

PLAYERS & ISSUES IN US FOREIGN AID

Essential Information for Educators



Editors
Elizabeth Morrison
Randall B. Purcell

THE CURRY FOUNDATION



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Elizabeth Morrison
and
Randall B. Purcell



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Global issues that once only concerned statesmen and students of international affairs increasingly concern all Americans. More than ever before, American farmers are affected by supply and demand conditions in the developing world, and US manufacturers face stiff competition from low-cost producers overseas. The debt crisis is equally troubling, as it has forced many developing countries to cut back significantly on the goods they buy from the United States.

Americans have only recently been introduced to the interdependence between developed and developing countries. Public television shows cover in great detail the people and problems of the Third World. Prime-time news segments emphasize the economic linkages between the United States and the Third World. US government leaders discuss the importance of the developing world more than ever before. Americans are continually reminded that, with nearly 35 percent of the country's trade taking place with Third World countries and nearly one-sixth of US farm and manufacturing jobs dependent on that trade, their prosperity depends more than ever on the health, welfare, and prosperity of people in developing countries.

But do Americans really understand what is at stake? Are Americans able to make informed decisions about trade relations with developing countries and the role that the United States should or should not play in the political problems of these countries? Opinion polls show that there is a lack of understanding among Americans of foreign policy in general and Third World issues in particular. But the surveys also show that there is a growing recognition among Americans of the importance of international issues and also a greater desire for strong American leadership in foreign policy. There exists, then, a window of opportunity for educators who can show Americans of every age, from every type of community, how their lives are affected by people in countries much different than their own. Educators can influence public policy by helping to create an informed, enlightened foreign policy constituency.

Players and Issues in US Foreign Aid: Essential Information for Educators is designed to be a comprehensive and readable overview for American educators in nongovernmental organizations (NGOs), in secondary schools and in the media of the significant players and issues found in the complex arena of financial and technical assistance to the Third World.

The book is a guide to the major Western institutions involved in the development process. These are the organizations that serve as the principal conduits for the flow of US assistance to the Third World. Through them, and for a variety of widely debated

motives, the United States attempts to influence the world's economic, social, and political progress. *Players and Issues* is intended to help educators understand the complex objectives and operations of these institutions; it is not a debate about the development philosophies of these institutions.

The guide is divided into three parts. Part One contains four descriptive chapters on development agencies worldwide—their policies and the issues that surround them. These chapters, written by Catherine Gwin of the Rockefeller Foundation, explore the origins and objectives of the US Agency for International Development (AID), the International Monetary Fund (IMF), the multilateral development banks (MDBs) and the development agencies of the United Nations. They are written from a US perspective and focus on the role that the United States plays in these agencies.

In order to provide a balanced view of these institutions, we invited two Third World nationals to review Part One. Both Chandra Hardy, a native of Guyana and a veteran of the World Bank, and Harris Mule, a former Permanent Secretary of the Kenyan Ministry of Finance and Planning, now a private consultant, offer their observations on the effectiveness and shortcomings of these institutions.

Part Two of the guide explores the real and potential role that NGOs—both American-based and indigenous—play in development. Gretchen Bauer and Anne Drabek, both of the journal *World Development*, examine the role that NGOs play in development and the challenges NGOs face in their new and expanding role of teaching Americans about Third World development. Peggy Antrobus, a native of Grenada, reviews the NGO chapter from the perspective of one who has founded and worked extensively with indigenous NGOs to promote equitable and sustainable development.

The final part of *Players and Issues* contains almost fifty reviews of current writings on key Third World issues. These reviews cover a broad spectrum of the literature from the West and the Third World, but focus especially on those works that address broad issues of concern, such as US-developing country relations, hunger and poverty, debt, population, and the environment. We do not pretend that these writings are the only important or accepted ones on these issues. However, we tried to choose writings that cover the subjects thoroughly and that will stimulate the reader to explore the issues more carefully. We also suggest a few additional readings in each issue area.

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PART
ONE

International
Development
Assistance

The Agencies, Policies, and Issues

Catherine Gwin

CHAPTER 1
US Agency for International Development

CHAPTER 2
International Monetary Fund

CHAPTER 3
Multilateral Development Banks

CHAPTER 4
United Nations Specialized Agencies and Programs

A young Swazi farmer and his wife count their meager savings on the floor inside their dwelling in Swaziland.



Official development assistance, the flow of international aid from donor governments to Third World countries, reaches nearly \$50 billion each year. The assistance is channeled either bilaterally—from a donor country to a recipient country—or multilaterally—a collaborative effort of many countries. Some aid is given as cash grants, some as technical assistance, some as commercial, interest-bearing loans, some as concessional loans (loans with low interest rates and/or long repayment terms), and some as the direct provision of needed goods such as food. Most aid is provided to help meet long-term development needs, but some is also supplied as immediate relief in emergencies such as droughts or earthquakes. Each of the official agencies that provide development assistance—the bilateral agencies, the multilateral development banks, and the United Nations agencies—has its own mandate, operating procedures and priorities. Each also has its own record of successes and failures, as well as its advocates and detractors.

Multilateral aid has recently given rise to much domestic and international debate over the criteria for allocating concessional financing among developing countries and to questions about its effectiveness. Moreover, in recent years, as multilateral as well as bilateral donors have put increased emphasis on the need for new economic policies, or “policy reform,” in developing countries, disagreement has intensified over the design of appropriate development strategies and over imposing change by making aid conditional on policy shifts in the recipient countries.

These issues of policy direction and program priorities are addressed and reviewed in the descriptions of the principal aid agencies that follow. Chapter One describes the US bilateral foreign aid program and compares it with the efforts of other donors. The financial operations of the International Monetary Fund are surveyed in Chapter Two, and Chapter Three explores the roles of the multilateral development banks. Finally, Part One concludes with a brief account of those United Nations agencies involved in development and the current UN funding controversy.

US Agency for International Development

Overview

The United States provides foreign assistance to about seventy countries in the developing world. Like other donor countries, the United States aims to have its aid programs address a mix of humanitarian, economic, political, and national security objectives. As those objectives are not always compatible, the US foreign aid program has perennially been a subject of controversy.

Not surprising in the current era of budgetary constraint, the controversy has intensified. Among the issues most frequently raised about US development programs are 1) what should the funding mix be between bilateral aid that directly serves US foreign policy interests and multilateral aid that may be a more efficient means of promoting development; 2) how large a share of the total US aid budget should go for economic assistance and how much for security/military assistance; 3) which less-developed countries (LDCs) should receive the most US aid—those of greatest political and economic importance to the United States or those in greatest need, and 4) how effective is aid in promoting development and other US objectives abroad?

Over the years, US foreign assistance has grown in volume and in scope. In 1986, the budget for all US foreign assistance—economic and security (which includes military)—totaled \$14.8 billion. To help improve the quality of life in developing countries, US economic aid is concentrated in such activities as agriculture, health, and private enterprise. In addition, the United States provides sizeable military and other security assistance as well as emergency relief aid to help Third World nations cope with disasters such as the Mexico City earthquake of 1986 and the African famine of 1985. Overall, much of the US aid appropriation goes to developing countries that are important political allies or economic partners of the United States.

The US Agency for International Development (AID) is the principal distributor of US bilateral development assistance. Over the years, it has been a pacesetter in the international development community, often identifying new problems and designing new approaches for addressing them. AID is also one of the agencies at the forefront of efforts to assess the effectiveness of development assistance, having long emphasized the need for effective evaluation of its programs. AID maintains resident field missions in recipient countries in order to administer and monitor its programs, a system that distinguishes it from many other nations' bilateral programs.

Since the late 1960s, however, the US development assistance program has not grown as fast as many other

bilateral aid programs. While security assistance has increased dramatically in recent years, economic development assistance has grown slowly through the 1970s and 1980s. As a percentage of gross national product (GNP), US assistance is at levels well below most of the industrial countries of Western Europe and Scandinavia. With public support for foreign economic aid continuing to wane in the United States—in marked contrast to continued strong support in some other countries—there has been a coincident trend by the government toward increased security assistance, a trend which has given rise to a number of important issues and criticisms of the role of AID.

Origins and Objectives

Foreign assistance became an important instrument of US policy in the immediate aftermath of World War II. In 1947, President Truman proposed that it should be the policy of the United States to “assist free people to work out their own destinies in their own way,” and asked Congress for \$400 million to assist Greece and Turkey. He also sought authority to send American personnel to provide those countries with technical assistance. Later that same year, Secretary of State George Marshall announced plans to give massive economic support to help rebuild the war-torn economies of Europe. That effort became known as the Marshall Plan. Both programs, while motivated in part by humanitarian concerns, were aimed at stemming the growth of communist influence in Europe. Two years later, in 1949, President Truman initiated the Point IV program. The program provided technical assistance to Taiwan, South Korea, nations in Indochina, and the less developed countries of Europe and the Middle East, and effectively marked the shift in focus of US foreign aid from Europe to the developing world.

In 1961, technical assistance programs under the International Cooperation Administration and the Development Loan Fund, which enabled developing countries to obtain capital assistance, were combined within AID. Throughout the rest of the decade, the United States consolidated and expanded its aid program in all regions of the Third World.

In 1973, Congress established guidelines for AID which were essentially meant to focus the agency's attention on the problems of meeting basic human needs. These guidelines, known as “New Directions,” emphasized raising the productivity and income of poor people in developing countries by increasing their access to resources such as land, water, fertilizer, seeds, tools, credit, and renewable sources of energy. Health, nutrition, voluntary family planning, and education programs also received more attention than in the past.

Although the guidelines remain in effect today, the concern with meeting basic human needs has weakened in recent years as the aid program has put increasing emphasis on other economic policy reform goals.

The history of the US foreign assistance program reflects the government's postwar desire to blunt Soviet expansion in Europe, on the East Asian peninsula, and subsequently throughout the Third World, while simultaneously promoting American economic interests abroad and improving the well-being of the world's poor majority.

While these multiple goals have coexisted from the very beginning of the program, each has been given different emphasis depending on the particular administration in office and the economic and political environment of the time. In the 1980s, the Reagan administration gave great weight to foreign aid as an instrument of foreign policy as well as a means of serving US economic and humanitarian interest. That philosophy is summarized in the following passages from a 1985 AID annual program review.

Developing countries are fundamental to US aspirations for security and peace. Since 1950 most of the major threats to international stability have come in developing countries: Korea in 1950; Dien Bien Phu in 1954; the Suez Canal in 1956; Cuba in 1962; and, more recently, Iran, Angola, Afghanistan, Kampuchea, El Salvador, Ethiopia and Lebanon. This instability is inimical to US security in many ways. Small incidents can flare into larger conflicts and have the potential of leading to confrontations between the superpowers. . . . [S]uccessful development enhances the conditions for stability in a number of ways.

Economic stability and prosperity in the developing countries provide important economic benefits to the United States through trade and investment relationships that this stability makes possible. . . . [I]n recent years, the importance of trade to the US economy has grown significantly. . . . Growth in trade between the United States and the developing countries has been most dramatic, registering a nearly ninefold increase . . . between 1970 and 1980 . . . the percentage total of US exports of manufactured goods to developing countries was up markedly in 1981 to 45 percent from 29 percent in 1970. The developing world also has continued to purchase a growing share of US agricultural exports; this share was 42 percent in 1983, up from 40 percent in 1982. . . .

Moreover, through foreign assistance programs, the people of the United States continue a proud tradition of helping others. US foreign assistance programs reflect the traditional humanitarian ideals of the American people for the promotion of the welfare of humanity, especially through the elimination of hunger, poverty, illness, and ignorance. These humanitarian concerns are a fundamental objective of US foreign policy, which calls for 'the encouragement and sustained support of the people of developing countries in their efforts to acquire the knowledge and resources essential to development and to build the economic, political and social institutions which will improve the quality of their lives.'

At any time, the balance struck in the foreign assis-

tance program among these political, economic, and humanitarian objectives will be a reflection of two factors: prevailing global conditions and America's foreign policy interests as interpreted by the administration in office. In an environment of heightened tensions between the United States and the Soviet Union, for example, foreign aid may be used largely for political /security purposes. In order to more firmly control where US funds go in politically tense times, the government may choose to channel more of its foreign aid money through AID than through multilateral programs. In contrast, during periods of relative detente, when global economic problems loom larger than political antagonisms, the US assistance program may emphasize multilateral cooperation in support of economic stabilization and development. Or, in a third scenario, as in the recent years of severe drought and famine in Africa, relief efforts may be increased to meet immediate needs. Differences in orientation in the last two decades have also reflected the different viewpoints of Democratic and Republican administrations—the former emphasizing more the economic and humanitarian roles of foreign aid and the latter, the security and political.

US Aid in the 1980s

A closer look at US aid policies during the 1980s illustrates the seesawing of American foreign aid programs as administrations change. At the end of the 1970s, President Jimmy Carter was advancing the importance of human rights and human needs in developing countries and had made an effort to link US assistance to improvements in protecting human rights. When Ronald Reagan took office in 1980, his administration shifted the emphasis of the aid program. The two Reagan Administrations focused on three foreign aid objectives. First, the program stressed aid as a way to promote US security and political objectives abroad (see Table 1-1). This emphasis reflected the administration's perception that Soviet intervention or influence is a major cause of Third World political instability and regional tension.

Second, the early Reagan aid program showed a strong preference for bilateral over multilateral aid. There was a stronger inclination, for example, to channel money through AID than through the World Bank. The prevailing view in the Reagan Administration's early years was that the multilateral banks inadequately served US foreign policy interests and often promoted a course of development inimical to private enterprise. In the latter Reagan years, the administration gradually conceded that these organizations—particularly the World Bank—had an important role in the resolution of developing country debt and in implementing policy adjustments in developing countries.

Third, while "New Directions" continued to provide legislative guidelines for AID, the specific approach of

TABLE 1-1
US Foreign Aid Budget Authority (\$ Millions)

	1980	1982	1984	1986	1987	1988 Request
<i>Economic Assistance</i>	5,533	4,913	5,562	5,217	5,024	5,753
Multilateral Development Banks	2,308	1,262	1,324	1,143	949	1,819
International Organizations	260	215	315	261	237	194
Agency for International Development	1,596	1,847	2,013	2,026	2,066	2,192
PL 480 ^a	886	1,000	1,377	1,243	1,083	965
Other	483	589	533	544	689	583
<i>Security Assistance</i>	4,438	7,202	9,029	9,602	8,596	9,463
Military Assistance Program	110	179	712	798	900	1,330
Foreign Military Sales	2,095	3,883	4,818	4,947	4,040	4,421
Economic Support Funds ^b	1,942	2,919	3,389	3,762	3,600	3,600
Other	291	221	110	95	56	112
TOTAL	9,971	12,115	14,591	14,819	13,620	15,196
Security Assistance as % of Total	45%	59%	62%	65%	63%	62%

^a PL 480 program levels run \$300–400 million above these numbers since annual repayments of past loans are used to fund the program in addition to budget authority.

^b Most ESF is provided in support of US security and political objectives abroad, e.g., as part of the Camp David Accords or associated with bases or access to port and air facilities. ESF is often used to promote development in recipient countries, through funding of critical imports or development projects.

Source: Carol Lancaster, "Foreign Aid: Annual Budget Battle Resumes," *Overseas Development Council Policy Focus* No. 3 (1987)

its development assistance program shifted away from efforts to meet basic human needs directly to efforts to promote broad economic policy changes in recipient countries. This effort reflected the prevailing economic and political wisdom that a flourishing private sector could stimulate development in the Third World. The policy changes advocated for developing countries, including selling government-run companies (parastatals) to the private sector and providing low-cost loans to new businesses in developing countries, were urged by AID in order to encourage private-sector initiatives and reliance on market forces as the engines of sustainable development. This approach gained some support throughout the development community. Multilateral banks, US private voluntary agencies and private development organizations in the Third World increased support for entrepreneurship in developing countries, resulting in many successful small businesses. Although these programs still continue, there are, however, voices of criticism that contend that conditions in most developing countries require a major public-sector role in development, and that the industrialized West goes too far in imposing its values on the politically and economically diverse countries of the Third World.

Budget Allocations

Total US foreign assistance falls into two broad categories: economic assistance and security assistance.

The main programs that fall under economic assistance are US support for the multilateral development banks, NGOs, and other international assistance organizations; the PL 480 program (better known as Food for Peace, the distribution of US food surpluses in the Third World), and US bilateral development assistance administered by AID. The main programs that fall under security and military assistance include the Military Assistance Program (MAP) the Foreign Military Sales Program (FMS), and the Economic Support Fund (ESF), administered jointly by AID and the State Department.

During the 1980s, there was a marked increase in the proportion of US aid earmarked for security purposes. Security assistance, which was largely phased out by the mid-1970s, rose by 130 percent from 1980 to 1986. In 1980, security assistance accounted for 45 percent of the total US foreign aid budget. In 1986, that share had jumped to 65 percent. The Reagan Administration's request for 68 percent in 1987 was cut back by Congress to 63 percent.

The fastest-growing aid program in the 1980s was the Military Assistance Program (MAP), which provides grants of military equipment to US allies. Funding for MAP, virtually abolished in the 1970s, increased by nearly 600 percent between 1980 and 1986. The Foreign Military Sales program (FMS), which finances credit sales of US military equipment to

foreign countries, grew by nearly 200 percent between 1980 and 1986. Furthermore, the Economic Support Fund (ESF) increased more than 30 percent since 1980.

Commentary

FOR AID TO WORK . . .

It is certainly true that the current emphasis of US foreign assistance is on perceived US security needs abroad, a preference for bilateral over multilateral aid, and on shifting development priorities from basic needs to economic reform and development of the private sector. But are these emphases consistent with the priorities and development objectives of the countries receiving the aid? Do they need to be?

For aid to achieve its intended objectives—and principal among those objectives should be to enhance development in the recipient countries—at least five conditions should be met:

- the development objectives of donors and recipients should coincide;
- there should be a “meeting of the minds” between donors and recipients on the ways and means of achieving common objectives;
- donors and recipients must accurately identify the possibilities and constraints for development;
- institutional and administrative arrangements must be established in order to ensure efficiency in the management of aid and in the administration of the development program;
- the development policies of donors should be consistent and enduring over a long period of time in order to promote orderly and long-term development.

US assistance fails to meet many of these conditions. The frequent and at times fundamental shifts in US aid objectives and policies—from security concerns in the 1960s to the basic needs of the 1970s and back to the security concerns of the last few years—are disruptive to systematic development management in the recipient countries. The recent emphasis on bilateral rather than multilateral aid has led the United States to bypass the development agencies that can most effectively administer American aid. Multilateral development banks (MDBs), for example, were specifically set up to administer aid, and over the years, they have developed an expertise in identifying economically viable development programs and in administering aid in a cost-effective manner.

—Harris Mule

The ESF is often counted as economic assistance because it provides funds in the form of immediate balance of payments support and, to a lesser extent,

financing for infrastructure and capital projects. Indeed, Congress has legislated that the ESF be directed toward basic human needs and development goals to the fullest extent possible. But because ESF money goes to particular countries in which the United States has especially strong security and foreign policy interests, the ESF is listed in the foreign aid appropriations bill as part of the security assistance program. In 1986, Israel and Egypt received \$2.96 billion—nearly 80 percent—of the ESF's \$3.76 billion total. Increases in the Middle East allocation of the ESF program, made in conjunction with the 1979 Camp David accords, contributed substantially to Israel and Egypt's share of US foreign aid and to the growth of the ESF. A more recent factor has been the increase since 1980 of support to Central American countries such as Honduras and El Salvador. Other ESF recipient countries either host important US military bases or are located near countries in which the Soviet Union has interests. Such countries include Turkey, Greece, Pakistan, the Philippines, Sudan, and several nations in Latin America and Southern Africa.

In contrast to the growth in security assistance, total US economic assistance declined by about 8 percent between 1980 and 1986. This decline occurred while US bilateral aid actually increased by approximately 25 percent.

The main element in the overall decline of US economic assistance was a drop in US contributions to the multilateral development banks (MDBs). Support for the MDBs fell throughout much of the 1980s: the percentage of total economic assistance going to the MDBs dropped from 44 percent in 1980 to 27 percent in 1986. As a result of Congressional action, the share of US economic assistance going to the MDBs was cut by more than 25 percent again in 1987. In addition, US support for international development organizations, such as the agencies of the United Nations, was 13 percent lower in 1986 than in 1980. That support was further reduced by Congress in 1987.

In its 1988 foreign aid request to Congress, however, the Reagan Administration did seek to raise the MDB's share of total aid to 12 percent, up from 8 percent in 1987. In particular, the administration wanted increased funds for the World Bank's “soft-loan window,” the International Development Association (IDA), which grants loans on easy terms to the very neediest developing countries.

In 1986, the administration agreed, along with other World Bank member countries, to seek a \$12.4 billion replenishment of IDA funds, an increase of \$3 billion over the prior replenishment. It was not, however, a large increase. The total \$12.4 billion sought is equivalent only to the previous amount of World Bank concessional lending available through IDA, plus a short-term Special Facility for Africa. Moreover, the US share of the total replenishment is lower than for the 1980 IDA replenishment.

Bilateral Development Assistance Program

In terms of the United States' direct support for Third World development, it is the bilateral development assistance program, administered by AID, that is most important today. As noted, AID has in recent years emphasized broad policy reform and a stronger private sector as central to its bilateral program. Indeed, the two objectives are closely linked. AID urges policy reforms that would give more play to market forces, and assistance is increasingly tied to providing an economic climate that favors the private sector. Specifically, AID has articulated a bilateral strategy that focuses on four program priorities: policy dialogue, institutional development, the private sector, and the research, development, and transfer of technology.

Commentary

DEVELOPMENT VS. MILITARY ASSISTANCE

The major shift to aid allocations that supposedly meet security concerns raises several questions. In Africa, the fundamental security problems are internal and arise from a lack of economic and social development. Underdevelopment has led to low levels of food production, lack of employment opportunities, inadequate provision of basic needs, and consequently social and political instability. That being so, shouldn't priority be given to development assistance over military assistance? If military assistance is warranted at all in Africa, it should be given to those countries faced with actual and potential aggression from South Africa.

One form of military assistance, the Economic Support Fund (ESF), is well suited to promote development efforts in Africa. With few exceptions, African countries are faced with severe balance of payments problems that have seriously undermined their development prospects. The ESF can quickly disperse funds to these countries, allowing them to import needed goods that they otherwise would have to forego. All too often, however, the conditions attached to ESF grants are too stringent and undermine its usefulness. In many cases, AID imposes conditions on top of those imposed by the IMF and the World Bank. Conditionalities imposed by these two institutions are difficult enough to meet, and in some cases, aggravate the economic problems of recipient countries. The additional conditions prescribed by the United States, especially those pertaining to the overzealous promotion of the private sector, frustrate developing country efforts to achieve its development goals.

—Harris Mule

POLICY DIALOGUE

The agency has brought to the forefront the notion that long-term development depends heavily

on the nature of domestic economic policies followed by developing countries. Faulty economic policies, the theory goes, hurt poor people and reduce development prospects. This is as true for a nation's macroeconomic policies as it is for its policies regarding specific sectors. AID missions, as a regular part of their program, are supposed to make policy dialogue a central part of their effort. The point of such a dialogue is to discuss with the host country policies that constrain development and changes the host country can make with support from AID and other donors. Policy issues are addressed in relation to individual projects. Also, each AID mission is required to include an annual policy dialogue strategy in its planning documents.

INSTITUTIONAL DEVELOPMENT

Institutional development, which has been part of AID's approach since its beginning, now embraces the idea that sometimes what is required is "building down" (decentralizing or privatizing or eliminating parastatals, for example) rather than building them up.

Training is emphasized as a key element of institutional development. Local participation is also emphasized as a means to ensure that public policies and programs are consonant with and supportive of private production and investment.

THE PRIVATE SECTOR

AID programs now stress that there are many things that governments cannot do, or cannot do well. AID rejects the idea that governments should be the sole instrument for delivering goods and services vital to development. The agency advocates fuller participation of the private sector—both commercial enterprise and social service organizations—as a catalyst for growth, and the fuller use of market forces to meet basic human needs. For instance, AID is working with the local private sector in several countries to manufacture and market items needed for health and population programs.

In support of its private-sector emphasis, AID established the Private Enterprise Bureau in 1981. The objective of the bureau is to support AID missions in building programs that use market-based and private enterprise approaches to solving development problems. It provides consulting services to AID missions in the areas of enterprise development, capital markets development, investment promotion, and the commercialization of technology. It also provides grant support for US private nonprofit organizations working toward business development in the Third World.

TECHNOLOGY RESEARCH, DEVELOPMENT, AND TRANSFER

As part of its fourth program emphasis, AID continues to support the development and dissemination of new technologies. Five research areas are slated by the