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**REPORT TO THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

72-0503

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**Reorganization Proposals Relative
To Foreign Aid And
Foreign Military Sales Programs**

B-172311

Department of State
Agency for International Development
Department of Defense

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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NOV. 24, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-172311

Dear Mr. Chairman:

In response to your request of May 11, 1971, we have analyzed the administration's proposed reorganization of the foreign aid and foreign military sales programs.

This report discusses the results of our analysis; identifies certain areas in which the reorganization proposals may fall short of, or do not expressly address, findings and recommendations resulting from past GAO reviews; points up certain issues arising from the proposed legislative changes; brings up several matters for consideration by your Committee and the Congress; and suggests legislative language to remedy, or give legislative emphasis to, a number of the matters discussed.

The administration's reorganization proposals were based on (1) the recommendations of the Presidential Task Force on International Development of March 19, 1970, and (2) the analysis of those recommendations by the National Security Council and by an Office of Management and Budget steering group.

To expedite release of the report, we have not followed our usual practice of submitting a draft report to the interested agencies for written comments.

We believe that the contents of this report would be of interest to committees and other members of Congress. However, release of the report will be made only upon your agreement or upon public announcement by you concerning its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

The Honorable J. William Fulbright, Chairman
Committee on Foreign Relations
United States Senate

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman, Senate Committee on Foreign Relations, on May 7, 1971, requested that the General Accounting Office (GAO) undertake a thorough analysis of the administration's proposed reorganization of the foreign aid and foreign military sales programs.

The Chairman requested also that GAO identify potential problem areas with the existing legislation on the basis of GAO's general experience and recommend remedial legislation when applicable. (See p. 5.)

To expedite release of this report, GAO did not follow its usual practice of submitting a draft to the interested agencies for comment.

FINDINGS AND CONCLUSIONS

In essence the reorganization proposals provide that

- the United States assume a supporting role rather than the present directing role in international foreign assistance matters,
- the United States become more competitive with respect to arms sales,
- new basic authorities and organizational entities be established to separate the different types of U.S. foreign assistance according to purpose,
- the President be given greater flexibility in both the economic and the military foreign assistance programs by eliminating or modifying many of the legislative restrictions in existing legislation and
- the authorization authority and sources of funding for assistance be expanded. (See p. 7.)

The Department of State would have

- less day-to-day operating control, but continued responsibility for foreign policy control, over development assistance programs;
- increased control to the extent of being fully responsible for economic supporting assistance and public safety programs; and

--basically the same policy control but an enhanced capability for operating control over military assistance, foreign military sales, and humanitarian assistance programs. (See p. 35.)

The Congress' authority and responsibility under the reorganization proposals would be altered by:

- Establishment of a Government corporation having authority to secure financing by borrowing from the public and the Treasury. (Such corporations would tend to dilute congressional control over public expenditures.)
- Departure from the practice of providing for congressional approval of the proposed corporation's charter.
- A proposal to authorize, by Presidential determination, the cessation of all monitoring and auditing activities for terminated or suspended programs, including those of the legislative branch.
- Deletion of express recognition of the legislative branch's right to information with respect to development and humanitarian assistance programs. (See p. 54.)

The scope of legislative restrictions would be narrowed. Waivers would be narrowed in number but broadened in significance. Recognizing the limitations in attempting a summarization of such extensive legislation, we have designated the following areas of change.

	<u>Carried over</u>	<u>Modified</u>	<u>Deleted</u>	<u>New</u>
Restrictions	67	58	98	10
Waiver authorities	7	3	13	7

In certain areas the reorganization proposals may fall short of, or do not expressly address, findings and recommendations resulting from past GAO reviews, such as:

- The need for formulating program aims in the recipient country in terms which are objectively measurable. (See p. 56.)
- The question of whether assistance resulting from preferential trade agreements and arrangements and from debt reschedulings should be treated as foreign assistance. (See pp. 59 and 64.)
- The need for improved methods and criteria for assessing a recipient country's capability of contributing agreed resources for U.S.-supported activities. (See p. 65.)
- A proposal to restrict U.S. payment of foreign taxes and to require recipient payment of transport costs of U.S.-donated surplus commodities and equipment. (See pp. 68 and 69.)

--The need for specific management attention to the use of local currency resources and particularly to the use of such resources in lieu of dollar assistance. (See p. 71.)

--The need for improved monitoring and evaluation of the performance of the international institutions to which the United States makes financial contributions. (See p. 76.)

Specific issues arising from the proposed legislative changes include:

--Certain modifications in the definition of value that might allow recovery of less than the full cost of military sales.

--New authority for military barter transactions that could lead to nonappropriated assistance.

--Need for application of the advanced certification requirement to the proposed excess articles program.

--Need to explore the propriety of the proposal to permit sales of articles to prime contractors for foreign resale.

--The possibility that the proposed exemption from contract law regulations might allow exemption from foreign military contract provisions.

--Possible U.S. absorption of losses from military sales transactions terminated by foreign customers.

--Need for clarification with respect to guaranties and disposal of foreign currency receipts under the supporting assistance program.

--Need for clarification on the administration of existing loans and for provision to repay the debt to the U.S. Treasury for certain outstanding loans.

--Possible need to ensure that funds are sufficient to meet all development-lending operating costs.

RECOMMENDATIONS OR SUGGESTIONS

Legislative language to remedy, or give legislative emphasis to, matters discussed is outlined on pages 25, 32, 33, 49, 50, 58, 61, 62, 63, 64, 65, 66, 69, 70, 72, 74, 75, and 77.

MATTERS FOR CONSIDERATION BY THE COMMITTEE

Two basic uncertainties arise from the proposed U.S. shift from a directing to a supporting role in international development matters. The first is whether international development organizations have the capability and will be willing to assume the directing role envisioned for them, including the increased funds and the functions of planning,

negotiating, and monitoring, which would be shifted from U.S. agencies. The second is whether the U.S. emphasis on social progress and reform would be dropped or would receive significantly decreased emphasis under international organization leadership. (See pp. 14 to 16.)

The proposed development program lacks a clear demonstration of the basis on which the program is justified and of what can be expected realistically from the program. (See pp. 17 to 21.)

Currently both a need and an opportunity for establishment of allocation and evaluation standards exist. A basic principle underlying both past and proposed U.S. development assistance programs is that a recipient country should receive assistance in relation to the level of development effort and sacrifice that it is making in its own behalf. Common standards, however, have not been developed for measuring and evaluating these factors. (See pp. 22 to 26.)

As far as can be determined, neither the present nor the proposed system for establishing the type and nature of U.S. assistance to individual recipient countries provides for exploring or developing formally the pros and cons or the estimated costs and benefits of various alternative assistance packages. (See pp. 26 to 28.)

There is a need for considering whether the increasing recipient debt-service problems invalidate the argument for loan as opposed to grant assistance. (See pp. 29 and 30.)

GAO believes that foreign aid program justifications to the Congress should be expanded to present (1) collective information on all U.S. assistance programs and resource flows to recipient countries and (2) a comprehensive, unified plan for each separate program--not in relation to a single year but in terms of ultimate U.S. goals and purposes. (See pp. 30 to 34.)

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ABBREVIATIONS

AID	Agency for International Development
CIEP	President's Council on International Economic Policy
DOD	Department of Defense
FAA	Foreign Assistance Act
FMSA	Foreign Military Sales Act
GAO	General Accounting Office
GNP	gross national product
IBRD	International Bank for Reconstruction and Develop- ment
ICA	International Coffee Agreement
IDC	International Development Corporation
IDHAA	International Development and Humanitarian Assis- tance Act
IDI	International Development Institute
ISAA	International Security Assistance Act
ISDI	Inter-American Social Development Institute
MAP	military assistance program
MSA	Military Sales Act
OPIC	Overseas Private Investment Corporation
UNDP	United Nations Development Program

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CHAPTER 1

INTRODUCTION

This report is in response to a May 7, 1971, request of the Chairman, Senate Committee on Foreign Relations, that the General Accounting Office undertake a thorough analysis of the administration's proposed reorganization of the foreign aid and foreign military sales programs, giving particular attention to the following subjects.

- A general comparison of the existing programs with the proposed programs, including changes in policy and operations. (See ch. 2.)
- The degree to which the Department of State, under the proposed legislation, would have both policy and operating control over the new programs, with emphasis on military aid and foreign military sales. (See ch. 3.)
- The extent to which restrictions and existing legislation are deleted, modified, or carried over to the proposed legislation. (See ch. 4.)
- The extent to which the President's waiver authority with respect to these restrictions is deleted, modified, or carried over. (See ch. 4.)
- The extent to which the Congress' authority and responsibility are altered or otherwise modified by the President's proposal. (See ch. 5.)
- Those aspects of the proposals which may fall short of, or be inconsistent with, our findings and recommendations. (See ch. 6.)

We also were asked to identify potential problem areas on the basis of our experience with the existing legislation and to recommend remedial legislation when appropriate.

The subsequent chapters of this report contain the results of our analysis of the specific matters outlined above. In addition, in chapter 2, we have identified a

number of broad observations, synthesized from our general experience and acquaintance with the foreign aid program, which are offered for the consideration of the Congress.

The President's reorganization proposals were based on (1) the recommendations of the Presidential Task Force on International Development of March 1970 and (2) the analysis of those recommendations by the National Security Council and by an Office of Management and Budget steering group. The National Security Council analysis and the documentation of the steering group were not available to us.

Our analysis was made during the period May through September 1971.

In accordance with arrangements made with the Committee staff and to expedite release of the report, we have not followed our usual practice of submitting a draft report to the interested agencies for comment.

CHAPTER 2

GENERAL COMPARISON OF EXISTING AND PROPOSED

FOREIGN AID AND FOREIGN MILITARY SALES PROGRAMS

This chapter (1) compares the basic policy and operations of the existing foreign aid and foreign military sales programs with those of the proposed programs and (2) identifies certain matters, suggested by our general experience with the existing programs, which are offered for the consideration of the Congress.

SUMMARY OF BASIC CHANGES

In essence the new foreign aid reorganization proposals provide that (1) the United States assume a supporting role rather than the present directing role in international foreign assistance matters, (2) the United States become more competitive with respect to arms sales, particularly in Latin America, (3) new basic authorities and organizational entities be established to separate the different types of U.S. foreign assistance according to purpose, (4) the President be given greater flexibility in managing both the economic and the military foreign assistance programs by eliminating or modifying many of the legislative restrictions in existing legislation (see ch. 4), and (5) the authorization authority and sources of funding for assistance be expanded. The specific changes involved are discussed in more detail below.

Policy changes

Conceptually foreign assistance serves two basic functions--transferring resources and providing a basis for a donor to advise on the policies of a recipient. The most basic change inherent in the proposed reorganization relates to the latter function. The planned change is for the United States to assume a supporting rather than a directing role in international foreign development assistance matters. This is to be accomplished by:

- Channeling an increasing share of development assistance through multilateral institutions as rapidly as possible. The announced goal is to phase out the bilateral loan portion of U.S. foreign assistance by the end of the 1970's.¹
- Relying increasingly on multilateral institutions for assessing assistance requirements, for monitoring recipient country performance, and for negotiating with recipients for necessary policy changes.
- Deemphasizing the U.S. practice of assisting recipients to chart their developmental programs.
- Moving in the direction of acting primarily as a financier of technical assistance rather than as a participant.
- Discontinuing the development of annual assistance program plans and lending levels for each recipient country.
- Shifting from day-to-day, or "cradle to grave," supervision of U.S.-financed activities to periodic evaluations.
- Closing out or substantially reducing the U.S. in-country AID missions.

A second basic change in policy inherent in the proposed reorganization relates to the military sales program in Latin America and Africa. The change involved is a shift from the policy of restricting the amount of military sales and restricting the sale of sophisticated weapons to a policy of competing with the European countries who are now supplying such hardware to the Latin American and African countries.

¹Announced by the Administrator, Agency for International Development (AID), in January 1971.

Other planned basic policy changes include eliminating the lender-of-last-resort concept¹ for development loans and providing military sales on more concessional terms with the objective of moving from grants to concessional sales to harder term sales.

Changes in basic authorities

The International Development and Humanitarian Assistance Act (IDHAA) and the International Security Assistance Act (ISAA)--the new legislation designed and proposed to replace the Foreign Assistance Act (FAA) and the Foreign Military Sales Act (FMSA)--separate the different types of foreign assistance according to purpose.

ISAA basically serves to consolidate into one legislative package military grant assistance, cash sales, credit sales, economic supporting assistance, and public safety assistance. ISAA contains the provisions for economic supporting assistance which are now in part 1 of FAA, the provisions relating to military assistance which are in part 2 of FAA, and the provisions for foreign military sales and guarantees which are in FMSA. ISAA also authorizes the President's Foreign Assistance Contingency Fund which, like the contingency fund in part 1 of FAA, makes available funds for unforeseen requirements in the areas of security, development, and humanitarian assistance.

IDHAA contains the provisions for development loans, technical assistance, American schools and hospital programs, and voluntary contributions to international organizations. It provides for combining the existing, separate worldwide and Latin American authorities for development loans, technical assistance, and housing guarantees.

¹This concept provides that a U.S. development loan be made only if financing cannot be obtained in whole or in part from other free-world sources, including private sources in the United States, on reasonable terms.

Organizational changes

The primary organizational changes under the proposed reorganizations include:

- Liquidating the existing Agency for International Development.
- Creating an International Development Corporation (IDC) to take over the development loan program.
- Creating an International Development Institute (IDI) to perform the technical assistance function.
- Creating the position of Coordinator of Development Assistance, reporting directly to the President, to be Chairman of the Boards of IDC, IDI, and the existing Overseas Private Investment Corporation (OPIC) and to serve on the board of the existing Inter-American Social Development Institute (ISDI) to be renamed the Inter-American Foundation. IDC and IDI are to be managed by a board of directors and a board of trustees, respectively, and are to have proposed memberships as follows:

	<u>IDC</u>	<u>IDI</u>
Chairman	Coordinator of Development Assistance	Coordinator of Development Assistance
Member	Secretary of State	Secretary of State
Member	Secretary of the Treasury	President of IDC
Member	President of IDC	President of IDI
Member	President of IDI	One or more private citizens
Member	Private citizen	
Member	Private citizen	

- Creating an Executive Coordinating Committee, consisting of the chief executive officers of IDC, IDI, OPIC, and ISDI, under the chairmanship of the Coordinator of Development Assistance.

--Creating the following positions and new organizational entities within the Department of State:

1. The position of Coordinator of Security Assistance (Under Secretary level) which will coordinate two bureaus, one to administer the economic supporting assistance program (including public safety programs) transferred from AID, the other to administer military assistance and foreign military sales.
2. A new bureau under an Assistant Secretary of State to administer humanitarian assistance programs.

With regard to military assistance and sales, the responsibilities of the Secretaries of State and Defense under the reorganization proposal are essentially the same as those under the existing legislation.

The chart on page 13 visually outlines the existing and proposed organizational structures and lines of responsibility for foreign aid and foreign military sales.

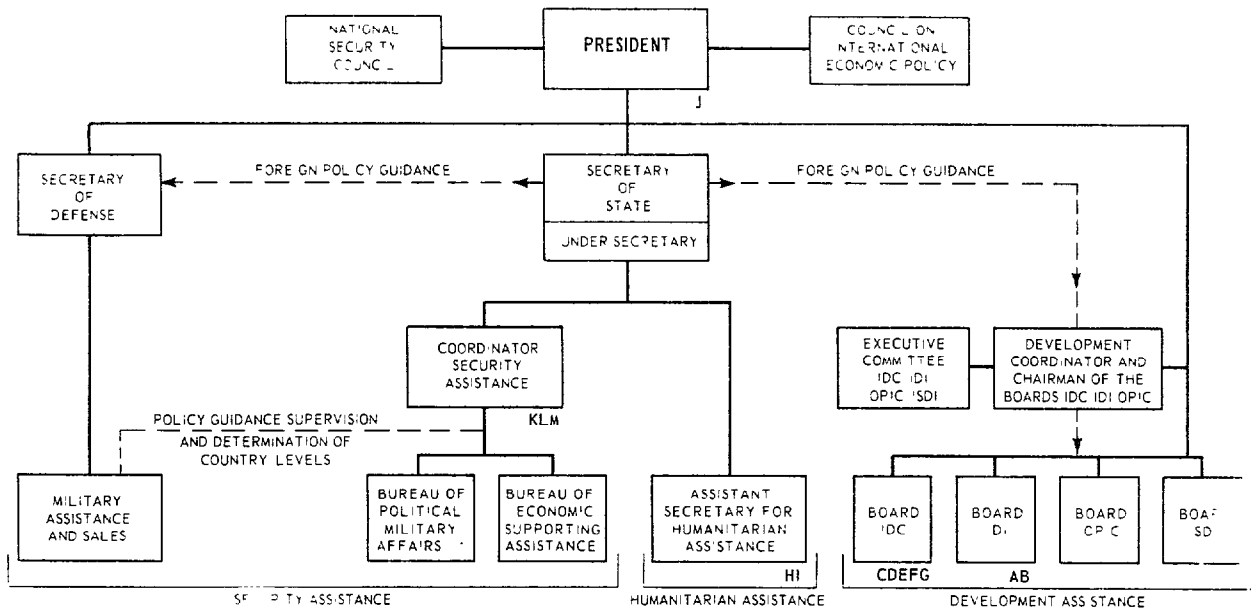
Other changes

Other basic changes involved in the reorganization proposal include:

- Authorizing IDC to borrow from the Treasury or from the public for its lending operations.
- Authorizing IDC use of certain loan repayments currently earmarked by FAA for deposit to the Treasury. (See app. II for estimated extent of such repayments during the 1970's.)
- Increasing military assistance and sales ceilings for Latin America and Africa.
- Increasing the ceiling on surplus military equipment which can be granted without charge to appropriated funds.

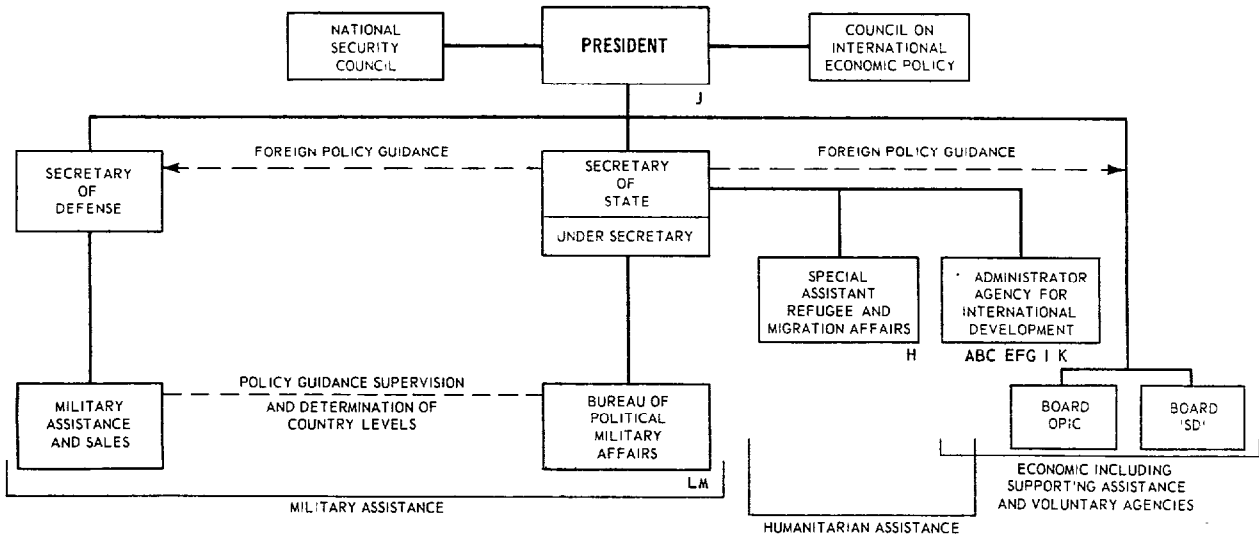
- Authorizing the use of a range of development loan terms.
- Increasing the maturities for foreign military credit sales.
- Authorizing the IDC, IDI, and American schools and hospital programs for 3 years.
- Authorizing the total amount needed to fulfill the U.S. grant commitment to the Indus Basin Development Project rather than annual authorizations as in the past. Appropriations still would be sought annually.

PROPOSED ORGANIZATION



DEVELOPMENT COORDINATOR SERVES AS MEMBER OF ISDI BOARD OF DIRECTORS ONLY FOR PURPOSES OF MILITARY ASSISTANCE AND SALES

CURRENT ORGANIZATION



* RESPONSIBLE FOR INTEGRATION OF ECONOMIC AND MILITARY ASSISTANCE

** A I D ADMINISTRATOR ALSO SERVES AS CHAIRMAN OF THE OPIC BOARD OF DIRECTORS AND AS A MEMBER OF THE ISDI BOARD OF DIRECTORS

DEVELOPMENT ASSISTANCE

- A TECHNICAL COOPERATION
- B AMERICAN SCHOOLS AND HOSPITALS
- C DEVELOPMENT LOANS
- D BORROWING AUTHORITY
- E HOUSING GUARANTIES
- F INTERNATIONAL ORGANIZATIONS (VOLUNTARY CONTRIBUTION)

HUMANITARIAN ASSISTANCE

- H DISASTER AND REFUGEE RELIEF
- I SUPPORT OF VOLUNTARY AGENCIES

SECURITY ASSISTANCE

- J CONTINGENCY FUND
- K ECONOMIC SUPPORTING ASSISTANCE (INCLUDING PUBLIC SAFETY)
- L MILITARY ASSISTANCE PROGRAM
- M FOREIGN MILITARY SALES CREDITS AND GUARANTIES

THE ABOVE CHARTS EXCLUDE THE UNITED STATES REPRESENTATIVES TO INTERNATIONAL FINANCIAL INSTITUTIONS THESE REPRESENTATIVES RECEIVE THEIR INSTRUCTION FROM THE SECRETARY OF THE TREASURY WHO IS ADVISED IN THESE MATTERS BY THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES.

BEST DOCUMENT AVAILABLE

MATTERS FOR CONGRESSIONAL CONSIDERATION

Following are certain broad observations, synthesized from our general experience and acquaintance with the foreign aid program, which we are offering for the consideration of the Congress in dealing with the subject reorganization proposals or other foreign aid matters.

One basic justification given for the decision to place increasing reliance on, and resources with, international development organizations is the administration's judgment that the Congress, through its control of appropriations and its supervision of the Department of the Treasury--to which the U.S. representatives to international financial institutions report--can assure itself that such organizations' programs and policies make effective use of U.S. resources and those of others. The Congress may wish to consider both the advisability and the means of giving legislative emphasis to the needs outlined below, to promote such assurance.

Potential ramifications of proposed development policy shift

The proposal that the United States move from its present directing role in international development affairs to a supporting role (by relying increasingly on international development organizations for assessment of aid requirements, assisting recipients in charting their development programs, negotiating for necessary policy changes, supervising development activities on a day-to-day basis, and monitoring performance) involves two basic uncertainties that the Congress may wish to examine into and consider.

These uncertainties are (1) whether international development organizations have the capability and will be willing to assume the directing role envisioned for them and (2) whether the traditional and proposed U.S. emphasis on social progress and reform--the structural and distributional modernizations--will drop out of operations or will receive significantly decreased emphasis under international organization direction.

U.S. doctrine traditionally has provided that, for U.S. development assistance to be effective, it must be designed to serve as a catalyst. As such it is to cause and/or permit a recipient country to mobilize a much larger and accelerated development effort as a means of achieving a significant speedup in economic productivity and in social and political progress. The end results are intended to be significantly larger incomes, more equal distribution of the national income, and an elevated standard of living for the citizenry of the recipient country.

Foreign aid is recognized as never being more than part of the total resources available for development in a recipient country. In the absence of the will or the capability of the recipient country to undertake an accelerated development effort, assistance may merely replace the domestic resources that otherwise might be available; it may make easier the flight of domestic capital from the country; it may postpone the initiation of necessary but politically difficult internal measures; or it may end up in the pocket of the corrupt.

Recognizing these factors, the United States has maintained extensive staffs in-country to assist the recipient in charting its development program, to develop comprehensive U.S. program plans, to negotiate with the recipient for necessary policy changes, and to maintain day-to-day supervision together with continuous monitoring of development activities in the country. In contrast international development organizations have been project oriented and have not maintained the field staffs necessary for comprehensive programming, day-to-day consulting with the recipient government, or continuous monitoring of recipient development activities.

Certain development authorities have cast doubt on both the willingness and the capability of international development organizations to effectively perform the functions now performed by the United States. We asked executive branch officials about what understandings or agreements had been reached with international development organizations with respect to their assuming many of the functions now performed in the international capital assistance area by the United States.

We were informed that the U.S. decision to rely increasingly on international development organizations to perform the functions traditionally performed by the United States and to act as conduits for U.S. development program funds had been based not on understandings or agreements with the organizations but rather on the judgment that the evolution of the organizations during their existence suggested their appropriateness and ability to assume the proposed leadership role and that, with U.S. help, the organizations would be able to develop the necessary capacity to do the whole job of development assistance.

Both existing and proposed U.S. development programs have asserted that improving the standard of living and the environment of the citizenry in the recipient country is the ultimate U.S. developmental objective. Accordingly U.S. doctrine holds that substantial and steady social progress and reform must accompany economic development efforts. A question arises as to whether this emphasis on social equity and development would be vulnerable to decreased attention under international development organization management.

With the exception of the United Nations Development Program (UNDP) and a small Organization of American States Development Fund, the existing international development organizations are banks. Traditionally the capital assistance loans of these organizations have had to meet cost-benefit and related tests of bankability.

In the social development field, sufficient long-term data have not always been available to show how proposed projects can meet such tests. Moreover social-development-type projects--health activities, literacy campaigns, low- and medium-cost housing, population control activities, etc.--tend to be more controversial and often require more politically difficult self-help measures. In this regard authorities have recognized that international development organizations are currently less effective than the United States in enforcing such self-help requirements.

Uncertain development program
rationale and goals

The proposed development program lacks a clear demonstration of the basis on which the program is justified and of what can be expected realistically from the program. We believe that many of the identified problems relating to U.S. foreign development assistance programs are directly relatable to the problem of uncertainty of the U.S. motives for, and basic goals of, such programs.

In our opinion, a clearer picture of program rationale and of intended program goals is a prerequisite not only for effective administration but also for a responsible assessment of results. We believe that, without a reasonably clear rationale and definite aims, such aid is certain to be increasingly questioned by the Congress and by the public, which will rightly want some measurable evidence that their investments in such aid are sound and warranted.

Traditionally justification for U.S. foreign aid has tended to change with each administration. One administration justified the program as being both essential to U.S. security and important to U.S. prosperity. Another administration justified the program on more altruistic grounds, pointing out that the United States should help poor nations not because it would promote U.S. prosperity but because it would be right. Still another administration reasoned that U.S. responsibility to the developing nations was the price for maintaining U.S. power and influence.

Academic authorities also have expressed divergent views on the question of whether, and/or the extent to which, the U.S. foreign development assistance program should be motivated altruistically or in terms of U.S. benefit.

The proposed program is justified as being necessary to promote world peace. The underlying premise is that the prospects for world peace will be enhanced if the two thirds of humanity who live in lower income countries can see hope for development. Development is identified as adequate food, shelter, education, and employment. The program proposal does not demonstrate the validity of this premise by

using past program experience to show either (1) the correlation between external assistance inputs and improvements in recipient countries' food, shelter, education, or employment availabilities or (2) the correlation between such development and the political stability or peaceful international behavior of the recipient. In this regard the Pearson Commission¹ pointed out that a country's development was no guarantee of either.

With respect to program goals, the reorganization proposal--which redesigns the program for the decade of the 1970's--does not address or specify specifically what results are sought or what results can be expected from the program. The proposal does specify that the general goal is to assist in building an equitable political and economic order in the world. We note that the United States has about 8-1/2 percent of the free world's population of 2.5 billion but about 40 percent of the free world's income. If all free-world countries were to achieve a per capita income equaling that in the United States--pursuant to this general goal--the United States would have 8-1/2 percent of the free world's income.

In a different perspective increasing recognition is being given to the fact that the world's population is increasing at a geometric rate--if recent trends continue, the world's present population of 3.5 billion will double in the next 30 years--and to the question of the level of population that the world's resources and potential productive capacity will support assuming world resources are finite and can support only a finite population.

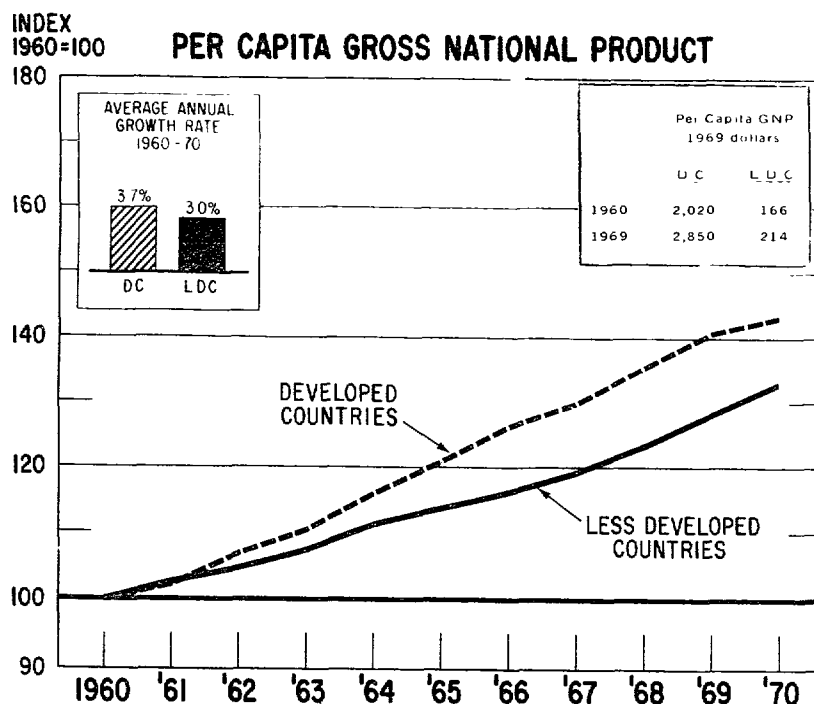
Some authorities have estimated that, if the standard of living now enjoyed in the United States is used as the standard, the world's resources and potential productive capacity can support no more than the present world population. Others have estimated that a population of up to 30 billion can be supported at a near-starvation level.

¹Partners in Development: Report of the Commission on International Development (Lester B. Pearson, Chairman) to the International Bank for Reconstruction and Development (IBRD), 1969, p. 7.

The probable degree of equity change, the degree of improvement in standards of living, or other results desired or expected from the U.S. development program are not specified. The United States has, however, endorsed the objective of the International Development Strategy of the Second United Nations Development Decade, which calls for a growth rate in gross national product (GNP) in less developed countries of 6 percent annually.

During the 1960's U.S. assistance to less developed countries, excluding debt rollovers and assistance resulting from preferential trade arrangements, totaled more than \$54 billion, or about 64 percent of the assistance made available by developed countries to developing countries.

Results experienced during the decade showed that the GNP of developing countries (1) grew at a faster rate (5.5 percent) than during the preceding decade (4.8 percent) and (2) grew at a somewhat faster rate than that of developed countries (4.8 percent). The population of the developing countries, however, also grew more rapidly than that of the developed countries. As a result the gap in per capita GNP between developing countries and developed countries further widened during the decade, as shown below.



In terms of world economic equity, the distribution of the free world's income at the beginning and at the end of the decade was as follows:¹

	<u>1960</u>		<u>1969</u>	
	<u>Percent of</u>		<u>Percent of</u>	
	<u>Free-</u>	<u>Free-</u>	<u>Free-</u>	<u>Free-</u>
	<u>world</u>	<u>world</u>	<u>world</u>	<u>world</u>
	<u>income</u>	<u>popu-</u>	<u>income</u>	<u>popu-</u>
		<u>lation</u>		<u>lation</u>
Less developed countries	16.2	70.2	16.7	72.7
Developed countries:				
United States	43.9	9.1	41.6	8.5
All others	<u>39.9</u>	<u>20.7</u>	<u>41.7</u>	<u>18.8</u>
	<u>83.8</u>	<u>29.8</u>	<u>83.3</u>	<u>27.3</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

There is no comprehensive set of statistics reflecting the aggregate progress or retrogression of housing, health, education, or employment conditions in the developing countries during the past decade. As discussed on page 24, we believe that the equity problem--the question of whether the benefits of economic growth and development are accruing basically to small affluent groups or are being distributed equitably--has received insufficient attention by U.S. foreign assistance managers.

We believe also that the lessons of the past decade point up the acute need for greater precision in identifying what is sought, demonstrating why it is sought, estimating what is expected, and analyzing what is achieved from the U.S. foreign development assistance program. (See pp. 22 to 26 for a discussion of the need for the development of criteria and standards for measuring relative development progress.)

¹ Statistical data of this nature are subject to numerous qualifications and represent rough estimates or approximate orders of magnitude rather than precise statistics. All data are based on constant 1969 prices.

A fundamental effort to clarify program rationale and to identify attainable goals in measurable terms, combined with rigorous and periodic assessments of goal attainment, would provide a basis for comparing cost inputs with achievement outputs and for demonstrating the measurable results from investment in the development program. This, in turn, would narrow substantially the range of current uncertainty with respect to program achievements and would provide the Congress and the public with a more tangible basis for weighing the relative merits of investing in the program during the coming decade.

Need for establishment of allocation and evaluation standards

A basic principle underlying both past and proposed U.S. development assistance programs is that a recipient country should receive assistance in relation to the level of development effort and sacrifice that it is making in its own behalf. Standards establishing a common basis for measuring and evaluating a recipient country's performance and development progress, however, have not been developed. Thus this principle has not been translated into criteria that can be applied consistently.

In view of the plan to channel an increasing share of U.S. development resources through international development organizations and to encourage these organizations to assume more leading roles in charting the development course of recipient countries, we believe that the need for the development of such standards is an important requisite for effective and equitable allocation of resources.

Recognizing that the United States has pioneered in the development of a number of assistance concepts, including concessional lending, use of surplus agricultural commodities, nonproject and other assistance, and Peace Corps assistance, we believe also that the opportunity and circumstances currently exist for the United States to pioneer in promoting the development of generally acceptable allocation and progress evaluation standards.

Allocation standards

It generally is recognized that the total volume of aid today is not adequate to provide all the resources which the developing countries can use productively for their development. Thus there is a need for criteria by which development assistance can be effectively and equitably allocated.

The Congress has provided, in existing legislation, that the allocation of U.S. development assistance resources be tailored to the relative level of development effort and sacrifice that a recipient country is making in its own behalf. The proposed legislation provides for continuing this legislative policy.

U.S. development assistance has been used in recent years for both development and nondevelopment purposes. A considerable amount of development assistance has been used to promote a variety of short-term political purposes, such as (1) protecting U.S. economic and military interests, (2) influencing recipients' foreign policy views, and (3) buying time for new regimes to consolidate their positions and to formalize their programs of action. The proposed IDC and IDI are to be separate instruments less closely tied to the nondevelopment influence of the existing program.

With respect to those development resources used for development purposes in the past, U.S. program managers generally have outlined the principal changes that characterize economic and social development and the nature of public policies believed necessary to promote and secure such changes. They have not developed, however, explicit performance criteria--nor have international development organizations--which can be applied consistently among assistance recipients to serve as an effective and equitable basis for allocating development aid.

The administration's proposal provides for channeling an increasing share of development assistance through international development organizations. In the past these organizations have been concerned largely with the transfer of capital for particular projects, technical assistance, and preinvestment work. As such they have not developed (1) a capability for continuous examination into practices and policies that bear on the effectiveness of the recipient's development program as a whole, although evidence is available that IBRD is moving in this direction, or (2) allocation criteria for tailoring development assistance to the level of country performance.

It is questionable whether it would be reasonable to expect international development organizations of the one-country-one-vote type to relate the level of aid to the level of country performance or to terminate assistance for the lack of performance, without clear and generally accepted standards.

For these reasons we believe that there is a need for allocation standards and that the opportunity and

circumstances exist for the United States to pioneer in promoting the development and acceptance of such standards.

Progress evaluation standards

The ultimate development purpose implicit in both the existing and the proposed legislation relates to accelerating improvements in the standard of living of the citizenry in recipient countries. Little, if any, attempt has been made by U.S. program managers, however, to evaluate the improvement, retrogression, or acceleration of such change in the standard of living of the citizenry of recipient countries or to correlate such changes with external assistance inputs.

U.S. evaluation efforts generally have focused principally on the shorter term results. We have found that the equity problem--the question of whether the benefits of economic growth and development are accruing basically to small affluent groups or are being distributed equitably--has received insufficient attention by U.S. foreign assistance program managers.

U.S. program managers use GNP growth, recognizing its limitations, as a basic yardstick to gauge a recipient's economic development progress. The GNP growth rate measures increases in total national production and, through this, the changes in the resources which each country has available over time for consumption, investment, and exports, on which both growth and welfare depend. Use of the GNP growth as a basic progress gauge has several limitations, including:

- The GNP index neglects the fact that many, if not most, of the forces that bear heavily on GNP may not be within the immediate control of the recipient country government.
- The GNP index does not give visibility to the impact of such external factors as weather or world-market prices.
- The initiation of basic institutional or distributional reforms by the recipient government may have little impact on the short-run per capita GNP growth.

- The average per capita GNP growth masks the very uneven income distribution and the large gaps between the rich and the poor in many countries.

With respect to the evaluation of social progress in developing countries, little systematic study and analysis of means of evaluating such progress, particularly on an aggregate basis, has been performed to date. U.S. program managers have not developed or established standards for objectively measuring social progress. Generally existing U.S. guidance states that:

- Income distribution and land ownership should become more equitable.
- Recipient governments should be increasingly responsive to the needs for education, housing, health and sanitation, employment, and general welfare facilities.
- There should be a trend toward increasing protection for civil rights and toward greater popular participation in national affairs.
- Taxation should move toward greater equity as well as toward increased yields.

In addition to lacking standards, the evaluation of recipient social progress is limited by the lack of a wide variety of data necessary for determining what public programs have accomplished. We also have noted that U.S. program managers have not developed action programs either to identify the nature of the data needed or to set in motion the actions necessary to gather such data, although there are varied information-gathering programs conducted by U.S. agencies and by international organizations.

If the Committee concurs that there is a significant need for the development of generally accepted allocation and progress evaluation standards, it may wish to give legislative emphasis to this need, possibly by adding the following paragraph to section 404 of the proposed IDHAA.

- (d) The Congress declares that, in view of the lack of generally accepted allocation and progress

evaluation standards which would permit consistent application among the developing countries, there should be a comprehensive U.S. effort to secure the development, and general acceptance by international financial institutions, of such standards in the near future.

Foreign aid structure not conducive to
consideration of optimum assistance mix

We have observed that the present system for establishing the type and nature of assistance for individual recipient countries does not provide for formally exploring or developing the pros and cons, or the estimated costs and benefits, of various alternatives as a means of developing an optimum assistance mix.

This does not mean that alternatives are not considered at many stages of the program formulation and review process for an individual recipient country. But available evidence shows that this consideration seldom has been backed up by a systematic comparison of the estimated costs and benefits of each course under consideration.

For example, recent planning guidance in one region, relating to development loans, technical assistance, economic supporting assistance, Public Law 480 sales and donations, and guaranty programs, points out that significant changes in the mix (i.e., increasing the resource input of one agency or program and offsetting it with a corresponding decrease in the resource input of another agency or program) of assistance programs in a given country should not be considered because the responsible agencies have not yet developed a system which will permit interagency or interprogram trade-offs.

The reorganization proposals do not change the number of U.S. foreign assistance programs but do increase, as discussed on page 10, the number of agencies administering these programs. We were unable to find, as a part of the reorganization proposals, evidence of plans for requiring formal and systematic consideration of interagency or interprogram trade-offs as a means of establishing an optimum U.S. assistance mix for a given country.

The lack of formal and systematic analysis of program alternatives is a reflection of the fact that the United States has not one program of foreign assistance but a number of separate instruments of assistance and a number of different administering agencies. Under the proposed reorganization the agencies and the programs for which they have varying degrees of responsibility are as follows:

Coordinator of Development Assistance (IDC, ID., OPIC, and ISDI)	Development loans Technical assistance Contributions to international organizations (note a) Guaranty programs
Department of State	Economic supporting assistance Humanitarian programs Public Law 480 sales and donations programs Preferential trade arrangements Military assistance (grant aid, cash sales, and credit sales) Guaranty programs Capital subscriptions to international organizations (note a) Contributions to international organizations (note a)
Department of Defense	Military assistance (grant aid, cash sales, and credit sales)
Department of the Treasury	Capital subscriptions to international organizations (note a) Contributions to international organizations (note a)
Department of Agriculture	Public Law 480 sales and donations programs
Peace Corps	Peace Corps programs
Export-Import Bank	Export-Import Bank programs

^aUnder the reorganization proposal, IDC is to be responsible for the day-to-day supervision of the program of contributions to international organizations (United Nations Group, IBRD and affiliated agencies, and the regional development banks). The Secretary of State is responsible for management of U.S. contributions to international organizations (except for international financial institutions) and for supervision and direction of U.S. representation to these organizations.

The Secretary of the Treasury is responsible for the supervision and direction of the U.S. executive directors in the international financial institutions. The Secretary of the Treasury is, in turn, advised on these matters by the National Advisory Council on International Monetary and Financial Policies.

The difficulty of developing methods for estimating the costs and benefits of various assistance program alternatives is not to be minimized. Noting, however, that the United States is in its third decade of experience in planning programs to promote accelerated development in developing countries and that relative to need there is a recognized scarcity of U.S. assistance resources, we are of the

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opinion that the need is compelling and the time opportune for creating a system which requires and permits interagency and interprogram trade-offs as a means of reducing the cost and of optimizing the impact of available foreign assistance resources for a given country.

Need for considering whether increasing
recipient debt-service burden
invalidates argument for loan
as opposed to grant assistance

In view of the increasing debt-service problems of the developing countries, the question arises as to how realistic and practical it is to provide most external assistance to these countries as loans rather than as grants. On the other hand, if the basic argument for providing capital assistance as loans rather than as grants continues to be valid, why should such argument not be equally valid for technical assistance, which traditionally has been provided largely on a grant basis?

Since some current aid is used, in effect, to permit repayments of earlier loans, little progress can be expected toward developing the recipients' economies. AID is required, under existing legislation (sec. 201(b)), to provide loans only when there are reasonable prospects of repayment. The prospects of repayment, however, generally tend to be based on an assumption that additional aid will be forthcoming from the United States or other donors.

There are, of course, sound arguments for preferring loans to grants, and the Congress generally has been in favor of loan assistance. Having the original aid returned with interest is the obvious advantage of loans, and there are undoubtedly advantages in having the recipient assume such a responsibility rather than be in the position of an indigent receiving charity. There are also problems associated with furnishing assistance on terms different from those of other donors, particularly when there are consortium arrangements.

Nonetheless it seems somewhat misleading to the Congress and to taxpayers for annual requests for aid authorizations and appropriations to stress the high proportion of loans at the same time that the projected debt-service capacity of the developing countries is limited and debt reschedulings and rollovers are becoming more prominent. (See p. 64.) In effect loan appropriations have been used to provide grant-type assistance through the use of long-term grace periods, concessional interest rates, and reschedulings of loan payments.

It appears that the increasing severity of the situation may necessitate the reassessment of the validity of the basis for loan as opposed to grant assistance, as well as the validity of the foundation for the determination made each time that there are reasonable prospects of repayment.

Proposal for expansion of
program justifications to the Congress

Development is recognized as a long-term endeavor. Traditionally foreign assistance program presentations have involved a short-term focus. Past experience has shown that (1) congressional officials have not always expressed faith and confidence in foreign assistance program presentations and (2) assistance program presentations have not always included comprehensive information on program motives and progress. In addition, the several separate programs and instruments of U.S. assistance are justified individually. This results in the absence of collective data relating past and proposed aggregate resource flows with the changes that have resulted or are expected to result from such flows.

For these reasons we believe that there would be merit in a system of program presentation which would present (1) collective information on all U.S. assistance programs and resource flows and (2) a comprehensive, unified plan for each separate program--not in relation to a single year but in terms of ultimate U.S. goals and purposes, strategy and financing requirements for achievement of such goals, and progress reporting on achievements--for the overall program, for each recipient country, and for each region if a program segment was directed toward a region (e.g., the Indus Basin and the Central American Common Market).

We propose that program presentations to the Congress include, among other things:

With respect to goal definition and
achievement strategy

--A definitive statement, for the program as a whole, of both the short-term and the ultimate program goals stated in measurable terms, together with the planned strategy, financing estimates, and time frame for achievement of the stated goals.

- A definitive statement, for each recipient country, of both the short-term and the ultimate development goals which have been and are to be supported by the United States, stated in measurable terms, together with the planned achievement strategy, budget estimates, and time span envisioned for individual programs and final phaseout.

With respect to resource flows

- An analysis of the total U.S. resource transfers to and from each assistance recipient, including economic and military assistance loans and grants; military cash sales; Public Law 480 commodity sales and donations; assistance resulting from preferential trade arrangements; export loans; debt repayments; debts re-scheduled; and net private industry sales, purchases, capital repatriations, and profit remittances.

With respect to progress reporting

- A measurement of aggregate program achievements with aggregate program goals and with cost inputs.
- A measurement of the extent of long-range acceleration of economic, social, and political development in each recipient country receiving U.S. development assistance and its comparison with the level of acceleration anticipated by the United States or by international development organizations.
- A comparison of recipient country development performance with established performance standards and with levels of performance anticipated by the United States or by international development organizations.

The need for each item above, except for aggregate resource flows, has been discussed in other sections of this report. The basis for these needs is outlined below.

Development, to a large extent, is a function of investment. The most important ingredient in investment is capital. A developing nation may obtain capital for development internally through increased domestic savings and expanded

trade surpluses or externally through loans and grants or private investments from other countries.

Similarly a country's capital resources may be depleted by investments of capital abroad, repayments of external debts, trade deficits, and remittances of profits or capital by foreign entities.

The United States has a variety of programs which result in the transfer of resources to or from recipients; i.e., various loans and grant programs, Public Law 480 commodity sales and donations, military cash sales, export loans, assistance resulting from preferential trade arrangements, debt reschedulings and repayments, and private industry transactions. Present foreign aid program justifications to the Congress do not provide information on collective and net U.S. resource transfers to recipient countries.

In view of the importance of capital to the development process and of the numerous U.S. programs and activities resulting in resource transfers to and from assistance recipients, we believe that the increased visibility that such information would provide would be of great benefit to the Congress in its deliberations and decisions on foreign assistance authorizations and appropriations.

If the Committee agrees with the above proposals, it may wish to consider adding the following provisions to section 409 of IDHAA.

(c) Annual program justifications offered to the Congress for any program authorized by this act will include but will not be limited to:

--A definitive statement of both the short-term and the ultimate program goals stated in measurable terms and within given time frames and a statement of estimated financing requirements.

--A definitive statement of both the short-term and the ultimate development goals supported by the United States and/or by international development organizations in each recipient country or region, stated in measurable terms, together with

estimated total resources transfers, financing plans, and the time span envisioned for final phaseout of U.S. assistance to the country.

- A comparison of aggregate program achievements with stated program goals and with total costs inputs.
- A schedule, for each recipient country, showing the total U.S. resource transfers to and from the country, including U.S. assistance loans and grants; military cash sales; Public Law 480 commodity sales and donations; assistance occurring from preferential trade arrangements; export loans; debt repayments and reschedulings; and private industry sales, purchases, capital repatriations, and profit remittances.
- A measurement of development achievements for each recipient country and a comparison of such achievements with U.S.-supported short-term and ultimate development goals in the country and with aggregate U.S. resource inputs.
- A comparison of each recipient's short-term performance with established performance standards and with anticipated levels of performance.
- An analysis of the extent of each country's long-range acceleration of economic, social, and political development.

Similarly the following items could be added to section 51(a) of ISAA.

- (4) A definitive statement of both the short-term and the ultimate program goals stated in measurable terms.
- (5) A definitive statement of both the short-term and the ultimate U.S. program goals in each recipient country, stated in measurable terms, together with the time span involved and an estimate of the data envisioned for final phaseout of program activities.

- (6) A comparison of each recipient's past program achievements with stated program goals and with program inputs.

CHAPTER 3

COMPARISON OF DEPARTMENT OF STATE CONTROL OF POLICY AND OPERATIONS UNDER EXISTING AND PROPOSED PROGRAMS

This chapter outlines the changes in the role of the Department of State in controlling policy and operations of U.S. foreign assistance programs. The nature and scope of these changes, insofar as they could be ascertained, including the relationship of the Department to other existing or proposed agencies, is discussed.

In summary, under the proposed reorganization, the Department of State is to have (1) less day-to-day operating control but continued responsibility for foreign policy control over development programs, (2) increased control to the extent of being fully responsible for economic supporting assistance and public safety programs, and (3) basically the same policy control but an enhanced capability for operating control over military assistance, foreign military sales, and humanitarian assistance programs.

NATURE AND SCOPE OF CHANGES

The administration noted that the role of the Secretary of State, in providing foreign policy guidance for security assistance, would change little from the present arrangement whereas such guidance on development assistance would stress the longer range emphasis of such development programs and their divorce from shorter term political and military considerations.

With respect to security assistance, the proposed role is as follows:

- The statutory division of responsibilities between the Secretaries of State and Defense on military assistance and foreign military sales programs essentially would be unchanged and authority for final approval would remain with the Secretary of State. This authority would be extended, under the proposed legislation, to cover supporting assistance (including public safety programs).

- The capability of the Department of State to control the policy and operations of security assistance would be enhanced, according to the administration, by the creation of a Coordinator of Security Assistance at the Under Secretary of State level and by the inclusion of supporting assistance as well as military assistance and sales under Department of State control.
- The planning of security assistance programs, including military assistance, would be more integrated by a recently formed Planning and Analysis Staff, composed of civilian and military experts, which would be made directly responsible to the Coordinator.
- Foreign military sales, including commercial sales, still would be subject to final approval by the Department of State which would coordinate its decisions with the Departments of Defense and the Treasury.

With respect to development assistance, the proposed role is as follows:

- IDHAA stipulates that the Secretary of State provide foreign policy guidance to the Coordinator of Development Assistance and to each of the present or proposed assistance organizations in part through Department of State representation on each of their boards.
- Department of State representation to international organizations and its advisory role with respect to U.S. representatives to international financial institutions remain essentially unchanged.

Additionally, humanitarian assistance, refugee and disaster relief, and support of voluntary agencies, would be administered by a new Department of State bureau headed by an Assistant Secretary of State. This would centralize the coordination of such assistance which is presently carried out through numerous Federal offices.

Security assistance

The statutory division of responsibilities between the Secretaries of State and Defense with respect to military assistance, economic supporting assistance, and foreign military sales is the same under proposed and existing legislation. This authority should be extended to cover economic supporting assistance (including public safety programs).

ISAA, section 3(b) stipulates the responsibility of the Secretary of State for "the continuous supervision and general direction" of these programs, including the responsibility for deciding whether there will be any such program for any particular country, and combines the legal language of FAA, section 622(c) and FMSA, section 2(b).

Administration officials have noted that, although the new legislation proposes no change in this division of responsibilities, it will provide for strengthening the means by which the Secretary of State can fulfill these responsibilities.

Controlling policies and operations of foreign military sales involves not only the Departments of State and Defense but also the Department of the Treasury. The Department of State determines whether any individual sale is to be approved and in what amount, its consistency with foreign policy and pertinent legislation, and the assurance of full interagency coordination on these matters. Primary responsibility for the control of military exports rests with the Bureau of Politico-Military Affairs; within the Bureau, commercial transactions are processed by the Office of Munitions Control and Foreign Military Sales and by the Office of Military Assistance and Sales.

A new Coordinator of Security Assistance at the Under Secretary level, to be located in the Department of State, would devote his time solely to these programs and would report directly to the Secretary. In turn the present Bureau of Politico-Military Affairs and a new Bureau of Economic Supporting Assistance incorporating the present AID structure for this function (and for public safety programs) would report directly to the Coordinator.

A recently created Planning and Analysis Staff, presently operating under the Bureau of Politico-Military Affairs, would come under the office of the Coordinator. Composed of military and civilian specialists, planners, economists, and systems analysts, this staff would prepare the integrated country analyses necessary for projecting the optimum level and mix of security assistance resources and the potential impact upon the recipient country. The Department of Defense would continue, however, to have primary administrative responsibility for administering military assistance and foreign military sales.

In addition, a new Inspector General of Foreign Operations, directly responsible to the Secretary of State, would review both security and development assistance programs for their consonance with U.S. foreign policy.

Administration officials have noted that these organizational changes will strengthen and build upon the improvements in interdepartmental cooperation on security assistance while enhancing the capabilities of the Department of State to maintain policy control over them.

Development assistance

IDHAA stipulates that the Secretary of State provide foreign policy guidance to the Coordinator of Development Assistance and to each of the present or proposed organizations administering development assistance programs. The Secretary of State is a member of the President's Council on International Economic Policy (CIEP) and, in the absence of the President, the Chairman of CIEP. CIEP will have an operations group, chaired by the Deputy Under Secretary of State for Economic Affairs, which will discharge some of the coordination functions. A Department of State representative will sit on each organization's board. The Coordinator will maintain liaison with CIEP.

It is not clear, however, what authority the Secretary of State will have, under his role of providing foreign policy guidance, in overriding any development assistance proposal in the light of pressing foreign policy considerations. Administration officials have noted that the coordination between development and security assistance will be provided

by the two coordinators, the Secretary of State, CIEP, the National Security Council, and ultimately the President.

Under existing arrangements the Under Secretary of State has the responsibility for coordinating economic and military assistance. Assistance plans for individual countries initially are drawn up by the country teams with inputs from field representatives of the Departments of State and Defense as well as from AID and other agencies. In the case of Latin America, the AID and State bureaus actually are combined and headed by the Assistant Secretary and Coordinator of the Alliance for Progress.

U.S. representatives to the international financial institutions will continue to be responsible to the Secretary of the Treasury. The Department of State will continue its membership on the National Advisory Council on International Monetary and Financial Policies which provides advice to the Secretary of the Treasury on his instructions to U.S. representatives to these financial institutions.

CHAPTER 4

COMPARISON OF EXISTING AND PROPOSED

LEGISLATIVE RESTRICTIONS AND WAIVER AUTHORITIES

This chapter compares existing and proposed legislation for changes in legislative restrictions and Presidential waiver authorities. It contains a summary of the nature and scope of these changes and an identification of some issues arising from such changes which we feel warrant the particular attention of the Congress. A section-by-section comparison of restrictions and waivers in existing and proposed legislation is included as appendix III.

NATURE AND SCOPE OF CHANGES IN RESTRICTIONS AND WAIVERS

The restrictions and related Presidential waiver authorities contained in existing legislation on U.S. foreign assistance are greater in relation to security assistance than to development assistance. This is also true under the administration's reorganization proposals. IDHAA contains no separate section on general restrictions, such as section 620 of the Foreign Assistance Act of 1961, as amended. ISAA, on the other hand, does contain such a section although such restrictions have been reduced in number.

We have noted from this comparison of existing and proposed legislation that the scope of legislative restrictions in their effect on U.S. assistance programs has been narrowed although that for waiver authorities has been broadened.

Recognizing the difficulty of defining in all cases just what constitutes a restriction and the difference in effect of changes in major versus minor restrictions as well as other necessary qualifications, we have designated in the following table the number of areas in which such changes have occurred.

	<u>Carried over</u>	<u>Modified</u>	<u>Deleted</u>	<u>New</u>
Restrictions	67	58	98	10
Waiver authorities	7	3	13	7

This appears to be a reflection of the administration's purposeful separation of shorter range U.S. national security objectives from assistance designed to achieve socioeconomic development objectives and to provide greater administrative flexibility.

The inherent difficulty in defining the word "restriction" led us to adopt the approach whereby a limitation on the use of authority and on the scope of authorized activity (as opposed to a dollar limitation) or a requirement of accountability provided by the existing and proposed legislation would be considered a restriction. In effect this expands the inclusiveness of the term which otherwise might be confined to those provisions explicitly using the word "restriction" or similar terms.

In like manner the scope of Presidential waiver authority is greater under the generic as opposed to the narrower use of the term. Such authority can be exercised by such means as Presidential determinations, findings, or certifications; the fulfilling of conditional requirements by someone other than the President; and by other means.

Moreover any given restrictive provision may be made up of several interrelated restrictions. A deletion or addition in any one of these situations may well represent a modification in net effect.

Restrictions and waivers--development assistance

The statutory restrictions on development assistance of FAA of 1961, as amended, have been substantially reduced. One general restriction on development assistance, contained in the proposed IDHAA, has been incorporated into a definition of "friendly foreign countries and areas," which modifies several FAA restrictions on assistance to Communist countries or to those severing diplomatic relations. Added to the proposed definition is the authority for the President

to waive its restrictions when he finds such waiver to be in the national interest.

Those general restrictions of FAA (section 620) relating to the furnishing of assistance to countries which (1) take no action on recognized outstanding debts to U.S. citizens, (2) plan aggressive acts, (3) permit mob destruction of U.S. property, (4) seize U.S. fishing vessels, (5) are in default of loan payments, or (6) are in arrears on their obligations to the United Nations have been deleted as far as development assistance is concerned. (For their relationship to security assistance, see p. 45.

Exceptions include modified versions of the prohibitions on furnishing assistance to countries expropriating U.S.-owned property or unnecessarily diverting development resources to military purposes. These have been made considerations for the approval of development loans.

Separate worldwide and Latin American authorities for development loans, technical assistance, and housing guaranties have been combined. Restrictive provisions on conditions of eligibility, self-help, and terms of assistance in the programs have been substantially modified or eliminated. The same holds true for assistance to international organizations and programs although the 40-percent limitation on the U.S. contribution to UNDP has been carried over. Authority for programs relating to population growth has been combined with that for technical cooperation, and the restrictions on such population assistance generally have been carried over.

Provisions covering proposed borrowing authority, expanded reflows from program funds under predecessor legislation, and the establishment of corporate structures to administer the assistance program have been added as well as a 3-year authorization request.

Titles V, VI, VII, VIII, IX, and XI of FAA have been deleted in their entirety. These are:

Title V Development Research

Title VI Alliance for Progress

Title VII Evaluation of Programs

Title VIII Southeast Asia Multilateral and Regional Programs

Title IX Utilization of Democratic Institutions in Development

Title XI Food Production Targets and Reports

IDHAA, chapter 3 draws into one chapter on humanitarian assistance the FAA provisions on (1) disaster and refugee relief and (2) support of voluntary agencies.

The restrictions contained in chapter I of part III of FAA, as they relate to development assistance, have been largely deleted. Among these are the provisions covering procurement outside the United States, the annual appropriation of foreign currencies, patents and technical information, the use of Government-owned excess property as assistance, the transfer of funds between accounts, the completion of plans and cost estimates for loans and grants of over \$100,000 and for capital projects of over \$1 million, and the termination of assistance by concurrent resolution. (For such restrictions in ISAA, see pp. 45 and 46.)

The administrative provisions of chapter 2 of part III of FAA, insofar as they apply to development assistance, have been modified or deleted to conform to the organizational changes proposed by the administration. (See p. 10.) Some of the restrictions within these provisions which have been deleted are those covering the language and area competence of personnel, the provision of public information, the termination of assistance upon the expiration of a 35-day period during which the Congress or GAO was denied access to certain information, required information to be contained in annual appropriation requests to the Congress, and the separate authorization and appropriation of administrative funds.

Restrictions and waivers--security assistance

Unlike the proposed development assistance legislation, ISAA does contain a section on general restrictions. ISAA

deletes or changes many of the restrictive provisions of FAA, FMSA, and other acts. Not repealed, however, is the so-called Cooper-Church amendment on Cambodia--section 7 of the Special Foreign Assistance Act of 1971 (Pub. L. 91-652). The Reuss amendment to section 1 of FMSA, expressing the sense of the Congress on aid to repressive military regimes, has been extended to cover all security assistance although its related waiver authority has been deleted as "legally unnecessary."

FAA conditions of eligibility on defense articles and services provided under the military assistance program (MAP) have been extended to cover the provisions of such articles and services under all forms of security assistance (ISAA, sec. 31). A Presidential determination (ISAA, sec. 34(h)), however, has been added to provide a means to lift the otherwise mandatory termination of assistance to countries which violate those conditions (FAA, sec. 505(d)).

The authority of FAA (sec. 610) to transfer funds between accounts has been extended under ISAA (sec. 24(b)) to all forms of security assistance, increasing the maximum transferable from 10 to 20 percent of any single fund and deleting the 20-percent limit on the amount by which any single fund can be increased.

The 12-country limitation on supporting assistance contained in FAA (sec. 401) has been carried over but does not apply to public safety programs which will be supported by these funds.

The 40-country limitation on military assistance loans and grants contained in FAA (sec. 504) also has been carried over but will not apply to barter transactions newly authorized under the authority of ISAA (sec. 34).

The ceiling on the aggregate amount of excess defense articles which can be granted in any fiscal year without charge to appropriated military assistance funds has been raised from \$300 million at acquisition cost (provisions of the FMSA amendment of 1971, sec. 8, Pub. L. 91-672) to an amount equal to the expected availability of such articles for that fiscal year (ISAA, sec. 34(f)). An amount of \$660 million (acquisition cost) is proposed for 1972.

Exceeding the ceiling would require an expenditure of military assistance funds equal to 33-1/3 percent of the articles' acquisition costs.

The required certification (FAA, sec. 509) of a recipient's capability to effectively utilize defense articles having a value in excess of \$100,000 has been carried over. The authority of the Secretaries of State and Defense to waive that requirement has been combined and carried over. This certification does not apply to barter transactions or to excess defense articles.

Terms and conditions on sales credits and guaranties have been modified and made more concessionary, including provisions for refinancing and foreign financing, lower interest rates, authority for an extended maturity date, and authority to alter the terms and conditions of outstanding credits.

Of the general restrictions in ISAA (sec. 42), the majority are modified versions of specific prohibitions contained in FAA (secs. 620 and 504) and one is new. Two of the modified FAA (sec. 620) restrictions have parallel restrictions in FMSA. Several related Presidential waiver authorities have been deleted as have the applicable restrictions. The proposed restrictions relate to furnishing assistance to Communist countries, economically advanced countries, countries with which we do not maintain diplomatic relations, or countries which seize or fine U.S. fishing vessels. Also included are restrictions on assistance to developing countries diverting development resources to military purposes and a prohibition on providing sophisticated weapons systems to less developed countries. A new provision relating to illicit drug control traffic has been added. Some of the deleted restrictions of FAA (sec. 620) relate to Cuban compensation for confiscated U.S. property, countries having recognized long-outstanding debts to U.S. citizens, countries planning aggressive acts or permitting mob destruction of U.S. property, and assistance to the United Arab Republic.

The aggregate ceiling on foreign military sales credits and guaranties has been modified to exclude from counting against the ceiling guaranties on the sale of outstanding

promissory notes. In addition, the amount has been raised from \$340 million for fiscal years 1970 and 1971 to \$582 million for fiscal year 1972.

The regional foreign military sales ceilings (ISAA, sec. 44(a)) on Latin America and Africa have been raised from \$75 million and \$40 million to \$150 million and \$60 million, respectively.

The \$25 million ceiling on military assistance to Latin America and Africa, as set forth in FAA (secs. 507(a) and 508), has been retained. The ceiling applies, however, to the value of programmed defense articles for each region whereas formerly it applied to all military assistance to Africa. The conditional prohibition on further military assistance to Latin America has been deleted.

FAA (sec. 617), stipulating that assistance could be terminated by concurrent resolution unless sooner terminated by the President, has been deleted. The 12-month limitation on the availability of funds for terminated assistance has been carried over, and new authority has been added to reimburse any agency for out-of-pocket losses on suspended or terminated security assistance transactions--including foreign military sales.

Presidential waiver authorities in FAA (sec. 633) on all laws (other than the Renegotiation Act of 1951, as amended (50 U.S.C. app. 1211 et seq.)), governing contracts and expenditures and on the Neutrality Act (54 Stat. 4) have been extended to cover all forms of security assistance (ISAA, secs. 63(d) and (e)). The authority to waive the holding of civilian offices by military personnel has been carried over to ISAA (sec. 72(j)).

Required reports and presentation documents on the various forms of security assistance have been consolidated under section 54 of ISAA. In addition, the administration stated its intention of supplying certain other information which would not be legally required under section 54.

The FAA (sec. 634(c)) provision which prohibits the use of funds after the expiration of a 35-day period in which a requested document has not been provided to a

congressional committee or to GAO has been carried over to ISAA (sec. 55). A new provision (ISAA, sec. 69(b)) authorizes the President to order the cessation of any monitoring or auditing activities of any agency with respect to any terminated or suspended assistance under this or predecessor legislation when he determines that the residual U.S. Government interest in such assistance no longer warrants such activities.

SOME ISSUES ARISING FROM
PROPOSED LEGISLATIVE CHANGES

Following are some issues arising from the proposed changes in foreign assistance legislation which we believe warrant particular attention and consideration. The order of discussion is not intended to reflect any relative significance or ranking of importance.

Modification in definition of "value"
might allow recovery of
less than full cost of military sales

This modified definition of "value" in ISAA (sec. 4(m)) might, in our opinion, allow for the sale of defense articles at a price insufficient to recover all costs to the U.S. Government.

The definition is based on FAA (sec. 644(m)) which covers military assistance. This definition has been extended to cover foreign military sales transactions in ISAA.

Defense articles sold out of U.S. stocks but still in use by the U.S. Forces could, under this definition of value, be priced below the replacement costs to the U.S. Government.

In addition, prices to be charged for reimbursing supplying agencies for aircraft, ships, plant equipment, or any other major item (except excess defense articles) could be negotiated with no set minimums, which would effectually authorize the Secretary of Defense to waive recovery of full cost and which would result in an undisclosed amount of grant aid.

New authority for MAP barter transactions
could lead to
additional nonappropriated assistance

MAP barter transactions authorized under the provisions of ISAA might lead to the establishment of a de facto revolving fund which would finance military assistance outside of any appropriated amounts. This possibility is raised because of the following observations.

--MAP recipients theoretically would be able to barter U.S. defense articles received in prior years (including excess defense articles on a grant basis) for new defense articles (sec. 34(a)).

--Defense articles received in repayment of such a transaction then could be utilized again as security assistance (sec. 65(b)).

There is some question on whether the above would be prevented by the requirement of section 34(b)(2) that, unless the President consents to other disposition, defense articles provided on a grant or loan basis be returned to the United States when no longer needed for the purpose for which they originally were furnished.

In view of the uncertainty on the ramifications of barter transactions, the Committee may wish to request a clarification of intent on this matter from the administration.

Need for application of advance certification requirement to excess defense articles

ISAA (sec. 34(g)(1)) continues the requirement for advance certification of the recipients' capability to utilize defense articles having a value of \$100,000 or more. Excess defense articles, even such high-cost items as aircraft, would continue to be exempt from such certification if their value (i.e., the cost to the Government to repair, rehabilitate, or modify such articles as defined under ISAA, sec. (4)(m)(1)) were less than \$100,000. We believe that a recipient's capability to utilize such articles is important regardless of whether or not they are excess.

The Committee may wish to consider including a specific reference to such excess defense articles in this provision. This could be accomplished by the following insertion in ISAA (sec. 34(g)(1)).

After the phrase "no defense article having a value in excess of \$100,000," insert the parenthetical phrase "(including excess defense articles valued at acquisition cost)."

Need to explore provision on sale of
defense articles to prime contractors

ISAA (sec. 62(f)(1)) is new and authorizes the acquisition and sale of defense articles to prime contractors for incorporation into end-items for commercial sales to foreign countries. Under such circumstances the Department of Defense (DOD) might well become a party to such commercial transactions, which would enable private enterprise to compete in the international arms market with the assistance of public funds.

ISAA (sec. 62(f)(2)) is also new and authorizes the negotiated sale of excess spare parts to U.S. suppliers to support defense articles previously acquired by foreign countries or international organizations. Under this section there is no limitation on the final negotiated price to the contractor and no provision for the screening of such parts by the General Services Administration under the General Administration and Property Act. Like section 62(f)(1) this could be used to promote commercial sales.

Therefore we believe that the Committee may wish to more fully explore the intent of these provisions.

Exemption from contract law regulations
might permit exemption from
foreign military sales contract provisions

The exemption, provided by ISAA (sec. 63(d)), from all laws but one which governs contracts may well have the effect of allowing foreign military sales contracts to be made without regard to the restrictions on such contracts in section 37. The similar provision of FAA (sec. 633(a)) did not apply to foreign military sales.

If the Committee should desire to preclude this possibility, the following suggested language might be inserted in ISAA (sec. 63(d)).

After the words "the functions authorized under this Act," insert the parenthetical phrase "(with the exception of foreign military sales)."

Proposed change might lead to U.S. absorption
of losses from military sales transactions
terminated by foreign customers

The proposed ISAA, section 69(a) refers to losses sustained by the Government on terminated or suspended foreign military cash sale transactions regardless of who initiated the termination or suspension. It might well be reasonable to expect Government absorption of losses on U.S.-initiated terminations. Cash sale contracts, however, generally have required foreign customers to pay all termination costs when they terminate the transactions. This provision may authorize exceptions to this general practice.

The Committee therefore may wish to more fully explore the propriety of what appears to be a departure from past practice in this regard.

Clarification needed on guaranties and
disposal of foreign currency receipts
under supporting assistance

ISAA (sec. 35) authorizes grants, loans, guaranties, and barter and reimbursement transactions (including cash, credit, and foreign currency repayment terms). There are no provisions which cover the disposal of foreign currency receipts from supporting assistance, other than those accruing to the recipient through the sale of commodity grants. Also there are no provisions which govern the administration of supporting assistance guaranties.

We believe that a clarification is needed on the disposal of all such foreign currency receipts, on any guaranty fees, on the amounts to be guaranteed, and on the source of funds to pay claims.

Need for clarification on administration of
existing loans and Public Law 480 program

IDHAA (primarily secs. 209(b) and 210(b)(3),(4)) provides for the transfer and use of receipts from an expanded list of loans authorized by predecessor legislation. It is not clear, however, which organizational entities will administer these loans. The benefit of the income on sound

loans could be obtained in some cases without assuming the risk of loss. On the other hand, the liability of unsound loans could be assumed by an entity supposedly operating on a businesslike basis. No provision, moreover, covers the intended transfer or administration of Public Law 480 loans from AID.

We believe that a clarification is desirable, showing which organizational entities will administer such past loans, will assume the risks associated with such loans, and will administer the various Public Law 480 programs and their related security and development assistance programs.

Possible need for provision to repay
debt to Treasury on outstanding loans

Some presently outstanding foreign assistance loans were made from funds borrowed from the U.S. Treasury, and the receipts on such loans were earmarked to repay that debt. IDHAA (secs. 209 and 210) would put the dollar receipts from such loans into the proposed IDC revolving fund and would have no provision to repay the Treasury.

The Committee may want to consider the alternatives of an explicit authorization to forgive this debt to the Treasury or to authorize the use in section 210(d) of the revolving fund capital to repay the debt associated with whatever loans are transferred to it.

Possible need to ensure sufficiency of funds to
meet all development lending operating costs

IDHAA (secs. 210(d)(1) and (2)) prohibits the use of the proposed IDC's revolving-fund capital account to meet administrative and operating expenses and to service the debt on borrowings. These are to be paid only from the fund's income account. There is no requirement, however, for ensuring that IDC will always be self-sufficient in this regard or that it will cover all such operating costs. Theoretically a preponderance of future lending at or near the authorized rate of 1 percent per annum could lead to a situation in which the level of the income account would be insufficient for meeting authorized expenses.

We believe that the Committee may wish to inquire into the desirability of ensuring the sufficiency of funds in this account and of meeting from this account all related expenses, including the total cost to the Government for all funds provided for lending purposes.

CHAPTER 5

EFFECTS ON CONGRESSIONAL AUTHORITY AND RESPONSIBILITY

ARISING FROM PROPOSED FOREIGN ASSISTANCE LEGISLATION

This chapter deals with potential effects in certain areas of congressional authority and responsibility relating to foreign assistance programs. Included in the chapter are discussions on the effects of the proposed corporate structure, the curtailment of auditing rights for security assistance, and the omission from IDHAA of a provision for legislative access to information.

EFFECT OF CORPORATE STRUCTURE

The proposed IDHAA provides authority for the President to create a federally chartered corporation or corporations for carrying out the purposes of IDHAA. This authority would be used, according to the administration, to establish IDC which would have authority to borrow from the Treasury or from the public. It would be a wholly owned Government corporation subject to the provisions of the Government Corporation Control Act, as amended (31 U.S.C. 841 et seq.), and would place the full faith and credit of the U.S. Government behind the obligations it would issue and sell.

Over the years we generally have held the view that any potential net advantage to the Government in more efficient and economical operation of authorized activities under a corporate structure must be clearly demonstrated and weighed against what we believe to be the tendency of such corporations to dilute congressional control over public expenditures. In our opinion, the public interest is better served through annual reviews by the Congress and by affirmative action on planned programs and financing requirements. This review normally is accomplished through hearings culminating in affirmative action on authorization and appropriation requests.

The question of the relative advantages of a corporate structure is made even more important in this instance because there is no provision in IDHAA for congressional

approval of the proposed IDC's charter. The Congress may wish to consider whether a departure from this standard and the establishment of a corporation to implement these programs can be justified in this case.

CURTAILMENT OF AUDITING RIGHTS
FOR SECURITY ASSISTANCE

Another area of concern to us, with respect to congressional authority and responsibility, is a new section 69(b) of ISAA which authorizes the cessation, upon Presidential determination, of any monitoring or auditing activities of any agency with respect to assistance furnished pursuant to ISAA or predecessor legislation when that assistance is terminated or suspended. Under such circumstances GAO possibly would be precluded from supplying information on such programs to the Congress even upon congressional request.

We question whether the Congress would want to approve such authority in respect to the legislative branch.

PROPOSED LEGISLATION DOES NOT REFLECT
LEGISLATIVE RIGHT TO ACCESS TO INFORMATION

FAA (sec. 634(c)) which spells out the right of congressional committees and GAO to access to executive branch information on U.S. foreign assistance, barring an exercise of Presidential executive privilege, has been excluded from IDHAA. Consequently any denial of access in reference to development assistance information would not entail the possible penalties provided for in existing legislation or require the exercise of executive privilege.

A discussion of problems in gaining access to executive information on Government programs abroad, in response to a February 1971 request by the Chairman, Senate Committee on Foreign Relations, was transmitted to the Committee under separate cover (B-163582, September 10, 1971).

CHAPTER 6

CONSISTENCY OF PROPOSED REORGANIZATION

WITH GAO FINDINGS AND RECOMMENDATIONS

This chapter outlines certain areas in which the proposed reorganization of the foreign aid and foreign military assistance programs may fall short of, or be inconsistent with, findings and recommendations from past GAO reviews. These reviews have evolved from our initial efforts of identifying specific weaknesses in management controls and opportunities for economy and efficiency in operation to more comprehensive management reviews of selected program segments, including evaluations of the U.S. management of contributions to international organizations and broader based reviews and evaluations of program effectiveness, using selected countries and functions as units of focus.

The issues identified below are organized into the following four general categories.

- Program planning and evaluation.
- Program execution.
- Management of U.S. owned or controlled local currencies.
- Assistance to international organizations.

PROGRAM PLANNING AND EVALUATION

Need for formulating program aims in objectively measurable terms

We believe that a significant opportunity exists for improving the planning and evaluation process as it relates to U.S. development aims in individual countries.

During a number of reviews involving U.S. development programs in individual countries or regions, we found that

certain U.S. program objectives, goals, and targets¹ lacked the specificity necessary to permit objective measurement and evaluation of program results over a period of time. We therefore sought to determine whether this condition was generally common in U.S. assistance programs. In 1971 we made a test check of selected fiscal year 1972 programming documents for development programs in six countries receiving relatively large amounts of U.S. development assistance. We found that, in a majority of cases, program objectives and goals had not been stated in objectively measurable terms and had not included a time frame for accomplishment but that a planning system had been instituted for, and improvements made in, formulating noncapital assistance activity targets in terms measurable over a period of time. Of a total of 259 development objectives and goals reviewed, about 13 percent were stated in objectively measurable terms and 16 percent had a specified time frame for accomplishment.

The Congress has demonstrated a continuing interest in the problem of evaluating program performance when foreign aid funds are involved. One of the primary findings of the Foreign Operations and Government Information Subcommittee, in its report (H. Rept. 1849) issued August 5, 1968, related to the need for specific priorities and goals on the part of AID.

Section 621A of FAA of 1961, as amended (22 U.S.C. 2381a), added by the Congress in 1968, calls for the strengthening of AID's management practices by the use of advanced management techniques and the establishment of a modern programming, planning, and budgeting system with built-in implementation and evaluation capabilities.

The proposed IDHAA of 1971 is silent on this matter except for the provision that assistance is to be administered in a mature and businesslike manner.

¹Terms of reference are as follows: "objective" is used to mean the intermediate or final program purpose, "goal" is used to mean an element in a plan to accomplish a stated objective, and "target" is used to mean an element in a plan to accomplish a stated goal.

We believe that this is an area in which additional legislative emphasis may be warranted. Therefore the Congress may wish to consider adding language along the following lines to section 409 of the proposed IDHAA of 1971.

- (c) The President will take the measures necessary to ensure that all objectives and goals of the assistance programs established pursuant to this act are formulated in terms which are objectively measurable over a period of time.

Should U.S. preferential trade be treated
as having a foreign aid component?

U.S. preferential trade--commodity trade assistance-- is not now treated as having a foreign aid component. Whether it should be is a matter we believe that the Congress should consider in view of its nature and magnitude.

Commodity trade assistance--a form of foreign aid linked to imports of specific commodities--is provided by the United States to the less developed countries primarily through the operations of the United States Sugar Act and the International Coffee Agreement (ICA).

Sugar and coffee assistance qualify as foreign aid because they entail a transfer of resources from the United States to other countries on concessional terms. In the case of sugar, foreign quota holders are able to sell sugar in U.S. markets at prices generally substantially above world prices. In the case of coffee, exporting countries sell at prices which are above those likely to have prevailed in the absence of ICA. Since demand for both commodities is inelastic, earnings of foreign sugar quota holders and coffee-exporting countries are higher than they otherwise would be. Resources are therefore transferred from U.S. consumers to countries selling sugar and coffee in U.S. markets.

There are several significant distinctions between commodity trade assistance and the more traditional forms of U.S. aid. For example, commodity trade assistance is subject only to limited congressional review and control; it is made available independently of comparative self-help, performance, and balance-of-payments requirements; and its amount must be estimated and agreed upon. Also, for the most part, commodity trade assistance is transmitted through commercial channels whereas traditional foreign aid is transmitted through the donor government.

We believe that the Congress may wish to consider, in view of the magnitude of commodity trade assistance, whether it desires to maintain such distinctions in authorizing U.S. foreign assistance. It may, for example, wish to consider whether the foreign aid component should be an explicit

objective of the underlying legislation and treaty for commodity trade assistance and to what extent the conditions or restraints applicable to aid financed through direct appropriations should be applied to commodity trade assistance.

We believe also that the Congress may wish to give specific consideration to the magnitude of U.S. commodity trade assistance when approving executive branch foreign assistance budget requests.

Finally we believe that an increased portion of the assistance granted in connection with U.S. participation and that of other countries in ICA should be utilized for diversification of the recipient countries' exports or for other development purposes.

In 1969 we made a special study as a means of measuring the magnitude of U.S. commodity trade assistance (B-167416, October 23, 1969). The following sections summarize our basic findings.

Assistance provided through United States Sugar Act

In 1967 world net exports of sugar were 15.8 million metric tons. Only about 42 percent of this total was traded in the free market. Most sugar exports are marketed through preferential arrangements which give exporters prices higher than free-market prices.

We estimated that U.S. sugar assistance averaged between \$290 and \$342 million a year during the period 1965 to 1967. Inclusion of sugar assistance would have increased total U.S. foreign economic assistance levels 7 to 9 percent during the period. Such sugar assistance is given to 31 countries, of which most are developing countries.

We found that no explicit attention was paid to the use that recipient countries made of sugar assistance despite the sums involved. Sugar assistance is made available independent of comparative self-help, performance, and balance-of-payments requirements. The major reasons for the distinctions between traditional forms of U.S. aid and commodity

trade assistance are that commodity trade assistance is linked to patterns of production, it is transmitted through commercial channels rather than governmental channels, and the basic legislation and treaty for commodity trade assistance does not make foreign aid an explicit objective.

If appropriate legislative action is taken to make foreign assistance an explicit objective of the United States Sugar Act, the Congress may wish to consider inclusion of the following paragraph under the general and administrative provisions (pt. II, ch.1) of IDHAA.

The President is held responsible for (a) reaching agreements with developing countries who receive assistance through the United States Sugar Act on the use of such assistance, (b) ensuring that such assistance is utilized either for specific developmental projects or for the furtherance of general development objectives, and (c) providing the Congress with information on the amounts and the recipients of assistance granted in conjunction with the United States Sugar Act and on the use that these countries have made or intend to make of such assistance.

Assistance granted in conjunction with
International Coffee Agreement

The United States accounts for more than 40 percent of world coffee imports. In our 1969 study we estimated that U.S. assistance granted in conjunction with ICA averaged about \$314 million annually--an amount equal to about 8 percent of official U.S. aid disbursements. The major recipients of such assistance were Brazil, Colombia, Mexico, Angola, Ethiopia, and Uganda.

The proposed legislation is silent regarding assistance granted in connection with ICA.

In view of the magnitude of such assistance and the desirability of considering total development resources available to each recipient country, we believe that the Congress may wish to give specific consideration to the extent of such assistance when deciding on foreign aid program levels. To provide for the availability of data on the levels and

recipients of such assistance, the following section is proposed for inclusion under the general and administrative provisions (pt. II, ch. 1) of the proposed IDHAA of 1971.

The President is responsible for advising the Congress, during the annual foreign assistance budget presentation, of the amounts, by country, of economic assistance granted in conjunction with U.S. participation in the International Coffee Agreement.

Need to increase the portion of
coffee assistance earmarked
for development purposes

The 1968 ICA represented a modest beginning in the direction of planning for the effective utilization of coffee assistance. A diversification fund was established to help coffee-exporting countries to diversify their exports. Only a small fraction of the approximately \$600 million in worldwide coffee aid, however, will be used to finance the fund. Coffee exports will be taxed at 60 cents a bag in excess of 100,000 bags of exports. Assuming that annual coffee assistance is at about the level which prevailed in prior years, only slightly more than 1 percent of it will be earmarked for development.

The agreement further provides for an increase in the export tax to \$1 a bag upon approval by a two-thirds majority of the International Coffee Council. An increase to the maximum of \$1 a bag would result in an estimated 2 percent of the total annual coffee assistance being earmarked for development purposes.

The Congress, in view of the magnitude of assistance granted in conjunction with ICA and in recognition of the need for developing nations to take maximum self-help measures, may wish to give legislative emphasis to the desirability of securing a greater earmarking of the subject assistance for development purposes. This could be done by adding the following paragraph to the general and administrative provisions (pt. II, ch. 1) of the proposed IDHAA of 1971.

It is the sense of the Congress that the United States will, in cooperation with the other signatories of the International Coffee Agreement, attempt to increase the tax on coffee exports to \$1 a bag, the maximum permissible under the present agreement. Further, if it becomes necessary to negotiate another agreement, the United States will, in cooperation with other importing countries, attempt to raise the tax rate to an amount which will allocate a higher fraction of total coffee assistance to a diversification or development fund.

Should debt rescheduling be treated as a form of foreign assistance

We believe that the Congress may wish to consider whether the rescheduling of loan repayments is a form of foreign assistance. We believe that, if they are so considered, the extent of such rescheduling each year should be reported to the Congress during the annual foreign assistance budget presentation.

We believe that, when the United States amends foreign loan agreements to postpone their due dates, this, in effect, constitutes a form of aid. By not requiring the repayments to be made when due, AID is allowing the country to utilize AID funds elsewhere in the economy. Further, we believe that it is somewhat misleading to the Congress and to the public for annual requests for aid authorizations to stress the high proportion of loans when, at the same time, the debt-servicing capacity of developing countries is limited and when debt reschedulings are becoming routine.

A GAO review of AID loan programs revealed that, in the past, substantial sums were not repaid due to agreements between AID and the borrower to reschedule loan repayment dates. During 1970 the United States undertook debt-rescheduling negotiations with four countries: India, Indonesia, Ghana, and the United Arab Republic. Agreements have been reached with India and Indonesia for the rescheduling of \$8.6 million and \$215.6 million, respectively (B-133220, September 11, 1969).

A review of the proposed IDHAA of 1971 and the proposed ISAA of 1971 did not disclose a provision requiring IDC or DOD to notify the Congress of the rescheduling of loan repayments.

Accordingly, in view of the substantial sums involved, the implications as to the future repayment capacities of the borrower and as to the possible foreign assistance implicit in debt reschedulings, the Congress may wish to consider requiring that debt rescheduling be considered as a form of aid. This could be done by inserting the following provision in section 207 of the proposed IDHAA of 1971.

- (h) The Congress will be advised during the annual foreign assistance budget presentation of the rescheduling of interest or principal repayment dates on loans made by the International Development Corporation or its predecessor agencies.

Also the following provision could be inserted in section 51 of ISAA of 1971.

- (d) A statement of the rescheduling of interest or principal repayment dates on loans made under this act.

Need for improved methods and criteria
for assessing country capability for
contributing agreed resources for
U.S.-supported activities

Our experience has demonstrated that a need exists for improved methods and criteria for assessing a country's capability for contributing agreed-upon resources for U.S.-supported activities. We also believe that increased monitoring or other means are needed to ensure that U.S. resource releases are more closely meshed to the recipient's provision of agreed-upon resources.

During our reviews we noted numerous instances in which an aid-recipient country failed to provide the resource contribution which previously had been agreed to. For example:

- In a 1967 report we found that AID, in programming equipment and vehicles to 10 African countries, had not recognized that the recipient countries were unable to maintain and effectively utilize the equipment and vehicles. Limited use and poor performance were generally due to an insufficient number of operators and mechanics, limited maintenance facilities and spare parts, and too low a level of recipient-country budgetary support (B-160789, May 18, 1967).
- In a 1969 report on assistance provided to Nigeria, we found that, in most of the AID technical assistance projects reviewed, the Nigerian Government had not met its manpower or funding commitments and

thereby delayed project performance. We found also several cases in which project agreements containing substantially the same provisions had been negotiated year after year even though the host country consistently had not met its obligations to the projects (B-167677, August 14, 1969).

--In a 1970 review in Ecuador, we found that the inability or unwillingness of the country to provide agreed-upon contributions to U.S.-supported development activities was a problem of longstanding duration.

Although the proposed IDHAA of 1971 contains a number of references to the recipient country's contributions to U.S.-assisted projects, we believe that further emphasis is needed. The proposed ISAA of 1971 is, for the most part, silent regarding project planning standards.

In recognition of the importance of recipient-country participation in and contribution toward U.S.-assisted development and security assistance programs, the Congress may wish to consider including some or all of the following requirements in section 401 of the proposed IDHAA of 1971 and section 42 of the proposed ISAA of 1971.

- (i) The President, prior to entering into assistance agreements requiring a resource contribution from the recipient country, (1) will conduct studies to determine the level and type of resource contribution that the recipient country realistically can be expected to provide, (2) will reach agreement, on the basis of these studies, with the recipient country on the level and type of contribution that the country will provide, (3) will include in any contract or other written agreement the specific details relating to the recipient country's resource contribution, (4) will make disbursements incrementally on the basis of the percentage of cost incurred to the total estimated project costs of projects receiving U.S. assistance and requiring recipient-country contributions, and (5) will periodically monitor and evaluate, in accordance with the terms of any agreement or contract, the

performance of the recipient country regarding its resource contribution and will maintain at all times the right to withhold future U.S. assistance if the recipient country fails to supply the resources previously agreed to.

PROGRAM EXECUTION

Proposed restriction on payment of foreign taxes

We believe that it is inappropriate for the financial burden of a foreign tax to be passed on to the United States in connection with its foreign assistance activities.

During a 1969 study we found that the United States and various governments had arranged, generally by agreement or understanding, for U.S. purchases in a country, as well as supplies and equipment that the United States imports into a country, to be granted exemption from taxes and import duties. During a review of military programs in selected countries, however, we found a discernable degree of resistance by some foreign governments in honoring their commitments (B-133267, January 20, 1970).

In six countries studied we found that the United States had incurred costs of many millions of dollars for payment of direct and indirect taxes. Such taxes were paid in connection with leases of property, rentals of family housing, local procurements, and imports of supplies and equipment. They involved real property taxes, local or municipal taxes, business and trade taxes, excise taxes, and import taxes.

We concluded that most of the resistance was due to (1) a lack of clear understanding by both parties as to the intention of the agreements, (2) a lack of development of mutually agreed-upon implementing procedures, and (3) taking of positions which protected the national interest of the country involved.

Neither the proposed legislation nor FAA of 1961, as amended, contains a restriction against the payment of foreign taxes. The Mutual Security Act of 1951 (ch. 479, 65 Stat. 384) precluded the use of funds authorized for European programs for the payment of foreign taxes. The prohibition was carried forward in connection with infrastructure programs in the Mutual Security Act of 1954 and was law for almost a decade but was not included in FAA of 1961.

In view of the substantial sums which could be involved, we believe that an expression of congressional policy is warranted. Accordingly we suggest that consideration be given to adding the following paragraph to section 42 of the proposed ISAA of 1971.

- (h) It is the sense of the Congress that funds granted under the provisions of this act should not be used for the payment of foreign taxes, whether direct or indirect.

Also we suggest adding the following paragraph to section 405 of the proposed IDHAA of 1971.

- (m) It is the sense of the Congress that funds granted under the provisions of this act should not be used for the payment of foreign taxes, whether direct or indirect.

Proposal for recipient payment of transport costs of U.S.-donated surplus commodities and property

Our experience has caused us to conclude that payment for transportation costs on U.S. shipments of donated surplus properties and surplus agricultural commodities should be made by the recipient country when the country is financially able.

A 1967 GAO review of payments by the United States of costs for shipping donated food abroad through nonprofit distribution agencies showed that only four of 107 countries receiving donated American foods had contributed toward the ocean freight costs. The question of whether foreign countries could or should pay ocean freight costs had been considered only in isolated cases by U.S. assistance officials. Our study indicated that the potential savings to the United States could be significant.

A 1971 review reveals that the United States, in the 4 years since the issuance of our 1967 report, has continued to pay significant amounts for ocean freight costs and that few recipient-country contributions had been received to defray ocean freight costs of donated commodities.

Section 203 of Public Law 480, as amended by the Food for Peace Act of 1966, states that the Commodity Credit Corporation¹ may pay ocean freight charges to designated ports of entry. Also the proposed IDHAA of 1971, section 303, authorizes the President to pay transportation costs of such assistance. The proposed legislation is silent with respect to requiring financially able recipient countries to pay the ocean freight costs of donated food and surplus properties. The legislation does, however, recognize the need for recipient countries to participate in the financing of other U.S. grant-financed activities.

In view of the potential significant savings involved, the Committee may wish to consider adding the following sentences to section 303 of the proposed IDHAA of 1971.

Recipients of U.S.-donated surplus agricultural commodities and excess or surplus property which are financially capable are required to assist in the payment of the transportation costs for said items. Accordingly the President shall establish criteria for determining financial capability and shall require financially able countries to assist in the payment of these costs unless the President determines that payment by the United States is necessary to accomplish the purpose of this act.

¹Commodity Credit Corporation funds are made available to AID for the paying of ocean freight charges.

MANAGEMENT OF U.S. OWNED OR CONTROLLED
LOCAL CURRENCY

Need for increased management attention
to use of local currency resources

Our experience under existing legislation has demonstrated that U.S. assistance program managers have not given adequate management attention to the use of local currency resources generated as a result of dollar-financed commodity import programs. Such local currencies do not represent additional resources; only the dollar-financed imports that generate them are additional. They do, however, represent a claim against a country's domestically available resources and, as such, constitute an important tool of assistance to be used to improve the total pattern of a country's resource use.

We have conducted a number of reviews involving AID's utilization of its local currency resources. The results of these reviews have demonstrated that, in general, U.S. program managers have not (1) allocated the funds or exercised adequate control over the use of the funds to ensure that they are used in accordance with previously established priorities or where the greatest needs have existed and (2) adequately monitored projects funded with local currency resources to ensure the timely and proper completion of these projects.

For example:

- During a 1968 review in Colombia, we found that substantial sums had been allocated to the various economic and social sectors in Colombia; however, the allocation of these funds did not follow, to a high degree, established priorities. We also found that, in a number of the projects, U.S. program managers had not adequately monitored the progress (B-161798, July 8, 1968).

- During a 1970 review of local currency made available to the Republic of Vietnam, we reported that (1) large sums had been released before the actual need for

these funds existed, (2) facilities had not been constructed on a timely basis primarily because U.S. program managers had not established an adequate system of inspection, and (3) few postaudits of expenditures made or reported by Vietnam had been conducted (B-159451, July 24, 1970).

Although the proposed IDHAA of 1971 (sec. 206) states that "development assistance must be *** administered on a mature and business-like basis," it is silent regarding the administration of projects financed with U.S. owned or controlled local currency resources.

We believe that, on the basis of our experience under the existing legislation, legislative emphasis encouraging increasing management attention to planning and monitoring the use of local currency resources is warranted. Accordingly we suggest that consideration be given to adding the following paragraph to section 405 of the proposed IDHAA of 1971.

- (1) Foreign currency which is owned or otherwise controlled by the United States and which is available for development purposes will be utilized, to the maximum extent possible, in accordance with established development priorities. Activities or projects financed, in whole or in part, by U.S. owned or controlled foreign currency will be periodically evaluated, and additional allocations of said foreign currency for such activities or projects will be based on positive findings of satisfactory implementation of such activities or projects.

Need for use of U.S. owned or controlled local
currency in lieu of dollar assistance

We believe that, in providing assistance to developing countries, U.S. owned or controlled local currencies should be utilized in lieu of dollars to the maximum extent possible. Such use would result in either "dollar stretching" or "dollar savings." We believe also that, when dollars are used to finance local costs, the Congress should be so advised in the annual foreign assistance budget presentations.

During a number of different reviews, we continued to find numerous cases in which U.S. owned or controlled local currency resources could have been but had not been used in lieu of dollars. A review was conducted in 1969 and included 10 project loans to four South American countries. This review revealed that many millions of dollars were to be converted into local currency even though U.S. owned or controlled local currency either was available at the time of the loan or became available prior to disbursement (B-146820, October 24, 1969).

We concluded that the failure to use local currency in lieu of dollars resulted from (1) the reluctance of the borrower to accept local currency instead of dollars, (2) AID's desire to provide balance-of-payment support, and (3) the frequent earmarking of local currency funds for other purposes. In this regard we noted that these earmarked funds were for projects and programs for which there was no immediate need for funds.

GAO found that these funds were owned by the aid-recipient country and that agreement would have to be reached with the recipient to use the funds for AID-financed projects. We recognize that the recipient country may be reluctant to use these currencies for AID projects, particularly after the program loan agreement has been signed and the loan funds are available for disbursement. In view of the fact that the demands on foreign assistance resources usually exceed the limited resources that are available, however, we believe that greater consideration should be given to using counterpart funds instead of dollars to finance the local costs of AID projects and that loan agreements which provide for the conversion of loan dollars to local currency should state specifically that any AID-related local currencies that become available will be used in lieu of such dollar conversions.

The proposed IDHAA of 1971 (sec. 405(h)) authorizes the President to utilize excess currencies to carry out the purposes for which funds are authorized under the act. The proposed legislation, however, does not establish the principle that U.S. owned or controlled local currency should be used in lieu of dollars wherever practicable.

The proposed ISAA of 1971 is silent regarding the use of both excess foreign currencies and other local currency funds owned or controlled by the United States in lieu of dollar assistance. Section 35 of the proposed act, however, does provide for U.S. control over the proceeds obtained from the sales of commodities which were furnished to countries on a grant basis.

Therefore, in view of the potential for reducing dollar financing and the resultant positive effect on the U.S. balance of payments, we offer for consideration the following paragraphs for inclusion in section 405 of the proposed IDHAA of 1971.

- (i) Whenever practical, and particularly for any U.S.-sponsored activity within a developing country requiring only local resources, U.S. owned or controlled local currencies are to be used in lieu of dollars.
- (j) Each corporation, agency, department, or instrumentality created under this act, together with the Overseas Private Investment Corporation and the Inter-American Foundation, will, at the time of its annual budget request, provide the Congress with the amount of dollar assistance utilized for local currency costs during the preceding year. When local currency is either in excess of current U.S. needs or otherwise available at the time of the use of dollars for local costs, a full explanation will be provided as to why the local currency was not a suitable substitute for the dollar portion of said assistance.
- (k) Dollar loan agreements, which result in the accrual of local currency to a country receiving assistance under the provisions of this act, will provide for the use of said local currency by the United States and, at the option of the United States, for its use as a substitute for that portion of subsequent U.S. dollar assistance scheduled to be converted into local currency.

Also the following paragraphs may be added to section 35 of the proposed ISAA of 1971.

- (f) In furnishing assistance under this act, U.S. owned or controlled local currencies will be used in lieu of dollars whenever practicable and particularly for any U.S.-sponsored activity within a developing country requiring only local resources.
- (g) Dollar loan agreements, which result in the accrual of local currency to a country receiving assistance under the provisions of this act, will provide for the use of said local currency by the United States and, at the option of the United States, for its use as a substitute for that portion of subsequent U.S. dollar assistance scheduled to be converted into local currency.

We also suggest inclusion of the following paragraph to section 51 of this act.

- (c) A table showing the amount of dollar assistance utilized for local currency costs during the preceding year and, when local currency was either in excess of current U.S. needs or otherwise available, a full explanation as to why the local currency funds were not used in lieu of the dollar portion of said assistance.

ASSISTANCE TO INTERNATIONAL ORGANIZATIONS

Need for improved monitoring and evaluation of performance of international organizations

We believe that, on the basis of our experience under the existing legislation, there is a need for improved monitoring and evaluation of U.S. development assistance channeled through international organizations. We have conducted a number of reviews of U.S. participation in these organizations, and the following observations are based on our work in this area.

- The executive branch has not obtained the information or has not developed the necessary procedures to make an adequate analysis of the proposed programs and activities of the international organizations. Therefore it has no firm basis for making informed judgments, except in very broad terms, as to what the organizations plan to do with U.S. contributions (B-168767, March 18, 1970).
- The data submitted by the organizations' administrators and the procedures followed in the appraisal processes provide little or no opportunity for member governments to exercise an effective voice over the direction of the programs (B-166780, July 8, 1969).
- Both the United States and the international organizations have recognized the need for evaluations of the activities of the international organizations, and both have taken some specific steps to meet this need. Although some progress is being made in this area, we believe that the evaluations currently being performed are not sufficient in scope and coverage to be of much assistance to U.S. officials in making independent judgments relative to the efficiency and effectiveness with which international organizations' projects and programs are being carried out.

We believe that ample evidence exists to show that the organizational structures and operational methods of some international organizations have not kept pace with the marked changes which have occurred in the scope and nature

of their programs. In this regard there is increasing criticism of poor planning, bad management, lack of coordination, and overlapping of activities.

The executive branch has announced its desire to channel all U.S. bilateral lending resources through international organizations by the end of the 1970's.

Because of these circumstances we believe that special legislative emphasis on the extent of executive branch oversight may be warranted. We believe that significantly increased oversight is necessary both as a means of ensuring that such resources are used effectively in accordance with U.S. foreign assistance objectives and as a means of showing the Congress and the American public the demonstrable results of U.S. development assistance programs. Accordingly the Congress may wish to consider the following revision to section 217 of IDHAA of 1971.

- (d) The President will obtain from international organizations receiving U.S. assistance all necessary information to permit analysis of the effectiveness of their programs.
- (e) An analysis of the effectiveness of the performance of international organizations in each country will be presented to the Congress in conjunction with the appropriation requests for these institutions and will be prepared in accordance with the generally accepted standards of measurement to be developed pursuant to section 404(d) of this act.¹

¹This is based on favorable congressional action on the standards of measurement contained in ch. 2 of this report. (See p. 25.)

APPENDIXES

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United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, D.C. 20510

May 7, 1971

B-172311

The Honorable Elmer B. Staats
 Comptroller General of the
 United States
 Washington, D. C.

Dear Mr. Staats:

On April 26, I introduced, by request, two Administration bills aimed at implementing President Nixon's proposed reorganization of our foreign aid and foreign military sales programs.

The purpose of this letter is to request the General Accounting Office, in cooperation with the staff of the Senate Foreign Relations Committee, to undertake a thorough analysis of these legislative proposals. As you know, the Committee on Foreign Relations is the authorizing Committee for this legislation in the Senate and the GAO's analysis would greatly facilitate the Committee's consideration of the proposed changes. We believe your analysis will offer a new dimension to our consideration of these Executive Branch proposals. Such an analysis would be particularly helpful if it was to cover the following subjects: First, a general comparison of existing programs with those that are proposed, including changes in policy and operations. Second, the degree to which the State Department, under the proposed legislation, would have both policy and operating control over the new programs, with emphasis on military aid and foreign military sales. Third, the extent to which restrictions in existing legislation are deleted, modified or carried over to the proposed legislation. Fourth, the extent to which the President's waiver authority with respect to these restrictions is deleted, modified or carried over. Fifth, the extent to which the Congress' authority and responsibility

APPENDIX I

are altered or otherwise modified by the President's proposals. And, sixth, those aspects of the proposals which may fall short of, or be inconsistent with, past findings and recommendations of the General Accounting Office.

In making its analysis, I hope your staff will feel free to point out potential problem areas, as suggested by experience with the existing legislation and to recommend remedial legislation where it is deemed appropriate.

The Committee has not yet fixed dates for hearings on foreign aid but there is a good possibility that they may begin about mid-June.

Sincerely yours,


J. W. Fulbright
Chairman

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APPENDIX II

ESTIMATED ANNUAL DOLLAR RECEIPTS
FOR FISCAL YEARS 1971 TO 1980
FROM INTEREST AND PRINCIPAL REPAYMENTS ON LOANS
IN AID PORTFOLIO AS OF JUNE 30, 1971 (note a)

	<u>1971-80</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
	----- (millions) -----										
Total receipts:											
Interest	\$1,660.1	\$122.7	\$143.8	\$154.6	\$160.1	\$159.5	\$169.2	\$178.5	\$188.3	\$195.5	\$187.9
Principal	<u>2,178.3</u>	<u>130.2</u>	<u>107.8</u>	<u>140.0</u>	<u>165.3</u>	<u>201.0</u>	<u>237.0</u>	<u>264.0</u>	<u>286.0</u>	<u>312.0</u>	<u>335.0</u>
	<u>\$3,838.4</u>	<u>\$252.9</u>	<u>\$251.6</u>	<u>\$294.6</u>	<u>\$325.4</u>	<u>\$360.5</u>	<u>\$406.2</u>	<u>\$442.5</u>	<u>\$474.3</u>	<u>\$507.5</u>	<u>\$522.9</u>
Treasury receipts (not presently available to AID) (note b):											
Interest	\$ 152.0	\$ 18.6	\$ 22.0	\$ 20.9	\$ 20.7	\$ 12.4	\$ 11.2	\$ 12.0	\$ 12.8	\$ 12.4	\$ 9.0
Principal	<u>549.8</u>	<u>68.2</u>	<u>45.4</u>	<u>49.3</u>	<u>50.9</u>	<u>54.0</u>	<u>53.0</u>	<u>53.0</u>	<u>60.0</u>	<u>60.0</u>	<u>56.0</u>
	<u>\$ 701.8</u>	<u>\$ 86.8</u>	<u>\$ 67.4</u>	<u>\$ 70.2</u>	<u>\$ 71.6</u>	<u>\$ 66.4</u>	<u>\$ 64.2</u>	<u>\$ 65.0</u>	<u>\$ 72.8</u>	<u>\$ 72.4</u>	<u>\$ 65.0</u>
Receipts available to AID (note c):											
Interest	\$1,508.1	\$104.1	\$121.8	\$133.7	\$139.4	\$147.1	\$158.0	\$166.5	\$175.5	\$183.1	\$178.9
Principal	<u>1,628.5</u>	<u>62.0</u>	<u>62.4</u>	<u>90.7</u>	<u>114.4</u>	<u>147.0</u>	<u>184.0</u>	<u>211.0</u>	<u>226.0</u>	<u>252.0</u>	<u>279.0</u>
	<u>\$3,136.6</u>	<u>\$166.1</u>	<u>\$184.2</u>	<u>\$224.4</u>	<u>\$253.8</u>	<u>\$294.1</u>	<u>\$342.0</u>	<u>\$377.5</u>	<u>\$401.5</u>	<u>\$435.1</u>	<u>\$457.9</u>

^aData supplied by AID.

^bThis includes Inter-American Social and Economic Program loans (administered by AID), loans by predecessor agencies (except development loan fund and MSA loans, 1954 to 1961), loans extended by the Economic Cooperation Administration and MSA specifically for the expansion of mining facilities, and the Economic Cooperation Administration borrowings from the Treasury which were re-loaned mostly to the European countries and their territories during the Marshall Plan period.

^cincludes development loans, Alliance for Progress loans, development loan fund liquidating account, supporting assistance and contingency fund loans, and MSA loans (1954 to 1961).

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SECTION-BY-SECTION COMPARISON OF RESTRICTIONS AND WAIVERS
OF EXISTING AND PROPOSED FOREIGN ASSISTANCE LEGISLATION

Introduction

The following tables are offered as a tool for comparison purposes only. Minimal comment on each change and the omission of some restrictions and requirements were necessary to keep the comparison to manageable size. As a result such comments should not be viewed as legally authoritative in language or totally comprehensive in detail.

Organization

The subject-by-subject organization of these tables represents a compromise between the differing formats of existing and proposed legislation. Within each subject area the tables follow the section sequence of existing acts, including amendments to those acts, and then add new provisions which may not have existing legislative counterparts. References are made to more detailed discussions of certain provisions appearing elsewhere in this report.

A guide to the subject organization of the tables will be found on the next page.

Note:

The difficulty in defining the word "restriction" led us to adopt the approach whereby the scope of activities authorized by the legislation (excluding dollar amounts which are subject to change), limitations on the use of that authority, and related requirements of accountability would be considered restrictions. In effect this expands the inclusiveness of the term. The same approach applies to Presidential waiver authority.

Moreover any given restrictive provision may be made up of several interrelated restrictions. A deletion or addition in any one of these situations may well represent a modification in net effect. In this context a number of restrictions have been combined under one entry which may not necessarily list each restriction contained therein.

Using the tables

The numbers of the legislative sections being compared are shown in the two left-hand columns. Unless otherwise noted the section numbers of existing legislation refer to FAA of 1961, as amended. For convenience it should be noted that the section numbers of S-1656 run from 101 to 502. The section numbers of S-1657 run from 1 to 84 for title I.

The lettered columns under the headings "restrictions" and "waivers" represent:

C--carried over
M--modified
D--deleted
N--new

Comments on each comparison give the subject of the provisions covered and, where needed, an abbreviated explanation of the legislative change. Provisions with no restrictions or waiver authorities have been included to provide continuity.

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Subject Organization of Tables

Development and humanitarian assistance

Foreign Assistance Act of 1961, as amended:
Development loans
Technical cooperation
Housing guaranties
Overseas Private Investment Corporation
Development research
Alliance for Progress
Evaluation of programs
Southeast Asia multilateral and regional programs
Utilization of democratic institutions in development
Programs relating to population growth
Food production targets and reports
International organizations and programs
Assistance to countries having agrarian economies
Joint commissions on rural development
Inter-American Social Development Institute
Humanitarian assistance

Security assistance

Foreign Assistance Act of 1961, as amended:
Supporting assistance
Contingency fund
Military assistance
Special Foreign Assistance Act of 1971
Foreign Military Sales Act, as amended
Provisions of the Foreign Military Sales Act Amendment of 1971

General and administrative provisions of FAA

General provisions
Administrative provisions
Miscellaneous provisions
New provisions

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DEVELOPMENT AND HUMANITARIAN ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
FAA 101 102	S-1656 101									Statements of policy.
Develop- ment	loans									
201 (a)										Development loan fund deleted.
201 (b)										Emphasis on long-range plans deleted.
201(b)(1)	207(a)	●								Consideration on loan financing available from other sources modified in language--carried over in essence.
201(b)(2)	207(c)	●								Consideration of soundness of project and of borrowers' capacity to repay modified in language--carried over in essence.
201 (b) (3)-(9)				●						The following development loan approval considerations have been deleted. (a) Loan activity will contribute to FAA purposes. (b) Activity is consistent with others and will contribute to long-range objectives. (c) Extent of recipients' response to economic, political, and social concerns of the people and self-help measures. (d) Effects on U.S. economy. (e) Progress of recipient toward role of law, etc. (f) Recipients' steps to improve climate for private enterprise. (g) Contribution of activity to self-sustaining growth.
201 (b)				●						20-country limitation on development loans deleted.
201 (c)				●						Prohibition on use of transfer authority and other special authority to reduce availability of loan funds deleted--no longer needed.
201 (d)	208(a)	●								Restrictions on terms and conditions of loans modified.
201 (e)				●						Restriction on the earmarking of funds deleted. (Note: See secs. 206 and 207 of S-1656.)
201 (f)				●						Requirement for Presidential determination deleted. Three-year authorization request.
202 (a)	209(a)			●						Requirement for 50 percent of funds to be for encouragement of private enterprise deleted.
202 (b)										Long-range commitments provision deleted.
202 (c)										Reports to the Congress on long-range commitments deleted.
202 (d)										Use of unobligated balance of development loan fund deleted.
203	209(b)	●								Source of reusable dollar reflows from prior assistance loans expanded.
204										Development loan committee provision deleted.
205				●						Restriction on transferring 10 percent of loan funds to World Bank group, or Asian Development Bank deleted.
206										Regional development in Africa provision deleted.
207										FAA purposes of development assistance deleted.
208				●						Enumerated self-help criteria deleted.

DEVELOPMENT AND HUMANITARIAN ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
209										Multilateral and regional programs provision deleted.
	206			●						Narcotics traffic provision added.
	207			●						Adequate loan proposal and effect on environment are new considerations.
	208(b)(c)									Authorization for loan technical services and shipping differential grants added.
	209(c)(d)									Borrowing authority added.
	210			●						Revolving Fund--restrictions added on sources and uses of funds.
<u>Technical cooperation</u>										
211(a)	203(a)(b)			●						Considerations deleted. Required termination of assistance upon Presidential finding of adverse effect on U.S. economy deleted.
211(b)				●						Restriction on capital assistance to less developed countries in earlier stages of development deleted.
211(c)				●						Authorization and restrictions on peaceful atomic energy programs deleted.
211(d)	203(a)			●						\$10 million limitation on assistance to research and educational institutions in the United States deleted.
211(e)				●						Food production priority deleted.
212	205(a)(b)									Authorization.
213										Atoms for peace provision deleted.
214(a)(b)	204	●								Requirement that American schools and hospitals abroad must be founded by U.S. citizens carried over.
214(c)(d)				●						Requirement on allocation of assistance to schools and hospitals according to House and Senate reports deleted.
215				●						Authorization and restrictions on loans to small farmers deleted.
216										Provision on voluntary agencies. See section on humanitarian assistance, page 91.
217										Authorization and reporting requirement on study of used equipment as assistance deleted.
218, 219, 220										Programs of protein concentrates, prototype desalting plant, and peaceful communication deleted.
	201									Statement of purpose.
	202			●						Operating principles--required Presidential considerations added.
<u>Housing Guaranties</u>										
221	211(a)			●						Requirement that housing projects be self-liquidating deleted.

DEVELOPMENT AND HUMANITARIAN ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
221	211(d)									
222(a)(b)	211(a)		●							Restrictions on types of projects, eligible intermediate institutions, unit price, etc., modified.
222(c)	211(d)									Ceiling on face amount of guaranties--Latin America (now combined with worldwide ceiling).
223(a)	211(b)									Guaranty fees carried over.
223(b)	213(a)									Involving fund carried over.
223(b)	213(b)			●						12-month fiscal year limitation deleted. Exemplary language on expenses deleted.
223(c)	213(b)			●						Requirement for first source of funds for liabilities arising from guaranties issued under authority repealed by FAA of 1969 deleted.
223(d)	214									Edge of full faith and credit of United States carried over.
223(e)	212									Authorization for no-year appropriation carried over.
223(f)				●						Restrictions on maximum interest allowable to eligible investor deleted.
223(g)	211(c)		●							President authorized to amend, implement, and administer all guaranties made since FAA of 1961.
223(h)				●						Prohibition on payment in cases of fraud or misrepresentation by claimant deleted.
223(i)				●						Three-year authorization for continuance of housing guaranty programs deleted.
<p>OPIC Proposed sections are amendments to existing sections.</p>										
Title IV	502(a)(1)(2)									Now title--FAA, title IV becomes the Overseas Private Investment Corporation Act.
Title IV	502(a)(3)									Language change on "friendly developing countries and areas" added.
Title IV	502(a)(14)									Renumber sections (new section numbers not used here).
231	502(a)(4)		●							Limitations on the undertakings of OPIC are carried over (reference to AID deleted).
232										OPIC capital provision carried over.
233(a)										Structure of OPIC carried over.
233(b)	502(a)(5)		●							Deletes AID Administrator as Board Chairman; Authorizes the President to designate new chairman. All restrictions on membership of the Board carried over.
233(c)			●							President of OPIC appointed with advice and consent of the Senate.
233(d)			●							Executive Vice President appointed with advice and consent of the Senate.

DEVELOPMENT AND HUMANITARIAN ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
233	502(a)(6)			●						Adds new subsection (e) on experts, consultants, and retired officers similar to FAA, section 626. Limitations on the types and maximum members of allowable contracts deleted.
234(a)	Investment insurance	●								Restrictions on assumption of liabilities in the case of multinational corporations carried over. Restriction on total insurance available to any single investor carried over.
234(b)	Investment guaranties	●								Limitation on guaranties to 75 percent of loan investments or total project investment carried over. Limitation on total guaranties available to any single investor carried over (10 percent of total authorized).
234(c)	Direct investment	●								Prohibition on acquisition or retention of corporate stocks carried over. Prohibition on loans for extractive enterprises carried over.
234(d)	Investment encouragement	●								Prohibition on surveys for extractive enterprises carried over.
234(e)	502(a)(7)									Special activities provision carried over.
235	502(a)(8)	●								Restrictions on contingent liability and fractional reserve carried over. Provisions for congressional approval for investment insurance and guaranty programs and authorization carried over. Restrictions on reserve funds carried over.
236	502(a)(9)	●								Authorization and restriction on income and revenues carried over--additions made for certain administration expenses.
237		●								Restrictions and requirements relating to conduct of insurance and guaranty programs carried over.
238	502(a)(10)	●		●					●	Restrictive definitions on "investment, expropriations, eligible investor" and "predecessor guaranty authority" carried over. New subsection (e) defines "friendly foreign countries and areas" for the purposes of this act; is the same as section 410 (a) of S-1656 and modifies the corresponding prohibition of FAA.
239(a)(b)(c)		●								Corporation Control Act provision carried over.
239(d)	502(a)(11)									Authorized corporate functions carried over.
239(e)	502(a)(12)			●						Provision for internal auditing by Auditor General of AID deleted. New subsection (e) stipulates that "The Board shall provide for adequate internal financial control, including internal auditing."
239(f)		●								Restrictions on compensation of Advisory Counsel members carried over.
239	502(a)(13)									New subsections (g) and (h) added on use of other agencies and on accounts for letters of commitment and for disbursement.
240		●								Limitations on agricultural credit and self-help community development projects in Latin America carried over

DEVELOPMENT AND HUMANITARIAN ASSISTANCE

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SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
240 A		●								Required reports to the Congress carried over.
<u>Development research</u>										
Title V										Development research section repealed.
<u>Alliance for Progress</u>										
Title VI				●						All specific references, distinct authorizations, and restrictions on the Alliance have been deleted.
<u>Evaluation of programs</u>										
Title VII										Repealed.
<u>Southeast Asia</u>										
Title VIII										Southeast Asia multilateral and regional programs repealed.
<u>Democratic institutions</u>										
Title IX				●						Utilization of democratic institutions in development repealed. Emphasis on research and requirement for training repealed.
<u>Population programs</u>										
Title X	203(c)	●								Countries receiving such assistance no longer need be friendly. In contrast to ISAA this would allow assistance to Communist countries. Other restrictions on providing such assistance carried over. Separate authorization ceiling deleted. Funded under technical cooperation programs.
<u>Food production</u>										
Title XI				●						Requirement for food production targets and reports to the Congress repealed.
<u>International organizations and programs</u>										
Chapter 3	216			●						Requirement for the President to determine such assistance to be in the national interest deleted.
301(a)	217(a)			●						Restriction stipulating that Indus Basin loans be at same interest rate as that for bilateral loans deleted.
301(b)	217(b)	●								40-percent limitation on U.S. contributions to UNDP carried over. Prohibition on Cuba carried over.
301(c)				●						Restriction on assistance to the United Nations Relief and Works Agency and Palestinian refugees deleted.
301(d)	217(c)	●								Provision for agreements to allow Comptroller General to audit internationally administered funds established solely by the United States carried over.
302(a)	218(a)			●						Fiscal year limitations deleted on overall authorization.
302(b)	218(b)									No-year authorizations for Indus Basin loans and grants carried over.
302(c)	218(b)			●						Prohibition on assistance for voluntary manpower programs deleted.

DEVELOPMENT AND HUMANITARIAN ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
302(d)										United Nations Childrens Fund authorization deleted.
302(e)										United Nations Relief and Works Agency authorization deleted.
303	219			●						Requirement that other programs be administered to compensate for relief from 50-50 shipping under India East programs deleted.
304										Sense of the Congress provision on United Nations peacekeeping deleted.
Note: Comparison of sections on supporting assistance and contingency fund (pt. 1, chs. 4 and 5) will follow comparison on remaining sections of FAA, part I and other existing and proposed provisions covering development and humanitarian assistance.										
<u>Agrarian economies</u>										
461				●						Emphasis on assistance to countries having agrarian economies deleted.
<u>Joint commissions</u>										
471				●						Authorization and restrictions on support of Joint Commissions on Rural Development deleted.
<u>Inter-American Social Development Institute</u>										
Proposed sections are amendments to existing sections of title IV of FAA of 1969										
Title IV 401	502(b) (1)(2)(3)(4)									To be renamed "Inter-American Foundation."
401(e)(4)	502(b)(5)									Provision carried over. Corporation to determine the manner in which its obligations and expenses are to be incurred and paid.
401(i)	502(b)(6)			●						Foundation president to be appointed by the Board. Dual compensation provision on experts and consultants. Provisions carried over. Restrictions carried over, including prohibition on profits and capital stock and subjection to Corporation Control Act.
<u>Humanitarian Assistance</u>										
216	303			●						Requirement that voluntary agencies be registered and approved carried over.
	301									Statement of purpose--humanitarian assistance--added.
	302				●					Disaster and refugee relief must be furnished no later than 1 year after disaster or famine.
	304									Authorization provision added.

SECURITY ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
FAA	S-1657									
<u>Supporting assistance</u>										
401	35 (a)									Authority for providing supporting assistance carried over.
401	35 (b)	●								12-country limitation carried over--does not apply to public safety programs.
402				●						Proviso on budgeting local currency in Vietnam and on fairness of exchange rate deleted.
403				●						Sense of the Congress provision on special account for U.S. refund claims against Vietnam deleted.
<u>Contingency fund</u>										
451 (a)	ISAA Title II 1		●							Can now be used for military assistance and foreign military sales in addition to assistance authorized by part I of the FAA.
451 (b)	ISAA Title II 2		●							Reporting requirement carried over. Report will be addressed to the Congress, however, not to specific congressional committees.
<u>Military assistance</u>										
501										Statement of policy deleted.
502	32 (a)									Purposes for which defense articles and services may be utilized carried over.
503	31 (a)		●							Recipient countries no longer need to be "friendly."
503(a)(d)	34 (a)		●							Barter transactions authority added. (See pp. 48 and 49.)
504	34 (d)	●								40-country limitation carried over for loans and grants only; does not apply to barterers.
504	42(e)(2)		●				●			Provision modified by (1) modified list of countries eligible to receive sophisticated weapons under sales program now eligible to receive such weapons under MAP. (See FMSA, sec. 4.) (2) Example wording "missile system or jet aircraft" deleted. (Reporting requirement in sec. 52(a) of S-1657.) Presidential waiver carried over.
504 (b)	24 (a)		●							Requirement that funds for MAP compete equally with funds for other DOD programs would be extended to all security assistance "where appropriate."
505 (a) (1) (2)	31 (b)		●							Conditions of eligibility on defense articles extended to cover all forms of security assistance.
505(a) (3) (4)	34(b)		●							Restriction on continuous observation and disposition of MAP granted or loaned defense articles carried over. Does not apply to barter transactions.
505(b)	34(c)			●						Restriction that defense articles be used for free-world defense deleted to allow assistance to neutrals. Requirement that the President determine importance of recipients' defense capability to U.S. security deleted.
505(c)	34(e)		●							Sentence added to requirement for reduction of concessional assistance to allow progressive use of sales.

SECURITY ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
505(d)	34(h)								●	Presidential waiver added to formerly mandatory termination of assistance to countries violating restrictions on use of defense articles and services.
505(e)	34(i)	●								Requirement for recipient agreement on use of Public Law 480 title I sales proceeds for common defense carried over.
506	23		●							Special authority carried over. Reporting requirement in section 52 of S-1657. Ceiling amount carried over but no longer applies to specific fiscal years.
507(a)	44(b)	●								\$25 million ceiling on military assistance defense articles to Latin America carried over.
507(b)(c)	32(b)		●						●	Restrictions on military assistance to Latin America modified by deletion of reference to joint planning and deletion of conditional prohibition on further assistance with accompanying Presidential waiver. In effect this raises the ceiling on such assistance.
507(d)				●						\$10 million ceiling on assistance for Latin American coastal defense deleted.
508	32(b)		●						●	Conditional prohibition on military assistance to Africa changed to statement of "primary emphasis." Presidential determination allowing waiver of conditions deleted.
508	44(b)		●							\$25 million ceiling on assistance to Africa changed from covering all military assistance to covering value of defense articles as in the case of Latin America. Reporting requirement deleted.
509(a)	34(g)(1)	●								Requirement for certification of recipients' capability to effectively utilize defense articles worth over \$100,000 carried over. Does not apply to barter transactions.
509(b)	34(g)(2)					●				Authority for Secretary of State and Secretary of Defense to waive above certification requirement combined and carried over.
510				●						Restriction on number of foreign military students allowed to be trained in the United States deleted.
<u>Foreign Military Sales Provisions of the Foreign Assistance Act Chapter 3</u>										These provisions repealed.
<u>Special Foreign Assistance Act of 1971</u>										
3	82(a)(5)	●								Prohibition on use of funds to reimburse any U.S. agency for transfer of U.S. defense articles to Korea not repealed.
4	82(a)(5)		●							Requirement that authorized assistance be provided within the limitation of FAA applies only to the transfer of defense articles to Korea.
7	82(a)(5)	●								Prohibition on U.S. ground combat troops and advisors in Cambodia carried over. Prohibition on construing assistance to Cambodia as a U.S. commitment to defend that country carried over. Note: Sections 5, 6(a), and 8 are amendments to FAA.
<u>Foreign Military Sales Act, as amended</u>										
1	2		●						●	The sense of the Congress provision that sales should not be made to military dictators denying the growth of fundamental rights or social progress to their own people has been modified by referring to military regimes and by extending it to cover all security assistance. The accompanying Presidential waiver authority has been deleted as legally unnecessary.

SECURITY ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
2	3									Coordination with foreign policy provision carried over.
3(a)(1)	31(a)	●								Required Presidential determination that sales will strengthen U.S. security and world peace.
3(a)(2)	31(b)		●							Prohibition on transfer of defense articles would not apply to international organizations.
3(a)	53(3)	●								Reporting requirement carried over.
3(b)	42(f)		●						●	Restriction on assistance to countries seizing or "taking into custody" U.S. fishing vessels in international waters modified by deletion of quoted phrase and by the extension of the provision to cover all security assistance. Presidential determination that the recipient "is prepared to take appropriate steps" would facilitate waiver of this restriction.
4	32(a)		●							Purposes--recipient country need not be "friendly."
4 Proviso	42(e)(2)		●						●	Prohibition on providing sophisticated weapon systems to less developed countries modified by --extension of provision to cover cash sales; --deletion of illustrative wording, "such as missile systems and jet aircraft;" and --deletion of Iran and addition of Thailand and Vietnam to list of excepted countries. Presidential waiver authority carried over. Reporting requirement now in sec. 52(a) of S-1657.
21	37(a)		●							Recipient country need not be "friendly" to qualify for cash sales.
22	37(b)(1)		●							The clause modifying "dependable undertaking" for cash sales "which will assure the United States Government against any loss on the contract" has been deleted. Reporting requirement carried over to sec. 52(c) of S-1657. Authority for fixed-price sales agreements carried over.
22	37(b)(2)	●								Restriction on sale of unclassified defense articles to developed nations and accompanying waivers carried over.
23	36(a)		●							Terms and conditions on foreign military credit sales modified by --deletion of the requirement that repayment be for "not less than the value" of defense articles sold, --addition of explicit authority for refinancing, --interest rate to be not less than the cost of money to the Government, --new concessionary interest rate authority and extended maturity date, and --authority to alter terms and conditions of existing credits outstanding.
24(a)	36(b)(1)			●						Requirement that sales guaranties be issued only to firms in the United States deleted to allow foreign financing.
24(b)	36(b)(2)	●								Authority to sell promissory notes (but not to U.S. Government agencies) carried over.
24(c)	36(b)(3)	●								Fractional reserve requirement carried over.
31	43		●							The computation of the ceiling on credits or participation in credits has been modified by omitting guaranties on the sale of promissory notes. This has been done to avoid counting the same amount of credit twice against the ceiling.
32	36(a)(4)	●								Prohibition on Export-Import Bank participation in credit sales to less developed countries carried over.
33(a)	44(a)		●							The regional ceilings on foreign military sales to Latin America has been modified by omitting guaranties on the sale of promissory notes. Ceiling amount raised from \$75 million to \$150 million.

SECURITY ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
33(b)	44(a)	●								The regional ceiling on foreign military sales to Africa has been modified by counting ship loans and sales against the total. Ceiling amount raised from \$40 million to \$60 million.
33(c)									●	Authority for the President to waive regional ceilings has been deleted.
34	36(a)(3)	●								Standards and criteria on credit and guaranties will be subject to limitation on terms and conditions.
35(a)	42(e)(1)	●								Restriction on foreign military sales to countries diverting development assistance and Public Law 480 sales to military expenditures or diverting their own resources to unnecessary military expenditures has been carried over.
35(b)				●						Required semiannual reports and forecasts on sales and guaranties to less developed countries deleted. The administration, however, has announced its intention to include this information in its congressional presentation document.
36(a)	53(1)	●								Reports on exported defense articles include only those articles exported by the private sector.
36(b)	51, 53	●								The requirement that annual information be summarized on a developed-country basis or a less-developed-country basis has been deleted and thereby modifies the information requirements of this section on foreign military sales.
36(c)				●						The restriction that this section will not affect section 414 of the Mutual Security Act of 1954, as amended, has been deleted.
37(a)	37(c)	●								Prohibition on using cash repayment to finance credits and guaranties carried over.
37(b)	36(c)	●								New authority added to allow obligation of portion of sales proceeds for the guaranty reserve.
42(a)	37(b)(2) 2d proviso	●								Items to be taken into consideration when deciding on a sale have been modified by new language which states that the "interests" rather than the "licensing arrangements" of U.S. entities and which adds the word "substantial" to the portion of such articles which are of U.S. origin.
42(b)	36(d)	●								Presidential determination needed to allow up to 10 percent of any sale to be foreign end products.
42(c)	3(d)									Responsibilities of the Secretary of Defense carried over.
43										Authorization for use of administrative funds from other acts deleted.
44	84	●								Statutory Construction--this act will not affect the Atomic Energy Act or 10 U.S.C. 7307.
Provisions of the FMSA amendments of 1971										
7	45	●								Restriction on international fighter aircraft carried over.
8(a)(b)(c)	34(f)	●								The requirement that an expenditure of military assistance funds equal to 33-1/3 percent of the acquisition cost of any granted excess defense article will apply only when the aggregate total exceeds the amount fixed by law for that year. The amount fixed by law, it is proposed, will equal the expected availability of excess defense articles.
8(d)	52(b)	●								The reporting requirement on grants of excess defense articles which are major weapon systems and which have not been previously justified to the Congress has been carried over. The required quarterly reports on excess defense articles would not be mandatory. The administration, however, has stated its intention of continuing such reports.

SECURITY ASSISTANCE

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
9	31(b)	●								
10	22(b)	●								Requirement for legislative authorization of foreign assistance funds carried over.
11	4(d)(g)									Definitions of "defense article" and "excess defense article" carried over. Definition of "foreign country" deleted.
12	82(4)									Repeal of "Joint Resolution to promote the maintenance of international peace and security in Southeast Asia" carried over.
13			●							Prohibition on use of funds to transport chemical necessities from Okinawa to the United States deleted.

GENERAL AND ADMINISTRATIVE PROVISIONS

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
General provisions										
601										Repealed--Encouragement of free enterprise and private participation.
602	67									Requirements for small businesses modified. (IDHAA sec. 407 does call for assisting American small businesses to participate under this act.):
	407	●								602(a)(1) advance information to U.S. suppliers carried over to ISAA. 622(a)(i) information to prospective purchasers deleted. 622(a)(3) additional services deleted. 622(b) office of small business deleted. 622(c) emphasis on DOD advance information deleted.
603	68				●					Exemption from 50-50 shipping rule on transportation between foreign countries carried over to security assistance section 68. No such exemption for development assistance.
604(a)	64(a)	●								Carries over restriction on procurement outside the United States to security assistance. Carries over Presidential determination needed to use funds for offshore procurement. No such restriction on development assistance.
604(b)				●						Restriction on offshore bulk procurements deleted.
604(c)	64(b)	●								Carries over restriction on offshore procurement of agricultural commodities for Public Law 480 grants. Not included under development assistance.
604(d)	64(c)	●								Restrictions on marine insurance carried over. Not included under development assistance.
604(e)	64(b)		●							Restriction on foreign procurement of U.S. agricultural products priced below parity modified by adding "except commodities which are net imports into the United States"--in ISAA. Not included in IDHAA.
604(f)	64(d)	●								Requirement for supplier certification of commodity eligibility under commodity import programs carried over to ISAA but not to IDHAA.
605(a)	65(a)		●							Retention of commodities and defense articles modified by deletion of retention by concurrent resolution. Not included in IDHAA.
605(b)	65(b)		●							Provision on use of commodities used as repayment extended to cover defense articles and services. See page 48 for discussion of barter transactions. Does not apply to IDHAA.
605(c)	65(c)									Provision for use of recoveries on incomplected transactions as reimbursement to supporting assistance funds carried over. Does not apply to IDHAA.
605(d)	65(d)									Provision for crediting applicable accounts with proceeds from disposition of defense articles returned to the United States as no longer needed by recipient carried over.
606				●						Provision on patents and technical information deleted.
607(a)	35(d)		●							Deletes restriction that advances, and reimbursements for services and commodities must be received within 180 days of the close of the fiscal year in which delivery was completed.
	203(b)									Provides for obligation of funds against anticipated reimbursements for supporting assistance.
607(b)				●						Restrictions on using excess property as assistance deleted.

GENERAL AND ADMINISTRATIVE PROVISIONS

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
608(a)	66(a)		●							Sense of the Congress provision on maximizing use of excess property extended to cover military assistance as well as supporting assistance. Does not apply to IDHAA.
608(a)	66(b)			●						Funds for costs on excess property acquisition and renovation switched from technical assistance to supporting assistance. \$15 million limitation deleted.
608(b)				●						Requirement that excess property be available first for domestic donation deleted.
609	35(c)	●			●					Requirements for control and allocation of local currency proceeds on commodity grants carried over to ISAA but not to IDHAA.
610(a)	24(b)		●							Authority to transfer between funds extended to all forms of security assistance, including sales. Maximum amount transferable increased from 10 to 20 percent of any single fund. 20-percent ceiling on amount any fund can be increased deleted. Does not apply to IDHAA.
610(b)				●						Prohibition on use of transfer authority to augment funds for administrative expenses deleted.
611				●						Requirements for completion of plans and cost estimates on development loans and grants in excess of \$100,000 deleted.
612	405(h)			●						Restrictions on use of certain non-Public Law 480 excess foreign currencies deleted--including requirement for annual appropriation. Note: This is in line with GAO report "Opportunities for Better Use of United States-Owned Excess Foreign Currency in India" (B-146749, January 29, 1971).
613	82(a)(2)	●					●			Requirements on accounting, valuation, reporting, and administration of foreign currencies not repealed. Authority of Secretary of State to waive interest income requirement carried over.
614	63		●							Special authority on use of foreign currency would cover all forms of security assistance.
615										Contract authority deleted.
616				●						Requirement for annual authorization and appropriation of funds except as otherwise provided deleted.
617	69(a)		●							Termination of assistance provision modified to cover security assistance--not included for development assistance. Provision for termination by concurrent resolution deleted. Provides for reimbursement of out-of-pocket losses under ISAA.
618										Use of settlement receipts deleted.
619										Assistance to newly independent countries provision deleted.
620(a)(1)	42(c)(2)	●								Prohibition on assistance to countries aiding Communist Cuba carried over.
(3)	410(a)(2)								●	Prohibition on assistance to countries allowing their flag vessels and registered aircraft to carry goods to and from Communist Cuba carried over. Presidential waiver added.
620(a)(2)				●					●	Prohibition on assistance, sugar quota, or other legal benefits to Cuba deleted. Presidential waiver deleted.
620(b)	42(a)		●							International Communist-movement countries redefined as those controlled or dominated by U.S.S.R. or Communist China.
620(b)	410(a)(1)	●							●	Same as above but Presidential waiver added.

GENERAL AND ADMINISTRATIVE PROVISIONS

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
620(c)				●				●		Restriction on countries having recognized outstanding debts to U.S. citizens deleted. Presidential waiver deleted.
620(d)				●				●		Conditional prohibition on assistance to foreign firms competing with U.S. firms deleted. Presidential waiver deleted.
620(e)	206	●		●						Prohibition on assistance to countries expropriating U.S.-owned property made a "consideration" for development loans. Authorization for Foreign Claims Settlement Commission activities in this area deleted. 620(e)(2) on Federal act of State doctrines not repealed (S-1657 sec. 82). Does not apply to ISAA.
620(f)				●				●		Prohibition on assistance to specific Communist countries deleted. Presidential waiver deleted. (However, see ISAA sec. 42(a) and IDHAA sec. 410(a) (1).)
620(g)				●						Prohibition on and required reimbursement for use of assistance to reimburse U.S. owners of expropriated property deleted.
620(h)				●						Requirement for the President to ensure assistance not contrary to U.S. interests deleted.
620(i)				●						Prohibition on assistance (including Pub. L. 480) to countries planning aggressive acts deleted.
620(j)				●						Required Presidential consideration of terminating assistance to countries permitting mob destruction of U.S. property deleted.
620(k)				●						Prohibition on economic and military assistance projects costing over \$100 million unless presented to the Congress deleted.
620(l)				●						Required Presidential consideration of denial of assistance to countries not signing investment guaranty agreements deleted.
620(m)	42(b)	●		●						Conditional prohibition on grants to economically developed countries carried over to security assistance but not to IDHAA.
620(n)	42(c)(1)	●								Restriction on assistance to countries assisting North Vietnam carried over.
620(o)	410(a)(3)	●							●	Same as above but Presidential waiver added. (See also same restriction in Pub. L. 480 sec. 103.)
620(p)	42(f)	●		●					●	Consideration on terminating assistance to countries seizing U.S. fishing vessels modified. Presidential waiver added. Applies only to security assistance.
620(q)				●					●	Deletes prohibition and Presidential waiver on assistance to United Arab Republic.
620(r)	405(d)	●		●						Deletes prohibition and Presidential waiver on assistance to countries in default of loan payments.
620(s)	42(e)(1) 206	●								Prohibition on relief from repayment of loan principal and interest changed to principal only. Applies to development loans only.
		●								Restriction on assistance to countries diverting assistance or resources to unnecessary military expenditures modified by requiring Presidential finding to that end as far as security assistance is concerned. President will take the above into account when deciding on development loans.

GENERAL AND ADMINISTRATIVE PROVISIONS

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
620(t)	42(d) 410(a)(4)	●							●	Prohibition on assistance to countries with which the United States has no diplomatic relations modified by the deletion of requirement for renegotiation of assistance agreements upon resumption of relations and by addition of Presidential waiver. Extended to cover foreign military sales.
620(u)			●							Restriction on assistance to countries in arrears on obligations to the U.N. deleted.
620(v)										Repealed in 1969.
Administrative Provisions										
621(a)	404(a) 71									Provision on exercise of functions modified by adding authority for the President to utilize entities not in existence at time of passage of act and by authorizing the President to create a federally chartered corporation or corporations to carry out these functions for IDHAA.
621(b)										Authority on determining eligibility of persons to receive assistance deleted.
621 A										Provision on strengthened management practices deleted.
622	3(a)(b)(c)									Provisions on coordination with foreign policy carried over to ISAA.
623	3(d)									Provision on functions of the Secretary of Defense carried over.
624(a)(b)(c)										Statutory officers would be superseded by authority for reorganization in S-1657 and S-1656.
624(d) Foreign Service Act Sec. 681	S-1657 Title III Sec. 2(b)									Provides authority for new Inspector General of Foreign Operations who would take over the functions of the present Inspector General of Foreign Assistance and Foreign Service Inspectors. Some of the changes in authority are: --Authority would be provided to the Secretary of State instead of directly to the Inspector General. --Authority to suspend assistance (sec. 624(d)(6) deleted). --Congressional access to information proviso(sec. 624(d)(7) deleted).
625	72 401	●								Provisions governing the employment of personnel generally have been carried over. The requirements of 625(g) and 625(i), however, regarding the language and area competence of assigned officers, have been deleted. Other provisions have been modified for the purposes of reorganization.
626	73 401 (f)		●							The limitations on the type and number of contracts for experts, consultants, and retired officers which may be renewed annually have been deleted.
627 628	74(a) 402(a)									Provisions on detail of personnel to foreign governments and international organizations carried over.
629	74(b)(c) 403									Status of personnel detailed carried over.
630	75 402(b)									Terms of detail or assignment carried over.
631	76 401(g)									Missions and staff abroad carried over.
632	61,406									Allocation and reimbursement among agencies provision carried over.

GENERAL AND ADMINISTRATIVE PROVISIONS

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
633(a)	63(d)						●	●		
633(b)	63(e)						●	●		Presidential waiver of Neutrality Act extended to cover all forms of security assistance. Does not apply to IDHAA.
633(c)	72(j)					●				Presidential waiver of laws governing the holding of civil offices by military personnel carried over to ISAA.
634(a)	54		●		●					Required annual report modified by deletion of any reference to freedom of navigation and nondiscrimination. Not included in IDHAA.
634(b)				●						Provision on public information on assistance deleted, according to the administration, because it "is more comprehensively governed by the Freedom of Information Act."
634(c)	55	●		●			●			Access to information provision carried over, security assistance only, not in IDHAA. Presidential denial provision carried over.
634(d)	51	●		●						Information to be contained in congressional presentation document carried over. Does not apply to development assistance.
634(e)				●						Required submission to the Congress of plan for progressive reduction of grant economic assistance deleted.
634(f)	53(2)	●		●						Required report on loan repayments carried over for security assistance. No such provision for development assistance.
634(g)										Repealed in 1968.
634(h)	51	●								Required information on service-funded military assistance to South Vietnam, Laos, and Thailand carried over.
635(a)(b)(d)	62(a)(b) 405(c)(1)									General authority for grants, contracts, use of gifts, etc., carried over to security assistance.
635(c)										Sense of the Congress provision on maximum use of voluntary agencies deleted.
635(e)	77(f)(1)(2) 405(e)(10)									Authority to pay for insurance on foreign participants and employees carried over.
635(f)	77(g) 406(e)									Provision for foreign participants to be admitted to the United States carried over.
635(g)(1)(2)(3)(4)	35(e) 405(c)									Provisions on powers to issue letters of credit, collect obligations, acquire or dispose of property, etc., carried over. Reference to Corporation Control Act does not apply to ISAA.
635(g)(5)				●						Requirement for set of integral accounts for corporate loans and for GAO audit thereof deleted.
635(h)	62(c)	●		●						5-year limitation on grant contracts carried over for security assistance grants. No such provision for development grants.
635(i)	215									Arbitration of claims limited to housing guaranties.
635(j)	62(d) 405(g)									Exemption from prohibition on loans to governments in default of payments to U.S. Government (18 U.S.C. 955) carried over.

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SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
635(k)	62(e) 405(f)									Provision for payment of indirect costs on cost-type contracts with educational institutions carried over.
636(a)	77(a)	●								The provisions of section 77(a) refer only to economic supporting assistance and are largely carry-overs of FAA, sections 636(a)(1), (2), (3), (4), (5), (11), (13), (17), (6), and (14) in that order. There is some modification on ceilings for auto replacement and entertainment.
636(a)	405(e)	●		●						The provisions of section 405(e) on the use of funds are largely carry-overs of FAA, sections 636(a)(2), (3), (6), (5), (14), (9), (11), (13), and (17). Two exceptions are 405(e)(3) and (7) which allow the use of funds for automotive and aircraft purchases formerly restricted by FAA, section 636(a)(4) and (5).
636(b)	77(c) 405(e)(13)	●	●							Use of funds for expenses of foreign services personnel, printing, and procurement of supplies outside the United States carried over for security assistance. Administrative expenses allowed for development assistance modified.
636(c)(d)	77(d)(e)									Provision for purchase of quarters, schools and hospitals for personnel and dependents, and education of dependents carried over to ISAA.
636(e)	72(k)									Provision for payment of personnel training costs (including salaries) carried over to ISAA.
636(f)										Provision for use of FAA funds for Public Law 480 expenses deleted.
636(g)	77(b)									Provision for use of military assistance funds for administrative and other costs carried over.
636(h)	64(e)	●		●						Provision on recipients' local currency contributions for contractual costs carried over to security assistance only.
636(i)	64(f)	●		●		●		●		Prohibition and waiver on purchase of automobiles overseas carried over to security assistance only.
637(a)				●						Separate authorization and appropriation of administrative funds deleted.
637(b)	78	●								Authorization for appropriation of State Department expenses carried over to ISAA.
638										Provision that FAA is not to be construed as prohibiting Peace Corps, educational exchange, and Export-Import Bank assistance deleted.
639	84(c)									Provision that FAA is not to be construed as prohibiting famine and disaster relief carried over to ISAA.
640										Repealed in 1968.
640 A										Provisions on penalties for false claims and ineligible commodities deleted.
<u>Miscellaneous provisions</u>										
641	81,413									Effective date.
642	82,414									Statutes repealed. (These statutes are dealt with separately throughout the tables.)
643	83,412									Saving provisions allow actions and funds under FAA to be continued unless expressly prohibited by new legislation.

GENERAL AND ADMINISTRATIVE PROVISIONS

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
644	4		●							<p>Modifications of definitions are:</p> <p>--The phrase "used for the purposes of furnishing (military or nonmilitary) assistance" in the definition of "commodities," "defense articles," "defense services" and "services" replaced by the phrase "furnished for (military or nonmilitary) purposes."</p> <p>--The term "mobilization reserve" redefined in terms of regulations prescribed by the Secretary of Defense rather than by the President.</p> <p>--The definition of "value" has been extended to cover military sales in addition to military assistance.</p>
645	79 411									Provision on unexpended balances to be brought forward carried over.
646	84									Construction--Invalidity or nonapplicability of any provision will not affect rest of act--carried over to ISAA.
647										Provision on dependable fuel supply deleted.
648	82(a)									Provision for use of local currencies for assisting the maintenance of certain cemeteries not repealed.
649										Limitation on aggregate authorization for use in fiscal year 1966 deleted.
650	33		●							Restriction on commitments to use U.S. Armed Forces applies only to security assistance.
651				●						Sense of the Congress provision on sale of supersonic planes to Israel deleted.
652				●						Limitation on additional assistance to Cambodia deleted.
<u>New provisions</u>										
	32(c)			●						Requires that arms control considerations be taken into account when furnishing security assistance.
	42(g)			●						Requires that recipients' drug traffic control steps be taken into account when furnishing security assistance.
	62(f)									<p>Authorizes the acquisition and sale of defense articles to U.S. prime contractors for incorporation into an end-item to be sold to eligible recipients, where such defense articles normally would be supplied to the prime contractor if the end-items were being procured by the Government for its own or military assistance purposes.</p> <p>Authorizes negotiated sale to U.S. suppliers of spare parts in DOD stocks which are no longer needed and cannot be economically maintained and stored by the United States but which may be needed by eligible MAP recipients. The suppliers must agree to maintain an adequate inventory of such parts.</p>
	69(a) 2d sentence									Provide for reimbursement of out-of-pocket losses by a Government agency resulting from the termination or suspension of deliveries in a foreign military cash sale from military assistance or foreign military sales credits.
	69(b)			●						Authorize the cessation, upon Presidential determination, of any monitoring or auditing activities with respect to assistance furnished pursuant to this act or predecessor legislation when that assistance is terminated or suspended.
	72(b)									Authorizes three executive level officers whose title and order of succession will be determined by the President.

GENERAL AND ADMINISTRATIVE PROVISIONS

SECTION NUMBER		RESTRICTIONS				WAIVERS				Comments
EXISTING	PROPOSED	C	M	D	N	C	M	D	N	
	72(f) 401(d)									
	72(g) 401(e)									Provides for participation in Foreign Service retirement and disability system.
	401(b)									Provides for 15 executive level officers appointed with the advice and consent of the Senate. Their titles and order of succession will be determined by the President.
	404(b)									Authorizes the President to appoint members to a board of directors of a corporation or a board of trustees of an institution or agency created under subsection (a). (See ch. 2, p. 10, for discussion.)
	404(c)									Authorizes the President to administer those loans and housing guaranties made under FAA and predecessor legislation.
	405(a)(b) (c)(d)				●					General powers and provisions on the use of funds. Provides for necessary offices. Places corporation under Corporation Control Act and allows it to sue and be sued in its corporate name. Authorizes certain powers for the Corporation, including its right to determine the necessity for and manner of payment of its obligations and expenditures.
	405(h)			●						Authorizes the utilization, without appropriation, of non-Public Law 480 U.S.-owned excess foreign currencies for purposes of IDHAA. (For discussion see ch. 6, p. 71.)
	408									Provides for coordination of programs and requires the President to establish coordination systems in Washington and the field. The Secretary of State shall provide foreign policy guidance. (For discussion see ch. 3.)
	409									Audits and reports. Requires the provision of adequate financial controls, including auditing, for the proposed organizations. (For discussion see ch. 5, p. 55.)
	410(b)									Defines "predecessor legislation to the Foreign Assistance Act of 1961" by listing those acts. Thus dollar inflows from loans made under these acts will be available for development lending (see sec. 209(b)), and the actual loans will be administered by the President.
	S-1657 Title III & S-1656 sec. 501									Transfer provisions allowing for the transition from the present to the proposed organizational structure. These provisions relate to the transfer of functions and personnel.
	82(6)			●						First proviso of section 108 of the Mutual Security Appropriation Act of 1956, as amended, has been repealed. This section required quarterly reports to the Congress on defense articles and defense services provided under MAP. The administration has, however, announced its intention of continuing such reports.
Public Law 480 sec. 103 (b)	502(f)			●						Section 502(f) of S-1656 amends section 103(b) of Public Law 480, tying the minimum interest rate on foreign currency credit sales of Public Law 480 commodities to the proposed 1-percent minimum interest rate on development loans in section 208. The former statutory rate (3 percent) was contained in FAA, section 201. The administration has announced its intention of maintaining a 3-percent rate for such credit sales however, despite this change.
Migration and Refugee Assistance Act of 1962	502(d)									Section 502(d) of S-1656 amends section 2c of the Migration and Refugee Assistance Act, authorizing the President to use up to \$10 million of the proposed contingency fund for purposes of that act. It deletes section 7 of that act which authorized the use of the FAA Contingency Fund until appropriations had been made.

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