted, but reform-minded countries. But the largest and most hotly debated debt forgiveness actions have been implemented for much broader foreign policy reasons with a more strategic purpose. Poland, during its transition from a communist system and centrally-planned economy (1990 – \$2.46 billion), Egypt, for making peace with Israel and helping maintain the Arab coalition during the Persian Gulf War (1990 – \$6.7 billion), and Jordan, after signing a peace accord with Israel (1994 – \$700 million), are examples.

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<sup>6</sup> USAID. *U.S. Overseas Loans and Grants, July 1, 1945-September 30, 1996.*

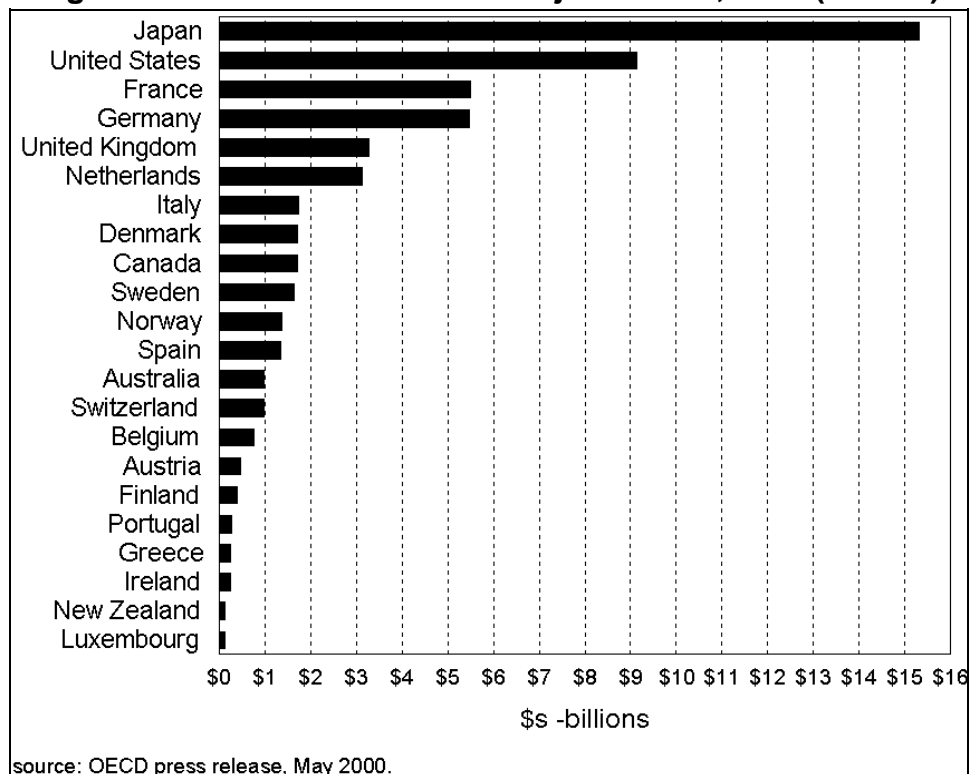
<sup>7</sup> U.S. Department of the Treasury.

Most recently, the United States has been an active participant in the multilateral debt relief initiative for the world's most debt-strapped poor nations – the Heavily Indebted Poor Country (HIPC) program, managed by the World Bank and the International Monetary Fund. Along with other bilateral and multilateral creditors the HIPC initiative is anticipated to cancel over \$20 billion of debt (net present value) owed by more than 30 countries, mostly in Africa. The United States has pledged to contribute roughly \$1 billion for the initiative, of which Congress has appropriated \$545 million.

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

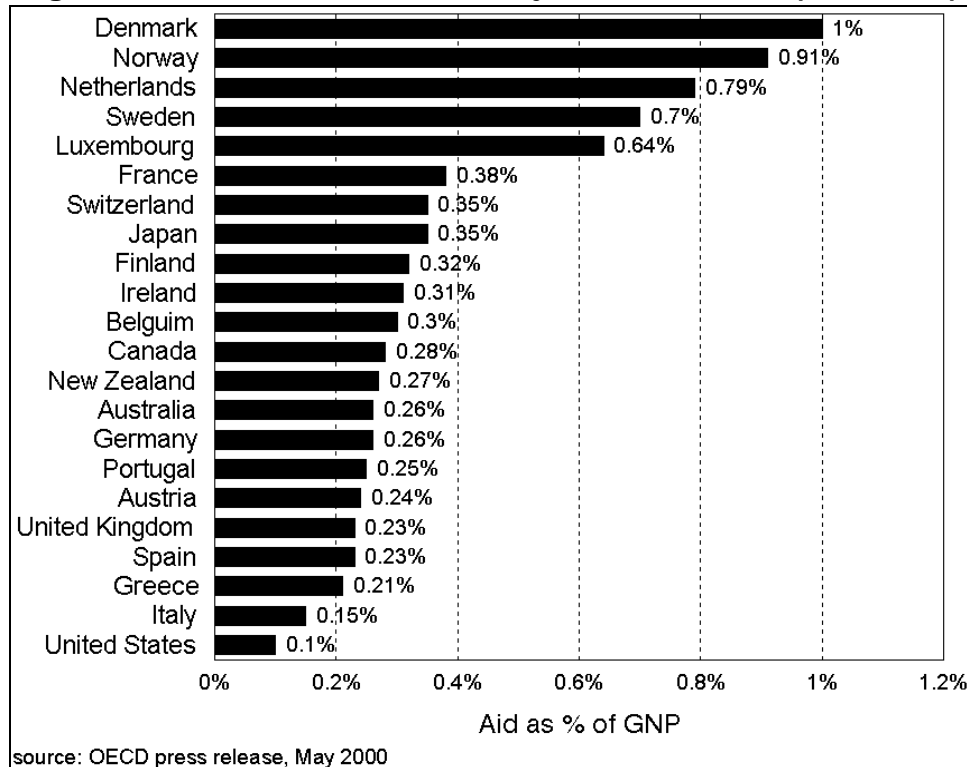
For decades, the United States ranked first among the developed countries in net disbursements of economic aid, or “Official Development Assistance (ODA)” as defined by the international donor community. In 1989, for the first time, Japan supplanted the United States as the largest donor. The United States regained its leading position in 1991, only to lose it again in 1993 and each year thereafter. In 1995, primarily because of technical data collection reasons, the United States fell to fourth place, behind Japan, France, and Germany. The United States has fluctuated between a second and third position since. In 1999, the U.S. was the second largest contributor at \$9.1 billion, well behind Japan's \$15.3 billion, but significantly higher than Germany and France at \$5.5 billion each. As a group, the 21 members of the OECD's Development Assistance Committee (DAC) representing the world's leading providers of economic aid, transferred \$56 billion in 1999, up 5% in real terms from the year before.

**Figure 13. Economic Aid from Major Donors, 1999 (dollars)**



Even when the United States was the unquestioned leader in dollar amounts of aid flows to developing countries, it was often among the last when aid transfers by developed country donors were calculated by percent of gross national product. In 1999, as has been the case since 1993, the United States ranked last at 0.10% of GNP. Denmark ranked first at 1.00% of GNP, while Japan dispensed 0.35%, France 0.38, and Germany 0.26%. The average for all DAC members was 0.24%.

**Figure 14. Economic Aid from Major Donors, 1999 (% of GNP)**



## Congress and Foreign Aid

### What congressional committees oversee foreign aid programs?

Numerous congressional authorization committees and appropriations subcommittees maintain primary responsibility for U.S. foreign assistance. Several committees have responsibility for *authorizing* legislation establishing programs and policy and for conducting oversight of foreign aid programs. In the Senate, the Committee on Foreign Relations, and in the House, the Committee on International Relations, have primary jurisdiction over bilateral development assistance, ESF and other economic security assistance, military assistance, and international organizations. Food aid, primarily the responsibility of the Agriculture Committees in both bodies, is shared with the International Relations Committee in the House. U.S. contributions to multilateral development banks are within the jurisdiction of the Senate Foreign Relations Committee and the House Banking Committee. Foreign

aid *appropriations* are provided entirely through subcommittees of the Appropriations panels in both the House and Senate.

## What are the major foreign aid legislative vehicles?

The most significant *permanent* foreign aid *authorization* laws are the Foreign Assistance Act of 1961, covering most bilateral economic and security assistance programs (P.L. 87-195; 22 U.S.C. 2151), the Arms Export Control Act (1976), authorizing military sales and financing (P.L. 90-629; 22 U.S.C. 2751), the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480), covering food aid (P.L. 83-480; 7 U.S.C. 1691), and the Bretton Woods Agreement Act (1945) authorizing U.S. participation in multilateral development banks (P.L. 79-171; 22 U.S.C. 286).<sup>8</sup> Congress usually schedules every two years debates on omnibus foreign aid bills that amend these permanent authorization measures. Although foreign aid authorizing bills have passed the House or Senate, or both, on numerous occasions, Congress has not enacted into law a major foreign assistance authorization measure since 1985. Instead, foreign aid bills have frequently stalled at some point in the debate because of controversial issues, a tight legislative calendar, or executive-legislative foreign policy disputes.<sup>9</sup>

In the absence of regular enactment of foreign aid *authorization* bills, *appropriation* legislation considered annually within the Foreign Operations spending measure has assumed greater significance for Congress in influencing U.S. foreign aid policy. Not only does the bill set spending levels each year for nearly every foreign assistance account, Foreign Operations appropriations also incorporate new policy initiatives that would otherwise be debated and enacted as part of authorizing legislation. The only foreign aid program not funded within the Foreign Operations measure is food aid, which Congress includes in the Agriculture appropriations bill.

## The Executive Branch and Foreign Aid

### What executive branch agencies administer foreign aid programs?

The bulk of the U.S. bilateral economic aid program is administered by the Agency for International Development (USAID), working under the guidance of the

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<sup>8</sup> Separate permanent authorizations exist for other specific foreign aid programs such as the Peace Corps, the Inter-American Foundation, the African Development Foundation, aid to Eastern Europe (SEED Act), and assistance to the former Soviet Union (FREEDOM Support Act).

<sup>9</sup> A few foreign aid programs that are authorized in other legislation have received more regular legislative review. Authorizing legislation for voluntary contributions to international organizations and refugee programs, for example, are usually contained in omnibus Foreign Relations Authorization measures that also address State Department and U.S. Information Agency issues. Food aid and amendments to P.L.480 are usually considered in the omnibus “Farm bill” that Congress re-authorizes every five years.

Secretary of State. USAID is responsible for most development assistance, Title II of the food aid program, and, in conjunction with the State Department, ESF, SEED, and NIS assistance. In FY2000, USAID had roughly 5,456 staff members, of which only about 2,052 were U.S. citizens hired directly by the agency. The majority of USAID staff consist of foreign nationals working in overseas missions and representational offices who oversee the implementation of hundreds of projects undertaken by thousands of contractors, consultants, and non-governmental organizations (NGOs).<sup>10</sup> Appropriations for USAID-managed programs amounted to \$7.76 billion in FY2000.

Most military assistance is administered by the Department of Defense (DOD) in conjunction with the Office of Politico-Military Affairs in the State Department. The Defense Security Cooperation Agency is the primary DOD body responsible for foreign military financing and training programs. The Defense Department manages about \$3.6 billion of total foreign aid spending in FY2000.

The Departments of Treasury and State also administer several foreign aid programs. Assistance to multilateral development banks is funneled through the Treasury Department, whose Assistant Secretary for International Affairs manages U.S. participation. Presidentially appointed U.S. executive directors at each of the banks represent the United States point of view. Treasury also deals with foreign debt reduction issues and programs. For FY2000, funding for activities falling under the Treasury Department's jurisdiction totaled about \$1.2 billion. Several smaller, discrete foreign aid programs are managed by specific offices in the State Department, including those dealing with terrorism, narcotics control, weapons proliferation, refugee relief, and voluntary support for a range of international organizations such as UNICEF. FY2000 appropriations for these State Department-administered aid programs totaled about \$2.4 billion. The State Department also plays a major role in management of the SEED and NIS accounts.

Other government agencies which play a role in implementation of foreign aid programs are the Peace Corps, the Trade and Development Agency (TDA), and the Overseas Private Investment Corporation (OPIC). The Peace Corps, an autonomous agency with an FY2000 budget of \$245 million, supports more than 6,000 volunteers in 87 countries. Peace Corps volunteers work in a wide range of educational and community development projects. TDA finances trade missions and feasibility studies for private sector projects likely to generate U.S. exports. Its budget in FY2000 was \$44 million. OPIC provides political risk insurance to U.S. companies investing in developing countries and the new democracies and finances projects through loans and guarantees. It also supports investment missions and provides other pre-investment information services. Its insurance activities have been self-sustaining, but credit reform rules require a relatively small appropriation to back up U.S. guarantees.

Two independent agencies, the Inter-American Foundation and the African Development Foundation, also administer U.S. foreign aid. Both organizations emphasize grassroots development by providing financial support to local private organizations in developing countries. For FY2000, Congress appropriated \$5 million

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<sup>10</sup> USAID. *Congressional Presentation, Fiscal Year 2001.*



and \$14 million to the Inter-American Foundation and the African Development Foundation, respectively.

## Data Appendix

**Table 1. Aid Program Composition, 2001**

Aid Program	\$s - billions	% of total aid
Bilateral Development	\$3.489	23.3%
Food (non-emergency)	\$0.400	2.7%
Humanitarian	\$1.455	9.7%
Multilateral Development	\$1.430	9.5%
Economic Political/Security	\$4.443	29.7%
Military	\$3.760	25.1%

**Source:** House and Senate Appropriations Committees and CRS calculations.

**Table 2. Program Composition, 1987-1999**  
(\$s - billions and % of total aid)

Fiscal Year	Development/Food/Humanitarian		Economic Political/Security		Military	
1989	\$6.467	44.0%	\$3.417	23.2%	\$4.828	32.8%
1990	\$6.729	42.7%	\$4.135	26.2%	\$4.893	31.1%
1991	\$7.388	44.2%	\$4.570	27.3%	\$4.759	28.5%
1992	\$7.827	49.7%	\$3.563	22.6%	\$4.437	27.6%
1993	\$8.538	52.5%	\$3.510	21.6%	\$4.200	25.8%
1994	\$7.723	48.6%	\$4.143	26.1%	\$4.102	25.3%
1995	\$7.664	49.9%	\$3.876	25.2%	\$3.815	24.8%
1996	\$5.754	44.9%	\$3.465	25.8%	\$4.007	29.3%
1997	\$5.646	41.1%	\$3.823	28.4%	\$3.879	30.5%
1998	\$6.070	42.8%	\$4.038	28.5%	\$4.081	28.8%
1999	\$7.033	41.9%	\$5.724	31.6%	\$4.448	26.5%
2000	6.205	36.5%	\$5.797	34.1%	\$4.998	29.4%
2001	7.594	45.2%	\$4.990	29.7%	\$4.217	25.1%

**Source:** USAID, House and Senate Appropriations Committees, and CRS calculations.

**Table 3. Foreign Aid Funding Trends**

<b>Fiscal Year</b>	<b>Billions of constant 2000 \$s</b>	<b>As % of GDP</b>	<b>As % of total discretionary budget authority</b>
1946	\$25.8	1.47%	--
1947	\$57.6	2.88%	--
1948	\$26.6	1.23%	--
1949	\$68.1	3.21%	--
1950	\$45.1	2.08%	--
1951	\$53.8	2.30%	--
1952	\$44.4	1.96%	--
1953	\$32.2	1.36%	--
1954	\$27.7	1.30%	--
1955	\$25.1	1.02%	--
1956	\$29.4	1.15%	--
1957	\$28.2	1.10%	--
1958	\$22.0	0.89%	--
1959	\$28.0	1.04%	--
1960	\$27.6	1.03%	--
1961	\$28.3	1.04%	--
1962	\$33.7	1.16%	--
1963	\$31.9	1.07%	--
1964	\$25.8	0.83%	--
1965	\$26.2	0.78%	--
1966	\$32.6	0.91%	--
1967	\$29.1	0.79%	--
1968	\$30.0	0.77%	--
1969	\$27.8	0.70%	--
1970	\$26.1	0.66%	--
1971	\$29.3	0.73%	--
1972	\$32.3	0.76%	--
1973	\$32.4	0.71%	--
1974	\$27.0	0.59%	--
1975	\$20.0	0.45%	--
1976	\$24.1	0.52%	--
1977	\$19.4	0.41%	3.09%

<b>Fiscal Year</b>	<b>Billions of constant 2000 \$s</b>	<b>As % of GDP</b>	<b>As % of total discretionary budget authority</b>
1978	\$21.2	0.42%	3.43%
1979	\$30.1	0.57%	4.01%
1980	\$19.2	0.37%	3.38%
1981	\$18.9	0.36%	2.83%
1982	\$20.1	0.40%	3.25%
1983	\$22.9	0.41%	3.37%
1984	\$24.1	0.43%	3.37%
1985	\$27.2	0.43%	4.51%
1986	\$24.3	0.39%	3.33%
1987	\$20.9	0.33%	3.00%
1988	\$18.9	0.28%	3.06%
1989	\$19.3	0.27%	2.80%
1990	\$19.9	0.28%	2.84%
1991	\$20.3	0.28%	2.90%
1992	\$18.6	0.25%	2.51%
1993	\$18.6	0.22%	2.38%
1994	\$17.9	0.23%	2.38%
1995	\$16.6	0.21%	2.45%
1996	\$13.8	0.18%	2.29%
1997	\$15.0	0.19%	2.12%
1998	\$15.0	0.15%	2.46%
1999	\$16.8	0.17%	2.62%
2000	\$16.9	0.17%	2.80%

**Source:** USAID, Office of Management and Budget, and CRS calculations.