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file: foreign assistance

DRAFT

FOREIGN AID

May 8, 1986

FOREIGN AID

PURPOSES OF BRIEFING

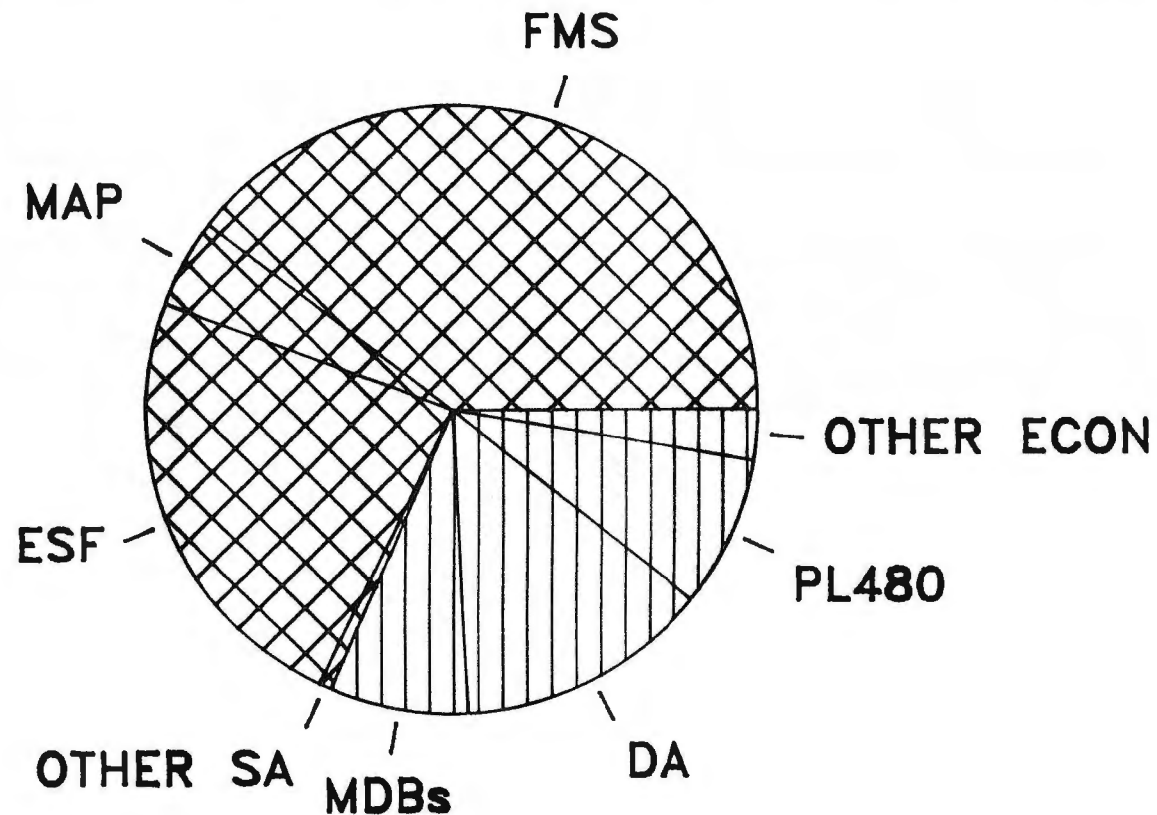
- Review Foreign Aid Trends and Components
- Discuss Budget Prospects
- Identify Possible Responses
 - Coordinated Effort to Improve Congressional Outcome.
 - Interagency Process on Budget Priorities.
 - NSSD on Economic Assistance.

INTERNATIONAL AFFAIRS -- FUNCTION 150

<u>Subfunction</u>	1986 (\$B)	
	<u>Budget Authority</u>	<u>Total Commitments</u>
151: International Development and Humanitarian Assistance.....	4.7	5.9
152: International Security Assistance.....	<u>10.2</u>	<u>10.3</u>
SUBTOTAL, FOREIGN AID.....	14.9	16.2
153: Conduct of Foreign Affairs.....	3.0	3.8
154: Foreign Information and Exchange Activities.....	1.0	1.1
155: International Financial Programs.....	<u>1.9</u>	<u>14.6</u>
TOTAL, INTERNATIONAL AFFAIRS (150).....	20.8	35.7

- Foreign aid -- subfunctions 151 and 152 -- represent about 70% of the international affairs function in terms of budget authority.
- It is less than half the total, however, when adjusted to show total commitments -- including guarantees. Exim guarantees are the major addition to 155.

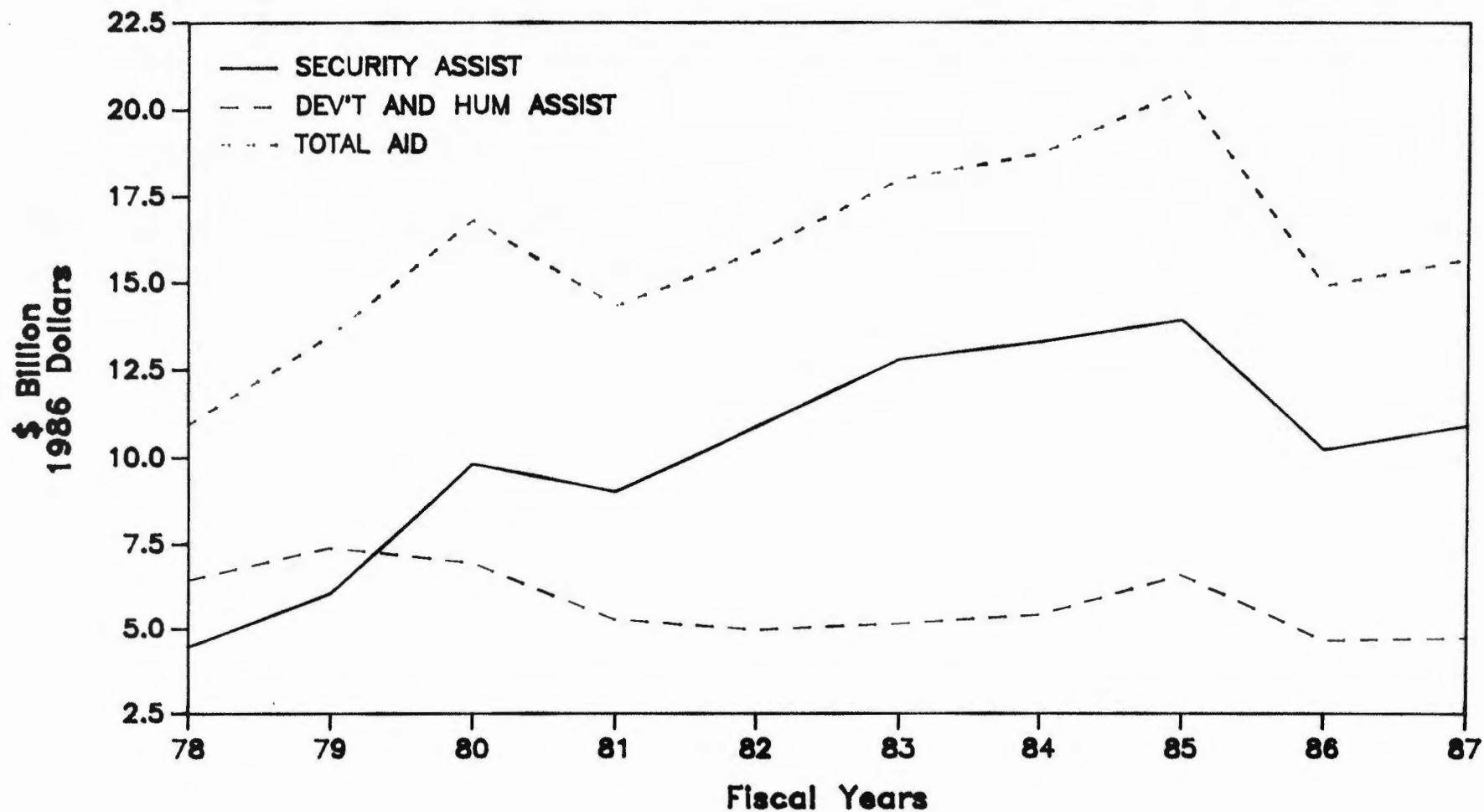
SECURITY ASSISTANCE IS THE LARGEST COMPONENT OF FOREIGN AID (1986)



 Security Assistance

 Development and humanitarian assistance

FOREIGN AID NEARLY EQUAL TO 1981/82 (IN CONSTANT DOLLARS)

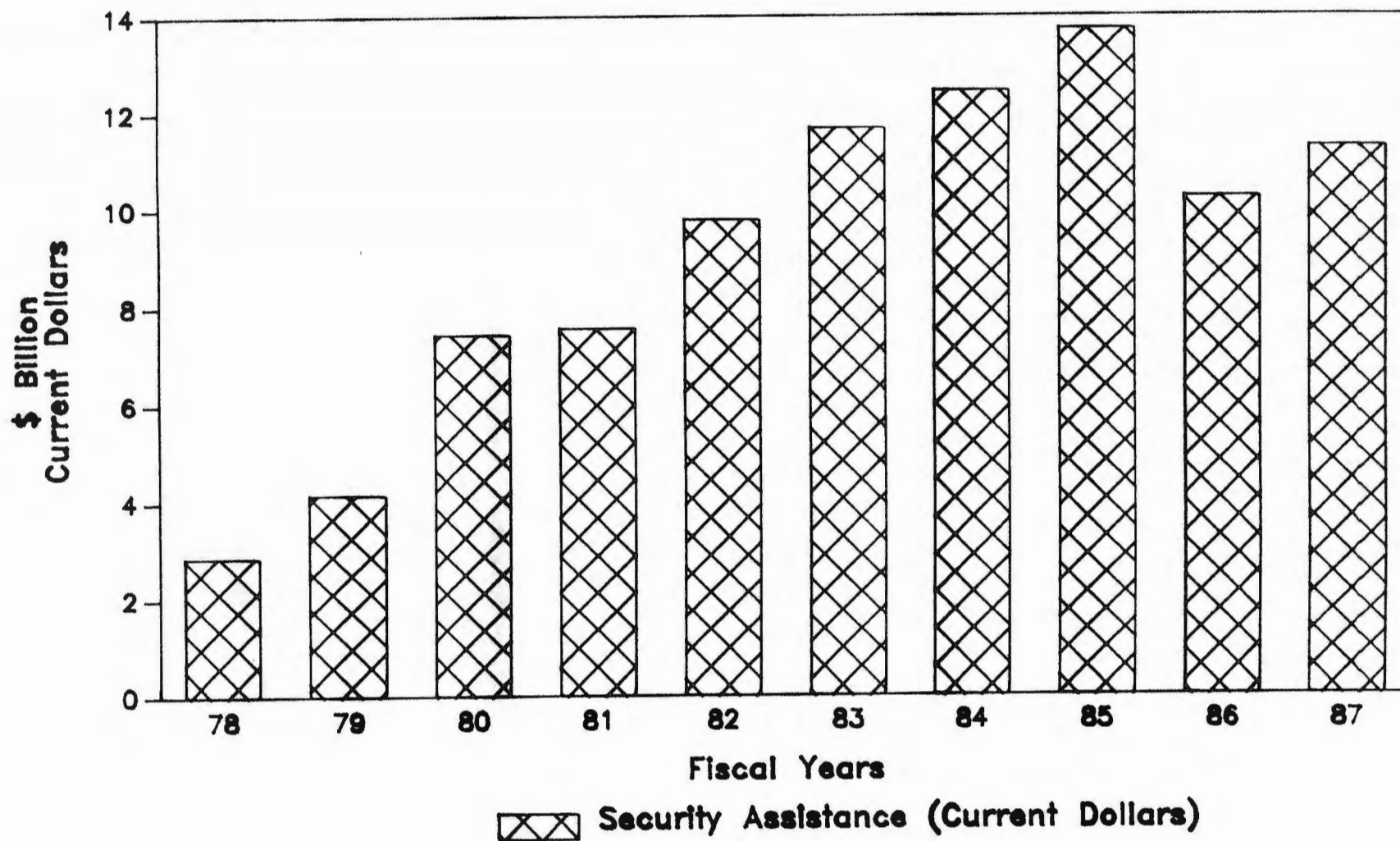


INTERNATIONAL SECURITY ASSISTANCE

		<u>Budget Authority (\$B)</u>	
		<u>1986</u>	<u>1987</u>
		<u>Est.</u>	<u>Request</u>
●	Economic Support Fund	3.5	4.1
●	Foreign Military Sales Program	5.9	6.1
●	Military Assistance Program	0.7	1.0
●	Other (mainly training)	<u>0.1</u>	<u>0.1</u>
TOTAL		10.2	11.3

- ESF -- economic aid for high priority countries.
- FMS -- increasingly concessional credits for equipment.
- MAP -- grants for equipment.

SECURITY ASSISTANCE GREW IN IMPORTANCE UNDER REAGAN



DEVELOPMENT AND HUMANITARIAN ASSISTANCE

		<u>Budget Authority (\$B)</u>	
		<u>1986</u>	<u>1987</u>
		<u>Est.</u>	<u>Request</u>
●	Multilateral Development Banks (MDB's)	1.1	1.4
●	International Organizations (IO's)	0.2	0.2
●	Development Assistance (AID)	2.0	2.1
●	P.L. 480 Food Aid	1.2	1.2
●	Refugee Assistance	0.3	0.4
●	Other	- 0.1	- 0.4
		<hr/>	<hr/>
TOTAL		4.7	4.9

- MDB's -- U.S. contributions to hard and soft windows of World Bank and regional banks.
- IO's -- voluntary contributions to 12 organizations (UNDP the largest).
- Refugees -- in State budget.
- Other -- mostly Peace Corps and receipts.

A GRIM BUDGET OUTLOOK FOR INTERNATIONAL AFFAIRS

		BA, \$ in Billions			
		1986	<u>Request</u>	1987	
		<u>Est.</u>		<u>Senate</u>	<u>House</u> <u>Repub.</u>
151	International Dev't & Humanitarian Ass't.	4.7	4.9	4.0	4.1
152	International Security Assistance	<u>10.2</u>	<u>11.2</u>	<u>9.2</u>	<u>8.2</u>
	SUBTOTAL, FOREIGN AID	14.9	16.2	13.2	12.3
153	Conduct of Foreign Affairs	3.0	3.8	2.9	2.6
154	Foreign Info & Exchange Activities	1.0	1.1	0.8	0.9
155	International Financial Programs	<u>1.9</u>	<u>1.5</u>	<u>0.9</u>	<u>1.0</u>
	TOTAL, INTERNATIONAL AFFAIRS (150)	20.8	22.6	17.9	16.9

In the Senate

- FMS credits cut 20% -- \$1.2B -- below request.
- Heavy cuts in development assistance (\$400M).
- Board for International Broadcasting cut in half.
- Increases for Embassy Security Initiative.

House is Unlikely to Improve Matters

- House Republicans -- draft shows total \$1B below Senate.
- Heavy Security Assistance cuts -- ESF (1.2B); FMS (\$1.2B); MAP (\$500M)
- Increases for Embassy Security Initiative.

FOREIGN AID -- IMPROVING THE PROSPECTS

- Coordinate high-level Administrative push for President's request.
- Priorities must be set.
 - Full funding for Israel and Egypt?
 - Continues all base rights payments?
 - Reduce payments to multilateral banks?
- Secretary Shultz appears to be on the same wavelength.
- NSC oversight is probably required.
 - State/AID differences over security vs. development aid.
 - Treasury lead on MDB's.
 - Possible Defense offsets.

LONG-TERM RESOURCE CONSTRAINTS ARE LIKELY TO CONTINUE
EFFICIENCIES MAY BE POSSIBLE IN ECONOMIC ASSISTANCE

- Multilateral
 - World Bank/IDA
 - Regional Development Banks
- Bilateral
 - Economic Support Fund
 - Development Assistance (AID)
 - PL 480 Food Aid

These Programs are Considered in More Depth
in the Following Pages

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

MULTILATERAL DEVELOPMENT BANKS

	<u>U.S. Obligations</u> <u>(1982-85 avg., \$M)</u>	<u>Total Commitments</u> <u>(1982-85 avg., \$M)</u>
<u>Hard Loans</u>		
World Bank	116	11,180
Asian Development Bank	8	1,300
African Development Bank	9	450
Inter-American Dev't Bank.	46	2,620
International Finance Corp	4	750
Inter-American Investment Corp . .	2	---
<u>Soft Loans</u>		
International Development Assn . .	873	3,150
Asian Development Fund	112	620
African Development Fund	52	400
IDB/Fund for Special Operations. .	<u>137</u>	<u>450</u>
TOTAL MDB'S	1359	20,920

- Soft loan windows are most expensive because of concessionality.
- 18% of total funds for hard windows.
- MDB's leverage other donor aid.
- Key roles in Baker Plan -- growth-oriented policies.
- Potential problem -- budget cuts may make it impossible to deliver on replenishments now being negotiated.

INTERNATIONAL SECURITY ASSISTANCE
ECONOMIC SUPPORT FUND

- Grants or concessional loans to countries of special political and security interest.
- By far the most flexible form of economic aid. Of 1987 request,
 - 69% for fast-disbursing balance of payments aid.
 - 31% for projects.
- 48 recipients proposed in 1987, up from 36 in 1984.
- Israel and Egypt dominate recipients.

1986 Aid	\$M	%
Israel/Egypt (2)	2,015	43
Central America (8)	507	11
Sudan	60	1
Jordan	90	2
Portugal	77	1
Pakistan	239	5
Philippines.	120	3
Turkey	120	3
Other.	1,491	32
Total	4,659	100

- Earmarking is a problem -- 70% earmarked in 1986. Waiver authority exists, but requires "national security" determination by the the President.

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

AID DEVELOPMENT ASSISTANCE

- Spread thinly over many countries -- more than 60 in 1986. Largest recipients:

<u>19K Aid</u>	<u>\$M</u>	<u>%</u>
El Salvador.	81	4
Bangladesh	75	4
India	75	4
Indonesia.	52	3
Honduras	43	2
Other Countries (55) . .	801	41
Central programs	470	24
Operating Expenses . . .	380	19
Total. . .	1977	100

- Activities: 1700 projects to support agriculture, health, population, education, and other functions.
- Slow-spending: 10% in 1st year; spendout over 6-8 years.
- Terms: grants and highly concessional loans.
- Problems:
 - World Bank: too many projects.
 - Congressional restrictions -- functional allocations, earmarks.
 - Expense: cost of AID missions in many African countries equals the of value of aid.

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

P. L. 480 FOOD AID

Title I

- Concessional loans to allow recipient governments to purchase U.S. commodities.
- Main commodities: wheat, wheat flour, rice, feed grains, vegetable oils.
- Impact: Balance-of-payments relief.
- Objectives: economic development, foreign policy, market development.
- Lead agency: USDA
- Potential problem: distorting market signals in recipient countries.
- Recipients:

<u>1986 Aid</u>	<u>\$M</u>	<u>%</u>
Egypt.	213	22
El Salvador. . .	46	5
Sudan.	45	5
Pakistan	50	5
Bangladesh . . .	70	7
28 Others. . . .	421	43
Reserve.	44	4
Freight.	115	12
Initial Payment.	- 18	--
Total. .	986	103

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

P. L. 480 FOOD AID (Continued)

Title II

- Grants to meet famine on other emergency requirements, to combat malnutrition (especially children), and to promote economic and community development.
Mainly used for ongoing programs.

<u>Profile of Title II Aid</u>				
<u>1986 -- \$M</u>				
	<u>Total</u>	<u>Voluntary Agencies</u>	<u>World Food Program</u>	<u>Gov-to-Gov</u>
Regular	316	204	103	9
Emergency	72	55	8	9
Reserve	79	---	---	---
Freight	<u>287</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total	754	259	111	18

- Lead Agency: AID
- Recipients: 73 countries, most less than \$10M each. India (\$92M), Ethiopia (\$51M), and Algeria (\$38M) the largest in 1986.
- Legislative restrictions -- tonnage floors; processed commodities floor.

FOREIGN AID -- LIVING WITH SCARCITY

- Even complete success with Congress will mean budget tightness.
- The current environment of:
 - Budget cuts.
 - Baker Plan emphasis on growth.
 - Summit consensus on Africa.
 - Embassy security concerns.
- Creates an opportunity to focus our economic assistance programs.
 - On good performing countries.
 - Away from projects.
 - In support of private sector development.
- Proposed NSSD would target Africa -- main development problem.
 - Legislative initiative next year.
 - Reform of interagency decision-making process.
 - Smaller and more flexible AID structure.

TALKING POINTS
FY 1987 CONGRESSIONAL BUDGET ACTION

- The Senate Budget Resolution would cut the International Affairs (150) function by:
 - nearly \$5 billion (20%) from the President's request;
 - over \$3.5 billion (17%) from the FY-86 base.
- The House Budget Resolution would cut the 150 function by even more:
 - \$5.6 billion (25%) from the President's request;
 - over \$4.4 billion (21%) from the FY-86 base.
- Even the higher of the two--the Senate mark--is woefully inadequate to meet our requirements. For example, after meeting our commitments to Israel and Egypt, the base rights countries, Pakistan, Central America, other Congressional earmarks, and Eximbank (at the levels implied by the budget resolutions), we would have only \$6.7 billion remaining to fund requirements totalling nearly \$11 billion, including:
 - other foreign aid needs of nearly \$6 billion;
 - nearly \$4 billion required for the conduct of foreign affairs, including State Department operations and the Embassy security initiative; and
 - over \$1 billion for foreign information and exchange activities, including USIA operations, VOA and the Board for International Broadcasting.
- THE HOUSE WOULD PROVIDE LESS THAN \$6 BILLION TO MEET THESE NEEDS.
 - In bilateral foreign assistance, we will either have to default on our highest level commitments or be forced to suspend entire programs in such key areas as Sub-Saharan Africa, the moderate Arab countries (Tunisia, Oman, Jordan and Morocco), the Caribbean (Haiti, Jamaica, Grenada), South America (Bolivia, Peru, Ecuador, Uruguay), East Asia (Thailand, Korea, Indonesia) and South Asia (India, Bangladesh).
 - Our ability to meet our pledges to the multilateral banks, which are a key component to the Baker Plan, will also be called into question. Our extremely effective programs in narcotics control, Peace Corps, and refugee relief would face unacceptable reductions.

- We would face dangerous delays in the diplomatic security program when our personnel and facilities are facing increased terrorist threats. Such cuts would decimate our diplomatic presence abroad and seriously erode our information gathering and reporting capability at a time when we need to keep pace with our adversaries.
- VOA would have to curtail its modernization program and reduce broadcast hours while USIA would, like State, have to reduce dramatically its presence overseas by closing many facilities.

by C M
Drafted: T:RBoyce
5/12/86:x77888
bud #3258

(millions of dollars)	FY 1986 ADJUSTED	FY 1987 REQUEST	SENATE	HOUSE
150 TOTAL	21,427	22,636	17,856	17,000
Israel/Egypt	5,118	5,307	5,307	5,300
Base rights	2,141	2,534	2,534	2,530
Pakistan	625	666	666	660
Central America	1,018	1,309	1,309	1,300
Other earmarks	221	191	228	220
Export-Import Bank	1,062	--	1,062	1,030
SUBTOTAL OF ABOVE COMMITMENTS	10,186	10,008	11,107	11,080
AMOUNT REMAINING	11,241	12,628	6,749	5,910
REQUIREMENTS REMAINING (as itemized below)	11,241	12,627	10,595	11,190
OTHER FOREIGN ASSISTANCE	5,065	5,885	5,885	5,880
Bilateral programs	2,522	3,130	3,130	3,130
Multilateral Banks	1,143	1,392	1,392	1,390
International Organizations	266	186	186	180
Refugees	324	373	373	370
Peace Corps	124	127	127	120
Narcotics	54	65	65	60
A.I.D. non-country programs and miscellaneous	632	613	613	610
CONDUCT OF FOREIGN AFFAIRS (SUBFUNCTION 153)	3,057	3,891	2,846	3,361
State Operations	1,717	1,811	1,717	1,648
Embassy Security Initiative	702	1,413	491	1,100
Other 153 (int orgs. etc.)	638	667	638	612
[153 net of Inman]	[2,355]	[2,478]	[2,355]	[2,260]
SUBFUNCTION 154 (USIA etc.)	967	1,129	871	929
Other technical adjustments	2,151	1,722	993	1,019
SHORTFALL	--	--	3,846	5,275

	FY 1986 ADJUSTED	FY 1987 REQUEST	SENATE	HOUSE
	-----	-----	-----	-----
150 TOTAL	21,427	22,636	17,836	17,000
-----	-----	-----	-----	-----
Israel/Egypt	5,118	5,307	5,307	5,307
-----	-----	-----	-----	-----
Base rights	2,141	2,534	2,534	2,534
-----	-----	-----	-----	-----
--Greece	432	502	502	502
--Turkey	738	974	974	974
--Spain	397	415	415	415
--Portugal	189	415	415	415
--Philippines	386	228	228	228
-----	-----	-----	-----	-----
Pakistan	625	666	666	666
-----	-----	-----	-----	-----
Central America	1,018	1,309	1,309	1,309
-----	-----	-----	-----	-----
--Belize	9	12	12	12
--Costa Rica	157	187	187	187
--El Salvador	436	514	514	514
--Guatemala	102	144	144	144
--Honduras	182	248	248	248
--Panama	31	61	61	61
--ROCAP	101	144	144	144
-----	-----	-----	-----	-----
Other earmarks	221	191	228	228
-----	-----	-----	-----	-----
--Afghan humanitarian	14	15	15	15
--Tunisia	87	94	94	94
--Cyprus	14	3	15	15
--Ecuador	53	47	47	47
--Uruguay	14	18	18	18
--Cambodian resistance	5	5	5	5
--ASHA	33	10	35	35
-----	-----	-----	-----	-----
Export-Import Bank	1,062	--	1,062	1,036
-----	-----	-----	-----	-----
SUBTOTAL OF ABOVE COMMITMENTS	10,186	10,008	11,107	11,081
-----	-----	-----	-----	-----
AMOUNT REMAINING	11,241	12,628	6,749	5,919
-----	-----	-----	-----	-----
REQUIREMENTS REMAINING	11,241	12,627	10,595	11,194
-----	-----	-----	-----	-----
Other foreign assistance :	5,065	5,885	5,885	5,885

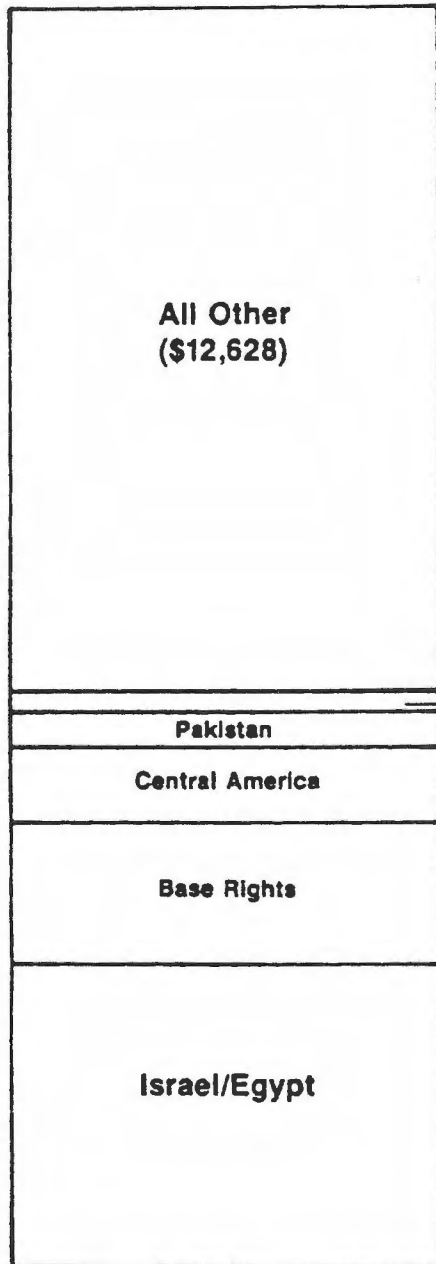
FY 1987 CONGRESSIONAL BUDGET ACTION

Africa	935	1,174	1,174	1,174
East Asia	425	523	523	523
South America/Caribbean	493	646	646	646
Other Middle East	287	423	423	423
Other South Asia	381	364	364	364
Multilateral Banks	1,143	1,392	1,392	1,392
International Organizations	266	186	186	186
Refugees	324	373	373	373
Peace Corps	124	127	127	127
Narcotics	54	65	65	65
A.I.D. non-country programs and miscellaneous	632	613	613	613
State Operations	1,717	1,811	1,717	1,648
Embassy Security Initiative	702	1,413	491	1,100
Other 153 (int orgs, etc.)	638	667	638	612
SUBFUNCTION 153 TOTAL	3,057	3,891	2,846	3,361
--net of Inman	2,355	2,478	2,355	2,261
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Other technical adjustments	2,151	1,722	993	1,019

FOREIGN AFFAIRS BUDGET

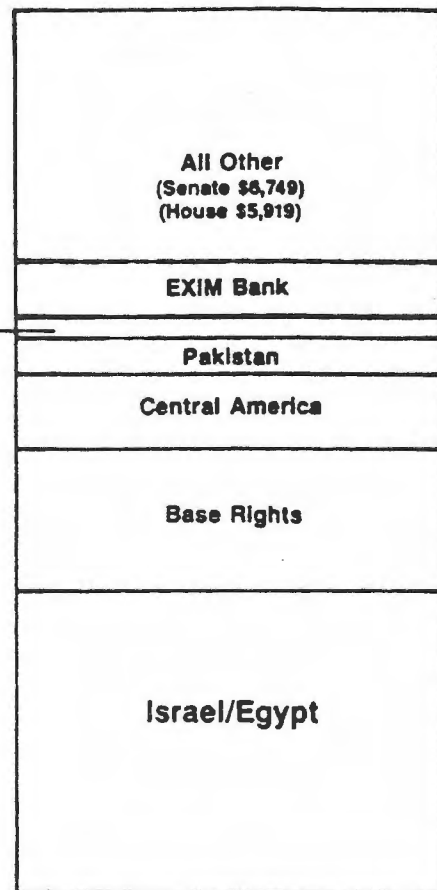
(In Millions of Dollars)

\$22,636



REQUEST

\$17,000 - \$17,856



CONGRESSIONAL ACTION

Other Earmarks

FY 1987 CONGRESSIONAL BUDGET ACTION

(Dollars in Millions)	1987 Request	Senate Budget	House Budget
TOTAL FOREIGN AFFAIRS	22,636	17,856	17,000
COMMITMENTS			
Israel/Egypt, Base Rights, Central America, Pakistan	10,008		
Congressional add-on: Ex-Im Bank Earmarks		1,062 37	1,036 37
TOTAL COMMITMENTS	10,008	11,107	11,081
REMAINDER	12,628	6,749	5,919

REMAINING REQUIREMENTS

Other Foreign Assistance	5,885		
State Department Operations	1,804		
International Organizations and Other	674		
Security Initiative	1,413	491	1,100
USIA, BIB	1,129		
Policy-Neutral Adjustments (Trust Fund Flows)	1,722		
TOTAL REMAINING REQUIREMENTS	12,628		

FOREIGN AID

May 14, 1986

FOREIGN AID

PURPOSES OF BRIEFING

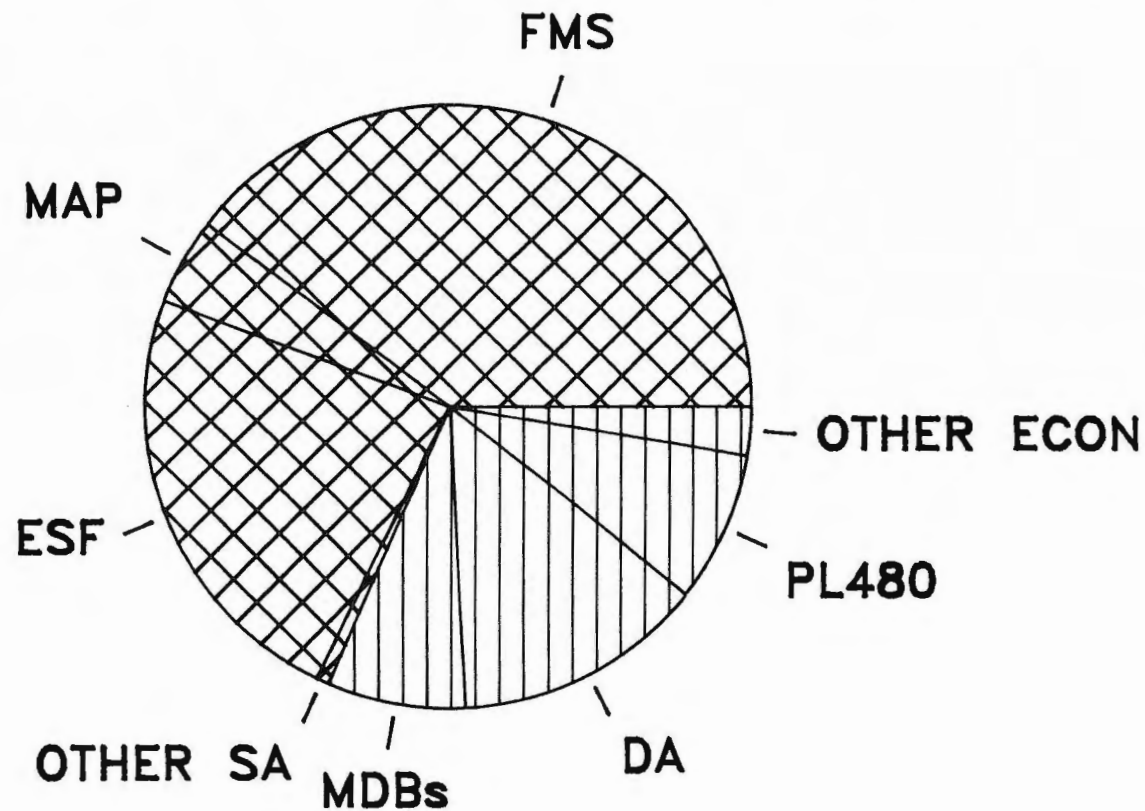
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 - Interagency Process on Budget Priorities
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INTERNATIONAL AFFAIRS -- FUNCTION 150

<u>Subfunction</u>	<u>1986 (\$B)</u>	
	<u>Budget</u>	<u>Total</u>
	<u>Authority</u>	<u>Commitments</u>
151: International Development and Humanitarian Assistance.....	4.7	5.9
152: International Security Assistance.....	<u>10.2</u>	<u>10.3</u>
SUBTOTAL, FOREIGN AID.....	14.9	16.2
153: Conduct of Foreign Affairs.....	3.0	3.8
154: Foreign Information and Exchange Activities. <i>USIA, BLS, CIA</i>	1.0	1.1
155: International Financial Programs... <i>Ex-Im</i>	<u>1.9</u>	<u>14.6</u>
TOTAL, INTERNATIONAL AFFAIRS (150).....	20.8	35.7

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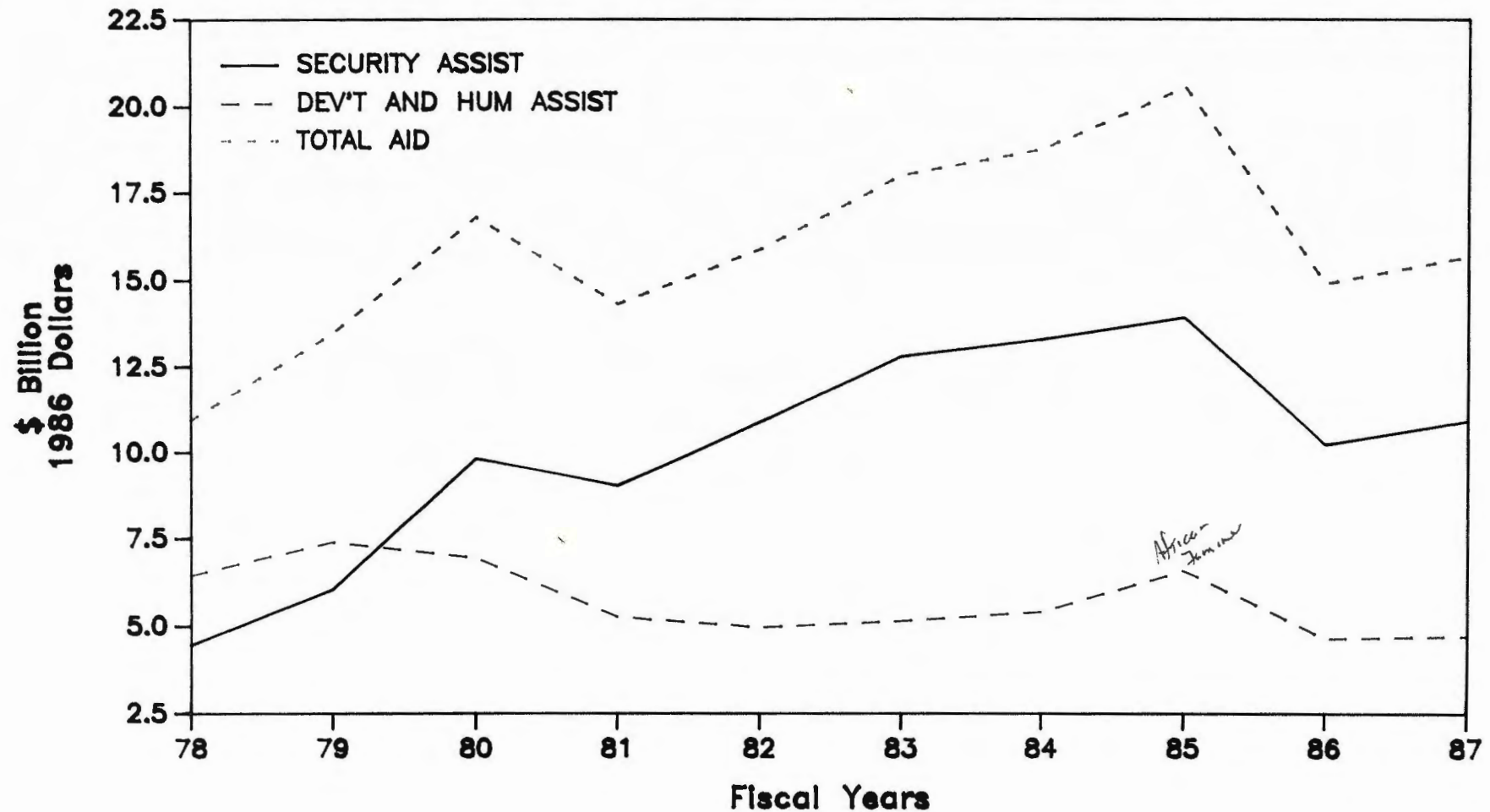
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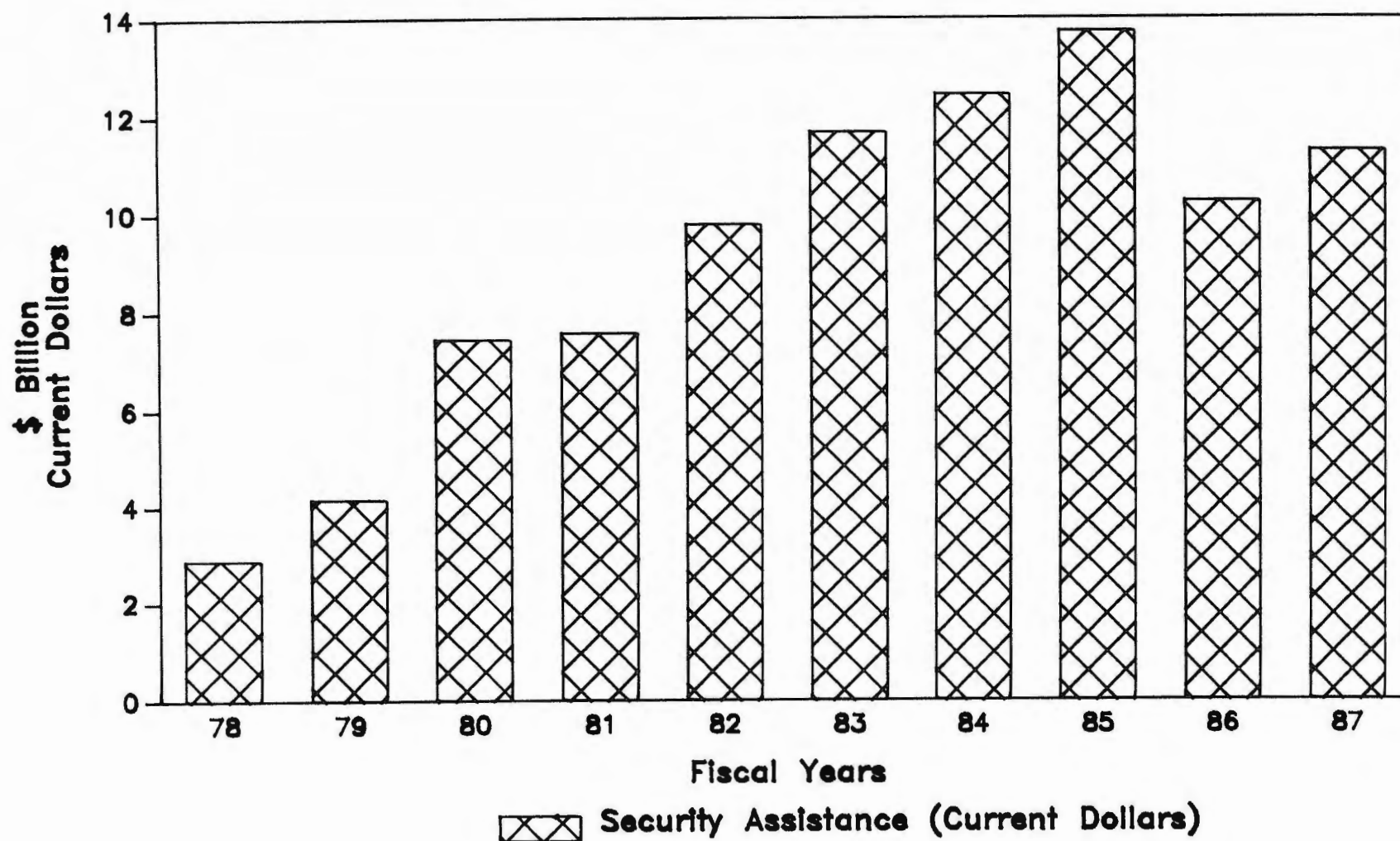


INTERNATIONAL SECURITY ASSISTANCE

		<u>Budget Authority (\$B)</u>	
		<u>1986</u>	<u>1987</u>
		<u>Est.</u>	<u>Request</u>
●	Economic Support Fund (State/AID)	3.5	4.1
●	Foreign Military Sales Program (State/DOD)	5.9	6.1
●	Military Assistance Program (State/DOD)	0.7	1.0
●	Other (mainly training)	<u>0.1</u>	<u>0.1</u>
TOTAL		10.2	11.3

- ESF -- economic aid for high priority countries. -
- FMS -- increasingly concessional credits for military equipment.
- MAP -- grants for military equipment.

SECURITY ASSISTANCE GREW IN IMPORTANCE UNDER REAGAN



IT REFLECTS INCREASED EMPHASIS
ON STRATEGIC PRIORITIES

	<u>\$ In Millions</u>			
	<u>1983</u>		<u>1987</u>	
	<u>\$ Mil</u>	<u>%</u>	<u>\$ Mil</u>	<u>%</u>
Israel/Egypt	4,824	45	5,307	41
Base Rights	1,496	14	2,344	18
Central America/Caribbean	891	8	1,728	13
Military Access/Frontline	1,741	16	1,755	14
Other Countries	1,698	16	1,804	14
	<u>10,649</u>		<u>12,938</u>	

DEVELOPMENT AND HUMANITARIAN ASSISTANCE

		<u>Budget Authority (\$B)</u>	
		<u>1986</u>	<u>1987</u>
		<u>Est.</u>	<u>Request</u>
●	Multilateral Development Banks (MDB's)	1.1	1.4
●	International Organizations (IO's) . <i>Voluntary Payments</i> . . .	0.2	0.2
●	Development Assistance (AID)	2.0	2.1
●	P.L. 480 Food Aid	1.2	1.2
●	Refugee Assistance	0.3	0.4
●	Other	- 0.1	- 0.4
TOTAL		<u>4.7</u>	<u>4.9</u>

- MDB's -- U.S. contributions to hard and soft windows of World Bank and regional banks.
- IO's -- voluntary contributions to 12 organizations (UNDP the largest).
- Refugees -- in State budget.
- Other -- mostly Peace Corps and receipts.

A GRIM BUDGET OUTLOOK FOR INTERNATIONAL AFFAIRS

		BA, \$ in Billions			
		1986	1987		
		<u>Est.</u>	<u>Request</u>	<u>Senate</u>	<u>House Budget Comm.</u>
151	International Dev't & Humanitarian Ass't.	4.7	4.9	4.0	4.1
152	International Security Assistance	<u>10.2</u>	<u>11.2</u>	<u>9.2</u>	<u>8.3</u>
	SUBTOTAL, FOREIGN AID	14.9	16.2	13.2	12.4
153	Conduct of Foreign Affairs.	3.0	3.8	2.9	2.7
	(Embassy Security)	(0.7)	(1.4)	(0.6)	(1.1)
154	Foreign Info & Exchange Activities	1.0	1.1	0.8	0.9
155	International Financial Programs.	<u>1.9</u>	<u>1.5</u>	<u>0.9</u>	<u>1.0</u>
	TOTAL, INTERNATIONAL AFFAIRS (150).	20.8	22.6	17.9	17.0

In the Senate

- FMS credits cut 20% -- \$1.2B -- below request.
- Heavy cuts in development assistance (\$400M).
- Board for International Broadcasting cut in half.
- Limited increases for Embassy Security Initiative.

Probable House Outcome

- Heavy Security Assistance cuts -- ESF (1.2B); FMS (\$1.2B); MAP (\$500M)
- Larger increases for Embassy Security Initiative.

FOREIGN AID -- IMPROVING THE PROSPECTS

- Coordinate high-level Administration push for President's request.
- Priorities must be set.
 - Full funding for Israel and Egypt?
 - Continues all base rights payments?
 - Reduce payments to multilateral banks?
- Secretary Shultz is beginning to press for restoration.
- But NSC oversight is probably required.
 - State/AID differences over security vs. development aid.
 - Treasury lead on MDB's.
 - Possible Defense offsets.

WHILE LONG-TERM RESOURCE CONSTRAINTS ARE LIKELY TO CONTINUE
EFFICIENCIES MAY BE POSSIBLE IN ECONOMIC ASSISTANCE

- Multilateral
 - World Bank/IDA
 - Regional Development Banks
- Bilateral
 - Economic Support Fund
 - Development Assistance (AID)
 - PL 480 Food Aid

These Programs are Considered in More Depth
in the Following Pages

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

MULTILATERAL DEVELOPMENT BANKS

	U.S. Obligations (1982-85 avg., \$M)	Total Commitments (1982-85 avg., \$M)
<u>Hard Loans</u>		
World Bank	116	11,180
Asian Development Bank	8	1,300
African Development Bank	9	450
Inter-American Dev't Bank.	46	2,620
International Finance Corp	4	750
Inter-American Investment Corp . .	2	---
<u>Soft Loans</u>		
International Development Assn . .	873	3,150
Asian Development Fund	112	620
African Development Fund	52	400
IDB/Fund for Special Operations. .	<u>137</u>	<u>450</u>
TOTAL MDB'S	1,359	20,920

- MDB's leverage other donor aid.
- Key roles in Baker Plan -- growth-oriented policies.
- Potential problem -- budget cuts may make it impossible to deliver on replenishments now being negotiated.
- Soft loan windows are most expensive because of concessionality.
- 14% of total funds for hard windows.

INTERNATIONAL SECURITY ASSISTANCE

ECONOMIC SUPPORT FUND

- Grants or concessional loans to countries of special political and security interest.
- By far the most flexible form of economic aid. Of 1987 request,
 - 69% for fast-disbursing balance of payments aid.
 - 31% for projects.
- 48 recipients proposed in 1987, up from 36 in 1984.
- Israel and Egypt dominate recipients.

<u>1986 Aid</u>	<u>\$M</u>	<u>%</u>
Israel/Egypt (2)	2,015	43
Central America (8)	507	11
Pakistan	239	5
Philippines	120	3
Turkey	120	3
Jordan	90	2
Portugal	77	1
Sudan	60	1
Other. (32)	1,491	32
Total	4,659	100

- Earmarking is a problem -- 70% earmarked in 1986. Waiver authority exists, but requires "national security" determination by the the President.

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

AID DEVELOPMENT ASSISTANCE

- Spread thinly over more than 60 countries in 1986. The largest recipients:

<u>19K Aid</u>	<u>\$M</u>	<u>%</u>
El Salvador.	81	4
Bangladesh	75	4
India	75	4
Indonesia.	52	3
Honduras	43	2
Other Countries (55) . .	801	41
Central programs	470	24
Operating Expenses . . .	380	19
Total. . .	1977	100

- Activities: 1700 projects to support agriculture, health, population, education, and other functions.
- Slow-spending: 10% in 1st year; spendout over 6-8 years.
- Terms: grants and highly concessional loans.
- Problems:
 - World Bank: too many projects.
 - Congressional restrictions -- functional allocations, earmarks, basic human needs
 - Expense: cost of AID missions in many African countries equals the value of aid.

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

P. L. 480 FOOD AID

Title I

- Concessional loans to allow recipient governments to purchase U.S. commodities.
- Main commodities: wheat, wheat flour, rice, feed grains, vegetable oils.
- Impact: Balance-of-payments relief; urban food availability.
- Objectives: economic development, foreign policy, market development.
- Main strength: political popularity in the U.S.
- Potential problem: distorting market signals in recipient countries.
- Recipients:

<u>1986 Aid</u>	<u>\$M</u>	<u>%</u>
Egypt.	213	22
El Salvador. . .	46	5
Sudan.	45	5
Pakistan	50	5
Bangladesh . . .	70	7
28 Others. . . .	421	43
Reserve.	44	4
Freight.	115	12
Initial Payment.	<u>- 18</u>	<u>--</u>
Total. .	986	103

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

P. L. 480 FOOD AID (Continued)

Title II

- Grants to meet famine on other emergency requirements, to combat malnutrition (especially children), and to promote economic and community development.
Mainly used for ongoing programs.

<u>Profile of Title II Aid</u> <u>1986 -- \$M</u>				
	<u>Total</u>	<u>Voluntary Agencies</u>	<u>World Food Program</u>	<u>Gov-to-Gov</u>
Regular	316	204	103	9
Emergency	72	55	8	9
Reserve	79	---	---	---
Freight	<u>287</u>	---	---	---
Total	754	259	111	18

- Lead Agency: AID
- Recipients: 73 countries, most less than \$10M each. India (\$92M), Ethiopia (\$51M), and Algeria (\$38M) the largest in 1986.
- Legislative restrictions -- tonnage floors; processed commodities floor.

INTERNATIONAL DEVELOPMENT AND HUMANITARIAN ASSISTANCE

P. L. 480 FOOD AID (Continued)

Section 416

- New off-budget authority (in Agricultural Adjustment Act) to donate food from CCC stocks.
- Dimensions potentially large:

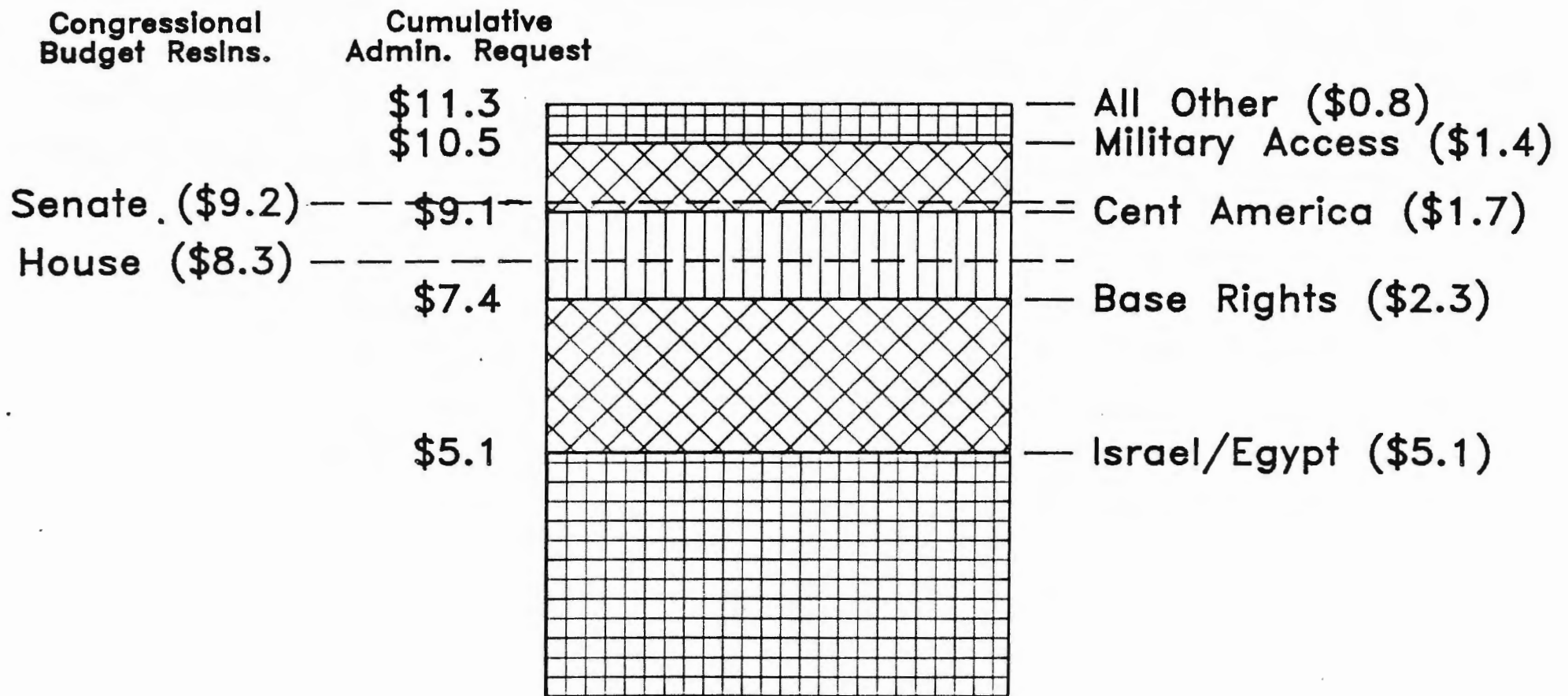
	<u>Title I</u>	<u>Title II</u>	<u>Sec. 416 Est.</u>	<u>Uncommitted CCC Reserves, as of 4/1</u>
Wheat	4434	1138	150	27099
Corn	193	504	25	29608
Rice	297	85	75	1887
Sorghum	--	193	--	5865
Non-fat Dried Milk	--	153	150	435
Butter.	--	1	--	123
Cheese	--	3	--	276
(thousands of metric tons, grain equivalent)				

- Limitations: absorptive capacity of markets; duration of CCC reserves.

FOREIGN AID -- LIVING WITH SCARCITY

- Even complete success with Congress will mean budget tightness.
- The current environment of:
 - Budget cuts.
 - Baker Plan emphasis on growth.
 - Summit consensus on Africa.
 - Embassy security concerns.
- Creates an opportunity to focus our economic assistance programs.
 - On countries that are performing well.
 - Away from projects.
 - In support of private sector development.
- Proposed NSSD would target Africa -- main development problem.
 - Legislative initiative next year.
 - Reform of interagency decision-making process.
 - Smaller and more flexible AID structure.

IMPLICATIONS OF CUTS IN SECURITY ASSISTANCE (FY87)



All figures in billions of dollars

If earmarks are protected could lead to 70% plus cut under H. Resol. + 25% plus cut in Sen. resol.