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BRIEFING MANUALS

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BRIEFING MANUAL

BILATERAL FOREIGN AID

IDCA - International Development Cooperation Administration

AID - Agency for International Development

P.L. 480 - Food for Peace

OPIC - Overseas Private Investment Corporation

TDP - Trade and Development Program

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INTRODUCTION.

To Be Written After Staff Review.

I. BACKGROUND.

A. Campaign Statements and Earlier Statements of Governor Reagan on the Subject.

A campaign policy statement of Governor Reagan was issued on September 10, 1980, on foreign aid, which reads as follows:

> Over the long run, no nation has provided more foreign assistance than the United States--over $250 billion since 1945.
>
> Most of the poorer countries know well that for economic and technological aid, they have to turn to the West, so we do not have to apologize to anybody about our foreign aid program.
>
> Governor Reagan believes that in the future, we must pay more attention to the lessons learned about economic development and increasing productivity. Some countries--Brazil, South Korea, Kenya--have used our aid well, in fact, so well that many of them no longer need any aid. These countries that have followed the Marxist example have done poorly. Cuba was number three in per capita GNP in the hemisphere when Castro took over, and now Cuba ranks eleventh. We should not use our taxpayers' money to bail out Marxist economies.
>
> However, we can and should help poorer nations to help themselves, with technological aid, carefully targeted economic aid, and by conveying the lessons we have learned about private enterprise and the efficiency of the free market.

This is consistent with his radio programs in 1977-8. Although this Briefing Manual is on bilateral foreign, Governor Reagan was highly critical of the inefficiencies of A.I.D. He followed up the criticism with harsh statements about excessive salaries and luxury living of the staff of the I.M.F. and the World Bank; saying that member countries borrowed money at 17% to give it to these institutions so that the institutions could lend it to its employees at 4% and lend it out on 50-year term soft loans. Governor Reagan said the following for broadcast for the period March 27 to April 4, 1978:

> "Most Americans are aware that they continue to support foreign aid through A.I.D.--the State Department's Agency for International Development. And, while many think it is unnecessarily wasteful, there is a generous side to the American native which keeps him from rising up and saying "enough already".

But few Americans are aware that A.I.D. is only one hole in a sieve. Our money goes through a dozen agencies of the United Nations and such financial institutions as the World Bank, International Monetary Fund, Inter-American Bank and the Asian Development Bank.

Congressman Charles Thone from Nebraska has called attention to the fact that even the liberal Brookings Institution--citing the inefficiencies of A.I.D.--has called for its abolition. The administration in Washington, however, has proposed an increase in A.I.D.'s spending and the hiring of more staff all around the world.

But let's take a look at the world inhabited by those who work and earn in those international financial institutions we support with tax dollars. World Bank salaries are 30 to 40 percent higher than those in comparable jobs in the federal government. In addition to which the bank provides lavish fringe benefits: payment for family travel and restaurant tabs (possibly even for three martini lunches). The administration proposes increased funding for the World Bank.

The International Monetary Fund has its own country club in Washington, says Congressman Thone, and its average salary (including pay for clubs and janitors) is $43,000 a year. On top of that, employees can borrow from the World Bank at four percent interest. By contrast, some of the money provided to foreign nations to help the poor is loaned by governments of some of those nations to their own citizens at 17 percent interest.

Now the"world" those World Bank and International Monetary Fund employees live in is very real to them, I'm sure, but only because they can't see over their own horizon to the world where the providees of their good life dwell."

Governor Reagan spoke earlier on the matters of borrowing at high interest rates to lend at low ones in his broadcast for August 29 to September 16, 1977. He said:

"One thing we do know--or should know--is that some of the 'international' or perhaps we should call them 'multi-national' banks we help finance make what are called 'soft loans' to developing countries. Soft loans are 50 year loans at no interest--only a slight service charge. But since we ourselves are operating on a deficit basis this means we are lending money at no interest, which we have to borrow first and upon which we pay the going rate of interest."

In this same program Governor Reagan spoke favorably of Congressman Bill Young's attempt to prohibit foreign aid to Uganda, Cambodia, Viet Nam, and Laos. This is in line with the Republican Platform that foreign assistance should be used to support U.S. foreign policy, i.e. help and strengthen our friends (although avoiding punishment of our friends because we don't like their social and political policies). In other words, don't treat our enemies as friends by giving them aid, and our friends as enemies by denying them aid. Governor Reagan said:

> "Representative Bill Young, a Congressman from Florida, successfully amended the Foreign Aid appropriation bill and now finds himself up against the whole administration, which didn't care for his amendment even a little bit.
>
> In spite of the fact that poll after poll shows the American people increasingly disenchanted with Foreign Aid, this year's appropriation was almost double last year's. And the Secretary of State says he wants it increased even more in the years ahead.
>
> Congressman Young's amendment blocked aid from going to Uganda, Cambodia, Laos and Vietnam. The White House complained that this hampered efforts to promote American interests around the world."

Naturally, the Carter Administration objected to these limitations on their discretion. But, more importantly, the Carter Administration objected to the attempt to prevent the multilateral aid from spending U.S. contributions contrary to the restrictions. In this connection, Governor Reagan protested the unwillingness of international aid organizations to accept any restrictions on their grants, and even worse, to answer any quesions about how grants were made.

> "But, the part of the amendment that really touched a nerve was language prohibiting indirect aid through international financial institutions over which we have no control. It seems that the Administration wants to increase our commitments to these multilateral organizations.
>
> Of the $6.7 billion approved by the House, about one-third ($2.1 billion) will be plowed into six international funds or banks. Young hasn't been able to get any answers to his questions about where this money goes after it leaves our hands. Executives of the banks refuse to testify before Congress and Robert McNamara refused to allow the Congressman to sit in on a board meeting of the World Bank."

Governor Reagan protested the procedure which places American taxpayers' money in the hands of multinational organizations to spend without any answerability. That is why Governor Reagan supports bilateral as opposed to multilateral aid; he said:

"We, of course, are the largest contributor to all of these banks. And part of our money underwrites the payroll of all these banks--whose employees, by the way, in many categories are paid as much as 57 percent more than comparable workers in U.S. civil service jobs; besides which they pay no income tax on these handsome salaries.

Congressman Bill Young is calling for a national debate on the whole subject of Foreign Aid. He points out that Americans are unaware of the extent to which foreign aid is being placed in the hands of international organizations.

If the purpose of foreign aid is to further our national interests, by what rhyme or reason do we entrust it to international banks answerable to no one but their international charters? And what did our new Secretary of State [Vance] mean when he told the Conference on International Economic Cooperation in Paris last May 30th that we must have a 'new international economic system'?

In that same week in May, the Undersecretary [of State] for Economic Affairs told a gathering in the State Department that the international banks should be an 'umbrella --a catalyst' for all international finance (emphasis added). Congressman Young asks what kind of scheme is being proposed for America and shouldn't the American people be told about it?"

B. Republican Party Platform.

The Republican Party platform on this matter provides as follows:

> The United States included foreign assistance and regional security as a major element of its foreign policy for four decades. Properly administered and focused, foreign assistance can be an effective means of promoting United States foreign policy objectives and serve to enhance American security by assisting friendly nations to become stronger and more capable of defending themselves and their regions against foreign subversion and attack.
>
> No longer should American foreign assistance programs seek to force acceptance of American governtal forms. The principal consideration should be whether or not extending assistance to a nation or group of nations will advance America's interest and objectives. The single-minded attempt to force acceptance of U. S. values and standards of democracy has undermined several friendly nations, and has made possible the advance of Soviet interests in Asia, the Middle East, Frica and in the Western Hemisphere in the past four years.
>
> American foreign economic assistance is not a charitable venture. Charity is most effectively carried out by private entities. Only by private economic development by the people of the nations involved has poverty ever been overcome. U. S. foreign economic assistance should have a catalytic effect on indigenous economic development, and should only be extended when it is consistent with America's foreign interest. American's foreign assistance programs should be avehicle for exporting the American idea.
>
> A Republican Administration will emphasize bilateral assistance programs wherever possible. Bilateral programs provide the best assurance that aid programs will be fully accountable to the American taxpayer, and wholly consistent with our foreign policy interests.

1. Present structure of Bilateral Foreign Aid.

The present bilateral foreign aid system (as opposed to the multilateral, or World Bank, etc., foreign aid system) has five active components, plus a sixth component which has not yet been activated. These are:

* Regular foreign aid - AID (Agency for International Development.
* Special foreign aid - AID-ESF (Agency for International Development - Economic Support Fund)
* P.L. 480 - Food for Peace Program.
* Foreign Development from Export Stimulus - TDP (Trade and Development Program)
* Political Risk Insurance - OPIC (Overseas Private Investment Corporation).
* Technical Aid - ISTC (Institute for Scientific and Technical Cooperation.

ISTC is not yet operational, having been created by statute only in 1979. The PL 480 program is administered by the Department of Agriculture with coordination with AID. Details of this cordination will be spelled out later. AID administers both regular foreign aid and ESF aid. IDCA was created by Executive Order in 1979 to coordinate all bilateral foreign aid, and it was thus given responsibility over AID, OTD, OPIC, and ISTC. (IDCA is the acronym for International Development Cooperation Administration.)

The background in this Briefing Manual begins with a description of structure, because it is simply impossible in terms of statutory authority to describe the goals and missions of the overall structure. What seems appropriate therefore is to start with a description of structure and then to specify the goals of each part of the structure.

Force report opts for the abolition of IDCA, and we concur in the recommendation.

According to the 1981 FY Budget, the Director of IDCA has directr responsibility for the policies and budgets of

* AID
* ISTC
* OPIC
* PVOs (Private Volunteer Organizations which are involved in the distribution of PL 480 food aid
* U. S. contributions to IFAD (Interantional Fund for Agricultural Development)

It was stated that IDCA is not responsible for multilateral foreign aid, and IFAD is an exception to this. But IFAD has not become operational, and for the current year no funds are to be appropriated to it. One supposes that IDCA got involved in OFAD because it has some responsibility with respect to the distribution of PL 480 aid. The problem is futther complicated by the fact that PL 480 aid is primarily the responsibility of the Department of Agriculture, and, as stated, the operation of the PL 480 program will be described in due course.

There are other components of the bilateral foreign aid system which are outside the umbrella of IDCA, viz., ACTION (Peace Corps), and refugees. Refugees are administered cirectly by an Assistant Secretary of State for Refugee Affairs. Probably the emergency nature and political ramifications of refugee programs have made them inappropriate for administration by IDCA or AID.

The result is that IDCA is simple another layer of bureaucracy

Let us start with a description of the place of IDCA in the structure.

IDCA is basically a conception of the late Senator Humphreys, as mediated by a report of the Brookings Institute. The original concept was to place all foreign assistance in a separate executive department whose head would have cabinet rank, and who would report to the President directly. This department would have responsibility for U.S. participation in multilateral foreign aid as well as the administration of bilateral foreign aid. The plan never came to fruition, but under the powers of the President to reorganize the executive departments, and some other legislation (of a complexity too extensive to begin to describe here), IDCA was established to coordinate the few bilateral foreign aid activities which survived.

The function of IDCA is to oversee all development aid activities.. The IDCA Director reports to the Secretary of State, and the Director of AID no longer reports to the Secretary of State but to IDCA. IDCA was established by Executive Order on October 1, 1979. IDCA is not yet fully operational, and many of its positions are not filled. In addition, many of the positions which are filled are held by aging civil servants, so that additional vacancies are likely in the near future. As the Task Force reports observes, a problem is thus present, as to whether IDCA should be fully staffed, or abolished (since its abolition is relatively simple, and does not involve a young, vigorous, and entrenched bureaucracy to be displaced.)

It is true that to give the appearance of something for IDCA to do, new organizations like ISTC and TDP were created, and in food distribution, IFAD and some authority over PVOs was added, and OPIC was moved from the Department of Commerce and put under AID then IDCA But this still does not make IDCA serve any really useful function. AID still is 90 percent of its significant supervisory activity, and when one component of an organization beneath get that large, it pays to eliminate the supervisor and have the operational agency report directly.

There is a certain bastardy involved here, because the PL 480 program was once a trade or export promotion program. In 1954 when it was created the U.S. had a grain surplus which would not be unloaded on world markets at U.S. domestic prices, and P.L. 480 was a way to move surplus grain, and do a little good too. Its essential character has always thus been masked by a sentimental regard.. OPIC was an export development and not a foreign aid program, originally. IDCA in conception is not a development organization, but a hybrid - development and export development.

The structure of IDCA is shown in the current (1980-81) Government Manual as follows:

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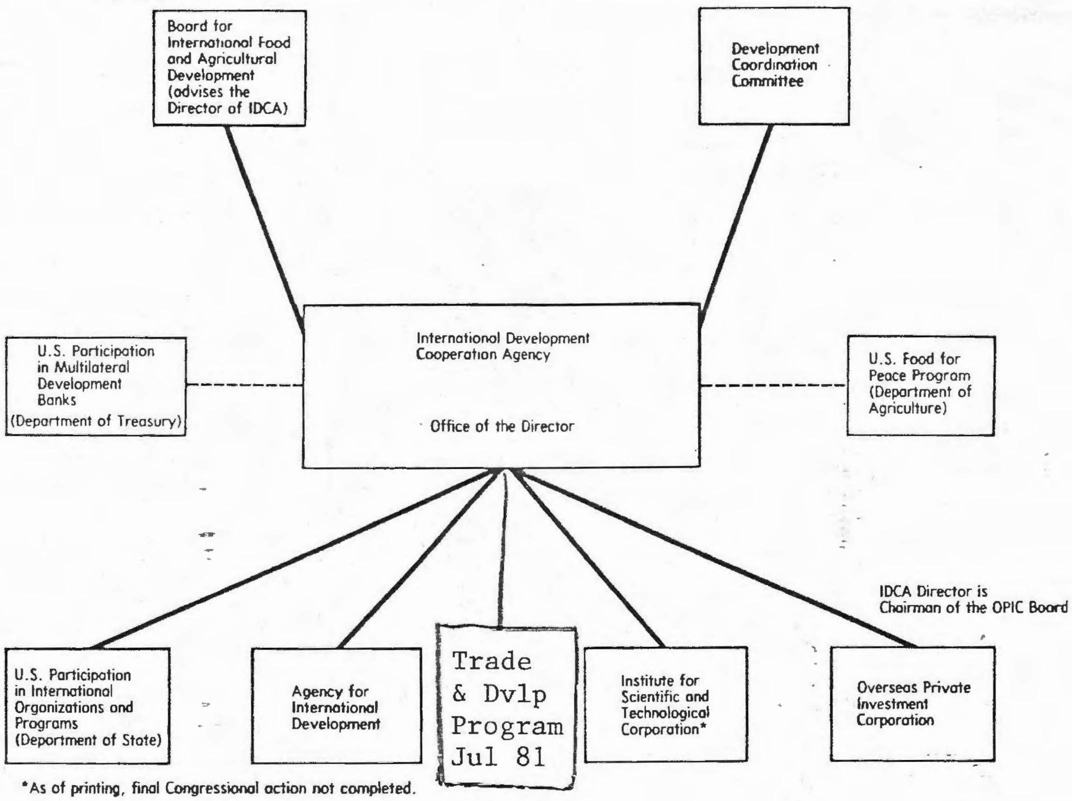
UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

CURRENT



As noted, the Director does not report to anyone, and thus it would seem appropriate to classify the IDCA as an independent agency; however, we understand from the Task Force report that the Director of IDCA forwards his budget requests through the Secretary of State (but this will be verified in due course).

As seen from the organization chart of the Department of State in the Government Manual for the prior year (1979-80), the Director of AID reported to the Secretary of State, although

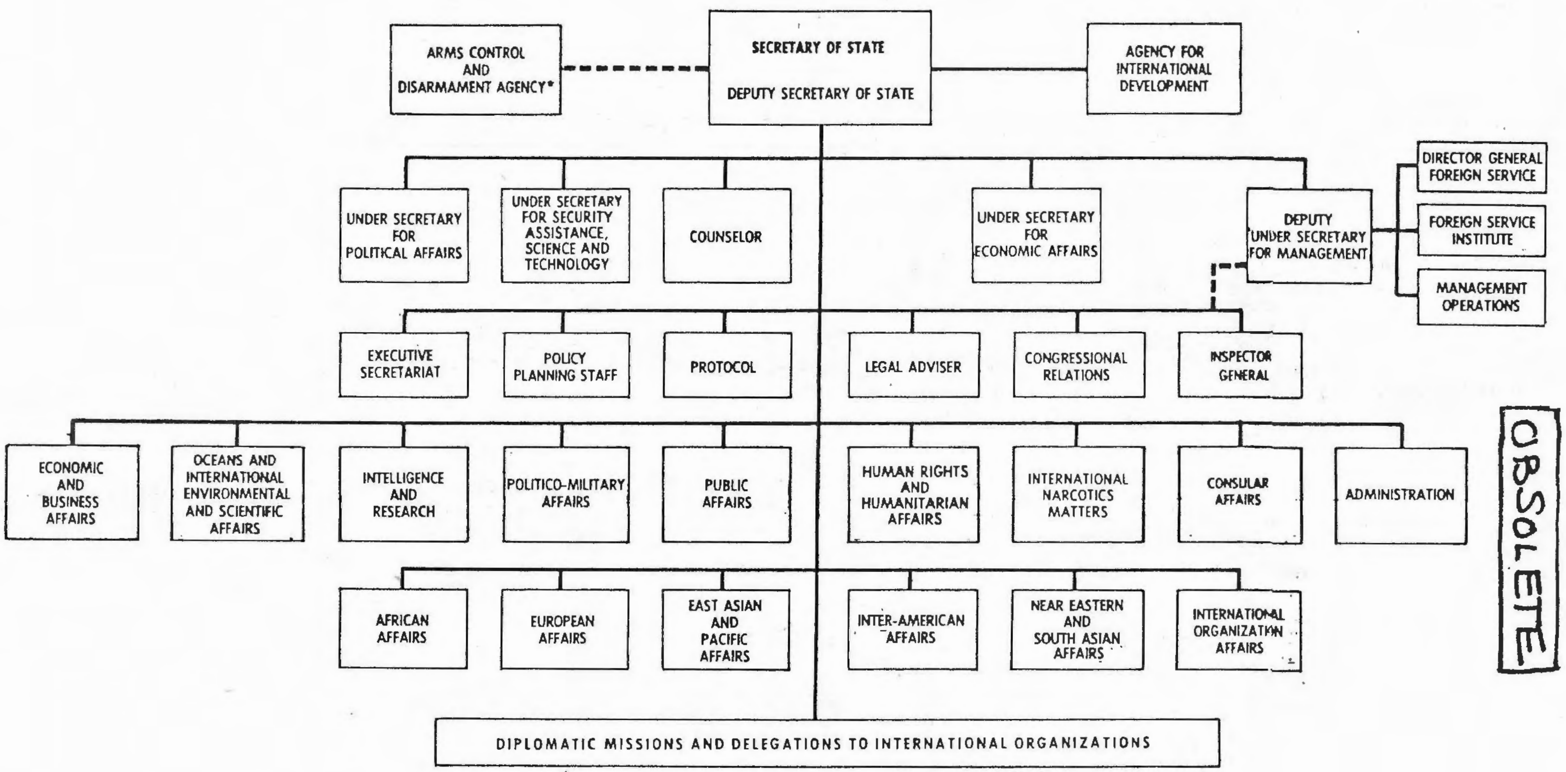
INTERNAL ORGANIZATION OF IDCA

- Director
  Deputy Director
  - Administration
  - General Counsel
  - United Nations Dvlp.
  - Country Policy
  - Sectoral Advisors
    - Energy
    - Population Health
    - Agriculture Rural Devlp
  - Policy and Budget
    - Budget
  - International Economic & Monetary
    - Multilateral Banks, etc.
    - IFAD - Fund for Agricultural Dvlp
    - Private Investment
    - Trade
  - Legislative & Public Affairs
  - Science & Technology

N.B. - THIS IS OBSOLETE - FROM 1979-80 MANUAL

OBSOLETE

DEPARTMENT OF STATE



*A separate agency with the director reporting directly to the Secretary and serving as principal adviser to the Secretary and the President on Arms Control and Disarmament.

nominaly outside the normal administrative structure of the Department of State. The organizational chart of IDCA is shown here; that of AID will be set forth later on.

We are not prepared to discuss the mission and goals of bilateral foreign aid, and of its organizational components. Because they are of so diverse a character, they could not be set forth intelligibly without first giving an overview of the foreign aid structure.

2. Mission and Goals of Bilateral Foreign Aid.

a Generally.

In the discussion of mission and goals which follows, we shall first attempt to relate bilateral financial assistance to the overall foreign policy goals of the United States, both as perceived by the Carter Administration, and by the incoming Reagan Administration. Only in the context of overall policy goals for bilateral foreign aid can the mission and goals of the various components of the bilateral aid program, as presently structed, be made comprehensible, and the responsible policy makers and administrators become oriented to their proper function in a Reagan Administration.

i. As stated in the 1981 FY Budget.

There is a wide divergence of conceptions about the role of bilateral foreign aid under the Carter Administration, and as set forth in the Republican Platform and the Campaign Policy positions of Governor Reagan. In order to highlight these differences, and give clear perception of the new orientation under the Reagan Administration, it is thought to be a useful point of departure to analyse the goal and missions statements issued by the Carter Administation.

The National Needs Statement in the 1981 FY Budget for the State Department states:

- Promote a stable international envorinment that will reduce conflicts, encourage worthwhile economic progress, and bring greater respect for human rights.
- Support the security and economic and political stability of allies and friendly governments.
- Support the long-term development of poor countries with particular emphasis on reducing widespread poverty.
- Assist our domestic economic by strengthening international economic institutions and promoting trade.
- Advance American foreign policy through diplomacy and improved communications between the United States and other nations.

Let us highlight the key phrases in the Statement of National Needs:

- encourage worldwide economic progress
- bring greater respect for human rights
- support allies and friendly governments with economic and political stability
- assist our domestic economy by promoting trade
- Long-term development of poor countries with particular emphasis on reducing widespread poverty

Needless to say, it is not that the Reagan Administration rejects any of these foreign policy goals, but reorders their priority and makes them subordinate to the overall policy of promoting the interests and welfare of the American people.

As will be noted in the Republican Platform, the Reagan Administration does not conceive of foreign aid as a particularly good weapon to force our political and social ideals upon other governments. Second, the Republican platform is highly skeptical of financial support of government projects as an effective way to create economic progress. economic and political stability, develop poor countries or reduce widespread poverty. It believes that these goals can be met most effectively by encouraging the development of market economies in the developing countries, and that bilateral foreign assistance should be employed with such encouragement of the market economic system as far as practicable.

One further comment is appropriate. The Carter Administration regarded bilateral and multilateral foreign economic assistance as a goal in and of itself without regard to the welfare of the American people. That was why the Carter Administration sought to decouple foreign aid from immediate foreign policy goals, and make bilateral and multilateral foreign aid autonomous goals in and of themselves, so that development would not be a casualty in the hurly-burly of American politics, and American foreign policy. That was why multilateral foreign aid was to be favored over bilateral foreign assistance, because multilateral foreign assistance was thus taken out of the American decision-making process, and placed in an international decision making process would could not be disrupted by American political pressures. The Reagan Administration will de-emphasize multilateral foreign economic assistance through international institutions such as the World Bank, etc. One might comment here that that if foreign economic assistance should not be disrupted by internal American politics, then it should not be dependent upon human rights violations of the recipients. Why should the poor be made to starve just because they are ruled by a dictator like President Duvalier of Haiti? Let us be consistent.

But to return to the federal budget provisions as they particularly affect foreign economic assistance. In the 1981 FY Budget, the mission of foreign economic and financial assistance is stated to be:

- To provide humanitarian aid to needy people abroad.
- to promote economic development, and
- to support the foreign policy interests of the United States.

These goals are further explained by the following comments:

> The need for U. S. assistance to carry out this mission is increasing. A handful of developing countries, most of them with small populations, have benefited immensely from oil price increases. However, the majority of Third World nations have been hard hit, not only by the energy situation, but by rising prices of other products, and by reduced export earnings because of slow economic growth in the developed couuntries.
>
> Comparied with the need for assistance, the $7.5 billion in budget authority and $6.2 billion in outlays proposed for 1981 for foreign economic and financial assistance is small. Therefore, much consideration has been given to improving the effectiveness of our assistance program.

To carry out these goals and mission, the Carter Administration proposed the following strategy for implementation:

The broad elements of the U. S. development strategy are clear

- To enable the developing countries to pay their own way as far as possible through exports, the United States will give special emphasis to their concerns as the recently agreed-upon trade liberalizations go into effect.

- Where development aid is required, the United States will support effective multilateral assistance institutions.

- For bilateral programs, new kinds of solutions to development problems will be sought in a limited number of areas where the United States possesses the greatest expertise.

- Food aid will focus on the poorest countries and serve both humanitarian and developmental objectives. (Emphasis added.)

Here is an explicit statement of the Carter Administration's preference on multilateral foreing economic assistance, and of its downgrading of bilateral foreign assistance to a secondary , back-up status in a "limited number of areas where the United States possesses the greatest expertise."

One other characteristic will distinguish the policy of the Reagan Administration in matters of foreign economic assistance from that of the Carter Administration. The policy goals of the Carter Administration in the last analysis were not based upon the needs of the poor of the world but upon the needs of the Carter Administration to be "going about the world doing good." In the last analysis, it is the need of the Carter Administration to give the money of the American people away which is the basis of their stragety for bilateral foreign aid. In appeals, as fund-raisers say, to the "need of the giver to give." The test for the merit of a development program is how much it hurts the given. The program of the Reagan Administration, in contrast, is "How much good does it to the recipient?" That is why its emphasis will be on market stimulus and economic growth benefits, and not on costs.

We will now attempt to set forth the mission and goals of the various components of bilateral foreign aid, as effectively as we can, although the statutory basis for such mission and goals is so complex that it defines statement. The whole foreign aid program is so hedged in with statutory aims, restrictions, procedures that any concise, coherent statement of them is impossible. One has to more or less "wing it", unless it is a question of whether a particular program or procedure is legal.

c. <u>IDCA (International Development Cooperation Agency.</u>

The current Government Manual states the mission of IDCA as follows:

> . . . . . first, to ensure that developing (sic! - development?) goals are taken fully into account in all executive branch decisionmaking on trade, financing and monetary affairs, technology and other economic policy issues affedting the less developed nations; and second to provide strong direction for U. S. economic policies toward the developing world and a coherent development strategy through effective use of U. S. bilateral development assistance programs and U. S. participation in multilateral organizations.

In the prior discussion, no attention was given to the IDCA role in bilateral foreign aid. In this connection the current Government Manual states that:

> The Director of IDCA serves as the principal international development adviser to the President and to the Secretary of State, subject to guidance concerning the foreign policy of the United States from the Secretary of State.

IDCA's goals are defined in terms of its function; in this regards the view of IDCA's functions stated in the current Government Manual are of interest.

> "IDCA's function is policy planning, policymaking, and policy coordination, on the range of international economic issues affecting developing countries."

and:

> IDCA had lead budget and policy responsibility for U. S. participation in the United Nations (UN) and Organization of American States (OAS) programs whose purpose is primarily developmental. These programs include the US Development Program (USDP), the UN Children's Fund (UNICEF), the World Food Program and the OAS Technical Assistance Funds
>
> U. S. participation in multilateral development banks (MDB's) - the World Bank Group and the regional development banks - is a shared responsibility of the Director of IDCA and the Secretary of the Treasury, who will continue to instruct U. S. representatives to the MDB's. The Director of IDCA is consulted by the Secretary of the Treasury and the U. S. Executive Directors of the multilateral banks. The Director advises the Secretary and the U. S. representatives on development programs and policies, and on each development project of the multilateral banks. Such advise is normally determinative except in such cases as the Secretary of the Treasury finds that compelling financial or ther nondevelopmental reasons (legislative requirements) require a different U. S. position. Differences between the Director and the Secretary may be submitted to the President for decision.
>
> The direction of the Food for Peace Program (Public Law 480) is a shared responsibility of the IDCA and the Department of Agriculture.
>
> UDCA plans an important role in the implementation of the U. S. Economic Support Fund and a number of other development-related activities and programs.

IDCA's role in the making of U. S. development policy is more far-reaching that might appear at the surface. What it does is give policy instructions to the PL 480 program, to AID for its regular foreign aid, and to AID for its ESF expenditires, etc. Of course, since IDCA is not fully organized, amny of these powers are more nominal than real. Most of these functions were exercised by AID, and currently are, for practical purposes, still exercised by AID, since IDCA currently does not have the staff to prepare the policies and programs which would enable it to make second guesses of AID recommendations.

Finally, IDCA's goals are defined it terms of its procedures, which are also used by AID. In order to carry out the complex mandate of Congress, and to take into account all of the multiple factors which Congress has said should be used in decisions to grant bilateral financial aid, IDCA uses the following procedures:

* Priority Ranking. In other words, each project and country is given some sort of priority ranking

* Country Analysis - Each country is analysed to determine not only whether its projects and needs meet the priority criteria, but whether aid given to this particular country will be effective, and whether there is anything in its social and political system, economic system, and diplomatic alignment which would indicate aid should not be granted.

* Strategy Formulations - Even if the project and country are deserving, then it has to be considered whether the aid would serve a useful role in development strategy or process for that country.

* Sector Analysis - An analysis is made to see whether the particular economic sector for which aid is sought is one which deserves immediate attention. For example, agriculture where hunger is present would seem more important than tourism development.

d. AID (Agency for International Development).

The mission of AID (although not identified as such) is set forth in the current Government Manual as follows:

> AID carries out assistance programs designed to help the people of certain less developed countries develop their human and economic resources, increase productive capacities, and improve the quality of human life as well as to promote economic or potention stability in friendly countries.

Admittendly, such a definition of a mission is in most general terms. The real difficulty with defining the AID mission is that it is hedged about with so many legislative considerations and restrictions that it is most difficult to define its missions coherently.

Congressional formulation of AID policy is set forth in 22 U.S.C. 2151 as follows:

> United State development cooperation policy should emphasize four principle goals:
>
> (1) the alleviation of the worst physical manifestations of poverty among the world's poor majority;
>
> (2) the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits;
>
> (3) the encouragement of development processes in which the individual's civil and economic rights are respected and enhanced; and
>
> (4) the integration of the developing countries into an open and equitable international economic system.

This statement of goals (or its predescessors have sometimes been called the "new directions" or the "human needs" criteria of foreign aid. These criterian have been in effect for several years - going bak to at least 1973. This directs that foreign aid be concentrated on the LLDNs (the least less developed nations), that it be directed to economic self-sufficiently, and presumably promote equal income distribution in the nation helped, and that it promote human rights. Finally, it mentions world trade, although national socialist policies (by which I mean not nazism, but that they develop socialist economic systems inside a nation), although this is somewhat of an anomaly, for the socialist character of a nation's economic system has never been thought to disqualify it from aid, yet the idea of promoting an international market economy by the growth of free world trade, while supporting socialist internal economic systems seems a bit anomalous.

The difficulty with the AID mission beyond such general statements, and even priorities is that these generalities have to be reconciled with legislative mandate to take into account an almost infinite number of factors in making concrete decisions. Among these factors are types of programs:

* Food
* Nuitrition
* Rural Development
* Population Planning
* Health
* Education
* Human Resource Development
* Selected Development Activities (Technical Assistance, Energy, Research, etc.)
* Specific Programs
    - Sahel
    - American Hospitals
    - American Schools
    - International Disaster Assistance
    - Reimbureable Development Programs
    - Housing Guaranty Programs
* Food for Peace

And in addition to all of these things, the bilateral aid program is to take into account the following:

* Human rights
* Encouragement of "appropriate technology" to the recipient's stage of economic development - i.e., improve seed grains before building steel mills, etc.
* The role of women.

And finally, there are legislative restriction to grants to certain countries (such as those which violate the Hickenlooper Amendment), and to certain countries specifically mentioned in legislation.

Trying to reconcile all these myriad requirements, restrictions, standards, etc., is an almost insuperable administrative task, encouraging the growth of an excessive supervisory bureaucracy, and is a conceptual nightmare, as well as an administrative problem.

e. <u>OPIC (Overseas Private Investment Corporation).</u>

The mission of OPIC is to make profitable investments in developing countries which would not otherwise be profitable. In its origins many years ago, its object was not primarily development, but the protection of American investors abroad. Over the years, the emphasis has shifted from investment protection to development as the purpose of the agency, although investment protection is still the means by which development is encouraged.

OPIC makes overseas investment in developing countries profitable by reducing the risk for investors, providing financing, and providing counseling to both the developing countries and prospective investors. The theory of its activities is that if these services were not provided, the investment in questions would not occur. In particular, the services provided by OPIC fall into one of four categories:

(a) It insures direct investors against political risks, including expropriation, non-convertibility of currency, and damages from war, revolution and insurrection, in developing countries.

(b) It insures lenders against both commercial and political risks on loans made to private investors who make direct investments in developing countries. (The political risks covered are set forth in (a) above.)

(c) It makes direct investments in developing countries. (The projects are limited to $10 Million - it is something like the Small Business Corporation investments at home.)

(d) It offers counseling to prospective investors in developing countries.

The scope of each of these activities will be set forth later in this Briefing Manual. The projects involved in such insurance, loans, investments, and counseling must be those which are likely to produce significant new benefits to the recipient countries.

There is a current conflict about whether OPIC's mission is promote development, or promote exports. Presently, its activities are restricted to writing insurance to LDCs (those with per capital annual incomes of less that $1,000 in 1975 dollars), with a preference to the LLDC (least less developming countries - those with an annual percapita income of less that $500 in 1975 dollars). It also restrictions relating to the necessity for the preparation of impact statements, and preference to small business, U.S. unemployment, and human rights.

f. P. L. 480 (Food for Peace Program).

The "Food for Peace" program was originally initiated by P.L. 480 of the 1954 Session of Congress, and has retained that designation ever since. The original Act had two titles, and the programs established under the 1954 Act continue to be known by those titles - although these titles cannot be located as such in the current United States Code. Title I provided for export stimulation of surplus grain, Title II provided for donation of grain to qualifying programs and private volunteer organizations. Title III, which was added in 1977, provided for the use of funds from debt repayment under grain sales under Title I to be used to improve agricultural production in the developing countries.

At the time the P.L. 480 program was initiated, the U. S. had large stocks of surplus grain which were not salable on world markets to developing countries which needed them. The basic idea was that the U. S. would lend them the money to buy the grain, but that the loans would be payable only in the local currency of the developing countries, and could be spent only in the local countries. These loans were on very long terms and on low interest rates. Eventually the requirement that the repayment be only in the local currency of developing countries has been eliminated (because it created huge balances of unspendable sums in the developing countries). Over the years, substantial repayments of these loans have been made, and the proceeds of the loans can be used without new Congressional appropriation to purchase grain to be sold to developing countries on a loan basis. In 1979 FY repayments amounted to $487 Million, in addition to new budget authority of $1,077 Million.

g. ESF (Emergency Special Fund).

The mission and goals of these funds, primarily for the benefit of Egypt and Israel, are immediately political, and the usual criteria for the expenditure of bilateral foreign aid to not apply.

h. TDP (Trade Development Program).

The mission of this program (which is relatively new) is to carry out feasibility and planning studies which might result in the export of U. S. goods and services in connection with development projects for which the developing countries lack the money and expertise to make such feasibility and planning studies. The object is to get the private sector to finance development projects for shich public funds are not available.

i. ISTC (Institute for Scientific and Technical Cooperation.

This government agency is not yet operational.

3. Budget.

The current budget for bilateral foreign aid is as follows:

Project or Agency	Millions of Dollars
AID	1,221.0
ISTC	-
OPIC (Makes a profit)	-
PL 480 (New appropriations)	1,077.0
PL 480 (recycled loan repayments)	487.0
ESF	2,055.0
Refugees	541.3*
Total	5,371.7

Note: (*) Refugees are financed by the regular State Department Budget, but are included here only for conceptual purposes, since refugee aid does constitute a for of bilateral foreign aid, although not of development aid.

The Budget can be broken down by function or sector, also, although we cannot see it is very meaningful whether aid is given for agriculture or medicine, etc. Who really is to say that one need is more important than another, and that emphasis should be shifted from one sector to another. Can favelas in Rio de Janiero really be weighed against leprosy in India? In any event, the current distribution of foreign aid on a world basis according to the Task Force Report (judging from the figures which we take to be Millions of Dollars and for both U.S. and World Bank, and Regional Development Banks and Funds in which the U. S. participates) for FY 1981 is as follows:

DEVELOPMENT AID (Millions of Dollars)

Sector	Total	Bilateral	Multilateral
Energy	3413	101	3312
Agricultural and Rural Dvlp	6840	635	6205
Health	609	135	474
Population	339	190	149
Nutrition	275	-	275
Education	767	112	655
Industry	1763	-	1763
Industrial Devlp & Finance	1289	-	1289
Telecommunications	358	-	358
Tourism	-	-	-
Transportation	1772	-	1772
Urban Development	594	-	594
	18506	1458	15093

Note: The Emeregency Special Fund, and Refugee expenditures are not shown here.

Likewise Distribution of U. S. bilateral aid geographically, as far as human needs and development is concerned, is not particularly significant (unless one thinks distribution reflects the relative urgency of human and development needs in different parts of the world). But if aid distribution is intended for political effects, then geographical distribution is important. Geographical distribution of aid for FY 1981

GEOGRAPHICAL DISTRIBUTION OF FOREIGN AID

Region	Bilateral	Multilateral	Total
Africa	791.2	2605.2	3397.1
Latin America	461.2	4885.0	5346.2
Asia	1233.5	6660.0	7893.5
Europe & Near East	2399.9	1660.0	15810.0
Total	4876.7	15810.0	20694.7
Unallocated by Region (PL 480 repayments)			487.0
Total			21181.7

Again this is all foreign aid, both World Bank and related development banks and funds, and direct U.S. bilateral aid. Why this does not reconcile in total figure ($21,187.7 Millions with $18,506 Millions in the prior table we do not know. Were ESF Funds left out of the sectoral totals? Was overhead omitted in the sectoral totals? In any event, without a really detailed analysis of the accounts of all the organizations involved, it would be impossible to reconcile the figures. However, the figures are good enough for ball-park purposes, as far as being able to conceive the functional (sectoral) and regional distribution of funds. We do not have a breakdown of U.S. and other contributions to sectors. Under the concept of unified and articulated planning, the U.S. does what the World Bank does not, and the World Bank does what the U.S. does not. For example, if a project cannot be done by AID because of the Hickenlooper Amendment, thenthe World Bank can take it up, and the U.S. use its available funds for projects turned over to it by the World Bank. As a suggestion for reconciliation, if one takes off refugee funds ($541.3 Millions), and ESF funds ($2,055 Millions) one comes to a figure of $18,585.4, which is pretty close to reconciliation.

A breakdown of the bilateral foreign aid budget into subordinate components is a bit difficult from the rudimentary information provided by the Task Force. The general budget for 1981 FY does not give any meaningful breakdown. But we have been able to break-out some figures from the overall figures:

Organization or Function	Amount (Millions $)
IDCA (Administration)	4.7
ISTC (as budgeted, on assumption that this agency will be organized)	12.0
TDP	5.5
AID Overhead (including foreign funds available and not appearing in U.S. Dollar Budget as published)	301.00
AID - Retirement Charges	25.0
OPIC (Since OPIC makes a profit, it does not appear as a budget charge, and we have no figures on its financial operations)	-

The question has been raised in the Task Force report about the tooth-to-tail ratio, i.e., how much aid is consumed in administration before it gets to the field. As will be seen when we discuss personnel, AID still has about 8,000 employees. Is this too many to administer appromimately $4.8 bilion of foreign aid? (Of course, a few million of the expenses listed above are "benefits", not overhead, since the drafting of plans is a "benefit", it the plan is related to a specific project.) And one might add the $3.6 million spent by USDA in connection with PL 480 aid. The overhead is thus about $352.8 million for about $4,840 million of benefits, or an overhead ratio 7.5% on an overall basis. However, although 7.5% seems acceptable, one should keep in mind that approximately $2,055 ESF going to Israel, Egypt, and perhaps to Turkey, need little administration. And does P.L. 480 aid take as much overhead to administer as special project aid? Probably not. So, on special projects, the overhead percentage might run from 20 to 25 percent. Is this an acceptable ratio?

As explained, the numerous legal requirements Congress has imposed on bilateral aid make it very expensive to administer. Some of these problems and considerations will be returned to in the discussion of operations which follow.

Unfortunately, the operating figures for OPIC were not forwarded with the Task Force study of bilateral Foreign aid, so that we cannot present any figures on OPIC.

4. <u>Organization.</u>

a. <u>IDCA</u>.

The organization of the overall umbrella agency IDCA has already been described and an organization chart of it given. This section will set forth the organization of the various components of the bilateral foreign aid system.

b. <u>AID</u>.

An organization chart for AID is attached. This was taken from the 1979-80 Government Manual, and is therefore obsolete. Some of the changes from the current organization have been noted, particularly the transfer of OPIC and ISTC to IDCA.

The organizational chart does not really show the administrative difficulties of AID, since the numerous legislative requirements for the distribution of AID funds requires an enormous bureaucratic review to see that all legislative requirements are met. Actually, AID is a bureaucratic organization suitable for the distribution of several times the amount of current funds disbursed.

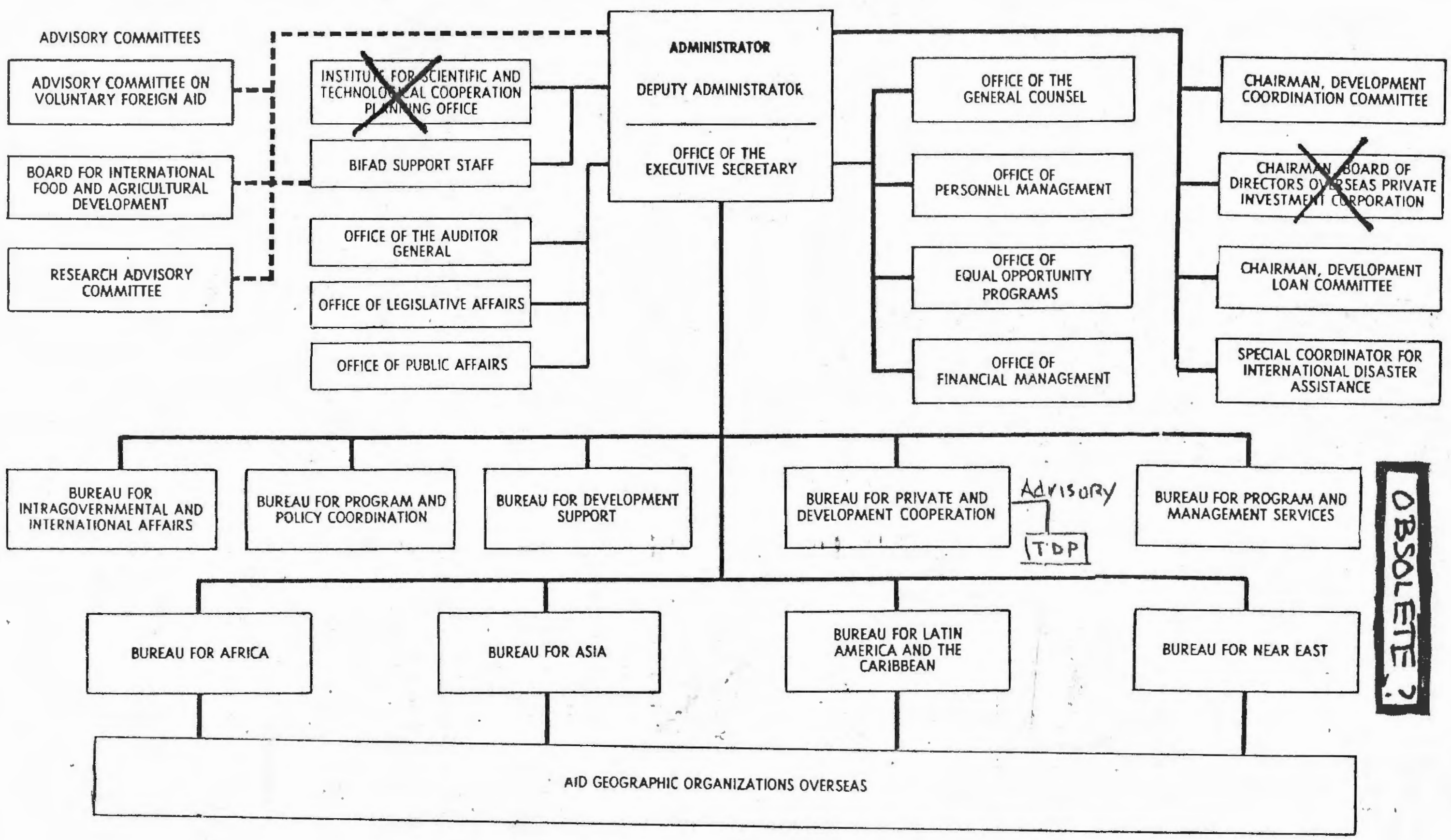
An examination of the organization chart will show a Bureau for Program and Policy Coordination (PPC) and a Bureau for Development Support. PPC evaluates a program or project and the Bureau for Development Support provides technology evaluation and information assistance. According to the Task Force Report:

> An interesting internal management conflict has arisen between the Assistant Administrator (who has established multiple <u>functional</u> deputies) and more traditional AID staff who believe he should have a single <u>line</u> deputy and funational division heads.

This conflict appears to be within the Bureau for Development Support. It is not possible

N.B. FROM 1979-80 GOVERNMENT MANUAL

AGENCY FOR INTERNATIONAL DEVELOPMENT



OBSOLETE ?

Department of State / 415

Note: OPIC and ISTC transferred to IDCA.

to us from this brief description to say what the conflict is all about, except that project review is not assigned by country, etc., but by fundtion (agriculture, population planning, health, etc.) One could not say who is right from such a brief amount of information. The Task Force Report supports the idea of functional review. But whoever is right in the current context, the point is that present statutory complexity makes AID very difficult to administer properly.

The AID overseas organizations are very extensive. According to the 1979-80 Government Manual, AID maintained offices in 71 countries listed, and there may have been more. The distribution of AID personnel between U.S. and overseas offices is a problem which will discussed later.

c. P.L. 480 Administration.

The administration of the P.L. 480 programs is split between the Department of Agriculture and AID. However, the Department of Agriculture retains only a budget and reporting role, and certain responsibilities for purchasing the commodities, transporting them, etc. The grain involved, it is supposed, is purchased for the most part from surplus stocks held by the Commodity Credit Corporation, which in turn may still provide the credit. However, policy making functions for all practical purposes are now vested in AID, as well as most operational decisions as to who is to get grain, etc.

As it will be noted, Title III allows the use of funds received from repayment for grain to be used for the development of agricultural production. AID was not propared to provide the necessary technical assistance for such food production improvement programs, so the Department of Agriculture stepped in by the creation of an Office of International Cooperation and Development. Its budget for FY 1980 was $1.8 million, and it sought $6.8 million for FY 1981, which was cut to $3.6 million. The Task Force report doubts the usefulness of this USDA Office, and for this reason among others recommends the termination of the agricultural development program with the use of PL 480 funds obtained under Title I, which are authorized to be spent by Title III. In other words, it recommended the abolition of the Title III program. A review of the Government Manual for 1979-80 indicates that the USDA has ambitions for its Office of International Cooperation and Development which go far beyond the Title III program under PL 480. But this is a problem for the Task Force on the USDA.

Both Title I and Title II aspects of the Food for Peace Program are administered by the AID Bureau for Private and Development Cooperation. This bureau has three offices, viz., the Office of Private and Voluntary Cooperation, the Office of U.S. Foreign Disaster Assistance, and the Office of Food for Peace. Undoubtedly, these are related functions, but the Task Force Report felt that the Office of Food for Peace was layered down one level further in the bureaucracy than it was before. The other two offices are in no way commensurate with the importance of P.L. 480. What would seem appropriate would be for the Bureau to be abolished, and for the Office of Food for Peace to be raised to a Bureau, and adsorb the other two offices, since they are both related to the food for peace program.

d. OPIC.

OPIC is a government chartered, quasi-public, quasi-private corporation. The Chairman of the Board is the Director of IDCA, and the Vice Chairman of the Board is the U. S. Trade Representative. It has an additional 11 members of the Board, of whom 7 are supposed to be from the private sector, with representation from labor, small business and cooperatives.

It is authorized 132 employees, but only 119 are presently filled.

It is organized into five Bureaus or Divisions as follows:

Divison of Insurance

Divison of Finance

Divison of Public and Congressional Affairs

Division of Development

General Counsel's Office

We do not have an organization chart for the corporation, and we assume that all five divisions report directly to the Executive Vice President.

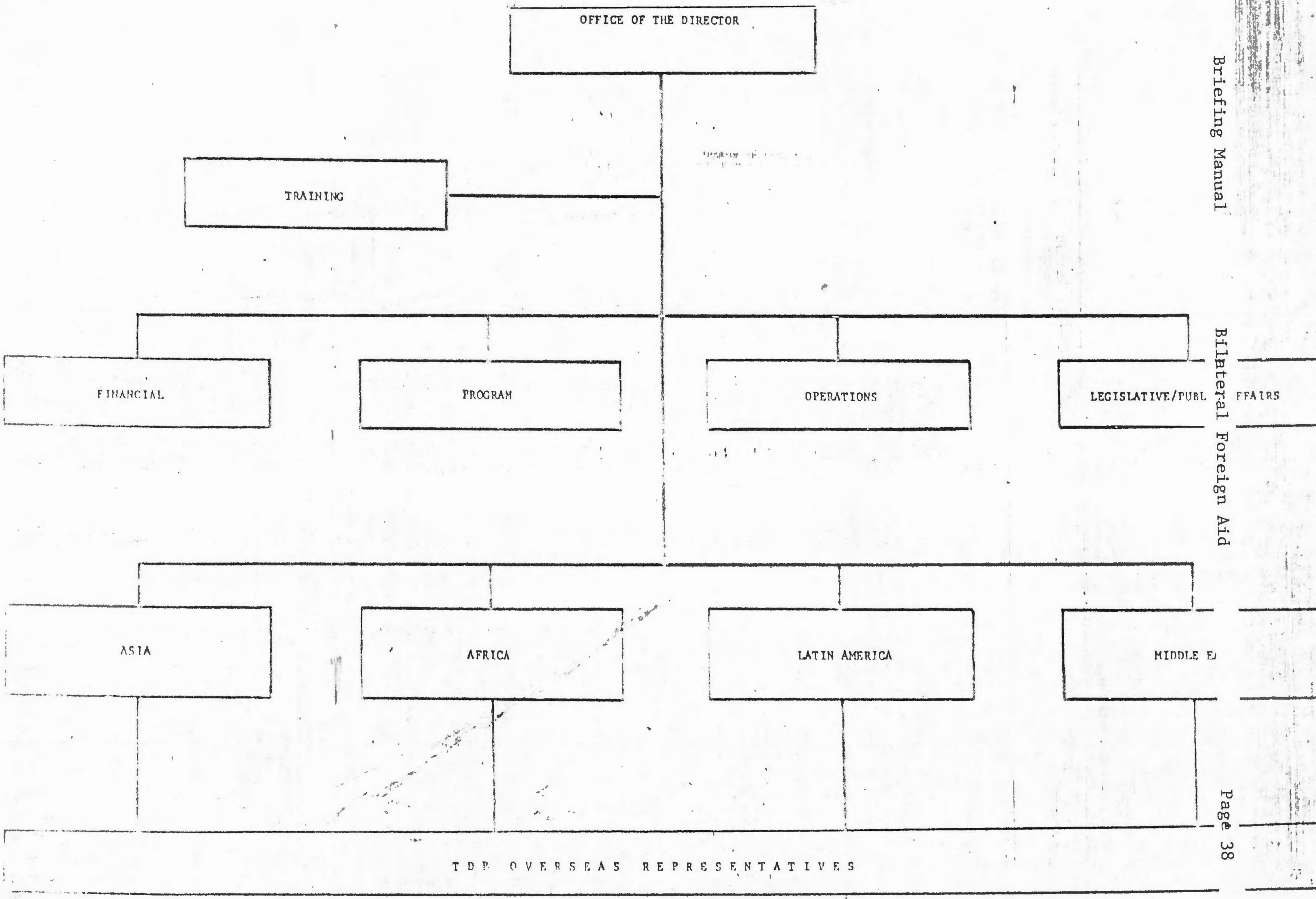
OVERSEAS PRIVATE INVESTMENT CORPORATION

Chairman of the Board	THOMAS EHRLICH.
President and Chief Executive Officer	J. BRUCE LLEWELLYN.
Executive Vice President	DEAN AXTELL.
Vice President and General Counsel	PAUL GILBERT.
Treasurer	LESLIE V. PORTER.
Vice President for Development	ARNOLD H. LEIBOWITZ.
Vice President for Insurance	CARYL S. BERNSTEIN.
Vice President for Finance	ROBERT WOLF.
Vice President for Public and Congressional Affairs	JON ROTENBERG.
Vice President for Personnel and Administration	RICHARD K. CHILDRESS.

e. Office of Trade and Development (TDP).

This office has an authorized staff of 22 (of which two are part time) its Director reports to the Director of IDCA. Formerly, the Office was a part of the AID Bureau of Private and Development Cooperation. Its current organization chart is attached.

TRADE AND DEVELOPMENT PROGRAM



5. Review of Past Operations.

Bilateral foreign aid differs from some other government agencies in that a discription in general terms of its missions and goals does not really give an idea of WHAT THE AGENCY HAS DONE. The purpose of this section is to give a brief overview of what the various components of bilateral foreign aid have done in the past few years.

a. AID.

i. Distribution of benefits by Region.

In the past six years aid has been shifted from Latin America to Africa by the so-called "New Directions" and "basic human needs" policies as shown by a comparison of 1975 distribution with proposed FY 1981 distribution:

Region	1975 FY	1981 FY Proposed
Africa	18%	32%
Asia	43%	40%
Latin America	34%	22%
Near East	6%	5%
Total	101%	99%

As Africa continues to be further and further dominated by Marxist governments and distatorships, and with the spread of the influence of countries like Libya, this might seem counterproductive.