

U.S. ECONOMIC ASSISTANCE TO LESS-DEVELOPED COUNTRIES:

THE ROLES OF BILATERAL AND MULTILATERAL AID

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PREFACE

As the Congress seeks to restrain the growth of federal expenditures, foreign assistance has become the subject of careful scrutiny, for it is an important discretionary component of the federal budget. At the same time, the new Administration is proposing shifts in the relative balance between multilateral and bilateral aid. Congressional decisions on the amount and type of assistance have great significance to the less-developed countries, since the United States remains the largest provider of foreign assistance.

This paper, prepared at the request of the Subcommittee on International Development Institutions and Finance of the House Committee on Banking, Finance, and Urban Affairs, updates information provided in an earlier CBO report published in September 1980, Assisting the Developing Countries: Foreign Aid and Trade Policies of the United States. In keeping with CBO's mandate to provide objective and nonpartisan analysis, it offers no recommendations.

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INTRODUCTION

The United States provides economic assistance to less-developed countries on both a bilateral and a multilateral basis. The Reagan Administration has proposed reducing budget authority for multilateral aid relative to bilateral aid in the near term. For this reason, and because of public statements by its representatives, the Administration is perceived as planning to rely more heavily on bilateral than on multilateral channels for distributing U.S. assistance in the future. With bilateral aid, the United States retains control over the distribution of funds and the purposes for which they will be used; in providing multilateral aid, the United States relinquishes direct control over their disbursement.

This report provides information that may be helpful in the debate over the future balance between bilateral and multilateral aid. 1/ It begins with a brief review of U.S. trade with less-developed countries--one indication of their economic importance to the United States. It then describes the channels through which U.S. aid flows to the less-developed countries. Next, the Administration's budget requests are reviewed. The report concludes with a discussion of the differences and similarities between bilateral and multilateral aid, and their effects on the U.S. balance of payments.

U.S. TRADE WITH LESS-DEVELOPED COUNTRIES

Between 1970 and 1979, U.S. trade with less-developed countries (LDCs) grew considerably faster than trade with developed countries. This was true of trade with LDCs that belong to the Organization of Petroleum-Exporting Countries (OPEC) as well as of trade with those that do not. U.S. exports to the non-OPEC LDCs increased 361 percent, in contrast with a 261 percent increase in exports to the developed countries; U.S. imports from the non-OPEC LDCs increased 474 percent between 1970 and 1979, as compared with a 282 percent increase in imports from the developed countries. 2/ By 1979, non-OPEC LDCs accounted for 26 percent of all

1/ It updates information provided in a CBO report published in September 1980, Assisting the Developing Countries: Foreign Aid and Trade Policies of the United States.

2/ Calculations based on current dollars.

U.S. exports and for 24 percent of U.S. imports. 3/ At the same time, the United States moved from a positive to a negative trade balance with this group in the 1970s, a large source of the shift being trade with three Asian partners: Taiwan, Hong Kong, and Malaysia.

The striking growth of trade between the United States and its leading LDC trading partners is shown in Table 1. All except Hong Kong and Singapore have been recipients of major amounts of bilateral or multilateral assistance.

ECONOMIC AID CHANNELS

The United States provides both economic and military assistance under Budget Function 150 (International Affairs). This report focuses on economic aid. 4/ Economic assistance far exceeds military aid, but the military share is increasing. For fiscal year 1981, the new Administration has requested \$7.1 billion in budget authority for economic and military assistance, of which 6 percent is for military aid. The March budget proposes \$9.1 billion for fiscal year 1982, of which 15 percent is for military assistance; \$9.9 billion for fiscal year 1983, of which 14 percent is for military assistance; and \$8.7 billion for fiscal year 1984, of which 16 percent is for military assistance. 5/

3/ U.S. trading partners in this study have been grouped into OPEC LDCs, non-OPEC LDCs, developed countries, and Communist countries. U.S. trade with the non-OPEC LDCs is dominated by five partners that account for half of total U.S. merchandise trade with non-OPEC LDCs: Taiwan, Hong Kong, Mexico, South Korea, and Brazil. The latter three are currently major recipients of multilateral aid but not of U.S. bilateral assistance (see Table 5).

4/ Also included in Function 150 but excluded from discussion in this report are migration and refugee assistance, contributions to international organizations, expenses for the administration of foreign affairs, foreign information and exchange activities, and the operation of the Export-Import Bank.

5/ Office of Management and Budget, Fiscal Year 1982 Budget Revisions. Military assistance programs include grant military assistance, foreign military training, and foreign military sales credits.

TABLE 1. U.S. TRADE WITH LEADING NON-OPEC LDCs, 1970-1979 (In millions of current dollars)

	Imports			Exports			Balance of Trade		
	1970	1977	1979	1970	1977	1979	1970	1977	1979
Brazil	669	2,253	3,119	841	2,482	3,407	171	229	288
Mexico	1,222	4,689	8,813	1,704	4,806	9,667	481	117	854
South Korea	370	2,923	4,407	637	2,371	4,170	266	-552	123
Hong Kong	945	2,905	4,006	406	1,291	2,003	-539	-1,613	-2,003
Taiwan	549	3,686	5,901	527	1,798	3,240	-22	-1,888	-2,661
India	298	784	1,038	573	779	1,160	275	-5	122
Singapore	81	882	1,467	240	1,172	2,320	159	289	853
Malaysia	270	1,326	2,146	67	561	930	-204	-766	-1,216
Philippines	476	1,073	1,489	373	876	1,562	-103	-198	73
Egypt	23	170	381	81	982	1,432	58	812	1,051
Colombia	269	825	1,209	395	782	1,388	126	-43	179
All Non-OPEC LDCs	8,613	33,759	49,470	9,950	27,724	45,850	1,337	-6,035	-3,620
U.S. Trade with All Countries	39,963	147,848	206,327	43,226	120,163	178,578	3,263	-26,324	-27,749

SOURCES: Central Intelligence Agency, National Foreign Assessment Center, The Role of LDCs in the U.S. Balance of Payments (September 1978), Tables 2, 3, 4; U.S. Department of Commerce, U.S. Exports: World Area by Schedule E Commodity Groupings, FT 455/Annual 1979 (July 1980), Table 3; U.S. Department of Commerce, U.S. General Imports: World Area by Commodity Groupings, FT 155/Annual 1979 (July 1980), Table 3.

Multilateral Channels

Multilateral economic assistance is provided through the multilateral development banks (MDBs), in which the United States is a major participant. 6/ These were formed by international agreement to operate as financial intermediaries to facilitate the economic growth of the LDCs. 7/ The MDBs lend to the LDCs at concessional rates for development purposes. The majority of MDB funding flows through the World Bank Group, which committed \$12.4 billion in fiscal year 1980—77 percent of all MDB programs in that year. Of this, \$3.5 billion was channeled through the International Development Association (IDA), the "soft loan" window, which provides interest-free loans to the poorest countries. Another \$8.2 billion was channeled through the International Bank for Reconstruction and Development (IBRD), the "hard loan" window, which provides loans to the middle-income developing countries at rates that reflect the cost of borrowing by the IBRD in financial markets: 7.9 to 8.25 percent in fiscal year 1980. The balance of \$0.7 billion was channeled through the International Finance Corporation. 8/

6/ The United States also contributes to international organizations (such as the United Nations) that provide multilateral economic assistance. The amounts under Budget Function 150 are for both voluntary and assessed U.S. contributions to those organizations, and total an estimated \$722 million in budget authority in fiscal year 1981. This report focuses on the multilateral aid provided through the MDBs.

7/ The multilateral development banks are: the World Bank Group's International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and International Finance Corporation (IFC); the Inter-American Development Bank (IDB); the Asian Development Bank (ADB); and the African Development Bank (AfDB). Authorizing legislation has been introduced which would allow the United States to subscribe to, and therefore become a member of, the AfDB; currently the United States subscribes to the African Development Fund (AfDF), the concessional lending affiliate of the AfDB.

8/ Information provided to CBO by the Agency for International Development, March 1981. All donor contributions to the IDA are paid in full so that loans from this institution can

Bilateral Channels

The bilateral economic assistance of the United States flows primarily through three channels: 9/

- o Development Assistance, administered by the Agency for International Development (AID), which provides grants and loans at concessional terms for functional development, with emphasis on agricultural and population programs. Its funds have been targeted on South Asia and Latin America. Leading recipients in the 1960s were India and Pakistan, along with Brazil. In the 1970s, major recipients were a group of Asian countries: Pakistan, India, Bangladesh, Indonesia, and the Philippines.
- o The Economic Support Fund (ESF), also administered by AID, which provides grants and loans at concessional terms (to support developmental programs where feasible) 10/ to countries in which the United States has special security interests. In practice, a large share of these funds are used for balance-of-payments support. From the mid-1960s until the early 1970s, ESF was focused on East Asia--primarily South Vietnam, which regularly received two-thirds of ESF commitments. The major share of ESF now goes to the Middle Eastern countries of Egypt, Israel, and Jordan. They received 79 percent of ESF funds in 1980, as compared with only 1 percent in 1971.
- o The Food Aid Program (P.L. 480), administered by the U.S. Department of Agriculture and AID, which finances U.S. food exports through grants and loans at concessional rates. India has been a leading recipient of food aid,

be made for a service charge only. Donor contributions to the IBRD are only partly paid-in (7.5 percent), with the balance remaining as pledges of callable capital to back funds raised in the private markets.

9/ The United States also provides bilateral economic assistance through the Peace Corps and the International Narcotics Control Program. These programs are not detailed in this report.

10/ Funds may not be used for military purposes.

together with Pakistan in the early 1960s and Bangladesh in the early 1970s. South Vietnam took a large share of P.L. 480 funds in the period 1968-1974. In 1980, the three leading recipients of food aid were Egypt, India, and Indonesia, accounting for 35 percent of total funding.

U.S. bilateral aid has economic development as its fundamental objective, but it also supports U.S. political, defense, and commercial interests. The Congressional Budget Office has analyzed the bilateral aid funding now proposed for 1982 according to these four purposes, using the budget backup materials produced by the Agency for International Development; these calculations therefore reflect the AID criteria. 11/ The calculations refer only to the \$4.7 billion of program commitments of bilateral aid (development assistance, food aid, Economic Support Fund, Peace Corps, and International Narcotics Control) proposed for specific countries and regions, and omit interregional and centrally funded activities. 12/ Because funding can serve several purposes at once, these estimates add to more than \$4.7 billion:

- o \$3.7 billion would support developmental goals.
- o \$3.5 billion would support U.S. political interests.
- o \$1.6 billion would support U.S. defense interests.
- o \$0.8 billion would support U.S. commercial interests.

This categorization suggests that most bilateral assistance tends to reflect U.S. political interests. The funds are, however, mainly used for developmental purposes. The Reagan Administration plans to sharpen further the responsiveness of foreign aid to U.S. political and defense interests. This is signaled in the March revisions to the budget request for fiscal

11/ The materials were prepared as part of the January budget: Agency for International Development, Congressional Presentation, Fiscal Year 1982 (January 1981), Annexes I-IV. Details of the CBO methodology are presented in the appendix to this report.

12/ Agency for International Development, Congressional Presentation, Fiscal Year 1982, Amended Version (March 1981), p. 465.

year 1982, which cut the level of bilateral aid from that in the January (Carter) budget in every category except aid supporting defense interests, which remained constant. More extensive shifts may be made in the 1983 budget.

The following section discusses the March foreign aid budget in more detail.

FOREIGN AID BUDGET REQUESTS

In the January budget, 76 percent of U.S. economic aid is provided through bilateral channels during 1981-1984. The March budget proposes that this share be generally increased during the period, as shown in Table 2.

Bilateral Aid

Development Assistance. Continuing Resolutions have held budget authority for development assistance ^{13/} through the Agency for International Development at \$1.6 billion and \$1.7 billion in fiscal years 1980 and 1981, respectively. The January budget proposed a major increase to \$2.4 billion in fiscal year 1982, but the March budget sharply reduced the increase, though leaving some increase in most functional areas (the exceptions being health, and science and technology). Even after the March revisions, almost all regions show an increase in funding, but the proposed major emphasis on Africa has been reduced to a more modest increase (29 percent instead of 87 percent). Under the March revisions, budget authority for development assistance would be held constant through 1984 at the fiscal year 1982 level of \$1.9 billion, implying a decrease in real terms.

Food Aid. The March budget proposes a \$100 million cut from the January budget authority level, reducing food aid to \$1.2 billion in 1982. The March budget also reduced the 1981 request level from \$1.3 billion to \$1.2 billion. The program

^{13/} Budget authority for development assistance includes Functional Development Assistance programs, the Sahel Development Program, American Schools and Hospitals Abroad, International Disaster Assistance, Foreign Currency, Operating Expenses, and the Foreign Service Retirement Fund.

TABLE 2. COMPARISON OF BILATERAL AND MULTILATERAL AID, JANUARY BUDGET AND MARCH REVISIONS (Millions of dollars)

Budget Authority	January Budget					March Revisions					Percent Change
	1981	1982	1983	1984	Total 1981-1984	1981	1982	1983	1984	Total 1981-1984	
Bilateral Aid											
Development											
assistance a/	1,715	2,389	2,682	3,014	9,800	1,712	1,918	1,918	1,918	7,466	-23.8
ESF	2,128	2,432	2,396	2,361	9,317	2,128	2,582	2,605	2,630	9,945	6.7
P.L. 480	1,305	1,263	1,273	1,435	5,276	1,229	1,163	1,163	1,163	4,718	-10.6
Total	5,148	6,084	6,351	6,810	24,393	5,069	5,663	5,686	5,711	22,129	-9.3
Multilateral Aid	1,584	2,414	1,515	2,057	7,570	1,044	1,478	2,398	1,199	6,119	-19.2
Total Aid	6,732	8,498	7,866	8,867	31,963	6,113	7,141	8,084	6,910	28,248	-11.6
Percentage											
Multilateral	23.5	28.4	19.3	23.2	23.7	17.1	20.7	29.7	17.4	21.7	

SOURCE: Office of Management and Budget.

a/ Includes Functional Development Assistance programs, the Sahel Development Program, American Schools and Hospitals Abroad, International Disaster Assistance, Foreign Currency, Operating Expenses, and the Foreign Service Retirement Fund.

would be held at \$1.2 billion in 1981-1985, again a cut in real terms. 14/

Economic Support Fund. For the ESF, the March budget proposes an increase of \$150 million over the January proposal to a new total of \$2.6 billion for 1982; the increase is for the Special Requirements Fund. 15/ The 1981 budget authority level for ESF was \$2.1 billion. For fiscal years 1983 and 1984, ESF is held constant at the 1982 level of \$2.6 billion.

Multilateral Aid

The March budget proposal would continue existing U.S. commitments to the multilateral development banks, but would stretch out the payments. As existing commitments are fulfilled, the March revisions eliminate funds for all new replenishments except for IDA, in which a reduced replenishment is included beginning in fiscal year 1984. This means that the March revisions contain no replenishments for the African Development Fund (AfDF), Asian Development Bank (ADB), or Inter-American Development Bank (IDB) after the current replenishments expire in 1983 and 1984. 16/ Table 3 shows that these two budget revisions would reduce outlays by \$9 million in fiscal year 1981, \$135 million in 1982, \$149 million in 1983, and \$132 million in 1984. The Administration contends that future policy toward the multilateral development banks has not been set, and therefore the budget

14/ Food aid program commitments are larger than budget authority by an average of \$0.5 billion per year (1981-1985) from repayments of past loans.

15/ A Special Requirements Fund totaling \$250 million is requested to enable rapid response to unforeseen events, such as sudden political change, short-term balance-of-payments crises, or natural disasters. The Congress would be informed of the nature of the requirements and their funding levels in accordance with provisions of the Foreign Assistance Act and appropriations legislation. Agency for International Development, Congressional Presentation, Fiscal Year 1982, Amended Version (March 1981), pp. 101-102.

16/ Budget Authority for the AfDF, ADB, and IDB in 1983 and 1984 covers arrearages from prior replenishments.

TABLE 3. PAYMENTS TO MULTILATERAL DEVELOPMENT BANKS IN THE 1982 BUDGET (JANUARY WITH MARCH REVISIONS), FISCAL YEARS 1981-1984 (In millions of dollars)

	1981			1982			1983			1984		
	January	March	Difference (January minus March)	January	March	Difference (January minus March)	January	March	Difference (January minus March)	January	March	Difference (January minus March)
<u>IBRD</u>												
BA	33	33	--	712	163	549	--	110	-110	--	110	-110
O	63	63	--	140	85	55	110	37	73	110	37	73
<u>IDA</u>												
BA	1,100	560	540	1,080	850	230	1,080	1,850	-700	1,600	1,000	600
O	466	457	9	617	542	75	781	729	52	942	947	-5
<u>IFC</u>												
BA	--	--	--	14	14	--	--	--	--	--	--	--
O	11	11	--	14	14	--	--	--	--	--	--	--
<u>IDB</u>												
BA	252	252	--	359	244	115	227	263	-37	243	39	204
O	249	249	--	240	237	3	252	243	8	254	236	18
<u>ADB</u>												
BA	140	140	--	173	130	42	139	125	13	209	14	195
O	57	57	--	67	65	2	119	106	14	145	105	39
<u>AfDB</u>												
BA	18	18	--	18	18	--	18	18	--	18	18	--
O	18	18	--	18	18	--	18	18	--	18	18	--
<u>AfDF</u>												
BA	42	42	--	58	58	--	68	--	68	68	--	68
O	5	5	--	8	8	--	17	16	1	30	23	7
<u>Totals</u>												
BA	1,584	1,044	540	2,414	1,478	936	1,531	2,366	-835	2,138	1,181	957
O	869	860	9	1,104	970	135	1,297	1,148	149	1,498	1,366	132

NOTE: The multilateral development banks are: the World Bank Group's International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and International Finance Corporation (IFC); the Inter-American Development Bank (IDB); the Asian Development Bank (ADB); the African Development Bank (AfDB); and the African Development Fund (AfDF), the concessional lending affiliate of the AfDB.

BA = Budget Authority; O = Outlays

totals should not be interpreted as a change in U.S. support for the MDBs. 17/

The March revisions affect scheduled contributions to the World Bank Group. This budget would reschedule the sixth International Development Association replenishment with payments of half of the negotiated replenishment (\$540 million) in fiscal year 1981, three-quarters (\$850 million) in 1982, and a balloon payment of \$1.85 billion in 1983. 18/ The General Capital Increase (GCI) of the World Bank (IBRD), instead of being paid in one lump sum of \$658 million in fiscal year 1981 as requested in the January budget, would be stretched out over six years. This would temporarily reduce the U.S. share of voting power in the World Bank below the 20 percent mark required to maintain a veto over changes in the Bank's charter, effective in September or October of this year when GCI payments begin to be made by other countries. 19/

Budget Committee Decisions

The first concurrent budget resolution for fiscal year 1982 as adopted by the House Budget Committee proposed that total

17/ An interagency review, under Treasury leadership, of U.S. participation in the MDBs is currently underway, scheduled for completion in the fall.

18/ Negotiations for the sixth replenishment of \$12 billion for IDA were completed in December 1979, and the replenishment schedule was due to begin in July 1980, but the Congress failed to act on legislation authorizing U.S. participation, which was necessary to trigger IDA VI. To avoid having IDA run out of funds, other donors made advance payments of \$1.7 billion in a bridging arrangement, but these funds were exhausted in March 1980 and IDA has effectively ceased lending. When the United States contributes, future contributions will be triggered from other donors and lending can continue.

19/ Assuming, as anticipated, that other countries subscribe their planned shares. Charter changes could affect items such as membership on the board, location of the Bank, and financing arrangements. At the end of the GCI period (1982-1987), the U.S. share would again be above 20 percent assuming full Congressional authorization to subscribe the \$8.8 billion worth of shares.

budget authority for Function 150 be \$17.25 billion in 1982, \$100 million less than the total proposed by the President (as reestimated by CBO using the House Budget Committee's economic assumptions). The Senate Budget Committee adopted a first concurrent resolution level for Function 150 of \$16.8 billion for 1982, which is \$0.6 billion less than the total proposed by the President (as reestimated by CBO using the Senate Budget Committee's economic assumptions).

MULTILATERAL VERSUS BILATERAL ASSISTANCE

The Administration's proposal to stretch out multilateral aid, and its public statements on the changing use of bilateral aid, have led some to conclude that the former will play a smaller role in future U.S. assistance programs. The remainder of this report discusses the implications of such a shift. Are multilateral and bilateral aid flows similar in purpose? Is their regional and sectoral distribution similar? If not, what would be the consequences of giving aid through bilateral rather than multilateral channels?

Project Differences

Both the multilateral development banks and the U.S. Agency for International Development shifted the economic focus of their programs in the early 1970s to emphasize the poorer people of the developing countries as key beneficiaries. As part of this shift, AID funding is being used increasingly for teaching and technical assistance, with the assumption that the more capital-intensive projects will be undertaken by the MDBs. The MDBs now make specific efforts to extend benefits directly to the poor, rather than assuming a "trickle-down" effect from economic development. The fact that both flows now seek to reach poorer people suggests an increasing complementarity of purpose; the extent to which these flows of aid actually complement one another in a specific undertaking will depend on the project.

The MDBs finance larger, and therefore somewhat different, projects than AID. Of 88 agricultural projects supported by the World Bank or IDA in fiscal year 1978, for example, eight represented commitments of \$100 million or more. ^{20/} In contrast, no

^{20/} World Bank, 1979 Annual Report, p. 9.

country received as much as \$100 million in development assistance from AID in that year. The size of MDB funding also provides an opportunity for advising on project selection and on macroeconomic strategies.

The smaller AID operations enable the United States to introduce experimental programs and technical innovations that the MDBs may hesitate to undertake. In some instances, AID funds act as "seed money," financing the first step in a major program that will later be assumed by the host government or an MDB, 21/ and there have been projects involving joint funding. Viewed from this perspective, AID and MDB funding may be different but complementary.

Regional Differences

Regionally, MDB and bilateral aid show marked differences (see Table 4). These differences reflect the strong interest of the United States in Asia and the Middle East, stemming from security interests and traditional ties.

Table 5 compares the 15 countries that received over 2 percent of the MDB funds in 1980 and the eight countries to which the Administration proposes to commit over 2 percent of bilateral aid in 1982. In all cases but two (Sudan and Israel), those countries slated to receive a major amount of U.S. bilateral aid are also those that have received a major share of MDB funds. 22/ On the other hand, nine countries received significant amounts of MDB funding but little or no U.S. bilateral aid. These nine countries are primarily middle-income developing

21/ For example, the Basic Village Education Project in Guatemala was an experimental program of nonformal instruction in agricultural practices for subsistence farmers that did not require literacy for participation. After being run by AID for nearly three years, the program was picked up by the Guatemalan government and copied in Bolivia. The AID funding from inception to completion was \$1.7 million.

22/ Categorizing the U.S. bilateral aid flows to the eight countries, six would receive funds for developmental purposes, five for political support, two for commercial reasons, and two for defense interests.

TABLE 4. REGIONAL DISTRIBUTION OF MDB FUNDS IN 1976-1980, AND PROPOSED DISTRIBUTION OF U.S. BILATERAL AID IN 1982 (In percentages)

	MDB Funding a/					U.S. Bilateral
	1976	1977	1978	1979	1980	Aid b/ 1982
Near East and						
South Asia	25	23	25	23	22	61
Latin America	30	33	34	34	35	12
Africa	15	16	13	16	15	20
East Asia	24	20	21	21	23	6
Europe	6	7	6	5	5	1
Total c/	100	100	100	100	100	100
Total Funding (Billions of dollars)	9.2	9.8	12.3	13.4	16.2	4.7

SOURCES: MDBs: Information provided to CBO by AID, April 1981.
Bilateral aid: Agency for International Development,
Congressional Presentation, Fiscal Year 1982, Amended
Version (March 1981), pp. 465-70.

a/ The transitional quarter between 1976 and 1977 has been omitted.

b/ These calculations refer to program commitments of bilateral aid (development assistance, food aid, Economic Support Fund, Peace Corps, International Narcotics Control) proposed for specific countries and omit interregional and centrally funded programs.

c/ Detail may not add to totals because of rounding.

TABLE 5. PROPOSED MAJOR RECIPIENTS OF U.S. BILATERAL AID IN FISCAL YEAR 1982 COMPARED WITH MAJOR RECIPIENTS OF MDB AID IN FISCAL YEAR 1980 (In millions of dollars)

Proposed Bilateral Aid Fiscal Year 1982		Multilateral Aid Fiscal Year 1980	
Egypt	1,087	India	1,449
Israel	785	Mexico	1,297
Turkey	301	Brazil	1,224
India	258	Indonesia	1,035
Bangladesh	193	Philippines	913
Philippines	108	Thailand	720
Sudan	105	Colombia	719
Indonesia	105	Korea, Republic of	651
		Argentina	482
		Turkey	466
		Egypt	454
		Bangladesh	425
		Yugoslavia	348
		Pakistan	342
		Romania	325

SOURCES: MDBs: Information provided to CBO by AID, April 1981.
Bilateral aid: Agency for International Development,
Congressional Presentation, Fiscal Year 1982, Amended
Version (March 1981), pp. 467, 469.

NOTE: A major recipient is defined as one receiving over 2 percent of total bilateral or multilateral funds.

countries; U.S. bilateral aid funds concentrate on the low-income developing countries. These nine countries include major U.S. trading partners. 23/

23/ The nine countries (Mexico, Brazil, Thailand, Colombia, Republic of Korea, Argentina, Yugoslavia, Pakistan, and Romania) accounted for 13 percent of U.S. exports and 9 percent of U.S. imports in 1979. The 15 major MDB recipients accounted for a total of 16 percent of U.S. exports and 13 percent of U.S. imports.

Sectoral Differences

U.S. bilateral development assistance is aimed specifically at helping the poorer people in recipient countries. Agricultural programs of low capital intensity have received special attention, as has population planning. In fiscal year 1980, these two sectors absorbed 70 percent of AID functional development assistance; the Administration proposes that they receive the same proportion in 1982.

Although a large and increasing proportion of MDB funding goes to agriculture, little is directed specifically to population planning (see Table 6). The MDBs, however, channeled around one-third of their funds into energy and industry, including a new area of lending--development of oil, gas, and coal resources. The Congress has directed that this sectoral pattern of MDB aid be taken into account in the development assistance plans of the United States. 24/

Bilateral and Multilateral Assistance Compared

The bilateral and multilateral aid flows share a common goal of economic development in the LDCs, with the objective of reaching the poor majority. Although a substantial share of multilateral funding goes to countries that the United States is aiding directly, the two types of assistance differ in their regional distribution. They also differ somewhat in their project focus and project size, but may nonetheless complement each other, depending on the nature of the individual projects, and the degree to which AID has responded to the Congressional mandate requiring coordination of bilateral aid plans with multilateral efforts.

24/ "United States bilateral development assistance should be concentrated on projects which do not involve large-scale capital transfers. However, to the extent that such assistance does involve large-scale capital transfers, it should be furnished in association with contributions from other countries working together in a multilateral framework." Legislation on Foreign Relations Through 1978, Senate Committee on Foreign Relations and House Committee on Foreign Affairs, Joint Committee Print (February 1979), Volume I, Part I, Chapter 1, Section 102, p. 5.

TABLE 6. LENDING BY SECTOR, FISCAL YEAR 1980 (In percentages)

	U.S. Functional Development Assistance	World Bank	IDA	AfDB	AfDF	ADB	IDB
Agriculture and Rural Development	54	22	46	10	46	33	27
Population, Health, and Nutrition	27	<u>a/</u>	2	3 <u>b/</u>	10 <u>b/</u>	1	--
Development Finance	--	10	2	--	--	9	--
Education and Human Resources	8	5	2	--	--	5	15 <u>c/</u>
Energy and Power	10 <u>d/</u>	<u>25</u>	24	--	--	27	22
Industry and Tourism	--	5	1	38 <u>e/</u>	7 <u>e/</u>	<u>a/</u>	11
Transportation and Communication	--	17	8	24	26	16	21
Water Supply, Sewage	--	6	5	25 <u>f/</u>	11 <u>f/</u>	7	--
Other	<u>--</u>	<u>10</u>	<u>10</u>	<u>--</u>	<u>--</u>	<u>3</u>	<u>5 g/</u>
Total	100	100	100	100	100	100	100
Total Funding (Billions of dollars)	1.2	7.6	3.8	0.3	0.3	1.4	2.3

SOURCE: Agency for International Development, Congressional Presentation, Fiscal Year 1982, Amended Version (March 1981), p. 5; and information provided to CBO by the U.S. Department of the Treasury. The coverage of each MDB fiscal year may vary.

NOTE: Detail may not add to totals because of rounding.

a/ Less than 1 percent.

b/ Health and education.

c/ Environmental and public health projects, urban development, education, science, and technology.

d/ Energy and other development activities.

e/ Industry and development finance.

f/ Water, sewage, power, and telecommunications.

g/ Reimbursable technical cooperation and lines of credit for export financing.

EFFECTS OF MULTILATERAL AND BILATERAL ASSISTANCE ON THE U.S.
BALANCE OF PAYMENTS

An aspect of multilateral assistance that has been of interest to the Congress is its effect on the U.S. balance of payments. Calculations of the net impact of the MDBs on the U.S. balance of payments suggest that at least as much funding returns to the United States as was originally subscribed. 25/ In recent years, the value of purchases for MDB-financed projects from the United States has approximately equaled U.S. subscriptions: LDC purchases of goods and services from the United States related to MDB loans averaged \$780 million over fiscal years 1978-1980, which is slightly greater than the average U.S. paid-in subscriptions to the MDBs of approximately \$775 million. 26/

Similarly, one argument advanced in favor of bilateral aid programs is that they strengthen U.S. export markets. A large proportion of the funds provided to the developing countries in loans and grants is spent in the United States. These expenditures benefit U.S. producers. 27/

Funds channeled through development assistance and the Economic Support Fund averaged \$2 billion annually in fiscal

25/ "On a cumulative basis since the establishment of the banks, the United States has supplied approximately 25 percent of all goods and services procured internationally under the terms of their lending, an aggregate total of more than \$9 billion in development contracts. This figure compares with a total of nearly \$7 billion in paid-in contributions. . . ." Statement of Hon. G. William Miller, Secretary of the Treasury, in Foreign Assistance and Related Programs, Appropriations for 1981, Hearings before the Subcommittee on Foreign Operations, House Committee on Appropriations, 96:2 (March 1980), p. 153. It should be noted, however, that these calculations did not include the return on alternative investment opportunities.

26/ Information provided to CBO by the U.S. Department of the Treasury, May 1981.

27/ This does not mean that the net cost of the aid is reduced; instead of providing funds, the United States is providing goods and services.

years 1971 to 1977. Approximately three-quarters of these funds were used for the procurement of U.S. commodities and services, with a slight decrease in recent years (in part attributable to the shift toward programs emphasizing basic human needs, which require more local currency operations). 28/ The purchase of commodities accounted for around half of AID procurement. Foodstuffs and machinery accounted for the largest amounts of money (a total of \$800 million).

To what extent do these sums represent net export gains for the United States? Or, expressed another way, to what extent does U.S. bilateral foreign assistance merely finance exports that would have occurred in any event? Answering this question requires knowing what exports would have amounted to in the absence of the foreign assistance program (with its "tying" provision requiring the funds to be spent in the United States or a limited number of other countries). Up-to-date estimates are not available, but earlier work on this issue indicated that more than 90 percent of U.S. development loan monies returned in the form of additional exports. 29/ When U.S. aid funds are spent instead in a third country, there is still, depending on the economy of that country, some positive impact on U.S. exports; estimates of it range from 8 to 30 percent of the initial loss of the untied aid funds. 30/

The export gains to the United States from aid flows, however, do not reduce the net cost of the aid. Instead of providing only funds, the United States is providing goods and services. Nonetheless, many observers have found these export estimates an important factor in assessing aid programs.

28/ Agency for International Development, "The U.S. Balance of Payments and AID Program" (June 1979; processed).

29/ That is, exports that would not have occurred in the absence of the loan program and its tied provisions. Richard V.L. Cooper, The Additionality Factor in Tied U.S. Development Assistance, R-974-AID (Rand Corporation, 1972).

30/ David S.C. Chu and Robert Shishko, The Respending Effects of Untying Aid, R-975-AID (Rand Corporation, 1972).

CONCLUSIONS

The Administration proposes increasing the bilateral share of U.S. economic assistance to the LDCs, placing less emphasis on multilateral channels. It also proposes to shift emphasis among the three primary bilateral channels. Over the period 1982-1985, development assistance and food aid would be reduced in real terms, while the Economic Support Fund would be increased modestly. This would reduce the funds the United States now provides for pursuing the goals expressed in the New Directions legislation of 1973—namely, the promotion of equitable self-sustaining growth in the developing countries. While the aid flows would generally continue to be used to support development programs, the focus would be on supporting U.S. foreign and domestic policy.

In deciding whether a greater reliance on bilateral aid is appropriate, the Congress may wish to consider:

The Degree of Direct Control It Wishes to Maintain Over Aid Decisions. With bilateral aid, the United States controls directly the distribution of funds and the purposes for which they will be used. While the United States has played a strong leadership role in MDB decisions, reflecting its relatively large contributions, the choices are ultimately those of an international institution.

The "Multiplier" Effects of Changes in U.S. Multilateral Donations. The multilateral institutions provide a total flow that far exceeds U.S. bilateral aid. While the effect of a sharp reduction in U.S. support cannot be predicted, it could lead other participants to limit their contributions as well, thereby reducing the flow of concessional funds available to the LDCs.

Possible Complementarities Between Bilateral and Multilateral Assistance. The MDBs and the U.S. bilateral programs differ in the types of activities supported and the countries in which they operate, but some of these differences may be complementary. Both attempt to focus on the poorer peoples of the developing world.

Ultimately, the balance to be struck between multilateral and bilateral aid involves weighing cooperative funding for development strategies through the MDBs against direct funding in support of specific U.S. policy interests. In formulating a balance, the Congress will be deciding the mix of policy instruments that best supports the goals of the United States.

APPENDIX

APPENDIX. ASSESSING THE ROLE OF U.S. BILATERAL ECONOMIC ASSISTANCE

U.S. bilateral economic aid programs (development assistance, food aid, Economic Support Fund, International Narcotics Control, and Peace Corps) can be broadly categorized as serving one (or more) of four purposes:

- o To protect U.S. commercial interests;
- o To support U.S. political interests;
- o To assist U.S. defense interests; or
- o To provide development assistance and humanitarian aid to the developing regions.

This appendix reports CBO's estimates of the amount of aid supporting each purpose in fiscal year 1982.

METHODOLOGY

The budget backup materials provided to the Congress by the Agency for International Development in January 1981 included detailed discussions of the U.S. bilateral aid programs, together with a statement on "U.S. Strategy and Interests" with respect to each recipient country. ^{1/} Using mainly these statements for guidance, the total bilateral aid flow to a country was categorized as serving one or more of the four purposes described above. Because a single program can support several purposes, these estimates will add to more than the \$4.7 billion proposed

^{1/} Although the amounts have been adjusted to reflect the budget proposals of the new Administration, the documents describing the programs have not been reissued, and the statements on U.S. strategy and interests are therefore those prepared by the previous Administration. The backup documents used were: Agency for International Development, Congressional Presentation, Fiscal Year 1982 (January 1981), Annexes I-IV.

for bilateral aid program commitments for specific countries or regions. Centrally funded and interregional programs were omitted from these calculations.

Because these estimates are based on AID's supporting documentation, others may disagree with the categorization of particular aid flows, and a completely fresh review might produce somewhat different results. This view reflects CBO's effort to capture the essence of the latest official justifications provided by AID.

PROTECTING U.S. COMMERCIAL INTERESTS

The March budget revisions proposed \$774 million in bilateral economic aid for countries in which the United States has specific commercial concerns (that is, in Southern Africa, the Philippines, and various Caribbean countries). If the entire "commercial" aid budget were to be cancelled, these areas would still be covered by development aid allocations or, in almost every case, by aid supporting political interests.

Half of the commercial aid is distributed to Africa, and one-quarter each to Latin America/Caribbean and to Asia.

SUPPORTING U.S. POLITICAL INTERESTS

The March budget revisions proposed that \$3.5 billion be distributed to countries in whose economic growth and stability the United States has a strong political interest. These include countries of the Middle East (slated to receive \$2 billion), in particular, Egypt and Israel; the area of Central America and the Caribbean (\$0.5 billion), with \$91 million for El Salvador and \$71 million for Jamaica; and Asian countries (\$0.4 billion), with \$105 million for Indonesia, \$108 million for the Philippines, \$78 million for Sri Lanka, and \$51 million for Thailand.

PROVIDING DEVELOPMENT AID

The March budget revisions proposed \$3.7 billion for developmental purposes, the major difference between this amount and the total for U.S. bilateral aid being balance-of-payments support (for countries such as Israel). While development is the focus of the assistance, the distribution reflects U.S. interests plus the

U.S. emphasis on using development assistance in the poorest countries: 33 percent to the Middle East, 24 percent to Asia, 13 percent to Central America and the Caribbean, and 3 percent to Latin America.

ASSISTING U.S. DEFENSE INTERESTS

The March budget for fiscal year 1982 proposed that \$1.6 billion of bilateral economic aid be directed to countries in which the United States has a specific defense interest (with \$1.1 billion to Egypt, \$0.3 billion to Turkey, \$67 million to Kenya, and \$58 million to Somalia).

SINGLE-PURPOSE FLOWS

The above figures involve extensive double counting. To calculate the flow addressing a single purpose only--"political" interests, for example--requires subtracting aid that serves other purposes, such as defense, developmental, or commercial concerns. Using this approach, the total single-purpose flows are:

- o \$0.9 billion for developmental reasons;
- o \$0.8 billion for political reasons;
- o \$0.3 billion for defense interests; and
- o Nothing for commercial interests. (All aid that supports commercial interests is also used either in a country of political concern to the United States, or contributes to U.S. development and humanitarian goals.)