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

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# Report Documentation Page

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

## Summary

Foreign assistance is a fundamental component of the international affairs budget and is viewed by many as an essential instrument of U.S. foreign policy. Since the end of the Cold War, many have proposed significant changes in the size, composition, and purpose of the program, several of which have been adopted. The focus of U.S. foreign aid policy has also been transformed since the terrorist attacks of Sept. 11, 2001. This report provides an overview of the U.S. foreign aid program, by addressing a number of the more frequently asked questions regarding the subject.

There are five major categories of foreign assistance: bilateral development aid, economic assistance supporting U.S. political and security goals, humanitarian aid, multilateral economic contributions, and military aid. Due largely to the implementation two new foreign aid initiatives — the Millennium Challenge Corporation and the Global AIDS Initiative — bilateral development assistance has become the largest category of U.S. aid.

In 2005, the United States is providing some form of foreign assistance to about 150 countries. Israel and Egypt continue, as they have since the late 1970s, as the largest recipients, although Iraq, receiving over \$20 billion for reconstruction activities since mid-2003, was the biggest recipient in FY2004. The importance of Latin America counter-narcotics efforts is also evident, with Bolivia, Peru, and more recently, Colombia, among the top U.S. aid recipients. The impact of the terrorist attacks on September 11, 2001, and the subsequent use of foreign aid to support the war on terrorism is clearly seen in the estimated country-aid levels for FY2005. Afghanistan, Pakistan, Turkey, Jordan, and Indonesia are key partners in the war on terrorism. Some countries that are the focus of the five-year, \$15 billion HIV/AIDS initiative are also among the leading recipients.

By nearly all measures, the amount of foreign aid provided by the United States declined for several decades but has grown in the past few years. After hitting an all-time low in the mid-1990s, total foreign assistance (but excluding Iraq reconstruction) for FY2003-2005, in real terms, has been larger than any three-year period since the early 1990s. The 0.16% of U.S. gross national product represented by foreign aid obligations for FY2005, however, is among the smallest amounts in the last half-century. The United States is the largest international economic aid donor in dollar terms but is the smallest contributor among the major donor governments when calculated as a percent of gross national income.

The U.S. Agency for International Development (USAID) manages the bulk of bilateral economic assistance; the Treasury Department handles most multilateral aid; and the Department of Defense (DOD) and the State Department administer military and other security-related programs. The Millennium Challenge Corporation is a new foreign aid agency created in 2004. The House International Relations and Senate Foreign Relations Committees have primary congressional responsibility for authorizing foreign aid programs while the House and Senate Appropriations Foreign Operations Subcommittees manage bills appropriating most foreign assistance funds.

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

U.S. foreign aid is a fundamental component of the international affairs budget and is viewed by many as an essential instrument of U.S. foreign policy.<sup>1</sup> Each year, it is the subject of extensive congressional debate and legislative initiatives. Since the end of the Cold War, many have proposed significant changes in the size, composition, and purpose of the program, several of which have been adopted. The focus of U.S. foreign aid policy has also been transformed since the terrorist attacks of September 11, 2001.

This report, generally using a question-and-answer format, addresses a number of the more frequently asked queries regarding the U.S. foreign aid program, its objectives, costs, organization, the role of Congress, and how it compares to those of other aid donors. In particular, the discussion attempts to not only present a current “snap-shot” of American foreign assistance, but also to illustrate the extent to which this instrument of U.S. foreign policy has changed from past practices, especially since the end of the Cold War and during the period following September 11, 2001.

Data presented in the report are the most current, reliable figures available, usually covering the period through FY2004 or, where possible, estimates for FY2005. Dollar amounts are drawn from a variety of sources, including the Office of Management and Budget (OMB), U.S. Agency for International Development (USAID), and from annual Foreign Operations and other appropriations acts. As new data become obtainable or additional issues and questions arise, the report will be modified and revised.

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

## Foreign Aid Goals and Programs

### What Are the Goals and Objectives of U.S. Foreign Assistance?

Foreign assistance supports a great many objectives. Especially since the September 11 terrorist attacks in the United States, foreign aid has taken on a more strategic sense of importance, cast frequently in terms of contributing to the global war on terrorism. In September 2002, President Bush released his Administration's National Security Strategy that established global development, for the first time, as the third "pillar" of U.S. national security, along with defense and diplomacy. Also in 2002, executive branch foreign assistance budget justifications began to underscore the war on terrorism as the top foreign aid priority, highlighting amounts of U.S. assistance to about 30 "front-line" states in the terrorism war. The substantial reconstruction programs in Afghanistan and Iraq — which totaled more in FY2004 than the combined budgets of all other aid programs — are also part of the emphasis on using foreign aid to combat terrorism.

At roughly the same time that fighting terrorism became the leading concern of American foreign aid, the Bush Administration announced other significant initiatives that have defined and strengthened two additional key foreign assistance goals: promoting economic growth and reducing poverty, and combating the global HIV/AIDS pandemic. The Millennium Challenge Corporation (MCC) is a new aid delivery concept, established in early 2004, that is intended to concentrate significantly higher amounts of U.S. resources in a few low- and low-middle income countries that have demonstrated a strong commitment to political, economic, and social reforms. If fully funded, \$5 billion will be available by FY2006 to support these "best development performers" in order to accelerate economic growth and lower the number of people living in absolute poverty.

Addressing global health problems has further become a core U.S. aid objective in recent years. Congress created a separate appropriation account for Child Survival and Health activities in the mid-1990s and increased funding for international HIV/AIDS and other infectious disease programs. President Bush's announcement at his 2003 State of the Union message of a five-year, \$15 billion effort to combat AIDS, malaria, and tuberculosis has added greater emphasis to this primary foreign assistance objective.

Beyond these recently emerging foreign aid goals, other prominent objectives that have continued since the early 1990s have included supporting peace in the Middle East through assistance to Israel, Egypt, Jordan, and the Palestinians; fostering democratization and stability for countries in crisis, such as Bosnia, Haiti, Rwanda, Kosovo, and Liberia; facilitating democratization and free market economies in Central Europe and the former Soviet Union; suppressing international narcotics production and trafficking through assistance to Colombia and other Andean drug-producing countries; and alleviating famine and mitigating refugee situations in places throughout the world, including tsunami victims in Asia and east Africa.

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

The Clinton Administration emphasized the promotion of “sustainable development” as the new, post-Cold War main strategy of those parts of the foreign aid program under the aegis of the U.S. Agency for International Development (USAID). Economic assistance supported six inter-related goals: achievement of broad-based, economic growth; development of democratic systems; stabilization of world population and protection of human health; sustainable management of the environment; building human capacity through education and training; and meeting humanitarian needs.

Early in the Bush Administration these goals were modified around three “strategic pillars” of 1) economic growth, agriculture, and trade; 2) global health; and 3) democracy, conflict prevention, and humanitarian assistance. More recently, a USAID White Paper on American foreign aid identified five “core” operational goals of U.S. foreign assistance:

- Promoting transformational development, especially in the areas of governance, institutional capacity, and economic restructuring;
- Strengthening fragile states;
- Providing humanitarian assistance
- Supporting U.S. geostrategic interests, particularly in countries such as Iraq, Afghanistan, Pakistan, Jordan, Egypt, and Israel; and
- Mitigating global and international ills, including HIV/AIDS.<sup>2</sup>

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

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<sup>2</sup> U.S. Agency for International Development. *U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century*. January 2004.



Both military assistance and economic security assistance serve U.S. objectives in the Middle East and South Asia. Drug interdiction activities, backed in some cases with military assistance and alternative development programs, are integrated elements of American counter-narcotics efforts in the Andean region and elsewhere.

### **Iraq Reconstruction Funding**

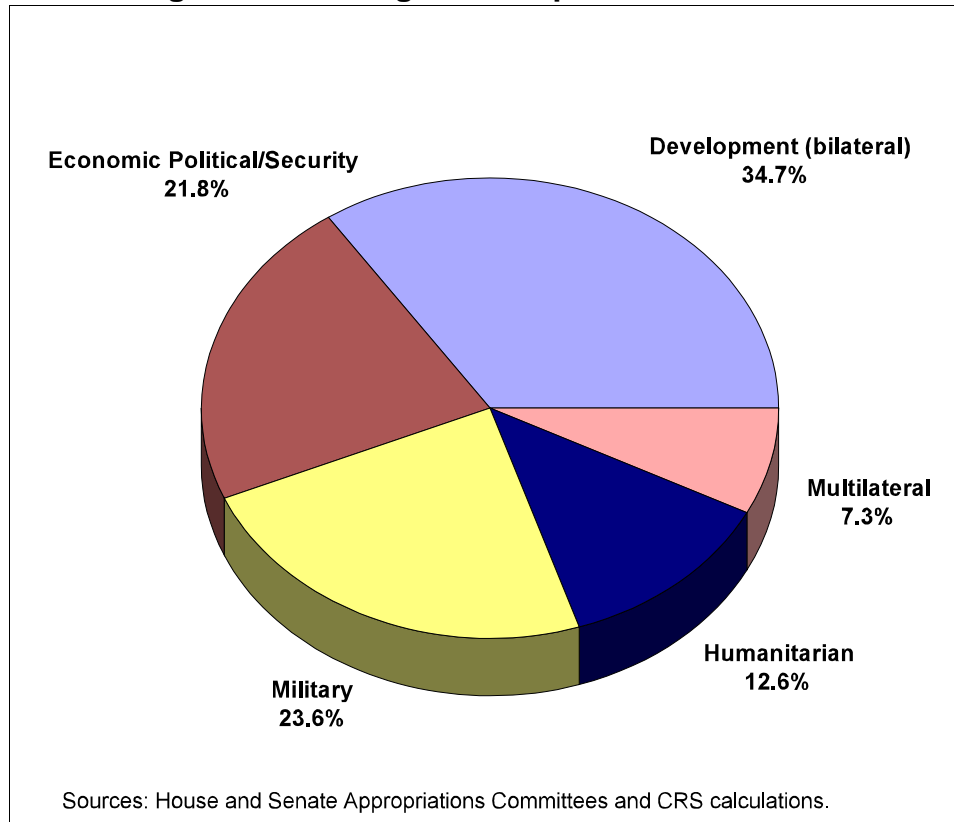
The U.S. assistance program to Iraq — the largest aid initiative since the 1948-1951 Marshall Plan — supports the long-term reconstruction requirements of the country following the March 2003 U.S. invasion and overthrow of the regime of Saddam Hussein. Funds have been mostly directed at improving the security capabilities of the Iraqi police and armed forces, at making rapid improvements in infrastructure — including electricity, oil, water and sewage, and telecommunications — and promoting democratization efforts. To date, two emergency supplemental appropriations have provided funds for these purposes (P.L. 108-11 for FY2003 and P.L. 108-106 for FY2004). The bulk of Iraq assistance — nearly \$21 billion of the \$23.7 billion that is expected to support the program — is held in an Iraq Relief and Reconstruction Fund controlled by the Office of the President and delegated to other executive branch agencies.

Because of the size of the Iraq reconstruction effort, including funding figures in FY2003 and FY2004 totals tends to overshadow and obscure key trends in changing foreign aid budget and policy priorities. Therefore, unless otherwise noted in the text and figures, funding amounts noted in this report exclude figures for Iraq reconstruction. In many instances, however, a notation is made stating what a particular amount would equal if Iraq assistance was included.

## **What Are the Different Types of Foreign Aid?**

Although there are many ways to group foreign aid by types of assistance, this report organizes programs into five major categories, illustrated in Figure 1 below.

**Bilateral development assistance.** Development assistance programs are designed chiefly to foster sustainable broad-based economic progress and social stability in developing countries. For FY2005, Congress appropriated \$7.35 billion in such assistance, an amount accounting for nearly 35% of total foreign aid appropriations. Most of these funds are managed by the U.S. Agency for International Development (USAID) and are used for long-term projects in the areas of economic reform and private sector development, democracy promotion, environmental protection, population and human health. Development activities gaining more prominence in recent years have been debt relief for the poorest nations, mostly in Africa, and support for treatment of HIV/AIDS and other diseases. (See question on sectoral priorities below.) Other bilateral development assistance goes to distinct institutions, such as the Peace Corps, the Inter-American Development Foundation, the African Development Foundation, the Trade and Development Agency, and the new Millennium Challenge Corporation. The latter is expected to provide significant levels of assistance to countries that meet specific standards of good governance and free market economic reform.

**Figure 1. Aid Program Composition — FY2005**

### **Economic Aid Supporting U.S. Political and Security Objectives.**

In FY2005, Congress appropriated \$4.62 billion, 22% of total assistance, for five major programs whose primary purpose is to meet special U.S. economic, political, or security interests. The bulk of these funds — \$2.5 billion — are provided through the Economic Support Fund (ESF), an aid category designed to advance American strategic goals with economic assistance. Since the 1979 Camp David accords and especially since the end of the Cold War, most ESF has gone to support the Middle East Peace Process. Since 9/11, much ESF has targeted countries of importance in the war on terrorism. ESF funds can be used for development projects (about 57% of the total in FY2004), or in other ways, such as cash transfers, to help countries stabilize their economies and service foreign debt (about 43% in FY2004).

With the demise of the Soviet empire, the United States established two new aid programs which met particular strategic political interests. The SEED (Support for East European Democracy Act of 1989) and the FREEDOM Support Act (Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992) programs were designed to help Central Europe and the new independent states of the former Soviet Union (NIS) achieve democratic systems and free market economies. In FY2005, SEED countries are allocated \$393 million while the NIS receives \$556 million in appropriated funds.

Several other global issues that are considered threats to U.S. security and well-being — terrorism, narcotics, crime and weapons proliferation — have received special attention from the foreign assistance program, especially since the war on

terror began. Each of these programs provide a range of law enforcement activities, training, and equipment. In FY2005, the anti-narcotics and crime program (excluding alternative development activities) accounts for about \$800 million in foreign aid appropriations — over half of which is for an Andean anti-narcotics initiative. Anti-terrorism programs add another \$132 million, and weapons proliferation-related activities are funded at \$267 million.

**Humanitarian Assistance.** In FY2005, Congress appropriated \$2.68 billion, 12.6% of assistance, for programs of humanitarian aid.<sup>3</sup> Unlike, development assistance programs, which are often viewed as long-term efforts that may have the effect of preventing future crises from developing, three programs are devoted largely to the immediate alleviation of humanitarian emergencies. The bulk of humanitarian assistance goes to the refugee program administered by the State Department. It supports, with about \$819 million in FY2005, a number of refugee relief organizations, including the U.N. High Commission for Refugees and the International Committee of the Red Cross. The Offices of Foreign Disaster Assistance (OFDA) and Transition Initiatives (OTI) in USAID provide relief, rehabilitation, and reconstruction assistance to victims of manmade and natural disasters, activities totaling \$600 million in FY2005.

Supplementing both programs is food assistance (about \$1.2 billion in FY2005). The food aid program, generically referred to as P.L. 480 or the Food for Peace program, provides U.S. agricultural commodities to developing countries. USAID-administered Title II grant food aid is mostly provided for humanitarian relief but may also be used for development-oriented purposes by private voluntary organizations (PVOs) or through multilateral organizations, such as the World Food Program.<sup>4</sup> Title II funds are also used to support the “farmer-to-farmer” program which sends hundreds of U.S. volunteers to provide technical advice and training to farm and food-related groups throughout the world. A new program begun in 2002, the McGovern-Dole International Food for Education and Child Nutrition Program, provides commodities, technical assistance, and finance for school feeding and child nutrition programs (\$87 million in FY2005).<sup>5</sup>

**Multilateral Assistance.** A relatively small share of U.S. foreign assistance — 7% in FY2005 — is combined with contributions from other donor nations to finance multilateral development projects. For FY2005, Congress appropriated \$1.54

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<sup>3</sup> Because of the unanticipated nature of many disasters, humanitarian aid budget allocations often increase throughout the year as demands arise. Figures listed here are those appropriated as of January 19, 2005. The Administration is discussing with Congress a possible disaster relief supplemental for tsunami victims.

<sup>4</sup> Because of the demands placed on emergency food aid resources in early FY2005, the Administration has said that all food assistance this year will be allocated for emergency operations. According to some development NGOs, this would leave a \$600 million shortfall for non-emergency food aid requirements.

<sup>5</sup> Until FY1998, food provided commercially under long-term, low interest loan terms (Title I of P.L. 480) was also included in the foreign assistance account. Because of its increasing export focus, it is no longer considered foreign aid. Title I is administered by the Agriculture Department.

billion for such activities implemented by international organizations, like the United Nations Children's Fund (UNICEF) and the United Nations Development Program (UNDP), and by multilateral development banks (MDBs), such as the World Bank. On average, U.S. contributions represent about 20% of total donor transfers to the MDBs.

**Military Assistance.** The United States provides military assistance to U.S. friends and allies to help them acquire U.S. military equipment and training. Congress appropriated \$5 billion for military assistance in FY2005, 23.6% of total U.S. foreign aid. There are three main programs. Foreign Military Financing (FMF), \$4.75 billion in FY2005, is a grant program that enables governments to receive equipment from the U.S. government or to access equipment directly through U.S. commercial channels. Like ESF, most FMF grants support the security needs of Israel and Egypt. The International Military Education and Training program (IMET), \$89 million, offers military training on a grant basis to foreign military officers and personnel. Peacekeeping funds (\$178 million in FY2004, are used to support voluntary non-U.N. operations and training for an African crisis response force.

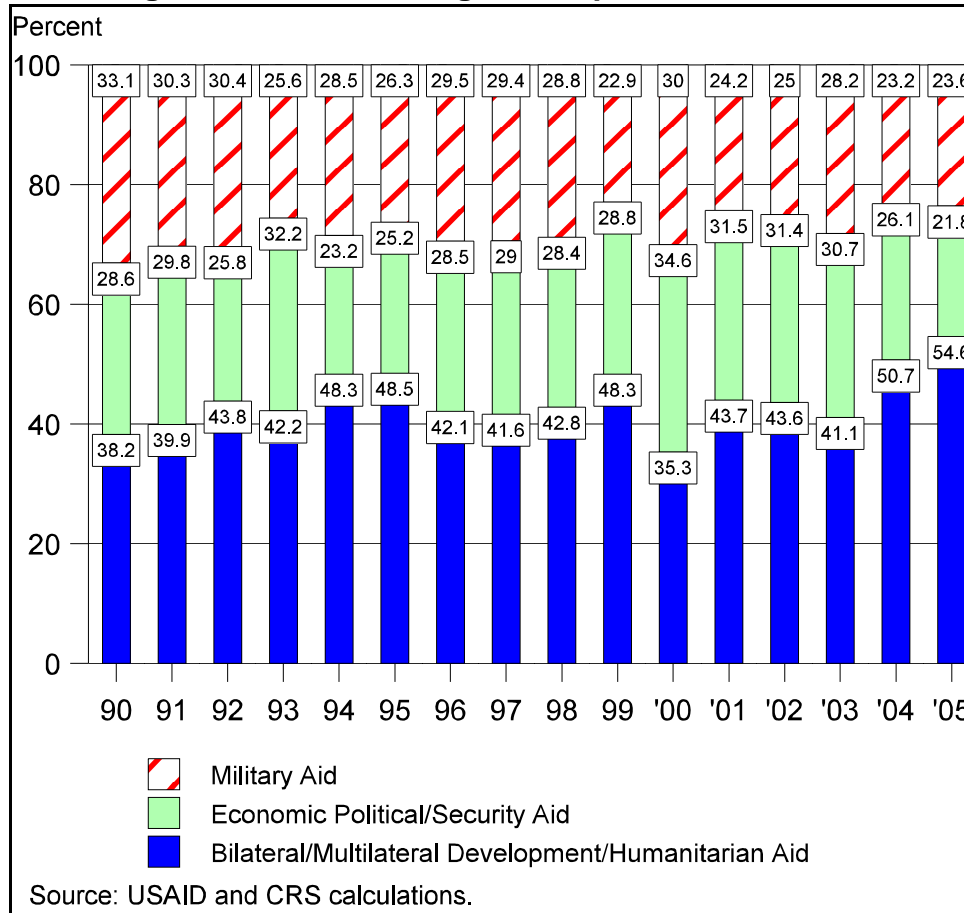
As Figure 2 indicates, there have been some gradual shifts in program emphasis during the past 15 years. Military assistance as a share of total aid obligations continued declining through FY2005, a trend that began after military aid peaked in FY1984 at 42%. In FY1996-97, it rebounded from 24.8% to about a 30% share, not because military assistance grew in absolute terms, but because other categories of foreign aid fell significantly while military grants, especially for Israel and Egypt, remained constant. The proportion of aid represented by military programs declined further in FY1999 to roughly 23%, mainly due to the "graduation" of Greece and Turkey as military aid recipients. Military assistance rose again in FY2000 (to 30%) largely because of a one-time Middle East peace supplemental for Israel and Jordan. After falling back to about one-fourth of total U.S. foreign aid, military assistance jumped to over 28% in FY2003 as the United States provided additional security support to many of the front-line states in the war on terrorism and other countries that might face new external threats due to the pending conflict in Iraq. For FY2004 and FY2005, its share fell to an average of 23.4%, the lowest proportion of the period, largely due to the rise in prominence of the development assistance category.

Economic strategic and political aid has remained fairly stable over the past 15 years, spiking in FY1993 with the growth of programs in the former Soviet Union. Funding for a Middle East peace supplemental, the Andean Counter-narcotics Initiative and economic support for countries assisting U.S. efforts in the war on terrorism pushed strategic-oriented economic aid above a 30% share between FY2000 and FY2003. The proportion of foreign aid appropriated for this grouping dropped to 26% and 22% in FY2004 and FY2005, respectively, reflecting somewhat the impact of a continuing ten-year plan to reduce economic aid to Israel and Egypt, and, except in the case of Afghanistan, less robust aid for "front-line" states in the war on terrorism.

Perhaps the most striking trend in this period has been the growth in development-related assistance, including humanitarian, food aid and contributions to multilateral institutions. Development-related aid rose steadily from a 38% share

in FY1990 to nearly 49% by FY1994. The growth of more politically-driven economic programs in Central Europe and the former Soviet Union, plus sizable cuts to development aid in FY1996/1997 and increased emphasis on security assistance following the September 11 terrorist attacks, drove the share of its allocation down to an average of 42% during the late 1990s through FY2003. With the approval of significant amounts of funding for two new presidential aid priorities, the Millennium Challenge Corporation and the Global AIDS Initiative, development assistance grew to represent over half of total foreign aid in FY2004 and FY2005, the highest levels during the past 15 years.

**Figure 2. Shifts in Program Emphasis, 1990-2005**



### What Are the Funding Priorities of Bilateral Economic Assistance?

The largest component of U.S. foreign aid finances bilateral economic assistance programs managed directly by USAID, or in some cases jointly by USAID and the State Department. This cluster of assistance roughly matches the combined two categories of bilateral development aid and economic political/security programs illustrated in Figure 1, above, that are managed by USAID and the Department of

State.<sup>6</sup> Congress appropriates funds for these activities in seven accounts included in annual Foreign Operations appropriation measures: Development Assistance (DA), Child Survival and Health (CSH), the Global AIDS Initiative (GAI), the Economic Support Fund (ESF), Assistance for Eastern Europe and the Baltic States, Assistance for the Independent States of the former Soviet Union, and alternative development programs implemented through the Andean Counter-narcotics Initiative (ACI). Collectively, these programs total \$8.1 billion, or roughly 38% of total FY2005 foreign aid appropriations.

As noted above, USAID organizes bilateral economic assistance around three functional “strategic pillars,” allocating resources to each of 14 more specific program sectors within the three pillars. Changes in the amount of funds distributed to each of these sectors is one means of measuring the relative priority placed by the executive branch on any of these specific bilateral aid activities. Because Congress closely examines the executive’s sector distribution of bilateral economic resources and in a number of cases modifies the President’s proposed budget plan, sector funding trends also characterize congressional aid priorities and areas of special concern.<sup>7</sup>

**Global Health.** One of the most striking changes in the distribution of economic aid resources in recent years has been the sharp growth in funding for Global Health, especially in the area of HIV/AIDS programs. The budget for Global Health in FY2005 will likely be more than double the amount in FY2001, while HIV/AIDS resources will have increased by about seven-fold.<sup>8</sup> In FY2004, the Bush Administration launched a five-year, \$15 billion Global AIDS Initiative, with the goals of 7 million new infections, treating 2 million HIV-infected individuals, and caring for 10 million infected people and AIDS orphans.

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<sup>6</sup> This grouping excludes, however, counter-narcotics, anti-terrorism, the Millennium Challenge Corporation, other non-USAID/non-State Department programs, and agency administrative costs included in the totals for the two categories in Figure 1. In a sense, the category of aid discussed in this section represents what might be called “core” bilateral economic assistance programs managed by the major U.S. foreign aid agencies.

<sup>7</sup> It is important to note that the amount of resources allocated to any single development sector is not necessarily a good measure of the priority assigned to that sector. Different types of development activities require varying amounts of funding to have impact and achieve the desired goals. Democracy and governance programs, for example, are generally low-cost interventions that include extensive training sessions for government officials, the media, and other elements of civil society. Economic growth programs, on the other hand, might include infrastructure development, government budget support, or commodity import financing, activities that require significantly higher resources. What may be a better indicator of changing sector priorities is to compare funding allocations over time to the same sector, trends that are illustrated in Table 1.

<sup>8</sup> Sector allocations for FY2005 appropriations remain under discussion, with announcements due most likely in February 2005. The total U.S. government commitment to international HIV/AIDS programs is somewhat larger when the budgets for domestic, “non-foreign aid” agencies are included. For example, the amount for FY2005 is estimated to be \$2.9 billion when the budgets of the Departments of Health and Human Services and Labor are included, rather than \$2.3 billion drawn exclusively from State Department and USAID funding.

Funding for two other health sectors are rising, but far more modestly than HIV/AIDS programs. Child Survival and Maternal Health projects aim to reduce infant mortality by, among other interventions, decreasing the incidence of acute respiratory infections, diarrheal disease, measles, and other illnesses that occur in the first 28 days of life and combating malnutrition, and to improve the quality of child delivery facilities and raise nutritional levels of mothers. Funding for these activities has grown by 27% in the past four years. Congress has placed special attention on other infectious disease activities — mainly those addressing malaria and tuberculosis — increasing spending by 43% since FY2001.

**Table 1. Bilateral Economic Assistance Sector Allocation  
FY2001-FY2004**  
(millions of dollars)

| Aid “Pillars” & Sectors                        | FY2001         | FY2002         | FY2003         | FY2004         |
|--|----------------|----------------|----------------|----------------|
| <b>Econ. Growth, Agriculture &amp; Trade:</b>  | <b>\$3,595</b> | <b>\$3,717</b> | <b>\$6,278</b> | <b>\$4,421</b> |
| Economic Growth                                | \$1,556        | \$1,485        | \$3,227        | \$2,447        |
| Agriculture                                    | \$301          | \$440          | \$480          | \$409          |
| Environment                                    | \$591          | \$504          | \$500          | \$483          |
| Basic Education for Children                   | \$119          | \$186          | \$271          | \$325          |
| Higher Education                               | \$176          | \$168          | \$186          | \$162          |
| Other*   | \$852          | \$934          | \$1,614        | \$595          |
| <b>Global Health:</b>                          | <b>\$1,280</b> | <b>\$1,544</b> | <b>\$1,899</b> | <b>\$2,534</b> |
| Child Survival/Maternal Health                 | \$350          | \$408          | \$399          | \$447          |
| Vulnerable Children                            | \$41           | \$38           | \$34           | \$36           |
| HIV/AIDS**                                     | \$305          | \$454          | \$855          | \$1,419        |
| Other Infectious Diseases                      | \$141          | \$178          | \$173          | \$202          |
| Family Planning/Reproductive Health            | \$443          | \$466          | \$438          | \$430          |
| <b>Democracy, Conflict, &amp; Humanitarian</b> | <b>\$1,010</b> | <b>\$1,078</b> | <b>\$1,162</b> | <b>\$1,198</b> |
| Democracy & Governance/Conflict                | \$857          | \$941          | \$1,000        | \$1,051        |
| Human Rights                                   | \$34           | \$40           | \$50           | \$44           |
| Humanitarian Aid                               | \$119          | \$97           | \$112          | \$103          |
| <b>TOTAL</b>                                   | <b>\$5,885</b> | <b>\$6,339</b> | <b>\$9,339</b> | <b>\$8,153</b> |

**Source:** USAID. Note that sector allocations for FY2005 remain under discussion, with announcements due most likely in February 2005.

\* This Other category is labeled as programs of “Special Concern” by USAID, consisting of economic aid to Israel and Turkey, and obligations pursuant to the South Pacific Tuna Treaty. The composition

of these “Special Concerns” may change from year-to-year, but do not necessarily fit into any of the categories under the pillar of Economic Growth, Agriculture, and Trade.

\*\* Includes funds for USAID programs, the State Department’s Global AIDS Initiative office, and the U.S. contribution to the Global Fund to Fight HIV/AIDS, Tuberculosis, and Malaria. Does not include funds provided by the Centers for Disease Control, the National Institutes for Health, and other “non-foreign aid” agencies.

This rapid rise in Global Health generally, driven largely by HIV/AIDS funding increases, however, overshadows to some extent reductions for other sectors. Spending on Family Planning and Reproductive Health programs has been relatively flat during the past five years, with the FY2005 level of \$441 million slightly below that of FY2001. Vulnerable Children programs, meaning those that focus on children affected by war, street children, and children with disabilities, have also received flat levels of funding. FY2005 amounts (\$30 million), however, are somewhat above those in FY2001.

**Economic Growth.** Within the “pillar” with the largest level of funding — Economic Growth, Agriculture, and Trade — the patterns have also been mixed. Basic Education programs, which encourage countries to strengthen their educational institutions and policies and reduce barriers for girls to attend school, with a \$400 million appropriation in FY2005 have received more than a three-fold increase in funding since FY2001. Resources for higher education, on the other hand, have declined slightly over the same period.

USAID has placed revitalized emphasis in recent years on Agriculture activities, an area which had been the largest program sector two decades ago. Funding rose by 50% in FY2002/2003 before falling back to a level in FY2004 that is one-third higher than FY2001. Agriculture programs focus on science and technology advances that reduce poverty and hunger, trade-promotion opportunities for farmers, and sound environmental management practices for sustainable agriculture.

Programs for managing natural resources and protecting the global environment have been the largest area of funding cuts since FY2001. These activities focus on conserving biological diversity, improving the management of land, water, and forests, promoting environmentally-sound urban development, encouraging clean and efficient energy production and use, and reducing the threat of global climate change while strengthening sustainable economic growth. Funding levels are nearly 20% below amounts in FY2001.

Resource trends for Economic Growth activities are more difficult to assess. This sector funds a wide range of development activities, focusing on trade capacity building, improving the investment climate, and promoting job creation, with an overall goal of reducing poverty. Budget support and commodity import programs are also included in this sector. Funding for Economic Growth programs has been affected by terrorism-related supplementals, especially large aid packages for Afghan reconstruction. This makes it difficult to identify any specific trend. Much of the increase for FY2003 came from additional assistance for several “front-line” states in the war on terrorism immediately prior to the launch of military operations in Iraq. The reduced amount for FY2004 (although still large compared with FY2001/2002)



includes significant supplemental spending in Afghanistan for road construction and other economic rehabilitation activities.<sup>9</sup>

**Democracy.** Overall funding for the Democracy, Conflict, and Humanitarian “pillar” has risen by 20% since FY2001, with most increases coming in the area of Democracy, Governance and Conflict Prevention. Program goals include strengthening the performance and accountability of government institutions, combating corruption, and addressing the causes and consequences of conflict. Human Rights is a relatively small sector supporting a range of activities such as strengthening women’s legal clinics and combating trafficking in persons. Funding levels have grown somewhat in recent years. Humanitarian Assistance under this “pillar” has declined in funding by over 10% since FY2001. Most of these programs are centered in Colombia and former Soviet states, concentrating on addressing the needs of internally displaced persons and conflict-affected communities.<sup>10</sup>

## Which Countries Receive U.S. Foreign Aid?

In FY2005, the United States is providing some form of foreign assistance to about 150 countries. Figures 3 and 4 illustrate the top 15 recipients of U.S. foreign assistance estimated for FY1995 and FY2005, respectively.<sup>11</sup> Assistance, although provided to many nations, is concentrated heavily in certain countries, reflecting the priorities and interests of United States foreign policy at the time.

As shown in the figures below, there are both similarities and sharp differences between country aid recipients for the two periods. The most consistent thread connecting the top aid recipients over the past decade has been continuing U.S. support for peace in the Middle East, with large programs maintained for Israel and Egypt. The importance of Latin America counter-narcotics efforts is also evident in both periods, with Bolivia, Peru, and more recently, Colombia, among the top U.S.

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<sup>9</sup> Trends for the “Other” category in this pillar are also obscured by certain circumstances. These “Special Concerns,” as labeled by USAID, fund cash transfer programs to Turkey and Israel, two strategic partners of the United States, and economic assistance to South Pacific island states under the terms of a fisheries treaty. Funding for these activities have been significantly influenced by supplemental appropriations related to the war on terrorism, especially in FY2003 when Turkey received a one-time \$1 billion economic aid package. Absent special supplementals, this category is scheduled to decrease in future years as the United States phases out economic aid to Israel over a ten-year period.

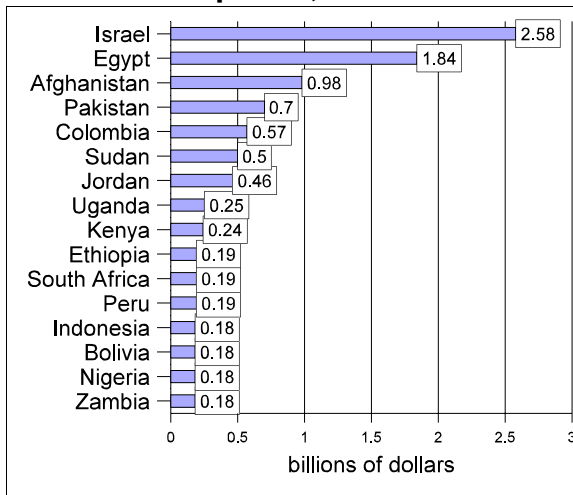
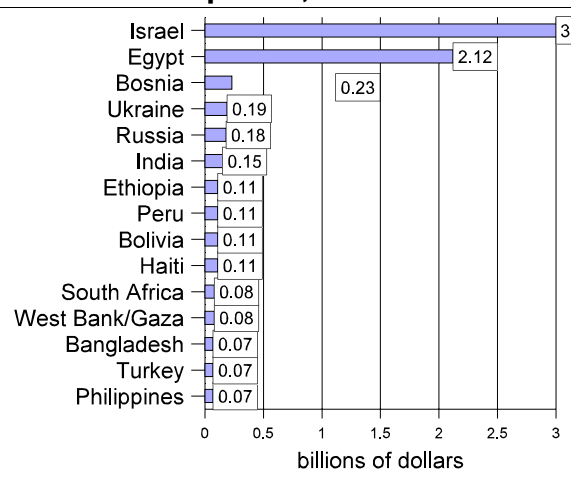
<sup>10</sup> Much larger amounts of humanitarian assistance are provided through the separate accounts of emergency food aid under P.L. 480 Title II, USAID’s Office of Foreign Disaster Assistance and Office of Transition Initiatives, and the State Department’s refugee bureau. While these programs offer significant amounts of humanitarian aid — \$2.68 billion in FY2005 — they generally respond to emergency, unanticipated situations and are not integrated into long-term development strategies managed by USAID.

<sup>11</sup> Amounts for FY2005 are estimates based on Administration requested levels, as adjusted by Congress in enacted FY2005 appropriation bills. The figures include estimated allocations for selected countries under the President’s Global AIDS Initiative, but do not include emergency relief spending for countries affected by the December 2004 tsunami disaster. FY2005 figures are likely to change when the Administration makes further adjustments to allocation levels.

aid recipients. Assisting countries emerging from conflict, usually under more temporary circumstances, is another characterization of U.S. foreign aid. The leading recipients of Haiti and Bosnia in FY1995 have been replaced currently by Sudan.

But there are also significant contrasts in the leading aid recipients of the past decade. The impact of the terrorist attacks on September 11, 2001, and the subsequent use of foreign aid to support other nations threatened by terrorism or helping the U.S. combat the global threat is clearly seen in the country-aid allocations for FY2005. Afghanistan, Pakistan, Jordan, and Indonesia are key partners in the war on terrorism. Moreover, with an \$18.4 billion relief and reconstruction appropriation in FY2004, Iraq is currently the largest recipient of U.S. foreign aid if measured over a multi-year period.

Another new feature of American assistance — the emphasis on HIV/AIDS programs — is evident in FY2005 aid figures with Ethiopia, Uganda, Kenya, Nigeria, Zambia, and South Africa among the top recipients, largely due to their selection as “focus” countries for the Administration’s five-year, \$15 billion Global AIDS Initiative. A further shift concerns the former Soviet states in which the United States invested large sums to assist in their transitions to democratic societies and market-oriented economies. In FY1995, Ukraine and Russia were among the top 15 U.S. aid recipients. By FY2005, none of the former Soviet states are among the leading recipients and some are scheduled for “graduation” from U.S. assistance in the near term.

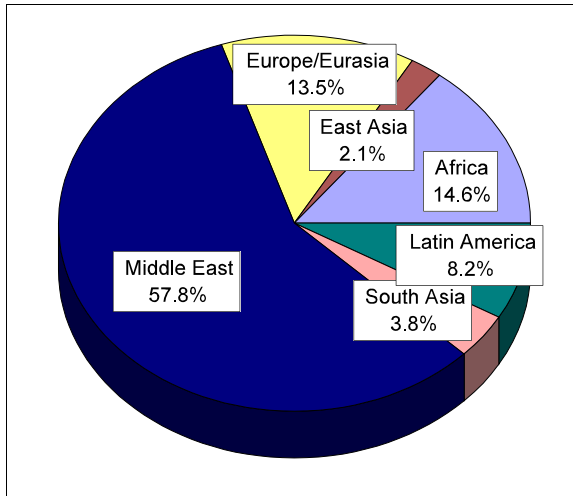
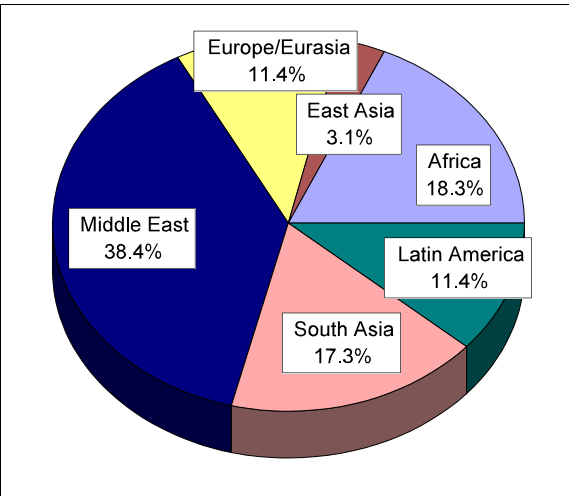
**Figure 3. Top Foreign Aid Recipients, FY2005****Figure 4. Top Foreign Aid Recipients, FY1995**

**Sources:** USAID and the Department of State. See footnote 11 regarding adjustments for FY2005.

On a regional basis (Figures 5 and 6), the Middle East has for many years received the bulk of U.S. foreign assistance. With economic aid to the region's top two recipients, Israel and Egypt, declining since the late 1990s and overall increases in other areas, however, the share of bilateral U.S. assistance consumed by the Middle East fell from 58% in FY1994 to 38% a decade later.<sup>12</sup>

Since September 11, South Asia has emerged as region of growing concentrated levels of U.S. assistance, rising from a 4% share ten years ago to 17% in FY2004. Latin America, where a renewed effort to counter narcotics production and trafficking is bolstered with large aid programs, is a region where the proportion of total U.S. assistance has grown modestly. Similarly, the share represented by African nations has increased from 13% to 18%, largely due to the Global AIDS Initiative that concentrates resources on 15 (12 in Africa) "focus" countries where the disease has had the most serious consequences. With the graduation of several East European aid recipients in recent years and the phasing down of programs in Russia, Ukraine, and other former Soviet states, the Europe/Eurasia regional share has fallen somewhat. The proportion of assistance provided to East Asia grew in the past decade, but the region remains the smallest area of concentration, accounting for 3% of U.S. foreign aid in FY2004.

<sup>12</sup> Including Iraq reconstruction funding for FY2004 would push the Middle East share to 73%. Data for FY2005 are not yet available.

**Figure 5. Regional Distribution of Aid, FY1994****Figure 6. Regional Distribution of Aid, FY2004**

**Sources:** USAID and the Department of State.

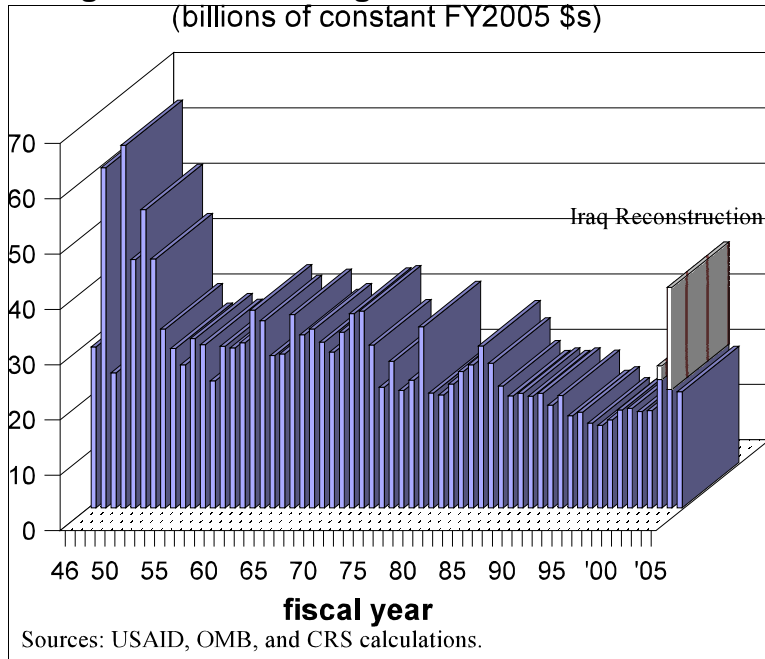
## Foreign Aid Spending

### How Large Is the U.S. Foreign Assistance Budget and What Have Been the Historical Funding Trends?

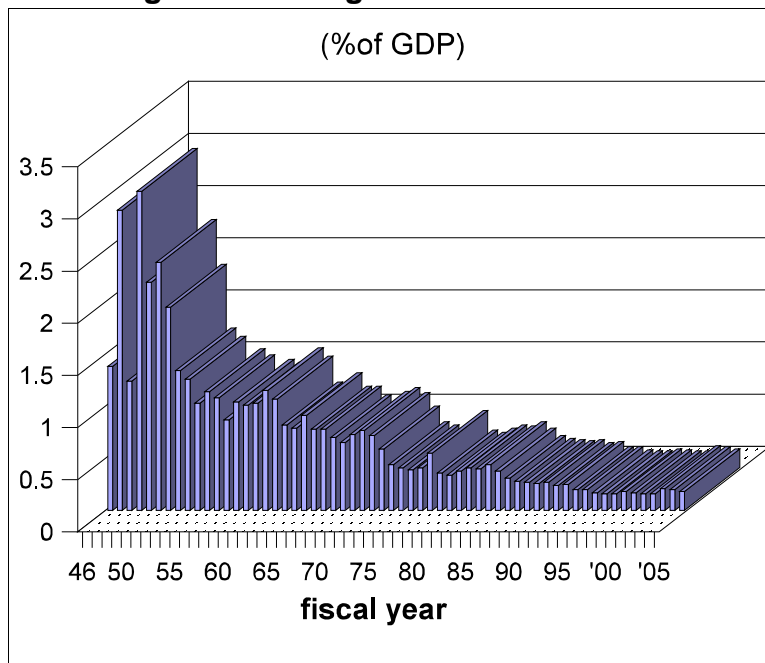
There are several methods commonly used for measuring the size of federal spending categories such as foreign assistance. Amounts can be expressed in terms of budget authority (funds appropriated by Congress), outlays (money actually spent), as a percent of the total federal budget, as a percent of discretionary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

By nearly all of these measures, some of which are illustrated in Figures 7 and 8, foreign aid resources fell steadily over several decades since the historical high levels of the late 1940s and early 1950s. This downward trend was sporadically interrupted, with spikes in the early 1960s and 1970s, 1979, and the mid-1980s, largely due to major foreign policy initiatives such as the Alliance for Progress for Latin America in 1961 and the signing of the Camp David Middle East Peace Accords in 1979. The lowest point in U.S. foreign aid spending came in the mid-1990s when resources fell to about \$15 billion (in constant dollar terms) and represented roughly one-fourth of the total program size during the Marshall Plan period.

**Figure 7. U.S. Foreign Aid: FY1946 - FY2005**  
(billions of constant FY2005 \$s)



**Figure 8. Foreign Aid as a % of GDP**



Following the September 11 terrorist attacks, foreign aid became a key instrument in fighting the global war on terrorism and contributing to the reconstruction of Afghanistan and Iraq. Excluding economic and security aid for Iraq, total foreign assistance for FY2003-2004 was larger than any two-year period since the mid-1980s. Including Iraq reconstruction costs — an amount that nearly

equals all other foreign aid combined for FY2004 — the FY2003/2004 two-year average represented the largest amount of foreign aid in thirty years, and was comparable to other foreign aid “surges” over the past half century, other than the Marshall Plan period. The total for FY2005 — \$21 billion — is slightly less than the \$23.2 billion annual average of the past two years. (Note: See Figure 9 at the end of this section for a more detailed “snapshot” of foreign aid funding trends and related foreign policy events.)

As a percent of gross national product, prior to the mid-1960s, in most years foreign aid represented over 1% and exceeded 2% during the Marshall Plan period. Following the end of the Vietnam War, foreign assistance as a percent of GDP ranged between 0.5% and 0.25% for the next 20 years. The program size dropped further to its lowest level ever in FY1997/1998 and FY2001/2002 (0.16%). Foreign aid as a percent of GDP rose somewhat the past three years, averaging about 0.2% but remains near the all time low (Figure 8).

Congress appropriates most foreign aid money through the annual Foreign Operations appropriations bill. Each year it represents the most direct congressional action on foreign assistance spending decisions, although small amounts of foreign aid are funded in other legislation.<sup>13</sup> Similar to the other measures of how much the United States spends on foreign assistance programs, Foreign Operations appropriations declined in the mid-1990s to slightly above \$14 billion, the lowest level during the past decade in real terms (Table 2). Appropriated amounts rose beginning in FY1998 and averaged about \$17.1 billion through the next four years. The combination of additional funding for the war on terrorism, Afghanistan reconstruction, and new foreign aid initiatives focused on HIV/AIDS and the Millennium Challenge Corporation, pushed average annual amounts, excluding Iraq reconstruction, above \$20 billion in FY2003/2004. Including Iraq funding makes FY2004 the largest Foreign Operations appropriations, in real terms, in at least 30 years. Appropriations for FY2005 fell back somewhat to under \$20 billion.<sup>14</sup>

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<sup>13</sup> Most notably, food aid is not appropriated in the Foreign Operations measure, while the Export-Import Bank, an activity not considered “foreign aid,” is funded in the Foreign Operations annual bill.

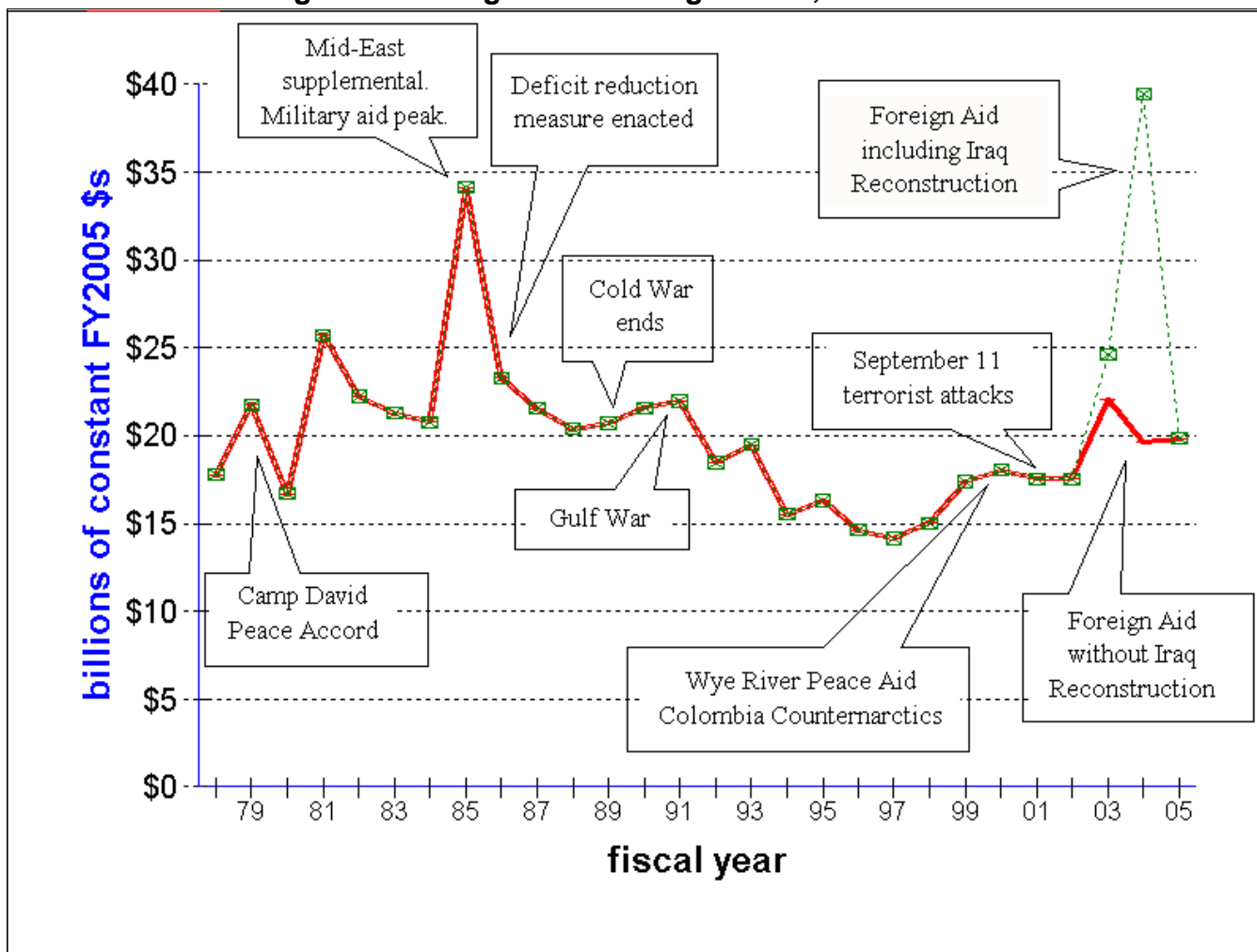
<sup>14</sup> Due to changes over time in appropriation “scoring” for various foreign aid programs, calculating precise levels of annual Foreign Operations appropriations that are equivalent to the methodology used currently is virtually impossible. This is especially true since Congress altered beginning in FY1992 the methodology for “scoring” credit programs. The 30 year estimate noted here compares the FY2004 level of \$38.7 billion (including Iraq reconstruction) with total foreign aid amounts of about \$35 billion (real terms) in the early 1970s. Since total foreign aid has not exceeded \$31 billion (in constant FY2004 dollars) except for a period in the early 1960s and the years prior to FY1953, a reasonable estimate is that the current Foreign Operations appropriation, including Iraq funding, is larger than equivalent appropriations other than for these selected time frames. See Table 5 at the end of this report for complete data.

**Table 2. Foreign Operations Appropriations, FY1994 to FY2005**  
 (discretionary budget authority in billions of current and constant dollars)

|                      | <b>FY94</b> | <b>FY95</b> | <b>FY96</b> | <b>FY97</b> | <b>FY98</b> | <b>FY99</b> | <b>FY00</b> | <b>FY01</b> | <b>FY02</b> | <b>FY03</b> | <b>FY04</b> | <b>FY05</b> |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| nominal<br>\$s       | 12.91       | 13.61       | 12.46       | 12.27       | 13.15       | 15.44       | 16.41       | 16.31       | 16.54       | 21.16       | 19.27       | 19.64       |
| constant<br>FY05 \$s | 15.87       | 16.32       | 14.64       | 14.15       | 15.02       | 17.39       | 18.04       | 17.53       | 17.52       | 22.13       | 20.01       | 19.64       |

**Notes:** FY1999 excludes \$17.861 billion for the IMF. FY2003 and FY2003 exclude funds for Iraq reconstruction. Including Iraq funds, FY2003 totals \$23.67 billion in nominal terms and \$24.15 billion in constant dollars. FY2004 totals \$38.69 billion with Iraq funds.

**Figure 9. Foreign Aid Funding Trends, FY1978-2005**

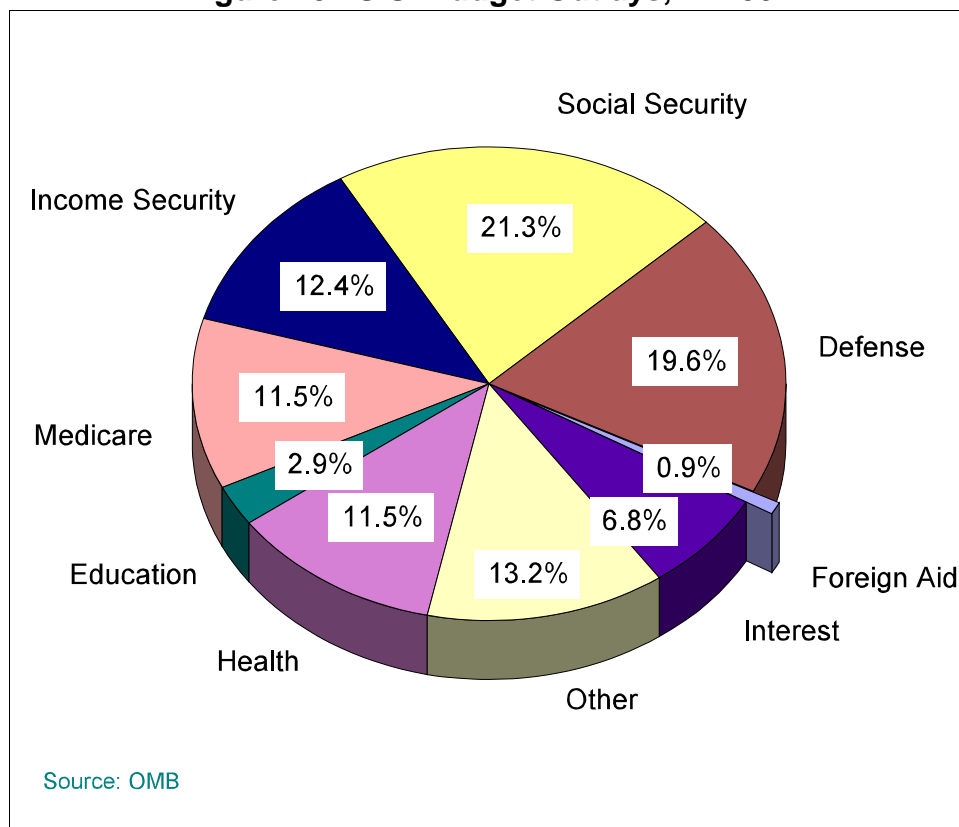




## How Does Foreign Aid Spending Compare with Other Federal Programs?

Foreign aid spending is a relatively small component of the U.S. federal budget. As part of the total amount spent in FY2004 on all discretionary programs (those controlled by Congress through appropriations), entitlements, and other mandatory activities, foreign aid outlays represent an estimated 0.9%, excluding expenditures for Iraq reconstruction. This figure is in line with typical foreign aid outlay amounts, which have generally equaled slightly less than 1% of total U.S. spending. With Iraq funding, FY2004 foreign aid outlays represent 1.2% of the entire budget. Figure 10 compares foreign aid outlays for FY2004 with those of other major U.S. government spending categories.

**Figure 10. U.S. Budget Outlays, FY2004**



## How Much of Foreign Aid Dollars Are Spent on U.S. Goods?

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

In FY2004, roughly 87% or \$3.7 billion of **military aid financing** was used for procurement of U.S. military equipment and training. The remaining 13% were funds allocated to Israel for procurement within that country.

**Food assistance** commodities are purchased wholly in the United States, and most expenditures for shipping those commodities to recipient countries go entirely to U.S. freight companies. Under current legislation, three-fourths of all food aid must be shipped by U.S. carriers. On this basis, a rough estimate suggests that more than 90% — at least \$1 billion in FY2004 — of food aid expenditures were spent in the United States.

Because U.S. contributions to **multilateral institutions** are mixed with funds from other nations and the bulk of the program is financed with borrowed funds rather than direct government contributions, the U.S. share of procurement financed by MDBs may exceed the amount of the U.S. contribution. For example, the \$1.88 billion in World Bank procurement from American sources for investment and adjustment loans in FY2003 (the most recent year for which data are available) was more than twice the \$844.5 million U.S. contribution to the IBRD and IDA, the Bank's two largest facilities. The United States accounted for about 18% of all World Bank foreign procurement in FY2003, the largest of any country. Germany (7.8%), France (5.4%), Italy (5.1%), and China (4.9%) followed.<sup>15</sup>

Most **bilateral development assistance** and the **ESF, NIS and SEED components of economic political and security assistance** support programs in developing countries and the new European democracies, respectively. Although a small proportion of funding for these programs results in transfers of U.S. dollars, the services of experts and project management personnel and much of the required equipment is procured from the United States. According to USAID, 81% of total USAID procurement between October 2002 and September 2003 under these programs came from U.S. sources.<sup>16</sup>

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

Many argue that the foreign aid program brings significant indirect financial benefits to the United States, in addition to the direct benefits derived from reflows of aid dollars. First, it is argued that provision of military equipment through the military assistance program and food commodities through P.L.480 helps to develop future, strictly commercial, markets for those products. Second, as countries develop

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<sup>15</sup> World Bank Annual Report, 2003. Volume 2. Pages 132-140.

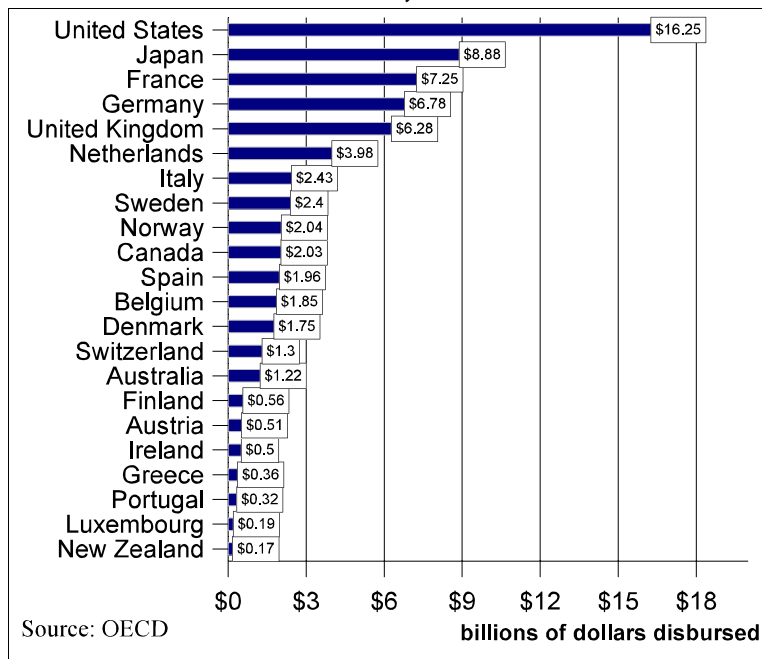
<sup>16</sup> The USAID figures, however, do not take into account that the U.S.-based contractor or grantee may spend some project funds in other countries. Because of this, actual procurement of U.S. goods and services may be much lower than indicated.

economically, they are in a position to purchase more goods from abroad and the United States benefits as a trade partner.

## How Does the United States Rank as a Donor of Foreign Aid?

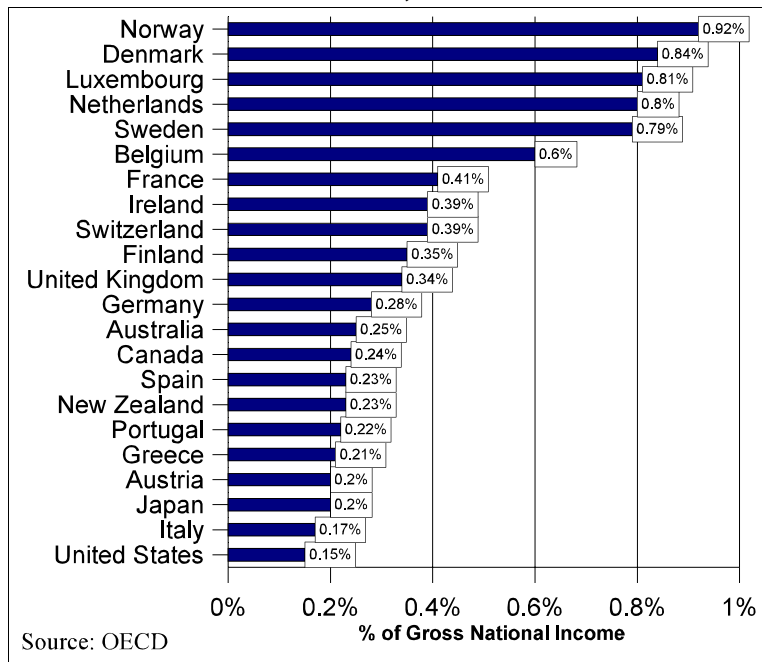
For decades, the United States ranked first among the developed countries in net disbursements of economic aid, or “Official Development Assistance (ODA)” as defined by the international donor community. In 1989, for the first time, Japan supplanted the United States as the largest donor. The United States regained its leading position in 1990, only to lose it again in 1993 and fluctuated between a second and third position until 2001. In that year, it again became the largest contributor and remained in the position in 2003 with a contribution of \$16.25 billion. Japan followed at \$8.88 billion, significantly higher than France and Germany at \$7.25 billion and \$6.78 billion, respectively. As a group, the 22 members of the OECD’s Development Assistance Committee (DAC) representing the world’s leading providers of economic aid, transferred \$69.03 billion in 2003, up 4.8% in real terms from the year before.

**Figure 11. Economic Aid in Dollars from Major Donors, 2003**



Even when it led in dollar amounts of aid flows to developing countries, the United States was often among the last when aid transfers by developed country donors were calculated by percent of gross national product. In 2003, as has been the case since 1993, the United States ranked last at 0.15% of gross national income (GNI). Norway ranked first at 0.92% of GNI, while Japan dispensed 0.2%, France 0.41%, and Germany 0.28%. The average for all DAC members was 0.25%.

**Figure 12. Economic Aid as % of GNI from Major Donors, 2003**



## Delivery of Foreign Assistance

How and in what form assistance reaches an aid recipient can vary widely, depending on the type of aid program, the objective of the assistance, and the agency responsible for providing the aid.

### What Executive Branch Agencies Administer Foreign Aid Programs?

For over 40 years, the bulk of the U.S. bilateral economic aid program has been administered by the U.S. Agency for International Development (USAID). Created by an executive branch reorganization in 1961, USAID became an independent agency in 1999, although its Administrator reports to and serves under the “direct authority and foreign policy guidance” of the Secretary of State. USAID is responsible for most bilateral development assistance, including economic growth, global health, and democracy programs, Title II of P.L. 480 food assistance, and, in conjunction with the State Department, ESF, East European, and former Soviet aid programs. In FY2005, USAID manages a foreign aid budget of \$9.5 billion, maintaining direct control over \$6.1 billion of this amount. USAID’s staff in 2004 totaled 8,132, of which only about 2,035 were U.S. citizens hired directly by the agency. The largest components of USAID staff were foreign nationals (3,570) working in overseas missions and representational offices who oversee the implementation of hundreds of projects undertaken by thousands of contractors,

consultants, and non-governmental organizations (NGOs) Another 2,652 personal service contractors performed other work for the agency.<sup>17</sup>

In addition to these programs jointly managed with USAID, the State Department administers several other aid programs directly. Individual offices at the Department of State oversee activities dealing with narcotics control and international law enforcement, terrorism, weapons proliferation, non-U.N. peacekeeping operations, refugee relief, and voluntary support for a range of international organizations such as UNICEF. In order to manage the President's recent Global AIDS Initiative, the State Department created a Special Coordinators Office that administers in FY2005 \$1.37 billion for international HIV/AIDS, tuberculosis, and malaria programs. The funds are channeled through USAID, the Centers for Disease Control, the National Institutes for Health, and other implementing agencies. FY2005 appropriations for these State Department-administered aid programs totals about \$3.94 billion.

Most military assistance is administered by the Department of Defense (DOD) in conjunction with the Office of Politico-Military Affairs in the State Department. The Defense Security Cooperation Agency is the primary DOD body responsible for foreign military financing and training programs. The Defense Department manages about \$4.7 billion of total foreign aid spending in FY2005.

The Treasury Department also administers three foreign aid programs. U.S. contributions to and participation in the World Bank and other multilateral development institutions are managed by the Under Secretary for International Affairs. Presidentially appointed U.S. executive directors at each of the banks represent the United States point of view. Treasury also deals with foreign debt reduction issues and programs, including U.S. participation in the HIPC initiative. The Treasury Department further manages a technical assistance program, offering temporary financial advisors to countries implementing major economic reforms and combating terrorist finance activity. For FY2004, funding for activities falling under the Treasury Department's jurisdiction total about \$1.3 billion.

A new foreign aid agency was created in February 2004 to administer the President's recently approved Millennium Challenge Account initiative. The Millennium Challenge Corporation (MCC) is charged with managing this results-oriented, competitive foreign aid delivery mechanism that will invest resources in countries that adopt pro-growth strategies for meeting political, social, and economic challenges. The MCC is a U.S. government corporation, headed by a Chief Executive Officer who reports to a Board of Directors chaired by the Secretary of State. The Corporation plans to maintain a relatively small staff of less than 200, while drawing on support from USAID. The MCC manages a budget of \$1.5 billion in FY2005, a total that is projected to grow to \$5 billion by FY2006 under the President's plan.

Other government agencies which play a role in implementation of foreign aid programs are the Peace Corps, the Trade and Development Agency (TDA), and the

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<sup>17</sup> USAID. *Congressional Presentation, Fiscal Year 2005*, p. 87.

Overseas Private Investment Corporation (OPIC). The Peace Corps, an autonomous agency with an FY2005 budget of \$317 million, supports more than 7,800 volunteers in 73 countries. Peace Corps volunteers work in a wide range of educational, health, and community development projects. TDA finances trade missions and feasibility studies for private sector projects likely to generate U.S. exports. Its budget in FY2005 is \$51 million. OPIC provides political risk insurance to U.S. companies investing in developing countries and the new democracies and finances projects through loans and guarantees. It also supports investment missions and provides other pre-investment information services. Its insurance activities have been self-sustaining, but credit reform rules require a relatively small appropriation to back up U.S. guarantees.

Two independent agencies, the Inter-American Foundation and the African Development Foundation, also administer U.S. foreign aid. Both organizations emphasize grassroots development by providing financial support to local private organizations in developing countries. For FY2005, Congress appropriated \$18 million and \$19 million to the Inter-American Foundation and the African Development Foundation, respectively.

Departing from the practice of using traditional U.S. aid agencies, such as USAID and the Departments of State and Treasury, Iraq reconstruction activities had been overseen until June 30, 2004, by a new entity — the Coalition Provisional Authority (CPA). The CPA, which received over \$21 billion to undertake reconstruction projects in Iraq, was headed by a civilian administrator based in Baghdad but who reported to the President through the Secretary of Defense. The White House dissolved the CPA on June 30, 2004, when governing authority was turned over to Iraqi interim government. The State Department, together with USAID, which had been providing supportive work for the CPA, took over responsibility for future Iraq reconstruction efforts.

## **What Are the Different Forms in Which Assistance Is Provided?**

Most U.S. assistance is now provided as a grant (gift) rather than a loan (see the next question for further discussion). But the forms a grant may take on its way to the recipient country are diverse.

**Cash Transfers.** Although it is the exception rather than the rule, some countries receive aid in the form of a cash grant to the government. Dollars provided in this way support a government's balance-of-payments situation, enabling it to purchase more U.S. goods, service its debt, or devote more domestic revenues to developmental or other purposes. Cash transfers have been made as a reward to countries that have supported the United States in its war on terrorism (Turkey and Jordan in FY2004), to provide political and strategic support (both Egypt and Israel annually since 1979), and in exchange for undertaking difficult political and economic reforms (multiple African countries since the 1980s, including Ghana, Mozambique, and Zambia in FY2004). Of FY2004 appropriations, about \$855 million was provided as cash transfers.

**Commodity Import Programs (CIP).** The Commodity Import Program managed by USAID allows indigenous private sector business in a foreign country to gain access to U.S. dollars in order to import eligible American goods. In exchange for the dollars, local currency paid by these businesses goes to a host government account and is then programmed for development purposes by both the host country and the United States. The program, used widely in the past, is currently administered solely in Egypt and valued at \$200 million in FY2005.

**Equipment and Commodities.** Assistance may be provided in the form of food commodities, weapons systems, or equipment such as generators or computers. Food aid may be provided directly to meet humanitarian needs or to encourage attendance at a maternal/child health care program. Weapons supplied under the military assistance program may include training in their use. Equipment and commodities provided under development assistance are usually integrated with other forms of aid to meet objectives in a particular social or economic sector. For instance, textbooks have been provided in both Afghanistan and Iraq as part of a broader effort to reform the educational sector and train teachers. Computers may be offered in conjunction with training and expertise to fledgling microcredit institutions.

**Training.** Transfer of know-how is a significant part of most assistance programs. The International Military and Educational Training Program (IMET) provides training to officers of the military forces of allied and friendly nations. Tens of thousands of citizens of aid recipient countries receive short-term technical training or longer term degree training annually under USAID's participant training program. More than one-third of Peace Corps volunteers are English, math, and science teachers. Other programs provide law enforcement personnel with anti-narcotics or anti-terrorism training.

**Expertise.** Many assistance programs provide expert advice to government and private sector organizations. The Treasury Department, USAID, and U.S.-funded multilateral banks all place specialists in host government ministries to make recommendations on policy reforms in a wide variety of sectors. USAID has often placed experts in private sector business and civic organizations to help strengthen them in their formative years or while indigenous staff are being trained. While most of these experts are U.S. nationals, in Russia, USAID has funded the development of locally-staffed political and economic think tanks to offer policy options to that government.

**Small Grants.** USAID, the Inter-American Foundation, and the African Development Foundation often provide aid in the form of grants that may then be used by U.S. or indigenous organizations to further their varied developmental purposes. For instance, grants are sometimes provided to microcredit organizations which in turn provide loans to microentrepreneurs. Through the USAID-funded Eurasia Foundation, grants are provided to help strengthen the role of former Soviet Union non-governmental organizations (NGOs) in democratization and private enterprise development.

## How Much Aid Is Provided as Loans and How Much as Grants? What Are Some Types of Loans? Have Loans Been Repaid? Why Is Repayment of Some Loans Forgiven?

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

**Loan/Grant Composition.** During the past decade, nearly all foreign aid — military as well as economic — has been provided in grant form. Between 1962 and 1988, loans represented 32% of total military and economic assistance. This figure declined substantially beginning in the mid-1980s, until by FY2001, loans represented less than 1% of total aid appropriations. The de-emphasis in the amounts of foreign aid loan programs came largely in response to the debt problems of developing countries. Both Congress and the executive branch supported the view that foreign aid should not add to the already existing debt burden carried by these countries.

**Types of Loans.** Although a small proportion of total aid, there are several significant USAID-managed programs that provide direct loans or guarantee loans. Under the Israeli Loan Guarantee Program, the United States has guaranteed repayment of loans made by commercial sources to support the costs of immigrants settling in Israel from other countries. Other guarantee programs support low-income housing and community development programs of developing countries and microenterprise and small business credit programs. A Development Credit Authority in which risk is shared with a private sector bank can be used to support any development sector.

**Loan Repayment.** Between 1946 and 2002, the United States loaned about \$108 billion under the foreign aid program. Of that amount, \$83 billion had been repaid as of the end of FY2002, leaving nearly \$25 billion outstanding.<sup>18</sup> Most recipients of U.S. loans remain current or only slightly in arrears on debt payments. For nearly three decades, U.S. foreign aid law (the so-called Brooke amendment) has prohibited new assistance to any country that falls more than one year past due in servicing its debt obligations to the United States. Afghanistan, Liberia, Somalia, Sudan, Syria, Zimbabwe, and Argentina are examples of countries that have recently been more than one year in arrears. The President may waive application of this prohibition if he determines it is in the national interest.

**Debt Forgiveness.** The United States has also forgiven debts owed by foreign governments and encouraged, with mixed success, other foreign aid donors and international financial institutions to do likewise. In total, the United States

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<sup>18</sup> U.S. Agency for International Development. *U.S. Overseas Loans and Grants, July 1, 1945-September 30, 2002.*



forgave or reduced about \$18.66 billion owed by 46 countries between 1990 and 2003.<sup>19</sup>

In some cases, the decision to forgive foreign aid debts has been based largely on economic grounds as another means to support development efforts by heavily indebted, but reform-minded, countries. The United States has been one of the strongest supporters of the Heavily Indebted Poor Country (HIPC) Initiative. This initiative, which began in the late 1990s and continues in 2005, included for the first time participation of the World Bank, the IMF, and other international financial institutions in a comprehensive debt workout framework for the world's poorest and most debt-strapped nations.

But the largest and most hotly debated debt forgiveness actions have been implemented for much broader foreign policy reasons with a more strategic purpose. Poland, during its transition from a communist system and centrally-planned economy (1990 — \$2.46 billion), Egypt, for making peace with Israel and helping maintain the Arab coalition during the Persian Gulf War (1990 — \$7 billion), and Jordan, after signing a peace accord with Israel (1994 — \$700 million), are examples.

## **What Are the Roles of Government and Private Sector in Development and Humanitarian Aid Delivery?**

Most development and humanitarian assistance activities are not directly implemented by U.S. government personnel but by private sector entities. Generally speaking, government foreign service and civil servants determine the direction and priorities of the aid program, allocate funds while keeping within congressional requirements, ensure that appropriate projects are in place to meet aid objectives, select implementors, and monitor the implementation of those projects for effectiveness and financial accountability. At one time, USAID professionals played a larger role in implementing aid programs, but the affect of budget cuts on personnel and the emergence of private sector alternatives over the past thirty years has led to a shift in responsibilities.<sup>20</sup>

Private sector aid implementors, usually employed as contractors or grantees, may be individual “personal service contractors,” consulting firms, non-profit non-government organizations (NGOs), universities, or charitable private voluntary organizations (PVOs). These carry out the vast array of aid projects in all sectors.

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<sup>19</sup> U.S. Department of the Treasury and the Office of Management and Budget. *U.S. Government Foreign Credit Exposure As of December 31, 2003*, part 1, p. 51.

<sup>20</sup> In 1962 there were about 8,600 U.S. direct hire personnel; currently there are about 2,000.

## Congress and Foreign Aid

### What Congressional Committees Oversee Foreign Aid Programs?

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

Foreign aid *appropriations* are provided entirely through subcommittees of the Appropriations panels in both the House and Senate. Nearly all foreign aid funds fall under the jurisdiction of the Foreign Operations Subcommittees, with food assistance appropriated by the Agriculture Subcommittees.

### What Are the Major Foreign Aid Legislative Vehicles?

The most significant *permanent* foreign aid *authorization* laws are the Foreign Assistance Act of 1961, covering most bilateral economic and security assistance programs (P.L. 87-195; 22 U.S.C. 2151), the Arms Export Control Act (1976), authorizing military sales and financing (P.L. 90-629; 22 U.S.C. 2751), the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480), covering food aid (P.L. 83-480; 7 U.S.C. 1691), and the Bretton Woods Agreement Act (1945) authorizing U.S. participation in multilateral development banks (P.L. 79-171; 22 U.S.C. 286).<sup>21</sup> In the past, Congress usually scheduled every two years debates on omnibus foreign aid bills that amended these permanent authorization measures. Although foreign aid authorizing bills have passed the House or Senate, or both, on numerous occasions, Congress has not enacted into law a major foreign assistance authorization measure since 1985. Instead, foreign aid bills have frequently stalled at some point in the debate because of controversial issues, a tight legislative calendar, or executive-legislative foreign policy disputes.<sup>22</sup>

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<sup>21</sup> Separate permanent authorizations exist for other specific foreign aid programs such as the Peace Corps, the Inter-American Foundation, and the African Development Foundation.

<sup>22</sup> A few foreign aid programs that are authorized in other legislation have received more regular legislative review. Authorizing legislation for voluntary contributions to international organizations and refugee programs, for example, are usually contained in omnibus Foreign Relations Authorization measures that also address State Department and U.S. Information Agency issues. Food aid and amendments to P.L.480 are usually

(continued...)

In lieu of approving a broad authorization bill, Congress has on occasion authorized major foreign assistance initiatives for specific regions, countries, or aid sectors in stand-alone legislation or within an appropriation bill. Among these are the SEED Act of 1989 (P.L. 101-179; 22 U.S.C. 5401), the FREEDOM Support Act of 1992 (P.L. 102-511; 22 U.S.C. 5801), and the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (P.L. 108-25; 22 U.S.C. 7601).

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

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<sup>22</sup> (...continued)

considered in the omnibus “Farm bill” that Congress re-authorizes every five years.

## Data Appendix

### Table 3. Aid Program Composition, 2005

| Aid Program                 | \$s - billions  | % of total aid |
|-----------------------------|-----------------|----------------|
| Bilateral Development       | \$7.351         | 34.7%          |
| Humanitarian                | \$2.680         | 12.6%          |
| Multilateral Development    | \$1.540         | 7.3%           |
| Economic Political/Security | \$4.615         | 21.8%          |
| Military                    | \$5.011         | 23.6%          |
| <b>TOTAL</b>                | <b>\$21.197</b> | <b>100.0%</b>  |

Source: House and Senate Appropriations Committees and CRS calculations.

### Table 4. Program Composition, 1990-2005

(\$s - billions and % of total aid)

| Fiscal Year | Development/<br>Humanitarian |       | Economic<br>Political/Security |       | Military |       | Total    |
|-------------|------------------------------|-------|--------------------------------|-------|----------|-------|----------|
| 1990        | \$5.667                      | 38.2% | \$4.242                        | 28.6% | \$4.908  | 33.1% | \$14.817 |
| 1991        | \$6.318                      | 39.9% | \$4.717                        | 29.8% | \$4.788  | 30.3% | \$15.823 |
| 1992        | \$6.447                      | 43.8% | \$3.803                        | 25.8% | \$4.470  | 30.4% | \$14.720 |
| 1993        | \$6.967                      | 42.2% | \$5.319                        | 32.2% | \$4.225  | 25.6% | \$16.511 |
| 1994        | \$6.539                      | 47.3% | \$3.269                        | 23.6% | \$4.016  | 29.1% | \$13.824 |
| 1995        | \$7.134                      | 48.5% | \$3.700                        | 25.2% | \$3.876  | 26.3% | \$14.710 |
| 1996        | \$5.597                      | 42.1% | \$3.787                        | 28.5% | \$3.924  | 29.5% | \$13.308 |
| 1997        | \$5.485                      | 41.6% | \$3.823                        | 29.0% | \$3.879  | 29.4% | \$13.187 |
| 1998        | \$6.077                      | 42.8% | \$4.038                        | 28.4% | \$4.082  | 28.8% | \$14.197 |
| 1999        | \$7.739                      | 48.3% | \$4.607                        | 28.8% | \$3.674  | 22.9% | \$16.020 |
| 2000        | \$5.872                      | 35.2% | \$5.797                        | 34.8% | \$4.991  | 30.0% | \$16.660 |
| 2001        | \$7.263                      | 44.0% | \$5.234                        | 31.7% | \$4.018  | 24.3% | \$16.515 |
| 2002        | \$7.376                      | 43.6% | \$5.309                        | 31.4% | \$4.232  | 25.0% | \$16.917 |
| 2003        | \$9.361                      | 41.1% | \$6.991                        | 30.7% | \$6.426  | 28.2% | \$22.778 |
| 2004        | \$10.480                     | 50.7% | \$5.402                        | 26.1% | \$4.791  | 23.2% | \$20.673 |
| 2005        | \$11.571                     | 54.6% | \$4.615                        | 21.8% | \$5.011  | 23.6% | \$21.197 |

Sources: USAID, House and Senate Appropriations Committees, and CRS calculations.

Note: FY2003 and FY2004 exclude \$2.475 billion and \$18.439 billion, respectively for Iraq reconstruction.

**Table 5. Foreign Aid Funding Trends**

| <b>Fiscal Year</b> | <b>Billions of constant 2004 \$s</b> | <b>As % of GDP</b> | <b>As % of total discretionary budget authority</b> |
|--------------------|--------------------------------------|--------------------|---|
| 1946               | \$29.11                              | 1.38%              | —   |
| 1947               | \$61.49                              | 2.88%              | —   |
| 1948               | \$24.45                              | 1.24%              | —   |
| 1949               | \$65.51                              | 3.06%              | —   |
| 1950               | \$44.93                              | 2.19%              | —   |
| 1951               | \$53.93                              | 2.38%              | —   |
| 1952               | \$45.02                              | 1.95%              | —   |
| 1953               | \$32.35                              | 1.34%              | —   |
| 1954               | \$28.83                              | 1.26%              | —   |
| 1955               | \$25.87                              | 1.03%              | —   |
| 1956               | \$30.59                              | 1.14%              | —   |
| 1957               | \$29.53                              | 1.08%              | —   |
| 1958               | \$22.98                              | 0.87%              | —   |
| 1959               | \$29.20                              | 1.04%              | —   |
| 1960               | \$28.95                              | 1.01%              | —   |
| 1961               | \$29.85                              | 1.03%              | —   |
| 1962               | \$35.76                              | 1.15%              | —   |
| 1963               | \$33.87                              | 1.07%              | —   |
| 1964               | \$27.52                              | 0.82%              | —   |
| 1965               | \$27.82                              | 0.79%              | —   |
| 1966               | \$34.96                              | 0.91%              | —   |
| 1967               | \$31.30                              | 0.78%              | —   |
| 1968               | \$32.35                              | 0.78%              | —   |
| 1969               | \$29.97                              | 0.70%              | —   |
| 1970               | \$28.18                              | 0.65%              | —   |
| 1971               | \$31.78                              | 0.73%              | —   |
| 1972               | \$35.15                              | 0.77%              | —   |
| 1973               | \$35.58                              | 0.72%              | —   |
| 1974               | \$29.47                              | 0.59%              | —   |
| 1975               | \$21.82                              | 0.44%              | —   |
| 1976               | \$26.50                              | 0.41%              | —   |

| <b>Fiscal Year</b> | <b>Billions of constant 2004 \$s</b> | <b>As % of GDP</b> | <b>As % of total discretionary budget authority</b> |
|--------------------|--------------------------------------|--------------------|---|
| 1977               | \$21.26                              | 0.39%              | 3.15%   |
| 1978               | \$23.13                              | 0.41%              | 3.47%   |
| 1979               | \$32.75                              | 0.55%              | 5.02%   |
| 1980               | \$20.78                              | 0.36%              | 3.11%   |
| 1981               | \$20.47                              | 0.34%              | 3.09%   |
| 1982               | \$22.40                              | 0.38%              | 3.46%   |
| 1983               | \$24.67                              | 0.41%              | 3.66%   |
| 1984               | \$25.90                              | 0.40%              | 3.66%   |
| 1985               | \$29.30                              | 0.44%              | 3.97%   |
| 1986               | \$26.15                              | 0.38%              | 3.80%   |
| 1987               | \$22.04                              | 0.31%              | 3.25%   |
| 1988               | \$20.25                              | 0.28%              | 3.04%   |
| 1989               | \$20.74                              | 0.27%              | 3.12%   |
| 1990               | \$20.23                              | 0.26%              | 2.98%   |
| 1991               | \$20.73                              | 0.27%              | 2.90%   |
| 1992               | \$18.62                              | 0.24%              | 2.77%   |
| 1993               | \$20.31                              | 0.25%              | 3.16%   |
| 1994               | \$16.67                              | 0.20%              | 2.70%   |
| 1995               | \$17.31                              | 0.20%              | 2.93%   |
| 1996               | \$15.35                              | 0.17%              | 2.66%   |
| 1997               | \$14.92                              | 0.16%              | 2.58%   |
| 1998               | \$15.92                              | 0.16%              | 2.68%   |
| 1999               | \$17.71                              | 0.18%              | 2.75%   |
| 2000               | \$17.97                              | 0.17%              | 2.85%   |
| 2001               | \$17.42                              | 0.16%              | 2.49%   |
| 2002               | \$17.58                              | 0.16%              | 2.30%   |
| 2003               | \$23.22                              | 0.21%              | 2.69%   |
| 2004               | \$20.67                              | 0.18%              | 2.42%   |

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