

## Chapter 9

# Redirecting Assistance Flows

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### Foreign Aid

U.S. foreign assistance takes many forms. Aid moves bilaterally or through multilateral channels. Its purpose may be both military and economic. Economic aid may be given on concessional or near-market terms. The U.S. bilateral program involves the Departments of State, Defense, Agriculture (Food for Peace), AID and other agencies. The bilateral economic program encompasses development assistance and the Economic Support Fund (ESF), both administered by AID. ESF, concentrated in a few strategically important countries including Israel, Egypt, and El Salvador, is the most politically sensitive, but political concerns are never fully absent from any bilateral foreign assistance program. Of the \$15 billion appropriated for foreign aid in 1989, 16 percent was for development assistance and 24 percent for the ESF program. (See Box 9.1, p. 82.)

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The Commission shares the concerns of several recent studies that the U.S. foreign assistance program does not enjoy wide public support because of conflicting rationales and unclear objectives; unrealistic Congressional directives; and the visibility of funds for foreign assistance at a time of budgetary stringency. There is a broad public perception that aid money is not well spent.

Evaluations in 1989 of the foreign assistance program by AID itself and by a Task Force of the House Foreign Affairs Committee emphasized the need for dramatic changes in the direction of the

### *Box 9.1 - Types of Foreign Aid*

The phrase "foreign aid" conceals as much as it reveals. U.S. assistance to other countries takes many forms: it can be bilateral or multilateral, economic or military, concessional or commercial.

The main agency for providing U.S. bilateral foreign assistance is the Agency for International Development (AID), which is an autonomous entity in the State Department. However, AID is not the only economic assistance agency in the U.S. government. Other agencies which operate in the Western Hemisphere (and, in most cases, worldwide) include the Inter-American Foundation, which has a relatively small program of grassroots development; the Overseas Private Investment Corporation, which is not strictly speaking an aid agency but rather provides insurance to U.S. investors against foreign political risk; the Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture, which provides commercial credit for agricultural exports; the Food for Peace program, which is operated jointly by the Department of Agriculture and AID, for concessional food sales to developing countries; and the Export-Import Bank, which provides commercial credits and guarantees to facilitate U.S. export sales.

Aggregate figures for the value of these disparate programs should be used with caution because there are substantial differences among them in loan terms and concessionality. However, the various programs are often lumped together in congressional authorizations and appropriations. It is worth emphasizing that a commercial loan is not comparable to a bilateral aid grant; a sale tied to U.S. commodities is not equivalent to untied aid under which the recipient can shop around for the best source to purchase needed imports; insurance to a private investor is different from an aid program to support a foreign country's educational program. Aggregating, however, in the last fiscal year, U.S. foreign assistance amounted to \$15 billion, including development assistance (16 percent), economic support funds (ESF 24 percent), food aid (10 percent), military aid (36 percent), multilateral assistance (10 percent), and other forms (4 percent).

The development assistance program is administered by AID, which is currently funding more than 2,000 projects in 90 countries. AID is also responsible for carrying out the ESF program, but the allocation of funds is the responsibility of the State Department. ESF

is allocated according to special economic, political, and security needs and is currently concentrated in the Middle East and Central America.

Much foreign assistance is provided through multilateral agencies to which the United States contributes. The main multilateral development banks operating in the Western Hemisphere are the World Bank and the Inter-American Development Bank (IDB). These financial institutions have many member countries, both developed and developing. Both the World Bank and the IDB have separate "windows" or facilities for providing aid on either concessional or commercial terms. Concessional loans are given only to the poorest countries. The regular (nonconcessional) window of the World Bank is the International Bank for Reconstruction and Development (IBRD); its concessional affiliate is the International Development Association (IDA). Funds for the U.S. contributions to the concessional affiliates of the multilateral development banks must be appropriated by the U.S. Congress. The sizes of the different country contributions are based on quotas calculated in relation to the economic importance of the country. Most funds for the commercial affiliates are obtained by borrowing by the institution in the capital markets of the world. When reloaned to borrowing countries, these funds must therefore carry a rate modestly above the borrowing rate so that the institutions can remain financially viable.

The funds disbursed under loans from the various institutions were the following in the most recent fiscal year: IBRD (1989), \$16.43 billion; IDA (1989), \$4.93 billion; IDB regular window (1989), \$2.2 billion; and IDB concessional window (1989) \$342 million.

Assistance must have a minimum grant equivalent to quality as official development assistance (or ODA, as concessional assistance is called). This concessional content is calculated by examining the future repayment value of present disbursements. The longer the repayment period of a loan, the greater the grace period during which repayments are delayed, and the lower the interest rate, the higher will be the concessional content. A grant by definition, has 100 percent concessional content. IDA loans mature in 35-40 years, have a 10-year grace period, and pay no interest but are levied a small annual charge on the disbursed balance. U.S. ODA in recent years has averaged between 20 and 25 percent (i.e., between one-fifth and one-fourth of 1 percent) of the U.S. gross national product.

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program in order for it to become politically viable and an effective instrument for global development. AID's own report, *Development and the National Interest*, specifically noted that "no one seems to be really sure of exactly what the program is supposed to do, much less how well it is doing it." It specifically recommended reshaping it to better reflect current global problems and realities.

The House Committee Task Force reached similar conclusions. It recommended that the United States should focus on those types of foreign assistance which it can provide most effectively and which respond to current development needs of recipient countries. It stressed the need for greater coordination of trade, debt, environmental and immigration policies with development policies. It also noted that the lack of a clear distinction between development assistance and ESF causes a "confusion of objectives and responsibilities and makes evaluation more difficult."

The Commission shares these observations and endorses the above recommendations, which were confirmed during the Commission's review of aid programs and policies in Central America and the Caribbean. The Commission also concurs with the thrust of the other recommendations contained in these two reports. The AID program must be streamlined by eliminating bureaucratic red tape, as well as redundant, unnecessary and conflicting objectives often imposed by Congress. A more effective targeted aid program which addresses the root causes of emigration would help promote public and political support for foreign assistance.

**AID should channel more funds through private voluntary organizations (PVOs) because of their understanding of local conditions, needs and demands.** PVOs are apt to stress long-term development and humanitarian concerns instead of short-term political goals established by Congress and the State Department. **There should be increased efforts to involve local organizations in the project preparation phase of development assistance.** These should include community and national civic organizations, free trade unions, chambers of commerce, democratic political parties, and human rights groups. **AID should direct assistance to recipient country migrant-sending areas with development potential in order to foster regional growth.** The U.S. executive directors of the World Bank and the Inter-American Development Bank should encourage their institutions to give special attention to these areas. **Finally, AID should be required to assess the potential migration impact of its development programs and later evaluate their actual migration consequences.**

Recognizing that economic development in migrant-sending countries is inherently in the national interest of the United States, the Commission urges that development assistance be used primarily for economic progress and alleviation of poverty. Development funds should be used for development; security and foreign policy

objectives should be advanced through existing military assistance and ESF programs. The Commission stresses that small increases in current levels of development assistance—or the allocation of more resources from existing aid levels to development assistance—to migrant-sending countries in Central America and the Caribbean could have significant beneficial impact on their migratory flows and thus beneficial consequences for the United States. In the case of Mexico, however, such assistance levels would be irrelevant, given the magnitude of the problem and Mexico's decision not to accept development assistance from abroad.

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## Development Strategies and Funds for Central America

The international community in recent years has examined the need for development approaches to migration problems. This is particularly important for Central America. According to the United Nations High Commissioner for Refugees (UNHCR), some two million people have been uprooted by armed conflict and political instability in the area. One third are displaced within their own countries. The remainder have crossed into neighboring countries, some becoming registered refugees, others merely undocumented workers. Up to one million additional people have emigrated from the region to the United States for political and economic reasons.

The plight of the refugees and displaced persons presents one of the most difficult challenges facing Central American governments and is one of the most volatile political problems related to the peace process. While the decade-old regional crisis has resulted in extreme poverty for millions, refugees and displaced persons are considered to be the most vulnerable group and the most directly affected by civil conflict. Likewise, the conditions they face are the most severe. They have left their homes, lands, jobs and families and do not have regular access to health care and social services. As such, they have been identified by the Central American governments and the international community as the priority group for receiving assistance.

Pursuit of a resolution of the Central American migration crisis gained momentum with the Esquipulas II Agreement in August 1987. In it, commonly known as the Arias Peace Plan, the governments of Central America committed themselves to "urgently attend to the movement of refugees and displaced persons which has been brought about by the regional crisis, through protection and assistance, particularly as regards health, education, employment and security, as well as facilitating repatriation, resettlement or relocation as long as it is voluntarily requested by the individual" (Article VIII). The Agreement also called upon the international community to provide assistance for refugees and displaced Central Americans through both multilateral and bilateral arrangements.

The growing consensus for development-oriented assistance to refugees and displaced persons arose concurrently with more general efforts to promote economic development in Central America. These activities culminated in UN General Assembly approval of a Special Plan of Economic Cooperation for Central America in May 1988. This plan was based on the request of Central American governments in Esquipulas II for extraordinary economic support from the international community. Its primary purpose was to link economic and social conditions in the region with peace efforts and the development process.

Four categories of assistance were identified in the plan: (1) emergency humanitarian assistance; (2) immediate action programs (alleviation of foreign exchange problems); (3) social development programs (alleviation of poverty); and (4) programs to restore economic growth (industry, agriculture, trade concessions, infrastructure).

Following adoption of the plan, an International Conference on Central American Refugees (CIREFCA) was convened by the United Nations in Guatemala City in May 1989. This conference, called by the governments of Central America and Mexico, highlighted the complex interrelationship between the peace process, development and uprooted people. It emphasized the need for a broader developmental framework for humanitarian assistance programs and for effectively implementing mechanisms at the international, regional and national levels. Regrettably, there has been little follow up on CIREFCA by the United States. The Commission believes the United States can and should play a major role.

**The use of a development approach in responding to refugee and related migration problems represents, in the Commission's view, a welcome and needed change in focus.**

*the development approach is intended to address both the underlying social and economic conditions which have generated refugees and displaced persons in this troubled region and the consequences of this migration.*

First, development programs directly address the economic impact of migratory movements, both in the country of origin and the country of asylum. Secondly, the development approach transforms issues traditionally framed as purely humanitarian concerns into those encompassing economic priorities as well. It also allows the international community to share the burden borne by asylum countries. Finally, the development approach is intended to address both the underlying social and economic conditions which have generated refugees and displaced persons in this troubled region and the consequences of this migration. When emergency humanitarian assistance is transformed into long-term care and maintenance in asylum countries, it becomes extremely costly in both human and economic terms.

For a development approach to succeed, it is essential to promote greater cooperation on the part of the United States and other donor governments. Efforts aimed at integrating the goals of development

with the legal and physical protection of refugees and displaced persons must be pursued. CIREFCA is an important part of this integrated effort because it not only links economic development with efforts to promote peace and stability but also attempts to address the root causes of population displacements.

History has demonstrated that a massive infusion of aid without political stability in the receiving countries will not work (over \$5 billion in foreign assistance has been provided to Central America since 1984). It is thus clear that efforts to address the humanitarian plight of refugees and displaced persons will not be effective unless the peace process moves forward. While additional funds are urgently needed, the provision of funds should take into account a country's absorptive capacity. U.S. bilateral assistance in the region is suspect because it is so closely identified with military and security objectives. In fact, many local institutions, (including several PVOs) refuse to accept direct U.S. aid. Despite CIREFCA, there has been little effort to reshape existing AID programs to respond to the humanitarian needs of refugees and displaced persons. The U.S. position during the CIREFCA conference was that existing levels of bilateral assistance were adequate, but that AID funds would be directed toward migration problems.

**As a result, the Commission believes that the United States should support the CIREFCA process and should channel more funds through U.N. agencies, such as UNHCR and UNDP, and through other relevant international organizations. The United States should also urge the U.N. Secretary General to create mediating mechanisms to promote more effective working relationships between donor and recipient governments and local organizations.**

The United States and the international community should work closely with the new government in Nicaragua to encourage the return from third countries of professionals, managers, technicians and skilled persons who can contribute to economic recovery and government organization and administration. The International Organization for Migration (IOM) should play a key role in the identification, repatriation and reintegration of people who will be essential in the reconstruction and economic development of Nicaragua.

During the 1980s the UNHCR became more active in promoting voluntary repatriation by serving as a channel of communication between sending and receiving countries and by becoming more involved in the planning and implementation of repatriation programs.

**The United States should devote more attention and resources to voluntary repatriation and reintegration efforts in Central America, particularly in the areas of counseling and the establishment of appropriate mechanisms to monitor the well-being and safety of returnees.**