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No Longer on the Front Lines: U.S. Bi-Lateral Assistance and the Role of the Agency for International Development

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"THE FRONT LINES OF A LONG TWILIGHT STRUGGLE FOR FREEDOM"

- JOHN F. KENNEDY

INTRODUCTION

After fifty years of engagement, the Cold War is over and the United States has won. The former Soviet Union has gone from being a united adversary to a collection of independent states, each reliant on outside assistance to help finance its economic recovery. Similarly, the Berlin Wall has fallen and the two Germanies have reunited. With the end of Apartheid and the recent referendum in South Africa, *for possibly the first time in history a controlling group has voted itself out of power.* Within the course of a decade, almost all of the countries in Latin America have gone from being dictatorships to democracies. And for the first time since the Camp David Accords, the Middle East is engaging in collective peace negotiations which may lead to settlement of one of this century's longest disputes. *In short, the world has recently witnessed monumental political changes, potentially of an order of magnitude never before experienced.* These changes will inevitably redefine the course of history, and shape how the world enters the 21st century.

What has not changed over the course of the past fifty years, and in fact has been strengthened by the events outlined above, is the leadership position of the United States vis a vis the rest of the world. However, the rules

of engagement determining how the United States exercises its leadership position have changed. For the past five decades, the United States' foreign policy objectives have been conditioned by an overall policy of containment, focusing on cold war principles of bipolarity and nuclear and ideological confrontation.

However, with the demise of communism, the spread of democracy around the world, and the increased need for economic growth and stability on the part of all countries, the principles outlined above no longer apply. A new foreign policy agenda must be established which takes into account the world's changing political climate; the emphasis on economic development, growth and trade; and the increased importance of transnational issues such as population, AIDS, and the environment.

Key to the achievement of its foreign policy objectives will be the manner in which the United States Government implements its foreign assistance program. While the formulation of U.S. foreign policy is largely the purview of the State Department under the guidance of the President and the Secretary of State, *the design and implementation of the foreign assistance program falls primarily to the Agency for International Development.*

An examination of the foreign assistance program as well as its execution under the Agency for International Development will be the focus of this paper. It will begin with an historical review of U.S. foreign assistance to date, as well

as an examination of the legislation which has guided this assistance. The remainder of the paper will focus on the future of the foreign assistance program with the following two-fold purpose:

- 1) To postulate an **agenda** for the foreign assistance program of the United States as we move into the 21st century, taking into account the political, economic and social changes occurring in the world;
- 2) To propose a **vision** for the Agency for International Development to meet the challenges of the future, including potential changes needed within the organization to execute this vision.

Perhaps not since the Marshall Plan has the United States had the opportunity to make as profound an impact on the world with the dynamic and creative utilization of its foreign assistance program. We have an organization in place, a skilled professional staff, and after thirty years of field implementation we also have the experience. In addition, for probably the first time since "development" became a discipline, the world is reaching a consensus on what works to help countries evolve out of poverty into becoming healthy, productive world citizens.

A BRIEF HISTORY OF U.S. FOREIGN ASSISTANCE

To understand where the United States might be heading in terms of a future agenda for foreign assistance, it is important to take a brief look at where we've come from.

The origins of U.S. foreign assistance began at the end of World War II, primarily in the form of repayable loans and credits to Europe. Officially designated the European Recovery Plan of 1948-52, it was also known as the **Marshall**

Plan, after its chief architect Secretary of State George C. Marshall. In his now famous commencement address at Harvard University in June 1947, Marshall declared *"It is logical that the United States should do whatever it is able to do to assist in the return of normal health in the world, without which there can be no stability and no peace."*¹ It was the hope that reconstruction of Europe would prevent Communist gains resulting from hunger and distress, and over this period of time some \$18 billion dollars were distributed through the program.²

Palmer and Colton have pointed out that the *Marshall Plan was revolutionary* in the sense that the United States used its economic resources to revive its competitors. However, they further indicate that *this served American interests by restoring a world market, of which the United States was one of the chief beneficiaries.*³

The next phase of U.S. foreign assistance was characterized by its enabling legislation, the *Mutual Security Act of 1951* and its primary objective of assuring the security of the United States and its allies. While the Marshall Plan had focussed on economic assistance, emphasis shifted to military aid with the Mutual Security Act. Whereas the ratio of economic to military aid had been 4:1, by 1954 the ratio had reversed itself - for every dollar allocated for economic aid the United States was allocating four dollars for military aid.⁴

The concept of foreign aid to promote economic develop-

ment or "development assistance" had its origins in President Truman's *Point IV program*. In his inaugural address in 1949 he stated: *"The policy of the United States is to aid the efforts of the peoples in economically under-developed areas to develop their resources and improve living conditions."*⁵ However, it would take an additional twelve years before development aid in fact became the major priority of the United States foreign assistance program.

Korten has pointed out a number of reasons why development assistance did not initially dominate early U.S. foreign aid policy. To begin with, the situation in Europe post WWII mandated that recovery and reconstruction consume the majority of foreign aid expenditures. Secondly, while Point IV could conceivably have been implemented after the reconstruction of Europe, the United States became preoccupied with the security concerns caused by the loss of China, the Korean War, the increased Soviet threat in Europe and the beginnings of the Indo-China war. Finally, during the first two periods of U.S. foreign aid policies (1940s and 1950s), most underdeveloped regions of the world were still colonies of European states.⁶

This latter point resulted in a rationale for an international division of labor, whereby each colonial power was responsible for providing assistance to former colonies. Consequently, Africa and most of Asia (outside of the Philippines) were considered ineligible for U.S. development assistance. Instead, the United States focussed primarily on

providing development aid to Latin America from 1949-1959.

The primary program for providing assistance to Latin America during this time was *PL 480*, commonly known as the *Food for Peace program*, which was *"admittedly devised less for the concern for the developing world than from a domestic problem" of a large surplus of farm commodities.*⁷

It was not until 1961, under President John F. Kennedy that *development assistance* became the paramount principle of United States foreign aid policy. In his inaugural address, President Kennedy stated:⁸

"To those people in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required, not because the Communist may be doing it, not because we seek their votes, but because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich."

With these words and Executive Order No. 10973, President John F. Kennedy created the *U.S. Agency for International Development (USAID)* on November 3, 1961. In so doing, *he ushered in a new era in America's foreign assistance program, dedicated to achieving long-term economic growth, and democratic, political stability in the developing world.*⁹

As an organization, *USAID* unified already existing aid efforts, combining the International Cooperation Administration (economic and technical assistance), the Development Loan Fund (loan activities), the Export-Import Bank (local currency lending functions) and the P.L. 480 Food

for Peace Program (agricultural surplus commodities previously administered by the Department of Agriculture), into one entity.¹⁰

With this organizational structure in hand, Kennedy proposed the following key components for his new approach to foreign assistance: a unified administration and operation; unified country plans instead of a series of individual, unrelated projects; long-term planning and financing; increased emphasis on development loans repayable in dollars; self-help as a criterion for assistance; and separation of economic assistance from military assistance.¹¹ This structure and orientation prevail more or less in the same fashion to this day.

FOREIGN ASSISTANCE LEGISLATION

Congress incorporated much of President Kennedy's proposal in the *Foreign Assistance Act of 1961* (P.L. 87-195) (the "FAA"). This Act replaced the Mutual Security Act of 1954 and remains in effect (as amended) till today as the legislative authority governing the United States' foreign aid program.

To comprehend the underpinnings of U.S. development assistance, it is important to examine the FAA, and determine the extent to which this legislation has been instrumental in shaping the foreign aid program and its execution for the past thirty years.

Provisions for "Development Assistance" were set forth

in Chapter 2, part I of the new FAA, and consisted of three main components: the Development Loan Fund; Development Grants and Technical Cooperation; and Investment Guaranties.

Given President Kennedy's prescription for long-range, "business-like" economic assistance, the Development Loan Fund formed the centerpiece of the new legislation. *The key feature of these loans was to be their "emphasis upon assisting long-range plans and programs designed to develop economic resources and increase productive capacities."* The grants on the other hand were to concentrate on the *development of human resources* primarily through technical assistance rather than the furnishing of capital facilities, *particularly in countries in the earliest stages of development.* While the loan component of the bill was authorized \$1.2 billion for fiscal year 1962 and \$1.5 billion each for fiscal years 1963 through 1966, the grants component was authorized \$380 million in 1962; these figures represent the *relative importance* Congress placed on the two components.¹²

Finally, the Investment Guarantee program was to provide guarantees to U.S. citizens, corporations, partnerships or other associations *"to facilitate and increase the participation of private enterprise in furthering the development of the economic resources and productive capacities of less developed friendly countries and areas."*¹³ This component was authorized up to a total of \$10 billion outstanding at any one time, and later became the Housing

Investment Guarantee Program.

In approving the above legislation, Congress reaffirmed the need for foreign aid, but did so in a way that reflected the differing strategic and humanitarian sentiments regarding support for such a program. It is interesting to note how many of these same sentiments prevail today, and the extent to which the end of the Cold War is as much of a reason to continue foreign aid in this era, as engaging in the Cold War had been a strategic reason for foreign aid during the past thirty years.

In its committee report, the Senate Foreign Relations Committee (SFRC) rearticulated the underlying rationale for a foreign aid program:¹⁴

"Foreign aid is both an unavoidable responsibility and a central instrument of our foreign policy. It is dictated by the hard logic of the cold war and by moral responsibility resulting from poverty, hunger, disease, ignorance, feudalism, strife, chronic instability, and a life without hope."

In the view of the SFRC, the strategic and humanitarian justifications for foreign aid stood on equal footing.

The House on the other hand, reflected a more single-minded view of foreign aid as a strategic foreign policy tool, and as Matalon has pointed out "revealed the state of public opinion on foreign aid that had prompted the legislative overhaul of aid content and administration:¹⁶

"The answer to the widespread criticism of foreign aid and the too frequent evidence of waste and ineffectiveness in its operation is not to terminate the program. The abandonment of our efforts to assist other nations would mean the abandonment of the cold war. This could result either in major gains for the Soviet Union or a hot war ... (T)he main purpose of our

foreign aid program is to help those countries and areas which are free from domination or control by international communism."
H.R. Rep. No. 87-857.

The two committee reports represent the *relative strategic and humanitarian emphasis of Congress* underlying support for foreign aid programs. In both total dollar figure, as well as the countries selected to receive significant amounts of U.S. foreign aid, *strategic concerns clearly outweigh humanitarian*. This was true under the Marshall Plan, and will undoubtedly continue to be true for as long as the United States engages in a foreign aid program.

However, it is important to recognize the difficulties and sometimes inherent contradictions that overall strategic considerations place upon the design, implementation and evaluation of a foreign aid program, which, at the implementation level is geared primarily toward development and humanitarian assistance.

Strategic considerations dictate that military assistance receive priority over economic and development assistance; that large amounts of foreign aid become concentrated in a small number of countries (e.g. South Korea, Vietnam, Egypt, Israel, Pakistan), for varying periods of time depending on the political situation; and that the goals of development assistance (e.g. long-term human and institutional capacity building) may never be met.

While there is continued debate on the part of Congress and others over the manner in which the foreign assistance

program is *implemented*, as the following sections of this paper indicate, *this may in fact prove to be the wrong debate*. It may be *more relevant* at this juncture to examine critically the *goals and objectives* of the foreign assistance program, and make whatever changes may be necessary *at that level* to reflect the changing political and economic structure of the world.

Before engaging in such a discussion however, it is important to understand *how* the foreign aid program has *been implemented* over the past thirty years.

In a departure from the 1948 - 1960 period, both the Senate and the House stressed the importance of the *long-term aspects of development* when enacting the FAA of 1961:¹⁵

"The bill, in short, stresses orderly economic growth and gives continuity to the programs that will encourage and sustain much of this growth." This approach was intended to rectify what the SFRC saw up to that point as "the failure to separate long-range objectives from immediate problems (that) has diluted the impact of the program in many countries... Heretofore, our programs have been too heavily influenced by military considerations, by 'impact' projects, by temporary and sometimes illusory political urgencies... The United States must be able to make long-term commitments to societies that have embarked on genuine economic and social reform."
S. Rep. No. 87-612.

While programming of foreign aid throughout the early 1960s adhered to the intent of the new legislation and focussed on long-term, large-scale projects and transfer of capital assets, there remained growing criticism and dissatisfaction with the program due primarily to U.S. involvement in the Vietnam War. This criticism reached a

peak in 1966, when Congress was apparently under great pressure to reduce authorization of funds for foreign assistance. Though it resisted this pressure, both houses of Congress made clear in committee reports growing frustration with the role of foreign aid in the mounting U.S. involvement in Vietnam:¹⁶

"Consideration of the aid program this year is also inevitably influenced by the war in Vietnam - a war which casts a very long shadow. Nearly one-half of all grant economic aid will go to Vietnam next year, for example. Many members of the committee feel that the United States is overcommitted in the world at large... The American people must be reassured that furnishing aid does not constitute a back door commitment of military forces to a potential series of brushfire wars in countries throughout the world."
S. Rep. No. 89-1359

This frustration and increasing mistrust on the part of Congress toward the Executive branch resulted in three significant actions vis a vis the foreign aid program:¹⁷

- 1) In 1966 Congress *refused* a request by the Administration for a five-year authorization to facilitate long-range planning and flexibility in carrying out the foreign aid program, and maintained the *annual review* and authorization process for foreign assistance funding which exists to the present;
- 2) In 1966 Congress also enacted limitations on the number of countries that could receive bilateral aid, and exerted more direct *control over the use of funds*. This level of control continues in the present implementation of the foreign aid program;
- 3) In 1971 the Senate voted down the foreign aid bill authorizations for both military and economic assistance for fiscal years 1972 and 1973, and *for the first time* Congress was forced to resort to a *continuing resolution* to fund foreign aid - a practice which has occurred many times since.

These restrictions imposed by Congress on the implementation of the foreign aid program grew not only out

of tension over Vietnam, but also as a result of bipartisan discontent with the program:¹⁸

"Conservatives argued that the billions poured by the United States into foreign aid had failed to gain international support for U.S. policies. On the other hand liberals contended that the aid mechanism had been taken over by military considerations, that it was not effective in its humanitarian efforts and should be funneled through international organizations."

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This bipartisan criticism reflects the dilemma still faced by the foreign aid program: providing assistance to countries for strategic purposes results in varying levels of "support" from those countries, *during the time they are receiving such assistance*. This does not necessarily result in any long-term support or allegiance to the United States, nor should it be expected to.

However, the bulk of the annual foreign aid budget is allocated to a relatively few "strategic" countries. Consequently, relative to the need there is little remaining to be divided up among the other 70-80 countries for "development" or "humanitarian" purposes. Therefore, it is not surprising that many of the development objectives of the foreign aid program are not met.

It can be argued that there have traditionally been unrealistic expectations placed upon the foreign aid program, resulting in frustration and criticism of its operation; however, these issues are best addressed at the goal and objective level of the program, rather than at the implementation level where they have generally been debated.

An attempt to address these issues was made in 1973 when Congress determined that "a major restructuring of U.S. bilateral economic assistance" was in order. (H.R. Rep. No. 93-338).

This restructuring called for a major shift from the approach of the 1961 Act, whereby large-scale, long-term financing for transfer and creation of capital assets was no longer to be the centerpiece of the U.S. bilateral assistance program. Rather, development assistance was to focus on projects with a small-scale, poverty-orientation.¹⁸ Dubbed the "*New Directions*," amendments reflecting changes to the FAA were contained in the Foreign Assistance Act of 1973 (P.L. 93-189), and became known as the *basic human needs* approach to development assistance.

*These changes led to a major restructuring and reorientation of the U.S. foreign aid program, and consisted of the following:*¹⁹

- 1) Concentration on sharing American technical expertise, farm commodities and industrial goods to meet critical development problems, and less on large-scale capital transfers which were directed to the domain of multilateral assistance.

HFAC observed "... benefits often have not 'trickled down' to the majority of the people...Growth in the gross national product is not enough. Governments of the developing nations must actively attempt to distribute income more equitably and to attack directly the most pressing problems of their people";

- 2) Concentration on "basic human needs" problems in functional areas such as food production, rural development and nutrition; population planning and health; education; public administration and human resource development;

- 3) Use of the private sector to the maximum extent possible in development projects (e.g. contractors, private voluntary organizations, host country organizations), and reduction of USAID/Washington staff;
- 4) Placing responsibility for development on host countries and administering U.S. assistance in a collaborative fashion to support the development goals articulated by each recipient country;
- 5) Emphasis on programs which would directly improve the lives of the poorest of the poor and their capacity to participate in the development of their countries;
- 6) Emphasis on programs which reflected, to the maximum extent practicable, the role of U.S. private investment in those programs; and
- 7) Delegation to USAID the responsibility for coordinating all U.S. development-related activities under the policy guidance of the Secretary of State.

To effectuate these guidelines and the new functional approach to development assistance, the 1973 amendments created a completely new functional account system which replaced the Development Loans and Development Grants budget categories. The functional account system remained in effect until 1990, when all but a few accounts (e.g. population, child survival, AIDS, Development Fund for Africa) were abolished.

DEFINITIONS OF FOREIGN AID

Having gone through three major phases of foreign aid from 1947 to 1973, namely: economic (1947-1952); military (1954-1961); and development assistance (1961-1973); from 1975 to the present Congress has alternately separated and reunited the political/strategic components of foreign aid

from the developmental/humanitarian. In 1975, the SFRC reported:²⁰

"The Committee believes that the comprehensive approach to humanitarian and developmental assistance provided for in this bill is reinforced by its separation from the more controversial and politically oriented military and security supporting assistance programs. In this respect, the bill reflects the Committee's belief that, insofar as possible, economic and disaster assistance should be insulated from traditional political considerations and the vicissitudes of the day-to-day conduct of foreign policy. The resources provided for in this bill are not to be regarded as tools for the pursuit of short-term political objectives." S. Rep. 94-406.

However, after separating the authorizations for development assistance and security assistance in 1975 to emphasize their separate and distinct objectives, in 1978 Congress determined that ***security assistance of a purely economic nature*** belonged more appropriately in a separate funding category, to be called the "Economic Support Fund," (ESF), with a reestablished link to development assistance. The SFRC report stated:²¹

"The name change from 'Security Supporting Assistance' (SSA) to 'Economic Support Fund' (ESF) reflects more accurately the actual use of these funds: to provide budget support and development assistance to countries of political importance to the United States...Within the last several years, the focus of SSA has shifted from Southeast Asia to the Middle East. Instead of 90 percent of funds being programmed for Vietnam, Cambodia, Laos and Thailand - the 1972 allocation - 90 percent of funds are now programmed for countries of the Middle East. In general, the proximity of purposes between SSA and military assistance no longer exists... It is the intention of the committee that these funds shall be used to the maximum degree possible for development purposes." S. Rep. No. 95-841.

This vacillation on the part of Congress to alternately separate and reunite strategic/political elements of foreign

aid from development/humanitarian goals and objectives points not only to the difficulty in reconciling these two aspects of our foreign aid program, but also to fluctuating philosophical differences between Congress and the Executive Branch in its operation and implementation.

In attempting to use the foreign aid program to both protect and further our national security interests, as well as do what's "right" by less fortunate countries, *the two elements of the program are often confused, interchanged and sometimes diluted.* In addition, the frequent separating and reuniting of these two elements at the operational level often make implementation of the program inconsistent and less than effective.

Utilization of the foreign aid program as a tool of foreign policy for strategic/political purposes is fundamentally different from use of the program for development/humanitarian assistance. The former is often ephemeral and tenuous and changes with our varying national security interests; the latter should be consistent and long-term and result in levels of improvement over time. *Both are necessary elements of the foreign aid program; however distinctions should be made regarding their fundamentally different purposes, their different modes of execution, and the different outcomes that should be anticipated from each.*

It is especially important to keep these differences in mind when evaluating the foreign aid program for its impact and effectiveness. *On a strategic/political level transitory*

resource allocation to a country buys transitory support from it. When significant resource allocations are made to a relatively small number of countries for political purposes, broad-based world wide support for U.S. policy should not be anticipated. Similarly, when relatively modest resource allocations are made to a great number of countries for development/humanitarian purposes, impact in these areas should not be anticipated to be great or fast.

While all is not black or white in the above scenario, I believe that failure to make distinctions in the purpose, goals and objectives of the different elements of foreign aid has often led to unrealistic expectations of the program, unfair criticism of its operation, and an undue emphasis on "accountability" that diminishes significantly its potential impact.

Further, I believe that this issue is the root of many of the problems and much of the criticism currently encountered by the foreign aid program, and that the debate is incorrectly taking place at the level of implementation rather than at the purpose, goal and objective level of the program.

IMPACT OF THE FOREIGN AID PROGRAM

In analyzing the impact of the foreign aid program, it is important to recognize how the level of funding for each of the elements of the program has conditioned its overall impact. From 1977 to 1990, approximately \$233 billion (in constant 1989 dollars) was appropriated to the foreign aid

program. This was divided into the following categories:²²

<i>Category</i>	<i>Amount</i> (billions)	<i>%</i>
1) Military Aid	\$ 82	35%
2) Economic Support Fund	\$ 53	23%
3) Development Assistance	\$ 35	15%
4) Multilateral Assistance	\$ 28	12%
5) Food Aid	\$ 26	11%
6) Other Economic Assistance	\$ 9	4%
<i>Total</i>	\$ 233	100%

As can be seen from the above chart, the major emphasis of the foreign aid program has been placed on military aid and general economic support. Together these two categories make up 58% of the total budget over the past fifteen years. Development assistance composes a mere fifteen percent of the budget. Even if one adds food aid and other economic assistance to the development budget, the total is thirty percent. *This means that \$70 billion has been divided among close to 100 countries for development assistance, while \$135 billion has been divided among 10-15 primary countries for military assistance and economic support.*²³

Given the differential emphasis placed on development versus military assistance and economic support, it is easy to see that a tremendous burden has been placed on the development assistance program to achieve a multiplicity of objectives with a relatively scant budget given the number of countries involved. It has been pointed out that *USAID* must comply with 39 different development assistance objectives²⁴, making it amazing that *any* of them are achieved.

In November 1991, the Agency for International Development celebrated its thirtieth anniversary and conducted a review of its program to date. Having been the first bilateral donor to stress long-range economic and social development assistance efforts, *USAID* programs have been successful in achieving the following:²⁵

- * helping to increase life expectancy in developing countries by 20 percent. In Africa, life expectancy climbed from 40 to 51 years between 1960 and 1987;**
- * helping to increase literacy rates in *USAID*-assisted countries by 33 percent. Adult literacy rates in Africa rose from 9 percent in 1960 to 48 percent in 1985. The developing world now has 1.4 billion literate compared to 1 billion in the developed world;**
- * tripling primary school enrollment in *USAID*-assisted countries, and expanding secondary school enrollment by an even larger amount; enrollment rates for girls have been increasing more than twice as fast as for boys;**
- * contributing extensively to the Expanded Program of Immunization (EPI). In 1981 only 20 percent of the world's children under the age of 1 had been vaccinated against six common, often deadly diseases. In 1991 the World Health Organization (WHO) had put that figure at 80 percent, and estimated that 3.2 million lives are saved by vaccination each year;**
- * becoming the world's leader and the largest single source of international funding for voluntary population programs, accounting for 45 percent of international funds. In 1990 more than 30 million practiced family planning as a result of *USAID*'s program. In the 28 countries receiving the largest amount of Agency population assistance, the average number of children has dropped from 6.1 in the 1960s to 4.5 today;**
- * assisting previous recipients of food aid to become importers of U.S. farm goods. Of the 50 largest importers of U.S. commodities, 43 are nations which once received food aid from the U.S.;**
- * assuming leadership in the fight against the AIDS epidemic as the world's largest single supporter of WHO's Global Program on AIDS, contributing 27 percent of the program's budget in 1990. Since 1987, *USAID***

condom shipments to Africa have increased fivefold in response to increased demand. The Agency's investment will increase to about \$400 million over the next five years;

- * becoming one of the first donor organizations to participate in debt-for-nature swaps in Madagascar, the Philippines, Ecuador and Costa Rica, helping to protect the world's vital tropical forests, wildlife and other natural resources such as the rosy periwinkle of Madagascar, used in treating childhood leukemia, and curare, which provides a muscle relaxant in surgery; and*
- * supporting environmental activities in recipient countries, funding efforts in forestry and conservation of tropical forests, coastal zone and water resources management, soil conservation and sound agricultural practices, pollution control, conservation of biological diversity, the environmental impacts of energy use and environmental policy and planning.*

All of the above achievements are notable and reflect the commitment and dedication of all of those who have worked diligently so that change may occur. Recently however, *USAID* and the future of U.S. foreign assistance has come under criticism from the Administration, Congress, and the General Accounting Office for a lack of clear objectives, management inefficiencies, and poor financial accountability. In response to this criticism, the Agency has undergone a number of audits, management reviews, and most recently, a major reorganization.

In order to determine what the future directions of *USAID* might be, it will be useful to identify what the future *agenda* for U.S. foreign assistance should be, given the current and anticipated changes occurring in the world.

FUTURE AGENDA OF U.S. FOREIGN ASSISTANCE

With the demise of the Cold War, fundamental power relationships in the world have changed and the "new world order" is in a state of transition. The cold war principles of bipolarity and nuclear and ideological confrontation no longer apply, and the threat of *global* nuclear war has seemingly vanished. While analysts are in the process of devising endless scenarios of what the "new world order" might consist of, from a strategic standpoint an analysis of threat to U.S. interests appears to fall in the following major categories: political, economic, and transnational.

1) *Political* - Rather than global nuclear war, what remains a threat to the U.S. and the world is proliferation and nuclear terrorism. Along with this threat, the most likely conflicts in the future will be civil wars like that occurring in Yugoslavia. While similar conflicts could erupt in the Newly Independent States (NIS), India, Pakistan, China, Korea or elsewhere, they are *unlikely* to become global in nature. Consequently, the absolute military threat to the U.S. has diminished significantly, and our willingness to intervene militarily in a conflict in the future will depend on our political stake in that country or region and *not* because the conflict is a fundamental threat to our national security. In line with this reduced military threat we are downsizing our armed forces, so that emphasis in the future will be on a leaner, more easily deployed, quick response force structure.

Now that communism has gone the way of the cold war, the dominant ideologies sweeping the world are democracy and nationalism. Theoretically, adaptation of these ideologies on the part of countries should bode well for the future. However, the interim transitional phase is proving to be volatile and filled with conflict. Consequently, the assistance given to countries by the west - particularly the United States - to help manage this process is critical. If the transitional phase proves to be too difficult or disappointing, or in fact fails, the effect on worldwide stability could be devastating. Given its leadership status, the United States will undoubtedly be at the center of this assistance - helping to build institutional capacity, advising on political process and monitoring elections, and providing guidance for the development of market economies. Again, the level and duration of this assistance will depend on the United States' political interests in the country or region, as determined by economic, trade, competitiveness or humanitarian reasons.

2) *Economic* - The political process outlined above will be determined in large part by the economic transition faced by countries as they progress from being central, statist to open market economies. As has been seen in developing countries over the past decade, and currently witnessed in Eastern Europe and the former Soviet Union, this is a long, often painful process. For many individuals this transition involves an upheaval of the status quo and a

reduced standard of living or possible unemployment, before resulting in a better economic system for the country as a whole. However, it is in the industrialized nations' best interests to ensure that this economic transition takes place in a reasonable manner and that the rest of the world develops healthy, vibrant economies. One cannot ignore the fact that two-thirds of the world's population lives in developing countries (4 out of 6 billion people), and that if the world is to avoid cataclysmic effects of stagnant or negative economies, markets must be developed and productive economic capacity increased in these areas.

Along with worldwide economic transition, trade and competitiveness issues loom large in the future as major challenges and potential sources of friction among industrialized nations. As Leslie Gelb has stated "... in the absence of the Soviet military threat, the Americans, West Europeans and Japanese have lost incentives to set aside economic differences. As a result, economic conflicts have become the most pronounced source of tension between nations, and disputes are becoming more difficult to resolve."²⁶ This has been witnessed in the Uruguay Round negotiations of the GATT, final approval of the North American Free Trade Agreement (NAFTA), and resolution of single currency and other monetary policy issues of the European Community (EC 92).

In addition, economic transition on the part of newly emerging countries will depend heavily on massive public and

private capital investment from the west. Availability of this capital will depend in large measure on the industrialized world's ability to resolve trade issues, increase productive capacity, and reduce national debt.

3) *Transnational issues* - Some of the greatest threats to world security in the future will be transnational in nature and involve longterm cooperation on a level possibly never before preceded. These challenges consist of issues such as: population; the environment (including global warming and ozone depletion); AIDS; immigration; drugs and arms dealing; nuclear, biological and chemical proliferation; financial regulation; and trade policies.²⁷

Dealing with these issues will involve political will, leadership, substantially increased resources, and application of technical as well as operational skills. *They are issues that the world can no longer ignore, or does so at its own peril.*

In summary, the National Security Strategy of the United States (August 1991) outlines our national interests for the coming decade and calls explicitly for: U.S. international leadership; changed foundations for this leadership position given the end of the Cold War and the economic emergence of Europe and Japan; the shift from a single major security threat to multiple, shifting, and less foreseeable security threats stemming from power vacuums and regional instability; the increased role of the UN; the need to manage economic rivalries so as not to undermine cooperation; greatly

increased interdependence; and the importance of international cooperation and an increased sense of global community.²⁸

*The National Security Strategy also affirms development as an important foreign policy concern that directly supports our national interests, and calls for an increased rather than decreased emphasis in this area. As stated in the strategy:*²⁹

"If the end of the Cold War lives up to its promise and liberates U.S. policy from many of its earlier concerns, we should be able to concentrate more on enhancing security - in the developing world, particularly - through means that are more political, social and economic than military.... Malnutrition, illiteracy and poverty put dangerous pressures on democratic institutions as hungry, uneducated or poorly housed citizens are ripe for radicalization by movements of the left and the right. Our response to need and turmoil must increasingly emphasize the strengthening of democracy, and a long-term investment in the development of human resources and the structures of free markets and free governments. Such measures are an investment in our own security as well as a response to the demands of simple justice."

Given the above analysis of the future national interests of the United States in a changing world context, at a minimum the future U.S. foreign assistance program should contain the following agenda:

- * A critical examination and restructuring of the Foreign Assistance Act (FAA) of 1961 to determine which elements remain applicable to U.S. interests in the 21st century, and which need to be modified or changed entirely;*
- * A re-examination of the mission, goals and objectives of the foreign assistance program which translates into and is supported by operational logic. At some level a distinction needs to be made between short-term strategic/political goals which support our foreign policy and long-term development/humanitarian assistance goals, and political consensus established*

regarding these distinctions;

- * A fundamental restructuring of both the budget and the operational capacity of the foreign assistance program should be undertaken. Given the political, economic and transnational interests outlined above, ESF and military assistance budget levels should be reduced and more funds allocated to development assistance, particularly since many ESF countries no longer maintain the strategic importance they held during the Cold War and do not warrant the level of budgetary assistance currently received;
- * In addition to the newly emerging political, economic and transnational interests of the United States outlined above, budgetary criteria should distinguish between short and long-term goals and political and development objectives. Much criticism has been leveled at the lack of impact of the development program of U.S. foreign assistance; however I would argue that the Development Assistance (DA) portion of the budget has been underfunded, too widely dispersed and of too short duration in many countries to have the kind of impact desired;
- * Based on the analyses and critical re-examination of the program outlined above, the structure of the U.S. foreign assistance program should be more flexible and free of many of the current bureaucratic and Congressional constraints. Many countries in the future will only need technical assistance, others will require massive budgetary transfers and long-term assistance, while a third category will require budgetary and technical assistance for short periods of time. The program should be able to deal with all of these needs in a flexible, responsive and highly effective manner.

The elements outlined above address some of the broad strategic issues involved in establishing a future agenda for U.S. foreign assistance, and do not speak to the detailed issues of operation, management and evaluation. Fundamental change is taking place in the world, and critical analysis and fundamental restructuring is consequently required of our foreign assistance program if it is to remain viable.

A VISION FOR THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Given the rapidly changing world environment and the extent to which a U.S. foreign assistance program is needed now perhaps more than ever in the recent past, the Administration should establish a senior level coordinating committee on foreign assistance. *It is my contention that the Agency for International Development should be given Cabinet level status and be responsible for heading this committee and coordinating all U.S. government efforts related to foreign assistance.*

When *USAID* was established in 1961, it was done so because of the explicit understanding on the part of Congress and the Executive Branch that a separate agency was needed to lead, administer, and manage the U.S. foreign assistance program. Over the course of the past 30 years, *USAID* has developed the expertise and comparative advantage as an agency in both the domestic and international arenas, and along with the International Monetary Fund (IMF) and World Bank is one of the world's leading development organizations.

The Agency has been responsible for some of the most innovative thinking and creative programming of development assistance, and is unique among all donor agencies with its professional mission field presence. The Administration should build upon this operational expertise by delegating to *USAID* the *responsibility and authority* to coordinate all foreign assistance efforts undertaken by the U.S. government.

A recent report by the President's Commission on Management of the Agency for International Development Programs (the Commission) has recommended that *USAID* be merged with the State Department on the grounds that support of U.S. foreign policy is the rationale for foreign assistance programs. I would argue however, that *all* international activities undertaken by U.S. Government agencies are in support of U.S. foreign policy, *yet each agency maintains its autonomous status because its functions are fundamentally different from those of the State Department.*

This applies to activities undertaken by Treasury, Commerce, the U.S. Trade Representative, the Department of Agriculture, the U.S. Information Agency, the Peace Corps and smaller organizations such as the African Development Foundation and the National Endowment for Democracy. Though used to support foreign policy objectives, *implementation of a foreign assistance program involving economic and technical assistance is fundamentally different from the representational, reporting, consular and commercial functions of the State Department.*

The argument has also been used that merging *USAID* with the State Department would give the foreign assistance program the "clout" that it needs. I would argue however, that putting the functions of *USAID* under the auspices of an Undersecretary for Foreign Assistance Programs could *lessen* the importance of the program, since it would have to compete

for resources, staffing and the attention of the Secretary on the same level as the other functions within the State Department. However, raising the status of the Agency to the Cabinet level and giving it the responsibility and authority to coordinate all activities related to foreign assistance *would* provide the kind of "clout" needed for such a program.

Beyond codified responsibility and authority perhaps the biggest issue facing the Agency for International Development *is a chronic lack of leadership*. Perhaps more than any other single factor this has been responsible for a lack of vision and clear mission on the part of the Agency, as well as declining morale on the part of the staff. This has been due primarily to the nomination of political appointees who often do not have any development or foreign assistance experience, and therefore are unable to fully articulate the goals and objectives of the program to Congress and the public. While it is the prerogative of any Administration to appoint key staff in the Executive Branch, it is also incumbent upon that Administration to ensure that appointees have the requisite skills and experience to carry out their functions.

The issue of lack of leadership within *USAID* has been raised by the President's Commission, as well as a recent GAO report on AID Management. Both have recommended that there be foreign assistance expertise represented at the highest levels of the Agency. *I would advocate filling some of these key positions with career foreign service personnel who have strong field and policy making experience.*

I believe that it is only with strong, wise leadership that the Agency will be able to break through its current inertia and develop a vision for the 21st century with clearly articulated goals and objectives. Much has been written lately about the *"management"* and *"accountability"* problems of *USAID*, implying that these are the primary issues to be addressed to "right the wrongs" of the Agency.

I believe that we sell ourselves short by focusing the issue at that level. Better management of a ship going in circles may result in more finely executed circles, but it does not fundamentally alter its course. This is not to say that management and accountability are not important issues, because they are. However, they do not override the issue of leadership. Rather than focussing attention on management of the current program, more emphasis should be placed on exercises which help to articulate the goals and objectives of the program we would like to evolve into.

Secondly, an undue emphasis on "accountability" focusses on that issue to the detriment of the program. *The strength of the Agency lies in the individual creative spirit of its employees, and their innovative solutions to problems which exist in developing countries. This should not be confused with fraud, abuse or corruption.* The majority of cases that have involved any fraud or corruption have in fact been discovered by responsible *USAID* employees, properly managing their programs, who have reported these issues to the Inspector General.

Along with the issue of leadership there is a need to build a constituency for foreign assistance programs within Congress and within the public consciousness. Both groups must be convinced that it is within their "enlightened self-interest" to support such a program, and vital to overall U.S. national interests. This will require a concerted effort on the part of USAID, but I believe it is crucial for the future of foreign assistance.

Finally, the issue of leadership is not solely the responsibility of the Administration. It is also the responsibility of all those who work for the Agency and who are dedicated to implementing a foreign assistance program. It is up to all of us who work in this area to recapture the spirit, dedication and motivation with which we joined the Agency. Much has been said and written about the selfless dedication and high level of enthusiasm of USAID employees. Most entered the area of development as a calling and a career, not merely as a job. Most believed that in their own way, however big or small, they could make a difference.

It is this spirit that will develop the vision of the future for the Agency. It is the belief that there is a purpose "bigger than all of us" that will hopefully motivate people to go beyond the inertia of the moment. At its core, dedicated professionals are the heart and soul of the foreign assistance program, not legislation, organizational structure or foreign policy mandate. It is this core which should be encouraged to come forward.

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